



Office Products in Australia, 2014-2016 – A Market Report (1)

- Total office products expenditure valued at \$A11.9 billion.
- Systemic decline in core range, via the shift to digital.
- Customers increasingly price focussed.
- Strongest brands holding up well – secondary brands struggling.
- Officeworks dominant and outperforming.
- Market broadening – and acquisitions set to pick up.

A new research study published by Penfold Research reveals the OP market is evolving rapidly, driven principally by the shift from traditional (paper-based) to digital processes as well as competitive pressures. The market is broadening into adjacent categories (eg work wear/safety), the supply chain is rationalising, online is eroding retail and there are new competitors to deal with, as operators diversify. These and other findings are covered in the summary that follows.

The broad Australian office products market (ie core and non-core*) was valued at \$A11.86 billion in 2013 – at end consumer prices. This represents growth of -1.7%, following similar -2.5% growth in 2012. The decline is attributable to the core (traditional) range of products which contracted by 4.5% in 2013. We estimate the 'shift to digital' is currently pulling growth around 5%+ lower than it would otherwise be.

While the core range is enduring an ongoing systemic decline, the non-core sector is considerably better, averaging low single digit growth in the range of 2-3% pa.

Market conditions

Office Products
Market Conditions Rating
December 2013



With 'current' conditions rated 43.4 out of 100, in December 2013, this is confirmation the market remains in a well-entrenched state of negative growth. (50 is considered normal).

This result is just slightly better than the 42.8 recorded in May 2013 and remains the second weakest result in six years (since we began monitoring).

Dealers remain optimistic with a more positive 55.6 rating for anticipated conditions in the 'next 12 months.' Interestingly this is the largest optimism gap ever (ie between 'current' and 'next 12 months') of 12.2 points, indicating relatively strong expectations for market improvement.

In terms of dealer types 'specialist OP retailers' rated current conditions (45.6) more positively than any others. 'Commercial/contract' dealers by contrast were considerably weaker (42.0).

Market trends

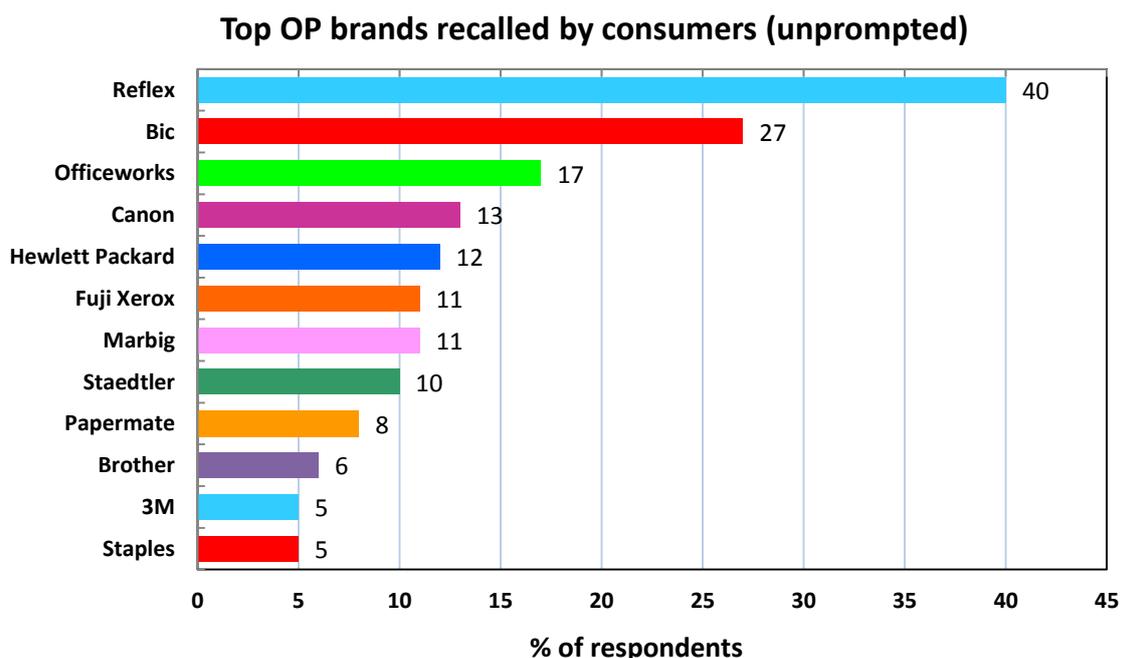
Some of the patterns of change identified in our research are as follows.

- Strong dealer growth in non-core categories – led by cleaning/janitorial, furniture and kitchen supplies.
- An increasingly intense focus on value for money and price by purchasers.
- Surging mobility and generational change – creating a recipe for digital acceleration.
- Leading brands holding share - and secondary brands slipping. Private label brands and other value brands are gradually eroding all but the strongest brand shares.
- More incidental (online) purchasing outside major suppliers. Mostly these are one-off, irregular purchases (mainly online) - through alternate usually specialist suppliers.
- Supply-chain bypassing. Technology is enabling manufacturers to directly service users, while cost savings are driving dealers to bypass local distributors and purchase direct from overseas manufacturers.
- User appetite for more design and high quality products. The drive for basic, low-cost products has left a gap in the product offering, with consumers who are willing to pay for well designed, quality products, lacking in choice.
- Managed print services (MPS) has stabilised following several years of rapid growth.
- A pick up in consolidation – via mergers, acquisition and partnering.

Products and brands

The core office products range continues to decline, pulled down by digital substitution and in selected categories; deflation. Of the 10 core categories only computer/electronic accessories grew positively in 2013. It was considerably better in the non-core range where five of the seven categories managed positive growth. The best of these were cleaning/janitorial, then work wear & safety, kitchen supplies and packaging supplies.

While the strongest brands have largely maintained their positions in this latest research, notable increases in awareness have been achieved by Officeworks, Fuji Xerox and Staples. In terms of general trends, dealer brands have increased their brand awareness this survey, while OEM printer brands have remained relatively stable. Writing instrument brands have fallen back slightly, but impressively remain the highest of all groups.



*Penfold Research, 2014. * Based on top 3 mentions by 1,026 survey respondents.*

Dealers

While most dealers are achieving healthy growth in the non-core categories, by our assessment nobody is yet growing them enough to counter the decline in core sales. Having reviewed the relatively diverse range of non-core competitors, we believe OP dealers on the whole are more developed, professional and able to provide a superior overall offer. At least compared to many of the relatively fragmented and often specialist incumbent non-core suppliers.

In the core market our research indicates the large contract dealers (Staples, OfficeMax, COS) have made little progress increasing their penetration of the smaller business segments. However Officeworks (coming from the other direction) has been successfully increasing its share in the medium and large segments. Independent dealers have been struggling, but have largely retained their share.

The best performing major dealers over the last year have been Fuji Xerox Document Supplies and Officeworks (with OfficeMax also deserving of a mention). Niche player Smiggle has continued its run of very strong growth while JB Hi Fi has also outperformed in the electronic/technology sector.

The dealers with the highest 'net promoter scores' – a measure of customer goodwill - are (in order); Officeworks, Cartridge World, Lyreco, Office National and JB Hi Fi. Of these players, Officeworks, Cartridge World and Office National have consistently been at the top of the survey rankings.

Suppliers

In a sign of the tough market conditions only one in five suppliers have managed to increase their office product sales in the last two years since our previous report. With the core OP range set to continue declining into the foreseeable future, suppliers have several options available in our view. They can develop new products, expand into new demand sectors and/or adjacent categories, develop premium (more expensive) versions of existing products and focus on profit ahead of scale.

Some characteristics we believe will define successful suppliers in the future are strong consumer brand/s, market share dominance in one or more products and superior product development ability.

What's ahead

The drive to diversify by industry operators has set in motion a reformulation of the market. In many senses the 'office products' market as we know it is transitioning to a broader 'business supplies and services' market. Over the next three-four years we expect the non-core categories to overtake the core OP range in size, while at the same time new generations of digital-oriented products and services will emerge.

Weak demand and conditions to us also spells rationalisation. We expect a period of higher than normal mergers/acquisitions, partnering and closures particularly amongst small independents and retailers in the next few years. Additionally we foresee acquisitions (mainly by larger players) of non-core suppliers.

.....ENDS.....

* Under our broad definition 'office products' includes the 'core' range (ie stationery, paper, computer consumables/accessories and business machines) plus; 'non-core' categories; kitchen supplies, cleaning/janitorial, furniture, printing services, promotional products, work wear/safety and packaging supplies.

(1) About the research.

The report entitled "*Office Products in Australia, 2014-2016*" is based on a survey program of over 1,100 interviews, with a combination of businesses, households and office product dealers. 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 products industry with information to assist with planning, decision making and strategy development.

Penfold Research is headed by Andrew Penfold who has been a leading industry researcher since 1999 and before that worked in marketing for a major office products retailer.

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