

# Q&A: Michael Hannon

## FP executive addresses postage meter opportunity

Compiled by: Brent Hoskins, Office Technology Magazine

Recently, Office Technology magazine interviewed Michael Hannon, managing director for North America at FP Mailing Solutions, a provider of mailroom and shipping solutions with products in more than 230,000 mailrooms worldwide. Founded in 1923, FP is celebrating its 100th year.

Formed by the merger of a German company, Francotype, and an Italian company, Postalia, FP originally sold cash registers. The company began offering postage meters in the U.S. market in the 1960s. All of FP's products are manufactured in Wittenberg, Germany.

Hannon is responsible for all aspects of FP's North American operations. He moved up through the company over the past 16 years, beginning in sales in 2007. Gaining knowledge of the industry throughout his career, Hannon has been able to develop and implement numerous processes and programs, like FP finance and sales process automation, that have improved both sales and operations, leading to FP's continuous growth.

Below are nine of the questions Hannon was asked during the interview and his responses.

**OT: Let's begin with something we learned about you. We understand that you once pursued being a mayoral candidate in Chicago, Illinois, at a particularly young age. Tell us more.**

**Hannon:** I was born in Chicago, raised in Chicago and have always lived in Chicago, up until about eight years ago — when I moved to a Chicago suburb. As an undergrad, I attended Loyola. I went to John Marshall for law school. Through high school and college, I had family members involved in politics and I got very involved in politics as well. I worked for a lot of different people, ran campaigns, did speech writing, etc., but got to a point where I no longer wanted to run someone else's campaign. So, I tried to get on



the ballot as a candidate for the mayor of Chicago. I was 19.

The opposition candidate was Richard Michael Daley; I was one of the only people he ever contested to keep off the ballot. You've got to get a certain number of signatures and then they can compare the signatures. As a registered voter, you are only supposed to sign one ballot petition. If you signed mine and you signed Daley's and he contested, then they took a look at both. If they saw the date of a signature and the date the sheet was notarized, and any of those names on his petition were the day before mine, then the signature got killed for my sheet and stayed on his.

So, Daley kept me off the ballot. I did not get on the ballot, but it got me a bit more noticed. So, I worked for a few more people and then four years later I ran for alderman of the 41st Ward of Chicago. I absolutely got killed, but it was OK. I was 23 and the guy I ran against had been in office for 21 years. I did run for alderman again while I was in law school. By then, I was already here at FP in management. Ultimately, I ended up leaving law school. It got to a point where it was between work or school and, well, having a job needed to come first as the income needed to come in a little bit more than the additional schooling. I have now been at FP for 16 years.

**OT: Explain why postage meters cannot be sold. Who actually owns the meters? Also, knowing that this is a regulated industry, what are some of the requirements of the manufacturer and dealer as it relates to the meter?**

**Hannon:** Let me start with this: "Meter" can mean two things. First, it can mean the entire system that everyone sees as the postage meter. Or, second, it can mean what is referred to as a PSD, which is a postal security device. That is a little box that is about the size of a cellphone. It can never be owned by anyone but the manufacturer. We own our

PSDs. The PSD holds the currency — the postage — and, so, is very heavily regulated because it is considered a currency printer. It is the only thing that prints currency outside of the mint. So, if you have a misprint of \$50 in postage instead of 50 cents, you can go to the post office, fill out a spoiled postage form and they will process the refund. With that in mind, to say we are “severely regulated” would be an understatement.

FP sends a file to the USPS [U.S. Postal Service]. It is aggregated data, so it is not customer identifying, but the USPS has to know the serial number of each device, the volume of mail pieces and the amount spent on postage. That goes from FP’s system to the USPS for each one of our customers. Likewise, if the PSD is moved to a different place, we have to tell the post office. So, if a customer moves to a different address or if a dealer moves postage meter inventory to another warehouse, we have to update where the inventory is being held.

While no one but the manufacturer is allowed to own the PSD, you can buy the base, the scale, the feeder — and you can lease those. We turn over the sales opportunity for the larger systems to our dealer channel. We know dealers have on-site service and support. On our smaller devices, the PSDs cannot be removed from the machine, so we cannot sell them or lease them. They are rental only. [FP inside sales reps handle the low-end rentals over the phone. Office technology dealers handle all other U.S. placements of FP products.]

Our mailing machines are connected to FP via either Wi-Fi or Ethernet. They connect either every time someone goes to add postage or, with the newer IMI-compliant mailing machines, they connect every night. That is when they are sending the information to us to essentially say, “Hey, these are all the pieces that were run today. Here’s everything that went through the machine.” That’s the file that goes to the USPS.

On the dealer side, if a customer does not connect the meter or for whatever reason they unplug it and it does not connect for a certain amount of time, the post office has us lock it and it will start down a loss-control process. The dealer can call the customer and say: “You’re still there, right? Can you plug the machine back in so that it is connected?” That is usually all there is to do. If the customer does not plug it in, the dealer has to go on a site visit, seeing the meter in person.

Meanwhile, once a year, dealers have to do a physical inventory. Some dealers will have bought, say, 50 to 100 bases at a time with some still in inventory. They just have to tell FP what serial numbers they have once a year. Otherwise, there is not a whole lot on the dealer side for the compliance requirements. It is mostly on us.

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### **OT: What distinguishes FP from the other two mailing meter hardware manufacturers in the U.S. market — Pitney Bowes and Quadient?**

**Hannon:** I believe two areas distinguish FP. The first is the equipment itself. We started introducing today’s newer technology back in 2015 or so. We are still very heavily invested in our hardware and our equipment and take pride in saying

that it is built outside of Berlin in Germany. It is still an “overly manufactured German product.” It is a great physical product.

The other thing that helps us — even though we are the smallest of the three postage meter vendors in the United States — is that our warehouse and call center are here. Everything and everyone are here in one building in Addison, Illinois, just outside of Chicago. If there is a problem with an order, shipping, equipment or some technical issue, having everyone in one building makes it easier to move things forward more quickly. We can be responsive much more quickly, because we do not have all the layers.

### **OT: FP is actively pursuing growth through the BTA Channel by its involvement in the Business Technology Association (BTA) as a member and otherwise. What led to the decision to pursue office technology dealers as a means of placing FP products?**

**Hannon:** For years, it was not about BTA; it was about AIMED [Association of Independent Mailing Equipment Dealers; AIMED was merged into BTA in 2018]. That was the association that was more heavily involved as independent mailing dealers. We would vary with the number of dealers that we had; sometimes it was as low as 100 to 125 and sometimes as high as maybe 200 to 225. [Today, FP has between 150 and 200 authorized dealers.]

There were a lot more mailing-only dealers 10 to 12 years back. Ultimately, we began seeing that as new dealers started coming on, they predominantly sold copiers. So, they sold copiers, but were looking for other ancillary products. That led us to start being a little bit more proactive, looking at other organizations. GreatAmerica turned us on to BTA. It has been a natural progression for us.

### **OT: For those dealers who decide to begin offering FP postage meters, what can they expect to receive in terms of residual business in supplies and service?**

**Hannon:** Right off the bat you make the GP on the hardware sale. With the consumables, while there are inks

available that you could get in the United States that abide by USPS standards, the USPS standard is pretty stringent as it has to have a certain level of fluorescence and iridescence in it. When it passes through their machine, the imprint — the indicia — “lights up.” However, [with lower quality ink] it is not until you turn your mail into the post office that it might get rejected, and then you are filling out all those spoiled postage

forms because none of those imprints are real. So, there is a good revenue opportunity for dealers selling quality ink.

We sell to a dealer and they then have the ability to bring the product offering forward to their customer at a price they have determined.

Dealers also have the ability to generate maintenance income, similar to any other hardware product that they would service on a customer’s behalf. So that rate will be dependent on what the dealer would like to charge.

Additionally, because the PSD cannot be owned, there is a monthly rental fee that is charged for the PSD. Again, this is another area where the dealer can make residual income — and it is one that is unique to mailing. So, overall, there are three potential recurring revenue opportunities: supplies, maintenance and from the PSD, along with the GP made from the hardware sale. This is, of course, separate from other incentives that we offer to dealers: rebates, co-op, etc.

### **OT: Does the placement of the meter often lead to the placement of other products?**

**Hannon:** Yes, for both us and the dealer channel. While we can sometimes be viewed as an ancillary product to a copier, we, too, have our own ancillary products that we offer such as: folder inserters, addressing systems, parcel lockers and software that goes along to provide address verification, envelope design, etc. Mailing can provide an opportunity to open a lot of doors. If something is being printed, there is a good likelihood that it will end up in the mail stream.

It is about a full solution sale, as opposed to just a hardware sale, and offering all that we can to our dealers so they can provide to their customers. Having the conversation and knowing what the customer is trying to achieve could mean the difference in a standalone hardware sale for several thousand and a mailroom solution that could be tens of thousands or more.

### **OT: When a dealership is placing an FP mailing machine, is it replacing a competitive product or are there still businesses that did not have a mailing machine previously?**

**Hannon:** It is both. However, predominantly, we are

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taking out competition because FP is only about 8% of the market here in the United States. We buy leads. We nurture our own database. We try to help our dealers. But, really, probably eight out of 10 placements are a competitive take-away. We do get those net-new customers that never had a mailing machine before, such as new startups. Whether a replacement or net-new, we do have our key verticals that we are in very heavily

— medical, health care, real estate, accounting and finance. These are verticals where mail is not going away.

### **OT: Is it your recommendation that dealers have a dedicated salesperson or can the general-line copier/MFP sales rep be the champion for mailing equipment in addition to selling MFPs?**

**Hannon:** I have seen dealers be adamant both ways. I can think of one very large dealership everyone knows that — while they have one dedicated person who oversees the program — has quotas throughout its entire sales force. I have other very large dealerships that are fixated on having one to four dedicated reps per office and they want it to stay with the dedicated reps. Other dealers say: “It’s part of the product line that we sell and everyone sells the full product line.”

### **OT: Explain the decertification of postage meters. What does that mean for end users and the dealer channel?**

**Hannon:** The USPS has required a change to the security encryption level within the PSD. The indicia is going to look exactly the same, but there is now information behind it that is better for the USPS. The change is from old technology, so IBI is changing to IMI, meaning information-based indicia to intelligent mail indicia.

What this means for the industry is that about 1 million meters have to be changed. So, anyone with that older technology — that IBI technology — has until the end of 2024 to change the equipment. This is already underway, but because of the COVID-19 pandemic and everything else, it is slow going. Our best guess is that there are probably close to 500,000 to 600,000 meters that still have to be changed.

The biggest benefit to the BTA Channel resulting from the decertification of older equipment is that it fantastically condenses the sales cycle. Because, no matter what, everyone has to change out their meters. ■

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