
COLOR

Entry-level Color Laser Redux

by Luke Goldberg, **Future Graphics**

Just less than two years ago, color laser printers were a high-priced privilege, a luxury exclusive to the corporate offices with big budgets and were used primarily in a workgroup environment to market the company image. However, after the breaking of the sub-$500 barrier in late 2004, one could say that color became "democratized" and more and more small- to medium-sized businesses began to add color printers to their offices.

Entry-Level Color Trends

According to Lyra Research, although the install base of entry-level color printers will grow to a healthy 17 percent by 2009, the revenue for supplies will increase to a whopping 37 percent owing to the heavy consumables usage (this will not only be propelled by single-use machines, but also the new class of MFPs which are perfectly tailored to the SMB channel). I know I have stated it before, but it bears repeating: In most of the cases of sub-$500 color printers, the consumables, purchased collectively, cost more than the printers. This provokes understandable outrage from consumers and opens up the door for the aftermarket. A largely untapped territory, the entry-level color market offers great profit opportunities. (See also "After the Year of Color: What Now?" by Jim Forrest in this issue of *Imaging Spectrum*.)

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However, aftermarket color continues to present challenges. This is not only because of the sluggish pace in developing quality supplies and materials, but also as a result of poorly managed customer expectations (see my April 2006 *Imaging Spectrum* article). Industry experts agree that the color share for the aftermarket currently sits at roughly 3 percent, only 1 percent of which resides in entry level. In order to help improve this discouraging statistic, a better understanding of the market is critical.

Today, we are witnessing the increased functionality and lower acquisition cost on color laser printers/MFPs as manufacturers and retailers compete for the all important SOHO and SMB market share. All you have to do is flip open the Sunday paper and you cannot miss the myriad of advertisements for HP, Oki, Samsung, and Konica Minolta—all the major players in the market vying for this huge chunk of pie.

Key Players and Products

As is the case in the entire low-speed segment, Hewlett-Packard (HP) is the major player here. However, even though—according to Lyra—HP enjoys about 40 percent of the market in entry-level color, it has a growing share of competitors nipping at its heels. To find out what printers are moving, just visit an Office Depot, Best Buy, Fry's or any of the large retailers. Browsing through the shelves or chatting briefly with the sales staff is the best way to establish an idea of the market status of the latest entry-level releases.

Hewlett-Packard

Let us look at HP and its line-up. One of the original entry-level color offerings was the 4 ppm HP 1500/2500 (the current incarnation is the HP 2550). Utilizing multi-pass technology, this was the first color printer that HP marketed as a "monochrome replacement," positioning it for predominantly monochrome users who were just learning how to use small-business color. According to the HP marketing literature, "At $500, you get your color for free." Of course, HP deliberately neglects to inform the buyer that "free" costs about $160 per color cartridge. HP opines that users of this printer will print 70 to 80 percent of their pages in black.

The HP 2820/2840 is the first in a new trend of entry-level MFPs designed to offer AIO (all-in-one) with color printing to small-

Luke Goldberg is responsible for developing overall market/industry analysis and sales trends, expanding dealer channels and managing the **Future Graphics** sales team of professionals as part of the new product development and marketing/promotions team. He has more than 14 years of experience in the imaging supplies industry. He may be reached at 800-394-9900.

business customers. The color AIO trend is critical to OEMs as color single-function printers plummet towards the $200 mark. Since on most entry-level color products the page coverages are low (due to predominantly monochrome printing), consumables usage also will be relatively close to monochrome printers. In order to increase consumables usage, AIO capacity is critical since these devices will now be used in color and monochrome copying and faxing.

The HP 2600 is what HP likes to refer to as "disruptive technology" (a new product that forces competitors to either make some amends to their R&D schedule or risk falling behind). At less than $300, this 8 ppm color printer is an attractive offering. Unlike the HP 2550, it is targeted at small businesses looking for better quality "business color." In HP's terminology, it is geared towards "highly colored" users. It is also the first release to utilize the ColorSphere™ brand color toner.

ColorSphere ColorSphere™ is HP's brand name for its "third generation of color imaging processes." Obviously, HP is attempting to create broader customer recognition of its color toner in order to instill a reference point for quality and protect its market share. In internal documents made public, HP makes this very clear, discussing the aftermarket deficiencies in pulverized toners and the superiority of chemical toner to produce "true color" in terms of charge characteristics, flow, efficiency, pile height, etc. In order for the aftermarket to compete, it must include data on its high quality CPT to combat OEM marketing propaganda.

Samsung

According to Samsung's publicity department, it is now the number two player in the manufacture of laser printing engines (it provides engines to Dell, Lexmark and Xerox). The CLP 500 and CLP 510 were early leaders in the entry-level market—the Chuck Yeager, if you will, in breaking the sub-$400 barrier. The CLP continues to be a very popular small-business color printer.

At $299 before rebates, the new CLP 300 (released in February 2006) sets new benchmarks for price. With the odd advertising slogan of "At just 30 lbs., you can have color everywhere," Samsung is clearly banking on the importance of footprint as the number-one priority to consumers and SOHO businesses. Indeed, it does have the smallest footprint in its class (Samsung also leads the footprint wars in monochrome) at only 30 lbs. and 15″ x 13.5″ x 10.4″ high, which makes it ideal for SMB positioning and even home consumer use. The compact design also makes it attractive to retailers due to the fact that it takes up very little shelf space. One thing that Samsung is not heralding to the public, however, is the fact that this printer has the highest cost per page of any entry-level color machine on the planet: 3.2 cents for black; 18.8 cents for color. Yes, you can have your color everywhere, but you better have some money everywhere, too!

Oki

Oki has been the greatest surprise in the entry-level color market and has become a major force in the retail marketplace in the last year. Oki products were previously available only through Oki dealers; however, since arriving in retail the demand for these products has spiked. The main movers are the entire 5000 series (5100, 5150, 5200, 5300, 5400, 5510MFP). At under $400, many of these models offer the best value in class at 16 ppm color and 24 ppm black. All are highly rated in all consumer reports. Universal cartridges that fit all models are available in the market. Only recently, Oki has refreshed its lineup, adding the 5500, 5800 and 6100 (32 ppm monochrome, 26 ppm color), all for under $1,000. These extremely high performance machines have propelled Oki to third place overall in the entry-level color market with a 7.5 percent market share.

Konica Minolta

Konica Minolta has emerged as a very competitive player in the entry-level color segment. Key products have been the 2300 and 2400w, which are now available in retail for under $300 if the mail-in rebates are included. The new 2480 MFP is based on the 2400 platform and offers AIO color capability for only $699!

Lexmark, Dell and Brother

Lexmark has not been successful in the entry-level color segment and is conspicuously absent from the Sunday papers and the retail shelves. The recent release of the c520, however, may address this deficiency.

Dell has had moderate success with its 3000/3100 series. In general, Dell customers may be receptive to aftermarket offerings since they do not sell through distribution. The aftermarket offers something every consumer demands: choice.

Brother, a leader in low-end monochrome laser-based MFPs has also been absent from retail in this segment. The 9420 MFP is its entry into the world of color MFPs.

An Informal End-user Survey

Entry-level color printers were designed to penetrate the SMB segment with attractive prices at less than $300. These printers are not designed for "highly colored" users. According to HP, on entry models such as the 2550, 70 to 80 percent of pages printed will be monochrome.

In order to get a first-hand understanding of the impressions and opinions of customers who use entry-level color and monochrome MFP-type products, I recently conducted a survey of ten small offices. The sampling included an E-commerce company selling online imaging consumables, a single agent real estate, a small dental office, a jeweler, my fiancée's brother (real estate developer) and a tattoo shop (why not?).

The printers that my sample group used included the OKI 5100, QMS 2400 and HP 2840 (MFP). According to my survey, most of the pages printed were black—even on the color printer (80 percent+). My survey also confirmed that color is not used in the SMB channel as an external marketing tool. Most importantly, all of the users surveyed felt taken advantage of and were upset at the low printer and high consumables cost. Probably owing to the fact that they were all owner/operators upset with the high prices of OEM cartridges, no one said they would not try aftermarket cartridges.

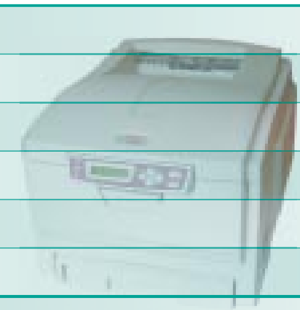
In order to compare and contrast the entry-level users with the more "highly colored" corporate users, I surveyed a group of companies that included the Future Graphics marketing department, the Future Graphics IT department , the Future Graphics purchasing department as well as a corporate law firm, an insurance company and a real estate firm. Unlike the entry-level segment where the majority of pages are printed in black and white, workgroup color printers such as the Xerox Phaser 8400/8500, HP 3700/3800, or HP 4650/4700 will be used, as HP has stated, to "promote, to persuade, to sell." My survey of workgroup color users used printers that included the HP 4650, Xerox 8400, Xerox 7700 and HP 3700.

The aftermarket offers something every consumer demands: choice.

In every instance, this survey group reported printing as high as 80 percent of their pages in color. Documents produced in color were used to market to the outside world items such as mailers with 4-color pictures of properties, color logos, etc. None of those surveyed (other than Future Graphics) had tried aftermarket cartridges. Given the high cost of marketing and the importance of image, none of these users considered that the savings for compatible cartridges was worth the risk. One asked about warranty issues for compatibles and one even asked if the aftermarket cartridges contained "ColorSphere toner."

In summary, the SMB color users are much more receptive to alternative, cost-saving products and will not scrutinize the quality to the same degree as workgroup color users. Also, when offering product to workgroup color users, a remanufacturer may risk more reliable workgroup monochrome business by selling customers a product that is highly scrutinized and problematic. Sometimes, however, it is possible to actually gain business by honestly managing customer expectations and forgoing the sale of a product that is inherently difficult. This should lead to more corporate business on monochrome products. In general, entry-level color lasers present ***huge*** profit opportunities for the remanufacturer. On average, profits will well exceed 50 percent!

Okidata 5000 Series



Empty	$ 7.00
Toner	$ 18.50
Labor	$ 1.70
Overhead	$ 2.55
Packaging	$ 2.00
Misc…	$ 1.00
Total	**$ 32.75**

- Very easy, toner tube design: just dump and fill
- OEM street price for C,M,Y+$127.69, $61.29 for black
- Suggested sell for C,M,Y =$95.00, GM%=65.5% for colors, 34.5% for black (sell at $50.00)

As far as all the non-HP products are concerned, the number-one challenge is the availability of empties. In many ways, this could be related to demand. Three empties brokers stated that their customers were simply not asking for color laser cartridges. The availability of these empties is not in question since these printers are available across all retail distribution channels. Remanufacturers

Konica Minolta 2400w

Empty	$ 6.00
Toner	$ 15.25
Chip	$ 8.60
Labor (10 min)10/hr	$ 1.70
Overhead (1.5x labor)	$ 2.55
Packaging	$ 2.00
Scrap/Misc...	$ 1.00
Total	**$37.10**

- Very easy to remanufacture: dump, clean, fill, replace chips
- OEM street price for HY C, M, Y = 129.99, K= 93.49 (High Yield)
- Suggested sell price $ 96.75 = 61.6% gm

should tell their brokers to start looking for these models. Those companies marketing to SMBs would do well to initiate grassroots cartridge collections or integrate empties' collection with their sales or even initiate Staples-style rebates for each empty returned. In this effort, many sought-after SOHO/SMB empties will also be collected, such as monochrome Brother, Samsung and HP laser cartridges.

Selling Remanufactured Entry-level Color

A quick analysis of the consumer/SOHO channel tells us what the buying habits of these end users are and, therefore, gives us a roadmap to penetrate this channel. E-commerce is a very popular medium through which to sell SOHO consumables. Though spamming legislation has hindered this channel and now many sell on eBay (which offers a lot of competition and little profits), those marketing without spamming can still reap great rewards online. Search engine registration is another powerful, yet crowded, E-commence playing field, and affiliate programs are another option worth pursuing. Ad words, such as Google keyword searches (Overture) are also important marketing tools. According to the *Los Angeles Times*, by 2007 Internet marketing will have achieved 13 billion in marketing dollars, surpassing print magazines.

Entry-level color offers a vast, fast-growing profit opportunity. The limited aftermarket penetration means that the primary competition will be the OEM, therefore somewhat minimizing price pressures. The razor-and-blades OEM selling strategy, which causes consumer backlash, coupled with an eager public seeking alternatives create aftermarket opportunity.

Grassroots sales and direct mail campaigns to SMBs can also be a great way to establish a SOHO clientele. Start by selling to everyone you know (for example, your employees, your family, your lawyer, your doctor). These people would rather buy from you than Office Depot. As we are all aware, there are also many emerging retail refilling franchise opportunities that are ideally positioned to take advantage of consumer backlash and capitalize on SOHO/SMB growth.

Entry-level color offers a vast, fast-growing profit opportunity. The limited aftermarket penetration means that the primary competition will be the OEM, therefore somewhat minimizing price pressures. The razor-and-blades OEM selling strategy, which causes consumer backlash, coupled with an eager public seeking alternatives create aftermarket opportunity. HP is not the only game in town. Sixty percent of the market is non-HP and these products are easy to manufacture and highly profitable.

Go get it! Your local tattoo shop is expecting your call.