

DOES MULTIPLE BRANDING MAKE SENSE FOR YOU?

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The year-end round of interviews from the media is in full swing. Editors from the major publications are contacting analysts such as myself to get our take on the most significant trends of 2006. It doesn't take much thought to run down the list, which would include items such as the growth of color in the workgroup environment, the acceptance of scanning solutions, increased connectivity rates for monochrome copier-printers, reduced margins for hardware, service and supplies, etc. Most of us could list these without thinking twice.

But, there's one trend that has accelerated significantly during the past two years that has, perhaps, the greatest impact on the future of the independent dealer. Virtually all the major suppliers of copier/printer systems are increasing the emphasis on their own direct distribution. That is, they are opening their own branches across the country.

Consider:

- Canon continues to open direct locations. When they first began to follow this strategy they started from scratch. That is, they opened branches in those cities where there was an existing base of major account business. This year, we note some dealer acquisition activity.

- Ricoh has combined direct locations from RBS (Ricoh Business Systems), Savin and Lanier to build a formidable direct distribution network currently estimated to account for 50% of their total unit placements.
- Konica Minolta combined the branches of their two legacy companies (Konica and Minolta). While some "rationalization" has occurred where there was duplication, most remain.
- Toshiba continues to purchase dealers – primarily those selling competing brands in an attempt to "flip" the installed base and increase their market share.
- Even Sharp – one of the last holdouts – has begun to acquire dealers.

Vendors can make the case that direct distribution helps increase brand awareness for all distribution points. Dealers, on the other hand, are convinced that they are not playing on a level field. That is, most are convinced that vendor branches are price advantaged. Our own research substantiates that in many instances.

Dealers have responded to this conflict by taking on additional brands. This dual brand strategy allows them to offer brand and

feature differentiation when faced with competition from their primary vendor. Vendors counter with the assumption that dual branding reduces overall margins since the dealer must carry more parts, incur more service training cost, etc. Our most recent research proves this to be wrong.

In this year's edition of the Imaging Systems Dealer Distribution Strategy Report we find that the average Weighted Margin (considering hardware service and supplies) for Dedicated (single brand) dealers is 33.0%. Multi-Brand dealers, however, indicate a gross margin for their primary brands of 36.9%, a relative difference of 11.8%. One can assume that much of this difference can be attributed to the fact that these dealers do not have to discount as often or as severely when competing with a primary vendor branch.

Does that mean that all dealers facing direct competition from their vendors should seek another brand? No, it does not. Multiple branding makes sense only if it fits into the overall business plan of the individual dealership. It's not an inexpensive strategy. But, from a profit standpoint, it may be one that you should at least consider.

By Lou Slawetsky