

THE TRUTH ABOUT  
SOCIAL SECURITY

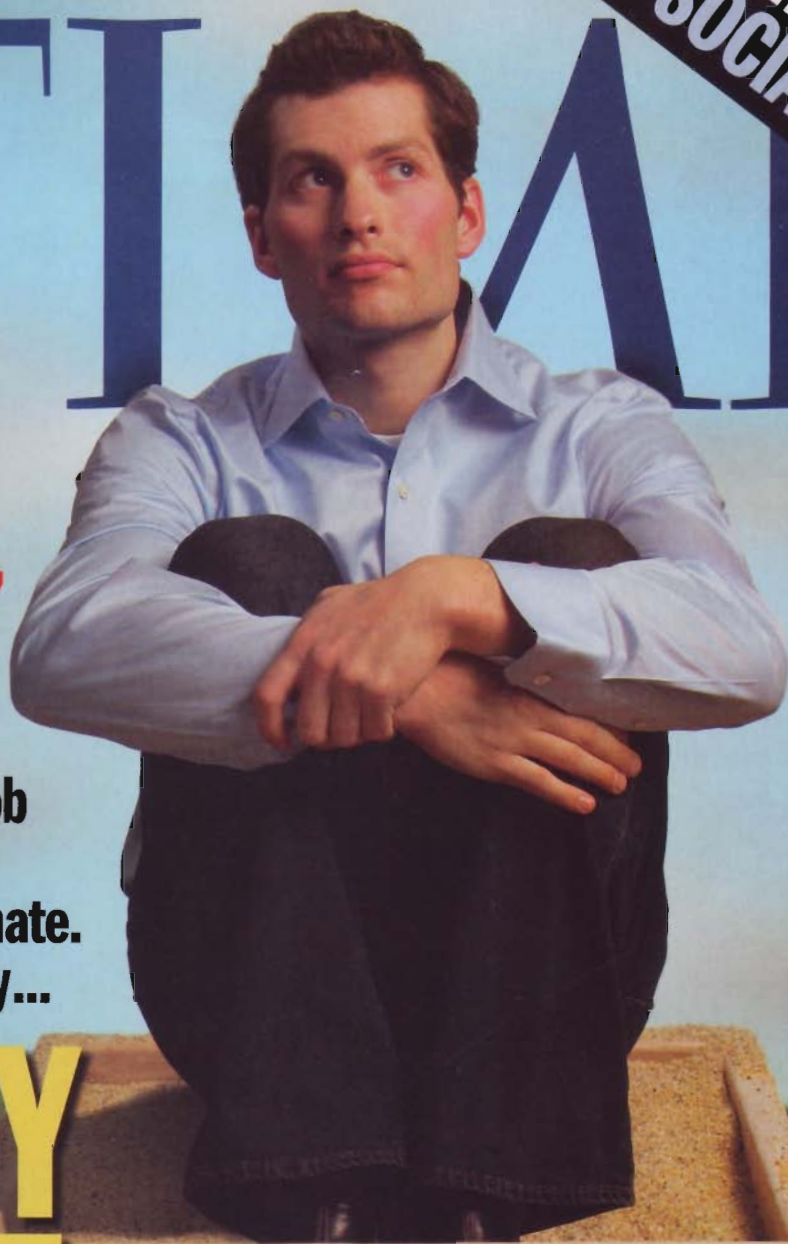
# TIME

## MEET THE TWIXTERS,

young adults  
who live off  
their parents,  
bounce from job  
to job and hop  
from mate to mate.  
They're not lazy...

# THEY JUST WON'T GROW UP

BY LEV GROSSMAN



# Less Is More

INSTEAD OF PANDERING TO EVERYONE, STAPLES IS FOCUSING ON ITS CORE CUSTOMERS

**In retail, the general rule** has always been, the more customers, the better. But these days certain companies, like Staples and Best Buy, are concluding that when it comes to profitability, less may actually be more. TIME staff writer **DANIEL EISENBERG** talked with Staples CEO Ronald Sargent about how this bold marketing approach, among others, is helping the office-supply superstore giant pull away from the pack.

**TIME:** After more than a decade at Staples, you took over from co-founder Tom Stemberg three years ago, just as the booming business of the '90s was slowing down. How big a challenge was that?

**RONALD SARGENT:** I think there is still lots of opportunity in this business. The top three—Office Depot, OfficeMax and us—only have about 20% of the U.S. market. Still, during the dotcom era, investors thought we were growing too fast, and I think Wall Street wanted to figure out who was going to win in this industry. The question for us was, How does a fast-growth

company grow up from adolescence to become a little more of a mature company?

**TIME:** So you asked your customers?

**SARGENT:** We started with customers and said, "What's important to you?" They told us we weren't terribly differentiated. OfficeMax, Office Depot, Staples—all the same thing, same products, same prices, same service. We heard loud and clear that we had drifted more toward a casual consumer approach rather than our core, which was small business. We heard that our service was just O.K. and that maybe price wasn't as important as it used to be.

**TIME:** And then you decided, in essence, to fire some of your customers?

**SARGENT:** We found that 67% of our customers accounted for 90% of profits. Rather than continue to pander to everybody, we decided to focus on the 67% primarily small-business or home-office power users. Small-business customers don't want to have to wade through the pens with feathers and the Britney Spears backpacks.

**TIME:** Was it hard to get employees to accept this?

**SARGENT:** Anytime you tell your merchandising team, "We're going to get rid of 800 items," they'll say, "Our sales are going to go down." My argument was, If you can

be in stock in the good stuff that people really need and look for, maybe your sales will go up. The end result: we just had our 12th quarter in a row of more than 20% earnings growth.

**TIME:** You've created a pretty radical compensation system.

**SARGENT:** It's amazing. You want to change people's behavior, change the way you pay them. So we decided to pay hourly employees a bonus every month. It is self-funding, so that if a store doesn't perform better, the bonus goes to zero. Now we pay out bonuses to an average of 70% of the hourly workers a month. People making eight bucks an hour can get \$2 to \$3 extra on every hour they work.

**TIME:** You're also changing the store format. Why? And how?

**SARGENT:** The biggest complaint we got from customers was "I know it's here, but I can't find it." So this new format is much more of a low profile: you walk five steps into the store, and you can see the entire store. And we're upgrading the capabilities of our copy centers so we can really be competitive with Kinko's.

**TIME:** You seem to be putting a lot of emphasis on your private-label business.

**SARGENT:** Three years ago, it was 8% of our sales. Today it is 15%. There's not a lot of brand recognition in our industry. Now we're testing selling office supplies at Kroger and Stop & Shop. Down the road, I'd like for Staples to be the national-brand office product.

**TIME:** In your business, you get a pretty good feel for the pulse of the economy. How does it look?

**SARGENT:** In terms of employment, for both small and medium-size business, it looks nice and steady. Small business led us into this recession, they got crunched first, and I think they are leading us out of it. ■

Staples must target small business, says Sargent