

THE CANNATA REPORT

AN INDUSTRY IN TRANSITION

PART 1

33rd Annual Dealer Survey Results and Analysis

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2018 Dealer Tour



CAPITAL GAINS

A Fort Collins Office
Technology Fixture
Ups Its Game
By Scott Cullen

After conquering the Fort Collins market with its office technology offerings and developing reputation for superior service, Capital Business Systems is looking to do the same thing with managed network services.

The second stop of our Colorado dealer tour brought us to the edges of a Fort Collins suburban neighborhood where we visited a dealership thriving in multiple markets. Joining us were Capital Business Systems President and CEO Jim Kreikemeier, Regional Sales Manager Kris Lynch, Director of Service Cliff Davis, and Managing Coordinator Mark Larson.

In 1982, Kreikemeier began his career in the industry as a service tech with a 3M dealership based in Nebraska. A few years later, he moved to Colorado where he accepted a role as vice president of service for Capital Business Systems, which he subsequently acquired in 1997 with his current business partner Laurie Davis. In 2006, Kreikemeier and Davis would acquire the office technology business of Modern Methods in Nebraska, the company that had previously acquired the copier and fax business of the 3M dealership Kreikemeier once worked for. Today, Capital has 11 offices in four states, including three in Colorado, four in Nebraska, three in Wyoming, and one in New Mexico.

Previous page: The Cannata Report's CJ Cannata and Scott Cullen with Capital Business Systems' Mark Larson (far left) and Jim Kreikemeier (second from right).

1. Capital Business Systems' Fort Collins headquarters
2. CJ Cannata shares industry anecdotes with Jim Kreikemeier.



Service Superiority

Starting out in service instilled Kreikemeier with an appreciation of the vital role service plays in a copier dealership, particularly when it comes to customer retention. Many dealers boast about the great service they offer, but they aren't always able to qualify what "great service" means. Capital can and does. The company is one of the top 100 servicing dealers in the United States based on criteria from PROs Elite, developers of the document imaging industry service benchmark model. Further validation can be seen in Capital's outstanding Net Promoter Score of 90%, a figure that indicates the willingness of customers to recommend a company's products or services to others based on a scale ranging from -100 to 100. The score can be used to gauge customer satisfaction with products or services and customer loyalty.

With communication, particularly internal communications, as one of the keys to meeting Capital's customer satisfaction goals, the

dealership uses Slack, a system that facilitates collaboration among its service teams by providing a single source for messaging, tools, and files. Techs in the field can seek assistance by posting a question with pictures and a short video and within minutes receive feedback and solutions from technicians hundreds of miles away with varying levels of expertise, thus solving problems that would have previously resulted in an incomplete service call or a machine being partially functional or down.

"It's been a tremendous advantage for us," said Davis who has been instrumental in bringing Capital's service operations into the 21st century with tools such as Slack.

In fact, adopting cutting edge technology has even helped make Capital more appealing to millennial technicians.

"They want to be part of a team, they want to collaborate, and this is a great way for them to do that," said Davis.

3. Capital Business Systems' showroom in the lobby of the company's Fort Collins headquarters.



Taking It to the Network

By emphasizing new technology and services, Capital Business Systems has been able to uncover more opportunities within their customers' businesses. MNS is one of the dealership's latest initiatives.

"We think the opportunity is so big, and it's a natural fit with what we're doing," stated Kreikemeier.

After initially testing the MNS waters in 2015, Capital looked to gain traction in 2016. By the end of 2017, MNS represented 1% of total revenue, and the company is on track to hit its goal of 2% of total revenues for 2018. While these percentages may not sound like much, they are intentional as the company plans to build slowly and steadily over time to continue its commitment to provide top-notch service. Like many companies looking to expand into MNS, Capital is also weighing its acquisition options though none are firmly slated in the near term.

Even though Capital is expanding into MNS organically, the company isn't pursuing MNS alone. Continuum serves as the backbone of its MNS offering, providing a 24/7 help desk. Capital has also engaged business consultant Mitch Morgan of Growth Achievement Partners to provide guidance on building a profitable MNS business.

Capital targets businesses with 10 to 100 users that value IT and recognize the need for MNS offerings. Currently, Capital's largest MNS customer has 60 users.

"We teach our sales team to go in with that wide-angle lens, find a problem, and then figure out if we could solve it," explained Lynch. "When you teach your sales team to do that, you'll accidentally trip over opportunities beyond the MFP."

The dealership is still learning the best way to

navigate the MNS business, and Kreikemeier is already anticipating how the company's MNS offering might evolve.

"I see a massive move to cloud, and what we're scanning to will be cloud-based," said Kreikemeier, who predicts more cloud integrations as customers shift away from on-premise storage.

"That conversation will become easier as people get more comfortable with working in the cloud and having a managed network," added Davis.

Asked what he knows now that he wishes he'd known when first getting into the MNS business, Kreikemeier revealed he would have engaged a consultant like Morgan sooner.

Opportunities Knock

As Capital's MNS business begins to take off, the rest of its business, specifically, the traditional office technology business, anchors the company's balance sheet. Hardware (Canon, Ricoh, and HP) and software represent about 40% of Capital's business, and the other 60% comprises service (40%) and supplies (20%).

Even within these mature and flourishing business lines, Kreikemeier and his team continue to seek opportunities to expand. Two promising hardware segments are scanners and A4.

"Scanning is the fastest growing area on the sales side," said Lynch. "Everybody is creating a mess trying to get their paper electronic. That's an area where we can help clients and are doing more and more of that every day."

She views scanning as critical to driving MFP sales.

"This is a piece of the business that drives the sale of new hardware and I think that's going to grow and there will be more software sales that come out of that," said Lynch.



4. Capital Business Systems' warehouse is neat and well organized.

Capital recently sold \$75,000 worth of Canon scanners to Boulder County. That contract includes a premium for support during the two-week period around election time. The State of Nebraska is another big scanner customer, and Capital is also finding opportunities in medical accounts.

According to Lynch, many of Capital's smaller competitors aren't doing much with scanners, which is opening more doors for Capital.

"You can create a lot of trust with the client by demonstrating competence in a particular area that someone else may not want to focus in on," added Kreikemeier.

A4 is another area where Capital is enjoying success despite the lower margins associated with the technology. The way Kreikemeier sees it, if Capital doesn't sell it, someone else will, so it's a way to protect the company's accounts. Plus, he said, there's a great aftermarket.

All of this goes back to that wide-angle lens Lynch referenced earlier.

"Mixed fleets, that's the answer," said Kreikemeier. "Let's go in and get all the output from all the devices, not just the printers and the A4. Let's get the scanners, the wide format. Let's do everything for the customer we can."

The Next Stage

The Capital team has a clear vision regarding what business segments are poised for growth and how that will impact its expansion. For example, according to Capital's team, there's a realistic opportunity to provide 60% of the company's customer base with more products, solutions, and services offerings, much as it does with the other 40% of its customers. Those additional offerings will likely include MNS.

Davis eventually sees the MFP side of the business emulating the MNS side in that Capital will continue to expand its remote support

and use of remediation tools, as well as provide true preventive maintenance for its Canon, Ricoh, and HP technology.

"Those kind of products for a rural dealer like us are so important," observed Kreikemeier. "If you have to drive 50 or 75 miles and can see that device on your smartphone before you start the car, what a tremendous asset. That's going to lead to better management of fleets as well."

Capital still sees value in the MFP even as print volumes trend downward. That confidence comes from the way manufacturers are expanding the MFP's capabilities, which places the office technology dealer with all its products and services in a superior position.

"I'm not sure who controls the MFP might not control all of the computing," predicted Kreikemeier. "We have some of the more expensive, more powerful devices in some of these small offices, especially when you start moving things into the cloud. Then, you just need somebody to manage that infrastructure, and we are set perfectly to manage that infrastructure."

He also sees security gaining in importance as all activities on a device are tracked anytime anything happens on that device. He also expects to see more integration from MFPs into online storage systems, backup systems, and monitoring systems.

Whatever the trend, whatever the product, whatever the opportunity, Capital Business Systems plans to stay at the head of the curve. And with its strong service infrastructure and a visionary team driving the business, customers have a clear, compelling value proposition that should keep them in Capital's corner.

Questions About This Story?

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