Laser Focus

HP maps out a plan that puts partners at the center of its printing strategy
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As its rivals struggle for sales and profit growth, Hewlett-Packard finds itself in a familiar position: No. 1 in printer market share, tops in revenue share. And now HP believes it's poised to distance itself even further from its printing competitors. Armed with a new services focus, cutting-edge technology and renewed rules of engagement with the channel, HP executives believe they will extend the vendor's market-share lead and boost its bottom line.

Now all HP needs is for the channel to sign on.

In an exclusive interview with *CRN*, Vyomesh Joshi, executive vice president of HP's Imaging and Printing Group, spelled out what amounts to a multipronged approach to protect and even put a new shine on the company's crown jewels: its printer empire. "We rely on channel partners," Joshi said. "We firmly believe that when you want to reach the customer, all the way from consumer to small and medium enterprise, to industrial, to graphics customers, the channel plays a very important role."

For $86 billion HP, its printer business, which is on a greater than $24 billion annual run rate, has been one of the consistent strong points in a period where the company has been dealing with a major upper management transition.

Last week, HP reported Imaging and Printing Group sales of $6.8 billion for its quarter ended Oct. 31. While overall sales were up 1 percent for the group over the year-ago quarter and profit shrunk from $1.1 billion to $896 million, analysts said HP was still outperforming rivals in the market. It's printing supplies business was up 7 percent over the same quarter a year earlier, which was also considered the sign of an upbeat business.

But Palo Alto, Calif.-based HP has continued to fight complaints from some corners of the channel that the post-Compaq-merged vendor has maintained too much interest in getting into solution provider accounts. Or that it is punishing channel partners that fail to lead with HP products or show high attach rates or upsell numbers, a concern fueled by comments from HP President and CEO Mark Hurd at an investor conference earlier this year.

But if Hurd is the bad cop, Joshi is the good cop.

"First, I believe HP has been very partner-centric," Joshi said. "If you think about the work that we do in all of our business, we believe partners play a very important role. The second thing is, going through this transition, actually we have increased our business, we have grown our business through channel partners. If you talk to channel partners they will

FOLLOWING THE PAPER TRAIL

Other printing players are making news as well

>> LEXMARK Rolled out price-competitive laser printers, a new channel business-generation program, and is working to build a channel-focused, managed services offering.

>> DELL Perhaps creating the most buzz over the past two years. Strong growth in unit shipments largely as the result of 'bundling' deals (giving away printers for free along with the purchase of a desktop or server). But executives admit they haven't made dime one in profit yet in their printer business and are having

second thoughts about the strategic success of bundling.
>> OKI DATA Mounting a 100 percent channel-focused strategy that combines both midrange and high-end color and monochrome printers with a growing managed services and consulting business.
>> SAMSUNG Focusing on low- to midrange monochrome and color printers and MFPs and is working to leverage its nascent printer business with the rest of its vaunted peripherals offering.
>> XEROX Boosting the performance of its Phaser lineup of printers and earlier this year made a channel-customized document assessment/consulting tool available to its solution providers.
>> CANON Struggling to reach out to the channel to grow beyond its traditional office products/copier dealer network. One of the first vendors to deploy a Java-based solution—called MEAP—that permits third parties to customize document hardware with software.
>> IKON Producing its own midrange printing lineup under the Ikon brand, built by Konica-Minolta. Is also a primary solution provider partner of vendors Canon and Ricoh.

tell you."

As a major part of HP's strategy for winning its share of the 12 trillion pages printed each year in businesses worldwide, the company has rolled out a Total Print Management offering that, among other things, provides a print-assessment tool solution providers can use to evaluate customer workflow and printing habits. HP wants the channel to leverage the tool, also used by HP's internal sales force, to convince customers they can save cents per page by using an HP document and imaging solution.

Tom Senecal, president of Laser's Resource, Grand Rapids, Mich., an HP solution provider, said the vendor's price-per-page assessment tool has enabled him to win back portions of customer accounts that had been lost to copier vendors.

Senecal said his interest in providing print-assessment consulting to clients stemmed from his discovery that one of them was buying fewer printer supplies through his company than it had previously; he found out that client had installed some copiers after being convinced by a vendor it was cheaper.

"I call it 'copier math,' " Senecal said. "She was spending $450 a month for 10,000 copier pages and service." After factoring in other service charges, he said, he showed her that the copier solution was costing her 5.4 cents per page. In short order, he said, he demonstrated that installing HP multifunction devices would bring that cost down to 2.5 cents per page. He won back the business.

Jason Goelde, a partner at MBM Computer System Solutions, a solution provider in Troy, Mich., said he would be interested in exploring the HP printing and imaging opportunity, but he is not interested in being tied exclusively to HP. "We need to support multiple vendors," he said. "We have to provide solutions for our customers first. We can't worry about being all HP or nothing. What about customers that have Xerox printers and copiers? We need to analyze what our customers have in their data centers and work with them. We'll look at HP where it makes sense, but we sometimes need copier-type functionality that HP doesn't have."

So the market is far from a cakewalk, even for HP. For much of the past two years, companies including Oki Data, Samsung, Ricoh, Canon, Xerox and Ikon have doubled down on their efforts in the color document and managed services arenas as hardware pricing has gotten more aggressive throughout the industry.

Joshi made it clear that he's setting down the following strategy in HP's Imaging and Printing Group: First, HP will make no promises to ease up its aggressive pricing or margin pressure, with Joshi saying the company believes "the market will set the pricing."

Next, HP will extend its new Scalable Printing Technology—its latest generation print head—from the lower end of its product line throughout its enterprise printing products over the next year or so, giving the company's document business a Moore's Law-type price/performance trajectory, HP executives said. In addition, HP will seek to make security a differentiator throughout its document and imaging product line and has already contributed the first printing security "checklist" to the National Institute for Science and Technology.

HP also will focus on emerging business solutions for enterprise printers, including signage and marketing collateral which, Joshi said, would boost HP's "page share" in the coming years.

And to further assuage any concerns, HP executives say they will live up to the renewed channel rules of engagement unveiled earlier this month. Among other things, HP said that "in a number of specific 'named accounts' within the corporate/enterprise and commercial segments, it will collaborate with channel partners, which will then handle fulfillment of all customer orders. Compliance for the new go-to-market field engagement will be governed by a project office."

As for its competitors in the document and imaging space, Lexmark, Lexington, Ky., has had two consecutive quarters in which it has disappointed Wall Street, among other things selling much fewer supplies into the channel than Lexmark had expected. And Dell, the Round Rock, Texas-based direct PC vendor, has been unable to turn a profit in its printer business since launching it in 2003.

“It’s still true that HP is a little bit expensive on pricing,” said Richard Chan, president of KIS Computer Center, a Santa Fe Springs, Calif.-based solution provider that partners with HP, Lexmark and Canon, among others. “But this is not like before where there would be a $200 difference on units. Now it might be $20 or $30.”

So where does that leave HP? With a business model that still counts on the channel for about 90 percent of its imaging and printing sales, as well as a multibillion-dollar-a-year R&D organization that has poured resources into higher-quality hardware, ink and even paper (HP is the No. 1 brand of office paper in the United States).

Tyler Dikman, president and CEO of CoolTronics, a Tampa, Fla., Dell printer partner, said he is interested in evaluating other potential partners because he is not making any margin on Dell toner consumables. He said he is looking at partnering with Lexmark and Xerox and would be open to an HP partnership. He said he has been particularly impressed with Lexmark’s new aggressively priced color laser printers.

“Dell has not provided any unique printing features,” he said. “I’m willing to look at other products that are less expensive or better. This is a very competitive market. If all things are equal it’s going to come down to margins or cost or a special, unique offering that will allow us as a reseller to make more money —whether it is providing extra warranty, special margins on toner, or a print-per-page model.”

And those options spell growth for HP and its channel, at least according to Joshi. “We are still going to continue to grow our business. We have been very consistent. If you look at 2001, we were a declining business and we were making 10 percent operating profit,” Joshi said. “Starting from the second half of 2002, we are growing our business and we are profitable between 13 to 15 percent. So my objective is to continue to grow our business and make 13 [percent] to 15 percent operating profit.”

STEVEN BURKE contributed to this story.
