

## **Staples**

*by Charles W.L. Hills*

In 1985, the office supplies industry was highly fragmented and the market scope is broad. There were several players in the industry. On the manufacturer level, there were various groups of companies that provide different categories of office supplies. On the wholesaler level, wholesalers, who are mostly large in size while few smaller ones exist, were the main distributors to big business clients and small retailers who buy in bulks either through direct channel or a network of dealers. There were also two main retail categories: the local office supply stores, generally small businesses themselves and the general merchandise discounters. The commonality between these retailer structures was their ignoring the small business. And that's when Tom Stemberg saw the great opportunity of a highly profitable market, office supplies.

The time was considerably right to start a company on office supplies. It was after recession period when economy was in growth, and unemployed people were starting their own businesses, making the number of small businesses of about 11 million. However, there were also missing parts in the plan. The experienced management need was solved when Stemberg convinced his ex-team mated to work for him with a 2.5% company share. The "Staples" brand name was created as opposed to "Office Depot", which was a following of Home Depot.

Staples positioned itself in cost leadership and product availability. The critical issues were the decision of store location with a good real estate and a good price, the money that needed to be raised with venture capital, a business strategy that would prevent the quick imitation by competitors, convincing suppliers to by-pass the “old friend” dealers and deliver the products directly to Staples stores.

The biggest mistake Staples did was to assume that a store would serve customers within a ten to fifteen minutes drive. And that’s because Staples stores were smaller in size than existing ones to save on rent and were clustered in densely populated areas. On the other hand, the major competitor, Office Depot, located its stores in towns with a population of less than seventy-five thousand. Staples stores were targeted small businesses however they were located in mid-size cities. There should have been a market research to see where these small companies were mostly located and what the buying behavior of consumers in small towns. Because, at the end of the day, it turned out that consumers in small towns would drive much farther to get lower prices.

Another strategic mistake of Staples was to ignore the delivery request from consumers in order to avoid the increasing costs. They assumed that consumers who wanted a delivery service were the ones shopping in store and if they provided such a service, they would lose the store sales. Staples should have provided delivery service in pilot areas to see the results of sales. Ignoring high request made them miss an opportunity to be the first in the industry.