



Xerox: Managing the intangible value of people: can you CE-IT?

In 2013, Xerox marked 75 years of xerography and of revolutionising how the world works and shares information. In one of life's little ironies, for a company that has made its name and revenues primarily on the back of copying things, it is in fact one of the world's great innovators, being awarded on average 23 patents per week. In the words of the company's chairman and CEO, Ursula Burns, 'we're here to help our customers be more successful by taking very complex business processes and challenges, create solutions and make them appear simple to the people who need them.'¹ For Burns, this involves using innovation smartly and strategically to help the world tackle daunting and complex tasks.

Little wonder, then, that both Louise Fisher, HR director for EMEA, and CFO Xavier Heiss are both in their neighbouring offices early. 'We're both early birds,' says Fisher. 'He's usually in before me. I get in about 7:00 or 7:15. We usually spend most mornings for half an hour just chewing the cud and catching up.'

Chewing the cud involves coming to terms with the fast-changing shift to a service-based offering put in place by CEO Ursula Burns. The target is to convert the ageing and margin-declining elements of business into higher value-added service offerings. Around half of the business now fits this new mould with a target of two-thirds of the portfolio set for 2017.

In separate conversations with both Fisher and Heiss it quickly becomes evident where the two functions can integrate their strategic and operational

thinking to help the business make the underlying people changes required by the shift in thinking and action required at Xerox. Significantly, all of this is being achieved against the backdrop of a business for which 85% of its revenues is annuities based. This requires thinking about changing to a higher-value creating business model while continuing to offer the same and reliable services customers have come to expect. Taking a CE-IT perspective helps us to understand the ways in which Fisher and her CFO see and tackle the people element of the new Xerox strategy.

Clarity

Gaining greater clarity around the strategy and its underpinning business model has enabled Fisher to focus on the related people-specific solutions.

'As we sell our technology to customers, the price has come down and people are printing less, so we are getting less margin. The problem is people think the costs of the service around that should also be less every time they renew it. It's like when you buy your iPad, you expect it to be half the price when you buy your next one, like our customers, so our margins have declined.'

The problem here, of course, is that while margins from technology might decline, the costs of people move in the opposite direction. The obvious answer in previous iterations of capitalism has been to shed labour and the associated costs. But Fisher suggests the operational complexities of business are fuzzier:

'You have issues around whether we can reduce our labour force but it's become more complex because it is more networked now and we don't expect things to get simpler, so we need to change the way we execute service. So the strategic workforce plan adopted by the group is about doing less in the field and resolving more issues remotely.'

Enablement

Espousing change in your people over a cup of early morning coffee with your CFO is one thing. Putting it into practice to underpin the strategy is quite another. But Fisher is unequivocal: it is no longer about taking out cost but thinking very clearly about how to invest in people to enable them to deliver what is required.

'It's good to have the commercial acumen and the understanding of the business but I wanted to reconnect with the people side. I'm driven to transform and take cost out,

transform and take cost out, transform and take even more cost out, rather than focusing on the re-investing side that leads me back to my original interest in having the conversation about people and how I can create a business case to start re-investing some of the costs we've taken out in our talent.'

Imperative

It is here where those early morning conversations reveal the importance of an integrated approach between the people and finance functions. Fisher was able to learn from her CFO of the imperatives required from a people perspective.

'Xavier has got a huge battle on with his Cash Collection team who are the people who get the cash in and get the invoices paid, because we have so many different billing methods. So instead of one invoice going out and being very simple it's multifarious and too expensive. So that sits in Xavier's shop and he will say to the different lines of business, "If you're telling me it's too expensive, I'll take cost out, half of the cost out. I'll take all of the cost out even, but you've got to stop selling complicated offerings to your customers. You've got to make it simple: one invoice." So he's driving that change, because they're driving him to take cost out. But then you have to say, "Okay, what's the people model that simplifies and delivers that way of working?" We look at this in terms of processes, countries and lines of business.'

And here Fisher immediately points to the role of people-specific imperatives in balancing enablement against cost reduction.

'We have been looking at certain parts of the business recently and saying, "Gosh, this line of business is grossly underperforming in that country, let's get shot." And then you realise that, actually, that same business is helping fund the infrastructure and the equipment that they are selling helps to keep those prices down and manage the infrastructure. So we've looked at those things, simplified the way we do things and are finding more ways to do things more cheaply while still doing what it is we have to do.'

Imperatives are a way of life for CFO Heiss: 'My entire career is based on, "There is something broken and you have to fix it." It soon becomes very clear when talking to Heiss that people have a central role to play in his own executive toolkit for approaching business imperatives.

'If you asked me to describe the company today I would say it is a mix of people, process and system. And when you put these three together then, if you have an organisation, a team and a process, if you take this element of people, process and system you will have a good way of understanding what could be broken and how a solution could be articulated.'

Heiss does look at measures in the people space but for him, examining the relationship between people, process and system is more art than science.

'This is not the metrics; it's more a part of the diagnosis. It's like a doctor saying, "Do I do an x-ray, or do I do a scan, or whatever?"'

Traction

Nevertheless, there does come a time when the results of exploring the balance between enablement and established imperatives need to be monitored. From a CFO's perspective, they are done in a wider context.

'When I'm looking at a country with my finance hat on, I will look at key finance metrics, P&Ls. It's a mix of pure financial data and what we call KPIs – key performance indicators. So, for example, you might say revenue growth is important. But what type of revenue? And in this revenue, what type of product family? Then you move from pure financial data to KPIs within this. There is nothing revolutionary here. Xerox is a data-driven company.'

The granularity of traction

But Heiss goes deeper and has his own distinctive perspective for understanding how the people elements underpinning the business model are ultimately connected to the profitability of the business. Heiss focuses on three separate yet related notions of value-added.

First, is what Heiss refers to as 'business value-added' or what the customer is prepared to pay for. He articulates this very clearly:

'As the customer, you may have a bill for which you have printed 10,000 prints on your colour machine, the invoice is £500. If I now split what that £500 is made of, there is the margin – our profit – and after that there is only cost. Business value-added will be things that you will recognise as a customer and say, "yes, I'm okay to

pay for this.” As an example, if you have an older consumable for your machine and the machine generated black pages or colour pages, and I can show you as the customer the cost sitting behind the invoice, you will say, “Yes, I can see that, I used two colour cartridges and I’ve got this cost there.” You have called during the month to get a service engineer so you won’t be surprised to see labour costs of the person coming to you on which there is salary, and seeing as this guy is coming equipped, he has tools, he has a car, he has a phone and these carry costs. But this guy also has around him an infrastructure, an IT system to support him, so you won’t be surprised to see that on the invoice.

This is the concept of business value-added: what you as the customer are prepared to pay when I give you a printout of the costs.’

Then Heiss introduces a second concept: “non-business value-added” (NBVA).

‘This,’ he suggests, ‘is looking at how can we change or extract from the processes in order to improve profitability but also to be more competitive because everybody in our market is trying to reduce cost.’

In many ways, this is the CFO’s take on the issues referred to above by Fisher. Streamlining the process can certainly shave off costs but this is precisely the approach Fisher was pushing back against. Yes, we can re-engineer through six sigma approaches, but we also need to explore where additional BVA sits. This, for Heiss, introduces a third element where people are critical.

Heiss continues:

‘And then you have a third component, which I call “required value-added”. As an example, if I put on my invoice the costs of

accounting, would you accept to pay for the costs of accounting for Xerox? You would question why you have to pay. I could put the cost of tax on there. Tax you won’t challenge because you recognise that you have to pay your VAT but if I’m telling you that you have to pay for my accountant or internal control and quality, would you be willing to pay? I could say, “You know what, this is the cost of doing business because today we are living in a regulated world and having all of these accounting requirements with the SEC and Sarbanes-Oxley, it’s just part of the regulation. It’s the cost of doing business.

And you, Mr Customer, do not like it but it’s what you have to pay for. And I don’t like it but it’s part of the costs of doing business. The three types of elements when you strip a process, when you want to cut the costs of a process you will look at what is clearly bringing business value-added to the customer, what is non-business value-added on the old proposal which via Lean Six Sigma you might take out, and what you should have as a minimum requirement in order to do your business.’

Seeing the development of intangible value

The challenge, then, revolves around how the services delivered by people can increase the business value-added elements of the service offering as opposed to shaving off costs here and re-engineering different elements there. Heiss spent some time explaining that the creation of goodwill – the difference between the book value of a business and the higher price paid for it – effectively represents the management of a company’s financial assets through

increasing the value of talent. He provided us with an example:

'The one element at Xerox where we are different is the tenure of our employees. It is amazing. They have been on a journey with us in a way that helps them to understand our business. They are like diesel engines, much more traditional but they are predictable and reliable. But this means sometimes they are not very adaptable or able to change quite so effectively. But we also acquire other people who contribute to the increase in the goodwill value of the business. If you look at our balance sheet, our goodwill is relatively large. We have added to the depth of the value of our people through recruitment and acquisition. We have diversified and opened our portfolio with services but we also understand technology. So when you ask us what is it that we are buying, we bought a piece of experience. So you are buying some of the benefits you would normally associate with long tenure. We are buying experience of players who are in markets where we haven't previously been active which opens our portfolio with services. We are moving into new services segments in technology we are very strong, but also now in health care, education, and commercial, and things like that, but we know that we still have a journey to do. But when you bring our technology together with these other areas, it's very powerful. We create future value-added in the business through the promise of additional services. You create unexpected goodwill through our ability with technology and fusing it with other services.'

References

1. Burns, U. (2014) 'Letter to shareholders,' Xerox Corporation Annual Report, 2013 (Xerox), p. 2

This case study was written by Dr Anthony Hesketh, Senior Lecturer at Lancaster University Management School. The original version of this case study can be found in the report *Managing the value of your talent: a new framework for human capital measurement* (CIPD, 2014).