



**REDACTED PUBLIC VERSION**

# Staples-Office Depot Merger Analysis

Professor Carl Shapiro

# Preview of Conclusions and Analysis

## **Staples-Office Depot Merger Analysis Follows Tested Approach**

### **1. Relevant Market:**

Where might the merger alter competitive conditions?

### **2. Market Shares:**

What are customers' significant options?

### **3. Competitive Effects:**

Is Office Depot a unique check on price and quality?

### **4. Entry and Expansion:**

Will other options emerge to save the day for large customers?

### **5. Efficiencies:**

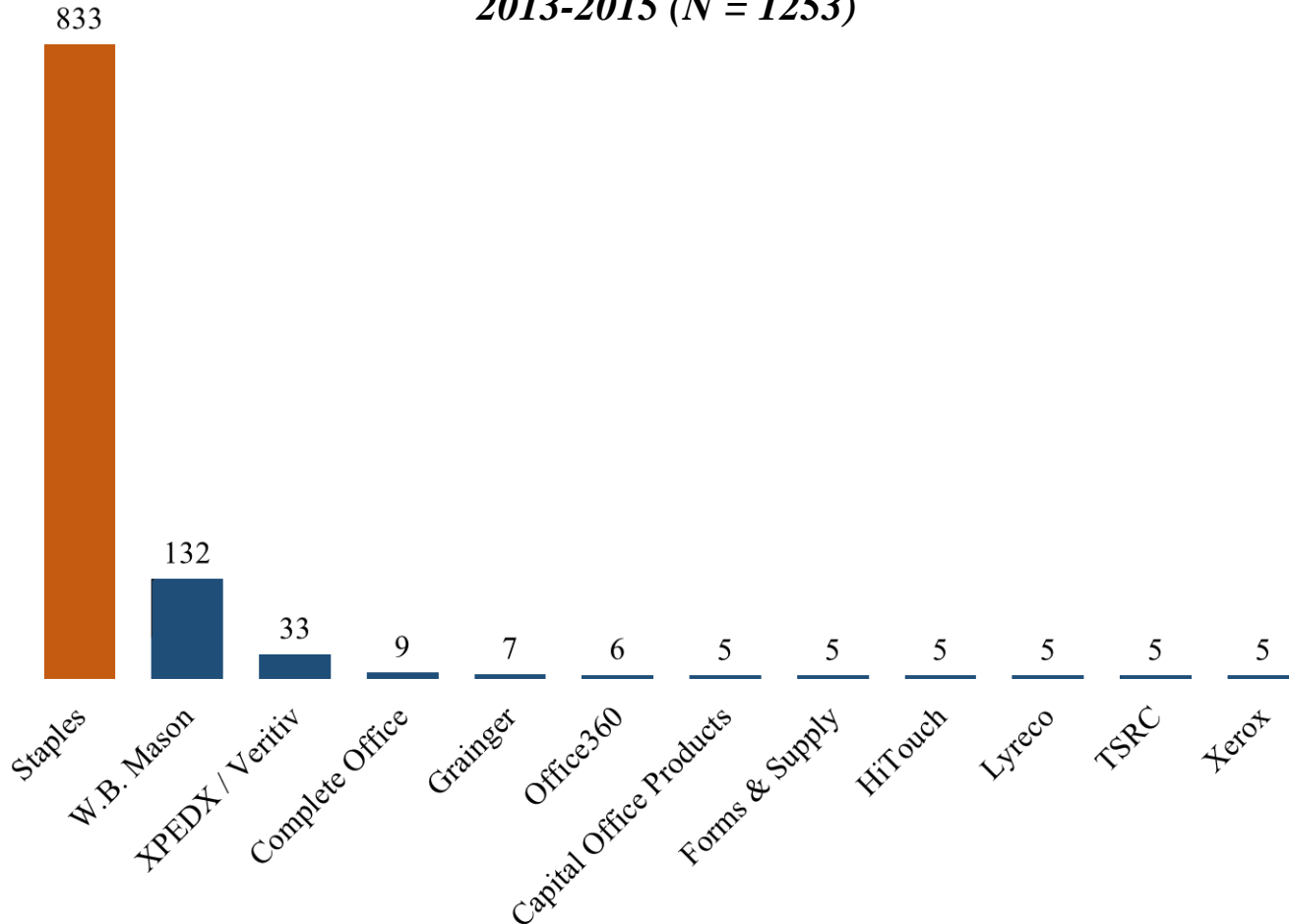
Will merger-specific cost savings counteract loss of competition?

### **6. Proposed Divestiture:**

Will the divestiture create an entity to replace Office Depot?

# Staples Dominates in Office Depot's Win-Loss Data with 833 Appearances

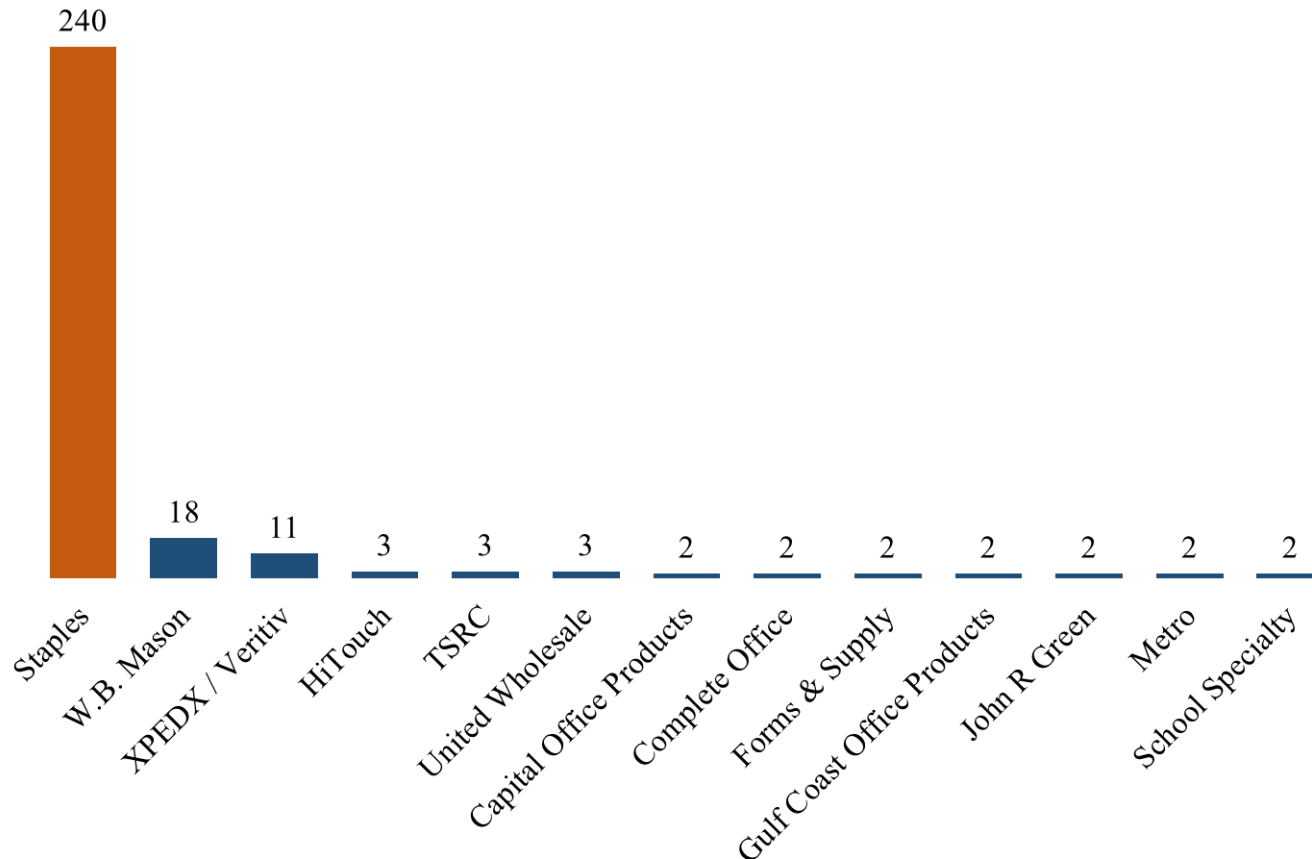
2013-2015 (N = 1253)



*Note:* Competitors listed have at least 5 appearances. There are 30 competitors with 2 to 4 appearances, and 126 competitors mentioned in total.

*Source:* Exhibit 10, Shapiro Report.

# Staples Dominates in Office Depot's Win-Loss Data with 240 Wins *2013-2015 (N = 1253)*

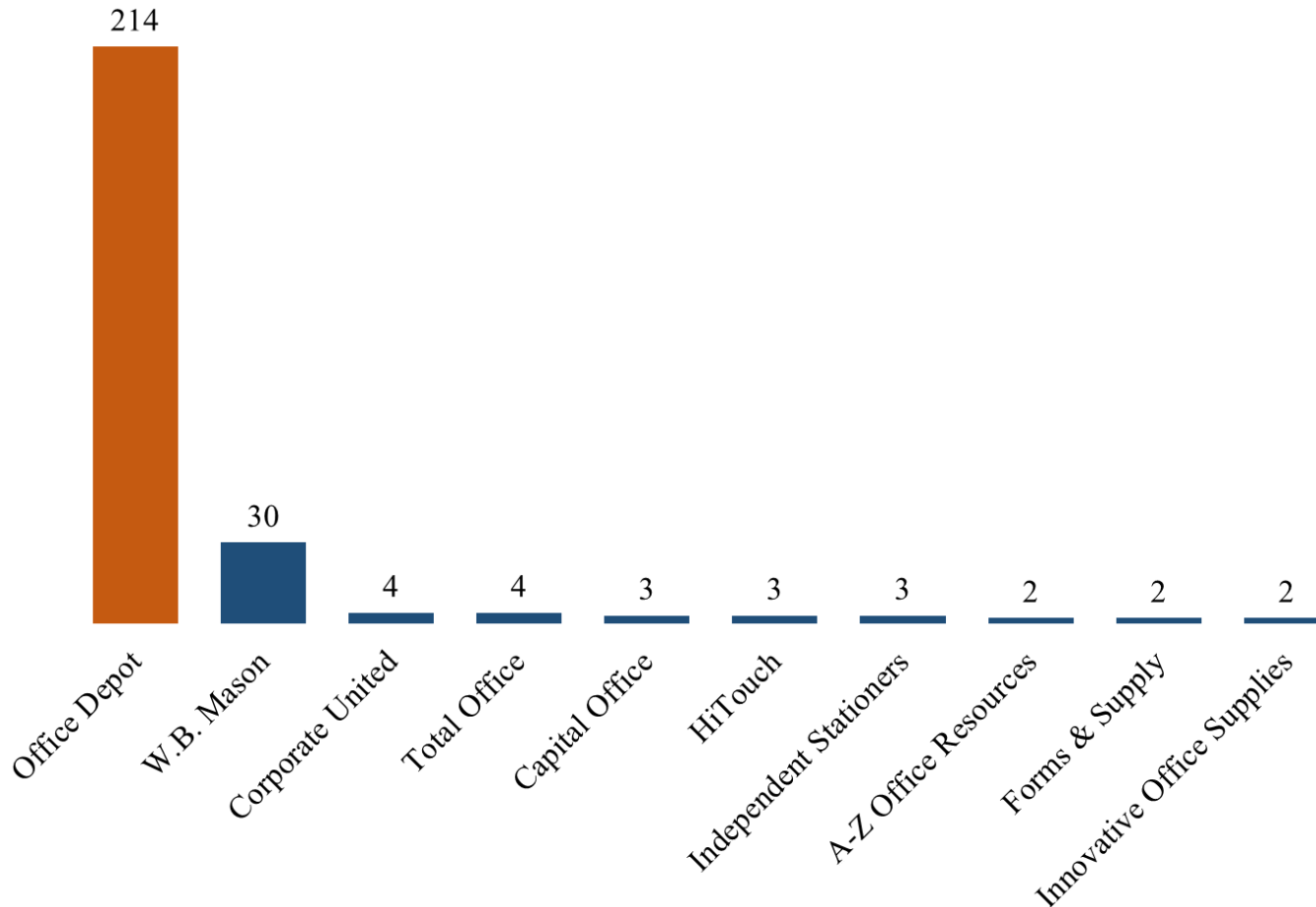


*Note:* Competitors listed have at least 2 wins. In total, 40 competitors are mentioned.

*Source:* Exhibit 10, Shapiro Report.

# Office Depot Dominates in Staples Win-Loss Data with 214 Appearances

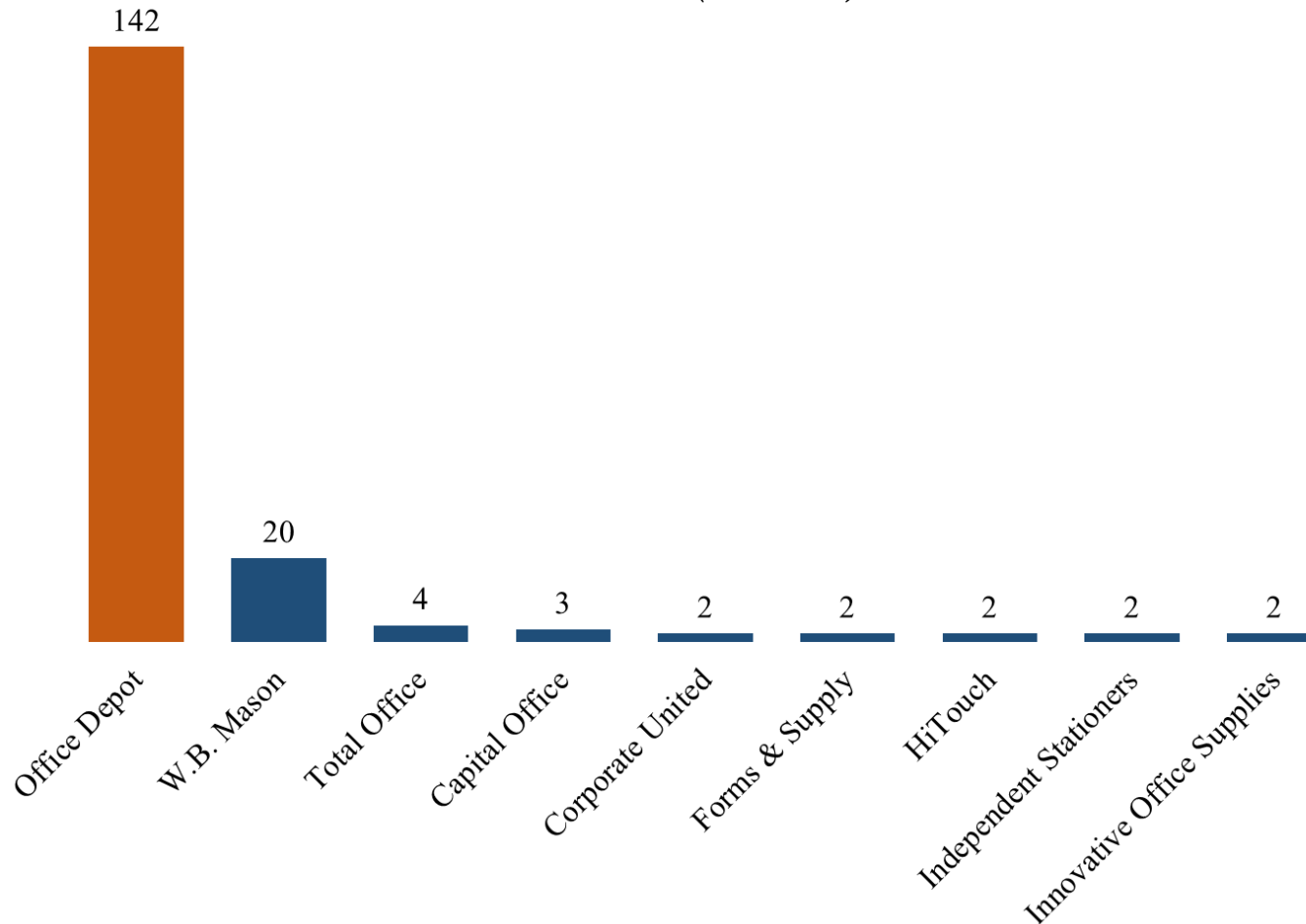
2012-2014 (N = 393)



*Note:* Competitors listed have at least 2 appearances. In total, 43 competitors are mentioned.

*Source:* Exhibit 11, Shapiro Report.

# Office Depot Dominates in Staples Win-Loss Data with 142 Wins *2012-2014 (N = 393)*



*Note:* Competitors listed have at least 2 wins. In total, 27 competitors are mentioned.

*Source:* Exhibit 11, Shapiro Report.

## AEP: Outcome of 2015 RFP Process: [REDACTED] Savings

	<u>Office Supplies</u>	<u>Paper</u>
Reduction from RFQ process	[REDACTED]	[REDACTED]
Reduction from Demand Process		
Increased savings from Rebate		
Fixed Price for 3 yrs.		
10% off all orders for 90 days		
Savings		

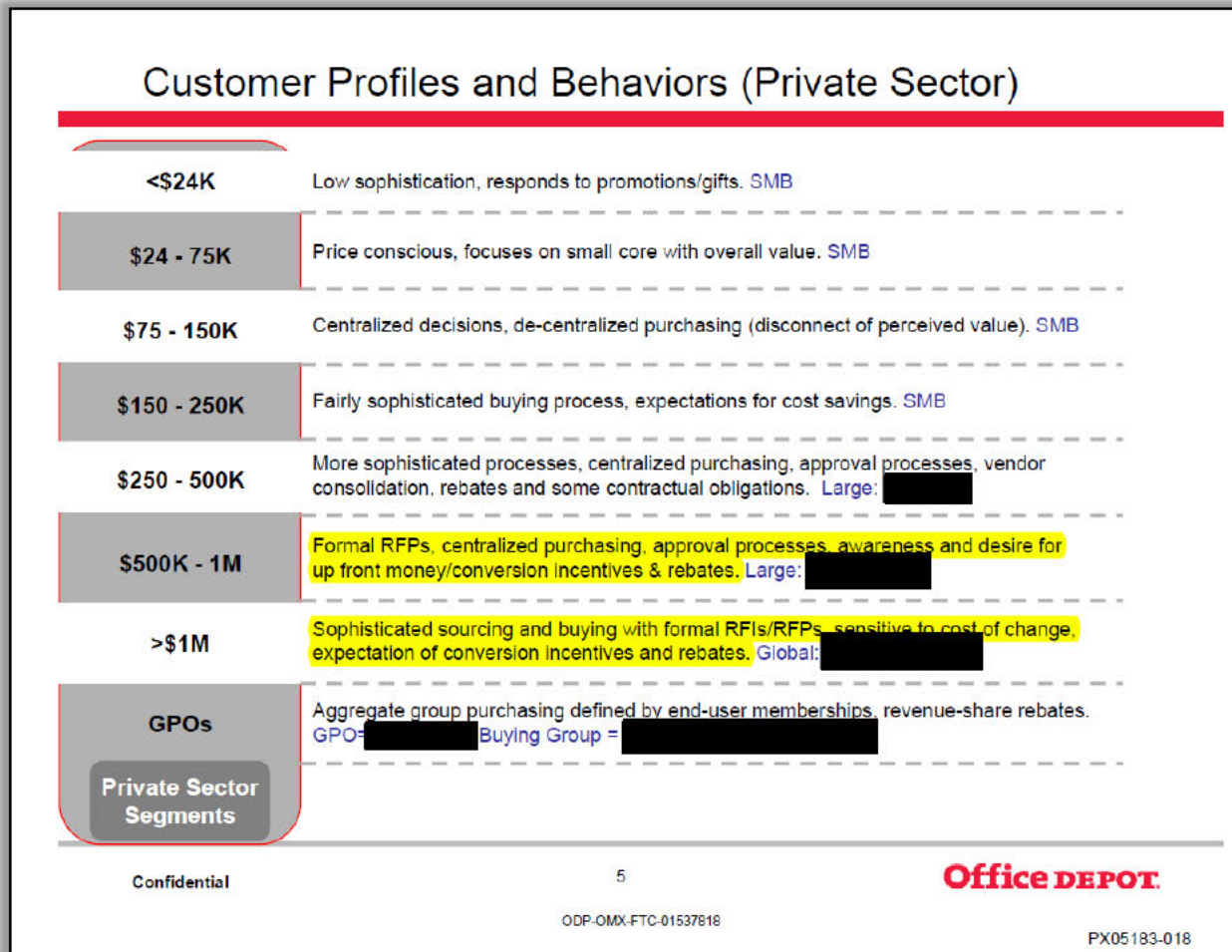
Total Savings for Office Supplies & Paper [REDACTED]

“The final step was to conduct a demand negotiation or counter-proposal with Staples and Office Depot. The main issue with Staples was—what the team believed to be—deceptive pricing tactics used in the RFQ. Staples refused to accept this point. In the end, the incumbent supplier (OfficeMax, which was acquired by Office Depot) came in with a better cost profile and agreed to more of our demand points.”

Source: AEP, PX07366.



## Large Customer Attributes



Sources: PX05183 (ODP) at 018.

# Large Customer RFPs

## Price Elements

### Demand Management

Staples will analyze [REDACTED] current product usage and develop a core product list that offers immediate savings. Your Strategic Account Manager will regularly review your core list to identify continuous opportunities where Staples can offer better value on the products you use most. Our industry-leading buying power and strong supplier relationships give us the flexibility to find the most cost-effective solutions for your needs.

### Itemized Prices on Core Products

16.4 Outline best practices for pricing core items throughout the world. **LONG ANSWER + ATTACHMENT**

To drive the highest end-user participation, Core pricing should be global in scope, but country-specific, based on each participating countries' laws, regulations, product selection, required services, operational costs and market-competitive pricing.

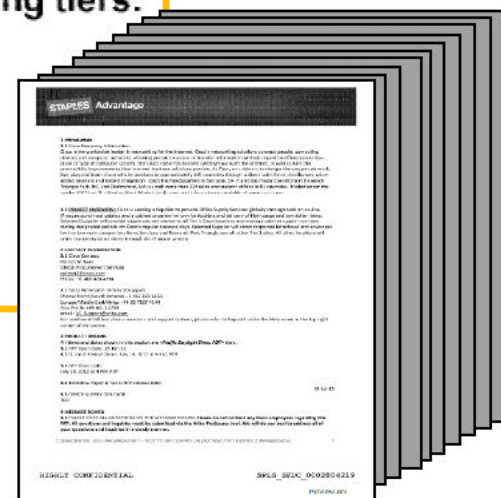
### Volume Rebates

#### 21.9 Please provide your rebate % based on the following tiers:

21.9.2 Annual US Sales from \$0 to \$1,999,999.99 = %

21.9.4 Annual US Sales from \$2,000,000 to \$2,749,999.99 = %

21.9.6 Annual US Sales above \$2,750,000 = %



Sources: PX04484 (SPLS).

# Large Customer RFPs

## Cost Management

### Compliance

#### *Compliance Savings*

One of the easiest ways to manage costs is simply to support compliance to your Staples program. Prior to program launch and on an ongoing basis, our Field Marketing team will work with [REDACTED] to conduct communication campaigns to drive greater awareness and acceptance of your Staples program.

We also help support program compliance through our extensive Staples retail network. With more than 1,500 convenient U.S. locations to choose from, your end-users can make same day, emergency purchases without going outside your established office supply program.

### Order Size

#### Minimizing Small Orders

Small, inefficient orders can add significant program costs by increasing the number of POs, invoices and deliveries you must process.

### Monitoring

23.4 [REDACTED] has retained Dryden Procurement Technologies, LLC for the sole purpose of insuring all pricing and discount structures agreed to through the RFP and subsequent award and agreement with the selected supplier are met and the program remains at optimal levels throughout the term. In addition, supplier agrees to pay to Dryden an annual commodity management fee for the term of the agreement.



Sources: PX04484 (SPLS).



# Large Customer RFPs

## Service Attributes and Capabilities

### Distribution Network & Wholesaler Dependence

11.7 Will [REDACTED] be serviced by company owned distribution centers, or will some areas be serviced through either a dealer network or a wholesaler? M/C

Company-owned distribution centers

Staples offers [REDACTED] fast, accurate and efficient delivery by operating one of the most extensive and technologically-advanced distribution networks in the industry. Through our strategically-located fulfillment centers

18.1 What is your standard shipment and delivery time? (Please detail out variances for all countries). Attach a file.

U.S.	Next Day
------	----------

#### Minimized Wholesaler Dependence

Staples' inventories throughout our network of fulfillment centers represent the most popular brands that customers demand. Our product inventories represent more than 95% of the items sold everyday. As a result, we have been able to minimize our dependence on wholesaler product inventories, resulting in higher fill rates and more competitive pricing since we are not paying an inflated cost for the product.

### E-Procurement

17.1 Describe the features and benefits of your Internet ordering solution. LONG ANSWER + ATTACHMENT

Staples has the unique expertise to customize an e-procurement solution to help better control your costs, streamline your ordering process, increase program compliance and minimize your time spent on procurement.

#### Integration Capabilities

Staples has extensive expertise in electronic procurement implementations and can integrate seamlessly with all major third-party e-procurement applications, including Ariba, Oracle and others. We will leverage the industry's

Sources: PX04484 (SPLS).

# Relevant Market

## Cluster Market Approach

- Virtually each type of product is a distinct relevant market
  - Not functionally interchangeable  
(e.g., pens and binders)
  - Impractical to analyze each separately
- If competitive conditions are similar across different product types:
  - ✓ Appropriate to use cluster market
  - ✓ Aggregate distinct product markets into a single market for purposes of competitive analysis

## **Average Number of SKUs Purchased by Large Customers**

*2014*

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<b>Product Category</b>	<b>Staples</b>	<b>Office Depot</b>	<b>OfficeMax</b>
Consumable Office Supplies	4,685	4,786	4,198
All Products	8,511	7,783	5,681

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*Source:* Exhibit 2, Shapiro Report.

# Consumable Office Supplies

## SA Commercial / Mid-Market Performance

### SA Commercial Performance

Commercial Portfolio					Mid-Market				
	Actuals		Forecast			Actuals		Forecast	
	P10	YTD	Qtr 4 F	Full Year		P10	YTD	Qtr 4 F	Full Year
Sales Growth	Sales Growth				Sales Growth	Sales Growth			
BOSS					BOSS				
Facilities					Facilities				
Furniture					Furniture				
Tech					Tech				
Print/Promo					Print/Promo				
Total BOSS					Total BOSS				
CORE					CORE				
Paper					Paper				
Supplies					Supplies				
Ink & Toner					Ink & Toner				
Total CORE					Total CORE				
Total Sales					Total Sales				

Total				
	Actuals		Forecast	
	P10	YTD	Qtr 4 F	Full Year
Sales Growth	Sales Growth			
BOSS				
Facilities				
Furniture				
Tech				
Print/Promo				
Total BOSS				
CORE				
Paper				
Supplies				
Ink & Toner				
Total CORE				
Total Sales				

- Commercial Portfolio
  - P10 sales were [redacted] up [redacted]
  - YTD sales growth is [redacted]
  - BOSS sales YTD of [redacted] are up [redacted] led by strong results in [redacted]
  - CORE sales YTD are [redacted] Better than planned sales in Supplies category offsets softness in Paper and Ink & Toner.
- Mid-Market Portfolio
  - P10 sales were [redacted] up [redacted]
  - YTD sales growth is [redacted]
  - BOSS sales YTD are [redacted] up [redacted] with [redacted] leading the way.
  - CORE sales YTD have grown [redacted] led by [redacted] category up [redacted]

CDC data consists of Adjusted Gross Sales which is directionally equivalent to SA OP sales only (excludes coastwide, st's, sps, lonesource)



## Targeted Customers

### 3. Targeted Customers and Price Discrimination

When examining possible adverse competitive effects from a merger, the Agencies consider whether those effects vary significantly for different customers purchasing the same or similar products. Such differential impacts are possible when sellers can discriminate, e.g., by profitably raising price to certain targeted customers but not to others. The possibility of price discrimination influences market definition (see Section 4), the measurement of market shares (see Section 5), and the evaluation of competitive effects (see Sections 6 and 7).

When price discrimination is feasible, adverse competitive effects on targeted customers can arise, even if such effects will not arise for other customers. A price increase for targeted customers may be profitable even if a price increase for all customers would not be profitable because too many other customers would substitute away. When discrimination is reasonably likely, the Agencies may evaluate competitive effects separately by type of customer. The Agencies may have access to information unavailable to customers that is relevant to evaluating whether discrimination is reasonably likely.

For price discrimination to be feasible, two conditions typically must be met: differential pricing and limited arbitrage.

*Source:* Horizontal Merger Guidelines § 3.

## Hypothetical Monopolist Test (“HMT”) Depends on a Threshold Recapture Rate

- Using 5% price increase, HMT is satisfied if:

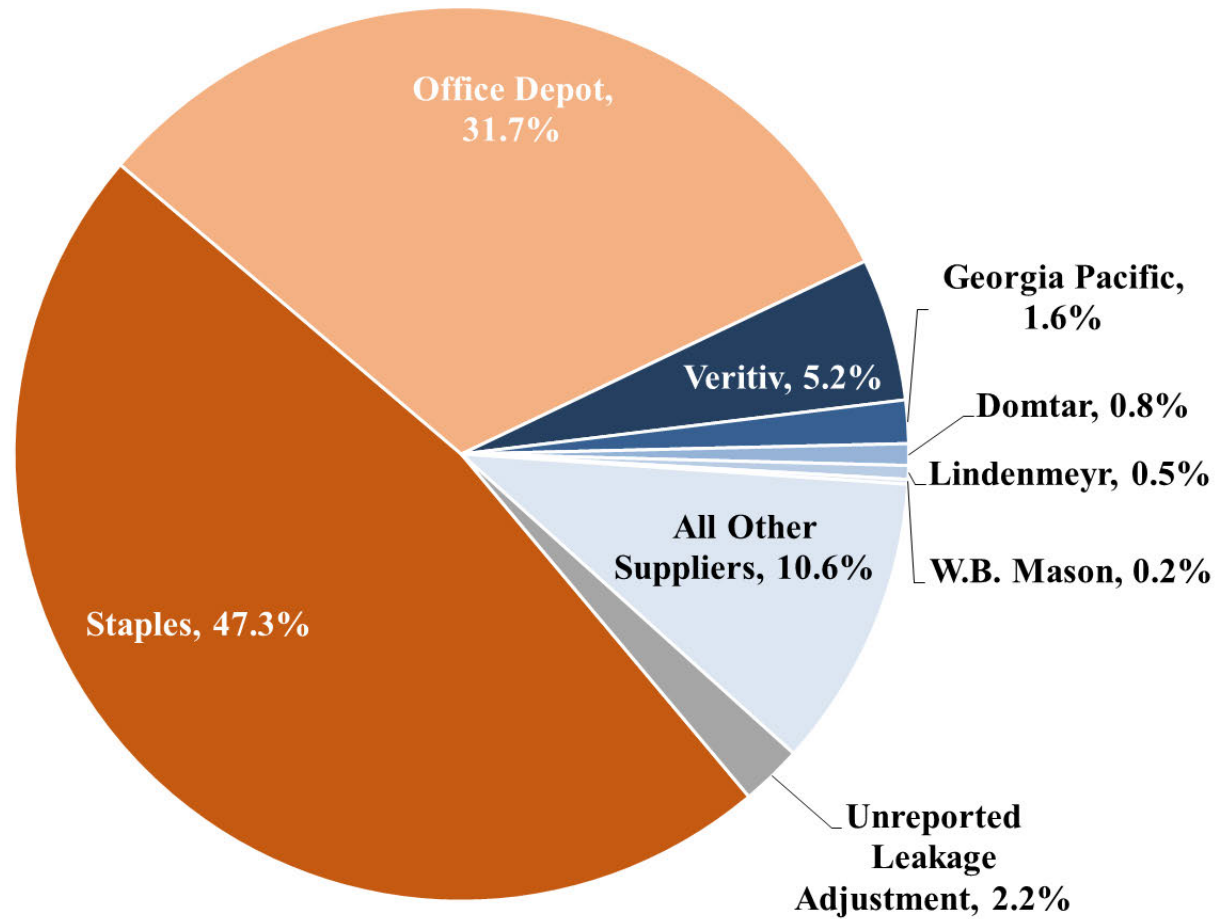
$$\text{Recapture Rate} > \frac{10\%}{\text{Profit Margin} + 10\%}$$

- Profit Margin estimates range = ■■■% to ■■■%
- Leads to Threshold Recapture Rate = ■■■% to ■■■%

# Market Shares

# Consumable Office Supplies Market Shares

*Fortune 100 Customers, 2014*

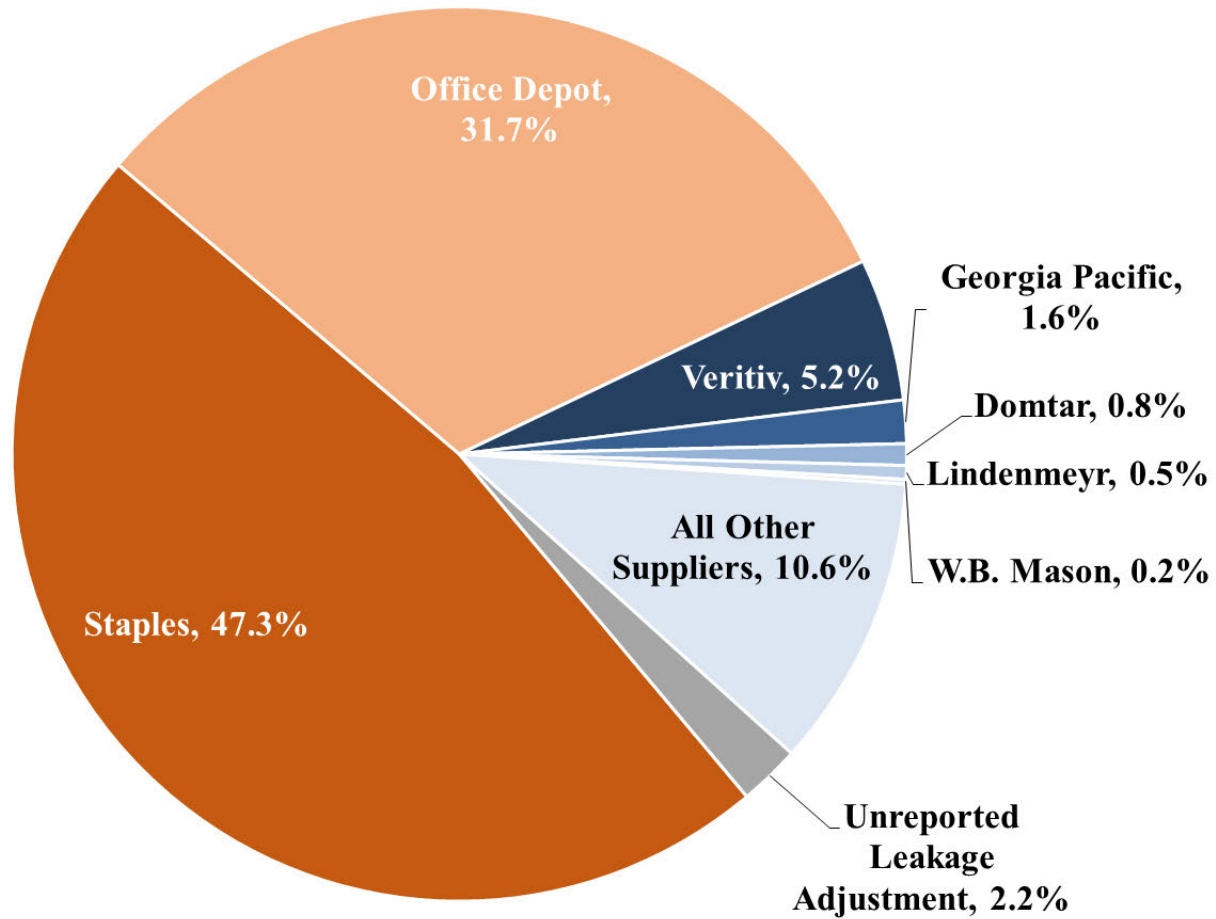


Source: Exhibit R1B, Shapiro Reply Report.



# Consumable Office Supplies Market Shares

*Fortune 100 Customers, 2014*



Source: Exhibit R1B, Shapiro Reply Report.

# Consumable Office Supplies Market Shares: Core v. Paper

*Fortune 100 Customers, 2014*

<b>Supplier</b>	<b>Consumable Office Supplies</b>	<b>Core</b>	<b>Paper</b>
Staples	47.3%	48.4%	46.2%
Office Depot	31.7%	38.3%	25.2%
Other Suppliers	21.0%	13.3%	28.6%
Staples + Office Depot	79.0%	86.7%	71.4%

Sources: Exhibits R1B, R3A, and R3B, Shapiro Reply Report.

# Market Concentration Measures

*Fortune 100 Customers, 2014*

Measure	Value
<b>Pre-Merger:</b>	
Staples Share	47%
Office Depot Share	32%
HHI	3,274
<b>Post-Merger:</b>	
Staples & Office Depot Share	79%
HHI	6,274
<b>Increase in HHI</b>	<b>3,000</b>

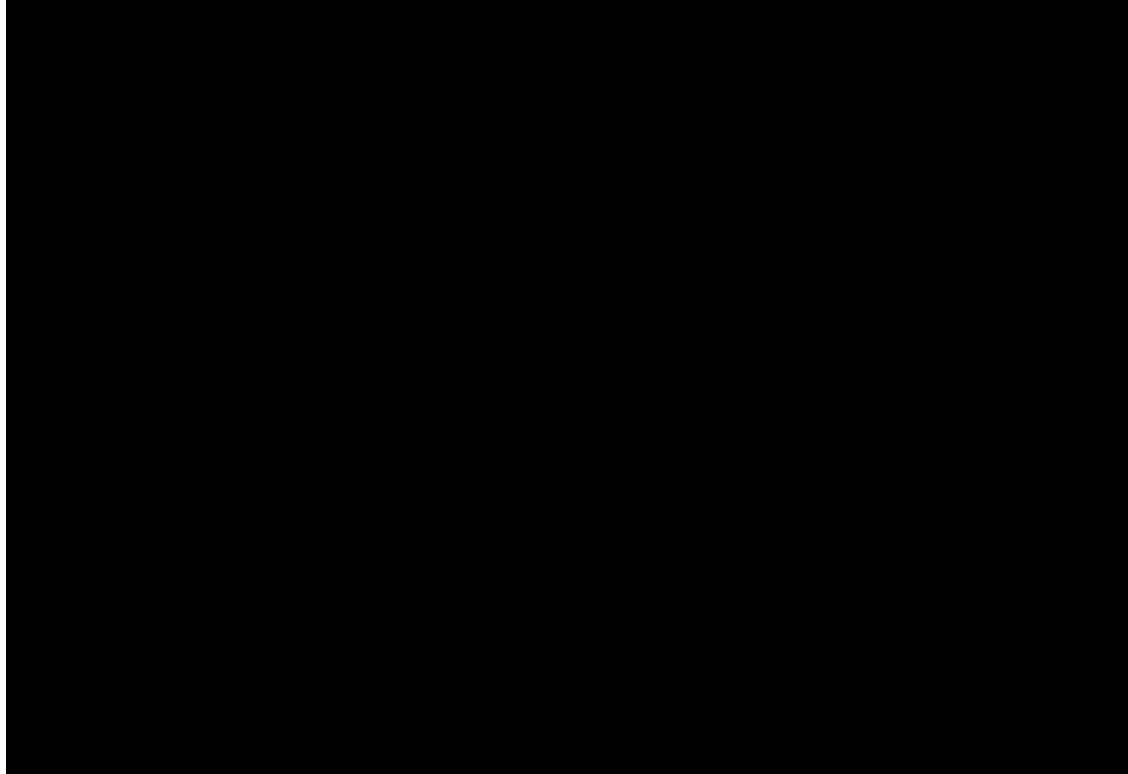
Source: Exhibit R6, Shapiro Reply Report.



# **Market Concentration Measures**

## **2017 Projection**

*Fortune 100 Customers*

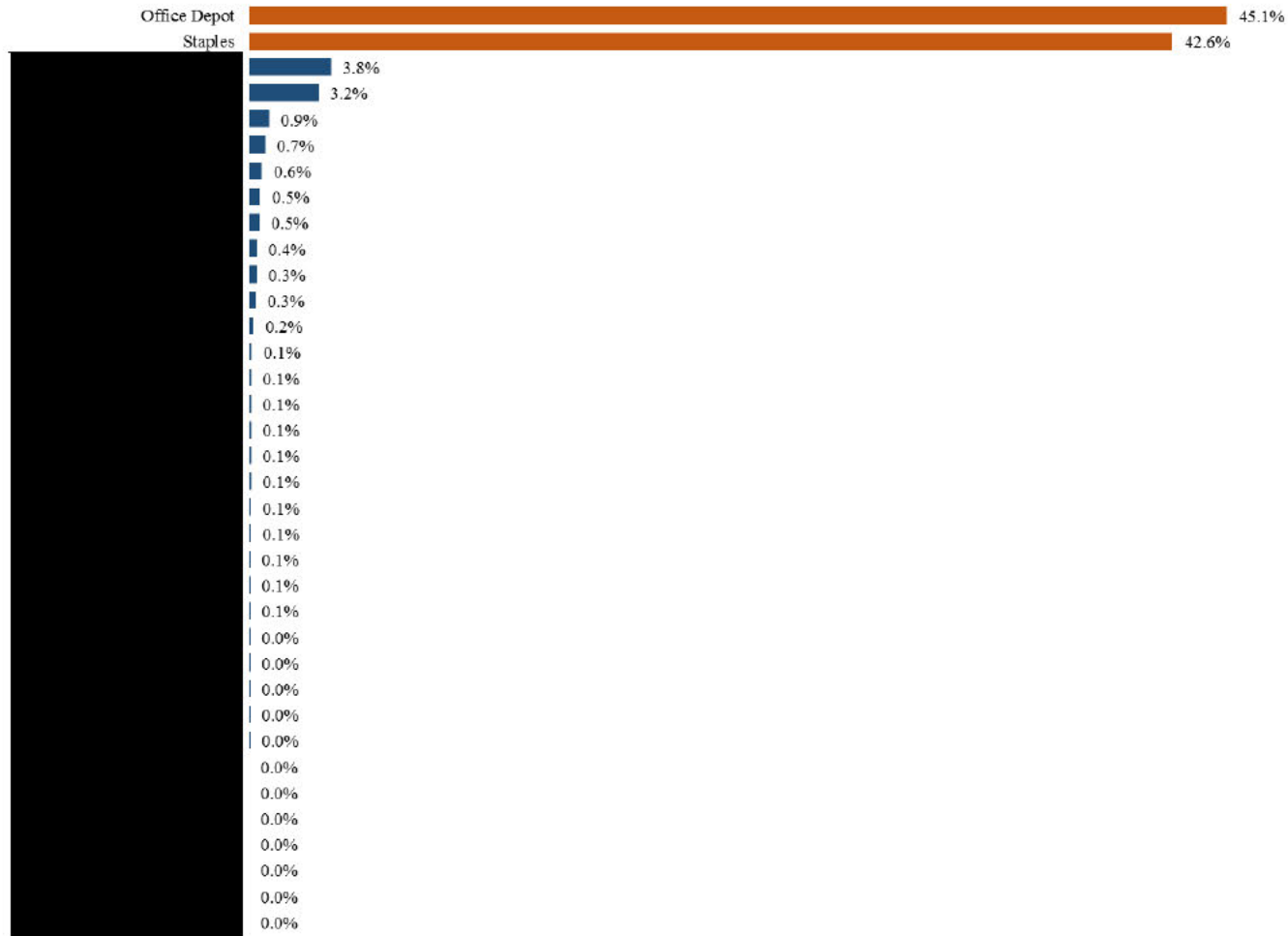


*Note:* Assumes Amazon Business meets 2017 projected revenue in full.

*Sources:* Exhibit R6, Shapiro Reply Report; Wilson (Amazon Business) Dep. Ex. 13.

## Primary Vendor Relationship Shares

*Consumable Office Supplies, 2014*



Source: Exhibit R2, Shapiro Reply Report.

# Primary Vendor Relationships

## *Consumable Office Supplies, 2014*

Supplier	Sales	Customer Count	Shares
Office Depot	\$924,256,982	587	45.1%
Staples	\$873,219,854	529	42.6%
	\$77,274,000	38	3.8%
	\$65,557,363	15	3.2%
	\$19,081,752	19	0.9%
	\$15,024,355	10	0.7%
	\$12,200,000	2	0.6%
	\$10,371,447	5	0.5%
	\$9,843,000	2	0.5%
	\$7,345,863	2	0.4%
	\$7,150,000	3	0.3%
	\$6,213,871	5	0.3%
	\$4,050,000	7	0.2%
	\$2,210,615	4	0.1%
	\$1,994,727	2	0.1%
	\$1,794,816	2	0.1%
	\$1,570,311	2	0.1%
	\$1,440,025	2	0.1%
	\$1,423,862		0.1%
	\$1,357,722	1	0.1%
	\$1,313,327	2	0.1%
	\$1,071,715	1	0.1%
	\$1,060,067	2	0.1%
	\$1,037,654	2	0.1%
	\$1,017,628	1	0.0%
	\$672,164	1	0.0%
	\$592,464	1	0.0%
	\$568,265	1	0.0%
	\$568,181	1	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
	\$0	0	0.0%
Staples + Office Depot	\$1,797,476,836		87.6%
<b>Total</b>	<b>\$2,051,282,031</b>		<b>100.0%</b>

Source: Exhibit R2, Shapiro Reply Report.

## Primary Vendor Relationship Shares: Core & Paper

*2014*

<b>Supplier</b>	<b>Consumable Office Supplies</b>	<b>Core</b>	<b>Paper</b>
Office Depot	45.1%	50.8%	42.0%
Staples	42.6%	43.2%	39.1%
Other Suppliers	12.4%	6.0%	19.0%
Staples + Office Depot	87.6%	94.0%	81.0%

*Sources:* Exhibits R2, R4A, and R4B, Shapiro Reply Report.

## Primary Vendor Relationship Shares

### *Consumable Office Supplies, 2014*

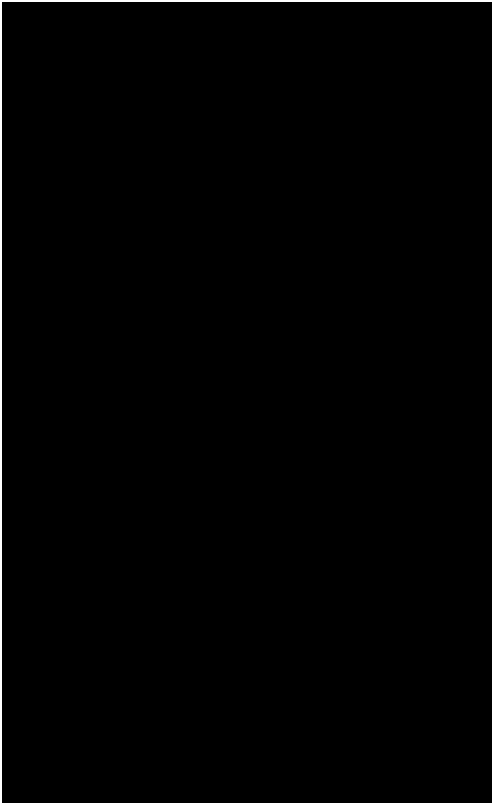
<b>Supplier</b>	<b>\$500K Threshold</b>	<b>\$250K Threshold</b>
Office Depot	45.1%	45.1%
Staples	42.6%	42.6%
Other Suppliers	12.4%	12.3%
Staples + Office Depot	87.6%	87.7%

*Note:* There are 1,249 and 2,490 total relationships in the \$500K and \$250K thresholds, respectively.

*Sources:* Exhibits R2 and R5, Shapiro Reply Report.

# Fortune 100 Customers with Insufficient Responses

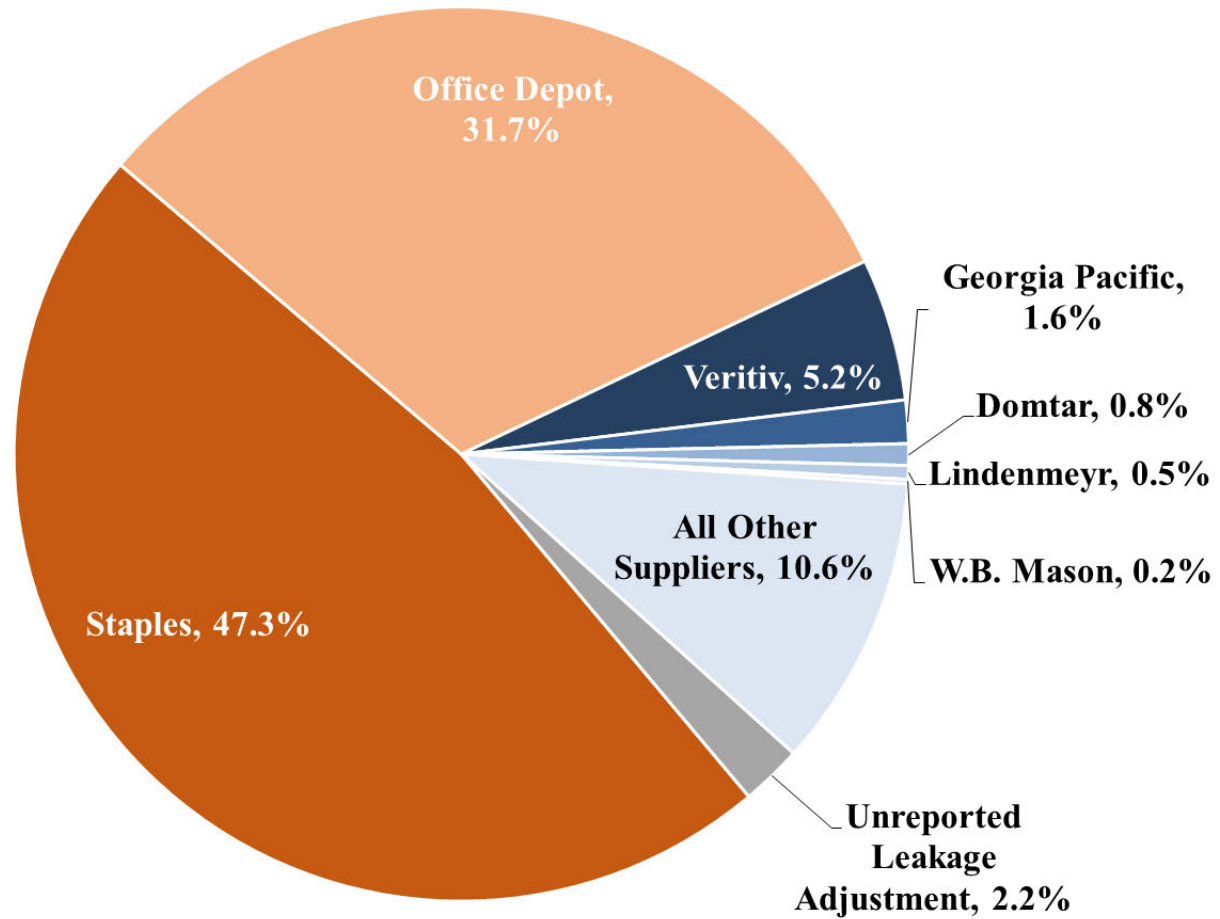
## 2014

Customer	Purchases from Staples & Office Depot
	\$8,097,555
	\$7,107,940
	\$5,036,345
	\$4,071,583
	\$3,819,645
	\$3,514,480
	\$2,772,447
	\$2,320,590
	\$1,867,901
	\$1,756,689
	\$1,453,456
	\$1,277,653
	\$1,158,978
	\$1,141,995
	\$527,149
	\$517,134
	\$425,473
	\$202,589
	\$11,414
<b>Average</b>	<b>\$2,477,948</b>
<b>Median</b>	<b>\$1,756,689</b>

Source: Exhibit E-3, Shapiro Report.

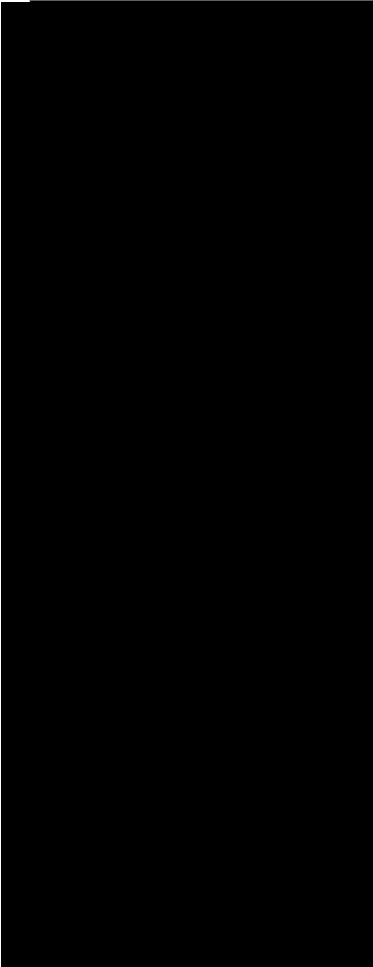
# Consumable Office Supplies Market Shares

*Fortune 100 Customers, 2014*



Source: Exhibit R1B, Shapiro Reply Report.

# Fortune 100 Customers with Discretionary Leakage

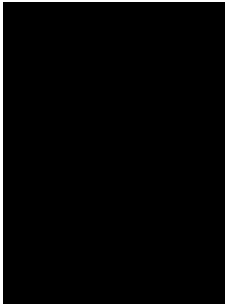
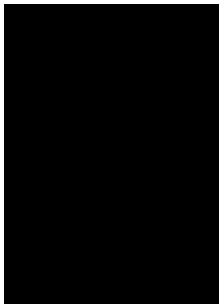
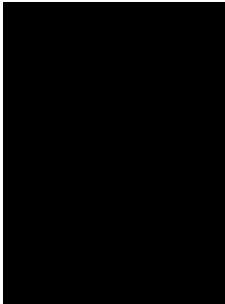
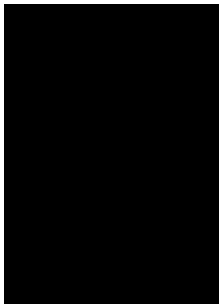
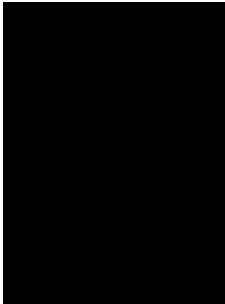
Customer	Estimate
	"Immaterial"
	10%
	1.1%
	0.7%
	4.8%
	"De minimis"
	"De minimis"
	"De minimis"
	"[Q]uite limited...by exception"
	1%
	<3%
	"De minimis"
	"De minimis"
	3.3%
	<5%
	<5%
	"De minimis"
	1.1%
	"De minimis"
	"De minimis"
	10%
	11%
	"Not material"
	"De minimis"
	<3%
	<5%

Source: Exhibit RC-3, Shapiro Reply Report.



## **Retail Price Premiums Relative to Large-Customer Contract Prices**

*2014*

<b>Supplier</b>	<b>In-Store Price Premium</b>	<b>Online Price Premium</b>
Staples		
Office Depot		
OfficeMax		

*Note:* Price premiums are based on a basket of actual purchases by large customers in 2014.

*Sources:* Exhibits 6A-6F, Shapiro Report.

## Amazon.com Sales in Fortune 100 Market Shares Compared with Amazon Data Submission

- Amazon purchases in F100 share data may appear in 3 places:

Supplier Name	\$ Purchases	% Share
AMAZON	\$1,131,860	0.3%
OTHER - supplier not specified	\$9,714,296	2.3%
Unreported leakage adjustment	\$9,519,097	2.2%

\$20.4 million

Customers may have reported “Amazon” explicitly, or captured it within a measure of “other” purchases.

Source: AMAZON001158.xlsx; Exhibit R1B, Shapiro Reply Report.

# Unilateral Competitive Effects

## **Customers Recognize Staples and Office Depot as Closest Competitors**

- [REDACTED] (June, 2015): “Only two B2B providers, Staples and Office Depot, are left in the Office Supplies space since the merger of Office Depot and OfficeMax.”
- [REDACTED] (April, 2014): “Only two providers can support requirements, Staples and Office Depot”
- [REDACTED] (November, 2013): “The Big Three are soon to become the Big Two, and will make up 75% of total market share”

*Sources: See Shapiro Rpt. at 26 (citing PX07008, PX07001, PX07010).*

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## **Staples and Office Depot Recognize They Are Closest Competitors**

- Staples (November, 2013): “There are only two real choices for customers. US or Them.”
- Office Depot (March, 2014): “only 2 primary players in the Enterprise space.”
- Office Depot (February, 2015): “I am sure you have heard the news today regarding the Staples acquisition.... I thought it was odd after the Max/Depot merger that global and large national organizations had basically only two options for office supplies. If this deal is approved that will dwindle to one.

For companies wanting savings, new terms, or additional incentives now is the time to ink those details in a long term contract. [sic] with Depot.”

*Sources: See Shapiro Rpt. at 24-25, 40 (citing PX04082, PX05250, PX07175).*

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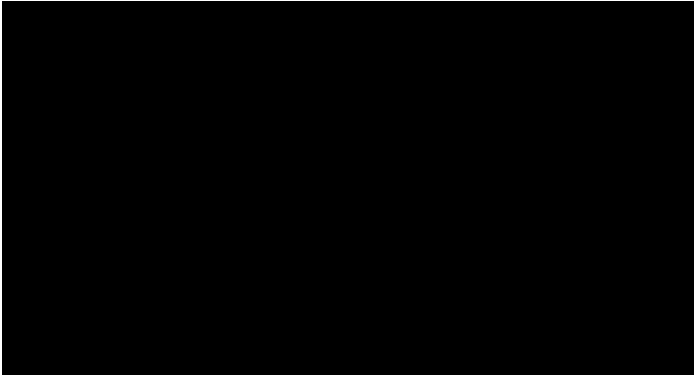
## **Win-Loss Data Analyses**

- **Frequencies**
  - Competitor Appearances: in how many bids did each competitor appear?
  - Competitor Wins: how many bids did each competitor win?
- **Switching Analyses**
  - When Staples or Office Depot lose, who wins those bids?
  - Where do Staples' and Office Depot's wins come from?

## **Types of Win-Loss Data**

- **Office Depot Win-Loss data**
- **Staples Win-Loss data**
- **Office Depot Top Wins/Top Losses data**
- **Staples Top Wins/Top Losses data**
- **Fortune 100 RFP data**

## Large Customer Annual Retention Rates

Supplier	2012	2013	2014
Staples			
Office Depot			
OfficeMax			

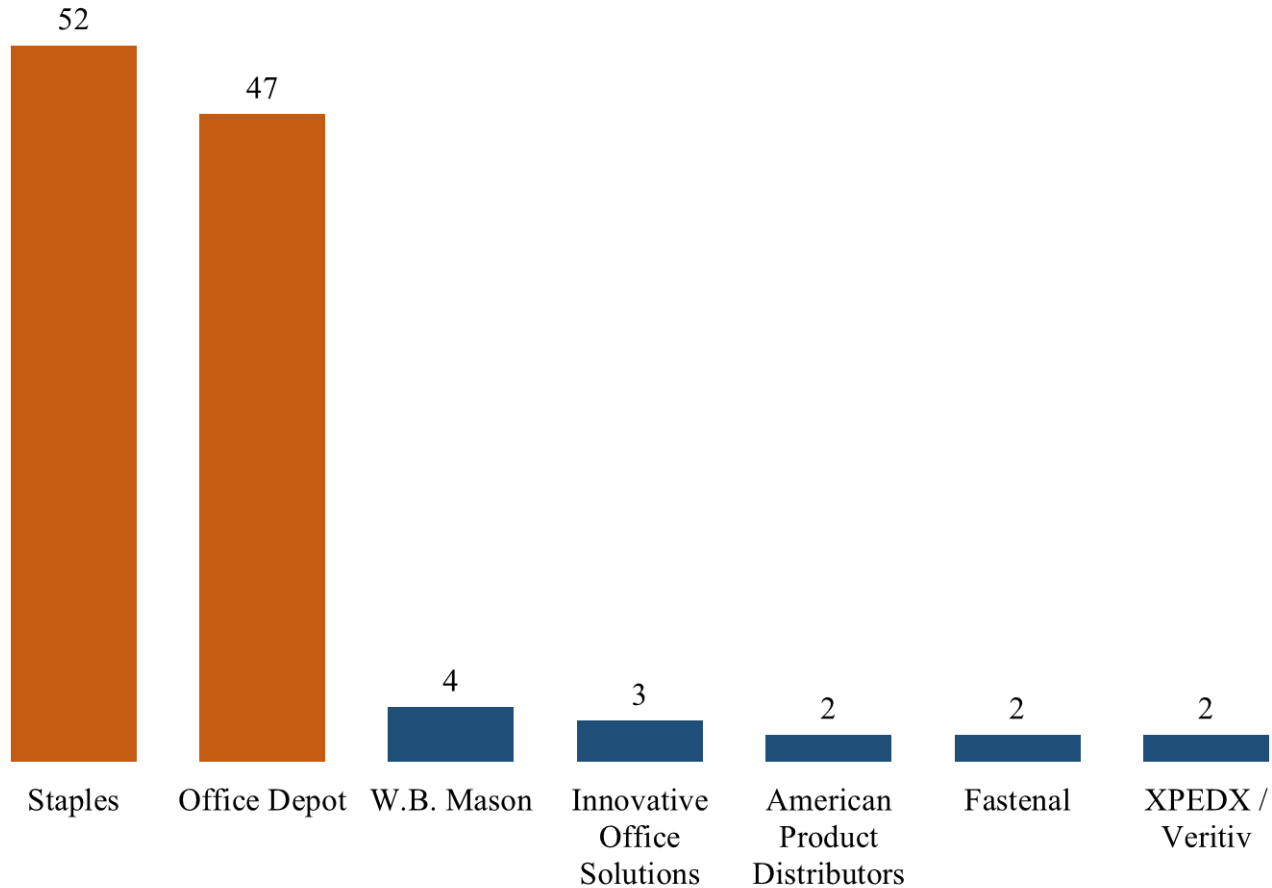
*Note:* Customers are considered retained if current year purchases are >50% of prior year purchases.

*Sources:* Exhibits 16A-16C, Shapiro Report.



# Staples and Office Depot Dominate in Fortune 100 RFP Data Appearances

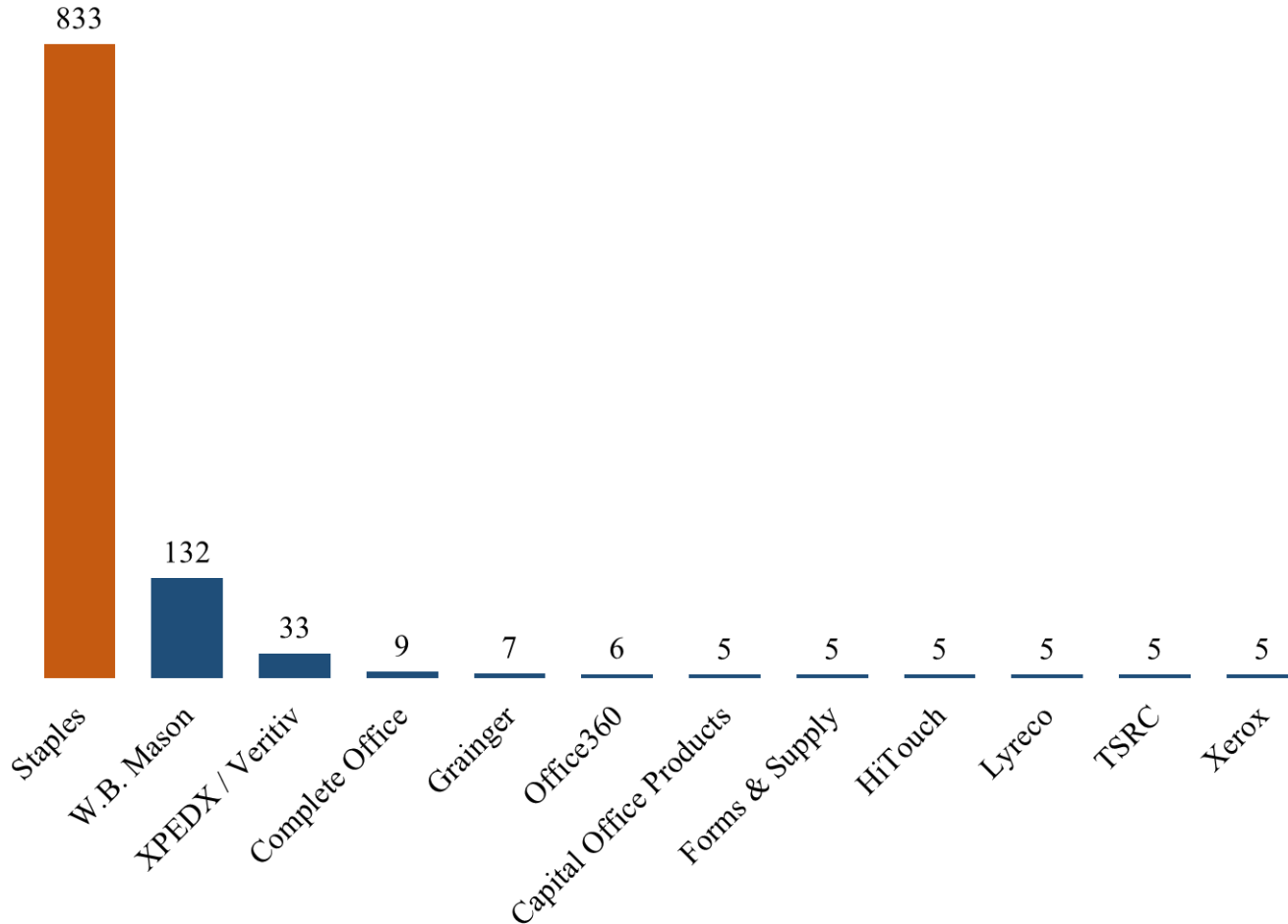
$N = 52$



*Note:* Based on most recent event at each Fortune 100 customer, 2012-2015. In total, 45 suppliers are mentioned.

*Source:* Exhibit R7A, Shapiro Reply Report.

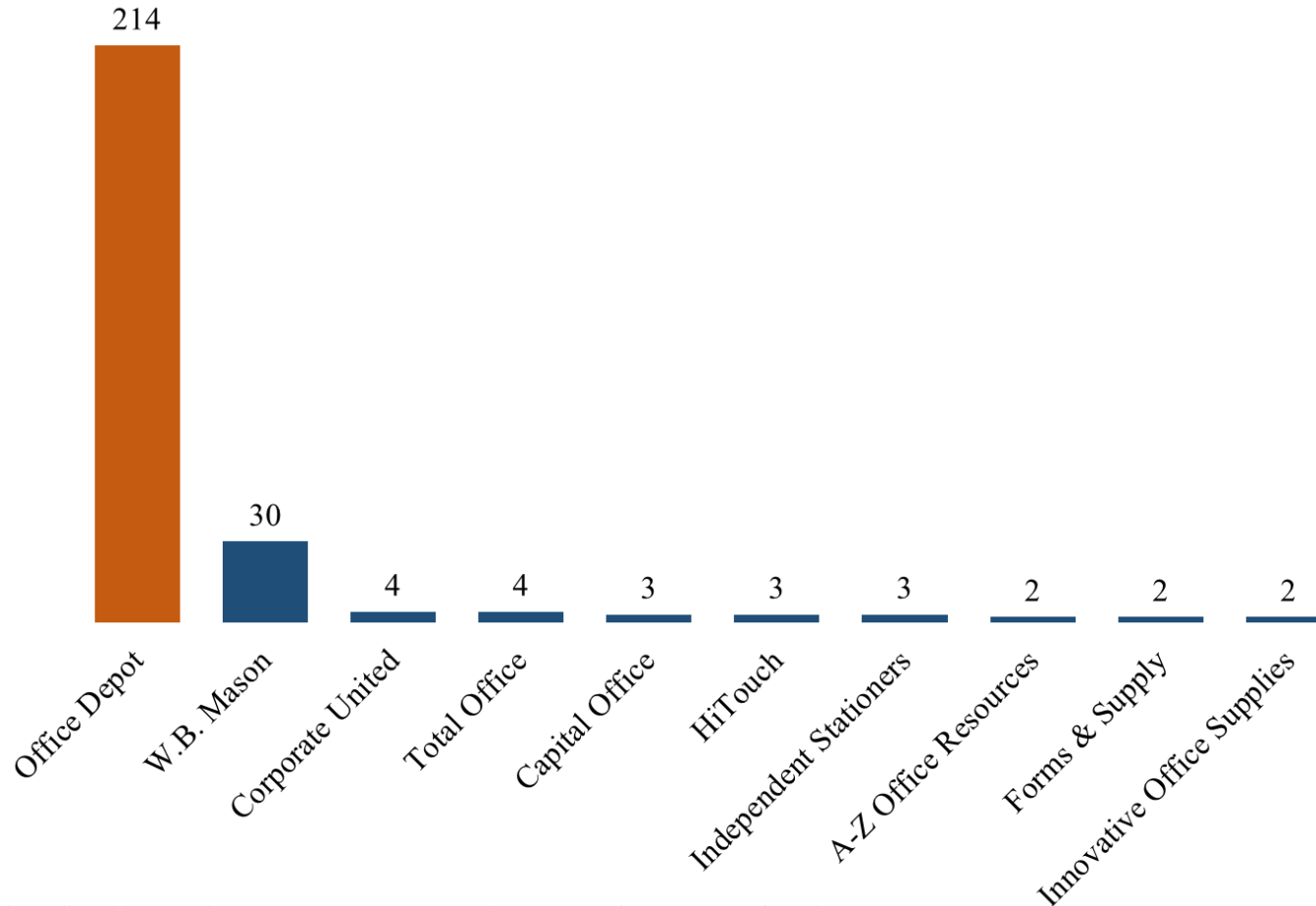
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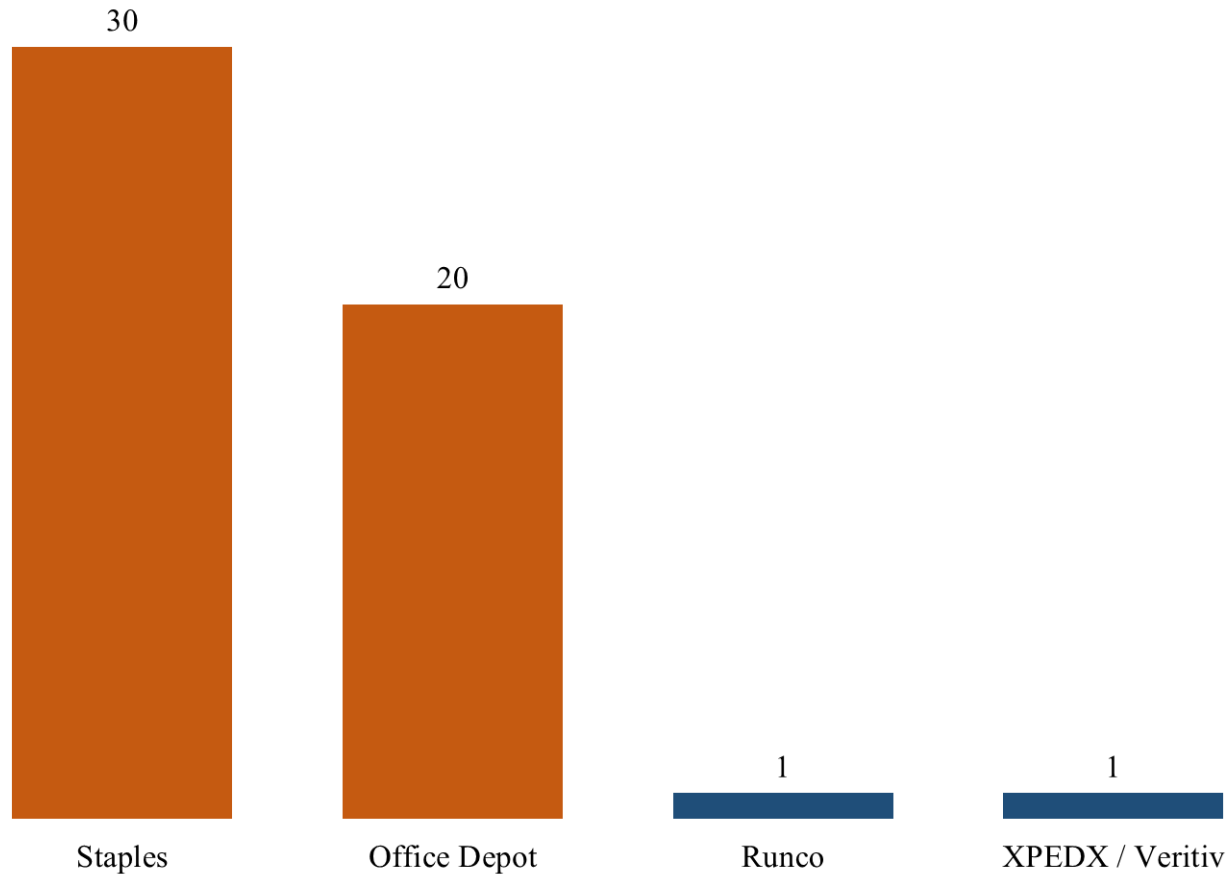


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# Staples and Office Depot Dominate in Fortune 100 RFP Data with 50 Wins Out of 52

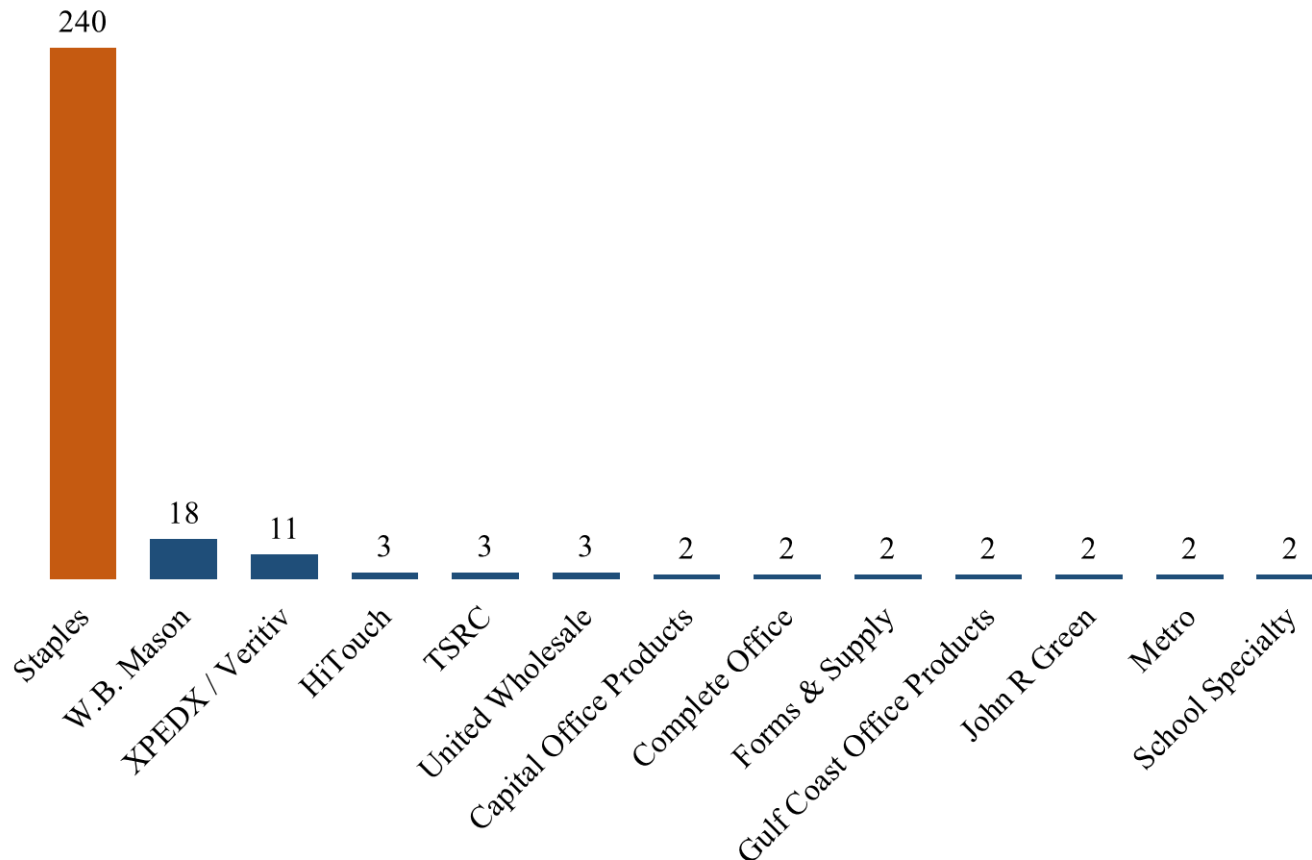
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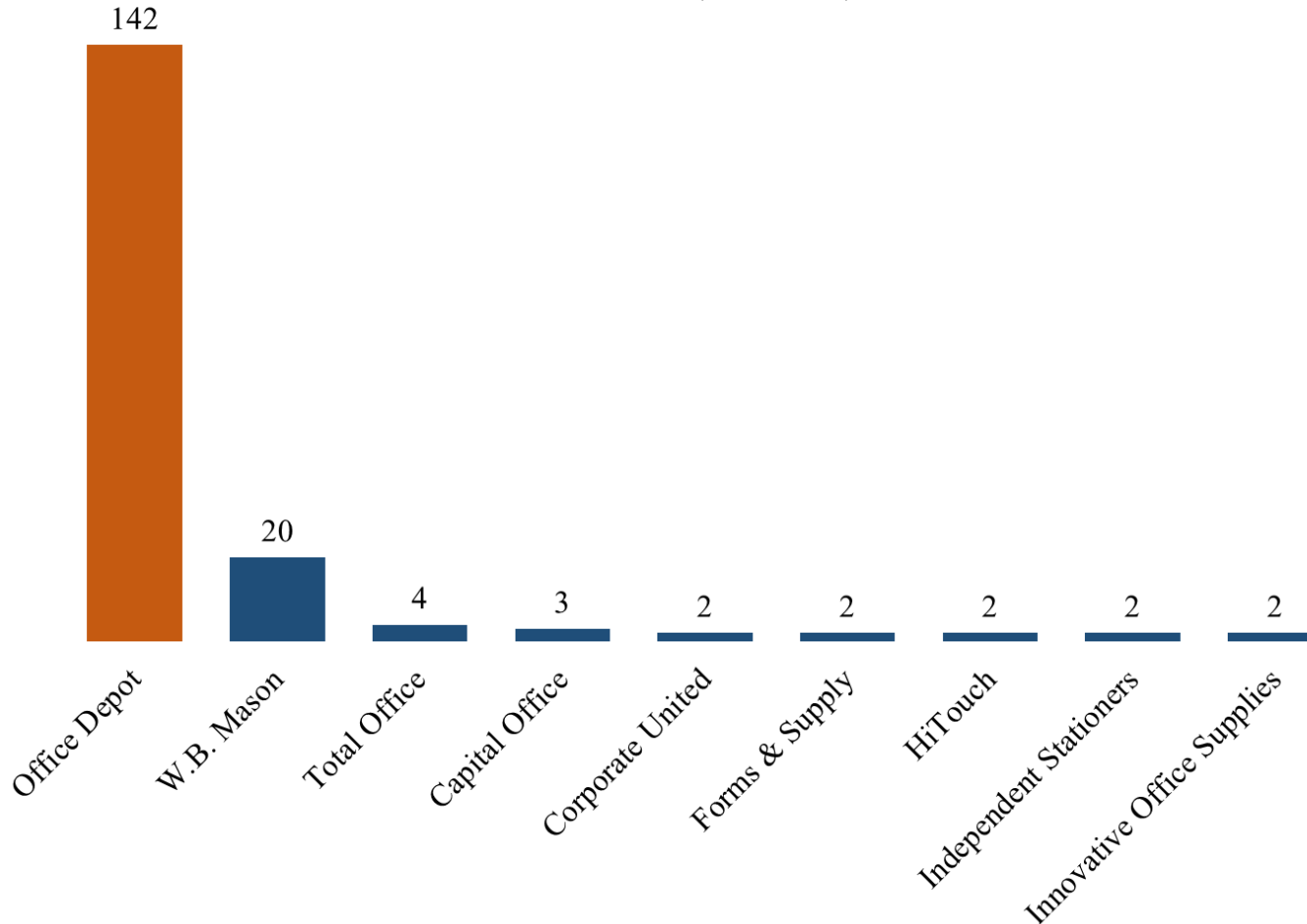


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*Source:* Exhibit 11, Shapiro Report.

# Office Depot and Staples Losses to Competitors

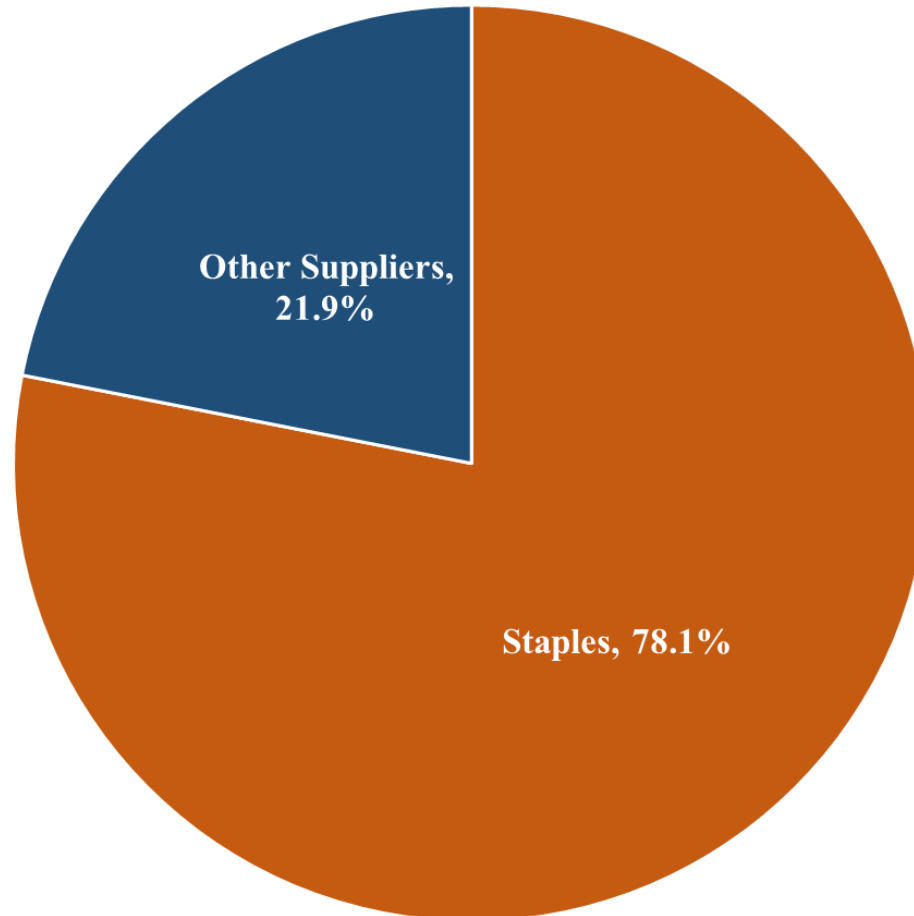
*Fortune 100 Win-Loss Data, 2012-2015*

<b>Incumbent</b>	<b>Winner</b>	<b>Number of Bids</b>	<b>Share of Incumbent Losses</b>
Office Depot	Staples	7.0	<b>100%</b>
	Other Suppliers	0.0	0%
Staples	Office Depot	5.0	<b>91%</b>
	Other Suppliers	0.5	9%

Source: Exhibit R7B, Shapiro Reply Report.

# Most of Office Depot's Losses Are to Staples

*Office Depot Win-Loss Data, 2013-2015*



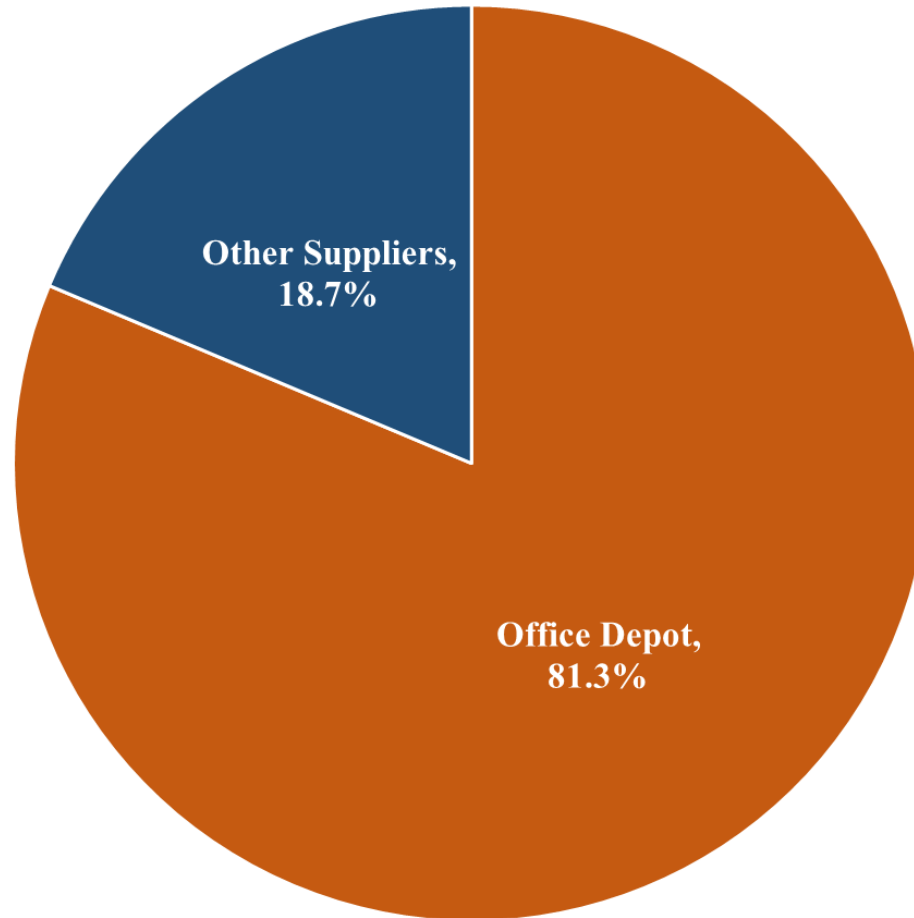
N = 78

Source: Exhibit 13, Shapiro Report.



## Most of Staples' Losses Are to Office Depot

*Staples Win-Loss Data, 2012-2014*

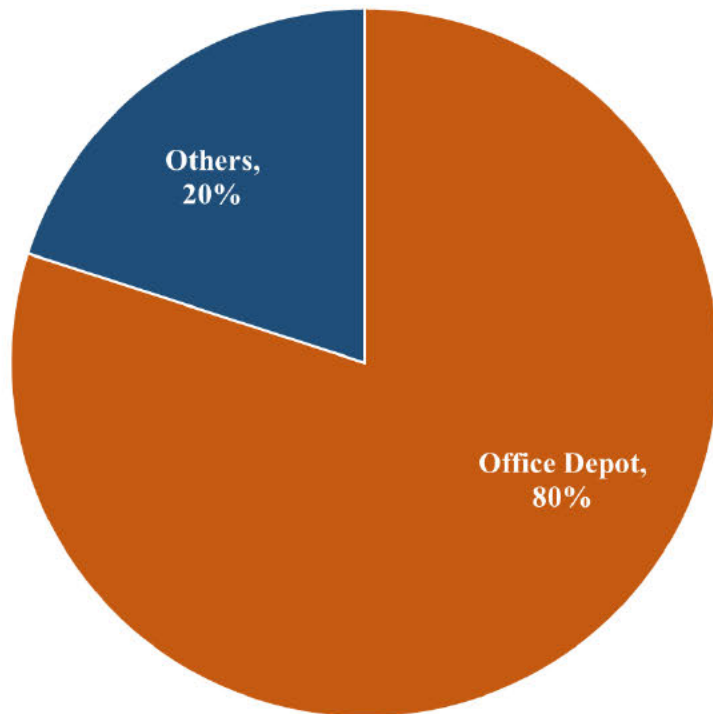


N = 35

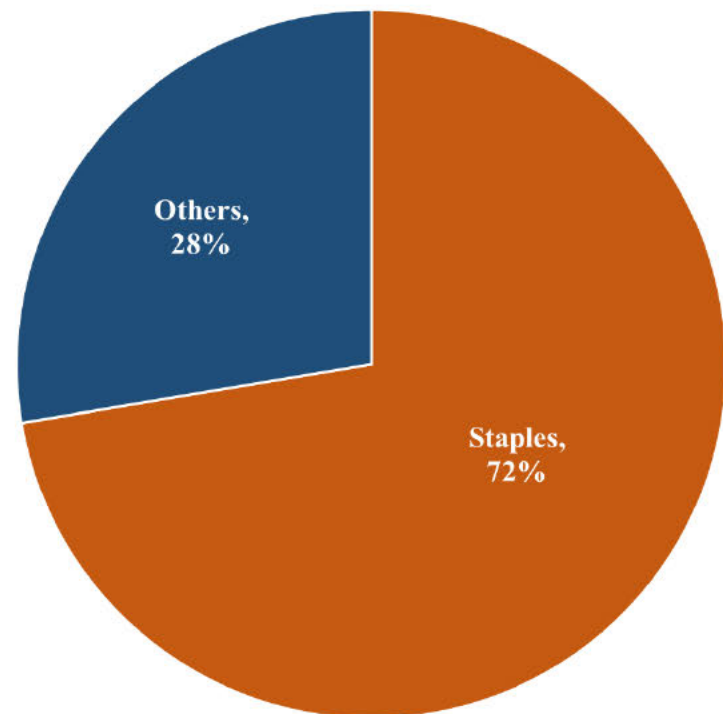
Source: Exhibit 15, Shapiro Report.

## **Each Company's Top Losses Are to the Other** *2012-2015*

**Staples' Top 50 Losses Went To:**



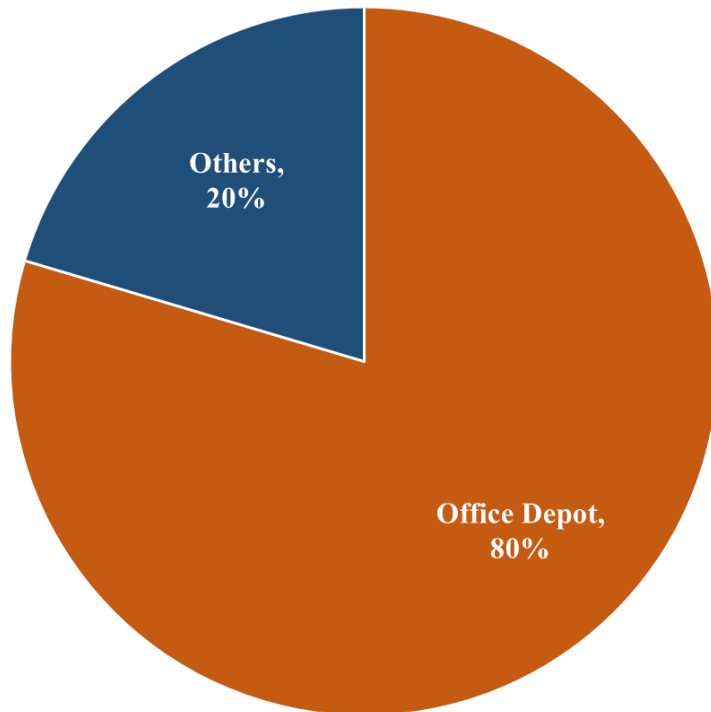
**Office Depot's Top 50 Losses Went To:**



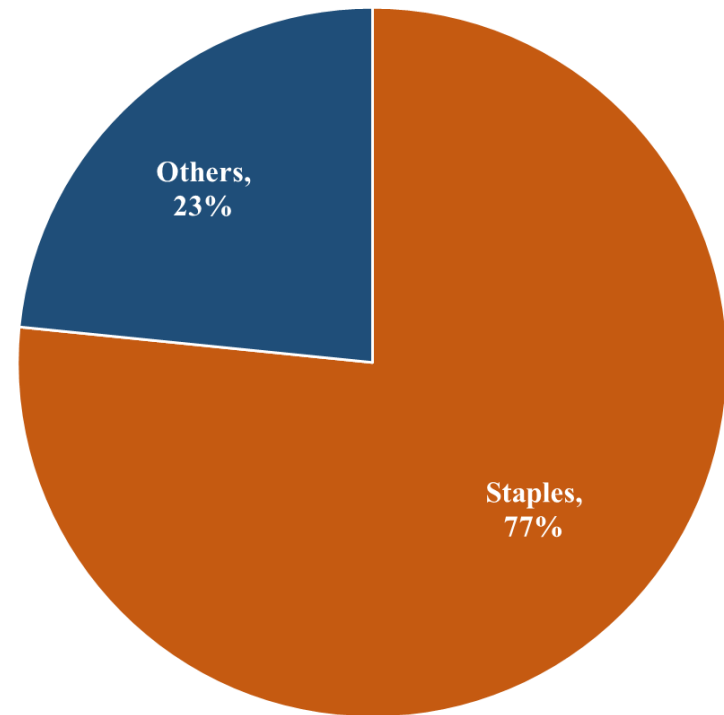
*Sources: Exhibits 17-18, Shapiro Report.*

## Each Company's Top Wins Are From the Other *2012-2015*

**Staples' Top 50 Wins Came From:**



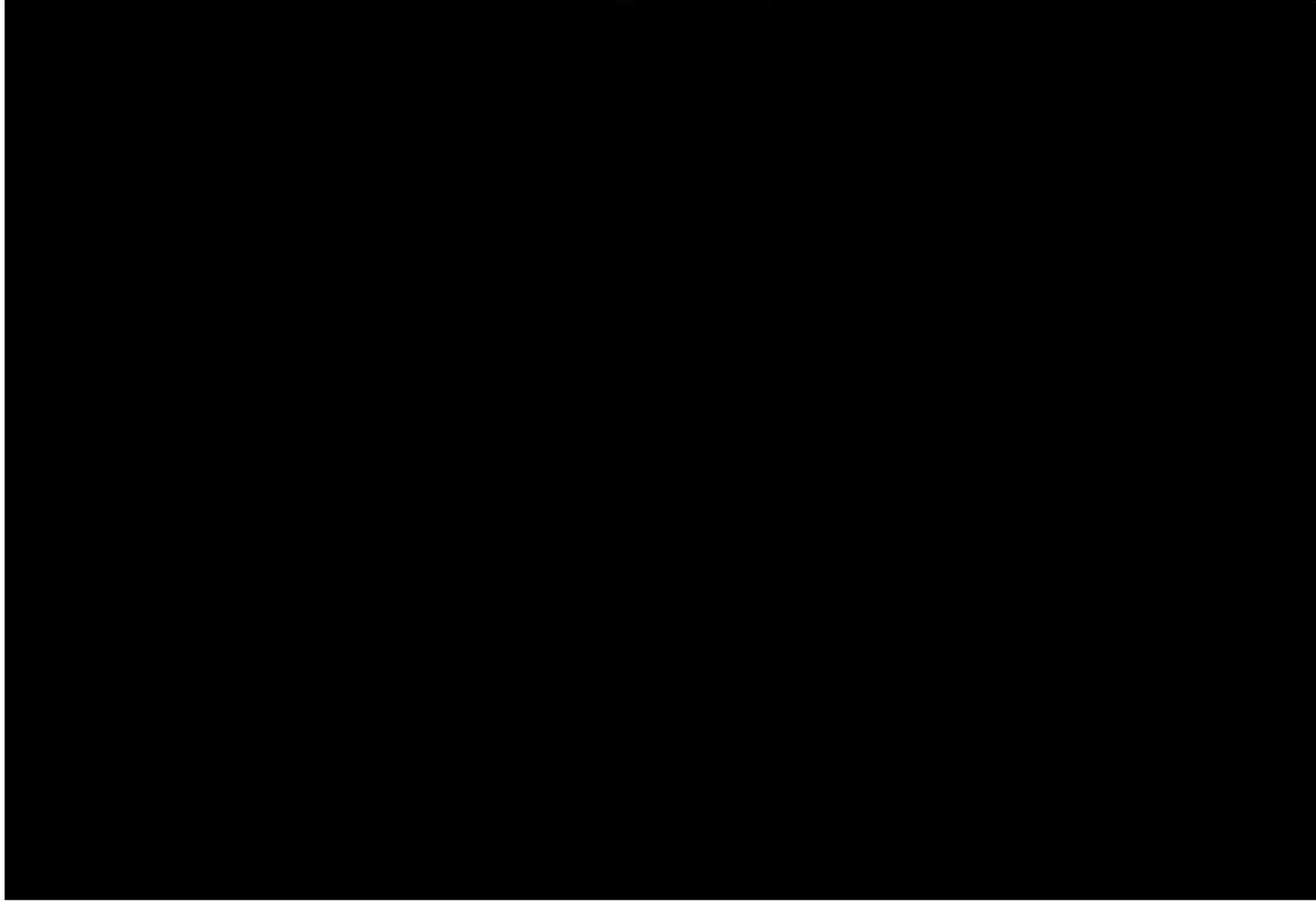
**Office Depot's Top 50 Wins Came From:**



Sources: Exhibits 19-20, Shapiro Report.

# **All-Channel U.S. Sales of Consumable Office Supplies**

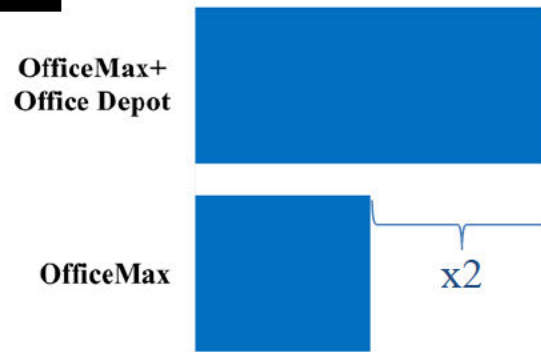
*Millions of Dollars, 2014*



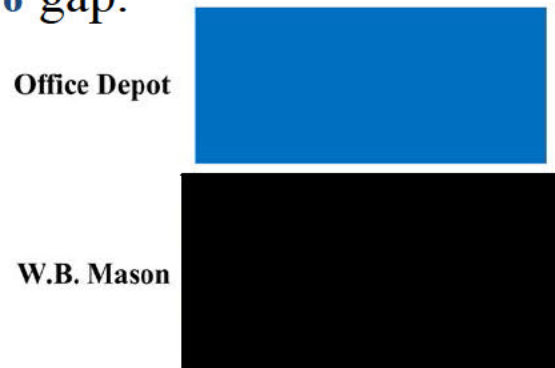
*Source:* Exhibit R9, Shapiro Reply Report.

## Estimate of a COGS Gap Between W.B. Mason and Office Depot

- Based on estimates from OfficeMax-Office Depot merger, doubling in scale lowers COGS by █ %.



- W.B. Mason would need to double roughly █ times to match Office Depot's scale – implying a 6.0% gap.



## Powerful Buyers Can Still Be Harmed

### 8. Powerful Buyers

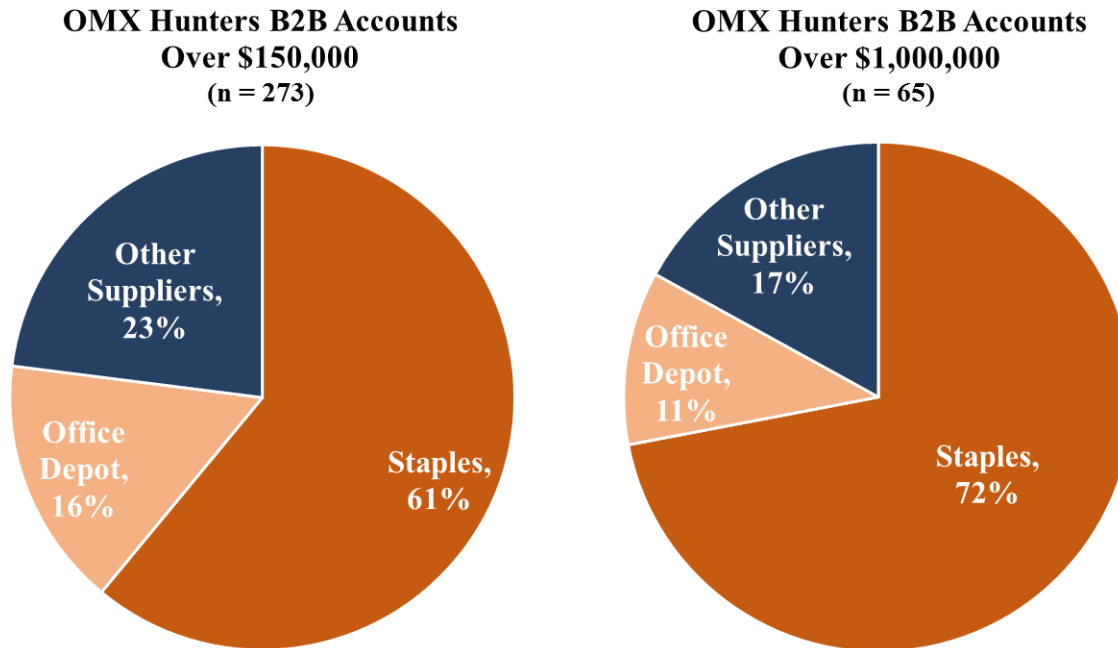
The Agencies consider the possibility that powerful buyers may constrain the ability of the merging parties to raise prices. This can occur, for example, if powerful buyers have the ability and incentive to vertically integrate upstream or sponsor entry, or if the conduct or presence of large buyers undermines coordinated effects. However, the Agencies do not presume that the presence of powerful buyers alone forestalls adverse competitive effects flowing from the merger. Even buyers that can negotiate favorable terms may be harmed by an increase in market power. The Agencies examine the choices available to powerful buyers and how those choices likely would change due to the merger. Normally, a merger that eliminates a supplier whose presence contributed significantly to a buyer's negotiating leverage will harm that buyer.

*Source:* Horizontal Merger Guidelines § 8.

# OfficeMax Losses Prior to Merger with Office Depot

## in Office Depot Presentation to FTC, 2013

*Opportunities for >\$150K and >\$1M B2B Accounts, 2008-2013*



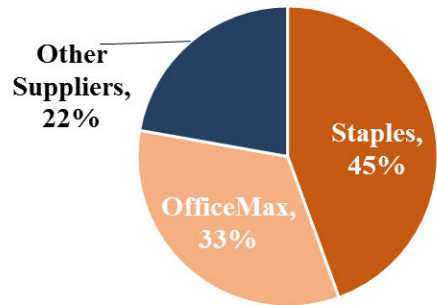
Source: Office Depot OfficeMax Presentation to FTC on Competition for Contract Sales to Large and National Customers, September 13, 2013, pp. 18, 21.

# Office Depot Losses Prior to Merger with OfficeMax

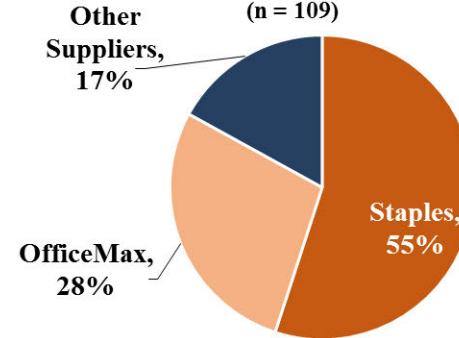
## in Office Depot Presentation to FTC, 2013

*Opportunities for >\$150K and >\$1M B2B Accounts, 2007-2013*

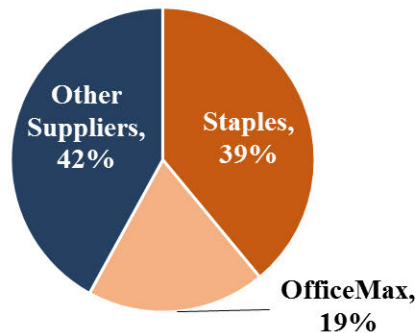
**ODP Bid History B2B Accounts  
Over \$1,000,000  
(n = 9)**



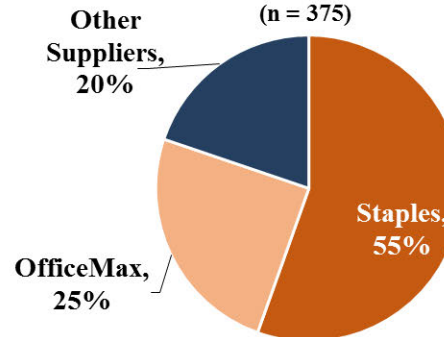
**ODP Win/Loss/Renew B2B Accounts  
Over \$1,000,000  
(n = 109)**



**ODP Bid History B2B Accounts  
Over \$150,000  
(n = 37)**



**ODP Win/Loss/Renew B2B Accounts  
Over \$150,000  
(n = 375)**



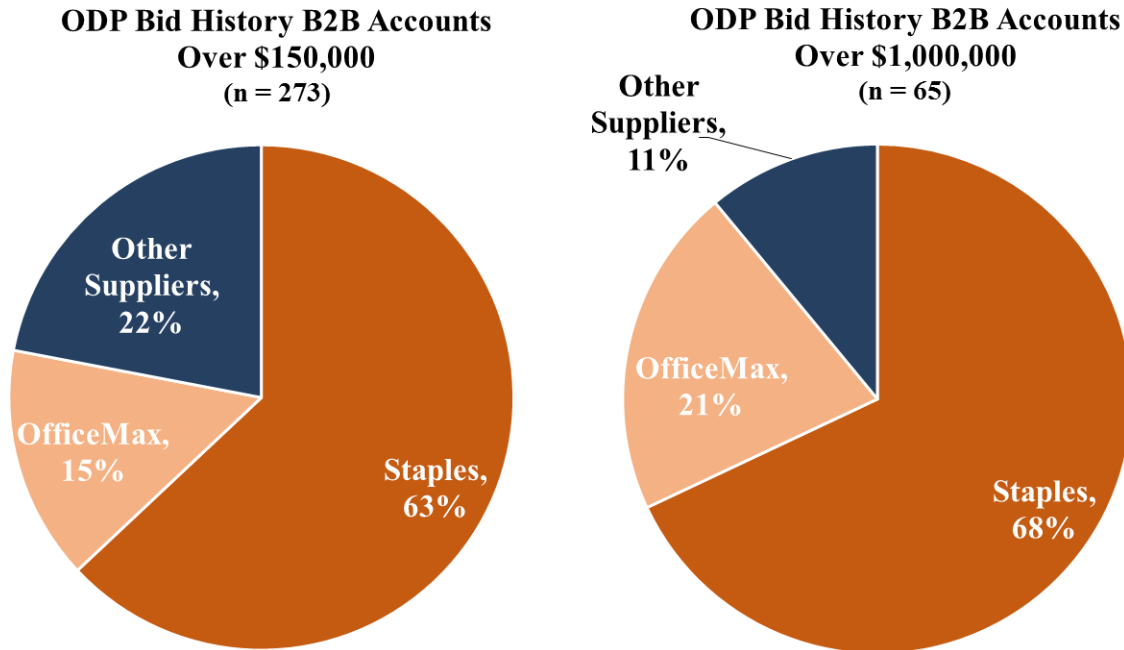
Source: Office Depot OfficeMax Presentation to FTC on Competition for Contract Sales to Large and National Customers, September 13, 2013, pp. 18, 21.



# Runner-Ups for Office Depot Wins Prior to Merger with OfficeMax

## in Office Depot Presentation to FTC, 2013

*Opportunities for >\$150K and >\$1M B2B Accounts, 2012*



Source: Office Depot OfficeMax Presentation to FTC on Competition for Contract Sales to Large and National Customers, September 13, 2013, p. 40.

# Entry & Expansion

## **Entry Must Be Timely, Likely, and Sufficient**

### **9. Entry**

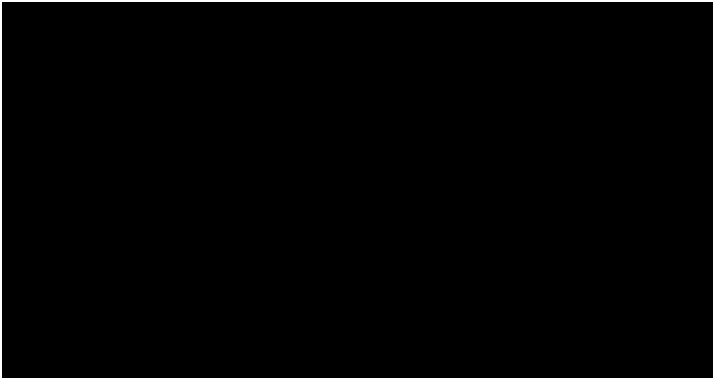
The Agencies examine the timeliness, likelihood, and sufficiency of the entry efforts an entrant might practically employ.

#### **9.3 Sufficiency**

Even where timely and likely, entry may not be sufficient to deter or counteract the competitive effects of concern. For example, in a differentiated product industry, entry may be insufficient because the products offered by entrants are not close enough substitutes to the products offered by the merged firm to render a price increase by the merged firm unprofitable. Entry may also be insufficient due to constraints that limit entrants' competitive effectiveness, such as limitations on the capabilities of the firms best placed to enter or reputational barriers to rapid expansion by new entrants. Entry by a single firm that will replicate at least the scale and strength of one of the merging firms is sufficient. Entry by one or more firms operating at a smaller scale may be sufficient if such firms are not at a significant competitive disadvantage.

*Source: Horizontal Merger Guidelines § 9.*

## Large Customer Annual Retention Rates

Supplier	2012	2013	2014
Staples			
Office Depot			
OfficeMax			

*Note:* Customers are considered retained if current year purchases are >50% of prior year purchases.

*Sources:* Exhibits 16A-16C, Shapiro Report.

## Large Customers Are Sticky

I am looking at the SPLS TL that's in the market and listened to the call. Was hoping I could get some clarification on the nature of your B2B contracts and anything you can speak to a bit more in regards to the stickiness of those customers and how SPLS differentiates itself from a customer service/sales force relationship standpoint.

- Staples' North American contract business is made up of ~30% large enterprise customers and ~70% mid-market and regional customers.
- We serve more than half of the Fortune 100 and over 200 thousand mid-sized customers in North America.
- As Ron mentioned at the bank meeting, a high percentage of our large and mid-sized customers are covered by contracts and these customers tend to exhibit high retention rates due to our integration into their businesses and IT systems.
- Staples differentiates itself in a number of important ways:
  - In order to offer superior contract customer service, we restructured our sales force a couple of years ago to more of a team based selling model.
  - This new structure is focused on driving growth in categories beyond office supplies.

- As Ron mentioned at the bank meeting, a high percentage of our large and mid-sized customers are covered by contracts and these customers tend to exhibit high retention rates due to our integration into their businesses and IT systems.

- Contracts do not preclude customers from buying from other vendors; however, this is less likely to occur especially with our larger enterprise customers for the reasons outlined above.

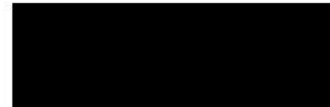
Any color on retention rates in general or for your largest accounts?

- Contract retention rates for mid to large customers has been very strong and reached high double digits in terms of rates of retention.
- We have been pleased with our contract customer acquisition as well.

Any sense of what % of revenue the largest customers represent if you're able to speak to that?

- We have not been precise with this information in the public arena, however, we can tell you that we don't have any single customer that represents 10% or more of our contract business.

Thanks for any help.



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SPLS\_0016423

PX04131-002

Source: PX04131 (SPLS) at 002.

## Other Market Participants Have Higher COGS

- **W.B. Mason:** “I believe that no other vendor can consistently compete effectively with Staples or Office Depot on the cost of goods. They purchase far more volume from manufacturers than any other vendor. From my experience as a buyer of office supplies from manufacturers, I know Staples’ and Office Depot’s unmatched scale leads to unmatched buying power. WBM, as the third-largest office supplies vendor in the country, has some ability to obtain discounts from manufacturers, but not as much as Staples and Office Depot, so our cost of goods is higher.”
- [REDACTED]: “In terms of overall purchase volume, it is generally true that the more a customer buys the better the overall pricing and program incentive. As a result, Office Depot and Staples typically receive better combined pricing and program incentives based on their mix of purchases (less commodity/higher value mix) than do smaller independent dealers. Further, independent dealers often require additional services [REDACTED] (e.g., catalog support, marketing programs, digital platform support, etc.), which must be covered in the overall transactional pricing and incentive programs that they receive.”
- [REDACTED]: “Based on my experience working for [REDACTED] for over a decade, I am familiar with the difference in COGS that large companies like Staples and Office Depot can negotiate with manufacturers compared to [REDACTED]. Although it varies based on the commodity and manufacturer, I estimate that Staples and Office Depot are able to obtain a net cost differential (including back-end rebates) of about 5% to 25% lower [REDACTED].”

Sources: [REDACTED]



## **Purchasing Cost Advantages Are Driven by Manufacturer-Direct Purchasing**

### **Share of Procurement from Manufacturers**

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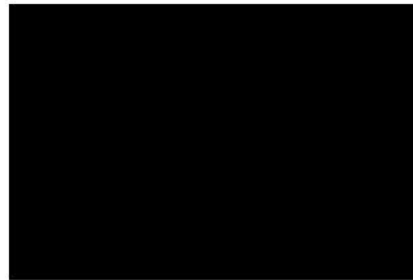
Staples

Office Depot

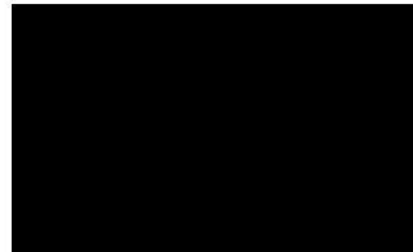
W.B. Mason

HiTouch

Guernsey



*Less than 50%*



Sources: PX04629 (Staples); PX05424 (Office Depot); [REDACTED]

# Staples Touts Benefits of Minimal Reliance on Wholesalers to Customers

secondary Staples FCs or our wholesalers. As the world's largest office supplier, Staples has a supply chain model that sources directly from manufacturers, especially on our top selling items. More than 90% of Staples

sales to our customers are fulfilled from our network of fulfillment centers, or is shipped directly from a manufacturer to our customers. Only a very small percentage of our existing sales come from wholesalers.

This contrasts with many dealers that fulfill principally from wholesaler facilities. This "dealer model" requires that products travel through three different steps in the supply chain before they get to the customer – manufacturer, wholesaler, local dealer – which translates into three different markups when developing a customer's end price. In sourcing directly from manufacturers, Staples bypasses one stop in the supply chain. This translates to one less markup – and, ultimately – savings to our customers.

## Minimized Wholesaler Dependence

Staples' inventories throughout our network of fulfillment centers represent the most popular brands that customers demand. Our product inventories represent more than 95% of the items sold everyday. As a result, we have been able to minimize our dependence on wholesaler product inventories, resulting in higher fill rates and more competitive pricing since we are not paying an inflated cost for the product.

Sources: PX04484 (Staples); PX04641 (Staples).



# Dispersion of Locations

## Staples, Office Depot & OfficeMax Customers

*2014*

Vendor	B2B Customer Group	Average Counts		Average Distance to Center (Miles)
		Zip Codes	States	
Staples	All Customers	5	2	71
	Large Customers	552	29	612
Office Depot	All Customers	3	1	41
	Large Customers	582	27	609
OfficeMax	All Customers	10	2	73
	Large Customers	461	23	517

Sources: Exhibits 4A-4B, Shapiro Report.

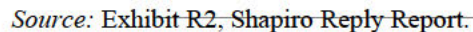
- **W.B. Mason:** “In addition, I believe that Staples’ and Office Depot’s nationwide networks of distribution centers and their high sales volume results in costs that are far lower than vendors that must rely more (or entirely) on wholesalers for distribution. [REDACTED]  
[REDACTED] Outside of this area, we rely entirely on Essendant, and our costs are much higher. This results, on average, in net profit margins [REDACTED] for sales outside of Masonville.”
- [REDACTED]: “Essendant, the office products wholesaler, is the principal third party upon which we rely to serve out-of-market customer locations. Specifically, we rely on Essendant to pick and pack orders from its own warehouses and deliver those orders to out-of-market customer locations either directly or through third-party couriers. This distribution method is more costly compared to when we deliver products from our own warehouses. Essendant generally charges us delivery fees of between 7% and 13% of our total costs of goods for the order. By comparison, within our geographic footprint, our delivery costs usually only total about 3.50% of our costs of goods.”
- [REDACTED]: “Because we lack the distribution assets outside of our primary operating region [REDACTED] must rely on third parties to serve these customers’ locations. . . . [REDACTED] uses [REDACTED] network of member-dealers, wholesalers such as Essendant or S.P. Richards, or common carriers like FedEx and UPS to complete these deliveries. Relying on wholesalers and common carriers, however, is more costly than when we deliver direct from one of our eight warehouses.”
- [REDACTED]: “Relying on wholesalers like Essendant and S.P. Richards for packaging and delivery services costs [REDACTED], on average, 5% more than if it was delivering to its own customers.”
- [REDACTED]: “Additionally, [REDACTED] has difficulty serving customers [REDACTED] because our delivery costs with third-party couriers, UPS, and FedEx are twice as high as delivery using our own trucks. This significant cost difference makes it cost-prohibitive for [REDACTED] to compete for a customer where a majority of the customer's orders will be delivered [REDACTED].”

Sources: PX03021 ¶ 24 (W.B. Mason); [REDACTED]

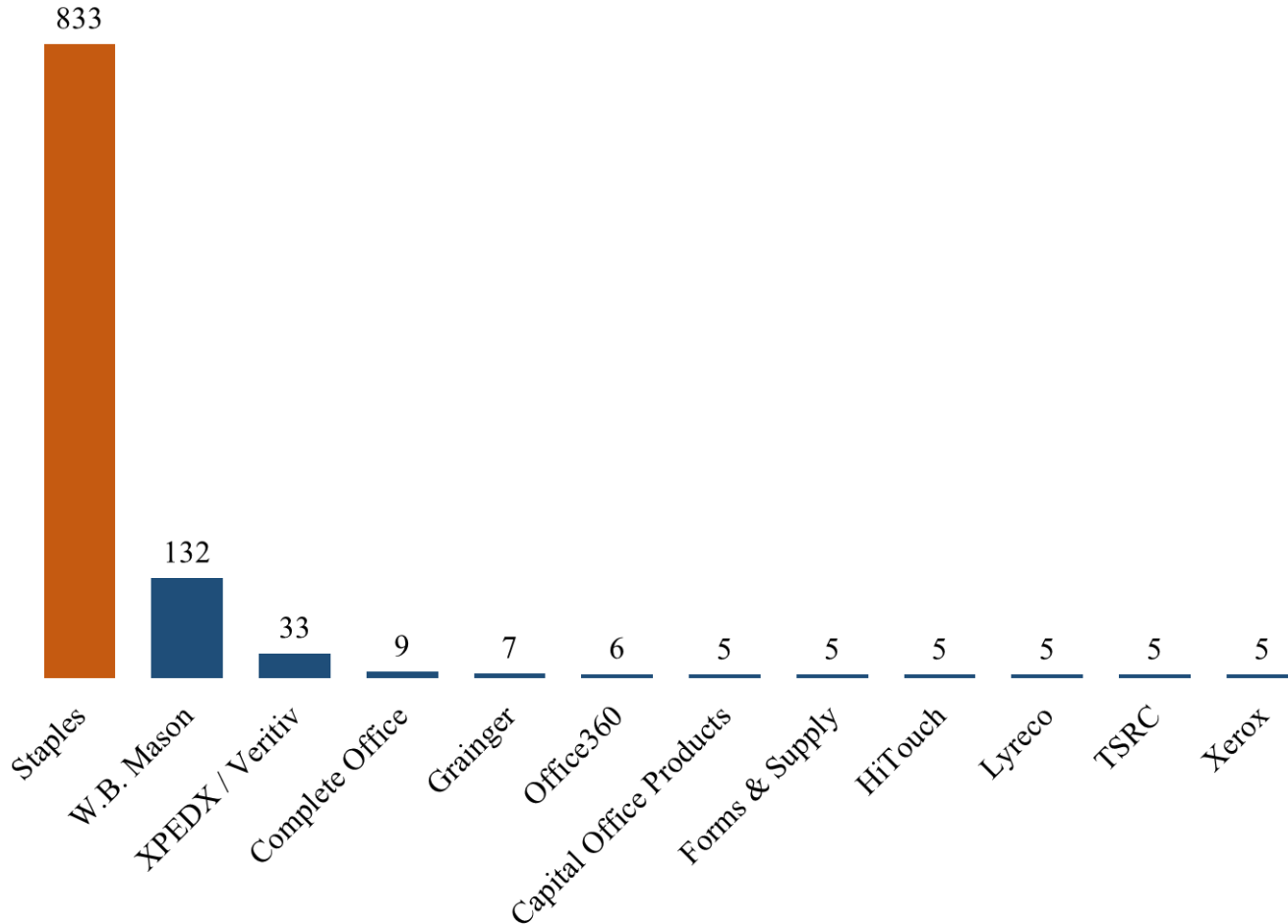
## Time and Costs to Build Distribution Centers

- **W.B. Mason:** “It would take at least [REDACTED] years to expand into that many new markets, and even that pace would entail a serious increase in our usual rate of expansion.”
- [REDACTED]: “[REDACTED] preferred expansion model is to acquire smaller dealers,” and “[e]ven this expansion model takes time and resources, [they] have only executed three such acquisitions in the last 10 years.”
- [REDACTED]: explains that “‘greenfield’ entry (i.e., building a new distribution center in a new area) is time consuming, financially risky, expensive, and logistically challenging[;]” the distribution center they added in 2001 cost over \$5 million.

Sources: PX03021 Decl. ¶ 36 (W.B. Mason); [REDACTED].



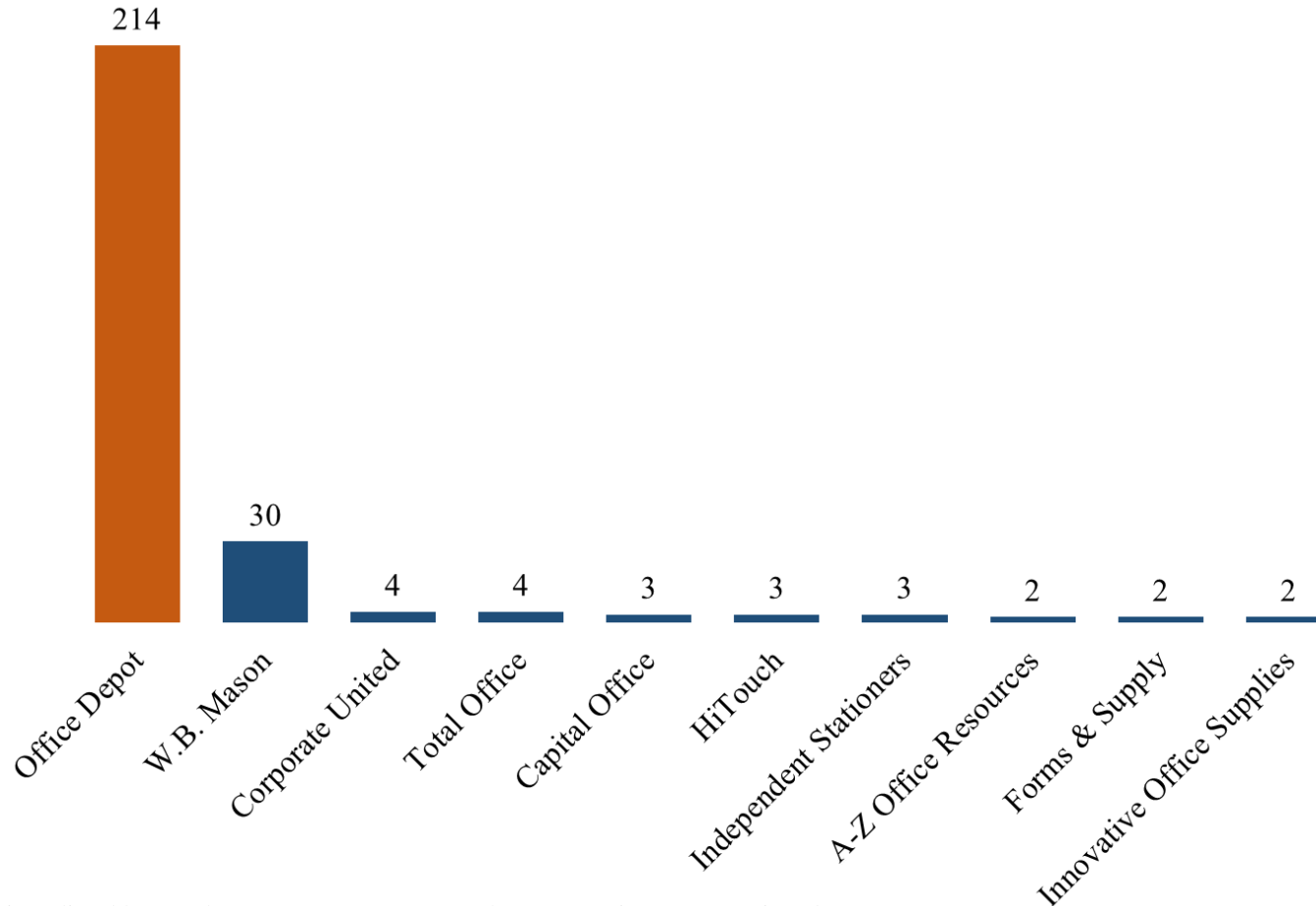
# Staples Dominates in Office Depot's Win-Loss Data with 833 Appearances *2013-2015 (N = 1253)*



*Note:* Competitors listed have at least 5 appearances. There are 30 competitors with 2 to 4 appearances, and 126 competitors mentioned in total.  
*Source:* Exhibit 10, Shapiro Report.

# Office Depot Dominates in Staples Win-Loss Data with 214 Appearances

2012-2014 (N = 393)

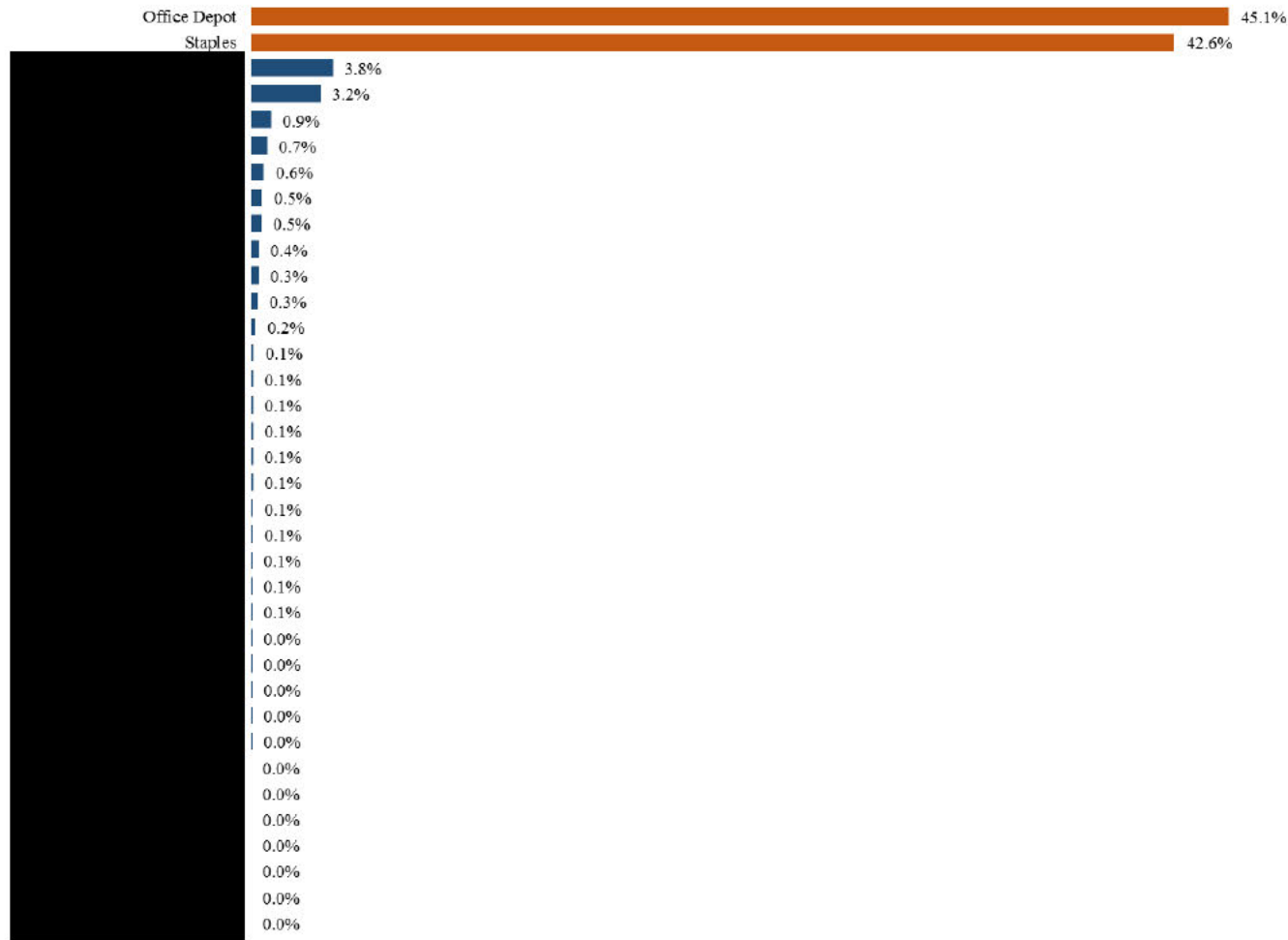


*Note:* Competitors listed have at least 2 appearances. In total, 43 competitors are mentioned.

*Source:* Exhibit 11, Shapiro Report.

## Primary Vendor Relationship Shares

*Consumable Office Supplies, 2014*



*Source:* Exhibit R2, Shapiro Reply Report.



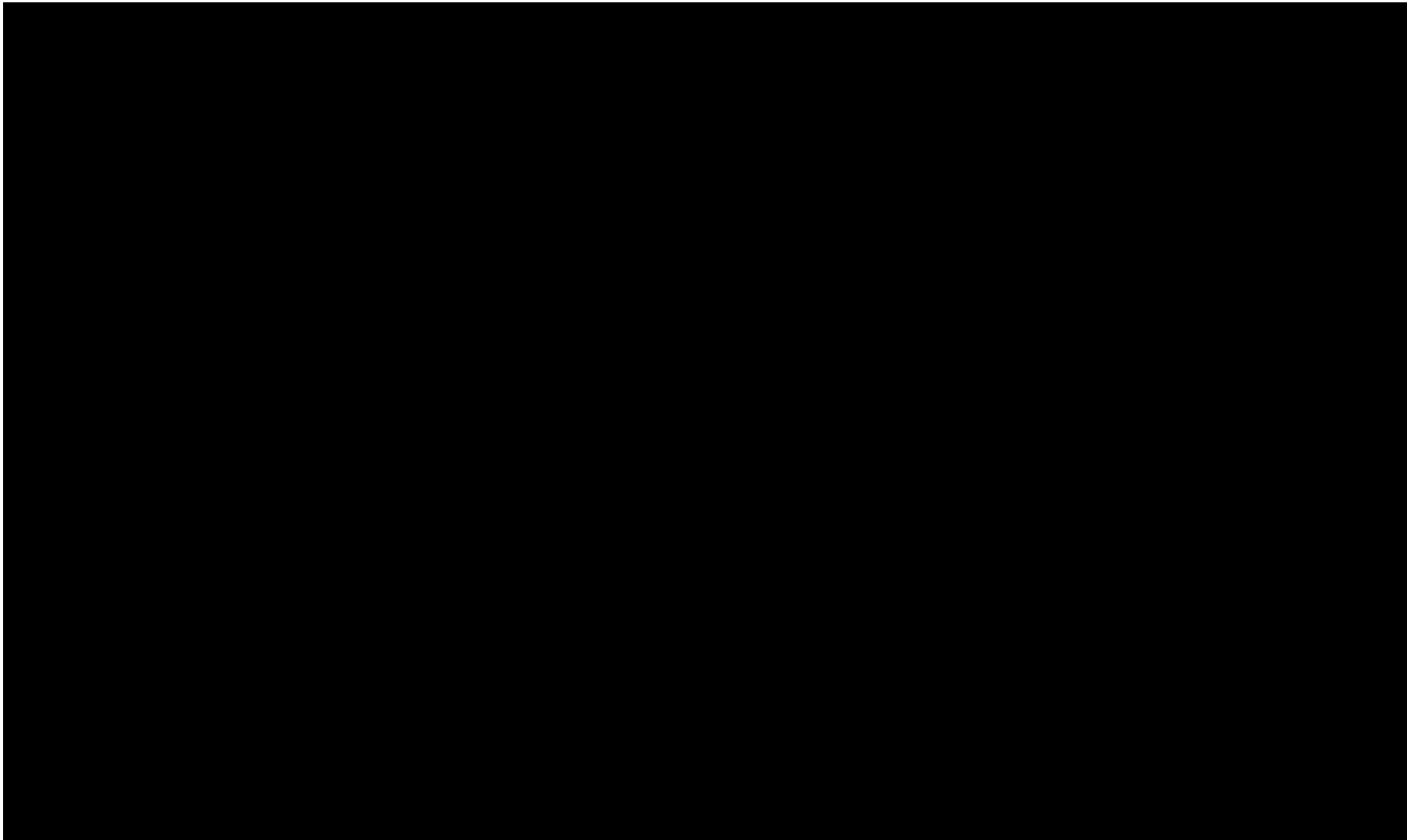
## Competitor Views on Expansion

- [REDACTED]: “[REDACTED] has no specific plans to expand into any new markets.”
- [REDACTED]: “Even if Staples merged with Office Depot and the combined firm raised prices significantly (by 10%, for example), we would not alter our expansion plans. We currently do not have any excess physical capacity.”
- [REDACTED]: “[REDACTED] has no material plans to pursue large national or multiregional customers, like Fortune 1000 companies. [REDACTED] does not have the resources to expand our geographic footprint or invest in the services necessary to compete for these large customers, and I do not see [REDACTED] making these investments within the foreseeable future.”
- [REDACTED]: “[REDACTED] focuses on customers smaller than [the Fortune 1000], mostly within our primary operating region.”
- [REDACTED]: “[REDACTED] has] no foreseeable plans to materially expand our business to pursue large national or multiregional accounts, such as Fortune 500 companies.”
- [REDACTED]: “[REDACTED] would find it prohibitively expensive to make the investments necessary to compete for large business customers the way Staples and Office Depot do today.”
- [REDACTED]: “[REDACTED] lack of a national sales and distribution network has impeded our ability to win national accounts. . . . More often than not, we choose not to bid on national accounts, because...it is an exercise in futility.”

Sources: [REDACTED]  
[REDACTED]

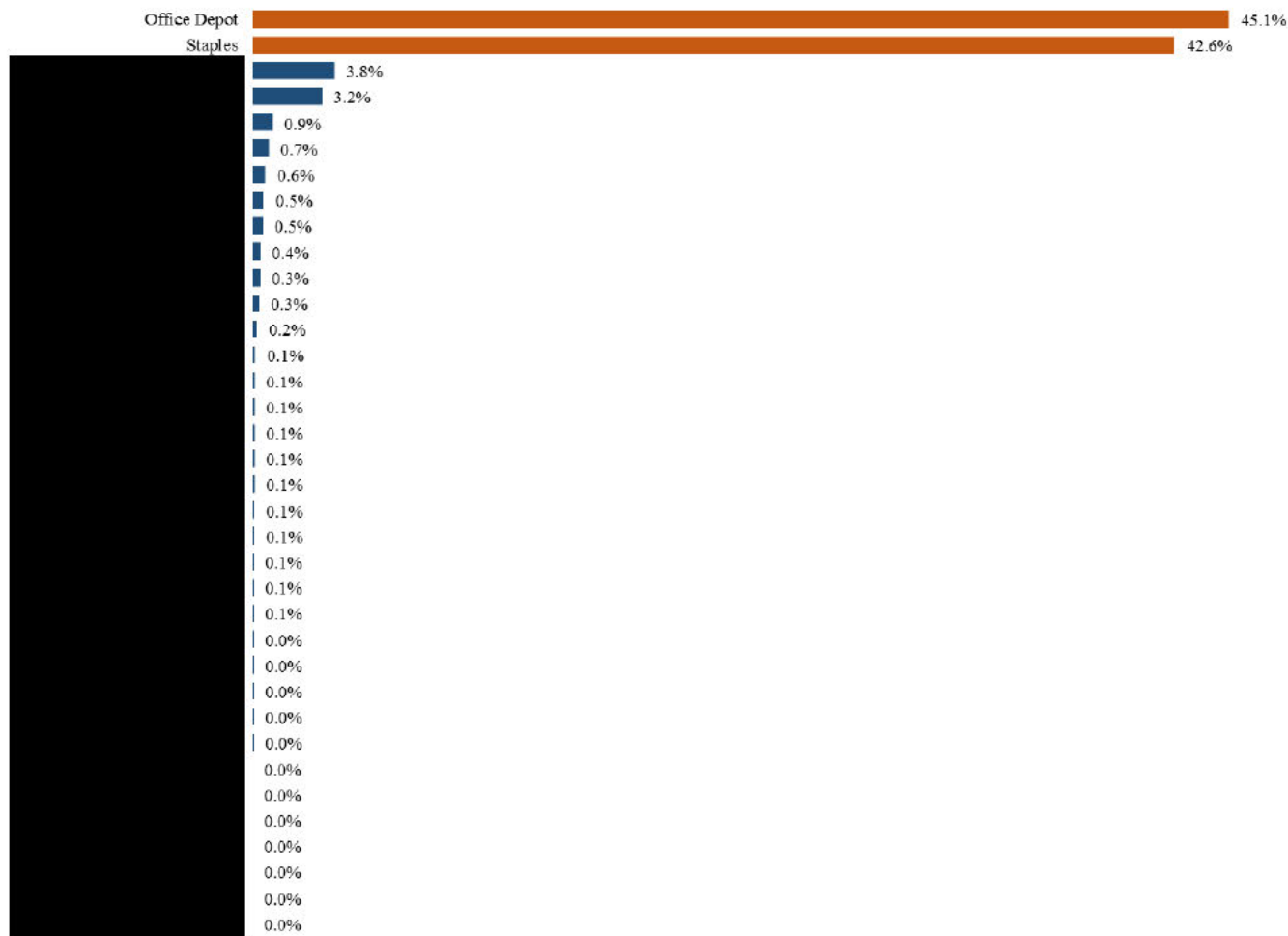


## **Ability of Consortia to Expand**



## Primary Vendor Relationship Shares

*Consumable Office Supplies, 2014*



*Source:* Exhibit R2, Shapiro Reply Report.

# Manufacturer Market Shares

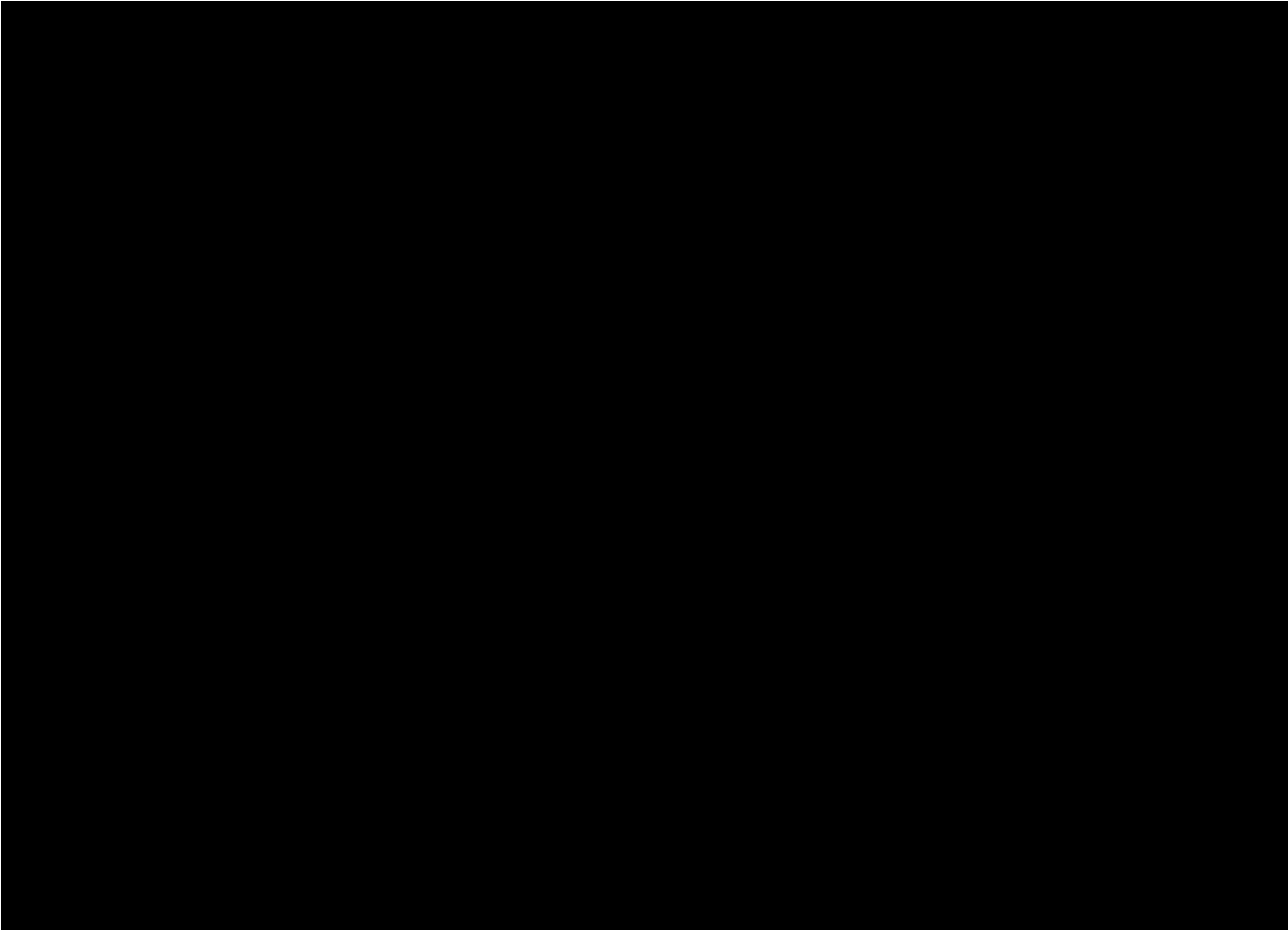
## Largest Vendors to Staples and Office Depot

*Fortune 100 Customers, 2014*

<b>Vendor</b>	<b>\$ Sales</b>	<b>% Share</b>
GP OPERATIONS HOLDINGS (GEORGIA-PACIFIC)	\$6,740,000	1.57%
DOMTAR INC	\$3,361,399	0.78%
INTERNATIONAL PAPER	\$270,400	0.06%
AVERY DENNISON	\$147,866	0.03%
ACCO BRANDS	\$31,474	< 0.01%
NEENAH PAPER INC	\$34	< 0.01%
3M CORPORATION	-	-
BIC CORPORATION	-	-
SANFORD CORP	-	-
SOUTHCOAST PAPER	-	-
SOUTHCOAST SOLUTIONS LLC	-	-
TST IMPRESO, INC	-	-
<b>Total</b>	<b>\$10,551,174</b>	<b>2.44%</b>

Source: Exhibit RE-3, Shapiro Reply Report.





# Efficiencies

## Efficiencies Framework

### 10. Efficiencies

The Agencies credit only those efficiencies likely to be accomplished with the proposed merger and unlikely to be accomplished in the absence of either the proposed merger or another means having comparable anticompetitive effects. These are termed merger-specific efficiencies.<sup>13</sup> Only alternatives that are practical in the business situation faced by the merging firms are considered in making this determination. The Agencies do not insist upon a less restrictive alternative that is merely theoretical.

Efficiencies are difficult to verify and quantify, in part because much of the information relating to efficiencies is uniquely in the possession of the merging firms. Moreover, efficiencies projected reasonably and in good faith by the merging firms may not be realized. Therefore, it is incumbent upon the merging firms to substantiate efficiency claims so that the Agencies can verify by reasonable means the likelihood and magnitude of each asserted efficiency, how and when each would be achieved (and any costs of doing so), how each would enhance the merged firm's ability and incentive to compete, and why each would be merger-specific.

Source: *Horizontal Merger Guidelines* § 10.

# Proposed Remedy



## **Proposed Remedy is Insufficient**

- Proposed divestiture contingent on customers willing to assign contracts and Staples and Essendant agreeing to transition services agreement
- Essendant will not compete with Staples and Office Depot for large customers
- Essendant will be dependent on Staples
- Essendant lacks attributes to serve large customers

# Staples-Office Depot Merger Analysis

## Summary of Opinions

### 1. Relevant Market:

The sale and distribution of consumable office supplies to large customers in the United States.

### 2. Market Shares:

Staples and Office Depot have a combined share of at least 79% in the relevant market.

### 3. Competitive Effects:

Price increases likely as Staples and Office Depot compete vigorously with one another and other competitors are distant alternatives.

### 4. Entry and Expansion:

Entry by new suppliers, or expansion by existing market participants, will not be timely, likely, and sufficient to deter or counteract a post-merger price increase by Staples.

### 5. Efficiencies:

Not likely to be passed through even if verifiable and merger specific.

### 6. Proposed Divestiture:

Inadequate remedy that will not alleviate the anticompetitive harm.