Navigating the New Normal

A look at the current trends impacting the industry

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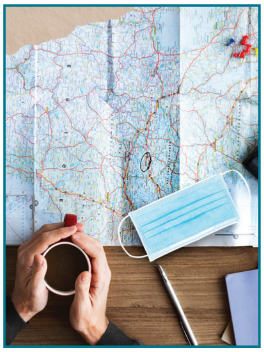

The office technology industry, like any other, is impacted by market trends. For many years, those of us in the industry were the beneficiaries of several trends including the transition from analog to digital, the utilization of software for document capture and distribution, and, more recently, the migration of traditional commercial printing from offset to digital. Each of these trends has brought with it ample opportunity for office technology manufacturers and dealers to enter new markets and expand their respective businesses.

Of course, the trends that typically emerge in growing industries often prove beneficial to all industry players. Even those that are not considered market leaders generally prosper. This was certainly the case with the trends previously mentioned. In evaluating the impact of such trends, history will show that the first two typically resulted in double-digit revenue growth for many players, while the most recent commercial print trend is delivering high single-digit growth rates.

But what happens when industries mature? Industry maturation is the inevitable outcome for any industry sector, just like getting older is the natural course of life. While most maturing industries will typically continue to deliver pockets of opportunity (such is true with the office technology industry), the overarching trend line will be that of decline. This is typically true even as industry participants dwindle, a symptom of a maturing industry that we are presently witnessing among dealers today.

If we look at the major trends impacting the office technology industry entering 2021, they paint quite the murky picture. Included in these trends are the decline in average selling prices; decline in sales and service profit; the shift to lower-priced A4 devices; the shift to inkjet technology (limiting maintenance contract revenue); the commoditization of industry software; the increasing usage of software for document sharing; the increasing use of virtual meeting technology; the accelerated reduction in printed page volume; and the increasing number of employees working from home.

Yes, I agree this is a pretty dismal list. But do not forget: Even in declining markets there is still opportunity — just not as much of it.

Of all the trends previously mentioned, there are a few that warrant a closer look, given both their immediate and potential long-term impacts to both dealers and manufacturers. Let us begin with page volume.

By most accounts, page volume has been in steady decline for at least the last five to seven years. During this time, the total number of pages printed (according to most analyst sources) has declined on average around 3% to 5% annually. For office technology dealers and manufacturers, page volume declines would not be so troubling if not for the fact that most of today's business models rely on generating revenue from prints. (See my July 2020 Office Technology article: "Amidst the Storm: Where Have My Printed Pages Gone?") Have you changed your business model? If not, what are you waiting for?

Despite these steady declines, industry players, particularly dealers, have fared well. You see, managing steady declines, while not pleasant, is possible. It is when you throw in a situation like a global pandemic that things get really interesting. This is certainly the case with page volume. With the onset of COVID-19 we witnessed page volumes decline by as much as 70% in some cases. Fortunately, this did not remain constant and with economic recovery, printed pages also bounced back. The bad news is they did not bounce back to pre-COVID-19 levels and, if my analysis is correct, they will not. What does this mean for the industry? For those still operating on business models dependent on clicks, you might see some slight improvement in the short term. However, it is likely that page volume decline will accelerate in the coming years before ultimately settling back to a more predictable rate of decline.

Another trend worth further discussion is inkjet. Yes, I know, inkjet has been heralded as the technology that would one day take over the office. After years of waiting, I think many view inkjet as the "boy who cried wolf." However, in much the same way it took multiple market players to validate digital MFP technology before the market took off, the same may be true with inkjet. With multiple players now actively proposing this technology for general office use, I personally believe it is a matter of time (a short time) before inkjet becomes a viable alternative to laser in the general office.

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So, what is the big deal, you ask? Well, unfortunately for dealers in particular, inkjet technology is designed with limited failure points, requiring little, if any, service, thereby significantly impacting the revenue and profit streams from maintenance contracts that have become so important to today's dealers. Add to this the fact that inkjet technology will likely sell at prices considerably lower than laser equivalents and you do not have big bucks, but, instead, a double whammy. Certainly, dealers and their respective manufacturers will be participants in an office inkjet economy, so it is not all bad. It is just that this economy will likely be much smaller than the one it eventually replaces.

Of the remaining trends, I can certainly make the case that the commoditization of industry software and the use of software as a primary means of document sharing/collaboration will be ones to follow. However, many dealers are active participants in this space and, to some extent, the revenue and profits generated from this part of a dealer's business will have the effect of offsetting the page volume declines driven by these tools. Manufacturers, on the other hand, should be concerned here.

This being the case, maybe the most significant trend impacting the industry will be the change in working locations for employees. Prior to COVID-19, we were already beginning to see a change in working locations for many types of employees. According to a December 2020 Pew Research Center survey, prior to the pandemic: "Only one-in-five say they worked from home all or most of the time. Now, 71% of those workers are doing their jobs from home all or most of the time. And more than half say, given a choice, they would want to

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keep working from home even after the pandemic." Although conditions have improved, we are still seeing a significant number of employees working from home, with many businesses evaluating their longer-term requirements for office space.

Working through the pandemic, all personnel have learned a lot about virtual communication, remote team building, software-based collaboration and the most effective ways to be productive. Interestingly, 87% of respondents in a recent Quocirca study indicated they were just as or more productive when working from home. When asked about whether they would return to their offices, while many indicated they expected to do so, 52% indicated their work-from-home scenarios would be permanent, which was an indication they would be working from home either full-time or on a part-time basis.

The Quocirca study went on to ask individuals about their anticipated printing habits. The good news is that people are still printing and have a need to print. The bad news is that 31% indicated they expect to print less when they return to the office following the pandemic. For office technology players, this is troubling. This is particularly true for dealers, as few, if any, are active participants in the home-office market and a migration of potential paper creators from the general office will place even more pressure on declining general office pages. Add to this less printing for those workers who do return and you have even more downward pressure on industry economics.

Despite all the trends impacting the industry, many dealerships are positioned to grow. Even the largest of today's dealerships are regional in nature, providing ample opportunity to use geographic expansion via acquisition or organic initiatives as a means of growth. However, as this part of the industry consolidates, growth will be more difficult to attain. At some point, the largest dealerships will be faced with the challenge most manufacturers encounter today — having to depend largely on market share capture as a means of increasing their business.

How can industry players survive given today's trends? It will not be easy. However, there are some strategies both dealers and manufacturers alike can employ to maintain viability.

Disconnect printed pages from the business model:

■ Of all the strategies, in my view, this is the most critical. The sooner industry players stop relying on printed pages for revenue, the better.

Embrace inkjet:

■ For manufacturers, it is difficult to cannibalize your own business with lower-priced products, but this is a better alternative than watching your existing laser-installed base get displaced by a competitor.

■ For dealers, inkjet is likely not as lucrative as the laser technology they have grown up with, however, there is still good business opportunity here and dealers should be a primary channel for delivering this technology to market.

Enter new business domains:

■ Dealers have done an excellent job in this regard, having first adopted industry software with many having layered other software technologies into their portfolios. Dealers now need to seriously consider workflow automation and value-added services beyond basic IT managed service offerings.

■ This is a real challenge for manufacturers, as so many have failed when acquiring software providers. 3D printing and packaging are excellent options, however, manufacturers cannot give up on software and services. Keep searching for the right formula.

Sell the business:

■ Let's face it, whether you are a manufacturer or a dealer, the outlook for the industry is underwhelming. There is no shame in recognizing that you have extracted as much value as you can from your efforts. Maybe it is time to walk away and use your proceeds to enter a new emerging market or enjoy the sunset.

As we wind the hands of time, we can be assured that the pace of technological change will engender a world we can hardly imagine. As I write this article, I am sitting in an area that likely has more cows than people. However, with pervasive connectivity and emerging technologies like 5G and others, the concept of work and the workplace as we know it will change. While today my office happens to be the bonus room above my garage, tomorrow it may very well be a rowboat on the lake. The reality is: "I don't need no stinkin' office." My office is wherever I happen to be. Does anyone have a printer?

Best wishes in navigating the new normal. ■

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