



Non-Core Office and Business Supplies, 2014-2016 – A Market Report (1)

- **Non-core market valued at \$A5.4 billion.**
- **A major growth driver for OP dealers over next decade.**
- **Market is fragmented/non-integrated – and ripe for consolidation.**
- **Medium-large businesses (& Govt) are the most attractive segments.**
- **Market shares are small, led by Woolworths then Staples.**

A new research study by Penfold Research confirms non-core office and business supplies offer a rich vein of growth for office product operators – for the next decade. Extending into non-core categories is a natural evolution that will drive a wave of consolidation in what is currently a fragmented, non-integrated and essentially undeveloped sector. However for operators targeting non-core expansion, the sector is noticeably different – in terms of customer behaviour and preferences, where the high-demand sectors are, the competitors and general market dynamics. The following article outlines some of these differences as well as highlighting our reasoning behind the strong opportunities for growth.

‘Non-core’ definition

Our market definition covers business purchases of seven categories; kitchen supplies, cleaning/janitorial, furniture, printing services, promotional products, work wear/safety and packaging supplies. Arguably there are multiple other adjacent categories purchased by businesses that could also be included. Examples include lighting, health care/scientific equipment, hardware/tools and chemicals.

Market

Total non-core expenditure is valued at \$5.38 billion in 2014 (at consumer values). Growth has been slightly lower than that of the overall economy, at 2.2% in 2013 and a forecast 2.3% in 2014, pulled down by declines in two categories; printing and promotional.

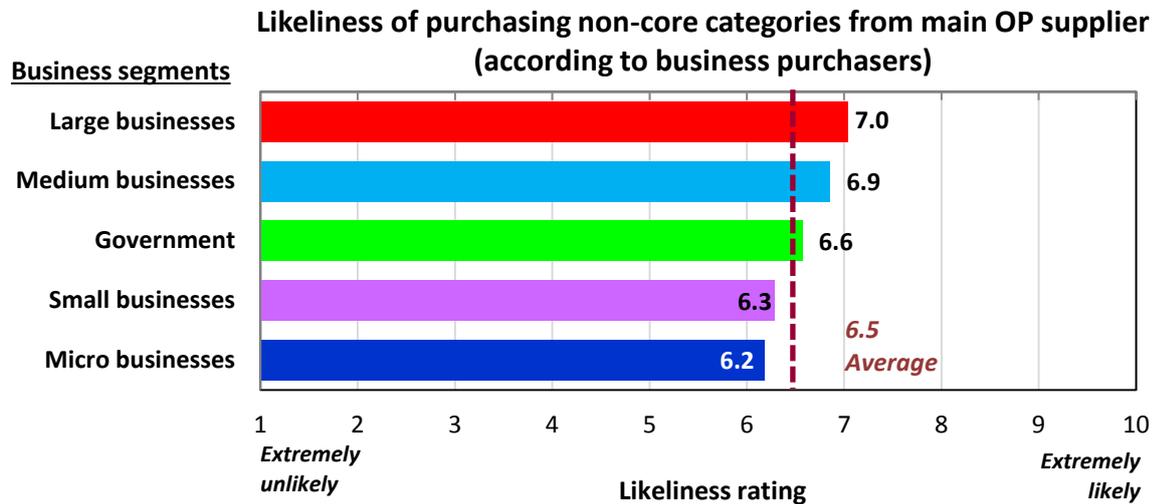
The non-core market is essentially the sum of a diverse range of previously unlinked categories, brought together by their adjacency to traditional office products. With core OP categories in decline, OP dealers are racing to extend into these areas, and are well placed to do this. They have strong distribution skills, the ability to add new products as well as existing supply relationships with businesses. By our assessment there is potentially up to a \$2 billion sales opportunity – ie by collectively increasing their current market penetration from the current 20% up to 50%. This would however require consistent ongoing effort, acquiring specialist category knowledge, staff and supply sources, offering competitive pricing as well as targeting specific industries and (usually) different purchasers.

Customers

Purchasers display unique sets of behaviours and choice drivers, across each of the seven product categories. This reinforces the more operators can understand and customise their offer/strategies – by category - the more successful they will be. For example cleaning/janitorial customers place highest importance on ‘competitive prices,’ have an above average usage of retail and purchase quite frequently (every 4 weeks on average). Their high-use customers tend to come from retail, hospitality/foodservice and healthcare. By contrast work wear/safety customers are more concerned about product

quality and range ahead of price, have higher usage of online and purchase relatively infrequently (every 16 weeks). Their high use customers are also different, most often coming from construction, professional/scientific/technical, manufacturing and mining.

When businesses were asked how likely they would be to buy non-core categories from their office product supplier, the average rating of 6.5 out of 10 implies a reasonably positive likelihood. When viewed by business size, large businesses (7.0) and medium businesses (6.9) are markedly more receptive. (Refer chart below).



Non-core categories overall have lower usage of online purchasing (37% of respondents) compared to core office products (44%). This implies non-core is as yet, less developed or systemised than core office products. Interestingly promotional products have a particularly strong rate of online ordering at 57% of respondents.

The most motivating 'trigger' that would prompt businesses to change their non-core supplier is 'significantly lower prices' (65%). This was almost double the response of the next highest factor; 'greater product range' (35%) and then 'a one-stop shop that allows me to use less suppliers' (31%).

Products and brands

By our assessment the best non-core growth opportunities for OP dealers are (in order), cleaning/janitorial, kitchen supplies, furniture & work wear/safety.

Brands are particularly important in three of the seven categories; ie kitchen supplies, work wear/safety and cleaning/janitorial. By contrast purchasers are relatively ambivalent about brands in the other categories, particularly in office furniture and printing.

The fastest growing non-core products are generally being driven by trends in; hygiene/health (eg hand cleaner), 'premiumisation' (eg ground coffee) or workplace safety. General areas of above average growth include;

- Coffee machines and capsules.
- Environmental/green versions of cleaning products.
- Non-toxic and anti-bacterial versions of cleaning products (via health trend).
- Height adjustable desks and postural-benefitting furniture and accessories (eg ergonomic chairs).
- Digital design and marketing services that integrates with printing.
- Large format printing.
- Packaging products commonly used for shipping online orders – eg bubble wrap.

Dealers/suppliers

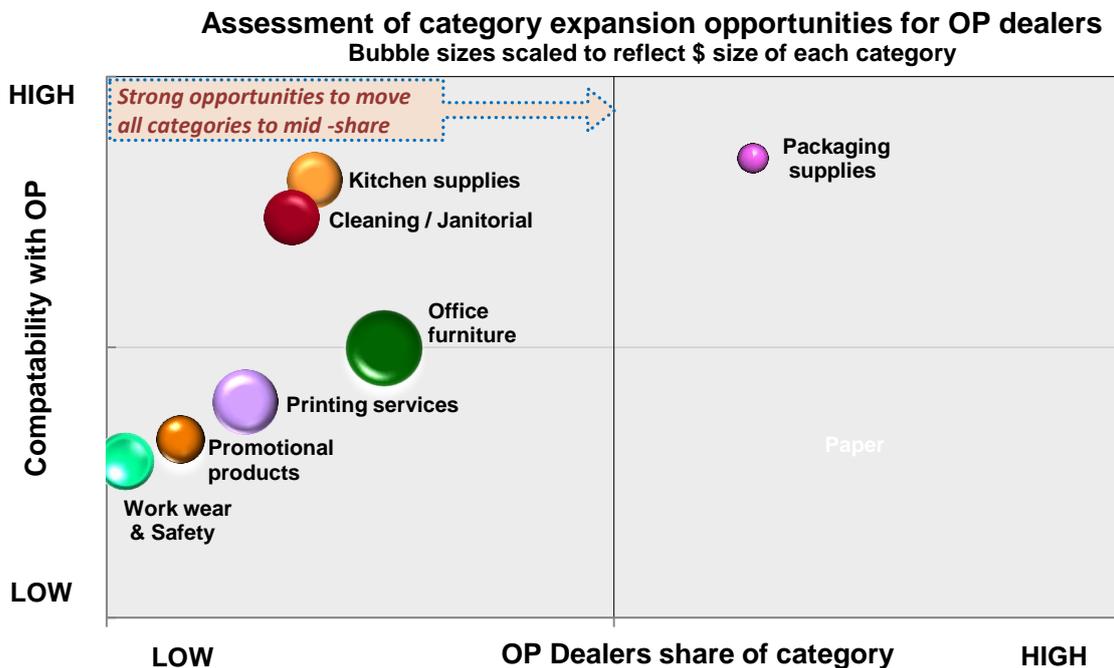
The market shares of even the largest non-core suppliers are relatively low, and operators comprise a wide and divergent range of business models. Reflective of the fragmented marketplace there are very few operators (all office product dealers) who supply all seven non-core categories.

Woolworths supermarkets has the highest share (5.9%), due to their large volumes of kitchen supplies and cleaning/janitorial supplies. They are followed by leading office product dealers Staples (5.5%) and then Officeworks (4.7%), mainly because they cover all the non-core categories. Staples is clearly the most evolved or advanced dealer in terms of extending into non-core categories.

There are multiple other large commercial operators, such as Bunzl, Blackwoods /Protector AI Safe and Bidvest who are exceptionally strong in their respective categories. While they are very formidable competitors in their own right, their limitation is a lack of a very broad cross-category range, that OP dealers can offer.

While the non-core market is only expected to grow at fairly low rates looking ahead (ie 2-3% pa), this distracts from its true attractiveness. Firstly demand is reliable, sustainable (there are no major threats in sight) – and large. Secondly the market is relatively inefficient, leaving business customers highly receptive to operators able to offer a consolidated range at competitive prices and with efficient distribution. We expect plenty of non-core market and player action over the next two years.

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(1) About the research.

The report entitled “*Non-Core Office & Business Supplies, 2014-2016*” is based on a survey program of over 645 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.

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