PREPARED FOR PROMOTIONAL PRODUCTS ASSOCIATION INTERNATIONAL
3125 SKYWAY CIRCLE, IRVING, TEXAS 75038

U.S. Promotional Products Sales Decline in 2009 - Still Fare Better Than Most Traditional Media

The 2009 Estimate of U.S. Distributors' Promotional Products Sales

by Richard Alan Nelson, Ph.D.
Manship College of Mass Communication
Louisiana State University, Baton Rouge, LA

and

Rick Ebel
Glenrich Business Studies
Corvallis, OR

June 2010

AN AUTHORITATIVE INDEPENDENT SURVEY ANALYSIS OF U.S. DISTRIBUTORS

Table of Contents

EXECUTIVE SUMMARY 4
Brief Overview 4
Comparisons to Other Media..... 4
Projections for 2010 4

PURPOSE OF THE RESEARCH 6
Introduction..... 7
2009 Tough Going for Most Distributors 10
Impact on the Larger Distributor Companies 11
Orders Placed with Outside Suppliers..... 12
Business via the Website 12
Non-Promotional Products Sales 13
Comparison to Other Media 14
Trends in 2010 16
Selling Products or Communications Solutions? 18
Some Final Thoughts 21
Selected References..... 22

APPENDIX: RESEARCH METHODOLOGY..... 24
How the 2009 Estimate of U.S. Distributors' Promotional Products Sales Was Obtained 24

LIST OF TABLES AND CHARTS
Table 1: Annual Estimate of U.S. Distributor Sales Volume in 2009..... 7
Table 2: Annual Estimates of Distributor Sales and Historical Data from 1974 to 2009 8
Table 3: Eighteen-Year U.S. Distributor Sales Comparison..... 9
Table 4: Distributor Subsets by Volume 10
Table 5: Market Share by Distributor Size, 2003-2009 10
Table 6: Sales Average (Mean) by Under $2.5 Million Distributors, 2002-2009..... 11
Table 7: U.S. Distributor Business with Non-Industry Suppliers: Seven-Year Performance.. 12
Table 8: Distributor Business with Non-Industry Suppliers, 2008 and 2009 12
Table 9: Total Distributor Online Sales, 2008 and 2009..... 13
Table 10: Online Sales of Promotional Products – A Look Back..... 13
Table 11: Average Percent of Online Sales by U.S. Distributors, 2003-2009 13
Table 12: Total U.S. Media Adspend, 1981-2009 14
Table 13: Assessment of Expenditures for Selected Media and Methods, 2008 and 2009 15
Table 14: Distributors Predict What 2010 U.S. Sales Will Be…..... 16
Table 15: Communications Media Trends (Listed Alphabetically)..... 19
Table 16: Most Important Marketing Goals for B2B Marketers…..... 19
Chart 1: Sales Weighting for 2009… 26

The annual study was conducted exclusively for PPAI by Richard Alan Nelson, Ph.D., and Rick Ebel. Dr. Nelson is Professor of Mass Communication and Public Affairs at the Manship College of Mass Communication, Louisiana State University*. He is also the editor of* Journal of Promotion Management*. Rick Ebel, former marketing communications director of PPAI, is principal of Glenrich Business Studies, a business writing and research firm in Corvallis, Oregon.*

Contact Information:

Richard Alan Nelson, Ph.D.
Professor
Manship College of Mass Communication*
211 Journalism Building
Louisiana State University*
Baton Rouge, LA 70803-7202
University Tel: (225) 578-6686
University Email: Rnelson@LSU.edu
Home Tel: (225) 769-1273
Home Email: nelsonfamily@gmail.com

Richard G. Ebel
Glenrich Business Studies
749 NW Sundance Circle
Corvallis, OR 97330-1548
Tel: (541) 738-0480
Email: glenrichbiz@yahoo.com

* listed for identification only and implies no endorsement by Louisiana State University or its sub-units for any comments and viewpoints presented here which are the author's alone.

EXECUTIVE SUMMARY

Promotional products comprise useful and/or decorative articles of merchandise that are used in marketing and communication programs. The items include wearables, writing instruments, calendars, drinkware and many other items, usually imprinted with a company's name, logo or message. Premiums, incentives, advertising specialties, business gifts, awards and commemoratives are also considered promotional products. Promotional products are used in both marketing and non-marketing (e.g., employee motivation) contexts.

Brief Overview. Distributor sales of promotional products in the U.S. declined 13.61 percent from 2008 to $15,638,571,468. The lowest since 2002, the sales volume total is a direct reflection of the tough economy that affected advertising media across the board in 2009. The year saw decreases in revenue for both large and small distributor companies. Larger companies with sales of $2.5 million or more experienced a smaller decrease of 2.35% over 2008 while smaller companies saw a huge decrease of 22.62%. This year also showed very noticeable changes in the number of companies in the industry that report promotional product sales. Smaller companies with sales less than $2.5 million decreased from 21,500 last year to 21,150 this year. In contrast, larger companies with sales of $2.5 million or more increased from 830 to 857 in number in 2009. This increase in a count of larger companies is partly due to reporting by companies who were previously primarily in the printing, forms, packaging, health supply industries (i.e., dental, eye care, medical and veterinary supply) that now report significant sales in promotional products. The total number of distributor companies counted this year was 22,007 as opposed to 22,330 last year.

Comparisons to Other Media. A 13.6-percent sales drop isn't good, but it looks pretty good compared to other media. According to our study, other media that saw considerable losses were print advertising, with newspapers losing 28.6 percent in advertising sales and consumer magazine ad revenue dropping 18.1 percent. Billboard sales also dropped 15.6 percent last year and internet advertising, which had been growing in double digits in recent years, was down 3.4 percent. The biggest surprise was a 15.6-percent drop in sales for direct mail, which hadn't had a loss in modern times until now. The fact that all media suffered in 2009 doesn't make it better, but at least we know that the promotional products industry's sales decline wasn't an anomaly. Simply put, providing answers to the weaknesses of competitors (or competing media) is good strategy for recovery in an economy that many believe will be slow to recapture lost ground.

Projections for 2010. Distributers say they are cautiously optimistic about 2010. In fact, more than 60 percent of those surveyed predicted that 2010 would be a better year, while only 14 percent felt it might be worse. An upswing in this year's first quarter sales reported by industry firms seems to be carrying over into the next quarter.

PURPOSE OF THE RESEARCH

Since 1965, the Promotional Products Association International (PPAI) and its predecessors have attempted to secure data on the annual sales of distributors. The information is used primarily to measure industry growth and to convey to prospective buyers of promotional products the magnitude of the industry and the wide acceptance of the products it produces and sells.

The current method of study was adopted in 1983 after an extensive examination of the strengths and weaknesses of sales reporting methods used by several other marketing-related industries, including mass media advertising. The original methodology and the objective of the research, to produce a valid estimate of distributor sales in the United States, have remained unchanged. Modifications have been reviewed by PPAI's Marketing Information and Research Committee and expanded where desirable, for example, in assessing internet activity in business sales.

With few exceptions (largely in the aftermath of the 9/11 terrorism-abetted economic downturn in 2002 and the global recession beginning in fall 2008), this *Annual Estimate of U.S. Distributor Promotional Products Sales* has shown a general increase in business over the years, and has even eclipsed the growth rates in many mass media advertising and promotion alternatives. As a result, the survey has become an important element in revealing the changing picture of the promotional products industry.

To calculate distributor sales, we scientifically surveyed by mail and online a large sample of industry distributors (including both PPAI members and non-members) and executed a census of the largest firms. Responses projected across the entire distributor population combine sales for small-distributors (less than $2.5 million) and large-distributor firms (over $2.5 million) to determine the total promotional products dollar volume. As a supplement to the survey, we also conducted depth interviews with selected distributors to gain additional insight into industry thinking. The survey methodology is described in more detail in the Appendix.

PPAI The 2009 Estimate Of Promotional Products Distributor Sales

Introduction

Heading into 2009, few promotional products distributors were under any illusion that it was likely to be a tough year. Signs of continued downturn were everywhere, tied to the global financial crisis that almost wiped out a number of national economies – including a threatened meltdown of the American dream.

So it is no surprise to find in our survey of distributors – both member and non-member companies – that the U.S. industry took a big hit in 2009, with sales plummeting to $15,638,571,468. This is a 13.61 percent decline from the previous year. Smaller firms suffered the most, dropping nearly a quarter of their business (over 22.6 percent) (See Table 1).

Table 1: Annual Estimate of U.S. Distributor Sales Volume in 2009

Distributor Company Size	Number Of Distributor Companies	2009 Sales Volume	% Increase/Decrease In Sales Volume Over 2008
Less than $2.5 million	21,150	$7,778,492,878	-22.62%
$2.5 million or more	857	$7,860,078,590	-2.35%
INDUSTRY TOTAL	22,007	$15,638,571,468	-13.61%

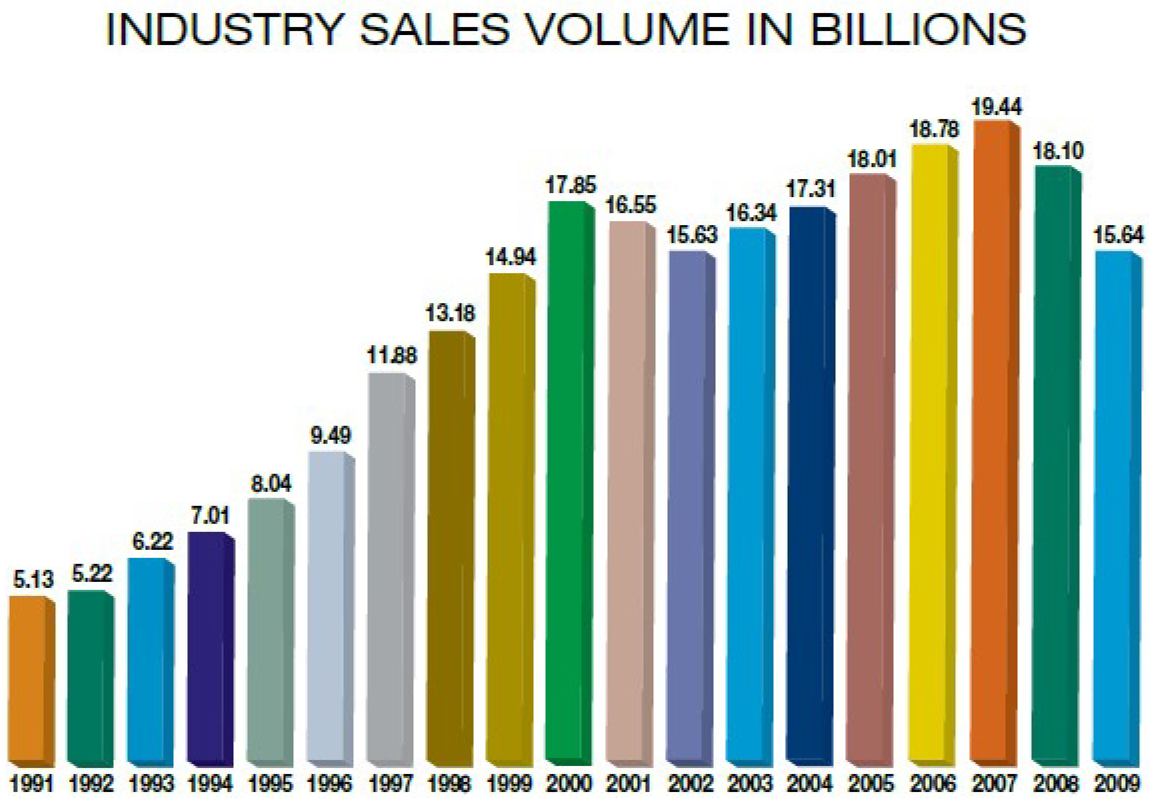
The last 12-month experience complements the dismal results of 2008 when things first started going south. In two years' time, 19.6 percent of distributors' business has disappeared. Placed in context, 2009 sales figures were about the same as 2002.

Two ways to track distributor sales using 36- and 18-year overviews are shown in Tables 2 and 3. They document how the industry historically has experienced continuing growth except for the 2001-2002 and 2008-2009 downturns impacted by global events. As the overall economy rebounds, there is every evidence that usage of promotional products will again expand as well.

Table 2: Annual Estimates of Distributor Sales and Historical Data from 1974 to 2009

Year	Sales Volume	Percent Growth	Year	Sales Volume	Percent Growth
1974	$841,090,990	n/a	**1992**	$5,220,251,205	1.8%
1975	$921,835,730	9.6%	**1993**	$6,222,347,119	19.2%
1976	$1,085,922,500	17.8%	**1994**	$7,008,438,092	12.6%
1977	$1,269,443,500	16.9%	**1995**	$8,037,054,605	14.7%
1978	$1,525,871,200	20.0%	**1996**	$9,490,373,011	18.1%
1979	$1,787,863,300	17.2%	**1997**	$11,874,907,786	25.1%
1980	$1,991,679,800	11.4%	**1998**	$13,178,944,927	11.0%
1981	$2,294,415,200	15.2%	**1999**	$14,937,546,446	13.3%
1982	$2,411,430,400	5.1%	**2000**	$17,854,482,234	19.5%
1983	$2,806,904,700	16.4%	**2001**	$16,552,291,971	-7.29%
1984	$2,947,249,972	5.0%	**2002**	$15,626,739,093	-5.59%
1985	$3,075,031,425	4.3%	**2003**	$16,341,132,020	5.57%
1986	$3,818,000,000	24.2%	**2004**	$17,311,730,376	5.94%
1987	$3,959,000,000	3.7%	**2005**	$18,013,763,753	4.06%
1988	$4,161,000,000	5.1%	**2006**	$18,779,654,661	4.25%
1989	$4,480,354,632	7.7%	**2007**	$19,440,837,547	3.50%
1990	$5,012,299,487	11.9%	**2008**	$18,101,298,808	-6.89%
1991	$5,129,843,059	2.4%	**2009**	$15,638,571,468	-13.6%

Table 3: Eighteen-Year U.S. Distributor Sales Comparison



Despite all the sales grief, one out of every four distributors reports their profits in 2009 were actually greater than the previous year. Obviously, some folks have taken to heart the lessons about controlling costs (often involving very painful decisions to make personnel reductions).

The volatility affected everyone a bit differently. One California-based distributor is typical in reporting the shortening of staff hours and cutting payroll. But while her firm didn't lose customers, almost all spent less. "Everybody was careful," she says. Even more distressing was the volatility the business experienced. "Instead of a little roller coaster that I've lived with for 15 years, the last year and a half has been really, really busy and then down, [followed again by] really, really busy and then down. So, it's been scarier because it hasn't been consistent."

For those suffering a disappointing year in sales, the goal for many was to maintain margins and market share. Industry-wide, market share was fairly evenly divided between larger distributors (firms doing $2.5 million and more in sales) and smaller companies. Small distributors in 2009 collectively produced sales of $7,778,492,878; this represents about 49.7 percent of the total market. The large-distributor cohort (sales $2.5 million and up) accounted for $7,860,078,590 of the industry's business. Although the small-distributor segment in 2009 lost $2.3 billion – or 22.6 percent – from 2008, sales for the bigger firms were off only 2.3 percent, or $188.8 million. A number of printing, packaging, forms and health supply companies (i.e., dental, eye care, medical and veterinary supply) now report significant sales in promotional products. Profits by these new entries may result in the large company group showing a smaller decrease than what is really happening to the core distributor firms in our industry. (See Table 4 for a more in-depth segment categorization since 2006).

Table 4: Distributor Subsets by Volume

Size Of Company	2006	2007	2008	2009
Less than $250,000	$1,545,182,780	$1,334,940,007	$1,614,791,538	$1,449,394,342
$250,001-$500,000	$1,708,237,771	$1,679,156,396	$1,424,289,012	$1,141,927,375
$500,001-$1,000,000	$2,309,470,772	$2,359,786,050	$2,480,709,538	$1,657,285,743
$1,000,001-$2,500,000	$4,071,887,677	$4,726,981,561	$4,532,599,412	$3,529,885,418
$2,500,001 or more	$9,144,875,661	$9,339,973,533	$8,048,909,308	$7,860,078,590
TOTAL	$18,779,654,661	$19,440,837,547	$18,101,298,808	$15,638,571,468

The 49.7 – 50.3 percent split in market share is evidence of a sharp decline in the small-company segment, down from 55.5 percent in 2008. (See Table 5 for a percentage breakdown by company size for the past seven years).

Table 5: Market Share by Distributor Size, 2003-2009

Distributor Group	2003	2004	2005	2006	2007	2008	2009
Under $2.5 Million	57.0%	54.3%	52.7%	51.3%	52.0%	55.5%	49.7%
$2.5 Million and Up	43.0%	45.7%	47.3%	48.7%	48.0%	44.5%	50.3%

2009 Tough Going for Most Distributors

The recession has definitely taken its toll. The number of distributor companies counted this year was 22,007 as opposed to 22,330 last year. In 2008 we reported an increase of 888 firms in the

U.S. industry's total distributor population, of which 21,500 were smaller firms. In 2009, those companies with sales less than $2.5 million decreased to 21,150, a decline of nearly 1.63 percent. This sizable decrease in the small-distributor population was characterized by returned unanswered mail surveys marked "out of business." Furthermore, some 250 or so respondents reported volume so small as to indicate the firms were only marginally in the promotional products industry. Another way to gauge the small-company experience was the nose dive in the sales average for the small-distributor group (firms doing less than $2.5 million in sales) – down almost $100,000 to $367,777. (See Table 6).

Table 6: Sales Average (Mean) by Under $2.5 Million Distributors, 2002-2009

2002	2003	2004	2005	2006	2007	2008	2009
$433,648	$462,289	$464,021	$466,416	$458,799	$492,725	$467,553	$367,777

Impact on the Larger Distributor Companies

On the surface, bigger firms have been able to better weather the challenges faced by an uncertain business climate. Larger companies with sales of $2.5 million or more increased from 830 to 857 in number in 2009. But the fact that many larger companies suffered huge sales cuts was masked by the addition to the category of 27 large firms to the industry. As noted above, many of these newcomers are divisions of corporations operating previously primarily in other industries.

The fortunes of all firms in the industry and future promotional products sales increases are inextricably linked to hopes for improvements in the overall state of the economy.

A Midwest distributor which has many significant accounts in high-tech, automotive and financial reports these clients typically adopted a "stick your head in the sand and spend nothing" mentality last year. He is hoping for better results this year.

Orders Placed with Outside Suppliers

About half of distributors large and small say they send some of their orders to non-industry suppliers (i.e., firms not listed by PPAI, ASI or Quick Technologies/SAGE), and that apportionment has been the norm for recent years. (See Table 7).

Table 7: U.S. Distributor Business with Non-Industry Suppliers: Seven-Year Performance

Distributor Size	2003	2004	2005	2006	2007	2008	2009
Sales Under $2.5 Million	10.0%	9.3%	9.4%	11.3%	8.7%	17.9%	16.6%
Sales $2.5 Million and Higher	17.6%	17.4%	15.8%	15.5%	14.9%	17.9%	16.0%

In terms of dollar volume, however, distributors did more of their shopping last year within industry ranks (see Table 8). Orders placed with non-industry suppliers slipped from $3.2 billion to $2.6 billion in 2009 – a 20.6 percent decline that surpassed the overall reduction in distributor sales.

Table 8: Distributor Business with Non-Industry Suppliers, 2008 and 2009

Distributor Category	2008 Sales	2009 Sales	% of Distributor Business	
			2008	2009
Sales under $2.5 million	$1,801,388,198	$1,288,896,270	17.9%	16.6%
Sales $2.5 million plus	$1,442,364,548	$1,302,415,022	17.9%	16.0%

Business via the Website

Online sales for distributors accounted for $2.4 billion, off somewhat from 2008 in dollar volume and as a percent of total sales. (See Table 9). For clarification, an internet sale meant an order placed by a customer, not by reps in the distributor's sales force. While not insignificant, this represents a continuing downward trend dating back to 2007. (See Table 10).

Table 9: Total Distributor Online Sales, 2008 and 2009

	2008	2009
Total Online Sales	$2,878,046,304	$2,445,489,891
Percent of Total Business	15.9 percent	15.6 percent

Table 10:

ONLINE SALES OF PROMOTIONAL PRODUCTS – A LOOK BACK

* ONLINE SALES ARE DEFINED AS SALES RESULTING FROM ORDERS PLACED THROUGH AN ONLINE STORE OR WEBSITE.

	2007	2008	2009
Total online sales of promotional products for companies with less than $2,500,000 in sales	$1,332,303,963	$1,500,877,922	**$1,253,115,203**
Total online sales of promotional products for companies with sales of $2,500,000 or more	$1,604,607,453	$1,377,168,383	**$1,192,374,689**
TOTAL	$2,936,911,416	$2,878,046,305	**$2,445,489,892**

When reviewing the percentage of business done using the web, the small-company cohort maintained the modestly upward trajectory of sales made online, reporting 16.1 percent of their sales came via the internet; for bigger firms that figure dropped to 15.2 percent. (See Table 11).

Table 11: Average Percent of Online Sales by U.S. Distributors, 2003-2009

Distributor Size	2003	2004	2005	2006	2007	2008	2009
Under $2.5 Million	8.3%	10.0%	10.4%	13.6%	13.2%	14.9%	16.1%
$2.5 Million and Higher	12.0%	12.3%	13.8%	15.4%	17.2%	17.1%	15.2%

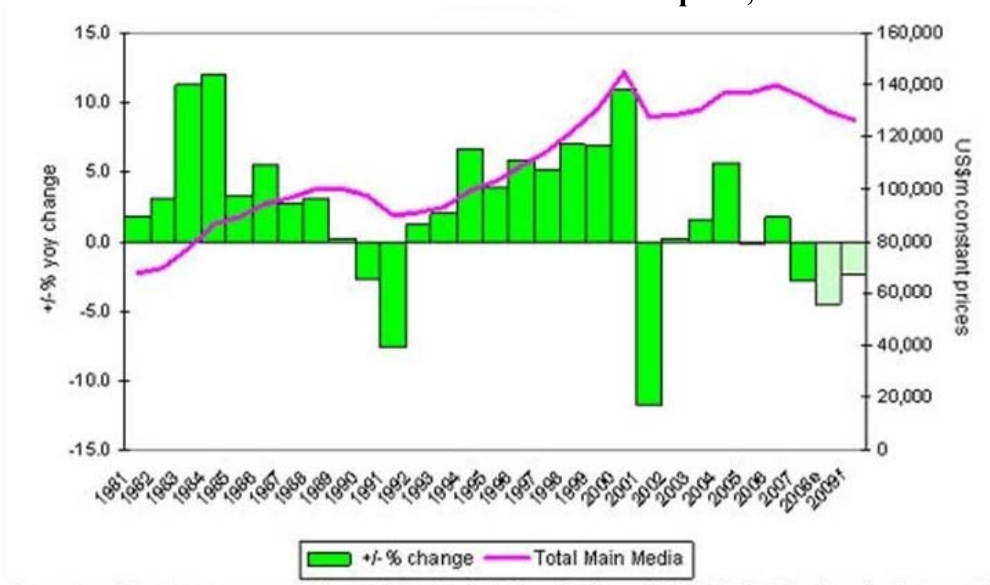
Non-Promotional Products Sales

Many distributors are engaged in business activities outside of promotional products. The survey indicates this non-promotional component remains an important source of revenue for many in the industry. For some, promotional products is merely a sideline. However, worth noting, among small distributors, the percentage of firms whose core business was in fields other than promotional products declined significantly, from 35.0 percent in 2008 to 24.1 percent.

Comparison to Other Media

As we noted last year, there is a generally recognized correlation between an economy's Gross Domestic Product (GDP) and the amount of advertising purchased. Such "adspend" is an early indicator of the state of consumer spending and confidence. We again reproduce historical data from the World Advertising Research Center (WARC) which documents this inter-relationship. (See Table 12). The parallels to what has been happening in the promotional products industry are striking.

Table 12: Total U.S. Media Adspend, 1981-2009



Notes: Based on 2000 constant prices US$. Print includes display and classified. Television includes cable. Directories and direct mail are excluded. Source: WARC

Few salespeople in media last year harbored any illusions of robust business in the worst economy since the 1930s. So small consolation for those involved in promotional products distribution might be gained by looking at Table 13. The bleak sales picture was shared by most other media, with many competing forms of advertising and promotion doing even worse in 2009. The notable exception is cable television, which continues to siphon off dollars from broadcast TV. Apparently viewers can stomach only so many reality shows and limp comedies. Media that relied heavily on automotive business (event marketing comes to mind) were particularly scourged. If your company has to be bailed out by the government, your distress is bound to show up in the ad budget.

But, as they say, when the going gets tough, the tough go shopping – and nowadays they go with FSI coupons, the ones associated with inserts in the Sunday paper. FSI activity increased 80 percent last year, with 272 million coupons dropped, for the highest level in decades.

Table 13: Assessment of Expenditures for Selected Media and Methods, 2008 and 2009

Media/Method	***2008 ($000)***	***2009 ($000)***	***% of Change***
Direct Mail	$52,600,000	$44,400,000	- 15.6%
Television	$46,384,315	$40,441,965	- 12.8%
Newspaper (print only)	$34,740,000	$24,821,000	- 28.6%
Consumer Magazines	$23,741,089	$19,450,950	- 18.1%
Internet Advertising (search, display-related such as banner, rich media, digital media and sponsorship, email, classifieds, and lead-referral/generation)	$23,448,000	$22,661,000	- 3.4%
Cable Television	$21,258,284	$24,406,598	15.0%
Radio Advertising	$19,478,000	$16,029,000	- 18.0%
Promotional Products	**$18,101,299**	**$15,638,571**	- **13.6%**
Yellow Pages	$13,227,500	$12,500,000	- 5.5%
Business Magazines	$ 9,900,000	$ 7,500,000	- 24.0%
Out-of-Home (billboards)	$ 6,820,400	$ 5,900,000	- 15.6%
Event Marketing (sponsorships only) *	---	$12,500,000	---
Coupons (FSI and online) *	---	$ 8,051,000	---
Product Placement (film, TV) *	---	$ 3,946,000	---
Mobile (phone) Advertising *	---	$ 395,000	---

*Provisional approximations

Expenditures for selected advertising media and promotion methods were compiled for Promotional Products Association International by Richard Alan Nelson, PhD, Louisiana State University, and Rick Ebel, Glenrich Business Studies. Sources include American Business Media/Business Information Network, Digital Signage Association, Direct Marketing Association, Cable TV Advertising Bureau, Interactive Advertising Association, Newspaper Association of America, Outdoor Advertising Association of America, PQ Media, Publishers Information Bureau, Radio Advertising Bureau, Television Advertising Bureau, and Veronis Suhler Stevenson. Note that even authoritative sources sometimes disagree on their reported numbers, so this reflects our analysis as to what is most correct. As new information appears, data are subject to revision.

Lots of double-digit downturns are evident, including the formidable direct mail category. A growing number of forecasters see the decline in expenditures for traditional media as not just a recession-caused aberration but rather a continuing journey to near oblivion. You get the picture when nearly a third of news executives from newspaper and broadcast tell Pew Research Center they think their organizations will be insolvent within five years.

The media upheaval also affects the agency side. Marketing and communications agencies (advertising, promotion, public relations) in 2009 experienced their worst business fall-off in 66 years, according to the Agency Report published by *Advertising Age.* For the first time during that span, the biggest U.S. agency was not to be found on Madison Avenue or anywhere near New York. It's in Arkansas.

As dire as these visions appear, they need not augur poorly for promotional products distributors. We'll get to that in a minute.

Trends in 2010

In the wake of 2009, how optimistic are distributors about this year? Salespeople tend to be optimistic by nature, and survey respondents seem to be a more bullish than a year ago. A decided majority (60.7 percent) predicts a better year, and only 13.9 percent think it will be worse. The numbers are pretty much the same, irrespective of company size. (See Table 14).

Table 14: Distributors Predict What 2010 U.S. Sales Will Be…

Forecast	***Distributors less than $2.5 Million***	***Distributors $2.5 Million +***
Greater than 2009	60.2%	61.2%
Same	25.7%	25.3%
Less than 2009	14.1%	13.5%

Distributors' hopes are certainly buoyed by positive signs in the economy. The Institute for Supply Management, for example, in April reported its service index had moved up a couple of clicks from February to March, signalling expansion. The service sector is critical because, excluding farm workers, it accounts for 80 percent of U.S. jobs, such as are found in health care, retailing and financial services.

Based on our follow-up interviews, first quarter 2010 saw an end to the sales erosion for many in the promotional products industry. All distributors we spoke with expressed at least moderate confidence in a more profitable 2010, based on the way their first-quarter sales were rebounding. “We had a good February, March and April,” reports a Southwestern distributor “and business in general seems to be better.”

A South Dakota distributor expects this year to be more stable. “The general feeling in our part of the country is that (business) is definitely improving, but it will take one to two years to build it up to pre-2008 numbers,” he declares.

Sales so far are 7 percent ahead of last year for a leading Massachusetts-based distributor who is encouraged by what he sees. He advises, “Make sure you leave money in the company during the good years. A strong balance sheet really helped us get through the tough times.”

After enduring a tough year like just about everyone else, one mega distributor with international operations reports her firm is “cautiously optimistic. We see some minimal growth for this year, and obviously some sectors doing better than others.”

A Northeast distributor minces no words about last year. “Horrible,” she admits, “really down for us, and I’ve heard the same from our competitors.” But things are loosening up. Clients and prospects are interested and calling. “Companies and organizations are realizing they have to keep marketing to get through those economic difficulties,” she declares.

Small business accounts notwithstanding, one Texas-based distributor says, “We don’t go out and sell weekly specials; we try to serve the customers’ needs.” The sales force includes people who are MAS-certified and some who have been exposed to CAS programs. The firm puts “a lot of emphasis on industry education, and we try to the best of our ability to be problem solvers.”

Although small businesses occupy much of one Southern distributor’s customer base, state and federal agencies such as NASA, IRS and the Department of the Army are also on their accounts book. Government business means bidding, and she acknowledges “we don’t get everything we compete for. But we'd get nothing if we didn't go through the process." Her firm made a profit last year.

Similarly, one Missouri-based distributor has budgeted for an 8 percent increase in 2010 and says his firm appears on track to achieve it. He believes the recession has been a wake-up call to many industry businesses and, he cautions, "we're not out of the woods yet."

Selling Products or Communications Solutions?

Perhaps the real wake-up call is for more in the industry to broaden their perspective of promotional products' extensive role in the communications sphere. Veronis Suhler Stevenson (VSS), in New York, is a respected surveyor of this field. Its former executive v-p Jim Rutherfurd observes, "The prolonged economic downturn has accelerated changes already underway in the communications industry…These changes are driven by a confluence of factors – primarily the growth of digital end-user businesses and the shift from broad-reach traditional advertising to targeted alternative advertising and marketing services."

This statement certainly applies to distributors. Since they provide not only advertising but also the tools, strategy and even execution to motivate, incentivize and influence business relationships, they are part of a bigger picture that extends beyond calling attention to a product or service. The more distributors demonstrate the relationship building strengths of promotional products, the closer their job description comes to matching what VSS and other respected analysts forecast. (See Table 15). This is important, because targeting efficiencies will drive communications spending in the next five years.

Table 15: Communications Media Trends (Listed Alphabetically)

What Communications Media are Likely to Expand, 2010-2015?	
Alternative Media	**Mobile Advertising and Content**
Business-to-Business e-Media	**Product Placement**
Business Information	**Professional Information**
Digital Out-of-Home	**Promotional Products**
Direct Marketing	**Public Relations**
e-Books	**Social Media**
Educational and Training Media and Services	**Subscription Television**
Event Marketing	**Tradeshows**
Individualized Marketing	**Videogames**
Internet Media	**Word-of-Mouth Marketing**
What Communications Media are Likely to Contract, 2010-2015?	
Broadcast Television	**Radio**
Business to Business Magazines	**Recorded Music**
Consumer Magazines	**Traditional Consumer Books**
Home Video	**Traditional Out of Home**
Newspapers	**Yellow Pages**

Sources: Primarily Veronis Suhler Stevenson (VSS), supplemented by the authors' analysis of additional research from MarketingProfs LLC, PPAI, and other organizations.

Focusing on customer needs continues to be a critical concern. Getting and retaining customers remains a priority, a fact supported by two recent studies of marketing executives surveyed by *BtoB* magazine. (See Table 16).

Table 16: Most Important Marketing Goals for B2B Marketers (% of Respondents)

Goal	***Those Who Ranked It First 2010 vs. 2009***
Customer acquisition	62.0 % vs. 62.2%
Customer retention	15.5% vs. 20.6%
Brand awareness	15.0% vs. 12.4%
Other	8.5% vs. 4.8%

N = 376 (2010); 211 (2009). Source: BtoB magazine, 2010 Marketing Priorities and Plans, November 2009; and 2009 Marketing Priorities and Plans, December 2008

But to acquire and keep other business customers requires more sophistication in terms of understanding client's concerns and problems – including how end-users will react to receiving particular promotional products.

Selling solutions, not just products, is the key to making it in today's market, one Massachusetts distributor states. "Digital printing," he says," has changed everything – now almost everyone can provide high quality and inexpensive color materials." This realization has prompted the firm to focus more on creativity and upgrade its computer systems and programs.

With its sales down 13 percent, one East Coast distributor also found a way to ratchet up profits. "We had to make changes, including cutting staff and helping the rest of us be more efficient," he says. His firm partnered with another organization, thereby gaining access to a state-of-the-art IT operating system. "This," he explains, "improves our order processing and web-based marketing (and assures) we are utilizing best practices in the industry."

Of related interest is research undertaken in November 2009 by the Chief Marketing Officer (CMO) Council and InfoPrint Solutions Company which surveyed nearly 1,000 U.S. consumers. Their report on *Why Relevance Drives Response and Relationships: Using the Power of Precision Marketing to Better Engage Customers* indicates more than three out of four consumers are inspired to do business with a retailer after receiving personalized offers – 30 percent of respondents answered "yes" and 48 percent stated "sometimes." The main finding is that regardless of channel, the key concerns for end-users are the *relevancy and individualization of the marketing message*. To achieve this, they say, requires a strong commitment to maintaining customer data integration (CDI) with "continuous tracking of life stage developments, customer value, purchasing activity, buying intentions, and up-sell and cross-sell opportunities."

Michael D. Andrew comes to similar conclusions in a recent analysis appearing in *Media Post*: He writes: "The future of advertising is not about social, not about viral videos, not about any new medium or any new ad unit – but about data. Those who know what to do with this will be the new kingmakers, the new rulers of Madison Avenue – or the creators of a new Avenue of media."

Data? Yes, indeed, every buyer wants the stuff, which is not to say they're going to get it. We've talked a lot about TV, mainly because it is the best example of a mass medium of advertising, and that is quite the opposite of targeted media like promotional products. According to Association of National Advertisers/Forrester research in February, 82 percent of marketers surveyed said they want ratings for individual commercials. Can't blame them, but is that data feasible?

If presenting data might induce prospects using competing media to switch to promotional products, would distributors really be any better at providing such information than the networks?

For example, we know intuitively that business gifts are highly effective in maintaining customer relationships and loyalty. But how high (pick a comparative percentage) is "highly effective"? There are methodologies for obtaining such data (the direct mail people favor split-audience tests). But few distributors are equipped or inclined to pursue, individually or collectively, something even as simple as that, and even if they were, getting the indispensable customer cooperation is an added impediment.

Some Final Thoughts

We know it is easy for the average distributor to get caught up in the day-to-day problems of moving product, but the shifts occurring in advertising, promotion and the broader communication business should give one serious pause to reflect on how to improve doing business in the future. Overall, "communications and media" according to VSS is now poised to become the fourth largest sector of the U.S. economy. In fact, it is predicted the next five years will see the communications industry increase 20 percent greater than that of Nominal GDP. Most of this growth will be in communication services as noted above that deliver relevancy and impact – an incredible opportunity for innovators in the promotional products industry to excel. On the other hand, it is worth noting the story of the railroad executive who only saw his company as simply being in the train and rail business. His firm has disappeared in the bin of history, survived only by those who recognized their real function was actually transportation.

Selected References

ANA/Forrester Survey: TV Advertising Budgets are Under Siege. *Fifth ANA/Forrester Survey Measures Marketers' Attitudes toward TV/Video Advertising* (2010, February 10). New York and Washington, DC: ANA (Association of National Advertisers) and Forrester Research Inc. Retrieved May 10, 2010 from http://www.ana.net/news/content/2136

Andrew, Michael D. (2010, February 19). Death of the Impression/Rise of the Data Economy. "Online Metrics Insider." *MediaPost*. Retrieved May 11, 2010 from http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=122794

Chief Marketing Officer (CMO) Council and InfoPrint Solutions Company (2009, November 17). *Why Relevance Drives Response and Relationships: Using the Power of Precision Marketing to Better Engage Customers.* Palo Alto, CA: CMO Council. Retrieved May 11, 2010 from http://www.precisionpromotion.org/pdf/relevance_drives_response.pdf

Johnson, Bradley (2010, April 26). Agency Report: Revenue Slumps 7.5%, Jobs at 16-Year Low. Despite Tumbling Agency Revenue in 2009, There are Early Indications of Growth and Renewal. *Advertising Age*. Retrieved May 21, 2010 from http://adage.com/agencynews/article?article_id=143467

Maddox, Kate (2008, December 8). Exclusive Survey Finds Only 25% Plan to Cut Budgets. *B2B magazine*. Retrieved May 10, 2010 from http://www.btobonline.com/apps/pbcs.dll/article?AID=/20081208/FREE/812089997/1109/

Maddox, Kate (2009, November 16). Nearly 40% of Marketers Plan to Boost Budgets. Marketing Priorities and Plans 2010. *B2B magazine*. Retrieved May 10, 2010 from http://www.btobonline.com/apps/pbcs.dll/article?AID=/20091116/FREE/311169986

Veronis Suhler Stevenson (2009, August 3). VSS Releases 2009-2013 Forecast. New VSS Ten-Year Report Shows Major Shifts in Communications Industry Growth Patterns Accentuated by Recession. New York: Author. Retrieved May 14, 2010 from http://www.vss.com/news/index.asp?d_News_ID=183

Veronis Suhler Stevenson (2010, April 27). New VSS Study Shows Fast Growth in Communications Industry, Subscription TV and Consumer-supported Media Over 35 Years. New York: Author. Retrieved May 14, 2010 from http://www.vss.com/news/index.asp?d_News_ID=187

APPENDIX: RESEARCH METHODOLOGY

How the 2009 Estimate of U.S. Distributors' Promotional Products Sales Was Obtained

PPAI has researched and released industry sales data since 1965. This annual distributor sales study for PPAI is the most comprehensive of its kind in the industry based on actual sales reported by promotional consultant companies. The survey is conducted and the statistics compiled by independent researchers at Louisiana State University and Glenrich Business Studies. Its figures are considered the most definitive and unbiased in the industry.

To compile *The 2009 Estimate of U.S. Distributors' Promotional Products Sales* for PPAI, researchers mailed a survey to a large sample of the entire U.S. distributor universe, including both PPAI member and non-member promotional consultant companies. The 12,500-firm sample was drawn from a merge/purge of lists compiled from PPAI and UPIC (Universal Promotional Identification Code) databases and from four other industry organizations.

Companies were divided into two sales-volume groups – those with sales of $2.5 million or more and those billing less than $2.5 million. Because some distributors have such a large volume of business, omission of any one of them could distort the statistics. Therefore, a census of all distributors doing $2.5 million or more in sales was taken. Combining the census and sample resulted in 15,456 companies being surveyed.

Questionnaires were mailed twice to the sample/census firms, and this distribution was reinforced with weekly e-mail reminders. As incentives to complete and return questionnaires, respondents were eligible for a drawing to win prizes. Forty-four surveys were returned as undeliverable, and completed replies collected by mail, fax, internet and phone produced 2,385 usable responses. This constituted a 15.43 percent response rate (vs. 14.7 percent for 2008, 13.48 percent for 2007). The margin of error (+/- 1.89 percent at the 95 percent confidence level) was well within standard statistical norms.

Promotional consultant companies were asked to report their promotional products sales for the 12-month calendar year ending December 31, 2009.

Those surveyed were given the following definition ("Promotional products include, but are not limited to, wearables, ad specialties, premiums, business gifts, incentives, awards, prizes and commemoratives") and asked to provide the following information in the seven-question questionnaire:

1. What were your 2009 total gross sales to your customers (in $)?
2. What percent of your 2009 gross sales was strictly promotional products as defined above (%)?
3. What percent of your promotional products sales in 2009 came from non-industry suppliers? ("Non-industry suppliers" are defined as suppliers who are NOT listed with at least one of the following: PPAI, ASI, or Quick Technologies [SAGE])
4. What percent of your total sales in 2009 of promotional products (i.e., your answer to Question 2) was generated through online sales? (%) (Online sales are defined as sales resulting from customer orders placed through an online store or website, NOT orders transmitted online by your field sales force).

We also asked promotional products distributors to indicate whether they were affiliated with franchise or distributor networks such as Adventures in Advertising (AIA), Proforma, iPROMOTEu, Press-A-Print, Flagship, etc. Respondents identifying themselves as franchisees were deleted in order to prevent double reporting under their franchisers.

A follow-up question asked those completing the survey "What is your prediction for company's sales in 2010?" with check-off answer choices being "Greater than 2009"; "Same as 2009"; or "Less than 2009".

Finally, respondents were also asked to identify the state in which their company was located in (headquarters, if multiple locations).

The sum of the larger firm promotional products revenues is added to the sales volume of the smaller distributor companies to arrive at the sales estimate for the entire industry. The sales volumes are first calculated separately for both groups, and then a weighted average method with a multiplier is used. This method takes into consideration the market share of both large and small companies when computing the information. Using the multiplier is designed to compensate for undetected duplication and to avoid inflating the small-distributor population. The 2009 industry sales volume estimate weighting is indicated below in Chart 1.

Chart 1: Sales Weighting for 2009

50.26% for companies with $2.5 million or more in sales 49.74% for companies with less than $2.5 million in sales

Then the point estimate (mean) of market share for sales reported by small distributors is computed (in 2009 – $367,777, down almost $100,000 from 2008) and then multiplied by the number of smaller companies (21,150) to project to the entire small-distributor population. Add that to sales recorded in the census of large distributors and the result is the estimated annual total of distributor promotional products sales for the entire U.S. industry. With rounding, combining the small-distributor sum of $7,778,492,878 to sales by the large-distributor cohort of $7,860,078,590 produced a total of $15,638,571,468 in 2009.

For this study, these calculations were also supplemented through additional in-depth telephone interviews to provide further insight to our analysis.

#####