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For the Officeless, A Place to Call Home; Not Just a Copy Shop Any Longer, Kinko's Pushes Its Computer Services

BY LAURIE J. FLYNN

The lettering on the door sums up the business model: "Your branch office/ Open 24 hours." Kinko's, once known simply as the leading chain of printing and copy shops, has recast itself for the work-obsessed digital age.

Where there once were only copy machines, the 902 Kinko's stores in this country and abroad now feature a uniform mixture of fax machines, ultra-fast color printers and networks of computers equipped with popular software programs and high-speed Internet connections.

Many business people, while traveling, have come to regard Kinko's as their office away from home, stopping in to check their email or otherwise make quick use of a computer. And laptop stations let business travelers plug their notebook computers into any of several different printers for making copies of presentations while on the road.

At the same time, many a home-office worker has come to rely on Kinko's as the well-appointed office outside the house. At last count, there were nearly 40 million Americans working out of their homes with the help of electronic conveniences like cell phones, fax machines and hand-held organizers. And on any given day, tens of thousands of them stop by a Kinko's store, whether to make temporary use of a high-resolution color printer or to find something else the home office does not have: other people.

As millions more people join the work-at-home trend each year, Kinko's appears to be doing what many people envisioned cybercafes would do -- offer an escape from the isolation that this abundance of modern technology seems to have created. For social mixing, there's nothing quite like trying to bring a PC to heel in a public place.

"You get frustrated, so you end up meeting people," said Peter Goggin, a Web site designer with Epicenter Communications Inc., in Sausalito, Calif., who regularly stops by Kinko's to make color prints. "Sometimes, you share tips."

It is precisely the kind of pay-by-the-hour collaboration that gladdens the heart of Kinko's chairman, Paul Orfalea, who founded the company as a campus photocopying business in 1970. Since then, he has nurtured the privately held outfit into a chain with revenues now estimated at $1 billion. And if all goes as planned, he may finally take Kinko's public next year.

If that happens, it might set the record for the longest time from start-up to initial public offering for an Internet-related company. But Kinko's founder has always taken the long view.

"Even as a kid I knew that someday I'd be running a big company," Mr. Orfalea, 50, said recently at his office in Ventura, Calif. But he said the company had been waiting for a major reorganization to take hold before embarking on a public offering. "Like in a marriage, Wall Street wants consistency and fidelity, and we're waiting until we can provide that."

Thanks to an expansion into computer services that Mr. Orfalea began in the late 1980s, as the number of home workers and digital road warriors increases every year, so do Kinko's revenues. The company is the leader in the $7-billion copy-services market, despite competitors that include Sir Speedy, Alpha Graphics and Kwik Copy, along with in-store copy departments at office supply warehouses such as Office Max's Copy Max, Staples and Office Depot.

And the company's computing services side, now accounting for about a third of its sales, is growing even faster -- with no direct competition on a national scale. While other copy chains sell computer time, and some even offer email and Internet access, none appear to match Kinko's when it comes to the number of branches.

And Kinko's, which charges $12 an hour for computer use, is hoping to increase its share of industry revenue by getting people to spend more time -- and hence, more money -- at its stores. Besides adding equipment, the company is talking to Starbucks about opening up coffee shops adjacent to some Kinko's stores, and is looking at other services to get people to come more often and stay longer, such as package shipping and banking.

Glendale Federal Bank, for example, has already opened sales offices in six Southern California Kinko's, and Citibank has said it will open similar mini-branches in Kinko's stores throughout the nation later this year. Mr. Orfalea is also considering opening mini-Kinko's in airports and hotel lobbies.

Another growing in-store business for Kinko's is video conferencing, which the company now offers in 140 stores throughout the country.

William Campbell, a buyer for Applebee's International, a restaurant chain based in Shawnee Mission, Kan., relies on the local Kinko's video conferencing site there to conduct screening interviews with job candidates, and estimates that each $150 to $300 video session saves more than $1,000 in travel expenses.

Applebee's applicants simply have to show up at their local Kinko's, where they speak to a video camera while watching the interviewer on a television screen. If a local Kinko's does not have video conferencing equipment, Kinko's will make arrangements with another conferencing center in the same town, possibly one run by Sprint or another phone company.

It is not exactly the same as meeting in the flesh, but "you can still see their body language and their facial expressions, and that tells you a lot," said Mr. Campbell, who expects the Kinko's video conferences to save his company $250,000 this year in travel expenses.

Despite all of Kinko's innovations, a successful public stock offering is no sure bet, of course.

But neither was getting even this far in the business world for Mr. Orfalea, who had never envisioned Kinko's becoming a huge operation. As a 22-year-old with kinky red hair that inspired the business's name, he opened his first copying service in 1970, setting up shop behind a taco stand in Santa Barbara, Calif., to serve students at the University of California campus there.

When the company began expanding into a string of partnerships with individual investors in the late 1970s, Mr. Orfalea held a majority stake in each one. But his direct involvement in each store, which allowed for an informal corporate style, eventually became untenable.

"We outgrew the old structure," Mr. Orfalea said. "Just trying to get all the stores to look alike was nearly impossible. In 1981, I started trying to get all the stores to be painted blue; in 1992, I went into a store and it was still green. It used to be O.K. to have that kind of independent thinking, but now we have to be consistent."

The limitations of the company's ad hoc structure became painfully evident when Kinko's started adding data communications to its list of business services in 1996. Because each region was proceeding at its own pace and installing different brands and technologies, the stores were frequently unable to meet the needs of traveling customers who wanted to use the same printing technology or software wherever they went.

Then, too, the company needed capital if it intended to compete in the emerging market for digital printing, in which high-speed color copying machines can cost $100,000 or more.

"The bigger the monster got, you began to wonder which tentacle was the head," said Lloyd Greif, an investment banker in Los Angeles who knows Mr. Orfalea.

In search of a solution, Kinko's board retained the investment firm of Goldman, Sachs & Co. in 1996 to help it find investors. By the end of the year, Mr. Orfalea and his colleagues had selected Clayton, Dublier & Rice, the same private investment and management company that had taken I.B.M.'s struggling printer business and turned it into the publicly traded Lexmark in the 1980s.

Clayton, Dublier & Rice bought a third of Kinko's for $219 million in early 1997 and proceeded to roll the partnerships into a single corporate entity, centralizing all management functions within Kinko's headquarters in Ventura. In the process, roughly a third of the partners sold their stakes back to the company and left, while the remaining ones changed roles, becoming executives and managers within the newly centralized organization.

Then in mid-1997, the company replaced Mr. Orfalea as chief executive with Joseph Hardin Jr., the former president and chief executive of Wal-Mart's Sam's Club discount supermarket warehouse chain who had seen Sam's Club through a decade of rapid growth.

Besides streamlining management, the centralized structure allows Kinko's to take advantage of bulk discounts when acquiring costly new hardware, software and network services. And though the size of the stores may vary, these days all Kinko's stores now have the same decor and basically the same equipment.

"Before, we had a lot of maverick innovation," said Doug Wilkins, who manages a Kinko's in San Francisco. "Now you can go into any Kinko's and find the same thing. Things work better." Not that everything is completely smooth sailing. Inevitably, customers still run into problems when they try to use unfamiliar programs and equipment. And even though the company is hiring new employees as fast as it can find them, a certain degree of chaos reminiscent of the company's start-up days still prevails. Over the last few years, Mr. Orfalea and his management team have tried to address these issues by beefing up the company's training centers scattered throughout the country.

Mr. Orfalea, who remains the company's chairman, now acts as something of an ambassador for Kinko's, traveling from store to store and scouting new markets overseas. Kinko's has 43 foreign branches, mainly in Canada and Japan.

"He's sort of the Johnny Appleseed of new ideas," said Donald Gogel, the Clayton, Dublier & Rice partner who led Kinko's through the reorganization and acted as interim chief executive until Mr. Hardin was hired. "He travels around picking up new ideas and scattering them about. He's contagiously enthusiastic."

But the biggest challenge remains the need to keep investing in new digital technology, an expensive proposition that requires a constant stream of investment capital, Mr. Greif, the investment banker, said. That challenge has kept Kinko's from expanding as quickly as it had hoped, he said, which is why the company now feels the need to raise money in the public stock market.

Just early last year, Kinko's executives, in a burst of enthusiasm they now regret, said they hoped to have 2,000 stores open by the year 2000. With less than half that number today, the company will fall far short of that goal. "They'll get there," Mr. Greif said, "just perhaps not as fast as they'd like."