

The Underlying Reasons behind Xerox's Strategic Management Failures and Possible Remedies that Could Have Been Implemented

Rana Muhammad Ahmar Habib¹

Cardiff Metropolitan University UK, Westminster International College, Subang,
Malaysia

Rashad Yazdanifard

Cardiff Metropolitan University UK, Westminster International College, Subang,
Malaysia

Abstract

This article is aimed to discuss and analyse Xerox Corporation and its core competencies. The research study will be focusing on the historical background and the era of success and downfall of the organization. In addition, several management models are also applied in this article in order to examine the competitive advantage of the organization and its strategies to sustain in the competitive market. The strategic problems faced by organization and its consequences are discussed in this article and in order to manage those issues and problems, different recommendations are also provided by the research study based on the past cases and secondary data. The paper suggests that Xerox should focus on the stretching of its brand name by diversifying into related fields in order to compete with competitors at multiple levels in the market. It is recommended that the organization should focus on certain departments like marketing as equal as it is focusing on research and development. The research has examined the strategies and major strategic making decision making of the organization in the past and its effect on the current state of the organization. The research study hopes that the discoveries and analysis helps for future studies in the related aspects.

Keywords: Strategic management, Customer value, Core competency, Strategy making.

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¹ Corresponding author's email: ahmarhabib@hotmail.com

Introduction

Xerox Corporation, founded in 1906, is operating in printing, document processing, document outsourcing, paper sales and automation of printers in more than 160 countries worldwide. The organization's customers include government organisations, educational institutes, communication companies and corporate entities. Xerox is providing its services to a massive industry sector which includes healthcare, banking and financial sector, insurance, manufacturing and public segment. In addition, Xerox is also providing outsourcing services in terms of business processes to several government entities of USA.

In terms of document technology, the company is operating in the sale of printers and supplies. The product line includes, medium range and high end products which caters the needs of offices especially for large businesses and government sector. The company also offers printing services which includes production level printing, publishing, and mailroom operations for large organizations.

Xerox Background Analysis

Xerox was established in 1906 in Rochester, New York. At first it was known as Haloid Company and the domain of the business was in photography paper. In 1935, the company decided to acquire the Rectigraph Company which was a photocopying machine manufacturer that used Haloid's paper. The company went public in 1936 and rectigraphs became an important part of the business. In 1947, Haloid signed an agreement with a non-profit research organization known as Battelle Memorial Institute, in order to produce a machine which was based on the process known as xerography (Xerox, 1999).

The word "xerography" comes from Greek origin known as "dry" and "writing". It was invented by Chester Carlson. The Battelle institute signed a royalty agreement with Carlson in 1944 and they started making commercial products. After two years of agreement between Battelle and Haloid, in 1949 the company introduced the Xerox copier. In year 1958, Haloid changed its name to Xerox and in the following year, they introduced the first automatic copier. At that time, Xerox was one of the largest organizations in America. Following their growth and success in the 1970s, the organization established Palo Alto Research Centre (PARC). The company also entered in the personal computer business and invented first computer. But due to the incompetence of the leadership, Xerox was not able to pursue that development towards a profitable turnout (Smith & Alexander, 1989). In the late 1970s and continuing in 1980s, there were a number of competitors like IBM and Japanese firms in the market which gave Xerox a hard time to do business. The company also decided to go into financial services but that didn't even support the company and ultimately in the 1990s, they left the financial services business. The company started calling itself, "The Document Company" to stress among the customers that it is still in the business of document processing. The company also introduced the colour printers in 1997. There were multiple restructurings in the 1990s which lead to thousands of job cuts and in the late 1990s, the stock position of the company got worse. After that in 2000, it was found by Securities and Exchange Commission that there were major fraudulent accounting practices which

leads to huge losses for the company (Hechinger & Bandler, 2003). In year 1962, Xerox established Fuji Xerox Co. Ltd in Japan with 50-50 percent stake and then later in 2000s, there was a merger between Fuji Photo Film Co. and Xerox, in which Xerox sold half of its stake. Today Fuji holds 75 percent of the shares and Xerox holds 25 percent shares and Fuji Xerox is a global brand and offering document services (Giles & Starkey, 1988). Xerox Corporation is now operating in business process outsourcing and also as a document technology (Xerox, 2009).



Figure 1 Revenue by Segment
Source: (Xerox, 2009)

Mission and Vision Statement

Mission and Vision statement are an important part of strategic management process for all types of organizations. These statements have significant effect on the performance and strategic aspects of organization (Darbi, 2012). According to the findings of (Bart Baetz & Kenneth, 1998) there is a positive relationship between the performance and mission statement of the organization. In another research conducted by (Rarick, & Vitton, 1995) it was found that organizations with official mission and vision statement have twice the yields on equity of shareholders as compared to those organizations which do not have any mission statement.

Mission Statement of Xerox

"Our strategic intent is to help people find better ways to do great work -- by constantly leading in document technologies, products and services that improve our customers' work processes and business results." (Xerox, 2015)

According to (Drucker, 2008) mission statement states that what the business of the firm is. In order to establish objectives and strategies, a clear mission statement is required. While writing a mission statement there are several components which needs to be included in the statement. These components are customers, products or services of the firm, market in which the organization participate, growth, concern for employees, belief, community and social concern, technology and at last competitive advantage of the organization (David, 2011). The mission statement of Xerox is in accordance with the above arguments and although certain factors are included however the study suggests to incorporate remaining missing aspects also, so that a clear message should be delivered. The statement mentions the business of the organization and is customer oriented. However, the mission statement neglected the employee aspect. Furthermore, it is suggested by the research study to include the public image and also to mention the competitive advantage of the organization so that the reader can understand the message in a better way.

Vision Statement of Xerox

"To help businesses share knowledge through people and technology."

The objective of the vision statement is to answer the question that where do the organization want to be and what they want to become in the future. Its focus is on the long run plan of the company (David, 2011). Vision statement plays an important role in the leadership, implementation of strategy and change in the organization (Avery, 2010). The vision statement of Xerox focuses on the purpose of the business i.e. to help businesses in order to share knowledge with the help of people and technology. However, it is suggested that the statement should have incorporated a future aspect which may help to clarify the goal that in the future the company wants to be at a certain point.

Xerox' analysis of Core Competencies

The research study has focused on the following models in order to analyse and evaluate the core competencies and competitive edge of Xerox in order to examine the sustainable growth of the organization.

The Strategy Clock: Bowman's Competitive Strategy Options

Bowman's strategy clock is a measure which indicates the strategic positioning of the organization. This positioning is based on price and perceived value to the consumer (Bowman & Faulkner, 1997).

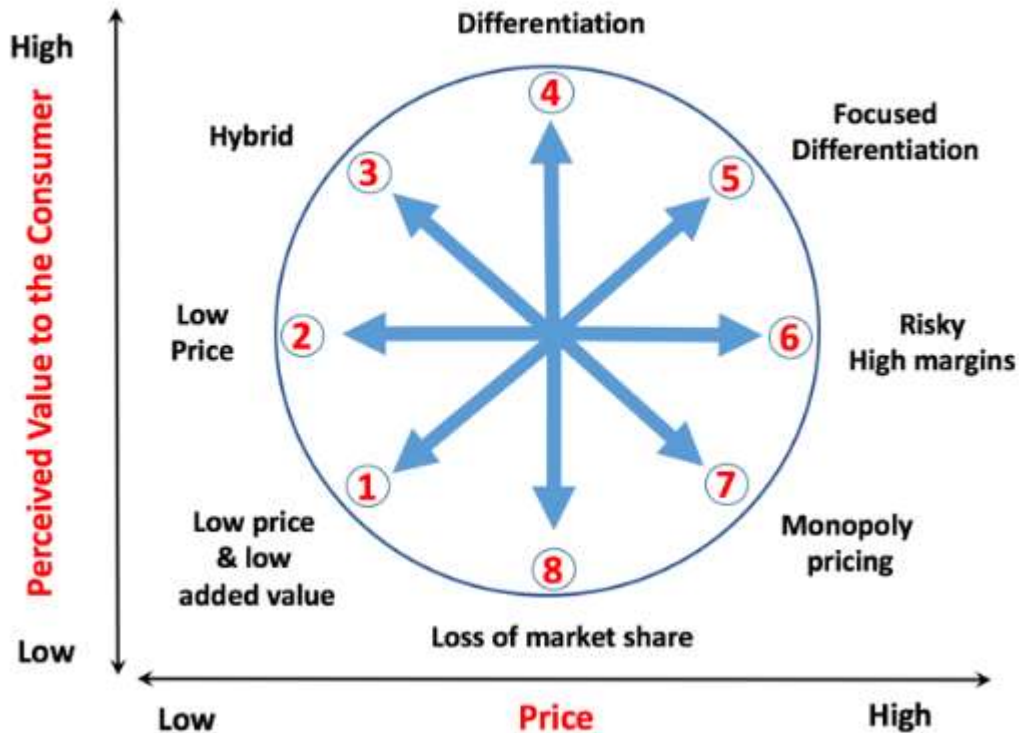


Figure 2 Bowman's Clock Model
 Source: (Bowman & Faulkner, 1997)

Xerox was at the top of its game when there was no other competitor in the market. The company was the first one to introduce copier and personal computer in the market. In the beginning the company was not able to keep and use the research findings relating to computers accordingly, so they lost that market. The company was at the focused differentiation point in terms of printers but after the arrival of different competitors the company kept losing the market share. Today the most notable competitors of Xerox are Canon Inc., Hewlett-Packard Company, Ricoh Company and Sharp Corporation. The prices of Xerox were higher than the competitors especially compared with Japanese competitors. So based on their situation in the market and their price level, Xerox is now at risky high margins. Another aspect is that the product portfolio of Xerox is mainly focused in the documentation services, while its competitors are also in other fields like electronics.

Porter's Five Forces Model

Michael Porter's five forces model is basically used in order to evaluate the industry and market. Many industries use this approach to develop strategies.



Figure 3 Porter's Five Forces Model
Source: (Kotler & Keller, 2016)

Bargaining Power of Customer

The bargaining power of customer is an important aspect in order to evaluate the market. Xerox has multiple competitors in the market which allows the customers to have more than one choice while buying the product. Especially Japanese competitors like Sharp Corporation are offering their products on a very low price as compared to others, so the bargaining power of the customers is high.

Bargaining Power of Supplier

The suppliers of raw material for Xerox and other companies are in excessive amount in the market. Most of the raw material items like ink, toner and cartridges etc. which are very generic in nature are supplied by China to almost every competitor in the market. So as there are a number of suppliers in the market, which provides benefit to the organization in terms of negotiation and search for better raw material with low cost. This makes the bargaining power of supplier low.

Threat of Entry of New Competitors

In today's business environment, the probability of new competitors entering the market is relatively high as compared to the past. Xerox has lost its market share to different competitors which enter the market a long time after Xerox. As there are a number of suppliers and high demand in the market the chance of new entrants is very high.

Rivalry among Competitors

The intensity of competition and rivalry between different competitors increase as the number of firms increase in the market. Although Xerox was the first company in the market to introduce the photo copier but as the time passes and the market became more

mature, the rivalry has increased. Different companies use different tactics to defeat their competitor. Epson is a Japanese firm which introduced huge and easily refillable cartridges in the market and provide easy solutions to the customers. This strategy by Epson helped the company to gain a major market share and affects the competitors like Xerox.

Threat of Substitute Products

In today's business world, there are several awareness programs focusing on green and paper less environment which has a drastic effect on the firms. Customers are now shifting to digital and soft form documentation (Worthington & Patton, 2005). Other than environmental factor it is less costly and also easy to manage for customers. So this is a big threat for organizations to continue their current strategy of business.

SWOT Analysis of Xerox

SWOT analysis is a powerful tool which can be used by businesses in order to understand their position, and to uncover such opportunities which are available to be exploited.

Strength

Xerox is the pioneer brand in copiers, printers and document equipment. This gives the advantage for having a strong brand name in the market. Xerox has a large geographical position, covering more than 160 countries which give the company a very strong position in order to evaluate the needs of different regions accordingly. Even today in different parts of the world, Xerox is known as the synonym for photo copy. The company believes in innovation and that's the reason of its high investment in research and development. Xerox was the first firm to introduce laser and colour printer in the market. This high funding in the research is a strong factor for the organization to compete in today's competitive environment. The expertise of Xerox are high than compared to others as they are in the market for a long time. The workforce of Xerox is very diverse which gives the company an edge for having different set of ideas and transforming those ideas into action.

Weaknesses

Although Xerox has a global presence but still one of the weaknesses of the company is the limited budget for advertising and marketing. This gives the advantage to the competitors to market their product in a more effortless way. The company failed to estimate the arrival of new competitors like canon and other Japanese firms in the market and they didn't change or improve their strategy. Today the company is mostly dependant on US and European market whereas in other parts of the world, the competitors are gaining the market share which leads to fall in revenues of Xerox. In addition, there was no check and balance regarding financial and accounting practices in the organization which leads to fraudulent reporting and the company has to pay USD 10 million as penalty (Bandler & Maremont, 2002). Another major weakness is that the company was not able

to cope with the fast and ever changing business aspects in the market like advance technological features for products. The company mostly focused on the traditional approach for product development and ignore the latest trends in the market. This cost the company to lose their market share and also decline in the stock value.

Opportunities

In today's market, customers are concerned about the environment and they want to shift towards digital products. The company has an opportunity to advance its business in the digital sector and to support the environmental concern. Xerox can also gain the lost market share by merging or acquiring the small firms, especially in those area where the presence of Xerox products is very low. As Xerox acquired Affiliated Computer Services (ACS), which was the largest business process outsourcing firm (Xerox, 2009). Another opportunity for Xerox is to diversify the product portfolio. The competitors introduced the printers for home use which affects the Xerox market share because the company was only focusing on office solutions, so there is an opportunity for Xerox to target the domestic market also. Although the company is in serving different businesses like financial, insurance and investment services but still there is an opportunity in the market for the organization to enhance the portfolio and to compete with competitors on different levels.

Threats

A large number of competitors in the market pose a direct threat to Xerox. Several Japanese firms like Epson and Sharp corporations are offering their products at low price which affects the sales of Xerox. This has a drastic effect on the revenues of the company and it kept on declining. Another major threat is the growing concern of carbon free environment and consumer shifting towards digital solutions which makes the printing and copier business obsolete. As the revenues of the company are falling down so it imposes a threat and restriction on their research and development budget for innovation. Another major threat is the foreign exchange risk. As the company is operating in different countries, so the operations outside the US are reported in the respective local currencies. The fluctuation of currency affects the operating results of the company. As in year 2008, the company reported a decrease of USD 57 million in cash as a result of fluctuations in foreign exchange (Xerox, 2009).

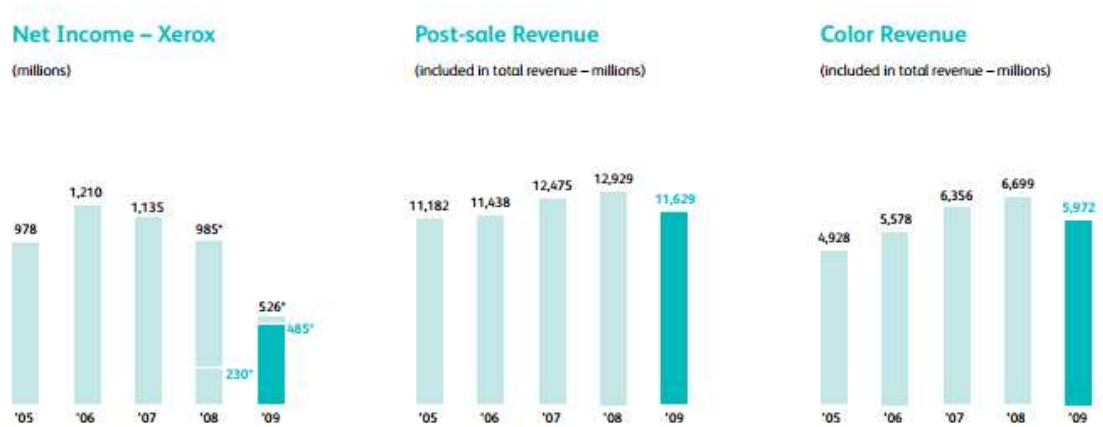


Figure 4 Financial Review 2005-2009
Source: (Xerox, 2009)

Xerox's Strategic Failure

Since the beginning of Xerox, the strategic direction was wide off the mark. Although Xerox believed in innovation but the leadership of Xerox was unable to transform their beliefs and ideas into reality. Although Xerox was successful in the copier business at that time and they introduced first xerography machine but the executives of Xerox failed to analyse the importance of personal computer at that time. Palo Alto Research Centre by Xerox developed the first ever prototype of personal computing, graphic user interface and desktop computer in 1970s, but due to the negligence of leadership, the company failed to continue their journey in personal computer business (Hiltzik, 2009). The executives of Xerox mainly focused on copiers and they thought that personal computers are not relevant and important as the copy machines. The research findings by Palo Alto Research Centre were ignored by the board of directors and they shared those findings with Apple and Microsoft (Landley, 2000). All those findings and concepts were adopted by Apple and Microsoft and both of these companies became top giants in personal computing in 1980s. According to the founder of Apple, Steve Jobs, Xerox could have been the IBM of today but they gave it all away and they left with nothing (Bill Chappel, 2011). The leadership of Xerox never realized the potential of Apple and Microsoft as their competitors. They mainly care about their direct competitors and neglect the indirect competitors. Later those indirect competitors entered the market in same product category and defeated Xerox in a dramatic way. Xerox would have been the market leader but due to this core strategic failure, they were unable to sustain their market position and lost business to their aggressive and optimistic competitors. The lack of strategic ambition and leadership led Xerox to wrong strategies which restricted them to foresee the capabilities of established rivalries and dynamic market.

In 1970s, a number of Japanese competitors gave tough time to Xerox. The organization failed to realize the changing dynamics of the market and they kept on selling the products with old design which were big in size and complex to use, while on the other hand competitors like Ricoh Company Ltd. introduced printers which were

smaller in size, less expensive and low maintenance cost (Casseres, 1997). This failure of realizing the market trends and rigid strategies led to a significant drop in the market share for Xerox. However, in 1980s, the company realized the need for new designs and they introduced new products in the market but till that time there were a number of competitors in the market and it was too late for the organization to regain their position. The company focused on research and development in 1980s, and they spent more than USD 3 billion in order to look for new technologies so the company could grow but due to failed marketing strategies and their inability to develop and market the products, Xerox was not able to pursue the customers.

Although in 1980s, the leadership was changed and the company displayed good growth and there were certain achievements like introduction of several new products which helped the company to gain market share, but despite all of that the organization has to face different financial and legal issues in early 1990s. The company created a separate division known as X-soft division in order to develop and market the software products of the company but due to strategic failure 10 percent of the employees of that division were laid off, only after four months of its formation. Furthermore, the organization sold of its three insurance companies and paid around USD 142 million in terms of lawsuits and patent disputes. In addition, there was major restructuring by the organization in which more than 20,000 jobs were eliminated from the company over a period of 3-4 years.

This mismanagement and failure of HR strategy led to demotivation and low morale among the employees of the organization and the loyalty of employees decreased. The organization cut the cost for a limited period of time and they improved their sales but in the late 1990s, the effects of restructuring came into play and the stock price of the company went down. The customer service centres of Xerox were not performing efficiently. The productivity of employees was not up to the standard, order processing was late, unreturned customer phone calls and errors in billing led to customer dissatisfaction. The accounting practices were also false and investors were being misled by the company. All of these reasons cost the CEO his job and he was forced to resign in 2000. This even had a drastic effect and the stock value dropped 60 percent from its value. Later in 2001, Xerox sold its stake to Fuji Photo Film and now the company has 25 percent stake while Fuji Ltd. holds 75 percent of the stake (Casseres, 1997). In addition, later in 2002, the company had to pay 10 million USD as penalty and 22 million USD were paid separately by executives as fine and other forfeits. So all of these strategic failures by Xerox led the company to today's situation.

Discussion

In this part of the research paper the study will focus on those strategic options which could have been used by Xerox in order to resolve the issues being faced by the company.

Strategies Xerox could have been implemented

In order to sustain in the market and to be ahead from the competitors, the organization has to follow certain strategic measures. As Lewin's change model suggested that the

organization has to go through three steps i.e. Unfreeze, Transition and Refreeze (Burnes, 2004). The study suggested the following strategies and recommendations in order to manage the issues and to attain strategic position for the organization.

Efficient Production

Xerox is the oldest company in the market and it gave them the advantage of better expertise than others. The major problem faced by Xerox was availability of low cost products in the market by its competitors. This problem can be handled if the organization adapt the strategy of low cost production by establishing their production plant in those geographical areas where production cost is low like China. Despite the fact that Xerox has global presence, the production cost of Xerox is still high. Most of the competitors are manufacturing their products in China while Xerox has manufacturing plant in USA and other geographical areas where production cost is high. This strategy can aid the organization in terms of low cost production and higher profit margins.

Diversification in product line of Consumer Electronics

The direct competitors of Xerox realized that there is a huge market gap in personal printing equipment whereas Xerox failed to realize this market opportunity and was too rigid to diversify product lines such as HP Envy 4527, HP DeskJet 3720 etc. This competitive approach of intelligent competitors like HP, Canon etc. cornered Xerox to industry exclusive equipment which had only mass printing demands. In addition to that competitors like HP vigorously realized the growing usage of fax machines in industry and incorporated fax machines within printers, offering all in one solutions to its customers. This allowed consumers to enjoy hassle free printing, scanning, copying and faxing documents from one unit. However, the current industrial demand does not require fax enable equipment as it's an obsolete technology. Xerox should introduce such product category which can compete with competitors' products in consumer electronics and introduce such printing equipment which can be used by light user and people at home or to those companies which does not require large scale printing. The research study suggests this to Xerox because nowadays green environment schemes are trending and industry is trying to shift from hard copies towards digital copies. Xerox should realize this developing change in printing industry and should come up with light equipment, catering low printing demands of companies.

Reducing Foreign Exchange Risk

As Xerox, has a global presence and they are operating in more than 100 countries, the organization is exposed to foreign exchange risk. Although this risk is not in the control of organization but still it is manageable. Xerox is exposed to economical risk, transaction risk and translation risk. Although Xerox has been taking certain measures to manage this risk but it is not efficient. The company lost around 57 million USD in year 2008, due to foreign exchange conversions. In order to eliminate this problem, Xerox need to adopt hedging techniques, like leading and lagging, interest rate swap, currency swaps and money market derivatives. These all measures will ensure in the reduction of risk exposure resulting in more stable cash flows.

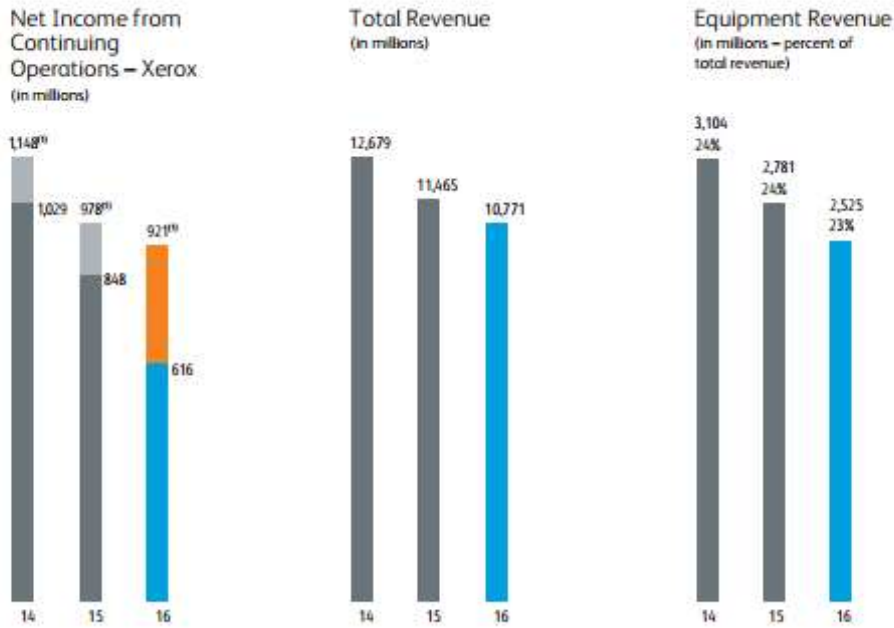
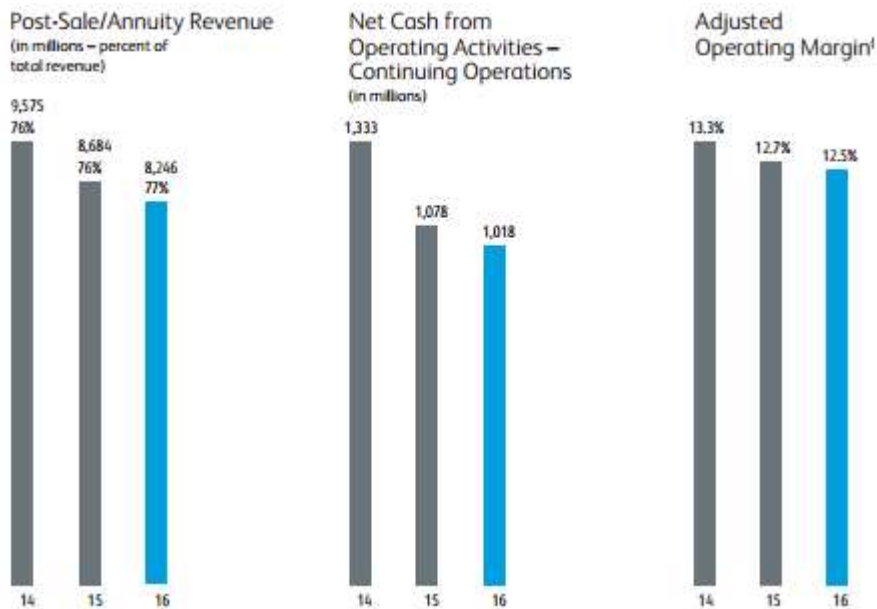


Figure 5 Financial Review 2014-16



Source: (Xerox, 2009)

Recognizing the importance of Marketing

Xerox always has been neglecting the need of marketing to develop and market their products in the market. In the beginning, Xerox was successful and it was considered as a synonym for photocopying but after the arrival of competitors in the market, Xerox gradually lost that fame and was unable to attract customers. The brand name was perceived as only photocopying machines, despite the fact that Xerox tried to enter into information systems which led to the failure of that product line by Xerox. The research and development division of Xerox played an important role in their early success but due to lack of proper marketing, the company was not able to transform those developments into profits (Bianco & Moore, 2001). The markets are much more saturated now and there are multiple brands offering solutions coupled with aggressive marketing approaches. Due to these circumstances, in congestion with minimum marketing by Xerox influence customers to shift from Xerox to other brands and eventually forgot the existence of Xerox. So Xerox should learn from their competitors and implement holistic marketing approach to revive the brand image and enhance the perceived brand value in the minds of customers.

Conclusion

Xerox is operating on a world scale level and currently one of the major players in the industry but due to multiple competitors and tough competition based on several factors like, pricing, reachability and easy to use, the competitors are ahead in the market. In order to achieve the significant position in the market, Xerox needs to develop certain strategies like stretching the brand and diversify to more consumer electronic products, proper and clear communication with the stakeholders and to market the brand efficiently, which can ensure that the company is going in right direction.

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