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**SEEKING TO SCALE:
INVESTMENTS IN PEOPLE,
TECHNOLOGY AND BUILDINGS
LEAVE FRUTH GROUP POISED
TO REACH NEXT LEVEL**

**DEALERS OUTLINE
PATH NECESSARY TO
ACHIEVE VERTICAL
SEGMENT SUCCESS**



*Chuck Fruth,
Fruth Group*



Our Vertical Markets Issue:

- Dealers Offer Tips for Expansion
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- How to Thrive in Vertical Sales
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Seeking to Scale: Investments in People, Technology and Buildings Leave Fruth Group Poised to Reach Next Level

It doesn't take a quiet moment of introspection to experience an epiphany. Quite often, it occurs during the most mundane of settings and circumstances.

For Chuck Fruth, the CEO of Phoenix-based Fruth Group, it was a 2012 visit to his local Apple store. He was purchasing a laptop for one of his children, and during the checkout process, he noted the transaction was completed by the Apple employee simply scanning Fruth's credit card with his phone—no receipt, no mile-long strip of paper to be stuffed in the bag.

In that moment, Fruth was reminded of a quote from the late Intel CEO Andy Grove: "A corporation is a living organism; it has to continue to shed its skin. Methods have to change. Focus has to change. Values have to change. The sum total of those changes is transformation."

It occurred to Fruth that the organism Grove spoke of applied to Fruth Group. And while the dealership had blossomed as a traditional office equipment provider, Fruth felt in his bones that its long-term success and ultimate survival hinged upon realizing the transformation Grove envisioned. It became clear to Fruth that the company not only needed to change its methods and diversify its offerings, but also embrace a fundamental change in thinking. Creating more opportunities for the company and its people was the solution.



Family ties bond the Fruth Group. Shown from left are Chelsey, Chuck and Jake Fruth

"The transformation of our company and the education we gleaned from the road traveled the past eight years has been invaluable," Fruth noted. "We invested heavily and trained our people in the expertise necessary to play in the burgeoning technology marketplace. We have positioned ourselves to be more perceptive of a client's challenges and more understanding as to where and when we can be part of the solution."

Technology Ecosystem

Cultivating a vision centered on technology, as well as diversity of products and services, took shape through what Fruth terms the technology ecosystem. The ecosystem calls into play all the elements—cloud services, applications, servers, networks, computers,

phones, copiers and printers. It's about defining it as a complex network of interconnected systems and understanding the relationship and interdependence one technology has on the other.

"We're a technology provider," Fruth notes. "We do not take a myopic approach to delivering these solutions; we know that would be problematic to us and the customer. To be successful, we need to be committed to the ecosystem. Fruth Group is a technology company committed to thought leadership and service delivery of solutions in the ecosystems that drive business results.

"As a traditional office equipment dealer, we live in a world of termed contracts where the incumbent has a distinct but relatively singular advantage every three to five

years. We needed other opportunities inside our client base to grow our services. Consulting opportunities within technology and the speed at which technology evolves have afforded us the opportunity to be of service to our clients on a more consistent basis. In lay terms, we simply have far more at-bats.”

Fruth founded the company in 2000, not long after departing Danka Office Imaging (which had acquired the company he originally worked for, Unicom Corp.). He sought a different way of delivering technology to clients and purchased a small dealership in Imperial County, California, which was licensed to offer Canon equipment. HP, Lexmark and Kyocera lines would eventually be added. A myriad of other partners would take shape under the technology ecosystem—Fortinet, Veem, Ruckus, Nimble, 3CX, Lenovo, Microsoft and Google.

Power of Partnering

Brad Osborn, the vice president of sales for Fruth Group, believes partnering with manufacturers such as Canon and HP has been critical to the company’s success. But the technology ecosystem would be incomplete without pivotal software and solutions providers.

“ECM tools such as Square 9 and Advance Capture from Artysis all play a part,” Osborn noted. “Partnering with Ruckus for network technology, Fortinet for cybersecurity solutions and 3CX for unified communications adds depth to our portfolio. As an extension to Fruth Group’s private cloud, partnering with Azure provides next-level hybrid cloud



More than 8,000 square feet of solar panels, which produce 86,000-plus kilowatts annually, adorn the roof of Fruth Group’s state-of-the-art facility

solutions our customers need. Great partners and technology allow us to scale our solutions to the marketplace.”

Fruth believes long-term success is not only about being bigger, adding employees or rolling up assets. He’s seen that model in action. The key is to establish a repeatable, competitive and durable advantage in the marketplace to better serve customers.

Added Jason Boffo, vice president of IT services, “We believe an important aspect to scaling is strategic partnerships. Knowing when to partner and who to partner with is crucial. We are developing both technology partners and strategic channel partners.”

The company, which has revenues in the \$20–\$50 million range, has upwards of 90 employees across facilities in

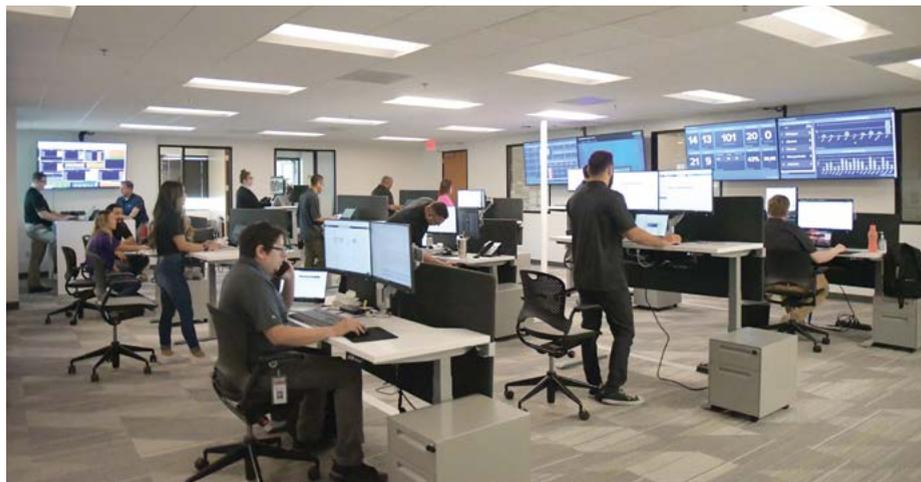
Phoenix, Prescott Valley and Tucson, Arizona, as well as San Diego and Imperial County, California, supporting its customer base in Arizona, southern California, 30-plus U.S. states, Canada and Mexico.

Fruth Group has also forged channel partnership agreements in which the company outsources its IT department offerings to other dealers. This enables Fruth’s partner dealers to offer a broader, more comprehensive portfolio of solutions to their clients while protecting their client base.

“The time and considerable expense required in starting an IT company, along with the risk of losing clients to the open market, makes these arrangements attractive for both parties,” Fruth observed. “It’s a win-win.”

Growth Accommodations

As the evolution of Fruth Group’s business model continued, it became evident the organization needed to invest in its physical and operational infrastructure, as it had outgrown its facilities by early 2019. In order to properly support its vision, the company’s processes and logistics needed to evolve with the business model. The cornerstone of Fruth’s investments is the new corporate technology center in Phoenix, a state-of-the-art 17,000-plus-square-foot facility that houses operations, the help desk and technology solutions showroom, which will host virtual and live demos.



Fruth Group’s helpdesk hub is buzzing with activity

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The vision around the technology center and the proximity of its data center is to allow customers to touch and feel the ecosystem.

In tandem with the new technology center, Fruth Group constructed a new distribution center a few miles away and a new flex office in Prescott Valley, which will broaden support to customers in northern Arizona. Counting the acquisition and move-out of a small company in Phoenix and the distribution center addition, Fruth endured four moves in all during the pandemic.

But Fruth Group's investments weren't limited to the buildings and acquisition. Fruth also took aim at marrying the company's ConnectWise and e-automate systems to augment its back-office systems. Every technician in the company is ATSP certified, and the dealer has certifications with Canon, Lexmark and HP. Cross-training was another area of focus to give Fruth Group more depth and versatility. Not one of the firm's 90 employees were furloughed, and everyone enjoyed continued 401K contributions. Fruth Group paid off all its buildings, banks and operating accounts—the company is completely debt-free.

Fruth had visited his daughter at Google's office in London and noted a boost in morale and productivity the tech giant enjoyed by providing staff amenities. He incorporated employee flex hours, ergonomically friendly sit/stand desks, a fully



A president's club trip earlier this year provided a much-needed excursion to Maui for Fruth Group employees and their spouses

stocked kitchen and a yoga/Pilates room. Even the president's club trip, a six-day experience in Maui, offered a respite for 16 team members and their guests. Taking care of his employees ranks highly on Fruth's priority chart, as he's quick to point out that they have played a significant role in the company's transformation and growth.

Pandemic Impact

So how did Fruth Group navigate the pandemic? The dealer used social media—primarily LinkedIn and Facebook—to offer services that enabled companies to work remotely. Many of those clients have expressed their appreciation by engaging in contracted relationships. Service technicians idled by the pandemic were trained to assist on the help desk with imaging calls and

level one and two IT service requests.

The first quarter of calendar 2021 was an improvement over Q4 2020, and Fruth noted the company was only slightly off plan. For 2020, Fruth Group was just 3% off total revenue, but was a point higher in EBITDA.

The idea, according to Fruth, was to exit the pandemic stronger than it entered. "We probably spent three years' worth of training money in six months," he noted. "But it has turned out well, and we're better for it. I don't know if it was brilliance or lunacy, you pick."

While the company's service and supply annuity revenues are still lagging from the shutdown, managed service revenues have helped close the gap. Fruth Group entered managed services eight years ago, and after a somewhat sluggish start ("We were essentially donating money," Fruth said), the offering has grown to nearly a third of all revenue. Fruth anticipates IT and managed services will comprise half the company's revenue by 2025.

"We feel like we have a very aggressive managed recurring revenue plan, which is derived from our managed service and cloud offerings," Fruth said. "We are on track to double that MRR this year. We have significantly ramped up our managed service side and our direct sales in California and Arizona and have begun to hire direct salespeople focused solely on managed services." But the CEO notes the task of finding



The technology solutions center enables Fruth Group to host virtual and live demonstrations for clients and prospects



Fruth Group's picturesque visitor center

technology-savvy sales and marketing people, with the expertise to carry and sell the full suite of products, remains a challenge.

The pandemic has impacted verticals in different and contrasting ways. Fruth noted that in education (the dealer does significant business with public school districts and private entities), the availability of funds from programs such as E-Rate, CARES and a \$6 billion emergency fund helped prime opportunities, including a multimillion-dollar account Fruth Group is onboarding in Q3.

Another huge market for Fruth Group is health care, particularly on the managed service side.

“We’re doing better in major markets and larger contracts, but our day-to-day business really needs to grow, and to do that we need more staff,” he said. “That’s been difficult for us.”

One area in which potential workforce resources exist is through M&A. Fruth noted the company is “in negotiations” with three prospects, including candidates in Arizona, California and an unnamed state, and he expects to pull the trigger on at least two deals in 2021. Not a month goes by without someone asking Fruth whether he would like to sell, and he has received a mix of inquiries from dealers looking to sell and exit the business as well as firms he has approached.

“Some owners are looking to transition out, and others are looking for a way to partner,” he said. “I think we’re

a good partner for companies who use technology and solutions.”

Going Green-Giving

Fruth Group’s state-of-the-art facility is equipped with 8,000 square feet of solar panels that produce more than 86,000 kilowatts annually. This equates to a net positive cash flow to the company and a return of excess power to the grid—all the while reducing its carbon footprint as a company. In addition to the solar panels, the company’s distribution center has been equipped to crush and compact all its cardboard and Styrofoam into bales,

which is then sent out for recycling. Service techs, engineers and many employees drive hybrid vehicles provided by the company. Fruth is working toward having uniform processes for each of his facilities.

Consistent with his business philosophy of a technological ecosystem, Fruth sees great value in personal and corporate responsibility to nature’s ecosystem; perhaps a product of his Midwestern upbringing. Fruth lives vicariously through his farm (“I may be the only CEO who wants to be a farmer”), which rotates soybeans and corn and is home to livestock and a growing whitetail deer herd. An avid hunter and fisherman, he purchased land in Wisconsin and has donated most of the money derived from crops and livestock to local farmers.

That giving spirit is also extended to the communities which Fruth Group serves. The company, which has strong groundings in faith, supports several organizations in its back yard, including Diocese of Phoenix, Paz de Cristo, VALLEYLIFE, Cultivate Goodness, St. Timothy’s and Salvation Army.

Prior to the pandemic, Fruth Group’s employees would spend time preparing and serving hundreds of meals quarterly to disadvantaged citizens through Paz de Cristo. The organization’s mission is to help people struggling with hunger, poverty and homelessness. Fruth feels it



Cultivate Goodness is one of several organizations supported by Chuck Fruth and the Fruth Group

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is particularly valuable for the employees and their children, as “We receive so much more than we give when we serve.”

VALLEYLIFE is a non-profit organization that provides services to individuals with disabilities to enhance their quality of life. More recently, the dealer has engaged with Cultivate Goodness, which supports non-profit organizations focused on assisting marginalized citizens within its communities. Fruth hopes to take the company’s involvement a step further as the pandemic recedes; for now, the focus is on helping to fund these initiatives. Supporting these organizations has personal meaning for Fruth, whose late brother suffered from mental illness.

“Our contributions go a long way for these organizations,” he said.

Fruth has also established the Marvin J. and Beatrice A. Fruth Good People Scholarship for the School of Education at the University of Wisconsin, Madison, where Fruth’s father was a professor and chair of education for 30 years. The scholarship grants individuals with limited resources the financial assistance necessary to advance their education in post-graduate studies.

Looking Forward

With clicks slowly returning and managed service continuing to flourish for Fruth Group, the CEO wants to

Fruth’s Neighbor Also Proves Invaluable Mentor

The tiny Madison, Wisconsin, suburb of Monona—population of about 10,000—served as the home town of Chuck Fruth. On the same street, 15 houses up on the left, was the home of the Flesch family, including sons Tom, John and Bill. Their father, Gordon, was the founder of Gordon Flesch Companies.

Small world!

Since the Flesch men were older, Fruth didn’t know them all that well back in the day. But they shared a love for entrepreneurship and the University of Wisconsin Badgers. In fact, Fruth’s father was a professor at the school. Now, they share other distinctions— independently owned dealers and purveyors of Canon equipment.

As Fruth will attest, the Flesch family had quite an impact on him and the development of Fruth Group.

“Any time I’d see Tom at a meeting, he’d be quick to ask how I was doing,” Fruth noted. “I can pick up the phone and call him any time if I need advice on compensation plans,

internal leasing, service benchmarks, etc. Regardless of the need, he would offer their best practices or volunteer a GFC manager to assist my team. Tom is one of the largest dealers in the country, with plenty on his plate, yet he willingly took the time to help a small dealer. He’s a good mentor.”

Both Bill and John Flesch were also always accommodating. Fruth noted of John Flesch, who passed away in 2019, “He would light up the room with his engaging smile and huge heart.” The courtesies the Flesch brothers extended him left Fruth profoundly grateful.

Fruth also benefited early in his career from the wisdom and tutelage of Dan Doyle Sr. Doyle, a significant player in the industry for as long as Fruth can remember, proved pivotal in showing him how to run a business.

“It’s important to remember where you came from, and the people that helped us on our journey,” Fruth added.

continue automating processes and communication between departments, further cross-training employees and strengthening the firm’s back office. The goal is to scale services so that the same

level of delivery is experienced at every location.

Fruth plans to open a new tandem data center group in San Diego, with another pending a potential acquisition. He also wants to bolster the firm’s private cloud service with Azure hybrid cloud solutions. Fruth Group is completely revamping its infrastructure and improving processes to handle the anticipated workload.

“Our goals may seem a little weird; we’re just trying to make sure that the back end can keep up with what we’re trying to do,” he said. “As always, our overriding goal is to figure out how we continue to grow our sales space. Again, finding qualified people to jump in and see a career in selling technology, which includes imaging, remains an ongoing challenge.” ♦



Fruth Group employees and their families assist in the preparation of food on behalf of Paz de Cristo, which provides 50,000 meals per month to people in need