

SPECIAL REPORT

Print/Copy Heats Up At Office Superstores

By: Cary Sherburne

In light of the recent increased focus on print and copy services by the office superstores — Office Depot, OfficeMax and Staples — WhatTheyThink interviewed senior print/copy executives at each company to gain an understanding of what has prompted this renewed interest. While all of the office superstores have offered print/copy services for some time, the copy center was generally relegated to the back of the store. Except for OfficeMax, which established its CopyMax division to specifically focus on print/copy, these services appeared to be low on the list of priorities for further development. That has all changed in the last several months. In this Special Report, WhatTheyThink provides an update on what is happening in this rapidly changing market segment.

In preparation for this special report, WhatTheyThink spoke to:

- Brian Norris, Senior Vice President, CopyMax (now OfficeMax Print and Document Services)
- Bill Golder, Vice President of Print and Copy, Office Depot
- Rob Schlacter, President, Business Services, Staples

Interestingly, all three of these gentlemen came to their respective office superstore companies from Kinko's (now FedEx Kinko's) over the last couple of years, where all were Kinko's Area Vice Presidents.

Office Superstores: The Market Impact

For the office supply industry, copy/print services are seen as a significant growth opportunity. According to industry analysts and senior executives at the Big Three, margins on print/copy are easily double the standard margins in the highly competitive office products space. The office superstores — and competitor FedEx Kinko's — are anxious to grab a share of what RIT School of Print Media Professor Emeritus Frank Romano indicates is a \$15.3 billion market for quick printing, copying and digital printing. Share of this relatively flat market that is acquired by the office superstores as they strive to grow their print/copy businesses will be, to some degree, at the expense of — and in competition with — FedEx Kinko's.

However, the most threatened segment of the market is the small “mom and pop” and franchise print service providers who have traditionally served the small business market. According to Dr. Joe Webb, WhatTheyThink economist and commentator, there has been a net loss of some 1,000 printing businesses each year for the last several years as a result of consolidations and business closures. It is at the smaller end of the market, with an estimated 26,000 establishments producing under \$1.5 million in annual revenues and accounting for \$15.3 billion in total revenues, that will bear the brunt of the double-digit print/copy growth targeted by the office superstores and FedEx Kinko's.

As more sophisticated customers demand more complex services — electronic job submission, distribute and print, aggregated corporate discounts based on national and global buying power, document management and reprint services — the office superstore giants have the advantage of available resources for capital investments that can be leveraged across their broad networks. Today's buyers appreciate the convenience of multiple, standardized locations offering a predictable set of services and predictable quality; one-stop shopping for not only print/copy/ship but office supplies and office furniture; and rewards programs that offer valuable discounts and engender customer loyalty.

This is the value proposition being offered by the office superstores. They all have aggressive growth targets. They are all investing hugely in equipment, technology, staffing and training to enhance the level and complexity of print/copy services available. And they have a huge, captive customer base that already purchases office supplies and furniture from them.

And perhaps it is coincidence, but in a recent WhatTheyThink column, Dr. Webb pointed that between March of 2003 and November of 2004, the number of net new businesses (read: small business) in the U.S. is up 74.8%. During the same period, Staples' stock price increased 74%.

There is no question that their impact on the industry as a whole will be huge. This is a segment of the market that bears watching.

Office Superstores

At A Glance

	Office Depot	OfficeMax	Staples
Year Founded	1986	1988	1986
Number of Stores	1,105	968	1,600
Number of Countries	14	3	19
Annual Revenues	\$12.5 billion	\$4.8 billion	\$13.2 billion
Shipping Partner	UPS	DHL	UPS
Stationery/Promotional Items provided by	Taylor Corp.	Currently out to bid	Unknown
Dedicated print/copy sales force?	Yes	Yes	No
Number of closed-door production facilities	2	1	0
Number planned		34	
Equipment Suppliers	Xerox/Oce/HP	Xerox/Canon	Xerox/Canon
Online Job Submission Planned?	No	Yes	No
	Yes		Yes

Office Depot

Office Depot, founded in 1986 and headquartered in Delray Beach, FL, claims to sell more office products to more customers in more countries than anyone else. Its distribution channels include stores, direct mail, contract delivery, the Internet and business-to-business electronic commerce. Viking Office Products, a wholly-owned subsidiary, currently operates as one of the industry's leading direct mail marketers of office products worldwide. As of June 26, 2004, there were 1,105 Office Depot stores operating in 14 countries. 2003 revenues were \$12.5 billion. The North American Retail stores group includes:

- 868 Office Depot superstores in 33 states and the District of Columbia
- 33 Office Depot stores in Canada

In October 2004, Office Depot began expanding its presence into the Northeast, opening three of the

40 stores planned for that region.

The new stores sported Office Depot's Millennium 2 (M2) format, developed in response to a corporate mandate to reinvent the retail model by creating a format that is less expensive to open, more efficient to operate and easier to shop.

According to Bill Golder, Vice President of Print and Copy, "All of the copy centers in our stores are configured roughly the same way. You can count on seeing full-serve copying and finishing, some degree of self-serve and a UPS shipping counter in 99% of our locations."

Sales and Operations

When Golder joined Office Depot in July of 2003, the company had a very small copy/print staff at its corporate office and no field support resources for copy and print. Under Golder's management, Office Depot has made significant investments in its copy/print infrastructure. By June of 2004, the company had deployed 23 regional

operations managers to provide the leadership and expertise to effectively run an expanded copy/print business. These regional managers are supported by two directors, one in the East and one in the West. Office Depot is in the process of adding three additional regional managers.

Golder made the strategic decision to tap into the existing large contract sales force Office Depot already had in place rather than hiring a separate sales force for copy/print. He now has in place a sales director, a team of four sales managers and 12 sale specialists that act as product experts in supporting Office Depot's 1,200-strong contract sales force. He says, "This arrangement has worked out well. We offer three key solutions in the contract copy/print arena: a basic copy and print service package for contract customers; a product called Your Company Store that offers logo'd promotional items and apparel online; and a custom online stationery solution for clients that are high-volume stationery users."

Office Depot operates two closed-door production facilities, one in Delray, FL, and the other in Signal Hill, CA. These centers produce work for contract customers as well as accommodate overflow volume from retail stores. Golder sees these closed-door hubs as an expansion opportunity. He says, "We are putting energy into beefing up these capabilities, and are watching their performance to justify the return on investment."

The Technology

In most Office Depot stores, the copy/print center is at the front of the store for increased visibility. The equipment is predominantly Xerox. The normal full-serve configuration, according to Golder, consists of a Xerox Document Centre 490 for black & white. Office Depot is in the final stages of converting all of its full-serve production color to Xerox 3535s. Self-serve black & white copying is likely to consist of Xerox Copy Centre C55s. Office Depot retail centers offer basic finishing and binding services, including GBC and coil binding, cutting, folding and saddle stitching.

In the closed-door facilities, Office Depot has invested in Xerox DocuTech 6135s and 6180s as well as DocuColor 6060s. These facilities have a higher volume capacity and greater operator expertise to handle more complex contract work.

At the current time, Office Depot has about 20 HP wide format color printers in its network. Golder explains, "We currently have a small number of locations with wide format color capability and are assessing the best go forward strategy for this offering."

For online job submission, or the ability for customers to submit work electronically to Office Depot, in addition to accepting standard electronic media, stores can provide an e-mail address to customers. And work can be e-mailed by the stores to the production centers, as well. Office Depot is in the final stages of sourcing a formal job submission solution that

will make it easier for customers to submit work electronically. Though Golder declined to name the provider of this solution, he expects it to provide a good backbone for moving files around and for file preparation. He believes it will also reduce training and workflow investment requirements.

Office Depot has had an exclusive relationship with UPS as its carrier of choice for about four years, and Golder reports that this is an important part of the business. He says, "It is a convenience play. Shipping is a good complement to the copying and printing side of the equation. It has delivered good growth and has brought revenue and traffic."

Finally, Office Depot has a relationship with the Taylor Corporation for almost everything the company outsources, including rubber stamps, business cards, stationery, forms, checks, and engraved items.

In Summary...

In its retail operation, Office Depot claims a strong small business following in the sub-20-employee sector, with a high reliance on sub-10. Golder indicates that a lot of Office Depot retail customers are one- and two-person operations that purchase office supplies at Office Depot and appreciate the convenience of finding copying, business cards and stationery, and shipping services at the same location. He says, "Copy and Print play a key value-added role inside an office superstore as the only true service destination. All of the office

superstores recognize the customer loyalty opportunity and, frankly, the profitability of combining services with traditional product purchases."

In addition to sourcing work through its contract sales force, Office Depot also leverages its rewards program, called Advantage, which provides a 15% discount on purchases in Copy, Print and Ship.

Of the three office superstore giants, Office Depot has the most catching up to do in print and copy. But Golder has made tremendous progress since he joined the company 15 months ago, and has a good grasp of what needs to be done moving forward. He is putting his 14 years of experience at Kinko's to good use, moving forward with a rational build-out. The imminent addition of online job submission, assuming it is aggressively promoted to both contract and retail customers, stands to boost volumes. And over time, strategically increasing the number of closed-door production facilities and enhancing color wide format services will also add revenue streams to the operation.

Golder would be the first to admit that competition is stiff, but he appears confident that he will be able to achieve the growth levels the company is looking for.

OfficeMax

Michael Feuer, an 18-year veteran of Fabri-Centers of America, now Jo-Ann Stores, and partner Robert Hurwitz incorporated OfficeMax in 1988, opening the first store in Mayfield

Heights, a Cleveland suburb. Early growth was fueled by an investment from Kmart, which at one time owned 93% of the company. Kmart provided financial backing that allowed the chain to experience dramatic growth. Kmart reduced its ownership stake in OfficeMax to 25% through a 1994 IPO and sold the rest of its OfficeMax shares to the public in 1995. In 2001 and 2002 in the face of the economic downturn, OfficeMax closed about 79 stores.

The number three U.S. office superstore (behind Staples and Office Depot), OfficeMax was acquired by Boise, a paper manufacturer and office products distributor, Cascade in December 2003 and merged with Boise Office Solutions, maintaining the OfficeMax brand. At the time of the merger, OfficeMax had 968 stores and revenues of \$4.8 billion, down from a peak of \$5.1 billion in 2001. Post merger, combined revenues were \$8.2 billion. The company has announced plans to open about 50 stores in the U.S. in 2005.

OfficeMax superstores feature store-within-a-store shops CopyMax (printing services) and FurnitureMax (office furniture); its latest service addition is MaxInstall (computer installation services). On January 10, 2005, OfficeMax announced that it was changing the name of its print-for-pay business from CopyMax to OfficeMax Print and Document Services and will be referred to by that name throughout the rest of this report. According to company sources, the new name better reflects the company's full

capabilities of copy and print services not only for retail customers, but also for corporate customers requiring management, production and distribution of documents across the U.S.

Sales and Operations

OfficeMax Print and Document Services historically operated with a hub-and-spoke infrastructure that appears to be more well-developed than its direct competitors. An OfficeMax Print and Document Services hub is approximately 7,000 square feet and usually has a separate outside entrance from the OfficeMax stores. A spoke, or mini, is a smaller in-store concept, approximately 1,200 square feet, located within an OfficeMax store. Despite its smaller size, a spoke offers the same services as a hub. OfficeMax Print and Document Services has approximately 125 hubs and 775 spoke locations.

With the Boise acquisition, OfficeMax Print and Document Services has access to a large commercial sales force that it did not have in the past. According to Brian Norris, Senior Vice President, OfficeMax Print and Document Services, "We have been working on expanding our model over the past year. We are now identifying sites as either commercial locations or retail service center locations based on the machine configuration, bandwidth in the stores, their delivery capability and customer requirements. The retail service centers are smaller, have basic copy services and are designed for quick turn work. We now have about 225 commercial-ready

locations with the other 675 or so being retail service centers." As OfficeMax remodels its stores, the OfficeMax Print and Document Services operation is being moved from the back of the store to the front, for maximum visibility.

An OfficeMax Print and Document Services commercial-ready site offers a wide variety of print-for-pay services including high-speed, digital copying and printing in both black & white and color; a full array of binding, finishing and banner production services; document design; engineering copying; and specialty printing, fax and resume assistance. As OfficeMax Print and Document Services adds more equipment over the next year, retail service centers will be evaluated to determine if they can be converted to commercial locations. Norris says, "For those locations, we will simply drop in the appropriate equipment and upgrade our suite of finishing and binding services. We want to have all the major markets covered from a commercial-ready standpoint, with sites strategically placed around the city to be able to meet the immediate needs of our commercial customers."

In about 2000, OfficeMax Print and Document Services opened its first closed-door production hub in Kent, Washington, a suburb of Seattle, which was designed to produce work for OfficeMax Print and Document Services stores in the Northwest as well as selling its services directly through a corporate sales force. Norris indicates that the Boise acquisition has allowed OfficeMax Print and

Document Services to tap into Boise's distribution network. He says, "While Boise sold office products, the company is known for its great distribution network consisting of 34 distribution centers around the country with a full complement of delivery trucks. Over the next 18 months we will look to add closed-door production facilities to a number of these locations. This will allow us to provide our customers a true print on demand and fulfillment solution."

OfficeMax Print and Document Services has had a commercial sales force since January of 2002, when OfficeMax established a separate management structure for its copy and print business. The company also has 60 District Managers of Operations around the country that manage stores from a copy and print perspective. According to Norris, "We recently hired a new Vice President of Commercial Sales, Rob Onorato, who has a strong background in the industry, having experience with Xerox, IKON and Standard Register. He manages a team of 20 district sales managers, who in turn manage 225 sales reps around the country and are focused commercial customers."

OfficeMax Print and Document Services centers feature dedicated OfficeMax Print and Document Services staff with either a manager or supervisor depending on the size of the operation. Norris declined to reveal the level of revenue contribution from print/copy or average volumes or revenues by store.

The Technology

OfficeMax Print and Document Services has a long-term relationship with Xerox, and over 90% of its equipment comes from that source. A typical retail service center is configured with one mid-volume black & white copier like the Xerox 2101, and one mid-volume color copier like the Xerox DocuColor 12. Norris adds, "We are the only office superstore that has a digitally connected network, with all of our locations connected. Kinko's is the only other player in the space that features an integrated network of this size."

From a self-serve perspective, most stores have four black & white machines. OfficeMax Print and Document Services currently offers no self-serve color. Norris indicates that a commercial-ready site would normally feature one mid-volume black & white copier, and one high-volume production black & white copier like the Xerox Nuvera 120. In terms of color, a commercial-ready site would have one mid-volume color copier, and one high-volume color copier like the Xerox 2045. Commercial-ready sites have more high-end automated binding and finishing services as well.

OfficeMax Print and Document Services also has a significant color wide format installed base, primarily in its commercial sites, with Canon imagePROGRAF 44" and 24" printers. He says, "We are testing the 24" product in smaller stores today in Puerto Rico, and will test in one other market in the first quarter of next year to determine if it makes sense to have

one in every location."

According to Norris, 45% of OfficeMax Print and Document Services revenue is attributable to black & white copy/print, 30% to color, and the remaining 25% to binding, finishing, large format and engineering services.

OfficeMax is the only one of the three office superstores that has an online job submission capability, which has been in place for some time. Called CopyMax File Submission (CFS), it is an electronic file transmission option that allows users to fill out a job ticket and send a file. Norris says, "This is more suited for the small business or retail customer to submit a file for printing. In the next couple of weeks, we will announce the launch of an online Web-based document management system for our commercial customers which will be a true print portal, managing all printed material as well as static documents stored for reprint." Norris states that the solution was developed internally, although it has some partner components, the exact nature of which he declined to disclose at this time.

OfficeMax Print and Document Services partners with several different companies for business cards, stationery and promotional items, according to Norris. He says, "Right now, we are actually putting everything out to bid. Since Boise also sold these items to the contract side of the business, though they were somewhat limited in scope, we are looking to streamline this part of the business. We want to make sure we have the

best solution, from our contract customers all the way down to small users who buy commodity print items like letterhead."

OfficeMax Print and Document Services has a strategic relationship with DHL for shipping services, and every location is equipped with a DHL drop box and shipping equipment.

In Summary ...

OfficeMax has a loyalty program called MaxPerks. Norris reports that this program works especially well for decentralized work forces, allowing companies to receive rebates on employee purchases at the end of each quarter. Smaller businesses and individuals can take advantage of the program as well, according to Norris. Business participants earn 1% to 2% in MaxPerks Rewards when they purchase at least \$300 worth of qualifying merchandise during a calendar quarter. In a separate program for teachers, participants can earn \$10 for every \$75 spent on eligible products up to \$100 annually. Rewards are delivered in the form of a rewards card which functions like a gift card and can be used on subsequent OfficeMax or OfficeMax Print and Document Services purchases.

Commenting on the increased level of interest in copy/print by his office superstore competitors, Norris says, "Everyone sees how well print and copy complements the office supply business. Offering these services to commercial customers to whom you are already selling office supplies makes sense. The same is true of the

retail consumer who might be buying a binder and needs content reproduced. It makes sense to have one-stop shopping."

As Norris talks about the future, he expresses enthusiasm about the ability for OfficeMax Print and Document Services to serve as one of OfficeMax's growth engines over the next three to four years. He says, "We are investing heavily in this side of the business. We will capitalize on our internal infrastructure and implement what makes sense for us and our customers. The industry is flat, but the pie is large and smaller players are exiting. We need to figure out over the next six months or so what space we want to play in. Stay tuned. There is much more to come."

Staples

Staples, Inc. pioneered the office supplies superstore industry in 1986 with the opening of its first store in Brighton (Boston), Massachusetts. Now with 60,000 associates, the company is committed to making it easy to buy a wide range of office products, including supplies, technology, furniture, and business services. Staples generated revenues of \$13 billion in fiscal year 2003, ending in January 2004, making it the world's largest office products retailer. Comprised of three major business units, Staples North American Retail unit had \$7.7 billion in sales last year, its North American Delivery unit had \$3.7 billion in sales and its European retail and delivery operation had \$1.6 billion in sales. The company serves consumers and businesses, from home-based businesses to Fortune 500 companies in North America and throughout Europe.

Staples operates about 1,600 stores worldwide and plans to open an additional 80 in North America in fiscal years 2004 and 2005. There are currently 1,400 in North America, with 1,100 of those in the U.S. In August of 2004, Staples completed its purchase of the United Kingdom office products company Globus Office World plc. As of its third quarter this year, Staples operates 256 stores in five countries throughout Europe. Its Chinese joint venture with established delivery company OA365 based in Shanghai, closed in late 2004, increased Staples' presence to 19 countries.

Sales and Operations

According to a June 20, 2004, *Boston Globe* article, Staples has a new battle cry as it fights to stay on top of the world of office supplies: We make copies easy. To this end, Staples is in the process of deploying standardized configurations and operating procedures to all of its in-store Copy & Print Centers. According to Robert Schlacter, Staples' Vice President of Business Services, "We have made significant progress in becoming more standardized so that customers receive the same services and customer experience regardless of which Staples store they shop." Most of the company's in-store print/copy operations have a footprint of about a thousand square feet. While Schlacter declined to comment on the print/copy revenue contribution to Staples, the June 2004 *Boston Globe* article reported that copy/print comprises 4% of Staples revenues, or \$312

million, with the aim of generating 10% of North American retail sales from its copy and print centers in the future.

The company has designated 18 of its retail locations throughout the country as hub locations, and is exploring closed-door production. Schlacter indicates that these hubs are larger stores with increased production capacity that allows them to do longer run work for customers.

In line with giving the print/copy operation more visibility, Staples has moved the copy centers in almost all locations toward the front of the store. According to Schlacter, "Over the past year and a half, we have remodeled almost all of the stores to highlight our copy/print/ship services." Staples has an arrangement with UPS for shipping services and the stores feature both black & white and color self-serve devices, as well.

According to Schlacter, the print/copy operations staff structure is based on the volumes produced by each facility. A sales manager oversees the specialists and associates in the copy center and is responsible for top line revenue. The sales manager reports into the retail store management structure. Staples does not currently have a sales force dedicated to copy and print, although Schlacter reports it is an area they are extremely excited about developing. He says, "We are looking forward to strengthening the Staples brand by offering digital copy services to our existing office product customers. The only thing

I can tell you is that we are piloting that approach to evaluate the potential upside it can offer for the brand."

The Technology

Staples has standardized on Xerox and Canon for print/copy devices, with the Canon imageRUNNER 8500 being the standard for black & white production, and the Xerox DocuColor 12 for color. Schlacter indicates that the mix of black & white and color at Staples is in line with industry standards, which is generally in the range of 70% black & white and 30% color.

In terms of finishing and binding services, Staples offers laminating, cutting, folding and various types of binding. Schlacter indicates that finishing and binding is a very strong growth category for Staples.

In terms of wide format services, Schlacter reports, "We are thrilled that we now have placed 400 black & white wide format machines, initially serving the architecture/engineering/ construction (AEC) markets. We have been seeing tremendous growth and acceptance of these services, and we plan to get into color next year just as aggressively."

Schlacter identified electronic job submission as another very exciting area of potential growth for Staples. He indicates that the company plans to have a connected network of domestic stores by the third quarter of next year. He says, "We have a couple of initiatives underway. We are upgrading all of our hardware so that we will be able to accept the majority of new media form factors from customers

looking for copy/print services, including DVDs and memory sticks. The next step will be the introduction of e-mail job submission into our stores so that customers will be able to electronically transmit files to local Staples stores. The last component will be Web submission from the Staples.com site. Electronic job submission will be an enormous benefit to Staples and its print/copy customers who will be able to communicate with us from their businesses, their desktops and their homes." According to Schlacter, Staples is doing significant development work internally as well as with selected software partners in the pursuit of these objectives.

In Summary ...

As a growth driver, Staples has upgraded all of its copy centers and, according to Schlacter, has also done an enormous amount of training to prepare staff for planned initiatives. He says, "Everyone is certified in our standardized quality procedures. Each copy center specialist and associate is required to go through a certification process, with successful completion signed off by a supervisor. This is critical to our ability to deliver a quality offering to the market."

Staples offers business stationery, business cards and a complete line of logo'd promotional and specialty items through a third party partner who Schlacter declined to name.

Staples Business Rewards loyalty program generally offers 2% back on qualifying purchases in quarterly reward checks. A sign of the com-

pany's dedication to growing the print/copy business is the extra 20% it pays back on Copy & Print Center purchases of \$50 or more in a quarter with no limit on earnings. Schlacter indicates that this program has been incredibly successful, calling it a tremendous loyalty program for the retail copy centers.

In speaking about his perspective of the market in which Staples plays, Schlacter says, "Everyone understands how fragmented the industry is. There is no dominant market share player among the chains, franchises, and mom and pop shops. For Staples, once we started testing and piloting enhanced copy and print services, we saw very dramatic results in our ability to grow the business. The company has now identified copy/print/ship as a major growth platform based on those results. It delivers significantly stronger margins than we would normally attain on office products.

For us, the lure of the business is the combination of our ability to claim share through a quality offering along with those very significant margins."

Schlacter's objective for the print/copy business is for it to remain a key growth platform for Staples by making it even easier for customers to experience a high quality service offering in copy and print. He says, "It is that simple. We definitely feel that this is an area our customers have a need for, and when they come in to shop for office supplies, it is a natural extension for them to get the same high quality services in copy, print and ship. I am amazed at the results we have been able to achieve even though the awareness is low that we even have these services in our stores. You can be sure that we are making dramatic efforts to raise that awareness level in the future, and we believe the growth will come along with that."



Prior to launching her consulting practice, **Ms. Cary Sherburne** was the Vice President of Marketing Communications and Outsourcing Solutions at IKON Office Solutions. In that capacity, she developed and implemented a branding campaign to build brand awareness for IKON in the marketplace as well as enhance employee pride in the organization, and was responsible for all internal and external communications, including trade shows and events, corporate newsletters, and industry and press relations. In the outsourcing role, she set strategic objectives and priorities for IKON's product and services portfolio in its Outsourcing businesses, including development of programs and sales support materials for that environment.

Sherburne was a Director at CAP Ventures, an internationally known firm specializing in market research and strategic consulting for the digital document and print on demand industry, before joining IKON, where she launched and managed the company's Document Outsourcing Consulting Service.

Her tenure in the printing and publishing industry has also included sales and marketing positions at Xerox Corporation, Indigo America and Bitstream. She is a frequent speaker at industry events and a recognized author.

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