Revenues from advertisers and from other DVR manufacturers required TiVo to incur additional engineering expenses. TiVo was not originally built to be an extensible system that could easily be adapted to different hardware and software; it was not modular.

TiVo also offered a TiVo Affiliate Program, an online network of approved affiliate sites that have partnered with TiVo. TiVo provides official links and banners to these sites, which direct Web traffic back to the TiVo.com online store. Once the links have been placed live on the affiliate site, TiVo pays the affiliate site owner a commission for each TiVo box plus service plan purchased by a consumer coming from that affiliate's site. TiVo's hope was that e-tailers or websites that offered entertainment-oriented Web content might find it useful to recommend TiVo to their customers.

Meeting the Challenges

Further complicating TiVo's business strategy were emerging technology trends. Consumers increasingly sought alternative ways to access television content, whether over their mobile phones, through IPTV (TV delivered over the Internet to computers), or downloading movie content directly from the Internet.

Faced with these challenges, as TiVo looked to the future, its mission as a company—to make the TiVo DVR the focal point of the digital living room, a center for sharing and experiencing television, movies, video downloads, music, photos, and more—seemed increasingly challenging.

Discussion Questions

1. Draw a supply chain (or value net) that traces the various stakeholders involved in the TiVo value chain and their respective interactions. From this, what insights do you get about the relative value that each stakeholder adds in this process?
2. For TiVo, describe the six factors that affect customers' purchase decisions (see Chapter 7, Table 7.1). Which are most salient for TiVo adopters?
3. What are TiVo's core competencies? Is the company effectively leveraging these in its current strategy?
4. To what extent is the TiVo business model affected by network externalities? What are the implications for its business model?
5. Who are the key competitors facing TiVo? Given this competition, what are the pricing implications?
6. Does TiVo's pricing strategy make sense? Why or why not?
7. Do you believe that TiVo's business model is sustainable over the long term? If so, why? If not, why not? If not, what recommendations do you have for this company?
8. Why has TiVo apparently not been successful in "crossing the chasm"? What will it take for TiVo to penetrate the mass market?

Sources: Yoffie, David B., Pai-Ling Yin, and Barbara J. Mack, "Strategic Inflection: TiVo in 2005," Harvard Business School, Case #9-706-421; "TiVo DVRs," TiVo website, at www3.tivo.com/store/boxes.do; Reisinger, Don, "Does TiVo Have a Chance?" NewTeeVee.com, posted March 11, 2008, at http://newteevee.com/2008/03/11/does-tivo-have-a-chance; TiVo Inc., Form 10-K, Annual Report for fiscal year ended January 31, 2008, online at http://investor.tivo.com/secfiling.cfm?filingID=1193125-08-81777; and "TiVo Affiliate Program," 2008, online at https://www3.tivo.com/abouttivo/affiliateprogram/index.html.

CHARTING A NEW COURSE FOR XEROX: STRATEGIC MARKETING PLANNING

In December of 1998, the value of a share of Xerox stock reached \$60.81. By December 31, 2000, that share was worth \$4.63, a decline of 92%! With Chapter 11 bankruptcy looming after six consecutive years of losses, more than \$17 billion of debt, and a debt-to-equity ratio of 9:3, the board of directors appointed Anne Mulcahy to the CEO position. Mulcahy was a 24-year Xerox veteran but had little hard-core executive experience. An English and journalism major, she had spent 16 years in sales and many of her remaining years as the head of human resources and the chief of staff for former CEO Paul Allaire—not exactly the kind of resume Wall Street could count on to stop Xerox's free fall. Xerox's stock dropped 15% on the day of the announcement. Having a revered brand and a well-known technology is no guarantee of survival in the brutal world of technology. Could Mulcahy guide Xerox to develop a strategy for success?

Xerox Background

Xerox was founded in 1906 as "The Haloid Company," which originally manufactured photographic paper and equipment. The company subsequently changed its name to "Haloid Xerox" in 1958. The company came to prominence in 1959 with the introduction of the first plain paper photocopier using the process of *xerography*. Xerox has long been recognized as a technology pioneer. Its Palo Alto Research Center (PARC) was at the leading edge of the development of laser printing (1971); object-oriented programming (1972); a personal computer, the Alto, that incorporated the first what-you-see-is-what-you-get (WYSIWYG) editor, a mouse, and a graphical user interface (GUI) (1973); a system that allows the assembly of an integrated office network in which users can electronically create, process, file, print, and distribute information (1980); and Colab, a meeting room that provides computational support for collaboration in face-to-face meetings (1987).

Today, Xerox Corporation engages in the development, manufacture, marketing, servicing, and financing of document equipment, software, solutions, and services worldwide. It serves commercial customers (primarily small to medium sized, but large customers as well), as well as government, education, and other public sector customers. Xerox markets its products through its direct sales force, as well as through a network of independent agents, dealers, value-added resellers, and systems integrators.

Mulcahy's First Steps

Faced with an immediate financial crisis, Mulcahy had no choice but to act boldly. Through a back-to-basics approach and a renewed focus on operational efficiency, Xerox cut its capital expenditures by 50%; reduced its sales, general, and administrative expenses by a third; and slashed its total debt in half. However, Mulcahy knew that companies can't shrink their way to greatness. After gaining some breathing room, her next challenge was to reignite Xerox's growth. Xerox's 2001 revenues were below those of 1998, a situation that worsened in 2002.

Return to Growth

Xerox's shrinking revenue base was primarily the result of losing market share to competitors. Not surprisingly, the years between 2000 and 2002 were fairly quiet in the marketing arena. The money just wasn't there to spend—but worse, there was no coherent message. After the turnaround took hold, Mulcahy was ready to spotlight the Xerox brand again. Xerox chose a subdued, customer-centric focus.

The base campaign, launched in 2002, was so successful that Xerox continues to add iterations. The core print ads feature a giant red Xerox logo and short case studies built around clients including Microsoft, Office Depot, and Enterprise car rentals. By early 2004, 60 of those print ads had been created and run in publications such as *Business Week, Forbes,* and the *Wall Street Journal.* In 2003, Xerox spent $53.5 million on advertising, according to TNS Media Intelligence/CMR, up significantly from the $27.3 million it spent in 2001.

In March 2007, Xerox announced an advertising campaign designed to bolster the fastest growing segment of its business: consulting services. The ad campaign featured print, broadcast, and online ads designed to position Xerox Global Services as the "premier consulting and outsourcing" partner for document management. For example, one print ad spotlighted a team of Xerox consultants under the banner "We Find Millions," and focused on document assessment services that yielded millions of dollars of cost savings for companies such as Owens Corning and InterContinental Hotels Group. Other print ads and television commercials revolved around the theme of affordable color for businesses small to large.

According to Michael C. MacDonald, Xerox's chief marketing officer, the ads are part of a broader push to build the value of the Xerox brand and better serve customers. "When it comes to the customer experience, we need to think big and small. That means paying equal attention to 'big brand' efforts like advertising and 'little brand' experiences that define the way customers interact with us every day," MacDonald said in remarks prepared for a keynote presentation at the 2007 Conference on Marketing in Las Vegas.

Of course, clever advertising will fail in the face of subpar products. To maintain an innovative product line, Xerox continued to spend about $1 billion annually on R&D. In May 2006 Xerox launched a line of digital color printers, presses, and copiers. Xerox's color line, already the most extensive in the industry, was expanded with five additional systems, including a new midlevel digital production color press and color printers, digital copiers, and multifunction products aimed at offices small to large. "The breadth of Xerox's digital color portfolio surrounds the competition, with options in every speed range, and offers superior value for customers who want to harness the proven results that color can bring to their operations," said Jim Firestone, president of Xerox North America, in announcing the new products. In 2007, some 44% of Xerox's total equipment sales came from color printing, up 12 points from 2005. The color focus was a big driver of revenue growth.

Xerox also began to involve customers in the early stages of product design. Xerox Chief Technology Officer Sophie V. Vandebroek called the process "customer-led innovation." The process played a key role in the design of the company's new dual-engine Nuvera 288 Digital Perfecting System. Brainstorming, or "dreaming with the customer," is critical, she says. The goal: "Involving experts who know the technology with customers who know the pain points." Promoted to the top technology spot in January 2006, Vandebroek expects scientists and engineers to meet face-to-face with some of the 1,500 to 2,000 customers who visit showrooms at the company's four global research facilities each year. Others work on-site for a week or two with a customer, observing how they behave with the product. A team of ethnographers is also charting customer behavior.

Also in 2006, Xerox detailed two major consulting services contracts: a $36 million seven-year deal with the University of Calgary, and a $17 million four-year contract with InterContinental Hotels Group. The signings included enterprise-wide document management services combined with advanced office and high-end production print technology to streamline the flow of information and reduce costs. Xerox also announced a number of software offerings and business development tools that help customers simplify work processes and boost performance.

"Xerox is intently focused on its customers, offering them the industry's broadest choice of hardware, software, and services so they can indeed work smarter," said Angele Boyd, group vice president of IDC, a global information technology research group. "As a result, customers in diverse environments—from the office to the print shop—can turn to Xerox to help them be more productive."

Another marketing priority for MacDonald in 2006 was to improve the global customer experience. "We are doing more one-to-one marketing with our largest global customers," he said. For example, in 2006 Xerox restructured its premier global account organization to put senior-level client managing directors on the company's largest accounts. In parallel with these efforts, Xerox leveraged a proprietary software tool called Sentinel to monitor and boost customer satisfaction. The tool automatically contacts customers and offers an easy way to provide immediate feedback and solve problems in real time. Use of Sentinel nearly doubled in two years, expanding to 14 countries worldwide and 124 major accounts.

These initiatives returned Xerox to solid financial footing. In 2006 Xerox had a profit margin of 7.75% and an ROE of 17.2%—and the value of a share of Xerox stock more than doubled since