

OFFICE PRODUCTS TECHNOLOGY UPDATE

A quarterly analysis of the latest trends in the Office Products industry brought to you by Advanz Systems, Inc.

August 2011

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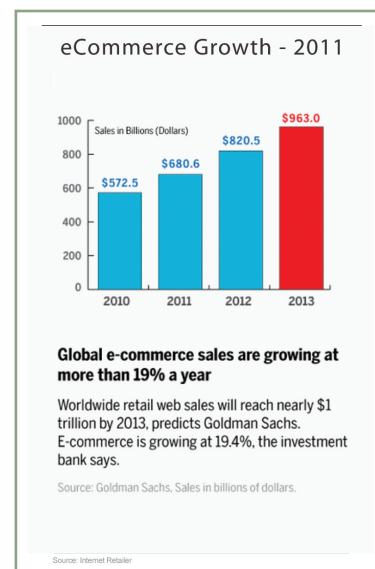
Market & Industry Trends

The President & CEO of United Stationers, one of the largest wholesalers of Office Products world-wide, was quoted saying this on the company's second quarter "While we experienced strong results from our growth strategies, we felt the same economic headwinds, including lingering unemployment, as many others and saw a deceleration in our overall growth rate during the quarter." Cody Phipps added that sales for the second quarter 2011 rose by over 4.4% in the office products category with independents and 'other' channels being the drivers for growth, while big box store sales declined 5%.

These statements reconfirm that the **online channel is continuing to show strong growth and the opportunity is amongst independents.**

We are also seeing continuing evidence of strong eCommerce growth and that this channel is **becoming vital as a necessary method of doing business.**

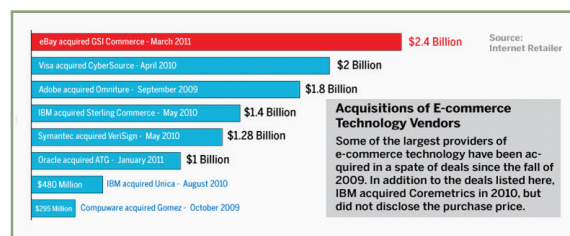
Another trend taking place that reaffirms the importance of eCommerce is the fact that eCommerce technology companies are beginning to be swallowed up by very large corporations such as IBM, Oracle and eBay. This space is now full of M&A activity. As eCommerce becomes more sophisticated with recommendation engines and methods to capture buyer attention, the cost of entry into the online channel is bound to rise, especially as it continues to become an increasingly critical part of doing business.



Analysis & Opportunities

The following recent trends demonstrate that **the office products market growth is both in the online channel and with new non-traditional related sub-categories such as print services and break-room products.**

Staples reported a modest sales increase for the second quarter primarily resulting from three major points in this specific order - (1) favorable impact of foreign exchange rate fluctuations - which contributed to half the sales and profit increase; (2) increase in sales of print services, driven primarily by acquisitions; and (3) increase in sales of break-room products. In fact, Staples is investing heavily in expanding print service operations and recently acquired a \$70M company, PrintSouth Corporation, as part of the company's plans to grow within the print solutions marketplace, which has been identified as one with growth potential.



By contrast, OfficeMax continues to experience lower sales but they have made progress on gross margin initiatives. They anticipate that for both the third quarter and second half of 2011, the adjusted operating income margin rate will be flat to slightly higher than the respective prior-year periods. Capital expenditures for the full year 2011 are expected to be approximately \$75 million and primarily related to technology, eCommerce and infrastructure investments and upgrades. The point worthy of noting is their **investment focus on technology and eCommerce.**

Key Points

Some well established players in the office products business are adding coffee and water as part of their offering. Some are even expanding services to include custom digital printing such as presentations and pitch books, beyond the traditional business cards, letterheads and envelopes. A blurring of specialization is being observed amongst suppliers to the office market who until recently were focused only on coffee or on office products. These trends show that the future is in evolving to a one-stop provider of supplies and services for the office market - and the combination of office products, break-room products including coffee and water, as well as outsourced print services is the way this category is retaining its momentum. Also, paid search and email marketing are becoming increasingly important budget line items and now consume half the marketing dollars of most companies promoting sales via their eCommerce channel. **Investments in eCommerce and email marketing are critical to achieving overall business growth.**



Advanz Systems specializes in eCommerce and Customer Relationship Management (CRM) systems for the office products industry and has helped many dealers with their eCommerce strategy enabling them to capture a greater share of the online market growth.