

**PROMOTIONAL PRODUCTS ESTABLISH NEW RECORD AT
\$19.4 BILLION**

The 2007 Estimate of U.S. Distributors' Promotional Products Sales

Submitted to
Promotional Products Association International
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by

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EXECUTIVE SUMMARY

Promotional products include useful 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 an essential element in the marketing mix, helping to make a sensible—and memorable—impression. Promotional advertising is the only ad medium that engages all five senses. Incorporating a tangible product turns an ordinary message into a unique marketing experience an audience can see, touch, hear, smell and even taste.

Distributor/Promotional Consultant Company Sales. This report marks the largest sales figure in the history of the promotional products industry. Survey findings indicate sales of promotional products by distributors continued to climb upward, rising by more than \$670 million in 2007. During 2007 both large and small distributor companies saw increases in revenue. Larger companies with sales of \$2.5 million or more experienced a 2.13 percent growth over 2006 and smaller companies grew by 4.83 per cent. Overall, U.S. distributor sales of promotional products in 2007 increased 3.5 percent to **\$19,440,837,547**—setting a new sales record for the industry for the third consecutive year. Distributor sales for the same period in 2006 were \$18.8 billion.

Market Share. The results above are in stark contrast to the revenue numbers for more traditional forms of advertising. In general, the more tangible and personally engaging forms of advertising continue to do well. Promotional products, event marketing and direct mail are on the rise, while ad revenues for more passive media—television, radio and newspaper—are showing a sharp decline. These numbers clearly provide a marketplace endorsement of other research that indicates when used as a key element in the marketing mix, promotional products effectively cut through advertising clutter to create a more positive outlook toward the ad and the brand.

In fact, promotional products sales growth far surpassed advertising revenues for newspapers (down 9.4 percent), television (down 4.4 percent), business magazines (down 4.2 percent) and radio (down 2 percent) from 2006. At more than \$19.4 billion, promotional products sales continue to outperform event marketing/ sponsorships (\$19.1 billion), cable television (\$17.8 billion), Yellow Pages advertising (\$14.6 billion) and outdoor advertising (\$7.3 billion).

Size of Industry. The promotional products industry in the U.S. totalled 21,442 distributor companies in 2007, down from 21,965 in 2006. This was a year of some consolidation, with a decline in the number of small companies (those doing less than \$2.5 million in sales) from 21,000 to 20,500 in 2007. The number of companies with sales of \$2.5 million or more also decreased from 965 (in 2006) to 942 (in 2007).

Business with Non-Industry Suppliers. Of the total sales, nearly \$2.9 billion involved orders with “non-industry” suppliers (those not affiliated with PPAI, ASI, Impact or SAGE-Quick Technologies). The percentage of such sales continued to drop, with outside-supplier business adding up to 8.7 percent of small-distributor purchases, and 14.9 percent for the large-distributor group.

Online Sales. Websites continue to enhance distributors’ business, accounting for more than \$2.9 billion in sales. Depending on the size of the firm, new online business averaged between 13 – 17 percent of total sales. For clarification, such Internet sales referred only to orders placed by customers, not one entered by a distributor’s sales rep.

Business Other than Promotional Products. More than a third (33.8 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. The number of such firms is a slight increase over those reported in 2005 (32.6 percent) and 2006 (32.02 percent). Data from the survey indicates that for many of these respondents (“the under-80 percenters”), promotional products are a supplement to other revenue streams. Distributors in this group reported sales of promotional products accounted for nearly 38.0 percent of their income.

Forecast for 2008. At the request of membership, PPAI added a new survey question this year asking promotional consultants to predict how their company's sales would do in 2008. The vast majority of promotional consultants expect sales to be up in 2008 over 2007 sales numbers—59 percent of smaller distributors (less than \$2.5 million in sales annually) and 65 percent of large promotional consultant companies have a positive outlook for 2008. Less than 15 percent of those companies surveyed indicated that sales numbers would be less than recorded in 2007. The industry for the most part had a good year, considering how some of the markets many distributors rely on tanked. When we asked distributors through a series of supplemental interviews why they fared so well, the word many of them told us was *diversification*. As to 2008, we think business in general is in for a hard time here in the U.S., due in no small part to the explosive impact of the petroleum prices and the rising costs of many imported goods. But promotional products? We think they are likely to stay ahead of inflation and distributor sales might well surprise the doomsayers. Just think about the myriad of applications for promotional products. What the industry provides is the epitome of diversification.

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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, 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 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 surveyed by mail and online a large sample of industry distributors 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 Appendix A.

The 2007 Estimate Of Promotional Products Distributor Sales

Distributor sales of promotional products by American firms in 2007 totaled \$19,440,837,547, a 3.5 percent increase over the previous year. Adding the small-distributor sum to sales by the large-distributor cohort produced the total promotional products dollar volume. (See Table 1).

Table 1:
GROWTH OF DISTRIBUTOR SALES VOLUME

Distributor Company Size	Number Of Distributor Companies	Sales Volume	% Increase In Sales Volume Over 2006
Under \$2.5 million	20,500	\$ 10,100,864,014	4.83%
\$2.5 million or more	942	\$ 9,339,973,533	2.13%
INDUSTRY TOTAL	21,442	\$ 19,440,837,547	3.50%

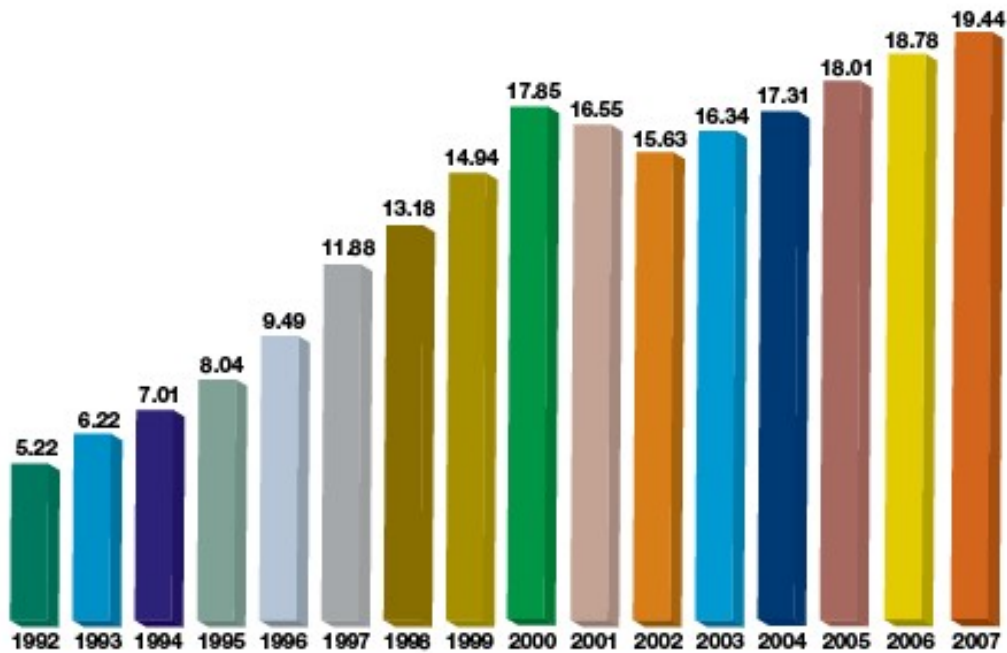
For a five year tracking comparison see Table 2, and for a 15-year overview see Table 3.

Table 2: Upward Bound—Distributor Sales

Year	Sales
2003	\$16,341,132,020
2004	\$17,311,730,376
2005	\$18,013,763,752
2006	\$18,779,654,661
2007	\$19,440,837,547

Table 3: Fifteen Year U.S. Comparison

INDUSTRY SALES VOLUME IN BILLIONS



Although that growth statistic may be slightly lower than in prior bumper years, it shines in comparison to what is happening with many of the industry’s competitors. Revenues for measured media advertising—TV, newspapers etc.—could only muster a puny two-tenths of a percent up tick.

Small distributors collectively produced sales of \$10,100,864,014; this represents about 52.0 percent of total market. The large-distributor cohort (sales \$2.5 million and up) accounted for \$9,339,973,533 of the industry’s business. The 52 – 48 percent split in market share represents a small gain for the small-company segment, but not enough to suggest a trend or anything of significance. (See Table 4 for a percentage breakdown by company size for the past five years, and Table 5 for a more in-depth segment categorization since 2005).

Table 4: Market Share by Distributor Size

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

Table 5:

SEGMENTING INDUSTRY SALES BY SIZE OF COMPANY

Size Of Company	2005	2006	2007
Less than \$250,000	\$1,367,284,621	\$1,545,182,780	\$1,334,940,007
\$250,001-\$500,000	\$1,547,169,188	\$1,708,237,771	\$1,679,156,396
\$500,001-\$1,000,000	\$2,407,057,377	\$2,309,470,772	\$2,359,786,050
\$1,000,001-\$2,500,000	\$4,170,054,414	\$4,071,887,677	\$4,726,981,561
\$2,500,001 or more	\$8,522,198,152	\$9,144,875,661	\$9,339,973,533
TOTAL	\$18,013,763,752	\$18,779,654,661	\$19,440,837,547

Trends for Small Distributor

This year's edition of our yearly Distributor Sales Estimate for PPAI showed an appreciable reduction in the U.S. industry's distributor population—down 523 firms to 21,442. Despite the shrinkage, the mean for sales by the small-distributor group (firms doing less than \$2.5 million in sales) increased substantially from \$458,799 in 2006 to \$492,725. This is the highest sales average ever. (See Table 6).

Table 6: Sales Average (Mean) by Under \$2.5 Million Distributors, 2002-2007

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

For small distributors who are curious as to their year-to-year progress in relation to other companies in their size category, consider this figure: \$204,125. This is the median for 2007, the mid-point at which half the small-distributor group sold more, half less. The median in 2006 was substantially (over \$50,000) higher (See Table 7).

Table 7: Sales Average (Median) by Under \$2.5 Million Distributors

Distributor Group	2006	2007
Under \$2.5 Million	\$254,305	\$204,125

Orders Placed With Outside Suppliers

Of the total sales, \$2,879,188,041 was for orders distributors placed with non-industry suppliers, “non-industry” meaning outside of the PPAI, ASI, Impact or SAGE-Quick Technologies loop. Outside-supplier business amounted to 8.7 percent of small-distributor sales, 14.9 percent for the large-distributor group. Table 8 shows how non-industry supplier business has fluctuated in recent years.

Table 8: U.S. Distributor Business with Non-Industry Suppliers

Distributor Size	2003	2004	2005	2006	2007
Under \$2.5 Million	10.0%	9.3%	8.4%	11.3%	8.7%
\$2.5 Million and Higher	17.6%	17.4%	15.8%	15.5%	14.9%

Business via the Website

Internet sales accounted for \$2,936,911,416 of distributors’ business (vs. \$2,712,908,919 in 2006). On paper, the gain seems less extensive than in previous years, but this may be explained by the wording of this year’s questionnaire being more specific in defining what constitutes an online sale. (See Table 9). For clarification, an Internet sale meant an order placed by a customer, not by reps in the distributor’s sales force.

Table 9:

ONLINE SALES OF PROMOTIONAL PRODUCTS – A LOOK BACK
* ONLINE SALES ARE DEFINED AS SALES RESULTING FROM ORDERS PLACED THROUGH AN ONLINE STORE OR WEBSITE.

	2005	2006	2007
Total online sales of promotional products for companies with less than \$2,500,000 in sales	\$989,970,292	\$1,305,512,555	\$1,332,303,963.45
Total online sales of promotional products for companies with sales of \$2,500,000 or more	\$1,173,506,686	\$1,407,396,364	\$1,604,607,452.97
TOTAL	\$2,163,476,978	\$2,712,908,919	\$2,936,911,416.42

Customers clicking on distributor web sites accounted for 13.2 percent of sales reported by the small-distributor group (a minuscule drop from 13.5 percent in 2006) and 17.2 percent (up from 15.4 percent) for the large distributors. (See Table 10).

Table 10: Proportion of Online Business Done By Distributors

Distributor Size	2003	2004	2005	2006	2007
Under \$2.5 Million	8.3%	10.0%	10.4%	13.5%	13.2%
\$2.5 Million and Higher	12.0%	12.3%	13.8%	15.4%	17.2%

Over a span of five years, the Internet portion of distributor business has increased 43 percent for the large-company group, 59 percent for the small-company category. Barring something totally unexpected, the online piece of the revenue pie will almost certainly continue to enlarge.

Without question, says one Midwest distributor who sees end buyers “becoming more Internet savvy and more Internet-user friendly. I would also go so far as to say the new people coming into the market and the workplace are more literate in Internet use and are making distributors be that much more savvy on their business end.”

If distributors are responding to the demands of a younger, more technophile buyer, they are also seeing how the Internet can extend their reach. Operating from a rural Iowa community with a population of 1,500, the afore-mentioned distributor owner does little or no local business. The firm’s service area is nationwide. “We’re looking for bigger clients that are more diverse, more stable and more lucrative in their product lines,” he explains.

The effort won’t be without difficulties. The Senior Vice President of Marketing for a major distributor based in Illinois told us he believes the increased use of the Internet for product and price shopping by end-users will add pressure to profit margins. Therefore, distributors and suppliers must add value to their part of the supply chain or risk losing margin and market share. Achieving this, he says, will require the use of technology to deliver product, logo, price and order information quickly and accurately to buyers.

“The Internet is a very cold and callous place,” agrees another respondent. That poses a challenge to distributors who like to know their clients so as to service them more effectively and to anticipate financial problems that might cause clients to stiff them on payment. The trick is to

neutralize or manage the downside of Internet business, which includes price shopping at the expense of the loyalty that is so critical to an industry built on relationships.

Non Promotional Products Sales

Many distributors are engaged in activities outside of promotional products, and this was reaffirmed by the current survey. In 2007, a third of the respondents from the small companies reported less than 80 percent of their revenues coming from sales of promotional products. This figure is consistent with those reported in 2005 and 2006.

Among the under-80 percenters, promotional products business was no more than a sideline, although a fairly significant one for many. Distributors in this group reported sales of promotional products accounted for 38.0 percent of their income.

Hard Times for Mass Media

To gain additional perspective of U.S. industry performance, we checked out the revenues posted by other media. (See Table 11). As we alluded to earlier, many media had few grounds for jubilation last year. Commentary in *Media Post* was hard pressed to find anything positive: "...perhaps the best way to describe 2007 would be to say it was a year of transition. The best spin one could put on this period would be to say that things, from an ad spending perspective, ended better than expected..." And *Ad Age* noted spending for measured media of \$149 billion last year was "by far the worst since the ad recovery began in 2002."

Table 11: Assessment of Expenditures for Selected Media and Methods

Media/Method	2006 (\$000)	2007 (\$000)	% Change
Direct Mail	53,100,000	55,300,000	4.1
Television	48,722,264	46,556,745	- 4.4
Newspaper (print only)	46,611,000	42,209,000	- 9.4
Premiums/merchandise incentives	32,700,000	not available	
Consumer Magazines	23,996,768	25,501,793	6.1
Radio	21,669,000	21,310,000	- 2.0
Promotional Products	18,779,654	19,440,837	3.5
Point of Purchase Advertising	18,717,000	18,900,000	0.1 est
Event Marketing (sponsorships)	16,840,000	19,180,000	12.2
Cable TV	16,746,100	17,842,200	6.5
Internet Advertising	16,816,900	21,100,000	25.0
Yellow Pages	14,400,000	14,600,000	1.4
Incentive Travel	13,400,000	not available	
Coupons	7,193,000	7,350,000	2.2 est
Out-of-Home (billboards)	6,800,000	7,280,000	7.0
Business Magazines	3,501,000	3,355,300	- 4.2
Product Placement (TV, films)	1,922,700	2,900,000	33.7

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 Advertising Age, Borrell Associates, Cable Television Advertising Bureau, Direct Marketing Association, Incentive Federation, Incentive Performance Center, Interactive Advertising Bureau, Media Post, Newspaper Association of America, Outdoor Advertising Association of America, Point of Purchase Advertising Institute, Publishers Information Bureau, Radio Advertising Bureau, Television Advertising Bureau, and TNS Media Intelligence.

Other media were doing much better. Internet advertising maintained its consistent moon-shot trajectory. Impressive online advertising by newspapers was keeping the Fourth Estate afloat. And burgeoning revenues for product placement and event marketing sponsorships indicate marketers are seeking greater impact for their expenditures than conventional media now delivers.

Advertising is one thing, promotion is another. And promotion revenues in 2007, reports Borrell Associates, the Williamsburg, Virginia researcher that tracks these things, amounted to \$483

billion—expenses that range from contests, coupons, rebates and samples to viral marketing campaigns. “The big windfall,” says Borrell, “is just beginning online; local businesses are shifting dollars away from traditional media to interactive, direct-to-consumer promotion campaigns.”

Movement—Up, Down and Sideways

As in previous years, the industry in 2007 had its share of mergers, liquidations and crossovers of firms or absorptions from other industries—a notable one being office products and furnishings. Despite debacles in real estate and lending, the U.S. economy finished strong enough to create a stark contrast with forecasts for the current year.

Small distributors as a group, as Table 4 above indicates, reversed the decline in market share, although exactly why is not clear. On the other end of the size spectrum, mega-distributors for the most part did well, too, and the \$100-million-plus sales club became a little less exclusive. Table 12 shows the two-year performance of distributors registering \$20 million or more whose sales we could compare with 2006.

Table 12: U.S. Mega-distributor (\$20 Million Plus) Performance

Difference 2006 - 2007	No. of Distributors
Sales Increase	26
Flat	2
Sales Decrease	12

So, How are Distributors Doing Now?

With the U.S. economy seemingly doing a one-eighty this year, PPAI’s Marketing Information & Research Committee wanted distributors’ take on the subject and added a question to the survey: What is your prediction for your company’s sales in 2008? According to Table 13, respondents were optimistic.

Table 13: We Predict 2008 U.S. Distributor Sales Will Be...

Forecast	Distributors <\$2.5 Million	Distributors \$2.5 Million +
Greater than 2007	58.6%	64.9%
Same	26.7%	21.4%
Less than 2007	14.7%	13.7%

Our in-depth interviews provided additional insights. The Chief Financial Officer of a Georgia-based firm specializing in company store business indicates “Everyone is focusing on the economy. Despite the negative talk, we are not seeing that with our clients. Given the size of the promotional products industry, there is plenty more market share to go after.” He is generally upbeat about the rest of 2008 and sees continued moderate growth in sales based on his company’s experience so far.

Like many in the industry, a West Coast distributor says he has concerns about the explosive impact of petroleum prices and the rising costs that suppliers must pass on. There has been “a huge increase in the costs of products from China,” he observes.

An Oklahoma distributor agrees prices of goods from China are rising significantly. So much, he says, that he is seeing a substantial portion of the industry's production shifting to even cheaper-labor countries such as Cambodia and Vietnam. Expect higher prices in this year's catalog updates, he warns.

Another distributor heavily involved in acquisitions in recent years indicates the industry is still in a position for further consolidation. He says, "The infrastructure required to provide world-class service to a wide range of clients—particularly technology and advanced processing systems—is becoming cost-prohibitive for smaller firms, both distributors and suppliers." Overall, "the industry outlook is strong. Promotional products as an advertising medium have increasing relevance for large and small corporations due to the growing societal emphasis on branding."

The CEO of a large East Coast distributor indicates the future will be challenging. Materials used and other safety issues are of increasing importance, she says. "Promotional Products return on investment is being tested once again; these products have an uncanny way of staying in the marketing mix. We think product innovation and great design will continue to earn business." She also sees "risk increased due to overseas sourcing, both in safety issues and delivery. Lack of control over the manufacture of such an eclectic group of products presents a difficult task for most smaller companies. Larger companies have some of the same challenges and look to mitigate them by carefully choosing their overseas manufacturers and shipping methods as well as being present at the time of manufacture of as many products as possible."

What Does This All Mean?

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

- This past year the U.S. distributor population declined significantly, suggesting that the overall number of firms may have plateaued—at least for the near term.
- Consolidation is a contributing factor, one likely to continue.

- There is a continuing increase in the number of distributors choosing to affiliate with networks.
- Business in the U.S. is holding strong, despite concerns about the economy. Any growth in 2008, however, may be largely attributable to inflation.

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Appendix A: Research Methodology

How the 2007 Estimate of U.S. Distributor Promotional Products Sales Was Obtained

PPAI has researched and released industry sales data since 1965. Its figures are considered the most definitive and unbiased in the promotional products field, employing time-tested research methodology.

This annual report undertaken by researchers at Louisiana State University and Glenrich Business Studies for PPAI is the most comprehensive study of its kind in the industry. This independent outside research team objectively conducted the research and analyzed the statistics based on actual sales reported by promotional consultant companies.

There are over 21,000 promotional products distributors in the U.S. To compile *The 2007 Estimate of U.S. Distributors' Promotional Products Sales* for PPAI, traditional methodology was followed by surveying a large sample of the entire U.S. distributor universe—including PPAI members and non-members. The database was accumulated from a merge/purge of lists provided by four organizations plus PPAI and UPIC.

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 (an estimated 20,500 companies in 2007), we surveyed a random sample of 12,501 firms. To capture all companies doing more than \$1 million in sales, a total of 2,278 distributors in that sales segment were also identified and surveyed. This brought the number of distributors surveyed to 14,779. Because some distributors have such a large book of business, an omission of any one of them could distort the statistics. Therefore, an additional census is conducted of *all* 942 companies doing \$2.5 million or more in promotional products sales.

The survey questions and research protocols were reviewed and approved by PPAI's Marketing Information and Research Committee prior to mailing. In total, questionnaires were mailed (with a mail follow-up and weekly e-mail reminders) to 15,721 distributors in the small- and large-sales categories. As a stimulus, respondents were eligible for a drawing to win prizes. Replies collected by mail, web, fax and phone produced 2,119 usable responses, for a response rate of 13.5 percent, slightly below the 2006 rate. The number of responses produced a margin of error of +/- 1.98 percent at the 95 percent confidence interval, which is consistent with social science statistical norms.

Distributors were asked to report their promotional products sales for the 12-month calendar year ending December 31, 2007.

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 2007 total gross sales to your customers (in \$)?
2. What percent of your 2007 gross sales was strictly promotional products as defined above (%)?
3. What percent of your promotional products sales in 2007 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, Impact, or Quick Technologies)
4. What percent of your total sales in 2007 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), Geiger or Proforma. Respondents identifying themselves as franchisees were deleted in order to prevent double reporting under their franchisers.

A new question in 2007 asked those completing the survey “What is your prediction for company’s sales in 2008?” with check-off answer choices being “Greater than 2007”; “Same as 2007”; or “Less than 2007”.

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 2007 industry sales volume estimate weighting is indicated below in Chart 1.

Chart 1: Sales Weighting for 2007

48.04% for companies with \$2.5 million or more in sales
51.96% 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—\$492,725.07384) and then multiplied by the number of smaller companies (20,500) 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 \$10,100,864,014 to sales by the large-distributor cohort of \$9,339,973,533 produced a total of \$19,440,837,547 in 2007.

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

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