



COVID-19 Promotional Products Business Indicators Research



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INTRODUCTION

The economic crisis caused by COVID-19 is unprecedented in scale and nature. To help promotional products companies navigate the crisis to the recovery on the other side, NAPCO Research (NAPCO is the parent company of Promo Marketing) has launched the COVID-19 Promotional Products Business Indicators Research.

This research initiative takes the pulse of the industry by surveying a cross-section of promotional products companies, including promotional products distributors, suppliers/manufacturers, apparel decorators, commercial printers, and more.

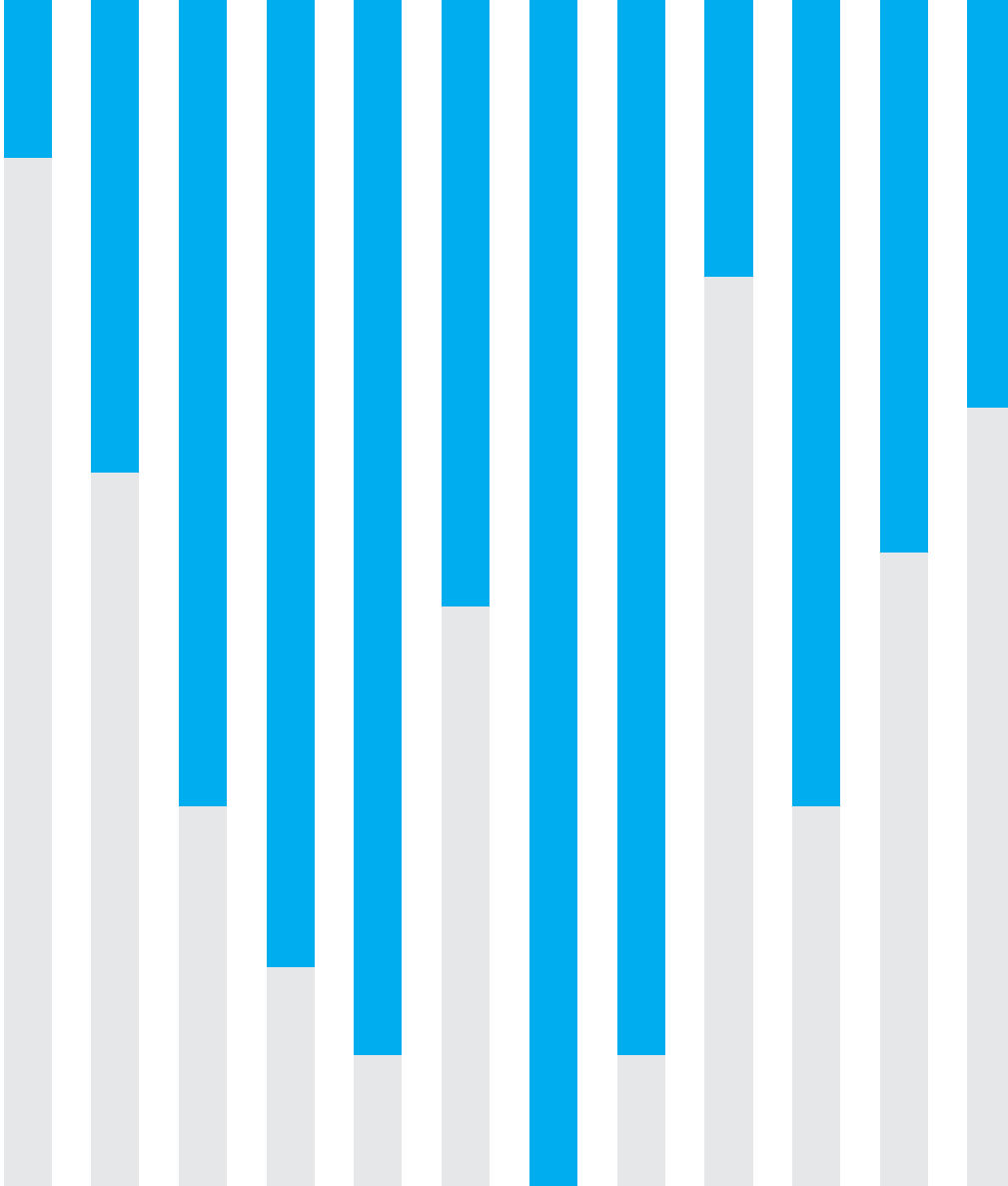
The results of the survey indicate a deep economic contraction across the promotional products industry. Sales fell an average of 42.8% between mid-April and mid-May for all companies surveyed, and there are no signs of an upturn yet. Despite this negative assessment, there is an attitude of resilience in the industry, with many companies implementing strategies to protect themselves and their employees from the effects of the current recession.

This report presents the results of our first survey. It is organized in four sections:

- **Section 1: Participant Profile.** Number of companies surveyed, size, primary industry segment, and geographic location.
- **Section 2: Key Metrics.** Three metrics are presented for all companies surveyed and by primary industry segment:
 - Percent change in sales over the last 30 days to measure the depth of the contraction.
 - Index of current business indicators to measure the breadth of the contraction and determine when it has hit bottom. The index monitors sales, employment, prices, and pre-tax profitability. A reading above 50.0 means more promotional products companies report business is picking up than report it is slowing down, while a reading below 50.0 means the opposite.
 - Index of leading business indicators to identify the first signs of recovery and how recovery is likely to progress. The index monitors estimate activity, new orders, and confidence. A reading above 50.0 suggests activity will be picking up during the months ahead, while a reading below 50.0 suggests the opposite.

Table of Contents:

- Introduction 2
- Executive Summary 4
- Key Findings 4
- Section 1 – Participant Profile 5
- Section 2 – Key Metrics 8
- Section 3 – Taking Action 10
- Section 4 – The Economy 11



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Representative comments on current and expected business conditions are also included to put the metrics in context.

- **Section 3: Taking Action.** What promotional products companies are doing to protect themselves from the COVID-19 crisis.
- **Section 4: The Economy.** The outlook for the American economy and what it will mean for the promotional products industry.

In order to keep this research initiative up-to-date, we will conduct future surveys on a monthly or quarterly schedule. The surveys and subsequent reports will provide timely assessments of promotional products industry's performance, prospects, critical trends, and defining issues.

Please share your thoughts about the NAPCO Promotional Products Business Indicators Research by contacting our research team at: research@napco.com.

EXECUTIVE SUMMARY

NAPCO Research surveyed 224 promotional products companies from across the United States and Canada in the inaugural NAPCO COVID-19 Promotional Products Business Indicators Survey. Participants include promotional products distributors, suppliers/manufacturers, apparel decorators, commercial printers, and print distributors. Mirroring the industry at large, most companies surveyed are small: 50.4% sell \$500,000 or less per year and 64.7% sell \$1 million or less. However, companies of all sizes are represented: Annual sales exceed \$1 million for 35.3%, \$5 million for 18.8%, and \$25 million for 6.7%.

Key Findings

- **Sales are down significantly across all promotional products industry segments and nearly all product segments.** Sales fell on average 42.8% for all companies surveyed between mid-April and mid-May. Sales decreased in this time period for 82.1% of companies, and increased for only 8.0%. These declines are seen across all industry segments, with an average sales decline of 59.7% for apparel decorators, 54.9% for commercial printers, 40.8% for promotional products distributors, 35.3% for print distributors, and 33.1% for suppliers/manufacturers. These declines are also evident across nearly every product category. The sole exception is the healthcare product category, which includes personal protective equipment and hand sanitizer.
- **The bottom of this downturn is not yet in sight.** The index of current business indicators (sales, employment, prices, and pre-tax profitability) closed the survey period at 33.1. A reading below 50.0 means more companies report activity is falling than report activity is rising. The index of leading business indicators (quote activity, new orders, and confidence) closed at 35.2. A reading below 50.0 means more companies report these forward-looking measures of activity are falling than report they are rising. Both indexes are in the mid-30's, which indicates that the promotional products industry is not yet at the bottom of the downturn.

- **Companies are taking action to protect themselves and their employees.** Many of the companies surveyed have adjusted course aggressively to weather the economic crisis. Actions include following CDC guidelines for sanitization and social distancing, pivoting to producing or distributing healthcare products, adjusting marketing efforts, and applying for loans through federal programs. One bright spot is the adaptability and confidence seen among participating companies. Most companies surveyed are not taking this situation lying down, and are instead making adjustments to survive the current recession.

The Metrics at a Glance

	AVERAGE PERCENT CHANGE IN SALES: LAST 30 DAYS	INDEX OF CURRENT BUSINESS INDICATORS	INDEX OF LEADING BUSINESS INDICATORS
All surveyed	-42.8	33.1	35.2
Apparel Decorator	-59.7	27.4	33.1
Commercial Printer	-54.9	25.7	36.0
Promotional Products Distributor	-40.8	34.0	33.8
Print Distributor	-35.3	32.5	28.9
Promotional Products Supplier/Manufacturer	-33.1	36.3	42.2



SECTION I — PARTICIPANT PROFILE

Number surveyed: 224

Company Size: 2019 Sales (all sources)

2019 SALES (M=millions)	PERCENT
\$500,00 or less	50.4%
\$500,000+ to \$1M	14.3%
\$1M+ to \$3M	11.6%
\$3M+ to \$5M	4.9%
\$5M+ to \$10M	6.7%
\$10M+ to \$25M	5.4%
\$25M+ to \$50M	3.1%
\$50M+ to \$100M	3.1%
More than \$100M	0.4%



Primary Promotion Products Industry Segment

SEGMENT	PERCENT
Promotional Products Distributor	47.3%
Promotional Products Supplier/Manufacturer	14.3%
Apparel Decorator	9.4%
Commercial Printer	8.5%
Print Distributor	6.7%
Other	13.8%



Location

LOCATION*	PERCENT
United States	96.4%
West	20.5%
Pacific	13.8%
Mountain	6.7%
Midwest	29.0%
Plains	12.5%
North Central	16.5%
South	29.0%
South Central	9.4%
Southeastern	19.6%
East	17.9%
South Mid-Atlantic	4.0%
North Mid-Atlantic	9.8%
New England	4.0%
Canada	3.6%

* **Pacific:** Alaska, California, Hawaii, Oregon, Washington. **Mountain:** Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming. **Plains:** Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota. **North Central:** Illinois, Indiana, Michigan, Ohio, Wisconsin. **South Central:** Arkansas, Louisiana, Oklahoma, Texas. **Southeast:** Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee. **South Mid-Atlantic:** Delaware, District of Columbia, Maryland, Virginia, West Virginia. **North Mid-Atlantic:** New Jersey, New York, Pennsylvania. **New England:** Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont





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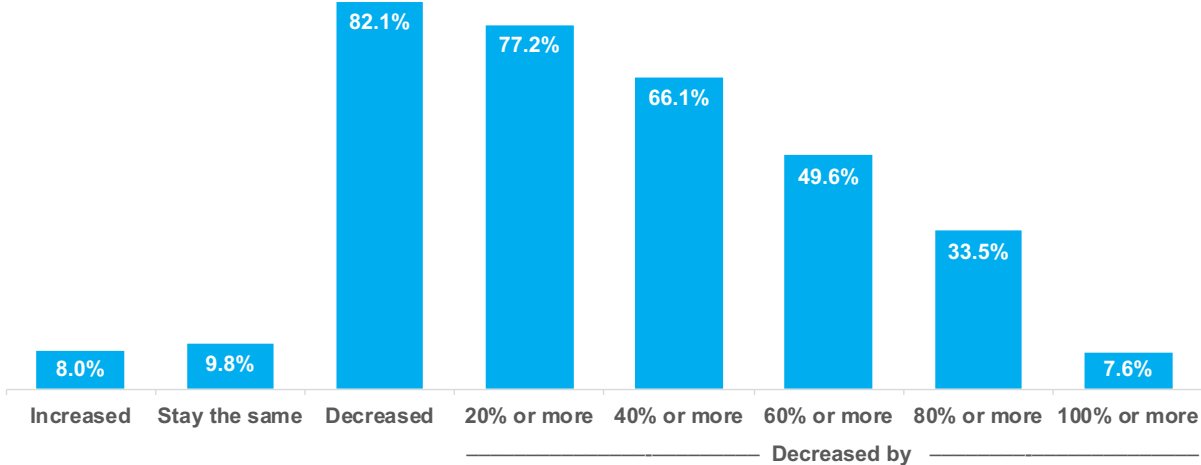
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SECTION 2 – KEY METRICS

Average Change in Sales Last 30 Days: -42.8%

Sales are down for 82.1% of companies surveyed, with 66.1% reporting a decline of at least 40% and 33.5% a decline of at least 80.0%.



Q. What has happened to your total sales (all sources) over the last 30 days?
n=222



Index of Current Indicators: 33.1

A significant percentage of respondents report a downward trend in sales (74.3%) and pre-tax profitability (62.2%), and nearly a third show that employment is trending down (31.1%). However, prices that companies charge for their goods and services are holding steady, with slightly more companies reporting prices trending up than trending down.

Indicator	CURRENT TREND		
	Increasing	Staying the Same	Decreasing
Sales	17%	9%	74%
Pre-Tax Profitability	8%	30%	62%
Employment (size of staff)	5%	64%	31%
Prices	18%	65%	16%

Q. How is business trending? Please indicate whether each of the above is increasing, not changing, or decreasing?
n=222



Index of Leading Business Indicators: 35.2

Large majorities report that quote activity and new orders are trending down. Perhaps surprisingly, 38.2% expect business to improve during the month ahead, while 40.1% expect business to stay the same (16.4%) or decline further (23.7%). More than one-fifth report business is so inconsistent they don't know what to expect. The high confidence levels among companies surveyed runs contradictory to the numbers, but reveals a spirit resilience and determination in the promotional products industry.

Indicator	CURRENT TREND		
	Increasing	Staying the Same	Decreasing
Quote Activity/Estimates	18.0%	14.9%	67.1%
New Orders	16.2%	13.5%	70.3%

Q. How is business trending? Please indicate whether each of the above is increasing, not changing, or decreasing?

n=222

Indicator	OVER THE NEXT MONTH, WE EXPECT BUSINESS TO:			
	Improve	Stay the Same	Decline	Not Sure
Confidence	38.2%	16.4%	23.7%	21.7%

Q. In relation to current conditions, do you expect business conditions for your company to improve, stay the same, or decline over the next month?

n=207



Index of Product Category Indicators: 25.2

Demand for the healthcare product category is showing a significant upward trend. Demand for all other product categories is trending down. Not surprisingly the product category that is most commonly reported as trending down is trade show products.

Indicator	CURRENT TREND		
	Increasing	Staying the Same	Decreasing
Healthcare	70%	13%	17%
Print Products	18%	26%	56%
Technology/Electronics	11%	21%	68%
Apparel	11%	24%	65%
Bags	9%	20%	72%
Office & Home	8%	26%	65%
Drinkware	8%	25%	67%
Edible Promotions	7%	21%	73%
Textiles	5%	24%	71%
Trade Show/Events Products	3%	14%	84%
Other	5%	32%	62%

Q. How is the demand for promotional products trending? Please indicate whether demand each of the following is increasing, not changing, or decreasing.

n=222



Comments on Current and Expected Business Conditions

Survey respondents were asked to elaborate on how their business is trending in an open-ended question. The following themes emerged:

- **The virus is affecting the entire supply chain.** “Customers are not in a buying mode and suppliers don’t have much to supply.” Demand is down for nearly all promotional product categories. Even in the booming healthcare product category, many suppliers don’t have the inventory to support the demand: “One would think that hand sanitizer, masks, wipes sales could have been our salvation during this time, however, the inventories were depleted, hence no sales.”
- **Business is at a standstill for many.** “Basically we are closed,” writes one respondent. Some businesses don’t see a way out if current economic conditions persist: “If things don’t turn around drastically, we will have to close our business for good by mid summer.”
- **Markets make the difference.** Businesses with customers that have been deemed “essential” have been at least partially insulated from the economic downturn, as have businesses that are selling the few products that are currently in high demand: “Other than PPE and signage related to COVID-19 all orders have dramatically slowed down.” Not surprisingly, companies that produce products for in-person events have been especially hard hit: “Sales stopped when events cancelled.”
- **Some are already seeing business return.** Some businesses have been lucky enough to see sales start to increase again. Most of these businesses report that sales began to pick up starting in late April or early May. “We’ve seen a strong comeback in the past few weeks,” one respondent wrote on May 8th. “Each week is a positive away from the bottom in March,” wrote another respondent on May 12th.

SECTION 3 — TAKING ACTION

The numbers are exactly what we’d expect given the scale of the economic fallout from COVID-19. The bright spot is that many businesses we surveyed are moving aggressively to protect themselves and their employees and to prepare for the recovery to follow. The actions are summarized below:

- **Protect employee health.** This is a top priority for many respondents. Common themes include:
 - “We follow all the CDC guidelines for safe environments given our variety of venues from office to production floor. Many departments are 100% work from home. On-site sanitizing protocol is strictly followed.”
 - “Sanitizing work area, use of PPE and physical distancing.”
 - “For safety, we are working from home.”
 - “We shut the public showroom and only allow orders by phone, email and internet.”

- **Pivoting to in-demand products.** “We’ve had to reposition our business and repurpose our existing machinery. Instead of selling awards for events we are selling signs and graphics for retailers.” & “pivoting to PPE captured tons of business.”
- **Control costs and protect cashflow.** “We initially furloughed employees and cut salaries. We have been requiring more prepayments. We have also been reaching out to more past due accounts,” & “We aren’t spending any more money than we absolutely have to.” Others have been batching orders to save on shipping and holding off on inventory increases.
- **Adjust marketing strategy.** Even though budgets are tightening, some businesses are doubling down on the age-old strategy of spending money to make money: “We are offering free samples to our customers for the first time to get our product out there more,” & “We are going to offer several levels of incentives to new businesses establishing an account.” Many businesses have also adapted their client communication strategies to lean more on email and social media. As their customers have moved online, so have these savvy businesses.
- **Federal loan programs.** Many respondents have had luck applying for federal loan programs, the most frequently mentioned being the Paycheck Protection Program (PPP): “We had to furlough employees, but we received a PPP loan. Everyone has returned to work.”

A major takeaway from survey responses is that most companies in the promotional products industry are adjusting their strategies to survive. Even though there is much uncertainty and worry, very few companies surveyed expressed defeatism. This is borne out in the confidence numbers and is an encouraging indication of the industry’s resolve to make it through the current recession.

SECTION 4 — THE ECONOMY

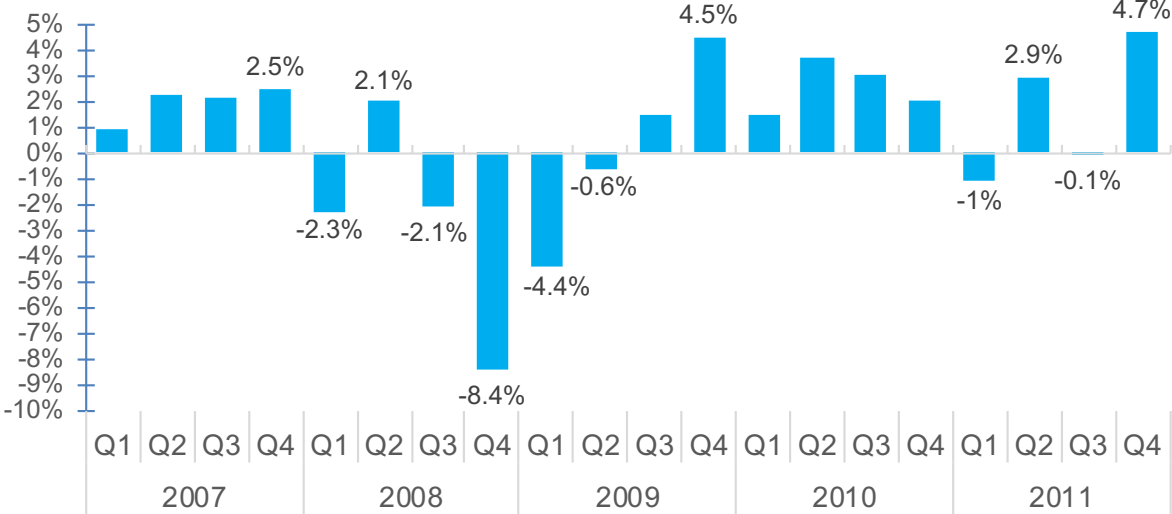
Throughout history, the U.S. economy has been forced to traverse many tough times but the current conditions are truly unprecedented. Although the 1918 Influenza Pandemic was accompanied by economic contraction, the virus was only one part of the problem. The manufacturing sector was ceasing wartime production and took time to shift back to normal operations, and a large number of troops were returning home which kept unemployment up for a period of time. While the current downfall obviously is not facing all of the same problems, there hasn’t been a shutdown of current proportions since this pandemic more than a century ago. Handling the fallout associated with COVID-19 is undoubtedly a difficult situation to navigate, but if done with cohesion, virus research, modern recession mitigation techniques, and appropriate social distancing guidelines can drastically reduce the severity of the trough in the current recession.

It has been about six years since the U.S. economy has contracted in any manner and more than 10 years since the last recession. But the streak has finally come to an end. According to the most recent GDP release, the U.S. economy declined at a 4.8% annual rate last quarter and the consensus of economists surveyed by The Wall Street Journal expects GDP to contract at an extraordinary 25.3% annual rate this quarter.

The reasons for contraction are quite obvious as there were global supply chain disruptions across all industries, which resulted in widespread layoffs. Stay-at-home orders and state-mandated business closures also heavily reduced consumer spending. Although some states are beginning to lift some stay-at-home orders and reopen parts of the economy, it will most likely be a slow and tiered process.

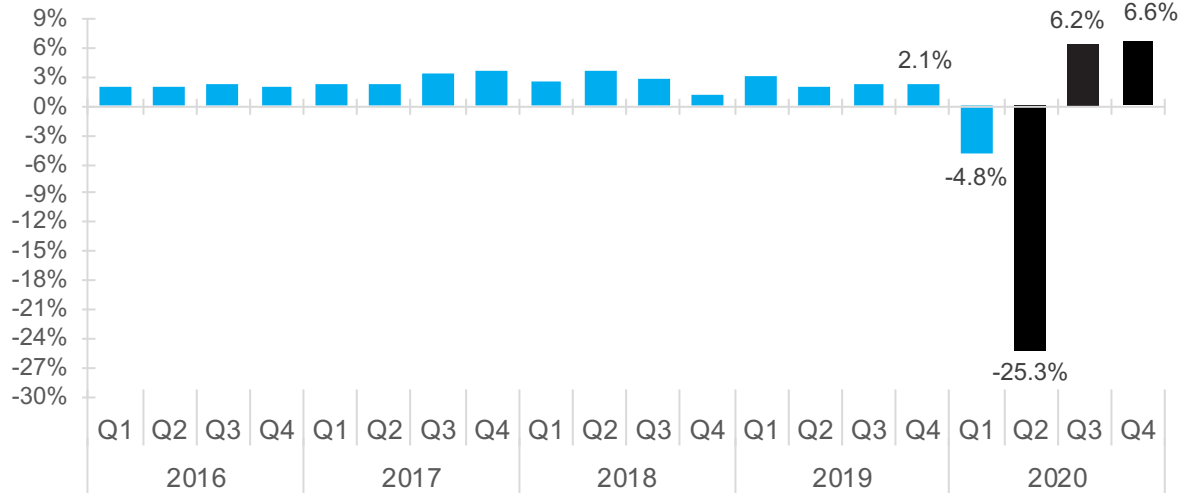
On a positive note, The Wall Street Journal economic survey predicts upticks in the third and fourth quarters of 6.2% and 6.6% respectively, which would be the highest seen since 2003. In an attempt to compare and contrast the two 21st century economic downturns, the figures below show the percent change in GDP by quarter for the two periods. It is important to note that percent change is at annual rate using actual data for Q1 2007 - Q1 2020. The Wall Street Journal Economic Forecasting Survey consensus is used to produce Q2-Q4 2020 numbers.

Percent Change in GDP by Quarter (The Great Recession)



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Percent Change in GDP by Quarter (2016-2020)



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While this anticipated drop in the 2nd quarter may seem steep, there is potential for a quick recovery. Although many Americans are familiar with the length of the Great Recession, it is important to note that not all recessions are the same. When many large financial institutions failed in 2008, firms were forced to close their doors for good and many jobs were lost. Now, many businesses were forced to close and furlough workers, but a majority of these jobs will be available again once virus concerns are eased. In an attempt to make sure this is possible, the U.S. is providing unprecedented stimulus across several avenues. The Paycheck Protection Program is one form of this aid and is the main driver in an attempt to keep small businesses afloat. Although the program has gotten off to a rocky start, those in charge are becoming familiar with some of the nuances of the program as they are attempting to patch up some of the previous mistakes that were made in terms of who should be receiving funding and how quickly they should get it. The program is already on its second round of funding and, depending on how long it takes for a widespread reopening, it will likely require an additional injection of funding.

Another attempt to ease financial strain on the economy is to aid consumer spending and sentiment, which were anchors of the record-breaking expansion prior to COVID-19. To do this, unemployment benefit restrictions have been eased and payment amounts have been increased to the point where the average furloughed worker is receiving more than \$900 per week. Unemployment benefits of this magnitude have never been seen before. Federal and state spending on unemployment exceeded \$15 billion during the last week of April. In comparison, after the Great Recession, spending was near \$4 billion per week. The amount of aid benchmarked for this group will decline as more states begin to develop and implement their plans to reopen.

Many will continue to lean on the Fed and Congress as it is expected that trillions more will need to be injected into the economy to dampen the effects of the pandemic. Although the Federal Reserve's balance sheet sits at just under an unprecedented \$6.5 trillion, some analysts believe that this number could approach \$10 trillion before this crisis is all said and done. In any circumstance, a heavy injection of funds through fiscal or monetary policy must be done carefully as inflationary side effects could present themselves.

In present day economics there is a split between two schools of thought when it comes to the current situation. Those who preach a more traditional approach believe that such a heavy injection could cause high inflation once the economy begins to regain its footing. The reasoning behind this comes from the expectation that there is more money available to purchase the same amount of goods as before, which in turn creates an opportunity for prices to rise. In turn, this decreases the buying power of the U.S. dollar. When inflation exceeds the Fed's target 2.0% annual rate, it is typically tempered by a series of moves to reduce liquidity that typically end with increasing interest rates. In the end, a spike in interest rates could prove to be dangerous when it comes to payments needed to reduce the national debt. Many believe that the debt bubble popping will be a trigger of the next major economic downfall.

On the other side of the fence, proponents of Modern Monetary Theory (MMT) believe that a country can continue to inject money during the bad times without worry about inflation as long as there is unused economic capacity or unemployed labor. The cornerstone of the theory states that as long as a country controls its own currency, then it can basically print its own money to pay interest. It also believes that raising taxes is another answer to reducing inflation and taking money out of private hands. One criticism of this is that it wouldn't be a great idea to raise taxes when the public is already dealing with high prices from inflation. Of course, there are other criticisms of MMT, but proponents suggest that there isn't much to worry about regardless. They point to the period after the Great Recession as evidence that large stimulus can be injected without inflationary fears. Inflation has not been much of a concern since the Great Recession as it has always been relatively close to the Fed's target.

Policy decisions of a new or existing administration will guide us after recovery with hopes of replicating the length of the previous expansion. Only time will tell whether or not the national debt or inflationary concerns will wreak havoc in the future.

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