

Office Products - opportunities and threats for Newsagents

Our research identifies that while the office products market is highly competitive and changing, there are definite areas of opportunity that Newsagents can tap into – if prepared to make the effort.

We estimate Newsagents account for 5% of the total office products market (valued at \$7.4 billion) in Australia. While this sounds relatively minor, it is actually the fourth highest share in the market and signifies that Newsagents (as a block) are one of the most significant players in the market. Unfortunately this share is gradually being whittled away each year due to the combination of market forces (ie a shift away from traditional products and online purchasing) and passive behaviour by Newsagents themselves. To be fair there is also aggressive competition to contend with - from large well organised chains such as Officeworks and Big W.

Even so, there remain multiple areas where if Newsagents make improvements they can realise very healthy growth in OP sales. Indeed with the trend away from printed media (newspapers and magazines) in the years ahead, there is a real need to find new avenues of sales growth.

Key areas for boosting office product sales include the following (these are revisited later).

1. Modernise and broaden the product range to more accurately represent the full spectrum that consumers are purchasing/using.
2. Get more competitive with pricing - ie to at least be within acceptable reach of the main competitors, on the top 100 items. This may well require a review of purchasing/buying sources.
3. Tap into the power of a marketing/buying group – and benefit from brochures, catalogues and regular promotional programs.
4. Look at selling more to micro businesses/home offices in your area.

The major players and market shares

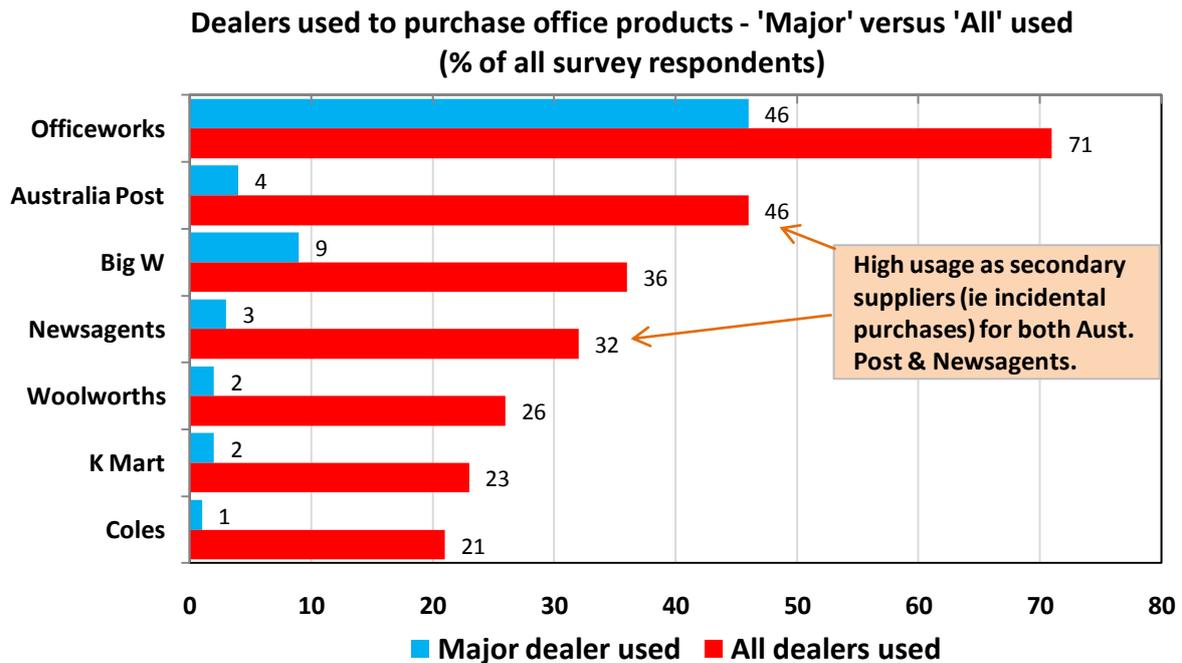
Officeworks, as the largest Australian office product dealer with a market share of 16% has widened the gap between itself and the second player Corporate Express/Staples (12%) over the last two years. Corporate Express has been heavily impacted by significant spending cutbacks (GFC induced) amongst its core customers. The top 10 dealers (including groups) account for 58% of the total market – and this has increased from 55% in 2007 – reflecting the ongoing share ‘creep’ of the largest players.

The best performing major dealers recently (across the whole market) include Officeworks, Office Choice, Fuji Xerox Document Supplies and JB Hi Fi. Also, under the radar but enjoying significant growth have been niche players Smiggle, Kikki-K and Cartridge World.

Of these high performers, Officeworks is really the only one competing directly with Newsagents, and this is only in areas where there is a superstore in the area.

Our analysis indicates the most threatening competitors to Newsagents include (in descending order of importance) Officeworks, Big W, Australia Post, Kmart, independent specialist OP stores and supermarkets.

What is striking is that Newsagents are used by a very significant portion of the population for office products – although this is predominantly as secondary suppliers. The chart below highlights that while only 3% of office product purchasers said they use Newsagents as their ‘major’ supplier, a substantially higher 32% include them amongst ‘All’ suppliers they use. This is evidence that Newsagents are being used for smaller incidental purchases – probably when customers are passing by or in the store for other purposes. This represents a substantial opportunity. By placing compelling merchandise/offers in front of this large number of shoppers, communicating with and impressing them, Newsagents could reap major sales increases.



Competition is intense amongst the office product dealers - as evident in the BTS (Back to School) period each year. However despite the aggressive use of price discounting/promotion taking place, our research indicates there still remains scope to win and maintain business through merchandising and service. Pricing however does need to be at least mildly competitive – ie within a reasonable range of the market price, so that shoppers don't feel they are being taken advantage of.

Customer ratings of dealers

In terms of customer ratings, Newsagents do not perform well when compared with other dealers who supply office products. We asked customers to rate their dealers performance on 11 key factors such as value for money, product range and competent staff. Overall, Newsagents scored 63.6 out of a possible 100, which was well below the average 69.8 and was the third lowest score out of the 11 main dealers rated.

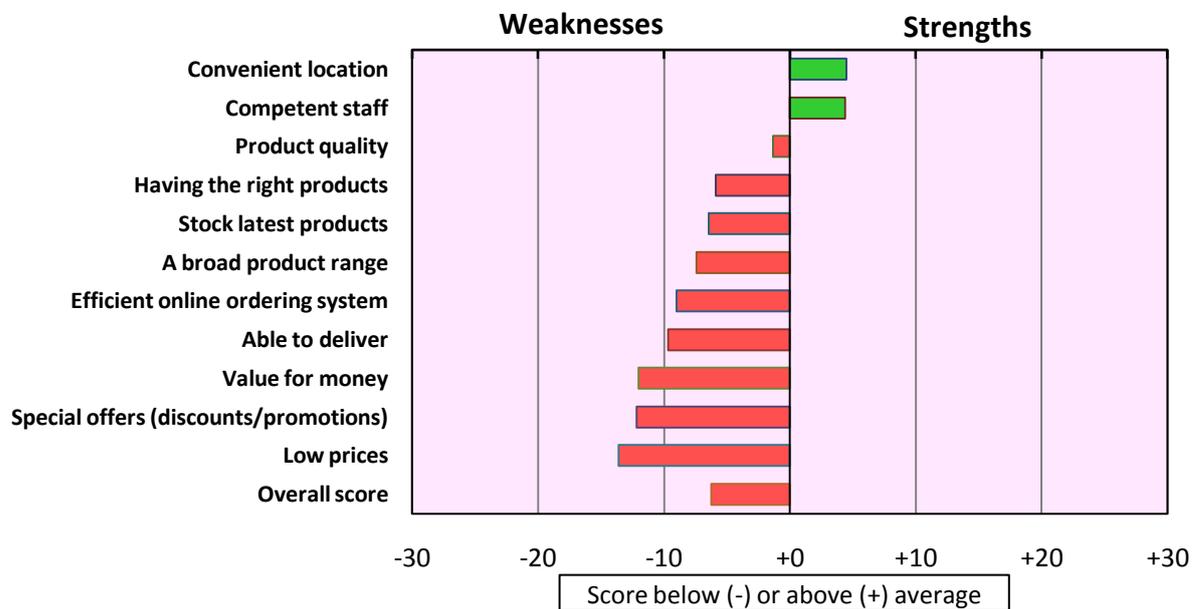
Cartridge World recorded the highest overall score (74.3) followed by JB Hi Fi (73.7) and then Officeworks (73.6). The only dealers to record lower overall ratings than Newsagents were Woolworths (61.3) and Coles (63.3). While it is obviously a negative to be scoring below competitors, there is also the positive that by improving performance in some key areas there is the opportunity to boost customer satisfaction and in turn sales.

Newsagents strengths/weaknesses

When looking at newsagents' rating scores there is a definite pattern of strengths and weaknesses (see chart over page). The two competitive strengths according to our survey lie in 'convenient location' and 'competent staff.' However more instructive are the key weaknesses (ie opportunities to improve). These include (from most significant weakness to least) 'low prices,' 'special offers (discounts/promotions)' and 'value for money.' Also to a slightly less extent there are issues with the (lack of) product range – ie not having 'a broad product range,' 'stocking latest products' and simply (not) 'having the right products.'

Overall the highest net benefit for Newsagents would be realised by improving their 'value for money,' followed by their 'product range' offering (ie having a contemporary and broader range). More specials/promotions/deals would also help but not be as beneficial as improving the above two areas first.

Newsagents ratings (by households) - compared with average



Reasons customers use their OP dealer

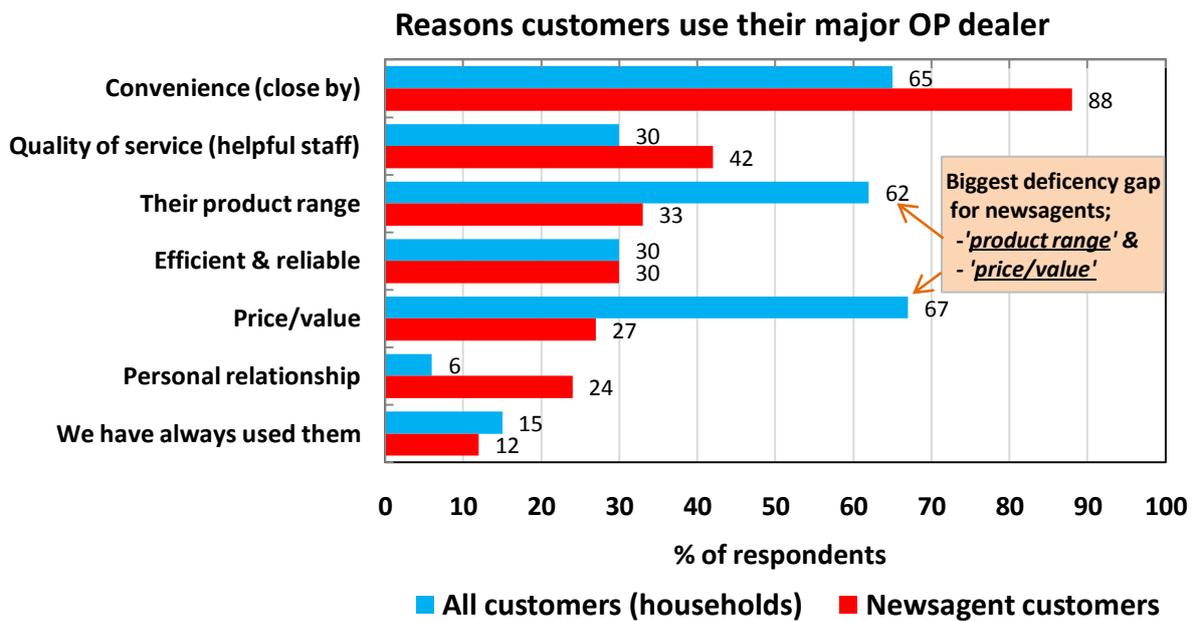
When all households were asked the reasons they use their major supplier of office products the most prominent reason given was 'price/value' (67%) followed by 'convenience (close by)' (65%) and then 'their product range' (62%). This profile of reasons however is quite different when we look at only the customers who use Newsagents as their major supplier (see chart below). By looking at the 'reason-gap' between all customers versus those who use Newsagents it is clear why customers do and don't use Newsagents.

Reasons households DO use Newsagents

1. Convenience (being close by).
2. Personal relationship.
3. Quality of service (helpful staff).

Reasons households DON'T use Newsagents

1. Price/value.
2. Their product range.



Generating new business

In terms of generating new office products sales, our research indicates that 'catalogues and brochures' are hard to beat. This was the most mentioned method for boosting sales, according to 100 office product dealers we surveyed. However it should be remembered it's not just having these tools that wins the business, it's what you do with them. Getting catalogues/brochures to the right person can take a lot of work, but is well worth it in effectiveness. The second and third highest methods of generating sales were the use of 'visiting sales representatives' followed by 'personal presentations.' Put all three of these methods together and you have the foundation of a very effective sales generating system. Although these types of activities may be outside the realm of many Newsagent's normal operations, there are also successful operators that have built impressive office product sales through these techniques.

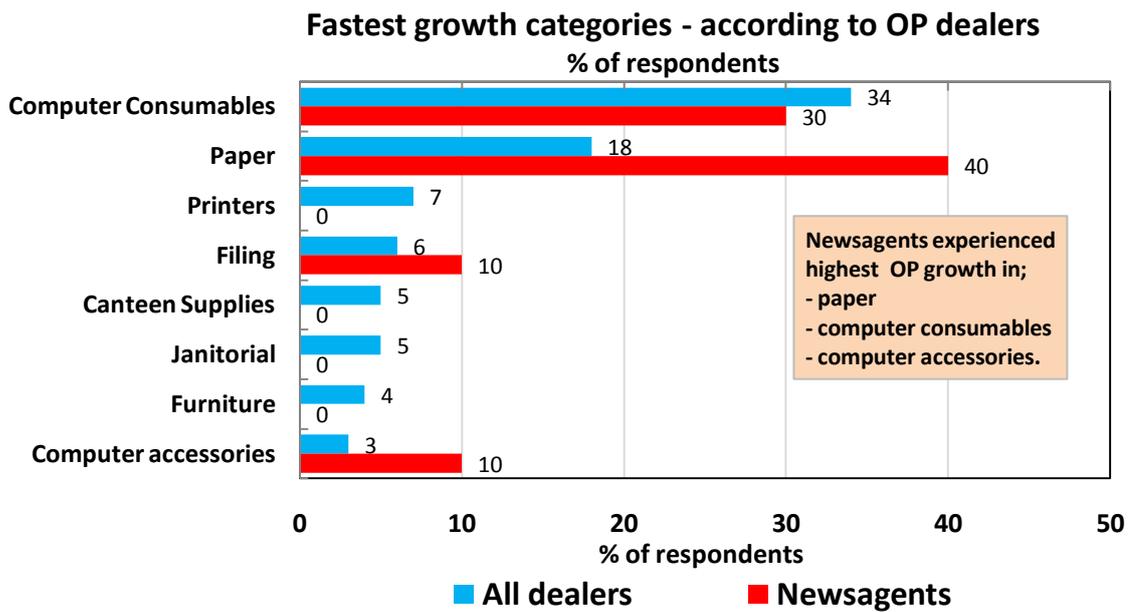
Products

A large portion of the office products range is now in the 'mature' and/or declining stage of their lifecycles. As a result there is a very strong need for product extensions (innovations) as well as new categories to support growth. At present the main boost to market growth is coming from colour laser printing and the shift to in-house office printing, however this will slow in the coming years as electronic mediums ascend.

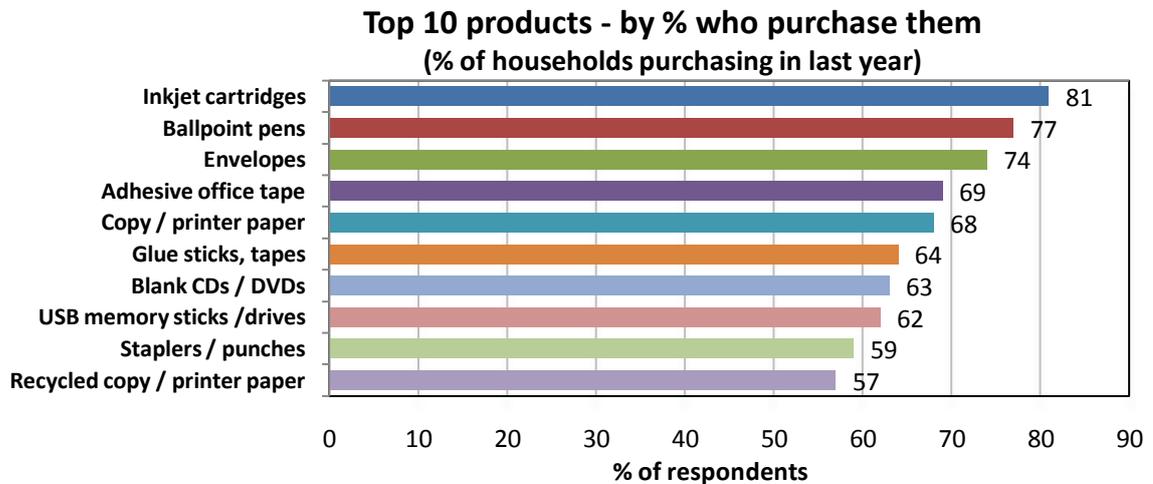
Fastest growing products

When dealers were asked to name their fastest growing product categories the highest response was 'computer consumables' (ie printer cartridges etc) – with 34%. The second highest category was 'paper' (18%) – refer chart below. When the surveyed Newsagents results are netted out their most mentioned high growth categories were slightly different, with 'paper' top on 40% followed by 'computer consumables' (30%) and then equally 'computer accessories' and 'filing' – both with 10%.

Our observation is that Newsagents generally have a larger than necessary range of traditional low growth/declining products and are significantly under-represented in the high growth products. Re aligning the merchandise range to better represent the full range that consumers want to buy would result in a marked improvement in their sales.



Simply looking at the top 10 products with the highest incidence of annual purchase amongst households (see chart), highlights some obvious areas where Newsagents may pick up revenue. Of particular note 'inkjet cartridges,' 'USB memory sticks' and 'blank CDs /DVDs' are all highly popular products that are not often present at Newsagents.



CONSUMERS

The top two consumer segments that shop at Newsagents are households and students. To a less extent - and offering a substantial opportunity – Newsagent are also serving micro businesses (most of whom work from home-based offices). Micro businesses are high spenders, with a strong long term growth outlook and are the largest of the seven consumer segments covered in our research. An average micro business office worker spends just over \$1,000 pa on office products, amounting to \$1.8 billion each year. Our view is Newsagents have a 'proximity advantage' with these consumers but fall down in the competitiveness of their pricing and the product range offered.

Consumer segment characteristics

Dimension	Consumer segments – typically serviced by Newsagents		
	Households	Students	Micro businesses
Segment size (\$ pa)	\$1.2 billion	\$1.0 billion	\$1.8b (largest of all)
Growth outlook	Moderate+	Low-moderate	Moderate-high
Overall attractiveness	Above average (2 nd out of 7)	Lower than average	Very attractive (#1 out of 7)
Key decision maker	Mother	Mother	Owner
Av \$s spent on OP per year	\$147 per household	\$169 per student	\$1,000 per worker
Key choice drivers (in order)	Price Convenient location Product range	Price Convenient location Product range	Product range Convenient location Price
Product mix comments	Smaller quantities of everyday items.	Biased to writing related products, art & craft plus selected IT prods (eg USB sticks)	Broad range but above average use of IT/computer products.
Overall/Summary	Newsagents could do better via more competitive pricing and a wider range.	Small range of specific IT products would help. Very strong price focus limits opportunity though.	Best opportunity here, but need to broaden product offering plus be more price competitive.

Market trends

Some of the key patterns of market change identified in our research are as follows.

- Technology is reshaping the market** - creating a shift in products (towards electronic/computer related items) as well as changing the way we work and the way we shop. The speed of change will be faster than expected over the next 3-5 years
Implication; Everyone needs to be reviewing, refreshing and keeping their product range up to date – to reflect the overall market shift. Neglecting this is simply giving up sales to others. Fortunately there are streams of new products being developed and available, highlighting the opportunity for effective merchandise management to tap into this trend.
- Industry consolidation.** It's no secret large players are taking an increasing share of the market and small player numbers are dwindling.
Implications; For Newsagents sales will be lost to larger players due to the competitive advantages of scale. However new strategies and owner-focus can help neutralise this. For example adding new products/services will help, as will belonging to a well organised and effective marketing group.
- Consumer behaviour has altered due to the GFC** – with more 'shopping around' and a shift to 'value' versions of products. Although this has and will continue to ease, it has resulted in lower 'per head' spending on established products.
Implication; Dealers need to give customers more reason to stay with them – or else offer the lowest price. For Newsagents their 'convenience-premium' is not quite as valued as previously.

- **Fragmentation in the places people work** (ie office work is now commonly performed from two or three locations – eg the main office, home, ‘hot’ desks, cafes, cars etc). This is largely enabled by computer technology.
Implication; Greater dispersion of work places means customers will purchase products from more points – close to where they are working. This creates a positive advantage for Newsagents, especially with more people spending time working from home, where the local Newsagents can provide a convenient replenishment depot.
- **Continued growth in online purchasing.** Although online has yet to make any real impact in Newsagents’ core customer segments (ie households, students and micro businesses), it will continue to move further down the chain. We predict small businesses will be the next segment to be dominated by online ordering and retailers should all be wary.
Implication; traditional Newsagents are one of the least vulnerable to online selling. Even so, with all market elements moving towards electronic mediums - in one sense or another - all retailers should be developing strategies to adapt to rising rates of online sales.
- **Dealers are bypassing local suppliers** and importing directly from overseas manufacturers. This is typically amongst larger dealers sourcing products from China and is being aided by the growth in private (own) labels.
Implication; This is making it harder for smaller dealers to compete as products are being sourced more cheaply directly out of Asia. For Newsagents this threatens to widen the price gap already in existence. As the trend will only continue, it points to Newsagents needing to source products more competitively, whether overseas or locally.
- **The rise of fashion based stationery** – ie particularly those that make the office/desk look stylish and modern. Although this is not a large segment it is an important new niche that has arisen in the last few years and is growing well. This is evidenced in the recently added range in Officeworks and the success of Kikki-K and Smiggle.
Implication; There are opportunities to offer more than the high volume characterless commodity style products out there. Newsagents who cater more to home offices and consumers should be able to tap into the receptiveness of these customers to buy stylish and design oriented products.
- **Core (traditional) office products are mature and stable to declining.** We expect them to track down in the coming years.
Implication; Operators – and especially Newsagents - need to be supplementing declining sales of existing products with new product types and ideally whole new categories.

Conclusions

The office products market is entering a period where electronic/online mediums will grow more rapidly than expected. This will lead to acceleration in the decline of established/traditional products. In this environment operators need to be concentrating on keeping their product range contemporary and looking for new versions and categories of products. Newsagents are relatively unique in the market and while there are certainly threats in the changes ahead, this is the case for almost all the other operators as well. The differentiator that will determine who does well in the future lies in the ability to change with the market. For Newsagents there are some clear areas in need of change including modernising and broadening the range, offering more competitive pricing, being more professional with marketing/promotions and targeting micro businesses. The office products market offers significant opportunities for those able to ride its trends - due to its huge size, healthy growth and appetite for new products.

This article is based on data from the report "Office Products in Australia, 2010-2012"

(1) About the research.

The report entitled "*Office Products in Australia, 2010-2012*" is based on a survey program of almost 1,200 interviews, with a combination of businesses, households and office product dealers.

Penfold Research

Penfold Research, based in Australia, provides operators in the office products industry with information to assist with planning, decision making and strategy development.

For further information:

Andrew Penfold

Telephone: +61 2 9337 5129

Mobile: +61 419 980 971

Email: andrew@penfoldresearch.com.au