

Company Case 3

Xerox: Adapting to the Turbulent Marketing Environment

Xerox introduced the first plain-paper office copier more than 50 years ago. In the decades that followed, the company that invented photocopying flat-out dominated the industry it had created. The name Xerox became almost generic for copying (as in “I’ll Xerox this for you”). Through the years, Xerox fought off round after round of rivals to stay atop the fiercely competitive copier industry. Through the late 1990s, Xerox’s profits and stock price were soaring.

Then things went terribly wrong for Xerox. The legendary company’s stock and fortunes took a stomach-churning dive. In only 18 months, Xerox lost some \$38 billion in market value. Its stock price plunged from almost \$70 in 1999 to under \$5 by mid-2001. The once-dominant market leader found itself on the brink of bankruptcy. What happened? Blame it on change or—rather—on Xerox’s failure to adapt to its rapidly changing marketing environment. The world was quickly going digital, but Xerox hadn’t kept up.

In the new digital environment, Xerox customers no longer relied on the company’s flagship products—stand-alone copiers—to share information and documents. Rather than pumping out and distributing stacks of black-and-white copies, they created digital documents and shared them electronically. Or they printed out multiple copies on their nearby networked printer. On a broader level, while Xerox was busy perfecting copy machines, customers were looking for more sophisticated “document management solutions.” They wanted systems that would let them scan documents in Frankfurt, weave them into colorful, customized showpieces in San Francisco, and print them on demand in London—even altering for American spelling.

This left Xerox on the edge of financial disaster. “We didn’t have any cash and few prospects for making any,” says current Xerox CEO, Ursula Burns. “The one thing you wanted was good and strong leaders that were aligned and could get us through things and we didn’t have that.” Burns didn’t realize it back then, but she would one day lead the company she began working for as a summer intern in 1981. In fact, Burns almost left the company in 2000, but her colleague and friend, Anne Mulcahy, became CEO and convinced her to stay. Burns was named a senior vice president and was then charged with cleaning house.

The Turnaround Begins

Task number one: Outsource Xerox's manufacturing. An often criticized and unpopular move, outsourcing was critical to Xerox's cost-saving efforts. Burns oversaw the process in a way that preserved quality while achieving the desired cost benefits. And she did so with the blessing of Xerox's employee union by convincing the union that it was either lose some jobs or have no jobs at all. With the restructuring of manufacturing, in only four years, Xerox's workforce dropped from 100,000 employees to 55,000. Although this and other efforts returned Xerox to profitability within a few years, the bigger question still remained: What business is Xerox really in?

To answer this question, Xerox renewed its focus on the customer. Xerox had always focused on copier hardware. But "we were being dragged by our customers into managing large, complex business processes for them," says Burns. Before developing new products, Xerox researchers held seemingly endless customer focus groups. Sophie Vandebroek, Xerox's chief technology officer, called this "dreaming with the customer." The goal, she argued, was "involving experts who know the technology with customers who know the pain points. . . . Ultimately innovation is about delighting the customer." In the process, Xerox discovered that understanding customers is just as important as understanding technology.

What Xerox learned is that customers didn't want just copiers; they wanted easier, faster, and less costly ways to share documents and information. As a result, the company had to rethink, redefine, and reinvent itself. Xerox underwent a remarkable transformation. It stopped defining itself as a "copier company." In fact, it even stopped making standalone copiers. Instead, Xerox began billing itself as the world's leading document-management technology and services enterprise. The company's newly minted mission was to help companies "be smarter about their documents."

This shift in emphasis created new customer relationships, as well as new competitors. Instead of selling copiers to equipment purchasing managers, Xerox found itself developing and selling document management systems to high-level information technology managers. Instead of competing head-on with copy machine competitors like Sharp, Canon, and Ricoh, Xerox was now squaring off against information technology companies like HP and IBM. Although it encountered many potholes along the way, the company once known as the iconic "copier company" became increasingly comfortable with its new identity as a document-management company.

Building New Strengths

Xerox's revenue, profits, and stock price began to show signs of recovery. But before it could declare its troubles over, yet another challenging environmental force arose—the Great Recession. The recession severely depressed Xerox's core printing and copying equipment and services business, and the company's sales and stock price tumbled once again. So in a major move to maintain its transition momentum, Xerox acquired Affiliated Computer Services (ACS), a \$6.4 billion information technology (IT) services powerhouse with a foot in the door of seemingly every back office in the world. The expertise, capabilities, and established channels of ACS were just what Xerox needed to take its new business plan to fruition.

The synergy between Xerox, ACS, and other acquired companies has resulted in a broad portfolio of customer-focused products, software, and services that help the Xerox's customers manage documents and information. In fact, Xerox has introduced more than 130 innovative new products in the past four years. It now offers digital products and systems ranging from network printers and multifunction devices to color printing and publishing systems, digital presses, and “book factories.” It also offers an impressive array of print management consulting and outsourcing services that help businesses develop online document archives, operate in-house print shops or mailrooms, analyze how employees can most efficiently share documents and knowledge, and build Internet-based processes for personalizing direct mail, invoices, and brochures.

These new products have allowed Xerox to supply solutions to clients, not just hardware. For example, Xerox has a new device for insurance company customers—a compact computer with scanning, printing, and Internet capabilities. Instead of relying on the U.S. Postal Service to transport hard copies of claims, these and related documents are scanned on-site, sorted, routed, and put immediately into a workflow system. This isn't just a fancy new gadget for the insurance companies. They are seeing real benefits. Error rates have plummeted along with processing times, and that means increases in revenues and customer satisfaction.

Dreaming Beyond Its Boundaries

Riding the combination of Xerox's former strengths and its new acquisitions, Burns and the Xerox team now have a utopian image of what lies ahead. They believe the tools and services they offer clients are getting smarter. “It's not just processing Medicaid payments,” says Stephen

Hoover, director of Xerox's research facilities. "It's using our social cognition research to add wellness support that helps people better manage conditions like diabetes." Hoover adds that the future may see a new generation of Xerox devices, such as those that can analyze real-time parking and traffic data for municipal customers, allowing them to help citizens locate parking spots or automatically ticket them when they are going too fast. Already, Xerox is market testing parking meters that are capable of calling 911 or taking photos when a button is pushed. Not all products such as these will hit the market, but Xerox now has a model that allows it to dream beyond its known boundaries.

In another example of smarter tools for clients, Xerox will soon rollout Ignite, a software and Web-based service that turns its copiers/scanners/printers already in service at schools around the world into paper-grading machines. Previous automated grading technologies (such as Scantron) worked only on multiple-choice responses filled out on special forms. But Ignite will grade work where answers are written in by students—even numeric math problems. The real revolutionary potential of Ignite, however, is not just in automated grading, but in taking the results and turning them into Web-accessible data that allow teachers to identify problem areas and make improvements to their techniques.

Throughout this corporate metamorphosis, Xerox isn't focused on trying to make better copiers. Rather, it is focused on improving any process that a business or government customer needs to perform and performing it more efficiently. Xerox's new machines have learned to read and understand the documents they scan, reducing complex tasks that once took weeks down to minutes or even seconds. From now on, Xerox wants to be a leading global document management and business-process technology and services provider.

With all the dazzling technologies emerging today, Burns acknowledges that the business services industry in which Xerox now operates is decidedly unsexy. But she also points out that "These are processes that companies need to run their businesses. They do it as a sideline; it's not their main thing." But running these seemingly mundane business processes is now Xerox's main thing. Xerox provides these basic document and IT services to customers so that customers can focus on what matters most—their real businesses.

Xerox's transition is still a work in progress. Over the last four years, the company's revenues are up 47 percent and profits have more than doubled. Its stock price, however, has struggled (it has yet to top \$12), a sign that Xerox isn't doing as well as Wall Street thinks it

should be. Part of the reason is that Xerox still relies to some extent on its copier and printer products for its success, even with its recent diversification strategy. And just as e-mail and desktop software killed photocopying, smartphones and tablets are killing inkjet and photo printers. But Xerox depends much less on such products than competitors such as Hewlett-Packard and Lexmark International do. Thus, experts predict, Xerox will rebound much more quickly than its rivals. Burns and crew are also confident that as Xerox continues its transition to solutions provider, the seeds it has planted over the past few years will soon bear fruit.

Xerox knows that change and renewal are ongoing and never-ending. “The one thing that’s predictable about business is that it’s fundamentally unpredictable,” says the company’s annual report. “Macroforces such as globalization, emerging technologies, and, most recently, depressed financial markets bring new challenges every day to businesses of all sizes.” The message is clear. Even the most dominant companies can be vulnerable to the often turbulent and changing marketing environment. Companies that understand and adapt well to their environments can thrive. Those that don’t risk their very survival.