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Analysis

A Profile of the xpedx Stores Division: Update

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Abstract

xpedx Stores, a division of xpedx and a part of International Paper, is in the process of expanding and reenergizing its organization with new locations, products, and a new Web site and e-commerce platform. With a goal of serving all customers, regardless of the type or size, xpedx Stores is one of the largest companies in its category. This analysis provides an update to a previous report from 2005 with details on new initiatives and growth.

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Introduction

As part of the International Paper family, xpedx Stores is affiliated with other xpedx divisions. The core purpose of xpedx Stores is to serve printers with small orders, but it also serves businesses; governments; non-profits; and consumers of paper, graphics supplies, equipment, and many other items.

In the 1980s and early 1990s, xpedx acquired many paper distribution companies, including paper stores. In the mid-1990s, xpedx pulled all the stores together under one division in an effort to grow and capture a higher share of the market. The stores, however, deliberately retained their established local-market identities. In addition to the products available at the stores, xpedx also offers customer services including delivery, credit programs, e-commerce, special orders, and technical assistance in helping consumers select products.

xpedx currently owns and operates 153 stores located in 33 states, Canada, and Mexico, including eight newly added PickQuick Papers stores acquired through International Paper’s August 2007 purchase of Central Lewmar. The company claims that it is the largest network of paper and graphics supplies retail stores in the U.S., and it expects more growth in the future. Nine of the retail paper stores are located in Mexico, managed separately by xpedx.



Company Statistics

xpedx, the world's largest paper and graphics supplies and equipment distributor, is a wholly owned subsidiary of International Paper. Based in Loveland, Ohio, xpedx has more than 7,600 employees, including approximately 1,500 sales representatives and 2,100+ sales service representatives/technicians. The company has more than 105 distribution centers and 153 business stores in the U.S., Canada, and Mexico. The stores enable small and mid-size printers, businesses, and consumers to purchase small volumes of paper and other supplies. Products are also available through xpedx.com, xpedxstores.com, and suiteshoponline.com. With 1,250 trucks and 10 million square feet of warehouse space, xpedx can deliver shipments to multiple locations or hold orders until the customer is ready to use the products. xpedx will also arrange for automatic replenishment of regularly ordered supplies.

xpedx is a relatively new name in the paper distribution business, but its heritage dates back to the days when James Monroe was President of the United States. Alling & Cory Co. (Rochester, NY), founded in 1819 as the first paper merchant in the U.S., is one of many merchant houses that has been acquired by International Paper in the past 20 years. Another early forerunner of xpedx is Bulkley Dunton (New York, NY), which opened for business in 1833 and continues to operate under that name today.

International Paper did not enter the distribution business until its acquisition of Hammermill in 1986, which brought with it Bulkley Dunton, Carter Rice Paper Co., Saalfeld, and other merchant companies. Through much of the 1990s, IP acquired many well-known merchant houses, including Dixon in the Rockies, Dillard in the Southeastern U.S., Seaman Patrick in the Great Lakes, and Kirk on the West Coast.

In 1993, IP created ResourceNet International, a new standalone identity for its merchant business. In late 1997, the company finalized its acquisition of Taussig's, a regional graphics supply and digital technology distribution company headquartered near Cleveland, greatly expanding its offering of prepress supplies and equipment. International Paper acquired the Zellerbach merchant organization in 1998 and changed the company's name to xpedx later that same year. Following IP's acquisitions of Union Camp in 1999 and Champion International in 2000, xpedx gained Alling & Cory as well as Nationwide Papers.

In August 2007, Central Lewmar was acquired by xpedx and parent company International Paper. In addition to its three main distribution centers in the Northeast, xpedx now owns Central Lewmar's eight retail paper stores. Today, xpedx operates xpedx-branded merchant houses across the U.S., Canada, and Mexico. It also operates under the names of Central Lewmar, Nationwide, Kirk, Western Paper, and Zellerbach in selected U.S. markets. The North American network of xpedx-owned paper stores conducts business under the names xpedx Paper & Graphics, xpedx Paper Store, If It's Paper!, Arvey Paper & Office Products, and PickQuick Papers.

Store Groups

The combination of stores and the xpedx distribution business, as well as the International Paper connection, allows the company to service all customers, regardless of their size or need. “When it comes to paper, xpedx can provide it by the truckload, case, ream, and even the single sheet,” explains Steve Bowden, the newly named Vice President and General Manager of xpedx Stores. Stores are a microcosm of the merchant, which achieves growth through acquisitions that add strength and breadth to organizations. Some of these stores, however, maintain their original names, especially if the name is a well-known one, such as Arvey.

xpedx Stores



There are 22 If It's Paper! stores in the Southeastern United States, which xpedx acquired from Dillard Paper Co. Originally an outlet for aged and distressed product, the store now carries new gift wrap and party goods for consumers, churches, schools, and professional caterers. Locations offer lines of themed party patterns, solid tableware, catering supplies, and wedding accessories, as well as gift wrap, specialty paper, and holiday items.



The xpedx Paper Stores were originally part of Dixon Paper. The 16 stores are primarily located in the U.S. Mountain region, including Salt Lake City and Denver. They sell cut-size paper, most paper lines that the merchant carries, and office products including inkjet and toner products, media equipment, graphics supplies, and facility products. These stores also carry retail and commercial packaging products, catering supplies, boxes, papercrafting items, gift wrap, and gift bags. These stores are hybrid paper stores, or an amalgamation of several different types of retail paper stores. 15% of the sales are accounted for by printers, which primarily use paper from the mills, and 85% of the business stems from small businesses and consumers with products from a wide variety of sources.



Catering to the small printer, the xpedx Paper & Graphics Stores have 95 locations across the country and offer paper in various sizes, colors, cuts, and widths. Small printers are those that typically have less than 10 employees, with an average of 3-5 employees and \$1 million or less in revenue. Equipment used by this type of business might include copiers or duplicators. Other organizations such as churches and small businesses frequent these stores. In addition to cut-size, folio, digital paper products, envelopes, invitations, and announcements, these stores offer graphic supplies such as inks and plates.



Arvey is another xpedx Store Division holding and is considered to be the precursor to office supply superstores. There are now 7 Arvey stores, which are roughly 15,000 square feet in size and carry more than 15,000 SKUs. Products include paper, office products, media equipment, graphics supplies, facility products, and packaging supplies.



PickQuick Papers stores are the latest addition to the xpedx Stores Division. There are eight stores located across the Northeast and Mid-Atlantic in Caldwell, NJ; Edison, NJ; Egg Harbor, NJ; Mount Laurel, NJ, Lawrenceville, NJ; Farmingdale, NY; Fairfield, CT; and Springfield, MA. These establishments are paper and graphics stores. Half of each store is set up for printers, and the other half is geared toward consumers. The section of the store that is allocated to printers has a wide selection of printing papers and graphic supplies. The part of the store that is designed for consumers has paper products down to the single sheet, including some specialty papers such as handmade papers.

The company's nine retail stores in Mexico extend from Ciudad Juarez on the U.S.-Mexico border to the Pacific Coast state of Colima, southwest of Guadalajara. The Mexico store network is overseen by Kent Newberry, Group General Manager of xpedx Mexico. Mr. Newberry is based in xpedx headquarters in Chihuahua. The Mexico stores' network primarily serves local commercial printers.

Customers

xpedx Stores is the paper and graphics source for small printers and businesses, as well as for mid-size printers and businesses that require smaller orders on demand. The xpedx Stores staff is trained on paper properties and characteristics and can assist any kind of customer. This compares to the "big box" office supply superstores, which offer very limited knowledge of or variety in paper products.

The big box retailers generally have a very limited selection of cut-size papers and they do not provide print/graphics supplies that printers use on a daily basis. xpedx Stores differentiates from big box office supply retailers by providing thousands of SKUs of printing papers and graphics supplies. It also stands apart from its big box counterparts in the area of customer service by providing printers with specific information on paper and graphics. "A Staples customer is not the same as our customer," added Bowden. "For example, a printer does not go to a Staples worker to talk about subjects such as printing presses, textured papers, or the best type of envelope for a particular project. Many of our customers value the intelligent discourse they have with our employees."

The stores can also be used for emergencies, as they enable a printer to finish a job if he or she only needs a small amount of paper fast. Some customers use the paper stores as a safety net during periods of growth or decline. The goal of the stores is to serve the needs of all printers of any size, any time. Quick printers, however, are declining at a rate of 2.5% per year. To offset this decline, xpedx Stores is expanding its marketing and mailing efforts to include other segments that use paper, including churches, non-profit organizations, schools, businesses, accountants, real estate offices, and law firms.

xpedx prides itself on the customer service it delivers in its stores and also at the merchant level. xpedx retail customers, including small businesses and the general public, favor the personal customer service offered at these stores as opposed to the superstores. The company receives many referrals per week from OfficeMax, Office Depot, and Staples due to its wider selection of paper products and staff expertise. xpedx is constantly monitoring how it can service accounts satisfactorily while maximizing profitability. To increase efficiency, these stores sometimes have joint accounts with the merchant division.

Following through on its customer service promise, all new xpedx Stores employees are required to go through an orientation and receive technical training from vendors. All customers are given customer survey cards, and xpedx receives approximately 1,500 to 2,000 survey returns every month. Each survey card is reviewed by Bob Smusz, Vice President, Operations, xpedx Stores Division. The company also has mystery shoppers visit every store on a quarterly basis, and the stores are rated on indoor and outdoor cleanliness, greetings, and “thank yous” by staff. If any store scores below 90%, it is shopped again within 30 days to ensure that improvements have been made.

For many companies, cost cuts are taking away from customer service. At the xpedx Stores, new resources are expanding the company’s decades-long dedication to customer service, knowledge, and support. The company claims that loyalty and demand are at all time highs, and account loss is very low. Its customers typically consist of printing experts with a high frequency of repeat business. These printer customers are nurtured by store management and sales teams, as many xpedx Store’s personnel have been in the printing business and can provide the expertise, service, and support they need.

xpedx Stores’ senior executives closely monitor and continuously measure service—at the store and even order level. The executive who oversees customer service is Bob Smusz. “When you walk into many big box department stores, their customer service consists of a counter,” said Smusz. “Customer service at xpedx Stores is provided by real people who work throughout the store. Many of our employees are knowledgeable about printing, and a significant number of them are former printers.”

Smusz noted that xpedx Stores “is quick to recognize customer service excellence among our staff, and we immediately remedy any shortcomings that pop up.” Store managers are measured on customer service, and success in that area is included as part of their bonus structure. As a result, xpedx Stores’ staff turnover is below that of big box retailers.

Some merchants have had to increase the minimum order amount to cover rising costs, such as fuel, which has decreased the number of small printers they can support, as the printers’ orders may not meet the new minimum. Merchants with store operations like xpedx, however, can support the small printer. The stores are a good supplement to xpedx because the minimum orders required on the merchant side are larger and outside the reach of smaller customers. Some customers go back and forth depending on their size and any business fluctuations that may occur. At the stores, customers can pick up their order without incurring freight costs. Printers (the customers) can monitor their cash flow and purchase only what they need, which may not meet the merchant’s minimum order requirements.

Store Expansion

The 108 dedicated xpedx merchant locations with warehouses, trucks, and local inventory are more closely aligned with the 153 xpedx Stores than ever before, bringing new advantages to xpedx customers and new business opportunities and efficiencies to xpedx. xpedx and xpedx Stores’ IT systems have also been integrated, increasing internal efficiencies and eliminating costs.

Several new stores are opening, and more are in the planning stages. xpedx recently opened new stores in Berkeley, CA to serve the San Francisco Bay Area, as well as stores in San Antonio and Phoenix. It expects to introduce several more xpedx Paper & Graphics stores by the end of 2007 alone, and still others in future years. Two new stores are opening in fall 2007 in Toronto, with a third expected in 2008.

Other target locations include metros in the U.S. Southwest, U.S. Mountain States, Texas, and southern California.

Some of the new stores will carry business/office supplies; scrapbooking, packaging, and shipping products; and paper and graphics supplies, as do more than 30 stores across the xpedx Stores network. “We have found that households with incomes of \$100,000 and above represent a growing customer base for our company in markets where we also offer these additional product lines. They like the paper selection and quality of service they receive,” stated Smusz.

Certain stores in selected markets feature this expanded retail offering primarily in the area of retail packaging—retail bags, boxes, bows, ribbons, and wrapping paper. It also includes an expanded version of its wedding announcement/invitation and pre-printed papers offerings. xpedx reports that it is carrying out this expansion in select markets across the U.S. where the demographics prove positive.

Operations

xpedx Stores corporate headquarters is located in Chicago. The marketing and merchandising departments are set up into two groups, one for printer customers and the other for retail customers. The merchandise managers need to approve products before they go to the stores. Store managers are responsible for maintaining appropriate inventory levels of products that are already in the system. All new products are tested in selected stores before they are launched chain-wide.

xpedx Stores Division

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In general, the stores tend to be much more nimble than the merchant division, due to their smaller size and less significant overhead costs. Most stores have a manager, an assistant manager, and several other associates. The salespeople in the stores are separate from the merchant representatives. A big merchant store for xpedx might have 8 employees. Nevertheless, xpedx acknowledges that it can be difficult for a standalone paper store to be successful without the support of the merchant location.

Table 1: xpedx Store Comparisons

Store Name	Size (square feet)	SKUs
xpedx Paper & Graphics	8,500	2,500
xpedx Paper Store	12,500	8,500
If It's Paper!	5,000	12,000
Arvey	15,000	24,000

The merchant arm of xpedx will have merchandisers, customer service employees, sales representatives, buyers, a manager, a warehouse, and trucks. Stores have to offer services including delivery and credit, but the cost of obtaining these services through the store is lower than it is to acquire them from the merchant warehouse. Stores offer next-day or courier delivery, and will provide same-day delivery if necessary. Merchant operations charge 2 ½ to 5 times more to service a customer than the stores.

Table 2: Typical Merchant Warehouse Sizes for xpedx

Merchant Location	Size (square feet)
Large	180,000 to 400,000
Medium	80,000 to 110,000
Small	35,000 to 70,000

xpedx now has a hybrid model of stores that differentiates it from the competition. Some of the smaller division locations on the merchant side of the business are converting to store locations. This conversion provides the added benefit of allowing the salespeople to have access to more products contained in the warehouse and cross dock, an area where incoming shipments are sorted for outgoing redistribution. At the same time, this also allows the company to maintain its level of service and market share with the customers without closing down locations. The company has completed two conversions thus far in Fort Wayne (Indiana) and Lubbock (Texas).

Table 3: xpedx Merchant and Stores Comparison

	Merchant Location	Stores Location
Average Size	35,000 to 400,000 square feet	5,000 to 12,500 square feet
SKUs	2,500 to 3,500	2,500 to 24,000
Employees	30 to 300	3 to 12

Products

Since 1995, the xpedx Stores division has been offering a range of paper and paper-related products, as well as labels, transparencies, inkjet and laser cartridges, tableware, and catering supplies. The rapid expansion of toner-based printing has spurred strong demand for specialty “digital” papers. This represents a significant growth category for xpedx and the xpedx Stores, which are increasingly being seen by printers and other businesses as a top source for in-stock digital papers from a wide variety of papermakers. xpedx Stores sells papers from most major papermakers as well as many paper converters. Paper mills deliver directly to the merchant stores, requiring smaller minimums for freight-free delivery. The Table below highlights the categories and examples of products carried by xpedx through its Stores division.

Table 4: Categories and Products Carried by xpedx Stores Division

Category	Products
Paper & Envelopes	Inkjet and Laser Paper; Pre-Printed Paper & Envelopes; Text & Cover; Fine Writing Paper; Invitations & Announcements; Commercial Envelopes; Copy Bond; Carbonless Paper; Color Copier Paper; and Coated Papers
Filing & Storage	Index Cards; Binders; File Folders, Pockets & Jackets; Storage Boxes; Accounting Logs; Business Forms; and Labels
Shipping & Packaging	Tape; Kraft Wrap; Shipping Envelopes & Shipping Boxes; Bubble Wrap & Bubble Pillows; Razor Knives; Cutting Mats; Stretch Wrap; Paper Cutters; Mailing Labels; Peanuts; and Mailroom Equipment
Presentation	Presentation Binders; Report Covers; Pocket Holders; Sheet Protectors; Indexes; Laminating & Binding Supplies; Transparencies; Easels; and Presentation Boards
Office Products	Tape & Dispensers; Glues & Adhesives; Paper Trimmers; Laser & Inkjet Labels; Staplers, Clips & Fasteners; Hole Punches; Desk Accessories; Shredders; Desk & Wall Calendars/Planners; Rolodex Files; Memo & Message Pads; Post-it Notes & Flags; Writing Instruments; Art Supplies; and Rubber Stamps
Papercrafting	Xyron Machines; Adhesive Stampers; Photo Corners; Stickers; Storage Boxes; Craft Punches; Handmade Papers; Paper Trimmers; Border Punches; Metallic & Gel Pens; and Lettering & Stencils
Computer Supplies	Inkjet Cartridges; Laser Cartridges; Diskettes; Zip Disks; CD/DVD Label Kits; Tech Envelopes; Media Cases; CD Towers; Multimedia Storage Units; Mouse Pads; Monitor Accessories; Computer Cleaning Products; Surge Protectors; Calculators; Digital Duplicator Supplies; and Ribbons
Graphics Supplies	Plate & Film Chemicals; General Pressroom Supplies; Pressroom Solvents; Printing Inks; Colorlok Film & Plates; Fountain Solutions; Printing Blankets; Finishing Equipment & Supplies; Inkjet & Laser Toners; and Ink Cartridges.
Facility Supplies	Wastebaskets; Trash Bags; Brooms & Dust Bins; All-Purpose Cleaners; Hand Cleaners; Towels & Tissue; and Food Service Items
Party & Catering Supplies	Themed Party Patterns; Solid Tableware; Table Rolls; Gift Boxes, Bags, & Tissues; Gift Cards; Invitations & Announcements; Wedding Favors; Decorations & Piñatas; Serving Trays and Bowls; Sternos; Cake Boxes; and Cutlery

In addition to the above products, each store has a small kiosk with catalogs from supply companies such as Azerty and United. Customers can order products from these catalogs that they do not find in the stores. In this situation, the stores will accept delivery for these orders and in turn deliver products to customers or hold them for them. This value-added service is designed to enhance customer loyalty.

e-Commerce Initiatives

xpedx Stores is launching large scale e-commerce initiatives in the fall 2007 at www.xpedxstores.com, with full-scale operations in effect by first quarter 2008. e-Commerce provides xpedx Stores with an important new channel in which to conduct business, as it allows for credit card orders and custom purchasing/service. Selected customers will have customized pages and special pricing.

“In addition to providing new services to our existing customer base, our e-commerce platform will enable us to serve millions of new customers across North America. It puts us in markets we’ve never before been able to serve,” said Bowden. xpedx also has an e-commerce presence via xpedx.com, which posted more than \$1.2 billion in revenue in 2006 with more than 5.5 million orders. xpedx also operates suteshoponline.com for graphic designers.

Competition

xpedx has one nationwide competitor in the area of merchant stores, namely Unisource. Nevertheless, xpedx has 153 stores, while Unisource has less than 40 locations and has closed some stores in recent years. xpedx is one of the few companies that has a central group that supports the stores in terms of marketing, buying, pricing, feedback, and focus groups. Many of the competitors are decentralized, and most store chains that are operating today are regional. Other merchant store chains are having variable results. According to xpedx, Olmsted Kirk has stores but does not have plans to expand; Bosworth Paper has closed a few locations; and Kelly Paper is owned by Spicers and is opening stores in the Northwest. Kelly’s format is similar to that of xpedx, with a centralized headquarters and warehouse (190,000 square feet). It has salespeople and truck fleets and offers cutting services for its printer customers. Other competitors with small networks of stores include Clampitt in Texas and Mac Papers in the Southeast.

Conclusion

xpedx Stores is doing well operationally and financially. While xpedx does not break out these figures, Bowden reports that the division is continuing to grow and is experiencing positive financial results. The xpedx Paper & Graphics stores have documented strong annual sales growth since 2000. xpedx Stores is important to the company because it provides a less expensive method of servicing the small and mid-size printer with small order needs. The growth in store business is attributable to several factors. On the printer side, growth is coming from merchant locations that are enforcing larger minimum size orders. On the small business and consumer side, it is resulting from new marketing initiatives and customer services. xpedx is expanding its efforts to make the products that are available in its merchant division available in its stores as well. For all customers, growth is also driven by technology products. To that end, xpedx offers a large selection of branded and private-label digital and laser papers and imaging supplies.

Across the U.S., while a few merchants are growing their network of stores, some are closing or reducing the number of stores in operation. On the surface, it may appear as though this is happening because merchant stores are struggling in the face of office supply superstores that are bigger in terms of size, number of stores, and buying power; however, some stores, including xpedx Stores, offer personal service that printers and other customers value. In addition, xpedx is also looking to the future by extending its reach to existing customers and targeting new customers in different vertical markets such as law and real estate offices and churches. As a result of these marketing initiatives, the xpedx Stores model is growing, and the xpedx Stores division is competing effectively against the big box stores. xpedx Stores offers something different than their competition, as it understands that value-added services such as personal attention and product variety are and will be essential in attracting and keeping customers coming back to the stores time and again.

Appendix

Details on Top xpedx Stores Division Executives:

Steve Bowden, Vice President-General Manager

Steve was appointed head of the xpedx Stores Division in 2007. He served as General Manager for International Paper's Augusta, Georgia papermaking facility from 2004 until that time. He began his career in 1987 as a Process Engineer at the Moss Point, Mississippi mill. He also held various manufacturing and technical assignments at Moss Point, including Manager of Finished Products and Manager of Technical Services. Later, he served as North American Business Manager for International Paper's bleached board division at the company's Memphis headquarters, rising to that position one year after serving as a Product Development Manager. Bowden holds a B.S. in Chemical Engineering from Auburn University.

Bob Smusz, Vice President, Operations

Bob Smusz is a veteran operations, retail, and paper and graphics industry executive who has held senior retail management and operations positions for xpedx and its affiliated companies since 1991. He came to the company from Arvey Paper & Office Products, where he served as Vice President and General Manager. He has also served as Vice President of Retail Store Operations for xpedx's predecessor company, ResourceNet International. Before joining the paper and graphics retail industry, Smusz served as an Operations Manager for Federated Department Stores.

Mike Cape, Vice President, Marketing & Merchandising

Mike Cape brings over 25 years of business experience to the xpedx Stores Division. He began his career with xpedx in 2002 as Director of Store Operations for the Northeast group and was promoted to Vice President, Marketing and Merchandising in April 2004. Prior to joining xpedx, Mike owned and operated a small manufacturing business. He also ran the national stores division for Georgia Pacific. He holds a B.S. in Business Management from Brenau University in Georgia.

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