

Office & Work Supplies in New Zealand, 2019-2021 – A Market Report [1]

- **Broad office/work supplies market valued at NZ\$ 2.2 billion (growth flat).**
- **Non-core (adjacent) categories now larger than core office products – and growing well.**
- **New Zealand market characteristics are far from homogenous with neighbour Australia.**
- **Market undergoing significant reformulation – to a broader ‘work supplies’ focus.**
- **NZ Government leading the way in ‘green’ procurement policies (unlike Australian Government).**
- **OWS dealers are well placed to achieve strong future growth in key non-core categories.**
- **NXP leads in satisfaction ratings – by business customers.**

A new research study by Penfold Research reveals accelerating declines in core (traditional) products are driving higher than normal rates of restructuring & consolidation amongst operators. Despite this and the major market reformulation underway, New Zealand benefits from a more comfortable competitive environment than in larger and less remote countries. In this sense players face a lower risk of business damage as they adjust/re-position to the new, broader and more fragmented market.

Market size & growth

The New Zealand office & work supplies (OWS) market (ie core & non-core categories* - refer definition at end of article) is valued at NZ\$2.20 billion in 2019. This represents flat-low yearly growth of 0.5%. While growth has been healthy in the non-core product sector (3.6% / 2019) this has largely been negated by escalating declines in the core sector (-2.4% / 2019) - and a slowing economy.

For the first time, in 2019 the non-core sector is larger (NZ\$1.12b) than the core sector (NZ\$1.08b) – and the gap will only widen from here. This reinforces a central finding of our research; that the largest opportunities lie away from traditional (core) products - in the adjacent non-core and related categories. The good news is that there is a vast and developing trove of these categories, that go well beyond the seven non-core categories identified in our report (refer diagram over page). Our research indicates OWS dealers/retailers overall have relatively low market shares in most non-core categories, signalling a strong growth-path opportunity for the next five years.

Key market differences – New Zealand v Australia

Despite country similarities, we have been surprised by the range of differences between the New Zealand and Australian OWS markets. Some of these include;

- NZ customers are notably higher users of online ordering and lower users of retail compared with Australians.
- NZ businesses are more willing to buy non-core (adjacent) categories from their main OWS supplier.
- The NZ Government is actively driving ‘green’ OWS initiatives while the Australian Government is not.
- ‘Design & style’ is less important to NZ purchasers when selecting products to buy.
- The NZ core OWS market has a materially higher level of market share concentration amongst major dealers/retailers.

Market trends

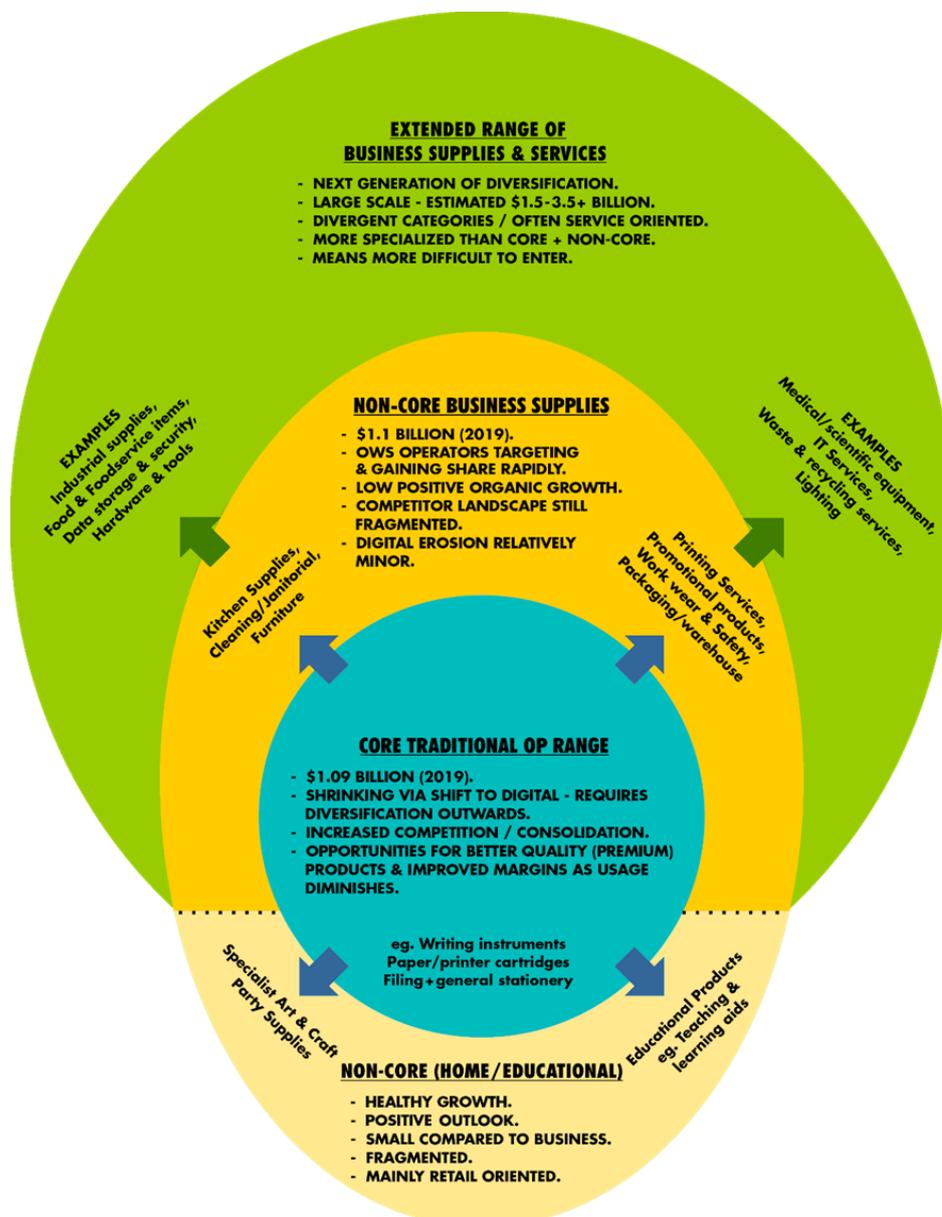
Some of the patterns of change identified in our research are as follows;

- Rapid market reformulation – from an ‘office’ focus to a broader ‘work supplies’ one (refer diagram next page).

- The largest operators consistently out-perform their smaller rivals.
- Continued restructuring and consolidation amongst OWS players.
- Online purchasing is continuing to grow – resulting in reduced store visits. Interestingly, the strongest shifts to online have been in the traditionally high retail-using segments - ie micro businesses, small businesses, students and households. (Note; three of these four segments still predominantly rely on stores, just notably less so.)
- Customers are putting more weight on 'efficiency & productivity' factors when choosing where to buy.
- Market evolution is bringing in new competitors and operator models.
- Increased levels of sales 'leakage' from major dealers/retailers (enabled by the ease of online search & ordering).
- Sustainability & 'green' products are approaching a tipping point (see top of next page).

Market evolution – the great expansion from core

As core products decline, operators are expanding into the adjacent categories – at present predominantly the non-core work supplies (yellow zone). However, beyond this, there are multiple other categories – including the very large 'extended range of business supplies & services' (green zone). Operators just need to evaluate and select which categories are most suited to their business model & capabilities.



Sustainability & 'green' products to escalate

While there has been moderate demand and industry initiatives for green OWS products & sustainability over the last decade, progress has been slow, limited and generally disappointing.

However, with global attitudes to environmental issues rising markedly in the last year (driven by climate change, disasters, younger people & reformers) we believe serious change is now inevitable. Boosting this, the New Zealand Government now requires all purchasing under its 'All of Government' (AoG) office supplies contract to prioritise environmentally friendly/sustainable products. Our observations indicate while the New Zealand Government is advanced and progressive in this realm, by contrast the Australian Government is lacking.

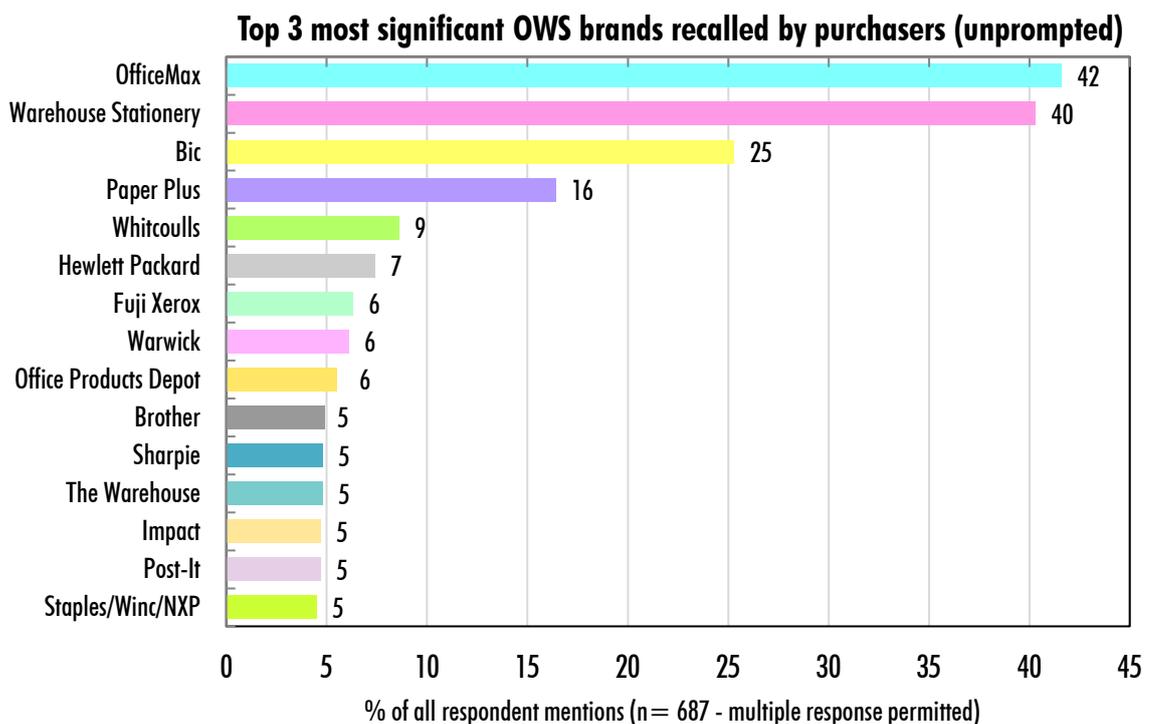
These two drivers – ie the general public's concern/attitudes and Government/institutional leadership – we believe will result in a meaningful rise in green product choices as well as spurring industry actions in the coming two years.

Products & Brands

Of the 9 core (traditional) categories covered in our research, only one (art & craft) managed to grow positively in 2019. This contrasts with the non-core sector, where six of the seven categories grew at healthy positive rates. The best of these have been (in order); office furniture, workwear/safety, cleaning/janitorial and kitchen supplies.

Key themes currently driving higher product growth include; hygiene, health/wellbeing, safety, worker productivity and creativity.

When purchasers were asked to name the top three OWS brands they could think of, the two largest dealers/retailers – OfficeMax & Warehouse Stationery - received by far the most responses (refer chart). Our research confirms end-users/consumers now predominantly associate brands with their supplier's name (eg OfficeMax), rather than as in the past, product-based brands (eg Bic). This is reflective of a mature market and illustrates the power/dominance that sizable dealers & retailers now have over their suppliers.



Dealers & Retailers

Leaders OfficeMax & Warehouse Stationery have close to triple the market share of their nearest competitors and the New Zealand system appears to favour large incumbents. Despite this, we can't help observing this scale polarity is an opportunity for one or more less sizable operators to move up and fill the competitive void, as a medium-large sized rival. While the core sector is supplied by a competent set of established suppliers, the non-core sector is relatively fragmented, and populated by less professional suppliers – signalling an opportunity for OWS operators.

In terms of customer satisfaction ratings (by business purchasers), the top three dealers/retailers in our survey were; Net Xpress Procurement (NXP), Eeny Meeny and Office Products Depot (OPD). These results point to high and even superior levels of performance by smaller rivals of the two market leaders. Even so, both OfficeMax and Warehouse Stationery also performed relatively well amongst business customers, falling just outside the abovementioned top three.

(1) About the research.

The report entitled “Office & Work Supplies in New Zealand, 2019-2021” is based on a survey program of 695 interviews, with a combination of businesses, households and market operators. The report is available by subscription and an outline can be requested or downloaded on our website as listed below.

* Under our broad definition ‘office & work supplies’ (OWS) includes

- a. ‘Core’ (traditional) office products; (ie writing instruments, art & craft, paper, pads & books, labels & mailroom products, technology consumables & accessories, filing & presentation, general office supplies and business machines), and
- b. ‘Non-core’ work supplies; (ie kitchen supplies, cleaning/janitorial, furniture, printing services, promotional products, work wear/safety and packaging supplies).

Customer segments

We classify customers into seven primary segments; micro businesses (1-5 workers), small businesses (6-19), medium businesses (20-99), large businesses (100+), Government enterprises, households and students.

Penfold Research

Penfold Research, based in Australia, provides operators in the office, education & work supplies sectors 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 supplies retailer.

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