

## **Office Products – market observations at the end of 2011**

The year 2011 will be looked upon as a pivotal year for the office products market. It's not because demand has been weak and consumers particularly frugal – that is cyclical. Rather the tide has turned in the evolution to digital/electronic products and processes – and as a result the core office products range from here on will shrink at a growing rate. In other words the traditional stationery/office products market is undergoing structural decline and operators should ready themselves. We believe this process is at an early stage and the challenge and opportunity for operators is to ride the merchandise 'serpent' as established products decline and new ones emerge.

### **Market conditions and growth**

Market conditions deteriorated over the course of 2011 and as the year closed, weak consumer spending, deferral of non-essential purchases and trading down is looking disconcertingly similar to 2009. Despite this, in such a large multi-billion dollar market there remain areas of healthy growth. Better growth is being achieved for example in many technology accessories, specialist niches (eg hygiene/safety products), specific geographic regions (near mining centres) or via online sales.

In terms of growth, we estimate the total market declined slightly in 2011 (by -1%) - and with total expenditure of \$7.45 billion remains at essentially the same level it was prior to the GFC in 2007. This lack of growth means operators are being forced to battle harder than ever to maintain market share. At the same time with more shoppers purchasing online, there is an even tougher environment facing retailers.

### **Products**

With office processes transitioning towards more digital/electronic mediums, this is putting pressure on many traditional paper-based and related products. For example usage of note books, pads, envelopes, folders and pens are all undergoing volume declines. Despite this, there remain pockets of healthy growth. Our recent research in New Zealand (but applicable to Australia also) indicates above average growth in these products;

1. USB memory sticks.
2. External disk drives (for back up etc).
3. Digital paper.
4. Colour laser printers.
5. Bubble wrap.
6. Headsets/microphones (computer accessories).
7. Fashion based stationery products generally (eg products from Smiggle/Kikki-K).
8. Private label products generally.
9. 'Green' versions of existing products (providing there is only a slight price difference).

However the best growth opportunities are coming from the 'non-core' categories (or those not traditionally sold via office product dealers), such as furniture, kitchen/canteen (eg tea/coffee), cleaning and janitorial as well as printing/copying services. The table below summarises the best and worst overall growth categories according to a recent survey of Australian office product dealers.

<b>Best &amp; worst growth categories – according to surveyed dealers</b>	
<b>BEST GROWTH</b>	<b>WORST GROWTH</b>
Furniture	Promotional products
Computer consumables	Writing instruments
Cleaning & Janitorial	Books & pads
Kitchen/canteen supplies	Presentation products
Paper	Business machines

*Source: OP Dealer Survey, 2011*

We believe in the next few years the move to online/electronic mediums will accelerate the erosion of the core OP range – even affecting printer cartridges and paper – the pillars of most office product dealer sales. This highlights the urgent need for operators to widen their range and actively manage their merchandise offering. Newsagents particularly need to modernise the range of office supplies on offer.

### Dealers

Most dealers in Australia have seen their sales decline in 2011 - and the second half has only seen conditions get tougher! Those that have performed well recently include, Complete Office Supplies (COS), Office Choice Group, Officeworks, Smiggle and Fuji Xerox Document Supplies. Each of these operate in slightly different sectors and are taking sales from direct competitors via their own unique strengths and strategies.

Retailers are undoubtedly facing headwinds with the growing popularity of online purchasing. The higher fixed costs associated with site rent and shop staff makes it almost impossible to compete on a price basis. In this sense, we think it is likely there will be a period of retail rationalisation – particularly amongst small operators in the next few years.

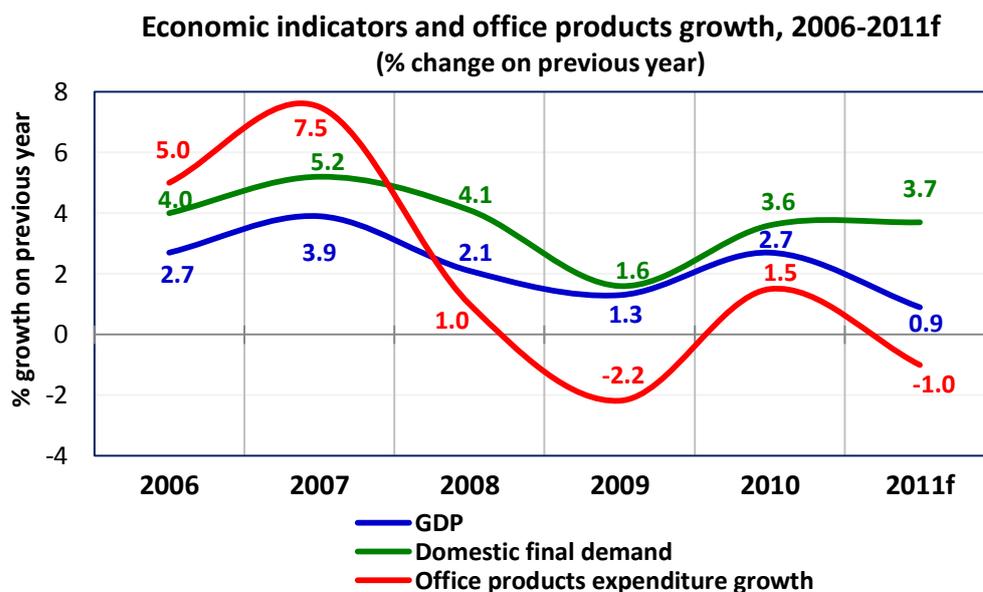
Currently there is a greater than normal opportunity to win (or lose) new business. The most mentioned areas of opportunity according to surveyed dealers were; 'online sales,' 'adding new categories' and 'service.' (refer bar chart below).



## The future

It seems relatively clear, office products market growth is now in a new era where it is set to underperform the general rate of economic growth (until 2007 it was exceeding it). An extended period of economic weakness plus structural changes in the product range and the way people work mean a dynamic period of market reformulation is ahead. This will likely coincide with a higher than normal number of merger/acquisitions and closures across the industry, as operators jostle to adjust their business model. The name of the game now lies in new products, category extensions – and differentiation via both ‘service’ and ‘services.’ We believe customers will increasingly prefer operators able to provide an extra service component (eg; assistance with product/brand choices, technical advice, installation/set-up and so on) – in addition to providing physical products.

....ENDS....



Source: ANZ Bank & Penfold Research estimates.

**Penfold Research** is a specialist research business focused on the office products and printing markets.

The next version of Penfold Research’s major two yearly research report (‘2012-2014’) will be published mid 2012.

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