



Office Products in Australia, 2012-2014 – A Market Report (1)

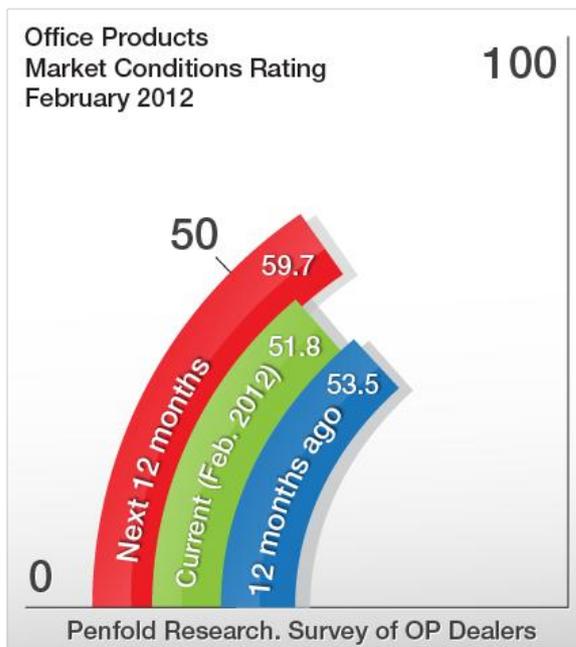
- Total office products expenditure valued at \$A12.16 billion.
- Market conditions worst since the depths of the GFC.
- Ongoing growth now all about broadening the offering.
- Majors squeezing independent dealers.

A new research study published by Penfold Research reveals operators are being challenged with weak consumer sentiment, deflation and lower usage rates of many traditional office products. Since the commencement of the GFC in 2008, the office products market has moved from one that out-performs the Australian economy to one that under-performs it. With digital technology still at an early stage of development we foresee a period of major industry transition in the coming three to five years. These and other findings are covered in the summary that follows.

The 'core' Australian office products market in 2011 was valued at \$A7.27 billion – at end consumer prices. When a broader market definition is used (core plus non-core) it is valued at a much higher \$A12.16 billion*.

Core market growth in 2011 was -3.2% following three years of flat-negative growth (since the start of the GFC). With ongoing consumer restraint and the gradual erosion by digital technology we do not expect the core OP market to ever get back to its peak set in 2008. On a more positive note the broad OP market, has performed slightly better growing at -2.1% in 2011 - and has a better outlook, boosted by non-core categories such as cleaning/janitorial and kitchen supplies.

Market conditions



Surveyed office product dealers rated current market conditions at 51.8 out of 100. We would characterise this as borderline recessionary.

At the time of the survey (Feb. 2012), conditions had deteriorated from previous readings of 53.7 in April 2011 and 58.5 in December 2009. Even so, at 51.8 this remains marginally above the lowest rating of 50.4 recorded at the worst of the GFC in March 2009.

Dealers were optimistic that conditions will improve over 'the next 12 months' with a higher rating of 59.7.

Amongst the dealer types 'specialist OP retailers' have been experiencing slightly better than average conditions (54.6), especially compared to

'computer/electronic retailers' (47.0) who were the worst. 'Commercial/contract dealers' (50.3) were also below the average.

Market trends

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

- Ongoing restraint in consumer choices and spending. Businesses and households have very much held onto their GFC induced cautious purchasing, continuing to choose cheaper versions of products and holding off non-essentials.
- ‘Patchwork’ conditions/growth – according to region and industry sector.
- Re-engineering of office processes from paper-based to digital; being driven by large businesses.
- Businesses gradually reducing the number of dealers used.
- More ‘Gen Y’ workers – pushing electronic products and online ordering along.
- A surge in parallel importing.
- Managed print services are significantly eroding commercial/contract dealers’ sales.
- Declining numbers of small dealers (occurring largely ‘under the radar’).
- Dealer purchasing shifting - to smaller, more frequent transactions.
- Private label brands continuing to expand and erode established brands (contributing to the above trend).

Products and brands

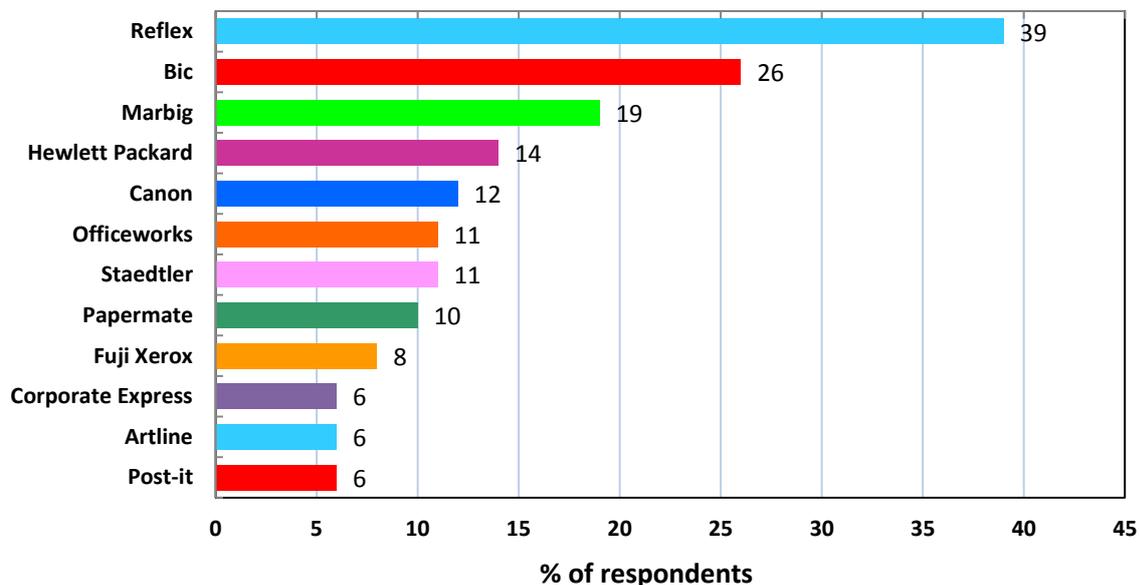
Of the ten *core* categories only one – computer accessories - recorded positive growth in 2011 (+1.6%). It was considerably healthier in the non-core range where the majority (four of the seven categories) managed positive growth. The best of these were cleaning/janitorial, kitchen supplies and work wear.

We continue to view traditional office products as destined for gradual erosion as digital technology, software and devices shift office processes away from paper and associated products.

Brands have been polarising, with the best known leaders largely holding share, while established secondary brands are being eroded by little known ‘value’ brands and private labels. The strongest OP brand in terms of unprompted brand awareness (based on the top three mentions), continues to overwhelmingly be ‘Reflex.’ They are followed (in order) by Bic, Marbig, HP, Canon then equally Officeworks and Staedtler. The strength of the writing instrument brands in this survey has been quite stunning.

Since our previous survey in 2009, brands that have shown noticeable improvement in awareness are; Bic, Marbig, Staedtler, Papermate, Artline and Post-it.

Top OP brands recalled by consumers (unprompted)



Penfold Research, 2012. * Based on top 3 mentions by 1,009 survey respondents.

Dealers

Reflecting the tough trading conditions, around three quarters of dealers saw their sales decline in 2011. To achieve any type of reasonable growth in the current market, dealers need to out-compete their rivals and/or expand into adjacent categories, segments or channels.

The best performing major dealers over the last one to two years have been Fuji Xerox Document Supplies, Complete Office Supplies (COS) and Officeworks. Additionally niche players Smiggle and Kikki-K have achieved extraordinary growth despite being retailers reliant on what are largely discretionary spend items.

Officeworks has moved markedly ahead in market share. With an estimated 18.2% share (up from 15.6% in 2009) they are well ahead of second player Corporate Express (10.7%).

Our research indicates small-medium independent dealers are currently being competitively squeezed and losing share as the largest dealers target the small business sector, particularly via online offerings. This is being led by Corporate Express/Staples, Officeworks, OfficeMax and others. It is difficult for small dealers to compete in terms of price and range with these high volume well resourced operators. We expect this competitive encroachment to continue through 2012 and beyond.

'Net Promoter Scores' – a measure of customer goodwill, highlight that independent operators are generally much better thought of by their customers than the large operators. The highest NPS's were recorded by (in order); Office National, Officeworks, Cartridge World, COS and Office Choice.

Usage of social media is relatively widespread amongst dealers, with 28% of those surveyed using it as a means of promoting their business. In terms of effectiveness, dealers rate it as providing some pay back, but less than hoped for with a score of four out of 10.

What's ahead

The Australian economy is forecast to improve over the coming two-three years, which will no doubt help in dissipating lingering customer caution on spending. Even so, with the evolution of digital technology set to erode significant swathes of the core OP market, the most successful operators will be those able maintain their core range while simultaneously adding new and emerging types of products and services.

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* 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, cleaning/janitorial products, printing services, promotional products, work wear and packaging supplies.

(1) About the research.

The report entitled "*Office Products in Australia, 2012-2014*" is based on a survey program of over 1,100 interviews, with a combination of businesses, households and office product dealers. 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 products industry with information to assist with 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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