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## United Stationers: Enabling our Partners to Succeed

*I believe that we will create a sustainable competitive advantage because of the way we act and live our values. It will make us a better company than our competitors.*

*– Larry Davis, President, ORS NASCO, United Stationers' industrial supplies division*

As Cody Phipps, the new CEO of United Stationers, prepared for his initial meetings with financial analysts, he reflected on how best to communicate what he believed to be the company's distinctive strategy and promise. United Stationers, a \$4.8 billion wholesale distributor of business products, had made extraordinary progress over the decade since Phipps had joined the company as SVP of operations in 2003. At that time, many believed that wholesale distributors like United Stationers, along with the small office supply dealers that accounted for the majority of its customers, were headed for extinction—caught between powerful manufacturers on the one side, and large and growing national retailers such as Staples, Office Depot, and Amazon on the other.

Yet Phipps and his predecessor as CEO, Dick Gochnauer, had defied the skeptics. They had grown sales from \$3.7 billion in 2002 to \$4.8 billion in 2010, operating income from \$119 million to \$198 million, and earnings per share from \$0.92 to \$2.19. They had been rewarded with a stock price that had grown twice as fast as the overall market, 123% versus 59% for NASDAQ.

Viewed with a casual eye, it would be easy to discount United Stationers' accomplishments as merely the result of a traditional turnaround strategy of driving operational excellence and reducing costs. However, Phipps believed that the roots of the company's success went far deeper and were grounded in a set of more intangible factors—the company's strong values and its culture of collaboration and individual respect. Phipps, a former McKinsey consultant, had experienced first-hand the power of that culture not just in driving superior business results, but also in unleashing an extraordinary level of commitment and enhanced trust from associates, customers, and suppliers. He believed that this culture and values provided United Stationers with a unique and enduring source of competitive advantage. Yet he struggled with how best to communicate this to an often skeptical financial community.

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Professor Michael Beer and independent researcher Dr. Russell Eisenstat (TruePoint Center for Higher Ambition Leadership) prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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## Company and Industry Background<sup>1</sup>

United Stationers gives customers ready access to approximately 100,000 products, through three divisions: United Stationers Supply (traditional office products, technology products, and office furniture), Lagasse (janitorial and breakroom products), and ORS NASCO (industrial supplies). (See Exhibit 1 for a more detailed description of the company's product line.) A network of 64 distribution centers allows the company to ship to over 25,000 reseller customers, reaching more than 90% of the U.S. population and major cities in Mexico on an overnight basis.

United Stationers serves a diverse group of more than 25,000 customers, including independent office products dealers; contract stationers; office products superstores; computer products resellers; office furniture dealers; mass merchandisers; mail order companies; sanitary supply, paper, and food service distributors; drug and grocery store chains; healthcare distributors; e-commerce merchants; oil field, welding supply and industrial/MRO distributors; and other independent distributors. Its top five customers accounted for approximately 26% of 2010 net sales, and Staples, the largest, accounted for 10.7% of net sales.

The office supplies industry is extremely competitive. United Stationers' customers can purchase most of the products the company distributes at similar prices from many other sources. Many reseller customers purchase their products from more than one source, frequently using "first call" and "second call" distributors. A "first call" distributor typically is a reseller's primary wholesaler and has the first opportunity to fill an order. If the "first call" distributor cannot meet the demand, or do so on a timely basis, the reseller will contact its "second call" distributor. United Stationers competes with one other nationwide broad line wholesale distributor, as well as with a range of specialty distributors. United also competes with many of its own suppliers, which will sell their products directly to resellers and may offer lower prices.

## Back to Basics

When Dick Gochnauer joined United Stationers as chief operating officer in July 2002, he found a company reeling from the aftermath of the dot.com boom. The company had invested heavily in expansion into new segments and was struggling to make adequate returns amid a weak economy and soft demand. Sales had fallen for two straight years, from \$3.94 billion in 2000 to \$3.7 billion in 2002. Net income had fallen even more rapidly, from \$92 million in 2000 to \$60 million in 2002.

Throughout his career, Gochnauer had had a strong commitment to making a wider social contribution beyond achieving business success. After graduating from Harvard Business School, he had wondered,

Do I take these skill sets and go into the nonprofit world right away? Or do I apply them in the business world full time and do the nonprofit part time? Which way do you go? I finally concluded that my calling was to apply my skills in the business world because I could have a greater impact, particularly if I could rise to positions of influence. And the higher up I went, the more I realized that I needed to be the CEO in order to drive the whole transformation that I was looking for.

After joining United Stationers, Gochnauer spent his first 4 ½ months on the job in the field, talking with front-line associates, customers, and suppliers and learning the company from the grass

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<sup>1</sup> From 2010 10-K

roots up. This decision was a result of his view that “as CEO it is tough to stay grounded in reality if you don’t venture out of the corporate headquarters”:

You have got to constantly seek out what the truth is, with customers, with suppliers, with your associates, with all the partners in the room....They couldn’t snow me on very many things because I was a sponge. I just asked everybody all kinds of questions. And that kind of also keeps you humble, and keeps you thinking. It also counteracts the big brain theory – that because I’m at the top I must have the biggest brain and know what’s going on. And it keeps you plugged in, and that’s always a challenge for any executive, or any company, to not lose touch.

As he engaged with those in the field, Gochnauer found a company that had “fallen out of love” with its core office supply wholesaling business. A highly decentralized company with geographically-based business units, United Stationers had focused on sales growth at the expense of operational excellence and cost control. Operational processes were undocumented, and there was little cooperation across divisional or functional lines. While still the major player in office supply distribution, it was losing ground to smaller but more nimble competitors.

Gochnauer realized that in order to turn United Stationers around he had to not just reduce its cost base, but also fundamentally rebuild the company’s confidence and operational capabilities. His challenge was particularly daunting as an industry outsider, responsible for a management team that had largely grown up from within the company and the industry. As Gochnauer worked to upgrade United Stationers’ talent base, he initially insisted that he personally review and approve all proposed new hires above the sales manager or operations manager level. He also brought in a strong group of leaders from outside of the company and the industry who could support him in building operational excellence. These included Cody Phipps as SVP of Operations, who had previously co-led McKinsey & Company’s North American Operations Effectiveness Practice, and Tim Connolly, an experienced operations leader. Connolly joined as regional vice president for Midwest region operations and later rose to the top of the operations ranks as President of Operations and Logistics Services, his current role, in addition to serving as President of the United Stationers Charitable Foundation.

To enable these new leaders to be successful, Gochnauer drove a shift in United’s previously insular culture. This required getting people to see that no one has all the answers and everyone brings different kinds of value to the table:

The guys that have been here all their life really know what they’re doing. We value that. The guys that haven’t been here all along have other perspectives. We value that too. Together we’re a lot stronger.

### *Building Operational Excellence*

To build functional excellence and get the cost base under control, Gochnauer shifted United Stationers from a highly decentralized sales-driven organization with geographic divisions to a solid-line functional reporting structure that provided a clear line of sight from the senior team down to the front line within both operations and sales. He realized that United couldn’t lose the connections with local customers and the responsiveness that the previous organization had provided, so he created four regional teams, each with its own P&L. As he explained, “In today’s world, you can’t be just one dimensional. You have got to be multidimensional.”

While Gochnauer focused on improving the overall business, Phipps drove hard to institute a strong set of operations disciplines. He developed a clear set of metrics and a dashboard, so that they could drive performance accountability and transparency for the first time throughout the previously decentralized operations organization. He also created a forced curve ranking of operations managers into four performance quadrants. As Phipps explained,

We really were very clear about the two ends of that spectrum: we were going to highlight the ones on the right, and work aggressively to get the ones on the left to move to the right or out. I remember early on, we had to replace almost the entire team in one location because it was just not going to work. It was too big an operation and, as harsh as it seemed at the time, it was exactly the right call. Better for the people and better for us.

Finally, United Stationers' new leadership team declared a "War on Waste" (WOW), with a focus on improving processes so the customer had a better experience. The team committed to reduce the cost base by \$100 million over five years through WOW—a commitment United was actually able to achieve in less than four years.

The leadership used WOW as an opportunity to spotlight and develop talent—allowing a first-line supervisor, for example, to lead a major corporate-wide efficiency project. After a few years, Gochnauer said,

Sales guys were complaining, 'How come Operations gets all the accolades and they're doing all these projects? What's going on here?' And it became a tremendous source of talent. They were actually continuing to shrink costs and yet adding human and operating capacity at the same time. That demonstrated to the organization that it can be done, you can actually have both.

Gochnauer believed that the key to making the turnaround successful was adopting a collaborative, team-based approach. As he explained,

We had to become very good at creating and running fact-based teams. So we brought in Senn Delaney to train associates on how you work together as teams. We trained them on how to have a successful team meeting, how to take notes, how to have an agenda, how to take action items, how to report back, how to have a charter, all of that stuff. And then we taught them how to do continuous improvement, how to take costs out, how to identify problems, break them into components, and build solutions. Everyone had to go through both team training and continuous improvement training. So those were the foundation that enabled us to break out of the old mold.

Gochnauer saw the continuous improvement and team training not just as a means to drive business improvement, but also a way to send the signal that "associates don't need to check their brains at the door":

We actually want to engage their brains and their whole creative process. In that process, they get self-worth and a sense of accomplishment that they didn't have before, which reinforces the whole process over again. And so the training created a structured vehicle for me to express what I thought was a good business method, which is pushing decision making down, empowering people wherever you could.

## *Rebuilding Trust*

While United Stationers worked hard to reduce costs and get internal operations in order, the senior leadership team believed it would take more than that to restore the company's long-term health. A transformation was required not just internally but also in United's relationships with customers and suppliers.

Critical to United Stationers' long-term success was the strength of its customer base, which included a large number of smaller independent dealers. Gochnauer believed these independents would be better able to survive and prosper if they could leverage the superior scale and capabilities of a large player like United. Customers could achieve greater efficiencies by leveraging United's infrastructure, reducing their total costs and invested capital as well as improving service. United also could provide customers with a powerful platform for growth through a range of marketing services from customized print and electronic catalogues to the planning and delivery of integrated print and digital marketing campaigns.

However, for customers to take full advantage of these capabilities, in effect by outsourcing critical business processes, required real trust. According to Gochnauer, the large players in the office supply industry, including United Stationers, had traditionally "thrown their power around, exacting pain on people that didn't concur with what we wanted to do." United's large customers wondered whether they could fully trust a company that was helping the small independents to succeed, just as the independents wondered whether they could trust a company that did a significant share of its business with the large players. Moreover, Gochnauer said, customers have long memories:

They remember 20 years ago when you didn't approve their credit. So it takes multiple, repeated experiences over an extended period of time for small business customers to say, okay, I now trust you and believe this is a different organization. And that's why you have to have continuity of purpose and continuity of culture, and why leadership style is so critical.

To succeed in building trust, United Stationers realized that it needed to act as the "Switzerland of the industry" and be absolutely neutral, making all of its services and capabilities available on an equal footing to all customers. The company promised that it would not compete with its customers or share competitive information between customers. It promised that it would remain a "pure wholesaler" and avoid vertically integrating. And it promised that it would not lock customers into any of its IT systems or operational processes. According to Gochnauer, United told customers:

We will make it so that you can buy from us or you can buy from our competitors. And that gives them some sense of control of their own destiny. They're not stuck with us. And if they were stuck, we couldn't get their trust. But if we said to them, 'It's okay. You can leave us. Use us to the degree to which we're adding value to your organization.' That builds trust.

There was also a significant opportunity to build stronger trust-based relationships with suppliers. While United Stationers would always need to negotiate for the best terms, there was a great benefit for both parties in partnering to reduce joint costs and improve quality and responsiveness. United could also serve as a powerful marketing front end for manufacturers, providing them greater reach for their brands and marketing messages. As Gochnauer explained, "We can do logistics and marketing more efficiently than the manufacturers can.... We can show them how to take cost out." United also had the processes and information to tell suppliers, "You are going direct to our mutual customers on too many products at too small a volume. If we did it for you, we could lower your cost, improve service to the customer, and lower the customer's inventory in the process."

In order to realize this joint value, Gochnauer recalls having to continually remind people that “suppliers are not these guys you beat up. They’re really your business partner. Everyone says that...and then they go beat them up. It’s not that we aren’t tough. But there is a mutual respect.”

## Forging a New Culture

As Gochnauer and his leadership team worked to restore the company to economic health, they began to build a new set of distinctive cultural strengths. Associates described this emerging culture as highly collaborative. Leaders who had come to United Stationers from other companies noted how surprisingly easy it was to get things done across businesses and functions. According to Barbara Kennedy, Senior Vice President of Human Resources, “Everybody wants to be here and everybody wants to win. You don’t always find that everywhere. There are not a lot of hidden agendas.”

A consistent theme was respect for individuals. While associates were expected to meet challenging objectives, many described how “no one was looking over your shoulder” in terms of how you worked to get things done. Kennedy described it this way:

We want to perform, but gosh, you only live one life. People should just live their life and be happy. People here work hard and they work long hours. But we allow people the space to be individuals, whereas I think a lot of companies try to norm everybody. We don’t do that.

There was also a strong shared view that United Stationers was not a hierarchical or status-oriented company. According to one manager,

You can walk up to anyone here if you’ve got a concern or an issue or a problem and have a dialogue. You know you aren’t going to hear, ‘I’m sorry, I can’t talk to you.’ Everyone is an equal player in terms of ideas and collaboration. Everyone is valued.

Another manager described United Stationers as a caring place and as a huge family:

People come in and tell me, ‘Did you know something happened to so and so?’ People really do care about each other. When something happens, whether in a facility or in a community, you’d be surprised at the number of people that join in and help. It’s a big company but with that small-town, family atmosphere.

Yet this manager felt that the sense of personal connection and family didn’t stand in the way of effectively managing individual performance:

They set the expectations up front, what’s expected of people. You have to live up to those expectations. If you don’t, you are going to be challenged or talked to or disciplined as necessary. I think the good thing is you have a chance to set the expectations with your management ahead of time and you know what the requirements are.

United Stationers’ culture and values were tested during the economic crisis of 2008. As sales weakened, the senior leadership team realized that the productivity gains through WOW would not be enough to allow the company to meet its financial commitments and that they would need to reduce the size of the workforce.

However, they chose to do this in a way that reinforced the company’s culture and values—starting by cutting their own bonuses, retirement contributions, and benefits, while protecting benefits and compensation for nonexempt employees. The leadership team also decided that the

company would not reduce its annual contribution to the United Stationers Foundation, as the foundation's beneficiaries needed help more than ever during the recession.

According to one mid-level manager:

I think the leadership team could have easily walked out and said, 'Here's the number of jobs we're cutting.' That wasn't the approach at all. Instead, they said, 'What are all the things we can do before getting to that step and oh, by the way, we're going to lead from the top. We welcome your suggestions of things we can do, even simple things, to help offset our loss in sales. 'Someone here at corporate headquarters suggested that we stop the free coffee—anything to save a job. All ideas were welcome, and everyone participated eagerly. I think they could have handled it in a lot of ways, but they chose to handle it by putting people first.

### **“Moving from Values to Purpose”: The United Stationers Foundation**

As United Stationers successfully moved past the turnaround stage, Gochnauer and his leadership team paid increasing attention to how they might best connect associates meaningfully to a larger purpose in their work. As he explained,

If you are working for a company and you can find at least a key part of your life's purpose in your work, you're the luckiest person on earth. Because the people that find the most joy in life are those who have a purpose, and are fulfilling that purpose. And if you can do that during your day job rather than having to say it's a day job, I am just making money, and I find purpose outside of work—if you can bring those two things together—it is very, very powerful.

This belief had always been an implicit part of Gochnauer's personal management philosophy. However, over the last four years United has moved toward a more explicit approach to supporting associates in connecting their personal values with a larger corporate purpose. As the senior leadership team reflected on the efforts United had made to build strong trust-based relationships, they were able to crystallize this purpose as “enabling our partners to succeed.”

Those partners were defined to include customers, suppliers, associates, and communities. As Gochnauer explained,

When we enable independent dealers and their Small and Medium Business customers to succeed, we are actually helping to create jobs in America, since small businesses create most of the jobs in this country. By investing the time, talents, and financial resources of United Stationers and our associates to help others in need, we also start to build stronger communities. By allowing our associates to experience the joy of giving back, we've helped them to become more energized and engaged servant leaders.

The company does not mandate exactly how associates connect to this shared purpose. For some, it might involve improving wellness at work; for others, it might mean leading efforts to promote environmental sustainability or to bring cultural diversity into the workplace. The company provides sponsorship and support for associates to take the initiative in all of these areas.

However, the focus on purpose gained the most momentum by enabling associates' efforts to “give back” to the community through the United Stationers Foundation. Over half of United's associates personally contribute to the foundation. Gochnauer and Tim Connolly, who serves as

President of the foundation, have developed a distinctive operating model that reflects United's culture and values, and departs from the traditional corporate foundation model directed by senior executives. The United Stationers Foundation's activities are driven primarily at the local level by associate-led councils. While the company makes an annual contribution to fund one central staff member and a few selected corporate-wide initiatives, all funds are distributed in the location where they are raised, based on the judgment of the local council. Further, rather than just writing checks, the emphasis is on providing associates with an opportunity to experience directly the power of contributing their "time and talent," not just their "treasure."

The local councils have not been mandated, but have grown organically. Currently there are 40 councils across 26 states, with 200 members. Council members can come from any part or level of the company. Two years ago, the foundation hired its first and only full-time employee, John Jaraczewski, as executive director. His role is primarily to support the local councils, training members, sharing best practices and ideas, and helping them to comply with relevant legal requirements for nonprofits. There are few corporate limits on what the local councils can contribute to, as long as it serves those in need. For example, funds can't be used to support, say, the local Little League or an arts group.

While the local councils support a wide range of efforts—from work with Habitat for Humanity, to car washes, to raising funds for a children's hospital, to local and international disaster relief—a couple of initiatives have bubbled up to the national level. The most notable of these is the elementary school backpack program. At the beginning of each school year, United Stationers' associates hand pack and hand deliver backpacks filled with school supplies to elementary school children who could not otherwise afford them. This initiative has grown exponentially over the last three years. In 2009 4600 backpacks were given away, in 2010 that number rose to 12,500, in 2011 25,000 backpacks are being distributed, and the goal for next year is to double this again to 50,000.

As the backpack program has expanded, it has involved a growing range of stakeholders, including an increasing number of the company's local office supply dealer customers. The program also has provided a way to connect to family members. According to Cheryl Orlowski, volunteer treasurer of the foundation:

We had our associates' kids help build backpacks. We tried to teach them about what it was like to pick orders and quality and service and that the fastest time isn't always the best. But at the same time they knew all those backpacks were getting donated to less fortunate kids. We tried to teach them a little bit about the company and gave them a chance to meet senior leaders and ask them questions. So it's not just this building that mom and dad go to work at. It's a part of all of us.

Associates highlighted that one of the reasons the program has been so energizing is that it connects to the company's core work as a distributor of school supplies. The backpacks are specially sourced in China by United Stationers' purchasing department, and they are packed, after hours, in United's distribution centers, and then hand delivered to the students. As one manager commented, "A backpack is a symbol of learning and it's filled with the school supplies that are a core part of our company. So it's linking the community, our company, the children, the future."

The backpack program is also representative of the foundation's philosophy of encouraging associates to build direct personal relationships with those they are helping. In this case, the relationships that have developed between United Stationers' employees and the schools have generated a whole range of additional opportunities to be of service. According to Maria De Bellis, a manager who has helped to coordinate the backpack program,



Many of our councils have gotten creative with this program. They've taken the basic backpack program and they have evolved it into a true partnership with the school and their community. Maybe they sponsor a reading night at the school or they use that backpack to partner with a local food pantry and help support providing food for the kids for the weekend. Some of them have begun attendance programs and all kinds of things depending upon what the school's unique needs are. So we are giving that autonomy and that empowerment to each of the local councils and their communities, yet still having that core linkage with our products.

United Stationers doesn't monitor how much time employees spend on foundation work during the workday. When asked whether this can be a distraction, De Bellis responded,

Quite the contrary. I think it gives people a stronger bond and sense that this company cares about me, it cares about my interests. It makes me want to work even harder. So I think it's quite the opposite effect. Yeah, there are days that are distracting from work—for example, when I'm going off in the middle of the day to deliver backpacks to a school. Clearly, I was not physically here at work for several hours that one day. But you can bet your bottom dollar I went home and plugged right back into work. I was very energized by the afternoon.

A second program that has gotten attention across United Stationers is an initiative that Cody Phipps has championed to provide wheelchairs to the disabled. Phipps began by working with the North Shore Chapter of the Free Wheelchair Mission. Then a local council in New Jersey got interested in the program. In February 2011, with encouragement from Dick Gochnauer, Phipps went on a weeklong mission to Peru to give out wheelchairs, along with Tim Connolly and Wayne Scott, the general operations manager from a United Stationers New Jersey facility. Scott blogged every day from Peru, and the blogs were avidly followed by associates throughout the company. Phipps described the week in Peru as a life-changing experience:

There was this woman who had three young children whom she could not care for, and I was able to lift her into a chair and give her the gift of mobility. If you see her in this picture she looks like she's 50 years old. If you see her 15 minutes later with the kids around her, she looks her age, 25. It was a transforming event for me.

Phipps also found that it transformed his relationship with the rest of the company:

I had no idea the connection that Peru trip would make with our associates. I got more e-mails about how proud people were to be part of this company. Tim Connolly and I would go around and we'd show the video and we'd talk about it. We couldn't do it without crying in front of our people, and I don't cry in front of people that often. I had never actually cried in a business setting. So when people see that, they just see a very human side of the company and us as leaders.

As long as that's consistent with everything else they've seen, you get extra credit for that. If it's inconsistent, I don't think you get anything for it; you probably get penalized for it. But if they said, 'You know, I liked this place before, but now I really like it. I'm really willing to put my blood, sweat, and tears into it.' I've had people come up to me and say, 'Gosh, I didn't know we did this. I've got a daughter who's confined to a wheelchair, could I get involved?' So it's powerful. I had no idea how powerful it is...and we're just getting started.

Other United Stationers people spoke of the foundation as central in deepening trust both within the company and externally. Internally, it has provided a way for employees to build relationships across functions, businesses, and organizational levels. As one explained, “You’re not just siloed into your little world. You get to reach out. Not only do you have colleagues here, you have friends. You build relationships. It’s a powerful way of engaging.”

Externally, the company is increasingly finding that the work on the foundation is serving as a way to deepen relationships with dealer customers. These dealers are discovering that initiatives like the backpack program provide a way for them to demonstrate their own commitment to their local communities.

In fact, United Stationers has begun to think about the foundation as another way in which the company can leverage its national scale to help its partners to succeed. As Tim Connolly explains, rather than customers or suppliers having to go through all of the complexities of setting up and operating their own foundations, the company is currently piloting a new program with six customers that will allow them to leverage United’s infrastructure. Each of these companies will make a \$25,000 contribution to support the backpack program. They will also, according to Connolly,

Make a small yearly contribution that will help us make sure we’re up on our legal standards. But it will be one-twentieth of what they would pay on their own.

They live by the bylaws. They live by the guidelines, but they don’t have to have their own audit anymore because that’s done through our process. They don’t have to go get licenses in every state to raise money because we have already done that through our own process. All this infrastructure we have today is going to be maximized at a very, very low rate.

They have their own chapter, their own entity. Now, they’re part of the United Stationers umbrella, but they’re their own affiliate. They can be called Tom or Tim’s, Sue’s Foundation, you know? But they’re under the umbrella of United Stationers. And as long as they can live with the guidelines, which are very comfortable, they become affiliate members.

## Transitioning to a New CEO and a Purpose-Driven Growth Strategy

In early 2010, United Stationers began the process of transitioning CEO leadership from Dick Gochnauer to Cody Phipps. As an important part of this plan, the board asked Phipps to lead the senior team in developing the next generation of the corporate strategy. In surveying the marketplace, the team saw several important trends:

- While office products was a slow-growing and highly mature market overall, it would continue to provide a strong foundation for United Stationers. Within this market, there were promising customer segments, such as the government sector, where United could expand its business.
- Other related but less well developed markets in which United had already established beach heads through acquisitions offered significant opportunities for growth – notably, janitorial, sanitation, and food service (which was served by United’s Lagasse/Sweet Division) and industrial and safety (which was served by ORS NASCO).

- There were increasing opportunities for cross-selling as a growing number of large customers were interested in buying products that spanned more than one division. (Currently, 23% of customers buy products from more than one of United's divisions.)
- Finally, because office products are one of the most widely purchased products online, there was an opportunity to expand business with leading mass retailers and e-retailers.
- United's IT and supply chain infrastructure could allow these companies to expand their offerings in the office supplies area much more rapidly than they could do on their own.

In parallel with the strategy development work, an external firm was brought in to help team members better understand each other's respective roles and leadership styles, and the requirements for the team to work effectively together. Team members crafted individual development plans, and they began to develop a stronger sense of their respective strengths and the areas in which they could rely on each other for support. According to one team member, Steve Schultz,

We emerged at the end of this strategy work as a team that now had these relevant experiences together, had individual coaching and individual development, and now had this shared vision that we all contributed to. And now we said, 'Okay, now we have one guy who's going to lead it, and that's Cody...But we are the owners...'

Our starting point today, after this year and a half transition, is the opportunity to say, 'Dick has left us a wonderful opportunity. It's our business now. What do we do?' And then we said, 'This is what we're going to do.' And it is a *we*.

The vision that emerged from the senior leadership team's work was an ambitious strategy for "winning from the middle" as a wholesaler: growing the business by leveraging United Stationers' core capabilities and distinctive cultural strengths in promising growth markets. The team believed that it could win in higher-growth markets such as industrial products by leveraging United's shared infrastructure and the same playbook for success that had worked in its office products and janitorial/breakroom businesses. Just as they had in these other areas, they could provide industrial resellers the scale and the services that would allow them to be successful. (See **Exhibit 2** for more detail.)

To better leverage the company's scale across these new markets, the leadership team decided in January 2011 to create a common operations function for the whole company, led by Tim Connolly. The team realized that this kind of back-end integration can be extraordinarily difficult, with previously independent businesses hamstrung by the loss of autonomy and control of vital functions. However, 10 months into the process, all parties felt that the integration was going remarkably smoothly.

Larry Davis, who heads the rapidly growing industrial division, explained that Phipps gave him the opportunity to opt out of the integration of operations because of the potential disruption to his business. However, he and his team felt that:

If you look downstream, you see that long term and fairly soon short term, you miss out on tremendous opportunities like lowering your costs and getting access to better technology. We as a team decided that we're better off if we do it now. And it's probably better for our associates that they're in on the ground floor because, if not, all the positions and everything would already be well defined by the time they got in the game.

Now it helped that Tim Connolly was the guy that was running that because we have good relationships with Tim. He operates like we do, in a no-nonsense world. We knew it would be easy to communicate with him if there's a challenge; we knew that we could have a conversation and resolve it very quickly.

But again, that doesn't mean it wasn't hard. These folks wear ORS NASCO shirts, and they wear them with pride. They were part of a business growing at 20-plus percent and now they're part of a bigger company and they lose some identity. Where before there were only a couple layers between them and the senior leadership team, now there are many more levels. That's a lot of change. To Tim's credit, when he gives you an update, he always gives you an update on the culture. He's very focused on how people feel and the experience they're going through. They're spending a lot of time on the culture and trying to make it work before they get too aggressive going after goals that are a little more monetary.

Phipps believed that the company's efforts to build a purpose driven organization had built the relationships and common values that allowed United to work through the tough issues and succeed as an integrated business. He also believed that the same purpose-driven approach would allow them to succeed in new growth markets as well. As in office products, the key to success as a wholesaler in markets such as industrial would be in establishing trust with customers and suppliers. As Gochnauer explained,

The industrial business should be our biggest business in five years, if it plays out as I expect it to. But again, you're dealing with all these small distributors. There's a trust issue. There is no one like us that said to them, 'I won't compete with you.' Other industrial distributors might've said that at one time, and then they started competing with them. And they go, 'Wait a minute. You convince me you're not going to be like that.' So it doesn't change quickly. But you've got to do these fundamentals. If they can see that we are purpose driven and we really do care about creating jobs for small businesses, then they may be more willing to see what we can offer. It's a game changer.

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As Phipps reflected on the lessons of the last 10 years, he observed, "We need to think through how we tap this notion of the purpose-driven organization, make it part of our strategy, part of our culture, and try to drive an inseparable linkage." Yet, while realizing that the strong linkage among strategy, purpose, culture, and values was clear to him, he wondered whether it would be equally clear to financial analysts and potential investors.

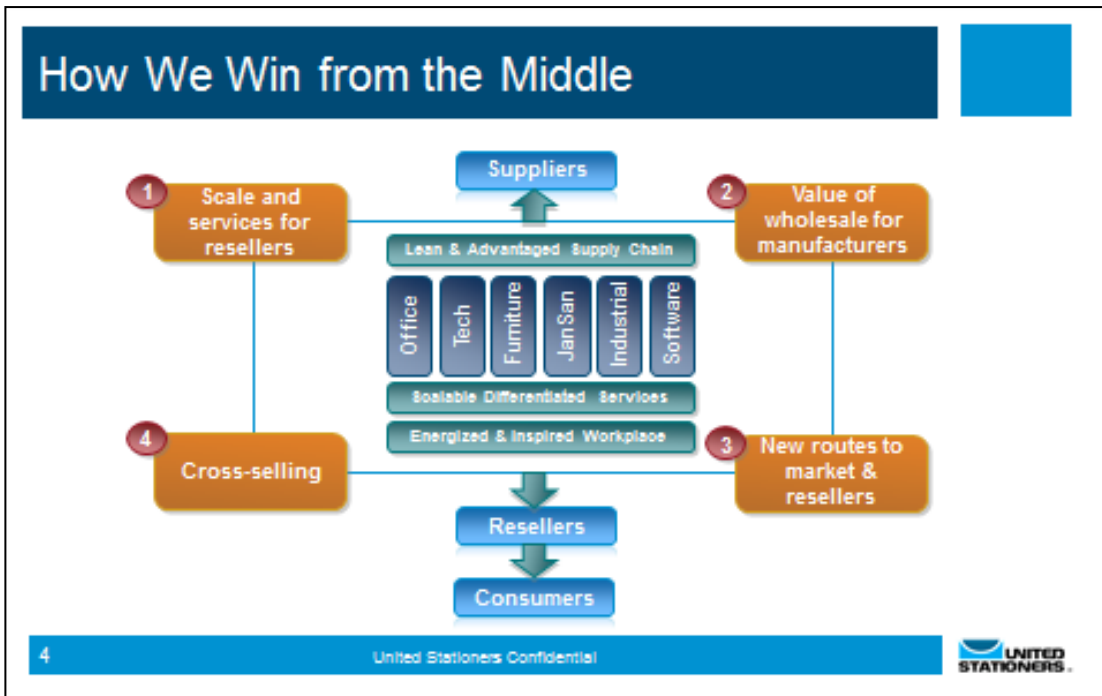
**Exhibit 1** United Stationers' Products

United stocks approximately 100,000 SKUs in five categories:

- **Technology Products** (35% of 2010 consolidated net sales). A leading national wholesale distributor of computer supplies and peripherals—roughly 10,000 items including imaging supplies, data storage, digital cameras, computer accessories and computer hardware items such as printers and other peripherals. Customers include value-added computer resellers, office products dealers, drug stores, grocery chains, and e-commerce merchants
- **Traditional Office Products** (28% of net sales). One of the largest national wholesale distributors of a broad range of office supplies. Carries about 20,000 brand-name and private-label products, such as filing and record storage products, business machines, presentation products, writing instruments, paper products, shipping and mailing supplies, calendars, and general office accessories.
- **Janitorial and Breakroom Supplies** (23% of net sales). A leading national wholesaler, offering over 8,000 janitorial and breakroom supplies (e.g., cleaners and cleaning accessories), foodservice consumables (such as disposable cups, plates, and utensils), safety and security items, and paper and packaging supplies.
- **Office Furniture** (7% of net sales). One of the largest office furniture wholesaler distributors in the nation, stocking about 4,500 products including desks, filing and storage solutions, seating and systems furniture, along with a variety of products for niche markets such as education, government, healthcare, and professional services.
- **Industrial Supplies** (6% of net sales). Stocks over 55,000 items, including hand and power tools, safety and security supplies, janitorial equipment and supplies, other industrial maintenance, repair, and operations items, and oilfield and welding supplies.

Source: Company documents.

Exhibit 2 Winning from the Middle



Source: Company documents.