



Office Products Market Update, 2015 (1)

- **Market conditions remain subdued – but are improving.**
- **Total broad office products expenditure valued at \$A11.9 billion.**
- **Best performing major dealers; Officeworks & Fuji Xerox Doc Supplies.**
- **Too many players to be sustainable, in the new digital marketplace.**

The office products market continues to evolve, with operators reporting healthy increases in non-core product sales as, by necessity, they diversify beyond the declining core range. The market has entered an extended period of change, where new non-OP categories are increasingly being integrated with the conventional OP range. We believe this trend is at a very early stage and represents a much larger opportunity than commonly realised.

Total expenditure for the broad office products market in 2015 is estimated at \$11.94 billion (at consumer values) representing slightly positive growth of 0.6%. Although this rate remains lacklustre, it is nevertheless the best since 2010. While the shift to digital is pulling core products consistently lower (-1.8% growth in 2015), the non-core sector has been growing positively (+3.4% in 2015).

In our view there remain more players than are sustainable in the ‘new’ digitally-transitioning market. Operators should expect an ongoing highly competitive environment, where differentiation and providing additional service elements are increasingly important.

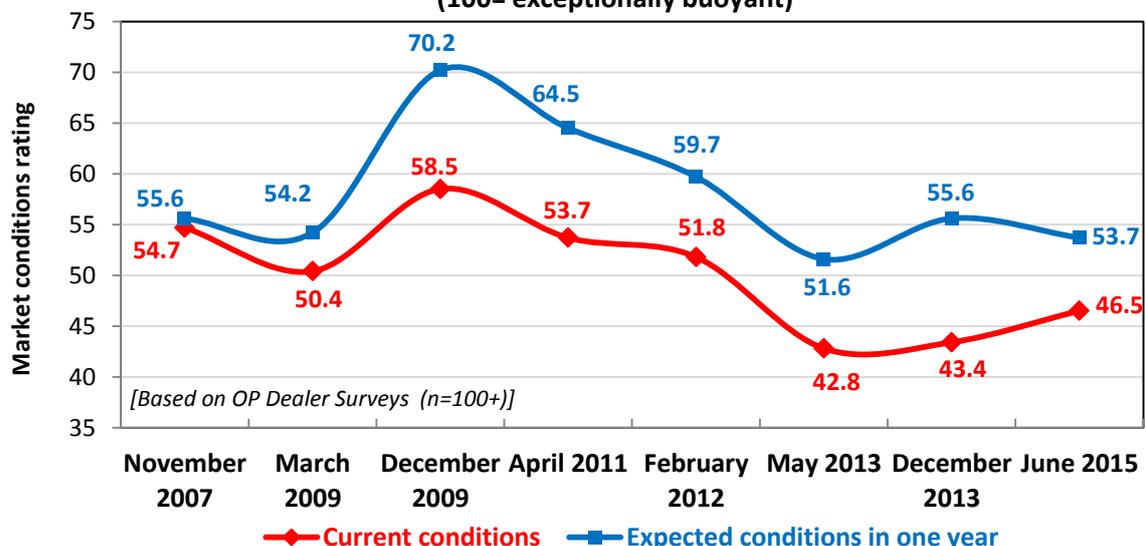
Market conditions

With dealers rating ‘current’ market conditions at 46.5 out of 100 (where ‘50’ is considered normal) this indicates conditions are stuck at a sub-normal and mildly contractive level.

With current conditions remaining stubbornly in the 40’s over the last three survey periods, we believe operators should consider this as the new normal. The positive news is that the current rating scores have improved for the last two survey periods, from an all-time low of 42.8 in May 2013.

Dealers (as always) remain optimistic that conditions will be better – at 53.7 – in ‘one years’ time (refer blue line below).

Rating of Market Conditions, 2007-2015
(100= exceptionally buoyant)



Dealers

While the market and conditions remain indisputably weak, there is evidence operators are adapting to the new market dynamic. Most players are making positive gains via diversification into new categories, although for the majority their overall sales growth remains negative (due to declines in the core range).

Recently the best performing dealers have been Fuji Xerox Document Supplies and Officeworks (with Office Choice worthy of mention amongst the independents). Market leader Officeworks continues to strengthen and draw away from all competitors. No other operators come close to the sort of annual market share gains they have been achieving for several years now. Niche stationery chains, Smiggle, Kikki-K and Typo also continue to grow well ahead of the market, confirming healthy demand for design-oriented stationery products amongst households and students.

When dealers were asked their biggest opportunity, the most mentioned area was 'adding new categories' – as it was in our previous survey. Within this response there were relatively high mentions of furniture, technology, printing and non-core categories generally.

The second most mentioned area of opportunity was targeting 'new customers/sectors' – which included particularly high mentions of 'education' and to a less but still significant degree 'Government.'



OUR GREATEST OPPORTUNITY IS;

sample of comments

"...it's all about the non core categories, expanding our range and increasing our value proposition across all customers."

"...increasing sales by improving our offering of 3D print, portable printers, mobile app-based solutions and OH&S."

"...the government sector and schools direct supply..."

"...putting more sales reps on the road. Aiming to get more into the Government, health, hospital and schools sectors."

What's ahead

With no meaningful improvement in the economy expected over 2015-2016, market growth and conditions are forecast to remain little changed. The broad market is projected to remain flat and the core market slightly negative, meaning operators seeking positive growth will need to forge it themselves. Category diversification, more personalisation and targeting of specific user segments with appropriate products and services will all be useful strategies in the new and shifting market.

.....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, 2015*" is based on a survey of 141 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 ('2016-2018') will be commenced later this year.

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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