



Win the Supplies Pricing War With Remanufactured Cartridges

Make no mistake about it — a war is raging for control of billions of corporate dollars. Specifically, printer manufacturers such as Hewlett-Packard, Lexmark and Canon are battling to maintain control over their consumables cash cow: replacement ink and toner cartridges.

Unfortunately, the casualties in this war are purchasing budgets, as office printing costs skyrocket to the tune of tens of thousands — even hundreds of thousands — dollars per month. Yet, cost-conscious CFOs, buyers, purchasers and office managers are bucking this trend and saving a lot of money in the process by selecting quality compatible toner cartridges that provide equal utility at up to half the price.

A High-Stakes Conflict

“In the end, this is a battle over consumables, not printers,” said SG Cown analyst Richard Chu in an article on *The Street.com*. “Consumables have been the Holy Grail for everybody.”

Given the nonstop demand for ink, these consumables — in the form of laser toner and inkjet cartridges — provide printer manufacturers with guaranteed revenue streams long after the initial sale of the printer.

“They look at it as life-cycle pricing,” said Stephen Dube, an analyst at *Dresdner Kleinwort Wasserstein*, in the same story. “You make an estimate of what you make on the printer plus what you make on the supplies. There’s no question that more of the money is in the supply side over a number of years. The printers can literally be a giveaway. It’s



the classic Gillette story with the razors and the blades.”

These sales are incredibly lucrative, wrote J. Eric Smith in a story on *Geek.com*. A \$100 toner cartridge from Lexmark really costs about \$5 to mass-produce. Lexmark realized that once you’ve bought a printer from it, you’re hooked.

Recent price competition for selling printers has pinched profits for printer manufacturers, placing even greater emphasis on capturing the “consumables” theater. According to a story in the *Wall Street Journal* online, stunted sales in other areas have made ink and toner cartridges all the more vital to printer manufacturers.

The cartridge business brings in about \$10 billion annually. When the spoils of war prove this lucrative, the defenders do all they can to maintain their share of the booty.

Returning Freedom of Choice

To wrest control of the consumables market from the printer manufacturers,

a number of vendors have begun to provide office managers with less expensive options for filling their printers with toner or ink.

The greatest threat against OEM dominance comes from the top-quality remanufacturers. Costing up to half as much as OEM printer cartridges, the newest generation of remanufactured and compatible cartridges threatens to take valuable ground from the established printer giants.

Both compatible and remanufactured cartridges can use high-quality ink or toner that provides an even distribution for high-quality prints. In some cases, compatible and remanufactured quality exceeds OEM standards.

“The myth is that compatible toner cartridges won’t be as good as the OEM or will void the warranty,” said Gary Pendl, CEO of Pendl Companies, which produces remanufactured cartridges. “We pride ourselves in meeting or beating OEM standards.” Most remanufacturers provide a guarantee to back up their cartridges.

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– Tony Hess, Kohler Corp.

Seizing the Advantage

Because of their considerable cost-savings advantage and on-par quality, the underdog third-party manufacturers are carving significant inroads into the territory held by OEM printer manufacturers.

Remanufactured cartridge sales are growing at about 12 percent a year, compared with 6.5 percent for the larger printer makers, said the *WSJ.com* story. The remanufacturing companies are gnawing away at the fat cartridge profits enjoyed by HP, Lexmark, Seiko, Epson and Canon.

These hard-fought gains also come about through some of the same tactics previously reserved for the OEMs.

Some remanufacturers have filed counter claims in patent cases, as well as lawsuits of their own, that accuse HP and Lexmark of having violated antitrust laws by trying to thwart discount competition. The smaller companies have alleged that printer manufacturers have used technical innovations in an attempt to prevent low-price rivals from competing at all. In May 2002, the European Commission separately began investigating similar complaints against Lexmark, HP and other printer companies.

Some top compatible manufacturers have even managed to meet the OEM “smart chip” bombardment head-on, by designing compatible chips of their own.

A Victory for Consumers

As consumers increasingly recognize the benefits of using third-party remanufactured and compatible products, the tide seems to be turning in favor of the remanufacturers.

At normal rates of usage, the use of lower-cost consumables can account for many thousands of dollars of savings for any corporation. Take the case of Eckerd Drug. With 2,640 stores in 20 states, Eckerd (now a subsidiary of JC Penney Co. Inc.) is one of the largest pharmacy chains

in the world, filling approximately 200 million prescriptions in the year 2000.

Eckerd recently implemented a program from Graphics Technology Inc. (a major systems integrator based in New Century, Kan.) to take advantage of the value presented by using aftermarket compatibles for printing prescription labels and bar-coded shelf labels, all of which require high-resolution print quality.

Kohler Corp. has also experienced first-hand savings from the switch to compatibles. Kohler Corp. is a multi-billion dollar firm and a leader and innovator in many sectors. Best known as a world leader in kitchen and bath plumbing products, Kohler currently encompasses furniture and accessories, cabinetry and tile, engines, generators and even real estate.

“Naturally, we all know that most OEM printer manufacturers make the majority of their profit via the consumables, so we were open to saving costs here,” said Kohler’s Tony Hess. “...We compared one compatible cartridge against the OEM product. We looked at the quality of the toner and checked for

any residue left on the rolls afterwards. The quality, as well as the quantity, was the same.

“Now we use nothing but compatible cartridges in our network printers to print out documentation from our ERP system — that also includes production and inventory control tickets out of our shipping area, and even MICR cartridges to print checks,” said Hess. “We are pleased with how the compatibles continue to work out. We get the same level of quality as an OEM product at a drastically reduced price. It’s almost a 50 percent saving, which is why it’s such a benefit to the company. It’s a no brainer.”

The Bottom Line

The conflict appears to be tilting in favor of third-party compatible and remanufactured cartridges, as the savings for business users can be substantial, like an uncovered revenue stream of hundreds of thousands of dollars or more a year. At that rate, any company that switches over to compatible or remanufactured cartridges stands to win its battle of the bottom line. **■**

The More You Print, the More You Save

Recent research, based on five leading laser printers in a typical workgroup environment printing 250 pages a day over five years, found that consumables easily cost an office more than the printer itself.

The model indicated that more than 75 percent of the cost of printing is spent on consumables, while only 17 percent relates to the cost of the printer purchase. In an even larger marketing environment with more of a focus on newsletters, reports and data presentation printing totaling 750 pages a day, consumables make up 94 percent of the total cost of operation.

Therefore, you should definitely consider the cost of printing supplies when choosing your printer. Look for printers that have third-party supplies available, as purchasing these supplies can save your company thousands of dollars per year.

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