Building e-Business Capabilities Through Strategic Alliances: The Transition from Bricks to Clicks at Staples, Inc.

Ms. Deborah Hohler
Manager – Public Relations
Staples, Inc.
Framingham, Massachusetts

C Ranganathan*
Assistant Professor of MIS
Department of Information & Decision Sciences
College of Business Administration
University of Illinois at Chicago
ranga@uic.edu
Tel: 312-996-2847
Fax: 312-413-0385

Vern Goode
Graduate Student
College of Business Administration
Southern Illinois University, Carbondale
rever@starband.net; rever@cba.siu.edu

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* Primary Contact

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Introduction

The phenomenal growth of the Internet as a new business medium has caused considerable rethinking and restructuring of the traditional ways of conducting business. With decreased customer switching costs, increased bargaining power of suppliers, and intensified competition from new dot-com rivals as well as their traditional competitors, large companies are facing stronger challenges than ever before. As brick-and-mortar companies march towards Internet space, and the dot-com companies move toward the physical space, business success lies where these two meet – combining dot-com capabilities with traditional business strengths. Realizing this, an increasing number of traditional *brick-and-mortar* firms are in the process of transforming their businesses into *brick-and-click* set-ups. While top IT managers acknowledge the importance of making this e-Business transition, what is less clear to them is *how to make this transition.* There are no proven models, methodologies or prescriptions to guide them in this process. Hence, firms are experimenting with different ways to manage the transition to e-Business. Most of the traditional firms simply lack the newer resources and capabilities required to successfully transition to a brick-and-click business. *How to build the resources and capabilities for an effective e-Business transition is a top concern of senior IT executives today. Another crucial concern is the speed with which these new capabilities could be acquired.* The pressure to acquire the e-Business capabilities ahead of the competitors has resulted in a surge of strategic alliance[a] strategies such as: joint ventures, mergers, acquisitions, contracts, joint-marketing efforts, licensing agreements etc. in the online market place. We are in a new era where co-operative business models have become a dominant strategy for gaining competitive advantage.

Increasingly, companies have come to realize that if they were to succeed in their e-commerce initiatives, they must gain and share their skills, capital, information, technology, access to markets, and even control over resources with other firms. This recognition has resulted in a trend towards different kinds of strategic alliances. Many senior IT managers have come to recognize that with the right strategic alliances with IT vendors, e-commerce service providers, dot-coms and other firms, their organizations can

[a] In this paper, we use the term strategic alliance to represent a continuum of inter-organizational arrangements ranging from mergers & acquisitions to joint-relationships. It can be a complete merger, acquisition, or, technology licensing arrangement, shared resources, shared equity, joint venture, co-marketing, co-promotion or distribution arrangement etc. See Appendix-A for detailed description of the term "strategic alliance"

continually gain new resources and capabilities for making a successful e-Business transition. The competition among companies is now turning into one between networks of organizations. Business rivalry takes place between sets of allied partners rather than between single organizations. The alliances have become the new economic units of power. The performance of each company and its IT department depends not only on its own resources and capabilities, but also on those of its alliance partners and its relationship with these partners.

The challenges in making an e-Business transition and the rapidly changing competitive dynamics of the online marketplace require managers to address several key questions:

- *How does a firm plan its transition from bricks to clicks?*
- *How does a firm identify its IT/business resources and capabilities required for successful e-Business transition?*
- *Should the firm focus on internal (self-development) or external mechanisms (alliances) for building e-Business capabilities?*
- *What is the role of CIO and IT managers in development of e-Business capabilities?*
- *How does a firm screen and identify its IT and business partnerships for building e-Business capabilities?*
- *How does a firm structure the external IT governance arrangements for these partnerships?*
- *What changes in the internal organization structure, IT infrastructure and processes will be necessitated due to the alliances?*

In an effort to address these concerns, we present a case study that describes the e-Business transition efforts at Staples, a leading player in the US office product retailing industry. Specifically, this case illustrates how Staples used different kinds of strategic alliances and inter-organizational governance arrangements for building its e-Business capabilities in order to become a leading brick-and-click organization.

We had an opportunity to closely observe Staples in its efforts to build online capabilities and successfully transition to e-Business. The narrative presented in this paper is drawn from interviews with company executives, extensive data collection, and observation of the firm's efforts over five years between 1995-2000. The story we unearthed presents some innovative and interesting tactics that Staples followed in managing its e-Business transition. While there are other firms that have made a transition from their traditional mode of operations into e-Business, the approach followed by Staples is unconventional, interesting and innovative in several ways.

1. **Use of Strategic Alliances to Build E-Business Capabilities**.

With a strong set of skilled IT staff, Staples could have chosen to build its e-Business capabilities internally. Rather, it decided to form a portfolio of effective partnerships with different IT firms and a host of other companies to gain a strategic edge in online marketplace. These partnerships helped Staples gain considerable time and cost advantages, and facilitated efforts to quickly establish its presence online. The time and effort savings also helped the IT department at Staples to devote their attention on deploying more advanced and creative IT solutions in their organization.

2. **Role of IT as a Business Driver rather than a Business Partner**.

Traditionally, IT has largely played a support role in running the business functions of many companies. In the Internet era, IT plays a crucial, strategic role in most corporations. IT executives actively participate in the business planning processes and play consultative and advisory roles. Many organizations view IT departments as "business partners". However, in Staples, IT executives were not merely confined to participating in business meetings. The role of the IT department went beyond that of a being a *business partner* to being a *business driver*. IT personnel were not only *technology developers*, but also *business developers*. IT executives were responsible for formulating, implementing, and executing crucial business strategies, especially strategic alliances. IT executives made strategic decisions on the diversification strategies and alliance arrangements aimed at their e-Business transition.

3. **Development of Coherent 'IT Partnerships' rather than a bunch of 'Outsourcing deals'.**

Outsourcing IT activities has become a common practice in several organizations today. Instead of creating isolated, stand-alone outsourcing agreements, Staples managed to establish a coherent portfolio of strategic alliances with multiple IT partners. These groups of alliances provided more synergies and complementarities than single, isolated deals. Rather than simply doing "deals" with several firms, Staples made an effort to foster fruitful "relationships" with their alliance partners.

Staples consciously created effective alliance strategies that guided them on how to choose their partners, structuring the relationship with these partners, formulation of checks and balances in the relationship, pooling of synergies across multiple alliance partners, evaluation of benefits, etc. The coherent alliance strategies enabled Staples to achieve considerable advantages from their alliances, which would have not been possible had they decided to form a number of independent, stand-alone outsourcing agreements.

4. **Internal Organizational Changes to Supplement External Alliances.**

There are two crucial reasons why some strategic alliances end up unsuccessful. First, the partner firms fail to make internal changes to organizational structures and processes necessitated by the external partnerships. Second, firms fail to assimilate the knowledge, assets, and expertise gained from their partnerships. This results in small short-term gains rather than significant long-term advantages.

Staples followed an innovative route to assimilating knowledge from different alliance partners and business units. Staples created units called "*IS Centers of Excellence*" that were specialist units in different areas like networking, web development etc. These centers provided expertise and support in their designated area to the other business units and functions spread across the entire enterprise. The main responsibility of these centers was to imbibe knowledge from multiple sources, and disseminate them to other parts of the organization. These centers enabled effective knowledge creation, assimilation and organizational learning. Staples also had a center to manage their strategic alliances and partnerships. Staples made many such internal changes to make the best use of their external partnerships.

5. **Learning by Doing.**

E-Business transition is not always an easy process. Not all organizational efforts result in complete success. What is important is to learn from past successes and failures, take corrective actions wherever necessary, and make effective progress in future. In its e-Business transition efforts, Staples faced numerous challenges. Staples could not proceed with its planned merger with Office Depot due to the FTC's (Federal Trade Commission) disapproval. Staples acquired Claricom in an unrelated diversification and renamed it as Staples Communications. But, problems surfaced in the integration of structures and business processes that resulted in sluggish performance. However, Staples was quick to learn some vital lessons from such experiences. The CEO Stemberg views this as “seeing the positive in the sea of bad news”. Staples carefully adopted its learning from these experiences in its future activities. Since Claricom, Staples has not ventured into other unrelated diversifications. All its partnerships have been carefully planned and evaluated. Financial benefits became secondary, and the synergies in terms of capabilities became the top-most criteria for evaluating the potential partners.

E-Business transition involves taking on the mind-set of a beginner, letting go of the known, and being willing to try something new and unconventional. When organizations try new methods and behaviors, challenges are inevitable. A major problem, however, is that the challenges are seen as serious threats and the firm gets discouraged and sometimes even goes to the extent of winding up the very project it needs. Staples’ managers faced the challenges head on, found solutions and did not give up until they tasted success. The challenges and experiences of Staples, along with the managerial strategies they followed hold important lessons for other firms that are trying to move from bricks to clicks. By reading Staples’ story, other firms will have an opportunity to learn from their experiences.

The STAPLES Story

The Staples story is a classic one of a once-dominant company that lost its edge to new rivals. The rise of the Internet and the arrival of new dot-coms posed further threats. However, the difference this time is that Staples effectively crafted a set of strategic alliances to defend its position and leveraged on IT to ultimately regain its position in the industry.

The story begins in 1986, when Thomas Stemberg and Leo Kahn joined forces to open their first office products superstore in a Massachusetts town. The opening of the store marked a launch of an entirely new industry that is estimated to be on the order of $240 billion today. Staples revenues grew from $8 million in 1987, to $120 million in 1990, to $10.6 billion in 2000. Staples opened one store every 50 hours during 1998, growing to a total of over 1300 stores with more than 50,000 employees.

As Staples grew, however, new competitors emerged and started chopping into Staples' market share. Within months of opening their first store, office product chains such as Office Depot and Office Max opened up their stores all over the country. By 1992, Office Depot became the leader in the industry with twice the revenue of Staples. The lucrative office supply business also tempted major departmental stores such as Wal-Mart and K-Mart to enter the fray, increasing the heat of the competition. In order to combat the increased rivalry, Staples tried unsuccessfully to acquire its rival Office Depot in 1996, a move that was blocked by the Federal Trade Commission in 1997. With the floundering of its planned merger, Staples started looking for new ways to fuel its growth. By this time, a new competitive channel had emerged, the Internet, that was well suited for the office supply business which was constantly trying to trim supply chain costs, cut down shipping expenses, minimize warehousing, and store management costs. Staples, as well as its rivals, recognized the opportunities offered by the web, and the battle in the physical stores moved onto the virtual web.

The Internet Invasion

> "*We have always recognized the long term potential of e-commerce and see tremendous opportunities across all our businesses*" – Thomas Stemberg, Chairman & CEO, Staples.

Staples established its maiden web site in November 1997. This was a simple informational web site, offering information on the company, its products, and directing customers to catalog ordering or to the nearest store. When Staples decided to expand its online offerings, the online market place had started getting crowded with new Internet start-ups. The emergence of firms such as Works.com, Onvia.com, BizBuyer.com, and Officesupplies.com further intensified the competition in the office supplies industry. However, the senior management at Staples strongly believed that their prospects of reaching out to customers through the Internet were bright. They felt that the "Internet was a golden opportunity to meet our customers' needs in terms of both products and services." Their belief was further strengthened by a Forrester Research report that estimated the US online office supply industry to grow to $65 billion by 2003.

The impetus for moving aggressively to the digital environment came directly from Thomas Stemberg, CEO of Staples. Stemberg was strongly inspired by his long-term friend, Meg Whitman, CEO of eBay. His association with Meg Whitman induced an *IT-thinking* that made him realize the immense growth opportunities offered by the Internet. He went before the board of directors with his ideas on the company's Internet future. "*This will be the most significant organizational challenge we've ever encountered*," he told them, and got their unanimous support for a major Internet initiative that would cost in excess of $250 million over the next few years. This led to the birth of a distinct dot-com unit – Staples.com in 1998.

> "*E-Commerce has changed our company structurally, to the point that we've now created a separate operating unit that focuses on our e-commerce businesses,"- Mike Ragunas, CTO.*[1]

> "*Establishing Staples.com as its own business unit underscores our commitment to the e-commerce market and our belief in the important role it will play at Staples,*" Stemberg, Chairman and CEO.[2]

Staples.com started out as a site selling office products to individual and small business consumers. Soon, Staples expanded its online offerings to the entire range of customers from small businesses to large ones. Now, Staples has made it possible for customers to order office supplies through every possible alternative: *walk-in*, *call-in,* or *log-on*. Staples offers these alternatives through its multi-channel retail and delivery options, Quill and Staples catalogs and its online subsidiaries: Staples.com, Quill.com and StaplesLink.com. Staples.com is primarily targeted at small businesses and individual consumers. Quillcorp.com is a business-to-business direct marketer of office products focused on serving medium sized firms. StaplesLink.com provides customized procurement solutions to contract customers, targeting large sized businesses.

The radical move into e-Business has not come without any glitches. Staples has had to fend off negative reactions from Wall Street about its e-Business initiatives. Due to the unfavorable reaction from financial analysts to the initial dot-com losses, Staples' stock stumbled many times in 1999. However, this did not discourage the e-Business efforts of Staples. The 1999 Annual Report reassured Staples' shareholders that the move to e-Business had larger stakes: "*Aggressive pursuit of Internet leadership is something we must do to protect and expand the brand in which we and our stakeholders have invested so heavily. Our goal is to seize the lion's share of this large and growing market*."

What started as a simple web-site taking orders for office products in 1998 has now emerged into an electronic marketplace, offering a comprehensive solution for business needs of small, mid-sized, and large firms (Figure.1). Staples.com currently provides a full suite of services to assist customers in every aspect of establishing and managing their office. Staples.com has emerged as a single-point destination for all small business needs. In conjunction with its partners, Staples even offers services such as Internet hosting, web site domain registration, Internet access, online business printing, intranet services, financial services, including payroll processing and credit, and communication services which include business communications systems and software, voice, data, and network solutions.

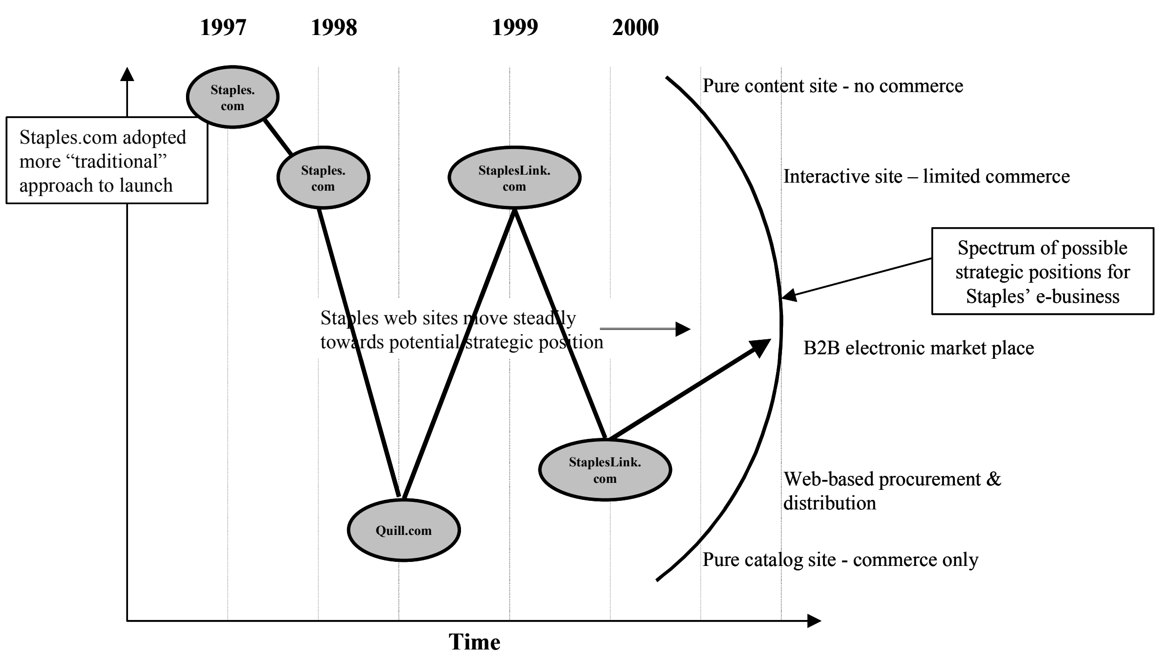

Figure.1 Staples' e-Business Offerings and their development

Noticeable Results

The painstaking efforts of Staples have yielded rich dividends. The array of e-Business initiatives has resulted in significant, measurable, and tangible benefits.

- The online revenues of Staples grew from \$35,000 in 1996 to \$94 million in 1999, then increased five-fold to over \$512 million by 2000 (Figure.2).
- The total revenues from both the brick and click channels grew by over 30% from 1999 to 2000 (Figure.3).
- Staples equaled the market share of its archrival Office Depot in 2000.
- In the fourth quarter of 1999, repeat customers to Staples.com were on the order of 83,000. This increased to 143,000 in first quarter of 2000 and further to 200,000 in fourth quarter of 2000.
- Due to its web site, Staples has already cut its order entry costs alone by 3-5%.

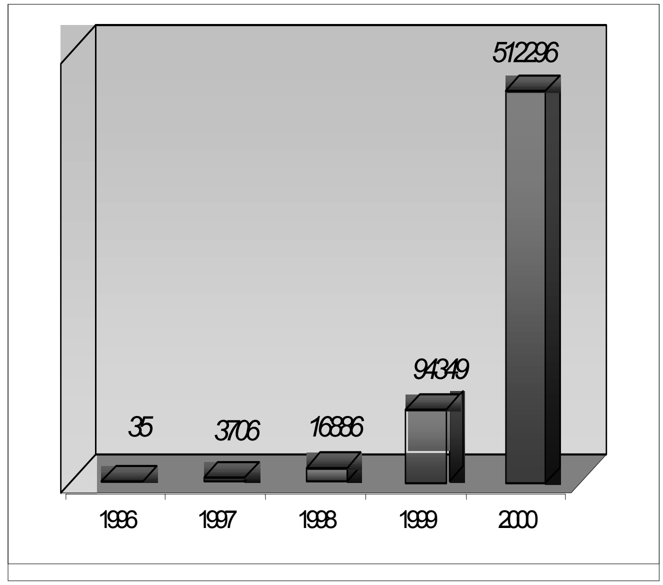

Figure 2. Increase in Online Revenues

Apart from financial benefits, the e-commerce initiatives of Staples have received recognition and accolades from a number of industry organizations and business magazines.

- In 2000, Staples was listed as the number one company in *e-Week*'s Fast Track 500 list of e-Business innovators.
- Staples was rated among the top 50 IT innovators and influencers by *InformationWeek* magazine in 2000.
- *Computerworld* listed Staples among the Premier 100 IT leaders in 2001.
- In 2000, *InfoWorld* listed Staples among its top ten most successful e-Businesses.
- Staples.com was named best e-commerce site for office supplies by *OfficeSolutions* Magazine in 2000.

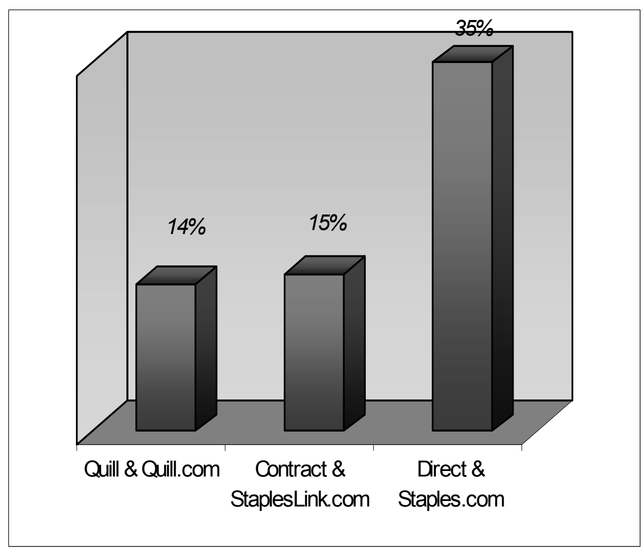

Figure 3. Increase in Brick+Click Revenues from 1999 to 2000

Elements of e-Business Transition

When Staples made its maiden attempt in putting up its website in 1997, *Computerworld* Magazine had the following critique titled: "Office vendor web expertise is out of stock"

> *"What would you expect on the web from the second-largest office supply chain? Electronic Commerce? Up-to-the-minute advertising? At least for now, Staples has missed those opportunities. The Staples site at www.staples.com looks good, but it isn't the place to go to buy office products."*

However, *Computerworld* chose Staples as one of its 100 Premier IT leaders in 2001, and characterized the company as "Sharper Staples."[3]

What made Staples so successful? Staples was late to go online, had more of a brochure-ware like web site to start with, and even lost its edge to rivals. How did the company limp back, and leap ahead?

In order to accomplish its Internet goals, Staples has implemented a carefully conceived e-Business strategy. A careful examination of Staples' e-Business transition efforts reveals four fundamental elements that underlie their e-Business strategy (Figure.4).

1. **e-Business Opportunity Assessment**: Ability to analyze the opportunities for e-Business and setting clear e-Business goals.
2. **Capability Analysis**: The need to assess the technological and business capabilities required for transforming into a brick-and-click organization.
3. **Strategic Alliances for Building e-Business Capabilities**: Forming and sustaining an effective portfolio of inter-organizational alliances aimed at building the e-Business capabilities.
4. **Integration of Bricks & Clicks**: Ability to functionally and structurally integrate the brick and click infrastructures and operations to realize synergies.

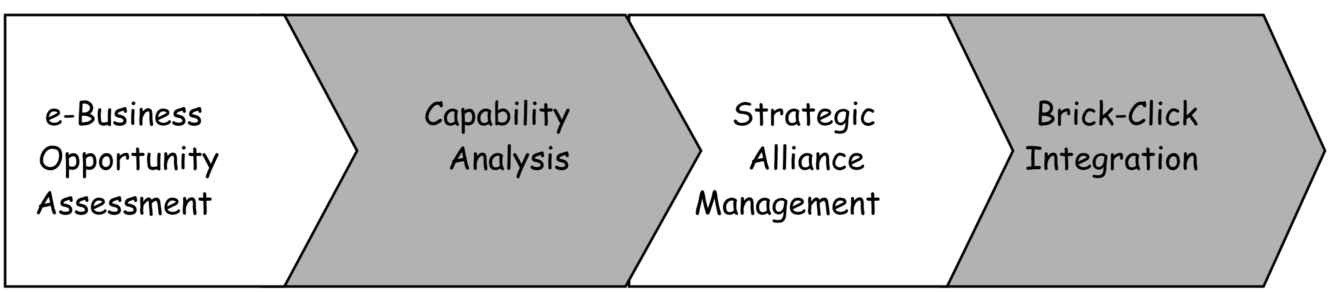

Figure.4 Elements of e-Business Transition

In the following sections, we elaborate on these four elements of e-Business transition with appropriate illustrations from the experience of Staples.

e-Business Opportunity Assessment

There was a frenzied race to the Internet over the past five years by several large and small firms. Despite being early movers on the net, the payoffs from the web have been quite disappointing for many of these firms. Several web doomsayers had advocated that being first on the net was the key to success. Staples' story shows that this may not necessarily be true. What is important is to have a smart, winning plan before going on the web rather than being a first mover with fluid ideas. In fact, a recent CEO survey by *PricewaterHouseCoopers* revealed that 69% of the respondents worry that they didn't think things through before embarking on their e-Business initiatives[4]. This is where Staples was different.

Net Myth: Being a first mover on the net ensures sustainable success.

Reality Byte: For achieving sustainable success, having an e-Business vision and winning plan is more important than being first

Staples did not launch its e-Business initiative until late 1998. Office Depot and a host of office supply startups occupied the web much before Staples entered the fray. Staples wanted to ensure a thorough groundwork before going online. And this groundwork was lead by Thomas Stemberg, CEO of Staples. He estimated that the web would represent over 25% of overall revenue in the office supply industry, offering a potential $50 billion dollars in sales. He was convinced that Staples should venture online to capitalize on this opportunity, though the competitors were ahead in going online. He even convinced Meg Whitman, CEO of eBay, to join the board of the proposed online venture. "*Being first isn't as important as showing up at the right time, with the right technology and the right business plan. It's a matter of waiting for the right time, whether it's the internet or any other area and then going full-force after it with tremendous energy,*" Mr. Brian Light, CIO, Staples.com.[5]

Having recognized what the Internet can do for the business, Staples was convinced that the Internet could provide a one-stop destination for all the online needs of its consumers, especially the small businesses. The CEO clearly stated his overall vision and geared his team to work towards this new corporate e-Business vision. He declared that Staples.com should earn $1 billion in revenue and acquire one million customers by 2003. He set clear goals, targets and chose a handpicked team to be the drivers of the Internet venture.

Stemberg appointed Jeanne Lewis, executive vice president of sales and marketing to run Staples.com. Rather than choosing someone from outside, he decided to choose an internal candidate with in-depth understanding of the core business. Stemberg said, *"If I was a headhunter trying to pick out a dot-com executive out of our company, whom would I pick? – The first choice would have been Jeanne. I'd seen the way she operates, and she not only relates to the dot-com world but she understood how these people think and what they liked and didn't like.*"[6] Stemberg spent considerable time talking to his board members and Whitman before making this decision, and with the board's support Jeanne Lewis assumed the leadership of Staples.com. The technology leadership for Staples.com came in the form of Brian Light who was made the Chief Information Officer (CIO) for Staples.com. Brian Light had spent over twelve years as a technology and business consultant at Andersen Consulting before he moved to Staples. Around this time, Mike Ragunas was appointed as the Chief Technology Officer (CTO) for Staples. This team, with internal and external candidates, combining both technology as well as business expertise, and providing a strong IT-Business partnership assumed charge for leading the e-Business initiatives at Staples.

The business operations of Staples became the foundations for the Internet initiative, Staples.com. The team knew that the core capabilities of Staples built around a strong brand name and a vast infrastructure would be the foundations upon which they could build Staples.com. "*It's like we're running in a marathon and someone gave us a ride in a car for the first half of the race,*"[7] - Mike Ragunas, CTO. Though Staples.com was set up as an independent business unit with its own infrastructure and performance targets, the senior management wanted to make sure that the dot-com unit remained closely integrated with the core operations of the parent company.

Net Myth: Technology is the most critical prerequisite for e-Business success.

Reality Byte: It's not only the technology, but also the fundamental business operations, and an understanding of how the Internet can leverage these operations that are critical for e-Business success.

Capability Analysis – Assessing Brick-Click gaps

Before making a transition to e-Business, it is important to take stock of current resources and capabilities, and assess the additional ones required for moving online. The resources and capabilities could be (i) the core capabilities – the critical business capabilities that were built over a period of time, (ii) IT capabilities – IT infrastructure, networking, web-application development and deployment, systems integration, and expertise in web technologies, and (iii) e-Process capabilities - conducting web-based functions and operations such as order processing, marketing, logistics and distribution, and other business processes for ensuring smooth online operations (Figure.5).

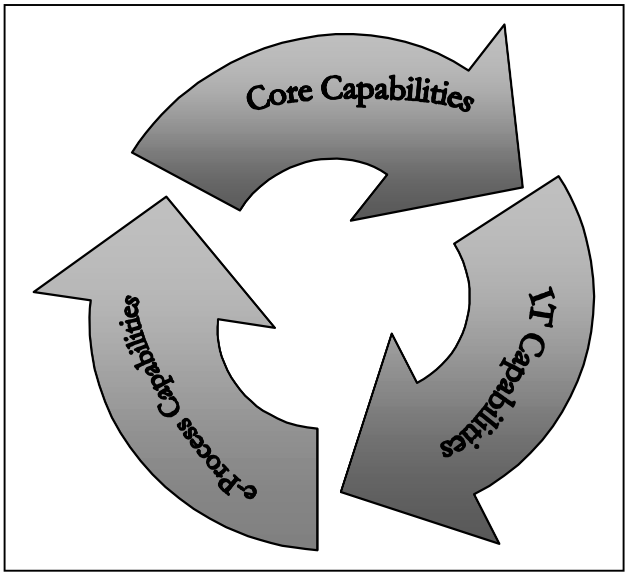

Figure. 5 e-Business Capabilities

Staples knew it had to leverage on its core business capabilities in order to make its e-Business initiatives successful. Staples had built a repertoire of competences in addressing the needs of small business consumers, a good brand name, and vast distribution infrastructure. The management team was convinced that they needed to work on the core business capabilities, and use them as a platform for building the technological and e-process capabilities. They wanted a concrete business foundation on which the click infrastructures could be built up. They wanted to use the Internet as an additional business channel for bringing in new customers and for expanding into new markets. The entire customer base for the office supply market was divided into three broad categories – small businesses that employed less than 100 staff and individual consumers, medium sized firms with 100-500 employees, and large businesses which were in the range of Fortune 1000 firms.

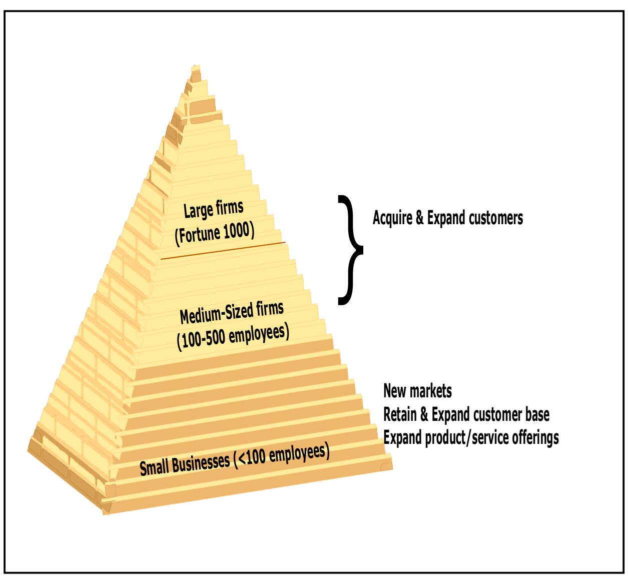

Figure.6. Customer Segments and Business Capabilities

The bulk of Staples' consumers belonged to the small business category. This simple analysis led to the following conclusions regarding business growth (Figure.6) – (i) Staples had to retain its customers as well as expand in the small business segment, which implied the need for additional product and service offerings. (ii) Staples had to pursue the medium and large business segments more aggressively than before. Clearly, Staples had to work on its capabilities regarding market expansion and product/service offerings. Jeanne Lewis remarked: *"Gaining new customers is how we'll meet our growth targets and expand our brand into new areas. …… If we can maximize our opportunities to interact with our customers, we can get a bigger share of each customer's total office supplies budget,"* [8]. This is where Lewis felt the Internet would play a vital role.

> *Net Myth: Having a good web site (technological capabilities) and a well-defined set of web-based processes (e-process capabilities) will bring e-Business success.*
>
> *Reality Byte: It is essential to integrate Web technologies and e-process capabilities with the core business capabilities to ensure e-Business success.*

Once the core business capability gaps were identified, the next step was to assess the IT resources and capabilities that would be needed to realize the e-Business goals. Staples had a strong IT department with a good technology infrastructure in place. But, this was not sufficient to accomplish their envisioned e-Business goals. "*We wanted to have as many capabilities as we can… We needed to zero-in on the things that are going to make a big difference,"*[9] said Brian Light, CIO of Staples.com. There were three areas where Staples needed additional resources and capabilities – (i) Web design, development, and maintenance, (ii) Data processing, storage, and analytical processing, and (iii) IT infrastructure in terms of new hardware, equipment, application software, and telecommunications for running the e-Business operations.

Staples had a set of well-defined processes laid out across the entire value chain for carrying out its regular business functions. However, the transition to e-Business demanded creation of additional e-processes for online operations. Three broad sets of e-process capabilities were identified as critical ones. First, being in the retailing business, supply chain management was the most crucial process that had to be beefed up to enable web-based operation and management. Developing web-based procurement, logistics, warehousing, and distribution processes were identified as key e-process capabilities.

Second, Staples realized that the Internet provided them a richer medium for understanding consumer behavior. More detailed data on customer spending habits and buying patterns can be deciphered from purchase data, and Staples wanted to cash in on this richer repository of information. This kind of data would not only help Staples.com, but also the store-based retail businesses of the parent organization. Hence, customer relationship management (CRM) was identified as another crucial e-process capability that Staples had to focus on.

Third, using the Internet as a business medium demanded changes in the way Staples marketed and promoted its products and services. Staples realized that the dynamics of running an online business demanded exploiting the powerful features of the Internet to reach larger number of customers with relatively lower costs. Therefore, marketing and promoting Staples.com via the net was a critical e-process capability that had to be built.

Core Capabilities

- Access to new customers and markets
- Expansion of products & services
- Leverage and strengthen brand name

IT Capabilities

- Web design development and management
- Data storage, processing and analysis
- IT Infrastructure
    - Hardware and equipment
    - Software and applications
    - Networking & Telecommunications

e-Process Capabilities

- Marketing & Promotion
- Supply Chain Management
    - Order processing, warehousing and distribution
    - Procurement and Logistics
- Customer Relationship Management

Figure.7. Capability Analysis

Staples had a gigantic task at hand – to build its resources and capabilities in all the three areas - core business, technology and e-processes. And this had to be done in a short time frame. According to Mike Ragunas, CTO : "*Our biggest challenge was getting things done extremely quickly, but at the same time being comprehensive in the delivery*"[10]. Though the capabilities had been identified, a larger challenge looming over the minds of the senior IT managers was *how to get these e-Business capabilities*? The response was simple – if Staples did not internally possess the necessary capabilities, they had to look for external mechanisms for acquiring them.

"We started from the ground up when we were building Staples.com. We had a mandate to put something together that would showcase the Staples brand and provide a world-class shopping experience. We didn't have the expertise in-house around building such a system, so we reached outside for help"[11] Michael Ragunas, CTO.

Strategic Alliances for Building e-Business Capabilities[b]

The idea of using external mechanisms for business growth isn't entirely new for Staples. From 1986 to 1992 Staples was successful in entering new markets by acquiring smaller office supply firms and remodeling the stores to their pattern. In 1992, Staples reached out to foreign markets through joint ventures, of which they later gained 100% control. In 1994 Staples proposed its ultimate acquisition strategy - acquire their chief competitor Office Depot, thereby becoming the number one and unchallenged industry leader. But the Federal Trade Commission (FTC) did not approve of this acquisition. The FTC's rejection forced Staples to re-evaluate its expansion strategy. Between 1995 and 2000, Staples formed 27 contractual and technology licensing agreements, 5 joint ventures, 9 mergers & acquisitions, 4 minority alliances and over 70 co-operative agreements such as joint-marketing, promotion and distribution efforts – all of which were primarily aimed at increasing their business, technological, e-process capabilities required to make an e-Business transition.

Enhancing Core Business Capabilities through Alliances

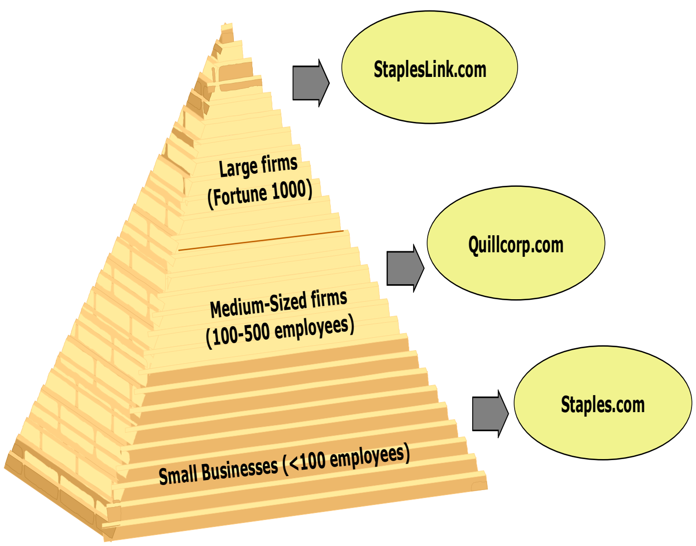

Figure.8. Staples' e-Business initiatives for different Customer Segments

Market expansion and penetration of unexplored markets had been identified as a critical focus area for Staples. Staples created Staples.com to serve small business customers. In order to expand its customer reach to small and medium-sized businesses, Staples acquired Quill Corporation in 1998. This acquisition brought in a variety of business capabilities to Staples. Apart from opening up new markets in mid and large sized businesses, this acquisition also added a whole new catalog of products, and co-marketing opportunities.

"Staples' and Quill's direct marketing operations are complementary, and Quill's highly developed direct marketing skills will enhance Staples'

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[b] For an interesting discussion on building organizational capabilities through strategic alliances, see Doz, Y.L and Hamel. G "Alliance Advantage : The Art of Creating Value through Partnering", Boston : Harvard Business School Press, 1998.

ability to address the delivered office products market,[12]" Thomas Stemberg, CEO.

This acquisition also added Quill.com to the e-commerce services of Staples, and in 1999, Staples added StaplesLink.com to cater to the bulk office supply needs of large business firms. StaplesLink.com was the online version of Staples Network Advantage Plus (SNAP) that served as a contract division for large firms, and was aimed at giving economies in bulk purchases. Thus, through multiple strategic alliances, Staples expanded and enhanced its customer base to service a wide range of firms from small to large (Figure.8).

Staples used alliances to expand nationally as well as globally (Figure.9). For instance, Staples partnered with Ivan Allen Company to add new product lines, business processes and to open new markets for Staples in the Southeastern US.

"*The strong position of the Ivan Allen office products unit in the Southeast marketplace and its reputation for excellent customer relations and top quality employees makes it a very attractive partner for Staples. We plan to aggressively expand in the Southeast region marketplace and are pleased that Ivan Allen will join Staples*"[13] Ronald Sargent, President, Staples North American Operations.

Other affiliates and acquisitions that extended Staples into new markets were Club Biz (Canada), KingFisher PLC (Great Britain and Europe), Sigma Burowelt (Germany), and Office Centre (Netherlands and Portugal).

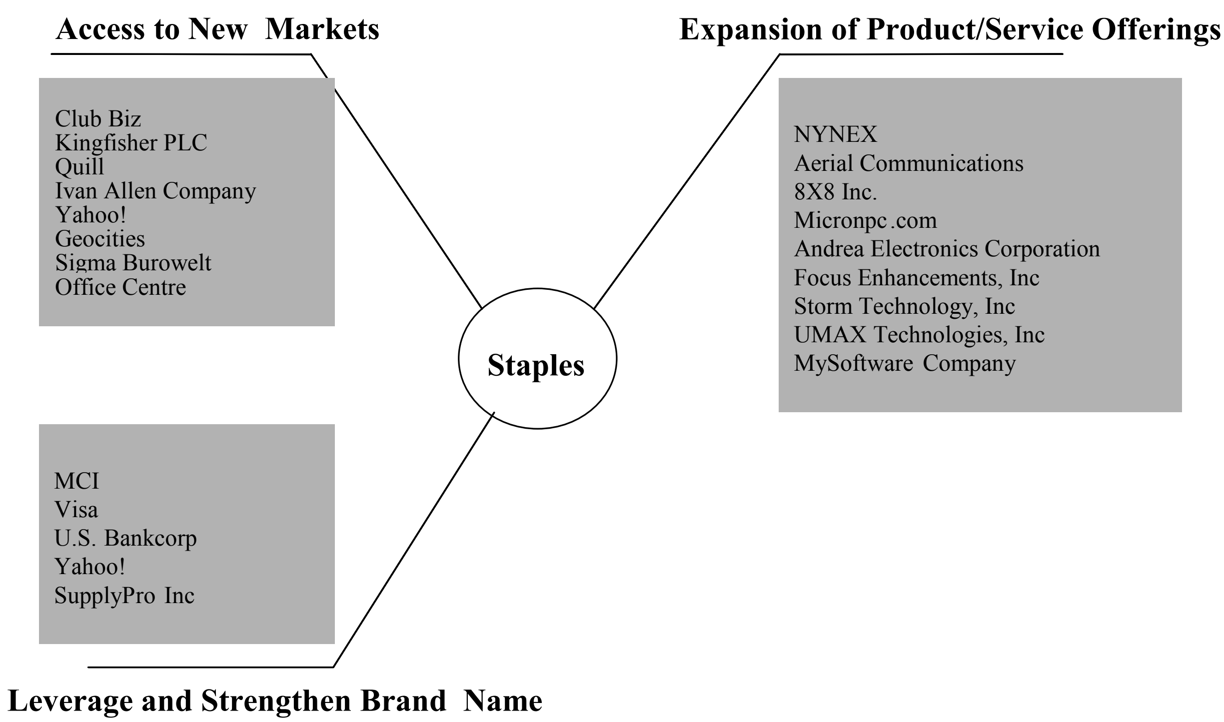

Figure. 9. Staples' Alliance Portfolio for Enhancing Business Capabilities

Staples also used strategic alliances to develop an extensive offering of their products and services online as well as in their stores (Figure.9). For instance, alliances with firms such as U.S. paging services, NYNEX, Aerial Communications, 8X8 Inc. and Andrea Electronics Corporation brought high tech telecommunications services such as custom paging, video telecommunications equipment, video conferencing and telephone network solutions to small and medium-sized businesses. Alliances with firms such as FOCUS Enhancements, Storm Technology, Ben Ezra, Weinstein and Company, UMAX Technologies, MySoftware, and WebGear brought high-tech software for business processes like market analysis, productivity, scanning, video transmission, wireless networking, and global positioning systems. From simple office supplies, Staples expanded its product offerings to cover an entire range of products and services needed for running a small business.

> "*The needs of small businesses are changing rapidly. Staples is dedicated to not only providing every day low prices, but to being the partner to whom small businesses turn to get their operations up and running smoothly with a minimum amount of hassle*"[14] Stemberg, CEO.

The retail stores at Staples stock about 8000 items, but Staples.com offers access to more than 200,000 items and much of these additional products have come through strategic partnerships and alliances. On their extended range of product offerings, Stemberg remarked : "*We will have every piece of software, every portfolio accessory, every ribbon, every obscure cartridge for every printer that went out of business ten years ago. It doesn't make sense to inventory these things but we'll give you access online*".[15]

Staples also leveraged on alliances in promoting and enhancing its image and brand equity (Figure.9). Staples partnered with firms such as Visa, Yahoo! and MCI to strengthen its brand identity. According to Jeff Levitan, former Senior Vice President, strategic planning and business development : *"The name of the e-commerce game is driving traffic and building brand loyalty. By partnering with sites like Yahoo!, Staples will build significant awareness of its e-commerce franchise and reach an expanded base of high-value customers"*.[16]

Technological Capabilities and Strategic Alliances

For developing its IT capabilities for e-Business, Staples contemplated two choices : either to build a large internal IT organization to take care of the e-Business, or to turn to outside expertise by completely outsourcing. Staples chose a mid-path – they did not want to be dependent solely on outside vendors as this did not fit well with the corporate vision of Staples being a source of products, services and solutions for other business firms. Instead, Staples chose to develop an alliance network that brought in the required technological capabilities (Figure.10). Over time, Staples has increased its personnel and capabilities in technology by effectively absorbing the knowledge and expertise of its partners.

> "*An effective model for us, rather than outsourcing, is to do more partnering with third parties where necessary. We have a strong presence from Staples on any teams that are developing anything new for us*."[17], Mike Ragunas, CTO.

<u>Building the IT infrastructure</u>

When Staples.com was launched in 1998, the site was hosted at one of the Staples Communications' ISPs that was directly on the Internet backbone. Brian Light's IT team used the company's strong relationship with Microsoft to put together its server configuration. The team used Microsoft's SQL server and Microsoft Site Server running on Intel servers with network connections to host systems and call center systems. Staples partnered with Fry Multimedia to develop its web site. It formed a partnership with Tvisions, which brought experience in building the hooks from web front-ends into back-end systems to build Staples' Microsoft SQL database on a SQL Server hooked to an AS/400 system.

In 1999, Staples spent over $2 million to install a Nortel Networks' ATM campus network to replace its switched and shared 10Mbps and 100Mbps Ethernet network. It also installed a new high capacity frame relay network to replace the satellite system that used to link more than 1000 stores. This new frame network added considerable flexibility to the store network. The new T-1s replaced the old voice circuits in each store with four 64Kbps DS-0 channels for an average annual savings of $120,000. This configuration could also be expanded depending on the future requirements.

Staples has over 1000 stores nationwide that are connected by a frame relay network. Each of the stores is equipped with point-of-sales terminals, back-office servers, cash registers and a host of other systems, which include kiosks that enable customers to order special products online. In order to install and maintain these complex in-store technologies, Staples had adopted a "total ownership" approach through its partnership with ICL. ICL works with in-store Staples teams to ensure smoother systems integration. The joint-teams are responsible for installing and maintaining all equipment, technologies, and software applications used in the store. Staples has left it to ICL to take care of most of the technology procurement, installation, integration planning and maintenance. In order to accomplish this, Staples spent about eight months to formulate its service-level agreement with ICL.

As Staples continued to grow in both online and offline operations, its need for data storage and integration increased geometrically. To address this, Staples partnered with EMC Corporation to gain a consolidated enterprise data storage solution that included high capacity servers. The size of Staples' rapidly growing data marts (some were over 10 tera-bytes) required flexible software management that is not disruptive to online merchandising data flows. EMC provided its enterprise storage solution and TimeFinder software to mirror merchandising data warehouse files.

As Staples' e-Business initiatives grew, it started developing other sites such as StaplesLink.com and Quill.com. Staples consciously decided to diversify its technology architecture by including IBM's e-commerce offerings. While Staples.com and Quill.com were developed using Microsoft Site Server 3.0, the IBM Websphere became the platform for StaplesLink.com and StaplesLinkPlus.com. "*We didn't want to put all our eggs in one basket. Between Microsoft and IBM, we figured one or both would prevail*" [18], said Brian Light, CIO. The primary idea was to diversify its portfolio of IT partners in order to minimize the technology risks.

Providing Technology Capabilities to Customers through Strategic Alliances

Staples' strategy is to position itself as a complete solution provider for small and medium businesses. Apart from providing office supplies, Staples also supplies technology, equipment and IT solutions to its customers. In order to accomplish this, Staples formed a "Business solution Center" that would serve as a single-stop destination for all office products as well as technology needs of small business customers. The alliance partners of Staples provided technology not only for Staples' internal needs, but also for its customers through their affiliation with Staples. For design, development, update and management of its web sites, Staples had partnered with a host of organizations such as Fry Multimedia, Encanto Networks, Ariba, Tvision, NetResults, IntraNetics and CloudSource. For hardware, Staples's partners include Compucom, ICL and EMC among others. In its efforts to gain telecommunication capabilities, Staples also acquired Claricom Holdings Inc in 1998.

Staples entered into a minority equity alliance with HotOffice Technologies to gain access to HotOffice's web-based, low-cost, feature-rich intranet services. Staples also entered into an alliance with DSL.net to offer end-to-end high-speed Internet service to its business customers.

Staples was able to improve its software capabilities through alliances with solution developers such as Encanto Networks who provided e-commerce solutions for small businesses. One of the distinct advantages that Staples gained from Encanto was a comprehensive training in web access, web site deployment, and web store development for every Staples associate. Through an alliance with NetResults corporation, Staples could create and operate customized stores for large corporate customers through which Staples could offer specific product lines adapted to the particular needs of the customer. Staples entered into minority equity partnership with Register.com, through which small business customers of Staples could register their own web sites. "*Staples is committed to operating a world class IT infrastructure to better serve our customers and ensure our future success as a global leader*"[19] – Stephen Benson, principal analyst for Staples Network Operating Center.

IT Integration Issues

Staples has a number of business partners as well as customers who use a variety of technological platforms. Staples faced an arduous task of providing a flexible technology set-up through which its numerous business partners and customers could interact and transact with Staples. There were two dominant concerns for Staples – first, to ensure that the partner's infrastructure was of high enough quality, and second, to ensure smoother integration across Staples' and the partner's IT infrastructure.

> "*We work with a lot of different partner; we do a lot of work around pre-qualifying those partners to make sure that their infrastructure is up to our standards. That's probably the biggest challenge we have. We've been working with a lot of marketplace platform providers on building integration between our sites and theirs.*
>
> *Picking the technologies that will best support in a few years is one of the important things I do. It is sometimes difficult to do in the Internet space because everything is so new……… One of the things we have been doing is working in XML space, with enabling our properties to integrate with other sites out there in the marketplace. (XML) is a great way for us to integrate relatively quickly and in a standardized way with partners that are providing services to our customers"* – Mike Ragunas, CTO.[20]

Deployment of XML (eXtended Markup Language) technologies has already started proving helpful for the company. Staples is currently using XML to integrate shopping cart information across different sites. For instance, if a customer orders from a partner's web site, Staples could effectively bring the transaction back to its own shopping cart, providing an integrated shopping experience for the customer. This calls for a tighter and smoother integration of Staples' technologies with those of their numerous partners. According to Ragunas, CTO, the key to achieving such integration "*is to make sure that you pick the right partners and allow yourself flexibility.*"[21]

Web site Management

Staples.com offers three different ways to shop – depending on whether customers know exactly what they want, or they merely have an idea or they just want to look around. With an assorted range of more than 200,000 products online, Staples.com offers advanced search and comparison features in order to make the shopping easier for its customers. The site itself has been refined over nine times since its launch in November 1998. "*Being in a dot com business is like living in a house going through a constant remodel. There is a constant stream of innovation,*"[22] Jeff Levitan, former Senior VP, Strategic planning & Business development.

The site has been carefully planned to keep the multimedia and graphics content at a minimum. Also, the registration process has been made a lot simpler. Web pages were monitored for their usage and pages that were hardly used were removed to reduce the clicks. *"We are constantly identifying new ways to leverage the power of the web to better serve customers. It's important for us to keep the site fresh and to offer new functions all the time,"*[23] Mike Ragunas, CTO. Though the web site is reviewed frequently, care is taken to adopt only those appropriate new technologies, and "*no technology just for technology's sake.*" Staples partnered with Human Factors International in an alliance to redesign its sites to increase ease of use, reduce the number of clicks, and save time through improved navigational tools. For periodic revisions of the web site, an internal advisory board made of leaders of the company's business units has been set up, that meets every six weeks. In these meetings, Staples' web sites are broadcast on a big screen and members are walked through the changes and upgrades. The group is also asked to provide inputs to improve the site. This feedback provides valuable inputs to the CIO for further development and upgrade of the web sites.

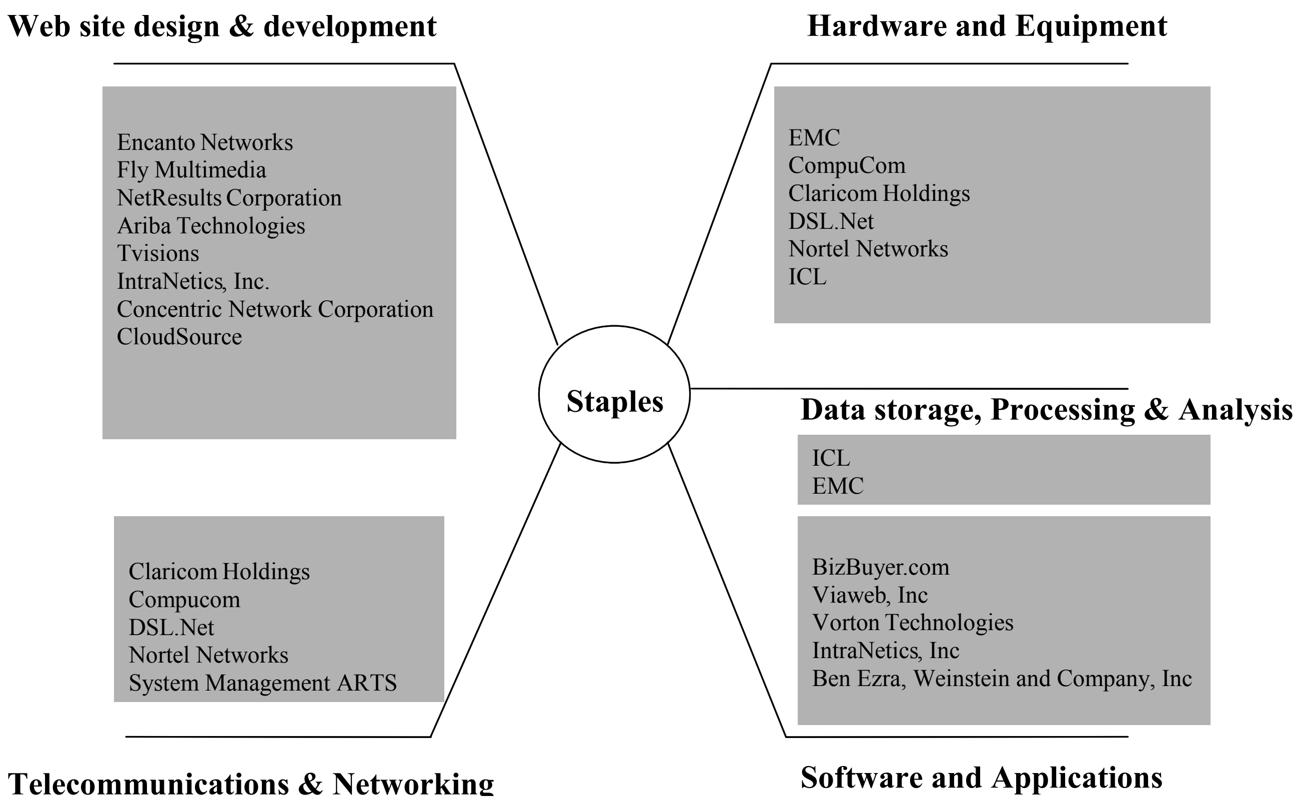

Figure. 10. Staples' Alliance Portfolio for Building Technological Capabilities

Strategic alliances with different IT vendors and service providers, and the capabilities gained through these alliances have proved to be immensely beneficial to the e-Business initiatives at Staples. The IT capabilities have not only helped Staples, but its customers as well. Through Staples.com, customers can get accounting, insurance, payroll, administrative services, and other sales and marketing tools that small businesses generally find difficult to access. Here's a testimonial from a small business customer of Staples.com.

"On the internet, you can be overwhelmed by choices…. Because buyers trust that Staples has done its homework to pick the right business partners, it is like a Staples seal of approval"[24]

e-Process Capabilities and Strategic Alliances

Staples created and adapted a number of business processes in order to enable web-based functioning through them. Staples particularly examined the entire supply chain and order management process to assess those areas suitable for conversion into e-processes. This resulted in a unique e-process for managing the customer orders. Staples has created a unique shopping-cart capability for small firms, using which a company can create a master account as well as sub-accounts for each employee. As and when demand for supplies arise, an employee can go online and add the items needed to the shopping cart. However, the software ensures that only a designated manager can approve and send it the final order. This process avoids the tedious, time-consuming activity to approve and sign off on each order from each employee. This kind of feature helps ease the order processing process at Staples' as well as the customer's end.

Staples partnered with Manugistics Group to design its new supply chain processes. This alliance helped Staples to optimize the movement of freight into distribution warehouses all the way through the supply chain. In addition, this also helped Staples automate freight payments and analyze vendor sourcing arrangements. "*Taking ownership of our inbound transportation planning process and containing these costs as we grow are critical to the success of our logistics strategy.*"[25], John Wass, Senior Vice President for logistics. Staples formed an alliance with IntraNetics that brought over 20 new intranet applications to centralize the business travel arrangements, expense reporting and bring office supplies ordering to the desktop of key managers in customer companies as well as within Staples. Staples partnered with Digital River to gain access to electronic software delivery capabilities. Through this, Staples' customers will be able to download any of over 30,000 software titles and applications either through in-store kiosks or through their website. Jonathan Magasanik, VP of Merchandising remarked "*Offering downloadable software titles online is another key way we can achieve our company mission to slash the cost and hassle of running an office.*"[26]

Staples has used an effective network of alliance partners to market and promote its web sites. Staples initiated an alliance with I-Traffic to develop advertising and direct marketing content for all its sites. I-Traffic assisted Staples in managing online media planning and placement, as well as in creative development of Staples' websites. Staples joined a co-marketing agreement with MCI by which MCI's VIP club marketed Staples as its premier office supply source, and Staples marketed MCI as low cost long distance telephone services. Through a joint-alliance with U.S.Bankcorp and Visa, Staples issued

Staples Visa Business Card, which entitles their customers to several discounts and rewards.

Staples entered into an alliance with Yahoo! through which Staples purchased banner advertising space in return for becoming the premier office product supplier in Yahoo portal. Whenever a customer searches Yahoo! for any office-supply related keywords, Staples' name will be displayed as the primary result along with a link to Staples.com. Likewise, Staples entered into an alliance with Geocities (which was later bought by Yahoo!) to become exclusive office supply merchant for Geocities' shopping center and charter member of the web community's "pages that pay" program whereby geocities members will be rewarded for placing Staples ads and links on their web sites. This alliance extended Staples.com to the geocities' business community of over 11.5 million unique visitors each month.

Staples partnered with Human Factor International (HFI) to review the consumer surfing behavior at their web sites and for enhancing its CRM capabilities. It also partnered with CloudSource to expand its web-site design and development services to its customers. The data analysis and CRM capabilities of Staples have brought in rich dividends. Staples is able to understand its customer preferences better and tailor its offerings to suit these preferences. For instance, it was noticed that many of the customers kept physical list of items they wanted to procure and re-typed them on the site. To relieve customers of this

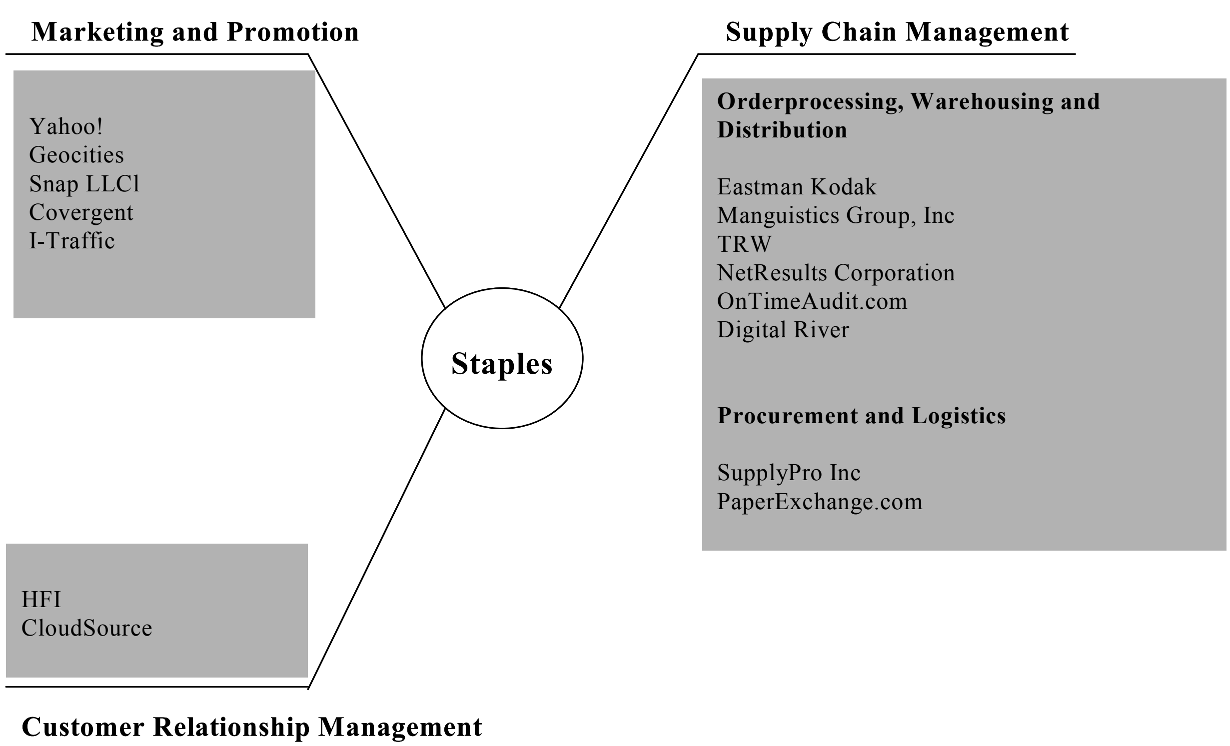

Figure. 11. Staples' Alliance Portfolio for Enhancing e-Process Capabilities

work, Staples.com put its shopping cart in every page, making sure that the shopping list was always in sight and updated as the customer buys an item. The customer could also return to the list at a later date.

Staples uses its intranet as a tool to deploy most of its in-house e-processes. In an alliance with Plumtree software, Staples launched a corporate portal known as Staples@work. This serves as an enterprise-wide business-to-employee information sharing system, an outcome of a co-operative project between Staples' IT and Human Resources units. Plumtree brought over several new features to the portal for personalization, document research and sharing. "*Staples@work helps us marshal all of the resources available to Staples in one dynamic, personalized web page that gives our employees the information they need at their fingertips",*[27] Tom Tracy, IS manager of intranet systems. For training its employees, Staples teamed up with Covergent Media systems, a leading integrator of interactive learning systems, to create "Staples Training Network", that provided training for over 50,000 employees on sales, services and other company initiatives.

Managing Strategic Alliances and IT Governance[c]

Staples used a network of alliances and partnerships to build its business, technological and e-process capabilities. In the process of building these partnerships, Staples developed "alliance making" as one of its core competencies. Apart from identifying effective partners and formulating IT governance arrangements with them, what is important is the process of managing the entire alliance. Once a firm has identified its brick-click gaps and decided to build its e-Business capabilities through strategic alliances, it has to address the following critical issues :

- *Where can we get the needed IT/business capability to fill the gap?*
- *Which potential IT partner has the experience and resources to sustain this alliance?*
- *How can we evaluate and screen the potential IT alliance partners?*
- *What type of IT governance will best fit this alliance?*
- *What criteria are best suited to monitor and evaluate the alliance?*

[c] For a good discussion on managing strategic alliances, see "The Allianced Enterprise : Breakout Strategy for the New Millennium" : Booz Allen & Hamilton, 2000.

Partner Screening and Identification

Identification of potential vendors, e-commerce service providers and technology partners is a complex process that should be based on an in-depth analysis of the capabilities offered by a partner as well as the partner's ability to realistically perform the alliance. It is most beneficial to seek alliances with firms that share long-term strategic objectives with the primary firm. This strategic alignment ensures that partners are headed towards similar goals and are willing to share the path to success.

"*In our case, the real challenge was picking the right partners to work with from a technology perspective. It takes tremendous amount of effort to go through and figure out which ones are going to best meet our current needs and which are going to be strong in future so that they can continue to growth with our business*"[28], Mike Ragunas, CTO.

Different alliances will require different levels of fit with the host organization. Acquisitions and mergers will often require full organizational integration, whereas a technology licensing agreement or a loosely-structured alliance may only require simple coordination mechanisms to monitor and execute. The key is that whichever type of alliance is executed, the two organizations must be compatible to allow for smooth sharing of resources and capabilities. Staples created multiple types of IT alliances with different structures, thus creating a basket of partnerships, i.e., an *alliance portfolio.* Staples was also keen to align with IT partners who brought in multi-capabilities, rather than those with single, specific capabilities. For instance, Staples partnered with ICL that brought in capabilities in technology procurement, installation, commissioning, integration and maintenance.

Enhancing IT-Business Relationships through IS Centers of Excellence

An e-Business transition requires a blend of business and technical expertise in an organization. In order to achieve this blend, effective partnering between IT department and other functional departments to create enhanced IT-business partnerships becomes critical. In the case of Staples, the task of creating enhanced IT-business partnerships was more challenging as the organization had diverse business units, multiple sales channels spread across different parts of the globe.

When Staples started moving ahead with its e-Business initiatives through effective strategic partnerships, it was important to co-ordinate the multiple initiatives that were going on simultaneously and to ensure smoother integration across these initiatives so that the e-Business goals were achieved. The IT unit had to have knowledge of every single business unit, its operations and also analyze and identify new opportunities created by the Internet technologies for these business units. The IT unit had to bear the twin responsibilities of being a *business partner* as well as a *business driver*. Staples responded to these challenges by creating *IS Centers of Excellence*. The creation of these centers started a new chapter in the IT-business relationships in Staples and marked a radical role-change for the IT department as well as the senior IT executives. *"A few years ago, we were order-takers. We looked to the business to help us prioritize projects… Now, we've transformed to bring more value to the table…… We want to be proactive in identifying what we, as an IS organization, can deliver for the business as opposed to just being an order taker*"[29], Brian Light, CIO. The idea behind the IS Centers of Excellence is to gather the knowledge and expertise gained from different parts of the organization at one-point, imbibe and assimilate this expertise, and spread the learning to other parts of the organization.

> *"To equip our IT function to address our growth, the competitive landscape, and the complexities associated with multiple channels in multiple geographies, we focus on two guiding principles :* ***simplification*** *and* ***leverage****……………. These principles are the foundation of what we call* ***IS Centers of Excellence****. We partner with each business unit in the company, identify opportunities, and manage implementation of solutions by focusing on the business benefits. We differ from many IT organizations in that our goal is to use solutions across multiple business units."* Brain Light, CIO[30]

For instance, there is a Center of Excellence for in-store systems that receives input from IT representatives in each country and delivers new capabilities worldwide. *"Our objective is to provide each business unit with solutions that are equal to the best we have, and to deliver those capabilities worldwide virtually simultaneously*[31]", Brian Light, CIO. Staples has formed many such IS Centers of Excellence to integrate IT and business expertise from multiple units spread across different locations. The end result is a tighter relationship between IT and business units, and an enhanced business role for the IT department. John Mahoney, Exec. VP and Chief Admin Officer remarked, "*We weren't going to have the IS folks taking orders but at the table involved with the business strategy*"[32].

Staples has also formed a center for managing its IT alliances and partnerships. This was formed for the purpose of identifying needed alliances, implementing relationships, and managing the resulting alliance portfolios. Staples broke with traditional corporate control of such centers to manage alliances, and developed them using cross-functional teams. For instance, the entire process of identifying, evaluating and managing the alliances aimed at building IT capabilities were performed by the IT department, whereas those alliances for co-marketing and joint-promotion were decided by the marketing unit. Similarly, the business services unit managed the partnerships for enhancing business services and product offerings. These departments functioned independently, while taking active assistance and support from other related functional units, drawing upon the expertise from the IS Centers of Excellence. Since all these alliances are aimed at e-Business, the IT unit gets involved on an as needed basis and plays an advisory role. For each of the alliances, a deal team is formed. This cross-functional team is responsible for researching the market and identifying the potential partners. The team evaluates the probability of success for the alliance based on specific criteria such as the partner's expertise, management culture, previous alliance experience, the target firm's core strengths, and any fundamental weaknesses that may be present.

Structuring the Governance Mechanisms in Alliances

Having identified an alliance partner, the next issue is to decide on the nature of the governance structure for the alliance. This decision is based on the degree of ownership versus control of the capability provided by the alliance. In the case of Quill, Staples chose ownership over shared control because the markets, products, and processes Quill brought to the alliance were critical components of Staples' successful expansion across the entire customer base from small to medium and large businesses. However, for entering new markets through an alliance with Yahoo!, only contractual control of content and placement were necessary to enter new markets and reach new customers. The need for ownership and/or total control of a capability may lead to merger, acquisition, joint venture or an equity investment if the capability is critical and irreplaceable to the firm.

The governance structure needs to clearly define each firm's contribution of people, money, and other resources for the term of the alliance. In defining these contributions, the agreement must also declare the caliber of the resources and enact performance standards by which that caliber may be measured. Generally, a timetable of when, how, and where resources will be available, secured, transferred, and delivered is helpful. Further, the objectives of the alliance have to be clearly stated in measurable terms with set periods of evaluation scheduled over the life of the alliance.

Staples devotes considerable attention to the governance mechanisms and terms of agreement in an alliance partnerships. This is to done to ensure that the alliance matures into a long-standing relationship, rather than a short-term agreement. Staples follows a philosophy of establishing a long-term relationships with a selected number of IT vendors, e-Commerce service providers and business partners. It does not follow the conventional competitive bidding route inviting request-for-proposals (RFPs) for its IT projects. Rather than spending considerable time and efforts in inviting RFPs, evaluating them, and having detailed meetings with prospective vendors, Staples prefers to have sole-sourcing contractual partnerships that would mature into long-term relationships. "*We don't put our vendors through the wringer every time we go looking for services. Because we don't do that, they provide their best people to us, and we get much better productivity*"[33], Brian Light, CIO. By avoiding competitive bidding, which can cost the vendors several thousands of dollars (costs that are eventually passed on to customers), the sole-sourcing route also paves the way for considerable cost savings.

> *Net Myth: Competitive bidding, with conventional request for proposals (RFPs) from multiple potential IT partners would ensure the most cost-effective, best selection of IT partner.*
>
> *Reality Byte : Sole-sourcing agreements via a non-RFP route is likely to ensure long-term relationships with the IT partners.*

(see footnote) [d]

Staples also ensures that the external partners work closely with in-house teams in order to enable effective knowledge transfer. "*I concur that service level agreements are critical. We also feel strongly about having a strong core of people from Staples working with partners… More and more providers are recognizing how important it is to work with internal teams on developing and delivering e-commerce projects*"[34], Mike Ragunas, CTO.

Alliance Sustenance & Evaluation

Financial factors alone are seldom sufficient to evaluate an alliance that brings far-reaching capabilities to the firm. Only those directly affected by the alliance can truly evaluate it. Staples has implemented several approaches that can be customized for each type of alliance to schedule periodic performance reviews and facilitate frequent

[d] A recent study by Computer Sciences Corporation examining IT projects worth more than $100 million, found that over 63% of dollars awarded in 1998 were based on sole-sourcing agreements rather than through competitive RFPs. (http://www.informationweek.com/786/staples.htm)

interaction of partners to maintain open lines of communication. In each deal team, there is an alliance "champion," the person or persons who implemented the identification of an alliance partner. This "champion" leads the alliance team to develop, monitor and evaluate every step of the alliance to ensure the needed capability reaches the initiating department. The team is comprised of cross-functional members, each with specialized knowledge either in the area of the capability or in the evaluation of alliances.

One of the most overlooked provisions of an alliance is the divorce procedure. A well-structured alliance will determine methods and procedures for the amicable dissolution of the alliance should the capability cease to be needed or fail to meet expectations of either party. Often prior to dissolution, there may be provision for penalties for poor or sub-standard performance of the terms and conditions of the alliance. The final item is the terms of arbitration should a disagreement occur over the terms of the alliance.

Staples spends considerable time in formulating the terms of the governance of its alliances, the conditions for divorce and termination of alliance. The alliance performance is reviewed periodically by experts in respective business units. According to Deborah Hohler, Public Relations manager, *"We build core competencies and have those people manage the responsibilities of the different parts of business that fall within their area, because we want people who are experts in the area to be managing and evaluating the alliance. We are likely to terminate a relationship with a partner that is not performing or is not providing the level of service that we pride ourselves on. Because, any type of business service is an extension of Staples brand*"

Integration of Bricks & Clicks

> *"I work really hard to make sure that the core business feels a part of this business because (a) they are, and (b) it is crucial that this is a combined effort" – Jeanne Lewis, CEO, Staples.com.*

Right from the time Staples.com was conceived, it was clear that the Internet initiative would be just another business channel for Staples, with strong integration between online and offline operations. Though Staples.com was a separate unit with its own growth targets, it was treated as an integral part of the entire business *(See footnote)* [e].

[e] For a detailed discussion on the advantages and disadvantages of having a distinct dot-com unit versus having it integrated with the physical unit, see the article "Get the right mix of Bricks and Clicks" by Gulati, R and Garino, J. *Harvard Business Review*, May/June 2000, 107-114.

The foundations for Staples.com would rest in the fundamental business operations and processes of the parent organization.

Net Myth: Having a distinct dot-com unit reduces coordination costs and increases flexibility in operations.

Reality Byte : Having a distinct dot-com unit doesn't eliminate the need for the physical unit. Hence, having two units – physical and virtual, increases overall coordination costs, and results in duplication of processes and infrastructures.

When Staples.com was formed as a distinct business unit in 1998, the management team inducted was a blend of internal and external hires. At the higher levels of Staples.com were internal hires that were very knowledgeable about the fundamentals of the business. Of the nine executives who directly reported to Lewis, eight were experienced Staples managers who were hired from inside. However, Lewis decided to have a number of new hires in subsequent levels of the organization. In 2000, Staples.com had two-thirds of new hires and one-third of experienced managers from the parent company. And most of the top-positions of Staples.com were filled with veterans with rich business knowledge. Bringing in experienced executives from the parent company helped in forging closer ties between the parent company and the dot-com unit.

At this point of time, several talented individuals in the market were rushing to dot-com start-ups due to lucrative salaries, perks and stock option riches. Staples faced the challenge of retaining its internal talents as several managers with their rich retail industry expertise became potential targets for dot-com recruiters. Staples not only had to find new and attract new faces, but also had to retain the expert resources it already had. In order to match the pay scales offered by dot-com startups, Staples initiated a separate tracking stock for Staples.com employees in 1999. At the same time, to keep up the morale of the parent company employees, all the full time employees of Staples were offered shares in the Staples.com tracking stock. The staff at Staples.com were also made eligible for shares of the parent company. This led to integration of personal interests of employees in both organizations, setting strong bonds between the parent company and its dot-com unit.

Several measures were initiated to forge a strong integration between Staples and Staples.com. When the Internet initiative was born, there was a certain fear of cannibalization from Internet, especially within the catalog division. However, bonus plans were rearranged to offset such fears. The bonus computation was changed to have delivery sales as the base figure, which included sales from store, catalog as well as Internet. This compensation plan created a harmonious company-wide atmosphere, avoiding unnecessary fears and feuds.

Staples' management always believed that Staples.com would never compete with its retail stores. John Mahoney, Chief Administrative Officer, remarked "*I expect online will transform our entire business, but it wont make the bricks-and-mortar retail environment obsolete*"[35]. The online business unit is viewed as an adjunct to the regular retailing businesses. While Staples continually expands its web site and online business, it is also opening a new retail store every 37 hours. "*The Internet has fueled a huge growth in the consumption of the goods and services we sell. While the Internet may cannibalize a little from our retail stores, it is creating a huge demand overall – of which our retail stores will enjoy more than their fair share.*"[36], Stemberg, CEO. Instead of cannibalization, Staples was "*gaining share of wallet*". This simply implies that the more choices a customer has, the more likely the customer will spend more in all of the retailer's channels. Staples tracked customer data and spending habits online and found that a small business customer who shops in retail store would spend $90 per employee per year with Staples. However, if that customer uses Catalog as well as retail, the spending increases to $150 per employee. And if Staples.com is included in the channel-mix, this figure increased to $300 per employee.

Stemberg and his team have ensured that the three channels - store, catalog and on-line are looked at as "three ways to shop" from Staples. By allowing products to be purchased as well as returned through any of the three channels, Staples has achieved effective channel harmonization. When a customer makes a purchase online or through catalog, the customer is given a choice of delivery through in-store pick up or a direct delivery within 48 hours. Staples extended its delivery and purchase processes for in-store and catalog units to its online operations, achieving effective integration and delivery economies.

> *"We're operating in lots of different channels, lots of different geographies, and we want to be extremely nimble across these different businesses. If we identify a new capability in one channel, we can now apply that to other channels",*[37] Brian Light, CIO.

Staples' Internet ventures such as Staples.com, StaplesLink.com and Quill.com are tightly coupled with the backbone infrastructure of the parent company. These web sites rely heavily on Staples for inventory, procurement, distribution, logistics and fulfillment. Though these websites function as different channels, they are integrated with the core processes and the infrastructure of the parent organization.

Senior managers at Staples were keen to ensure that the employees across both Staples and Staples.com view these business entities as one whole unit. They decided not to have distinct office locations or separate physical infrastructures for the dot-com unit. This enabled permeation of a culture and enterprise-wide participation in the Internet venture. Stemberg organized a number of town hall meetings to seek feedback from employees from all parts of Staples on the dot-com initiatives. In these meetings, executives from both Staples and Staples.com talked openly about the respective operations, financials and explained the rationale behind the way things were done. In fact, Stemberg took pains to explain the dot-com design scheme of Staples.com, its internal culture and processes so that the rest of the organization understands the essence of the e-Business venture. These measures helped overcome cultural barriers and created a sense of commonness among the units.

Implications for Management : Lessons Learned from Staples

Though it may be a bit premature to declare winners in e-Business, Staples offers enough inspiration and guidance for others trying to manage their e-Business transition. It is our hope that the Staples story will serve as an encouragement for other firms to learn about managing their transition from bricks to clicks.

To embrace ideas and processes for e-Business that are so significantly different is quite challenging for firms that are entrenched in traditional ways of conducting business. Faster building of newer capabilities and transition into e-Business could be a formidable thought for many firms, but Staples' experience shows this could be very well achieved with adequate planning and careful crafting of strategic alliances. The discussion on Staples' experiences in e-Business transition leads us to the following framework (Figure.12) that could be useful for organizations planning their e-Business initiatives.

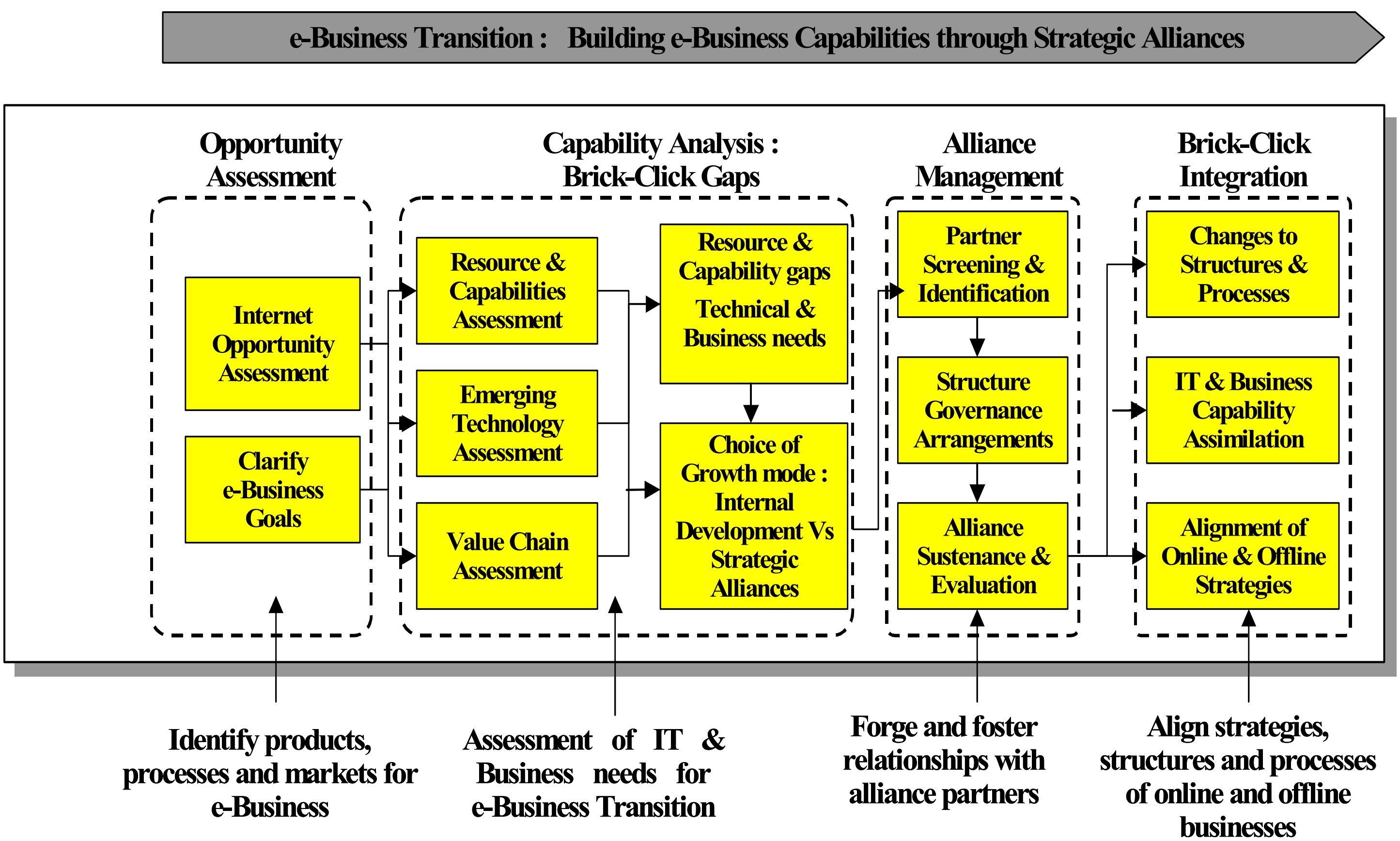

Figure.12. A Framework for Building e-Business Capabilities through Strategic Alliances

The framework consists of four broad stages of e-Business transition that were discussed earlier – (i) Opportunity assessment for e-Business, (ii) Capability analysis, (iii) Management of strategic alliances, and (iv) Brick-Click integration. The framework builds on the experiences of Staples in successfully transitioning to e-Business using strategic alliances with different IT and business firms. This framework could serve as a preparatory map for other firms who like to pursue strategic alliances as a growth mode for building their e-Business capabilities.

The story of Staples presents a rich, diverse and eclectic set of experiences in e-Business transition. We identified where Staples was, what was done, and how Staples' e-Business efforts evolved and came to fruition. While other firms might have unique situations and possess specific characteristics, we believe every firm has some learning from Staples. Though firms might differ on different dimensions, the overall approach to e-Business transition, if applied properly, will bear similar fruits. While there are many lessons to be learned from Staples, seven demand special attention.

1. ***Strategic alliances present a good, faster way to develop e-Business capabilities.***

   The important question is no longer, "Should we enter e-Business?". Now the key questions are "How do we transition to e-Business?" and "How do we build our capabilities for e-Business?". The main message that is coming out of this case study is that strategic alliances are a viable mode for quickly building e-Business capabilities. IT managers must understand that a new language of co-operation has emerged in the Internet landscape. With the right partnerships with IT vendors and IT service providers, IT managers can build e-Business capabilities more quickly.

2. ***CEOs must lead the way in e-Business initiatives[f]; CIOs must lead the e-Business transition efforts.***

   It was the CEO of Staples, Thomas Stemberg, who actively initiated, nurtured, and developed the e-Business initiatives at Staples. He not only made the commitment but also got personally involved with the effort. He set the overall direction, gave clear guidelines and led the entire e-Business transition. Without the CEO's personal involvement, an e-Business transition might not reach fruition. The initiatives lead by the CIO, Brian Light, and CTO, Mike Ragunas, expanded the IT role from being an "order taker" to making strategic business decisions. Apart from technology related

[f] For an excellent discussion on the CEO role in digital economy, see Earl, M and Feeny, D. How to be a CEO for the information age. *Sloan Management Review*, Winter 2000, 11-23.

efforts, they played a key role in functional as well as strategic business initiatives such as alliances. They also played a key role in establishing strong e-process and IT infrastructures, recruiting and sustaining reliable partners, and forging stronger IT-business partnerships within the organization in the form of IS Centers of Excellence.

3. ***Don't do deals with IT vendors, make relationships.***

While pursuing the alliance route to building e-Business capabilities, managers must understand that an alliance is not a one-shot exercise. For effective sharing and assimilation of capabilities, firms must trust each other, come closer and nurture long-term ties. Staples formed an effective *portfolio of IT alliances*, rather than distinct, isolated partnerships. Staples adopted a sole-sourcing approach as against competitive bidding in order foster long-term relationships with IT vendors, service providers, and other partners. Staples also put in place effective mechanisms to monitor, evaluate, grow and sustain their IT partner relationships.

4. ***Clicks need a Brick Foundation.***

Doing e-Business is not creating a fantastic web site and laying a few web-processes around it. Success in e-Business requires a strong integration with the fundamental business strategies and operations of a firm. Behind all the hype of new, dynamic business models lies a blatant truth that these models won't work if the core business strategies and infrastructures aren't in place. There are no substitutes for sound business strategies and infrastructures. It is imperative for firms to work on their business processes and operations before putting in place the clicks. In fact, Staples laid a solid foundation of their business processes and infrastructures before embarking on their e-Business efforts.

5. ***Focus on business as well as technology capabilities; Prioritize business capabilities before technology.***

e-Business strategy is all about leveraging Internet capabilities for business. The Internet and technology alone cannot make an e-Business strategy. For an e-Business effort to be successful, it is important to focus on the core business, technology as well as e-process capabilities. Being stronger in the technology alone will not guarantee success. It is essential to build solid business capabilities before acquiring the technological capabilities aimed at e-Business transition. Staples was clear about its core business needs and capabilities, before it worked on improving its technological capabilities. "*The idea for us is to understand what the business drivers* *are, and apply technology where it's appropriate, as opposed to bringing in technology, then searching for a problem*",[38] Mike Ragunas, CTO.

6. ***Empower IT unit to drive e-Business initiatives, but ensure functional co-operation.***

Since e-Business is an IT-driven organizational transformation effort, it is important to recognize that an e-Business transition is an organizational change, and not a mere technology change initiative. e-Business efforts have to stem from the senior management, and be nurtured by functional units before IT units can drive these efforts. Staples' senior managers set the e-Business goals, outlined their strategy to develop capabilities through alliances, and then empowered IT managers to make all important e-Business decisions, especially those related to technological alliances. At the same time, other business units were empowered to make alliances pertaining to their own functions, with the active support of the IT unit. The IS Centers of Excellence provided a mechanism to share learning across multiple business and functional units.

7. ***Convert channel conflicts into collusive synergies.***

There is much talk about channel conflicts and cannibalization due to the Internet. By integrating delivery, logistics, as well as employee incentive systems across the three channels – stores, catalog and web site, Staples effectively tackled the conflicts and rivalries across its multiple channels. With this approach, Staples effectively capitalized on the channel synergies, strengthening its position on "three ways to shop". Managers should understand there are more complementarities across channels and try to exploit them in order to realize the synergies.

The transition to e-Business is not simple, but it isn't rocket science either. Yet, there is no definitive way to succeed in e-Business transition. The experiences of Staples, and the framework, tools and lessons derived from their experiences, must be adapted to specific organizational settings. Ultimately, e-Business transition is about growing the company and adding value using the Internet. It is an organizational change initiative rather than a pure technology initiative. Only this recognition would ensure that the e-Business, organizational and technology strategies are aligned and mutually reinforcing.

Appendix-A

Strategic Alliance

What is a strategic alliance? It is a co-operative agreement between two or more companies where a common strategy is developed for mutual gains, and the partners pool together their resources, investments as well as risks. Strategic alliances represent a complete spectrum of inter-organizational collaborations with differing structures, governance arrangements and varying degrees of control and ownerships. *In this paper, we use the term strategic alliance to represent a continuum of inter-organizational arrangements ranging from mergers & acquisitions to joint-relationships.* It can be a merger, acquisition, technology licensing arrangement, shared resources, shared equity, joint venture, co-marketing, co-promotion or distribution arrangement etc. We adopt this notion of a strategic alliance to ease our understanding of how a company can use these different inter-organizational diversification modes in order to build its own resources and capabilities.

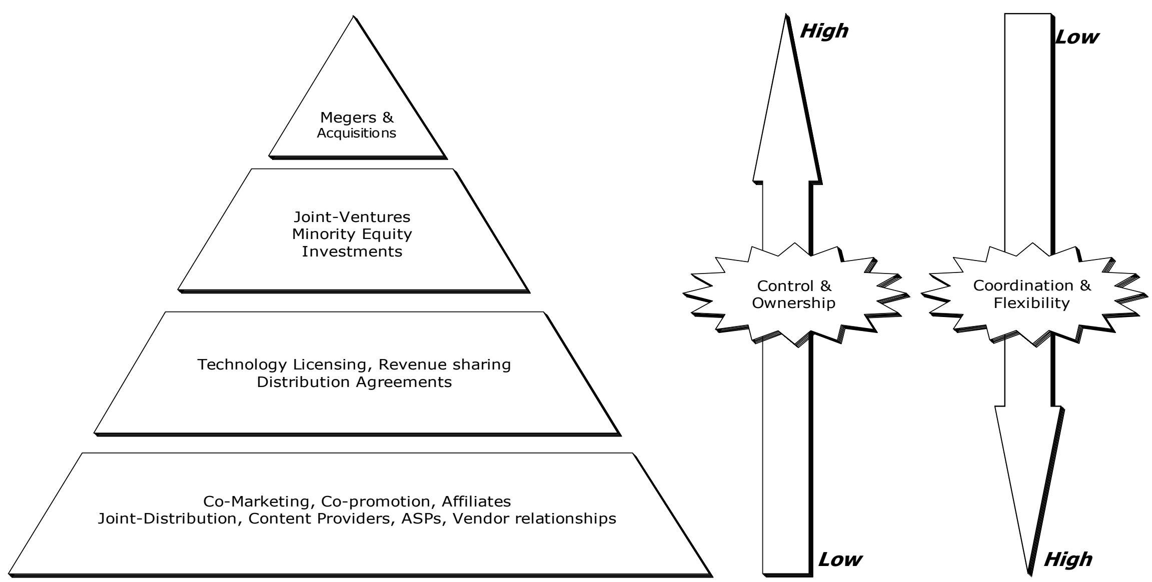

Figure 13. Strategic Alliance : A continuum of inter-organizational arrangements

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[33] Ibid 9

[34] Ibid 1

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[36] Ibid 4

[37] Ibid 9

[38] Ibid 1