

Office Products Market Update, 2011 – from Penfold Research

Penfold Research has recently released a brief update report on the state of the Australian office products market. The following is a snapshot of some of the findings.

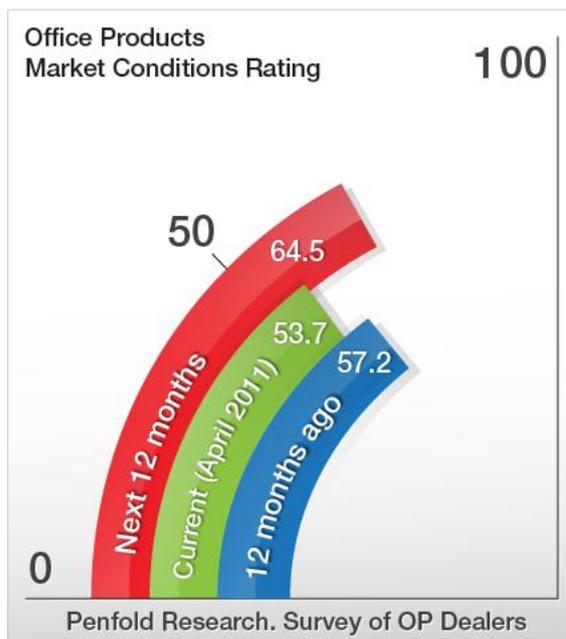
The research indicates the office products market is holding steady – just – with little to no sales growth over 2010 and into 2011. Although the economic fundamentals in Australia are sound, OP spending is being restrained by financially cautious consumers and businesses who fear the coming a second GFC. For households their higher savings ratio combined with price rises in daily essentials such as utilities and food are all serving to divert spending \$'s away from discretionary OP purchases. Businesses similarly are facing higher costs and are restricting expenditure in the expectation of lower future revenues and profits.

This reversion to just 'essentials' OP spending is resulting in lower per capita expenditure and forcing operators to expand their range of offerings to compensate.

The latest economic 'wobbles' occurring in the US and Europe is unfortunately only intensifying consumer caution. At the time of writing it is extremely difficult to provide reliable forecasts due to the high risk and uncertainty over the direction of global financial markets.

Market state

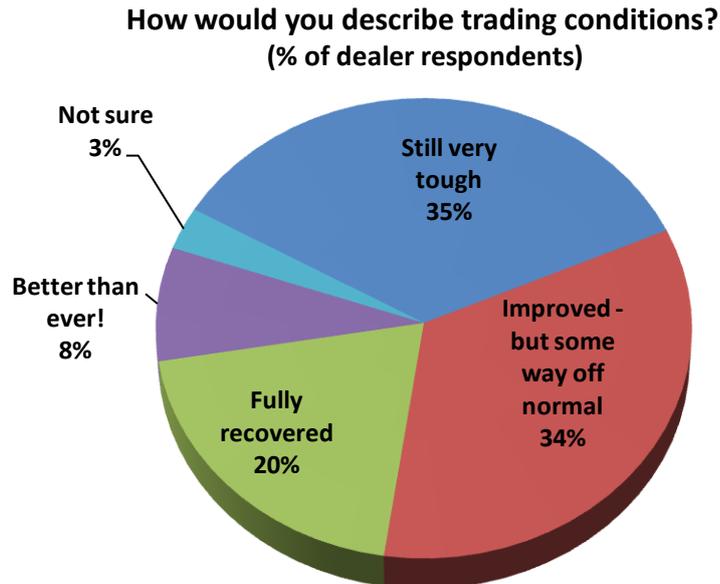
Surveyed dealers rated 'current' market conditions at 53.7 out of a possible 100 (where 100 = exceptionally buoyant). At this level the market is considered 'borderline' positive and we believe since the survey, conditions have worsened and would be hovering around 50 at present. (We classify below 50 as recessionary).



It is clear that conditions have got worse over 2011 as the rating for '12 months ago' was 57.2. On a positive note, dealers expect a marked improvement to 64.5 in the 'next 12 months.'

When dealers were asked to describe current trading conditions compared with pre-GFC, it is clear while some are doing very well a significant portion are finding it difficult. Just over a third of dealers are finding it 'still very tough' (35%) with a similar portion saying it has 'improved – but is some way off normal.' On the other hand just over a quarter of dealers are experiencing positive conditions – with 20% 'fully recovered' and a buoyant 8% saying it is 'better than ever!'

(REFER PIE CHART NEXT PAGE)



The current market is also being impacted by customers spending less on a like for like basis than they were prior to the GFC. Dealers confirmed this with almost half saying their existing customers were now spending less than pre GFC. On average customers are spending 5% less than they were three years ago. Fortunately many dealers have taken this on board and are actively expanding their product range to make up for lower expenditure. New categories such as cleaning/janitorial, kitchen supplies and work wear are seen as future growth drivers.

Best growth categories

With the core office products range in a state of maturity and numerous traditional paper-related stationery items declining, it is not surprising that new 'non-core' categories are coming to the fore.

The category with the highest (net) mentions for best growth was furniture, followed by computer consumables, then cleaning/janitorial and kitchen/canteen supplies.

By contrast categories with the lowest rankings for 'best' growth were promotional products (hit hard by budget cuts), writing instruments, books/pads, presentation and packaging/mailling products. Six of the bottom 8 growth categories are what may be termed traditional categories. In our view this just reinforces that the best future growth prospects lie in new (non-core) product categories.

Dealers

Most dealers are struggling to deal with the lack of growth in the market. Our review of major operators indicates only 9 out of 25 major dealers (including groups) experienced positive sales growth in the last year. In other words close to two thirds of operators had flat or declining sales.

The dealers who have performed the best in sales growth recently include; Complete Office Supplies (COS), Office Choice Group, Fuji Xerox Document Supplies, Officeworks and Smiggle. All of these players operate in slightly different sectors and are doing better than their direct competitors through their own unique strategies and strengths.

'Retail' as a broad channel (excluding Officeworks) has been losing market share to direct channels (ie online and delivery; commercial/contract and manufacturers) over the last year. This will be an ongoing trend as online/direct interfaces continue to become easier to use and retail pricing struggles to remain competitive. [.....ENDS.....]

About the research.

The report entitled “*Office Products Market Update Report, 2011*” is based on a survey of 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 (‘2012-2014’) will be commenced later this year and published second quarter 2012.

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