## OFFICE PRODUCTS TECHNOLOGY UPDATE

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

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## Market & Industry Trends

Office Products online sales exceeded \$20B in 2010 or 12% of the total US eCommerce market of \$165B. Office Products is the second ranking category online, second only to Travel. Three of the Top 10 internet retailers are now office products companies with Staples, Office Depot and OfficeMax ranking #2, #5 and #7 respectively in the Top 10 List. Collectively, they control 3/4th of the online office products market today.

Staples, the industry leader, has acknowledged in their recent 10K filing that same store sales declined 2% during the past year. Their online business, however, grew at 4.1% compared to the prior year surpassing the \$10B mark for the first time.

Just as there were 35,000 to 40,000 independent dealers with physical stores and contract businesses 25-30 years ago and underwent major consolidation, the market is once again moving towards "fragmentation". This is largely attributed to the business increasingly going online, and to new entrants such as Costco & Walmart along with a proliferation of smaller online stores entering the market space.

What will drive customer behavior going forward is online access (ecommerce), easy comparisons (open pricing), a local business connection (some relationship), and improved customer service (online & phone support). A focus on eCommerce with knowledge of customer behavior are criical to capturing this growing "online market segment".

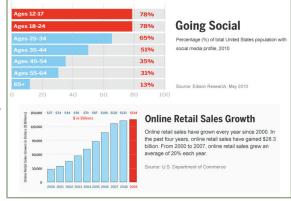
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Source: Internet Retailer	

## **Analysis & Opportunities**

Staples' total revenues (adjusted for currency fluctuations) grew a mere 0.2% last year. Their contract business actually declined by 3.5%. The overall gross margins were 26.7% of sales revenue with net profits at 2.7%. Operating costs were 24% which included SG&A, interest, and depreciation & amortization.

The other superstores were not much different. They all operated in the range of 27%-30% gross margin with profits in the -1% to 3% range. Operating costs were in the 24%-27% range and of them observed revenue declines in the 1%-3% range. There is immense pressure as the market is heading towards greater "fragmentation" with increasing number of online players.

The opportunity now is in the online segment of the industry only!



## **Key Points**

An online business structured with signifcantly lower operating costs is the **key to profitable revenue growth**. While the superstores will have a hard time reducing operating costs fast enough because of their large infrastucture and overheads, this is the time for independent dealers to plan entering the online market with new branding, and not leave the field open for the large players to take the entire industry growth away from them. The online segment growing at 20% annually, will double in size over the next 4-5 years.



The characteristics of an eCommerce site that one should look for when making a decision on how to proceed are:

- The online store must be professionally designed to be able to compete effectively with the look and feel of the superstores
- The site must allow prospects & customers to find what they need easily and place orders online without the need for a password
- Help should be available to prospects & customers via email, chat or other online methods, so that they can reach out to someone as and when needed
- · Pricing must be clearly visible so that prospects and customers can be confident of receiving an equitable deal
- Built-in SEO should allow the eCommerce site to be found organically with minimal spend on paid searches (Staples spends \$14M)

Advanz Systems specializes in eCommerce and Customer Relationship Management (CRM) systems for office products dealers and can help with your eCommerce strategy and objectives to enable you to capture your fair share of the online market growth.