

Office Products in New Zealand, 2015-2017 – A Market Report (1)

- Total office products expenditure valued at \$NZ2.03 billion.
- Healthy economy is boosting growth - but ‘time in sun’ set to abate.
- Market characterised by high online use & price focussed customers.
- ‘Bic’ the leading brand - in consumer awareness.
- OfficeMax remains leader with Warehouse Stationery catching up fast.

A new research study published by Penfold Research reveals the New Zealand OP market has been performing noticeably better than neighbouring Australia. Boosted by the relatively buoyant economy, positive sentiment and elevated levels of discretionary spending, market growth is 3-4% above that of Australia. However with economic growth set to ease, conditions will tighten over the second half of 2015 and into 2016.

The broad New Zealand office products market (ie core and non-core*) was valued at \$NZ2.03 billion in 2014 – at end consumer prices. This represents growth of 2.2%, following flat growth (0%) in 2013.

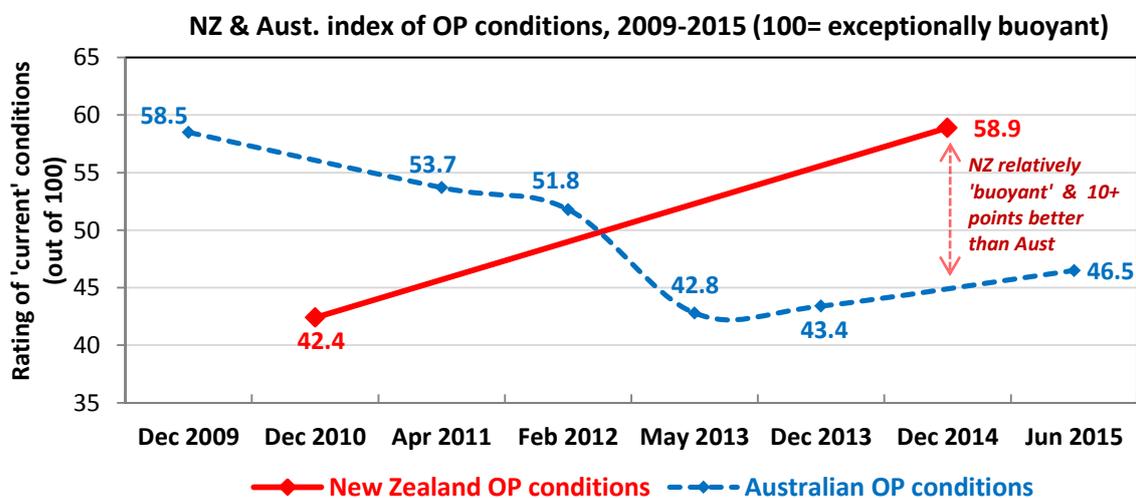
While the core range is stagnating (ie 0.9% growth in 2014) via declining product usage rates, the non-core sector is considerably better, registering healthy growth of 3.8% in 2014. We believe the non-core range offers a rich vein of growth opportunity for office product operators – for the next decade.

Market conditions

With ‘current’ conditions rated 58.9 out of 100, (in Dec, 2014) this is confirmation the industry is in a relatively buoyant, healthy state (a score of 50 indicates ‘normal’ conditions). This compares favourably with Australia which remains at sub-50 levels.

This result is also significantly better than the 42.4 rating of four years previously (ie the last time we surveyed NZ dealers). Operators need to recognise conditions are historically at the upper end of what should be expected, given the ‘shift to digital’ that is occurring.

Dealers remain optimistic, assigning a more positive 66.0 rating for conditions in the ‘next 12 months.’ We are slightly less optimistic given the expected slowdown in the economy.



[Based on surveys of OP Dealers]

Distinctive characteristics

A few of the multiple distinctions between New Zealand and Australia include;

- A higher degree of market share concentration amongst a smaller group of operators.
- Wider usage of online ordering, particularly in micro businesses, households/students.
- Customers are much more price focussed - in all areas (products, brands & dealers).

Market trends

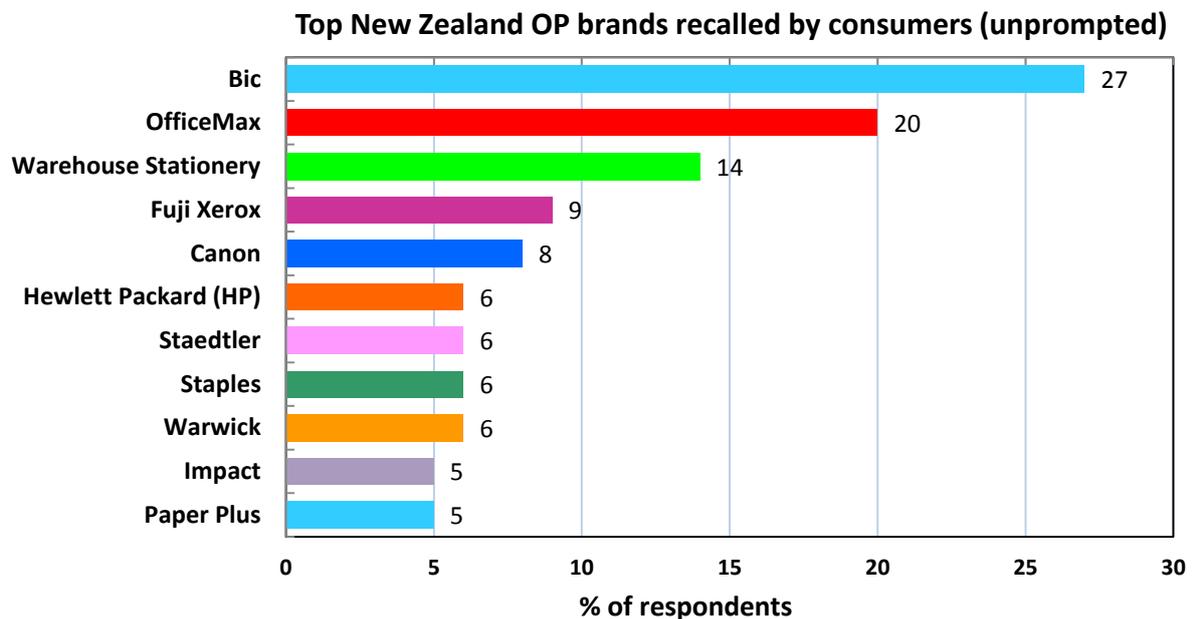
Some of the patterns of change identified in our research are as follows.

- Healthy consumer appetite for stylish, design-oriented & feature-rich versions of existing products.
- Dealer migration into 'non-core' product categories and other adjacencies.
- Health & wellness in the workplace is increasingly a driver for growth via product innovation and development.
- Household and student segments are being less impacted by the shift to digital.
- A rising wave of technology related products/accessories and services, is already here but is set to accelerate in the years ahead (think 3D printing, wearable technology and The Internet of Things).
- Government purchasing is becoming professionalised.
- Private label brands are still growing – but at a slower rate.

Products and brands

Most of the core OP range continues to suffer systemic decline in usage rates, via the shift to digital processes. Despite this there are pockets of growth, helped by a pick up in discretionary spending over 2014 and into 2015. Of the 10 core categories, four managed positive sales growth in 2014, with by far the best being computer/ electronic accessories. The non-core categories, being largely immune to digital erosion have fared much better - with six of the seven categories growing positively; led by 'cleaning/janitorial' and 'kitchen supplies.'

'Bic' has clearly maintained its position as having the highest brand awareness in New Zealand. While writing instrument brands continue to punch well above their weight in brand strength, the most significant trend in this survey has been the rise of dealer brands. Purchasers/consumers increasingly associate their office product suppliers, as 'the brand' they buy. This is evident in the ranking of 'OfficeMax' as the second most mentioned brand and 'Warehouse Stationery' as third. By contrast OEM printer brands (eg 'HP,' 'Canon' and 'Brother') have registered notably lower mentions in this survey.



*Penfold Research, 2014. * Based on top 3 mentions by 656 survey respondents.*

Dealers

With positive growth in the core market increasingly difficult to achieve, the current operating environment demands diversification into new product/service categories, and customer segments. By our observation, OfficeMax and Staples have made the most progress in category diversification (ie into non-core), while nobody appears to have meaningfully expanded into new customer segments.

Market leaders OfficeMax and Warehouse Stationery are maintaining their dominance and by our observations still have relatively little competitive overlap. Of the two, Warehouse Stationery has performed consistently strongly, significantly increasing its market share and is closing in on leader OfficeMax. Third largest core player OPD Group is distinguished by particularly high levels of customer service. Other significant players, Staples and Paper Plus Group have lost ground in recent years.

Market evolution is expanding the competitive landscape, drawing in new players from outside the traditional market (eg Trade Me, Wesfarmers Industrial & manufacturers selling direct to consumers). Online platforms will also increasingly facilitate new entrants (eg Amazon as well as smaller specialist players).

The best performing major OP dealers recently have been Warehouse Stationery, Fuji Xerox Document Supplies and NZ Office Supplies. Small niche player Smiggle has also continued its run of strong growth.

The dealers with the highest 'net promoter scores' – a measure of customer goodwill - are (in order); Office Products Depot, Corporate Consumables, Warehouse Stationery, Kmart, Paper Plus and OfficeMax. With the exception of Kmart all these players were previously at or near the top of our previous 2010/11 rankings.

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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 New Zealand, 2015-2017*" 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 requested or downloaded on our website as listed below.

Penfold Research

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

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