The Office Supply Industry in a Digital World

Staples, Inc.

RUB

4 December 2014

Integrated Project I

Pen Consulting: Bentley Brown, Andreea Chidu, Desmond Djekovic,
Carter Frazee, Irene Kate Patron, Mingyang Wang

Table of Contents

Letter to Newly Appointed CEO

Dear Mr. Ronald L. Sargent,

We at Pen Consulting would like to start off by saying that it has been a pleasure reviewing the current state of Staples Inc. and creating a solution that we believe can bring Staples continued success. Our analysis has identified a significant challenge that Staples is facing that we think upper management needs to address if the company wants to continue to thrive in today's ever-changing world.

We have compiled all our analyses and research to provide you with a detailed written report. In this report we will present you with valuable information about the industry in which Staples is currently competing, an assessment of the current financial status of Staples, current challenges Staples is facing, a thorough market analysis, and our recommend response.

Challenge

Of the most pressing challenges that Staples is currently facing, we believe that global digitalization is the challenge most worth pursuing. Due to advancements in technology and the introduction of cloud services like Dropbox and Google Drive, traditional office supplies, such as notebooks and pencils, are becoming obsolete.

Resolution

We have devised a two-part action plan that will help Staples stay relevant, despite the rapidly changing times. First, Staples will take its focus away from being product based. A steady

decline in foot traffic in retail stores is a clear sign that Staples needs to adapt to contemporary times and switch its focus to be more service based. Second, Staples will implement a solution that we have created specifically in conjunction with the previously stated solution called the Staples Conference Center. This plan will revamp the existing retail stores by offering conference rooms and a work/leisure area.

Benefits

By building these conference center worldwide, Staples will increase foot traffic in their brick-and-mortar stores. They will also have a new service available to the public that will create a new source of revenue. With these conference centers Staples will be able to keep up with modern demands and will ensure its relevancy in today's market.

We hope you have a chance to read over our analysis. In the meantime, if you have any questions, comments, or if you are interested in additional services, we would be glad to offer our help.

Sincerely,

Pen Consulting

Firm Overview

How the Firm Makes Money:

- Staples makes money by providing superior products, electronic business, and customer service. Staples not only offers office supplies, but also furniture, safety supplies, restaurant supplies and technology support.
- Consumers choose to buy products from Staples because of reputation, quality, and sustainability. According to Staples' website, in 2012, Staples had approximately $2.51 billion in sales of eco-conscious products, which represents about 11% of total sales ("Staples Soul"). Staples has fulfilled the consumers' requirement of purchasing green and recyclable products.
- International sales is also a piece of the Staples portfolio. Staples opened 61 centers outside the United States to expand the corporation ("Staples, Inc.").
- Finally, with the rise of the digital platform, Staples has been offering smart phones, laptops, tablets, technology support, cloud software and other technological products and services ("Staples.com").

The Firm's Suppliers:

- Staples offers a variety of products. Staples's main offerings are listed among the following categories, along with a few examples of their offered brands: Ink & Toner (Brother, Dell, and Epson); Office Supplies (Five Star, Mead, and Moleskine); Paper & Stationery (Hammermill, HP, and Canon); Furniture (American Woodcrafters, Sealy, and Tempur-Pedic); Coffee, Water & Snacks (Nabisco, Nature Valley, and Planters); Homewares & Appliances (Magic Chef, Haier, and Oster); Cleaning & Facilities

Maintenance (Purell, WD-40, and Raid); Safety Supplies (Band-Aid, Ice Melt, and Gasoila); Arts & Crafts (Crayola, RoseArt, and Sharpie); Mailing & Shipping (Ampad, Crane & Co. LUX, and Quality Park Products); and miscellaneous accessories ("Office Supplies").

- In addition to outside suppliers, Staples sells products under their own brand name. Other sources of suppliers include Quill, a subsidiary of Staples, as well as other subsidiaries which "represented approximately 28% of [their] sales in 2013" ("SPLS" 3).
- Staples has relatively high bargaining power as a buyer. Staples and its competitors purchase a large portion of the industry's total output. The firm can switch to other products without incurring high switching costs because they have access to a large variety of brands, not to mention they have their own brand.

The Firm's Buyers:

- The target demographics of Staples Inc. can be broken down into two main categories: household consumers and businesses (Cadrin). Staples spends a lot of money targeting these categories, most of which is done through the Staples online Business Hub. This is a section of the Staples website that consists of articles and guides related to running a business. There are categories such as operations, technology, management, and marketing ("Welcome"). Of course, they incorporate their products as much as possible. For example, there is an article titled, "How to Save Money on Office Lighting," in which are several lighting products offered by Staples ("Welcome"). The company sells its offerings to all kinds of businesses. On the website there is an option to shop by

industry ("Staples.com"). There are products offered for spas, restaurants, hospitals, schools, and several other places of business.

- As for household consumers, Staples sells them products such as school supplies, electronics, and cleaning supplies ("Staples.com"). Staples would not be the booming leader that it is today without the combination of business from both household consumers and businesses. That is why the company puts so much time, money, and effort into developing and maintaining customer relationships. According to the 10-K, the average customer relationship period of time is 12.2 years ("SPLS" 61). This is fairly impressive considering the company opened in 1986 ("SPLS" 3).
- Staples has a relatively low bargaining power as a supplier because the buyers have several options to meet their wants and demands. Staples' buyers do not face the threat of high switching costs if they choose to buy from any of their competitors because office supplies are easily accessible.

Major industry changes:

- The digitalization of the world, has left Staples Inc. gasping for air. According to *The Wall Street Journal,* the office supply industry is heading for a downward spiral. With the advent of online shopping, Staples, along with the rest of the office supply, has been forced to make changes in order to keep their doors from closing (Banjo & Zimmerman). According to *The Wall Street Journal's* article "New Web Victim: Office-Supply Store," Staples will reduce its United States store space by fifteen percent, in an attempt to battle the tide of shoppers choosing to buy their office and school supplies online. Furthermore, Staples plans on expanding the amount of products it offers on its online store, which is

already the second largest behind Amazon, bringing in ten billion dollars in revenue (Banjo & Zimmerman).

- In addition to the dramatic transition to online shopping, less homes and offices are buying paper goods and physical supplies, such as notepads, folders and pens (See Figure 2). The number of people using traditional office supplies has dramatically plummeted, and office supply stores are feeling the effects (See Figure 2). "This is a cloud- and tablet-based and paper-free world," wrote Cody Willard at MarketWatch; "We're already there, and all those trends are only going to get bigger" (Bhasin). As a result of the decline in "demand for key products like paper, ink, and toner" and the increase in online competition, Staples has been forced to "cut costs because their revenues have been shrinking" ("Staples Digs"). These cost cutters include closing "45 stores and several sub-scale delivery business in Europe by the end of the fiscal year 2012" and reducing "retail square footage in North America by approximately 15 percent by the end of the fiscal year in 2015" ("Staples, Inc."). The question now becomes can companies like Staples survive in an increasingly paperless world and if so, how will they do it?

Ratio Analysis

Overview:

Our analysis has identified potential challenges that we think upper management needs to address if Staples wants to survive in the changing world. We have also included additional information in regards to your biggest competitor, Office Depot, in order to illustrate a comparison and show Staples' financial situation more clearly. All data explained below are from the Financial Statement Analysis Project.

Financial Strength：

- In regards to liquidity, Staples seemed to be doing well, as seen through their optimal current ratio in 2013. However, we believe that there is room for growth in improving how Staples handles issues in respect to immediate needs, since their quick ratios have been declining.
- Going more in depth to what was previously mentioned; current ratios for both Staples and Office Depot in 2013 were strong and nearly similar at 1.6:1 and 1.5:1, respectively. Staples's was higher than Office Depot's since it had more current assets compared to their current liabilities. However, Staples's current ratios fluctuated more than Office Depot's--from 2009 to 2012, Office Depot's current ratios were at a steady 1.3:1 then rose to 1.5:1 in 2013, whereas Staples went from 1.6 to 1.4 and then finally back to 1.6:1.
- Staples' and Office Depot's performances varied as reflected by the quick ratios. Staples's quick ratio value had been consistently declining, while Office Depot's had been increasing. Staples's quick ratio went from 0.73:1 in 2009 and fell to 0.55:1 by 2013. In contrast, Office Depot ended with a 0.59:1 quick ratio in 2009 and rose up to

0.62:1 by 2013. This decline for Staples was due to the lack of sufficient cash, short-term investments, and accounts receivable (net), to match up with the total current liabilities. All in all, it seemed like Office Depot may be able to pay the short term debt efficiently since their quick ratio in 2013 was higher than Staples'.

- Interest coverage ratio for Staples and Office Depot were 10.5 and 1.0 in 2013, respectively. When companies' free cash flow were weak, companies would be in extreme risk if the interest coverage ratio was exceedingly low. Office Depot had 1.0 interest coverage ratio, which meant that it was even less likely to pay the interest by its profit.

Revenue, Income, and Profit:

- Staples's sales revenue was $23.1 billion, down 5.2% YOY. There were some reasons we needed to simply identify for this downturn of sales revenue. Firstly, the global economic recession harmed most businesses, including big office suppliers like Staples. Secondly, the rise of digitalization impacted Staples's sales of stores. The world had become paperless gradually, and more people had chosen to do their work by laptops, tablets, or shop anything they want via online stores (Hidary). Hence, Staples's sales revenue went down. Although Office Depot's sales revenue was $11.2 billion, its YOY growth rate, 5.1%, was significantly higher than Staples's -5.2% YOY growth rate. Staples's net income was 620.1 million in 2013 and -210.7 million in 2012. Staples's YOY growth in sales (-5.2%) was lower than YOY growth in COGS (-4.6%). As a result, the gross margin ratio was 27.8%. Both YOY growths in sales and in COGS had decreased from 2012 (-2.6% and -2.1%). Also, YOY growth in sales (-5.2%) was lower than that of

SG&A expense (-2.5%). Therefore, these results led YOY EBIT margins to 5.4% in 2013, from 6.5% in 2012, profit margins to 2.7%, from -0.9%.

- Compared to Staples, Office Depot performed differently. Office Depot's net income was -20 million in 2013 and -77.1 million in 2012. Its YOY growth in sales (5.1%) was lower than YOY growth in COGS (16.8%). So the gross margin ratio was 24.7%. Both YOY growths in sales and in COGS had increased from 2012 (-6.9% and -7.7%). Also, YOY growth in sales (5.1%) was higher than SG&A expense (-18.7%). Hence, these results drove YOY EBIT margins to 0.6% in 2013, from 0.9% in 2012, as well as profit margin ratio to -0.2%, from -0.7%. Staples's net income decreased 74.1% YOY. Office Depot's, by comparison, decreased 394.3% YOY. Therefore, Staples was more capable of generating net income by each dollar of sales.
- Stock price went down 2.4% YOY for Staples. However, Office Depot's stock price rose 61.3% YOY. Staples had performed poorly on stocks during economic recession from 2010 to 2013. In contrast, Office Depot had showed decline in 2010 and 2011, then the stock price had rebounded since 2012.

Effectiveness and Efficiency:

- The return on assets dipped from 7.3% in 2011 to -1.7% in 2012 because of the impairment of goodwill and other assets within its European retail and catalog business, making them generate less from their assets. As for the Profit Margin Ratio, it dipped from 3.9% in 2011 to -0.9% in 2012 because it cost them $35 million during the 4th quarter of 2012 to close 15 U.S stores. Also, return on assets of Staples and Office Depot

were 5.5% and -0.3% in 2013. Staples did better job on overall profitability of assets than Office Depot.

- Both companies' market caps were different. Staples's market cap had reduced from 9.0 billion in 2012 to 8.6 billion in 2013. In contrast, Office Depot had continued its upward movement. Its market cap had increased from 0.9 billion in 2012 to 2.8 billion in 2013.
- Based on the horizontal analysis of Staples's Dividends Paid, the company has been steadily increasing what they pay shareholders. Although this may seem appealing to retail investors, it created a negative impact on the balance sheet. Furthermore, shares outstanding have increased since 2009, which has diluted the price per share, and ultimately decreased the shareholder's value of the company.
- With respect to efficiency measures, we noted that Office Depot from 2009 to 2012 increased their asset turnover from 2.5 to 2.7, but from 2012 to 2013 Office Depot's asset turnover fell from 2.7 to 1.5. Staples, on the other hand, steadily increased their asset turnover from 2009 to 2013, from 1.8 to 2.1. In terms of days sales in inventory both companies witnessed an increase, yet for Office Depot the increase was more drastic. Office Depot's days sales in inventory increase from 53.7 to 78.1 during the time period of 2009 to 2013, while Staples days sales in inventory increased only from 47.6 to 51 during the same time period. In short, we could conclude that with Staples leading in both asset turnover and days sales in inventory, Staples is the clear leader in efficiency. Also, Staples is more efficient using assets to generate sales than Office Depot was.
- We also took the time to examine the solvency of both Staples and Office Depot. Solvency measures the ability of the company to survive over a long period of time. We

used two measurements to evaluate the solvency: Debt to assets and times interest earned. The debt to asset ratio measures the percentage of the total assets that creditors provide. For Staples, this was 30.14% and for Office Depot was 39.08%. Staples had significantly higher assets with only a slightly higher amount of debt. Next was the times interest earned. This provides indication of the company's ability to meet interest payments as they come due. For Staples, it was 898.4% and for Office Depot it was 184.1%. It is clear that although Staples may be struggling, the company is much more likely to survive compared to Office Depot.

Conclusion:

In conclusion, our ratio analysis shows that Staples is headed in the right direction, particularly over the most recent year, and is considerably ahead of the biggest competition, Office Depot. The data also suggests that Staples was more profitable, more efficient and more liquid this past year than Office Depot. Although the global economic recession and rise of digitalization impacted Staples, our consulting group came up with an extraordinary solution, which will be fully explained in the Recommended Response Section, to help Staples generate more profit in retailing industry and continue its leading position among all competitors.

Identified Business Challenge

After overviewing the inner workings of Staples as a whole and reviewing the Ratio Analysis, there are a number of challenges facing Staples. Our group has narrowed the obstacles in the path of Staples' success into the following categories: environmental change, international operations, and the rise of powerful competitors. In order to fully understand the challenges facing Staples we must delve into each category and explain what problem within Staples each category represents.

Challenges Facing Staples:

- The first challenge facing Staples is environmental change, which consists of changes such as economic conditions, technology, or the natural environment. For Staples, environmental change stems from the recent economic recession and the rise of the digital era. The recent economic recession caused many businesses and households to reduce the use of office supplies to save cost, which negatively affected Staples and partially attributed to the shrinking of their total assets and profit as reflected in the Staples 10-K report ("SPLS" 26). Additionally, the rise of the digital platform has, according to *Fortune* magazine, led to a 24% decrease in the use of paper across the US in the last three years (Hidary).
- The second challenge facing Staples is international operations. The challenge for Staples arises, from an international operations perspective, simply through keeping track of its global presence. It is no easy nor an inexpensive task for a company to manage franchises and other ventures in foreign countries. Staples has various ventures in 26 countries and three sections of the globe: the Asia Pacific, Europe and South America. In each of the

countries Staples serves, it provides business solutions as well as retail ("International Operations"). Staples has an extensive team in order to help their foreign operations flow seamlessly. Yet, that being said the question that arises is if Staples should continue to expand or continue to develop the markets that it has already penetrated. On one hand, Staples could miss out on new opportunities if it does not expand, but at the same if Staples decides to expand and does not develop its current markets then the company could overextend itself or lose relevance in its current markets.

- The final challenge facing Staples is the rise of powerful competitors. Traditionally, the office supply industry has been controlled by Staples, OfficeMax, and Office Depot, but in recent years new players have entered the game. These new players are Amazon and Walmart (Fick). Amazon is currently the largest online retailer, while Walmart is the world's largest company by revenue. In 2013, OfficeMax and Office Depot merged in order to combat these new entrants as well as Staples (Bhasin). With all of this in mind, Staples is in a precarious situation, where they must compete against the world's largest company, the largest online retailer, and the merger of OfficeMax and Office Depot. OfficeMax and Office Depot have not posed a huge threat, but Walmart and Amazon have been more difficult for Staples to compete against because of their sheer size and the discounts they are able to provide on their products (Bhasin).

The Challenge We Have Chosen to Pursue:

- As a group we decided to tackle the challenge of environmental change; specifically we chose to conquer the effect of digitalization upon Staples. Within our challenge of conquering the effect of digitalization upon Staples, our group felt that it was also

necessary to focus on increasing Staples' foot traffic and combating declining sales in key categories such as paper. The reason why our group decided to take on the task of finding a way to reverse environmental changes is because we feel as though currently these are the most relevant and pressing issues for Staples at the moment. According to a *Bloomberg* article, due to the growth of the internet market, Staples is in the process of closing 140 stores and downsizing others in this year alone (Townsend). Furthermore, Staples is planning to cut $500 million worth of costs by 2015 in reaction due the recent decrease sales, led by decreasing paper sales (Fick). In addition, according to the *Wall Street Journal*, Staples plans to close 225 more stores by 2015 (Fitzgerald). Another reason why our group chose the challenge of environmental changes is we felt as though that by tackling this large challenge of how to move forward in the digital age, we would be able to create a solution that would touch upon combating the issues of the rise of powerful competitors and international operations. By taking on environmental changes we felt as though we could develop a solution that would restore Staples' competitive advantage, help ward off new powerful competitors, and give Staples a sense of direction going into the future.

Market Analysis

The effects of digitalization have greatly affected the office supply industry. As more consumers turn to cloud storage services such as Google Docs and Dropbox to share documents, communicate, and collaborate with colleagues, office supply sales have decreased. Instead of writing memorandums and other written types of documents on paper, people can now transmit information to an unlimited amount of senders through emails. In addition, fewer people are purchasing products within traditional brick-and-mortar office supply stores; they are instead choosing to shop online.

Market Overview:

- Although office supply sales have been decreasing, the industry's market size still consists of a significant amount of potential consumers. The market size of the office supply industry is about 20 billion individuals ("Office"). Staples is the market leader of the industry with holding 35% of the market share, according to a 2013 article published by *Business Insider*; the closest competitor to Staples is Office Depot with 26.1% (Lutz).
- Staples has responded to the needs of today's consumers by increasing their online presence, now making them a click-and-mortar store. They actually implemented Staples.com sixteen years ago in 1998, but it was not until recent years that the company's online sales greatly affected their overall performance ("Top 5"). As of 2012, Staples.com has the highest amount of online office supply customers with 8.2 billion shoppers, followed by Officedepot.com with 4.9 billion shoppers, OfficeMax.com with 2.4 billion shoppers, and Amazon.com with 1.2 billion shoppers (See Figure 1).

However, when putting overall sales into consideration, Staples is the second largest online retailer, trailing behind Amazon ("Top 5").

Market Segmentations:

- Staples segments its market into different factors in order to best address the needs of their current and prospective customers. One example Staples does this is through geographic segmentation. They have segmented their market based on regional needs: North American Stores & Online, North American Commercial, and International Operations ("SPLS" 3-4). More specifically, Staples has store locations in the United States, Canada, Finland, Germany, the Netherlands, Norway, Portugal, Sweden, the United Kingdom, China, Australia, and Argentina ("SPLS" 15).
- Another way Staples segments its market is through demographic segmentation. Staples caters to a wide range of consumers from different backgrounds and occupations. Traditionally, their main demographic segments have been household and office employees of small businesses and large corporations. However, now that Staples is now expanding their product offerings with items such as breakroom and medical supplies, the company can now target the demographic segments of "restaurants, medical offices, and retail stores" as well ("SPLS" 3).

Target Market Customer Profiles:

- To go further into what was previously mentioned, Staples' target market customer profiles is seen through how they chose to segment their consumers demographically. The main demographic segments are household consumers, small businesses, and large businesses. In regards to household consumers, they are a consumer base that ranges

from young elementary school students to parents who simply need office supply products in their homes. According to Staples' 10-K, "sales and profitability are generally stronger in the second half of [their] fiscal year than the first half of [their] fiscal year due in part to back-to-school" season, which shows that the household consumer segment greatly affects Staples' fiscal year earnings ("SPLS" 12). As for small companies, they come from a variety of backgrounds, such as restaurants or start-ups. The 10-K also specifies how they segment these businesses even further by explaining how they purchase the company's products: "[Their] retail stores and public websites target small businesses and home offices. [Their] catalog customers are generally small businesses and organizations with up to 20 office workers" ("SPLS" 3). And lastly, large businesses are typically under contract with Staples, as they consistently rely on the company for its products. Some examples of contract businesses include universities and even Fortune 1000 companies ("SPLS" 3).

Market Positioning:

- Staples positions itself and their products in the market through their advertising campaigns. The slogan that they are currently utilizing for their advertising campaign is "Make More Happen," allowing the company to highlight the array of products that they now offer (Taube). This slogan is used throughout their commercials, social media outlets, and their website. In addition, the "L" in their website's logo changes on a daily basis to a different product offered by Staples, as opposed to the "traditionally bent staple" that was put in place of the "L" (Taube). And as previously mentioned, Staples is transitioning themselves from being just a traditional brick-and-mortar store, to being a

now modern click-and-mortar store which offers products beyond the usual office supplies that are currently sold in its stores. Through this advertising campaign, Staples is trying to show that they offer more than just office supplies. Their new, expansive product offering serves the needs of not only students and businesses, but restaurants and medical offices as well. In doing this, Staples is able to differentiate and market themselves against their office supply store competitors, such as Office Depot.

Marketing Mix:

- Now more than ever, Staples is enhancing their marketing mix in order to stay relevant in our fast-changing world. The product offerings that they now have goes beyond traditional office supplies such as pens or paper. By taking a look at their website, Staples now offers products and services under the following categories: Ink & Toner, Office Supplies, Paper & Stationery, Furniture, Coffee, Water & Snacks, Homewares & Appliances, Cleaning & Facilities Maintenance, Copy & Print, Safety Supplies, Arts & Crafts, Packing & Shipping, and Gifts & Gift Cards, as well as other various categories ("Office").
- The prices of Staples' products varies depending on what brand it is. For instance, it is a common understanding that store-brand products are generally offered at a less expensive price compared to national brands. However, Staples does sell their products at reasonable prices in order to compete with stores such as Office Depot. They also have weekly sales and deals, and a list of these offers is accessible through their paper weekly ads and on their website ("Staples.com").

- As for promotions, Staples makes an effort to get their company and their product offerings known through their advertising campaigns. Their new slogan, which was previously mentioned, is "Make More Happen." This slogan helps consumers realize that Staples offers more than just office supplies and can ultimately help their consumers "make more happen" in their work environments, whether it be at school, offices, restaurants, or retail stores. According to their website, Staples is also on social media platforms, with a huge online presence on Facebook, Twitter, Google+, YouTube, and LinkedIn. They also have a free mobile app that is downloadable on Apple and Android products ("Staples.com").
- Lastly, Staples places their products in over two thousand stores. As previously mentioned, Staples has store locations in North America and overseas ("SPLS" 3-4). According to their 10-K, they have 1,515 stores in the United States, 331 stores in Canada, and 323 stores outside of North America. In total, Staples has 2,169 stores worldwide as of February 1, 2014 ("SPLS" 15). Their online presence also helps Staples reach a wider audience who may not have physical store locations near them.

Overall, it is clear that Staples is a market leader of the office supply industry. However, as consumers' needs change, it is important that Staples does its best to adapt to these changes. So far, it is notable that they have diversified their product offerings and enhanced their marketing campaigns. Their target market customers can truly help Staples in the long run if the company can continue to make improvements and market themselves effectively.

Recommended Response

- **Overview of Staples' Challenge and the Three Potential Responses**

As innovations in technology continue to grow, the companies being affected by the digital era must also continue to grow, or else they will not survive. Moreover, if a company does not adequately tailor their business to fit in with contemporary times, they may be at risk of falling short behind their creative competitors. This has happened to Blockbuster with Netflix, and could very much happen to any company incapable of anticipating changes within the environment. Staples has been negatively affected by the rise of the digital era, which has caused decreasing foot traffic and declining sales in their brick and mortars. However, we at Pen Consulting have strategically crafted three responses designed to hinder the effects of digitalization, which all focus on switching Staples' focus to be more service based. The responses we came up with are Staples Cloud, Staplespedia, and Staples Conference Center.

- **Response One- Staplespedia**

As we examined in the firm overview, Staples offers an array of services to their customers that range from Copy & Print to Textbook Rentals. Evidently, Staples is making the necessary adjustments to meet the changing demands of their customers; however, offering a variety of services, but not having any "star" services may be detrimental to the profitability of the service department as a whole. It is important to for all services to generate sufficient returns, but this ideal situation is highly unlikely. Keeping this in mind, we at Pen Consulting decided to expand upon one of the most widely used technological services today: the cloud service. With information being

presented digitally rather than physically, the need for online storage space is at an all time high. This is where the cloud comes into play. These "services have become popular because they are affordable, convenient and provide ample storage space," which is exactly what the consumer wants in this rapid day in age (Srinivasan). While Staples currently offers a cloud service, we at Pen Consulting feel as if it needs more attention. Furthermore, we plan on exposing the benefits of our service through a creative campaign entitled, "Hug a Cloud. Save a Tree." This will not only engage our target audience, but will also establish a comparative advantage within the industry.

- **Pros**

  The Staples Cloud is an effective response that we feel will have a strong enough marketing campaign to compete with industry leaders and have enough power to tackle the overarching challenge of adapting to the changing environment. What differentiates the Staples Cloud from its competitors is the mere fact that customers will get the complete Staples experience throughout the whole process. By choosing to use our cloud service over our competitors, consumers will no longer have to worry about transferring data from one medium to another because the Staples Cloud will now allow you to sign into your account on a kiosk within the store, and print your selected documents at a local Staples' Copy & Print center. These selected documents may include résumés, portfolios, presentations, reports, or even posters, which will be available to print in any size desired. What's great about the Staples Cloud is that consumers of any age could truly benefit from this innovative service. Whether it's a college student finalizing

his/her résumé before a job interview, or an executive looking to store financial reports, the Staples Cloud is fitting for almost any person. While we at Pen Consulting decided to provide this service free for all users, if a customer reaches a certain amount of storage, Staples will charge these users for excess storage with the intentions to generate revenue.

- **Cons**

While our consulting group believes the Staples Cloud follows the rise of the digital era, we do not feel as if improving this service will adequately tackle the challenges of digitalization and the decline in retail store sales. After the successful launch of our newly developed Staples Cloud, we must be aware that our competitors will be watching, but also planning their response to fight back. Just as Staples responded to the rise of Dropbox and Google Drive, large retail store competitors such as Wal-Mart and Target may do just the same after we successfully implement and promote the Staples Cloud. Now that we have analyzed the external factors that may affect the success of this response, we must examine how the core of our business may be affected by the implementation of the Staples Cloud. Although the free storage up to a certain point will certainly attract customers, will it have enough consistent users to generate a profit? With consumers saving more than they're spending, Staples Cloud users may try to avoid exceeding the storage limit in order to get charged little to no fees. All in all, it would be risky if Staples solely depended on the Staples Cloud to increase its revenue and tackle the challenge of digitalization.

- **Response Two- Staples Cloud**

Going along with the theme of switching Staples' focus to be more service based, we decided to create a new technological service instead of enhancing an existing one, which we call Staplespedia. The premise behind Staplespedia is producing a "one stop shop" for students and business researchers that could be accessed directly through Staples. Staplespedia would offer a collection of useful resources such as textbooks, articles, journals, and other research tools, which will be available via Staples' website or mobile app. Furthermore, Staplespedia would also provide study tools that would help students analyze and practice what they have learned through readings and in the classroom. The reason Staples Cloud did not have a strong foundation is because there was no competitive advantage that could threaten the industry. The cloud service has already been created and enacted, so innovating a successful service has been proven to be quite troublesome. On the other hand, creating and developing a brand new service will attract and engage new customers.

  - **Pros**

The appeal to Staplespedia is surrounded by the idea of the "one stop shop" for business analysts and college students. Moreover, developing a technological service that is convenient and affordable is exactly what is needed to draw new customers in. With the advent of digitalization causing many to rely heavily on their smart phones for daily activities, companies must be able to create products and services that fall into that market, which is why we recommend Staples do the same with Staplespedia. Another advantage for Staples

would be entering the U.S. Education Market, a $1.3 trillion market, according to teachersolidarity.com ("US Education"). Staplespedia is the ultimate service because it gives Staples the opportunity to enter a niche market since there is no other medium available that blends these various modes of research and presents them to the user in a single, user friendly place.

- **Cons**

Although it seems as if creating and developing a new service will strengthen Staples' chances of adapting to the digital world, the success of the Staplespedia is not guaranteed. The first disadvantage in implementing Staplespedia is that Staples already offers a similar service labeled as "Business Solutions." Even though our innovative service offers much more features, the presence of two similar services may confuse the consumer and drive them away from taking advantage of Staples' offerings. Another potential threat we see with launching the innovative service is effectively reaching our target customers. In order for Staplespedia to work, schools would have to subscribe to Staplespedia and make sure that their entire faculty incorporates this service into every single classroom. The process of incorporating Staplespedia in itself scares consumers away from participating because an ideal service is one that makes using the resources conveniently easy, not insufficiently hard. As mentioned before, the affordability of a service is just as important to the consumer as the accessibility is. Although Staplespedia may save the students money by providing them with an array of useful resources and tools, the question becomes whether or not this

will save the school any money. With budgets tightening in most school districts due to the economic recession, the question stunting Staplespedia's entrance into the market is "Can we afford this shift in teaching medium?" With a lack of confidence in our consumer's demand for the service, we believe Staplespedia will not drastically solve the challenges associated with the advent of digitalization.

- **Response Three- Staples Conference Center**

While the first two responses fit in with contemporary times and effectively respond to the rise of digitalization, the Staples Cloud and Staplespedia do not adequately counter the decline in Staples' brick and mortar sales. Is it possible to create a solution that tackles the digital era, but also tailors to the origins of the company? Moreover, what type of solution will utilize digital technology, but still attract foot traffic in our retail stores? The most prominent response that our consulting group has created to tackle all the effects of the changing environment is the Staples Conference Center. With the rise of the digital era, consumers are spending more time and money shopping over the web than they are in physical retail stores. However, by implementing professional conference rooms where businesses of all sizes can assemble and work in a private atmosphere, Staples can make their brick and mortars relevant again. Not only will business professionals gain access to all of Staples' technological services and free Wi-Fi, but they will also be catered and have a personal concierge available to keep all parties satisfied throughout the duration of their intended meeting/conference. The convenient resources

and professional services offered at Staples' Conference Center will certainly drive businesses to use the available space and spend more time in Staples' retail stores.

- **Pros**

  Staples Conference Center is most certainly a beneficial response to Staples' challenges because it revamps their business model and allows consumers to gain interest in their retail stores again. With the advent of Staples Conference Center, business professionals of all statures seeking a private location to assemble a meeting will not only have access to space, but will have a number of specialized resources and services available to make their time and money well spent. With a fair rate of $50 an hour for our large conference rooms, business professionals with higher demands will have freshly catered meals and concierge service to assist the group with any technical malfunctions or personal needs. In addition, smaller conference rooms will be offered at a rate of $20 an hour for access to all technological services, but will not have the luxury of personalized cater and concierge services. While this new and innovative conference center benefits businesses of all sizes, Staples' executives also walk out of the conference room with a smile. With the initiation of Staples' Conference Center, Staples will definitely generate more revenue from their brick and mortars than ever before. Staples' Conference Center will be generating pretty big revenue from the individual rented spaces and technological services used during the meeting, but with more customers becoming active members of Staples' stores, office supply sales will increase, as well.

- **Cons**

Although there are a number of upsides to Staples' Conference Center, the newly implemented business strategy has disadvantages and potential threats that Staples must be aware of. For starters, because Staples has reduced the sizes of a number of their stores, Staples must allocate the retail stores that get the most foot traffic in order to keep this center prevalent and high in demand. If we fail to find the right demographic and geography capable of keeping this center active and profitable, Staples could definitely lose a significant amount of money restructuring the retail store and attaining costly assets. Another disadvantage to Staples' Conference Center are the number of services available versus the number of services actually used. Services require a lot of money to keep active and maintained, which could definitely be a pretty big downside when discussing a company's return on investment. If technological services are not being used, a lot of power necessary to keep them active could be wasted. In addition, if the concierge or catering services are not in high demand, the salary and wages for these employees will just be an additional expense Staples needs to account for. The entire process of marketing and implementing these conference centers will be a high capital investment; Staples just needs to be aware of the potential threats and make sure Staples Conference Center is a profitable investment.

- **The Rationale Behind the Chosen Response**

After a large amount of discussion amongst the group, we decided that the Staples Conference Center was the best and only way for Staples to be saved. The cloud was a

great concept but it wasn't unique enough to drastically change Staples' wellbeing. The Staplespedia was a relatively innovative idea, but we are not confident in its demand in the market. However, implementing the Staples Conference Center would directly address the challenge Staples is facing most efficiently. The biggest challenge that we feel Staples is facing is the rise of digitalization, which led to the decline in foot traffic in their retail stores. If we give people a reason to come into our stores again, we have a chance at reviving the company's wellbeing. Our team has developed a service that our competitors are not able to provide and we know that customers are going to be very interested in what our service has to offer. The first stage of the consumer buying process is problem recognition. Once small business owners realize that their companies would look much more professional holding meetings in a location like Staples Conference Center instead of their homes, we will be successful. This service is unique and fills a need that consumers have, whether they know it yet or not. Amazon and other online retailers do not have physical space to provide this type of service, giving Staples a competitive advantage. Staples Conference Center will not only bring in millions of dollars in revenue, but it will bring back the foot traffic that we have lost due to digitalization. Like any response to a challenge, there are risks that come with creating and developing an innovative service. However, where there are risks in innovation- there are opportunities for substantial reward, which we at Pen Consulting believe will take place with the launch of Staples Conference Center.

Conclusion

Firm Overview

Currently, Staples is generating the majority of its revenue through its sale of office supplies, electronic, furniture and safety supplies. The firm is attractive to consumers because of its reputation, quality and efforts to sell environmentally friendly products. It buys its products from a wide variety of suppliers, including, but not limited to, Dell, HP, Five Star, Mead, Sealy and Raid. Staples also sells products under their own brand name ("Office"). The firm mainly sells to two categories: household consumers and businesses. They are currently struggling to keep up with today's changing times and increase in online shopping.

Ratio Analysis

Staples' sales revenue decreased more than 1 billion by the end of 2013, a clear sign that something needs to be changed. Net income was negative 211 million in 2012 and stock prices went down about 10 dollars from 23.46 dollars to 13.16 dollars. Even though Staples' current financial situation seemed to be in a downturn, the future of Staples is bright. Our solution will help Staples survive and thrive among all competitors.

Challenge

Staples' biggest challenge that it is currently facing is the decrease in foot traffic in their brick-and-mortar stores due to recent widespread digitalization. Consumers are no longer looking

to buy traditional office supplies such as paper, pens and folders (Fick). Simply put, office supplies are rapidly becoming obsolete.

Market Analysis

The effects of digitalization have truly affected the office supply industry. Despite this, Staples still remains a market leader with a higher market share than those of their competitors, such as Office Depot (Lutz). By segmenting their market both geographically and demographically, Staples is able to create relevant, effective marketing strategies best suited for these consumer groups. Staples has also diversified their product offerings and developed new advertising campaigns in order to reach these targeted consumers ("Staples.com").

Response

To respond to Staples' most pressing challenge, widespread digitalization, we have created a new service to cater to the demands of today's consumers. We have developed something called the Staples Conference Center, which will help the company with its crucial transition from being product based to being a service based company. Here, professionals will not only gain access to all of Staples' technological services and free Wi-Fi, but they will also have accesses to catering and have a personal concierge aimed to keep all parties satisfied throughout the duration of the intended conference. Incorporating this solution of implementing Staples Conference Center into their physical stores will certainly increase foot traffic and prove profitable for Staples.

Works Cited

Banjo, Shelly, and Ann Zimmerman. "New Web Victim: Office-Supply Store Staples Will Reduce Retail Space to Focus Online; Big Box Category Criticized for Moving Slowly." *The Wall Street Journal.* Dow Jones & Company, 25 Sept. 2012. Web. 22 Sept. 2014.

Bhasin, Kim. "Nothing Can Stop The Implosion Of Office Supply Chain Stores." *Business Insider.* Business Insider, Inc, 20 Feb. 2013. Web. 22 Sept. 2014.

Caine, Jason. "Amazon's Role In The Office Supply Market | Compete Pulse." *Compete Pulse*. 26 July 2012. Web. 19 Oct. 2014.

Cadrin, Diane. "Staples - Marketing Project." Prezi.com. 9 Dec. 2013. Web. 22 Sept. 2014.

Fick, Kenneth. "SPLS: Staples Stands a Chance at Survival." *Investor Place*. N.p., 16 Sept. 2014. Web. 21 Sept. 2014.

Fitzgerald, Drew. "Staples Plans to Close 225 Stores." *The Wall Street Journal.* Dow Jones & Company, 6 Mar. 2014. Web. 1 Dec. 2014.

Hidary, Jack. “Is Staples headed for a buzzsaw?” Fortune.com, 8 Aug 2014. Web. 1 Oct 2014.

"International Operations." *Office Supplies, Printer Ink, Toner, Computers, Printers & Office Furniture*. Staples, Inc, 1998-2014. Web. 03 Dec. 2014.

Lutz, Ashley. "Staples Has Some Huge Advantages Over Office Depot And OfficeMax." *Business Insider.* Business Insider, Inc, 20 Feb. 2013. Web. 19 Oct. 2014.

“May 2013 National Occupational Employment and Wage Estimates United States.” *Bureau of Labor Statistics*, n.d. Web. 11 Nov. 2014.

"Office Supplies, Printer Ink, Toner, Computers, Printers & Office Furniture | Staples®." *Office Supplies, Printer Ink, Toner, Computers, Printers & Office Furniture | Staples®.* Staples, n.d.

Web. 14 Sept. 2014.

"Office Supply Stores." Market Size Blog. *Editorial Code and Data, Inc.,* n.d. Web. 19 Oct. 2014.

"SPLS 10-K 020114." *U.S. Securities and Exchange Commission.* U.S. Securities and Exchange Commission, n.d. Web. 26 Nov. 2014.

Srinivasan, Aravind. *Cloud Computing: A Practical Approach for Learning and Implementation.* N.p.: Pearson Education India, 2014. Print.

"Staples.com." Staples.com. Staples, Inc., n.d. Web. 2 Dec. 2014.

"Staples, Inc. Announces Strategic Plan to Accelerate Growth." *Business Wire*. Business Wire, 25 Sept. 2012. Web. 22 Sept. 2014.

"Staples Digs Deeper to Get Itself Back on Track - The Boston Globe." *The Bostom Globe.* BostonGlobe.com, 26 Sept. 2013. Web. 22 Sept. 2014.

"Staples Soul." *Staples.com.* Staples, Inc., n.d. Web. 22 Sept. 2014.

Taube, Aaron. "Staples Has Finally Axed Its 'That Was Easy' Slogan." *Business Insider.* Business Insider, Inc, 03 Jan. 2014. Web. 18 Oct. 2014.

"Top 5 Largest Online Retailers - Who Are These Companies And How Did They Make It To The Top?" *NetonomyNET*. Netonomy.net, 30 Jan. 2013. Web. 19 Oct. 2014

Townsend, Matt. "Staples to Shut 140 Stores This Year as Sales Decline." *Bloomberg.com*. Bloomberg, 20 Aug. 2014. Web. 21 Sept. 2014.

"US Education 'Market' worth $1.3 Trillion." *Teacher Solidarity.* Teacher Solidarity, n.d. Web. 02 Nov. 2014.

"Welcome to the Business Hub | Staples Business Hub | Staples.com®." Welcome to the

Business Hub | Staples Business Hub | Staples.com®. Web. 22 Sept. 2014.

"What Is an Average Commercial Building Cost per Square Foot?" *BuildingsGuide.com,* n.d. Web. 11 Nov. 2014.

Appendix

Figure 1 (Caine)

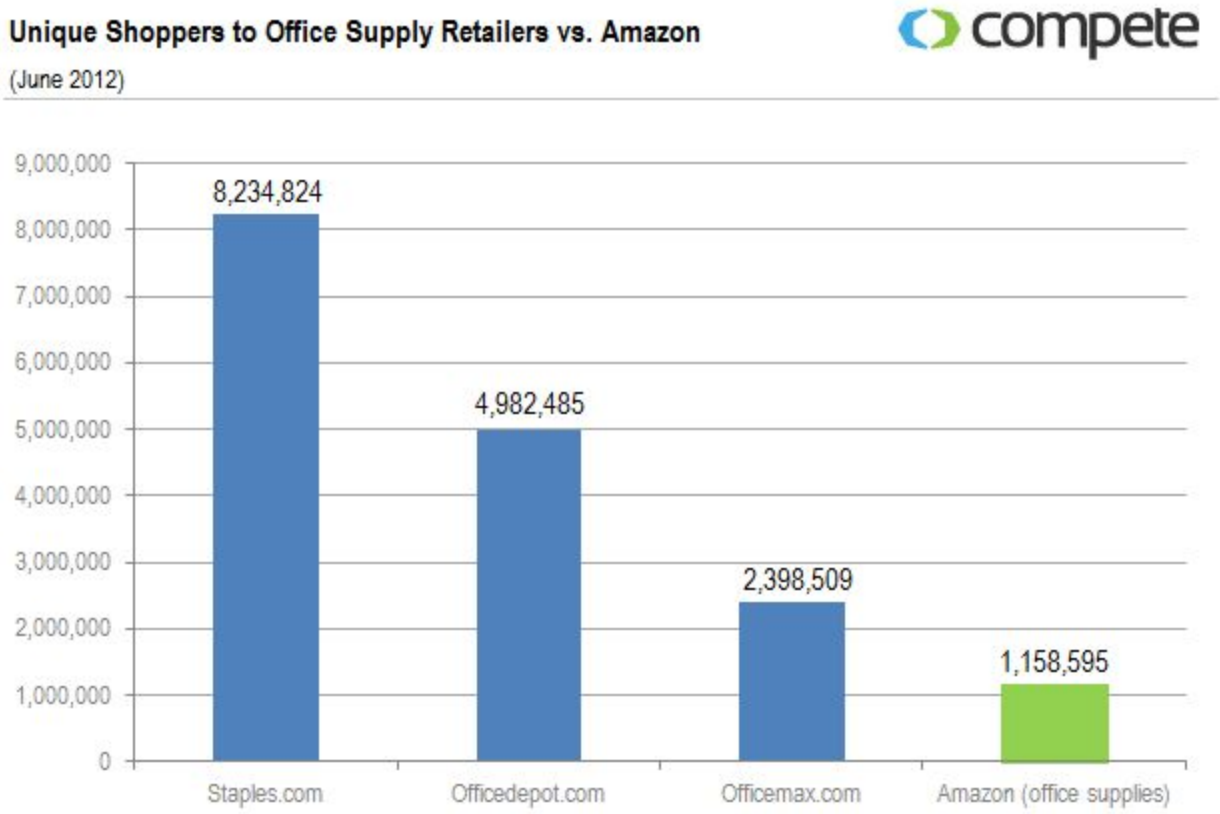

Figure 2 (Bhasin)

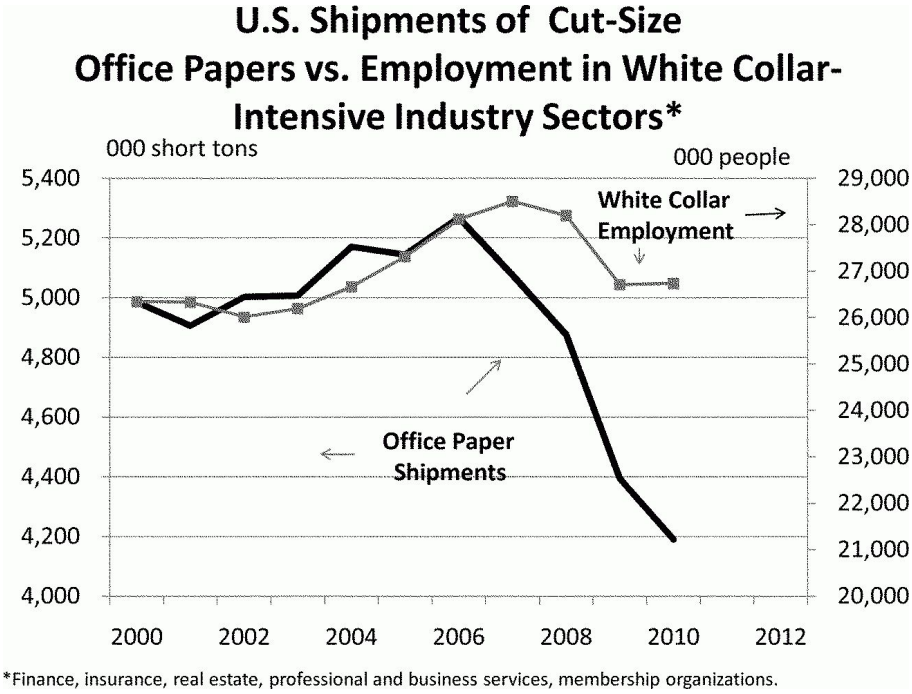

Figure 3 (self-generated--financials for the Conference Centers. Expense estimates are from Works Cited sources "May 2013" and "What Is")

testing period 2016		
# of stores		200
# of large rooms		5
# of small rooms		8
space per stores for 13 rooms		12000
# of stores increasing		200
marketing increasing	$	25,000,000.00
Expense		
construction per sq ft	$	35.00
flooring per sq ft	$	3.17
lighting per sq ft	$	2.94
roofing per sq ft	$	2.76
total outfitting expense	$	526,440.00
furniture	$	20,000.00
technology per large room	$	3,000.00
technology per small room	$	1,500.00
Total technology expense	$	27,000.00
marketing	$	25,000,000.00
salaries & wages expense	$	50,305,000.00
times		2
Total expense	$	189,993,000.00

Figure 4 (self-generated--financials for the Conference Centers. Expense estimates are from Works Cited sources "May 2013" and "What Is")

Price		
large room/hr	$	50.00
small room/hr	$	20.00
printing,copy,faxing service	$	20.00
wifi	$	-
tech support/hr	$	40.00
catering per hour	$	200.00
conference rooms time per d		12
conference center time per d		12
estimated hours of all rooms		8
Stores open days per year		365
Total service revenue	$	467,200,000.00

Figure 5 (self-generated--estimates as a result of the implementation of the Conference Centers.

Expense estimates are from Works Cited sources "May 2013" and "What Is")

Year	2016	2017	2018	2019	2020
# of stores	200	400	600	800	1000
Total expense	$ 189,993,000.00	$ 354,986,000.00	$ 519,979,000.00	$ 684,972,000.00	$ 849,965,000.00
Total service revenue	$ 467,200,000.00	$ 934,400,000.00	$ 1,868,800,000.00	$ 3,737,600,000.00	$ 7,475,200,000.00
Gross Profit	$ 277,207,000.00	$ 579,414,000.00	$ 1,348,821,000.00	$ 3,052,628,000.00	$ 6,625,235,000.00

Figure 6 (self-generated--estimated Gross Profit from the Conference Centers)

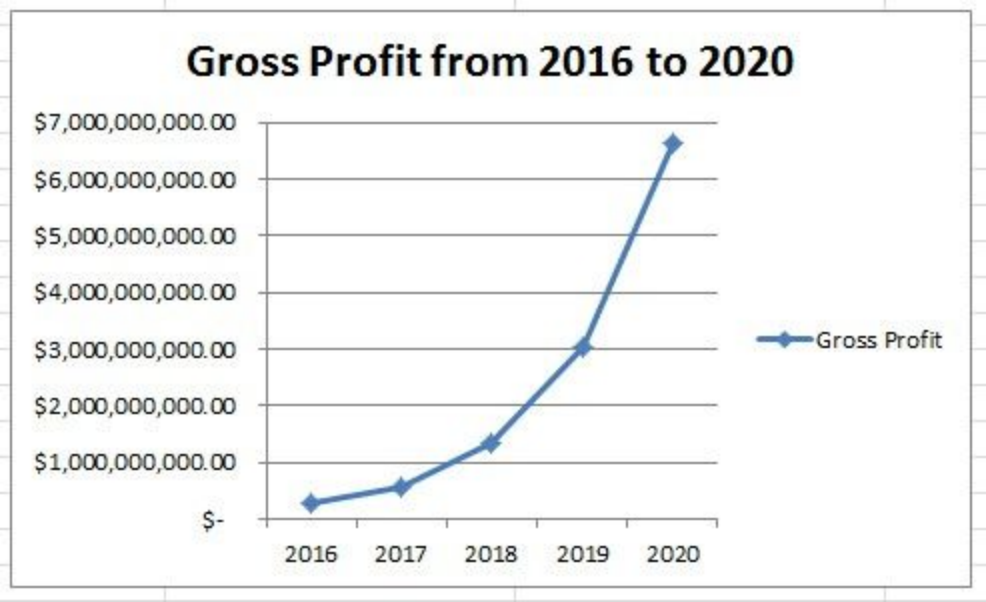

Figure 7 (Screenshot of the Facebook page we created to promote the Conference Centers)

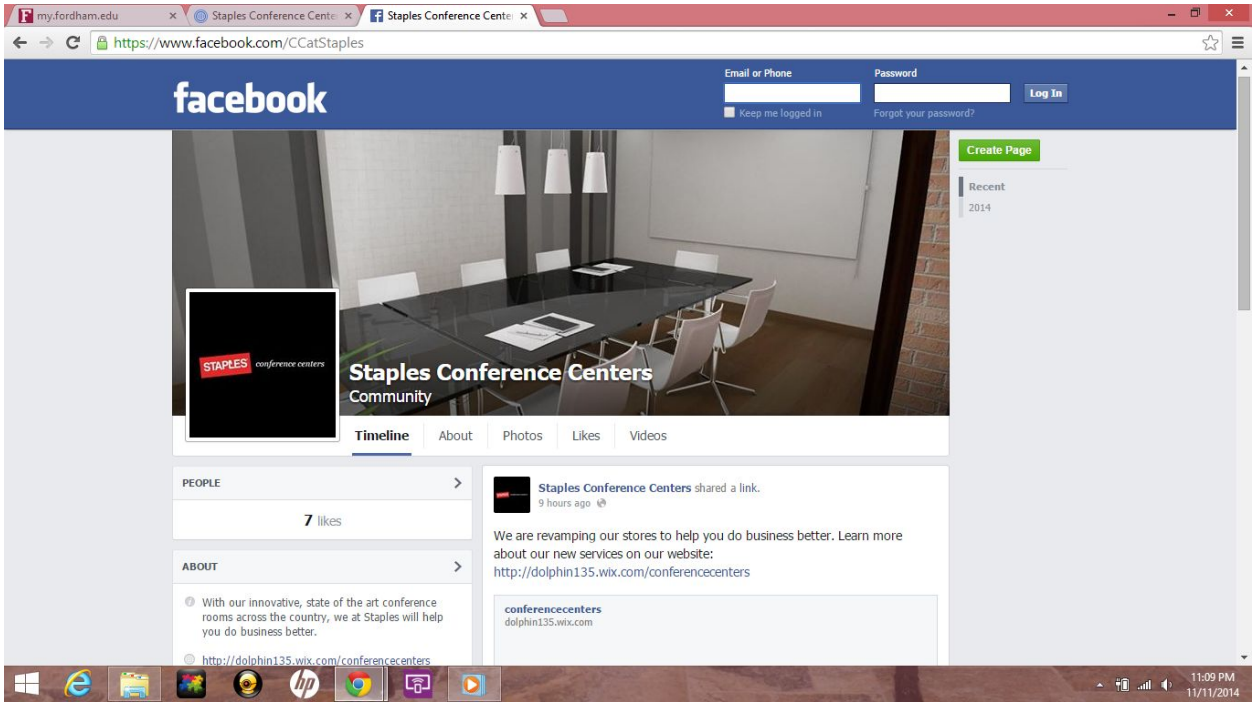

Figure 8 (Screenshot of the Twitter page we created to promote the Conference Centers)

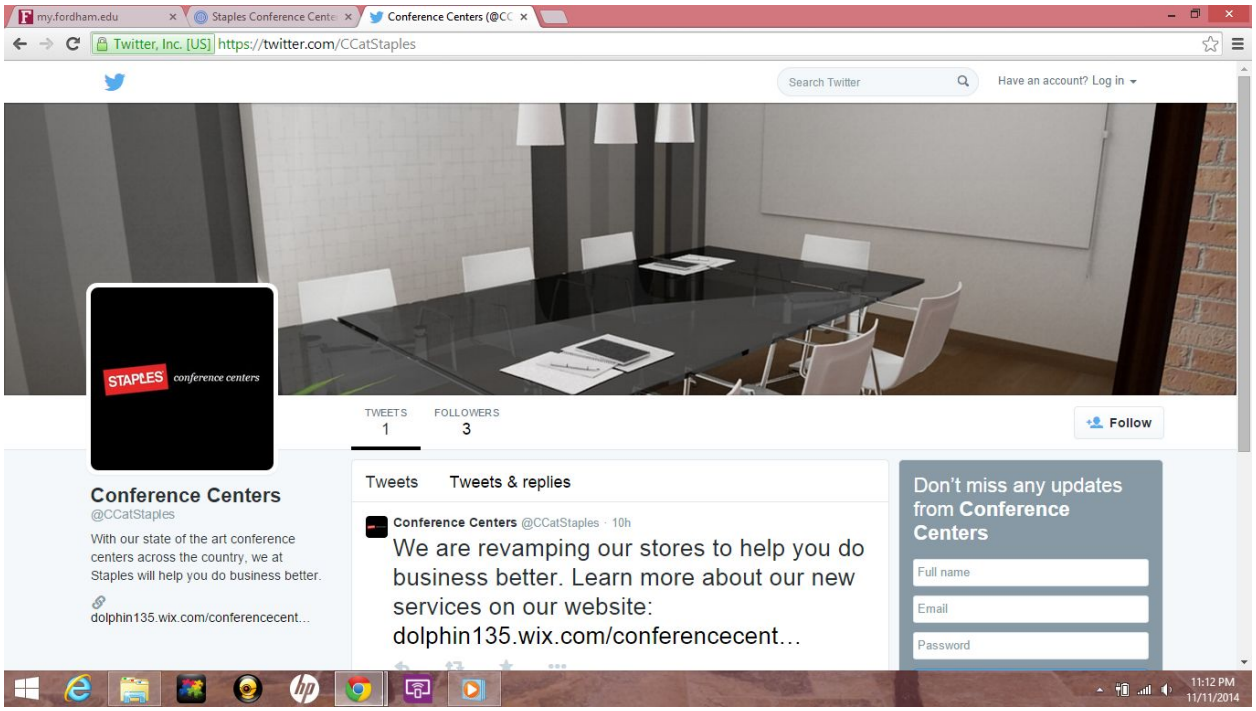

Figure 9 (Screenshots of the website we created to promote the Conference Centers)