



Office Products Market Update, 2017 (1)

- **Significant shift underway – from ‘office’ to ‘work/study/create.’**
- **Total broad office products expenditure valued at \$A12.4 billion.**
- **Market conditions mildly positive – but still challenging.**
- **Best performing major dealers; Officeworks, COS & Lyreco.**
- **Best opportunities in furniture, the education sector & non-core categories generally.**

Conditions and market growth have softened slightly over the last 12 months, due to the weak household (consumer) sector plus a marginal escalation in digital erosion. Current circumstances point to a phase of significant change for the office products market. With flat-low market growth, one dominant market leader (Officeworks) taking share and the product mix reformulating, operators are being forced to diverge from their office-centric stance. This is driving a shift to towards a broader, richer ‘work/study/create’ range.

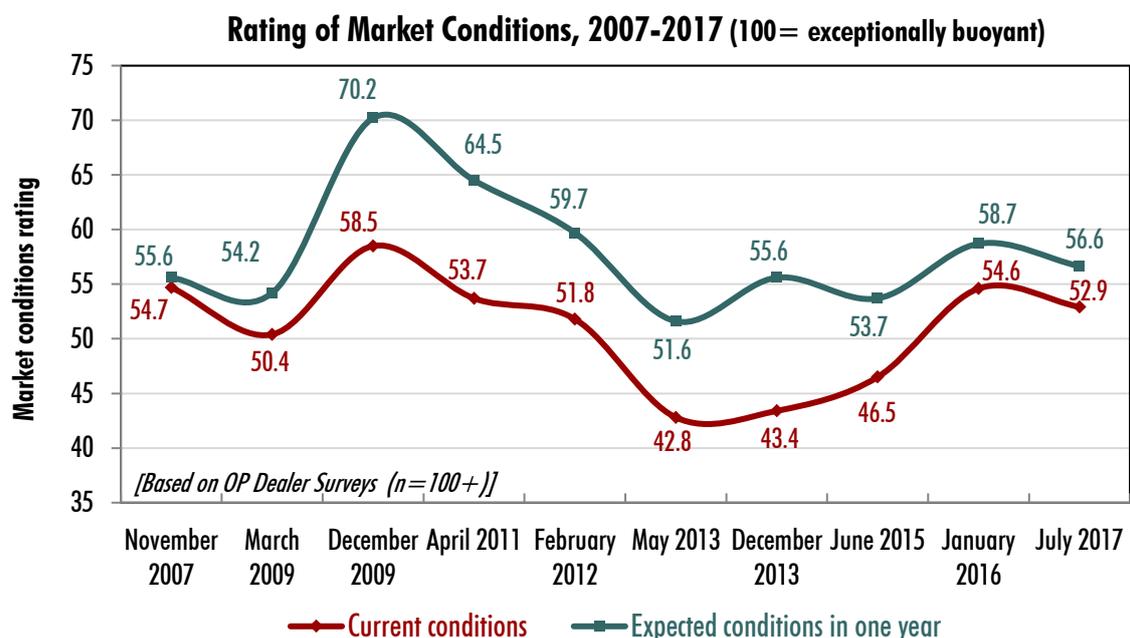
Total expenditure for the broad office products market in 2017 is estimated at \$12.4 billion (at consumer values) an increase of 1.2% over 2016. Growth has slowed just slightly from 1.5% in 2016.

Digital erosion of core (traditional) office products is resulting in ongoing negative growth in this sector, counter-balanced by healthy (4%+) growth for non-core products.

Market conditions

With OP dealers rating ‘current’ market conditions at 52.9 out of 100 (where ‘50’ is considered normal) this represents a slight-moderate easing from the relatively buoyant 54.6 recorded previously. Although lower, we still view this reading as mildly positive/buoyant. To put this in perspective out of the ten surveys since 2007 this result is the fifth best (so neither high nor low).

As always dealers remain optimistic that conditions will be better (at 56.6) in ‘one years’ time (refer grey line).



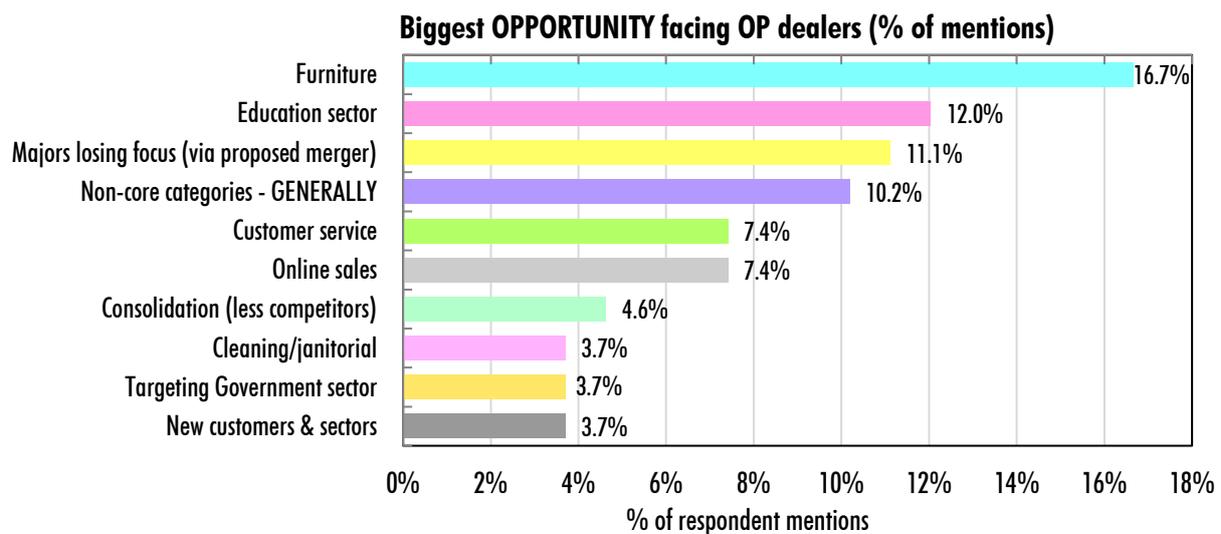
Dealers

Almost half the 26 OP dealers/retailers we track, managed to increase their OP sales over the latest reported financial year. Despite the challenges of weak demand, consolidation and the entry of Amazon, it appears most dealers while not thriving are at least coping and proving sustainable. With market conditions expected to remain subdued, operators are actively diversifying into new categories and demand sectors. We are optimistic, well run operators will be able to reap healthy sales gains by moving with the evolving market.

The best performing major dealers over 2017 have been; Officeworks, COS and Lyreco. Office Choice has also managed low positive growth enabling it to slightly increase its share. JB Hi Fi has picked up considerable sales via its acquisition of The Good Guys while Kmart has also grown well, albeit due to Big W declines. Smiggle & Typo have also gained healthy sales and share.

When dealers were asked their biggest opportunity, the most mentioned areas were; 'furniture,' the 'education sector,' 'majors losing focus (via proposed merger)' and 'non-core categories – generally.' Distilling all the responses, there are three key opportunity themes; new categories, targeting new sectors (customer types) and the anticipation of a reduction in competition.

The most notable changes in opportunities, compared with our survey two years ago is the emergence of 'majors losing focus' and the increased mentions for furniture.



OUR GREATEST OPPORTUNITY IS; (according to surveyed OP dealers)

"...targeting back to school and furniture fit-outs."

"... increasing sales into schools - assuming the OfficeMax + Staples merger goes ahead."

"...selling new categories to our core customers eg. work wear, school uniforms, web2print & promotional products, office furniture and some other niche markets."

"...further expansion in to e-commerce and digital marketing to increase sales penetration."

"... we are moving away from being a traditional "stationer" and becoming more of a facilities management company. Around 30% of our sales now come from non-OP sources."

What's ahead

With digital erosion set to escalate in the coming years, operators are actively diverging/expanding into new categories and demand sectors. For well-run operators this is a sustainable strategy. In our view there are plentiful opportunities via targeting work supplies, plus new products areas, especially in the arena of technology, education and creativity. While large dealers have the capacity and resources to broaden and target these new areas, for small to medium players it is a challenge.

In our opinion, players without sufficient scale are best placed to focus on one or more specialities/niches and build their position via expertise and service. We believe the Australian office products has far too many players without meaningful differentiation in range as well as their service offering.

..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 Market Update Report, 2017" is based on a survey of 107 office product dealers and presents a concise overview of the state of the market. The next version of Penfold Research's major two-yearly research report ('2018-2020') will be commenced in early 2018.

Penfold Research

Penfold Research, based in Australia, provides operators involved with office products, education supplies and non-core business supplies, with information to assist in 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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