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ANALYSIS

MARKET INSIGHTS

Managed Services

OCTOBER 2020

Executive Summary

It is no surprise that 2020 has turned out to be a tough year for office equipment manufacturers and their hardware-focused dealer partners. The COVID-19 pandemic saw sales of traditional A3 devices plummet, and while A4 sales surged as employees switched from working in the office to home, the bulk of those sales were captured by online sellers and not brick-and-mortar OE resellers. Combine that with the hit taken for managed print services (MPS) contracts pegged to page volume, and the result was a disastrous few quarters for the industry. The one bright spot—at least for OEMs and resellers that have lessened their dependency on hardware sales—has been managed services as companies scrambled to put IT and workflow systems in place to support the "new normal".

For this study, Keypoint Intelligence analysts focused on the managed services that are typical adjuncts to offerings from document imaging OEMs and resellers (i.e., MPS, business process services, and managed IT services). All are designed to help customers improve their technology infrastructures, reduce costs, and increase productivity so that knowledge workers can focus on the tasks that matter most. In surveying the leading OEM providers in these markets, our study confirmed that office equipment manufacturers are still most adept at providing MPS directly and/or crafting MPS programs to be delivered by their partner resellers. That said, MPS has evolved beyond its simple "pay-per-page" roots with capabilities such as advanced analytics, cloud-based tools, and per-user (or per-device) pricing models.

When it comes to business process services (an evolution of what was originally called managed document services) and managed IT services, the participants demonstrated a similar overall strength in their offerings. This came somewhat as a surprise, as business process services have been provided by these OEMs for longer. This may partly reflect greater differentiation between MPS and managed IT versus MPS and business process services.

In addition, migration of business processes, critical applications, and even IT infrastructure to the cloud was already accelerating before the pandemic, and it has only become more imperative as companies look to make data and workflows accessible to all employees—no matter where they work from. The leading participants in this study, including Ricoh USA, have been investing in cloud-based solutions for traditional print management applications for some time, and have turned their attention to broader business process that can be delivered with little to no on-premises infrastructure.

Key Findings

- Customers are seeking a wider range of managed services than those focused on print, including engagements centered on streamlining business processes, digitizing document workflows, moving key applications to the cloud, and outsourcing IT-infrastructure management.
- Other managed services opportunities reside in serving small businesses, provisioning and managing IT infrastructure (including print) for home-based employees, and focusing on key vertical markets.
- The winners in this study demonstrated a strong understanding of technology trends, including cloud services adoption, security and compliance, as well as document digitization—making these key components of their managed services offerings.
- OEMs that stood out also generally had "packaged" services (and accompanying training and support programs) suitable for selling via their indirect dealer channels.

Recommendations

- OEMs and their channel partners need to find new ways to extend managed print services to home-based workers, who will in many cases be working from home as the new normal.
- It is important for manufacturers to strengthen their business process and managed IT services capabilities so they can better help customers outside of the print arena.
- OEMs and their dealers need to have cloud-based storage, collaboration, workflow, print and document management, as well as desktop-as-a-service offerings in their portfolios to meet customers where they are now—and where they are headed.

Introduction

Managed services comprises a vast market—an estimated $200 billion in sales globally in 2019—that includes a number of offerings: managed IT infrastructure, managed security services, managed business processes and workflow (aka managed document services), managed communications services, managed mobility services, managed print services, and cloud services. This *Market Insight* analysis focuses on the offering of key providers in three areas that most document imaging vendors have expanded into: managed print services, managed IT services, and business process services. The analysis will discuss key trends in these managed services areas as well as the performance of one leading study participant—Ricoh USA.

Overview of Managed Services Sub-Segments

Managed print services (MPS) are generally services whereby a provider takes responsibility for a client's print infrastructure. A carefully crafted MPS program is still a bread-and-butter offering for office equipment manufacturers and their partner resellers. Onboarding an MPS account converts a "transactional" customer into a relational one, which opens the door for ongoing sales in all areas a vendor offers. Keypoint Intelligence divides this market into three primary subsegments: supplies break/fix engagements, basic MPS engagements, and advanced MPS engagements. While supplies break/fix engagements strive to move customers away from a transactional purchase to a managed contract purchase, basic MPS is focused on optimizing the devices under a contract. Advanced MPS places an additional emphasis on improving business processes under the contract.

Figure 1: Overview of the Three MPS Segments

Supplies Break/Fix Engagements	Basic MPS Engagements	Advanced MPS Engagements
• **Supplies Break/Fix Services:** Managed print services that are mostly driven with a supplies contract. These services may include break/fix services as an option or include them as part of the contract. • **Concept:** Move customers away from transactional purchase to a managed contract purchase.	• **Print Management Services:** Managed print services that are driven with a total print management approach. This includes supplies, hardware, and break/fix services. These services include continuous optimization of the output environment. • **Concept:** Manage and optimize the entire fleet of output devices under contract.	• **Workflow/Managed Document/Security Services:** Managed print services that are driven with a managed services approach and includes advanced solutions, such as workflow, document management, or security services as part of the MPS engagement. This includes supplies, hardware, break/fix services, and solutions. • **Concept:** Manage and optimize the entire fleet of output devices and improve business processes under contract.

As shown in the graphic above, managed document services are part of advanced MPS engagements. Managed document services (MDS) are services related to document-centric processes and workflows that extend beyond the realm of print. As such, they are sometimes categorized separately from MPS; this is the approach we took for this study. To maximize productivity, businesses need a way to effectively store, find, share, and manage the information that is too often trapped in silos spread throughout the organization. A natural follow-on to managed document services, *business process services* (the umbrella term we have used in this study) take into account the entire ecosystem of content, people, workflows, and endpoints with the goal of streamlining how each interacts with the structured and unstructured data critical to business success.

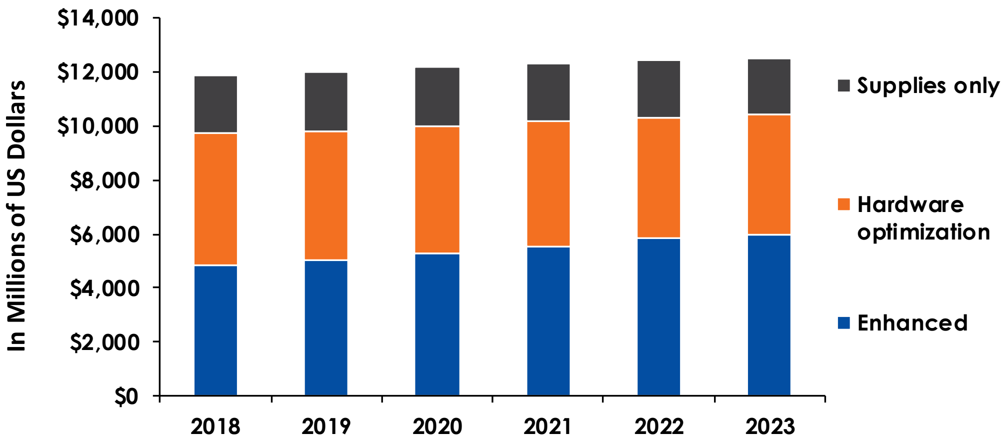
Managed IT services, meanwhile, are services whereby a provider takes over responsibility of parts of (or the entire) IT infrastructure for customers. The ideal aid to robust managed print and managed document services are managed IT services (MITS)—especially for document imaging vendors looking to diversify. The need for IT services is booming as organizations look to outsource day-to-day IT chores so in-house personnel can focus on higher-value, longer-range strategic projects.

Key Trends in Managed Services

Advanced MPS Has the Most Opportunity

Our annual forecast of the size and projected growth of the MPS market puts managed print on a continuum, with today's MDS and business process services falling into what we call "advanced MPS." In the United States, advanced MPS engagements have overtaken supplies break/fix engagements as the top MPS segments by revenue. Looking ahead, only advanced MPS engagements are expected to grow in value in coming years. This is driven by customers' interest in a wider range of services that address the larger document and business process environment—including those focused on workflow, document management, and security.

Figure 2: US Forecast by Segment ($Millions)



MPS segment	2018	2019	2020	2021	2022	2023	CAGR
Supplies only	$2,164	$2,172	$2,176	$2,161	$2,141	$2,117	**-0.4%**
Basic	$4,888	$4,792	$4,700	$4,602	$4,475	$4,460	**-1.8%**
Advanced	$4,831	$5,040	$5,312	$5,559	$5,834	$5,949	**4.3%**
Total	**$11,884**	**$12,003**	**$12,187**	**$12,322**	**$12,451**	**12,527**	**1.1%**

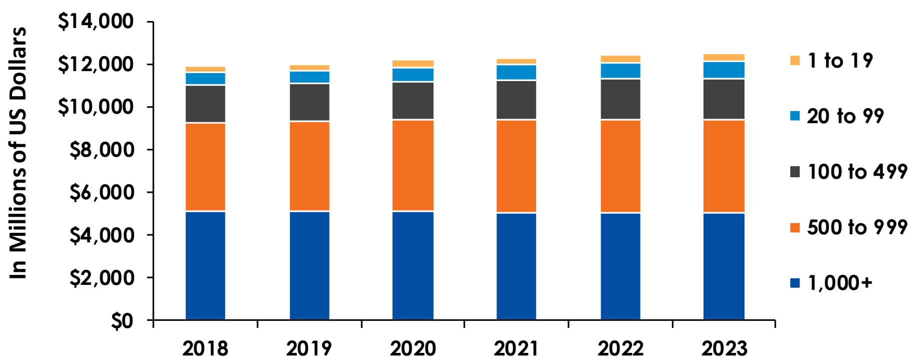
Source: Keypoint Intelligence market sizing and forecasting, 2019

While supplies (42%) and hardware (28%) generate the most revenue within MPS agreements, it is solutions and maintenance that are expected to see the most growth going forward. According to our estimates, these categories will see revenue grow at a 4.2% and 2.9% CAGR through 2023, respectively, compared to a CAGR of 0.1% for supplies *and* hardware. Services, meanwhile, are expected to see revenue grow at a 2.2% CAGR during the forecast period. The higher growth anticipated for solutions aligns with the higher growth predicted for advanced MPS agreements, which makes sense as they include an advanced solutions component.

Most MPS Revenue Growth Predicted for Small Businesses

While businesses with 500 and more employees account for the overwhelming majority of MPS revenue, it is organizations with 20+ employees that are expected to represent the biggest revenue growth opportunity in the years ahead. This is driven by relatively low adoption rates in these segments and new MPS offerings tailored to the needs and budgets of small companies. Of course, small businesses can also take advantage of subscriptions that just include supplies (for example, HP's Instant Ink program that will be expanding to include toner for laser-based models in fall 2020), or devices and supplies. Nevertheless, the servicing capabilities, fleet optimization, and solutions consulting that are integral to advanced MPS set it apart from these more basic offerings.

Figure 3: US Forecast by Company Size ($Millions)

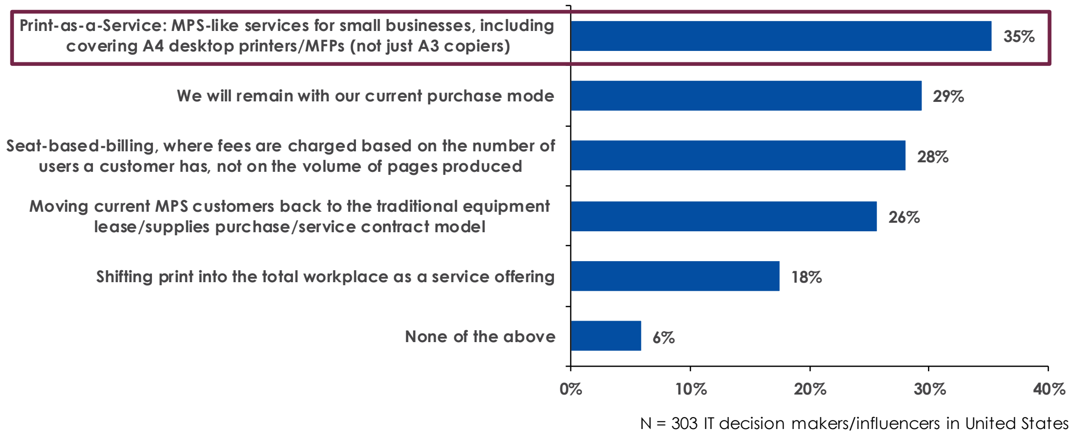


Number of Employees	2018	2019	2020	2021	2022	2023	CAGR
1 to 19	$284	$292	$315	$338	$365	$374	5.6%
20 to 99	$580	$625	$673	$728	$785	$830	7.5%
100 to 499	$1,742	$1,787	$1,827	$1,868	$1,907	$1,945	2.2%
500 to 999	$4,170	$4,216	$4,271	$4,313	$4,335	$4,352	0.9%
1,000+	$5,107	$5,084	$5,101	$5,075	$5,057	$5,025	-0.3%
Total	$11,884	$12,003	$12,187	$12,322	$12,451	$12,527	1.1%

Source: Keypoint Intelligence market sizing and forecasting, 2019

Our survey data reinforces the small business opportunity for MPS. When asked which trend they are likely to embrace for their print environment in the coming two years, organizations were most likely to say MPS-like services for small businesses—including covering A4 desktop printers/MFPs (not just A3 devices).

Figure 4: Which of the following trends are you likely to embrace for your print environment in the coming 2 years? Please select up to two.



Source: Printing Trends in Enterprise, Keypoint Intelligence (2019)

Our *2019 Printing Trends* study also revealed that inkjet devices are currently not a typical part of an MPS program. When asked how their print devices are purchased, organizations were the least like to acquire inkjet technology as part of an MPS contract. This is certainly something for managed services vendors to keep in mind when assessing clients' document environments for potential deployments—especially as companies move to a hybrid office/work-from-home model.

Table 1: How Are Your Print Devices Purchased?

Response Options	Device Type		
	A3 Laser	A4 Laser	Inkjet
Usually part of a cost per page or "click" contract (based on print volume)	30%	29%	19%
Usually part of an MPS (managed print services) contract	30%	30%	21%
We buy devices outright and service & supplies as required (no contract)	29%	30%	37%
We buy devices outright and have a contract for service (or supplies)	11%	10%	22%

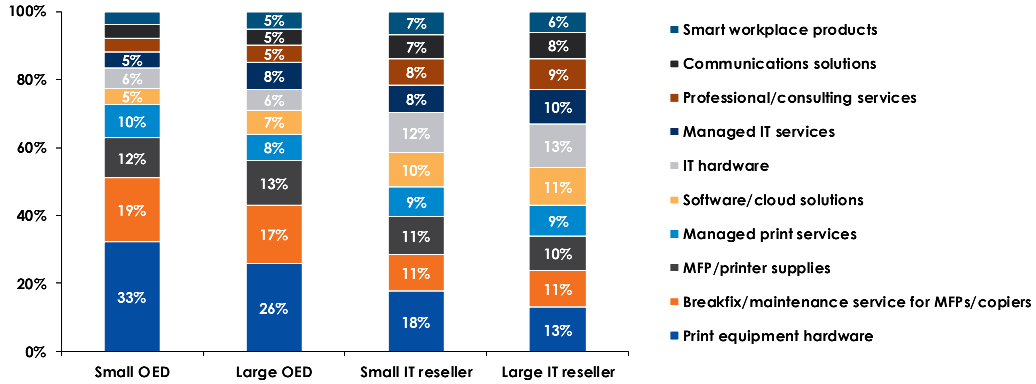
Source: Printing Trends in Enterprise, Keypoint Intelligence (2019)

OEMs & OEDs Account for the Most MPS Revenue

Keypoint Intelligence's estimates show that original equipment manufacturers (OEMs) as well as office equipment dealers (OEDs) continue to account for the largest shares of MPS revenue, though the gap between OEMs and OEDs is narrowing. In 2018, OEMs and OEDs accounted for 44% and 40% of MPS revenue, respectively. These numbers are expected to be 43% and 42% in 2023, with the overall market 5% bigger compared to 2018. Other vendors selling MPS include professional services/facilities management firms (which account for about 10% of MPS revenue), IT resellers (about 5% revenue share), and supplies resellers (account for just 0.02% of market).

That said, for document imaging OEMs and office-equipment channel players, managed services continue to represent a relatively small fraction of their overall revenue. For instance, independent office equipment dealers and IT resellers derive about 9% of their overall revenue from MPS. When it comes to another type of managed IT, they generate anywhere from 5%-10% of their revenue from this offering (depending on their channel type and size). That said, these shares have the potential to grow as the demand for managed services increases and more vendors begin to provide these offerings. For example, about one-third of independent office equipment vendors do not currently sell managed services, but are planning to do so.

Figure 5: Approximately what percentage of your organization's annual revenue is derived from the following product categories?



Source: US Independent (Non-OEM) Channels Survey (Keypoint Intelligence, 2019)

Vendor Evaluation Methodology

For our managed services evaluation, we invited all leading document imaging OEMs to complete an exhaustive questionnaire detailing their relevant offerings and visions in three key areas: managed print services, managed document services/business process services, and managed IT services. Some of the sub-categories addressed by the questions are shown below.

- **Managed Print Services:** We evaluated participants on their MPS vision, target market and/or company size, differentiators, channel offering, platform tools, printer brand support, remote management capabilities, remote work support, SLA uptime and response time, pricing model, as well as policies for supplies brands.
- **Managed Document Services/Business Process Services:** This category assesses vendors' MDS/business process services vision, target market and/or company size, sub-offerings, differentiators, channel offering, as well as remote work support.
- **Managed IT Services:** Within the area of managed IT services, we evaluated participants' managed IT vision, target market and/or company size, sub-offerings, channels for each sub-offering, differentiators, as well as remote work support.

OEMs that opted to participate were also asked to make key personnel available for in-depth interviews with our analyst team to give a more complete picture of the vendors' strategies for the managed print, business process, and managed IT services markets. The following profile discusses Ricoh USA's performance in these different areas.

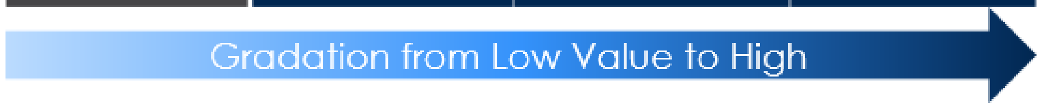
Ricoh USA Profile

Overview

Ricoh offers a robust array of managed print, business process, and IT services. The company recently introduced RICOH Managed Print as a Service that groups management capabilities into "physical print services" (that is, anything that might require on-site personnel) and "digital print services" (traditional remote print and device management capabilities, destination scan/route services, and digital device management). As for business process services, Ricoh's new Intelligent Business Platform is an ecosystem of services that converts data into "highly valuable" insights, workflows, and documents. Complete managed IT services, meanwhile, are possible through the company's IT services division (formerly called mindSHIFT).

Figure 6: Ricoh USA Managed Services Scoring

	Managed Print Services	Business Process Services	Managed IT Services
Ricoh			



Strengths

Ricoh shined in each area of evaluation; while it does not necessarily show in the above graphic, the company excelled most in the area of business process services. A pioneer in managed document services, with a proven track record in this area as well as vertical-specific workflow solutions, Ricoh has been leading the evolution to business process services for years as part of its digital services strategy.

With its Intelligent Business Platform, Ricoh provides a holistic approach to business process services. This evolving library of services focuses on workflow and process automation, document digitization, and intelligent capture. Ricoh constantly refines these service offerings and creates new ones. Since IBP is cloud-based, customers get instant access to these enhanced or new services as they are available—no need to constantly install or update software. The company's Intelligent Business Platform ecosystem rolls up all of Ricoh's disparate content services and business process services solutions into a single, modular offering with attractive "as-a-service" billing to make it easier for clients to achieve their digital transformation goals. Moreover, the company has invested in a Digital Process Automation Center of Excellence (DPA CoE) team that will consult with clients on their workflows and create a design that automates and optimizes business processes.

Ricoh also has strong adjacent offerings in managed print and managed IT services that make it a one-stop-shop for a range of solutions. The as-a-service nature of these offerings lets users easily add or drop services as needs evolve; standardized delivery and pricing options enable quick and transparent implementation of new services. Notably, Ricoh supports home-based workers with a "Work from Home" option (a printer and Cisco Meraki secure VPN endpoint is shipped to the employee's home), and prints created on a home-based printer can be accounted for and fed into the MPS system via a PC client applet. IT capabilities include more than 700 customer-facing support personnel and engineers, more than 200 certifications, and a national footprint that helps Ricoh differentiate itself from other print manufacturers as well as regional managed services providers.

Challenges

As shown in the graphic above, Ricoh received excellent scores for all areas assessed. We believe they could stand out even more with managed IT and business process services offerings packaged so that channel partners can more easily approach their SMB customers with tailored offerings.

Opinion

opinion

Managed services enable organizations to outsource aspects of their technology infrastructures so they can ensure their proper operation, save money, and attend to the tasks that are most important—helping them move their companies forward and potentially make more money. Understanding the demand for managed services (as well as the benefit they provide in account stickiness), the major office print OEMs have bolstered their offerings in the areas of managed print, business process, and managed IT services. In many cases, their capabilities capitalize on wider IT and corporate trends—including cloud services adoption, security and compliance, as well as document digitization. OEMs like Ricoh USA have demonstrated that they have customer needs in mind, designing their managed services programs to align to ever-changing market requirements. Competing manufacturers would be wise to examine their offerings as well as develop new ways they can support organizations with their business process, IT, and remote work needs.

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Comments or Questions?