

## **XEROX Analysis**

Xerox's future hinges partly on how far Xerox can move beyond printing hardware and related services and into more nebulous, but potentially lucrative, office automation, content management, and business consulting services. (Xerox's Mulcahy: We're Moving Beyond Documents 2004) This is but one of several aspects of the changes that have been taking place, both in business practices and corporate culture. Xerox is confronting regulatory, financial, competitive, and image issues in a powerful and effective way. Says Donna Fuscaldo in the Wall Street Journal, "Mindful of its recent history, which includes an accounting scandal and huge losses that shook investor confidence, Xerox needs new avenues of growth." (Fuscaldo 2004) Still a technology giant with its Palo Alto Research Complex (PARC), Xerox is continuing to develop new technology.

Additionally, Xerox is changing its image from one of a document company to being a services company, also. (Fishman-Lapin 2004) This change involves both new business initiatives and new advertising strategies. "To ensure that we are best in class in every aspect of our business, we have introduced Lean Six Sigma – a powerful set of tools that will drive improved results," says Anne Mulcahy, Chairperson and CEO of Xerox. (Xerox Annual Report 2002 2003) Thus, there are several fronts on which Xerox and Anne Mulcahy are fighting to make Xerox stable and profitable for the long term.

Finding earlier accounting problems from 1999, the SEC took action in January, 2003, when KPMG was charged with fraud. (Farrell 2003) The Securities and Exchange Commission says KPMG allowed Xerox to be too aggressive in recognizing revenue from leasing office equipment. (Farrell 2003) Professor Lynn Turner at Colorado State

University, former chief accountant at the SEC, said it is the most serious complaint she has seen the SEC file against an accounting firm in over 20 years. (Farrell 2003) KPMG issued a statement denying all SEC charges. (Farrell 2003) According to the SEC, Xerox's actions allowed them to inflate earnings per share by 18% in 1997, 26% in 1998, and 24% in 2000; Xerox paid a \$10 million fine in April 2004 without admitting or denying guilt; Xerox also announced being informed by the SEC of an SEC investigation into the company's Mexican budget. (McKee 2004) The repercussions of these actions are not only the financial penalties the company may have to pay, but, also, that the image and public relations damage could be incredibly high, even if they are not found culpable.

Equally important, financial problems have plagued the once indefatigable giant, but are turning around. Xerox's credit rating by Moody's Investors Service jumped up two notches due to improving business prospects and declining debt balances and follows a week after Xerox sold \$500 million in debt. (Xerox Corp.: Moody's Upgrade Marks Shift from Slide, Improved Prospects 2004) Moody raised its outlook from negative to stable on Xerox on December 24, 2003. (Moody's Raises Its Credit Outlook for Xerox 2003) The particulars of this turnaround are beginning to look impressive. The stock price has gone from a near low of 4.44 in 2000 to 13.80 in 2003. (Moody's Raises Its Credit Outlook for Xerox 2003) Xerox income was a loss of \$94 million in 2000 compared to a gain of \$360 million in 2003. (Financial Highlights 2004) Profit margins rose to 9.4% from 8.6% the previous fiscal year. (Financial Highlights 2004) Total debt is expected to drop to \$10.6 billion in 2004 from \$15.7 billion in 2002. (Financial Highlights 2004)

Indeed, the turnaround began to look good even in 2002, signifying that the improvements represent real change and not accounting wizardry. Most numbers improved in 2002; gross margins were 42.2%; sales, general, and accounting costs dropped by 6%. (Xerox's Annual Report 2002 2003) Xerox decided then to stress the following markets to lead the way to continued profitability: the production market where Xerox leads and is growing; the office market with color printing and digital devices; multifunction devices; value-added office solutions and services. (Xerox's Annual Report 2002 2003) Interestingly, the service market includes knowledge, content, and document management. (Xerox's Annual Report 2002 2003) The document outsourcing business has 12,000 Xerox employees working around the world. (Xerox's Annual Report 2002 2003) Customers are asking Xerox to help them redesign processes, improve productivity, and strengthen customer relationships. (Xerox's Annual Report 2002 2003)

Indeed, Xerox is also attempting to win customers, and profits, by being more competitive both in pricing and in what it offers their customers. Xerox reduced prices in response to formidable competition from Canon, Ricoh, and Heidelberg; Xerox must sell to medium-sized companies as well as large ones if it wants to compete; until that happens, analysts are unlikely to recommend Xerox stock. (Deutsch 2003)

Consequently, they are attempting to address those medium-sized businesses and other markets with new product offerings. Says Claudia Deutsch of the New York Times:

There is no doubt that Xerox has jumped feet first into the digital arena. Nearly three-quarters of its revenues come from digital products and services. Even more telling, two-thirds of its equipment sales stem from digital products it has

introduced in the last two years. The company has built a thriving business in managing document-related services for other companies. (Deutsch 2004)

Specifically, Xerox Global Services is the initiative for building the business of coaching companies in their flow of documents. (Fuscaldo 2004) Donna Fuscaldo says, “Large companies are looking for more than a product provider.” (Fuscaldo 2004)

Likewise, Xerox, though no longer as technology-driven, still retains its technological prowess. Xerox has developed an emerging technology for the “last mile” in fiber optic lines, a new silicon chip. (Xerox In The News 2003) It has also developed JPM, which is JPEG2000 Multilayer, a new file format that uses Mixed Raster Content to allow downloading only those portions of a document one wants to see – a technological breakthrough. (Milestones & Signposts ????) Anne Mulcahy comments, “Our technology investments are paying off, with two-thirds of equipment sales coming from products launched in the last two years.” (Bulkeley 2004)

However, the competition is stiff. Konica Minolta Holdings and Hewlett Packard will join to develop multifunction digital copiers and will compete directly with Xerox; Kodak will move into the commercial printing market and will compete with IBM, HP, Xerox, and Canon. (Xerox In The News 2003) It has been widely noted that the computer age, far from creating the paperless society that it promised, has caused an ever-increasing use of printed paper and big, powerful companies vie for the opportunity to have a piece of this huge business. Xerox, once the leader, now has to find other ways to compete.

Accordingly, Anne Mulcahy, Chairperson of the Board and CEO, wants the “document company” to become more like an IT-services company that would help

businesses simplify back offices and make knowledge workers more effective; Xerox will move beyond printing hardware and into office automation, context management, and consulting. (McDougall 2004) Accordingly, Xerox has changed its corporate logo from a large, red “X” to simply “XEROX”; this is a response to low identification of the company with the letter “X”. (Fishman-Lapin 2004) Says Xerox Chief Operating Officer Diane McGarry:

Brand power was a crucial factor in the success of Xerox’s turnaround program a few years ago, as we saw time and again that the Xerox brand and what it stands for – innovation, quality, reliability, expertise -- contributed to a tremendous amount of loyalty from our customers. We came to appreciate more than ever the simple power of Xerox, which is what our new logo helps further convey.

(Fishman-Lapin 2004)

Furthermore, Xerox has changed its tag line from “The Document Company – Xerox,” to one that reads “Technology/Document Management/Consulting Services”; the new tag line speaks to Xerox’s different ways it is adding productivity and value to its broad array of customers, and, especially, identifies target areas of growth, like consulting services.

(Fishman-Lapin 2004) According to Claudia Deutsch:

There is also probably an aspect of semantic psychology behind sandwiching the D-word between phrases that are clearly not paper related. The strategy behind Xerox’s marketing over the last decade has been built around getting customers to define document the way Xerox has come to define it: not as a piece of paper, but as a medium, be it e-mail or video or icon on a desktop, that moves information around. But even Ms. McGarry concedes that the ‘average person

still thinks paper when they hear document.’ Giving technology and consulting services equal prominence in the tagline can counteract that Luddite response.

(Deutsch 2003)

Unfortunately, more than changing its image was necessary to cure the woes Xerox had been suffering. More concrete changes had to be taken and were. The medicine that Xerox has taken was two-fold. One fold was the appointment of Anne Mulcahy as CEO and later as Chairperson of the Board and the other fold was the adoption of “Six Sigma” quality techniques to Xerox business processes. Said Mulcahy, “In 2000, Xerox redirected itself to quality, a longtime core value at Xerox, and updated its set of quality principles and resources to be faster and more focused.” (Mulcahy 2004) Beginning with her leadership, a vast transformation was undertaken at Xerox.

First, according to Mulcahy, “Xerox began an enterprise wide effort integrating Six Sigma and lean manufacturing tools and processes into a comprehensive strategy called Xerox Lean Six Sigma.” (Mulcahy 2004) Far from being an internally focused process-change strategy, customers are at the heart of Lean Six Sigma. (Fornari and Maszle 2004) “Lean” Six Sigma is the name Xerox gives its brand of this process-change strategy that also incorporates lean manufacturing tools and processes; it is a disciplined, data-driven method of reducing waste and variation in processes so they consistently deliver products and services at the quality levels, speeds, and prices that customers value and therefore improve Xerox business results. (Mulcahy 2004) Lean Six Sigma has 3 main dimensions: 1) projects and results, 2) cultural change, and 3) leadership development. (Fornari 2004) Mulcahy expresses Xerox Lean Six Sigma in the following manner:

The goal of Xerox Lean Six Sigma is to help the company become more focused, faster, and flexible with lean work processes capable of building and sustaining both profits and revenue growth. The organization helps select projects based on their economic value to Xerox, track overall financial results, provide a program framework and resources and identify and train the Black Belts who lead projects. By the end of 2003, Xerox had 25 full-time deployment managers, more than 300 Black Belt candidates, and 900 people in Green Belt training. By the end of 2004, Xerox expects to have 1% of its employee population working as Black Belts, integrating lean Six Sigma tools into daily operations and into the services Xerox offers to its customers. Xerox Global Services relies on Lean Six Sigma methodologies to help make the enterprise publishing process measurable and manageable. Xerox knows Lean Six Sigma is a powerful tool to add value and simplify business. Over 250 projects are currently underway as project selection is integrated into the management process; 2,300 managers have been trained with Lean Six Sigma.

The main difference between Xerox's previous approach to business management, Leadership Through Quality, and today's Six Sigma approach is that Six Sigma projects are "...dedicated resources, pin-pointed projects aligned with strategic goals, an economic profit, bottom-line focus, and a standard set of methods and processes."

(Godfrey 2004) There have been four evolutions of Six Sigma: 1) Motorola was the creator, 2) General Electric brought the philosophy of dedicated resources and a strong business focus, 3) International Telephone and Telegraph added a value-based approach, and 4) Caterpillar has done a good integration of Lean and Six Sigma. (Godfrey 2004)

Specifically, there are two phases to Lean Six Sigma: 1) project selection and prioritization, where potential projects are assessed based on their business impact and estimated effort, and 2) the project is queued up for the next available Black Belt who uses an extension of the DMAIC (define, measure, analyze, improve, and control) improvement process to determine the best solution to the problem. (Fornari and Maszle 2004) Customers are at the heart of Lean Six Sigma and the four tools and process components for sustaining the perpetual customer-centric cycle are the performance excellence process, the DMAIC improvement process, market trends and benchmarking, and behaviors and leadership. (Fornari and Maszle 2004) According to Fornari and Maszle:

The performance excellence process supports the alignment of strategies and performance objectives, while the DMAIC improvement process provides the basic principles and tools for process improvement. Benchmarking and market trends provide the reference points and best practices for setting aggressive performance targets and finding better ways to improve processes. The behaviors and leadership component is critical in supporting all components of the framed work.

Specifically, the Quality Circle, DMAIC improvement, approach is expanded to IDMADICC in standard Six Sigma, as follows: 1) Identify the project, 2) Define the project, 3) Measure current process performance, 4) Analyze the current process, 5) Develop the improvements; pilot and verify, 6) Implement the changes; achieve breakthroughs in performance, 7) Control at new level; institutionalize to hold the gains, 8) Communicate new knowledge gained; transfer solution to similar areas. (Truscott

2003) Additionally, Lean Six Sigma employs engaging the full value chain in all geographies and locations as well as tracking results through a robust project tracking system. (Fornari and Maszle 2004) Likewise, there are specific sets of questions to be answered in order to understand each process: 1) what is the customer or task? 2) who is the customer? 3) who is the supplier? 4) what resources are deployed? 5) what controls are exercised? and 6) what makes the process tick? (Truscott 2003)

Concretely, why institute Six Sigma? In one word, waste. (Truscott 2003) Lean Six Sigma has produced significant, measurable results at Xerox. Lean Six Sigma found toner losses and recovered 10% to save \$240,000. (Arner and Aston 2004) In another success story, fixing software for translating technical manuals resulted in faster translations and fewer errors, thereby saving \$1 million. (Arner and Aston 2004) Finally, Xerox saved the Bank of America \$800,000 by cutting the Bank of America document centers from 13 to 4 and also halving the time needed to complete a job. (Arner and Aston 2004)

Interestingly, Judo is the analogy used for Six Sigma because martial arts are a way of life leading to personal fulfillment, physical and mental liberation, and, above all, spiritual growth. (Truscott 2003) Thus, a Six Sigma Black Belt feels empowered to perform great feats. (Truscott 2003) As Dr. Jigoro Kano, the founder of Judo, says, “The ultimate aim of Judo is to perfect yourself and to contribute to the well-being of mankind.” (Truscott 2003) These are certainly noble aims!

Finally, the words “Six Sigma” come from the statistical measurement system employed by Six Sigma. The Sigma is actually a unit of measure in this system, as follows:

Sigma	Faults per million	Yield
1	691462	30.85
2	308538	69.146
3	66807	93.319
4	6210	99.379
5	233	99.9767
6	3.4	99.99966

What's more, according to Xerox, "Ms. Mulcahy's name now gets tossed around with the likes of Lewis Gerstner, who was credited with the revival of IBM." (Xerox In The News 2003) However, Mulcahy acknowledges that she gets more attention for being a woman in her position than for her achievements. (Xerox in the News 2003) Her acknowledgements are formidable, though, as she took the company from being \$17.1 billion in debt to only \$14.5 billion in debt in just a few years. (Xerox in the News 2003) Anne's secret was to take risks; she counsels women not to imitate her when striving for success. (Xerox in the News 2003) According to Betsy Morris of Fortune Magazine:

Mulcahy, 47, smart and energetic, had an excellent reputation but not the track record of a potential CEO. She had spent 16 of her 24 years at Xerox in sales. She had been head of Human Resources and chief of staff for former CEO Paul Allaire. In her 16 months in a line job, she had created a fledgling desktop business to go against Carly Fiorina's HP printers. Instead of an MBA, she had

an English/journalism degree from Marymount College. She was not on the Xerox board.

In sum, as Anne Mulcahy said, “One of the things that gives me the greatest satisfaction about our turnaround the past two years is that we did it without mortgaging our future.” (Reinvent, rethink, redefine 2003) Clearly, Xerox has come a long way and seems to be stable. Hopefully, it can continue to whittle down its debt and enjoy continued prosperity. It is responsible for so many things that have added value to our lives, such as the photocopier, the Windows/MAC computer operating system, the computer Mouse, and many more. It would be a shame to see Xerox pass into that good night.

And, ever setting the course, Anne Mulcahy had once proclaimed decisively and prophetically, “Decisiveness in planning and speed in execution will become hallmarks of the Xerox culture.” (Annual Report 2002) Significantly, John Pepper, a Xerox board director and former CEO of Proctor and Gamble, remarked at the 2004 annual meeting, “I never thought I would be proud to have my name associated with this company again; I was wrong.” (Morris 2004) It looks like Xerox is here for some time to come.