

Key Questions and Answers

Q: How fast do you identify the customer issues on which you base Scrum packages? On that note, might you accelerate product development over the next one or two years?

A: Ricoh Japan personnel we call Producers oversee Scrum package planning for the sectors that they serve. These people visit small and medium-sized businesses that are target customers to identify issues and validate package models. Producers understand business flows specific to their sectors, pinpoint problems, and optimize product configurations (including for supplies purchases) in packaging solutions that they present to customers to assess. Producers refine solutions based on feedback. It takes around 100 customer visits to complete a package.

We will continue to broaden expand our product lineup while focusing on solutions proposals that customers find valuable.

Q: I would like to confirm your Scrum package profit margins. Can you actually secure contracts for these products after three customer visits? Aren't sector packages more complex, thus requiring more time and effort to sell?

A: The growth rate of sector packages unit sales has increased more than of task packages since FY2021. That is partly because salespeople have improved their sector knowledge. Sector packages are competitive and offer high profit margins. Expansion of those sales is helping improve the profitability of Scrum packages.

Even though the ratio of sector packages has increased, it still takes only three or four customer visits to secure an order. We can maintain that efficiency because package planners and people in close contact with customers collaborate to make Scrum packages more useful. They will continue that approach in coming years.

We currently offer Scrum packages for small and medium-sized businesses and Scrum assets for mid-sized companies. A lot of needs have emerged in these areas. We will accordingly consider developing packages that are profitable and easy to offer and do not require particular visit frequencies.

Q: Slide 21 of the Digital Services Business Initiatives in Japan presentation highlighted your order solutions. I think rivals have similar offerings, so what's Ricoh's competitive edge?

A: We are a multi-vendor company, so we can choose products that best match customer business environments and needs. Our competitive edge is that we can package edge devices such as MFPs and partners' and our own applications that customers can better understand and offer clearer solutions.

Q: You explained the uptake rate for Scrum packages. Which are you currently focusing on existing MFP customers or untapped markets? Will you gradually step up marketing efforts?

A: For a start, we are focusing on boosting uptake among existing MFP customers with which we have built solid ties. The COVID-19 pandemic has made it hard to visit the premises of prospective customers. At the same time, as explained earlier we have begun approaching those customers by collaborating with regional banks, credit associations, and chambers of commerce and industry. We will strengthen our efforts in that regard in coming years.

Q: Tell us more about target customers for packages in Europe.

A: We have created three target customer segments. They are large corporations, mid-sized companies, and small and medium-sized businesses. We tailor our approaches accordingly.

For large companies, it takes time to build solid relationships. Once one company adopts one of our solutions, we can offer it to other big players with similar needs, so even they can benefit from the efficiencies of packaged products.

The mid-sized company segment contributes the most to packaged solutions sales. Many of those entities maintain businesses across Europe, so our broad geographical coverage puts us in good stead.

For small and medium-sized businesses, we are streamlining operations as much as possible, as this is an intensely competitive segment.

Q: What's the relationship between your existing MFP business and your packaged solutions business? You seem to be proposing not to reduce machines in field for MFPs so you can secure print volume.

A: A shift to paperless processes will probably continue in Japan with the revision of the nation's law on preserving electronic records. At the same time, the need to scan, manage, and search existing paper documents will surely increase. While the COVID-19 pandemic will affect print volumes, the number of machines in field will remain almost flat. We will expand our business by differentiating and enhancing the value propositions of MFPs, including to combine them with Scrum packages.

Our basic approach is the same overseas. We are positioning MFPs as edge devices in workflows. We are developing more and more business models to offer total customer solutions by adding value. Scanning solutions are one example. Print volumes are admittedly trending downward, but by boosting added value we have been able to increase revenues from customers.

Q. Growth in the Office Services revenue ratio is lower in Germany than elsewhere in Europe. I understand that DocuWare is performing well, but has demand already run its course in Germany, where that firm is based?

A: We post DocuWare results to the accounts of parent company Ricoh, not Ricoh Europe, so those figures are not part of the Office Services revenue ratio in Germany in the materials.

DocuWare can automate many enterprise processes. The scope for expanding its business is endless. DocuWare can automate workflows for digital documents stored in databases.

Prime DocuWare targets are mid-sized companies and small and medium-sized businesses. But we also see tremendous potential among large corporations, as our deployment example for a leading logistics company illustrated.

Q: The long-term development approach for the Office Services business encompasses offering office services to the users of MFPs from other manufacturers and capturing machine in field share from rivals in doing so. You explained new customer development. What's the competitive situation?

A: In Japan, we are collaborating with regional banks, credit associations, and chambers of commerce and industry to set up seminars and study groups. We are kicking that process off by asking those entities to introduce us to their customers. We are primarily offering Scrum packages, and this situation is not conducive for competing proposals from rivals. We believe that we are the only company able to offer solutions like Scrum packages to small and medium-sized companies around Japan.

We also think that delivering new added value to customers through Scrum packages provides a competitive edge. We are working to offer MFPs and increase machine in field numbers among new customers adopting these packages.

In Europe, we have learned that many customers want to consolidate and reduce supplier numbers.

We found that to be the case with a leading major apparel retailer in the United Kingdom that is expanding its business globally. We began providing IT infrastructure services to that customer, establishing and supporting a solid and efficient network environment worldwide. That company came to consider Ricoh an office services expert. It shrank its supplier pool by entrusting all output related functions to us. So, the impacts of developing office services and package services extend to office printing.

Q: Ricoh relies heavily on its direct sales channel. Is that partly why you have been able to offer Scrum packages competitively across Japan?

A: Our nationwide sales and service network is a key advantage. It is easier to deploy measures through a direct sales channel, but dealer channels are also starting to bear fruit. By creating scrum packages that are easy to sell and training salespeople, we can offer those products through dealers. In fact, about half of our dealers have sold Scrum packages.

We are assisting with service and support because there are some things that dealers can't handle.

Q: How has the business unit organization that you adopted in April 2021 benefited you? Has your Office Services business development changed?

A: Companywide, our organization has become more nimble and responsive to external factors.

As we stated in our first half results briefing, a delayed recovery from the COVID-19 pandemic and parts shortages were among the factors affecting our performance during that term. Under our previous organizational structure, headquarters would have had to order each business unit to mull countermeasures. Adopting a new business unit structure enabled each unit to offset performance impacts by self-reliantly cutting costs. And we can tackle product supply issues stemming from parts shortages by enlisting collaboration from development, production, purchasing, and supply chain management operations within the same unit to mount effective responses.

The shift to a business unit structure delegates considerable authority to the Office Services business, which we believe has made implementing strategies faster and more flexible. We have, for example, adopted a strategy of overcoming IT capability shortfalls by undertaking extensive acquisitions. We can now execute acquisitions more quickly. Also, I feel we have more freedom and can more swiftly develop our business, which entails delivering value directly to customers.

Q: How have you progressed thus far in developing your North American Office Services business? What successes from other regions can you apply there?

A: In North America, we are exploring a strategy to expand services based on existing businesses. We have relatively large number of mid-sized to large corporate customers there. We primarily serve supply outsourcing services for their operations, especially those relating to documents. We traditionally dispatched personnel to customer sites to handle centralized inputting and other

tasks. New business opportunities are emerging through digitization.

In other regions, we largely serve small and medium-sized businesses. Mid-sized and large corporate customers predominate in North America. So instead of cultivating packages we are looking to develop solutions that dig deep into sector businesses and are investing to tool up for that.

Q: Tell us more about your sector-specific strategies, such as for those with great growth potential and those it is easy to offer proposals to.

A: In Japan, we want to focus on the medical, welfare, and logistics sectors as well as on manufacturing, which is also Ricoh's business domain.

In Japan, market potential changes according to customer needs and revisions of legislation covering sectors. The law covering the welfare sector was revised in April 2021. In the medical arena, online verifications of qualifications have begun. In logistics, which I cited as a growth sector, demand is growing to remotely handle order forms and quotations.

We created Scrum packages so they are easy to propose. Difficulty levels admittedly vary, but we have in place a lineup of products that are easy to offer for any industry.

In Europe, countries have invested in the public sector to stimulate economies and overcome the pandemic. One of those sectors is education, for which we can provide many services, so we will devote considerable attention to that area.

In e-commerce, demand is rising for logistics and other services, and we aim to offer a range of services there.

Q: Please tell us about Europe's competitive environment and how Ricoh differentiates itself there.

A: We are devoting considerable effort to developing packaged solutions, Ricoh Spaces, which we highlighted today, is a good example. We believe that no other companies in our industry offer such a service.

Various business opportunities are emerging in a rapidly changing world. Delivering packaged solutions efficiently is a key to success. As well as identifying customer issues and developing solutions that we tailor for packages, we are also focusing on training salespeople and customer engineers. We do not necessarily compete with other software vendors. We often collaborate with them in developing packaged solutions.

Our prime strength is our robust customer base and the trust we have accumulated over the years. We hope to expand our business in coming years.

Q: Your mergers and acquisitions in Europe seem to have been fruitful. Why is that, and what functions or areas do you want to reinforce?

A: We are considering some of the areas that we aim to reinforce. We undertake an exhaustive corporate evaluation process, which takes time.

The corporate cultures of businesses that we look to acquire must have corporate cultures that match Ricoh's values. It is also important to understand the synergies that can accrue from collaboration.

Q: What proportion of your package solutions comes from third-party software? You said that you aim to increase the ratio of in-house software. What sorts of software would that be?

A: In both Japan and Europe, we cannot disclose any figures as percentages of products.

In Japan, a lot of our software relates to document solutions for MFPs, including DocuWare, and are striving to reinforce our position in that regard.

In Europe, we will similarly endeavor to bolster proprietary software that is very profitable. We will also continue to swiftly and flexibly develop solutions like Ricoh Spaces. That said, third parties develop many excellent solutions, and we will keep focusing on providing them efficiently with our software.

Q: You explained efforts to development services employing Ricoh MFPs as edge devices. How will you be able to expand your customer base when MFP penetration peaks?

A: Our current solutions range is not all for MFPs, and we will continue that approach.

Ricoh's strength is its use of edge devices, which are central for converting analog information from customer work environments into digital information. While we expect our solutions to keep including those devices, we also believe that they do not necessarily have to be MFPs.