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Deluxe CEO Lee Schram is determined not to give up on checks, but he is expanding small-business relationships.

Deluxe regroup

The Shoreview check maker is growing again by focusing on small-business services.

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A gleeful “whoop!” shot across the Shoreview call center as a Deluxe Corp. saleswoman hung up with a customer and celebrated the sale of a new business product.

An influx of new sales to small businesses is “exciting” and changing the mood at the once-beleaguered Deluxe, said Senior Vice President Luann Widener, who has worked at Deluxe for 30 years and has said goodbye to a long list of colleagues, especially over the past decade. Deluxe eliminated 650 jobs in just the past 12 months.

But, she said, “I wouldn’t stay if I didn’t think we had a future.”

With seamless phone transfers, Deluxe’s 17 call centers increasingly are reeling in sales from banks’ small-business customers by offering a menu of products that range from customized glossy corporate brochures and business cards to purchasing forms, labels, stationery, banners, promotional mugs and

of course, corporate checks. The small-business strategy is proving a victory for Deluxe, the struggling check printer that’s been embroiled in a grueling makeover as it battles the grim decline of its iconic paper checks.

Today Deluxe, a \$1.6 billion company that does business with U.S. Bank, Fifth Third Bank in Ohio, Wachovia Bank, Citigroup and 7,500 other banks, is leveraging its check-printing relationships into small-business service sales.

“We’ve seen a 20 to 40 percent improvement in their customer loyalty ... and brought about 500,000 new customers,” Widener said. “We’ve had 4 percent revenue growth in small business services.”

After a decade with 4,305 layoffs, several plant and call center closings and the sale of non-core businesses, Deluxe Corp. may finally be turning around, analysts say. The maker of the well-known red boxes of bank checks has a new CEO, a new digital printing acquisition and two quarters of earnings growth after a string of bruising declines.

A DELUXE RECOVERY

Deluxe Corp. shares, which had bottomed out in July 2006, have more than tripled as the company began using its check-printing relationships to offer small-business services.

Weekly stock closes



Source: Bloomberg News

The longtime Wall Street underdog increased first-quarter earnings 43 percent to \$35 million, despite a 2 percent drop in revenue. Last year, earnings fell 36 percent and sales fell 4 percent.

The company has slowed the decline of its check revenue, integrated its sales force and is on track to cut \$150 million in expenses by year-end 2008.

Investors are buying into the turnaround. Deluxe’s stock price has risen to Friday’s close of \$43.42 a share, up 34 cents, from last year’s low of \$12.98.

LEE SCHRAM

CEO, Deluxe Corp.

Age: 45

Born: Cleveland

Family: Wife, Carole, and two children

Hobbies: Jogging, loves any kind of sports. Recently learned to ice-skate.

Career: NCR Corp. 1983-2006. Was senior vice president of retail division before joining Deluxe as CEO on May 1, 2006.

Education: Bachelor's degree from Miami (Ohio) University. MBA from University of Dayton

DELUXE CORP.

Headquarters: Shoreview

2006 revenue: \$1.63 billion

Employees: 8,600 (1,200 in Minnesota)

Recent jobs cuts: 665 call center, technology, sales, marketing and administrative jobs eliminated in 2006 and 2007

Recent acquisitions: New England Business Services in 2004; Johnson Group digital color printing firm, October 2006

Competitors: The two largest check printers, John Harland and Clarke American, merged May 1.

"The stock price has been unbelievable. Absolutely," said John Kraft, a D.A. Davidson research analyst. "It's really an interesting story because the stock went down very far and very fast and it has rebounded very strong, very fast. This is a good lesson in expectations."

By 2010, Deluxe's CEO, former NCR executive Lee Schram, expects non-check revenue to make up 50 percent of the total. That's up from 9 percent in 2003 and 36 percent last year.

Deluxe has long been in a race to find a way to stay ahead of the drop in sales of checks, its main line of business. Until recently, it was a race in which it seemed to only fall behind.

Check sales, 64 percent of total revenue last year, are expected to drop to 50 percent over 30 months as more consumers turn to credit cards, debit cards and other forms of electronic payment.

Schram, who joined Deluxe in May 2006 after 23 years rising up the ranks at NCR, is doggedly transforming Deluxe while transforming himself into a die-hard Minnesotan. The lanky runner and former high school basketball player from Cleveland has learned to ice-skate, built an ice rink in his backyard and even took a turn at ice fishing.

"You have to try new things," he said.

With equal gusto, Schram is positioning Deluxe for a less volatile, more diverse future. He also is rekindling Deluxe's com-

munity profile: The company now sponsors public television and encourages employees to sit on community boards for the first time in years. Foundation donations will rise from \$1.9 million last year to \$2.6 million this year.

Kevin Full, Deluxe's senior vice president for sales, said Schram's first week as CEO was spent visiting bank customers in Mississippi and the Midwest. Schram quickly integrated Deluxe's sales force so they now sell both small-business and banking products, Full said.

"With Lee there's a lot more regular dialogue and conference calls and e-mails ... than what I saw with the other [CEOs]. What I see is an incredible passion for the sales force and the sales activities that are taking place."

In an interview, Schram said his goal for the company by 2010 is to "be a leading integrator and full-scale solutions provider to financial institutions and small businesses."

Banks and their customers are noticing.

Bill Arnold, the senior vice president of Bank Midwest in Missouri, praised Deluxe for creating a bankers' task force that interviewed 400 small businesses last year. Thirteen bankers and two Deluxe consultants created a whole new way to relate to small companies, and it didn't focus on bank "risk" or "sales." Instead the bankers focused on helping each small business grow.

The pilot training program that resulted helped Bank Midwest win eight new business customers, who in turn ordered Deluxe checks and other products.

"I have had relationships with Deluxe for a long time," Arnold said. "But I have not seen anybody do what they did. They literally transformed for us how we view our small-business customer."

The pilot program was presented to hundreds of Deluxe bankers in January, and will soon become a saleable product for other Deluxe bankers.

Deluxe is toying with other ideas, Schram said. It might offer businesses human resources or accounting support, with the help of its call centers, electronic forms technology and other new offerings.

In October, Deluxe bought the Johnson Group, a digitized color-printing operation that lets customers create their own corporate literature, banners and business cards on the Internet. "By pressing a button, the order goes right to our Deluxe printing plant," Schram said.

For all the new lines of business, though, Schram is determined to not give up on checks. Sales are still going down, but the company must "slow its rate of decline from

about 13 percent a year to the low single digits," he said, a feat Deluxe achieved in the last two quarters.

Schram, who helped boost NCR's lackluster cash register and scanner sales with self-checkout counters at airports and hardware stores and electronic clipboards at hospitals, is now pushing Deluxe's "direct" consumer checks with more newspaper ad inserts. Bank check orders also grew with the help of new bank customers and Deluxe's new check-fraud insurance product, which sells for \$1.50 per box of checks. But Schram concedes that while check orders grew, sales drooped because of competitors' pricing wars and bank demands for better deals.

Bundling services and winning more banks as customers will combat pricing pressures, said Chief Accounting Officer Terry Peterson. Deluxe recently lost but won back U.S. Bank as a key customer. And it won the remaining 40 percent of Citigroup's check business that it didn't control. Both deals helped stem the decline in check orders during the last quarter.

RBC Capital Markets research analyst Michael Hamilton noted that the 3 percent drop in bank revenue "was the best top-line showing from this unit in 10 quarters." He also praised small-business services as "the big driver for enhanced year-over-year operating income performance."

But Hamilton and other analysts remain cautious.

"Long-term performance from here will require profitable revenue growth in small-business services," Hamilton said. "We anticipate more volatility ahead in Deluxe shares and would use further share strength as an opportunity to take profits."

D.A. Davidson and CJS Securities praised 2007's early revenue growth and cost-cutting but also downgraded the stock to neutral.

Schram acknowledged there is still work to do. "The challenge we have is to make sure we are a company that can grow," he said.

More acquisitions are possible, but organic growth is a must. A dozen pilot projects are in play to help banks better service and retain their business customers. One boosted new-customer retention rates among banks by 20 percent by having Deluxe handle all the follow-up calls and correspondence for the bank. Other projects focus on servicing third-party loans and fraud protection services.

"It's outsourcing to Deluxe and building that relationship between financial institutions and small business," Schram said. "That is the sweet spot."

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