2009

Case Study: Staples

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Synopsis

While Tom Stemberg was interviewing for a job at Makro, he was struck that the office supplies aisle was empty. Understanding the concept that the everyday consumer wants the best bargain they can receive, Stemberg saw an opportunity arising within the everyday office supplies market. A mirror image of "Toys R Us," he would turn it into business that would supply all office equipment. Meanwhile, Stemberg was fired from the Jewel Corporation and decided to get a business rival, Leo Kahn, to help explore his new idea. This idea resulted in the creation of "Staples." These two gentlemen started with $500,000, straight from Kahn's pocket. This so called "business idea" now brings in over $11.6 billion in sales.

Mission Statement

At Staples, we are committed to truly making a difference through the preservation of the earth's resources and the betterment of our communities.[1]

Issues

Tom Stemberg and Leo Kahn wanted to get into a different type of retail business. However, simply knowing about the supermarket retailing gave them a bit of knowledge of sales not specifically for office supplies. In the year of 1985, the office supplies industry was nearly invisible. Small companies did not have a market to purchase the items needed to become successful and help save them money. Retailers would only want to sell in bulk, yet small companies were not able to always afford the massive amounts of inventory. With mom and pop stores available for small business, their prices were outrageous. An office supplies market was a great opportunity for a new market; nevertheless, at this time it was overlooked. This new market worth for its manufacturing level was calculated at $45 billion and was estimated at $100 billion for the retail level. The market was just waiting to be discovered and Stemberg and Kahn did just that. Staples was the first to start the "bandwagon" of office supplies.

Only having an idea along with no established business model that the team could look at, the capital for the first Staples store had become problematic for Stemberg. Around $8 million was projected for the capital that was needed for the first store, and exchange for 50% of his company. The venture capitalists became hesitant, only valuing Staples to be around $6 million and ended up wanting 67% of the company in substitute for $4 million. Bain Venture Capital (BVC) turned out to be the company who took the opportunity to help finance the Staples idea.

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[1]Staples, Inc.www.Staples.com.Copyright2008.

Matt Romney's firm surveyed 100 small businesses to discover if there was a need for a company of this kind. Romney turned around and decided to take a look at his company and noticed that his company would end up saving approximately $117 thousand within a year span. This proved not only that this idea was not just reasonable, but that it would become profitable too. Within the first round of financing, Staples and BVC were able to raise $4.5 million. Staples was able to turn over 54% stake of the company to Bain Venture Capital and vowed that they would be able to open their first Staples store within the month of May.

Being such a unique business idea and having great potential, Staples was not prepared for what was ahead of them. Having everything that they needed, the idea, and the money to finance the first store; yet the problem would arise when people realized that this market was quite profitable and Staples was not ready to share this market. Another thing is that Staples would need to stay ahead of its inward competitors. One obstacle that Staples faced was that before they were able to raise enough money to open up another store, already other stores like Office Max and Office Depot were opening stores throughout the country.

One of the first issues that appeared to Staples besides financial was the state of the art information system. This system was to keep track of customer purchases, collect demographic information and keep track of inventory turnover. A guideline that this system must acquire was to make sure that it is easy to use at the registers and to make sure there were no lines but also able to gather all the information that was needed. The informational system would later become the key to a successful company. However, it first needed to be capable of calculating the gross profit margin for each item sold. Second, to make sure that the inventory turnover was at least twelve times a year to make the company as profitable as possible. The problem being that there was no program that could perform all these tasks. Staples' management team pulled together and tried to accomplish a successful program that could complete their needs. They were not able to do so, so they ended up hiring programmers to create a masterpiece that would work for them.

Getting the suppliers to ship products to the first Staples store was a problem within itself. Stemberg had to ask suppliers things that they might not have ever done before and bypass the channel of distribution. Staples needed to convince the suppliers to get on board, by using a visionary pitch. Just wanting product to go from point A to point B, nowhere else, was a new concept. If their suppliers were to bypass those distribution centers, Staples would be cutting out the middle man, therefore bring costs down.

Finding property was definitely not a trouble-free problem. Entering into a new market, the financial resources were not available to Staples. So Staples turned anything from restaurants to massage parlors into Staple stores. The location that was picked for store number one was in Brighton, Massachusetts. Brighton existed in the middle of a pool of a small business. This location help lead the success of Staples and its idea.

Staples' idea was like no other company that is out there. The management team for Staples was designed to be the low cost leader along with being customer oriented, buying products in bulk then turning around and selling them to customers at lowest price. Wanting to cut inventory would help slash warehousing cost, and with this it would decrease the number of people handling the merchandise, which would reduce shipping and handling cost, and would help keep a high quality record to track the inventory. The idea set out to be customer oriented by trying to keep items that they might want or need accessible at anytime. This is where that state of the art tracking system would come into play. It would help Staples departments with ordering to make sure all inventory was in stock at all times. It would help Staples focus on customers rather than on their selling prices.

With customers being the main thing for Staples' discovery, the market that was targeted were those people who were not able to afford or perhaps did not want to purchase in bulk. Staples was not only selling to small businesses, they also focused on large consumers and as well as the general public. Competitive advantage over other companies was easy for them because they were able to sell the identical products at a significantly lower price and without having the customer by in bulk. Staples' company became successful by hitting the targeted market right on.

Staples' idea to be a successful company's key was the management team that they had brought in. This board consisted of people who had run and owned their own successful businesses. It gave the Staples company a wide range of experience and knowledge to draw from, along with several people to produce winning strategies. The placement of the stores was another key strategy. Stores were placed in specific locations so that the store could be supported, as well as where the consumers from all over could take advantage of the entire product and price selection that Staples had to offer. The main strategy that took place was their direct style of marketing. Whenever a new store as about to open, Staples would compile a list of small businesses, within 15 minutes of the new store. Staples had their telemarketers call this list, introduce the store's idea, tell them about the savings they could receive, and followed up by sending out coupons for free items such as copy paper, notepads and even paper clips. To draw these businesses back and show loyalty to them, they created a Staples reward card. This card was set up for the customer to receive coupons to the items they had purchased. The application gave Staples the demographic information that was needed to tailor their marketing to certain businesses or groups. It helped increase effects of their marketing strategies.

Although Staples had become a successful company, one strategy that did not work was when they focused on the price rather than the customers. In the state of California, they had started to play price wars with other competitors. They soon realized that focusing on the customers made them better off than if they worried about the price. Staples understood that if they had the product that the customers wanted they would pay that price, no matter what it was. Stemberg quoted "competition was inevitable, and the winners in the competitive race would not necessarily be those that grew the fastest but those that executed the best[2].” When lowering their prices, they ended up changing their main hub of the business. In doing this, Staples lost focus on their strategy, causing them to slip. Just because they were trying to beat the competition, they cut their profit margin up to 8%. This pricing strategy definitely did not work out for Staples’ best interest.

The Staples company was built to be a winner. Being profitable was no problem for Staples, yet there were different ways profitability could have increased. If Staples were to focus on location a little more, it would have helped out quite a bit. Instead of having to buy property at low costs, they could have paid a little more for a property that was in another pool of small business that could have spent more than just the general public. They even could have looked for property that was near the distribution centers to help decrease shipping costs and time. A prime real estate property should have been an essential factor to Staples’ strategy.

During 2003, when an announcement was made that Tom Stemberg was to step down as CEO of Staples, the company had been confronted with many challenges. As the new CEO, Ron Sargent stepped into the role, and decided to slow down the production of the company’s stores from 130 to 75 for the year. With this action of changing management, new challenges were presented to Staples’ ideas and strategy to the market. As the industry was going, Staples needed a new approach to reach out to the customers. They came to a decision of direct delivery. This was Sargent’s idea and it became very successful to the company and the office supply as an industry.

Staple sits as one of the top three competitive leaders in the office supply industry today. Over 1,088 Staple stores within the United States, 212 in Canada, 188 in Europe, and it is still growing slowly. During 2007, Staple faced a merge in retail industry, just to produce the best possible products and supplies the customer will be able to afford at the best price possible.

Personal Thoughts

Getting the chance to read how others have started their business adventure can truly be an inspirational gift. It helps explain to people that anything is possible with just trial and error. As new markets come and go, many competitions will arise and having the knowledge of knowing how to be the out do the competition within that market will eventually help make your company the best in sales. Figuring out that the profit margin is surely an important factor, Staples first concern being the customers shows that it is not always about the profit. Loyalty will be playing a significant role as well. Even though people might not have an idea as vital as Staples has made in the office supplies industry, there is always a new market always waiting to be discovered. Being involved in the business world, everyone needs to be prepared that anything could happen. Management is able to step down at anytime; being organized and

[2] Hill, Charles W. Gareth R Jones. Essentials of Strategic Management. Case 2:Staples.Copyright 2008. Houghton Mifflin Compnay. Boston MA 02116.

ready for this is a key essential in the company to grow in the event of this occurrence. The only real strategy that should matter to Staples or to any business is to outlast their competitors with profits in the long run.

Stock Details[3,4]

As of Tuesday, February 17,2009:

Symbol	Last Sale	Change	% Change	Share Volume	Market
SPLS	$15.1	0.64	▼4.07%	11,187,446	NASDAQ-GS

		Ticker Symbol:	SPLS	**Last Sale:**	$ 15.10
Shares Outstanding:	713,387,000	**Market Value:**	$ 10,772,143,700	**52 Week High:**	$ 26.57
Exchange:	NASDAQ-GS	**Issue Type:**	Common Stock	**52 Week Low:**	$ 13.57
P/E Ratio:	10.79	**Annual Dividend:**	N/A	**Dividend Yield:**	N/A

[3] NASDAQ. Flash Quotes. February 17,2009. http://www.nasdaq.com/aspx/flashquotes.aspx?symbol=SPLS&selected=SPLS
[4] NASDAQ. Stock Report. February 17,2009. http://www.nasdaq.com/asp/quotes_reports.asp?symbol=SPLS&selected=SPLS


1 Year
02/18/09
$28.00
26.00
24.00
22.00
20.00
18.00
16.00
14.00
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Feb
Volume
EDGAR Online
31.22 M
20.81
10.41
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Feb
Click on the chart to view the underlying data.