



Office Products in Australia, 2010-2012 – A Market Report (1)

- **Total office products expenditure valued at \$A12.35 billion.**
- **'Mature' product range in need of innovations / new products.**
- **Customers 'like' independents best.**
- **Officeworks pulling ahead.**

A new research study published by Penfold Research reveals the office products market has been dented by the GFC induced downturn but is now returning to 'near' normality. A summary of findings follows.

The 'core' Australian office products market in 2009 was valued at \$A7.40 billion – at end consumer prices. When a broader market definition is used – and the market is moving more towards this – it is valued at a much higher \$A12.35 billion*.

Core market growth in 2009 was -2.2% following flat growth in 2008. We believe this has been the first market contraction since 1991/1992. From 2000-2007 average market growth was in the 5-6% range, indicating in normal conditions OP outperforms GDP growth by 2.5-3.0%. We expect growth to return to near normal levels in 2010 – although it will be held back by lingering consumer frugality that will not fully dissipate until 2011.

Market trends

Some of the patterns of change identified in our research are as follows.

- Consumer behaviour has altered due to the GFC – with more 'shopping around' and trading down to cheaper product versions. Although this has and will continue to ease, it has resulted in lower 'per head' spending on established products.
- Industry operators are almost all looking for extensions to their existing businesses.
- State variation in growth rates – with the resource-rich states; WA, NT & Qld outperforming the others.
- Generational change is set to accelerate product and behavioural shifts – mostly towards electronic products and processes. REFER TO CHART.
- Manufacturers bypassing dealers – ie selling direct to consumers (via managed print services [MPS] and online). This is predominantly occurring amongst the OEM printers such as Hewlett Packard, Canon and Fuji Xerox.
- Dealers bypassing local suppliers and importing directly from overseas manufacturers.
- Fragmentation in the places people work (ie office work is now commonly performed from two or three locations).

Products

A large portion of the product range is now in the 'mature' and/or declining stage of their lifecycles. As a result there is a very strong need for product extensions (innovations) as well as new categories to support growth. At present the main boost to growth is coming from colour laser printing and the shift to in-house printing, however this will slow in the coming years as electronic mediums ascend.

Established brands have been under pressure due to consumers (GFC induced) focus on price and value, combined with larger dealers' private label and direct sourcing drives. While many brands have seen their share thinned down as a result, our research indicates the major brands have largely held firm.

The strongest brand, in terms of unprompted awareness continues to overwhelmingly be 'Reflex.' The next most known brands, are (in order); BIC, Canon, Marbig, Hewlett Packard (HP) and Officeworks. REFER TO CHART.

Since our previous survey in 2007, brands that have shown noticeable improvement in awareness are; Xerox, Epson, Avery, Corporate Express, Office National and Office Choice.

Recent product trends include;

- A slowdown in product innovation (ie due to the GFC - but expected to pick up again in 2010/2011).
- A consumer shift to 'value' versions of products (GFC induced and still lingering).
- Continued high growth in colour laser printing.
- Brand rationalisation by dealers.
- Escalation in fashion based stationery / office products.
- Private label brands are continuing to grow - and dealers are increasingly using names not associated with their own business.
- Computer related technology developments remain the principal drivers for new products, now and for the foreseeable future.

Dealers

The best performing major dealers recently have been Officeworks, Office Choice, Fuji Xerox Document Supplies and JB Hi Fi. Also, under the radar but enjoying significant growth have been niche players Smiggle, Kikki-K and Cartridge World.

Officeworks, as the largest Australian office product dealer with a market share of 16% has widened the gap between itself and the second player Corporate Express/Staples (12%) over the last two years. Corporate Express has been heavily impacted by significant spending cutbacks (GFC induced) amongst its core customers. The next largest players are (in order) Office Brands Group (comprising Office National and OPD), OfficeMax, BigW (owned by Woolworths) and the Office Choice Group.

The top 10 dealers (including groups) account for 58% of the total market – and this has increased from 55% in 2007 – reflecting the ongoing share 'creep' of the largest players.

'Net Promoter Scores' – a measure of customer goodwill, highlight the surprisingly high portion of purchasers who are unimpressed with their OP dealers. Interestingly it is the independents (in particular Office Choice and Office National), as well as Officeworks who have the highest portion of happy customers.

What's ahead

With the economy back on a healthy and improving footing, office products demand cannot help being pulled along with it in 2010 and 2011. We expect OP growth to record 3.6% in 2010 before moving higher in 2011. However, we do not believe it will quite reach its 'trend' growth rate (5-6% pa), in 2011 or 2012 for that matter. We foresee the combination of the maturing state of the core OP range together with lower priced products and the gradual shift to electronic mediums will suppress market growth.

All market operators need to pay close attention to keeping their product range contemporary in the next few years, as the way people work is transitioning faster than we think.

.....ENDS.....

* Under our broad definition 'office products' includes the 'core' range (ie stationery, paper, computer consumables/accessories and business machines) plus; 'non-core' categories; furniture, kitchen supplies, janitorial products, printing services, promotional products, work wear and industrial supplies.

(1) About the research.

The report entitled "Office Products in Australia, 2010-2012" is based on a survey program of almost 1,200 interviews, with a combination of businesses, households and office product dealers.

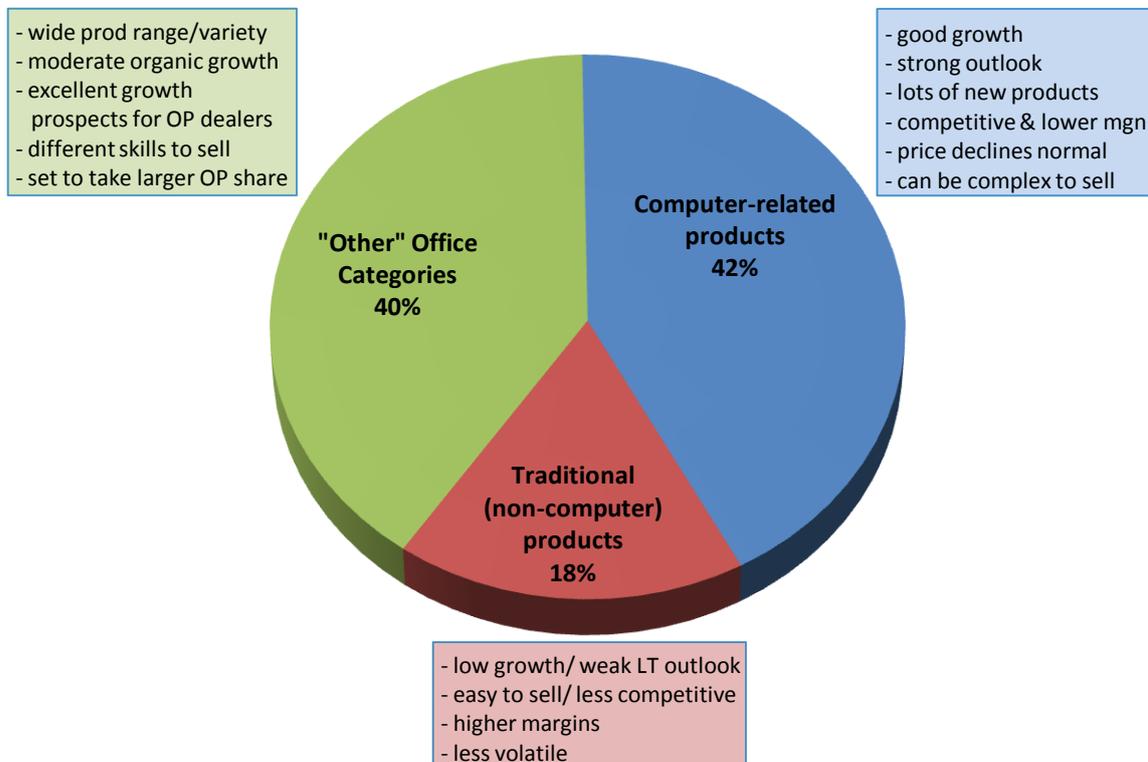
Penfold Research

Penfold Research, based in Australia, provides operators in the office products industry with information to assist with planning, decision making and strategy development.

For further information:

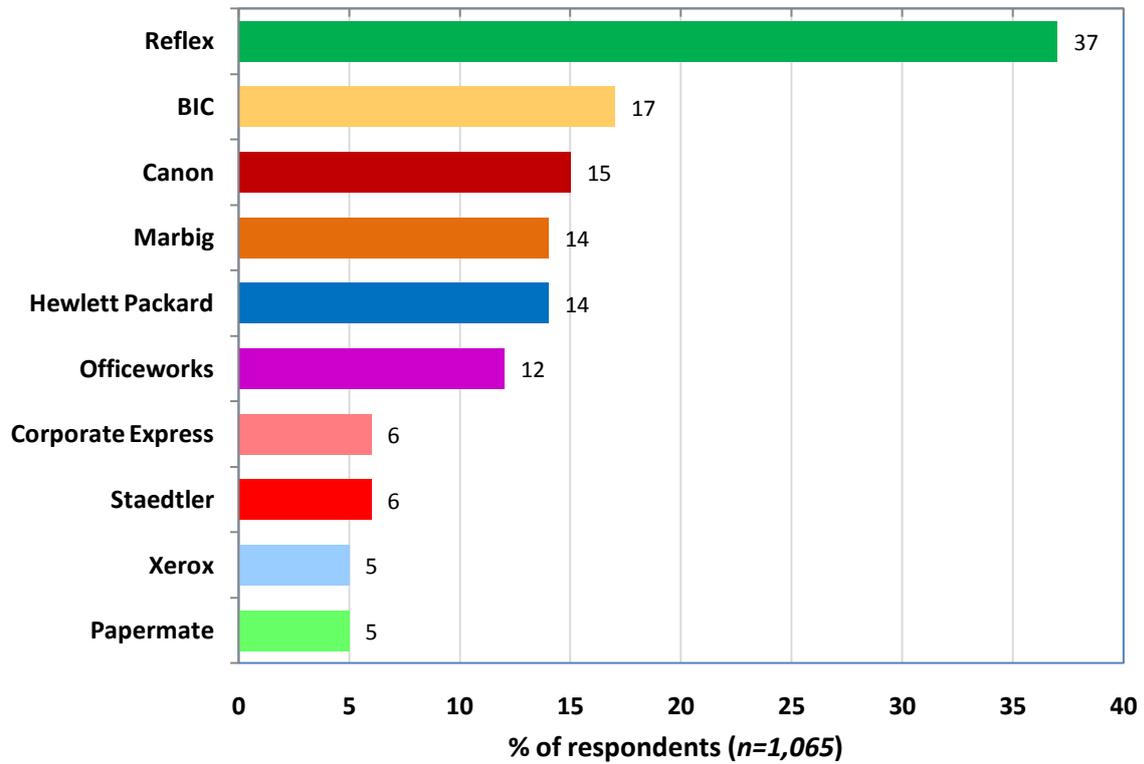
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**Office Products Market - by broad category, 2009
 [BROAD DEFINITION]**

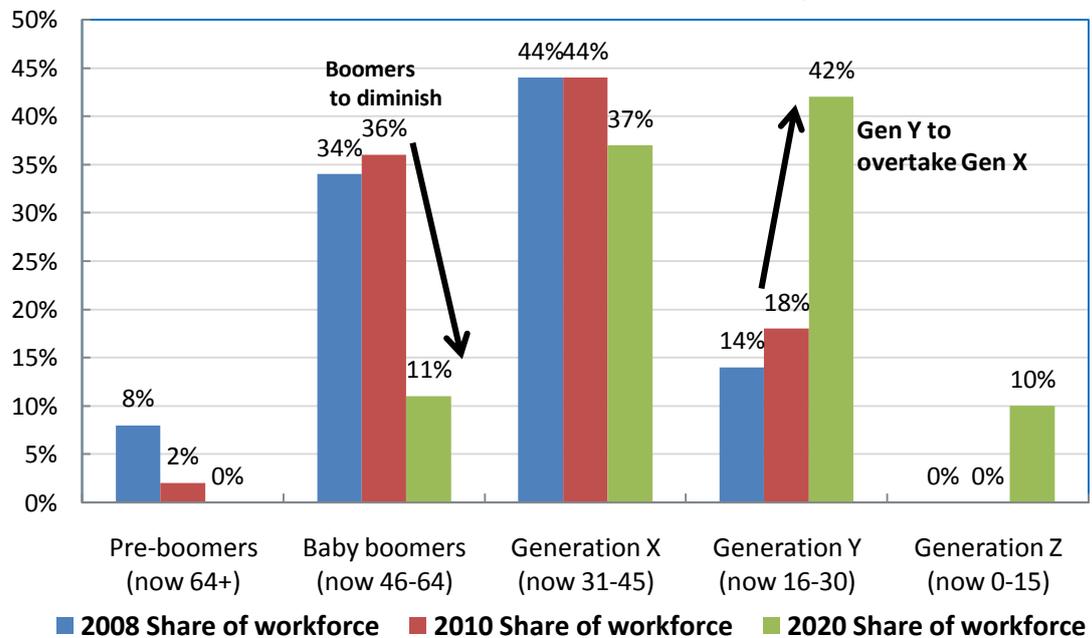


Total [BROAD] office products market: \$12.35 billion

Top 3 brands recalled by consumers (unprompted)



Generations share of workforce - 2008, 2010 & 2020



Source; Wikipedia & ABS