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

Promotional Products Affected by Recession: Still Tops $18.1 Billion

The 2008 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

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AN AUTHORITATIVE INDEPENDENT SURVEY ANALYSIS OF U.S. DISTRIBUTORS

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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.
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: valyer@cox.net

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

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. The 2008 sales volume figures reported here reflect a decrease of 6.89 percent in distributor revenues compared to 2007. With this downturn, sales for the industry during 2008 totaled $18,101,298,808. This was reflected in revenue decreases for both large and small distributor companies. Larger firms (those with sales of $2.5 million or more) experienced a greater decrease of 13.82 percent over 2007, while smaller companies saw a decline of just 0.48 percent. The number of large firms dropped from 942 in 2007 to 830. The U.S. industry population expanded, however, in terms of smaller distributor companies—increasing from 20,500 to 21,500 this year. Overall, the total number of distributor companies in 2008 rose to 22,330 from 21,442 in 2007.

Market Share. Despite the 6.89 percent decrease reported in this survey over 2007, promotional products distributors have experienced average annual revenue growth of 2.74 percent since 2003 which marked the recover year following the last recession. In fact, 2008 sales were the third highest in industry history. "In light of the recession and the dramatic decrease in sales attributed to the PhRMA Code in the last half of 2008, we were not surprised at the drop in sales last year," said Steve Slagle, CAE, PPAI president and CEO, after reviewing our preliminary findings. "2008 was a tough year for many of our members. However, it was particularly interesting that the more tangible and personally engaging forms of advertising fared much better overall compared to more passive media..." Event marketing, branded entertainment, various forms of online messaging, and digital out-of-home media are on the rise. This is in stark contrast to the average revenue for more traditional forms of advertising. In 2008 alone, newspapers were down 17.7 percent, radio 9 percent and business magazines 7.3 percent.

Business with Non-Industry Suppliers. Of the total sales, over $3.34 billion involved orders with "non-industry" suppliers (those not affiliated with PPAI, ASI, Impact or SAGE-Quick Technologies). The percentage of such sales noticeably increased, with outside-supplier business adding up to 17.9 percent of small- and large-distributor purchases.

Online Sales. Websites continue to enhance distributors' business during 2008, accounting for nearly $2.9 billion in sales, a slight drop from the previous year. Depending on the size of the firm, new online business averaged between 14.9 and 17.1 percent of total sales. For clarification, such internet sales referred only to orders placed by customers, not those entered by a distributor's sales rep.

Business Other than Promotional Products. More than a third (34.9 percent) of the respondents from the under-$2.5 million companies reported earning less than 80 percent of their revenues from sales of promotional products. This diversification is a trend. For example in 2004, only 28.3 percent of firms were booking less than $80 out of every $100 from promotional products. In fact, data from the survey indicates that for many of these respondents ("the under-80 percenters"), promotional products are a supplement to other revenue streams. These distributors reported sales of promotional products accounted for 24.3 percent of their income (down from nearly 38.0 percent in 2007).

Projections for 2009-2010. As the recession continues, marketing/advertising budgets are taking an ongoing hit. Forecasts for all media tend to see little, if any, improvement at least until the fourth quarter of 2009. Distributor business in the first half of 2009 appears to support these somber projections.

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 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 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 members and non-members) and executed a census of the largest firms. 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 2008 Estimate Of Promotional Products Distributor Sales

Introduction

Last spring when the economy still looked flush, six out of 10 U.S. distributors told us they expected their 2008 sales to be better than the previous year. For the industry as a whole, it didn't quite turn out that way.

In our annual survey to develop PPAI's 2008 Estimate of Distributor Sales, adding the small-distributor sum to sales by the large-distributor cohort produced the total promotional products dollar volume. Responses from member and non-member distributor companies projected across the entire distributor population totaled $18,101,298,808, a 6.89 percent decrease over the previous year. (See Table 1).

Table 1: Annual Estimate of U.S. Distributor Sales Volume in 2008

Distributor Company Size	Number Of Distributor Companies	Sales Volume	% Increase/Decrease In Sales Volume Over 2007
Less than $2.5 million	21,500	$ 10,052,389,500	-0.48%
$2.5 million or more	830	$ 8,048,909,308	-13.82%
INDUSTRY TOTAL	22,330	$ 18,101,298,808	-6.89%

While this number is still a nice volume of business, it is, nevertheless, 6.89 percent—or about $1.34 billion—less than the sales figure reported for 2007. However, put in context, 2008 sales are the third highest on record. Only sales in 2006 and 2007 were greater.

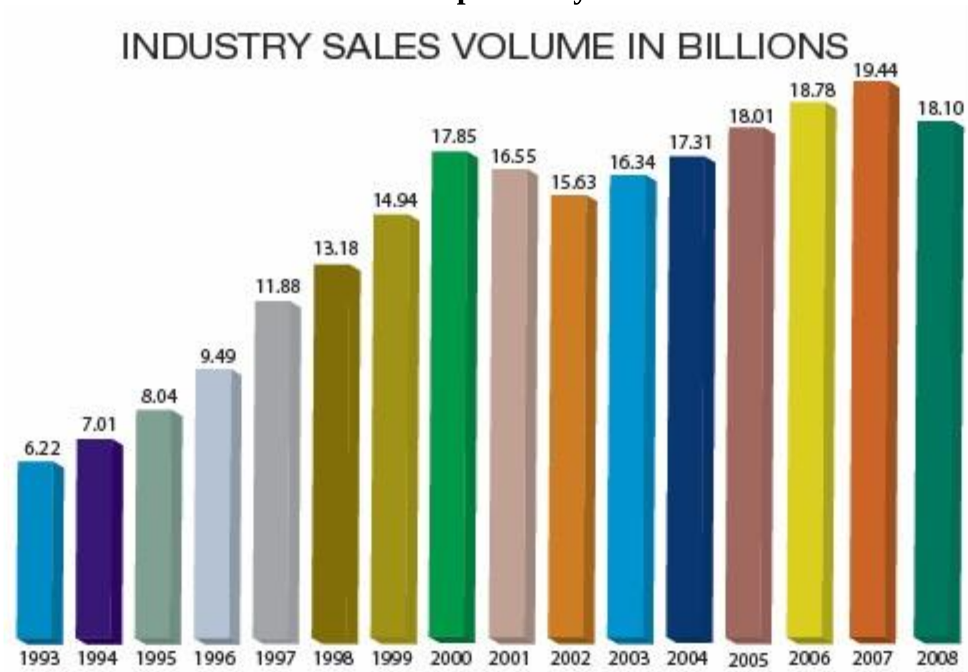
Probably few industry pros are shocked and awed by the industry's case of prosperity interruptus. The signs were all there, underscored by the January epitaph of Cyrk Inc., which only a few years ago was the industry's largest distributor. In addition to the sour economy, distributors have also been affected by, among other things, regional natural disasters and plummeting pharmaceutical sales, compliments of the Pharmaceutical Research and Manufacturers of America's voluntary restraints on buying promotional products. (And don't forget the 18.4-percent reduction in overall ad budgets among pharma companies last year.)

For two ways to track sales volume comparisons for distributor sales of promotional products by American firms using 35 and 15-year overviews see Tables 2 and 3. They document continuing expansion except for the 2001-2002 and 2008 downturns impacted by global events.

Table 2: Annual Estimates of Distributor Sales and Historical Data from 1974 to 2008

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%			

Table 3: Fifteen-Year U.S. Distributor Sales Comparison—Expansion Except for 2001 and 2008 Downturns Impacted by Global Events



Small distributors collectively produced sales of $10,052,389,500; this represents about 55.5 percent of total market and a slight cumulative revenue slippage of less than half a percentage point. The large-distributor cohort (sales $2.5 million and up) accounted for $8,048,909,308 of the industry's business. The 55.5 – 44.5 percent split in market share represents a continuing gain for the small-company segment, up from 52 percent in 2007. Although the 2008 downturn documents promotional products sales are off from the past two bumper years, the results don't seem so bad given the overall state of the economy. (See Table 4 for a percentage breakdown by company size for the past six years, and Table 5 for a more in-depth segment categorization since 2006).

Table 4: Market Share by Distributor Size

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

Table 5:

SEGMENTING INDUSTRY SALES BY SIZE OF COMPANY

Size Of Company	2006	2007	2008
Less than $250,000	$1,545,182,780	$1,334,940,007	**$1,614,791,538**
$250,001-$500,000	$1,708,237,771	$1,679,156,396	**$1,424,289,012**
$500,001-$1,000,000	$2,309,470,772	$2,359,786,050	**$2,480,709,538**
$1,000,001-$2,500,000	$4,071,887,677	$4,726,981,561	**$4,532,599,412**
$2,500,001 or more	$9,144,875,661	$9,339,973,533	**$8,048,909,308**
TOTAL	$18,779,654,661	$19,440,837,547	**$18,101,298,808**

Trends for Small Distributors

Despite the turmoil of 2008, this year's edition of our yearly Distributor Sales Estimate for PPAI showed an appreciable increase in the U.S. industry's total distributor population—up 888 firms to 22,330. All this growth in numbers of competing firms occurred in the smaller-distribution segment. Since there were more small distributors out there last year to split up the revenue pie, average revenues dropped. The mean for sales by the small-distributor group (firms doing less than $2.5 million in sales) decreased just over $25,000 for the year, down from $492,575 in 2007 to $467,553. *This is still the second highest sales average ever*. (See Table 6).

Table 6: Sales Average (Mean) by Under $2.5 Million Distributors, 2002-2008

Distributor Group	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Under $2.5 Million	$433,648	$462,289	$464,021	$466,416	$458,799	$492,725	$467,553

For small distributors interested in comparing their progress against others in the industry, consider the following. The median for all distributors doing between $50,000 and $2.5 million in sales was $250,000 last year. The 350 distributors doing less than $50,000 are excluded. For comparison, the median (the point where half the distributors were selling more, half less) was $275,000 in 2007. (See Table 7).

Table 7: Sales Average (Median) for $50,000 to $2.5 Million Distributors

Distributor Group	**2007**	**2008**
Under $2.5 Million	$275,000	$250,000

Impact on Very Large Distributors

Companies in the large-distributor bracket (sales of $2.5 million or more) took the biggest hit last year, according to the survey. Posting just over $8 billion in sales, this group was down 13.8 percent from 2007 and as noted later in Table 8 the market share for the industry giants lagged as well.

Why did large distributors take such a big hit? One California distributor suggests this may be due to losing some really big clients, perhaps because they decided to go directly to China.

An Ohio distributor says there are three distinct business models in the promotional products industry. Some large firms go after RFP bid contracts, and they can be very large accounts. “Anybody that gets into that inventory, stocking, company store business, I think, has felt a hit.” He adds, “then there’s people like us who are in the middle of the mix—still servicing those same high or mid-echelon clients—but we’re doing consultant sales. Then you have the firms with hundreds of part-timers” many of whom sell lesser-value items. This Ohio distributor thinks the distributors who have been hurt the most are those who have lost in the bid business or those who have not diversified. “We had a very large pharmaceutical business. It’s gone. But we made up in other areas. I certainly didn’t see that coming down that quickly, but any time you have a customer who’s 10 or 15 percent of your business, you need to diversify.”

Movement—Up, Down and Sideways

As in previous years, the industry had its share of mergers, liquidations and crossovers of firms or absorptions from other industries. For example, there were 40 mega-firms in the industry during 2007. That figure fell to 35 in 2008 (down 8.75 percent). Table 8 shows the two-year performance of distributors registering $20 million or more whose sales we could compare in two-year groupings (2007-2008 and 2006-2007). In our current survey, over half reported sales had fallen off, but nearly a third reported business was up.

Table 8: U.S. Mega Distributor ($20 Million Plus) Performance*

	Difference 2007-2008 No. of Distributors vs.	Difference 2006 - 2007 No. of Distributors
Sales Increase	11 (31.43%)	26 (65.0%)
Flat	4 (11.43%)	2 (5.0%)
Sales Decrease	20 (57.14%)	12 (30.0%)
	Total = 35	Total = 40

**Numbers do not include distributors gaining sales via acquisitions/mergers or consolidations.*

Orders Placed with Outside Suppliers

Although distributor sales declined last year, the volume of business these firms placed with non-industry suppliers rose significantly—12.6 percent to $3,243,752,746. "Non-industry" is defined as firms not listed with PPAI, ASI or SAGE-Quick Technologies. Table 9 shows how non-industry supplier business has fluctuated in recent years, indicating some significant movement in external shopping by small distributors—steady for a few years and then boom! Overall, outside-supplier business amounted to 17.9 percent for the both the small and large distributor group. That particular statistic may be of interest to suppliers.

Table 9: U.S. Distributor Business with Non-Industry Suppliers: Six-Year Performance

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

Business via the Website

Altogether, online business represented $2,878,046,304 of distributors' revenue intake in 2008. This represented a limited drop in internet sales from 2007, attributable to falling figures for the larger firms. In fact, smaller distributors collectively overtook their larger counterparts for the first time in total dollars earned from online stores and website orders. (See Table 10). For clarification, an internet sale meant an order placed by a customer, not by reps in the distributor's sales force.

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.

	2006	2007	2008
Total online sales of promotional products for companies with less than $2,500,000 in sales	$1,305,512,555	$1,332,303,963	**$1,500,877,922**
Total online sales of promotional products for companies with sales of $2,500,000 or more	$1,407,396,364	$1,604,607,453	**$1,377,168,383**
TOTAL	$2,712,908,919	$2,936,911,416	**$2,878,046,305**

Things look a bit better when reviewing the percentage of business done online. Distributors reporting their 2008 results maintained the modestly upward trajectory of sales made online. The small-company cohort reported 14.9 percent of their sales came via the internet; for bigger firms that figure was 17.1 percent. (See Table 11).

Table 11: Average Percent of Online Sales by U.S. Distributors

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

Although internet business is trending upward, many distributors see it as a useful accessory but not likely to become their dominant source of customer orders. Nevertheless, the importance of having a website and its companion, search engine optimization, in this or any other business should not be dismissed.

We believe it would be a mistake to think of the internet simply as a place for a catalog and basic materials to interact with customers. It is also a dynamic information medium (second only to television now where people look for news). The online world should be cultivated as a promotional tool to build awareness and impact through marketing your expertise through search engine rankings, news releases, webinars, educational materials, social networking etc. Many customers (and potential customers) need to be exposed to the power of promotional products and building your web presence (not just your site) is one way to extend your reach.

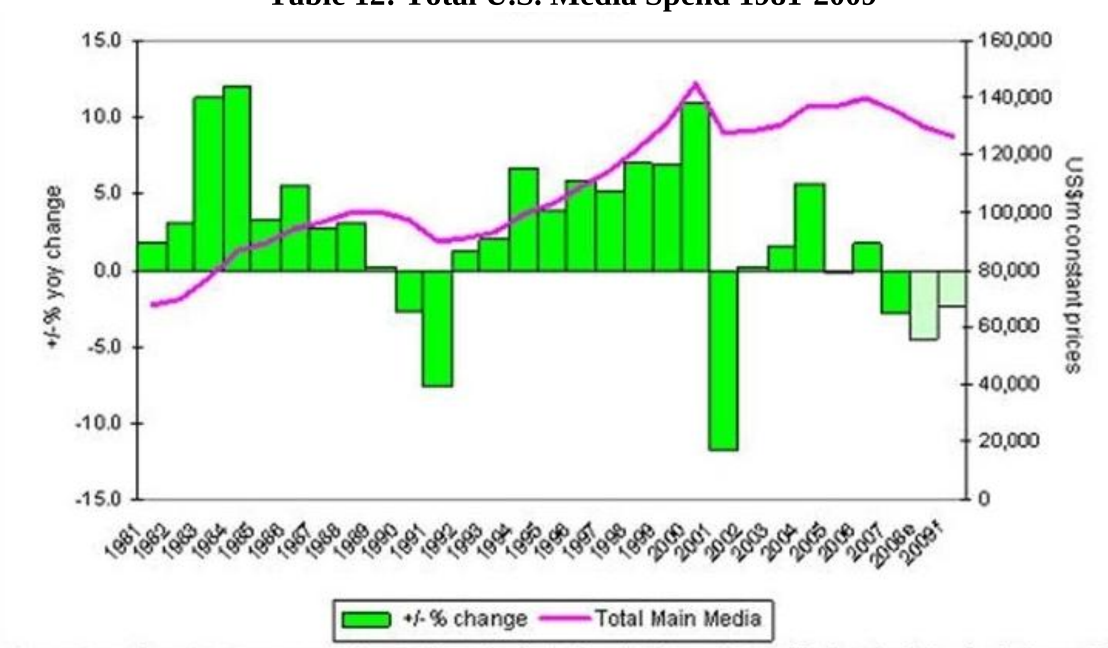
Non-Promotional Products Sales

Many distributors are engaged in activities outside of promotional products. Such extraneous business in 2008 accounted for about a quarter (24.3 percent) of total revenues for the small-company group overall. The survey reaffirmed this non-promotional component is becoming more than just a sideline for significant numbers of those in the industry. In fact, fully 34.9 percent of the under $2.5 million companies reported less than 80 percent of their revenues came from current sales of promotional products, a slow creep upward consistent with what respondents have reported since 2004 (when the figure was just 28.3 percent).

How Competing Media Performed

There is a generally recognized inter-relationship between an economy's Gross Domestic Product (GDP) and the amount of advertising. Such "adspend" is an early indicator of the state of consumer spending and confidence. Data from the World Advertising Research Center (WARC) demonstrates this correlation, pointing to historical downturns in the early 1990s, after 2001, and the increased volatility of recent years. (See Table 12).

Table 12: Total U.S. Media Spend 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

When facing hard times, what else still matters? *Accountability* is one factor critically important to both agencies and their marketer clients. Still applicable are the observations of Sir Martin Sorrell, the founder and CEO of WPP Group, one of the world's largest communications and advertising firms. He famously described how the advertising sector performs once the economy enters a severe recession. Sorrell said it ends up looking a lot like getting in and out of a bath tub – a slippery drop down to a period of flat revenues followed by a steep recovery as the economy picks up. Perhaps this time that "flat period" could be a lingering one. According to Laura James, Media Editor for *WARC Online*, "While adspend bounced back relatively quickly in 2002, it is worth noting that rates of growth failed to reach the levels enjoyed in the mid-to-late 1990s, or even the mid-1980s. This time round, we could be looking at a true, protracted 'bath shape' advertising recession."

So, to gain additional perspective of U.S. industry performance, we checked out 2008 revenues posted by other media. Distributors were not alone in their disappointment over earnings; other media shared in the bad news. For the so-called traditional media particularly, namely print and broadcast, 2008 was a bummer. However, network TV was surprisingly resilient despite notions that it is a dinosaur on the way to extinction. And cable TV was impressive. Indeed, some oracles see the economy as a boon to the tube this year, suggesting that strapped consumers are going to stay home more and entertain themselves by viewing their TV and computer screens.

As Table 13 indicates, most media failed to make their revenue projections. Newspapers (- 17.7 percent), radio (- 9.0 percent) and consumer magazines (- 7.8 percent) led the drop parade. Even event marketing and the new-media star, internet advertising, registered gains that were less than stellar. On the bright side, trouble for other media (particularly those with high investment costs) means new takeaway opportunities for proactive promotional products distributors.

Last summer, the Association of National Advertisers (ANA) surveyed its members and found about half (53 percent) were forecasting decreases in their budgets for the following six months. Actually, 71 percent subsequently wound up with budget reductions. Media is an industry with almost as many forecasts as rate cards, and most other prognosticators had to revise their expectations downward. *The consensus forecast is for total U.S. advertising spend to fall an* *additional 2.5 percent for 2009, with further drops which may (or may not) continue well into 2010.*

Table 13: Assessment of Expenditures for Selected Media and Methods

Media/Method	***2006 ($000)***	***2007 ($000)***	***2008 ($000)***	***% Change 07-08***
Direct Mail	53,100,000	54,800,000	56,100,000	2.3
Television	48,722,264	46,556,594	46,385,364	-0.4
Newspaper (print only)	46,611,000	42,209,000	34,740,000	-17.7
Cable TV	16,746,100	24,100,000	26,600,000	9.9
Consumer Magazines	23,996,768	25,501,793	23,652,018*	-7.8
Internet Advertising (search, display-related such as banner, rich media, digital media and sponsorship, email, classifieds, and lead-referral/generation)	16,879,000	21,206,000	23,448,000	10.6
Event Marketing (sponsorships)	14,784,000	17,020,000	19,552,000	15.0
Radio	21,669,000	21,310,000	19,478,000	-9.0
Point of Purchase Advertising	18,717,000	20,331,000	19,111,140 (est.)	-6.0
Promotional Products	**18,779,654**	**19,440,838**	**18,101,299**	**-6.9**
Yellow Pages	14,400,000	14,300,000	13,227,750	-7.5
Business-to-Business Trade Shows	9,322,302	11,530,000	11,050,000	-4.2
Business-to-Business Magazines	10,873,448	10,740,224	9,954,126	-7.3
Branded Entertainment/Product Placement (TV, films etc.)	5,433,000	7,335,000	8,655,000	18.0
Online Promotions (includes non-advertising marketing expenses that range from discounts, contests, coupons, rebates and sponsorships to white papers, public relations, webinars and viral marketing campaigns)	na	8,000,000 (est.)	8,500,000 (est.)	6.25
Out-of-Home (billboards)	6,800,000	7,280,000	7,000,000	-4.0
FSI Coupons	7,193,000	7,219,000	6,843,000	-5.2
Public Relations	3,985,000	4,284,000	4,412,000	3.0
Digital Out-of-Home Media	na	2,187,000	2,432,000	11.2

**Based on rate card revenues; however, magazine advertising sales were heavily discounted in 2008. Expenditures for selected advertising media and promotions methods were compiled and updated for Promotional Products Association International by Richard Alan Nelson, Ph.D., Louisiana State University, and Rick Ebel, Glenrich Business Studies. Sources include AccuStream iMedia Research, American Business Media/Business Information Network, Borrell Associates, Direct Marketing Association, eMarketer, Interactive Advertising Bureau, Jack Myers, Monitor-Plus/Nielsen, Newspaper Association of America, Outdoor Advertising Association of America, Point-of-Purchase Advertising Association/The Lost Boys Consortium, PriceWaterhouseCoopers, PQMedia, Publishers Information Bureau, Radio Advertising Bureau, Television Advertising Bureau, and TNS Media Intelligence. 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.*

The magnitude of the current advertising recession is a new experience to many now working in the media industry. In at least one way, the 2008/2009 recession differs from previous economic downturns. Today we have much more advertising inventory for buyers with leaner budgets from which to choose. In the current economy, many marketers are going to “skew their media mix towards promotional spending and direct marketing,” predicts Bob Liodice, president of the Association of National Advertisers (ANA). If so, that could affect promotional products favorably, just as it seems to be helping couponing. Thirty-seven percent of Americans are using coupons more to ease the pain of smaller or nonexistent pay checks, according to a *Time* magazine poll published in April.

So, How Are Distributors Doing Now?

Asked what their expectations are for 2009, distributors’ responses reflect company size. Those in the small-company camp are considerably more optimistic than respondents from the larger firms. (See Table 14). Perhaps it’s not surprising, since that cohort fared much better than the large-distributor segment last year.

Table 14: Distributors Predict What 2009 U.S. Sales Will Be…

Forecast	***Distributors less than $2.5 Million***	***Distributors $2.5 Million +***
Less than 2008	34.0%	60.0%
Greater than 2008	38.5%	19.1%
Same	27.5%	20.9%

We also followed up with some personal interviews. Any assessment of the prospects for 2009 might take the following into account:

- Customers are still buying, distributors tell us; they just aren’t buying as much. And their purchasing trends to lower-end products. Long-term relations seem to mean less to them. Customers are more prone to put their orders up for bid.

- Customers—most of them anyway—understand the need to advertise and promote in tough times. The problem is, when the customer has a choice of cutting the marketing budget or firing the crew, the former is much easier to swallow.

• As a corollary to the aforementioned, respondents to a Yankelovich/Harris survey say 95 percent of company executives maintain a high interest in learning about new products through advertising and promotion in a downturn. That's so they can be first to buy theirs when things start turning around.

• Downsizing the work force doesn't come without risk. An example is the demoralization of the surviving employees. Somebody (e.g., distributors) and something (e.g., appreciation gifts and loyalty rewards) are the assets management can deploy to reassure and recognize the faithful.

• Location, location, location is more than a real estate agent's credo. Not all regions are affected equally. Nor are all account lists. Some customers and prospects are doing well either despite or because of the economy. It pays to find out who they are.

• With leaner budgets in store, marketers' strategies for 2009 are to stick to the basics. Referring to a Marketing Executives Networking Group study, Beth Snyder Bulik writes in *Marketing Daily* that the most important marketing concepts will be customer satisfaction (79 percent), customer retention (76 percent), marketing ROI (65 percent) and brand loyalty (61 percent).

Where's The Relief?

Under the headline, "Marketers Gear up for Crappy Year," Thom Forbes in *Marketing Daily* writes, "Welcome to 2009! Now for the grim news…"

In another periodical, *Marketing News,* we are told of a survey of chief marketing officers that showed CMO pessimists outnumbering optimists by a ratio of eight to one.

Although promotional products distributors face challenges similar to other media, the industry is certainly distinct in many ways from mass media. For example, many distributors made out pretty well in 2008 and remain optimistic for the coming year.

Another interesting facet of the industry that distinguishes it from most others is what we call the "12 percent conundrum." No matter how good or bad the economy is, 12 percent of the distributor population (and company size doesn't seem to matter much) shows no gains or losses over a given three-year period, according to PPAI's triennial Distributor Business Survey reporting going back many years. In most industries, such stagnation would be a precursor to going out of business. Perhaps this curiosity can be attributed largely to the widespread use of independent contractors and the willingness by some to coast after achieving their comfort level of income.

Understanding Other Marketers Goals and Objectives -- Ideas Applicable to Promotional Products Distributors

More than ever, the recession is forcing marketers to sharpen their focus on tactics that are cost-effective and contribute to the bottom line. One California distributor relayed to us a quote suggesting that the age of consumerism as we have known it may be changing. "We've been at a banquet for the last 15 years and have been just gorging ourselves with all this great wealth; now it's time we all look around and say, Let's be a little more responsible" This distributor says, either because of or despite economic downturn, "Consumers are going to align themselves with companies whom they believe in the values and their core principles."

So we've looked for related data and suggestions from others that may give concrete ideas and hope to those in the promotional products business. For example, according to a survey of marketing executives by Datran Media released in January 2009, the two most important advertising goals are new customer acquisition (63 percent) and increased customer retention (including win-back programs, cited by nearly 48 percent). (See Table 15).

Table 15: Importance of Selected Advertising Goals in 2009 (% of Respondents for Each Goal)

Goal	***Degree of Importance***			
	Least Important	***Less Important***	***Important***	***Most Important***
New customer acquisition	2.6%	2.2%	32.7%	63.2%
Increased customer retention	5.6%	7.8%	43.7%	42.7%
Increased brand awareness	11.3%	26.0%	48.7%	14.0%
Increased brand favorability	11.4%	26.6%	48.7%	14.1%

N = 3,000+; numbers may not add up to 100% due to rounding. Source: Datran Media IPSOS 3rd Annual Marketing & Media Survey, January 2009

Similarly, in a recent survey on "Marketing in the Economic Crisis" conducted by MarketingProfs, *every* respondent stated their most important marketing objective included some form of customer acquisition or retention. (See Table 16).

Table 16: Most Important Marketing Objective (% of Respondents)	
Objective	***Those Who Ranked It First***
Acquire new customers not currently in the category	29.9%
Customer retention (upsell, encourage repeat purchase)	26.6%
Lead generation to support sales	21.3%
Creating awareness for long-term branding	15.4%
Taking customers away from competitors	7.0%
N = 670; numbers may not add up to 100% due to rounding. Source: MarketingProfs, Impact of Economic Crisis Survey, October 2008	

These priorities were supported by yet a third recent study of marketing executives, when over 62 percent of the B2B marketers surveyed by *BtoB* magazine also indicated their number one marketing goal for 2009 was customer acquisition. They were followed up by nearly 21 percent who stated customer retention was their top concern. (See Table 17).

Table 17: Most Important 2009 Marketing Goals for B2B Marketers (% of Respondents)	
Goal	***Those Who Ranked It First***
Customer acquisition	62.2%
Customer retention	20.6%
Brand awareness	12.4%
Other	4.8%
N = 211. Source: BtoB magazine, 2009 Marketing Priorities and Plans, December 2008	

In looking at this supplemental data from Tables 15 through 17, the discrepancy between brand awareness and customer acquisition/retention is noteworthy, especially when only 12.4 percent of B2B marketing execs named brand awareness as their main goal. All three surveys in fact showed branding near the bottom in terms of priority for markers. Often when making the case for promotional products, the spotlight is directed to the strengths they bring to disseminating the company brand. But given these results, distributors may want to put more emphasis on showing current clients as well as prospects how promotional products also contribute to gaining new customers and keeping them.

Pricing Issues

In a tight economy, everyone is looking for a deal. In regards to buyers' requests for discounts, one California distributor told us: "A good marketing person can get off the subject of price and get to features and benefits (but) if they're (the customer) looking for a 99-cent coffee mug, then that's what they're going to get."

An Ohio distributor says some buyers tell him "give me the cheapest pen." His salespeople, he says, can ask customers specific questions regarding what they're hoping to accomplish, then guide them to a more appropriate item which may cost a little more on a per-item basis but get a better return. "But that way," he says, "you avoid a price war. Nobody is immune to price pressures, commodity sales, but we try to limit that and control the situation. We're not interested in reverse-bid auctions and things that go with RFPs. We just don't want to be in that ballgame. We want to be the consultant. That's where we feel we can bring value to the table. Just tell us your goal and what the budget is, then we'll fit the product and the quantity to that budget."

New Landscape for Business?

In the meltdown of 2001-2002, distributor sales over a two-year period shrank 13.4 percent before the turnaround began. Recovery this time around may be sooner or later (pundits' speculations abound), and the structure of it may not quite resemble what we've experienced in recent market corrections. We've all heard suggestions that the age of consumer excess that began after World War II has come to an end.

That would factor into the "new landscape for business" with recovery complicated by things such as government regulations, product liability and taxes. Promotional products distributors may have to adjust their expectations by being more professional, i.e., more creative in understanding client needs and producing better results for them. In effect, engaging customers and being more relevant in their everyday lives.

That prescription has always worked before. It's important that it does again, because distributors are not in line for a government bail-out.

Some Wrap-Up Thoughts...

Here are a few final observations based on all the data above:

- This past year the U.S. distributor population generally fared well despite the multiple whammy's of recession, cutbacks in pharmaceutical promotions, and rising costs.
- Business in general is facing hard times for the rest of 2009 and possibly beyond.
- Tight budgets are driving companies' efforts to increase ROI.
- When those holding the purse strings are averse to risk, then how innovative or glitzy a media strategy is becomes far less critical than what it costs.
- Marketers are more than ever seeking greater impact for their expenditures than conventional media now deliver. Media channels that demonstrate proven track records become safer bets, especially if combined with great competitive value.
- The emphasis on ROI also adds extra pressure to get new customers and to keep existing ones through more interactive business-to-business and direct-to-consumer promotion campaigns.
- When we asked successful distributors through a series of supplemental interviews last year why they fared so well, the word many of them told us was *diversification*. That advice is certainly still pertinent in today's economy.
- Problems for other media open up new opportunities for promotional products, especially for distributors familiar with the concept of diversification and practice of personalization.
- Promotional products are not just for external marketing but for internal use by companies and non-profits. Employees and volunteers still need recognition if they are to be motivated to produce more with less (especially as layoffs continue).
- Downsized corporate staffs also mean more outsourcing opportunities for distributors capable of filling those needs.
- But continuing success is easier hoped for than achieved...

APPENDIX: RESEARCH METHODOLOGY

How the 2008 Estimate of U.S. Distributors' Promotional Products Sales Was Obtained

PPAI has had industry sales data researched and released since 1965. This annual report undertaken by researchers at Louisiana State University and Glenrich Business Studies for PPAI is the only independent study on U.S. promotional products industry sales. Using standard research methodology and accepted social science statistical norms, the study reports findings gleaned from PPAI-member and non-member companies.

To compile *The 2008 Estimate of U.S. Distributors' Promotional Products Sales* for PPAI, a mail survey was sent to a large sample of the entire U.S. distributor universe totalling nearly 16,000 promotional consultant companies (including both PPAI members and non-members as previously stated), drawing from an estimated total number of 22,000 promotional products distributors in the U.S. The survey subjects were identified and accumulated from a merge/purge of lists compiled from PPAI and UPIC (Universal Promotional Identification Code) databases as well as from four other industry organizations.

Companies are divided into two groups—those with sales of $2.5 million or more and those with sales 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 is taken of all companies doing $2.5 million or more in promotional products sales. For smaller distributors, a sample of 12,288 firms was surveyed. The census plus sample totalled 15,502 companies.

The survey questions and research protocols were reviewed and approved by PPAI's Marketing Information and Research Committee prior to mailing. Questionnaires were mailed twice to distributors in the small- and large-sales categories, who also received weekly email reminders. As a stimulus, respondents were eligible for a drawing to win prizes. Replies collected by mail, fax, internet and phone produced 2,312 usable responses for a response rate of 14.7 percent versus 13.48 percent for 2007. The margin of error (+/- 1.93 percent at the 95 percent confidence level) was well within accepted statistical norms.

Promotional consultant companies were asked to report their promotional products sales for the 12-month calendar year ending December 31, 2008.

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 seven-question questionnaire:

1. What were your 2008 total gross sales to your customers (in $)?
2. What percent of your 2008 gross sales was strictly promotional products as defined above (%)?
3. What percent of your promotional products sales in 2008 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 2008 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 2009?" with check-off answer choices being "Greater than 2008"; "Same as 2008"; or "Less than 2008".

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 2008 industry sales volume estimate weighting is indicated below in Chart 1.

Chart 1: Sales Weighting for 2008

44.47% for companies with $2.5 million or more in sales
55.53% 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 (this year—$467,553) and then multiplied by the number of smaller companies (21,500) 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 $10,052,389,500 to sales by the large-distributor cohort of $8,048,909,308 produced a total of $18,101,298,808 in 2008.

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

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