

PUBLIC RECORD

SECTION D
AUSTRALIAN MARKET

Please return your response to Part D along with your response to Parts B & C no later than 7 May 2020.

Please respond to the following questions in relation to the review period (1 January 2019 to 31 December 2019).

D.1 Prevailing conditions of competition in the Australian market

1. Describe the Australian market for A4 copy paper and the prevailing conditions of competition within the market, including:

(a) Provide an overall description of the A4 copy paper market in Australia which explains its main characteristics and trends over the past five years.

Officeworks has reviewed the ADC's description of the Australian market in Report 463 regarding A4 copy paper. Subject to differences noted in this Section D, Officeworks generally agrees with the ADC's summary of the Australia market in Report 463. However, Officeworks makes the following additional points:

- In late 2019 Officeworks shifted production of its private label A4 paper from Australian Paper [REDACTED] [SUPPLIER NAME] This will have resulted in an increase in the share of the Australian market that is supplied by imported goods.

[REDACTED] the ADC commonly characterises Officeworks as merely a retailer to consumers. However, [REDACTED]

[REDACTED] [Discussion of different Officeworks customers]

- Officeworks does not agree with the emphasis the ADC placed on price as the driver of purchasing decisions. Officeworks is Australia's largest purchaser of A4 copy paper. While price is a relevant factor, [REDACTED]

[REDACTED]

- [REDACTED] [Discussion of Officeworks' current supplier and reasons why that supplier was selected]

- Officeworks does not agree that there is significant price transparency at the A4 copy paper wholesale level. Officeworks does not disclose pricing to competing suppliers [REDACTED]

[Discussion of purchase prices]

- Officeworks does not agree that the ultimate consumer of goods is unlikely to discern the difference between paper with different attributes [REDACTED]

[REDACTED] [Discussion of Officeworks' paper strategy] For some consumers, A4 copy paper with one set of characteristics is not commercially substitutable for A4 copy paper with a different set of characteristics.

- [REDACTED]

PUBLIC RECORD

[Redacted]

[Discussion of the relationship between volume and price]

- (b) Provide the sources of demand for A4 copy paper in Australia, including the categories of customers, users or consumers of the product.

Small, Medium, Large businesses, Government entities and personal customers. Anyone that requires a copy machine required to print or copy documents needs A4 copy paper.

- (c) Provide the proportion (%) of sales revenue from each of those sources of demand listed in (b);

Officeworks' sales occur via its retail stores and its website. [Redacted]

[Redacted]

[Discussion of Officeworks' customer data]

[Redacted]

[Discussion on a particular customer segment]

- (d) Describe the factors that influence consumption/demand in Australia, such as seasonal fluctuations, factors contributing to overall market growth or decline, government regulation, and developments in technology affecting either demand or production.

The A4 copy paper market is very stable and not impacted by seasonal fluctuations. The biggest contributor that influences demand is the business and personal customers awareness of their environmental footprint. Less people are printing/archiving/filing documents but rather using technology as the most sustainable option.

Other factors include global pulp pricing and mill capacity which impacts manufacturing costs and pricing

- (e) Describe any market segmentations in Australia, such as geographic or product segmentations;

Officeworks does not identify any difference or segmentation in the Australia market based on geography. Officeworks adopts a national approach to marketing and pricing.

The market can be segmented in the following ways:

Weight – 80 – 250 gsm
National Brand vs Private Brand vs Generic
Colour – White vs Tints
Substrate – Virgin vs Recycled

PUBLIC RECORD

Customer – Business vs Personal vs Government
Environmental – FSC accredited vs non-accredited

- (f) Provide the proportion of sales revenue from each of the market segments listed in (e):

Officeworks does not hold this information regarding the Australian market. If the ADC desires this information, it may be able to obtain it from market intelligence agencies such as IBISWorld or Penfold Research.

- (g) Describe the way in which Australian manufactured and other imported A4 copy paper compete in the Australian market.

The answer to this depends on which market is being considered. If the market is the retail market to end consumers, competition is based on:

[Redacted]
[Officeworks' view of factors that impact competition] Each product is promoted predominately online, TV, radio and print media such as catalogues and press.

Competition at the wholesale level is also based on the above factors. However, other relevant factors will be the relationship with the supplier, customer services, product range and reliability of supply. At a wholesale level, the above factors can be as important as price. In 2019 Officeworks ceased to use Australian Paper as its supplier of its private label paper

[Redacted]

[Factors affecting Officeworks' supplier choice]

[Redacted]

[Discussion on factors affecting supplier pricing]

- (h) Describe the ways that A4 copy paper is marketed and distributed in the Australian market; and

As above and as previously set out in Report 463.

- (i) Describe any other factors that are relevant to characteristics or influences on the A4 copy paper market in Australia.

[Redacted]

[Discussion of past importations of A4 copy paper]

PUBLIC RECORD

Provide documentary evidence to support the responses made to questions 1(a) to (i).

Provide a diagram which describes the Australian market structure for A4 copy paper, ensuring that all the categories of participants are included. In this diagram use linkages to illustrate the different levels of trade and distribution channels within the Australian market. – Please refer to figure on page 19 of ADC Report 463.

2. Describe the commercially significant market participants in the Australian market for A4 copy paper at each level of trade over the review period. Include in your description:
 - names of the participants;
 - the level of trade for each market participant (e.g., manufacturer, reseller, original equipment manufacturer (EOM), retailer, corporate stationer, importer, etc.);
 - a description of the degree of integration (either vertical or horizontal) for each market participant; and
 - an estimation of the market share of each participant.

Officeworks only has access to publicly available information. This information is available to the ADC. Previous ADC reports on A4 copy paper demonstrate that the ADC understands the above issues to the same degree as Officeworks. In some respects, such as market share, it is expected the ADC has a much wider understanding. In summary, the key industry participants are:

- Manufacturers:
 - Australian Paper
 - Mondi
 - UPM
 - Importers:
 - Australian Paper
 - Officeworks
 - Jackaroo
 - Fuji Xerox
 - COS
 - Corporate stationer:
 - Officeworks
 - Winc
 - COS
 - Fuji Xerox
 - Mega Office Supplies
 - Office Choice
 - Office National
 - Retailers
 - Officeworks
 - Big W
 - Kmart
 - Woolworths
 - Coles
 - Mega Office Supplies
 - Costco
 - Target
 - Australia Post
 - Amazon
 - Winc
3. Identify the names of commercially significant importers in the Australian market for A4 copy paper over the review period and estimate their market share. Specify the country each importer imports from and their level of trade in the Australian market, if known.

PUBLIC RECORD

Officeworks does not have actual knowledge of imports by companies other than itself. Officeworks has speculated above as to the identity of importers of A4 copy paper.

4. Describe the regulatory framework of the Australian market for A4 copy paper as it relates to competition policy, taxation, product standards and the range of the goods. Provide a copy of any regulation described, if available.

The supply of A4 copy paper is subject to the same regulation as any other general consumer good. In terms of "product standards" the term "A4" has a common meaning. Further, to the extent that paper is designed for printing or copying, it will only be fit for purpose if it has certain strength properties and an ability to absorb printing.

5. Describe any entry restrictions for new participants into the Australian market for A4 copy paper. Your response could include information on:
 - resource ownership;
 - patents and copyrights;
 - licenses;
 - barriers to entry;
 - Import restrictions; and
 - government regulations (including the effect of those government regulations).

Officeworks can only comment on restrictions on the ability to sell paper in Australia. The barriers to be a supplier of A4 copy paper are low. No licenses are required, no specific Government regulation applies and A4 copy paper is not patented or otherwise subject to intellectual property restrictions.

As an importer there are the follow restrictions:

- dumping duties on certain paper from certain countries; and
- due diligence must be exercised to ensure that the product is not manufactured from illegally logged timber.

In responding to question 6 ensure that relevant regulations are referenced.

D.2 A4 copy paper products in the Australian market

1. Generally describe the range of A4 copy paper products offered for sale in the Australian market. The description should include all goods under consideration including those produced by your company. Your description could include information about:
 - quality differences;
 - price differences;
 - supply/availability differences;
 - technical support differences;
 - the prevalence of private labels/customer brands;
 - the prevalence of generic or plain labels;
 - the prevalence of premium labels;
 - product segmentation.

Officeworks provides a wide range of A4 copy paper products. Attached to this questionnaire is a copy paper buying guide available on the Officeworks website that describes different features of copy paper.

Quality differences in A4 copy paper generally relate to weight and whiteness. For everyday use, a weight of 80gsm is standard and whiteness between 150-

PUBLIC RECORD

167 CIE. Where higher quality is required, such as for a presentation, weight over 100gsm is often used and a minimum whiteness of 160 CIE is often used.

Price will be largely impacted by the above factors together with the level of recycled content and the impact of brand. [REDACTED]

[Details of Officeworks' pricing]

Ability to supply and consistency of supply depended on the supplier. [REDACTED]

[REDACTED]
[Details of Officeworks' experience with domestic and international suppliers of A4 copy paper]

2. Describe the end uses of A4 copy paper in the Australian market from all sources.

Printing, copying, writing and drawing

3. Describe the key product attributes that influence purchasing decisions or purchaser preferences in the Australian market. Rank these preferences or purchasing influencers in order of importance.

It will depend on the particular end user. However, the following are the key attributes that are important to Officeworks customers: [REDACTED]

[REDACTED] [Officeworks' opinion of factors that impact purchaser decisions]

4. Identify if there are any commercially significant market substitutes in the Australian market for A4 copy paper.

There are no substitutes for A4 copy paper.

5. Identify if there are any commercially significant market complements in the Australian market for A4 copy paper.

[REDACTED]
[Descriptions of Officeworks' view of market complements]

PUBLIC RECORD

6. Have there been any changes in market or consumer preferences in the Australian market for A4 copy paper in the last five years? If yes, provide details including any relevant research or commentary on the industry/sector that supports your response.

There is a trend of increasing demand for sustainably sourced papers (FSC certified) in addition to recycled copy paper.

D.3 Relationship between price and cost in Australia

1. Describe the importance of the Australian market to your company's operations. In your response describe:
- (a) The proportion of your company's sales revenue derived from sales of A4 copy paper in Australia; and
 - (b) The proportion of your company's profit derived from sales of A4 copy paper in Australia.

In responding to question 1 please provide evidence supporting calculations.

[Redacted]

[Redacted]

[Discussion of
Officeworks' strategy and general financial information]

2. Is your organisation/business entity the price leader of A4 copy paper in the Australian market? If no, please explain the reasons behind your response and specify the name(s) of the price leaders.

[Redacted]

[Discussion of A4 copy paper pricing]

Describe the nature of your product pricing (e.g., market penetration, inventory clearance, product positioning, price taker, price maker, etc.) and your price strategies (e.g., competition-based pricing, cost-plus pricing, dynamic pricing, price skimming, value pricing, penetration pricing, bundle pricing, etc.) in Australia. If there are multiple strategies applied, please rank these by importance. If there are different strategies for different products, please specify these. Provide copies of internal documents which support the nature of your product pricing.

[Redacted]

PUBLIC RECORD

[Redacted]

[Discussion of Officeworks' pricing policy]

4. Explain the process for how the selling prices of A4 copy paper for the Australian market by your business are determined. Provide copies of internal documents which support how pricing is determined.

[Redacted]

[Discussion of Officeworks' price setting]

5. How frequently are your Australian selling prices reviewed? Describe the process of price review and the factors that initiate and contribute to a review. Provide the names and positions of all persons involved.

Prices are reviewed generally [Redacted], however can be reviewed outside of these timelines in the event of [Redacted]

[Redacted]

[Discussion of Officeworks' price setting]

6. Rank the following factors in terms of their influence on your pricing decisions in the Australian market, with the most important factor ranked first and the least important factor ranked last:

- Competitors' prices;
- Purchase price of raw materials;
- Cost to make and sell the goods;
- Level of inventory;
- Value of the order;
- Volume of the order;
- Value of forward orders;
- Volume of forward orders;
- Customer relationship management;
- Supplier relationship management;
- Desired profit;
- Brand attributes;
- Other [please define what this factor is in your response].

Pricing for a large retailer [Redacted]

Subject to the above comments, it can be said that the [Redacted]

[Discussion of Officeworks' price setting]

- Describe the relationship between selling price and your costs in the Australian market. Does your company maintain a desired profit margin for A4 copy paper? If not, does

PUBLIC RECORD

your company seek to maintain a desired profit margin for A4 copy paper?

[REDACTED]

[REDACTED]

[REDACTED] [Discussion of Officeworks' price setting]

8. Do you offer price reductions (e.g., commissions, discounts, rebates, allowances or credit notes) in the Australian market? If yes, provide a description and explain the terms and conditions that must be met by the customer to qualify. Explain how your costs are considered in establishing these price reductions. Provide copies of internal documents which support your claims in response to this question.

[REDACTED] [Discussion of Officeworks' pricing]

9. Do you offer bundled pricing in the Australian market? If yes, explain how the pricing for bundled A4 copy paper is determined. Explain how your costs for A4 copy paper are considered in establishing these bundled prices for A4 copy paper. Provide copies of internal documents which support your claims in response to this question.

[REDACTED] [Discussion of Officeworks' pricing]

10. Does the volume of sales to a customer or the size of an order influence the selling price? If yes, advise how volume is used to determine selling prices. Explain how your costs are considered in establishing volume-based prices for A4 copy paper. Provide copies of internal documents which support your claims in response to this question. –

[REDACTED]

[REDACTED] [Discussion of relationship between pricing and volume] Officeworks aims to be an everyday low-price retailer.

11. Does your organisation/business entity use sales contracts in the Australian market? If yes: -
- (a) What proportion of your sales revenue would come from contracted sales versus uncontracted sales?
 - (b) Do you offer exclusivity contracts? If yes, what proportion of your sales revenue would come from exclusivity contracts?
 - (c) How frequently are sales contracts renegotiated?
 - (d) How frequently are price reviews conducted between contracts?
 - (e) Do you provide opportunities for price reviews for customers within contracts? If yes, provide a description of the process and an explanation of the circumstances that might lead to a price review.

PUBLIC RECORD

- (f) Do changes in your costs enable you to review prices for customers within contracts?
- (g) Provide a list of the customers under contract during the review period and copies of the two largest contracts in terms of sales revenue. Provide a complete translation of the documents.

[REDACTED]

[REDACTED]

[REDACTED] [Discussion of contractual terms]

- 12. Provide copies of any price lists for A4 copy paper used in the Australian market during the review period. If you do not use price lists, describe the transparency of your prices in the Australian market.

All prices are advertised on the Officeworks website, in store and in various forms of advertising.

- 13. How do you differentiate pricing for different A4 copy paper products in the Australian market? Describe how your products are grouped for price differentiation and the methodology used. Describe any cost differences between differentiated products. Describe how these cost differences (if any) influence pricing decisions. Provide copies of internal documents which support your claims in response to this question.

The factors that affect pricing have been described above.

- 14. Do you tier or segment your Australian A4 copy paper customers in terms of pricing? If yes, provide:
 - (a) a general description of how this is done;
 - (b) list the factors that influence pricing differentiation in different tiers or segments; and
 - (c) explain how your costs are considered in making pricing decisions for different tiers or segments.

Provide copies of internal documents which support your claims in response to this question.

[REDACTED] [Discussion on pricing]

- Do you sell A4 copy paper to related entities in Australia? If yes, describe how prices are set for related party transactions and specify what proportion of your sales in terms of sales revenue are to related party entities. If available, provide a copy of any internal document relevant to establishing pricing to related parties.

Officeworks is owned by Wesfarmers Limited. [REDACTED]

[REDACTED]

PUBLIC RECORD

Officeworks does sell office supplies (including paper) to other Wesfarmers entities for internal use. [REDACTED]

[Discussion of related party pricing]

D.4 Marketing and sales support in the Australian market

1. How does your company market A4 copy paper in the Australian market? Include in your response the value proposition used (e.g. price, quality, reliability, availability, etc.).

All of Officeworks products are marketed on the basis of "the widest range at low prices". On top of range and price, A4 copy paper products are marketed according to quality, virgin or recycled and ream vs carton.

Does your company conduct brand segmentation in the Australian market for A4 copy paper? If yes, describe the brand segmentation used and provide the proportion of sales revenue derived from each brand segment.

Officeworks sells a variety of brands of A4 copy paper and within those brands there is a variety of product types. Please let us know if the ADC requires further information.

2. Provide examples of your Australian advertising of A4 copy paper over the past five years. If you have not used advertising in Australia, provide examples of any other A4 copy paper promotion campaigns you have conducted over the review period.

Officeworks consistently uses Catalogues, TV commercials, website marketing (<https://www.officeworks.com.au>), email marketing campaigns. A google image search of "Officeworks Catalogue" will produce a wide variety of catalogue examples. Similarly, searching "Officeworks Ad" on YouTube will produce numerous examples of Officeworks television advertisements.

3. How many people are in your Australian sales team and where are they located? In general terms, how are they remunerated? If they are offered performance pay based on sales, describe the performance indicators used to establish the performance pay. Provide copies of internal documents which support your claims in response to this question.

[REDACTED] Discussion of Officeworks' staff resourcing]

4. Describe what parameters are provided to sales staff to assist in establishing pricing for A4 copy paper when negotiating sales with customers. Provide copies of internal documents which support your claims in response to this question.

[REDACTED] Discussion of Officeworks' price negotiations]