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I want to talk to you today as a fellow traveler in the land of IT. On this path there are certain things we all have learned and certain laws we all have to follow.

Everyone knows Moore's Law -- computing power doubles every 18 months. But it's not that simple anymore.

In his book, "The Only Sustainable Advantage", Xerox alum John Seely Brown (former Chief Scientist at PARC) cites a couple other laws we also have to follow.

Fiber Law says the performance of optical fiber doubles every *nine* months...

Storage Law says the storage capacity of a single disk doubles every *twelve* months.

By those standards, Moore's Law looks like a piece of cake!
With laws like these, you bet the firm every 9, 12, or 18 months.

Doubling our performance every several months means we can create more value at less cost—over and over. But in the 40 years we've been living under these laws, we've also seen their unforgiving side...

Competition keeps getting tougher...

Customers keep getting more demanding, and...

The penalty for indecision has gone through the roof.

And that's just the technology part of it – the “easy” part.

Let's talk about the hard part:

- The deflationary spiral in the IT industry, and...
- The shift in customer focus from infrastructure to value ... from hardware to services ... from the “technology

side” of the IT equation to the “information side” (what we call “Big I, little t”).

These are issues that we face as manufacturers ... you face in the channel ... everyone faces in the IT value chain.

Everyone’s margins are under pressure. We’ve restructured and re-engineered. We’ve six-sigma’d. We’ve outsourced off-shored. We’ve eliminated waste and driven out costs.

Every possible tradeoff has been analyzed to the nth degree. And what have we gained? More downward pressure on margins.

In a recent report on the Future of the IT Channel, Gartner says over the next five years there will simply be fewer of us around. Fewer suppliers. Fewer distributors. Fewer resellers.

By 2007, Gartner predicts 30% of today’s IT channel companies – primarily VARS – will no longer exist!

They say, “a balanced, profitable ecosystem will emerge by 2010.”

There are no guarantees who will be part of that ecosystem. But one thing is clear: the key players will focus on value-added services, not just products.

The winners will take world-class technology ... and build services around it -- delivering real, measurable business results. And they'll be fairly rewarded.

For perspective, let's go back to JSB's book. He and co-author John Hagel argue that we can find new value-add opportunities by “monitoring the edges of our business.”

They suggest that we bring our teams together and ask:

*Which five business partners are the most innovative in managing **their own** businesses?*

Which customers represent the leading edge in using our products or services?

If new competitors enter our industry, what industries will they come from?"

And finally...

What can be done to strengthen the insight and performance generated from the edges of our business?

Those sound like channel questions to me. Those of us who go to market with channel partners should be asking:

*Which five **channel** partners are most innovative in managing their own businesses?*

*Which customers are the leading edge in the use of **channel** products and services?*

*If significant new competitors enter our industry, what **channels** do they currently sell through?*

*What can be done to strengthen the insight and performance improvement generated in the **channel**?*

The answers would help us focus on our customers' shift away from the **physical attributes** of technology—and toward the operational efficiencies and profitable growth that can be gained from the **effective use** of technology.

Until recently, the focus has been more on the technology than the information side of the IT equation. The problem is, the “T” side is all about deflation and commoditization.

So we need to move to IT with a big “I” and little “t”. The focus is on the **INFORMATION** – where it belongs.

Done right, the “I” value will dwarf the “t” savings.

Big-I-little-t is about how *information* flows ... where it goes ... who it touches ... and the sustainable edge it creates — not just *technology speeds and feeds*.

How *does* information flow through the enterprise?

Who *does* it touch?

What *is* its sustainable edge?

Those are the questions we must continue to ask.

Many of the answers will be on boardroom agendas—not just part of SG&A discussions down the hall.

As suppliers and channel partners, there is a lot to gain by looking into developments that offer more value than has yet been realized – partly because the technologies have not been fully adopted and partly because the value potential has not been fully harvested.

By helping your customers harvest this value you will improve your own business and fight the deflationary spiral I mentioned earlier. Let me give you a few examples.

Take Voiceover IP ... It converts voice into data and sends both with the same device over the same network. At the very least, it's a more efficient way to transport voice. At the very best, it will produce a richer user experience with features like video and instant messaging.

Among the benefits are web-based administration (which is how we manage our own and competitive MFPs remotely); direct peer-to-peer phone calls; reduced costs and investment protection. And it's easily integrated with legacy systems.

Despite all this, users are adopting VoIP at a gradual rate. But it is clear that all communications will be IP based within the next 10 years. So there's a lot of untapped value and it makes sense to begin the shift as soon as practical.

There's a similar trend in network storage. Google now offers 2.4 gigabytes of storage absolutely free. You can get another 2 gigs at Yahoo and Hotmail. One of Gmail's selling points is its ability to retain e-mail messages "forever".

So, the problem is not how to create more storage. It's about accessing the value of the information locked up in all those digital file cabinets.

It's about finding ways to put our hands on all that content – to make it more actionable. The companies that do that will turn a deflationary spiral into an opportunity to create value.

Security is another case in point. Everything in our world – from telephones to copiers - are turning into terminals on the network. All the sensitive information that passes through these devices requires the same kind of security we expect for our credit cards and our identities.

This is especially true for medical records and financial documents. But protecting information doesn't have to mean making it less accessible. Certain parts of the information can be secured without putting the entire document at risk.

There's a major opportunity to grant access to the right information to right people and protect info at the same time. If we do that, we can turn a commodity business into a value-add business.

The last area I want to talk about is Smarter Document Management. It has a lot in common with the other examples.

At Xerox, we view Smarter Document Management as a comprehensive subject, starting with documents that are "smarter" in their own right ... and are then intelligently managed through value-added consulting and assessment services.

All of this is enhanced through a focus on color, multifunction technology, and partnering with best-in-class solutions providers.

I want to briefly cover each of these areas because I believe they are part of “the sustainable edge” in today’s market.

- Businesses around the world produce more than 4.5 trillion hard copy pages a year (IDC)
- 80 percent of knowledge workers’ activities are supported by documents and 90 percent of customer communications takes place through documents (PARC).
- Knowledge workers spend 20% of their day looking for information in documents. 50% of that time they can’t find what they're looking for. (IDC)

I don’t know about you, but I can relate to that! In fact, I have developed a 90-90-90 rule that says 90 percent of the

information I get I toss, 90 percent of what I read I never read again, and 90 percent of what I save I can't find again.

The problem is this: I-T dollars have been spent automating the world of data. People – and documents -- have largely been left out of the I-T mix.

Document processes are among the next sources of value and productivity in IT.

IDC research shows “companies with effective document management strategies are more likely to be more profitable”.

Companies that focus on how documents and information are managed are better equipped to reduce costs, respond to changing market conditions and increase profits.

In other words ... you can't have a viable business strategy... or a viable IT strategy ... without an equally strong document strategy.

We believe helping customers implement Smarter Document Management strategies is a sustainable competitive edge for Xerox and our partners.

Within the channel, we now offer XOPA — the Xerox Office Productivity Advisor. It's a document assessment tool to help customers understand their document costs.

You can provide a baseline assessment of a company's document output equipment and the costs that go with it.

Based on this assessment, you can develop recommendations to reduce costs and optimize the use of existing printers, copiers or multifunction devices.

Landmark Systems, a reseller in Madison Heights, Michigan is putting XOPA to good use. Their customer is Sumitomo Electric Wiring Systems. They put a clear objective in front of Landmark:

If Landmark could beat a savings benchmark, Sumitomo would replace its existing printers.

Using XOPA, Landmark was able to build a bullet-proof business case. It resulted in an agreement to develop a balanced deployment of assets to hit Sumitomo's target.

That's a great example of meeting the part of every customer need that begins with the question, "Here's our savings target—can you hit it?"

The right answer required a services-led approach in addition to new technology.

But there's another part of their need that is harder to put into words. It should go something like this: "Here's what we do well—how can we do it better than anyone in the world?"

That's an exciting question. And we're answering it in exciting ways.

Let's go to America's third oldest city — Newark, New Jersey — where we are working with a channel partner SRC Systems to re-invent the way the city does business.

The City of Newark is moving its daily business transactions online. It has to link some 1,500 employees to a document management network ... it has to improve everything from internal budget processes to check-printing ... and it has to make multifunction systems readily available so paper documents can be moved on line.

They needed a document management system that integrated copying, scanning, printing and web-based

software. SRC Systems and Xerox teamed up to replace a hodgepodge of departmental applications that were taking up precious IT time.

Beginning next month, twelve city departments will be linked to the city's new integrated document management system.

For the first time, workers will be able to collaboratively capture, manage, publish and share electronic content.

That's Phase 1.

Down the road, project managers will be able to make documents and forms available to the public. They will automatically route forms from one user to the next for approval and electronic signatures and to the city's print shop.

The system will also streamline how agendas and minutes are distributed for the city's board and council meetings.

Based on an workflow assessment, the city purchased a fleet of new multifunction systems, scanners and software.

But the solution is not just hardware ... And it's not just Xerox ... And it's not just printing.

It's a combination of Xerox and channel capabilities, software and services, printing and workflow knowledge.

It's how we break the deflationary IT spiral!

Focusing on services is one way to do that. Color is another.

Color technology is disruptive technology – especially in the black-and-white business world. But it's not just color for color's sake.

It's about adding intelligence to documents – making them work harder and smarter.

That's what they're doing at Cingular Wireless. It started when Cingular Wireless needed to fix a customer service issue.

Anyone who has a cell phone can relate to this. Sixty percent of all new customers were calling the service center within the first 60 days of signing on.

They had all kinds of questions. How do I use this feature? What does my calling plan cover? Why is my first bill so different than I expected it to be?

Questions that could have been handled at the point of sale. But who can remember all of that? You certainly can't find it in the owner's manual.

BUT ... if you could print it out ... personalized for each customer ... in a colorful reference guide ... and hand it to them at the register ... within seconds of signing the contract ... maybe they would keep it and refer to it when they had questions — instead of calling the 800 number.

The solution called for Xerox Phaser color printers in 1,000 stores nationwide. Last year -- working with Pro-Sys, an Atlanta-based VAR -- we signed an \$8 million deal with Cingular to print color materials on-site, on-demand.

Cingular made the investment knowing every call to their service center costs an average of \$6 dollars ... and every personalized color document can be printed for 12 cents.

Working together, we replaced a six-dollar problem with a 12-cent solution.

Now...

I don't have to tell you that it's one thing to talk about a new way of doing business ... and another thing to actually do it. You have to look at what people are *doing*—not just what they're *saying*. Understanding that, let me put the spotlight on some recent actions.

- In March, we launched the industry's first color MFP based on solid ink technology. It's the first of its kind to be offered through the channel.
- Five weeks ago, we announced 24 new office products including 18 new multifunction systems our biggest office product launch in two years.
- We've already rolled out more new products in 1H 05 than in all of 2004.

These offerings target a \$60-billion-dollar market opportunity ... serve businesses small to large ... and represent new channel opportunities.

Resellers like Laser Supply of Pennsylvania and Lasercomp of Michigan are taking their multifunction business to new levels. Peak Resellers represent our fastest growing sales channel for MFPs.

With our most recent launch, 95 percent of our office product line has been completely refreshed over the past 24 months.

The only way we can move at that speed, with this level of innovation is to **partner**.

We're working with all kinds of partners ... development partners, workflow partners, software partners, channel partners to provide the kind of solutions IT managers and end users demand.

In a recent cover story in CRN, our CEO Anne Mulcahy put it bluntly ... "It's partner or perish".

Resellers are on the same strategy. In its 2005 State of the Market report, VAR Business found 76% of solution providers are partnering with other solution providers, up 12 points from 2001.

On average, one quarter of solution provider revenues are generated from partnering with others.

Despite the increase, 40% of VARs still consider other solution providers to be a high threat to their businesses. So partnering is still viewed as perilous.

We faced the same fear at Xerox. Frankly we had to GET OVER IT.

I head a new group called Xerox North America. It includes all channel operations -- direct and indirect -- in one organization. Reseller and distributor operations are at the same level as direct sales.

We are increasing partnerships and incentives. Expanding channel products and services. We'll never eliminate conflict, but we can make better decisions on how to serve customers and make it easier to do business with Xerox.

Similar initiatives are underway worldwide.

We implemented 2-tier distribution for office products in Europe. Developing markets in Latin America and other areas are moving to the same model.

Partnering is not just an enabler of our strategies—it *IS* our strategy.

We will partner our way to better customer relationships, broader market coverage, faster top line growth, and more favorable ratios of revenues to expenses.

Let me quote from JSB's book one last time. He cites three things we have to do to get ahead in this new world:

- 1. Dynamic Specialization** -- making difficult choices to focus on areas of world-class capability while shedding

other activities and using specialized areas as platforms for growth.

Unequivocally, I can say we have done that at Xerox.

And many of you have done it as well. Sometimes with a gun to our heads—but that still counts.

- 2. Connectivity and Coordination** -- learning to mobilize the resources of other equally specialized companies to add even more value for customers.

We have started to do that. We can do a lot more—in partnership with other IT innovators who specialize in areas that are complementary to ours, and working closer with the channel.

- 3. Leveraged capability building** -- recognizing that the most effective way to accelerate capability is collaborating closely with other specialized companies, pushing each other to become better faster.

*We are collaborating, but not as closely as we could be.
And we haven't synchronized our specializations as
well as we will some day.*

I recently came across a quote I like a lot from the futurist William Gibson, who is credited with coining the term *cyberspace*. He said,

"The future is already here ... it is just unevenly distributed."

Exactly.

It's a future of value creation for us and our customers. It's a future that's already here you know where to look.

You can even see it here at CompTIA where a new initiative is getting off the ground to help IT resellers "evolve into technology solution providers."

In announcing this move, CompTIA said:

“Technology sellers who want to stay in business must transform their business models from ‘box pushers’ to trusted advisors to their customers.”

There are three key parts to that statement:

- *staying in business...*
- *transforming your business models...*
- *And becoming trusted advisors to your customers...*

At Xerox, we resonate with all three.

We came close to going out of business not long ago. We turned ourselves around by transforming our business model

– something we continue to do. And we have moved beyond pushing boxes with the goal of becoming trusted advisors to our customers — in partnership with the channel.

That is the future. And as William Gibson says, it is already here, but unevenly distributed.

So we would add one word to everything CompTIA has said about the need to evolve into solution providers:

HURRY!

We all need to get there together, as an industry. It's the only way to overcome the trend toward deflation, and it's the only way to meet our customers' quest for the real, quantifiable, bottom-line benefits of the technology infrastructures they've worked hard to create.