

A new era for Xerox

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Xerox is on a mission: to reinvent itself as a leading business process and document management company, disrupting the legacy perception of a brand which is synonymous with photocopiers. It's acquisition of the services company ACS in 2009 for \$6.4 billion, was a bold move in this transformation aiming to combine the Xerox brand, global reach and innovation with ACS's established IT outsourcing (ITO) and business process outsourcing (BPO) business.

Indeed, ACS's heritage in business process management and information technology services means Xerox is already processing 37 billion public transport fares annually, processing 900 million healthcare claims annually and handling 1.5 million phone calls daily in 150 call centres. Consequently, thanks to the ACS acquisition – Xerox services revenue has climbed to 50% of its total sales in 2010, from 23% in 2009. The market opportunity is real. According to figures quoted by Xerox, it has now moved from focusing on a \$132 billion global market which included office and production hardware and document outsourcing, the focus is now on a \$500+ billion market, which now also includes the thriving BPO and ITO segments.

Ready for real business

The ACS acquisition has signalled a new era for Xerox, and catalysed significant investment in the Xerox brand. Its global "Ready for real business" campaign demonstrates how businesses can outsource areas such as document management, business process management or IT services to Xerox, enabling them to focus on their core business. Its microsite <http://www.realbusiness.com/> highlights its work with companies such as Marriott Hotels & Resorts, Target, Procter & Gamble, The New York Mets, Ducati and the University of Notre Dame. These case studies highlight Xerox's capabilities beyond the printed page, demonstrating its credentials across IT outsourcing, customer care, finance and accounting and human resource support, as well as its breadth of reach across many verticals – all areas where many do not realise Xerox is participating in.

Traditional equipment sales not forgotten

With a business rooted in the printed page, Xerox is not giving up on its traditional printing, copying and document management businesses which now accounts for 44% of annual revenue. However, the highest revenue opportunities are in colour print, where adoption is still low, representing only 30% of its installed base. For all vendors in this market, the key to broadening the reach of colour products is to drive

down the cost of colour printing. Xerox is banking on its latest ColorQube printer which uses solid ink rather than ink cartridges to achieve this. Xerox claims ColorQube printers can reduce the cost of colour printing by 62% and produce 90% less waste than comparable color laser devices.

With SMB customers accounting for approximately 60% of revenues from its mid-range business, Xerox must continue to capture further sales through the IT sales channel. One way it is aiming to differentiate here is through its partner led managed print service, Xerox Partner Print Services (XPPS). With over 150 partners engaged, this service which also supports multivendor products promises to help garner Xerox more services revenue through the channel. Nevertheless the IT centric reseller channel is a hard nut to crack when it comes to print services due to the need to incorporate cost per page printing, break/fix and supplies replenishment. In response to the need for simple service packages in this area, other vendors such as HP are also coming to market with value print services, which aim to increase service revenue for channel partners.

Leadership in enterprise managed print services (MPS)

For some time now, the burgeoning managed print services market has helped printer and copier companies to move from a mature, low margin hardware business to one which offers long term customer relationships and recurring revenue opportunities. With contracts 5 years long, MPS enables vendors to manage the compete print environment of a customer, and gain predictable revenue streams from printed pages, often across a heterogeneous printer fleet.

According to Xerox it has retained 100% of its enterprise MPS clients who have signed a contract since 2001, it manages around 1.5 million devices through its MPS contracts, over 50% of which are manufactured by competitors. Its most recent addition to its MPS suite - mobile print - was a result of the Xerox and P&G Innovation Council, enables employees to print directly from smart phones.

Due to its long established heritage in delivering managed print services (now part of its Global Document Outsourcing division) and its broad service portfolio which encompasses the office environment to the print room, Quocirca considers Xerox a leader in a market ahead of Canon, Lexmark, HP and Ricoh. HP is Xerox's closest competitor; with its acquisition of EDS, its strategic alliance with Canon and its dominance in the office printer environment, Xerox should not be complacent.

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Expanding market reach

The ACS acquisition means that the combined company can now pursue opportunities across the document outsourcing, ITO and BPO segments, exploiting the respective customer bases of Xerox and ACS. Xerox already has signed managed print services (MPS) deals for companies that were existing ACS customers, such as Ingersoll Rand. According to Xerox, such cross selling initiatives are taking place in more than one hundred accounts across all regions, which have generated over 10 ACS signings to date and a \$2.5 billion pipeline.

With only 8 months having passed since the ACS acquisition closed, Xerox recognises it still has some way to go to before it can offer an integrated Xerox/ACS offering. This is likely to be more challenging in Europe where the profile of ACS is lower than North America - currently 90% of ACS revenue comes from the US. Nevertheless, Xerox recognises that a global company still needs localised presence and offerings, especially in a diverse region such as Europe, and is working to develop a consistent global approach which is complimented by local and regional delivery capabilities.

Conclusion

The ACS acquisition certainly promises to set Xerox apart from its competitors, and success in Europe will require Xerox to truly integrate its offerings, build out a European

service organisation and demonstrate the pedigree of ACS in Europe.

Particularly in the document outsourcing market, Xerox should remain watchful of companies such as Canon and Ricoh who are expanding their capabilities. Meanwhile HP's IT and networking heritage positions it well for companies looking to outsource both the desktop and print infrastructure.

Certainly ITO and BPO bring added value to the Xerox Enterprise Print Service portfolio, but Xerox will face challenges developing an integrated sales strategy given the different stakeholders across MPS, ITO and BPO engagements. As with any acquisition, success will rely on the investment in staff and training but probably most fundamental is whether Xerox will retain ACS as a separate brand.

Quocirca believes that although the European market presence of Xerox may do well to push the ACS brand, ultimately the best approach would be to recast ACS as Xerox Enterprise Services or similar, to avoid confusion and support a cohesive go to market approach. For now, Quocirca expects that the majority of synergistic opportunities will reside in the US region. Mindful of this, Quocirca will be watching closely how Xerox approaches and executes on its promises to the European market.

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About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with first hand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at
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