THE OFFICE CENTER

An Honors Thesis (ID 499)

by

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At age 48, Dianne Cartmel decided she needed something new in her life. Since marrying Jerry Cartmel in 1959, she had lived in Seymour, Indiana. While her husband was busy with his dentistry practice, Dianne kept busy, too. She was active in state organizations and societies, and she spent some of her time working with Indiana's state senators. Aside from her involvement in state organizations, Dianne also managed to get very involved in her community, serving in various offices and on numerous committees for local organizations.

While her many activities kept her on a tight schedule, Dianne also managed to spend time with her three children, Julie, David, and Patrick. As her children grew older, however, they left home for other endeavors. Julie at 22 was finishing her degree in Pre-Med at DePauw University. She planned to attend Med School at IUPUI in Indianapolis. David at 19 lived in Colorado, and he planned to attend Purdue University to study engineering. Patrick, her youngest son at 15, attended Culver military school in Culver, Indiana. Because all of her children were away from home most of the time, Dianne decided she needed to explore new areas where she could invest her time.

Although she had no experience in business, Dianne had always been fascinated by the way businesses operated. She viewed business as a challenging area to explore, so she spoke with her husband, Jerry, about the possibility of starting her own business.

EVALUATING EXISTING BUSINESSES

After presenting her ideas to Jerry, they discussed some of the possibilities about the type of store to open. Before they could make this decision, they found it necessary to evaluate the existing businesses in the vicinity. They spoke
with several of their friends to determine the needs that existed.

Bob Bowman, one of Jerry and Dianne's friends, mentioned that what Seymour really needed was a good office supply store. Bob was manager of a movie cinema in town and an art teacher at the high school, so he used a lot of supplies. He told them he often had a hard time getting his supplies, and he knew of many other people who felt the same way he did. After doing further research, Jerry and Dianne found that a need for an office supply store did exist, so this was a bright possibility for them.

EVALUATING THE COMPETITION

While there seemed to be a great need for an office supply store, Jerry and Dianne decided additional research needed to be done to identify and examine the existing competition.

Seymour, a town of approximately 15,000 people, had about 900 businesses in operation. For these 900 businesses, they found that there was only one office supply store operating in Seymour. Dianne visited Seymour Office Supply, the potential competition, and her impression of the store reinforced the belief that Seymour needed a new office supply store. They discovered that Seymour Office Supply carried a very limited inventory of products, and they relied heavily on ordering the merchandise as it was demanded by their customers. As a result, most of the supplies people needed were not in stock and had to be ordered. Jerry and Dianne decided that if they could open a store and carry a wide variety of items, the customers could avoid the inconvenience of constantly waiting for an order to be received before they could obtain the needed supplies.

Because many local businesses were unhappy with the service they received from Seymour Office Supply, Dianne was sure that there were probably other companies that served the Seymour area. After doing some research, she discovered there were three other major competitors, Columbus Office Supply (20 miles from Seymour), Bedford Office Supply (40 miles from Seymour), and Steinhardt and Hansen (60 miles from Seymour). After discussing this information with Jerry, they decided
that while these were all reputable companies, the people in Seymour would prefer to support local companies if they could get prompt delivery of the supplies they needed.

After careful evaluation of the information they gained, Jerry and Dianne decided that another office supply store was definitely needed. Dianne also decided that the office supply business appealed to her, so she decided to start planning the new business.

FINANCING THE COMPANY

One of the top priorities for Dianne once she decided which type of business to start was that of financing the company. There were many routes she could take in order to obtain the funds necessary to start her business, but first she needed to determine the amount needed to finance her company. One of the first steps she took in determining this amount was to consult NOPA (National Office Products Association). Dianne obtained valuable information from NOPA because they were able to provide average start-up costs and operation expenses for other office supply companies in the Midwest. This gave her an idea of what types of expenses to expect.

When Dianne got a basic idea of the finances needed, she had three basic choices available to obtain these funds. The three basic choices she had were to form a sole proprietorship, a partnership, or a corporation. Each of these types of ownership had advantages and disadvantages, and Dianne needed to weigh the pros and cons of each in order to make a good decision.

While a sole proprietorship would give her unlimited control of her business, it would also make her fully responsible for financing the company. She would have unlimited liability for the business, too. Therefore, she decided against a sole proprietorship.
On the other hand, Dianne could start a corporation and obtain an unlimited amount of capital from stockholders. Many of the stockholders would probably be her friends and relatives. Because she would be able to share any financial losses with them, it would greatly lessen the risk involved. However, in a town the size of Seymour, Dianne did not feel that an office supply store would require stockholders to finance it. Therefore, she decided that forming a corporation was not the best answer for her situation.

Her third alternative was that of starting a partnership. With this choice, Dianne could obtain the additional funds necessary to start her business. She would also have input from her partners concerning managerial decisions, and this was important to Dianne since she had no previous experience in business. Also, she would not have to sell shares of stock and worry about paying dividends. Rather, the profits and losses would be divided between the partners.

After evaluating her alternatives, Dianne decided to start her company as a partnership. Her next decision was that of choosing partners for her company. This decision was not too tough for Dianne because she already had some possibilities in mind. Jerry and Dianne, along with Bob and Sue Bowman and Herb and Rosemary Jenkins, currently owned the cinema that Bob managed as a partnership. So, Dianne decided to ask these same people if they were interested in a new business venture.

After speaking with them, Dianne found them all very interested in her idea, especially Bob, since it was his suggestion that a new office supply store be opened in Seymour. They were enthusiastic about forming a partnership to finance the office supply store; and since they had already been associated as a partnership for a different company, they knew they could all get along. They discussed the figures provided by NOPA, and they discussed the amount each partner was willing to invest in the company. From these discussions, they arrived at the contribution each partner would make to the business.
In addition to the funds contributed by each of the partners, Dianne took out some loans from local banks to help meet the expenses involved in starting a new business.

CHOOSING A LOCATION AND NAME

The location of her store and whether she bought or leased a site would be factors in determining the amount of money she would need for start-up costs.

When considering possible locations for the new business, Dianne checked with the city traffic control office to determine which areas of Seymour were traveled the heaviest. The city traffic control office had information concerning the traffic patterns in Seymour, and Dianne realized that it was important to the success of her business to choose a spot that was heavily traveled so her new business would receive ample exposure. Dianne also realized that her business should be easily accessible, and she needed to make sure sufficient parking was available.

Lack of parking space was another of the major complaints about Seymour Office Supply; they had a small parking lot that was hard to enter and exit, thus increasing the inconvenience experienced by their customers. With these criteria in mind, she considered the information provided by the traffic control office.

The first location they considered was the busiest area in town. Even though it was heavily traveled, Dianne did not feel that any of the available buildings provided sufficient parking space for her purposes, so she decided to check out the second busiest area in Seymour.

When she examined this area, she found a vacant building which was owned by one of her partners, Herb Jenkins. This location provided ample parking facilities, and it was located in a heavily traveled area so her business would receive sufficient exposure.

Another reason Dianne favored this location was the success that businesses had enjoyed there in the past. Dianne realized that past success at a location
was a good indication of the future success that may be expected. While there are exceptions to this viewpoint, Dianne felt that the past success associated with this location would be beneficial to her business.

Another advantage of this location was the fact that one of the partners owned the land and building. After speaking with Herb about the possibility of selling the land and building to the partnership, Herb decided that he would rather rent than sell the property. They also decided that renting the land and building would be best for the business because it would eliminate the large downpayment that might otherwise be involved. Also, it made them more flexible by allowing them to change locations if the need arose.

Another important decision facing Dianne was that of choosing a name for her store. After considering various possibilities, she decided on "The Office Center." This name implied that Dianne's store was the "center" for all the needs of an office. By including "The" in the name, Dianne was implying that her store was the one and only store that businesses would need for their supplies. Also, by eliminating "Seymour" from the name, Dianne was not tying her store to a particular town. She felt this would help them be more successful with business prospects in towns outside of Seymour.

When it came to designing the store, Dianne used her artistic ability to create a modern interior with orange and blue as the theme colors. She designed a modernized counter with built-in glass shelves to display some of her more expensive items.

**CHOOSING A PRODUCT LINE**

Dianne's next major decision concerned the products she would carry. There was an endless list of possible office supplies she could stock, and she needed to decide which ones were best for her store. In addition, office furniture and office machines were often found with office supplies.
Before Dianne made up the initial order, she consulted several sources. One of her main sources for information was Gordon Hess, a previous office supply store owner in the Seymour area. Since Gordon had approximately 15 years of experience in the office supply business and was familiar with the market in the Seymour area, he was able to provide much valuable information about the items that were in the highest demand. Also, he could advise her on the quantities that she should stock.

Along with Gordon, Dianne also consulted other office supply dealers outside of the Seymour area to determine which items were their biggest sellers. She also received valuable advice from the sales representatives of potential suppliers who were able to give her industry statistics on the various products.

Since Dianne wanted her business to be "the" store for office supplies, she decided she would need to carry a broad line of office supplies as well as a smaller line of related products, such as office furniture (desks, chairs, file cabinets) and office machines (typewriters, copiers, calculators). In this way, The Office Center would have all the supplies and equipment a business would use; thus, it would be more convenient for them to purchase the things they needed. Obviously, Dianne could not stock each piece of equipment and machinery available, just as she could not stock each type of office supply that was produced. She could provide a large variety of the office supplies because they were less expensive than furniture and machines to stock.

Since Dianne could not carry every possible item, it was important that she find a supplier who had fast delivery. Thus, one of her criteria for evaluating prospective suppliers was the speed of their service. Another criteria was the price of their products. Although many of the supplies carried by the suppliers were the same, one company might charge more because of some extra service they offered.

A third criteria for evaluating possible suppliers was the minimum quantity of each product that needed to be ordered as well as the minimum total order required.
Also, the method of transportation used for the goods and the costs of this transportation needed to be examined. Some suppliers paid for the transportation costs, while others required the retailer to pay them.

When starting her new business, Dianne found that some companies have special policies they use for newly formed businesses. One policy she found particularly attractive allowed her to return any of the products from the initial order if they had not sold within the first year of operation. Dianne liked this policy because it helped remove some of the risk involved in choosing the initial items to stock.

Dianne decided that she should use more than one supplier for a couple reasons. First, it would allow her to have a wider variety of goods if she used several suppliers. Also, by spreading her orders among several suppliers, she would eliminate the risk of The Office Center having to close because its supplier went out of business.

Therefore, Dianne chose the suppliers who carried the products she wished to carry. Also, she evaluated each potential supplier on the basis of the three previously mentioned criteria to determine which ones were the best. Initially, she ordered approximately 3,200 items, and these items were ordered from nine suppliers in order to start accounts and build relations with each of them.

Dianne chose to order the bulk of her merchandise from wholesalers, such as McKesson Champion and Boise Cascade. She did, however, choose to place orders with a few manufacturers, such as Smead and Boorem and Pease. The manufacturers were chosen as suppliers in the cases where Dianne had decided to order a large quantity of a certain product, such as Smead file folders. When this was the case, the manufacturers offered Dianne a better deal and a lower price if she bought directly from them.
STAFFING THE COMPANY

The next decision that Dianne faced was that of recruiting capable employees to staff The Office Center. She would manage the business, but she would need a sales force to help her. She consulted her partners, and they decided to spread the word in the community that they were looking for employees.

The partners placed an ad in the local paper, and it prompted several replies. They reviewed each resume as it came in, and they screened each applicant to see which ones had past experience and the necessary qualifications. They chose the candidates they felt were the most qualified and called them in for an interview with Dianne.

After her interviews with the candidates, she informed the partners of her impressions of each candidate. She also made recommendations as to which candidates seemed the most promising for the position. They considered the recommendations she had made, and they called back the candidates they felt had the greatest potential for a second interview. In this interview, however, all six partners were present to evaluate the prospective sales representatives.

After much consideration, Jeff McClintock was chosen as the outside sales representative for The Office Center. Gale Huber was hired by The Office Center as the other sales representative. Gale also owned his own sales consulting firm, and in the past he had helped train new employees for such corporate giants as IBM and Xerox. Gale would, therefore, have a dual purpose—that of selling office products and of training Jeff.

Since The Office Center was a new business, Dianne was trying to keep her labor costs as low as possible. Therefore, she decided to hire a part-time accountant, Cheryl Lamb, to take care of payroll and other financial matters. Dianne decided to handle the floor sales along with her managerial responsibilities in an effort to keep labor expenses down.
Since Dianne and her partners had decided to offer office machine repair service, they needed to decide who would be responsible for doing these repairs. They discussed hiring a repairman, but they decided against it for two main reasons. First of all, they were trying to keep their labor costs low, and these costs would be considerably greater if a repairman were hired. Also, since they were a new company, it would take them a while to build their business. After they had a large repair business built up, they might consider hiring a full-time repairman. Until then, however, they decided to make an agreement with an office machine repairman who already operated in the Seymour area to do their repair work.

Dianne spoke with Jim Nelson, owner of Jackson County Typewriter Repair, to discuss the possibility of handling their repairs. After discussing the matter, Jim agreed to do the repairs for The Office Center. Jim would drop off and pick up the machines that needed repairs from The Office Center, and the customers would be charged Jim's normal rate. Jim and Dianne agreed that The Office Center would only be charged 75% of Jim's normal rate, so they would make a profit of 25% of the repair fee for all machine repairs.

After these decisions were made and her employees were chosen, Dianne needed to decide which method of compensation she would use. After consulting her partners, Dianne decided that both Jeff and Gale would be paid on a salary plus commission basis, and the commission would be calculated using a sliding scale based on the discount given to the customer. This commission would serve as an incentive for them to continually increase their sales.

Cheryl, on the other hand, would be paid on an hourly basis since she was part-time. As store manager, Dianne would be paid on a salary basis. Since they had decided against hiring a repairman, there would be no compensation involved with machine repairs. All of the employees would be paid on a weekly basis.

In addition to their compensation, all full-time employees would also receive medical insurance, one-half of which would be paid for by The Office Center, and life insurance which would be fully paid by The Office Center.
ESTABLISHING OPERATIONAL PROCEDURES

There were several operational procedures to establish before the initial orders arrived. First of all, Dianne decided that all deliveries would be received at a side door to the storage room. This would avoid the clutter in the main showroom. Also, a system for checking in the orders was devised so that the shipment received could be verified by comparing it to the actual order placed. The invoice would also be compared to the bill to assure that the goods they were billed for had been actually received.

A filing system was started to organize the bills according to their due dates. This would allow Cheryl to pay them just before they were due to allow the maximum amount of interest to be earned on The Office Center's funds.

Since The Office Center would be allowing businesses to charge the supplies, furniture, and machines purchased, a filing system needed to be set up to organize the charge accounts. A ledger card file was chosen for this purpose, and each transaction would be recorded on the company's ledger card.

Also, since The Office Center would be offering office machine repair service, a system for keeping track of each machine and the needed repairs was necessary. A tag system was devised so that each machine would have a numbered tag attached to it. A record book was kept so that the numbered tags could be matched to the detailed information that would be recorded for each machine. As soon as the merchandise started to arrive, these operational systems could be tested.

STOCKING THE STORE

The next step for Dianne was to order shelving units for her store. When they came in, they were assembled and arranged so that maximum usage was made of the available floor space without having it resemble a warehouse.
When the merchandise arrived, the employees as well as the partners spent many long hours checking in the merchandise and pricing it. They also built displays and decided where to shelve each item. To help them with the decisions concerning placement of goods, sample store plans were provided by Butler Fixtures, the supplier for the shelving units. These plans gave Dianne an idea of what items to place by each other so they would be easy to find by her customers.

For example, envelopes, mailing labels, strapping tape, and letter openers should all be located in the same area so that a customer can purchase all related items at the same location. Also, this might cause reminder purchases to be made. When a customer comes in to purchase envelopes, he might see a letter opener and remember that his secretary mentioned she could use a letter opener. In this way, by seeing an item related to the one he originally came in to purchase, he has been reminded of another need he has.

In order to provide additional service to The Office Center in helping them prepare for opening, McKesson Office Products (Champion) even sent their sales representative, Hal Hatch, to Seymour to help Dianne with questions and problems she was facing. He significantly helped get The Office Center organized and ready to open.

When deciding on prices, Dianne decided to follow the suggested retail price furnished by her suppliers. This would assure her prices were in line with her competitors since most of them also used the suggested retail prices.

In regards to the profit margin needed, Dianne decided that she would like to operate at an overall profit margin of 30% - 40%. She realized, however, that the profit margin would vary for individual products. She also realized that external sales would have a smaller markup than internal sales; thus, she had to price her products accordingly.

Also, Dianne knew that some of their business would be done through a bidding process. In this case, the profit margin would need to very slim so they could receive the bid. By doing this, they could get their foot in the door with some large corporations, schools, and government offices.
ADVERTISING

Approximately two months prior to opening, Dianne rented a large neon sign to announce that The Office Center was "coming soon." She placed this sign in front of their future site to draw attention to the location. By using this type of advertising, Dianne tried to arouse the curiosity and interest of local businesspeople. Also, since The Office Center was located at the second busiest spot in Seymour, this sign received a lot of exposure.

When The Office Center opened, Dianne put advertisements in the local paper, The Seymour Daily Tribune, to announce its opening. These ads were usually 1/8 page or 1/4 page ads, and after The Office Center opened, Dianne used co-op advertising with various manufacturers, such as Canon, Bankers Box, and SWintec, as much as possible in order to reduce her advertising expenses.

Also, Dianne chose to advertise on two local radio stations, WJCD in Seymour and WNVI in North Vernon. The average length of her radio commercials was 30 seconds.

Dianne also listed The Office Center in the Yellow Pages, and she placed occasional advertisements on the local cable television station. She, also, arranged to have catalogs printed with the available merchandise so they could be distributed to some of her larger customers.

In addition, Dianne discussed having sale flyers printed to distribute to her customers. After checking with various sources, Dianne discovered that McKesson Office Products (Champion) would print sale flyers for her for a minimal amount. These flyers would contain different products each month, and The Office Center's name, address, and phone would appear on them. Dianne decided this would be the best way for her to get the needed flyers printed, so she made arrangements with McKesson to have some printed.

Along with these methods of advertising, Dianne also relied heavily on word-of-mouth advertising which was more effective. Since all six of the partners were prominent citizens, they had a great deal of contact with the businesspeople in the community.
INITIAL PROBLEMS

Upon opening its doors to the public for business on July 5, 1984, The Office Center enjoyed immediate success. After the first few days of operation, Dianne concluded that it was going to be impossible for her to handle all of the floor sales in addition to her managerial responsibilities. Therefore, she decided to hire a salesperson to handle the in-store sales. After considering various possible candidates, she decided to hire Jan Stuckwisch to fill this position.

Another problem that Dianne faced concerned the action she should take when a customer wanted a product that The Office Center did not carry. In some cases, all she would need to do was order the product for them, and one would be sent from a supplier. In other cases, however, to get a single product Dianne would have to place a minimum order of 6 or 12. A policy needed to be established so the salespeople could be consistent in their responses to such requests. Also, decisions had to be made to determine if the requested products should be stocked on a regular basis. This was necessary because they obviously could not stock everything.

Dianne set up a liberal ordering policy which allowed her salespeople to order almost anything their customers needed. She felt catering to the needs of each customer would give The Office Center a differential advantage over its competition. This extra service would promote customer loyalty because most customers like to receive this type of preferential treatment.

Another advantage The Office Center had over its competition was that of carrying a large inventory of products. Its major competitors stocked a narrow line of merchandise and did most of their business from external sales. In contrast, The Office Center decided to promote internal sales as well as external sales and cater to those people who would rather make their purchases in a store. In this way, they would be able to serve the large corporations that required a salesperson to call on them regularly as well as the mom-and-pop shops that used only a small quantity of supplies. Since these small businesses were being
overlooked in the Seymour area, and they comprised approximately 75% of all the businesses there. The Office Center could capitalize on this opportunity to serve them.