

Xerox Tries to Go Beyond Copiers

Vendor Pushes Services That Eliminate Office Machines, Reduce Paper Use

BY WILLIAM M. BULKELEY

With sales of printers and copiers slumping and businesses looking for new ways to save money, Xerox Corp. and its rivals are changing their sales pitch.

For decades, Xerox and others built their businesses by pushing companies to buy more office machines and supplying pricey ink and toner. But increasingly these vendors are now advising big customers to reduce their number of machines and find ways to cut printing costs.

"That sounds like a strange way for a manufacturer to make money," concedes Stephen Cronin, president of Xerox's global-services business.

Xerox, Hewlett-Packard Co. and others say they are seeing strong demand for consulting services that show companies how to eliminate desktop printers and force workers to share multifunction devices that copy, print and fax. The vendors say such moves can reduce printing costs up to 30%.

The printing companies want to entice clients to sign up for exclusive contracts, allowing them to replace machines made by rivals and thus provide all printing supplies. In some cases, clients let a single supplier manage the whole system for a monthly fee.

The business, known as managed-print services, is "all about controlling the fleet" of document-producing machines, says Ed Crowley, president of Photizo Group in Lexington, Ky., which tracks the print-consulting market. He estimates revenue from managed-print services will jump 36% this year to \$15.7 billion.

It is a market that is currently dominated by Xerox, with H-P a strong No. 2, according to the latest figures available from research firm Gartner Inc. Lexmark Corp. and several Japanese firms, including Ricoh Co. and Sharp Electronics Corp., have stepped up their own services offerings recently.

Mr. Cronin says Xerox



Xerox is pushing its services, which reached \$3.5 billion in sales last year.

doesn't force customers to switch to Xerox hardware, noting more than half of the 1.5 million devices the company currently manages are from other vendors. But he says consolidating on a single brand helps cut costs.

"Total spending goes down, but my proportion goes up," Mr. Cronin says. Last year, services, including maintenance as well as managed print, contributed \$3.5 billion of Xerox's \$17.6 billion in revenue.

The services push comes as office copiers, fax machines and printers have merged into multifunction devices that are linked to corporate computer networks. Although these devices often cost \$10,000 to \$20,000, vendors install them when they manage a company's printing because compared with desktop devices, they are more efficient, break down less and can use cheaper supplies.

Last month, Procter & Gamble Co. agreed to turn over to Xerox its vast fleet of printers and copiers in a multi-year contract valued at more than \$100 million. Filippo Passerini, P&G's chief information officer, says the decision is expected to cut paper usage 40% and costs 20% to 25%. He declined to disclose dollar figures.

Because of their push into services, the hardware makers are increasingly frank about the

high costs of printing. Xerox says its research shows that companies spend between 3% and 4% of revenue on producing documents, or \$3,400 per employee, so savings can be significant.

Other big companies are outsourcing their printing. Manufacturer 3M Corp. in St. Paul, Minn., hired Hewlett-Packard to manage its documents.

Tom Codd, H-P's director of marketing for enterprise services, says H-P's managed print services business has been growing at a 38% annual rate since 2004.

"H-P comes from a very strong position because we invented network printing, and historically IT guys bought the printers," Mr. Codd says.

Dow Chemical Co. in Midland, Mich., which hired Xerox, says under the managed service it cut the number of printers, copiers and fax machines in its offices to 6,600 from 15,000.

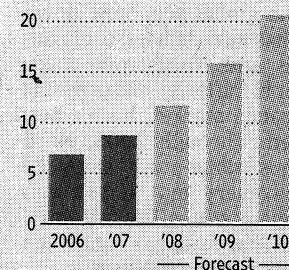
"Most organizations don't know how many devices they have and how many pages they print," says Ken Weilerstein, who covers printing markets for Gartner.

In many organizations, copiers were purchased by facilities managers, printers by the IT department and fax machines by office managers. That results in multiple service contracts and a wide variety of brands and supplies—especially ink and toner

Stacking Up

Spending on managed print services

\$25 billion



Source: Photizo Group

cartridges, which are usually the biggest expense.

Mr. Weilerstein says "it's not unusual to see dozens of suppliers and hundreds of different models."

With networked printers, a company can keep track of how much each worker prints and, copies and restrict use of color, which costs three-or-four times more per page than black and white. The devices print on both sides of paper, reducing paper usage by 30% or so.

Companies also save space, maintenance costs and electricity by consolidating on a uniform fleet of multifunction devices, which are shared by five to 10 employees.

Corporate buyers say that some office workers initially resist losing their desktop printers. Jim Lyons, a former H-P printing manager who is now an independent consultant, says he has heard of printers being hidden in closets and under desks to keep them from the outsiders.

To win over disgruntled employees, the services firms preach an environmental message. They say having fewer printers plugged in reduces electricity use and fewer pages printed means fewer trees chopped down.

"There's a big campaign at P&G for sustainability and printing services is one of our steps," says Mr. Passerini, adding, "The employees responded very positively."