Harvard Business School Case Selections (Reprint)

哈佛商学案例精选集

（英文影印版）

实务系列

From the Field

零售业

INSIDE Retailing

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From the Field

INSIDE RETAILING

Harvard Business School Publishing

SERIES INTRODUCTION

Welcome to this entry in the *From the Field* series of case collections from HBS Publishing. We have three main objectives for this series:

To enrich readers' understanding of business by presenting coherent collections of field-based research published by Harvard Business School. Understanding business involves much more than earnings reports and news headlines. It means understanding how managers perceive and analyze the complex challenges their companies face and the strategies and tactics they devise in response. For nearly a century HBS has been researching the world of managers from *inside* companies and delivering their stories to facilitate superior teaching and learning. You won't find easy answers or quick fixes in these cases, but you will discover balanced, detailed pictures of industries, markets, and technologies, and the intelligent professionals who – like you – are trying to cope with them.

To focus on the latest HBS work on tumultuous, fast-growth industries. Today's companies are fast-moving targets. We keep our *From the Field* collections current by concentrating only on newer case studies. And the series is focused on rapidly evolving industries with business practices that no one could have foreseen even a decade ago.

To guide readers to Web-based sources of information that can supply good supplemental information. Using the best Web resources you can find out "what happened next" in the companies that our case studies examine – and, if you dig in the right places, *why* it happened. We get you started by steering you to sites where you can learn more. As the *From the Field* series develops we will enrich and refine our Web guidance, partly based on suggestions we receive from readers such as you.

Harvard Business School Publishing has additional resources – including more case studies – on all the topics covered in the *From the Field* series. To research other products, to learn about other titles in this series, or to order additional copies of this reader, call 1-800-545-7685 or visit our Web site at www.hbsp.harvard.edu.

The Editors

INTRODUCTION TO THIS COLLECTION

Each item in this collection has been chosen because it reveals particular components of the contemporary retailing story. Each of the eight items is introduced with a summary, and each is followed by a set of "Questions and Ideas to Consider" that we hope will drive you to the Internet for more research!

We open the collection with a detailed story of a startup that went on to become one of the US's most successful retailers -- Staples. This dramatic and wide-ranging case was actually written by a former executive who helped to shape the early stages of the company (and went on to teach at Harvard Business School).

The next several cases examine well-known companies – Starbucks, Costco, Eddie Bauer -- that have established very strong retailing brands and yet continually face new challenges for growth.

The Eddie Bauer case gives considerable emphasis to the role of modern technology, a theme that dominates the next two cases. The first, on RadioShack, examines the firm's rebirth as a major player in the age of the Internet and wireless communication. The second revisits the subject of the first case in this collection, Staples, as it works out a strategy for Staples.com.

Two articles from *Harvard Business Review* complete the collection. The first – which has many points of relevancy to virtually all the cases in this collection -- offers a unique perspective on the value of making "bricks" and "clicks" work together. The second sounds a cautionary note about retailing with unusual clarity and power, having been written by J. Peterman about the rise and fall of his eponymous company.

Did You Know?

HBS Publishing has many other recent cases on retailing and related subjects. Here is just a small sampling of cases published since 1999:

- Alloy.com: Marketing to Generation Y 500-048
- CVS: The Web Strategy 500-008
- Egghead to Egghead.com (A) 599-093 and (B) 599-099
- Kmart, Inc. and Builders Square 200-044
- Priceline.com: Name Your Own Price 500-070
- Victory Supermarkets: Expansion Strategy? 599-094

To get information on these and other HBS Publishing materials, visit our Web site: www.hbsp.harvard.edu. In the search field, enter "electronic commerce." You might be surprised by how much you'll find!

RESEARCHING COMPANIES ON THE WEB

As you read the cases in this collection we are sure you will want to conduct research using a variety of Internet sources. Obviously, it always makes sense to visit the Web sites of companies profiled in these cases, since that is often the handiest way to gather basic information about current lines of business, marketing campaigns, and recent financial performance. But there is a wealth of information available on other sites, too. Below we list a number of Web sites that provide information about public companies, much of which is available free of charge.

Business-information sites we've come to like:

- Hoovers.com for basic company profiles, including lists of key subsidiaries, executives, and competitors.
- The "News and Media" section of hotbot.com, a regularly updated archive of items from many news sources.
- Kompass.com for information on foreign companies.
- For information on and discussions of technology companies, magazines run some of the most useful sites, including redherring.com and thestandard.com.
- Quicken.com, Smartmoney.com, Dowjones.com, and the "Business and Finance" section of Yahoo.com, for clear, readable presentations of key financial performance data and access to useful screening tools.
- CBS Marketwatch.com or – by paid subscription – wsj.com, for breaking financial news.

A final note about currency: At certain points we will tell you what we found at particular Web sites while we were putting this collection together. We apologize for any out-of-date directions and "dead links" you may find, but such is the transitory nature of certain information on the Web.

CONTENTS

STAPLES: A YEAR IN THE LIFE OF A START-UP

(M. Hart / 9-800-241 / 21pp.)

Summary

Provides information on the development of the office superstore concept, building partnerships, creating the business plan, and recruiting a management team. Focuses on the detailed level of decision making required to transform an idea into a viable business. Heavy emphasis is placed on operating plans and integration.

Staples: A Year in the Life of a Start-Up

. . . In fact, the most creative ideas spring from long and intense experience with the components of the yet-to-be-created business.[1]

—Tom Stemberg

January 1985

In January 1985, Tom Stemberg, president of the eastern division of First National Supermarkets, and his CEO stood in the parking lot of a large supermarket warehouse site in West Springfield, Massachusetts. In spite of the chill in the air, their discussion was decidedly heated. Stemberg believed the site was ideally suited for another Edwards Warehouse store in his rapidly growing division. Stemberg was emphatic when he pounded his fist on the hood of his car. "This is the right move for the company! I'd stake my job on it." Differences about the company's growth strategy had been brewing for months and when his CEO replied, "You just did!" Stemberg realized that his relentless press for expansion had just cost him his job.

Tom Stemberg's entire career had been in retailing. After completing his education at Harvard (AB, 1971; MBA, 1973) he joined the Jewel Companies, a Chicago-based chain that operated both supermarkets and drugstores throughout the Midwest and New England. He started as what was unofficially, and somewhat irreverently, called a "Jewel Jet." In 1973, he was one of three graduates recruited from top-notch MBA programs. Though hired because of his senior management potential, Stemberg was expected to work in the trenches for approximately 18 months, learning every aspect of a store's operations, from cutting meat to culling produce. He spent his days bagging groceries, stocking shelves, and cleaning fish, but he had also had regular meetings with a senior officer who had agreed to be his mentor during the training period. Assigned to Jewel's Star Market division based in Boston, Stemberg quickly moved up the ladder. When he was named vice president of Sales and Marketing just before his twenty-eighth birthday, he was the youngest senior officer in Jewel's history.

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[1]*Staples for Success*, Tom Stemberg, editor: Knowledge Exchange, Santa Monica, CA, 1996, p. 5.

This case was prepared by Professor Myra M. Hart as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is an abridgment of two earlier cases: Staples (A) HBS No. 898-157 and Staples (C), HBS No. 898-159 prepared by Barbara Feinberg under the supervision of Professors Myra M. Hart and Marco Iansiti.

Operating on proverbially razor-thin margins, supermarkets were in a constant war for market share, which they waged via advertising and pricing campaigns—the latter being especially important in the inflation-ridden late 1970s. Though Jewel dominated the Chicago market with a more than 40% share, Star Market battled in its primary Boston market with two formidable operators, Stop and Shop and Purity Supreme supermarkets. Purity, founded by Leo Kahn, had long been a major player in traditional supermarkets, but recently it had begun gaining ground with its Heartland warehouse food stores.

Entering this fray with flair, Stemberg relished the fight. He launched a string of successful advertising programs in Star's New England markets. On the merchandising side, he first successfully beefed up Star's private label lines, then introduced an even lower-priced alternative in generic brands. This concept was new, not only to Star but also to the supermarket industry as a whole. Greeted with skepticism by many of the experts, "No Name" (generic) brands were immediately embraced by consumers. Under Stemberg's guidance, Star was able to become #1 in what was a fierce battle for market leadership in Boston.

Stemberg's aggressive leadership in marketing and merchandising caught the attention of other major supermarket chains. In late 1982, he accepted an offer to become senior VP, Sales and Merchandising, for Ohio-based First National Supermarkets (FNS) Eastern Divisions—with the expectation that he would soon become the senior manager of its Connecticut-based operations. In 1983, he was named president of the Edwards-Finast unit.

At FNS, Stemberg concentrated his efforts on developing a network of Edwards Food Warehouse stores, a high-volume, no-frills operation that offered low-priced merchandise bearing the Edwards-Finast label. During his time with FNS, the company's stock rose from $4.50 to $15. Even as the staff back at the Ohio headquarters was preparing the company for sale, Stemberg continued to press for aggressive growth in his unit. In the end, his very successful strategy contributed to his undoing.

Leo Kahn

Coincidentally, Leo Kahn, founder, CEO, and chairman of Purity Supreme, had just sold his supermarket and drugstore businesses (retaining the underlying real estate interests) to Supermarkets General for $80 million. Though 64, Kahn was by no means retiring; instead, he planned to devote his attention to real estate development and to other business opportunities in retailing.

Stemberg's and Kahn's paths had crossed many times since the days when they were locked in the Boston "share wars" for their respective organizations, Star and Purity. They met for the first time in 1978, when they appeared on a local television show for a debate on warehouse stores and "no name" brands. While backstage, they discovered they shared an enthusiasm for basketball—Harvard basketball in particular. (Kahn was a 1938 Harvard University graduate.) Stemberg, who was president of the Friends of Harvard Basketball, a fund-raising group, immediately enlisted Kahn to join in some of the events that organization sponsored. Their friendship blossomed and the two stayed in touch even after Stemberg moved to Connecticut.

During his Purity Supreme days, Kahn had pioneered the food warehouse concept; Heartland Food Warehouses became a major contributor to Purity's success. The original Heartland stores soon spawned a second-generation warehouse store concept—those located in large, new shells rather than in converted ("second-use") supermarkets. Heartland's second-generation stores continued to evolve and were gradually upgraded into third-generation stores that offered greater variety in perishable goods and a broader range of "amenities" while holding to their rock-bottom prices.

At the same time that Heartland Food Warehouses were being rolled out, Kahn introduced Heartland Drug stores to the New England market. In addition to pioneering in the deep-discount drugstore concept, he built a convenience store chain called L'il Peach and was instrumental in the launch of several other highly successful retail operations.

Kahn had completed the sale of his supermarket and drug businesses to Supermarkets General (SGC) by January 1985, but was still working under a management contract with the company. Because he represented SGC's buying division, he was in frequent contact with all the major industry players. When he learned from Bob Samuels, First National's CEO, that Stemberg was not going to be part of the pending sale, Kahn's immediate response was, "Have Tom call me. I want to back him. . . ." Kahn respected Stemberg's boldness and competitiveness and he wanted to find out if there was an opportunity for the two of them to work together.

The Search for Opportunity

Stemberg was also receiving job offers. He decided to take his time to consider all options. He listened carefully when he received headhunter calls and even agreed to meet with some of the leading U.S. and global retailers to discuss options within their operations.

But echoing in Stemberg's head were some issues that Walter Salmon, a friend and HBS professor, had raised. These centered on what opportunities would be possible when state-of-the-art supermarket distribution techniques were applied to non-food areas. Toys "R" Us was an obvious success case, along with Home Depot. Salmon believed that experienced retailers would discover many of these opportunities, but that most would be exploited by start-ups rather than industry incumbents. Stemberg realized that his retail distribution, marketing, and merchandising skills could be used to push almost any product—provided there was a genuine market need for it. He added entrepreneurship to his list of options and began exploring whether to buy a business or start one from scratch. If he chose to create a start-up, what should the concept behind it be?

By early February, Stemberg and Kahn agreed to collaborate on a new business venture. They looked first at what both knew best—retailing. The retail landscape in the United States underwent dramatic changes from 1975 to 1985. Each had not only witnessed the revolution but also had contributed to it.

Both traditional downtown departments stores (e.g., Macy's, Jordan Marsh) and suburban operations such as Sears were feeling white-hot competitive heat from general-merchandise superstores, particularly Wal-Mart, dedicated-merchandise superstores (e.g., Toys "R" Us), and discount price clubs, including Costco, Price Club, and BJ's. These giants featured general merchandise but also offered packaged and fresh food items. Betting that consumers were willing to trade "amenities" for everyday lower prices, these operations forthrightly announced themselves as warehouses; in most instances the merchandise was piled high on industrial shelving, still wrapped in the original packing boxes. In exchange for rock-bottom prices, shoppers literally did the heavy lifting, with "service" and decor kept to the bare minimum. The distribution system that enabled these stores to thrive had undergone a sea change of its own.

The superstore concept had captured a share of the grocery business as well. In some cases (e.g., Purity Supreme's Heartland Food Warehouse), stores were already into so-called second and third generation operations. Drugstores, too, were moving into mass merchandising, with several chains focused on opening larger stores with low prices and comparatively few "frills."

Stemberg and Kahn's first pass at retailing was in the supermarket industry they knew so well. They briefly considered alternatives of founding or buying a food chain in New England, but the available properties were priced too high and they would have to contend with Kahn's non-compete agreement. They decided to look for other ways to use their expertise.

Stemberg continued to dialogue with his close friends in retailing, one of whom was another "Jewel Jet" of Stemberg's vintage, Bob Nakasone. The two became friends when Nakasone had been serving as president of Jewel's New England-based Brigham's (ice cream manufacturing, distribution, and food shops) during the early 1980s. The two had kept in touch after Stemberg had moved on to First National and Nakasone became president of Toys "R" Us, USA. He encouraged Stemberg to "think outside the food box," assuring him that there were more similarities than differences across product categories and that margins were much better outside the food business.

Though committed to partner with Kahn in some yet-to-be-defined venture, Stemberg continued to respond to inquiries from retailers interested in hiring him. One such inquiry came from two European companies collaborating on the introduction of warehouse stores in the United States. They approached Stemberg about becoming CEO of their U.S. operation. Since one of their stores was in Langhorne, Pennsylvania (midway between Princeton and University of Pennsylvania where Harvard's basketball team would be taking on its archrivals), Stemberg agreed to combine a site visit with his trek to see the games.

After cheering his alma mater on to a double victory (Harvard beat both Penn and Princeton for the first time in 20 years), an enthusiastic Stemberg continued on to take his store tour. He recalled that "within minutes" he "knew the store wouldn't work in the U.S. It was gigantic and the prices were good, but the store concept was a mess. Instead of focusing on a single type of product [the store] had everything: apparel, food, electronics, toys." However, while he was in the store, he noticed that one category of goods was "flying off the shelves"—office supplies. "That was the day the idea formed: could we create a Toys 'R' Us for office supplies?"[2]

Office Supplies: In Need of Overhaul?

What Stemberg suddenly saw at the end of his "basketball" tour was the possibility of creating what would amount to a new office supplies distribution channel and, with that, a whole new industry.

> A superstore was the answer because you had to create something with a cost structure that enables you to keep prices low. There's a reason why nobody had low prices in office supplies. If you sold the stuff the way the old guys did it—which is to buy in small lots and try to deliver it by your own trucks and so forth—it's obvious why stationers needed high prices to support those costs. The supermarket approach . . . seemed like a logical way to bring efficiency into the picture. Toys "R" Us was a supermarket. Home Depot was a supermarket, basically, for bigger, bulkier goods, but essentially a supermarket. My aim was to take the same approach and satisfy customers with lower prices.[3]

He envisioned a new industry that would offer much lower prices to almost everyone (except large corporations which already had them through bulk buying) and, in so doing, would change an entire way of doing business. Of course, capital requirements were very high and the market demand was unclear. There was hardly a hue and cry about the office supplies business as it was currently being operated. It was one thing to observe as an outsider, "this is a hugely inefficient way of selling paper clips." It was quite another to create a revolution on the buyers' side. He hadn't heard people clamoring for lower prices. Indeed, no one seemed to be aware of office supply prices at all.

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[2]*Staples for Success*, p. 5.
[3]Ibid., p.3.

The Pricing Opportunity

Stemberg discovered just how little awareness there was about office supplies costs when he interviewed small-business people around him; no one had a clue. If he pressed for a dollar amount spent on them, it would be wildly off. For example, Stemberg and a lawyer friend actually tracked the invoices of a year's worth of office supplies and discovered that the latter's office was spending, per employee, more than twice what the lawyer had estimated.

Though often considered an "incidental expense" by the primary consumers, office products comprised an enormous market that was growing rapidly. In 1985, more than $85 billion were being spent annually on office supplies which included such mundane items as paper clips, folders, paper, staples, pens and pencils, envelopes, as well as equipment (e.g. copy machines) and furniture (desks, file cabinets, etc.). The sale of office supplies in the U.S. had experienced approximately 13% annual growth from 1978 to 1983 and had increased 17% in 1984.

There were four principal office supply wholesalers in the industry, each issuing a catalogue with similar list prices for most items. Generally, business organizations with more than 100 employees purchased office products from dealers, who bought direct from manufacturers or through wholesalers—in either case, larger firms could negotiate on price, in some cases receiving discounts of up to 80% off list on specific items. "Dealers" in the office products industry ranged from small stationery shops to huge firms that sold through central warehouses and had no retail presence. The four wholesalers supplied virtually the entire spectrum of dealers.

In businesses with fewer than 100 employees, an office (or purchasing) manager was typically in charge of buying supplies and office-related products from the dealer. Availability, not price, was the key: it was more important to be *supplied* than to hunt for the lowest cost supplies and potentially risk a shortage in the office. In firms with fewer than 20 people, it was the convenience of having supplies delivered from the dealer, or of finding them just around the corner at the local stationery shop that mattered, though the people in these firms were often more cost-conscious than those in larger organizations.

The small businesses were completely ignored by the big dealers. Stemberg proved this to himself by an interesting experiment in which he attempted to discover what Boise Cascade, which operated both as a wholesaler and a dealer, would offer him, as a potential "customer":

> First, he called on behalf of Ivy Satellite Network, a small company he owned that broadcasted events of Ivy League schools to alumni around the world. Boise Cascade, which had great prices, couldn't be bothered with sending a catalogue to Ivy Satellite, much less calling on the tiny company.
>
> Next, he called Boise back, this time representing the 100-person office of Fred Alper, a food broker friend in Boston. This time, Boise was happy to trot out to Alper's office, and Stemberg was astonished by what they offered. A Bic pen from Boise would cost Alper just 85 cents. At the mom-and-pop stationery store that poor Ivy Satellite was forced to use, the price was $3.68...
>
> Further research confirmed Stemberg's discovery. Small companies were paying through the nose, while large companies could command huge discounts off the list price. An aggressive office manager of a company with 1000 or more white-collar workers could obtain discounts of up to 50 percent from dealers. Small

businesses with only 10 to 20 employees, on the other hand, were lucky to get a 10 percent discount. They often paid full price.[4]

By the mid 1980s, many of the country's largest corporations were reeling from foreign competition; there was massive restructuring and downsizing with millions of workers laid off. Many of these people either founded businesses themselves or joined small firms. It was estimated that of the country's 11 million small businesses, 10.8 million were "small"— and these businesses were fueling the growth of an increasingly important service component comprising, among many others, consultants, specialized lawyers, and computer technicians. Analysts began to tout small business growth as the locomotive that would pull America out of its competitive woes.

The introduction of the personal computer also provided a stimulus to small-business growth. Both Apple's Macintosh and IBM's PC made it technically and financially feasible for smaller firms to have access to powerful computing capabilities. Computers, faxes, copiers, printers, as well as standalone word processors created an enormous appetite for their own kinds of supplies (e.g., thermal paper) and equipment (e.g., printer stands).

While small businesses apparently were the wave of the future, they were unable to purchase office supplies and equipment inexpensively. Distributors and wholesalers focused both their service and their discounts almost entirely on big businesses. A "Toys 'R' Us" of office supplies and equipment began to seem like a slam-dunk concept to Stemberg.

Competition

It was, of course, possible at that time to purchase office supplies/equipment relatively inexpensively through mail order and at wholesale clubs, but it took substantial effort to get around the high-priced "mom-and pop" stationers "around the corner." Supermarkets, drug stores, variety stores, and a growing number of computer stores also offered these items, as did the fastest growing mass-market channel, mail order catalogues. Moreover, as Stemberg had seen in his "basketball" visit these items were flying off the shelves of the mass merchants and wholesale clubs.

Excepting stationery shops and dedicated catalogs, however, the other channels were focused in other directions (e.g., drugs and related products) or intent on offering a vast assortment of merchandise in multiple categories. Hence, even if the price "was right," the variety available, both in the range of items and the numbers of SKUs per item, was limited. Fast-moving items were cherry-picked and entire ranges of products were unavailable. In addition, most customers went to these stores for other reasons and their office-supply purchases were something of an afterthought. Stemberg also noted that the existing superstores and wholesale clubs (which charged an annual membership fee) provided very little service in general, much less expertise in individual categories.

Nevertheless, such operations represented formidable potential competition, even with their currently limited selection. Their aggressive growth, clout with suppliers, flexible pricing and increasingly sophisticated information management systems posed significant barriers to entry. But this "bad news" was also "good news" because the existence and expansion of these alternative channels underscored the consumer's appetite for lower prices.

The Need for a Plan

Once he had done sufficient preliminary research to suggest that there indeed was an opportunity, Tom Stemberg began to discuss his idea of a chain of discount superstores for office

[4] *Staples for Success*, p.7.