

InkCycle:

Quality People Create Quality Products

by Amy Turner • Recharger Magazine

What do inkjet cartridges, nuclear weapons and Midwestern values have in common? If you happen to be talking about InkCycle, then quite a bit. The Lenexa, Kan.-based company has an impressive, if diverse, background, strong roots and a bright future. Founder and Chief Servant Rick Krska is an integral part of all

these aspects, and more — and if his title doesn't tell you something about how he runs his company, his background will.

"If you want to create something significant, you have to become a servant to a lot of people," Krska said. "My father told me, 'Wealth created at the service of other people is a good thing,

wealth created at the expense of other people is usually a crime.' He taught me how to treat people.

"We've had a bent from the beginning that we wanted to share success with the people who helped make it grow. We wanted to create an environment that fosters servant leadership. When you're a manager, 90 percent of your day is about getting people what they need to do their jobs. I don't mind being led, but I don't want to be managed like a piece of property. We want to win, but we want to do it together as a team."

It's an attitude that's paying off. Recently, InkCycle became the first company to produce more than a million remanufactured ink cartridges in a month. And despite obstacles, or perhaps because of them, the company has persevered — in no small part due to Krska's entrepreneurial spirit.

"I believe you're born an entrepreneur, not made into one," Krska said. "I always had a business, whether it was shoveling snow or a paper route, or

InkCycle's locations include 90,000 square feet of inkjet manufacturing and administrative offices, 30,000 square feet of toner remanufacturing and service/refurbish work, and 120,000 square feet of warehouse, distribution and empty cartridge processing.



when I was in high school, buying houses and fixing them up."

Krska read endlessly books on great entrepreneurs such as Henry Ford and Andrew Carnegie. "I feel lucky to be in this country, where there are a lot of opportunities," he said. "I tried a lot of things; some worked, some didn't. But I think when you do that stuff you kind of put the signal out into the world that you're interested."

Obviously the world was listening. When a business he was trying didn't work out he went to work in the nuclear weapons industry, first as an engineer, then manufacturing manager. "Over 10 years I learned I really loved building a team and solving engineering process problems," he said. It was a lesson that

would serve him well down the road.

In 1991, an attorney friend of Krska's called him. "He had a client who wanted to sell a business, and he thought it would be perfect for me," Krska recalled. "He said, 'he's refilling toner cartridges in his basement.' And I said, 'what's a toner cartridge?' I'd never really looked inside of a laser printer — like most people I pressed 'print,' got my copies and went on my way."

At the urging of his friend, Krska and his wife Carol met with the business owner, who was reportedly doing "about \$4,000 a month with about 85 customers, all out of his basement. I worked with him but never saw his customer list or his house or shop," Krska

said. A bit wary of the business, he made the determination to shy away from the opportunity. His wife, however, was unhappy with the decision. "She said, 'I liked that business,'" he recalled. "I said, 'I did too.' Then, we went to grocery store and bought Entrepreneur Magazine and saw an ad from Laser Charge."

The Texas company was famous for launching many remanufacturers in the 1980s and early 1990s. "I was in probably one of the last groups to go through," Krska said. "It was a class of 10 people. Four days were spent learning how to repair a printer, and two days learning to remanufacture the cartridges — it was just three types, CX, SX and LX."

From there, Krska was ready to begin. Initially, the company consisted of Krska and a friend, Bob Ehlers, also with an entrepreneurial bent, who did sales. "We set up a telephone that rang on my washing machine in my basement, but was forwarded to an answering service," Krska said. "He'd hand out flyers every day, the customers would call and leave a message on the service, he'd bring the cartridges to my house at night, and I'd go into the basement and remanufacture the cartridges. Then he'd pack up the cartridges and go home, then go deliver them and pass out more flyers the next day."

Krska's entrepreneurial ethics combined well with the remanufacturing model. "In the first month we did \$500. The first year \$20,000, then \$100,000, then \$450,000, then a million — it just kept growing. We were always really focused on quality because of the nuclear training.

"So much of being in business revolves around personal

Right: Tom Ashley, John Hensel and Rick Krska reviewing IP and intercolor bleed.

Below: Chief Servant Krska.

Below right: Ashley and Brad Roderick, looking to do for color toner what the company did for color ink cartridges.



goals and philosophies," Krska said, reflecting on those early years. "When I began the company, I was fortunate to be surrounded by a number of people who provided strong guidance and advice that was derived from their own successes and failures. One thing I quickly understood was the importance of attracting people who were not only talented but who also shared the same values and philosophies as I did. At the onset, two gentlemen that I had worked with at Allied Signal joined me in my mission to deliver world-class value. I count myself blessed that Bob Ehlers and Tom Cunningham not only came aboard when the company operated out of my house but continue to be my partners. Bob is one of the most knowledgeable and insightful product specialists in the business and Tom has risen to the rank of COO. Today, Bob uses his skills and knowledge to provide exceptional product management guidance while the company benefits from Tom's unique

combination of detail mindedness and people skills to ensure that our major accounts are handled in a way in which these customers derive maximum value from doing business with us."

Including ink

In those early years, the company was largely focused on toner cartridges. That changed in 1994 when Krska began to notice a lot of 26As showing up in the daily collections.

"We started to wonder — for \$300 you could get a color inkjet printer while a color laser printer cost \$20,000. We were one of the 10 largest in toner by the end of the '90s, but I said I wanted to be the leader in the world in inkjet by the end of the century."

A lofty goal, to be sure, and made more difficult by the fact that quality outsourcing was difficult to come by. So, again in Krska's typical entrepreneurial spirit, he decided to do it in-house, which led to another fortunate circumstance.

"I was working in the toner business with a guy in Washington named John Hensel," Krska remembered. "I called his company one day and he wasn't there any more, so I called him at home. He came to Kansas City, and he said he'd always wanted to work with a group of people like this. He moved his family out to Kansas right then."

The inkjet business at that time was "in a cardboard box — literally," Krska laughed. "When John moved here, we had some HP 26s, syringes, paper towels, bottles of ink and gloves in a cardboard box. John is an ex-HP engineer, he can build a machine that will do anything. He said, 'I need a machine shop. A mill, drill press, a lathe, a welder . . .' I got him what he needed. His first mill cost \$4,000. His first machine, we had a bid for \$7,000 to build it. He built it himself for \$800.

"We weren't just starting a new business, it was a new industry," Krska said. "We had to invent the processes, then invent the machines to do it. In the early years it was very difficult. You'd think you had a process worked out . . . but no. John and I were talking until 2 in the morning sometimes trying to figure out how to make it work. There wasn't a supplier that had the tools and equipment and processes to hand to you — it was kind of the Wild Wild West."

Once again, Krska's background in the nuclear industry came into play. "Just like we did with nuclear weapons, we had strict process control to make sure people were following the process, because if you tweaked it just a little you ended up with something different. We wanted a product that wasn't just good when it left the factory, it would be good three months from now, six months from now, nine months, a year, after it went through the supply chain, distribution, the inventory cycle in someone's business or home."



Left: The company's "Area 51 1/2" displays innovation at work. Below: The first thing guests notice when they enter is a different kind of manufacturing facility, which houses a different kind of company.



Quality people lead to quality products

While Hensel came from outside of the company, Krska also recognized internal potential, in the form of two strong performers from the toner production team. "Dave Muller was really setting one of our toner lines on fire so we continued to give him more and more responsibility. His innate understanding of both production and people has served the company well as he moved through the ranks to his present position as vice president, operations. Chad Seal joined our toner production team part-time in 1996. I could tell from the onset that Chad was the caliber of person that would well serve our company. It was pretty obvious that Chad had a strong head for business so we provided him with the opportunity to begin his career transition with a move into purchasing. His understanding of the importance of relationships, along with his negotiation skills, allowed us to greatly improve what has become a global supply chain. Chad was recently promoted to the position of business manager to oversee the growing needs of our independent reseller customers.

"Even in the early days, with all the challenges, we became known as a leader in the ink business. We were replacing plastics, making molds, sourcing foam, trying to put the whole system together so it all worked together and stayed working well. We were setting up engineering, quality assurance controls — it all came out of the nuclear weapons industry. The culture positioned us to realize if you handle one responsibility well it'll earn you the right to handle a bigger one. So we'd get one customer that would give us 10,000 a month, then we'd get another that would give us 50,000 a month, then 100,000. I think that's kind of how it works — if you do a good job you'll get referred."



Engineering Product Manager Rob Rayburn looks at shelf-life stability.

The company began its next phase of growth in 1998 when Joy James joined the company to help deliver large-volume strategic sales opportunities, setting the foundation for the company to grow from servicing small and mid-sized resellers to providing products to many of the well-known aftermarket brands as an outsourcing partner. "Her guidance in this strategy, and the implementation of the sales plan, helped enable the company to move from mid-sized production volumes to truly large-scale volumes," said Krska.

"At our company, we desire to bring in great people who can augment our skill sets while remaining committed to our culture of servant leadership," said Krska. In 2002, this desire led to the addition of Brad Roderick, who joined InkCycle after an 11-year career with a large OEM and aftermarket company. "Brad brought an understanding of the processes, policies and overall institutionalization that we knew we needed in order to continue to make the transition from a midsized to large-scale remanufacturing company," Krska said.

"I was working as a 'soloist' and

really enjoying the freedom and the challenge," said Roderick. "By mid-2002, I recognized that while I certainly didn't miss the bureaucracy of working in a large corporate environment, I did miss the daily interaction with people who shared a strong passion for a common mission. About this time, Tom Cunningham and I again crossed paths and began to explore some mutual opportunities. Since I had several years of experience with Tom and his team under a past business relationship, I knew the character of the people and the quality of the products. As they say, one thing led to another and I found myself handling first the sales of remanufacturing components, then marketing and then sales and marketing, winding up in my current role of executive vice president."

Roderick also helped the company continue to add quality people to its team. "One thing Rick taught me is the importance of recruiting great people," he said. "In 2003, I received a call from Mike Meadows, who was researching the industry. The more I spoke with Mike over time, the more I

Case Study

realized that his unique combination of senior management experience (US Office Products and Corporate Express) and entrepreneurial mindset could help propel our company into new channels, create new partnerships and help us develop a new strategy that would incorporate the recent and anticipated changes to the market. I count myself very fortunate to be in partnership with Mike."

Like a domino effect, referrals of talented people continued with the addition of Meadows. In 2004, Meadows met Tom Ashley at ReView, a business and networking summit for executives in the remanufacturing industry, and introduced him to InkCycle. Ashley, who was working as a consultant at the time, began doing work with the company. "After a few consulting projects, we decided it would be best for me and cheaper for them if I just came on board as a full-time employee," said Ashley with a laugh.

It was a fortuitous meeting indeed. To say Ashley's background is impressive is an understatement. A chemist by training, he began working in electrophotography with IBM in 1967.

"I was there for about four years, doing both toners and photoreceptors," recalled Ashley. "We launched our first copier in 1971, but then I happened to be at our advanced technology lab the day they printed the very first drops of ink with inkjet. I was somewhat instrumental in getting that moved from an R&D program to a product program in 1972. I managed the group that developed the ink; the hardest part was not doing the ink, it was learning what materials we could use to come in contact with ink. It was water-based ink, and at IBM we didn't have any experience with that and had to learn it all the hard way."

They did learn, of course, and in 1975 the company launched its first printer.



Left: Recycling more than one million empty cartridges every month.
Right: Testing ultrasonic welding versus adhesive attachment of caps to cartridge bodies.

"It was an office inkjet printer, but a little bit different from today's," Ashley said. "It was monochrome, printed about one page per minute, and sold for \$23,000."

In spite of the price tag, "It was pretty successful. It found a home in a lot of law offices. It was five times as fast as the competitive printers of the day, and you had the option to do draft mode twice as fast again, so that was its great benefit. That was the breakthrough."

After the breakthrough, Ashley worked with IBM on several other projects, but most were never released. After leaving IBM he went to work for Datacorporation, where he was once again responsible for many developments in electrophotography and inkjet. Eventually, Ashley moved into consulting on the market side, working as an analyst, and then, wanting to get back to his roots, he moved into technical consulting — which is when the fateful meeting with InkCycle took place. Now the company's chief technology officer, he was initially involved largely with R&D and statistical design. Because of his background, however, his responsibilities shifted to involve intellectual property matters.



"I'd only had that responsibility about a week when HP sued us," he said. "I'd done a lot of work in valuing patent portfolios and analyzing patents for mergers and acquisitions, so it wasn't unfamiliar to me."

Being a chemist, the other part, of course, was to get the lab to do independent testing for us — first of all to make sure we were infringing, then correct it by reformulating our ink.

"It was lucky for both of us," he said. "It was a challenge for me and good fortune for the company that I was there. We worked through that in 60 days — pretty much unheard of. Since then it's been more a matter of making sure of what we can and can't do, ensuring we have freedom to operate letters for all our remanufactured cartridges and clearance letters for the inks. Half of it is managing the details, the rest is understanding the OEMs and making sure we don't do something that gets us into trouble."

Understanding the OEMs — a simple statement that belies the complexity of something everyone in the industry tries to do. In February, office-supply

superstore Staples announced that it would no longer carry store-brand HP compatible toner and ink cartridges. The announcement was followed by a great deal of speculation — some of which involved the InkCycle name. However, typical of the InkCycle culture, mention of those speculations prompts discussion of positive implications for the company.

"We haven't lost a major customer; the relationships we have built on premium quality products, backed by world-class execution and support, remain rock solid and continue to grow," said Roderick when asked about the rumors of recent large-scale business loss. "Yes, we saw some downturn in one product line at one customer in late 2006, but that gap is quickly being filled by the demand from other existing and new customers. In the end, we simply continued on with our strategic plans for diversification by delivering the same strong value through additional channels with a focus on meeting the unique needs of retailers and dealers alike."

So, what's ahead for the company? "Clearly, there will remain challenges and obstacles that must be overcome, just as others have been overcome in the past," Roderick said. "But we have the right people in place, and a deep commitment to innovation throughout the organization. Those things give us the ability to meet challenges."

Perseverance pays

In 2006 the company added some real bench strength in the area of marketing when Amy Wood came on board as marketing manager and immediately brought about a strategic plan to further penetrate the independent reseller channel. She implemented the very successful "Tools for Traction" campaign, designed, said Roderick, "as the foundation for making the market aware of the resources we bring to bear to pro-

vide more than just great ink and laser products, but also strong tools for helping these customers grow their revenue and improve their profits through effective sales and marketing support.

"With a name like InkCycle, sometimes you have to remind people that you have been providing premium quality toner cartridges for almost 15 years," chuckled Roderick.

Those tools are necessary, according to Roderick, since "Right now, we're seeing a strong resurgence in the growth of new inkjet brick-and-mortar and online ink retailers. I haven't seen so many small retailers open up since the early 1990s."

While he feels much of this growth is due to awareness of the industry in general, he also believes some of it may be a reaction to what appears to be a constriction of the office products superstore channel offering for HP aftermarket cartridges. "There is no question that entrepreneurs realize that the demand for a lower-priced, high-quality alternative to the OEM cartridge is ultimately driven by the end user and not by the distribution channel," he said.

This positive outlook toward the future is, not surprisingly, shared by Krska. "I am very optimistic about this industry," he said. "I have respect for a number of companies in this industry that have done a good job. But when you look at the numbers — 500 million plus inkjets that will be sold in the U.S., and more and more every day. The printer manufacturers are all selling printers at either break-even or loss, and as long as they keep doing that they're going to continue to sell cartridges at a high margin — maybe not exclusively, but there's so much momentum. That creates opportunity for years to come. With the accounts we've been associated with over the years, we've penetrated OEM sales to a very high degree. That kind of market share is only achieved by

having a quality product and reorders from satisfied customers. You see the OEMs doing things to disparage the industry — if we were doing such a horrible job why would they feel the need to do that? The value-minded consumer can see right through this type of negative advertising. We don't want to be involved in that type of behavior. It is important for us to take the high road. Ultimately, customers will vote with their pocketbooks. They determine if our products are good enough, not Wilhelm or any other testing organization. The end users, the ones who are using this product, want a choice."

Krska bases his optimism in hard facts. "We see major diversification ahead for us. We see the independent resale refillers more and more — they're really rechargers starting over. They have a resale market to serve but if they really want to make a profit they have to go after the B2B market, and to do that they can't be in a workshop squirting ink in a cartridge. It really isn't very efficient. We've spent millions of dollars developing equipment to make a yield. It's more economical to outsource. We've optimized the process and made it efficient. Like every grocery store being a bottler for Coke and Pepsi — that wouldn't be efficient. We're seeing more and more people pursuing that consumer. As that migration to quality happens, customers are coming to us saying we want a product we can sell, and go to bed at night not worrying about it. There's a lot of diversification out there and we intend to pursue it."

"Life is never just summer," said Krska. "People who have perseverance win. We have tenacity, we've had challenges along the way, but we plan to stick to what we do — quality." 