# Industry Growth Establishes New Highpoint: Survey 2006 – The Annual Estimate of Distributor Sales

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**Promotional Products Association International**
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**by**


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## EXECUTIVE SUMMARY

**Size of Industry.** The promotional products industry saw an increase in the number of small companies (those doing less than $2.5 million in sales) from 20,350 to 21,000 in 2006. The number of companies with sales of $2.5 million or more also grew from 947 (in 2005) to 965 (in 2006).

**Distributor/Promotional Consultant Company Sales.** Year 2006 saw increases in revenue for both large and small distributors, while those in the middle were down slightly. Overall, the 2006 sales volume figures reflect an increase of 4.25% in distributor/consultant revenues from promotional product sales. With this increase, sales for the industry for 2006 totaled **$18,779,654,661**—another record high that translates into an additional $765+ million spent on industry products. With distributor numbers continuing to expand, this means the "sales pie" also is enlarging. The majority of the growth, however, tended to be in larger companies with sales more than $2.5 million (up 7.31% over 2005). The smaller-company group grew by only 1.51%.

**Market Share.** Small firms—those doing less than $2.5 million in sales—held 51.3% of the market. Those with sales of more than $2.5 million accounted for the remaining 48.7%—evidence of the continuing trend toward the largest promotional consultancies leveraging their size to attract additional business.

**Business with Non-Industry Suppliers.** Most distributors continue to do some business with non-industry suppliers, including those outside the U.S. In 2006, $2,815,070,234 in promotional product sales was placed with suppliers outside the industry network. Although the dollars spent are a slight increase over the previous year, when compared to percentage of total sales the evidence is more mixed. Large distributors were most likely to shop at non-industry suppliers (they did 15.5% of their business with them in 2006, a miniscule drop from 15.8% in 2005). Smaller and mid-size firms only did 11.3%, up nearly two percentage points from 2005. Many U.S. suppliers are obviously still trying hard to keep their client's business at home, but some may be irrevocably lost to foreign sources.

**Online Sales.** The industry depends primarily on personal sales efforts. However, Internet sales continued to grow slowly but steadily as a portion of all promotional products business, totaling

$2,712,908,919 or 14.45% in 2006. The small-firm category reports that 13.55% of sales were from the Internet, exceeding the $1 billion mark ($1,305,512,555) for the first time, in contrast with 10.4% in 2005. Large distributors reported that 15.4% of sales ($1,407,396,364) came online, compared with 13.8% a year earlier.

**Business Other than Promotional Products.** Many distributors continue to gain revenue from business not related to promotional products. For nearly one-third of those in the small distributor category, promotional product sales accounted for less than 80% of all business. While this number is not much different from historic figures, the average contribution of promotional products to that group now only totals 35.5%—well down from the 40+% numbers of 2004 and 2005.

**Prospects for 2007.** The overall industry has more than rebounded from prior struggles during the post-9/11 environment. As long as the U.S. economy continues to show growth (and it seems to chug along despite real estate meltdowns and financial scandals), members of the industry should be relatively optimistic. Record sales in 2006 are a platform likely to propel 2007 forward. For example, media researchers indicate a number of major businesses (in publishing, sports, automobiles, liquor etc.) are devoting more of their advertising/promotional mix dollars to promotional products. Other big brands have entered the industry, especially in wearables/apparel. In addition, the 2006 midterm election resulted in new political marketing spending highs. The trickle-down effect is already being felt in 2007 with the large national presidential candidate field and front-loaded primaries early in 2008 forcing politicos at all levels to spend earlier and more often than in previous campaigns. Unfortunately, political advertising is not all that much of a cash cow for most distributors; it will take renewed spending in a multitude of other markets to keep all the boats in the distributor's armada afloat.

***Purpose of the Research***

Since 1965, the Promotional Products Association International (PPAI) and its predecessors have attempted by 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, have remained unchanged. Modifications have been reviewed by PPAI's Marketing Information and Research Committee and introduced where desirable, for example, in assessing internet activity in business sales.

With few exceptions (largely in the aftermath of the September 2001 terrorist attack on the World Trade Center in New York), this Annual Estimate of Distributor 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 small-distributor sales, we employed the customary multiplier adopted by PPAI and applied it to the small-distributor total (21,000 firms). Using the multiplier is designed to compensate for undetected duplication and to avoid inflating the small-distributor population. The mean of small-distributor sales, $458,794 in 2006, is then multiplied by 21,000 to project to the entire small-distributor population. The mean for 2006 represents a slight decrease from the previous year ($466,416 in 2005) and will be discussed in the analytical sections that follow.

Add this to sales turned up in the census of large distributors and the result is the estimated total of distributor promotional products sales in 2006. The survey methodology is described in more detail in Appendix A.

***The Estimate of Distributor Sales for 2006***

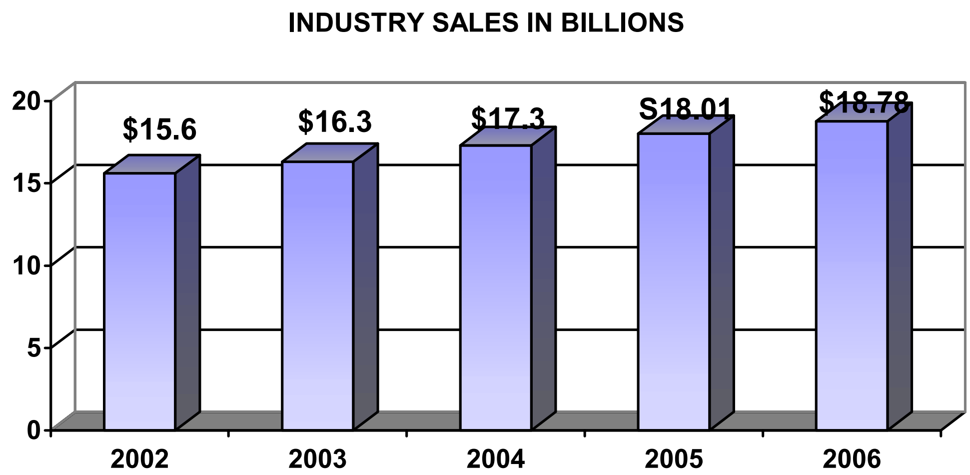
The number doesn't roll easily off the tongue, but **$18,779,654,661** is sweet music to distributors. That's a melody of almost 19 billion notes (see Table 1 and Chart 1).

Given the construct of the survey, we break the figure out into a combination of large-distributor sales over $2.5 million ($9,144,875,661) and smaller-distributor sales under $2.5 million ($9,634,779,000).

**Table 1: Distributor Sales—Since 2003 Going in the Right Direction**

| ***Year*** | ***Total Distributor Sales*** |
|---|---|
| 2000 | $17,854,482,234 |
| 2001 | $16,552,291,971 |
| 2002 | $15,626,739,093 |
| 2003 | $16,341,132,020 |
| 2004 | $17,311,730,376 |
| 2005 | $18,013,763,752 |
| 2006 | $18,779,654,661 |

**Chart 1: Industry Sales – A Look Back Over the Past Five Years**




The total is an increase of 4.25% over the previous year and further demonstrates the ongoing robust demand for promotional products (see Table 2). In fact, the industry posted the largest sales figure in its history. But there is a skew in terms of rate of growth and where the money is flowing, with the largest firms really fueling this upsurge (7.31% over 2005) and smaller and mid-size businesses lagging behind with only an average sales volume increase of 1.51%. There is more to this story, however.

**Table 2: 2006 Sales Volume Percentages Compared to 2005**

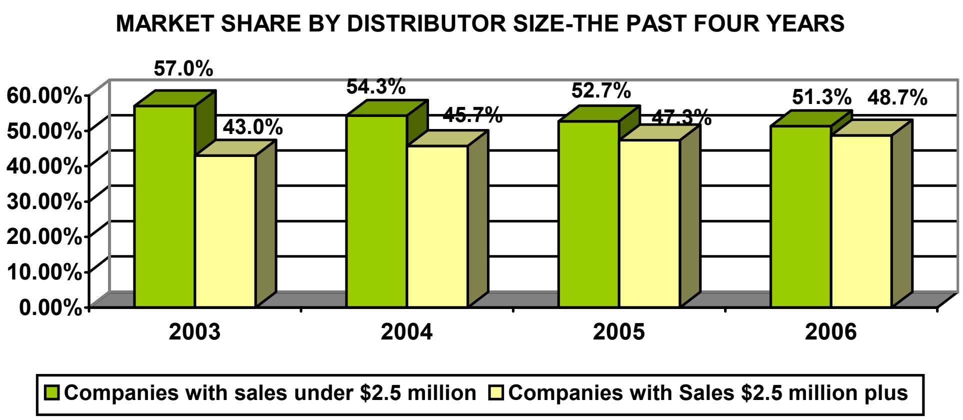
| **Distributor Company Size** | **Number of Distributor Companies** | **Sales Volume** | **Percent increase in sales volume over 2005** |
|---|---|---|---|
| Less than $2.5 million | 21,000 | $ 9,634,779,000 | 1.51% |
| 2.5 million or more | 965 | $ 9,144,875,661 | 7.31% |
| INDUSTRY TOTAL | 21,965 | $18,779,654,661 | 4.25% |

Although smaller distributors—those doing less than $2.5 million in sales—accounted for 51.3% of this business, the momentum for market share also continues to flow with the larger firms (See Table 3 and Chart 2).

**Table 3: Market Share by Distributor Size**

| Distributor Size by Sales | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Less than $2.5 Million | 57.0% | 54.3% | 52.7 % | 51.3% |
| $2.5 Million and Above | 43.0% | 45.7% | 47.3% | 48.7% |

**Chart 2: Market Share (Graphed)**




So big is better? Not necessarily. By delving more deeply into company size and utilizing additional categories, however, we can see that the under $500,000 segments are also rebounding to record or near record numbers in the post-9/11 world we all operate in. Weakness (even decline) appears greatest in the $500,000-$2.5 million middle. Why these differences are occurring is uncertain. See Table 4 below for a further breakdown of sales by size of company.

**Table 4: Segmenting Industry Sales by Size of Company**

| Size of Company | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Less than $250,000 | $1,364,997,974 | $1,428,562,552 | $1,367,284,621 | **$1,545,182,780** |
| $250,001- $500,000 | $1,435,068,264 | $1,725,290,533 | $1,547,169,188 | **$1,708,237,771** |
| $500,001-1,000,000 | $2,205,807,149 | $2,620,735,631 | $2,407,057,377 | **$2,309,470,772** |
| $1,000,001 - $2,500,000 | $4,309,256,774 | $3,621,372,904 | $4,170,054,414 | **$4,071,887,677** |
| $2,500,001 and above | $7,026,001,859 | $7,915,768,756 | $8,522,198,152 | **$9,144,875,661** |
| **TOTAL** | **$16,341,132,020** | **$17,311,730,376** | **$18,013,763,752** | **$18,779,654,661** |

***Some Additional Findings***

In terms of income as well as in number of players in most sales categories, billings are up for 2006. However, the return to prosperity is increasingly skewed. Again, upward momentum of the larger distributors—those with sales exceeding $2.5 million—continued unabated. As a group, their billings totaled $9,144,875,661 for an increase of 7.31% over the previous year.

In comparison, the 1.51% rise in sales with the smaller-distributor groupings under $2.5 million was modest. Nevertheless, total sales for this group amounted to $9,634,779,000 and represented 51.3% of the market, a share that has been steadily declining in recent years. The 2006 sales mean of $458,799 was down a few thousand dollars ($7,617) from the previous year ($466,416). Among the small-distributor group, the three subsets of firms with intake ranging from zero sales to $1 million all showed a drop-off in business. Consequently, it took the addition of 650 small firms new to the distributor population to raise the total business numbers for that size category.

This year we computed the median sale for distributors doing less than $2.5 million. That figure, $254,305, is the demarcation point at which half the firms in the category are selling more, half less. It's a good statistic for owners to compare their firm's progress in subsequent years.

The ascendancy of the large-distributor cohort—965 firms in all—in recent years can be attributed in part to companies buying business through the merger-and-acquisition route. But there are other factors, too. With bigness comes a greater range of resources for service. One distributor reported "To go to the next level of sales, it just takes strong support, and I think larger distributors are better able to provide that support." Salespeople "are seeking to align themselves with distributors that understand inventory fulfillment and online programs. That often comes with size."

Operating in a consultative/full marketing services model can pay off (i.e., as bona fide promotion agencies). One executive observed that offering services ranging from creative design to sweepstakes management, including writing the game rules, can save "customers from having to make a lot of phone calls." For some firms that focus on campaigns rather than catalog selling, 2006 was a break-out year—business up 20% or more. Such strong performance can also be linked to the fairly robust U.S. economy and to the strengthening of the each firm's client base.

### *More than Promotional Products: Distributor Diversification Still Common*

Certainly we've all noticed the composition of the distributor segment of the industry has changed over the years. Many distributors sell something other than promotional products. There is potential synergy that can be a money-maker. As one very large distributor noted: "We put a real effort into supporting our sales force with information about promotional products opportunities linked to other things we do."

Many tend to think that diversification is mostly occurring with very large distributors. But many of the under-$2.5 million distributors also do business that is not related to promotional products. For nearly one-third of the firms reporting in the survey (32%), promotional products accounted for less than 80% of their revenues. This figure was similar to that reported a year earlier.

Among the less-than-80-percenters, the average contribution of promotional products sales to revenue totals averaged 35.5% in 2006. This figure has *diminished* noticeably from 2005 (40.2%) and 2004 (41.4%). The reflective individual may find this statistic worth pondering. The one- or two-year drop-off may be an aberration with no particular significance. A similar figure or decline for 2007, however, would signal a trend suggesting several possibilities. One is that the industry is experiencing a fresh immigration of companies whose primary business is not promotional products.

### *Further Comparing Midsize and Major Distributors*

Despite the fact that it is mainly the big distributors that are on a roll, in that cohort there are only about 10 distributors doing more than $100 million in promotional products sales. And fewer than 50 are doing more than $20 million. The promotional products industry is still primarily comprised of small businesses.

We've tracked the performance of some of the mid to major distributors over time. As you can see in Table 5, even in good business climates after recessions, the trajectory steadily rises for some, not for others.

**Table 5: Comparing Performance of Representative Midsize and Major Distributors**

| | **2003** | **2004** | **2005** | **2006** |
|---|---|---|---|---|
| Distributor A | $28,400,000 | $31,400,000 | $32,500,000 | $33,500,000 |
| Distributor B | $24,043,614 | $21,933,000 | $17,179,000 | $19,852,000 |
| Distributor C | $64,500,000 | $71,000,000 | $79,800,000 | $80,000,000 |
| Distributor D | $117,882,000 | $137,000,000 | $145,000,000 | $191,000,000 |
| Distributor E | $29,000,000 | $23,085,000 | $22,800,000 | $32,175,000 |
| Distributor F | $34,000,000 | $21,159,000 | $28,200,000 | $35,500,000 |

These results led us to ask "Why is the large distributor cohort doing significantly better than smaller companies?"

One possible reason is that bigger firms have the working capital to grow through mergers and acquisition. There were several such examples in 2006.

The trend of large corporations to consolidate the number of distributors they deal with may further hurt the smaller guys.

By virtue of their size, the majors also command more resources. They tend to invest in more substantial back-end technology for clients and salespeople. With size, they also have the ability to respond to customers' demand for services, especially in terms of fulfillment, creative design, etc. that may not be in the arsenal of many family businesses.

Plus, if the heavyweight firms lose a major account, that may be tough on the salesperson, but the business has dozens of other salespeople picking up the slack and bringing in new clients. For a smaller distributor, the loss of a major customer can be devastating.

Regardless of size, the type of business a company does has much to do with its progress. One distributor we surveyed thinks companies that indulge requests for bidding are doomed to lag. Bidding consumes time (with no guarantee of winning) and that time could be used for more productive prospecting. "Time is a profit center," he told us.

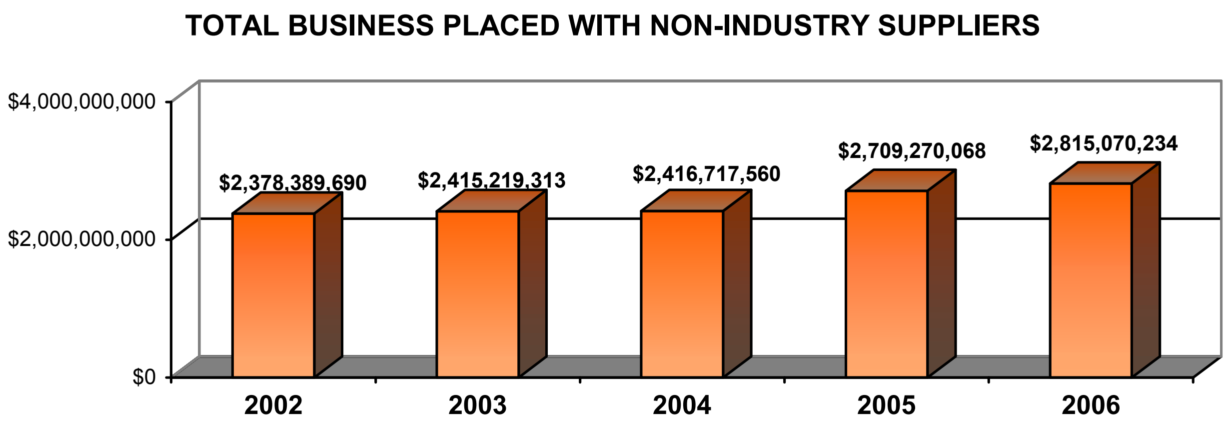
### *Going "Outside" to Buy from Non-Industry Suppliers*

Last year, $2,815,070,234 in promotional products orders were placed with suppliers outside the industry, up slightly from $2,709,270,068 in 2005. "Outside" means not in the PPAI, ASI, Impact or Quick Technologies orbit. In today's global economy, "non-industry" also often means overseas or at least across the border. The larger ($2.5 million and above) distributors report doing 15.5% of their business with non-industry suppliers. The figure for smaller distributors is 11.3%. Interestingly, the trends for the two size segments are contradictory (see Table 6 and Chart 3).

**Table 6: Distributor Business with Non-Industry Suppliers**

| Distributors by Sales Size | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Under $2.5 Million | 10.0% | 9.3% | 9.4% | 11.3% |
| $2.5 Million and Above | 17.6% | 17.4% | 15.8% | 15.5% |

**Chart 3: Sending Business to Outside Suppliers**




The appeal of outside suppliers may be price or customer demand for unique and exotic merchandise. One product development manager says her company researches and develops its own designs and works directly with vendors and designers. At least twice a year she travels to trade shows in China where, she says, a world market of participants from many countries gather. Her objective is research and development and to keep up with trends.

Not that distributors have lost faith in domestic suppliers. Another distributor thinks loyalty—from customers and to suppliers—is critical to his firm. "Not only is loyalty something that flows from my customer to me but also from me to my vendors," he avers. "I believe in sticking with those who have been good to work with over the years."

***Rising Internet Sales***

Online sales for distributors in 2006 totaled $2,712,908,918. That's a whopping 25.4% jump from the previous year. Apparently, Internet marketing is finally gathering a head of steam in the distributor population (see Table 7)

**Table 7: Online Sales* of Promotional Products – A Look Back**

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Total online sales* of promotional products for companies with less than $2,500,000 in sales | $774,087,316 | $937,716,970 | $989,970,292 | **$1,305,512,555** |
| Total online sales* of promotional products for companies with sales of $2,500,000 or more | $845,930,624 | $976,014,287 | $1,173,506,686 | **$1,407,396,364** |
| **TOTAL** | $1,620,017,940 | $1,913,731,257 | $2,163,476,978 | **$2,712,908,919** |

* Online sales are defined as sales resulting from orders placed through an online store or website.

In previous years, smaller distributors were inching along in baby steps in their use of websites to secure business. For them, the Internet is finally an increasing source of sales. As Table 8 indicates, the smaller distributors are beginning to catch up with the bigger firms in their use of websites to produce business. In 2006, 13.5% of survey respondents in the smaller-distributor cohort reported sales from online customers.

**Table 8: Average Website Business as a Percent of Total Sales (Rounded %)**

| Distributors (by Sales Size) | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Sales under $2.5 million | 8.0% | 8.3% | 9.9% | 10.4% | 13.5% |
| Sales $2.5 million plus | 7.7% | 12.0% | 12.3% | 13.8% | 15.4% |

Many are still uncertain about using the web only as an electronic catalog or incorporating more interactive features to reach out to existing as well as potential customers. The entire industry has a long way to go before all member firms maximize their profit potential from Internet sales.

For example, one distributor sees the Internet as a mixed bag. It's an important business tool, but it also makes things more difficult. Buyers go online, are attracted by low prices and fail to take reliability and service into account. "The worst question we can be asked," he says, is "'Can you send me a catalog?' They don't realize you couldn't fit all the information on available products in a moving van. So what do you put on the website—a jacket, balloon, a TV—when the product base is almost infinite?"

Another practitioner responding to our survey describes his distributor's website as a "portal through which we host a variety of company stores. We operate or manage them as separate entities, linked to us, but as their own web presence…."

On another website, an innovator has installed testimonials from current clients. The site also features a business resource center with related outside links that may be pertinent and useful. The distributor adds, "When one of our clients places an order online, we automatically send a tracking order number to the client—just like UPS or FedEx—to see what the status of the delivery is. We are always looking to make ourselves more indispensable."

Certainly the Internet is going to be an increasingly compelling factor in distributor sales. Has to be, because so many buyers are coming from the ranks of Generation Y. Born after 1982, they are cyberbrats who prefer to do just about everything online. They feel comfortable in establishing relationships in cyberspace.

The complementary model—the Internet for transactional business, the sales force for consultative selling—will probably go on for next to forever. But there also appears to be a blending of selling channels. The president of one large distributor firm reports, "Our sales force tells us they are dealing with a younger buyer who wants to be able to research online but certainly doesn't hesitate to call their counselor, their consultant, and ask, Am I on the right track? Is this a line that's going to deliver for us? Is the quality there, the value?"

In this regard, we should also note one word of caution about the online sales statistics as they may be somewhat misleading. A lot of that represents orders placed by salespeople, not customers. So, there is room for clarification in future surveys.

But there is no argument that companies may want to work their websites smarter. And just throwing more catalog pages on it isn't what is meant by working smarter. Everybody knows that in search engine marketing, your site has to be among the first that are displayed.

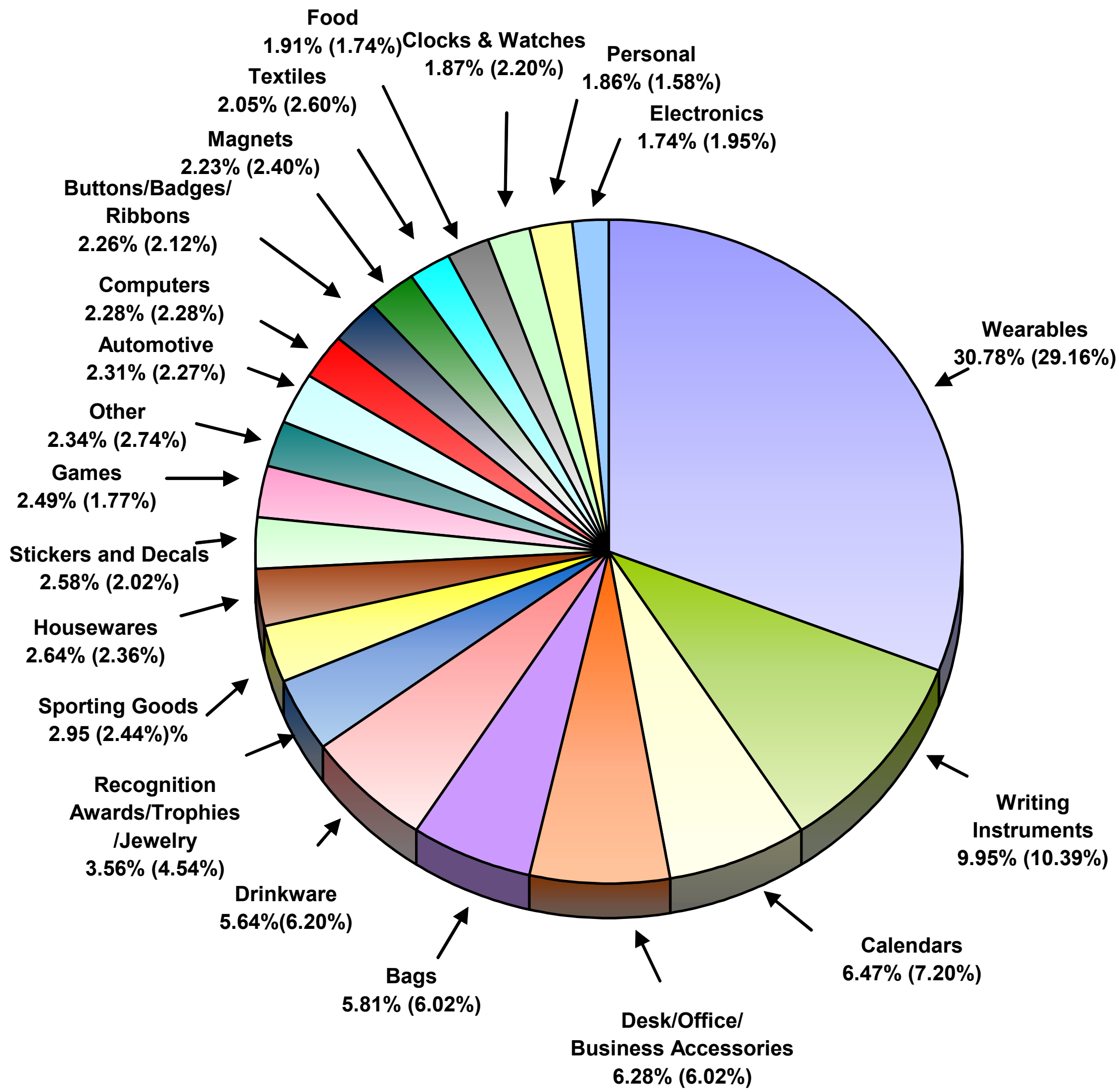
### *What Buyers Wanted in 2006*

What products were hot in 2006? Pretty much what you'd expect, according to survey respondents. As Chart 4 drawn from the PPAI Product and Program survey indicates, wearables continues to dominate the product categories. What's driving this? Perhaps the cross-over of well known branded apparel names and the foray of parallel resellers into the market contributed significantly to this growth. This segment of the industry has enjoyed the greatest share of the market for several years and is expected to do so for a while.

We find this is also the case with branded merchandise, with distributors reporting clients are more frequently requesting specific brands they want. Industry reports document how some of the big name brands have entered the industry, especially in the wearables' shoes and clothing categories. And as our survey found, end-use buyers seem to be better informed and are providing more specifications with their orders. Observes one distributor: "For example, in wearables, our clients often want specific fabric enhancements." Other items besides apparel are attracting interest. The same distributor reports "Customers ask for digital picture frames but indicate they want them to work on 110 electrical current rather than a USB port. So service is easily said, difficult to deliver." Like many other distributors, he also notes the continuing trend to technology-related items such as web cams and flash drives, although the total volume for computers and electronics combined is still relatively small.

Chart 4

## 2006 SALES BY PRODUCT CATEGORY
**(2005 figures in parentheses)**




**Weight for 2006**
48.70% for companies with $2.5 million or more in sales
51.30% for companies with less than $2.5 million in sales
**2006 PPAI Product and Program Category Survey**

***Why Business Overall for Distributors Was Strong in 2006***

OK, so the economy was fairly strong—3.3% growth for the year, says the U.S. Commerce Department. But the promotional products industry eclipsed that. Why?

In connection with the overall economy, first and foremost would have to be that customer businesses were optimistic, as shown by hiring and by headcounts, and budgets reflected this. TNS Media Intelligence estimates that the ad spend for telecommunications was up 10.3%, pharmaceuticals up 13.8%, and financial services up 2%. These are big markets for promotional products. Reports indicate more major businesses (in the fields above, plus publishing, sports, automobiles, liquor etc.) are making the decision to reshape their advertising/sales promotion investments with more attention to promotional products.

And, as we pointed out last year, although the economy is growing, many downsized customer companies still aren't replenishing their work forces as much as might be expected. That remains good for distributors who are equipped to do the work that was once done in-house.

Could another factor also mean long-held convictions of many in the industry—that dollars are being diverted from other media to promotional products—is more than wishful thinking?

Lots of distributors think they are the beneficiaries of "disintermediation," a fancy word meaning the diversion of revenues from one medium to another. These people may be right, but the diversion notion is hard to prove.

In any event, most of the other media did pretty well, too, last year. As Table 9 shows, 2006 was a decent year for most of the advertising and promotion media. Billings for all media totaled about $150 billion. Some were down or slow performers, but even broadcast TV (often dismissed as a dinosaur because of declining audiences, TiVo and other such time-shifting, fast-forwarding gadgets hated by advertisers) came in with a 5.3% sales gain.

Promotional products are among the top seven media both in revenue and growth (4.2%). Direct mail remains number one, despite continuing problems with response rates. Growth in 2006 for that medium was up 6.2%. In such cases, the expansion of other media does not necessarily mean that the slice of the pie is less for promotional products. Actually, the opposite may prove true because of a latch-onto effect. In the case of direct mail, distributors can find it advantageous to help mailers make lemonade out of lemons—poor response rates. Just convince mailers that the extra investment in promotional products, including incentive offers, tend to drive up response rates. There is ample research in support of that argument.

There are other media areas that really pop out, though, including the sizzling hot Internet advertising and product placement options. Internet advertising has been growing at a 30% clip the past couple years. Next year it will certainly surpass promotional products in expenditures. Advertisers like appearing online because effectiveness is easy to measure through click rates and other new metrics. But like other media, Internet ads will have their day and then plateau. Already there is viewer resistance. Forrester Research says the level of people who delete e-mail ads before opening them has climbed 17 percentage points since 2002.

Another interesting fact reported in April 2007 by *Ad Age* is that "revenue for U.S. marketing-communications agencies jumped 8.8% to $28.2 billion in 2006, the strongest growth since ad spending began to rebound from recession in 2002. The hot growth came from marketing services, fueled by digital. Traditional ad agencies, grappling with a shift from old media, saw tepid growth." The implications for promotional products are that those distributors already providing more in the way of agency-style communication problem solving, i.e. strategic consultation and marketing communications services, may be best positioned to take advantage of new opportunities. See Table 9 on next page.

**Table 9: Assessment of Expenditures for Selected Media and Methods**

| Media/Method | 2005 (Billions) | 2006 (Billions) | % Change |
|---|---|---|---|
| Direct Mail | $49,800,000 | $52,900,000 | 6.2 |
| Newpaper (print only) | $46,233,000 | $46,700,000 | 1.0 |
| Television | $45,916,904 | $48,350,896 | 5.3 |
| Premiums & Incentive Travel | $29,000,000 est. | $29,700,000 est. | 2.4 |
| Consumer Magazines | $20,002,841 | $23,996,768 | 3.8 |
| Radio | $20,154,000 | $21,669,000 | 1.0 |
| Promotional Products | **$18,013,763** | **$18,779,654** | **4.2** |
| Point-of-Purchase Advertising | $18,000,000 | $18,717,000 | 4.0 |
| Cable Television | $16,042,822 | $16,952,884 | 5.7 |
| Internet Advertising | $12,542,000 | $16,800,000 | 33.9 |
| Yellow Pages | $14,100,000 | $14,400,000 | 2.0 |
| Couponing | $7,230,000 | $7,193,000 | - 0.6 |
| Out-of-Home (e.g. billboards) | $6,301,000 | $6,800,000 | 8.0 |
| Business Magazines | $4,260,000 | $4,144,900 | - 0.3 |
| Product Placement (TV, film) | $1,454,544 | $2,237,760 | 35.0 |

*Expenditures for selected advertising media and promotion methods compiled for Promotional Products Association International by Richard Alan Nelson, PhD, Louisiana State University, and Rick Ebel, Glenrich Business Studies. Sources include Ad Age, Cabletelevision Advertising Bureau, Direct Marketing Association, Forrester Research, Incentive Marketing Association, Interactive Advertising Bureau, Jupiter Research, Newspaper Association of America, Nielsen Product Placement Service, Outdoor Advertising Association of America, Point of Purchase Advertising Institute, PQ Media, Publishers Information Bureau, Radio Advertising Bureau, Simba Information, Television Advertising Bureau, TNS Media Intelligence, UniversalMcCann, and Veronis Suhler Stevenson.*

One respondent to our survey observes that large corporations today are focusing on ROI. They see the impact of promotional products on their company's objectives because, he says, it's easy to measure, more so than for a lot of other media.

Another distributor agrees with the diversion theory, claiming it is aided and abetted by distributors doing a better job of "telling our story, why it makes sense for any size company to put promotional products in the mix." The word she hears is that "so many companies want to personalize their brand, they want to connect, and there's no better way (than with promotional products). I just think we're doing a better job of evangelizing."

In the survey, we found other reasons for the industry's overall lustrous year. Distributors often told us their growth was linked directly to a more professional sales force. Thanks to extensive professional development programs such as those offered by PPAI, many salespeople today are better trained. Also, job opportunities are bringing salespeople from other industries and from the client ranks. Having purchased promotional products themselves, they understand the end-buyers' position.

An example is one distributor with a company sales force numbering 180 independent contractors. Many come over from the diverse client side, including substantial accounts in insurance, financial services and health care. "We tell them they can decide if they want to go into niche markets or be generalists and go into any market," she says. "They just need to understand the power of promotional products can be applied to almost any circumstance."

Another distributor's advice: When you get good salespeople, hang onto them. "Treat salespeople like they are your clients," he says.

***What About Those Experiencing a Down Year?***

Not everyone loved 2006.

Many smaller and mid-size distributors have had slow or no sales growth for years. For some this includes item sellers focused on price, which can be pretty cutthroat, and catalog/online sales, also often price driven.

Since in many industries a company either grows or it goes, how do distributors with static revenues survive? The most likely answer is low overhead. The key to survival is that they have independent contractors doing the selling. If they don't have a book of business, they don't get paid.

As in past years, many long-time customers are reported as still remaining loyal. But a key difficulty for many distributors involves lassoing new business. Distributors seeking to diversify their client list might take a look at PPAI's Top Buyers of Promotional Products study, which is conducted about every three years. For years, two categories (Financial: Banks, Credit Unions, Stock Brokers; and Health Care: Hospitals, Nursing Homes, Clinics) have dominated. They are still near the top of the hill. Now No. 1 is Education: Schools and Seminars.

Another possible reason to note is that promotional products are not just an ad/promotion medium. Much of the industry's business is unrelated to marketing. Historically, sales to the corporate human resources department, involving such things as employee performance improvement programs, cost reduction programs, etc. have been very profitable. However, raising a note of concern is that spending by clients in some of these important non-marketing areas is not growing. Data from PPAI indicates internal promotions (motivating employees) as a segment is continuing its downward trend going back to 2004.

Sometimes revenue downsizing by distributors was even by design. One firm withdrew or scaled back from markets that weren't justifying expenses. Even so, the reduction in sales volume didn't hurt net earnings, our respondent said.

***Looking Ahead: Outlook for 2007 and Beyond***

The economy is expected to slow but not recede. Merrill Lynch's equities research team is forecasting only a 2.9% growth in U.S. advertising spending for 2007, not a cause for unrestrained exultation. Contrast that with the 3.8% rise in ad spend reported last year by TNS Media Intelligence.

The president of the International Monetary Fund is also predicting a slowdown for this year but a probable "soft landing." The Department of Commerce says business growth crawled at a 1.3% pace for the first quarter this year, after a sluggish 2.5% gain the last three months of 2006. The figures certainly would have been worse without consumer spending. The problems are mainly the depressed housing market and high fuel prices. So, if you're a distributor with clients in real estate or new construction, consider hedging with other markets.

The distributors we talked to seemed to have contradictory outlooks. Some claim to be doing well so far this year, others say flat. In other words, nothing unusual. But most inquiries about distributors' first-quarter-2007 experience produced cautious optimism. Descriptions like "stable" and "holding our own" are common. That doesn't surprise an owner we interviewed. "Some of our clients are under a cost freeze for awhile," he told us. "That's going to translate to not a lot of new stuff."

Then there are the upbeats like one distributor whose optimism is prompted by a 17% increase in the first three months of this year. "But month-over-month, quarter-over-quarter varies, so that where I am at six months can fluctuate," he concedes. Still, he looks for finishing the year with a 5% to 10% gain in overall sales.

Another reports his year to date as "doing well, but no extraordinarily large orders." He also imparts his credo for making the most out of any market situation. "To be successful," he declares, "you have to know the client *and* the client's client."

The fact that 2006 was a mid-term election year with record political campaign spending also benefited some distributors. Although 2007 isn't an election year (except in Louisiana), campaigning is already underway, and the industry may get a boost from some additional purchases of political advertising items. One reason the numbers should continue to be good involves the new front-loaded 2008 primary season which is giving serious candidates no choice but to begin political marketing much earlier in 2007 than they otherwise would have.

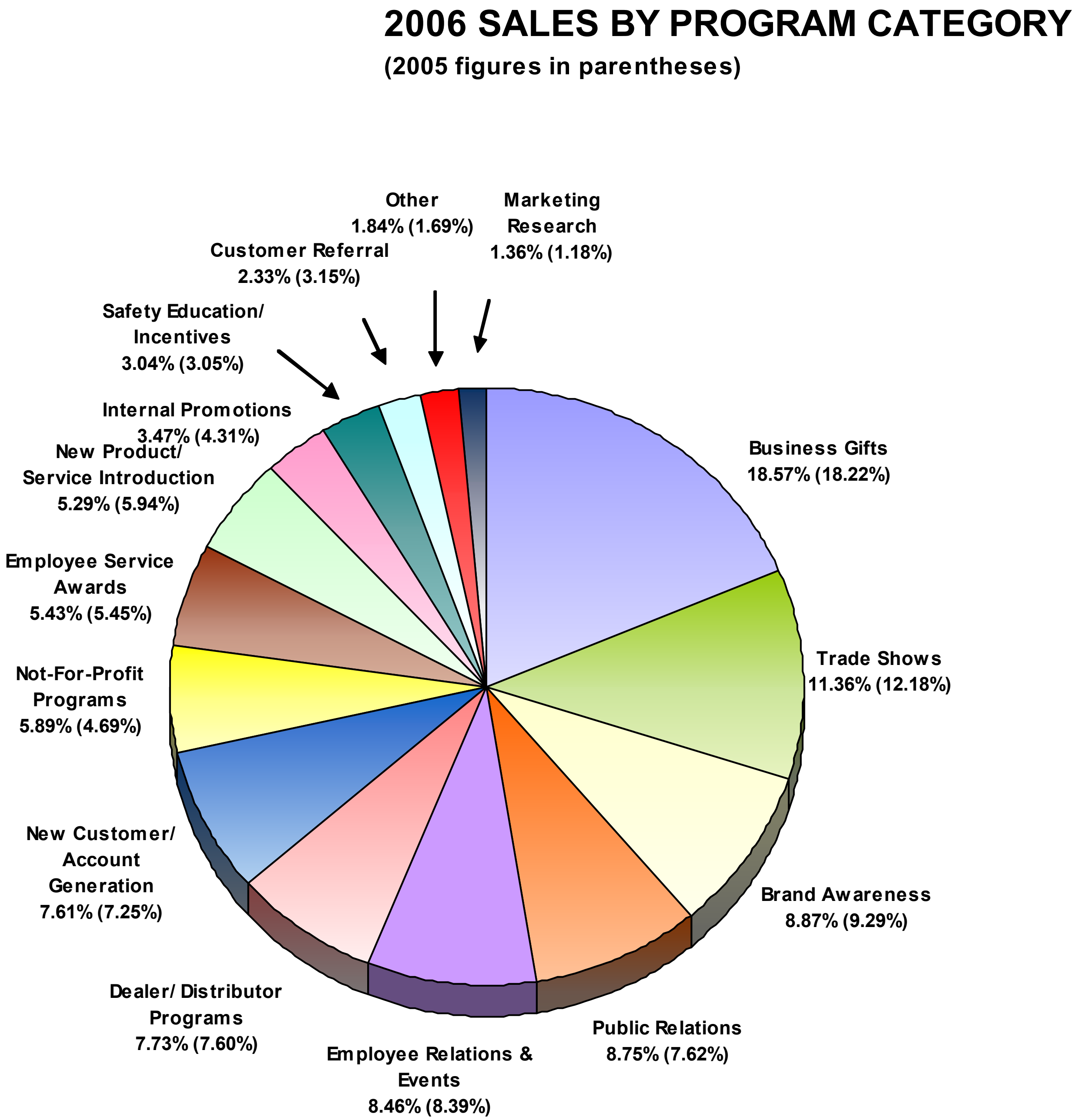
In the back of your mind, remember futurist Alvin Toffler's warning in "Future Shock" written in the 1980s. While many of those who seek to predict what is to come emerge with egg on their face because they were flat-out wrong, Toffler was more prescient. He said not only would change become the norm, but the amount and rate of change would also begin to accelerate as we moved to a "post-industrial" age. To keep up with such challenges, he indicated we also have to be willing to change ourselves and the ways we do things. Was he ever right!

In this regard, we think the key word this year should be “efficiency.” Accomplish more with less expenditure of energy. As part of our extended interviews, we asked how the astronomical fuel prices might affect distributors. Sure, independent contractors have to pay for their own gas, but won’t they demand a higher commission split to compensate? One distributor we talked with says no, salespeople are getting into what is called “distributive work”—doing more of their business without ever getting into the car. He quotes one salesperson who conducts more and more of his business on the Internet rather than on the street: “You have to be crazy to drive around in that traffic.”

In fact, efficiency was found to be the behavioral centerpiece for successful sales forces in a study by Reno, NV sales consulting firm Miller Heiman. That organization defines what it calls “Winning Sales Organizations” (WSOs) as any business with greater than 20% growth in revenue, new customers and average account billing when compared against the previous year. Only about 7% of companies across all industries meet this description. Several promotional products distributors qualified for that title in 2006. One thing common to WSOs is knowing when to quit. *Sales & Marketing Management* quotes the executive v-p of Miller Heiman: “In sales, losing slowly is really the kiss of death. If salespeople are spending their time on deals they have a low probability of winning, they’d be better off spending their time elsewhere.” Which is pretty much what several interviewees told us.

Efficiency also happens to be the reason customers opt for promotional products over other media choices when the situation dictates. They want a targeted medium that produces more cost-effective results when a flyswatter is needed instead of a nuclear bomb. So, distributors might focus on those many occasions in which promotional products do “it” better than anything else. PPAI’s companion research to this study compiles and ranks the most popular programs sold by distributors (See Chart 5). When distributors sell programs, the most popular one is business gifts, accounting for 18.7 percent of program sales in 2006. Pick an advertising medium (e.g. TV) or a promotion method (e.g. sweepstakes). None will surpass business gifts as a means of initiating or cementing a business relationship.

## Chart 5




**Weight for 2006**
48.70% for companies with $2.5 million or more in sales
51.30% for companies with less than $2.5 million in sales
**2006 PPAI Product and Program Survey**

## Appendix A: Research Methodology

### *How the Estimate of Distributor Sales Was Obtained*

More than 15,000 promotional products distributors (both PPAI members and non-members) are surveyed by researchers at Louisiana State University and Glenrich Business Studies.

Companies are divided into two groups—those with sales of $2.5 million or more and those with sales less than $2.5 million. For smaller distributors, we surveyed a random sample of 12,500 firms. To capture all companies doing more than $1 million in sales, 3,000 distributors in that sales segment were also identified and surveyed. This brought the number of distributors surveyed to 15,500. Because some distributors have such a large book of business, an omission of any one of them could distort the statistics. Therefore, a census is conducted of all companies doing $2.5 million or more in promotional products sales. The sum of their revenues is then added to the sales volume of the smaller distributor companies to arrive at the sales estimate for the entire industry.

Questionnaires were mailed to 15,500 distributors in the large and small sales categories, with a second follow-up mailing two weeks later. Weekly e-mail reminders were sent to recipients to complete the survey. Respondents were eligible for a drawing to win prizes included as a stimulus.

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

1. What is your 2006 total gross sales to your customers (in $)?
2. What percent of your 2006 gross sales are strictly promotional products as defined above (%)?
3. What percent of your promotional products sales comes from non-industry suppliers? ("Non-industry suppliers" are defined as suppliers who are NOT listed with at least one of the following: PPAI, ASI, Impact, or Quick Technologies)

4. What percent of your total sales in 2006 of promotional products (i.e., your answer to Question 2) was generated through online sales? (%) (Online sales are defined as sales resulting from orders placed through an online store or website).

We also asked promotional products distributors to indicate whether they were affiliated with franchisers such as Adventures in Advertising (AIA) and Proforma. Respondents identifying themselves as franchisees were deleted in order to prevent double reporting under their franchisers.

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

Replies by mail, web, fax and phone produced 2,533 usable surveys, for a response rate of 16.34%—close to but marginally lower than last year's 16.95%. This is well within acceptable social science statistical norms.

The sales volumes are first calculated separately for both groups, and then a weighted average method is used. This method takes into consideration the market share of both large and small companies when computing the information. For example, the point estimate (mean) of market share for sales reported by small distributors is computed (this year—$458,794) and multiplied by the number of smaller companies (21,000) to project to the entire small-distributor population. Add that to sales turned up in the census of large distributors and the result is the estimated total of distributor promotional products sales for the entire industry in 2006—$18,779,654,661.

The 2006 industry sales volume estimate weighting is indicated below in Chart 5.

**Chart 5: Weight for 2006**
48.70% share of market for companies with $2.5 million or more in sales
51.30% market share for companies with less than $2.5 million in sales

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