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The New NER—Company Sheds Parts, Supplies Businesses to Focus on Providing IT Infrastructure and MPS Solutions

[September 1, 2010] On August 9, NER Data Corporation announced the release of a new logo and image that, according to the firm, “marks the culmination of a year-long process of transformation from a commodity imaging supplies manufacturer to an IT infrastructure and managed print services provider.” According to Stephen Oatway, NER’s president and COO, “The icon on the side of the name means a number of things to our company and we hope to our partners and customers. The image is built around a power button that not only represents our company’s powerful history, key strengths and core values, but also reflects the new services and solutions we have designed specifically to provide our partners the power they need to enhance their businesses.”



In prepared remarks, Oatway elaborated on four points that underscore the significance of the icon on the side of the company name (*see image above*).

- Powered by NER represents the use of NER’s technology, programs, and infrastructure to power its partners to provide managed print services (MPS) and data center infrastructure solutions to end users;
- the arrows around the sphere of the power button symbolize NER’s partner ecosystem—end users, resellers, strategic partners—that the firm believes is the best way to be successful going forward;
- the globally recognized image for recycling is incorporated into NER’s logo to signify that almost everything the firm does in its business has a green or sustainability element to it; and
- the reflection on the bottom of the image illustrates how NER is listening to its customers and to the market.

We recently had a chance to sit down with Oatway and Scott Steele, senior vice president of business development at NER Data Corporation, to talk more about the firm's transformation and plans for the future. In the published interview below, we grouped similar themes together to provide a unified discussion of each topic.

Observer: The press release announcing NER's new logo and image lists three key events that occurred during the last year that helped shape the firm's new direction: selection as one of four Collaborative Infrastructure Partners by Hewlett Packard (CLIP Program); exiting the commodity supplies business through the sale of NER's Imaging Supplies Division and its printer parts business, Image1, to Clover Technologies; and solidifying NER's strategic relationship with United Stationers. How have each of these events contributed to NER's new identity?

Oatway: We're a company that has transformed from 40 years [since 1971] of success as an imaging supplies manufacturer into a provider of data center infrastructure and managed print services and solutions. This new direction marks the latest—and easily one of the most exciting—chapters in our history.

Over the past four decades, we have worked hard to earn a reputation as a high quality manufacturer of commodity products. By the early 1990s, we were the largest compatible printer ribbon manufacturer in the world. We supported OEMs and our reseller channel, almost always with a private label program. In other words, NER was largely known as the high-quality manufacturer behind someone else's brand. We entered the remanufactured toner cartridge business about 15 years ago. We were always arguably considered the gold standard for ribbons, but I never felt we were quite as strong on the toner side. Back in the early 2000's, we were ranked as one of the top 15 manufacturers in North America. At that time, we had about a \$25 million cartridge business. Candidly, we de-emphasized that business six or seven years ago—ribbons were continuing to decline due to technology shifts, margins began to erode due to the influx of Far East product, quality became more challenging, and our supplies business was atrophying. The growth business for us back then was our printer parts business, Image1, which we had started in 2002. It was one of five HP-authorized parts resellers in the U.S. and had grown to about \$15 million. We had also enjoyed significant growth in our data center business in the 2000's.

By 2008, it became clear to us that on the product side of the business—as a manufacturer, we were outsourcing around 50 percent of our products—we were going to be challenged. As a result, we decided to take the company in a new direction—to be IT-solution and service focused. To make this transformation, we developed strategies designed specifically to get to where we wanted to be: a data center infrastructure and managed print provider. In summer 2008, we decided to exit the parts business; it [Image1] was a wholly owned subsidiary with its own sales organization. It had leveled off but was ramping up again due to new management. It was a good time to sell, but we hit the market with the offering book just as the recession hit and financing for many prospective buyers dried up. One of the firms we had talked to early on, a mid-market private equity firm, happened to be backing Clover. They were in the process of integrating other large pieces of business at the time and decided to take a pass. I got a phone call from the president of Clover Holdings in late August 2009, and he said, "Steve, we're interested in your parts and supplies businesses." We entered into a letter of intent quickly, and the deal closed in December 2009. The sale was partly lucky in terms of timing but also partly something we had been striving to achieve. We didn't see the parts and supplies businesses as strategic. That Clover wanted both and would give fair value, we felt fortunate.

We were able to exit all non-strategic assets, effectively recapitalize the business, and wound up with no debt, a strong balance sheet, and the ability to continue to invest. In the last month, we hired five new sales people. We're off to the races.

Editor's Note: In the press release that NER issued on December 22 announcing the sale to Clover, the firm noted, "The agreement will transfer all imaging activities including compatible laser toner, ink jet, narrow- and wide-impact ribbon production, and printer parts to Clover. Clover will assume responsibility for the NER Denver, Image1 Plano, and NER Glassboro supplies operations that support these business units. Customer and vendor relationships will be assumed by Clover, and business will continue at all of these locations. In addition, NER is pleased to announce that over 80 percent of the NER employees at these locations will become employees of Clover as of the first of the year."

At the same time, we received an unsolicited indication of interest for the whole company. It soon became clear that what they really wanted to acquire were our capabilities in managed print. In early September, HP announced their CLIP program. We were one of four players in that program. We decided we would rather build a managed print business ourselves—we had invested too much in it—despite a very attractive offer. To make that happen, we approached our strategic partner United Stationers [US], which had been supportive and was building its own managed print business. We offered them minority ownership, and they liked the proposal. In April, we contributed data center and managed print business to the new company, NER Data Corporation, and US bought a small minority share in it.

Editor's Note: The new partnership, announced on April 16, expands the two firms' relationship around US's managed print program HQueue and allows for future collaboration around NER's technology solutions business and United Stationers' Azerty Division. Within the managed print programs, NER is focusing on medium to larger enterprise customers and hybrid VAR resellers, and US is focusing on its core small- to medium-sized business (SMB) market. As part of the agreement, United Stationers has taken a minority interest in NER Data Corporation, and Doug Nash, vice president and general manager of United Stationers Technology Solutions and Services, will serve on the board of directors of NER Data Corporation.

With respect to our HP relationship, there are many HP resellers out there and even more who want to be. If you are a reseller looking to build a managed print program, HP recommends one of their four CLIP partners. This is a channel program. HP goes after Fortune 1000 directly with HP's Managed Enterprise Services (MES), but below that is where the channel programs are most effective. HP has a commercial sales team inside their IPG [Imaging and Printing Group] business unit calling on the next 5,000 to 6,000 accounts, and they drive interest in HP IPG products. All those accounts are partnered with channel partners. They call direct on the end-user, but all business is funneled through the channel. The channel team is made up of dedicated partner business managers, PBMs, and they support the channel. Commercial reps call on the end-user, and they work together with the PBM's. Resellers may not be able to execute a multi-year managed print agreement, so they suggest that channel partners work with an infrastructure partner like NER or US to deliver those contracts.

Just because we're an HP partner doesn't mean we work exclusively with HP. In fact, we support Xerox, Lexmark, Konica Minolta, Brother and most of the major MFP OEMs. Some of our vendor relationships are more formal than others. In many cases, we believe HP offers the consumer the best solution.

Editor's Note: In September of 2009, NER was selected as an HP national Collaborative Infrastructure Partner (CLIP) to deliver industry leading managed print services. As an HP Collaborative Infrastructure Partner, NER supports HP's extensive reseller base to provide its Print4.hp MPS program to end-user customers.

Observer: How did managed print become part of NER Data's portfolio?

Oatway: We started our efforts with managed print six or seven years ago. We looked at various business units, including ribbons, toner, parts, and software to manage or access IT assets in data center business. With all of these products, the common element was that our resellers sold them into their end-user accounts. By expanding our product lines, we in turn helped resellers expand their relationships with their end-users.

When we decided to enter into managed print—we were among the earliest organizations to do that—we started to look at our business differently. What did we need to be successful? We needed toner, printer parts, a service network we have since developed, and technology to control and monitor and manage those devices, which was a capability we had in our data center business. Managed print tied all these things together, so it made a ton of sense to get into managed print. We are very selective in choosing partners. From an infrastructure play, our ability to support a reseller with an end-to-end managed print program, we're confident no company can match our capabilities.

Steele: We spent years building our programs and capabilities around what we do in MPS. Our two business units have done software development for ten years. We currently have 280 contracts with 3 billion pages under contract. We have a vertical market approach for healthcare, legal, etcetera. We have added over ten people to the managed print group over the last 90 to 100 days.

Oatway: We expect in 2012 that we will manage and invoice about \$150 million worth of pages.

Steele: Ours is a mid-market MPS solution, and we have a horizontal channel play also. We partner with US/Azerty. We are the infrastructure provider for their HQueue program. They wrap high-level marketing and market development around that. One of our longest strategic partners in MPS is OfficeMax.

OEMs have the Fortune 1000 business with direct sales. In the enterprise mid-market, the NER Print4 direct sales force supports resellers, and we have seven outside sales reps. The SMB market is covered by the US HQueue sales force and seven subject matter experts. The 290 sales reps of United/Azerty service small SMBs, those with 1-25 employees.

We did a strategic evaluation six years ago and decided we needed to be more value-added, solution-oriented. When we looked at it, we asked ourselves: "Do we want to invest in storage support, desktop support, and/or print support?" We said, "We have toner, parts, a customer base, service, and technology. We can at least look at a build-or-buy analysis against that." We went into MPS, and I view this as harder than managed services for IT. These are unmanaged assets, and we are trying to bring them into a managed asset environment. Plus they are IT assets. They are mechanical—you've got to turn a screwdriver on them. They consume supplies. It's not just hot-swapping a drive.

We are especially adept with complex customers who have multiple locations and make frequent moves and changes. We like to help them solve those challenges with our standardization and automation. That allows us to deliver and execute against what is promised to the end-user. There is a gap between what the end-user expects and what is delivered. We look at it a little bit differently: managed services for print, not print management. In other words, our focus is on managed services that happen to be for print output.

Our sweet spot is 1,000 seats, 150 devices or more, multiple locations, geographically diverse, and page volumes over 300,000 to 500,000 per month. 500,000 pages is the current average. We spent a lot of time figuring out how to manage complex customers. We look at it as complex solution creation, not a quote machine.

Observer: Tell us more about NER Data's Print4 managed print programs.

Steele: Print4 is an end-to-end solution. That's a popular buzzword, but in our case it's entirely accurate. Print4 includes software, hardware, supplies, service, and parts. We have tracking software, reporting, and asset management and all are transparent to the end-user and reseller. The toolset is very robust with a discovery application, onsite application, TCO [total cost of ownership] tool, centralized ASP environment, MPS desktop, and online centralized portal. Our system is built to manage assets, take data in and act on it.

Our actual portals for this can take multiple forms: a desktop app for key operators, administrative view, or help desk view. We can provide end-users with any communication path or instruction they like. We are cloud-based, no different than SalesForce.com. People access the system, and actions are all done seamlessly.

Competitors include PrintFleet, Compass, FM Audit, Clover, LMI, Parts Now, Depot America, Great America Leasing, Supplies Network, and Synnex. In a competitive comparison—discovery, CPP billing, proposal software, sales training, leasing, management software, supplies, parts, and labor—only NER has all. They sell software, and I sell pages. You have to provide all the execution pieces to the end-user. PrintFleet builds a system, but the reseller has to figure out how to use it. Others are toner-based, some are parts plays (Parts Now, Depot America), some are leasing companies (Great America), and some are distribution (Supplies Network, Synnex). Competitors are very good at what they do, but they focus on a narrow application.

We control our service delivery; there are no distribution partners between the reseller and NER. We control the help desk, and we are an authorized service provider for multiple manufacturers. We have flexible service delivery models, our own service technicians, and facilities management. We have parts and consumables through US. Toner delivery is still important. A toner cartridge must be delivered when promised. US has 33 distribution locations, and that's important to overall national services. Managed print is not just about CPP billing. It's about managing the customer's print. CPP is just a billing mechanism.

Oatway: Permission-based routing, document management, and workflow are a focus for us. We have integrated third-party apps into some client engagements to do this, but we are actively involved in mid-space marketing whenever it provides the best value to clients. We believe there is a clear capability in the market already, so our focus will be more on integration and partnering than on build. We're exploring alliances with such firms right now to enhance our services and solutions offerings.

Observer: What is the framework of your relationship with OfficeMax?

Steele: We have a long-standing and high-quality partnership with OfficeMax in MPS. They have a vast nationwide managed print program. Nobody is better than OfficeMax, although there are some good regional players.

Oatway: Managed print is one OfficeMax's top strategic initiatives. They have hired 60 new people dedicated to managed print. They are years ahead of the competition and have a very sophisticated, high level of execution. We are their infrastructure partner; they use our tools. They invested heavily from a capability standpoint around solutioning, project management, and customer relationships.

Observer: What are the key factors to successfully delivering MPS through the channel?

Steele: For the reseller community, the key is to provide a lot of services to gain a bigger share of the end-user's investment. Standardization and automation are keys. You must have the most efficient delivery mechanism, provide transparency to the customer, and take waste and variability out of the process.

Oatway: We sell pages to our partners. If resellers have an end-user, we tell them that user printed 800,000 pages that month and we invoice them for 800,000 pages at an agreed upon page rate. They then invoice their customer for those pages. How you get to the point where you deliver toner, parts, service, financing for hardware, service delivery, all the execution against getting stuff to that printer in support of that 800,000 pages—we're doing all of that.

Steele: We are a 100-percent channel-focused company. Because they use our tools to do all the quoting and the solutioning, we do have some visibility. But that's the rarity. We help our resellers build their programs and capabilities, and to support that, we will go in on joint sales calls in support of resellers. The only potential channel conflict would be if we're in a customer relationship with one reseller and another NER reseller was trying to get to the customer, too. But we manage this very well. We view ourselves as a wholesale distribution company for managed print.

To a significant degree, we're talking about process integration. Each reseller has a different piece they may do well. We can help them integrate those pieces where they excel with those where they are not as capable. In its simplest form, if the reseller doesn't want to do anything, we can do it all. That means we can put feet on the street to do assessments, analysis, tell them how many devices they have, what utilization they need, what the replacement strategy should be, and what the project-management piece is. Some resellers can do some of this on their own. Others can't. We can step in to fill in any gaps.

The reseller gets full revenue credit when they sell to the end-user. Our sale to them can be pieces of it or the whole thing. We don't really sell technology. We sell pages. Everything revolves around the solution to the end-user. To automatically deliver toner in support of a page can be complex—we do this extraordinarily well. We may charge them a cost per page [CPP] for that toner. In that cost is the product itself and anything else we need to include to support our cost structures. Looking at our cost versus others, we are very competitive and provide higher value to the customer.

We have 14 flavors of MPS programs in software. We can just do supplies fulfillment or just capture data and provide it to resellers. They all have business rules behind them, and this allows us to help resellers in the specific way that meets their needs and business goals. We like to take the risk out of CPP for resellers.

Oatway: We are an infrastructure provider, a wholesaler of managed print infrastructure in support of the reseller. We aggregate, and we enable. We have integrated and have been forced to build our own technology platform. What are the elements for success and being able to deliver? Have a series of toolsets that enable our partner ecosystem that enable resellers to succeed.

Observer: What do you see as the biggest challenges for resellers selling managed print?

Steele: People most often fail when they over-promise and under-execute. MPS is not simple. MPS is resource-intensive, with cost-analysis, proposal generation, risk of equipment failure, etcetera. It typically takes 18 months to be successful. Reseller development is important. Mentorship is very important to help them close deals. An MPS engagement has a longer sales cycle than many resellers are used to, and it takes different skill sets.

Oatway: I have not seen any independent reseller, national account, or wholesaler succeed in managed print in less than 18 months—to get it right, get comfortable with it, make money at it. It's a very involved learning process on the front side. Our goal with our resellers is to be arm-in-arm with them in the first 18 months and do the kinds of things that enable them to bring value to the table.

It takes time. Eight out of ten resellers fail to truly develop a managed print services offering because they're hesitant to make the commitment required to be successful. The successful companies are the exception rather than the norm in this space.

Steele: That doesn't mean it takes 18 months to get a contract. It means that it takes 18 months to get enough contracts to be profitable. There's overhead to gain contracts early on, even for the most committed companies. Many managed print organizations have been selling products for years. Virtually all of them have a commodity orientation focused on price. To properly sell a solution, you have to go higher up in the organization to the CIO, to get across silos to the people who can make the decisions needed for a successful engagement. Sales evolution is part of that 18-month process. Resellers have spent a year just trying to build a compensation plan. The copier world is three fiefdoms: supplies, service, and telemarketing. Everyone is trying to get their piece of the profit in a typical BTA dealer.

The business of managed print services is more complex than anything that the typical print or copier channel guy has encountered. It takes them a solid period of time to get it right. Getting the two or three solid accounts you already have is easy, but getting 12 or 15 contracts a month is when you have a business.

Oatway: There is a reactive, defensive piece to this. I would tell you that I have seen very few resellers start on the proactive side. Their first thought is, "I have lost a piece of my business." They may think about it before that happens, but most resellers have lost business to someone providing service on a contract.

Steele: It's not too late for resellers to get into this business space, add value to customers, secure contracts, and change their business model. If I am an IT VAR who has sold printers, storage, and servers, I will be very focused if I'm not getting the Chiclets any more. If I am a consumable person selling a lot of product, I will be more oriented to try and take over devices and maintain the supplies stream. The definition of managed print services is still evolving, and there are many different plays and components within that definition. In the end, managed print is creating efficiency and managing assets, helping customers understand what their costs are, and minimizing their costs as much as possible.