

# THE OFFICE PRODUCTS INDUSTRY

The niche market segment of 'online office products' is virtually untapped. Advanz Systems is a pioneer in the space of "stand-alone eCommerce systems" for this industry, and presents an excellent business opportunity to establish an online business catering specifically to the mid-size B2B market segment.

## Market & Industry

The market size of the office products industry is >\$100B annually. The four main product categories are office supplies, technology, janitorial and breakroom, and furniture. The competitive landscape, comprised of national players such as Staples, Office Depot and OfficeMax who have about 40% market-share, is expanding with new entrants such as Sam's Club and Costco. National players have recently started targeting mid-market consumers, the segment of the industry where growth is taking place. World class marketing techniques, including database marketing and consumer intelligence models, are being utilized to target mid-market consumers.

The industry has traditionally consisted of three delivery channels - stores (with a physical presence), contracts (typically implying contractual pricing arrangements with businesses) and online (ecommerce channel). Store sales are on the decline and the total number of retail stores across the board is decreasing over time as demographics and buying habits are changing. Contract sales are flat as companies are less inclined to manage procurement or inventory internally, and prefer to have end-users place orders directly and receive desktop deliveries, which is best done online with pre-negotiated rates. Online sales, while accounting for just about one-fifth of the total volume today, are steadily increasing at double-digit growth rates even in a slow economy. The dominance of the online channel is primarily due to the fact that office products are fairly standardized - for example an Avery label is the same product no matter which delivery channel or supplier is used to acquire it.

The supply chain has thousands of manufacturers feeding into a handful of wholesalers, who then feed into thousands of dealers and they in turn cater to hundreds of thousands of businesses (the B2B end-users of office products). Research has shown that the key to customer acquisition and revenue growth boils down to two simple determinants: (a) the ease of product acquisition by the end-user or 'convenience', and (b) distribution and customer support by the supplier or 'service'.

## The Opportunity

The office products category is quickly shifting to online buying, and the power channel players currently dominate. Three of the top ten online retailers are the office supplies superstores, viz. Staples, Office Depot and OfficeMax.

Orders continue to be consistently placed online by end users, and many expect it to double in the next 4-5 years as can be seen from the latest trends. Traditionally, the national players have targeted only large corporate clients and more recently small individual consumers. There is currently a huge opportunity gap in the "mid-size B2B market segment" or more specifically with businesses having 15-500 employees, all of who have a need for 'online procurement' (or convenience, service and competitive pricing), but have not been targeted in an organized manner.

## Potential

The average consumption of office supplies (not counting technology, janitorial and furniture) is \$426/employee/year. This means that a 50-person office purchases roughly \$20K of office supplies annually. Simple math demonstrates that 50 accounts of 50-employee companies purchase \$1M annually.

Conversations with purchase agents in a 2009 research conducted by Synovate, showed the following advantages that independents have over nationals:

- Independent office supply dealers are smaller and "local" (key), and able to provide a "personal touch" to their service
- Flexibility and responsiveness are often the other keys - "delivery on the same day if necessary"
- One is able to consistently deal with the same personnel, whether that is a customer service person or the "same driver at the same time" who "knows the routine" and is "eager to please"
- Easier and quicker resolution of problems and facilitation of product returns

Perceptions of higher price and narrower product selection, if they exist, need to be addressed correctly and that alone can lead to large opportunities for independents. Purchase agents say they would buy more from independents if they (1) had an online solution, (2) offered a wide selection of products, (3) made it convenient to order, and (4) reduced the number of visits by sales reps!

