



Office Products in Australia, 2016-2018 – A Market Report (1)

- **Broad office products market valued at \$A12.3 billion.**
- **Conditions & growth continue to improve.**
- **Numerous areas of opportunities.**
- **The shift to digital continues to erode traditional range.**
- **Industry is undergoing a major transition (once in a generation).**
- **Technology & screen-use is driving a counter-shift to art/craft.**
- **More design & style is needed in office products.**

A new research study published by Penfold Research reveals after several years of harsh conditions, market growth has turned positive and the outlook is now much brighter. Although there are still big challenges via digital transformation and intense competition, there are also multiple areas of opportunity and most operators are growing positively again.

The broad Australian office products market (ie core and non-core*) is valued at \$A12.3 billion in 2016 – at end consumer prices. This represents growth of 1.9%, following similar 1.6% growth in 2015. Factors behind the improving growth include, healthy employment increases (particularly in industries with high portions of office workers), price increases and a preferential shift to better quality, higher-spec products.

While growth in the core range has improved (from -2.0% in 2014 to -0.5% in 2015) it has and will continue to undergo systemic decline. By contrast, the non-core sector is largely immune to digital erosion, growing at 4% in 2015 and expected to continue at similar rates. We believe OP operators, who still have relatively low penetration of the non-core categories have excellent opportunities to grow at double digit rates in this sector.

Market conditions

Conditions have improved significantly, with dealers’ rating of market buoyancy at 54.6 out of 100 (in January 2016). This is up from 46.5 in June 2015 (+8.1) and is the highest rating in six years.



What the market conditions chart ratings represent. Office product dealers were asked to rate conditions on a scale from zero to 100, where zero represented extremely depressed conditions and 100 exceptionally buoyant. The latest survey was conducted in Jan 2016.

Market trends

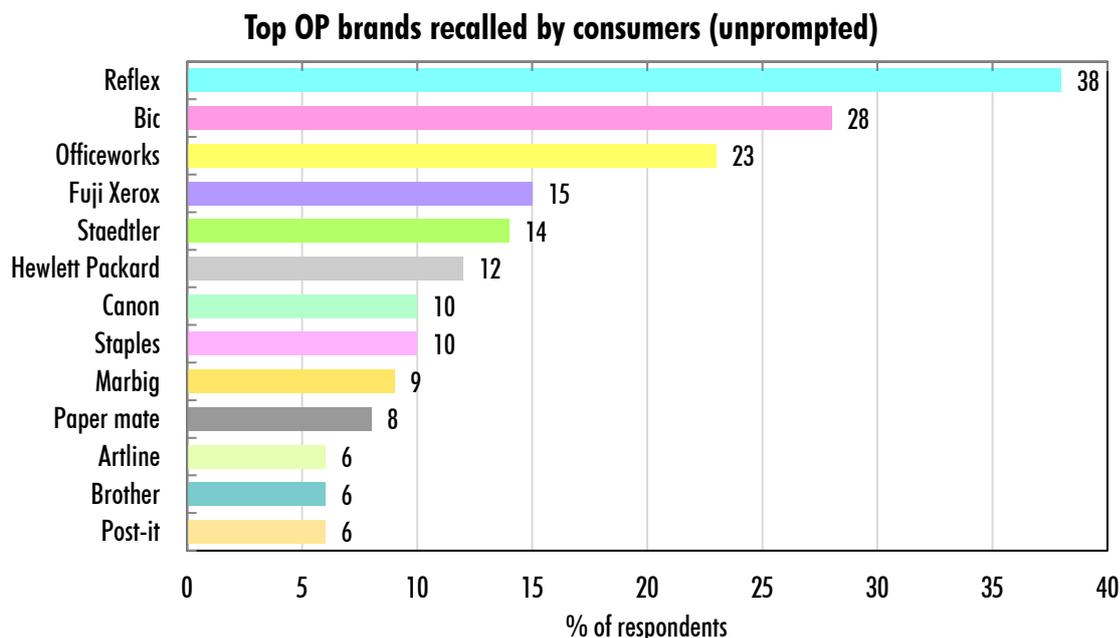
Some of the patterns of change identified in our research are as follows.

- The market is transforming from an office focus to a notably broader range of business & educational products and services.
- Online purchasing continues to increase, particularly amongst micro businesses and students. The exception is large businesses where there has been a drop-off.
- Large OP dealers (eg Officeworks & Staples) are now competing and winning business across all customer segments (ie leveraging online).
- New online players from outside the industry are gaining share. eBay and Amazon are examples, as well as small specialist players, especially in the printer cartridge space.
- Customers are displaying a preferential shift - from basic products to more stylish and personalised versions.
- Stronger growth in art & craft related products. The shift to digital has spawned a smaller counter-shift to handcraft & creativity-focused products & activities. The colouring trend is an example and we believe there will be other similar developments.
- An escalation in mergers, acquisitions & consolidation. Particularly amongst suppliers.

Products and brands

Of the ten *core* categories only two recorded positive growth in 2015; computer/ electronic accessories and writing instruments. By contrast all seven of the non-core categories managed positive growth. The best of these was furniture, cleaning/janitorial, kitchen supplies and workwear/safety.

Reflex continues to have the highest brand awareness in the market, being recalled by 38% of OP purchasers. They are followed by Bic, Officeworks, Fuji Xerox and Staedtler. In terms of changes this survey, the most notable increases have been for Officeworks, Staples, Fuji Xerox & Staedtler. We have observed, brand awareness levels becoming concentrated amongst a smaller number of leaders in this series. While the strongest brands are holding or increasing share, many lesser known brands are losing awareness amongst consumers.



*Penfold Research, 2016. * Based on top 3 mentions by 1,107 survey respondents.*

Where are the opportunities?

For the core (traditional) range of products there are opportunities in developing & offering products with more style/design elements, that appeal to specific user-groups. A good example is the way Smiggle has developed bright, attention-capturing, personal stationery items specifically for children.

The school & education sector is also an area of opportunity, as users are yet to succumb to digital erosion and are receptive to new versions of products.

Generally any products that genuinely enhance workplace wellbeing/health & hygiene will also do well. Consumers and businesses are highly receptive to this area as evident in the spread of height adjustable desks in recent years. Air purifiers are another recent introduction that will be interesting to monitor.

The largest and most promising area is in non-core business supplies. The most attractive non-core categories for OP operators are; kitchen supplies, cleaning/janitorial, furniture as well as work wear & safety equipment. With OP dealers currently holding around a 20% share of the \$5.6 billion non-core sector, it is feasible this share could be doubled to around 40% in the next five years.

What's ahead

Low positive growth conditions will be accompanied by significant market reformulation in the next few years. New online operators, player consolidation, supply chain rationalisation, plus generational change and ongoing technology advancements mean virtually all players will need to modify their businesses. We anticipate a larger, more diversified market – beyond office products - that will reward players able to integrate different and sometimes disparate product & service categories.

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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; kitchen supplies, cleaning/janitorial, furniture, printing services, promotional products, work wear/safety and packaging supplies.

(1) About the research.

The report entitled "*Office Products in Australia, 2016-2018*" is based on a survey program of over 1,200 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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