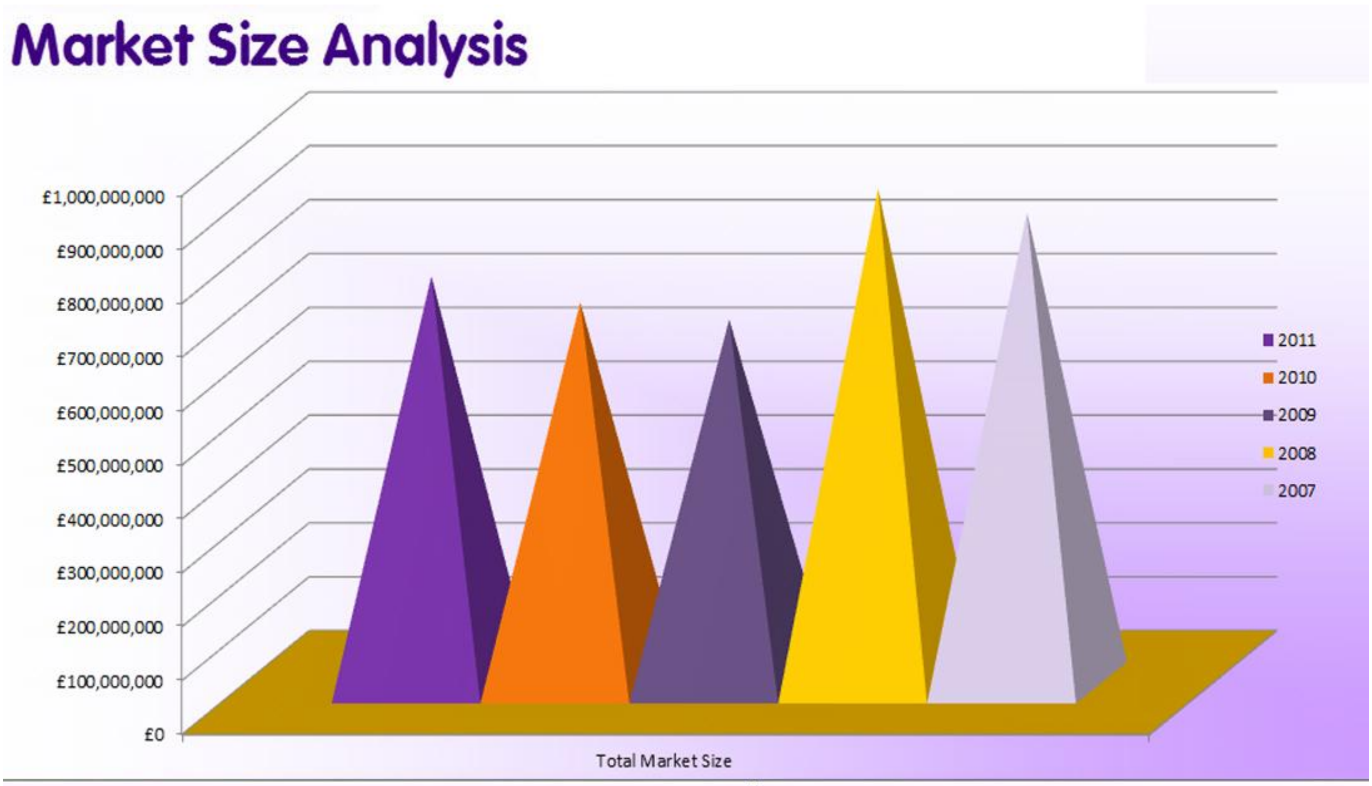
Five Year Review of the Promotional Merchandise Industry (UK & Ireland) 2011

This report provides a detailed analysis of the Promotional Merchandise Industry in the UK & Ireland over the past five years. It has been created to provide a global picture of the industry for the use of professional distributors & suppliers and the trade press.

Market Size

The major impact from the 2007-8 credit crunch occurred in the promotional merchandise market in 2009. The subsequent fall-out into recession saw the industry spend decline by £242m and the market decrease by 26% in 2009.

Since that time the industry has recovered in small steps to 82% of 2008 levels. Last year (2011) the market grew by £48m (6.8%). At the end of 2011 the promotional merchandise market was worth around £754m.



Market Size Analysis					
	2011	2010	2009	2008	2007
Total Market Size	£754,700,000	£706,350,000	£674,450,000	£916,800,000	£873,700,000)
Distributors in Market	2041	2015	2038	2032	2027

Credit Crunch Impact				
	2011 v 2010	2010 v 2009	2009 v 2008	2008 v 2007
Growth / Decline (£)	£48,350,000	£31,900,000	-£242,350,000	£43,100,000
Growth / Decline %	6.8%	4.7%	-26.4%	4.9%

Data compiled by Sourcing City | January 2012

Research by Sourcing City | January 2011

Ceased Trading Companies

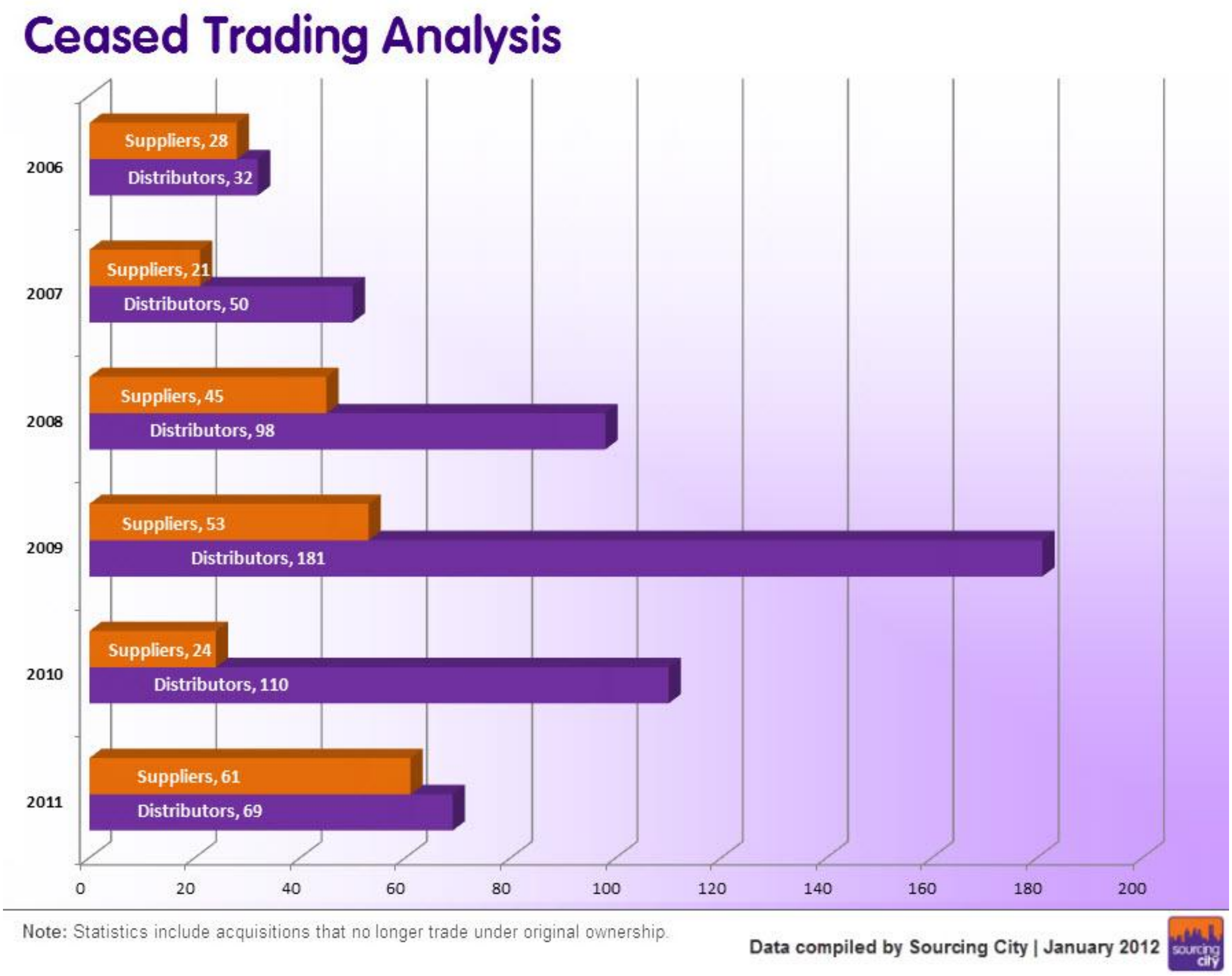
In 2011 the number of industry distributor companies that ceased trading slowed to the best level since 2007. However, 69 distributor companies still failed in this period. The highest level of distributor companies ceasing trading occurred in 2009 (181 distributors), this was around 10% of all distributor companies at the time. Over the past two years a combined total of 179 distributor companies ceased to trade.

Last year's supplier failures reached 61, which was the highest annual loss of suppliers ever recorded in one year.

Since the beginning of 2006 the industry has seen a total of 769 companies cease to trade. (540 Distributors & 232 Suppliers) Ironically, the number of distributor companies in the market has remained relatively static. New 'virgin' companies obviously come in and are welcomed, people leave one company and start another, or they are 'phoenix' companies that have walked away from debt and simply restarted.

A significant number of companies that have lost the battle to survive have done so as honourably as possible. However, the industry continues to see 'questionable' pre-pack administrations & 'phoenix' companies returning to the market. Whilst the government continue to allow anyone to legally behave unethically, this is a situation that is likely to continue with innocent suppliers generally taking the brunt.

It appears that every distributor company failure costs suppliers irretrievable losses & significant sums have already been lost by some. It is hard to see when the failure rate of companies in the industry will arrest.



Research by Sourcing City | January 2011

Distributor Analysis

Whilst historically there are a significantly high number of distributors that ceased to trade in any one year, the vast majority that do so are generally smaller companies. Recent years have seen that high profile distributor are not immune, with companies such as CMC in 2009 (CMC had for many years been the third largest distributor company in the UK), and in 2010 Non Stop Promotions & PPAG, closing and leaving substantial debts for the suppliers to cope with.

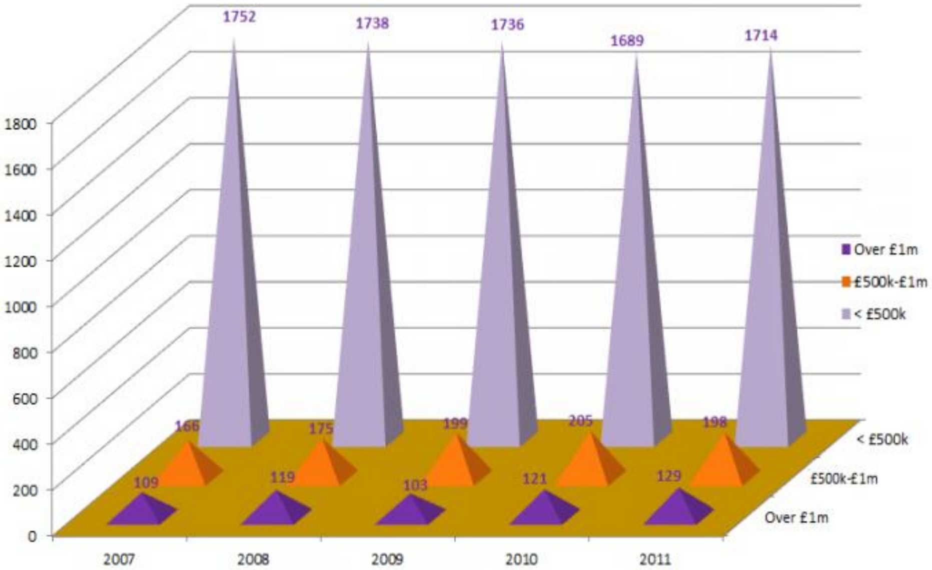
This year the situation appears to have stabilised with no losses of large distributors or rumours of any struggling. Indeed many larger distributors are indicating that they have had an improved year. From discussions with larger suppliers it appears that a number of their large clients are increasing spend, whilst their small clients have decreased or even stopped spending.

There are 2041 identified distributor companies in the market. This is an increase of 26 companies on last year. Of these, the 1714 distributor companies in the 'Less than £500k' category, accumulate a market spend of £257m. (That is 1714 companies generating £100m less than the £357m generated by the largest 128 distributor companies.) Distributors 'Over £1m Turnover' now account for over 47% of the entire market spend.

Professional distributors of all sizes appear to be becoming increasingly concerned that companies from other industries are looking to enter the market. Barriers to entry are very low and mass information & support systems are freely available at low cost, or even free from some quarters.

Whilst quality new professional companies that dedicate their business to selling promotional merchandise are welcomed, companies such as printers and stationers appear to see an easy opportunity to sell promotional merchandise, often at low margins that put the entire professional distributor chain at risk. It is probable that their own markets are saturated and margins have declined to unprofitable levels. Often they tend to sell with a lack of expertise & experience which create hidden costs for suppliers in managing orders.

We believe that suppliers get a better return by focusing on professional distributors.



No. of Distributors

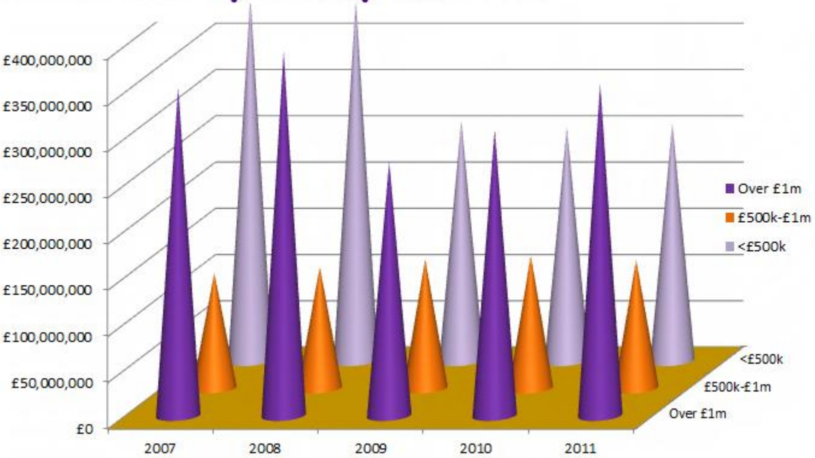
No. of Distributor Companies				
	Over £1m	£500k-£1m	< £500k	Total
2007	109	166	1752	**2027**
2008	119	175	1738	**2032**
2009	103	199	1736	**2038**
2010	121	205	1689	**2015**
2011	129	198	1714	**2041**

Definition of a Professional Distributor: A professional distributor is defined as; 'A company who have a dedicated focus to the sale and promotion of promotional merchandise to end users'.

Note: The study does not include sales of promotional merchandise by Printers, Stationers, Sales Promotion Agencies, Motivational & Programme Agencies, Premium Houses, Clothing Re-Sellers or 'Direct Supplier Sales'.

Data compiled by Sourcing City | January 2012

Distributor Spend by Turnover



Distributor Spend by Turnover				
	Over £1m	£500k-£1m	<£500k	TOTAL
2007	£355,000,000	£124,500,000	£394,200,000	**£873,700,000**
2008	£394,500,000	£131,250,000	£391,050,000	**£916,800,000**
2009	£274,750,000	£139,300,000	£260,400,000	**£674,450,000**
2010	£309,500,000	£143,500,000	£253,350,000	**£706,350,000**
2011	£359,000,000	£138,600,000	£257,100,000	**£754,700,000**

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Over £1m Distributors

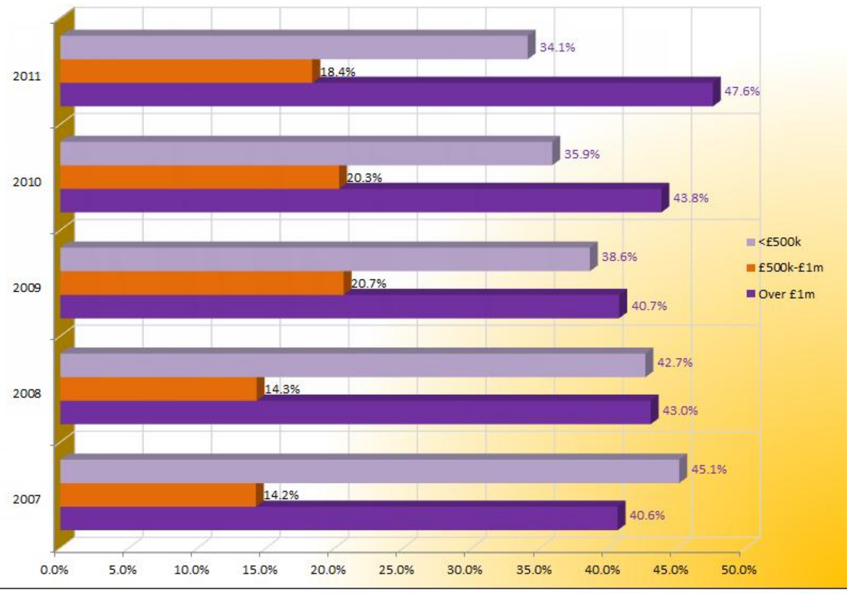
It appears significant that number of distributors with a turnover above £1m increased from 121 to 129 last year. So, even in these difficult times most large distributor companies are now obtaining growth. In 2009 the 'Over £1m Distributors' accounted for 40% of the entire market spend, however in 2011 this has now increased to 47%. (A growth of around £50m and 7% of market share in 2 years.) 129 of the largest distributors now account for almost half of the entire market spend.

The 'Over £1m Distributors' felt significant pain in 2009, however the return to spending by many major corporate clients is now seeing significant growth at the top end of the market. In 2012 it is anticipated that more distributors in the £500k to £1m category will break the £1m turnover barrier. Many of larger distributors we have spoken to have had a growth of around 10% in 2011.

Distributors by Turnover

% of Market

Spend by Turnover Category %			
	Over £1m	£500k-£1m	<£500k
2007	40.6%	14.2%	45.1%
2008	43.0%	14.3%	42.7%
2009	40.7%	20.7%	38.6%
2010	43.8%	20.3%	35.9%
2011	47.6%	18.4%	34.1%



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Supplier Analysis

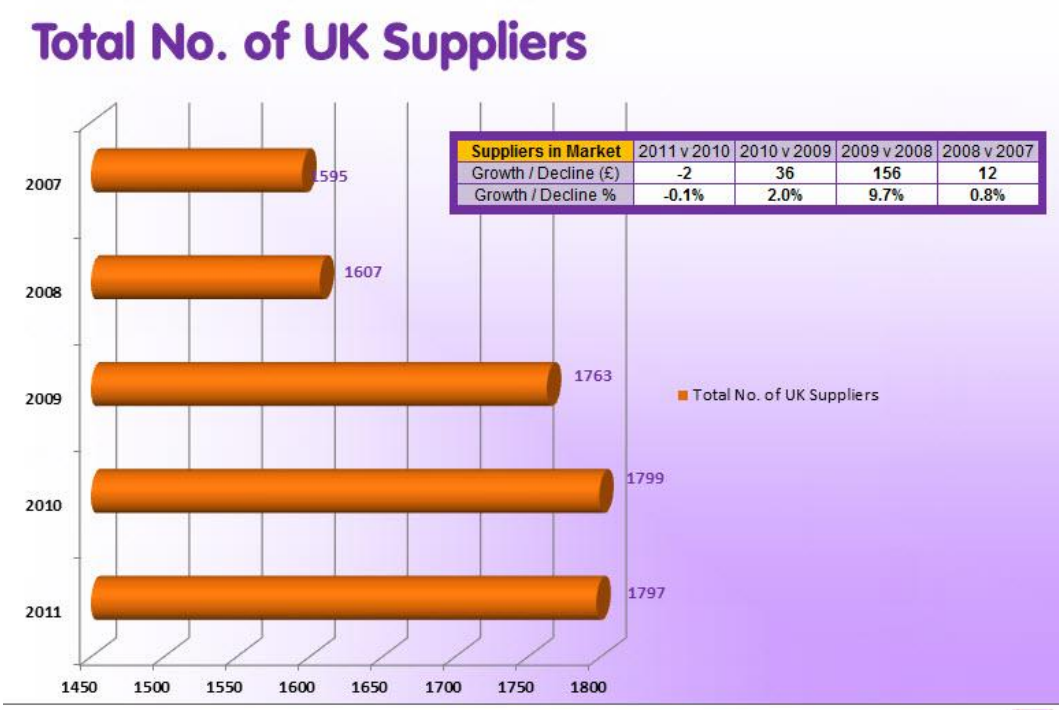
It is interesting to note that in 2009 there was a significant number of 'new suppliers' identified as entering the promotional merchandise market (156), this was a 10% increase of suppliers in the market. It may be a fair assumption that this increase of 'new suppliers' in 2009 was related to the recession and new suppliers looking for new markets for their products.

Suppliers in general do not appear to be currently benefiting from the small market growth, possibly due to the increased number of suppliers now sharing it. Some feel it may be due to orders going overseas in response to the aggressive direct marketing by Chinese companies. However, our research shows that there has not been a significant increase in distributor companies buying from China for the first time. A number of established distributors have always done so, but the majority of distributors still prefer to buy from UK suppliers due to local service, product quality confidence and credit terms. The dilemma comes when someone in the quote chain is quoting Far East prices. Distributors then generally have no option other than to explore the Far East options, or lose the order. The pitfalls of inexperienced buying from China remain as precarious as ever.

Thankfully, many established suppliers appear to have survived a dangerous few years. In 2009, when the industry hit a massive decline, the supplier had not only falling sales to combat, but also the additional issues caused by the unfavourable dollar exchange rates and overstocking. Whilst this scenario generated an expectation of company failures, it was warming to see most supplier rode the storm by cutting, & closely managing costs. Most are now leaner, but still facing the issue of how to generate growth. Should revenues continue to fall most companies have nothing left to 'cut', therefore any further cost cutting will have a direct effect on the businesses ability to create sales, maintain service levels or to invest in correct stocks.

In 2013 distributors reported a noticeable change in the stock availability within suppliers. Naturally, frustrations arise when stock is not immediately available; however, it is no surprise that the current economic climate is causing suppliers to have to run with fewer stocks than they would prefer.

Cash of course remains the major danger for most companies & highly geared operations.



Suppliers in Market	2011 v 2010	2010 v 2009	2009 v 2008	2008 v 2007
Growth / Decline (£)	-2	36	156	12
Growth / Decline %	-0.1%	2.0%	9.7%	0.8%

Data compiled by Sourcing City | January 2012

Sourcing City Analysis

In 2011 the amount spent by Sourcing City customers increased by £64m. Actual overall customer numbers grew slightly, with the number of customers lost due to ceasing trading being replaced during the year.

Like all companies in the trade the recession has had a significant impact on our customers, and in turn the revenues dropped back in 2009, before thankfully stepping forward again.

From all of the 'Over £1m Turnover Distributor' companies in the UK & Ireland market, 93 are members of Sourcing City, which is 72% of all companies in this turnover category.

Sourcing City continue to generate around 1.5 million click though enquiries each year from around 1500 individual registered distributor users. (All of which are promotional merchandise buyers.)

Many Sourcing City customers also use the other services on offer, such as 'Skin Web Sites', Sourcing Planet sales leads, Dynamic Mailing, Sourcing Wizard and the world's first promotional sourcing Apps for mobile phones and iPad. The opportunity to continually increase the product range & services has contributed to the year on year net growth over the past eight years.

Sourcing City News is now firmly established as the industry's market leading online news service. The news site receives 5000 unique visitors and around 50,000 page views each month.

2012 saw the successful introduction of Sourcing City Marketplace for over £500k distributors, and the launch of Sourcing City LIVE! for all invited professional distributors in January 2013. Each event is for invited 'professional distributors' only, and have been created to provide focused & relaxed conversations, and a valuable return for the time invested by every guest or host.

Significantly, Sourcing City customers now account for over 51% of the entire market spend for the first time ever.

Sourcing City Market Share Analysis

	2011	2010	2009	2008	2007
Sourcing City Enquiries | Average Monthly	**121,787**	**124,982**	**119,804**	**122,654**	**109,454**
Sourcing City Enquiries | Year	**1,461,444**	**1,499,784**	**1,437,648**	**1,471,848**	**1,313,448**
Market Spend by Sourcing City Customers	**£385,300,000**	**£321,350,000**	**£312,400,000**	**£433,625,000**	**£409,175,000**
% of Market Spend by Sourcing City Customers	**51.1%**	**45.5%**	**46.3%**	**47.3%**	**46.8%**
Sourcing City Company Customers	**346**	**342**	**359**	**362**	**336**
Sourcing City Registered Users	**1,451**	**1,452**	**1,367**	**1,301**	**1,222**
Sourcing City Customers with Over £1m Turnover	**93**	**86**	**78**	**84**	**81**
% Sourcing City Customers with Over £1m Turnover	**72.1%**	**71.1%**	**68.4%**	**69.2%**	**62.8%**

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Product Group Analysis

Over the past four years there has been little change in the top Product Groups. Bags continue to be consistently number one, followed by Pens & Pencils and Plastic Giveaways. Whilst these last two groups will sell more volume, the actual market value is still less than Bags. Clothing & Mugs remain consistently fourth and fifth. (It is worth noting that sales of clothing by textile printers' and specialist clothing resellers are not included in this report.)

Perhaps surprisingly, in 2011 USB Memory Sticks lost its constant sixth place, slipping to ninth.

In terms of market share, the Bag Product Group continues to grow, increasing 4% to 16% over the past four years. Pens & Pencils have slipped by around 0.5% in the last twelve months, as have Memory Sticks. The most surprising increase was in Confectionary, which moved up by 0.6%.

Whilst experiencing a small decrease in market share, Diaries & Calendars continue to show strongly despite the fast changes in technology. Conference Folders, the perennial old favourite, also continues to perform well.

Overall, little appears to change in what customers actually buy. Whilst they always ask 'What's new?', they still end up buying the old favourites!

Historical Product Group Analysis

Pos	Product Group	Market Share 2011	Product Group	Market Share 2010	Product Group	Market Share 2009	Product Group	Market Share 2008
1	Bags	16.6%	Bags	14.3%	Bags	12.8%	Bags	12.8%
2	Pens & Pencils	8.7%	Pens & Pencils	9.2%	Pens & Pencils	9.4%	Pens & Pencils	9.5%
3	Plastic Giveaways	7.0%	Plastic Giveaways	7.2%	Plastic Giveaways	7.4%	Plastic Giveaways	7.5%
4	Clothing	5.9%	Clothing	7.1%	Clothing	7.0%	Clothing	5.6%
5	Mugs	3.5%	Mugs	3.3%	Mugs	3.4%	Mugs	3.7%
6	Confectionery	3.4%	USB Memory Sticks	3.2%	USB Memory Sticks	3.3%	USB Memory Sticks	3.4%
7	Conference Folders	3.0%	Diaries & Calendars	2.9%	Diaries & Calendars	2.9%	Games & Puzzles	3.3%
8	Diaries & Calendars	2.6%	Confectionery	2.8%	Games & Puzzles	2.7%	Diaries & Calendars	3.1%
9	USB Memory Sticks	2.5%	Conference Folders	2.5%	Confectionery	2.7%	Sports Bottles	2.8%
10	Sports Bottles	2.4%	Paper Pads	2.4%	Toiletries	2.6%	Confectionery	2.4%
11	Paper Pads	2.3%	Games & Puzzles	2.4%	Paper Pads	2.4%	Paper Pads	2.2%
12	Games & Puzzles	2.3%	Awards	2.3%	Keyrings	2.3%	Stress Products	2.2%
13	Keyrings	1.9%	Stress Products	2.2%	Conference Folders	2.1%	Toiletries	2.2%
14	Toiletries	1.7%	Toiletries	2.1%	Stress Products	2.1%	Keyrings	2.2%
15	Torches	1.7%	Sports Bottles	1.9%	Sports Bottles	2.0%	Clocks	2.0%
16	Clocks	1.7%	Keyrings	1.9%	Umbrellas	1.7%	Towels & Textiles	1.8%
17	Umbrellas	1.7%	Umbrellas	1.5%	Towels & Textiles	1.7%	Umbrellas	1.8%
18	Barware	1.6%	Clocks	1.5%	Badges	1.6%	Conference Folders	1.7%
19	Towels & Textiles	1.5%	Lanyards	1.5%	Clocks	1.5%	Badges	1.6%
20	Stress Products	1.5%	Towels & Textiles	1.5%	Awards	1.3%	Glassware	1.5%
21	Soft Toys	1.4%	Badges	1.4%	Glassware	1.3%	Mousemats & Mice	1.5%
22	Glassware	1.3%	Torches	1.3%	Coasters	1.3%	Lanyards	1.4%
23	Caps & Hats	1.2%	Wrist Bands	1.2%	Torches	1.3%	Torches	1.2%
24	Lanyards	1.2%	Caps & Hats	1.2%	Mousemats & Mice	1.2%	Coasters	1.2%
25	Coasters	1.2%	Glassware	1.1%	Lanyards	1.2%	Mobile Phone Accessories	1.1%

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Legislation

The beginning of 2012 saw the full implementation of the revised ABPI Code of Practice within the pharmaceutical industry. This once lucrative market has seen a significant decrease due to specific drug brands no longer being able to be promoted on promotional merchandise. The adhesive note pad and high volume pens orders have been the greatest product group categories affected. Pharmaceutical companies are still able to promote their 'company name' and fortunately a number have transferred budgets to do so.

In July 2011, The Bribery Act 2010 (Consequential Amendments) Order 2011 came into effect. We are of course no legal experts, but it appears the media and 'word of mouth' has created some misinformation relating to promotional merchandise. Quite rightly, the Bribery Act 2011 makes it a criminal offence to offer financial or other advantages with the intention of inducing a person to perform an 'action improperly'.

The Ministry of Justice has published guidance on The Bribery Act 2010. Our research discovered that the Guidance states that; Bona fide hospitality and promotional, or other business expenditure which seeks to improve the image of a commercial organisation, better to present products and services, or establish cordial relations, is recognised as an established and important part of doing business and it is not the intention of the Act to criminalise such behaviour. The Government does not intend for the Act to prohibit reasonable and proportionate hospitality and promotional or other similar business expenditure intended for these purposes.

Promotional Merchandise is of course a valuable tool to promote products brands, services and events. The use of this important and bona-fide method of marketing does not appear to be affected by the act providing it is used in appropriate circumstances. Indeed, it may actually be an opportunity, should large corporates reallocate budgets to high volume, low value promotional merchandise.

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The Future

Leading economists talk about the ‘perfect storm’, where a whole set of factors comes together unexpectantly. In other words, there is so much happening, and that can happen, in the current economy that no one can forecast with any certainty. The current uncertainty in the future of the Euro, and its potential consequences is a classic example.

A general consensus is that the UK economy may see some ‘green shoots’ in around three years’ time, but don’t bet your house on it. The next three years may see the market slip back to between today’s market size and the lower levels of 2009, the year immediately after the impact of the ‘credit crunch’.

The good news is that large PLC’s appear to have regained confidence to spend selectively once again. Having experienced the negative effects of the blanket blocks made on spending in 2009, they must have now recognised that promotional merchandise is an important, & necessary, part of their marketing mix.

Ironically, 2012 may see a boost for a number of distributors and suppliers due to the Queens’ Diamond Jubilee and European Championships. (Olympics will also help, but have lesser effect due to strict brand controls.) All good news, but do not read it as a long-term recovery or you will find yourself facing a false dawn. Real longer term market levels are expected to remain much as today, unless something spectacular happens either good or bad. It is also worth remembering that the government’s austerity measures will really start to bite over the next two years.

A final positive note, there are still great opportunities to grow your business. Over the past few years most companies have found the need to cut back. The removal of waste and underperformers should happen at all times, but the recession focused the mind for many. Once the company is leaner, further cuts ultimately affect the way a company can do business best. For some this has meant cuts in sales staff and marketing activity, resulting in the remaining infrastructure now being focused on protecting their relationships with their largest clients. This being the case, there will be companies in our market who are no longer able, or willing, to dedicate the resources to cover their entire client base as they may have done before. Therefore, by definition, there are spending customers out there that are feeling ‘un-loved’. For the brave, actively prospecting for new customers could pay short term benefits with small orders, and whilst the spends may not be significant at the moment, being the incumbent promotional merchandise provider when the economy finally recovers should pay multiple dividends for your efforts in the long term.

Whilst the market may be stagnant overall, there is still around £750m being spent. The companies which are focused, committed and who excel in everything they do, can still grow by winning market share. Enjoy the ride!

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Summary

The effects of world economic downturn was felt by the UK & Ireland promotional merchandise market significantly in 2009, with a market reduction of over 26%. The past two years have seen small market growth to around £754m; however the market is still around 15% behind the £916m market size of 2008.

Larger distributor companies are reporting growth above the overall market trend. This is seen as being due to a level of confidence returning to major PLC organisations. It appears significant that the number of distributors with a turnover above £1m increased from 121 to 129 last year, and many companies in this group have had growth of around 10% in 2011. So, even in these difficult times most large distributor companies are now obtaining growth.

Distributor companies over £1m have increased their market share from 40% to 47% over the past two years. This amounts to a growth of around £50m in this segment of the distributor marketplace.

In 2012 it is anticipated that more distributors in the £500k to £1m category will break the £1m turnover barrier.

The number of distributor companies that have ceased trading slowed to 69 in 2011. Interestingly, the number of distributor companies in the market has remained relatively static over the past five years. This can of course be explained by ‘virgin’ start-up companies being welcomed to the market, and people leaving one company to start another. Also within the ‘new’ companies there is a proportion of ‘phoenix companies’, who have walked away from debt and restarted.

Last year’s supplier failures reached 59, which was the highest annual loss of suppliers ever recorded in one year. Since the beginning of 2006 the industry has seen a total of 769 companies cease to trade. (540 Distributors & 232 Suppliers)

In 2013 distributors reported a noticeable change in the stock availability within suppliers. Naturally, frustrations arise when stock is not immediately available; however, it is no surprise that the current economic climate is causing suppliers to have to run with fewer stocks than they would prefer.

It is anticipated that a number of distributors and suppliers will benefit in 2012 from the European Championships, the Queens’ Diamond Jubilee, and to a lesser extent the Olympics. (Due to strict brand controls.) However, the longer term world economic expectation is unoptimistic. The best forecasts are for some sign of recovery in around three years’ time, but so much is happening in the world just about anything could actually happen.

No growth is expected in the overall market in immediate future, so real growth for companies over the next three years is likely to come from winning market share.

Report Author

David Long is the founder & executive chairman of Sourcing City. He was previously managing director of Dowlis Group and led the team to grow the company from £2m to £12.5m turnover over 12 years (1990–2002), firmly establishing the company as the largest independent promotional merchandise distributor in the UK. He was also chairman of Promota for a number of years; who at which time were the industry's leading trade association, grew to over 1000 members and ran the premier trade exhibition the UK.

In 2007 David was presented with the ‘Roger Saunders Award’ for outstanding contribution to the promotional merchandise industry, and in 2010 won the Hampshire Life 'Recognition Award' for outstanding services to the community.

Sourcing City are the market leader in the provision of specialist online digital & mobile trade services and networking trade events to the promotional merchandise industry. This market leading brand is owned by Dynamic Image Ltd. www.dynamicimage.co.uk

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***This report is also available as a PowerPoint presentation, should you require a copy please call 0844 504 5000**