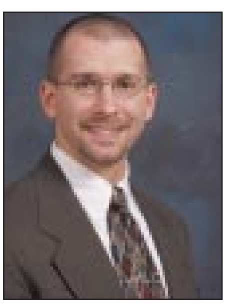
by **Richard C. Norton** | DocuTrends

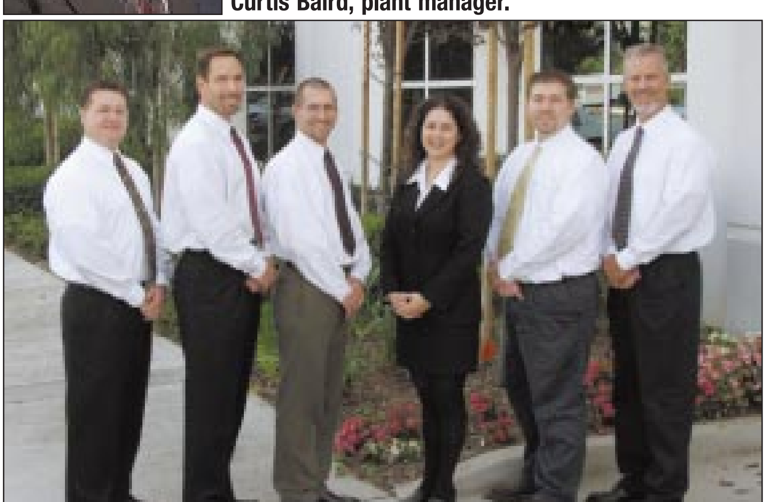
Raising the Bar for Remanufacturers?

It has long been the practice of entrepreneurs to start a business, grow it for a number of years and then sell the business in order to reap the rewards of their entrepreneurship. In the copier industry, a quick look at the dealerships that have been sold to IKON and DANKA serves as a good illustration of this practice. Although it has taken a number of years, these large companies are having a profound influence on the sale and service of office products. Likewise, an acquisition last summer may be the beginning of a sea change in the imaging supplies remanufacturing business.

Background

Quality Imaging Products — QIP — is a California-based remanufacturer that has been in business for 11 years. During that time, QIP has grown to the point where it sells in excess of 30,000 remanufactured cartridges per month. While it carries a wide variety of new cartridges for laser printers, fax machines, copiers and inkjet printers, its largest business is in remanufactured laser printer cartridges. And, its fastest growing business segment now is remanufactured color laser cartridges for the emerging market of desktop laser color printers.





(Left) Quality Imaging Products' new CEO Martin Stein.. (Below from left to right) Steve Yager, operations manager, Dave Michon, sales manager, Martin Stein, CEO, Jennifer McGraw, human resources administrator, Matt McGregor, business manager, Curtis Baird, plant manager.

Last summer, QIP was acquired by Blackford Capital LLC, (www.blackfordcapital.com), a private investment firm headquartered in Chicago. Blackford is comprised of more than a dozen senior business executives who lead, advise or serve on the boards of Fortune 500 companies. These executives have extensive experience in three areas: manufacturing and distribution, private equity and technology.

Blackford's goal is to provide attractive exit options for manufacturers and operators of small- to medium- sized, privately-held manufacturing enterprises. Specifically, they want to enter markets that provide them a good opportunity to use their experience to improve upon existing technology and practices. They have certain characteristics in mind for their target markets, and the remanufacturing business suits these characteristics in particular.

Blackford looks for the following three characteristics: (1) Highly fragmented markets with many participants. The remanufacturer business fits that bill because there are literally thousands of resellers of remanufactured cartridges ranging from home offices that sell a few cartridges per month to companies the size of QIP, which sells more than 30,000 cartridges per month.

(2) Stability. Blackford does its due-diligence research. It has determined that the remanufactured cartridge market has both profit potential and longevity on its side.

(3) Operational inefficiencies. Most importantly, Blackford looks for industries where operational excellence can create a competitive advantage. The remanufacturing business certainly meets this criteria because of the variable quality levels produced throughout the industry. Remanufacturers with consistently higher quality levels can command a higher premium for their cartridges.

In addition, Blackford finds this market attractive because, in its view, no major participants have reaped the advantages of moving the supply chain online or effectively instituting Enterprise Resource Planning (ERP) systems.

The Blackford Scenario

Martin Stein, a partner in Blackford Capital, has become CEO of QIP and has relocated the headquarters for Blackford Capital to California to be close to the QIP acquisition. In addition to Stein, who has a consulting background with Fortune 500 companies in developing growth strategies, other Blackford Capital investors have been brought along as board members for QIP, including Linc Holland, a former vice president of external manufacturing and logistics for Cisco Systems. While at Cisco, Holland initiated and implemented Cisco's external manufacturing strategy, which moved $8 billion of Cisco's outsourced manufacturing online. QIP's other board members include Carl Martignetti, president and owner of Martignetti Companies, the largest distributor of wine and spirits in New England; and Jordan Clements, managing director of Peterson Capital, a private investment firm with more than 30 principal investments.

Blackford's team has a few specific goals in mind for QIP in the short term. First, they will upgrade the company's internal technology infrastructure and develop opportunities to more efficiently interact with customers and suppliers through improved technology usage. Second, it will re-engineer the entire manufacturing process. Third, it may acquire additional companies in the remanufacturing market for horizontal and vertical integration. The first two objectives will run concurrently and should be accomplished within the first few months. The final objective will be acted upon as circumstances permit.

The interesting part of Blackford's play is the re-engineering of the manufacturing process. Blackford will use both practical experience as well as academic acumen to continue to develop QIP's manufacturing process. Blackford intends to do the following:

- Standardize manufacturing processes through the use of the Toyota Production System, ISO 9000, statistical process control and Six Sigma Quality techniques.
- Increase quality levels through the use of visual management systems, internal feedback mechanisms, employee education and quality incentives.
- Improve operational flexibility through the use of just-in-time delivery, cross-training and lean manufacturing techniques.

If Blackford is successful in meeting most of its objectives, it could truly raise the bar in the remanufacturing industry. First, if Stein and his team are able to improve the quality of their manufacturing process, they will gain an immediate cost advantage by reducing the percentage of defective products compared to competitors. Second, if they can upgrade the company's technology in a way that allows them to more effectively interact with customers and vendors, they may be able to take costs out of the value chain and service customers more effectively at a lower price. Third, if they are successful in making QIP even more profitable than it had previously been, they may go on to acquire more remanufacturing capabilities in the future.

This business approach has been undertaken successfully before. A good example to look at is the copier business, which had been made up of more than 5,000 individual dealers in the mid-1980s. Now, the BTA organization has less than 2,000 members and is dominated by "megadealer" companies like IKON, DANKA, Global and various direct distribution operations managed by the manufacturers.

The adoption of this approach may cause a dramatic shift in the remanufacturing business as well. One of the reasons that the remanufacturing business may go through a more distinct change than the BTA organization is its more relaxed approach to service provision. In the copier market, independent dealers were still required to service the equipment for the end-user. But in the distribution of remanufactured cartridges, quality, delivery and low price are all that's needed. There is no requirement for product service after the sale. (However, many remanufacturers do provide service for the customer's printers.) Therefore, the Internet, good quality control and UPS delivery could be all that is required to penetrate this market effectively. Thus, a few large companies could indeed change the whole character of the remanufactured cartridge business.

Blackford Capital has made a bet on the industry and many elements of its strategy have yet to be proven. First, the general value proposition for remanufactured cartridges is a lower price for lower quality. How much more will customers be willing to pay for the higher quality levels before they decide to purchase OEM cartridges. Second, while the manufacturing processes that Blackford brings to QIP may have been effective in other manufacturing industries, will they work in an industry with such highly variable raw materials? Finally, much of the hype around information technology has dissipated in the last two years. How effective will Blackford be in working with customers and vendors to move business transactions online?

The remanufactured cartridge business has accounted for about 25-30 percent of demand for laser printer cartridges for a number of years. It will be interesting to see if companies like QIP can move more demand into remanufactured cartridges by producing a consistently higher-quality product at a competitive price through the use of improved manufacturing processes and investments in technology. R

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