

TOP 10 PREDICTIONS

Top 10 Predictions for the Hardcopy Market

Keith Kmetz
Mitri Roufka
Jake G. Wang

Riley McNulty
Sue Lyon

PREDICTIONS

IDC's hardcopy predictions for 2007 address both expected product and go-to-market trends. The predictions include:

1. Inkjet Will Gradually Begin to Turn the Tables on Laser for Opportunities in Higher-End Segments
2. There's Room for Inkjet and Laser to Co-Exist in the Market
3. The Consumer Inkjet Market Will Continue to Show Less-Than-Expected Results
4. Greater Color Adoption in the Office Will Depend on How Quickly Vendors Adjust Their Pricing Model
5. MFPs Will Come Closer to Being the "Hub of All Document Activity" Enabled By a Growing Number of Software Solutions
6. The Document Solutions Strategy Will Hinge on a Value Add Positioning for Hardware, Rather Than Generating Revenue on Their Own
7. Hardware Will Remain the Primary Focus for Opportunities in Developing Countries
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In this study, IDC predicts the major product and go-to-market trends anticipated for 2007 through the beginning of 2008.

SITUATION OVERVIEW

While the hardcopy market is well-established with long-time industry participants and technologies, the wave of change makes it essential for vendors to recognize and capitalize on market shifts.

IDC's hardcopy predictions are designed to help vendors realize the expected changes and plan their strategy for success in this market. The major themes around this year's predictions revolve around...

- ☒ An intensifying battle between ink and laser technologies
- ☒ Traditional growth opportunities in color and the MFP market continue
- ☒ The emerging value-add role for document solutions software and services
- ☒ An increase of hardware and services product offerings slated for specific customer targets
- ☒ The changing attach rate relationship between PCs and printing devices
- ☒ The need for vendors and resellers to examine and adjust their existing business model to gain market success
- ☒ Ongoing market consolidation with more merger and acquisition activity to come

FUTURE OUTLOOK

IDC's hardcopy predictions are described in more detail in this section.

Inkjet Will Gradually Begin to Turn the Tables on Laser for Opportunities in Higher-End Segments

Over the past several years, inkjet devices have been positioned with "giveaway prices" to distance this technology away from laser-based products. However, with low-end monochrome and color laser printers and MFPs priced more aggressively, inkjet's future has been threatened with little remaining price flexibility to maintain a comfortable price differential.

Another troublesome market development for low-priced inkjet printers and MFPs is that the consumer market, where many of these products are used, provide little aftermarket opportunities. Consumers typically do not print in large volumes (e.g., 100-150 pages per month) and virtually none of these machines are covered under a

lucrative services contract. As a result, the future opportunity for ink, if maintained as only a consumer printing technology, would be bleak.

However, upcoming ink-based introductions are slated to move into traditionally laser-dominated market segments. Soon-to-be-announced HP EdgeLine as well as other page-based ink products are expected to be available later in 2007 for office workgroup use. While ink will need to overcome some significant user objections to gain acceptance versus an evident laser bias (e.g., speed, quality, duty cycle, cost per page, etc.), IDC anticipates that ink will transition some traditional laser-based customers to the new technology. IDC believes the transition will be very gradual as early converts are attracted to the cost benefits promised by the new ink technology.

In 2007, this new ink technology, particularly with HP's market blessing, is expected to make its biggest impact in the office. However, IDC also believes that ink will also make greater inroads in the production market as well.

There's Room for Inkjet and Laser to Co-Exist in the Market

IDC sees that new ink technology and traditional color page technologies can co-exist in the market. Color is an expanding growth opportunity and IDC anticipates that there is room in the market for both technologies to flourish. The combined worldwide color page printer/MFP market is expected to grow from 3.92 million units in 2005 to nearly 8.9 million units in 2010. This represents a nearly 18% CAGR.

IDC believes that ink and laser technologies can co-exist with two distinct market positions – a low cost positioning for ink and a quality positioning for laser. With the color opportunity expanding significantly over the next few years, IDC sees the low cost positioning being attractive for customers who want to use color, but are most concerned about the costs of not only buying the equipment (versus black-and-white only devices), but also the costs of generating color output (typically multiple times higher than black-and-white only output). On the other hand, the quality positioning may be more appropriate for customers whose highest priority is achieving the best output available with less cost concerns.

As ink makes its presence known in the 2007 workgroup/departmental market, it will be crucial for vendors with both technologies to clearly define the positioning for each to their customer base. If the markets are successfully defined by market providers, IDC believes that there could be a more significant impact on the traditional black-and-white market opportunity. This is not to say that the black-and-white opportunity will be eliminated anytime soon. However, further segmentation and greater color product offerings would pose a stronger competitive threat to the black-and-white only market.

The Consumer Inkjet Market Will Continue to Show Less-Than-Expected Results

As stated above, the consumer printing market has proven to show little aftermarket potential for pages or services. A variety of factors such as the disposable printer business model, non-profitable PC bundling strategies and increasing competition from <\$100 monochrome laser devices and even <\$300 multipass color laser products have squashed efforts for low-cost inkjet to thrive. Additionally, photo

printing, once thought to be the savior of the home-based inkjet device, has not taken root as a significant page volume generator for these devices. Instead, consumers have turned to alternative options (e.g., kiosks, retail outlets, Internet) to print these images or have decided not to print them at all by sharing them via email or other viewing technologies.

Nevertheless, the 2007 consumer inkjet will continue to see high volume shipment activity, far outpacing laser-based products. However, IDC does not anticipate high growth in the category. Growth opportunities for ink appear to be strongest in other higher-end or niche segments (e.g., office, production, large format).

Greater Color Adoption in the Office Will Depend on How Quickly Vendors Adjust Their Pricing Model

Color has always held a minority status in the office versus black-and-white only machines. IDC's latest WW figures show that a comparison of black-and-white and color page technologies indicate that color was only 13% of the 2005 market and estimated to be 20% of the 2010 market.

The primary obstacle limiting color adoption has always revolved around costs. However, over the past several years, the fear of color costs has shifted from the hardware cost to a growing apprehension around the color cost per page. Recognizing that the color cost per page can be up to ten times greater than the black-and-white page, the use of widespread color usage has been understandably limited. Although hardcopy vendors are spending most of their current/future R&D investments in color, IDC feels that if the current pricing model for color hardware and related aftermarket costs are maintained, the market will remain in minority status now and into the future.

In 2007, IDC believes that vendors will make an attempt to change the color business model and remove the fear around color cost per page. In the low-end inkjet market, this has already happened with the recent Kodak announcement. Kodak has substantially reduced the cost of consumables for both black and color to eliminate the stigma of a high cost per page from their devices.

IDC expects others to employ similar cost per page models in the workgroup/departmental inkjet and laser markets. Since IDC's research has uncovered the primary obstacle revolves around cost per page, and not hardware cost, IDC anticipates that vendors may use pricing models that significantly reduce color cost per page, while maintaining or even increasing the hardware cost. This mentality of moving the cost model from a "box" focus to a "consumables" focus should find appeal, particularly with high volume users.

IDC believes that buyers have become more savvy and understand that, over the life of the hardcopy device, the aftermarket costs have a much greater impact on total costs than the initial purchase price. As an example, Xerox, at a recent partner event, highlighted that over the life of a printing device, only 29% of the total costs are spent on the hardware acquisition cost. The remaining 71% is spent on service and supplies. This percentage mix, overwhelmingly in favor of service and supplies, points to how critical it is for hardcopy vendors to address total costs over the life of a product, particularly a color-capable machine.

MFPs Will Come Closer to Being the "Hub of All Document Activity" Enabled By a Growing Number of Software Solutions

Several years ago, IDC coined the term "hub of all document activity" to describe the next phase in the hardcopy market evolution. The first phase was a single function box, followed by the second phase of multifunctionality. However, even in the second multifunction phase, much of the emphasis was on increasing total page volume with both copy and print functions at the expense of other competitors. This focus on output alone cannot bring success in today's market.

In 2007, IDC expects further evolution in the role of hardcopy devices, especially for MFPs. The "hub of all document activity" includes output (copy and print); input (primarily scanning) as well as the management/distribution of information (software). The current push is for hardcopy vendors to ally themselves with several ISVs to build added value for their MFPs.

The Document Solutions Strategy Will Hinge on a Value Add Positioning for Hardware, Rather Than Generating Revenue on Their Own

Document solutions can accomplish three business building objectives for hardcopy vendors.

1. Provide a value-added differentiator for the vendor versus competitors
2. Offer an opportunity to build page volume potential for hardcopy devices integrated with the solution
3. Generate revenue on their own via the sale of the application with the hardware.

Since the document solutions opportunity is still in its growth phase, hardcopy vendors should seek value-added, differentiation opportunities for its hardware by integrating the solution with its MFP platform in 2007. Secondly, these solutions could offer the additional benefit of increasing page volume opportunities as a means to drive incremental revenue. The good news is that IDC predicts that page volume growth will continue over the next few years, although its growth will be relatively small during these years.

IDC does not see that hardcopy vendors nor its channel partners will drive significant revenue on software sales, at least in 2007. Most hardcopy vendors will continue to see themselves as hardware market competitors, rather than a player in the software business.

Hardware Will Remain the Primary Focus for Opportunities in Developing Countries

While the document solutions strategy continues to build in developed countries/regions such as the US and Western Europe, IDC sees hardcopy hardware as the driving force for growth in developing countries. BRIC (e.g., Brazil, Russia, India and China) and similarly developing countries in Asia/Pacific will remain very hardware-focused for the immediate future.

The PC-to-Printer Attach Rate Will Increase

A number of factors are driving this prediction for 2007.

- ☒ **More laptops.** Laptops obviously give credence to an increasingly mobile computing workforce. However, the mobile printing opportunity proved to be disappointing; thus, the printing device does not necessarily move with the mobile computing or handheld device. As a result, the increasing number of mobile devices has not necessarily lead to the need for more mobile printing devices.

- ☒ **Enterprise initiative to consolidate hardcopy devices.** Many hardcopy customers are slowly realizing that an abundance of company costs are generated from hardcopy. Ironically, this message is coming from hardcopy vendors who are telling customers, essentially, that they have too many devices and could maintain productivity, but lower costs with fewer machines. This has spawned...
 1. An increased penetration of connected, higher volume MFPs, reducing the need for the same amount of single function printers.
 2. Efforts on the part of IT departments to control print costs through consolidation on the number of devices in total and the consolidation of brands purchased.
 3. Increased adoption of managed print services, that inherently drive more optimized workgroup print environments, which in turn increases the PC to printer ratio.
 4. Secondly, efforts to implement policies designed to reduce the amount of personal use devices. However, these policies are difficult to enforce, and as a result, have a more limited impact on overall device consolidation.

Good News for Customers...Increased Competition for Hardcopy Hardware and Document Solutions Shares Will Provide a Wider Range of Product and Program Choices

In 2007, customers will have more product and program choices from their suppliers. IDC sees this evolution taking place in a number of market opportunities. Some examples include:

- ☒ **More color choices.** Inkjet and laser will more closely compete for customer acceptance. In addition, IDC anticipates that vendors will offer a variety of pricing plans based on requirements. This may include paying more upfront for high volume users, but with reduced consumables costs versus paying less upfront, but maintaining current consumable pricing structures.

- ☒ **More financing options.** Most hardcopy vendors/resellers operated on a transactional (printer focused) or contractual (copier focused) basis. IDC believes that a blurring of the two will continue in 2007, resulting in the availability of increased financing options for customers. That is, traditional printer vendors/resellers will offer more contractual programs than before, while

traditional copier vendors/resellers will provide more transactional engagements than previously offered.

- ☒ **More targeted cost per page programs.** Rather than a "one size fits all" approach to cost per page programs, IDC expects a finer collection of offerings slated for the differing needs of SMB versus the enterprise.
- ☒ **More device configurations.** Last year, A4 MFP configurations emerged as an alternative to more expensive A3 MFP configurations. IDC believes this product shift will continue in 2007 as customers realize that A3 support is not required on as many devices as currently used.
- ☒ **Targeted marketing by industry.** Vertical markets will remain a focus for hardcopy vendors in 2007. In particular, IDC's latest color research noted strong interest for color by the banking, retail/wholesale and real estate industries.

Mergers and Acquisitions Will Continue

This prediction is a virtual lock for this year. Hardcopy vendors are expected and have already initiated their intent to make channel acquisitions to gain more control over its distribution. Also, not going too far out on a limb, IDC anticipates further market consolidation during 2007. In addition to the already announced Ricoh/IBM acquisition, IDC believes that there will be at least one other major merger/acquisition between hardcopy vendors during the course of the year.

ESSENTIAL GUIDANCE

As a result of this expected activity, IDC makes the following recommendations.

- ☒ **The inkjet opportunity is the workgroup/departmental segment looks promising.** IDC also expects HP EdgeLine and other ink technologies to be available for higher-end target markets in 2007. While IDC does not anticipate widespread replacement of traditional laser-based systems with these ink alternatives, their market presence gives vendors more choices for positioning the two technologies within this growth market. Additionally, it gives customers more choices when considering color capable devices.
- ☒ **The consumer opportunity needs other printing possibilities in order to generate excitement.** Photo printing did not provide the latest "killer app" to drive more consumer printing. Perhaps the future growth of this market requires sources beyond the PC (e.g., digital TV or cell phone).
- ☒ **A color business model adjustment is needed.** Many hardcopy vendors have complained to IDC that increased color output is not occurring at the expected rate. IDC expects a renewed focus on generating demand for not only color-capable devices, but also on getting more color usage out of these devices. This may mean an examination of the hardware cost versus color cost per page relationship.

- ☒ **The HP/Canon relationship will be very interesting to watch.** HP and Canon have experienced a very close relationship in one technology sector (laser), while aggressively competing against each other in another market (inkjet). Up until now, the two technologies have not overlapped extensively in their core market targets – laser for business markets and ink for consumer markets. What happens to the relationship when HP's inkjet moves aggressively into the office market to rival laser remains to be seen. IDC believes that HP will continue to sell lots of LaserJet devices, built with Canon technology, in 2007 and beyond. However, the presence of HP's EdgeLine as a possible displacement for laser technology may test the relationship at a higher level than ever.
- ☒ **Solutions are needed in some regions, while hardware remains king in other regions.** Vendors in developed regions such as the US and Western Europe are turning to solutions as a value-add differentiator to compete in the market. However, there are still many hardware opportunities available in lesser developed countries.
- ☒ **More specific customer-targeted marketing lends to greater market success, but there is a cost.** The competitive landscape is rapidly moving away from a "one size fits all" mentality. Hardcopy vendors are putting together various product, channel and marketing strategies to reach SMB, enterprise, verticals, and worldwide opportunities. However, few vendors have the capacity to effectively reach them all. Budget limits require vendors to choose the best opportunities that lend the greatest payback with the lowest expenditures. Hardcopy vendors would be wise to explore which markets represent the "low hanging fruit" as well as other growth markets that may require additional effort to reach.

LEARN MORE

Related Research

- ☒ *Worldwide Copier 2006-2010 Forecast and Analysis*, IDC #204911, December 2006
- ☒ *Worldwide Printer 2006-2010 Forecast and Analysis*, IDC #203992, November 2006
- ☒ *Worldwide Multifunction Peripheral 2006-2010 Forecast and Analysis*, IDC #204136, November 2006
- ☒ *HP Enterprise Imaging and Printing Analyst/Press Conference: Major Enterprise Initiative/Investments Include New Edgeline Technology*, IDC #203950, October 2006
- ☒ *US Color Laser Printer and MFP 2006-2010 Forecast and Analysis by Format Size and Engine Type*, IDC #204729, December 2006
- ☒ *MFP Architecture 2006 Vendor Profiles: Something's Cookin' in the Box*, IDC #203785, October 2006

Synopsis

This study presents market view predictions from IDC's hardcopy analysts for the next 12-18 months. The predictions highlight both product developments and vendors' go-to-market strategies.

The major themes around this year's predictions revolve around...

- ☒ An intensifying battle between ink and laser technologies
- ☒ Traditional growth opportunities in color and the MFP market
- ☒ The emerging value-add role for document solutions software and services
- ☒ An increase of hardware and services product offerings slated for specific customer targets
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- ☒ The need for vendors and resellers to examine and adjust their existing business model to gain market success
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