

I Office Depot was in some trouble a few years back.

A planned merger with its rival Staples collapsed in 2016, after antitrust regulators balked at the plan. The deal's unraveling prompted both CEOs, Roland Smith of Office Depot and Ron Sargent of Staples, to announce their resignation.

At the time, Office Depot had already endured seven quarters of falling sales, closing stores, and fierce competition from Amazon.

Then-Lenovo executive Gerry Smith stepped up to helm the retailer in February 2017. He replaced a number of leaders within the company. And then he set about implementing his own vision of what Office Depot could be.

Now, the company is growing, and it has beaten earnings expectations for the past several quarters. Office Depot reported on Wednesday that same-store sales were up 5% for the third quarter. The company is even offering up a new business-services platform called Workonomy, complete with a new coworking space in Los Gatos, California.

Business Insider spoke with Smith on the phone a few hours after Office Depot's latest earnings call to discuss how the company plans to tackle the future of work and retail. The following interview was edited for length and clarity.

"It's been a journey."

Business Insider: Is there anything you'd like to say about Office Depot's latest earnings before we get started?

Gerry Smith: I'm very pleased with our quarterly results. We crushed cash flow. We did an outstanding job on sales and we met our profit expectations.

As the CEO, I'm very happy this morning. And the market's reacting positively as well, which is always good to see. It's been a journey. We've put three straight quarters on the board now, and I'm very proud of the team for that.

"We've got a great team. Now it's really about taking it to the next level."

BI: You joined Office Depot in February 2017. What has your experience been like so far, what have you learned, and what strategies have you developed as time has gone on?

Smith: It's been a great transformation. The first thing we focused on was hiring an outstanding, world-class team. We have an outstanding CFO in Joe Lower, who had tremendous experience at Boeing and B/E Aerospace. We've got a rock-star chief marketing and customer officer in Jerri DeVard, who has extensive experience on Madison Avenue and had experience at Verizon, ADT, and Nokia. Great chief administrative officer in David Bleisch. Our chief merchandising and supply chain officer, John Gannfors.

We really built a world-class team. A lot of these people have been at much larger companies than Office Depot. My first focus was to build a world-class team, then define the strategy and really look at our key assets.

Let's go strengthen our store business, quit closing down stores, start generating better sales at the company. The company hadn't grown in years, and I walked onstage at my first town hall in front of all our employees and said, "We're going to grow this company." Now, to be honest with you, not very many people believed me. But now, a year and a half later, we have a lot of belief that the strategy's working. We've got a great team. Now it's really about taking it to the next level.

What I'm really excited about is the launch of our business-services platform, Workonomy. That's always been my vision. We talked about it in May. Jerri DeVard and I launched it in New York at our investor day. It's really about the next evolution of our business, not just as a retailer, but a true omni-channel company that sells business products and services to large companies, small companies, small offices, home offices across the country.

It's a real differentiator, because we're one of the only companies that have this omni-channel of retail, online, and B2B. We have one of the best supply chains in the country. I was the former chief operating officer at Lenovo, and I ran their supply chain for a long time. I was very excited when I came on board and realized, "Wow, I've got an asset that very few people have."

It really gives me the ability to compete against some of the e-commerce companies. They have supply chains in e-commerce, but they don't have the last-mile advantage of the stores. They don't have this trifecta ability to go across three multiple channels.

That's demonstrated itself in the results we have, and we've got to continue to put the wins on the board and bring more demand and more partners on board for our Workonomy platform.

“People want a community.”

BI: Has doubling down on the omni-channel approach changed who your core customer is at all?

Smith: I think it's solidified our core customers. One of the things Jerri and her team did was build a center of analytics and excellence. We took our 14 different analytics teams and combined them into one. We had, I think, 49 different pools, and we were putting that together.

We really started tracking customer retention. Are our customers growing or not? That hadn't been done before at Office Depot. The good news is our customer base is growing, and one of our biggest assets that very few people understand is we have almost 28.8 million customers.

When I go out and talk to my former tech buddies in Silicon Valley, they always go, "Wow, that's a huge asset, Gerry. How do you go off and monetize that?" Well, how we do that is through our business-services platform, our Workonomy strategy.

Jerri and her digital marketing team, plus our other two channels, have done a really good job of going back and reactivating customers through digital-marketing-type of capabilities, whether it's email, whether it's PLA, LIA, all these

different types of higher returns on marketing investments that really allow us to go back to longtime Office Depot customers and get them excited to come back to the store or, very, very importantly, online, or through our B2B segments.

They get reengaged with us. And so, on a very frequent basis, I'm engaging those teams on looking at our customer trends. Are we growing? And let's deal with all the engines and vehicles we have to go off and get that business going, because the most important asset I have long-term is my customer base.

Why we have Workonomy is to really leverage that customer base and that world-class supply chain and then provide services and products to people.

My vision is that Office Depot doesn't provide just office products or just tech services with our CompuCom acquisition. I want to go partner with people who can bring an array of products to companies, because we want to own that customer relationship, we want to give them a great experience, and, most importantly, we want them to grow. We're testing a coworking space in Los Gatos, California. It's had tremendous success since we've opened, I think about 90 days ago. In fact, we're going out for a grand opening next Tuesday, and we're really excited about that.

What it's shown is people want a community. Small businesses want a community. We think that because of our unique omni-channel approach, we can be that company that provides that for people.

"That's the value of the big customer base of this platform."

BI: What are your thoughts on the future of work and how Office Depot fits into that?

Smith: I'm a tech guy by background, so I'm spending a lot of my own time on AI and automation and how that will impact the workplace. Obviously, for competitive reasons I'm not going to say too much, but we're really looking into how that interaction changes.

One thing we've really looked at from doing a lot of research with our customers is that, even with automation and AI, people still want a community. They want that human interaction. They want that ability to interface with the associates in the store if they have a question or talk with colleagues in coworking spaces, which are growing rapidly across the country.

That's the unique advantage of Office Depot. We can provide all of that for people. I'm talking to companies on our Workonomy platform that can provide automation services and robotics as a service.

More announcements to come, but that's the value of the big customer base of this platform.

“We all spend a lot of time making sure we're all working together and rowing in the same direction.”

BI: What are the leadership qualities you strive to demonstrate to attract and retain talent?

Smith: No. 1 to me is integrity and ethics. The people I've hired — three I did not work with before — but it's like I've

worked with them forever. They have high integrity and ethics. No. 2 is trust. I know this sounds a little happy and soft, but you have those things to have an effective team.

I think that, really, we all spend a lot of time making sure we're all working together and rowing in the same direction. This was a major transformation. I needed some change agents from the outside, but I also needed some of my longtime members to get on board, and they've done that.

I promoted a couple of people internally who had the ability and potential to drive the revolution and transformation that we're driving. And everyone's laser-locked in and is one cohesive team. We're going to have a challenge culture with each other. We're all focused on making sure our customer has the best experience and has tremendous growth and potential. And very, very importantly, we've got to deliver results as well.

I have a "five C" culture that we've created as a team. It is customer, it is commitment, it is change, it is caring — which is really important — and creative.

I'm super pleased with what we call "Depot Days of Service." We've gone out and done a lot of things in our community. What was really cool is that I hired 92 interns and did a number of sessions with them in the summer. One of the things they said was, "Gerry, we never thought we'd want to work at Office Depot until, A, we came here, and, B, we saw what you were doing with 'Depot Days of Service,' because it really is cool how much you're giving back to 12 Title I school districts across the country, regentrification of

parks, redoing schools, getting involved in foster care, getting involved in education, and getting involved in food drives."

Alex Price on Jerri DeVard's team does an amazing job — our engagement survey just came back yesterday and we saw that our employees are resoundingly saying, "Yes, this is important to us." I think our five-C culture is sort of the North Star for us. That's something that we're going to continue to drive. In fact, in every town hall, I talk about strategy — and in every town hall I'll talk about culture going forward.

"What I don't want is people saying, 'Oh, get the red carpet, the boss is coming.'"

BI: Do you ever make unannounced visits to the stores?

Smith: Oh, yes. I do a lot of mystery-shopper visits. The good news is now they know who I am, and I pretty quickly get a call from our retail lead, Kevin Moffitt.

It's really important. I will drop in unannounced because what I don't want is people saying, "Oh, get the red carpet, the boss is coming." That's not what's important. What's important is: How does the average customer experience Office Depot?

I was in Austin visiting my first grandchild three weeks ago. I popped into a store where I knew the store manager. I had a great one-hour conversation. "What can I do to help you? What can our team do to get better?"

She's proud of her store. We watched traffic; we talked to customers. I do that on a frequent basis. I've visited hundreds

of stores since I've joined a year and a half ago, and I will continue to do that, plus getting out and seeing distribution centers. I saw our ISO sales team in Austin a number of times.

Every time I see a store, it's about asking, "How do we improve? How do we make the customer experience better? How are we revolutionizing retail to help them have a different experience?"

"More people will understand and more people are going to get excited."

BI: What insights have you gleaned from store visits and conversations with customers?

Smith: I think what customers are looking for, and why I'm so excited about Workonomy, is they really want a one-stop shopping experience, and they want expertise and someone to talk to.

One of the reasons why the CompuCom acquisition was strategically very important was, as we went off and did research, we found small and medium businesses need help on tech services and they need help on digital marketing and those capabilities.

So we went off and created those capabilities here at Office Depot. Now when they need help, they don't go to their sister or brother-in-law or cousin to get their tech support. They get world-class tech services from us.

What you'll see with Workonomy, and what Jerri DeVard and Janet Schijns are doing as we launch this platform, is we're going to offer more and more partners the expertise to really help them run their businesses more effectively.

We talked to those customers. I've talked to a lot. They say, "This is great, because I want to go be a chef. I want to go cook. I don't want to worry about accounting or my server going down or wondering how I generate my website or my logo." We can do that for them.

I think as we go off and build this capability, more people will understand and more people are going to get excited.

With our 28.8 million customers, and additional partners and products in the near future, this is going to be a huge differentiator for Office Depot.

"We're not going to go out and spend hundreds of millions of dollars to retrofit all our stores."

BI: Will Workonomy's coworking spaces expand throughout the country?

Smith: Absolutely. We're going to test and learn across more locations in 2019. I can't give the exact number for competitive reasons. Those who know me know that as we're successful, I like to move at a high rate of speed. We're going to test additional markets. I'm super excited by the success so far. I visited it two weeks ago, and I'll visit it again. The energy we had in the building was awesome. That's what we need to replicate to revolutionize our retail business.

All of this is going to be done under the strong guidance of capital restraints, as well. I want to be clear that we're not going to go out and spend hundreds of millions of dollars to retrofit all our stores. We're going to be selective. We're going to test and learn. We're going to go to markets where we know there's a positive return.

I do have a finance degree, and you have to curb the enthusiasm and balance the launch with a financial balance as well. I think we have a very strong place for 2019 and I think it will be exciting as we roll that out across the year.

We're an undervalued stock. There's a lot of upside. We have great cash flow, great top-line sales growth. Our services business is a thousand basis points richer from a margin perspective, and as we continue to grow services, that's going to help us long-term.

The whole focus is: Let's get into a deep relationship where it's not transactional, but it's a relationship where people are going to keep coming back, coming back, coming back. With our 700,000 subscriptions year-to-date, that locks in a relationship. That's why we have such focus on subscriptions as well.

"Our No. 1 focus is obviously both our customers and our shareholders."

BI: How do you avoid missteps as you pivot from solely being an office-supplies retailer to offering these business services?

Smith: The important thing is to have a strategy, which we have. The important thing was not to abandon our core and keep that core business operating. The first element of our strategy was called "strengthen the core." I told the leadership team, "Let's fix the core business, the office-supply business, the tech-service business." You've seen the profit improvement; you've seen the tremendous capital improvement and the tremendous cash flow improvement.

While, at the same time, we're building our business-services platform, Workonomy, and making that pivot to what I call a business platform, which is products and services.

Most people would say, "Well, Gerry, do the first part and then be linear and do the second part." We're doing both parallel, because this is a tough pivot, but it's a necessary pivot for us to be successful long-term and to dramatically change our value as a company. And our No. 1 focus is obviously both our customers and our shareholders.

I'm really pleased with the progress we're making and going from doubling our services year over year. Twenty-seven percent growth in BSD, not counting CompuCom. Eleven percent growth in services and retail. All the results are showing that the pivot's happening and we can do this as parallels.

But it takes a lot of vision; it takes a lot of strategy and effective communications from our communications team across the entire workforce of 50,000 people. "Here's where we're going. Here's our strategy. Here are the expectations." It's been a tremendous group effort across our teams.

Office Depot is gearing up for the holiday shopping.

BI: Is Black Friday still relevant to Office Depot?

Smith: It's very relevant and we have a big Black Friday plan. We already have a countdown to Black Friday on our website. We're actually out meeting the tech partners in California next week to finalize the plan, so we're super excited by that.

We're going to also have a Cyber Monday after Black Friday to really take advantage of the tech focus as well. You'll see furniture, and you'll see our core supplies as well. I'm dating myself here 30-plus years, but it's an important week — it's not a day anymore.

We're making this a Q4 event, and we're really excited about some of the stuff you're going to see from a tech perspective, as well as other offerings for Black Friday, Cyber Monday, Cyber Week, and our Workonomy launch as well.

BI: Is there anything else that you would like to add?

Smith: I think you've heard my enthusiasm and excitement. Obviously, I'm excited with the results. You always want more, faster, as a CEO, but I've got a great team and we've delivered three quarters in a row. We're going to go and deliver Q4 and keep marching ahead.