

Staples: pestel analysis and five forces model



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Staples Inc., a US based office products company, has been chosen for this report which carries out an analysis of the company and its subordinate offering a range of office supplies, business machines, technology products, office furniture, and business services with about 91, 000 employees.

Founded by Tom Stemberg, Staples opened the world's first office supply superstore in the Brighton neighborhood of Boston in 1986. In 1989, Staples made an initial public offering (IPO) of \$36 million and launched its catalog delivery service, Staples Direct. In three years time, Staples went for diversifying its portfolio and acquired 42% ownership in Business Depot, a Canadian company, in 1993 and the next year the company took over Business Depot with 100% stake. Later, Staples purchased its European partner Kingfisher and Maxi-Papier in 1996. In the same year, the company became a Fortune 500 company (Datamonitor, 2010). The strong growth in revenue is attributed to the attachment of Corporate Express, whose revenues are included in the company's Financial Year.

On its successful venture, Staples signed a marketing agreement with Yahoo! and became an office supply merchant on Yahoo! small business portal in 2000. In the consecutive year, the company entered into an agreement with an online legal resource for consumers and small businesses, MyCounsel. com, and with ePolicy. com Insurance Services. Staples has been very successful in expanding its worldwide operations even in the Asian markets. In this continuation, the company entered the \$10 billion office products market in India through a joint venture with Pantaloon Retail in 2007, and its new office products business unit, Future Office. The very next year, Staples opened its Copy & Print Shop, a new store format in

New York City, designed to meet customers' copy and print needs. During the same year, the company opened its first store in Houston, Texas. Very recently, Staples Advantage launched the Staples Technology Solutions in February 2010 which offers business customers from small and medium-sized businesses to Fortune 1000 corporations, access to a full range of offerings from data center solutions and printer fleet management services to network services and everyday desktop technology products (Datamonitor, 2010).

Task 1: Review and determine the organizational strategic aims and objectives

1.1 strategic aims and objectives

The strategic aim of a company is a broad statement of the strategic outcomes which it plans to achieve. At times the strategic aim of a company is also called company goals. The strategic aim is what the organization wants to accomplish (Chartered Management Institute, 2009). Accordingly, the aim of Staples is to be an employer and neighbor of choice, to differentiate its brand, to grow profitably and responsibly, carry out its business activities ethically, work in a sustainable manner, give job skills and education opportunities to its employees, leverage diversity, create sustainable change in its local communities. The aim of Staples is to be a committed company that shows its obligation to the environment, practices diversity and be an ethical company. It wants to be a global in its operations and grow financially. It wants to be a great employer, corporate citizen and neighbor (Staples, 2007).

According to Chartered Management Institute (2009), the strategic objectives of a company are the specific outcomes and are most often quantified. Objectives are the aims of the company which are broken down and are more concrete. Particularly, the strategic objectives of Staples are (a) to make it easy for customers to recycle eWaste, (b) to build greener buildings, (c) to donate \$15 million to community related projects, (d) to deepen commitment to environmentally responsible products, (e) to Qualify 500 U. S. retail stores to the ENERGY STAR® standard for retail store standard for energy efficient performance by the end of 2011, (f) to save \$10 million in costs through energy conservation programs in the U. S. by the end of 2011 (Staples, 2007).

Staples objectives follow the SMART criteria as they are clearly written. They are measurable as the Compensation Committee assesses the extent to which Staples achieves these objectives. They are achievable as Staples analyses the resources it has before setting them. They are realistic as the company has analyzed the skills it possesses before setting them. Staples has also aligned these objectives with its long-term vision. Staples objectives are time-bound as the company sets the timescales by which it has to achieve these objectives (Staples, 2007).

1. 2 Components of strategic plan

The components of the strategic plan include a company's mission, vision, values, its objectives, its strengths, weaknesses, opportunities and threats (SWOT), its action planning, implementation process and how it measures and evaluates the achievement of its objectives (Friel, 2009).

Mission statement: The mission statement of Staples is very clear and states their motive in following few lines:

“ Staples Soul reflects commitment to corporate responsibility – what moves us to embrace diversity, sustain the environment, give back to our communities, and practice sound ethics. Linking these values with our global business strategy and operations contributes to our financial success and helps us become a great employer, corporate citizen, and neighbor” (Staples, 2007).

Vision statement: Staples vision statement elaborates responsible aspects of company in this way:

“ Staples’ corporate soul is centered on a rock solid belief in social responsibility and the desire to make a positive impact on our associates, customers, and the world. We act responsibly and with integrity, conducting our global business as a great employer, corporate citizen and neighbor. Staples’ soul thrives in the fair treatment of our diverse and talented associates, in our environmental conscience, in giving back to our communities and in our sound business ethics”(Staples, 2010).

Value Statement: Staples aims at greater value to its customers therefore its productivity, revenues are as high as customer satisfaction and goodwill.

“ Staples gets higher quality consumer data from its electronic procurement system, lower costs due to lower maintenance/customer service/and ordering costs, ability to lock in customers through dependency on their

ordering system (switching costs), larger product offering of 80k items, and differentiation of services from its competitors". (Staples 2010a).

Considering New York, Staples is celebrating its 20th anniversary with \$16 billion in revenue, 11 percent compounded growth and 1,780 stores in 21 countries. According to the CEO of Staples, consumer electronics is a big part of our business and has been one of the most rapidly growing categories, therefore main forces lies upon these goods. (Staples, 2010). Staples is taking growth in its business and maintains its position in the market. In particular, office supplies and ink cartridges, signify 40 percent of the retail mix, along with notebook computers leading the sector in enhanced growth rate. Miles recognize that "better attachment selling" of more profitable products like cables and ink is much better corporate strategy rather than selling individual items. Complete Care Plans, Attachments which include variety of discounts according to nature of product is major present strategy of Staples to maximize profits, on other hand the corporate looks forward to target maximum markets along with wide range of brands and generating staples compatible versions of these brands (Staples, 2010).

Finally, Staples measures and evaluates the achievement of its aims and objectives through the Compensation Committee. Some 90 days after the beginning of the fiscal year, the Compensation Committee establishes goals and objectives for that fiscal year. The responsibility for the achievement of these goals and objectives rests with the Compensation Committee (Staples, 2009).

1. 3 Factors affecting the strategic plan

The strategy of Staples is affected by the external environment. Staples external environment includes political, economic, social and technological factors that can impacts on its strategy. Staples strategic plan is affected by its internal environment. Staples internal environment includes its competitors, customers, suppliers, its Board of Directors (BoD), its corporate culture and its employees. Staples capabilities, strengths, weaknesses, opportunities and threats also affect its strategic plan. Staples strategic plan is affected by the nature and kind of products and service it provides to its customers, its target customers, the market it serves, the degree of innovation it practices and how it faces the challenges that affect its operations (Bracken, 2006).

The factors highlighted in the SWOT analysis affect Staples strategic plan.

Staples Inc SWOT

(S)trengths

Staples Inc is a office product company which operates in three segments: delivery, retail and international segment. While the operations of delivery and retail segments are concentrated in the US and Canada, the international segment has its operations worldwide covering 23 other countries. The company has its strength in its international segment, which contributes to almost 22% of the company's revenue. Staples recorded higher comparable store sales growth (comp growth), for more than a year, than its close competitors as Office Depot and OfficeMax. Operating margin, which represents income as a percentage of sales, of Staples has witnessed an increase for the first time in Q1 of 2010 since Q3 of 2007. The acquisition

of Corporate Express enhanced Staples's position in several fronts. The addition of Corporate Express expanded the company's offerings into new areas and enhanced the offerings in existing areas (Datamonitor, 2010).

(W)eaknesses

The capital structure of Staples consists of debt which has increased by close to 27% in FY2010 compared to FY2009. The company has long-term debt and debt service requirements with \$500 million 7.75% notes due in April 2011, \$325 million 7.375% notes due in October 2012 and \$1.5 billion 9.75% notes due in January 2014 (Datamonitor, 2010).

(O)pportunities

Staples is successfully getting the average order size up in the Corporate Express delivery business, despite the economic backdrop and it is now around \$180, up from \$160 at the time of the acquisition. In addition to direct selling and retail stores, Staples generates revenues through the internet on its web portal. The performance of Staples Business Delivery and North American Retail stores is dependent on the performance of the small business segment in the US (Datamonitor, 2010).

(T)hreats

Strong relationship exists between macro trends and office sales. Office product companies are late cycle plays. For most corporations, office products fall under General & Administration expenses. Other than small and large businesses, Staples also serves white-collar workers. The level of employment among white-collar workers, the end-users for Staples, has an impact on the demand for office products. The economic situation in China and Europe continue to be a cause of concern as it would have direct impact

on the profitability of Staples. The unemployment rate in China has been on a sequential rise. From, 4% in Q3'2008, the unemployment rate rose to 4.3% in Q2'2009 and continued at that level till January 2010 (Datamonitor, 2010).

In addition to SWOT analysis, the factors highlighted in the PESTEL and Porters Five Forces model are used as analytical tools to achieve a more complete understanding of the strategic aims and objectives.

PESTEL Analysis for Staples Inc

Political Factors: Considering the political aspect of Staples Inc, the most prominent areas are stated below. As Staples manufactures goods in china, the rising fuel costs due to political factors effects supply chain of Staples forcing to increase its product prices and therefore, effecting customers and profitability. However, on the other side, the ongoing practice of price fixing amongst the big four retailers within the UK can have some negative impact to the industry in general and Staples in particular. Staples monopolistic nature in office supplies has created deep concerns among its customers. Staples is the most popular among the students who buy laptops, printers and other student accessories, but due to political influence and cutting down student inflow in England, staples is expected to see decrease in profits. Beside that, in the UK, the Government is to decrease the rate of corporation tax from 30% to 28%, which will save big companies like Staples significant sums of money (Staples, 2011).

Economic Factors: Considering the economic factors of the staples, the following areas are identified. Recession lead higher numbers of

unemployment. As one of the largest and fastest growing retailers, Staples can provide more jobs therefore helping to reduce the levels of unemployment. Recession may also effect the profit margins of the company, as it decrease the purchasing power of consumers and though they will still buy the essentials they may be more cautious. They might avoid buying the luxury items, something that has a greater profit margin for Staples. Online buying competition within every segment of the retail sector has lead to retailers giving a lot of incentives to the consumers. Which ultimately affects Staples profit levels as the prices have to be brought down to meet competition. Increase in Value Added Tax (VAT) from 15% to 17. 5% has created negative impact on profits as Staples was unable to increase prices to cover the profits (Staples, 2007).

Social Factors: Staples appears to be committed to environmental factors as the below mentioned lines states positive about the company behavior.

Environmental stewardship and maintainable business practices continue to be important aspect at Staples. The company is offering products and services to help customers preserve natural resources and reduce their environmental footprint. The major commitment to the environment is in the purchase and promotion of products having post-consumer recycled materials; recycling initiatives; energy conservation and renewable power procurement; and environmental education initiatives for customers and associates. Staples Inc has implemented a variety of programs to make it easy for customers to recycle. The recycling facilities by Staples regarding ink and toner cartridges in the US, UK and Canada, helps to benefit the local schools through Staples Recycle for Education, a program that donates \$1 to

public education charities and schools for every eligible used cartridge that is recycled at more than 1, 200 Staples stores. The company is considering the new ways to recycle the products to utilize the minimum energy and maximize the safety of environment, which helps to preserve the economy's need of power generating resources. Staples keeping in consideration Humanity, Donated huge sum of money to Haiti victims in collaboration of Red cross society and any one who desires to donate can easily donate in any Staples store (Staples, 2011).

Technological Factors: For the convenience of consumer, Staples also introduces the self checkout machines, employed by Staples in USA, which can help solve queue up problem. Radio Frequency Identification Device (RFID) technology is used in Staples which significantly benefits to the supply chain of Staples. This technology leads more efficient inventory handling. Staples uses advance machines to manufacture its brands and compatible ones which assure quality satisfaction (Staples, 2011).

Environmental Factors: A lot of emphasis of Staples has been on the role of reducing carbon footprint and increasing energy efficiency. Staples are a multicultural organization where proper career planning of all associates is carried out without any racism or cultural issues. Staples Foundation for Learning sponsored a grant in 2004 to Earth Force, an organization which provides teachers an innovative multi-disciplinary curriculum focused on environmental education for middle school students (Staples, 2011).

Legal Factors: Staples strictly follow all environmental regulations and promotes environmental education. Staples strictly follows police regulations

regarding selling of knives, scissors, glues which must not be sold to children under 21 years of age (Staples, 2011).

Porter's Five Forces Analysis

Porter's (1985) Five Force Analysis deals with factors outside an industry that influence the nature of competition within it, the forces that influence the way in which firms compete, therefore industry's possible profitability is conducted in Porter's Five Forces model. Every business must understand the activities of its industries and markets in order to compete effectively in the marketplace. (peerpapers. com)

Staples Inc Five Forces Analysis

The business of Staples Inc can be suited into the Five Forces analysis as follows:

Competitive Rivalry

- Office-max, Office-Depot, Curry's, are major Competitors in market.
- Online buying facility and online stores.
- Small shops in Universities.
- Switching Cost for Staples is very high.
- Staples manufactures and sells variety of office accessories, which many rivals don't.

Threat of New Entry

- Small shops are opening in universities
- Staples manufactures and sell its own brands, with minimum cost.
- Staples Recycles material in its manufacturing premises with less cost.

Threat of Substitution

- Staples Specializes in unique and multiple brands with wide range of products.
- Staples manufacture many compatibles of brands such as Epson, Lexmark and cannon Cartages.
- Brand loyalty of customers due to low price

Buyer Power

- Staples Manufactures its own products at cheap rates.
- Facilities such as in-store NUS discount and special offers
- Less Switching power to buyer
- Customer Doesn't know production cost of products.
- Products are of strategic importance to customers

Supplier Power

- Staples Manufactures and supplies to its stores on its own.
- Less supplier power available in hands of supplier.
- Switching cost from one to another supplier is low

Source: Staples (2011, 2007, 2010)

Task 2: Identify and analyze progress towards organizational strategic aims and objectives

2.1 Application of strategic analysis tools

Staples can monitor progress towards achievement of its strategic aims and objectives by using the Balanced Scorecard (BSC) approach. BSC was first proposed by Norton and Kaplan (1996) who claim that it helps the company translate its strategy into measurable actions. Therefore, McCarthy and Chapman (2009) describe BSC as a ' strategic planning and management

system used to align business activities to the vision statement of an organization'. It can measure a team's performance on four perspectives such as financial perspective, customer perspective, internal business process perspective and learning and growth perspective.

2. 2 Review and assess the expectations of all stakeholders and their influence upon the organizational strategy

Stakeholder analysis is used to review and assess the expectations of all stakeholders and their influence on organizational strategy. Stakeholder analysis is a methodology used to facilitate policy and reform processes by keeping in consideration the needs of those who have a ' stake' or an interest in the reforms. With information on Stakeholders, their interests, and their capacity to oppose reform, reform advocates can choose how to best adjust them, thus making sure that policies adopted are politically realistic and sustainable (Johnson et al, 2008).

Stakeholder Impact Analysis for Staples Inc

Staples stakeholders are its shareholders, employees, customers, suppliers, investors and the government. Each Stake holder show sincere relationship with staples. This is further elaborated as follows:

- Shareholders: There sincere relationship even during recession kept the company standing while many other superstores couldn't bear it.
- Employees: All company employees are dedicated to there work and it is due to there friendly environment which keeps them motivated to generate profits for company rather than making unions and creating problems.

- Customer: Customers are dedicated to staples brand due to cheap product and reliability, therefore company generates huge revenues each year.
- Investors: All brands rely upon staples. From Technology to office supplies variety of brands can be seen. All investors trust upon staples policies and future growth.
- Environmentalist: Staples promotes environmental consciousness among people, therefore it is never objected by environmentalists.
- Government: Staples generates huge revenue therefore provides huge tax amounts, which gives government shelter to Staples.

2.3 Analyze, interpret and produce a structured evaluation of the organizational strategic position

Strategic capability analysis is used to analyze, interpret and produce a structured evaluation of Staples strategic position.

Staples Resource and Competence Analysis

It is the analysis of competencies, knowledge, and skills that Staples Inc can apply to achieve success in a competitive environment. This concept is derived from the core competencies approach to corporate strategy. This will encompass the need to adjust and change in order to “fit” the changing environment and the need to “stretch” to exploit organizational resources in ways that are innovative, or that other organizations will find it hard to compete.

- Strategic Capability
- Ways to Build on the Competency/Resource
- Competences

- Core Competencies
- Manufacturing capability.
- Branding and Expansion.
- World wide Stores and access.
- Transforming its Supply Chain.
- Cheap production

Threshold Competencies

Customer satisfaction and value

Customer service, online and offline.

Resources

Unique Resources

Cheep production

I. T. use for inventory management.

Research and development.

Wide range of brands.

Threshold Resources

IT outsourcing

Production in china at low cost

Staples Inc recognizes that it has to find new ways to drive sustainable growth and profitability. The area of major attention is that Staples has been improving its supply chain management activities. Staples' goal was to

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widen its lead over competitors in all key industry areas, by improving supply chain execution, and thereby decreasing costs while increasing productivity and reliability and ensuring that customers could always find products they wanted on store shelves. Manufacturing products and differentiated product are the key core competencies of Staples.

Task 3: Determination and Evaluate of Strategic Options

3. 1 Identification and development of strategic options

Internal Environmental Analysis

Based on the internal environmental analysis (SWOT analysis) of Staples, it appears that the company has unique competencies in office supplies business. Staples manufacturing competency, multiple retail channels and strong distribution network target different customer segments efficiently. Whereas threat of new entrants in shape of small stores at key areas and online buying trend from cheap online stores are major threat to staples.

External Environmental Analysis

Furthermore the external environmental analysis (PESTEL analysis) for Staples shows that increase in VAT, reducing inflow of international students and credit crunch; and Porter`s Five Force analysis showing increasing threat of new entrants in shape of small shops in universities and local areas and increase in online buying trend with cheaper price; along with stakeholder`s analysis reflecting total dependence upon employees and customers are weak aspects of Staples.

Suggested Corporate Strategy for Staples

Beside that the above analyses, since Staples produces goods at competitively low-cost and has operations worldwide, propose that Staples should adopt Cost Leadership strategy of Porter`s Generic Strategies.

Rationalization of Cost-Leadership as the Corporate Strategy:

Cost-leadership strategy emphasizes efficiency which is based on avoiding unnecessary or non-value adding activities that consume organizational resources but cannot add any value for which customers are willing to pay. Along with this philosophy, economies of scale is the guiding policy for implementing cost-leadership strategy as it requires the company to produce items at the lowest possible cost among all competitors of the similar products. By producing high volumes of standardized products, the firm will take advantage of economies of scale and experience learning curve effects. Since products are produced at a relatively low cost and made available to a very large customer base, along with access to raw materials, components, labor, and other important inputs, cost leadership approach is most suitable for Staples. Successful implementation of this approach is expected because of Staples following capabilities:

- Good process engineering skill system of Staples.
- Office Supplies products designed for ease of manufacture
- Sustained access to cost-effective capital
- Good and close supervision of labor
- Staples tight cost control
- Incentives based on quantitative targets

- Always ensuring that the costs are kept at the minimum possible level.

3. 2 Determine and justify the strategic option

The above new corporate strategy for Staples can be implemented by carrying out the functional strategies discussed below.

Functional Strategy:

Since there are other rivals in the market, however, their concentration is focused upon food, clothes, and other products rather than office supplies, therefore Staples has acquired major position in market. Consequently, the corporate strategy of cost- leadership must be remained focused and maintained. Staples should adopt following functional strategies for its relevant departments in order to implement this corporate strategy of cost leadership:

- Research and Development for minimizing costs. (R&D Department)
- Online Selling, Marketing, maintaining goodwill and customer service (Marketing Department).
- Branding and expansion (Purchase Department)

Functional Strategy: Research and Development for minimizing costs

Staples manufactures in China where cost of production is relatively low due to availability of cheaper raw materials and labor, while on the other hand, Staples needs to concentrate on research and development facility to minimize cost at such a level where rivalry influence can be easily coped, if required.

Action Plans

Performance Indicators

1)

Exploring more countries for much cheaper production.

(During one year period)

Number of countries found, comparing production costs with current product costs.

2)

Opening production facility to produce raw material for finished goods.

(During Two Year Period)

Number of Factories established.

Functional Strategy: Online Selling, Marketing, maintaining goodwill and customer service.

Staples should advertise its online buying facility to students and offices. In addition, maintaining good customer service is essential to keep Staples goodwill intact and even stronger. This will eliminate rivalry influence and help maintain cost leadership and monopolistic influence.

Action Plans

Performance Indicators

1)

Awareness Campaigns in universities, offices and exhibitions that Staples provide cheap and quality products.

(During 6month period)

Number of Campaigns launched, customer feed back and sales figures.

2)

Participation in Community and social projects.

(During Two Year Period).

Number of Projects undertaken.

Functional Strategy: Branding and expansion

Staples must open stores all over the world to maintain its influence, adding more brands will satisfy customers as they can find everything under one roof. This will ultimately make Staples a popular brand and its cost leadership influence will be enhanced.

Action Plans

Performance Indicators

1)

Expanding brands and producing its compatible ones.

(During 6month period)

Numbers of brands added in Staples and its compatibles.

2)

Opening Stores in major parts of world.

(During 2 years Period)

Number of Stores opened worldwide.

3)

Opening Small shops and stores in universities and offices will remove small rivals from market.

(During 1 year Period)

Number of small shops and stores opened in these places.

Staples Inc, for its manufacturing capability and unique products, can easily integrate in various cities of the world. With expansion and branding it can obtain huge amount of market share thus eliminating rivalry influence. With its skilled R&D Department, Staples can manufacture compatible goods for various brands at cheap rates. They have got a great management team with motivated team work and great leadership style. This differentiates Staples as a unique store which not only provides eco-friendly products but possess a good reputation among its customers. It must focus upon its vision, mission and values in order to maintain such reputation.

Conclusion

The strategic analysis of Staples Inc., reveals that it has been enjoying a very well is a well established company which is known for providing quality products to its customers. By careful consideration of its external and internal environment and keeping in mind the interests of its stakeholders, it has been able to establish itself as a leader in the office supplies business.

Staples is competent in carrying out its business activities. It is

recommended that it applies the new corporate strategy highlighted in this

report to gain competitive advantage in the marketplace for a long sustainable period.