



FINANCIAL REVIEW

Date: Tuesday, 13 July 2004
Page Number: 49
Edition: First
Supplement: Main

Market: National
Circulation: ABC 93,450
Published: Monday to Saturday
Editorial: [email the editor](mailto:email_the_editor)
Item No: P3143046

Size: 269.02 sq. cm.

Niche player's inkling paid off

The computer giants dominate the market, but one small player still found room to thrive, as **Brad Hatch** reports.

Powerhouses like Hewlett-Packard and Lexmark dominate the lucrative printer consumables market, but there is still room for smaller players to forge a niche.

One franchise that has found such a niche, Cartridge World, allows consumers to refill ink and toner cartridges, as an alternative to buying a whole new cartridge.

The cost of buying new cartridges can be a more important consideration than the initial cost of buying the printer.

The Adelaide-founded franchise network says the cost of refilling cartridges at its stores is about half the cost of buying new ones.

Founder and director Bryan Stokes started refilling used ink cartridges 16 years ago in his backyard shed.

Cartridge World's debut on the franchising scene came in 1997, when he teamed up with ex-banker and business adviser Paul Wheeler to take the concept global.

The company has sold franchises for close to 800 stores worldwide, up from 370 last year.

"This growth has been driven by an expansion into Europe and the United States. We anticipate having 175 stores open in the US by the end of this year," Stokes says.

According to print industry research firm CAP Ventures, spending in US retail stores on toner and ink cartridges is forecast to jump 43 per cent by 2007 to \$US26.3 billion (\$36.4 billion).

Cartridge World had a turnover of about \$190 million last year and is

expecting close to \$300 million this year.

A typical "turn-key" store can cost more than \$100,000 up-front.

This includes a 20-year \$25,000 licence fee and \$15,000 worth of training for two people, Stokes says.

"But nearly 80 per cent of the possible territory in Australia is already saturated," he says.

"The remainder is located in Sydney and Melbourne metro areas, which command more extreme rents."

Of the 177 stores now operating in Australia, it is understood the top franchisees can earn up to \$100,000 a month in revenue, and take a 30 per cent net profit.

Franchisees need to pay 3 per cent of gross sales in royalties.

"While these figures seem impressive, potential franchisees need to consider their borrowing arrangements and also what tax structure they use," says Deloitte Growth Solutions partner Paula Capaldo.

"Having a large number of stores doesn't always translate into success.

"One of the traps franchisors can easily fall into is selling stores for the sake of growth — which often means a quick return instead of a long-term sustainable income stream, increased market share, and brand awareness."

Stokes says: "Some of our earlier franchisees didn't understand our growth process properly and had unrealistic expectations about having national markets and large advertising budgets."

Stephen Giles, partner at national law firm Deacons, says Cartridge

World is still in its infancy.

"But it goes to show that you can be successful in the international marketplace without a massive advertising budget behind your expansion, as long as you have a strong niche offer," he says.

One of the major problems refillers need to overcome is the poor public perception of "remanufactured" cartridges.

"Lexmark's embedded chip technology is like throwing away your car's petrol tank when it runs out — it is environmentally irresponsible," Stokes says.

Printer manufacturers, which also make the consumables, are keen to protect the revenue from making those supplies, however, by using technology that prevents unauthorised refilling. "We are simply protecting our intellectual property," says Lexmark Australia spokesman Graham Kittle.

"There is a false sense of economy to think you are buying a toner cartridge at half the price," he says.

"The real cost is seen in the print yield. You typically get more pages per cartridge from original equipment manufacturer cartridges."

Stokes considers Cartridge World to be only scratching the surface of the ink and toner market and not a big concern to major players.

"About 80 per cent of cartridges are thrown away, only about 20 per cent are refilled," Stokes says.

Cartridge World expects to have more than 1000 stores worldwide by next year.

"Lexmark's embedded chip



FINANCIAL REVIEW

Date: Tuesday, 13 July 2004
Page Number: 49
Edition: First
Supplement: Main

Market: National
Circulation: ABC 93,450
Published: Monday to Saturday
Editorial: [email the editor](#)
Item No: P3143046

Size: 6.01 sq. cm.



**technology is like throwing
away your car's petrol
tank when it runs out."**