Xerox Discusses Efforts to Protect Its Supplies Business
While OEMs such as Brother, Canon, Epson, HP, and Lexmark have all filed new patent-infringement lawsuits or other complaints related to intellectual property (IP) against aftermarket supplies firms in recent years, other OEMs, including Xerox Corporation, have seemingly been less active in this regard. In March, executives at Xerox’s Supplies Business Group briefed us on the firm’s brand- and IP-protection initiatives for Xerox supplies, and the team assured us that Xerox has been stepping up its activity in this key area, even though it may not be filing more lawsuits.

Over the past three years, Xerox’s Supplies Business Group has been in the processes of implementing a three-pronged strategy to optimize, grow, and protect the firm’s supplies business, says Irina Maslennikova, vice president of Xerox’s Supplies Business Group. Ms. Maslennikova briefed Actionable Intelligence on the company’s efforts to optimize and grow its Supplies Business Group a few months back (see “Xerox Offers Resellers Value-Adds to Grow Supplies Sales to Transactional Customers”). The group’s ultimate goal is to undertake a big shift from a focus on “supplies for Xerox” to “Xerox for supplies,” and position itself as the preferred choice for supplies fulfillment regardless of brand, leveraging its extensive portfolio of Xerox-branded supplies for non-Xerox branded hardware. The protection prong of Xerox’s Supplies Business Group strategy is essential to this effort. Ms. Maslennikova says Xerox began taking new brand-protection efforts two years ago as a necessary step in increasing its profits, and she says these efforts are bearing fruit in the form of improved supplies gross profit, which was up 3.9 percent year-over-year in 2014, and an uptick in supplies revenue growth in Q4 of 2014.

Kevin Weaver, vice president of the brand protection group for Xerox, discussed Xerox’s efforts to protect its supplies business from competition from three distinct markets: the black market (theft and counterfeit supplies), the gray market (parallel imports or goods for one market sold in another via unauthorized dealers/resellers), and, of course, the aftermarket. Mr. Weaver estimates that if you look at the revenue impact on Xerox’s supplies business, the black market accounts for about 15 percent of the revenue hit, the gray market 25 percent, and the aftermarket 60 percent.
**Black Market Initiatives**

Weaver points out that theft of supplies is a problem regardless of geography, and it is not a “petty” problem in terms of the revenue impact. Xerox is working with customers to identify such theft; Mr. Weaver says companies welcome Xerox’s efforts in this area as a “value-add” because trusted individuals somewhere in the procurement chain who are willing to steal Xerox supplies are probably stealing from others as well. Mr. Weaver says after the goods are stolen, certain traders turn a blind eye and fence the stolen goods, tempted by prices that are too good to be true. Xerox is working on educating the channel about the issue, urging resellers to know the source of their goods and beware of products with incredibly low prices.

Mr. Weaver says that counterfeiters have become more sophisticated so that “without a trained eye is practically impossible to detect the difference [between a bogus cartridge and a genuine one] from the outside.” Counterfeiting, says Mr. Weaver, represents a $3.5 billion problem annually for the imaging industry and is a growing problem, not just in regions traditionally considered to be a hotbed for counterfeit goods, but also in developed markets including the United States.

He says that increasingly Xerox is seeing counterfeiters employ more sophisticated strategies in bringing their bogus products to market. For example, counterfeiters are blending the counterfeit goods with the genuine article, making it harder for resellers to discern that some of the goods they are purchasing are counterfeit.

Mr. Weaver adds that Xerox is also seeing counterfeiters essentially selling counterfeiting kits—they ship the various components to make counterfeit goods separately because it is easier to get the components into a market like the United States and because if the components are seized, the counterfeiters do not lose as much product. Then, the finished counterfeit cartridges are assembled in the country where the counterfeiters intend to sell them.

Interestingly, Xerox is not only seeing counterfeit version of Xerox supplies for Xerox machines but also counterfeit versions of Xerox-branded third-party supplies for other OEMs’ hardware. We have noticed Xerox stepping up its efforts against counterfeit cartridges in recent years by working with authorities to identify and conduct raids on counterfeiting operations and through partnership with groups such as the Imaging Supplies Coalition (ISC) and the Imaging Consumables Coalition of Europe, Middle East and Africa (ICCE) (see “Xerox Helps Fight Toner Counterfeiters”). The OEM’s Genuine Xerox Rewards customer-loyalty program for supplies (see “Xerox Talks about Its New Customer-Loyalty Program for Supplies”) includes an authentication element so that customers can determine whether their Xerox cartridge is genuine (see “Xerox Seizes Counterfeits, Promotes New Loyalty Program for Supplies”).

In addition to its work with government agencies, law enforcement, and groups such as the ISC and ICCE, Xerox is working on better communication with procurement agencies and resellers, says Mr. Weaver. Xerox emphasizes the importance of having
procurement policies requiring authorized sources and that, as Mr. Weaver says, “If you buy something and it is cheap, there are reasons behind that.”

**Gray Market Menace**

Curbing the gray market for supplies is a complex problem, given fluctuations in the worldwide currency markets, but one Xerox knows it must address. “Resellers,” says Mr. Weaver, “see the gray market sale of cartridges as a Xerox problem, and they want us to fix it.” To combat what Mr. Weaver terms a gray market “menace,” Xerox has been stepping up various efforts over the past 18 months. One key tool at Xerox’s disposal is the authentication label on its supplies, which enables it to trace where products sold through the gray market originated. Xerox is focusing on closely monitoring and tightening its policies for its distribution channels. The company is putting in place stricter controls over pricing, rebates, and discounts for its partners in various countries, with the goal being to minimize differences between geographies.

Mr. Weaver sees it as significant that Xerox leadership recognizes that the gray marketing of supplies is an important issue for the company and its resellers, “with real consequences for failure to fix in terms of P&L impact in the geographies where the problem is occurring.”

While Xerox is making progress in curbing the gray market sale of supplies, Mr. Weaver says, “We don’t delude ourselves we have cracked the problem yet.

**The Aftermarket Challenge**

It is always interesting to hear Xerox’s take on the aftermarket. Xerox is impacted by third-party supplies firms looking to take away share of the replacement cartridge market for Xerox hardware, much as other OEMs are, but the company is also a big aftermarket supplies reseller itself. Xerox has long been one of the OEMs most active in selling its own brand of third-party supplies, although it is far from the only one, especially as many copier vendors have found remanufactured cartridges to be an essential part of a successful managed print services (MPS) program.

Mr. Weaver says use of non-OEM supplies is indeed accelerating due to industry focus on MPS, services, and reducing print costs, as well as geo-political forces. For example anti-Western or pro-domestic sentiment in some countries may encourage some government agencies to purchase non-OEM supplies. Mr. Weaver says that use of non-OEM supplies as a percentage of all supplies used by customers is increasing from about 20 percent in 2013 to 25 percent by 2018. This is an industry-wide problem, not a Xerox-specific one, with each OEM expected to lose a growing share of cartridge shipments to the aftermarket over the next few years.

To minimize the impact of the aftermarket on Xerox’s supplies sales, Mr. Weaver says it is essential to understand the aftermarket players and their products. Xerox, he says, has these products tested and posts the results of those tests for customers so that they can see them. The results, according to Mr. Weaver, include “severe degradation of performance in terms of yields, failure rates, and print quality.” Xerox uses the results of its testing to educate sales teams and partners.

Other OEMs have conducted OEM versus aftermarket cartridge testing as an educational tool for customers over the years. Inevitably, these OEM-sponsored tests find that OEM cartridges perform better than third-party cartridges. However, unlike most other OEMs, Xerox has occasionally been on the other side of such studies, such as when HP has commissioned reliability comparison studies for HP LaserJet.
The perception that Xerox is passive in terms of protecting its IP is one the company is looking to change.

versus non-HP toner, including Xerox-branded remans (see http://www.qualitylogic.com/emeamonot onertest.pdf).

According to Mr. Weaver, Xerox is also focusing on “technological enablers” that pose a challenge to the aftermarket—things like chemical toner formulations, long-life photoreceptors, and smart chips on our supplies, which implement security features including anti-cloning mechanisms to make it difficult to emulate the device and cryptographic algorithms used for critical data protection.

Xerox is also trying to increase customer awareness about the differences between legitimate and infringing products. At the same time, as a seller of aftermarket supplies, Xerox is working to spread the word about what it terms “legitimate participation and competition” in the aftermarket, by which, of course, it means the Xerox-branded cartridges for other OEMs’ hardware that it sells.

Will Aggressively Go After Infringement

To us, perhaps the most interesting part of the discussion with Xerox’s Supplies Business Group focused on the steps the firm is taking against infringers of its intellectual property.

Like most printer/copier OEMs, Xerox has filed suit against third-party supplies firms over the years. Perhaps the best-known lawsuit pitting Xerox against an aftermarket player was the OEM’s long-running litigation against Media Sciences over that firm’s compatible solid ink sticks for various Phaser printers. That litigation was ultimately settled in 2011 (see “Media Sciences and Xerox Settle, Media Sciences Exits Xerox Ink Stick Business”). Media Sciences, which had a few months previously sold its color toner cartridge business to Katun and agreed to supply its solid ink sticks for Xerox machines exclusively to Katun (see “Katun Buys Media Sciences: Is It a Good Fit?”), had to stop making compatible ink sticks for Xerox devices.

Xerox also brought a complaint alleging infringement of its ink-stick patents before the U.S. International Trade Commission in 2005. The ITC in 2006 issued a limited exclusion order, barring respondents HANA Corporation of Korea and InkSticks.com of Cheyenne, WY, and any affiliates from importing ink sticks that infringed the Xerox patents.

But all those complaints were filed long ago. In recent years, OEMs such as Canon have aggressively stepped up their litigation against third-party supplies firms, but Xerox has seemingly been less aggressive in this regard—at least in terms of filing suit.

The perception that Xerox is passive in terms of protecting its IP is one the company is looking to change, says Mr. Weaver. “We will aggressively go after infringement,” he asserts.

Cease-and-Desist Letters

Heidi Martinez, associate general IP counsel for Xerox, shared some insight into what the company terms “smart enforcement” of its patent, copyright, and trademark rights. She says, “In general, we are not opposed to filing litigation where we need to, but we have several enforcement projects underway where we haven’t needed to take the step of litigation.” According to Ms. Martinez, lawsuits should never be the first step in curbing IP infringement. “After all,” she opines, “if you bring an action in the ITC and get a GEO [general exclusion order], the next thing you know the infringers have set up shop under a new name, and it [the infringement] starts all over again.” She explains, “Our first line of defense is trying to stop the infringement without litigation. We haven’t needed to
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Ms. Martinez says that Xerox has an Internet surveillance team that crawls the Internet for those unlawfully using the Xerox brand. She says, "On the patent side, we are out making buys looking for infringing aftermarket product." When Xerox does find IP infringement, the firm is largely taking action against resellers rather than manufacturers. She says, "We typically take action against resellers on the Internet. We are sending out cease-and-desist letters and getting good results there." Ms. Martinez adds, "The resellers don’t want to risk financial exposure and are willing to stop selling the product if we document that it is infringing." Xerox is also in the process of evaluating third-party services that will allow Xerox to identify infringers of its IP and then work with financial services providers to disrupt the business transaction mechanisms for infringing online resellers.

According to Mr. Weaver, Xerox has had success in curbing infringement on eBay, which has takedown procedures for removal of listings that infringe and will suspend repeat offenders. While Xerox has found eBay a helpful partner in curbing sale of infringing goods, Mr. Weaver admits that Xerox has had very limited success in working with Amazon. This is not surprising. We often refer to Amazon as the "Wild West" for cartridge sales, as that online marketplace is chock full of clones, new-build remains, and other dubious cartridges, and we have heard other OEMs voice complaints about how difficult it is to curb sales of infringing goods on Amazon.

Mr. Weaver describes one type of IP-protection action Xerox is currently taking. The company is looking to combat chips on third-party cartridges that upon installation generate a user-interface message saying that a Xerox original toner cartridge or solid ink stick is installed.

This is an area where HP also has taken action. Back in 2013, HP reached out to various third-party chip makers about the same issue of third-party chipsets misidentifying non-OEM cartridges as HP cartridges (see "Chips Ahoy! HP Releases More Details about New Chip Program"). HP almost immediately saw the industry’s big third-party chipmakers make changes to their cartridges to avoid misidentifying non-OEM cartridges as HP cartridges (see "Chip Vendors React Swiftly to HP’s Call for Compliance").

Xerox, however, is taking a different approach to clones that are misappropriating Xerox's trademark in this fashion. Mr. Weaver says that Xerox is targeting resellers of such clones to try to get these companies to take the products off the market. "We have cease-and-desist letters going out as we speak," says Mr. Weaver.

Mr. Weaver says Xerox’s IP-protection efforts are worldwide. The company is in the midst of or has successfully completed activities in Brazil, Canada, Greece, the Netherlands, Romania, and the United States. He concludes, "We’re here for the long haul. We know there’s no quick fix [to black-market, gray-market, and illegal aftermarket competition]."

Interesting View

At Actionable Intelligence, we found it interesting to get a glimpse into what Xerox is doing in terms of IP protection, especially as the firm walks a fine line between its roles as printer OEM and aftermarket supplies reseller. We suspect that many of the resellers we commonly see named in other OEMs’ litigation have already received or will be receiving cease-and-desist letters from Xerox’s attorneys. Should any of these disputes reach the lawsuit stage, we will be sure to cover the litigation in our Courthouse Briefings section.
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