

OP BUSINESS CONFIDENCE Q2 2016

Brexit dents business confidence

The **OPI Business Confidence** Q2 2016 survey shows a slight dip in confidence compared to Q1 2016. One of the main reasons for the decline is a lack of confidence from European business executives as the UK gears up for the EU Referendum on whether to remain part of the European Union.

The **OPI Business Confidence** survey polled over 6,000 industry members from leading vendors, resellers, wholesalers, dealers groups, manufacturer rep groups and technology firms globally who offered their opinion on the health of the current and future OP industry.

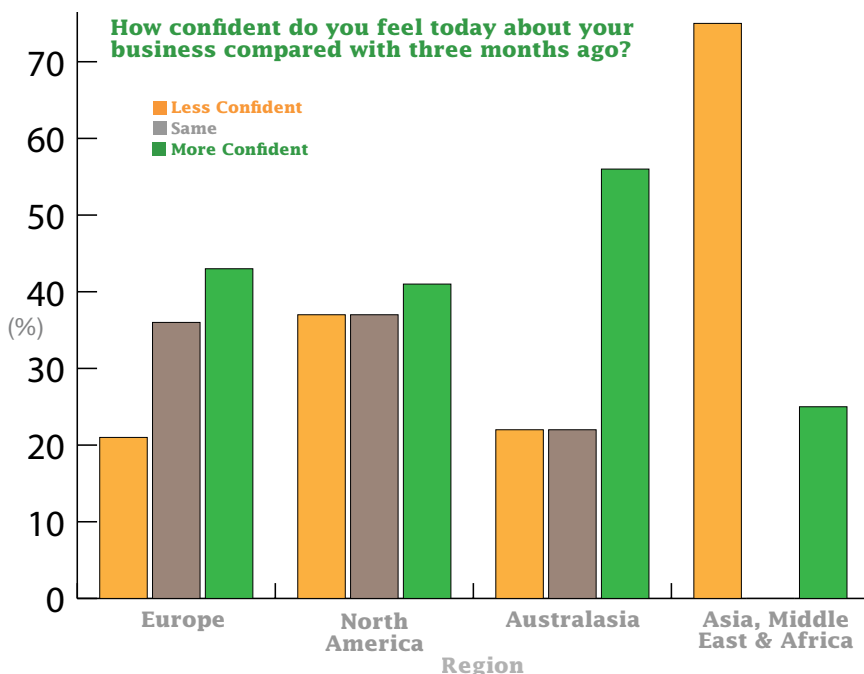
The key findings:

- Overall confidence levels have dipped in Q2 2016 compared to Q1 2016.
- Technology solutions groups expressed the most confidence; wholesalers the least.
- Executives in Australasia remain the most confident about business for the second consecutive quarter; meanwhile, executives in Asia the least confident this quarter.

Confidence levels

Comparing responses in Q2 2016 to the previous quarter, there has been a 3% increase in those feeling more confident (42% vs 39%), and also a 3% decrease in those feeling less confident (23% vs 20%).

For the second quarter in a row, executives from Australasia expressed the most confidence (56%) – a minor 2% dip compared to Q1 2016 – then Europe (43%), closely followed by North America (41%).



Executives from Asia reported the biggest loss of confidence this quarter with three-quarters now less confidence compared to 33% three months ago.

Interestingly, executives from Europe and North America are found at the opposite end of the spectrum as the number of executives in Europe that said they were less confident than in Q1 rose sharply (21% vs 9%), whereas those in North America reported a 4% fall to 22%.

The main reason for the fall in confidence levels from Europe is linked to the possibility of the UK leaving the European Union (commonly referred to as Brexit). Conversely, for many in the US that responded to this survey, it seems that government elections this year are actually boosting confidence levels.

Comments

OPI asked respondents to anonymously provide some general comments on the state of the OP industry. Below is a selection of these comments.

"The continued diversification of products and gaining more market share in more product groups is filling us with more confidence." **North American manufacturer**

"Customers are destocking and there are the continued soft economies in South Africa and Russia, in particular, to contend with. There is also the Brexit risk." **European manufacturer**

"Secular declines have been at play for the best part of the past decade. Diversification and selling the value of wholesale, coupled with expanding into new categories is the only way forward. The industry is consolidating and only large [independent dealers] will survive and maybe the forward-thinking small businesses with a niche." **North American wholesaler**

"The UK market is struggling with low margins and needs a step change. With the impending launch of Amazon Business, there are worries this will impact the market." **European wholesaler**

"There is more pressure from online suppliers and the overall economy seems to be getting worse." **North American dealer group**

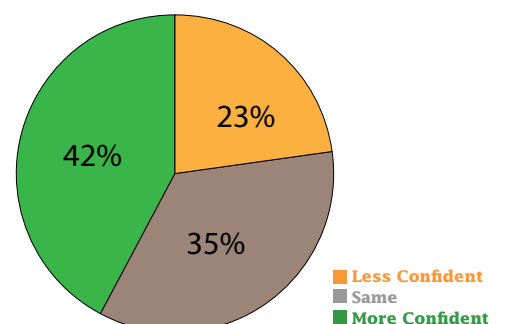
"We specialise in online retailing, specifically Amazon – its momentum in office product sales and opportunity is increasing." **European manufacturer rep group**

"We wish that the Staples/Office Depot merger had happened, however, to decrease big-box competition slightly, and thereby perhaps increase prices on contract and enterprise business." **North American reseller**

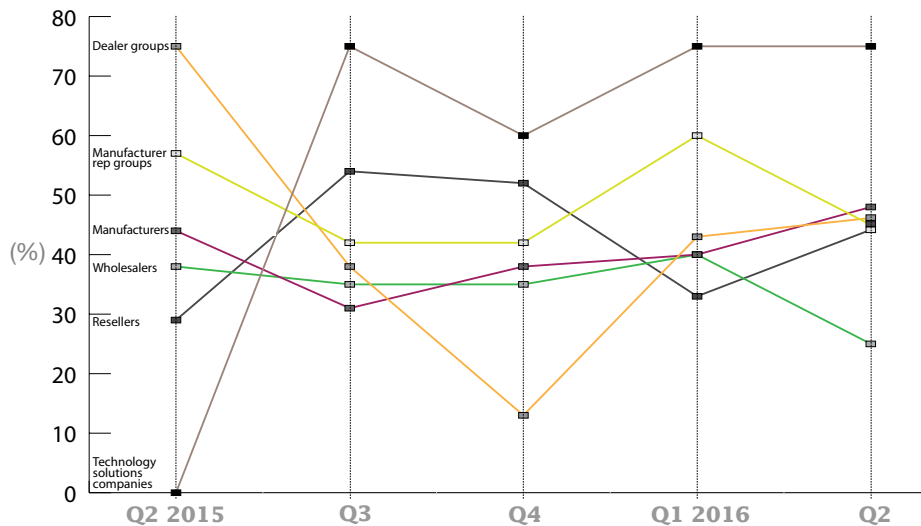
"We have secured business from the big-box chains and see them as struggling to gain relevance again. Amazon is a concern for all players, so the value propositions have to be well defined. Change is a constant, so the paradigm of always evolving is the same as it was before." **North American reseller**

"Now the Staples/Office Depot option is no longer on the cards, it means that we can get on with business with our vendors instead of being in limbo." **Australasian reseller**

Overall confidence in the past three months



Industry sector respondents confidence levels from Q1 2015 to Q1 2016



A game of two halves

Over the past year, the industry sector graph (above) demonstrates how each individual group with the OP industry has been affected by external influences such as elections, oil prices, e-commerce and the general global economy.

Within the industry, of course, the Staples/Office Depot acquisition and Amazon (including the launch of Amazon Business) have also influenced confidence levels.

Still, for the third quarter in a row, technology solutions companies lead the way in confidence (75%). The next most confident group are manufacturers (48%).

For this quarter, manufacturer rep groups dropped from being the second most confident sector to joint fourth with the resellers (45%); the rep groups' confidence dropped 15% while resellers increased 12% compared to the previous quarter.

Overall, wholesalers were significantly less confident in Q2 (25%) compared to the other industry sectors. Reasons for this include continued industry consolidation, secular declines in basic office supplies, and low margins.

The increase in confidence from the reseller camp was derived mainly from those in North America as they continue to diversify into adjacent categories such as MRO, jan/san and furniture.

For the first time in a while, North American executives from reseller companies were more confident than their European counterparts (42% vs 38%). Executives from many European resellers were naturally concerned about a possible Brexit, but also cited declining end-user demand for core office products as another major reason for lower business confidence.

Brexit

OPI asked survey respondents whether a UK exit from the EU would have any implications for their business?

The majority of non-European respondents either said straight-out 'no', or have adopted a wait-and-see attitude, presumably dependent on the actual outcome of the referendum to be held on 23 June 2016.

Unsurprisingly, the vast majority of European executives said a Brexit would have consequences for their business.

Below is a selection of responses.

Comments:

"I think sorting out an exit will take years and businesses will lack confidence while this happens. Better the devil you know!" **European reseller**

"It may bring less confidence and uncertainty, which can't be good." **European reseller**

"A Brexit will bring currency issues, instability and confidence problems." **European reseller**

"At this point in time we're really not sure what will happen." **Asia, Middle East & Africa manufacturer rep group**

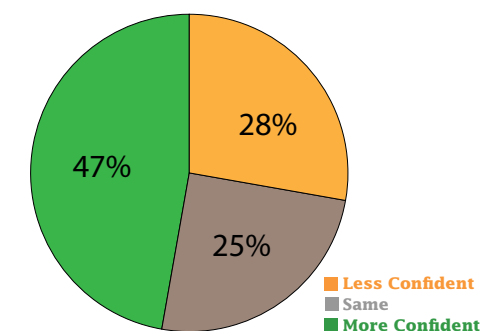
"For a period of time, a Brexit will negatively affect the pound and the ease of doing business across Europe." **European manufacturer rep group**

"It will directly affect our business as we have an office in Europe and trade in 14 European countries." **European technology solutions company**

"Yes, it will affect our business as we do the majority of our European business in the UK." **US manufacturer**

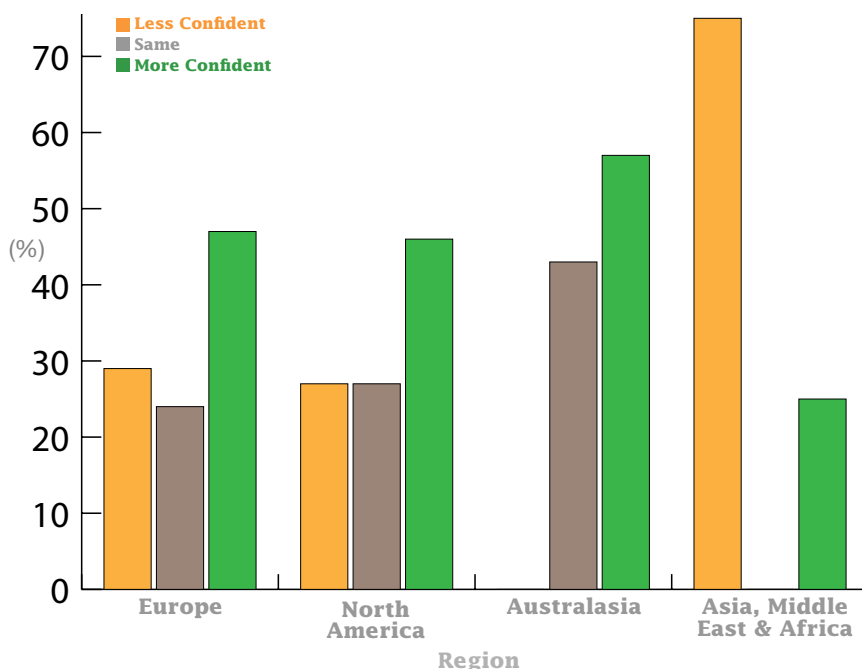
"Cross-border trade will no doubt become more difficult." **European manufacturer**

Overall confidence in the past year



How confident do you feel today about your business compared with one year ago?

The survey reveals that 72% of executives feel the same or more confident about business compared to a year ago. Those based in Australasia expressed the most confidence (67%) while those in Asia, Middle East and Africa responded with the least confidence (25%).



A positive mindset

With almost three-quarters of the industry overall reporting a positive attitude towards business this quarter compared to a year ago, executives from technology solution companies again are the most confident (75%), followed by company execs from dealer groups (64%) and manufacturers (49%).

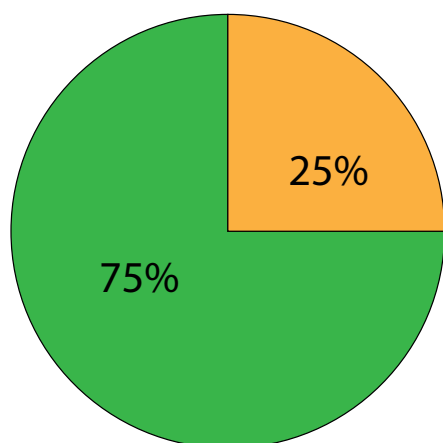
For North American dealer groups, increased activity in non-core categories is paying off and the addition of more 'value'

for members boosting confidence.

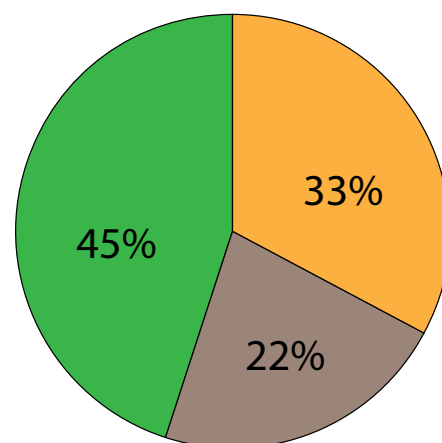
It's good to see manufacturers reporting more business confidence after languishing in the doldrums for the majority of 2015. Only 13% of manufacturing executives based in North America feel less confident than a year ago as new products, general economic health, low fuel costs and new distribution channels are creating a more optimistic outlook for this year.

How confident do you feel today about your business compared with one year ago?

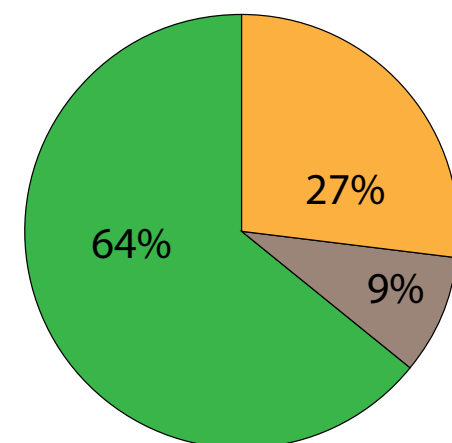
Technology solutions companies



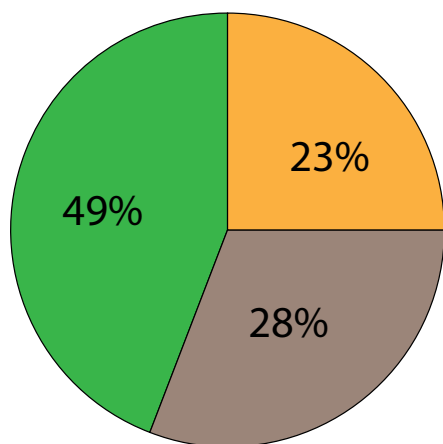
Manufacturer rep groups



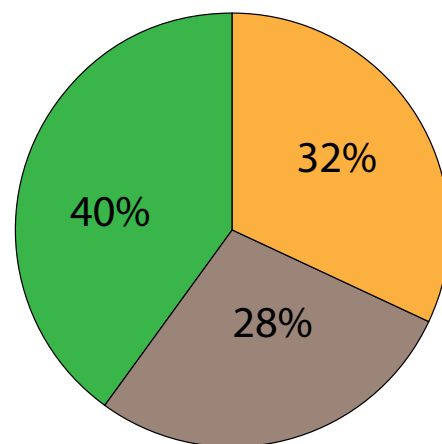
Dealer groups



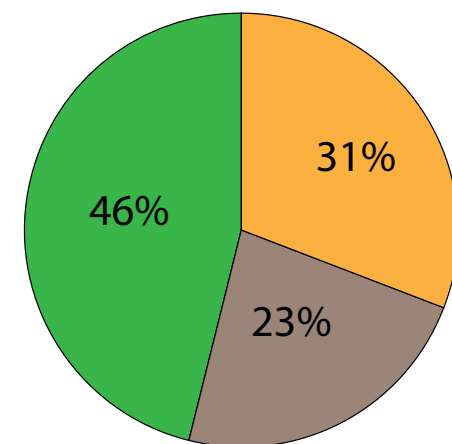
Manufacturers



Wholesalers



Resellers



■ Less Confident
■ Same
■ More Confident