

Office Products in New Zealand, 2011-2013 – A Market Report (1)

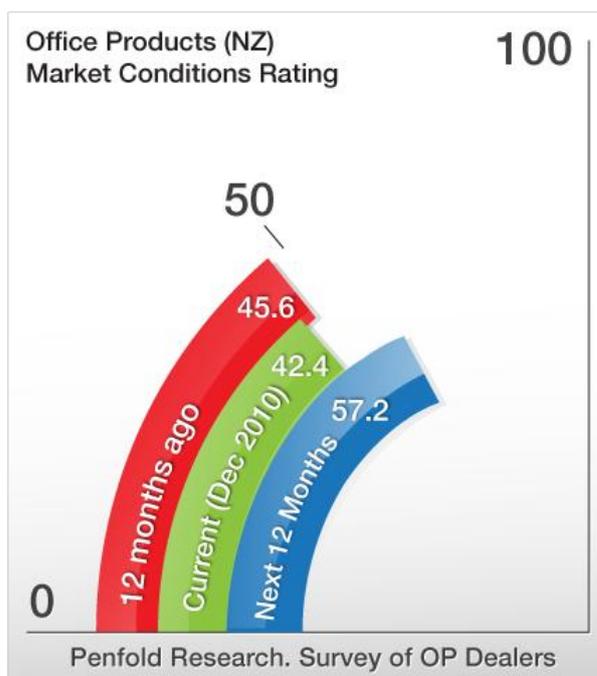
- **Total office products expenditure valued at \$NZ1.75 billion.**
- **Unique characteristics make it far from another ‘State’ of Australia.**
- **Economic recovery and structural realignment underway.**

A new research study published by Penfold Research reveals that the New Zealand office products market is unique, with its own distinct characteristics - and idiosyncrasies. One feature that sets it apart is that the market leading dealer - OfficeMax – also owns the largest supplier, Croxley Stationery - who services virtually all competing dealers in the market. This may sound rather strange and even anti-competitive to outsiders, however in practice it manages to work reasonably well and there remains a healthy level of competition across the market. A summary of some of the research findings follows.

The ‘core’ New Zealand office products market in 2010 was valued at \$NZ1.23 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 \$NZ1.75 billion*.

Core market growth in 2010 was -1% following a sharper fall of -4.5% in 2009 and relatively flat growth (+1.2%) in 2008. In 2010, the market size remains at virtually the same level it was in 2006 – four years before.

Market conditions



According to surveyed office product dealers, market conditions have been in a recessed state over 2009 and 2010.

With a score of 42.4 out of 100 in December 2010, this indicates conditions well below any sort of healthy level. We expect conditions in the first part of 2011 would be the same or worse than 2010 given the shocks that have occurred earlier in the year.

However, on a positive note, dealers were optimistic that conditions will pick up substantially in the ‘next 12 months’ – to 57.2.

In terms of dealer types, commercial/contract dealers have experienced the weakest conditions overall (40 in Dec 2010) while specialist OP retailers were slightly better (45.7).

Market trends

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

- Everyone is pursuing avenues of expansion (whether in new categories, segments, channels or mergers/acquisitions/affiliations) – to counter core market weakness.
- The core OP range is ageing /maturing at a faster rate now.
- Online purchasing is now dominant, increasing and forcing retailers to reformulate.
- Fragmentation in the places people work - enabled by Wi-Fi and electronic devices.

- 'Price' has become the dominant (and effective) medium of competition.
- Supply chain rationalisation – where operators are increasingly being bypassed. For example dealers purchasing direct from overseas manufacturers and consumers purchasing online direct from manufacturer suppliers.
- The largest dealers continue to become more dominant and powerful.
- Lower per capita OP spending – partly being offset by a wider category offering.
- Price deflation – especially for specific product lines; technology, paper and printers.
- Reduction in the number of brands carried per product by dealers.
- Growth in green products has slowed - but will resume once the economy picks up.

Unique characteristics

When comparing New Zealand with other markets (particularly Australia) there are some unique features that differentiate it.

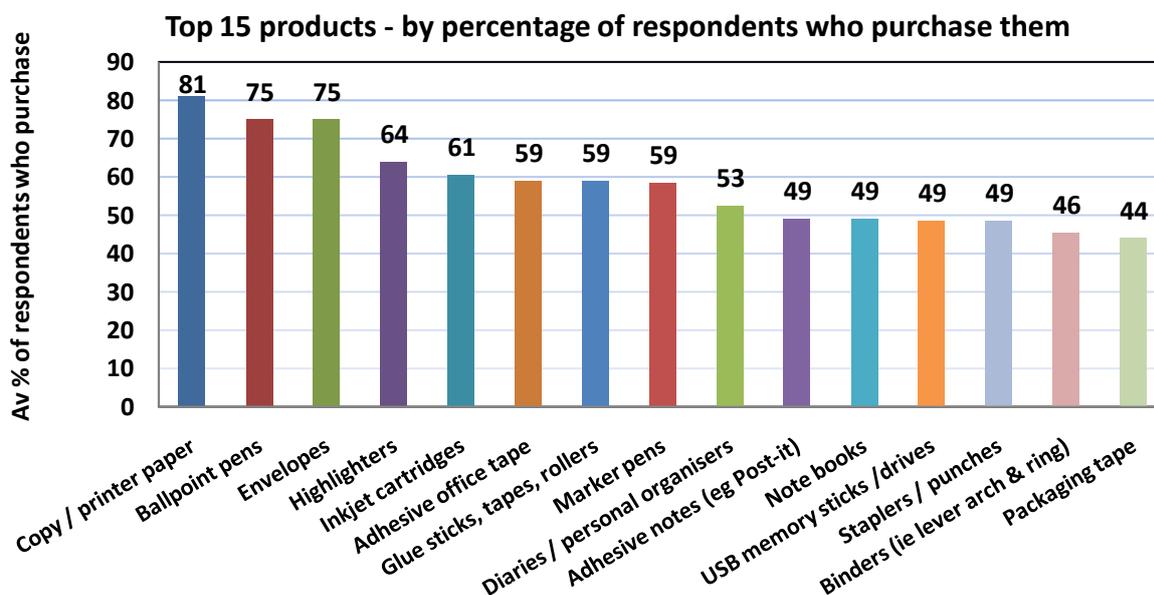
- Consumers are highly price focused – across all segments.
- A lower than normal appetite for green office products (price rules).
- Extreme dominance of market leaders (OfficeMax, Warehouse Stationery & Croxley).
- Higher than normal barriers to market entry.
- A relatively small market size, spread across a geographically challenging landscape.
- Economic downturn has had a significant impact (considerably worse than Australia).

Products

Much of the established 'core' range of office products faces flat to declining growth as greater electronic/online usage changes the nature of office work processes. It has been a surprise to us to see that paper declined more than any other category over 2010 (-6%). With this evolution only set to accelerate, we believe all operators in the industry will be compelled to actively diversify and manage their product range. Strategic merchandise management (for dealers) and product development//innovation (for suppliers) will become key success factors of success in this environment.

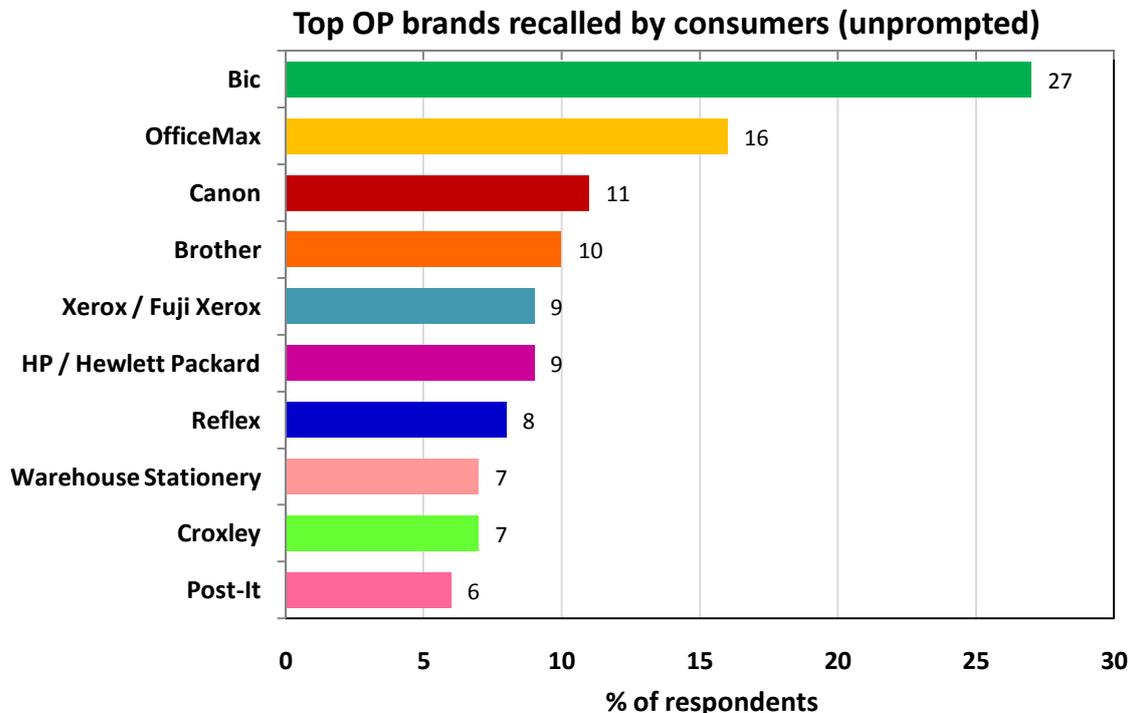
Most purchased products

The most commonly purchased office products tend to be low value, high usage consumable items (eg copy paper, ballpoint pens, envelopes). They are also the products that buyers are most familiar with and with a few exceptions are highly price competitive.



Brands

The strongest brand, in terms of unprompted awareness amongst consumers is somewhat surprisingly 'BIC' - by a considerable margin. The next most well known brands, are (in order); OfficeMax, Canon, Brother, Fuji Xerox, Hewlett Packard (HP), Reflex and Warehouse Stationery. Brands that are considerably stronger in New Zealand than Australia include BIC, OfficeMax, Brother and Fuji Xerox. Those that are weaker include Reflex and Hewlett Packard.



Dealers

OfficeMax and Warehouse Stationery both thoroughly dominate their respective sectors. While OfficeMax has recently been holding market share in relatively difficult conditions, Warehouse Stationery has been doing better, growing ahead of the market.

Dealers whose performance stands out recently include Fuji Xerox Document Supplies, Office Products Depot (OPD) and Warehouse Stationery. On the other hand those who have performed below the market include Corporate Express and Whitcoulls.

The three largest dealers (OfficeMax, Warehouse Stationery and Corporate Express) control almost half (46%) the New Zealand market. When the next three are added (OPD, Paper Plus and Corporate Consumables) the top six make up close to two thirds (63%).

In terms of having happy customers – as measured by Net Promoter Scores (NPS) – the top six dealers are (in order) Cartridge World, Corporate Consumables, Warehouse Stationery, OfficeMax, OPD and Paper Plus. The most outstanding feature of the NPS results is that the majority of dealers have more unimpressed customers ('detractors') than happy customers ('promoters').

What's ahead

The economic recovery (predicted to commence 2nd half of 2011) will undoubtedly boost OP growth and lead to improvements in market conditions. However this will not change the fact the market has already commenced a period of structural change – spanning the product mix, consumer behaviour and channels of distribution. New Zealand is a unique market, however it still faces the same forces that are reshaping the global office products industry. In this sense operators need to be actively keeping their range contemporary, looking for new category extensions and capitalising on the opportunities thrown up by the digital transition that is re-shaping the industry. **[.....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, cleaning/janitorial products and printing services.

(1) About the research.

The report entitled "*Office Products in New Zealand, 2011-2013*" is based on a survey program of over 700 interviews, with a combination of businesses, households and office product dealers. The report is available by subscription and an outline can be 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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