



The Education Market – a view from Penfold Research

Our research into the education market reveals a diverse, multi-segmented sector of largely price driven consumers. With cost pressures mounting and households tightening their expenditure the coming 2009 'Back to school' (BTS) period is shaping up as a highly competitive and margin crunching one.

Market size

We estimate the total education market for stationery and office products in 2007 at \$1.525 billion – at consumer prices. Of this, students (purchasing for themselves) are the dominant sector – purchasing \$1.05 billion, or 69% of the total. Education institutions (childcare, schools and tertiary – ie universities and TAFES etc) account for the remaining \$475million or 31%.

BTS is a huge selling period in which \$950 million or 62% of the total annual markets sales are made at the beginning of the academic year. The majority of BTS purchases – we estimate \$735 million - are made by students, who predominantly purchase from large retailers. Officeworks, Big W and Kmart are the leaders with Newsagents not far behind.

Education institutions spend \$215 million at BTS, representing just under half (45%) their annual expenditure. The majority of this is supplied by one of three major contract dealers – OfficeMax, Corporate Express and SDS.

Outlook for back to school 2009

Over the last two years growth in the student sector has been buoyant, averaging 5-6% pa, thanks to high employment and very healthy levels of household income. Over the same period the education institution sector has barely grown – averaging 1-2% pa.

However this growth will not be repeated in 2009. The ground has now shifted. With the economy rapidly cooling, consumer confidence flattened and retail spending in retreat, there remains a serious question mark over the coming BTS period. One of the potential saviours against expenditure cuts is that parents place high priority on their children's/student's education and the associated 'learning tools' (ie stationery/OP). However even with this, in the current tighter environment students and institutions will be more than normally receptive and motivated by lower cost varieties of products. While demand for core education products will remain steady, average sell prices will come down as consumers revert to more basic, lower cost products. We anticipate this situation will be exacerbated by the large retailers aggressive drive to source and promote low priced products – as they recognise this as a means of gaining market share.

Although the above paints a somewhat negative picture for BTS 2009, it could well be better - if interest rates start falling and inflation pressures recede between now and early 2009. An easing in oil/petrol prices will particularly assist in this area.

It is important to point out the education market is far from being homogeneous. Each different consumer segment – whether (for example) pre-schoolers, primary students, high schools or universities - purchase different product ranges, behave differently and use different dealers. Below we point out some of the more generic characteristics of the broad student and institution sectors.

Student sector profile

- Most students don't purchase their stationery/OP themselves. Almost two thirds of purchasers are adults, purchasing for the student. In most cases this is the mother.
- Student numbers are growing at less than 1% pa, so growth above this level depends on stimulating them to spend more each year. To date, technology-related products and new feature rich versions of existing products have provided this. However it will be a challenge to maintain this in the coming year.
- Student purchasers tend to use several different dealers (the average is 2.8) and they shop an average of four to five (average; 4.4) times per year.
- In terms of where they buy, most students use one of the three large-format retailers (Officeworks, Big W or Kmart). These account for over 60% of purchases. Other significant retailers used include Newsagents, Woolworths, Coles and Australia Post.
- Students are receptive to fashion, responsive to promotions, 'green' products and place more value on brands than most other consumer types.

Education institutions sector profile

- The person responsible for purchasing stationery/OP in institutions is most likely to be in the 41-50 year age group and is usually female.
- They mostly use more than one dealer, with an average of 2.7. However the vast majority (over 80%) of expenditure is purchased from their main dealer
- In terms of where they buy, most institutions use large contract dealers. The top three dealers (OfficeMax – including its state subsidiaries, Corporate Express and SDS in Qld) accounted for over 70% of main dealer usage.
- Tertiary institutions which are often overlooked are a very important segment, spending an estimated \$175 million and behaving very differently from schools. They purchase more like businesses, tend to order online and have younger people in charge.

Opportunities

Our research points to opportunities for suppliers and dealers to target students with eco or green products. Our survey indicates they are prepared to pay a moderate premium (around 5-10%) for truly authentic green products. Students are generally very receptive to the environmental cause. By contrast education institutions are less receptive.

Affordable technology-related products that provide a simple and 'real' consumer benefit will be readily purchased by students.

The current market will particularly favour well priced products – ie that are good to high quality but at a 'value' price. We believe consumers have become wary of purchasing low quality, low priced products over the last several years.

Industry operators need to buckle up for the tough period ahead. Consumers will more than ever be price focused, at a time when costs are going up. Demand will be weaker and large dealers will be leveraging their buying power as much as possible.

As in all competitive markets, those able to adapt to the conditions, use innovation and provide better customer value than their rivals, will come out ahead.

About this article

This information is largely based on a research study completed by Penfold Research in 2007. For a full outline of the research go to the report section of our website - www.penfoldresearch.com.au or contact Andrew Penfold - andrew@penfoldresearch.com.au or phone: 02 9337 5129.

EDUCATION INSTITUTIONS

Market size:	\$475m (total)
Back to school:	\$215m
Recent growth:	1-2% pa
Outlook:	Flat – very low

Sector features

- Purchasers are time pressed and stationery/OP is a usually low priority compared with other tasks.
- Lower than average online ordering.
- The purchaser is budget focused and subject to purchase restrictions.
- Low rate of dealer switching (ie high loyalty).
- Teachers play an important role as secondary purchasers & influencers.

Source: Penfold Research. Values at consumer prices for 2007 calendar year.

STUDENTS

Market size:	\$1,050m (total)
Back to school:	\$ 735m
Recent growth:	5-6% pa
Outlook:	Flat - very low*

Sector features

- 6.1 million students in Australia, growing at 1.2% pa.
- Average expenditure per student \$168 per year. \$115 per student at BTS.
- Price is the most important factor when students choose where to purchase.
- Low customer loyalty.
- Despite less than buoyant short term outlook, good medium term prospects.

Source: Penfold Research. Values at consumer prices for 2007 calendar year.

**Student sector growth potentially negative, subject to the economy (interest rates, oil prices and consumer confidence).*