



# Case3: 施乐和富士 - 施乐

-- 通过战略联盟取胜





## Synopsis (I)

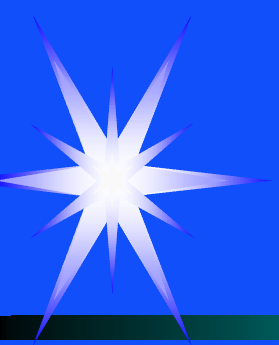
**Many of the international alliances being formed today are still too young for us to evaluate their full impact. The case of Xerox and Fuji Xerox gives us a unique opportunity to trace the evolution of such an alliance over a long period of time. We can learn a lot from this experience, and try both to avoid Xerox's mistakes and copy Xerox's success.**



**While this case is about a particular type of alliance—a separate enterprise owned by Xerox and Fuji Photo Film—it also contains elements of other types of alliance.**

**The relationship between Xerox and Fuji Xerox, for example, is itself managed through a series of technology and marketing contracts, organizational processes, and personal relationship—all basic elements in any collaborative venture.**

**This case, therefore, should not suggest that an equity joint venture is an ideal form for an alliance. Rather, we should use it to examine the various elements that go into collaboration across borders.**



- **What strikes us is the drive of Fuji Xerox's management constantly to expand the scope of the joint ventures capabilities and operations. This contrasts sharply with the gradual decline of Xerox's own competitive position over these years.**
- **Xerox's early monopoly with the business was replaced by intense rivalry, mostly with Japanese firms; initially, only Fuji Xerox seemed to have recognized this threat.**
- **Xerox woke up to the trend just in the nick of time, it seems, and then relied on Fuji Xerox to begin addressing the competitive challenges.**
- **Whether this strategy succeed, the case suggests, depends on how effectively collaboration between the companies is managed in the 1990s.**



# Synopsi s (II)

- In the more or less chronological order, The CASE describes:
- (i) the history of Xerox's international expansion, including the establishment of Fuji Xerox in 1962;
- (ii) The development of Fuji Xerox's capabilities and rising competition in copiers;
- (iii) Xerox's stagnation in the 1970's
- (iv) The efforts in the early 1980s to reverse this slide, partly by adjusting the relationship between Xerox and Fuji Xerox.
- (V) In the end, case describes the challenges facing the two companies in the 1990s.

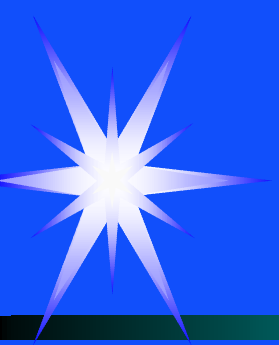


# Learning objectives

**This case is about managing strategic alliances, even though the case is about equity joint venture, it illustrates issues in the management of other types of alliances too.**

**Firstly, we should pay more attention on dynamics of international alliances. These include:**

- **how partners learn through alliances,**
- **How alliances grew and develop, and how the relationship between partners evolves in response to external and internal changes.**



- **Second, appropriate measures of alliance performance and underlying success factors may change dramatically over the life of an alliance.**
- **Third, there is often a serious tradeoff between giving local autonomy to an alliance and integrating into a parent's global strategy.**
- **Fourth, the structure and substance of collaboration needs to change in response to change in the external environment and in the capabilities and goals of the partners.**
- **Final, different sets of factors drive collaboration in marketing, research, and manufacturing, even though the success of collaboration in one functional area often depends on that in another.**



# Analysis and Discussion Structure

---

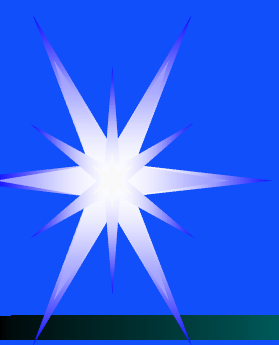
- **1. Performance of the alliance before 1990**
- **2. Future options for collaboration**
- **3. Globalization and Organizational Structure**
- **4. Conclusion**





# Assignment Questions

- 1. What role has Fuji Xerox played in Xerox's global strategy? How do you expect this role to change in the future?**
- 2. Is Fuji Xerox a successful joint venture in 1990? How do you measure its performance? Please be as concrete and specific as possible?**
- 3. What were key success factors in this alliances in the past? Do you expect these factors to change in the future?**
- 4. Consider three different options for reorganization listed in Exhibit 11. Select one options in each functional area and be prepared to explain why do you prefer it over the others.**

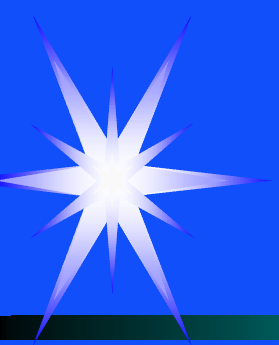


# 1. Performance of the alliance before 1990



# 1. Performance and the alliance before 1990

- **Evaluation of success**
- **Measure of the success**
- **Success measure vs. success factors**
- **Key success factors**
- **Transition**

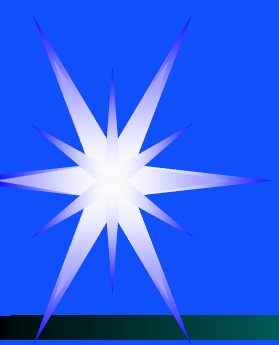


- **An effective question with which to begin the evaluation of the alliance is:**
- **“What was the role of Fuji Xerox in Xerox’s global strategy before 1990?”**

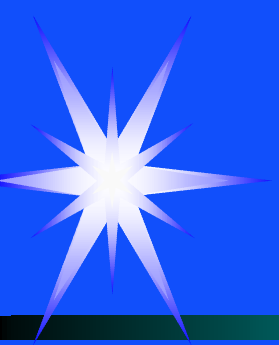


# Key points

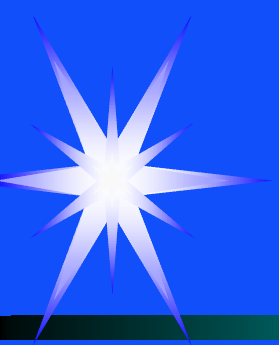
- **1. Fuji Xerox enables Xerox to sell in the Japanese market, as the government requires a joint venture as that time. This point highlights the role of the government policy in alliance strategies.**
- **2. Because Fuji Xerox was driven by the needs of the Japanese market, it developed capabilities and products that were different from those of its American parent, and that later turned out to be valuable. Simply put, it developed small copiers, while Xerox ignored this segment.**



- **3. Later on, Fuji Xerox provided Xerox with a “window” on the Japanese competition—their technologies, the features they were working on, their strategies, and so on. Due to contacts between engineers and general publicity in Japan surrounding new products, Fuji Xerox would learn about new developments long before they were embodied in exports to U.S..**
- **4. Fuji Xerox benefited directly from the technologies being developed in related industries in Japan, just as its local competitors.**

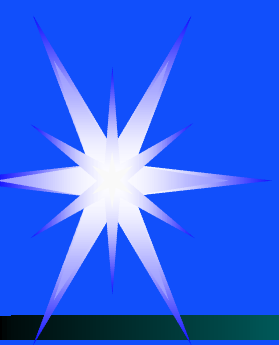


- **5. Fuji Xerox also helped Xerox learn new management approaches, i.e. Total Quality Management. This idea, too, was developed in the Japanese environment and transferred back to the U.S. operations.**
- **6. By being in the domestic market of Xerox's new competitors, Fuji Xerox kept these new entrants from establishing a monopolistic position at home that might have been used to support aggressive pricing of the exports. While Xerox executives clearly recognize this role.**

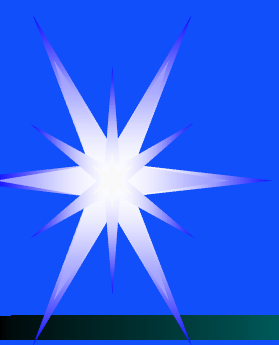


# Measures of the success





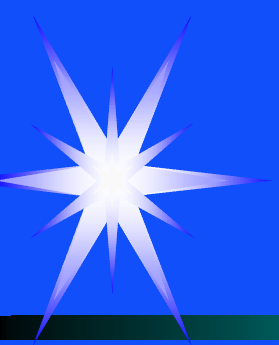
**i. Using financial measures of performance, we find that Fuji Xerox grew rapidly, but that it did not contribute much cash to Xerox”**



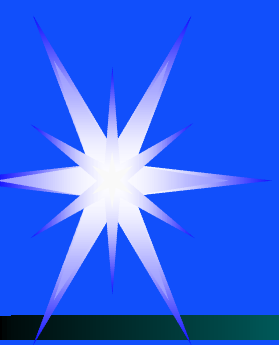
- Its revenues grew from less than 5% of Xerox's in the 1970s to over 30% in the late 1980s (exhibit 1);
- A 20% p.a. growth during 1980-1985, compared to 4% p.a. for Xerox (exhibit 5 and 7);
- Its profit grew from about 10% of Xerox's to about 30% between 1981 and 1990 (exhibit 5 and 7). Note that not all this profit stream goes to Xerox. The latter is entitled to 2/3 of Rank Xerox's 50% share, i.e. to 1/3 of Fuji Xerox's earnings.



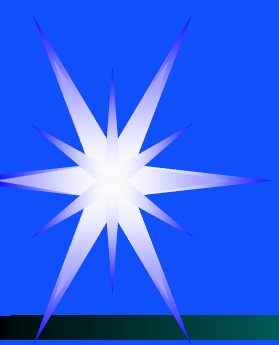
- **But because Fuji Xerox only paid out in dividends about 14-19% of its annual earnings, the total amount of cash repatriated to Xerox during 1971-1989 was little more than \$50 million. (Derived from exhibit 7: 1/3 of the total dividends paid out). This payout ration represented 1-2% of Fuji Xerox's equity. Note that, unlike Xerox, which regularly paid out between 50% and 80% of its earnings, Fuji Photo Film was accustomed to this pattern, as its own dividends to shareholders represented no more than 3-4% of earnings.**



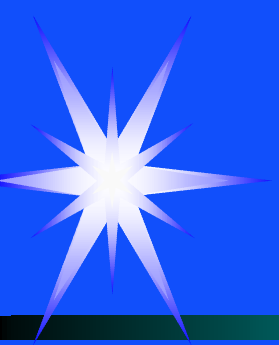
**ii. Using market and technology measures, we can  
get a sense of the rise in Fuji Xerox's  
competitiveness**



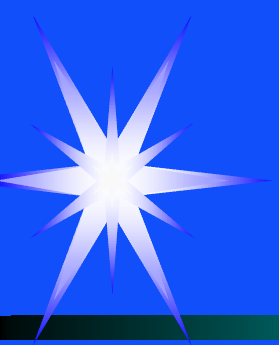
- **By 1989, it held 21% of its home market, higher than Xerox's 15% in the U.S. and Rank Xerox's in Europe(exhibit 3);**
- **14% of Fuji Xerox's sales went to Xerox, representing about \$500 million in 1989. The balance of trade between the two was then strongly in favor of Fuji Xerox(exhibit 8);**
- **Fuji Xerox's growing technological capabilities are evident from its declining royalty payments to Xerox, its rising R&D spending, and its increasing technology receipts from Xerox(exhibit 9);**
- **Un a related pattern, Fuji Xerox filed a rapidly growing number of patents and, by the late 1980s, designed virtually all the machines it sold (exhibit 10).**



**iii. About the costs of Xerox and why excise  
Co-Destiny III**

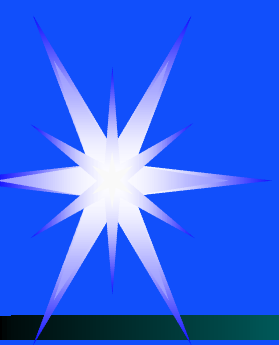


- **We should note that, these financial and quantitative measures do not tell us the whole story.**
- **Among “softer”, but no less important, Measures of success would be contributions Fuji Xerox made to Xerox in terms of strategic positioning, management ideas, and competitive intelligence.**

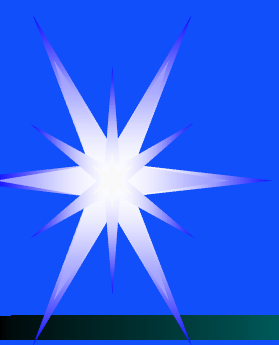


- **We should note that the benefits were achieved at a high cost, I.e. the transfer of significant competitive capabilities to a Japanese firm, which was noly partly controlled by Xerox. In the future, this Japanese firm might become a competitor of Xerox's, whether “internal” or “external” to the Xerox group.**





- All these costs and benefits above mentioned, of course, vary depending on what we see as the alternative to the joint venture.
- In 1962, the Japanese government constrained Xerox's options, so that the joint venture was the only way to enter the market, other than licensing, which would no doubt have yield fewer net benefits.
- In 1990, there are no such legal restriction, but there are likely to be high costs to exiting the relationship. Thus, there are , again, few alternatives to the way things are working.
- It is feasible, however, to adjust the relationship between Xerox and Fuji Xerox in ways that may improve the benefits to one or both firms This is the aim of the Co-Destiny III exercise.

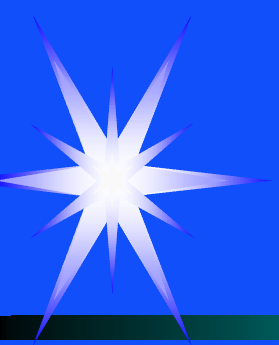


# Success measures vs. success factors

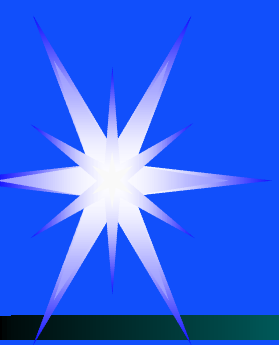


# Distinction of success factors and success measures

- We often confused performance measures with the reasons behind the performance, and is worth clarifying the distinction. For example, some might say a measure of success is the good relationship between the partners, or its flexibility in response to environmental changes overtime. In order to clarify the distinction,
- we can ask:
- Is the quality of the relationship an end in itself, or a measure to reach some other goals? Does alliance survival or longetivity indicate success?

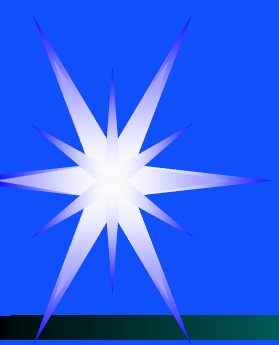


- **While the relationship is not an end in itself, its quality may enable the creation of benefits. Clearly, if there is something to be gained by collaboration, then the effectiveness of the collaboration will determine whether or not these benefits materialize.**
- **Longevity probably indicates that the partners have gotten to know each other well, have invested in the relationship, and have built up trust. All these conditions will help them face new challenges and thus contribute future success.**

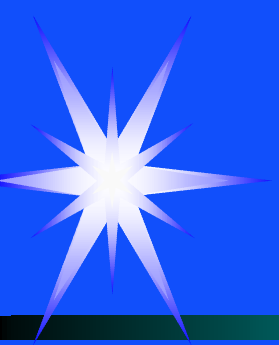


# Key Success Factors

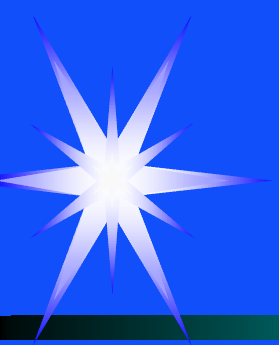
- **What were the principal reasons behind Fuji Xerox's performance, i.e. its key success factors?**
- **Consider, specifically, the roles of ownership structure, contracts, and personal relationship**



- **Fuji Xerox's management. They were farsighted and determined, even in the face of early resistance from Xerox to their hom-grown plans.**
- **Fuji Xerox's location in Japan. The country environment helped push Fuji Xerox to the type of products and business strategies that later proved valuable in the competition against Canon and Ricoh.**
- **The 50/50 ownership of Fuji Xerox gave its managers a certain amount of autonomy from Xerox—enabling them to push ahead with new products and new marketing approaches even when Xerox disapproved.**

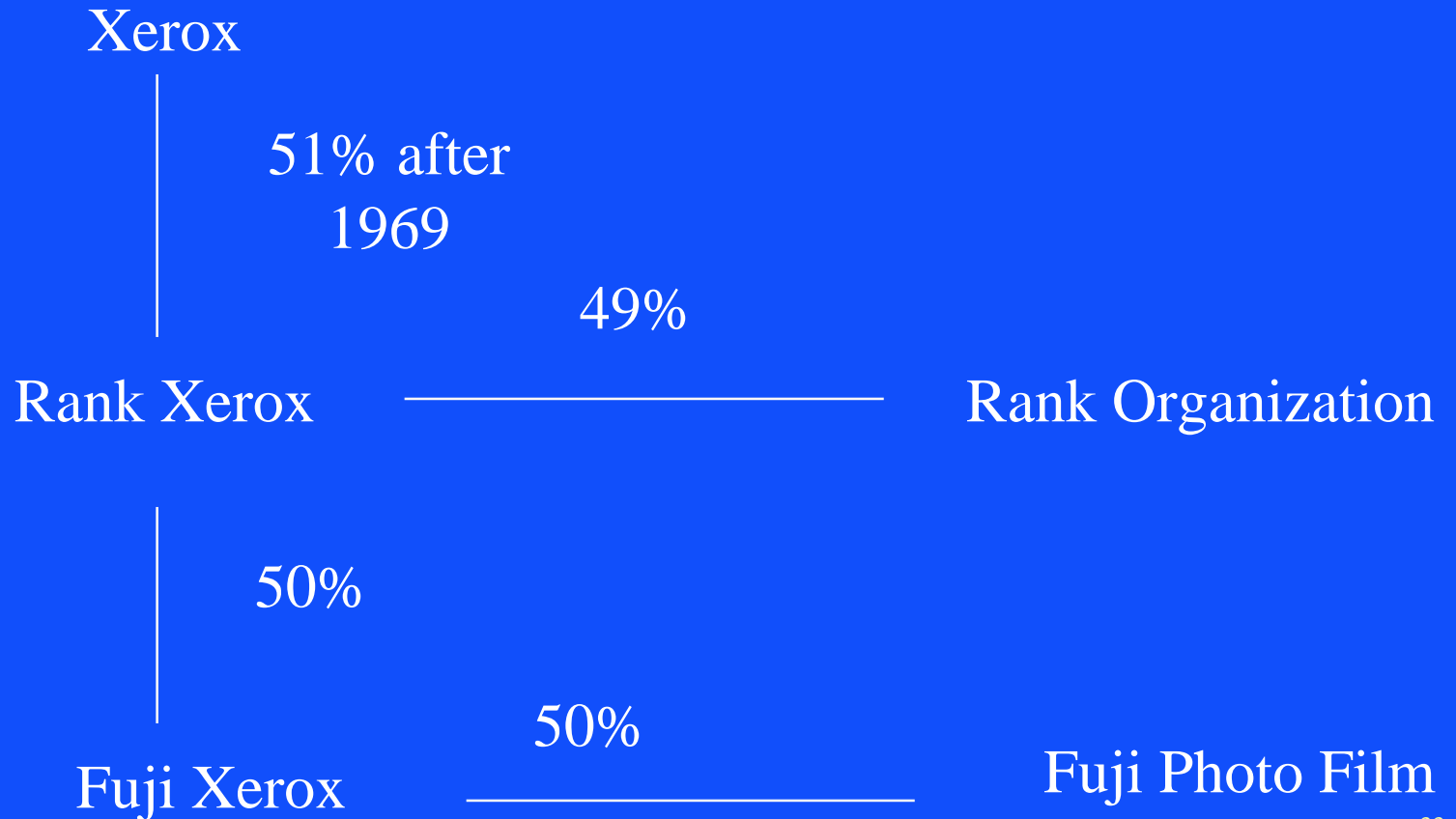
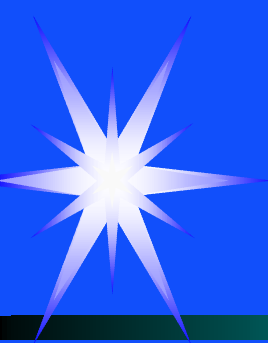


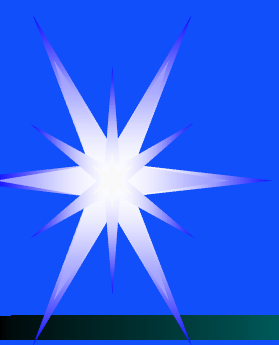
- **Xerox’s control over Fuji Xerox was diluted even further by the intermediary role of Rank Xerox. It often helps draw the equity relationships of the firms on the board.**
- **Despite this “distance” between Fuji Xerox and Xerox, the technological and marketing sources of advantage of Xerox were transferred effectively to Fuji Xerox. In this sense, Xerox helped Fuji Xerox grow.**



# Understanding the ownership structure and implications



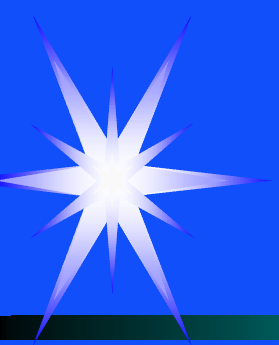




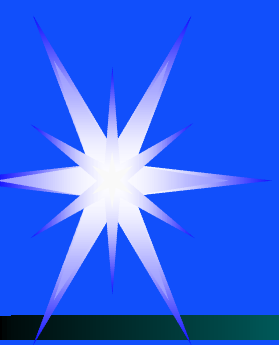
- **Using the above diagram as a template, one can then make several points about the complex relationship between the companies:**
- **Xerox is “far” from Fuji Xerox, in a managerial sense.**
- **Rank Xerox has greater incentives for adopting Fuji Xerox’s products than does Xerox. In fact, it introduced a small Fuji Xerox machine in Europe before Xerox did so in the United States.**



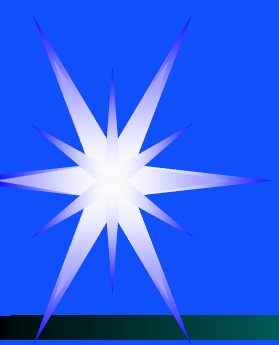
- While Fuji Photo Film remained a more or less silent partner during much of the 1970s and 1980s, it could be counted on to block any Xerox-imposed plans with which Fuji Xerox's management disagreed.
- Still, Xerox signed contracts with Fuji Photo Film giving it veto power over significant business decisions(1976JEC, see Exhibit 4).
- Xerox had a relatively small interest in Fuji Xerox's profit stream. But note that this share is not proportional to the equity shares, since--again, by contract—Xerox was entitled to  $\frac{2}{3}$  of Rank Xerox's profits. As a result, it had a  $\frac{1}{3}$  interest in Fuji Xerox's earnings.



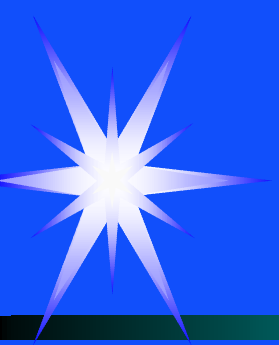
- **Partly Because of this small share of earnings, Xerox's management seemed to have treated Fuji Xerox early on with benign neglect. It was not really taken seriously as a source of world-wide competitive advantage and ideas until well into the 1970s. This point suggests that Xerox was "lucky" rather than "smart" in managing this relationship. But other points above and below show how carefully the relationship was structured and managed.(Posing the question in terms of lucky-or-smart often gets the discussion going,although the terms are obviously simplistic. The instructor may need to push some students here to get greater analytical depth).**



**Why Fuji Xerox could get so much technological inputs from Xerox?**



- **The reason for this effective transfer of technology lie in the extensive, and flexible, contracts signed directly between Xerox and Fuji Xerox.**
- **See exhibit 4.**



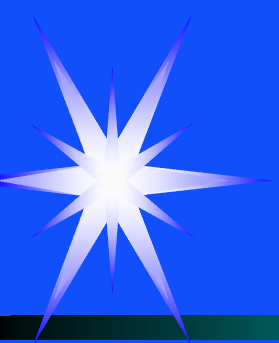
- **One reason why Xerox was so free with the transfer of technology to Fuji Xerox was that the contracts between the parties blocked Fuji Photo Film from appropriating these technologies for its own use.**
- **At the same time, these contracts guaranteed the Xerox could adopt any technology it wanted from Fuji Xerox, including any ideas that might have originated in Fuji Photo Film. This led Fuji Photo Film to minimize its technological collaboration with Fuji Xerox, making the joint venture dependent on Xerox for technology.**



**Another reason why Xerox may have been generous with technology—and a key success factor in itself—were the geographic limitations on Fuji Xerox. The licensing contracts specified that Fuji Xerox could use the technology only in its home market. The growth of Fuji Xerox was therefore less threatening to Xerox than it could otherwise have been, and conflicts arising from market overlaps were minimized.**

- All these contractual arrangements would not have survived the rapid growth in Fuji Xerox’s capabilities, were it not that they were implemented flexibly and adjusted over time. As a result, the royalty to Xerox was reduced when the FTC forced Xerox to license core technologies to its competitors, and Fuji Xerox began to receive its own “manufacturing fees” as it began to supply knocked-down products and designs to Xerox.**





- **Finally, the excellent personal relationships between top manamers at Xerox, Fuji Xerox, and Fuji Photo Film helped resolve disputes and keep the relationship growing. Frequent meetings between counterparts at all levels kept communication lines open, and promoted mutual understanding and trust.**

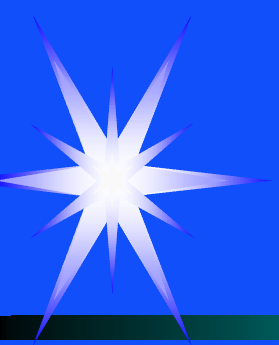


# Summary

- In summary, some of the broad themes that seemed to have led to Fuji Xerox's success:
- Fuji Xerox's location in Japan;
- Fuji Xerox 's ambition;
- Fuji Xerox's autonomy from Xerox;
- Lack of market overlap between Xerox and Fuji Xerox;
- Flexibility of contracts;
- Extensive technology transfer;
- Excellent personal relationships.



## **2. Future Options for Collaboration**



## **KSF OPTIONS**

**FX ROLE  
IN  
GLOBAL  
STRATEGY**

**Assumptions**

**About**

**Changes**

**needed**



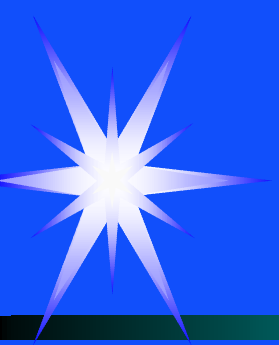
# Background (I)

- **As a transition to the discussion on future options, we can summarize some of the conclusions reached up to this point. In particular, it may be useful to highlight two points, in case they did not come out clearly:**
- ***Fuji Xerox's autonomy from Xerox was a key reason for its success;***
- ***Fuji Xerox's importance to Xerox grew dramatically over time.***
- **These two observations have implications for the discussion of future options. Paradoxically, Fuji Xerox's autonomy will need to be re-examined precisely because of the joint venture's expanding role in the Xerox Group.**



# Background (II)

- **Xerox and Fuji Xerox were engaged in the Co-Destiny III process in 1990. Their intention was to re-examine their relationship and make any changes needed to address new challenges.**



**What changes in collaborative arrangement would you recommend?**

**Before answering this question, it is necessary to clarify two questions:**

**(i) How do your recommendations depend on assumptions about changes in the competitive environment?**

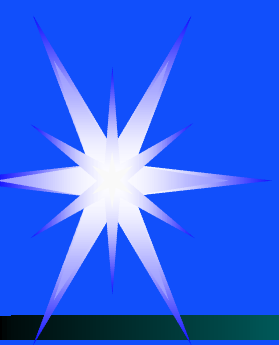
**(ii) What are the ultimate goals of Xerox's and Fuji Xerox's management? And what roles of Fuji xerox play in Xerox's global strategy?**



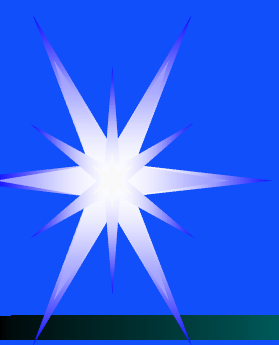
# Assumptions

- **Be specific: What are your assumptions about:**
- *Technological changes;*
- *Globalization of markets;*
- *Governmental policies changes over time;*
- *Canon's strategy and competitive actions.*





What are the ultimate goals of Fuji Xerox's management?

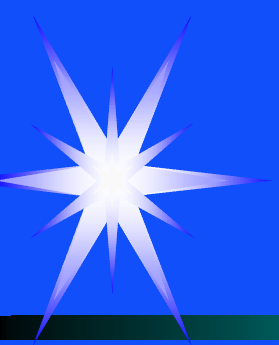


# Typical comments

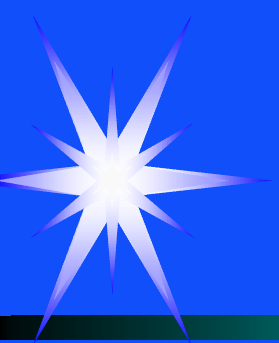
- **Changes in the global environment require a readjustment of the relationship. The rise of multinational buyers and integration of markets through trade suggest that the geographic separation of markets between Fuji Xerox and Xerox may be outdated. The firms should seek greater cooperation in marketing.**
- **Xerography is being replaced by digital imaging, requiring greater use of electronics, computers, and software. It is not clear where in the Xerox Group these capabilities lie, but the old working relationships will probably have to change as Xerox's traditional technologies get replaced by new ones.**



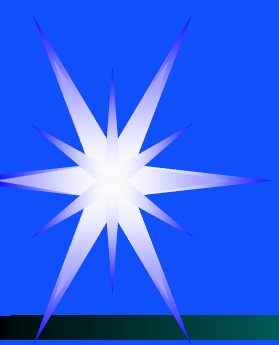
- **The new technologies almost require greater R&D spending by the Xerox Group, or at least, more productive R&D efforts. Roughly speaking, Canon appears to be four times as productive as the Xerox Group in R&D, since it spends half as much as Xerox and Fuji Xerox combined, and still introduces twice as many product innovations yearly. Xerox and Fuji Xerox have to find new ways to improve the productivity of their R&D.**
- **Canon appears more threatening than ever: it is headed for Xerox's heartland of mid-range copiers, is already dominant in laser-printers, and is making rapid advances in color copiers. In order to beat back this competition, Xerox and Fuji Xerox have to focus attention on Canon, and reduce sources of conflict between themselves.**



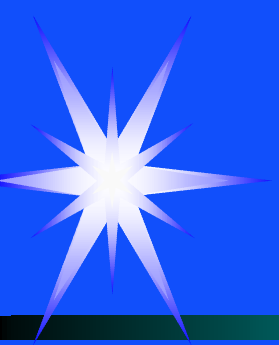
- **One of Canon’s potential advantages is its ability to produce large volumes at one location (usually Japan) and export from there. Xerox’s operations seem fragmented in this regard, with some production in Japan, some in the United States. To increase global scale economies, then the Xerox group must find ways to rationalize production.**
- **On the other hand, if political barriers to trade increase—as they might, for example, if there develops a Fortress Europe or a NAFTA relatively closed to others. In this situation, the Xerox companies might well continue to act as more or less “local” players in the United States, Europe, and Japan.**



- **Regardless of any of these scenarios, it appears that Fuji Xerox's management is anxious for the company to become a full global competitor, like its Japanese counterparts. It is feeling more and more constrained by the relationship with Xerox, and wants to pursue its own strategy, investments, and marketing around the world. If the relationship is to survive, Xerox must find ways to accommodate these ambitions.**



- **At the very least, Fuji Xerox probably ought to be allowed to expand its markets in Asia, an option explicitly described in the case. The so-called South Pacific Operations were apparently not being managed effectively by Rank Xerox. Some way should be found to transfer management responsibility for these operations to Fuji Xerox.**



**What changes in collaborative arrangement would you recommend?**

**Functional Reorganization of the Alliances between Fuji Xerox and Xerox**

- i. Marketing Options;**
- ii. Research Options;**
- iii. Development and Manufacturing Options.**



# i. Marketing Options

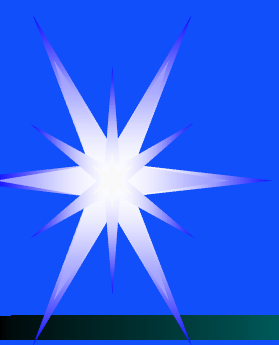
- **A. Independent and overlapping**
- **B. Independent and separate**
- **C. Separate with exceptions**
- **D. Coordinated global product mandates**





## A. Independent and overlapping

- This is attractive from the point of view of accommodating Fuji Xerox, but it violates what has been a key success factor in the past: market segmentation, which avoided conflicts and facilitated cooperation. To bring out the possible reaction from Xerox, ask:
  - *How would Xerox's sales-force feel about this option?*

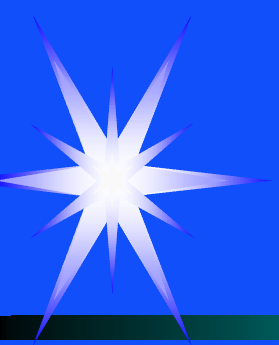


- **It will be clear from the discussion that Xerox is unlikely to agree to this option, as it would lose its last trump card: control over the U.S. market. The large sales-force with vested interest in the current marketing arrangement is likely to resist it the strongest. This observation, and others to follow, show how dependent inter-firm collaboration is on getting “buy-in” from the different constituencies inside each firm.**



## B. Independent and separate

- **This is the current situation, which does not adequately address issues of multinational buyers and global scale economies in marketing. Also, when one firm manufactures the product and the other sells it, as in laser-printers in 1990, there are likely to be conflicts over transfer-pricing. Xerox and Fuji Xerox were not very good at this, and ended up fighting each other, rather than the competition, as the case suggests at the end. To bring this out, ask:**
- ***Where is the profit to be made, at production or marketing? How do you work this out in advance?***

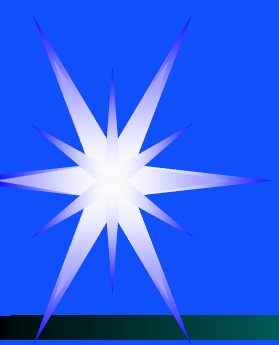


- **It is important and difficult to negotiate the transfer price between a manufacturer and a marketer. Without an external, arm's length market for the product being transferred, there is not likely to be an easy solution. There are no such markets for printers and copiers, let alone for parts and knocked-down kits.**



## C. Separate with exceptions

- **This is an attractive compromise between the two extremes discussed above, and students will often gravitate to this after some discussion of the extremes. (In fact, Xerox and Fuji Xerox effectively chose this option, as noted below.) But, here there are serious questions about implementation and details. For example:**
- ***What will constitute an exception?***



- **We may suggest that the South Pacific Operation is one such exception. That's an easy one, as it is peripheral to Xerox. But what about the U.S. market? Should there be exceptions there? Some will suggest that low-end copiers or laser-printer should be the exceptions.**



## D. coordinated global product mandates

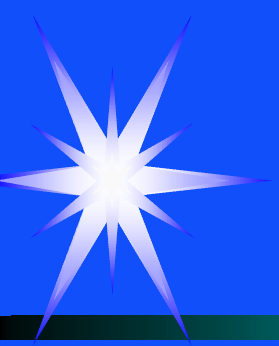
- **This seems less ad-hoc than the preceding, and would perhaps be efficient if product ranges could be allocated neatly to each company. In fact, some low-end copiers will be substitutes for some mid-range copiers, and the customer is likely to be confused by having to deal with different companies for similar products. In these boundary regions, there will be conflict between the firms, as in option one.**



## ii. Research Options

- **As Fuji Xerox has shown in the past, it designs products in response to customer demand, because its developers receive direct information about customer needs from its sales and service people. In addition, in allocating research funds, the company will probably prefer to spend on products for which it can capture profits through its own marketing. As a result, the scope of their market will likely influence what they will develop and produce. If they only reach certain markets through the intermediation of Xerox, then customer preferences are less likely to be incorporated effectively in new products.**





- A. Independent.**
- B. Coordinated**
- C. Joint**
- D. Complementary.**



## A. Independent

- **This will no doubt lead to duplication and waste. It is clearly not the proper response to the greater need for cooperation identified above. But note that this was more or less the model of the 1970s, when Fuji Xerox forged ahead in developing new products, against the wishes of Xerox. The duplication then turned out for the best, as Xerox ended up cancelling its own development efforts and relying on new products introduced by Fuji Xerox.**



## B. Coordinated

- **This is a compromise between option (A) above and (C) below. It's more or less what Fuji Xerox and Xerox have begun to do in the late 1980s and what they later decided to continue. The difficulty here is, again, in the details of deciding who should do what. But, the decision is less likely to create friction than similar decisions about marketing. Still, it is worth exploring the question. Students will suggest that in some areas of research, it is good to have duplication (e.g. when there is great uncertainty about which path is likely to bear fruit), and in others it is best to avoid it.**



## C. Joint

- **Few will suggest this, as it is highly unlikely to be doable. Geographic distance alone would make it hard to integrate research completely, and the differences in market-orientation and ownership make it almost impossible to do so efficiently. Still, because this is how Canon is organized, it is worth considering whether the Xerox Group's inability to organize itself this way puts it at a disadvantage or not (see further below).**



## D. Complementary

- This option is close to (B) above, except that it attempts to avoid all duplication. As noted above, duplication in research makes sense in highly uncertain projects. In addition, this option may make transfers of technology between the firms more difficult, as there may be no in-house capabilities to help each firm “absorb” the imported technology. Finally, this option means that each firm is highly dependent on the other, often for key inputs. For all these reasons, students are likely to prefer other options, as did Xerox and Fuji Xerox.



## iii. Development and Manufacturing Options

- The options for development and manufacturing are a bit more confusing than for marketing and research, the pros and cons of each option appear be:
  - A. Independent
  - B. Complementary without overlap
  - C. Complementary with overlap
  - D. Joint



## A. Independent

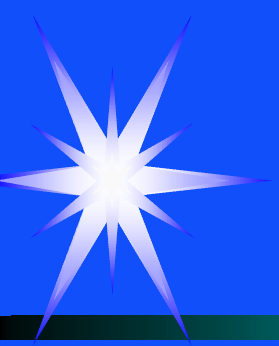
- **The duplication inherent in this option is likely to be even more costly than that in the “independent research” option above. There are likely to be greater economies of scale in production, and fewer uncertainties in development, so that there probably are benefits to be had from combining these operations.**



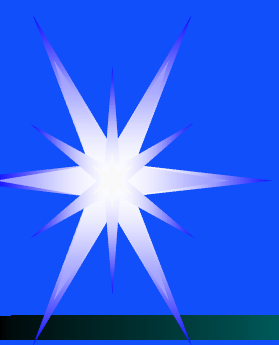
## B. Complementary without overlap

- **This creates serious dependence of one firm on the other. In addition, given the separate markets of Fuji Xerox and Xerox, there will probably be a lot of international trade in this model, as products made in Japan are sold in the United States and Europe. As a result, these products will have relatively low local content. One way to get at this issue is to ask:**





- *How will the French government (or the Brazilians ) feel about your plan to source all low-end copiers in Japan?*

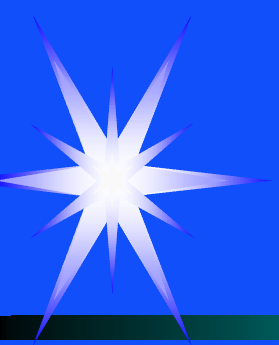


- **-These governments are known widely to prefer locally-produced goods over imports;Brazil has a long-standing import-substitution policy, especially in information technology, and France has kept Japanese VCRs out of its market countries, other than Japan, where Xerox makes fax machines.) In sum, the optimal division of labor in development and, especially, in manufacturing depends on one's assumptions about trade policies in consuming countries and regions.**



## C. Complementary with overlap

- This solves some of the problems in the option above, but leaves open the question of where there should be overlap. Students typically suggest that Xerox and Fuji Xerox can answer this question through a dispassionate analysis of economies of scale in production, i.e. centralizing production when economies of scale are high, and allowing duplication when they are low. The political and trade policy issues raised above already suggest that this is too simplistic an approach. In addition, consider, as we did above, what the implications would be inside Xerox:

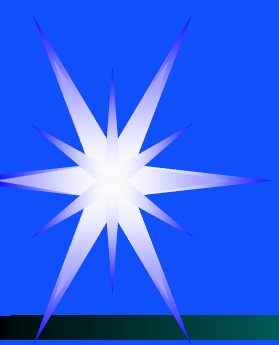


- *How do you explain to Xerox plant workers in Webster ,NY, that their operation is to be shut down to expand production in the company's joint venture in Japan?*
- These workers are unlikely to be swayed by the economies-of-scale argument. In addition, even Xerox financial analyst with less of a personal stake in the issue might find it hard to justify such rationalization, because Xerox only receives 1/3 of the profits generated by production in Japan. Furthermore, a Xerox strategist or technology planner might worry about the loss of productive capability that would follow the transfer to Japan.



## D. Joint

- **This is the least realistic of the options. For reasons similar to those noted above under the “joint research” option. In addition, as long as Xerox remains only a partial owner of Fuji Xerox, there will be incentive issues involved in fully rationalizing production, as described immediately above.**



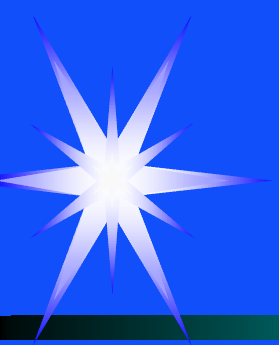
### **3. Global strategy and Organization Structure**

**What kinds of organizations did Canon and Xerox apply while expanding globally?**



## What kinds of organization did Canon and Xerox apply while expanding globally

- **Canon and Xerox compete head-to-head worldwide on copiers and, increasingly, in laser printers. As Exhibit 11 shows, the sales of each firm are divided more or less evenly between the U.S., Europe, and Asia. But Canon runs this global business from Tokyo and it owns outright all its research, manufacturing, and sales operations worldwide. The Xerox Group, as we've seen, is both a unitary organization of joint ventures—Rank Xerox in Europe and Fuji Xerox in Japan. In terminology popular today, it is a “network of alliances”.**



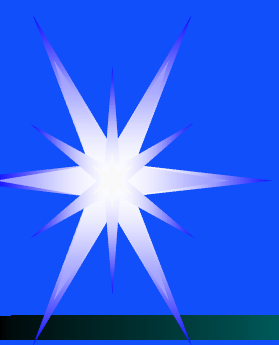
- **Does this difference in global organization matter? If so, which type of organization is more effective?**
- **The simple answer to these two questions are “yes, the difference matter”, and “There is no one best way—it depends.”**





# Typical comments

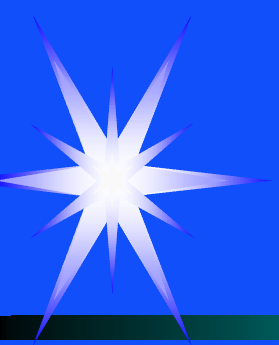
- **(i) It is harder in a network of alliances to pursue integrated global strategy, because that may mean shifting production from one country to the other and using profits in one market to subsidize strategies in another. Local partners can be expected to block such decisions if they suffer the local cost, but not the global benefits of the strategy. In this sense, Canon has the edge.**



- **(ii) But it may be easier in such a network to accommodate demands for localization by host governments and trade blocs. Here, Xerox has the edge, because it appears as a more or less “local company in Europe, Japan, and U.S.. At the same time, these local companies might be more sensitive to the needs of local customers than would a centrally-controlled, global organization.**



- (iii) A unitary organization with a concentration of research and development in its home country is ideal if that home country is a lead market for the world. This has been Canon's advantage, and Xerox's disadvantage in small copiers.
- (iv) But when there is less certainty about which market will lead in the future-as for example, in digital imaging-it may be best to locate research and development in several markets. Technological changes, as it will be able to draw on both United States and Japanese skills.



- **(v) More generally, local management tends to have greater autonomy in a network alliances than in unitary, global organization. This may be good or bad, depending on whether there is much need for local tailoring of the business. Note that the same type of central control that seemed to have helped Canon, almost squashed Fuji Xerox in its early years.**



## 4. CONCLUDING

- **We close the case study in two ways:**
- **(1) providing an update on what Xerox and Fuji Xerox chose to do following the Co-Destiny III discussions;**
- **(2) reviewing the key lessons of the case.**



# Update

- **Following the co-destiny III discussion, Xerox and Fuji Xerox took two decisions on the issue in the case:**



# Update(I)

- **The south Pacific Operations, except for Chin, were sold to Fuji Xerox by Rank Xerox for about \$400 million in cash. Fuji Xerox immediately began reorganizing these operations to integrate them into the rest of its marketing organization in the region. Xerox excluded China from the deal, reportedly because its future potential was both huge and highly uncertain.**



# Update (II)

- **Xerox and Fuji Xerox formed a new alliance, called Xerox International Partners, that was owned 51% by Xerox and 49% by Fuji Xerox. This U.S.-based partnership was to be a marketing organization to sell Fuji Xerox-made laser-printers in the United States to OEM customers. The alliance between the joint venture and one of its parents was considered one of the exceptions in option “C” under marketing in Exhibit 11. It gave Fuji Xerox more direct access to the U.S. market, while still allowing Xerox to maintain control. The venture was headed by an experienced Fuji Xerox executive, and got off to a good start with sales to Compaq and other computer firms.**





# Update(III)

- **In research, the companies continued to enhance their cooperation along the lines of option “B” in Exhibit11.**



# Update (IV)

- **There were to be no major changes in the way development and manufacturing were organized, meaning that some products would be produced by both firms, and a few would be produced exclusively by one or the other (option “C” in Exhibit 11). The XIP alliance was intended to market printers developed and made by Fuji Xerox.**



# Update (V)

- **While there were as yet no changes in the basic contracts and in ownership structure, Xerox, Fuji Xerox, and Fuji Photo Film began in 1992 to renegotiate their 10-year technology and licensing agreements.**



# Lesson

- **Alliance should dynamic: they evolve in response to changes in the capabilities and needs of the partners and in the external environment. Often, the very logic of collaboration will change, and an alliance can grow to fulfill a function different its original mission.**



# Lesson

- **As a result, they need be managed flexibly, using a wide range of organizational structures and processes. Even if one aspect of a relationship remains unchanged (e.g. ownership structure), other aspects (e.g. contractual relations) may be used to adjust the roles of the partners.**