



Non-Core Office & Business Supplies, 2016-2018 – A Market Report (1)

- **Non-core market valued at \$A5.9 billion - and set to exceed core market.**
- **Growth has stepped up, running at 4+% - and is resilient.**
- **Market is fragmented – with customers receptive to one-stop suppliers.**
- **OP operators predicted to gain hundreds of millions in new sales.**
- **Coffee rated a growth driver and major ‘door-opener.’**

The 2nd edition of Penfold Research’s study on non-core office & business supplies has recently been released and reveals a healthy but disjointed market, that is growing well – and with office product dealers gaining share. This relatively new market is developing from a fragmented and immature state, with customers using different suppliers for different product categories. This is despite the fact they would prefer to use less (or one) supplier - and highlights the significant opportunity; for operators to provide a broad, integrated ‘one-stop’ offering. OP dealers are well positioned to fill this gap and it is expected they will gain hundreds of millions in new non-core sales in the coming years.

The following article outlines some elements from the research report.

‘Non-core’ definition

The non-core market is a relatively diverse range of previously unlinked categories, brought together by their adjacency to traditional/core office products. Our market definition covers business purchases of seven categories; kitchen supplies, cleaning/janitorial, furniture, printing services, promotional products, work wear/safety and packaging supplies.

Market size & growth

Total expenditure by businesses on the seven non-core categories is valued at \$5.87 billion in 2016 (at consumer values). This has grown by 4.0% in 2015 and an estimated 4.2% in 2016 - exceeding general economic (GDP) growth by around 1% pa over the last two years. This pattern is expected to continue. One of the primary reasons behind this robust and improving growth, is businesses increased focus and attention on the health/wellbeing, hygiene & safety of their workers.

Customers

Compared to core office products, non-core customers are much less homogenous in their patterns of behaviour & preferences. For example, while purchasers of kitchen supplies still have high usage of retail purchasing, promotional customers mainly buy online. This reinforces the more operators can understand and customise their offer/strategies – by category - the more successful they will be.

Some general differences between non-core and core OP customers include, lower online usage, higher rates of supplier switching and more fragmented decision making (ie there are usually several category-specific persons involved).

Top growth categories

All seven non-categories grew positively in 2015, with the top three being office furniture, cleaning/janitorial and kitchen supplies.

In terms of growth opportunities for OP dealers the best rated categories are (in order); kitchen supplies, cleaning/janitorial, office furniture & then work wear/safety.

The most regularly purchased ‘must-have’ non-core products include (in order); toilet paper, tea bags, hand cleaner, tissues, instant coffee, dishwashing liquid, sugar/sweeteners, packaging tape, paper towels and toilet cleaner. These are all high-use, every day consumable supplies.

Coffee rated a major opportunity

Market operators have the opportunity to harness coffee as a growth driver, as well as using it as a ‘door-opener’ for other related products and categories. Our reasoning is based on coffees vast base of consumers, its robust growth outlook, natural adjacency to office products and OP operator’s relatively low current share/penetration.

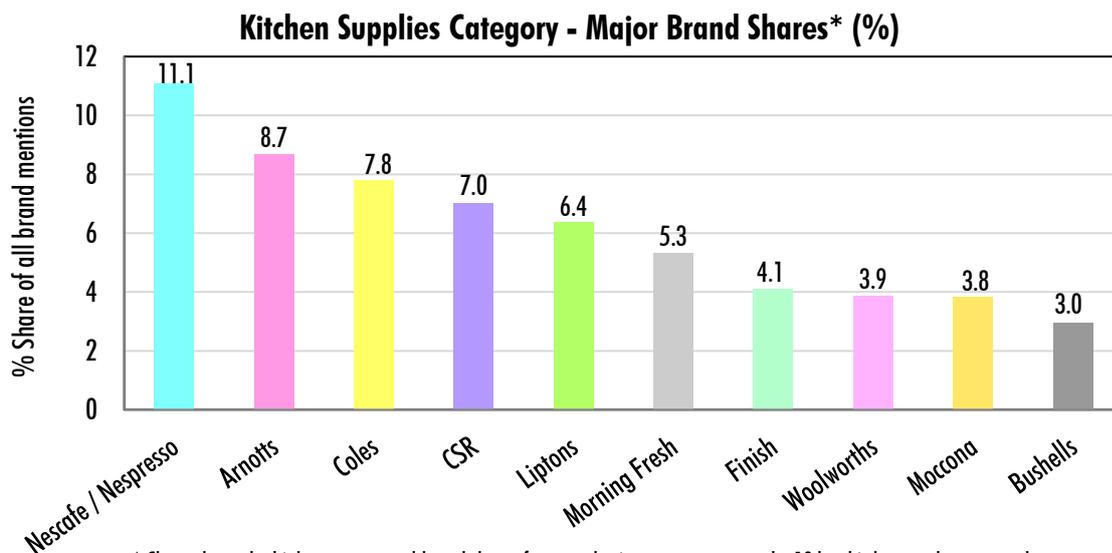
Coffee is growing steadily and importantly is being transformed by a machine-led gentrification of drinking habits. The rapid spread of coffee machines together with the marketing of taste, convenience and coffee’s productivity-boosting properties are all driving a shift to more expensive varieties.

With over 75% of surveyed respondents drinking coffee at work and the majority of this being instant coffee, there remains a strong ‘pipeline’ of growth as instant drinkers continue shifting to more expensive varieties. Perhaps unsurprisingly ‘coffee pods/capsules’ were the fastest growing product in the whole non-core range covered.

Brands

Brands are particularly important in three non-core categories; cleaning/janitorial, kitchen supplies and work wear/safety. This has to do with the nature of these products, where brands act to reassure purchasers/users regarding quality, health, taste & safety.

In the kitchen supplies category, the single most purchased brand (based on the products covered in our survey) is ‘Nescafe/Nespresso’ followed by ‘Arnotts,’ then ‘Coles,’ ‘CSR’ and ‘Liptons.’ The top 10 brands listed in the chart below, with the exception of Coles and Woolworths, reflect the leading one or two brands within each product covered. Overall kitchen supplies have a smaller than average number of brands with relatively dominant positions (ie high brand concentration).



* Chart shows the highest aggregated brand shares from our business survey, across the 10 key kitchen products covered. This is based on 2,276 individual brand mentions from 471 business purchasers of kitchen supplies.

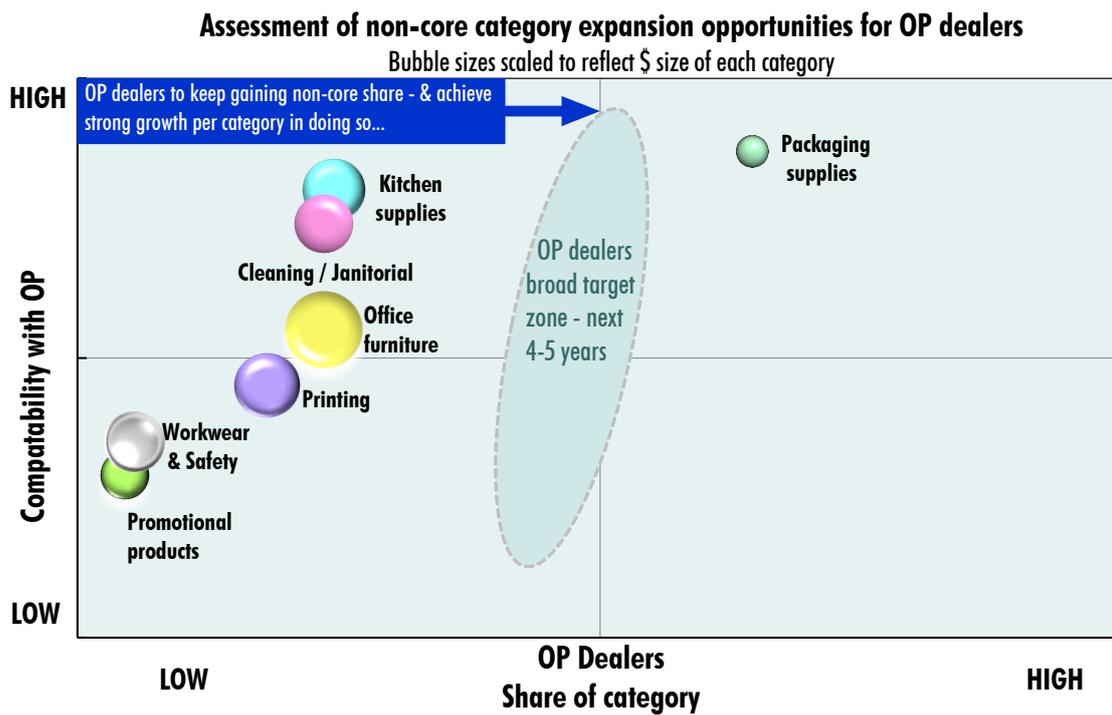
Dealers/suppliers

Given the newness of the non-core market, operator shares remain relatively low (9% is the highest), led by Officeworks, Staples, Coles and Woolworths. With OP dealers being the only operator type offering the full range of categories, there tends to be a different set of competitors in each product category. For example, while the supermarket chains are very strong in kitchen supplies and cleaning/janitorial, in the Workwear/safety category specialists Blackwoods & Totally Workwear are leaders. This lack of integrated, full-range offers amongst non-OP players highlights a key competitive advantage for OP dealers, along with their competence in logistics/distribution.

While Officeworks has been growing well as a total business, there is no clear indication they are specifically targeting the non-core categories (beyond their already strong position in furniture & printing). Staples on the other hand appears to be actively pursuing growth in the non-core sector, as it suits their business model. They are the most developed in this market and it is expected they will continue to grow their share aggressively in the next few years.

Overall the research confirms while office product operators currently have a low-moderate share of the non-core market, there are compelling reasons this share will grow substantially in the next several years.

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(1) About the research.

The report entitled “*Non-Core Office & Business Supplies, 2016-2018*” is based on a survey program of 864 interviews with Australian businesses. The report is available by subscription and an outline can be requested or downloaded on our website as listed below.

Penfold Research

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

Contact

Andrew Penfold

Telephone: +61 2 9337 5129

Mobile: +61 419 980 971

Email: andrew@penfoldresearch.com.au

www.penfoldresearch.com.au

