

Consider Kinko's Footprint

BY SATISH JINDEL

FedEx's decision to acquire Kinko's for \$2.4 billion raised two main questions: First, what is the value of Kinko's stores and copying business to FedEx's core transportation/logistics business? Second, is the purchase price too high?

The second question first. To value Kinko's price using traditional methods, one needs detailed financials not available from a private company such as Kinko's. Furthermore, since Kinko's does not have a true competitor but competes against divisions of other companies, there are no good comparables.

Whether the price is right or too high will be determined by how FedEx leverages Kinko's capabilities, which go far beyond its copying business. Similar concerns were raised in 1997 when FedEx acquired Caliber System for \$2.4 billion.

Many view Kinko's primarily as providing two revenue-generating opportunities for FedEx: the document business — the mainstay of Kinko's current business model — and parcel shipping for the SOHO (Small Office-Home Office) market by putting FedEx counters at all Kinko's locations.

However, it is unlikely that FedEx would make this acquisition without seeing other opportunities to capitalize on Kinko's network of strategically located and sized stores.

Kinko's stores as HDS substations

There's no doubt that the first priority will be to add FedEx customer counters at more than 1,000 Kinko's locations for parcel drop-off and pickup activity. However, FedEx can do more by establishing substations for its Home Delivery Service at Kinko's locations, which have a footprint from three to seven times larger than the UPS Stores. Some of these centers already handle pickup and delivery of copied documents. Leveraging these centers (as many as 2,000 in five years) can reduce operating cost and provide a competitive advantage for faster and more profitable growth of FedEx HDS.

Most business-to-consumer parcel service providers such as Donnelley Direct and integrated carriers such as UPS use the U.S. Postal Service to offer low-cost delivery service to residential addresses. FedEx can use Kinko's large-footprint stores with its HDS contractors to offer integrated business-to-consumer delivery to residential addresses in the urban/suburban areas at a cost very competitive with USPS delivery rates. For high cost rural deliveries, FedEx still can use the Postal Service.

Kinko's stores as logistics/service centers

American households are purchasing more high value and sophisticated electronic office and entertainment systems and telecommunications devices, from plasma televisions to cell phones that operate as cameras and electronic organizers. Conse-

quently, there will be a growing need for technical assistance for installation at time of delivery and after-sale service support. Although purchasing electronic products has become very efficient, people still lack dependable and convenient options for after-sale service on such products.

FedEx can leverage its name and Kinko's network to be the retail store for electronic service/support needs for residential and small business customers. With specialized technical training required to service some items, FedEx can ship such items to a central service center where specialized technicians can service the items for overnight delivery. In addition, these centers also can serve as parts banks for service technicians and processing centers for returns service for the SOHO market.

Mail room management

The express document market has been flat or declining, but large businesses still spend millions on mail rooms and copying services. Xerox and Pitney Bowes have leveraged their copier equipment and postage meter businesses respectively to create multi-billion dollar mail room/copy center service business.

FedEx's global transportation business in conjunction with Kinko's document reproduction capabilities offers an attractive value proposition to compete successfully for such business.

Kinko's as a remote office

The growth in the service sector is increasing the number of telecommuters, service technicians and sales people that operate from homes. Moreover, with additional security hassles at airports, business people are reluctant to travel and cannot easily meet at airports.

Kinko's stores can be the office away from the office for such people to participate in videoconference calls and have a temporary workstation with all needed equipment to conduct business.

Kinko's as a storefront for eBay sellers

Technologically savvy people already are selling used or new items on eBay. However, many others including high-income families, the elderly and even small businesses' would rather let someone else handle all aspects of such transactions. Kinko's stores can offer such services while ensuring a higher degree of transaction security on the quality and accuracy of the items sold by individuals.

A successfully executed strategy that leverages all the core competencies of Kinko's with those of FedEx's various operating entities can make the Kinko's purchase price look very attractive — just like the Caliber System acquisition.

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