

# The Coming Onslaught:

## Cost-Per-Page Selling Models in the Printer Supply Industry

**W**hat are cost-per-page selling models? How do they affect the printer supplies industry? How can rechargers compete in a world with cost-per-page selling models? And, most importantly, how can rechargers develop their own cost-per-page selling models?

For years, imaging supply dealers have struggled with the concept of cost per page and how to apply it in the varied product world of printers. At the same time, copier dealers have mastered the technology and use it as a tool for increasing their profits. More recently, OEM printer companies such as HP, Oki Data and Lexmark have all begun to develop complete document solutions programs or managed service offerings, which are based on cost-per-page selling models. Cost-per-page programs are frequently of great benefit to customers because they transfer economic risk from the customer to the supplier and can enable customers to reduce their total costs. Cost-per-page programs, as long as they are priced correctly, are even more frequently of great benefit to vendors because 1) they lock out competition and 2) lock in customers with multiyear contracts. As the two separate worlds of copiers and printers converge in the coming years and as OEMs fight to regain market share against rechargers, it will be critical for rechargers and printer supply dealers to develop cost-per-page selling models in order to remain competitive.

### The Historic Value Proposition of Remanufactured Cartridges

As most consumers are aware and as almost everyone within the printer industry knows, the bulk of industry

profits come from supplies and service. OEMs give away printers in order to make money on supplies.

For example, on Staples' Web site, a customer can purchase a Lexmark Z615 inkjet printer for \$49.98. The black inkjet cartridge (10N0016) for the printer costs \$31.99 and has a maximum yield of 410 pages, and the color inkjet cartridge (10N0026) for the printer costs \$34.65 and has a maximum yield of 275 pages. Added together, the two cartridges cost \$66.64, which is \$16.66 or 33 percent more than the printer alone.

Similarly, on Office Depot's Web site, a customer can purchase an HP LaserJet 1012 printer for \$197.54. The monochrome laser cartridge (Q2612A) for the printer costs \$69.94 and lasts for 2,000 pages with 5 percent coverage. The consumer could have purchased a completely new printer based on the cost of supplies after only 5,649 pages.

These examples are extreme, but they highlight the profit structure of the printer industry: OEMs employ what is often referred to as a "razor blade strategy," whereby market share is won by creating a large installed base through aggressive price competition and profits are generated through the recurring revenue supply streams. Because a customer who owns an HP LaserJet 1012 printer can only buy LaserJet 1012 supplies, the OEM is free to charge a premium for the supplies. And they do. Industry analysts such as Salomon Smith Barney and Merrill Lynch estimate that OEMs such as Lexmark, Canon and HP make 55 to 65 percent

gross margins on their imaging supplies. OEMs have become highly dependent on these profits. An Aug. 3, 2004, *Wall Street Journal* article titled, "Fill'er Up, With Color," stated, "As recently as two years ago, 100 percent of HP's profits were derived from recurring cartridge sales." And these OEM high margins serve as the origin, foundation and value proposition for the recharger industry.

Historically, the value proposition of remanufactured cartridges has been the savings versus OEM cartridges. If an OEM cartridge sells for \$130 at the retail level, a remanufactured version of the cartridge might sell for \$70 to \$115, a 15 to 45 percent discount. Consumers weigh the benefit of the cost savings versus the risk of using a third-party branded or generic cartridge. Consumers who are confident in the reliability and imaging quality of remanufactured cartridges appear to consistently purchase remanufactured cartridges. For businesses with large populations of printers, a 15 to 45 percent savings per cartridge can result in hundreds of thousands of dollars saved annually. For example, a large professional services firm with 250 employees and a population of more than 100 printers may spend as much as \$2.5 million annually on imaging supplies. A firm of this type could save between \$250,000 and \$1 million annually if it switched to remanufactured printer cartridges.

### What's at Stake?

There is a lot of value at stake for rechargers in the coming years. According to Lyra Research and Cap



Ventures, remanufactured cartridges have been able to carve out an estimated 20 to 30 percent of the \$20 billion imaging supplies market in North America. In aggregate, this puts the retail market size for remanufactured cartridges in North America somewhere between \$4 billion and \$6 billion. Every 1 percent increase in market share represents \$200 million in revenue potential today and, assuming the industry continues to grow at 10 percent per year for the next five years, could represent a cumulative gain of \$1.5 billion over the next five years.

Similarly, a decline of 1 percent represents \$200 million in lost revenue potential today and, again assuming the industry continues to grow at 10 percent per year for the next five years, could represent a cumulative loss of \$1.5 billion.

Therefore, in aggregate and individually, rechargers must consider ways to increase market share or risk losing hundreds of millions of dollars in value. Clearly, the pace of new product development, Prebate programs, chips, sourcing empties, color cartridges, SKU proliferation, intellectual property and patent issues, technological complexities, and a host of other industry trends all present significant challenges for remanufacturers. Any one of these trends, with the right conditions, could have a devastating impact on the recharger industry. However, there may be nothing more challenging for rechargers in the coming years than the whole-scale revolution of cost-per-page selling models.

### A Basic Definition of Cost Per Page

At the most basic level, cost per page can be determined by calculating the cost of a printer cartridge divided by its yield. Using the same examples from above, the black inkjet cartridge (10N0016) for the Lexmark Z615 inkjet printer costs \$31.99

Lexmark Z615 Cost Per Page		
	Z615 Black Inkjet	Z615 Color Cartridge
Cost Per Cartridge	\$ 31.99	\$ 34.65
No. of Pages	410 pages	275 pages
Cost Per Page	\$ 0.0780	\$ 0.1260

Figure 1. Basic cost-per-page calculations for the Lexmark Z615 printer.

HP LaserJet 1012 Cost Per Page	
	HP 1012
Cost Per Cartridge	\$ 69.94
No. of Pages	2,000 pages
Cost Per Page	\$ 0.0350

Figure 2. Basic cost-per-page calculations for the HP LaserJet 1012 printer.

Range of Basic Cost-Per-Page Comparisons				
	HP 1012	HP 2100	HP 4000	HP 8100
Cost Per Cartridge	\$ 69.94	\$ 98.99	\$ 128.99	\$ 199.99
No. of Pages	2,000	5,000	10,000	20,000
Cost Per Page	\$ 0.0350	\$ 0.0198	\$ 0.0129	\$ 0.0100
	Lexmark e210	Lexmark e310	Lexmark Optra M	Lexmark T620
Cost Per Cartridge	\$ 79.91	\$ 149.84	\$ 190.48	\$ 324.56
No. of Pages	2,000	6,000	15,000	20,000
Cost Per Page	\$ 0.04	\$ 0.025	\$ 0.0127	\$ 0.0162

Figure 3. Basic cost-per-page calculations across common HP and Lexmark printers.

and has a maximum yield of 410 pages, and the color inkjet cartridge (10N0026) for the printer costs \$34.65 and has a maximum yield of 275 pages. See Figure 1 for the cost-per-page calculation.

Similarly, the HP LaserJet 1012 printer cartridge costs \$69.94 and lasts for 2,000 pages with 5 percent coverage. See Figure 2 for the cost-per-page calculation.

Amongst these examples, the cost-per-page is the highest with the Lexmark Z615 color cartridge, which is \$0.126 per page. The cost per page is the lowest with the HP LaserJet 1012 cartridge, which is \$0.035 per page.

Using more common printers — such as the highest-volume HP and Lexmark printers — we can see that the cost per page ranges substantially. See Figure 3.

At \$79.91, the Lexmark e210 has the second-lowest price of the cartridges listed, but with a yield of only 2,000 pages per cartridge it is the most expensive cartridge on a cost-per-page basis at \$0.04 per page. Similarly, at \$199.99 the HP LaserJet 8100 has the second-highest price of the cartridges listed, but with a yield of 20,000 pages per cartridge, it is the least expensive cartridge on a cost-per-page basis at \$0.01 per page.

When we plot these prices out on a chart, we can see that the higher the yield of the cartridge, the lower the cost per page. See Figure 4.

Intuitively and economically, this makes sense: The more you buy, the less each individual unit costs. However, the cost for the customer has clearly become more complex

as it is necessary to perform an additional calculation to determine what the actual cost is for each page printed.

Ultimately, as mentioned previously, most customers do not have a choice (aside from buying a compatible cartridge) on what type of cartridge to purchase after they have already purchased their printers. Customers who have Lexmark e210 printers cannot purchase HP LaserJet 8100 cartridges.

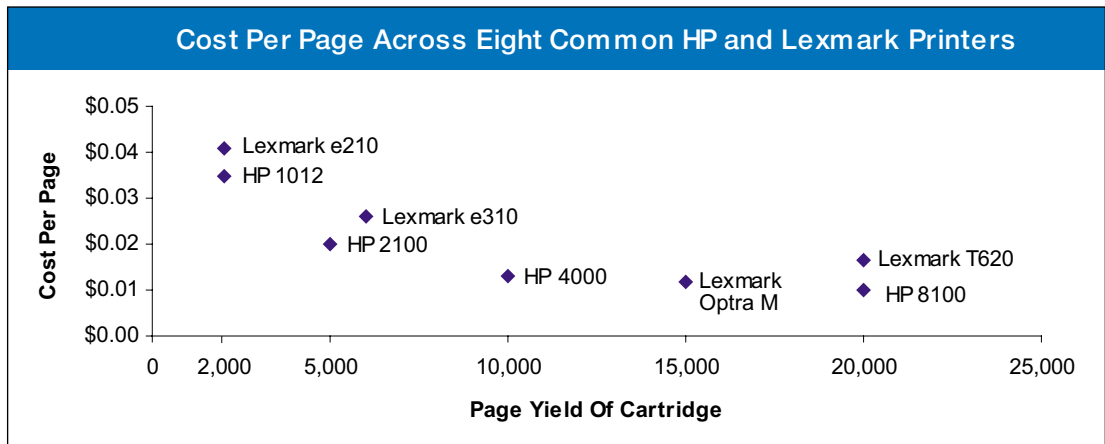


Figure 4. Analysis of cost per page across common HP and Lexmark printers.

So, a decision-making process that involves a cost-per-page analysis usually starts before the end user has made a decision on which printer to purchase.

### An Advanced Definition of Cost Per Page

At a more advanced level, a cost-per-page analysis typically involves more than just the cost of the cartridge divided by the yield. It is a total cost of ownership

(TCO) analysis that involves a comprehensive review of the cost equation. See Figure 5. For example, to determine the true cost per page for any particular printer, you might consider the following:

- Cost of the printer
- Cost of supplies (cartridge and printer)
- Cost of parts
- Cost of service
- Cost of overhead to manage printer
- Cost of capital used to purchase the printer
- Any other miscellaneous costs associated with running the printer

Clearly, this calculation can become complex and involves many variables including but not limited to:

- Where the printer is purchased
- Whether the printer is new or used
- Where supplies are purchased
- Whether supplies are OEM or remanufactured
- The reliability of the products purchased
- Where paper is purchased
- What type of paper is used
- Where parts are purchased
- What types of parts are used
- Whether parts are new or reused
- How frequently the printer is serviced
- Who services the printer
- Who is responsible for ordering supplies

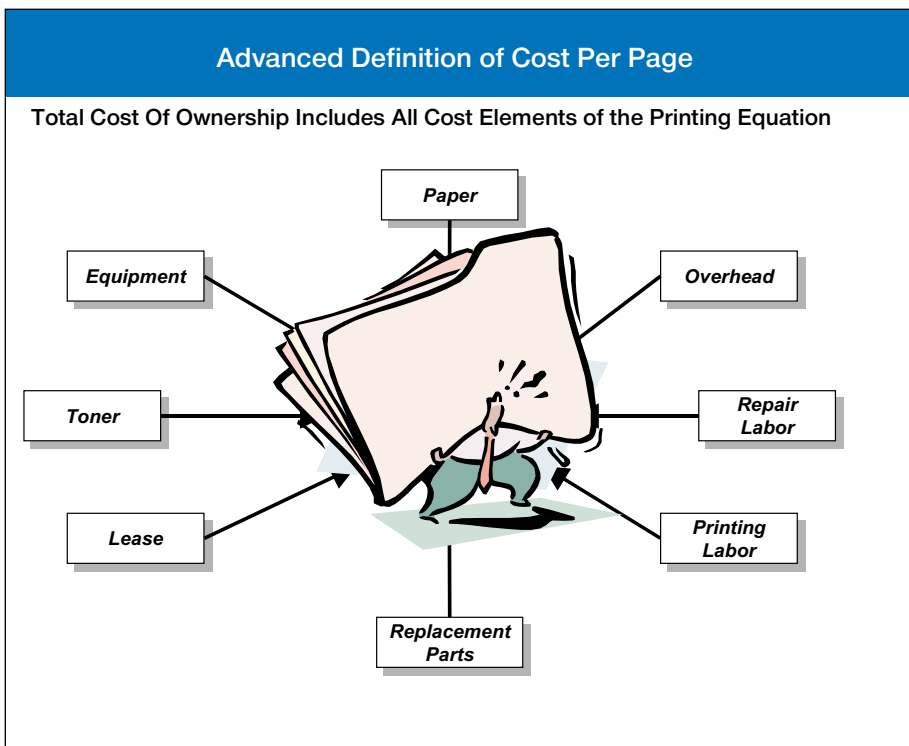


Figure 5. An advanced definition of cost per copy/cost per page.

- How much ink is printed on the paper
- What is the mix between color and monochrome
- How much time does it take to ensure that the printer is up and running properly
- With what type of financing was the printer purchased
- A host of other variable costs

The answers to each of these questions can significantly impact the total cost per page. For example, by comparing two different scenarios, we can see that the cost per page can range substantially. Our example (Figure 6) assumes, in one instance, that the customer used high-grade paper, OEM supplies, a new printer, experienced a high volume of service calls, and used all OEM parts. In the second instance, the customer is assumed to have used lower-grade paper, remanufactured supplies, a refurbished printer, experienced a low volume of service calls, and used all exchange or refurbished parts.

This example does not include a number of additional cost elements that an even more sophisticated analysis could include, but it does highlight cost elements that many customers may not consider in their day-to-day planning.

In the first instance — High End of Range — the cost per page averaged \$0.0338 per page. In the second instance — Low End of Range — the cost per page averaged \$0.0222 per page. The High End scenario is 52 percent higher than the Low End scenario due to the higher cost of paper, supplies, printer, maintenance kit and parts. If a customer prints 500,000 pages annually, this amounts to an annual net difference of

\$5,782. If a larger customer prints 5 million pages annually across a series of offices, the cost differential comes out to be almost \$60,000.

Obviously, the cost per page on the HP 8100 increases from the earlier basic analysis of \$0.01 per page to \$0.0222 per page or \$0.0338 per page because we have added additional costs. For many customers, these additional costs are nei-

ther understood nor accounted for using standard costing models. As a result, when customers discover their true cost per page, they are often surprised and look to find ways to reduce the costs. Equally, for the supplier, as the cost per page increases based on the inclusion of a larger number of elements, so, too, the opportunities for savings increase. Rechargers or imaging supply dealers

Low to High Ranges on HP 8100 Cost Per Page				
Assumptions: HP LaserJet 8100 500,000 pages				
High End of Range				
	Cost	Percentage of Total	Type	Assumption
Paper	\$ 8,000	47%	98 lb.	1,000 reams @ \$8
Supplies	\$ 5,000	30%	OEM	25 units @ \$199.99
Printer	\$ 1,999	12%	New	1 new OEM
Service Calls	\$ 750	4%	Tech. Problems	5 @ \$150 each
Input Assembly	\$ 444	3%	OEM	1 @ 400K pages
Maintenance kit	\$ 339	2%	OEM	1 @ 350K pages
Pickup Assembly	\$ 199	1%	OEM	1 @ 400K
Delivery Assembly	\$ 130	1%	OEM	1 @ 400K
Pickup/Separation Roller	\$ 19	0%	OEM	1 @ 400K
Separation Pad	\$ 8	0%	OEM	2 @ 200K each
Opt. Tray PU Roller	\$ 8	0%	OEM	1 @ 400K
<b>Total Cost</b>	<b>\$ 16,896</b>			
Number of Pages	500,000			
Total Cost Per Page	\$ 0.0338			
Low End of Range				
	Cost	Percentage of Total	Type	Assumption
Paper	\$ 6,000	54%	82 lb.	1,000 reams @ \$6
Supplies	\$ 3,500	31%	Remanufactured	25 units @ \$140
Printer	\$ 1,000	9%	Refurbished	1 refurbished
Maintenance Kit	\$ 189	2%	Exchange	1 @ 350K pages
Input Assembly	\$ 145	1%	Exchange	1 @ 400K
Pickup Assembly	\$ 95	1%	Exchange	1 @ 400K
Delivery Assembly	\$ 86	1%	Exchange	1 @ 400K
Service Calls	\$ 75	1%	Preventative Maint.	1 @ \$75 each call
Separation Pad	\$ 16	0%	Exchange	2 @ 200K each
Pickup/Separation Roller	\$ 11	0%	Exchange	1 @ 400K
Opt. Tray PU Roller	\$ 7	0%	Exchange	1 @ 400K
<b>Total Cost</b>	<b>\$ 11,124</b>			
Number of Pages	500,000			
Total Cost Per Page	\$ 0.0222			

Figure 6. An advanced cost-per-page analysis under two different scenarios.

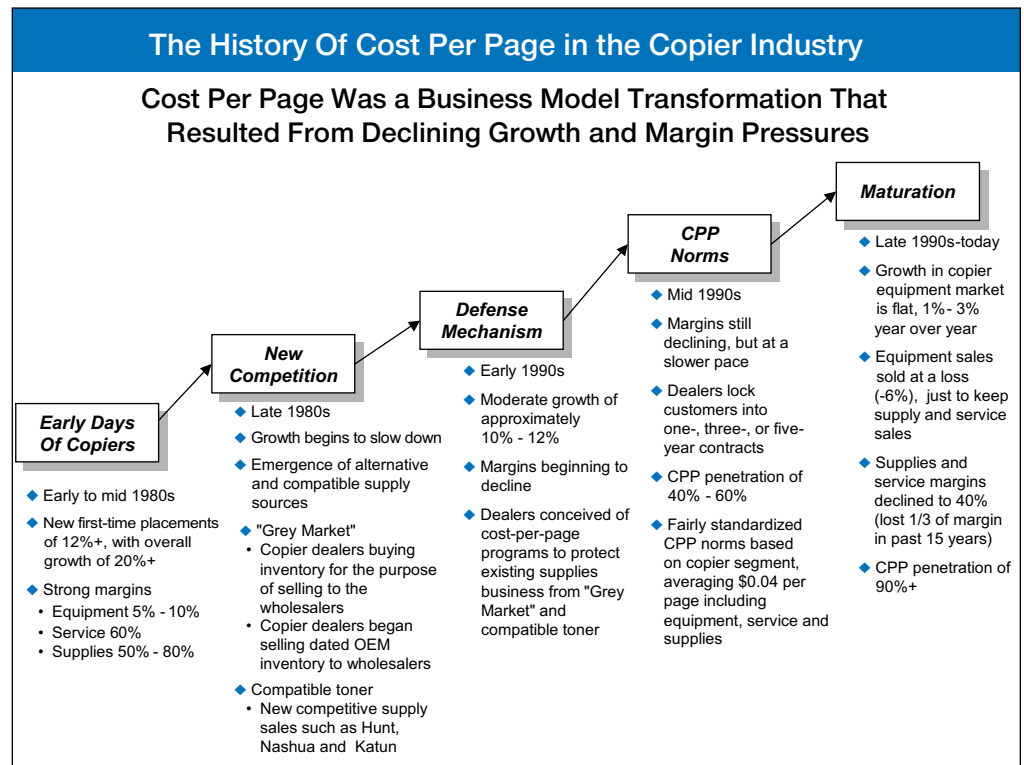
who are able to determine the cost per page for a particular customer and find ways to reduce the cost per page have a decided competitive advantage over those who do not.

## An Abbreviated History of Cost Per Page in the Copier Industry

In the early to mid 1980s, the copier industry was considered a highly profitable, high-growth industry. New first-time placements of copiers were growing at more than 12 percent, and the overall channel was experiencing growth of more than 20 percent. Margins on equipment were only between 5 percent and 10 percent, but margins on service were more than 60 percent, and margins on supplies ranged from 50 percent to 80 percent. Times were good for most copier dealers. See Figure 7.

In the late 1980s, industry growth began to slow, and new entrants emerged with alternative sources for supplies. Alternative sources included compatible supplies and the gray market. Compatible copier supplies were manufactured by companies such as Hunt, Nashua and Katun. Meanwhile, a gray market began to develop as copier dealers bought inventory from the OEMs on allocation programs and began selling that product to wholesalers. Similarly, dealers and wholesalers would purchase product internationally at lower prices and sell the product back into the U.S. market.

By the early 1990s, growth had slowed to between 10 percent and 12 percent, and margins on supplies and service were beginning to decline. In response, copier dealers conceived of



**Figure 7. The history of cost per page in the copier industry.**

cost-per-page programs in order to increase their revenue potential within customer accounts, increase their margins, lock in customers with multiyear contracts, and prevent competitors from gaining access to customers by simply pricing the same product lower.


The strategy was a success. By the mid 1990s, cost-per-page penetration had reached an estimated 40 percent to 60 percent of the copier industry. These cost-per-page programs slowed the margin decline by moving the customer focus away from the cost per toner cartridge or service trip and toward a total cost of ownership model. Additionally, cost-per-page programs allowed dealers to lock in their customers with minimum volume, multi-year contracts.

From the late 1990s through today, cost-per-page penetration has reached approximately 90 percent in the copier market. New first-time placements of

copiers is flat at 1 to 3 percent per year. Margins on equipment sales have declined to zero or below as dealers, like the printer OEMs, employ a razor blade strategy to make money on service and supplies. Supplies and service margins appear to hover around 40 percent and are remaining fairly constant.

The copier industry has many similarities to the printer industry. Obviously, both industries have output devices, supplies and service; both industries employ razor blade strategies; both have sizable OEMs that make fairly substantial margins; and both industries have a broad network of dealers who are in constant competition with one another. However, the laser printer industry started 15 to 20 years after the copier industry, and, therefore, has a few years to catch up. In the copier industry, the progression from separate equipment, supply and service sales to complete penetration of





cartridge and the OEM price usually enables a recharger to be profitable in this scenario even with the service included. Customers interested in this type of relationship are primarily focused on convenience.

■ **Service and Supplies Discount.** Rechargers may offer a significant discount or rebate to a customer if they agree to exclusively source service and supplies from the recharger for a period of time. This pitch is typically most effective with cost-conscious customers who recognize that volume purchasing with a single vendor can be one of the most effective methods to reduce costs.

■ **Service and Supplies Contract.** Rechargers may charge a fixed amount to service a population of printers across an established time period. For example, a customer with 500 printers printing an average of 20,000 pages per month with regularly scheduled preventative maintenance checkups at 500,000 pages per printer would require a checkup for each printer every 25 months. Assuming the printers were not all purchased at the same time, this might require 20 printer maintenance checkups per month. At roughly \$80 per visit, the recharger might charge \$20,000 annually to cover the service costs, excluding any parts. The recharger would bill the customer separately for supplies, but generally will have an exclusive relationship for supplies because of their service contract.

These aforementioned examples are just a few of the variations of the “supplies and service” selling model. Most of the variations have an extended relationship that is of a longer duration than just the supplies or just the service selling models; thus, the “supplies and service” sale is not merely transactional. It is based on the ability of the vendor to

## A common incentive for rechargers to sell customers hardware is to prevent those customers from being assisted by a competitor, which might expose the customers to a different (and better) source for supplies and service.

achieve a certain performance level over an established period of time. While performance demands are increased, so, too, is the opportunity for strategic control and longevity of the relationship. Assuming that the recharger is competitive within the local market and services the customer well, there should be little to no volatility amongst accounts.

The supplies, service and hardware selling model is rarer in the recharger channel than the copier channel because of a) the lower price points of printers, b) the relative accessibility of purchasing printers (including the fact that almost all OEMs also sell direct), c) the low margins rechargers make on hardware sales and d) in certain instances, the amount of capital involved. According to Lyra Research, globally, hardware accounts for 40 percent of printer industry sales (while supplies account for 60 percent), but for most rechargers and dealers, hardware accounts for a substantially smaller portion of revenues.

While most rechargers offer their customers printers, it is rarely a focus. The lower price points of printers results in a more decentralized purchasing approach versus copiers. A buyer within an organization is not required to get authorization for a \$500 to \$1,000 pur-

chase. Similarly, that buyer can purchase a printer through any of a number of different channels including office supply superstores, Web stores, electronics retailers, and, of course, direct from the manufacturer, as well as a host of other options.


Furthermore, rechargers have little to no economic incentive to sell hardware given that, at best, they can make between 5 percent and 10 percent margin on the hardware, a gross profit dollar contribution less than some toner cartridges.

A common incentive for rechargers to sell customers hardware is to prevent those customers from being assisted by a competitor, which might expose the customers to a different (and better) source for supplies and service.

Finally, in the most extreme instances, rechargers — like copier dealers — may choose to place output devices within a customer’s organization in order to guarantee future service and supply revenues. This can be a capital-intensive venture, particularly in larger office environments.

Despite these obstacles, the supplies, services and hardware selling model provides the most comprehensive solution for customers of any of the previously discussed selling models. By providing all three elements of the value equation, the recharger is assisting the customer in evaluating their output needs, establishing which configuration is ideal and managing the entire process from beginning to end. As a result, it is a more complicated selling process, but yields more strategic control to the vendor given the higher economic value of the decisions being made and the supporting role that the vendor plays in the IT investment decision.

At the furthest end of the selling model continuum, the cost-per-page



selling model is by far the most complex. As detailed above, the cost-per-page selling model takes into account the total cost of ownership (TCO) and includes all elements of the cost equation. The audience for a cost-per-page sale is typically at the senior executive level of an organization because of the fact that cost per page addresses multiple cost elements that reach across many different departments within an organization. Senior executives clearly have the most authority when making decisions that affect an organization, and, not only are they able to make larger investments, by nature they only become involved when the investment is large enough to concern them. A \$100 transaction for a single toner cartridge or a series of cartridges valued at \$1,000 doesn't generate enough interest for a senior-level executive to become involved. However, the notion of reducing the average cost per page on 500,000 pages per month from \$0.08 (\$40,000 per month) to \$0.04 (\$20,000 per month), which nets a saving of almost a quarter of a million dollars annually, should capture the attention of most senior executives. Given the large economic value of the transaction, it is reasonable to create a multiyear contract, a benefit for the customer because it guarantees cost reductions for an extended period of time, and, as discussed earlier, a benefit for the vendor because it locks in a recurring revenue stream and locks out competition.

Of all five selling models discussed, the supplies-only selling model is the most limited because of 1) its emphasis on price, 2) its pitch to lower levels of the organization, 3) limited economic value and 4) limited strategic control for the

supplier. In a competitive market, there is always another company that can or will sell the product for a lower price. Of all five selling models, the cost-per-page model has the most advantages. Clearly, those rechargers who develop a cost-per-page selling model will have a decided competitive advantage over those who do not or cannot.

### **Challenges of Cost Per Page in the Printing Industry**

So, given the numerous advantages of the cost-per-page selling model, for what reasons hasn't the entire industry adopted it by now? As any company that currently utilizes a cost-per-page selling model can attest to, the challenges to implement cost per page are significant indeed. Cost per page is hard to determine, hard to sell, hard to administer and hard to maximize.

The core challenge of the cost-per-page selling model within the printer supplies industry is the decentralized printing model versus the centralized copier model. Because printers sell at lower price points and generally serve a smaller population of individuals, there are more printers in an office environment than a copier environment. Most offices, unless

they contain a copier center, will have between one and three copiers, yet it is not uncommon to find hundreds of printers in a professional services organization, a hospital or a university. Even a small office with 50 employees will have only one copier, but may have anywhere from four to 15 printers. This decentralized printing model not only affects the number of output devices, it also affects the acquisition of supplies. Clearly, there will be different printer models within an office, depending upon who made the hardware purchasing decision based on their particular set document needs. And even the same models may have different usage levels depending upon how many people use the printer (networked printers versus single use), what is being printed (graphics department or customer service department) and the density setting of the printer (higher density settings use toner faster). Moreover, not every printer in an office will need to have its toner or inkjet cartridge replaced at the same time. So, when the printer needs a new cartridge, whoever is near the printer may be responsible for purchasing the cartridge, be it from an office superstore, an Internet company, a contract stationer, a copier dealer or their loyal and devoted printer service provider. Tracking the cost of 200 separate printers spread across 42 different departments with unique usage patterns for each printer is much more challenging than tracking the cost of two copiers located in the copy center. This decentralized printing model, which affects usage, purchasing, tracking, etc., is the single largest inhibitor to increased penetration of

**The audience for a “cost-per-page” sale is typically at the senior executive levels of an organization because of the fact that cost per page addresses multiple cost elements that may reach across many different departments within an organization.**

the “cost-per-page” selling model in the printer industry. See Figure 9.

When a recharger makes an effort to sell based on cost per page, the general premise is that the recharger will determine the current cost per page and then propose a reduced cost per page for a future contract. The difference between the current cost per page and the proposed cost per page provides the value equation for the customer switching their business from their current vendor(s) to the recharger. Determining the current cost per page has a host of challenges.

The first challenge in determining the current cost per page is identifying all of the output devices within an organization. For a single-office organization, determining the number of output devices can be completed with a simple onsite visit that takes half an hour. For a company with multiple offices spread across different states, determining the number of output devices may take hundreds of hours. For example, one \$5 billion organization with international operations and more than 200 offices estimates that it spends \$15 million annually on printing and copying costs. This organization realized that their estimate could be off by millions of dollars, given that they did not have a complete inventory of their output devices. They recognized that it would take 12 months to determine the actual spending amounts as they worked to develop a centralized inventory list of all of their printing and copying assets. Once the recharger has determined the number of output devices, it is necessary to determine the purchase price of each output device as well as establish an expected life for the device. Knowledge of purchase prices can be limited, and estimates of the potential life for a printer can vary widely.

The second challenge in determining the current cost per page is to figure out the aggregate supplies usage. A few companies can provide specific details on supplies consumption through an invoice history report via their accounting software

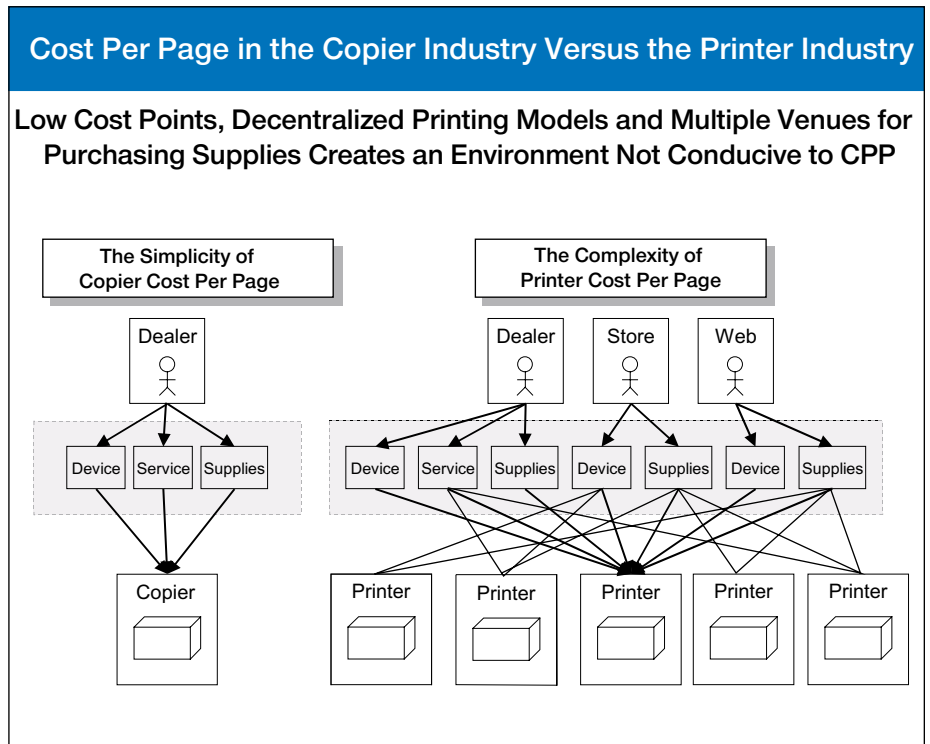


Figure 9. Cost per page within the printer industry.


programs, but the vast majority of companies dump imaging supplies purchases haphazardly into office supplies, business supplies, miscellaneous supplies or a host of non-essential accounts. Given that the imaging supplies are purchased from such a vast array of different sources, with multiple credit cards on separate accounts, calculating supplies consumption often requires the recharger to review invoices over a sample time period, and then make assumptions to determine annualized supplies costs. The third challenge for a recharger in determining the current cost per page is accounting for all of the non-supplies costs. If a company is using a single source for service, the recharger can simply review past invoices. However, most companies, particularly if they have offices spread far and wide, will rely on multiple service providers. In addition to service, rechargers must consider parts, overhead and any additional costs associated with the output devices. All of this amounts to a time-intensive task that, clearly, is more complicated, sophisticated

and comprehensive than selling a single toner cartridge.

After determining the current cost per page, the recharger must make recommendations for a new cost per page for the customer, which will be based on two premises: 1) that the recharger has found several different opportunities to lower costs, and 2) that the new cost-per-page proposal provides value for the customer because they now have the ability to monitor and control costs.

By capturing the service and supplies business for the entire company and consolidating all purchases into one supplier, the recharger can charge a lower cost due to volume purchasing activity, even if there are no adjustments made. If the current customer had historically been using OEM parts and supplies, the recharger should be able to reduce costs substantially with remanufactured toner and refurbished parts.

Another key method for reducing costs, and the one employed more frequently by OEMs and copier dealers, is identifying



the correct output devices for the correct functions within an organization and replacing the output devices en masse. Consider the earlier example of the differences between the HP LaserJet 1012 at \$0.035 per page and the HP LaserJet 8100 at \$0.01 per page. Replacing 10 HP LaserJet 1012 printers with three HP LaserJet 8100 printers should lower the cost per page for the customer. However, the capital outlay for the new system of output devices requires a substantial capital commitment, one that most rechargers are hesitant or unable to make. Consider a 500-employee company with 50 printers and two copiers, of which all but 10 printers and one copier are going to be replaced. The capital investment to make the change could be as large as \$50,000. This investment, amortized accordingly over five years and across a high volume of pages combined with the correct financing, is more palatable, but it clearly increases the stakes of the game and shifts the risks for successful recommendations and management of the program onto the supplier. Clearly, the ability to find methods to reduce costs and the capital investment required to support those recommendations are significant challenges for rechargers in implementing cost-per-page programs.

A final challenge in administering a successful cost-per-page program is capturing the print output data for customers. While there are a number of different software programs for both the printer industry, such as HP Web jet admin, and the copier industry that enable rechargers to capture printer output, there are a limited number of comprehensive solutions that capture all the necessary data. Many software programs have limited success capturing output data in the following circumstances: a) printers that are not connected to the network, b) alternative OEM printers with unique printer

drivers and c) aggregating copier and printer data under one system, amongst other challenges.

There are many additional challenges to administering cost-per-page programs. Fundamentally, cost per page is a more sophisticated selling process with a more significant time commitment in the selling process, more value-add in the analysis and recommendation process, more risk in implementing the program and more cost in managing the account. If these additional challenges can be overcome, cost per page can provide opportunities for increased revenue, higher margins and a longer relationship with the customer.

### **How to Sell Cost-Per-Page Programs**

There are innumerable selling messages for cost-per-page programs. Clearly, the selling message must speak to the audience. The selling message will depend significantly on the company size, organizational infrastructure, existing output devices and a variety of other factors. That said, there are a few consistent themes for selling cost-per-page programs.

The first general theme, as referenced several times above, is the unknown costs for output devices in an organization. Most companies will be completely unaware of how much they are spending to print and copy their documents. Rechargers who can offer some answers to a complex set of issues are adding value even before they become a supplier.

The second general theme is the ability to control and reduce aggregate costs. All things being equal, most businesses prefer to reduce costs, even if the cost is not a critical cost element for the company. A savings of \$200 per month to \$100,000 per month is a compelling message, particularly when compared to the message of saving \$6 on a toner cartridge or \$15 on a service call.

The third general theme is the shifting of risk from the customer to the vendor. The customer may have a high degree of variability in its monthly printing costs based on a variety of factors. The customer should value creating a more fixed cost structure that is not subject to wild swings on a monthly basis. Moreover, if the cost-per-page program includes ownership of the equipment, the customer will not be responsible for any equipment replacement, multiple leases, etc.

The approach for selling cost per page is more consultative than the approach of selling just supplies or service because of the amount of time it takes to determine the current cost per page and to develop a proposal. The recharger can spend a few hours determining the cost for a small organization or hundreds of hours for a much larger organization. Less sophisticated cost-per-page programs can reduce the amount of time involved in the selling process substantially.

Ultimately, selling cost per page requires a more experienced and capable sales team that has been trained to sell to a more sophisticated customer. The ability to sell cost per page creates a decided competitive advantage over local rechargers who are not able to sell using this approach.

### **How to Sell Against Cost-Per-Page Programs**

There are several instances in which a recharger may need to sell against a cost-per-page program. Obviously, for a customer who is disillusioned with an existing cost-per-page program because of the high costs, poor service levels, unmet output needs, or other reasons, moving away from a cost-per-page model could be of value. Customers frequently decide to move away from cost-per-page programs due to unused minimum requirements in which the vendor has established a cost per page for a minimum number of pages per

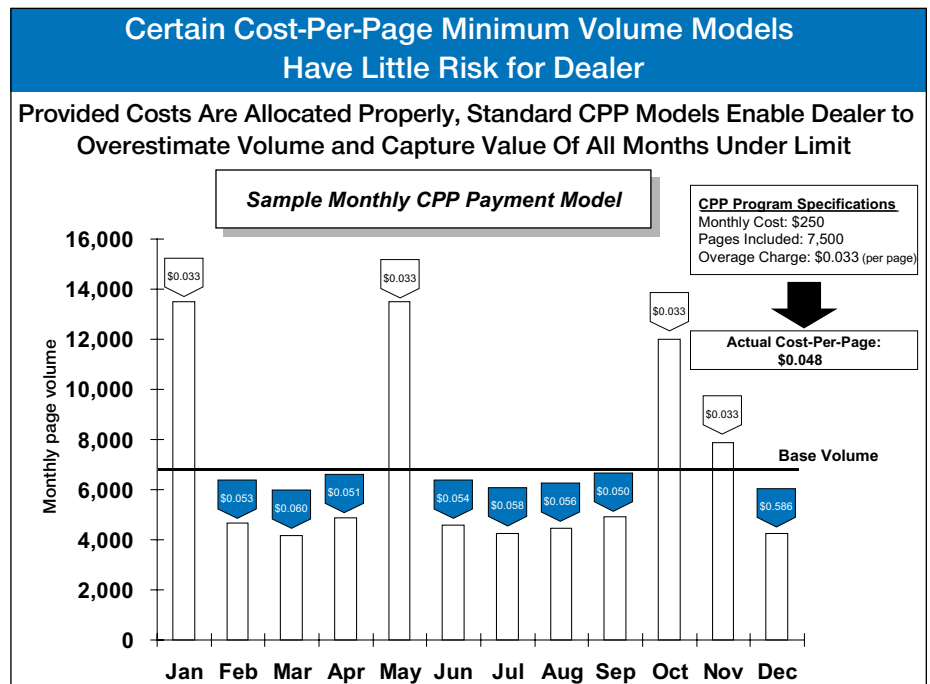
month and the customer is not using the full minimum number of pages. For example (see Figure 10), consider a customer who has a cost-per-page charge of \$0.033 and a minimum of 7,500 pages per month. The customer pays \$250 per month minimum and \$0.033 per page over 7,500. If the customer frequently uses fewer than 7,500 pages per month, the cost per page will be substantially higher on a per-page basis than what they initially considered because the customer is paying \$250 per month. In this example, the actual cost per page is \$0.048, almost 50 percent higher than what the customer anticipated, despite the fact that they have a contract that is for \$0.033 per page.

In these instances, rechargers can pitch a no-monthly minimum charge — i.e., a completely variable model — or a lower monthly minimum charge, which is more consistent for the customer.

Some customers may prefer a more basic model, in which case a recharger can pitch the value of a return to the simplicity of supplies and service purchases, a separate set of invoices (think of how complicated some phone bills are to determine your actual usage and costs), or, potentially, a lower cost through multi-vendor sourcing. If a customer has already made the decision to move away from cost per page, the sales pitch should be relatively simple.

The more challenging sales pitch is for customers who are satisfied with their existing cost-per-page programs and are considering renewing for another multi-year contract. With this type of customer, a recharger will often need to go through the consultative selling approach and pitch a lower cost per page, a more comprehensive program, a shorter contract, better service or some other set of values for the customers. Rechargers who do not have the ability to pitch or administer a cost-per-page program may effectively be shut out of these types of sales.

Generally, pitching against customers who are satisfied with cost-per-page programs is much more challenging than



**Figure 10. An example of a cost-per-print model with little risk for the dealer.**

pitching against a customer who is looking to lower the cost of their supplies. Customers who have a successful experience with cost per page tend to prefer the model, hence the successful and almost complete penetration of cost per page in the copier industry.

### A Few Final Thoughts on Cost Per Page

At \$100 billion globally, the printer industry is big. And it is growing at a substantial clip. Rechargers, despite the host of obstacles in the industry, have gained share and enjoyed significant success over the past 15 years. OEMs do not appear to be considering a new technology to replace laser and inkjet printers any time soon. So the future is bright. However, there is a lot of value at stake, and how any particular recharger prepares for the coming onslaught of cost-per-page selling models will determine how much value is available to them individually and to the industry as a whole.

Currently, cost per page has a penetration of less than 5 percent in the printer supplies industry given the host of chal-

lenges associated with the selling model. However, given the successful penetration of cost per page in the copier industry, many customers now understand cost per page. And, given the success of remanufactured cartridges overall, which are based, at the most basic level, on a value proposition of lower cost per page, cost-per-page penetration in the printer supplies industry will increase at a steady pace in the coming years.

Rechargers already have an established advantage over OEMs in the cost-per-page game and have much to gain by emphasizing these advantages.

And rechargers who can sell and support cost-per-page programs have a decided advantage over those who cannot. They will be better able to find new customers, maintain existing customers, grow revenue, increase margins and lock in long-term relationships. Those who cannot offer a cost-per-page selling model will struggle with the coming onslaught of cost-per-page programs.

Are you ready? **□**

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