



Rules to Live By, and Break, According to Staples Founder Thomas Stemberg

Thomas Stemberg, founder and executive chairman of Staples, an office products retail chain, doesn't buy one piece of advice that is often given to aspiring entrepreneurs: Follow your passion.

These words, said Stemberg, who gave a talk last month at Wharton's Entrepreneurship Conference, have spawned a stream of bankrupt restaurants and golf companies. "I think following your passion is a really dumb idea. I follow a great market that provides an opportunity to satisfy customers and to make money."

In 1985 Stemberg did just that when he founded Staples. At the time, high-margin stationers dominated the sale of office supplies. Big corporations got discounts, but individuals and small businesses paid a premium. Headquartered in Framingham, Mass., Staples now operates 1,500 stores with sales of \$11.6 billion. It is the largest of the three national office superstores, which together have a market of \$27.8 billion.

Stemberg gave up running Staples' day-to-day operations in 2002 and is now working on ways to continue building the chain, including the rollout of a new concept, Staples Business Expo. The new store sells Staples's traditional office products, but also has teams of in-house consultants to help small businesses with computer and telecommunications equipment and photocopying.

In addition, Stemberg, a grocery executive before founding Staples, is building several new consumer-oriented businesses: Olly Shoes, a children's shoe retailer; KaBloom, a chain of floral shops, and Zoots, a dry cleaning company.

Successful entrepreneurs are optimists, according to Stemberg, who proceeded to tell a story about twin brothers – one an optimist, the other a pessimist. On Christmas morning the boys' parents showered the pessimist with gifts, all of which brought him anxiety rather than joy. He worried, for example, that the toys' batteries would wear out and that he would lose the Lego pieces. Meanwhile, his optimistic brother raced down the stairs to discover his present – a pile of horse manure. The optimist was overjoyed. "With all that horse manure, there's bound to be a pony in there somewhere," he said, and set out to shovel through the manure to find his pony.

"If you have ever hoped to be an entrepreneur," said Stemberg, "You have got to be one of those people with the shovel because you're going to be shoveling a lot along the way."

Overpaying for Bic Pens

Entrepreneurs must be willing to break the rules, said Stemberg at one point, citing the founders of Southwest Airlines, Rollin King and Herb Kelleher, who faced financial problems and 13 years of legal challenges on their way to creating a new model for their low-cost airline. "Kelleher and King were optimists and they prevailed. They did so by breaking the rules." Businesses always have to be on the move, Stemberg continued. "New competitors are springing up as old ones fade away. If the playing field is changing so much, so are the rules and you, as entrepreneurs, must break [them]."

Stemberg set out to break the rules of selling office products when he founded Staples. At the time, big companies did business with local stationers who gave their large customers discounts of 50% to 60% off list price. The best a small business could expect was 10% off, he said.

While researching his idea for Staples, Stemberg found that Toys R Us executives paid 85 cents for a dozen Bic pens. Individual customers and small business owners paid \$3.68 for the same pens. "Let's be real," he said. "If you paid too much for advertising, maybe you got better creative. If you paid more for a lawyer, maybe you were getting better counsel. If you paid too much for Bic pens and paper clips, you were getting ripped off." Staples began to cut prices and became an outcast in the industry. Stemberg and his executive team were scorned at the annual office products convention. "Nobody wanted to be seen talking to us," he said. "Today, they trip over one another to get close to us."

Most of the dozens of business plans Stemberg sees each week propose marketing improvements of products or services that already exist. "None of these are good ideas," he said. "Great ideas are [based on] identifying a true need in the marketplace and then finding a way to service it."

He repeated a story told by Sony co-founder Akio Morita about a salesman who was dispatched to a Pacific island to sell shoes. The salesman arrived and immediately faxed a memo back to headquarters demanding a reassignment because the islanders did not wear shoes. Another salesman arrived and faxed a memo back to the main office asking for reinforcements because he saw a large unexploited market.

Scanning Children's Feet

Entrepreneurs must never lose sight of their customers, said Stemberg, whose new business ventures rose out of his own frustrations as a consumer. He founded Zoots, a 24-hour dry cleaner with delivery service, because "I could never find a dry cleaner that was open when I could be there." Olly Shoes, which uses computers to scan children's feet and search the store's inventory for a perfect fit, grew out of problems he had finding shoes for his sons.

Stemberg recounted an anecdote concerning Bernie Marcus, a founder of Home Depot, who was once challenged by a man who told Marcus he was surprised the home products chain was able to stay in business. The man said he had gone into a Home Depot store to buy a \$200 faucet, but was sent home with only a washer. Instead of selling him a new faucet, a Home Depot associate had shown him how to fix the leaky faucet he already had. "Bernie said, 'We're going to make it. If we can save you \$200, you are going to be a customer for life,'" Stemberg related.

Staples tries to encourage the same kind of customer focus. A store manager in South Carolina recently told Stemberg that a local church was having trouble getting through many layers of approval for Staples's business credit program. "I went back and raised holy hell," said Stemberg, who still visits 250 stores a year. "That's the only way to hear stories that are not filtered by six layers of supervision."

Adversity often breeds opportunity for entrepreneurs, he added. When Staples was starting out, it was forced to develop strong direct marketing in the Northeast where newspaper advertising was expensive. Now those customer relationships continue to help the company grow. The company also had to build its own warehouses because it could not find rental space. Over time, that, too, has paid off.

Even protests against Staples from environmentalists were turned into an opportunity. "The initial reaction was, 'Damn those guys. Arrest them,'" Stemberg said. Instead, Staples developed recycling programs. "As a result, the environmentalists began running full-page ads commending us for our efforts."

According to Stemberg, his work has changed dramatically since those early days when Staples was a struggling start-up. Back then, he had enormous impact on every aspect of the company. Now he is often battling bureaucracy within his own firm. "Life is never perfect," he said. "When you're small you have got the control; the problem is you don't have the power and resources to get things done. By the time you are Staples's size, you have all the resources in the world. The problem now is you have got this huge aircraft carrier and if you want to change anything it will take 3.5 years and zillions of dollars ... No matter what you do, you're still shoveling."

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