Amidst the Storm

Where have my printed pages gone?

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Let's turn the clock back, shall we? It is the mid-1990s and the office technology industry is beginning to make the transition from standalone single-function products to multifunction network-connected systems. It is a time for rapid growth in the industry as most vendors are shedding their traditional product portfolios, migrating to digital technology and beginning to capture revenues historically reserved for networked print providers. The advent of multifunctional systems connected to networks is also heralding the introduction of software, and many providers (OEMs and dealers) are capturing success through document capture and distribution software. It is a great time to be in the office technology industry.

With sunny skies, double-digit growth rates and record profits for OEMs and dealers alike, it is difficult to see the storm that is taking shape in the distance — a storm that is not imminent, but one that will grow in intensity in the coming years. Like many storms, there are usually warning signs — and this particular storm is no different. In fact, the forecast associated with this storm is accurate and delivered well in advance of danger, providing OEMs and dealers ample opportunity to adjust course.

This begs the question: "How many OEMs and dealers took action to heed the warnings and make adjustments?" There is no doubt that some did. The last 10 years have seen many industry players make significant investments in software and service delivery capabilities. Unfortunately, those efforts by HP, Lexmark and Xerox, although noble, can only be classified as failed attempts. The efforts by players including Konica Minolta, Ricoh and Canon (which decided to build versus buy) have stories that have yet to be fully written, however, most seem to be lackluster at best.

In the dealer community, success has been more readily achieved, as many dealers incorporated software into their portfolios and delivery capabilities while others layered on network management services either through direct acquisition or partnering. The question remains, however, whether these "new" businesses are capable of producing the revenue and profit the traditional business is bleeding.

Thus far the answer to this question (particularly for OEMs) is an emphatic "no."

Predictably, many industry players were not giving much thought to down-the-street challenges during the good times, even though the warning signs were beginning to become apparent. When things are going well, why worry about the fact that the lifeblood of the industry is beginning to decline? A decline may have begun, but how quickly will things progress? This can certainly be managed, right?

This was the common thinking among most personnel in the industry, including analysts who get paid to follow such trends. Yes, print volume was beginning to decline — a direct result of the digitization that was taking place across the business world — but the decline was small and, for most industry players, almost negligible. Even during some of the more catastrophic challenges faced by businesses during this time, such as 9/11 and the 2008 financial crisis, while painful, did not seem to change the view of most industry players that page-volume decline would remain steady and manageable. Like many trends, the decline of page volume began to pick up a little steam, although it was still lacking in significance to create major changes in the operating practices or business models of industry players.

Even over the last five years, when it has become quite evident that page volume decline and industry commoditization were putting the squeeze on revenues and profits, few, if any, industry players took action. Most took the approach of attempting to outrun the decline in page volume and commoditization by capturing market share. Yet, even for those OEMs that have been successful in capturing market share, growing revenue and profit has remained elusive.

At the dealer level, the pain has not been quite as evident, since most dealers have had the opportunity to use acquisitions and geographic expansion as a means of capturing growth. But, rest assured, dealers will not be spared this challenge given the trajectory of the market.

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Based on office technology industry history, why is it that seasoned executives think they can capture enough market share at the expense of their competition to overcome the rate of page volume decline and its impact on revenue and profits? Shouldn't these executives recognize that the ability to capture significant share gains each year is highly dependent on completely maintaining their existing bases of equipment while unseating competition? Do they not have statistical data that clearly indicates their results in this respect over the last 20 years? Having been in the industry, I can affirmatively say that this data exists and is readily available. In fact, any executive who wants to bother looking at this information would clearly recognize that you would either have to dominate the market for this strategy to be effective or a multitude of suppliers would need to exit the industry, neither of which is likely to happen.

At what point will industry executives, particularly at OEMs, recognize that the traditional office technology business model is inherently broken and until that model is revised, the industry will continue its downhill slide? As someone who spent 25 years in the industry, watching this from the outside is not pleasant. I keep waiting to see some definitive action on the part of OEMs and dealers, but instead I see more of the same, and a seeming willingness to accept the status quo and ride it out as long as possible. While being the "last man standing" is certainly a strategy, the ride is painful and those who do survive will be shells of their former selves.

What happens when the next business crisis strikes? Can industry players overcome what may become a "new normal" in terms of print?

As print volume began its steady decline, many of us in the industry realized this as a threat while also acknowledging the fact that print erosion was predictable and, therefore, manageable. As mentioned previously, although the challenges faced after 9/11 and the 2008 financial crisis resulted in a printing environment quite different than what had previously existed, printing did not reach a tipping point. For years, industry leaders have been raising questions as to whether there were events on the horizon that would cause printing to fall off the proverbial cliff. With no such event clearly visible, the industry has been content to stay the course.

Enter COVID-19.

When conducting scenario planning, I cannot think of many who would have incorporated a global pandemic into their thinking. Even Shell Oil Corp., the recognized leader in planning of this type, is likely to have overlooked such a possibility. So, you can hardly blame industry executives for not considering such a situation. However, given our current state of business both here and abroad, you must ask the question about the future of printing once this crisis ends. Do industry executives think printing will return to pre-pandemic levels? What impact will workforce relocation have on page volume? Will workforce relocation be permanent? Now that so many are familiar with video conferencing and streamcasting, will these technologies further eat into print? Those who are invested in this industry would do well to begin asking these questions.

As someone who has lost many nights of sleep over this topic, it is my contention that the impact of COVID-19 on page volume is the watershed event we feared. We could not see this on the horizon because we were thinking in terms of business and technology as the primary causes of page volume collapse. We were not thinking in terms of human health.

If, as I suspect, this is the watershed event we have feared, the question that must be asked is: "How does the industry cope with this situation and survive?" There are no easy answers to this question, however, there are several things that OEMs and dealers can do to lessen their exposure to page volume dependency. The first step begins with an immediate shift in the business model. I have written about this in past articles and would reference readers to my most recent article on this subject ("Death of a Business Model: How to overcome changing business economics" in the July 2019 issue of Office Technology), which provides business modeling ideas for consideration. In addition to business model changes, both OEMs and dealers alike need to strongly consider options that include:

- Significantly reducing costs associated with sales, delivery and support. Technology is the key here — not necessarily staff reductions.
- Investing in new business areas outside of the core business. In many cases, dealers are doing this effectively, but they need to think beyond network services.
- Shifting existing customers to newly devised business models.
- Eliminating non-profitable customer relationships.
- Shifting compensation plans to actively scale non-core businesses.
- And the list goes on.

How do OEMs and dealers alike view the market following the recovery from COVID-19? What happens when the next business crisis strikes? Can industry players overcome what may become a "new normal" in terms of print? The answers to these questions will be critical in determining the future of the industry and many of its individual players. For those content to "stay the course," I can only hope that the days ahead do not have you asking: "Where have my printed pages gone?" ■

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