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Business Day

Ink Cartridge Hobby Becomes Franchise

By THOMAS HOLCOMB

Bryan Stokes, an Australian businessman, started refilling old computer printer cartridges in his garage in 1988. His hobby grew into a viable business, and by 1997, he and a partner had opened Cartridge World, an international franchise based in Adelaide, Australia, that now has more than 500 stores worldwide.

But upstarts like Cartridge World are still marginal in a printer ink industry dominated by powerhouses like Hewlett-Packard and Lexmark. Many are wrestling with quality control problems and the questionable public image of cheap ink deals, often pitched by junk e-mail messages. Some face legal challenges from big printer makers.

The printer business has often been compared to the razor blade business where a big share of revenues comes from selling the refills. Total revenues for Hewlett-Packard's imaging and printing business last year, for example, were "around \$22 billion, and of that, around \$12 billion were supplies and \$10 billion were printers," said Boris Elisman, the company's vice president for marketing and sales for imaging and printing supplies.

The printer makers are eager to fend off refillers that offer consumers a cheaper option. Cartridge World is confident that with nimble franchisees and good service, it can attract business from computer users tired of paying \$30 or more for a new ink cartridge. It says the concept of reusing cartridges appeals to environmentally conscious consumers. And the need for ink is only going to grow.

Cartridge World's first franchise store in the United States opened in Naples, Fla., last summer; 65 stores are now open or under construction in this country. The company's business is simple: it refills inkjet and toner cartridges (in most cases while the customer waits) for about half the price of new cartridges sold by printer makers. It also sells some brand-name and "remanufactured" cartridges that have been rebuilt and refilled by smaller companies.

"We're opening stores at the rate of a store a day worldwide," said

Burt Yarkin, chief executive of Cartridge World North America. "The biggest market right now is Australia where we have 175-plus stores. England has close to 200 stores but the biggest market in the world for us is going to be the United States. We anticipate having 150 stores open by the end of this year in the U.S."

The cartridge business is full of small sellers, some operating on the Internet and some selling to businesses by mail. But the big printer makers still hold more than 95 percent of the ink cartridge market.

At the same time, national retailers like Staples and Office Depot have begun to sell remanufactured cartridges, and printer makers have improved their rebate and return programs to lock in customers.



Kirk Condyles for The New York Times

Joe Palmeri works at Cartridge World, which refills printer cartridges, in Franklin Square, N.Y.

"Hardware is pretty flat in terms of revenue growth," Angele Boyd, a group vice president with IDC, a market research firm, said of the printer business. But the volume of pages printed, she noted, is growing and driving growth in the cartridge market.

The size of the United States retail market for ink cartridges alone, the NPD Group says, was \$4.15 billion in 2003, up from \$3.7 billion in 2002 with

almost 55 percent of the market held by Hewlett-Packard, and Lexmark, Epson and Canon sharing 41 percent.

"Frankly the refillers and remanufacturers generally have been hover-

A tiny upstart takes on giants like Hewlett-Packard.

ing in the same percent share of the market," Ms. Boyd said. "In spite of their lower prices, they don't seem to be gaining share the way that you'd expect them to." Part of the problem is a perception that refilled and remanufactured cartridges produce poor print quality. "The industry started out on a bad foot," said Jim Forrest, a senior analyst at Lyra Research. Printer makers, of course, eagerly point to surveys showing that many off-brand cartridges print fewer pages than brand-name cartridges and often produce lower quality photos. "There were a lot of what are called drill and fill operators going back about five, six, seven years ago," Mr. Forrest said. "They would take empties, drill a hole in them, put more toner in, seal it up and sell it as a remanufactured cartridge. Well, you've got to do more than that."

Since Cartridge World depends upon repeat business, it needs to maximize the life of the empty cartridges brought to it. "We're making a product to last five cycles," said Cliff Nonnenmacher, Cartridge World's franchise manager for New York and Connecticut. "If our product only lasts one cycle, that means I have to replace all the parts I just replaced on the first cycle." Cartridge World cleans, fills and services a variety of cartridge types.

Another problem for the refillers is keeping up with innovations in cartridge design while facing new legal challenges from printer makers. Lexmark filed a copyright infringement suit in 2002 against Static Control Components, a North Carolina company that makes components used in remanufactured cartridges. The suit also contended that Static

Control had violated the Digital Millennium Copyright Act.

Static Control's Smartek chip reproduced the digital code that some Lexmark printers required to recognize a cartridge as authorized. In February 2003, Lexmark won an injunction against Static Control Components, which appealed to the United States Court of Appeals for the Sixth Circuit. The parties are awaiting a ruling. In late February, Static Control released a new set of Smartek chips; Lexmark has since filed claims against Static Control Components and remanufacturers using the new chip, said Seth D. Greenstein, a lawyer for Static Control.

Another problem for cartridge refillers and remanufacturers is the poor impression some consumers have of discount deals on printer ink — the result of e-mail pitches for cheap cartridges, a tactic that Cartridge World does not use.

Cartridge World contends that good quality and low prices will help it win over small businesses as well as home users. "Because we build our business with bricks and mortar right on Main Street, the majority of them are obviously walk-ins," Mr. Nonnenmacher said of his customers. But he added that the company was also "going after corporations." Mr. Yarkin also sees growth through potential alliances with printer makers. One possibility is for printer makers to offer customers the option of taking empty cartridges to any nearby Cartridge World for refilling instead of sending empty cartridges back to the makers for recycling.

Frank J. Francia, a retired New York City police officer opened a Cartridge World store in January in Franklin Square on Long Island because he wanted to "get involved in something that was a brand new fresh idea" that might take off like video rental stores. Mr. Francia has done little advertising, relying on the bold yellow and black Cartridge World sign on his store to attract a steady trickle of customers. He wants to finish training his staff of four before he starts advertising more aggressively.

"Within another month," he said, "I'm going to go out there and start grabbing it." His advantage, he said, is that there is not a store or residence around where "someone's not using something that we sell here."