



■ The CFO and the company

Luca Maestri joined Xerox as CFO in February 2011 after serving as chief financial officer of Nokia Siemens Networks since 2008. Prior to this role, he held senior executive finance positions with General Motors Corporation in Brazil, Switzerland, Thailand and Ireland.

Xerox Corporation is a USD 22 billion leading global enterprise for business process and document management. Headquartered in Norwalk, Connecticut, Xerox acquired outsourcing services firm ACS in February 2010. The company employs 134,000 people in more than 160 countries.

By Steven Arons

Here's a test: what image does the word "Xerox" bring to mind? Odds are it's a copier. Indeed, Americans even like to say they 'xerox' a document when all they want to do is photocopy it. It's no small wonder that subtly severing its almost reflexive association with stationary office machines is a tall task for the eponymous company.

During his recent trip through Europe, CFO Luca Maestri explained in an exclusive interview that doing exactly that is one of his top priorities. "I will continue to tell the transformation story," he says. And thanks to Xerox's acquisition of outsourcing company ACS last year, he actually has quite a story to tell. The revenue contribution of sales and post-sale servicing of printers and copiers has dropped to about 50 per cent, down from around 75

per cent in 2008, with almost the entire other half now coming from outsourcing of business processes, IT and document management. The addition of ACS's USD 6.5 billion and 74,000 people beefed up Xerox's existing revenue of USD 15.5 billion and workforce of 54,000.

The halo effect

The logic behind the purchase was straightforward: to counteract moderate growth expectations for the printing industry, where technological advances continue to drive down printing prices per page and black-and-white printing is in an irreversible decline. Boosting sales of alternative products tops his corporate agenda, Mr Maestri says. The group hopes to achieve this by utilising "the halo effect" of the printing company's strong

Copious Change

Xerox is remaking itself from a copier maker to a services provider.

CFO Luca Maestri discusses the challenges in breaking down mental barriers and why Europe is playing a crucial role in the process.

brand to cross-sell the newly acquired outsourcing services portfolio. Suddenly it becomes clear why Xerox is keen to get people to replace the image of the copier in their mind with, well, a copier plus something else.

The hopes pinned on cross-selling also explain why Xerox is looking to Europe, of all places, aside from Brazil for growth in 2011 and 2012. While the bloc is one of Xerox's core markets, it is essentially a blank map for ACS, which still generates about 90 per cent of its revenues in the US. "The Xerox infrastructure that ACS will use is very strong in Europe," says the CFO. Though Mr Maestri declines to give concrete figures for Europe, he says that "we expect our total services business to grow 6 to 8 per cent next year in a market that we believe will grow 5 per cent." Truth be told, though, their expansion strategy leaves them few other places to

go. Asia, for example, is out of the question. Xerox's stake in Fuji Xerox, a 25/75 joint venture with Fuji, prohibits the technology division of the company from setting up its own sales structures there and building it up from scratch for ACS would saddle a company that has next-to-no foreign experience with some heavy footwork and a long wait before results would start trickling in. "We need to be realistic with respect to our capacity for growth," the CFO concedes. "Asia is a third tier priority."

Another option

"Tuck-in" acquisitions in Europe and the US are expected to offer a second route to cross-selling. This year to date, the ACS division of Xerox has already purchased two European call centres, one in the

Netherlands, the other one in Italy. The hopes are that these centres can be equally used to broaden existing business relationships as well as build up new ones, Mr Maestri says.

Does it fit?

Aside from its geographical limitations, the strategy also hinges on the smooth integration of ACS into Xerox. Only when the combined sales forces of Xerox and ACS are able to both identify potential demand from their clients and then offer them the corresponding products will the group achieve its ambitious growth aims. Mr Maestri admits as much when he says, "we want to offer the full range of our services to our large key accounts in a very cohesive fashion rather than sending four or five different people to them." >>

Again, this requires people to think about more than service offerings when they hear Xerox. Only then will it be possible to convince European CEOs and CFOs that Xerox is the company to trust with some of their most sensitive processes such as payments. As Mr Maestri himself points out, their strongest competitor is not some other outsourcing firm, but the internal functions already existing within companies.

The show must go on

Progress in the area of integration is far from complete, however. “Where we still need to do some work is in developing an integrated approach,” he concedes. This requires significant training of the sales force, he says, and identifying those customers with whom additional ACS businesses seems likely.

More ominously, the chosen structure for the combined business of Xerox and ACS does not seem conducive to a unified sales pitch. ACS continues to operate as a largely independent organisation within Xerox, complete with a virtually unchanged leadership structure. There are good reasons for this; not least of which being that ACS is an established outsourcing brand in the US while Xerox is not. The downside is that it will surely be difficult to break down mental walls outside of Xerox when real walls continue to exist on the inside.

Telling the story

It comes as no surprise, then, that Mr Maestri says that telling the Xerox transformation narrative will remain one of his top concerns for some time to come. Frequent meetings with investors around the world are an essential part of this and the chief reason for his visit to Europe. In fact, not only does investor-relations work

take up about 20 per cent of his time, he estimates; it is also an aspect of his job that is completely new to him. This is his first time as the CFO of a publicly traded company.

The second-biggest item on his to-do list is cost cutting, Mr Maestri says, primarily to combat the combined impact on company profits of currency movements and price erosion in the printing market. Here, too, synergies with ACS play a crucial role, for example by replacing existing outsourcing partners with ACS contracts or handing them processes, such as payments, that are still in-house. These and other measures are expected to bring over USD 200 million worth of cost savings from the ACS integration over 2011 and 2012.

>>

While tablets will cause people to only digitally view content that they used to print, [these devices are also leading to] an explosion in content.

<<

Considering what he has already achieved, Mr Maestri has shown that substantial reductions are possible. SAG expenses in relation to Xerox revenue dropped from 27.3 per cent in 2009 to 21.2 per cent in 2010, thereby lifting the company’s operating margin from 6.8 per cent to 9.6 per cent. Governance functions such as tax planning and treasury were consolidated “almost on day one”, Mr Maestri says, well before he even joined the group.

It’s not a problem

The heavy focus on pushing ahead with integration and driving costs down seems to eclipse other typical CFO worries for Mr Maestri. Though a pile of USD 8.6 billion

in debt is sitting on his balance sheet, he waves off questions about potential liquidity and capital shortfalls brought on by the crisis. “We’re investment grade and have very good access to capital. Our latest bond issue was hugely oversubscribed and our cost of funding is very reasonable.” Of course he thinks about the upheaval in the financial markets, he says, but no more than other CFOs.

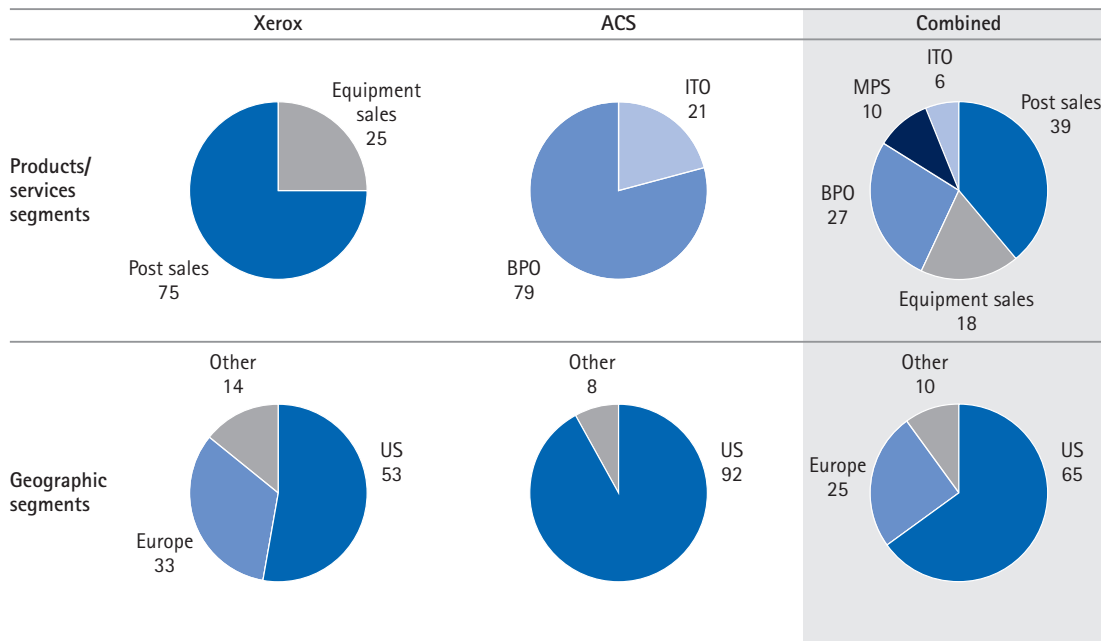
The sovereign debt crisis keeping so many of Mr Maestri’s European peers awake at night is no deterrent for Xerox, he says, because “it is more political than economic and it can be solved with the right mindset.” In fact, he says, the crisis is mostly financial and has not yet seeped into the real economy, at least not as far as Xerox’s own sales are concerned.

Xerox’s supply chain does not cause him much worry either, he says, even though the triple disaster in Japan at the beginning of the year severely affected their mostly Japanese suppliers, including their most important one: Fuji Xerox. Instead he expresses strong faith in their reliability, stressing their rapid recovery after the earthquake: “I was impressed when Fuji Xerox, after losing the ability to produce for a period of four to six weeks, was already back to almost normal by the end of June.”

Print will survive

Mr Maestri grows even more animated when discussing how technological progress is impacting his company and daily job. For one, he is convinced that Xerox will “never” abandon its printing business because “the printed page will exist for a long time” and the technology division of Xerox “delivers a very good return on capital.” Colour printing has been increasing by 7 to 8 per cent every quarter for the last several years, he says, in addition to general printing growth in emerging markets. Consequently, his prediction

■ A mix of two worlds: revenue contribution (in %)



Source: Xerox; 2009 figures

for Xerox is that “we will be a company that is driven by services but where tech has a huge role to play.”

Exploding content

It is his belief that tablets and smartphones are unlikely to greatly alter this dynamic because they will have both adverse and positive effects on printing behaviour. Though he cautions that it is yet too early to know for sure, he says that while “tablets and smartphones will cause people to only digitally view content that they used to print in the past [these devices are also leading to] an explosion in content” which, in turn, should increase printing for the simple reason that it increases the volume of printable material.

Maybe even more interesting, at least from a CFO perspective, has been the effect of the new technologies on internal com-

pany workings. “Technology has been a blessing for business people,” Mr Maestri enthuses. “You can be on top of everything all of the time.” He says that Xerox has not yet distributed tablets to their employees but encourages them to bring their private devices to the office and plug them into the IT infrastructure. “In addition, we provide cell phones to several thousands of our employees because we believe in their mobility and additional productivity,” says Mr Maestri, who is consequently the former CFO of telecom solutions provider Nokia Siemens Networks.

Always on duty

In light of these remarks, Mr Maestri’s take on executive availability is only logical. “In my position I feel a responsibility to the company to be available 24/7. It’s not a burden. I like my work.” He is adamant

that the same applies to his team. “My policy on vacation is, people can go whenever they want because I call them anyway.” The German CFO of Xerox, who is sitting in on the interview, smiles politely.

A credible story

Whatever one may think about constant availability, one thing is for sure: his unfeigned passion for technology makes Luca Maestri a credible propagator of Xerox’s new image. The fact that he himself used to be a client of ACS in his former role as a regional CFO of General Motors adds yet another layer to the mix. However, it would be nice to know whether a copier is still the first thing that pops into his head when he thinks about Xerox. ||

steven.arons@finance-magazine.eu