Welcome to the first issue in our third year of publishing the Intelligence Briefing. Just as our firm is going through exciting changes (a new office, new people, and several new products), we are also making exciting changes to the Intelligence Briefing (IB). First, we are moving IB from a paid bi-monthly publication to a quarterly publication which is free to clients (or anyone who registers at www.photizogroup.com). The goal is to broaden the reach of IB to an even greater audience. In addition, we have had so much success in growing the business that we simply cannot produce a bi-monthly publication.

The second change is in the format. We have now divided the publication into three major sections: Best Practices, Industry Insight, and Photizo Group news. The Best Practices section will provide information regarding how to enhance both the efficiency and effectiveness of your Marketing Intelligence and New Product Development organizations and processes. This month’s issue takes on the tough subjects of incorporating metrics into the buying pipeline and aligning the type of New Product Development team with the type of New Product Development effort.

In the Imaging Industry Insight section we will dive into analysis of key imaging industry trends and issues. This issue’s topics deal with how HP’s laser printer hardware margin structures are changing, and what this might mean for the rest of the industry, and, the trends leading up to the ‘perfect storm’ for the imaging industry in 2007. In each case we will attempt to provide a different and perhaps controversial view of what is happening in the industry.

The final section will provide updates on the Photizo Group including new staff, new reports, and other items of interest.

I believe you will enjoy this new format and publishing model for the Intelligence Briefing. Our goal with the Intelligence Briefing, as with our business in general, is to bring unique insight to our clients’ challenges and opportunities, and to help them develop and execute winning product and marketing strategies. As always we encourage your feedback and contributions to our publication.

Our goal is to bring unique insight to our client’s challenges and opportunities, and to help them develop and execute winning product and marketing strategies.
Building New Product Development Teams

Ed Crowley, CEO Photizo Group

In past articles I have discussed how to build a New Product Development process, what to look for in Product Managers, and many other aspects relevant to creating a process for successfully planning for, developing, and launching successful new products. Each of these topics plays a critical role in consistently creating a pipeline of products which meet revenue, growth, and profit objectives. However, there is one area which is core to the success of any New Product Development program, but which is also the area which is most often taken for granted or even overlooked. This critical area is the design of the New Product Development team itself!

I have seen many good product managers fail despite having a great New Product Development process, a well defined product which meets customer needs, and a good understanding of the market environment simply because they did not have the right ‘type’ of new product development (NPD) team given the ‘type’ of new product they were trying to develop. What do I mean by ‘type’ of new product development team and ‘type’ of new product? There are four basic types (Breakthrough, Platform, Derivative, and Support) of new products which are shown to the right.

Clearly, this is actually more of a ‘continuum’ than four very distinct product categories. However, the four groups provide a very good framework for categorizing the types of new products a firm may develop. An interesting exercise is for the executive team to actually go through the process of placing their products in each category. I’ve found that executives are often surprised by the amount of resource and effort that is going into derivative and support products when the firm is actually trying to be a ‘breakthrough’ product company! These product types are very important to our discussion since each type of product requires a different type of NPD team to be successful.

Breakthrough teams are typically doing something that is very different than what they have done in the past. As such, they require teams with a high degree of focus, autonomy, and teamwork since the breakthrough product involves doing something (devel-
Tiger teams are typically highly autonomous with a very senior level and highly respected executive directly leading the team.

‘silos’ and politics in order to deliver an extremely high level of focus to the new product development effort.

The Level of Team Focus on a Specific New Product Development Project and How Success is measured: The Tiger team represents the maximum level of focus in a new product development area. The team is (typically) dedicated full time to the project. Their individual success is measured by the success of the project. In all respects, the Tiger team is a very focused team. Conversely, in a functional team, functional team members are primarily measured based upon their contribution to the functional areas success and spend only a fraction of their time on any individual new product development project.

The following illustrations provide an overview of each type of team (see below and page 4):

The Clout of the Team Leadership: Tiger teams typically have very senior level executives leading the team, with significant organization clout. In fact, these team leaders are typically at the same management level as the executives leading each functional area. Conversely, the functional team does not have a dedicated team leader, but rather, the product passes from function to function sequentially and in effect, there is no dedicated team leadership.

The Team Autonomy and Team Member Relationships to the Functional Area: Whereas the functional team has no ‘autonomy’, a Tiger team has a high level of autonomy and often a very ‘loose’ reporting structure back into the functional area. This autonomy is often critical to breaking away from the ‘traditional’ approach to doing things in order to come up with radically new and different ideas. Additionally, it helps to get past functional

op a technology, or entering a market) which the company has not done before. In most corporate cultures, for a breakthrough team to be successful, they must do things which are ‘against the grain’ of the corporate culture. This may involve taking greater risk, using more outside resources, or a host of other activities that are not part of the companies ‘DNA’.

A great example of this is the effort by IBM in the early 80’s to develop a personal computer (PC). IBM’s culture was to utilize internal technology, long product cycles, and a very hierarchical management style to develop complex mainframe computer systems. The executive team at IBM realized this approach would not foster the type of ‘radical’ innovation they required, so, in order to develop the PC, IBM created a team located in Boca Raton, Florida (not coincidentally, this was far away from IBM’s Armonk, New York headquarters) with a high degree of autonomy. The group used ‘industry standard’ parts such as the Intel processor and a Microsoft operating system (DOS) to quickly launch one of the most successful products in the company’s history.

The type of team IBM used is a called a ‘Tiger’ team. Tiger teams are typically highly autonomous with a very senior level and highly respected executive directly leading the team. This is just one type of new product development team. There are four types of teams: Tiger, Heavyweight, Lightweight, and Functional teams. Each type of team is different in terms of three primary aspects:

The following illustrations provide an overview of each type of team (see below and page 4):
Again, while each of these teams is identified as being unique and distinct from one another, in reality, there is a continuum of team types ranging from the highly autonomous Tiger team to the pure ‘functional’ team. The key point is that some types of teams are better at more innovative, breakthrough products while other team types are better suited for ‘support’ products which require much less innovation and much more functional area expertise and process control. For example, while a Tiger team is great for a breakthrough product like the one mentioned for IBM, it would be overkill for a new product development effort to release a set of ‘bug fixes’ for a software program. In this situation, a functional team which is very adept at performing specific tasks would be more effective at creating, testing, and releasing the bug fix in a timely manner.

As with most New Product Development processes and activities, there is no ‘one size’ fits all approach to matching teams and types of products. It is critical that the team selection process allows for the company’s structure, culture, and market environment. The team types required for even derivative products may differ greatly for an airplane manufacturer versus an automotive parts manufacturer or a banking firm. However, in general, the following questions can be used to evaluate new product development efforts in order to identify the most appropriate type of team:

- How ‘new’ is this effort to your company? Does it represent a significant departure from existing technologies, markets, or past product development efforts? If the product is radically different, consider using a Tiger team to breakthrough and create something truly ‘new’.

- How important is this effort to your company? Is it something that is critical to the firm’s future? Is the price for failure high? In general, the more important the effort (and the greater the price of failure), the more ‘heavyweight’ the team should be.

- How risky is this project? Is its chance of success highly likely regardless of the type of team used? Is there significant technical, cost, process, or managerial risk associated with this specific new product development project?

These are just a few of the questions that can be asked to identify the most appropriate type of team. Of course, the best questions for your company will
depend upon your culture, industry, and past new product development history.

If you are interested in learning more about NPD teams, there are several excellent resources available including:

- “Winning at New Products” Accelerating the Process from Idea to Launch”, Robert G. Cooper, Perseus Books
- Midway College New Product Development Course Series (www.midway.edu)
- New Product Development Boot Camp (www.photizogroup.com)

Now that you know what type of team you need for each development effort, you are all set… right? Not quite, in my next article, I will address the ‘birth’ and the ‘care and feeding’ of NPD teams. Until then, I look forward to your emails and feedback.

Matching Teams to Products

**Evaluation Factors:**
- How much risk does this project represent (financial, reputation, etc.)
- How important is this project to the company?
- How new is this to the company (or market)?

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<thead>
<tr>
<th>High Type of Product</th>
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<td>Breakthrough or Radical Innovation</td>
<td>Support</td>
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<td>Platform</td>
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<td>Lightweight Team</td>
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<td>TigerTeam</td>
<td>Functional Team</td>
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**Metrics and the Buying Pipeline**

*by Laura Patterson*

Metrics are a part of our everyday lives. There are metrics for everything from our heart rate to our pay rate; from earnings per share to market share. Just as in everyday life, business life metrics indicate effectiveness and impact. Without metrics to track performance, business, marketing and sales plans are ineffective.

**How can metrics impact sales?**

For most companies, sales is the name of the game. Companies work on building their sales pipeline, reviewing it regularly, sometimes daily. It’s important to look at your business from your customer’s and market’s perspective, so we refer to the sales pipeline as the buying pipeline. People are buying from you. The more you understand your customer’s needs and wants the more you can satisfy them. And the more you understand how they buy—that is, their buying decision process—the greater the likelihood your sales and marketing efforts will be successful.

Understanding the buying process allows you to build a buying pipeline. By thinking this way you are not only taking a market and customer viewpoint, you are also aligning your sales and marketing efforts. A sales pipeline sounds as if it belongs to a specific part of the organization, namely, Sales. A buying pipeline helps everyone in the company realize they have a role in moving an opportunity.
Let’s pause for a moment, and examine the buying pipeline. It is made up of the incremental behavioral commitments prospective buyers demonstrate that indicate they are moving from contact to suspect to prospect and ultimately, to customer. A behavioral commitment is something you can observe that signals the prospect’s interest and consideration. The idea behind the pipeline is, as customers move from one end to the other, each additional behavioral commitment indicates increased interest, or consideration.

Think about your own buying behavior when you’re considering a new car. You might do some preliminary research to narrow down your choices. You may then look at the cars on the lot – and even test drive a few. You might even bring a car home as a trial. Each incremental behavior along the way brings you closer to your purchase decision. These incremental behavioral commitments can be grouped into stages - more on stages later.

How does this knowledge relate to metrics? Marketing organizations within companies are increasingly scrutinized, and asked to substantiate their revenue and lead generation effectiveness through metrics. The buying pipeline provides marketers and sales with a view into the buying process. It also allows you to align your marketing metrics accordingly. A solid pipeline tool details the many steps and the time involved in each stage. At each step in the process, metrics can be established and monitored to help measure progress and steer your efforts in the proper direction. Over time, you can assess how well you are moving targets from one stage to the next, and begin to fine-tune your efforts, propelling more opportunities to conversion faster.

There are five steps to developing an effective pipeline tool and the associated metrics.

**Step 1:** Construct the pipeline by defining and mapping the incremental behavioral commitments, which can vary by industry and buyer. An example of an incremental behavior commitment is when the target provides information about the size of their problem, their degree of interest in solving the problem and asks for a follow-up conversation. Another example is a request for an RFP. It is important that the marketing and sales organizations agree upon which behaviors are desired in the target and demonstrate increased consideration.

**Step 2:** Establish the stages, determining which behaviors fall into what stage in the pipeline: contact, suspect, lead, qualified lead, prospect and customer. Using the examples in Step 1, the first behavior might establish the target as a suspect and the second as a prospect in the pipeline. A key benefit of this step is that both marketing and sales will be able to agree on exactly what behaviors indicate the stage a target is in.

**Step 3:** Establish the metrics. These will include the target numbers for each stage, the conversion ratios from one stage to the next, time to sale, and cost to acquire. This step may require gathering historical or industry data.

**Step 4:** Develop your strategies. Marketing and sales strategies and tactics will be used to motivate the targets to take the appropriate behavioral steps to move them through the pipeline. Remember, effective marketing that capitalizes on buying motives and helps the target understand how your offer addresses their needs will be critical to moving targets through each stage.

**Step 5:** Track effectiveness. Without knowing the effectiveness of each strategy and tactic in moving the target through the stages, you cannot know what is working, whether you are meeting your goals, and what adjustments are required.

In today’s economic environment appropriately measuring and benchmarking business performance over time impacts success. The metrics you establish associated with the various stages of the buying pipeline provide valuable data points against which the marketing organization can track its progress. Ultimately, metrics help companies successfully navigate the uncharted territory of the buying pipeline.

These five steps will help you better define your buying pipeline and develop metrics more meaningful than click-through rates, show lead cards, or ad response rates. This approach encourages marketing and sales to work together to understand where each opportunity is in the pipeline and who has the primary responsibility to move it forward.

Laura Patterson is the author of Measure What Matters: Reconnecting Marketing to Business Goals and Gone Fishin’: A Guide to Finding, Keeping, and Growing Profitable Customers, and is president and founder of VisionEdge Marketing, Inc, a leading metrics-based strategic and product marketing firm located in Austin, Texas. For more information, go to www.visionedgemar keting.com. Contact is: esthere@visionedgemarketing.com
It was my pleasure to have the opportunity to speak at the Rapid Prototyping conference held by Markus Evans. Rapid Prototyping is the development of ‘quick turn’ parts using devices which create 3D models and parts without hand tooling or ‘casting’ a part. There are several basic technologies used, with the most prevalent being 3D inkjet printers which ‘jet’ a plastic / resin based material one layer at a time to build the part.

Below is a picture of Zephyr Corporations ZPrinter 310 Plus.

While several of the presentations tended to be very equipment centric, there were several very informative sessions. Terry Wohlers the founder of Wohlers Associates provided a very good overview of market trends and the adoption of Rapid Prototyping devices (RP). According to Mr. Wohlers, the market is seeing machine sales growth of 39% compounded annually and it will be an $808.5 million market (services and products) within 4 years.

Most RP devices have price tags well in excess of $15,000 with some machines going over $500,000. The market is still relatively small with a forecast of sales for less than 15,000 machines by the year 2010.

Dr. Mohd Hamdi Abdul Shukor from the University of Malaysia gave a very interesting review of the current and developing technologies for RP. The key technologies include Stereo Lithography, Selective Laser Sintering, Laminated Object Manufacturing, 3D Printing, Fused Deposition Modeling, and Ink Jet Systems. One of the most exciting developments is the development of RP using Metals. There was also a discussion by this presenter (and several others) of ‘new applications’ like on-demand toy modeling which (if the products become inexpensive enough) would result in a ‘printer in every home’. I’m not convinced that I see this anytime in the future, however, the potential for service firms offering ‘custom designed’ toys and action figures using RP technology is very feasible.

The final presentation I will mention is one that I felt was particularly relevant given the ‘slant’ of the conference towards equipment reviews. This session by Dr. Hari Narayanan (Director of Engineering at Motorola) was particularly insightful. Dr. Narayanan spoke about the need for ‘process’, not just tools. He spoke of how RP can enhance the development and the design process and bring significant value to multiple phases by supporting predictive engineering and testing (versus build / test / fix cycles).

Clearly RP is a set of tools and methodologies which can significantly benefit development organizations and enhance their time to market. However, like any tool, the key is as much in how the tool is applied (process) as the tool itself. The analogy I like to use is this. My grandmother used to drive 55 miles per hour. If you put her in a car capable of going at 200 miles per hour, she would still only drive at 55 miles per hour. Even if you have a tool capable of producing finished parts in a matter of days, without a process that is capable of taking advantage of these rapid turnaround on prototype parts, the total development cycle will only receive modest gains and not the full benefit of this capability.
Introduction

As you will note in the following articles, during the first half of this year, the Photizo Group predicted the very benign pricing environment which occurred in the first half of 2006 would not last. Well, we must admit that we were only partially correct. While the inkjet market continued to see price pressure during the last half of the year, the laser printer market remained surprisingly benign. There were several reasons behind this including:

- Several key ‘price drivers’ were absent from retail – Konica Minolta exited retail for low-end color lasers, and a lack of availability for Samsung’s new low-end color laser both helped reduce the downward price pressure in the entry color laser market.
- HP’s fall announce was less aggressive than expected. With the exception of the $499 HP Color LaserJet 1015 (multifunction color laser), HP took advantage of the favorable pricing environment in order to harvest surplus margin in the second half of the year.
- Both Samsung and Brother focused on adding higher priced workgroup models in order to better penetrate the highly profitable enterprise market. As a result, entry mono laser prices stabilized in 2006.

We were on target with our prediction of a continued decline in the industry operating margins, including the expectation for increased margin pressure in the supplies business. So while the perfect storm can still be seen on the horizon, it has not ‘landed’ yet.

So what are our expectations for 2007? Will this relatively benign pricing environment remain through 2007? We are in the midst of preparing our 2007 projections as part of our 2006 market review / report. MarkeTrak clients will have access to this report in late January. If you would like to become a MarkeTrak client, please contact Linda Ziffrin at Valley View Ventures. Linda can be reach at (978) 369-5622 or ljziffrin@valleyviewventures.com.
A recent report developed by three industry leading firms (Photizo Group, Gap Intelligence, and Cypress Labs) sheds light on HP’s evolving hardware model for laser printer products. Laser printers have traditionally been key to HP’s Imaging and Printing Group (IPG) division’s profitability. In turn, the IPG Division has been the key profit driver for HP’s total profit pool. Understanding how hardware profit margins are changing for this key product segment is critical to understanding HP’s current and future profitability.

The study clearly indicates three major trends impacting HP’s hardware margins. They include:

1) From generation to generation prices are falling faster than costs driving reduced hardware margins;

2) “Entry” laser printers (printers costing less than $250 for mono lasers and $500 for color lasers) are significantly less profitable than workgroup laser printers; and,

3) Color laser printers also offer significantly reduced hardware margins relative to the traditional workgroup laser hardware margin model.

Perhaps most importantly, the report indicates that this change in HP’s hardware margin structure has the potential to drive industry wide margin declines as competitors lower prices in an attempt to create a competitive advantage versus HP.

One of the most interesting findings is the significant disparity between ‘workgroup’ hardware margins and entry hardware margins. As the graph below shows, entry margins are actually negative for both color and monochrome lasers – resulting in a hardware margin model that is very similar to the troublesome inkjet hardware model (money loosing hardware with profits being –hopefully – driven by supplies).

Today, entry products represent the largest portion of the market and the market mix of low-end products is increasing. This is a global trend that is consistent across almost all vendors and market. As a result, this has significant implications for the overall industry profitability.

Note that this margin represents the combined margin for HP and Canon (Canon makes HP’s laser printer engines). As a result, HP’s individual margins represent some portion of this total hardware margin picture.
The second graph shows how this model plays out against the industry as a whole (using Photizo Group’s proprietary model). As the model shows, even though workgroup mono is only 36% of the total market revenue, it represents over 80% of the industry profitability.

So does this mean that HP is losing its edge in the market? Not at all—while HP’s hardware margins are declining, many competitors are in worse positions. HP is able to leverage its dominant share position (greater than 50% in most laser markets) to drive significant economies of scale. As a result, even though HP must share margin with Canon, they still often have a ‘margin’ advantage.

So what’s in store for the future? Expect more competition, and a continuation of the current declining margin trend. As the report indicates, there are strategies for minimizing the margin erosion trend. The most successful vendors will not only be cognizant of the trends, but also will actively move to counter this trend. For the investment community, understanding the changes in hardware margins is absolutely key to crafting successful investment strategies and identifying which companies will be winners, and which will be losers.

This report is also unique in that it represents collaboration among three technology information firms. In the highly competitive information services market, this represents a unique collaboration. According to the firms, this is just the first in a series of reports examining industry margins.

**Industry Hardware Margin Model**

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<tr>
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<td>36%</td>
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<tr>
<td>Workgroup Color</td>
<td>20%</td>
<td>25%</td>
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<tr>
<td>Entry Mono</td>
<td>31%</td>
<td>-2%</td>
</tr>
<tr>
<td>Entry Color</td>
<td>13%</td>
<td>-2%</td>
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**Seeking Alpha (October): Imaging Industry Profitability Rebounds in Q2:06**

*by Ed Crowley*

After a disastrous 2005, imaging industry profitability has rebounded in the first half of 2006. The Photizo Group’s Imaging Industry Profitability Index showed slight growth to 1.025 versus 1.02 in Q1 of 2006. Most importantly, this is a marked improvement from Q2 of 2005 when the index dipped to 0.86 due to the intense price war in the second quarter of the year. In terms of absolute values, the operating profit margins for the industry were 12.1%, flat from Q1, but up 2% from 10% in Q2 of 2005.

The positive results have been driven by a relatively benign pricing environment during the first half of 2006 as vendors “lick their wounds” from the intense ’05 price war. Additionally, several vendors have pulled back from their aggressive strategies of gaining market share by offering the lowest price points...
Hewlett Packard’s (HPQ) willingness to selectively target these vendors and neutralize their price advantage has shown this tactic to be a no win strategy. While these vendors may still have slightly lower prices than HP (typically 15-20%), HP has effectively dropped prices to a point that these vendors cannot compete by offering greater than 20% price discount. The hardware losses just become too large.

The Imaging Industry Profitability Index, shown in the graph below, was developed by the Photizo Group to track the profitability of this market. The base period for comparison is the first quarter of 2006. The index includes supplies, hardware, and services profitability for the imaging divisions of 14 of the top industry participants. Calendar quarters are used instead of fiscal quarters to provide a common comparison basis.

So who is benefiting most from this positive environment? Is everyone winning, or are just a few? In our view, the most important measurement of who is winning is the share of the industry operating profit that each firm captures. From this perspective, four firms are the clear leaders: Canon (CAJ), HP, Ricoh (RICOY, OB), and Xerox (XRX). These four firms collectively captured a resounding 84% of the industry’s profit share.

HP and Canon have managed to stay on top by using HP’s pervasive channel presence and strong brand reputation with Canon’s technology base (at least in the laser market; HP owns their own inkjet technology). Conversely, Xerox has benefited from growth in color revenues in the production printing space / digital press space, while Ricoh has maintained a laser sharp focus on winning in the profitable MFP market space.

So will this positive environment last? Not likely! During the second quarter, the promotion activity in the inkjet market has already started to increase as HP offers rebates to clear inventory and make way for new models. We expect HP to announce a new lineup of laser printer products with new MFPs (multi-function printers) in the second half, which will increase price pressure in the workgroup MFP and monochrome laser printer space. The digital print/production printing segment will be under increasing pressure as Canon’s new ImagePress products begin shipping, along with Oce’s new VarioPrint product and Ricoh’s new high performance Aficio products.

So, the question is, will this just be a brief lull before the storm, or will stabilization bring a more profitable price structure? The Photizo Group’s view is that there is too much competition given the industry’s maturity. Continued price pressure is inevitable until consolidation whittles the business down to a few major players.

So, this will be a lull before the storm (or perhaps the “eye” of the hurricane!) During the second half we expect significant increases in price pressure and subsequent reductions in operating profit margins. Hang on as it is sure to be a bumpy ride!
Seeking Alpha (September): Canon and HP Weathering the Perfect Storm in Printing Market

by Ed Crowley

There are clear challenges facing the market for digital printing and distributed printing products as the ‘perfect storm’ approaches (the confluence of market maturity, market segment shifts, and increasing competitive pressure). However, as with any storm, some boats do better at navigating the rough waters than others.

In the business world, the best measure for determining if a firm is making progress is to look at operating income. Ultimately, if a company has a strong operating income, it will have the resources to fund marketing and development programs which will provide it with a competitive edge in the marketplace. This will allow the company to make ‘headway’ even in a stormy environment. Likewise, if the operating income for the industry as a whole is increasing, all of the firms in that industry have a better chance of being profitable.

The Photizo Group tracks the operating income for the imaging and printing industry using the Imaging Industry Profit Index. This index measures the operating income generated within the distributed printing / imaging segment by ‘stripping out’ profits from other businesses (e.g., servers, PCs, etc. for HP). This provides a good yardstick for measuring the ‘intensity’ of the storm.

As the following graph shows the intense price wars in the second and third quarter of a significant impact on industry operating income and drove the industry’s operating margin index to its lowest point in two years.

So how did firms fare in this intensely competitive environment? Who did a better job of steering through the storm? One measure of who is doing the best job in steering through the storm is to look at who is capturing the greatest share of operating income. From this perspective, the firms doing the best are Canon (CAJ), Hewlett Packard (HPQ), Heidelberg, and Konica Minolta.

Canon and HP are benefiting from their longstanding dominance of the distributed printing space, and in the case of Canon, a strong position in the color copier / MFP space.

Heidelberg has been successful in capturing the high volume ‘production’ space and digital press opportunity.

Konica Minolta has executed well on their strategy of capturing profitable MFP placements while simultaneously growing their presence in the hyper growth entry color laser space.

Of most interest are the companies that capture a larger share of operating income relative to their share of revenue. These firms have clearly identified market segments that have above average profitability, or they are doing a very good job of managing down expenses.
However, having a significant share of the industry’s operating income by itself is not enough. A firm could easily have a large share of the industry’s operating income, but have little operating income growth. Oftentimes firms that are ‘harvesting’ profits to meet quarterly performance pressure will cut sales, marketing, and development expenses to drive near-term operating income gains. This can be devastating to the firm’s long-term success since its competitors will increase their competitive advantage over time if they continue investing while the ‘harvester’ does not. However, it is often expedient, and allows firms to avoid answering investor questions about their longer term strategy or operational performance.

To make sure a firm is not ‘harvesting’, it is important to also examine operating income growth. As the following graph shows, the firms that are showing the strongest growth are not the firms that have the highest operating share. In fact, this graph paints a dramatically different picture. Some of the firms which have done the best jobs of growing their operating income (from calendar Q1 of 2004 to Q1 of 2006) have a relatively small share of the total industry operating income.

Firms like Okidata, Brother, and Oce have grown their operating income by showing an almost myopic focus on selected market segments. Okidata has made a very successful bet on color, while Brother has focused on winning in the ‘entry’ monochrome laser segment (particularly in Europe), and Oce has focused on the production and specialty commercial printing spaces in addition to making a good strategic acquisition of Imagistics.

Of course, these firms have a bit of a ‘mathematical advantage’ because they are growing operating income from a relatively small base. If you just look at the companies that have strong operating income growth (above 5%) and have a significant operating income share (above 10%), the field quickly narrows to HP and Ricoh.

The head of HP’s Imaging and Printing Group [IPG], Vyomesh Joshi—aka VJ, clearly understands the strength of HP’s brand and is doing an excellent job of selectively maintaining market share through competitive (but not overly aggressive) pricing, investing in core technology to maintain product advantages (as in the case of inkjet SPT technology), while still investing in the future by leveraging the brand into ‘higher end’ segments such as digital press (via Indigo) and large format sign printing (via Scitex). The Mark Hurd CEO / VJ combination is proving to be a very effective duo in terms of stewardship of the HP brand and legacy.

Ricoh is, in my opinion, an under-rated powerhouse. They have continually performed well by focusing on their core MFP / copier market, expanding their market presence through strategic acquisitions (most recently Hitachi printing systems), and managing a portfolio of brands (Ricoh, Savin, Gestetner, and Lanier) targeted at specific market segments. The company is, again in my opinion, one of the best ‘marketing’ companies in the segments they participate in.

Just as there are many ways to successfully and safely navigate your way through a storm to clear sailing, there are many ways to craft a successful strategy for a difficult market. However, there are some common factors in those firms that are being successful in either defending or growing their operating income position.

While the storm looks very intimidating, some firms are doing a very good job of navigating through the storm. In my view, the common traits these companies share are:

1) **The successful firms understand their strengths.** They know what they are good at and they understand their customer base. Acquisitions, investments, and growth plans are all based on the firm’s strengths.

2) **Winning firms have a clear vision on how they are going to compete in the market, and relentlessly pursue this vision.** Whether it is Okidata’s focus on color LED technology, or Konica Minolta’s focus on its highly profitable MFP market, these firms are consistently following their vision. The firms only pursue close adjacencies that are consistent with their strengths. They have a clear focus, and they are as relentless in deciding what they will not pursue as they are in looking for new opportunities.

3) **It is important to manage cost and expense, but you cannot save your way to prosperity.** The firms that are showing the greatest success are investing in their marketing, development, and distribution channels. They are taking a holistic approach to serving the customer need and again, relentlessly pursuing customer satisfaction.

So again, I come back to our ‘mantra’ for surviving the storm. **Understand your strengths, have a clear vision for your future, understand your customers, and relentlessly pursue them.** It sounds simplistic, but sometimes in the most difficult storms, the simple strategies work the best!
Photizo Group Leads Workshop to Re-design Talla-Com’s New Product Development Workshop

Talla-Com is an innovative, fast growth technology company which develops communications products for military and commercial applications. While the firm has been very successful, Talla-Com’s President, Joel Friederich wants the organization to go to the ‘next level’. According to Joel, “our organization needed a well defined process for developing our new products. One of our team members had attended a PDMA New Product Development workshop held by the Photizo Group and advocated for engaging the Photizo Group in a redesign of our New Product Development process.”

As a result of this initiative and Joel Friederich’s leadership, the Photizo Group was engaged to hold a four day workshop with over 30 of the development and operations team. During the workshop the team used an appreciative inquiry approach to evaluate their current processes, identify areas where Talla-Com is performing well, leverage these strengths, review best practices, and craft a new phase gate process based upon a phase gate New Product Development system.

According to Ed Crowley, who led the workshop, “This was an intensely productive workshop. It is a real pleasure to work with a development team which is so passionate about finding ways to improve and move to the ‘next level’ of effectiveness.”

New Location

The Photizo Group has moved! We have a brand new address right in the middle of Versailles, KY. Versailles doesn’t follow the French pronunciation of “Vur-si,” but instead the English version of “Vur-sales.” We are located in the heart of the beautiful Bluegrass Region of Kentucky. As Versailles proclaims, “we are the Horse Capital of the World!” Located just 60 miles from Louisville, 10 miles from Frankfort and Lexington, and 80 miles from Cincinnati, we are positioned close to both the I-75 and I-64 Interstates and 3 major airports. Here you can experience small town living in a progressive town that still retains that sense of place and has an 1890’s Main Street that is still vital today. Our new office address is:

Photizo Group, LLC
112 North Main Street, Suite F • Versailles, KY 40383

If you are ever in the vicinity, please give us a call and we can meander down to the local Cornerstone Pharmacy and order you a delicious-tasting misty.
New From the Photizo Group

MarginTrak report: HP’s Shrinking Hardware Margins
Do you know why HP’s printer hardware margins are shrinking? What is happening from generation-to-generation, how is color impacting margins, what does the shift in product mix to entry segment printers do to HP’s margins? What are the implications for other vendors? This report is a critical must have for industry participants and investors in the imaging industry. The report can be ordered at http://www.photizo-financial.com.

Current Speaking events:
Building A Rapid New Product Development Capability
Ed Crowley, Markus Evans Rapid Product Development Conference, Kuala Lumpur Malaysia (Dec 2006)
Which will win – InkJet or Laser Technology?
Ed Crowley, IMI Europe Ink Jet Technology Conference, Barcelona Spain (Oct 2006)
Building a New Product Development Road Maps
Ed Crowley, Agilent Technologies Roadmapping Conference, San Francisco (Sept 2006)

New Team Member
It is my pleasure to introduce you to our newest team member, Stephen Sizemore. Stephen joins the Photizo Group after spending 10 years with Lexmark International. At Lexmark, Stephen held key positions in the Corporate Strategy, Consumer Division Marketing, and Small Medium Business marketing. Stephen brings in-depth insight into the ink jet / consumer market in addition to a strong understanding of distribution channels and market dynamics for the small and medium business market. You can reach Stephen at stephen@photizogroup.com, or at +1 859 873 1919. Please join me in welcoming Stephen to the team. Stephen has degrees in Accounting and Finance from the University of Kentucky, in addition to an Masters of Business Administration from the University of Phoenix.