

# External and internal environments essay sample



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An organization's environment includes factors that it can easily change as well as factors that it cannot easily change. The factors that it cannot easily change are said to be the general environment (Faye, T. 2011). It is this environment that I will discuss as it relates to a struggling, once thriving industry: office-supply stores. Office supply retailers are finding themselves in quite a conundrum as they fight increased competition and technological shifts that are reducing demand for traditional supplies such as pens, paper clips, and paper. Because of the tremendous strides in technology, profitability among office supply, stationery and gift retailers are on the decline. Office supply companies are typically one of the least profitable retail industries anyway, but in 2013 they saw overhead expenses and costs of goods sold increase relative to sales. The large online presence from Amazon and Staples. com is also making it difficult for other office retailers to find market share. Office supply, stationary and gift retailers operated with a net loss, on average, of 1. 2% of sales in 2013, compared with a net profit margin of 3. 7% in 2012, according to Sageworks' industry data (Crawford, M. 2015).

The margin of earnings before interest, taxes, depreciation and amortization was 0. 2% of sales, on average, in 2013, compared with 5. 1% in 2012. Gross profit margin, meanwhile, decreased to 41. 8% from around 44% to 45% from 2009 to 2012 as costs of the goods sold increased (Crawford, M. 2015). The biggest U. S. office-supply chains are also trying to contain costs. They report customers are buying fewer binders and software as more workers distribute reports via tablet computers and the internet rather than hard copies. Plus all office supply stores are facing intense competition from a

variety of retailers, including Amazon, big-box discounters and even corner drug and personal care stores. Office Depot is an office supply store that is facing tremendous obstacles in light of its general environment. Sales have been falling year after and even with its merger with Office Max, Office Depot has still posted its third full year net loss, according to a filing with the Securities and Exchange Commission.

The five forces of competition are: 1) competition in the industry, 2) potential of new entrants into the industry, 3) bargaining power of suppliers, 4) bargaining power of customers, 5) threat of substitute products. This model is named after Michael E. Porter and identifies and analyzes 5 competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths (Porter, P 2015). The two forces of competition that I estimate to be the most significant for Office Max is number 4: bargaining power of customers, and 5: threat of substitute products. I say this because, for starters, an increasing amount of office supplies are gradually becoming obsolete. For example, with a large amount of reports and corporate communications being transmitted electronically, things like paper clips, binders, and padfolios are not being used as much. This reality affects both customers' power and the threat of substitute products.

Companies such as Apple and Microsoft that manufacture tablets are the substitute products that are causing many office supply stores to experience a continued decrease in sales. Office Depot has failed to properly address these challenges to its business. In order to succeed in business Office Depot needs to adopt more technology to stay innovative. Perhaps they cannot change their actual products, but they can change the methods in which

customer buy their products. Office Depot needs to take lessons from online leader Amazon. com and offer customers incentives to purchase their products online. This helps reduce their costs to pay retail sales staff in their stores. Also, Office Depot needs to think of ways to enhance their customer's shopping experience. From my research and observation, they can do this in 2 major ways. They can make their storefront more appealing and inviting. One of the ways they can do this is by making their stores easier to navigate. Their current approach leaves a lot to be desired.

When you walk in to one of their stores, it feels like a maze and there are aisles lining the perimeter of the store as well as a cluster of aisles in the center. It makes it difficult to know where to find things as opposed to a traditional row of aisles approach. I think they would do well to consider large hanging signs above the aisles that summarize easily what is there. For example, where there are all writing utensils they could just put " writing" and where there are day planners and padfolios they could put " planners". Simplification would help consumers have a better overall experience. Another idea that I think would be a nice touch is to have iPads or large tablets that are right at the entrance that allow you to do a search for what brings you in (similar to a Google search) and then tell you what aisle and row your item(s) are located in. Another area of opportunity for Office Depot is to be more strategic with their pricing.

I remember going to an Office Depot one day and it was approximately April or May. The day planners for that current year were not reduced in price at all! That was shocking to me because obviously the value of those planners is reduced considering the year is almost halfway over. When I spoke to an

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employee about it they said they don't know why but the company never reduces their prices on day planners and in the end what they don't sell they just dispose of. That is a huge business mistake! An office supply company is already struggling in this general environment so they need to make all the sales they can get. Some sales are better than no sales. A reduced price is better than leaving it at full price and not selling them. Doing the aforementioned things should improve Office Depot's ability to address these forces of competition in the near future.

The biggest external threat affecting Office Depot is the fact that workplaces are going digital and the shift to the paper-free cloud is making it difficult for this chain to stay profitable. Office Depot will implode as a business and be destroyed unless they fundamentally change the way they do business.

Office Max, Office Depot, and Staples could soon face an even larger existential threat than Amazon, wrote Ryu Spaeth at The Week. For instance, paper shipments have continued to plummet as offices go digital and become more efficient. Look at this chart from the Federal Register: It also means that people don't need mega packs of highlighters because they are going through information on their tablet or iPad. They don't need to buy pens to take notes because they are typing them on Evernote. We are an electronic world and the trend is only increasing. Derek Thompson at the Atlantic points out that there only a few retail segments that are worse off than office supply stores.

Economic Modeling Specialists International, hereafter EMSI, listed office stores as number 7 on a list of retail segments that have been or are becoming obsolete. Ranking worse than office stores, in order from best to

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worst, are 2) household appliance stores, 3) department stores, 4) book stores, 5) computer stores, 6) camera stores, and worst of all 7) music stores. The bad news for Office Depot doesn't end there. It is a big box specialty store, which is a broken concept nowadays (Bellevue, T 2014). Best Buy is the most conspicuous living victim of the Amazon bone crusher and is making moves to streamline itself with its smaller Best Buy 2.0 prototypes. Even Wal Mart isn't immune. Its aggressively expanding its grocery store business with smaller, standalone shops instead of super centers. We've already seen consolidation among big box specialty stores. The death of the once-strong CompUSA, Circuit City, Borders, Linens N' Things, and others shows us the big box specialty concept is no longer working.

K-Mart continues to close stores rapidly and department store jobs are down more than 40 percent since 2001, according to the data from EMSI (Altoro, E 2015). Now Office Depot has been working on developing smaller size physical concepts. Back in 2011 one of Office Depot's executives acknowledged the need for that. He says "our customers have spoken loud and clear: the big box era is over for them, they value convenience and speed, and they are voting with their wallet" (Office Depot Annual Report. Retrieved May 1, 2015). Reducing square footage however, won't cut it. Stores may be smaller, but if they sell all the same products this is not going to solve the problem. Workplaces are not suddenly going to revert to the old ways. And it won't be enough to change the product assortment away from stacks of paper notepads and manila folders if margins are being tightened due to money wasted on unneeded store space. The current business model

will disintegrate into nothing and Office Depot will have to make radical transformations if it wants any chance at survival (Bellevue, T. 2015).

When Office Depot and Office Max merged it was a way to slow down the bleeding, so to speak. I would define this move as one of Office Depot's strengths. More strengths include their various industry solutions, which is highlighted on their website. For example, Office Depot has industry solutions for the federal government, state and local government, and healthcare solutions. Office Depot also has a supply chain diversity program that provides their customers with a broad range of innovative business solutions, while fostering the growth of Historically Underutilized Businesses (HUBs). Office Depot partners with these HUBs to enhance their long-term viability. Office Depot's Supply Chain Diversity programs include: tier one diversity, vendor diversity, and supplier diversity. Tier one-diversity: buy direct from certified HUB partners.

Office Depot builds a relationship with members of their network of national, regional, and local partners and provides solutions "that customers can have confidence in, without compromising quality or service" (Office Depot Annual Report. Retrieved May 1, 2015) Vendor diversity: buy HUB products from Office Depot. Office Depot helps customers fulfill second tier HUB spend requirements by featuring more than 1, 000 products manufactured and/or distributed by HUB vendors in their catalogs and online. Supplier diversity: businesses sell directly to Office Depot. "Internal procurement practices" include broad use of HUB products and services (Office Depot Annual Report. Retrieved May 1, 2015). According to the Office Depot 2014 annual report, Staples and Office Depot announced that they have entered into a definitive <https://assignbuster.com/external-and-internal-environments-essay-sample/>

merger agreement, under which Staples will acquire all of the outstanding shares of Office Depot and the company will become a wholly owned subsidiary of Staples (the “ Staples Acquisition). Under the terms of the Staples Merger Agreement, Office Depot shareholders will receive, for each Office Depot share held by such shareholders, \$7. 25 in cash and 0. 2188 of a share in Staples common stock at closing. Each employee share-based award outstanding at the date of the agreement will vest upon the effective date of the Staples Acquisition. The transaction is expected to close before the end of 2015.

Office Depot is doing what they have to do to stay in business. Merging with the office supply giant Staples is a good idea in my opinion. Apparently it is also a good idea to both Staples and Office Depot’s board of directors as they all signed off on the deal. Even the federal government, who blocked the proposed merger back in 1997, has signaled that it is more open to merging these two office retail giants, despite the “ specter of reduced competition” (Office Depot Annual Report. Retrieved May 1, 2015). In 2013 when Office Depot bought its rival Office Max, the Federal Trade Commission blessed the transaction, ruling that the deal was “ unlikely to substantially lessen competition.” Merging Staples and Office Depot is a much bigger proposition.

The combined Office Depot and Office Max created a new company with \$18 billion in sales and over 2, 500 stores. If it indeed goes through as proposed, the Staples-Office Depot deal will create a retailer nearly twice as large, with \$34 billion in revenue and 4, 400 stores. But Staples and Office Depot argue that the proposed merger is necessary to compete in a new world where



bigger store chains and online competitors have reduced prices and provided enormous new numbers of competition. Annual revenue at Office Depot has fallen 36 percent from 2007 to 2013 (Office Depot Annual Report. Retrieved May 1, 2015). Office Depot clearly knows it needs to do something. I believe that merging with Staples will breathe desperately needed new lifeblood into the company. It also may just buy time for the inevitable. We shall see.

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