

Xerox Supplies Business Group Discusses Efforts around Protecting its Global Supplies Business - (March 23, 2015)

During a recent analyst briefing, Xerox's Supplies Business Group elaborated on efforts to protect its global supplies business. Protection, along with optimization and growth, are core to Xerox's integrated supplies strategy and support its overarching goal of becoming customers' preferred provider for supplies fulfillment irrespective of printer brand.

Announced in 2014, initiatives such as the Genuine Xerox Rewards (GXR) program and Xerox Supplies Service (XSS) are aimed at optimizing and growing Xerox's supplies business while protecting it from encroaching competitive pressures (see also: Xerox Expands Genuine Xerox Rewards, Launches Xerox Supplies Service in Europe December 15, 2014). In addition, Xerox is intensifying its efforts and now implementing a series of brand protection actions aimed at disrupting the mechanics of three market environments which affect all OEMs: grey market, black market, and the aftermarket.



Xerox recognizes that each market environment has its own dynamics, and that they can vary geographically in the degree to which they impact Xerox. In looking at the fiscal impact on the company from each of these markets Xerox's overall assessment is that the aftermarket would account for a 60% fiscal impact, followed by the grey market at 25%, and the black market at 15%.

Grey market

Xerox is working on combatting the grey market from three angles, including products differentiation and tracking, using governance and control, and through leadership engagement.

Xerox has utilized regional product differentiation and tracking and tracing products for a number of years. This includes use of Authentication labels applied to each SKU, allowing Xerox the ability to track a product from the distributor through to the end customer. The unique SKUs are also linked to the Genuine Xerox Rewards program database, so when a customer registers their supplies through the Rewards portal to redeem rewards points, Xerox is able to both authenticate and trace the origin of that product.

Regarding governance and control, Xerox has in place various procedures and processes across geographies, including a global policy relating to the harmonization of pricing and brand protection. The policy defines controls and behaviors to which Xerox Operations Units must adhere, such as

the levels of channel discounts they can apply locally, among other things. Deviating from the policy exposes Operations Units to corporate fines in an effort to deter irregular pricing practices. Xerox also assesses its MIF (machines in field) at a country level and how many supplies should be associated with the installed base and monitors shipments from distribution centers against the expected volumes to determine whether the levels are appropriate for the install base.

Lastly, Xerox recognizes the particular importance of senior leadership's involvement in combatting the grey market. Commitment is top-down, with executives recognizing the problem, knowing the impacts, and enforcing consequences for failure to adhere to policies. Xerox senior leadership understands that the consequences of the gray market are self-imposed, and that attentive oversight and enforcement must be implemented across all Operations Units.

Black Market

Xerox focuses on the two primary black market issues, including theft and counterfeiting, which are global problems faced by all manufacturers.

Theft, whether of a few toner cartridges or millions of dollars worth of products, is at the forefront of black market activity. The Xerox brand protection team, along with Xerox corporate security, local law enforcement, and end-customer security utilize track and trace technologies to identify theft and follow it from the source through distribution and back into the open marketplace. Some of the largest perpetrators are organizations that take advantage of extremely low "special buy" pricing without questioning the source and then offering the products for sale to unsuspecting end-customers. However, traders and resellers are responsible for the resale of stolen goods, regardless of whether they were aware the goods were stolen. Xerox believes it vital that channel partners fully understand the source of products they acquire and is communicating this message, along with the risks and consequences of selling stolen goods whether knowingly or not, throughout its network of affiliates.

Counterfeiting printer supplies is another fraudulent practice affecting both foreign and domestic geographies. Enhanced technology enables counterfeiters to manufacture toner cartridges that are nearly indiscernible from the OEM. To combat this, Xerox trains custom and border control agencies to identify Xerox genuine supplies and counterfeit supplies. Xerox employs smart chip technologies that implement security features to make it difficult to emulate the device and provide barriers to potential counterfeiters. Moreover, Xerox is also looking at web technology to enable resellers to scan the Authentication label when they receive a shipment to ensure the products they receive are genuine. Recognizing that counterfeit supplies is a shared problem, Xerox maintains active membership in the Imaging Supplies Coalition (U.S.) and Imaging Consumables Coalition of Europe and collaborates with other printer OEMs to counter the shared and increasing threat of counterfeit supplies. Xerox again believes communication plays a large role in educating the channel about the risks of counterfeit supplies and the importance of obtaining product from trustworthy, reputable sources.

Aftermarket

Xerox's approach to combating the aftermarket focuses on the organizations that bring third party products to market. The company engages independent test Labs to perform various assessments of these products, including the supplies yield, print quality, and failure rates to determine the kind of experience the customer will have when they install those products. The results are posted on Xerox's website as a means to educate organizations about the benefits of using genuine supplies.

From an IP perspective, aftermarket products are also investigated and tested to make sure they

are competing fairly and not infringing any of Xerox's patents, trademarks, or copyrights. Xerox's approach focuses on targeting both the organizations that make the infringing cartridges, and the resellers who distribute the products. When found, Xerox takes actions to have these products removed immediately. Xerox is actively pursuing Trademark infringement activities in Brazil, US, Canada, Netherlands, Romania, and Greece.

While the perception has been that Xerox is somewhat passive in respect of IP infringement, the company believes this perception is changing with the increased activity in these areas. It uses what it calls "smart enforcement" to ensure it is taking the appropriate actions to defend its IP, depending on the situation and geography. Xerox stated that it does not rule out litigation, but rather that it prefers to use the quickest and most cost effective measures of discouraging infringing products. Xerox claims to have had success with these types of programs and reports increased traction with resellers agreeing to stop selling infringing supplies.

Like other OEMs, Xerox monitors the brand protection approaches used by other vendors to see what makes sense to apply to their own business. Canon has been one of the most visibly active against the aftermarket, having initiated multiple legal actions against potentially infringing resellers and manufacturers over the years, and Samsung has similarly brought its own share of patent infringement disputes to the market (see also: Canon Takes U.S. Patent Case to ITC, Adds 15 Defendants May 12, 2014; Samsung Files Patent Infringement Lawsuits against Resellers in Germany December 09, 2013; Samsung Netherlands Accuses Local Resellers of Distributing Clones January 13, 2014). Meanwhile HP's latest launch of supplies and hardware developed with JetIntelligence technology demonstrates its new approach to deterring the aftermarket (see also: HP JetIntelligence Reinvents Toner, Cartridges, and Other Technologies March 10, 2015)

Xerox recognizes that brand protection is something that requires a long-term focus and the company plans to continue to develop and apply patents where they will deliver the most appropriate return, and apply the appropriate technology to brand protection issues. The company also emphasizes the importance of working with partners and making them part of the solution for maximizing the traction of its efforts.

While Xerox has been relatively quiet in the past about brand protection efforts compared to other OEMs, its recent efforts demonstrate a renewed emphasis on protecting its supplies business, and the importance to the vendor's overall "optimize, protect, grow" strategy. The increased visibility of supplies protection activities are also an attempt to transform the image that Xerox is too passive in this regard. Xerox expects its current enforcement platform to form a solid base for its strategic direction of leveraging technology to enable identification, optimization, and differentiation, and working more closely with partners and vendors to address aftermarket activities and promote fair competition.