

SHOCK WAVES AHEAD

Is it possible that 25% of industry companies will go out of business by 2015? One analyst thinks so. But he also sees a path to prosperity – if ad specialty firms innovate now.

By Betsy Cummings



To hear Dr. James Canton tell it, the promotional products industry is about to be turned on its head. Or at least undergo a serious shakeup. Despite the fact that industry sales rose 6.5% in 2011 to \$18.5 billion, the noteworthy futurist, who is CEO and chairman of the Institute for Global Futures in San Francisco, sees major changes ahead for the ad specialty marketplace. Yes, growth has been steady, he says, but with declining margins for some and only moderate product variation year after year, there's currently no long-term way to sustain the uptick.

So what will it take for the promotional products marketplace to transform in time? A serious "disruption," says Canton, who warned American automakers back in the '80s (not long after he helped Steve Jobs launch Apple) that rising oil prices would necessitate a market for smaller, more fuel-efficient cars. They didn't believe him.

Could a futurist to three White House administrations who believes in playing "Kill Your Future" games with execs from FedEx be onto something with the ad specialty marketplace? Maybe so. The good news: Any and every industry always has the possibility for reinvention. It just needs a disrupter to shift the marketplace to a more profitable, growth-oriented business model. That's not to say that distributors need to obliterate their current game plans. But, Canton says, thinking in new ways could help them transform the future.

► **Counselor:** You've talked a lot recently about virtual or on-demand supply chains for the future. How might they make the ad specialty industry more competitive in the next few years?

► **Canton:** As a futurist, I'm always looking for new innovations that can accelerate business to be more entrepreneurial, whether large or small. I think that 90% of innovations that I research for The Institute for Global

Futures are not being used by entrepreneurs. So the opportunities for small businesses to be more agile by creating on-demand supply chains, I would say even five or 10 years ago you couldn't even conceptualize. The opportunities today and moving forward are greater than they ever have been.

► **Counselor:** What would be an example of that?

► **Canton:** There's a little company with two guys in it called Playbutton. There is this new product they've developed that is a button that you wear that is really a merchandising and promotional product. You can put whatever art you want on it, and they're marketing it for rock bands. Lady Gaga and Justin Bieber have used it. These are two guys who don't know anything about programming code or design and development or manufacturing, and they've created an on-demand supply chain for 40 or 50 workers in China. They've sold \$2 million worth of them, and they've only been in business for eight months.

► **Counselor:** How have virtual supply chains helped them do that?

► **Canton:** They couldn't be in this business if it weren't for the global logistics. You couldn't do business with China 10 to 15 years ago. This is a very dynamic era for entrepreneurs like those in the promotional products business. They can say, "Let's invent something entirely new."

► **Counselor:** And how are they more competitive?

► **Canton:** This is a golden era for small businesses. They can act like big players because they don't have to own any of this infrastructure.

► **Counselor:** Is it also helping industries

like the ad specialty marketplace to become more innovative?

► **Canton:** I'm still waiting for promotional products that will be offered to me that will be really out of the box. In every industry – whether it's promotional products or health care or logistics – everybody's looking in the rearview mirror. With promotional products, the "big" innovation was customized USB drives. We're getting cups with pictures on them and T-shirts. That was great for 1955, but the promotional products industry has not evolved. How about products that talk or download music to your pen? Or how about a robot that helps me – an online virtual promotional product mix of social media bots that are brought to you by your sponsor?

► **Counselor:** The size of the promotional products market is north of \$18 billion. So, while there may not seem like a lot of innovation, this is still a big industry, isn't it?

► **Canton:** And there are a certain number of folks who are going to buy those T-shirts, calendars, cups, and my favorite: the highly customized USB drive. I get that stuff in the mail and it goes right in the toilet. That's why I like Playbutton. That's the first thing I've seen that's actually innovative, that could be disruptive. The problem is with this industry – it's not evolving.

► **Counselor:** So how would you suggest suppliers and distributors become more innovative? Is the lack of innovation coming from the industry or the customers who keep wanting the promotional product status quo?

► **Canton:** A lot of people will read this and say, "Wow, Dr. Canton, where does innovation come from?" I'd say, pay attention to video games and consumer electronics. We're in the midst of a mobile revolution with cloud computing.



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Dr. James Canton, Institute For Global Futures

► **Counselor:** So you think it’s really all about innovation as opposed to steady sales growth?

► **Canton:** I’m talking about creating a more dynamic marketplace for tripling your sales. I’m not saying, let’s give up those “sexy” mugs, those T-shirts and those USB drives. I’m not saying give up your bread and butter. I’m saying, if you want to grow your sales into new categories, look at examples like Playbutton and pay attention to other trends so the industry can have some breakout products. It’s the future of what this industry could be about.

► **Counselor:** What do you say to the distributor whose sales are increasing every year, and who is convinced he’s beating the pricing wars in a commoditized industry?

► **Canton:** Everyone thinks that their success is going to be forever. Maybe last year sales were flat but they did OK, and the year before that sales were down and this year they’re up a little bit. This industry is not growing, but it’s fairly stable.

► **Counselor:** Which doesn’t sound too bad.

► **Canton:** That’s the kind of success that was happening to car companies in the ’80s, when I said, “Oil is going to get more expensive, and you should think about making smaller cars.” They said to me, “What do you know? Everything’s selling great right now. Americans love big cars.” Success is the current barrier to change. You think it’s going to go on forever, but somebody’s going to come along and disrupt this industry. I will forecast that now. They’re going to give away products for cost to get other products sold. And then a lot of people who have been selling mugs and this and that, whose bread and butter is based on margin, are going to be disrupted. And that will happen because it’s happened in every single industry. I will say this now: 25% to 30% of the companies in this market are going to go away over the next three to five years. They won’t see the future coming.

► **Counselor:** So what does that mean for an industry that’s always trying to attract new talent – either in seasonal or cyclical jobs or sales positions?

► **Canton:** At the end of the day, an industry has to be innovative enough to attract Gen Y, a demographic that wants to change the world for the better and make a difference in life and is not so concerned about job security. My godson is graduating from Columbia this year and moving to China because there are more opportunities to make money in China than to stay in the U.S. That’s a kid from an Ivy League school who says, “I think there are more interesting opportunities in other nations.” My other friend’s son did the same thing. He pulled out of a degree in political science – he’s a very smart kid – and he moved to Vietnam. I think that businesses that are looking for talent, for the most part, are out of sync with the talent pool, and that’s going to be a problem. The other reason to embrace innovation is to be able to adapt around the talent, not the other way around.

► **Counselor:** But is that really a concern for so many of the distributors in this industry who are more locally-focused when looking for talent? What about companies

that only have one or two employees? Or work out of their home?

► **Canton:** Take a look at companies that have business models like Yammer. It was started three years ago by a handful of guys, and now it’s generating close to \$100 million with five million customers. It’s called a free-mium. Here’s a business that gives a premium service for free – an Internet social networking service for companies. Only two million of the five million pay for it, and they’re OK with that because they figure another three million will pay at some point.

► **Counselor:** Are you suggesting that distributors start giving away products for free?

► **Canton:** Look, the future is smaller and smaller margins, with fewer customers, because they won’t innovate fast enough or consolidate fast enough. Out of five million customers, Yammer has two million that pay per seat, per user, and that subsidizes all the rest. And it has venture capital firms that value companies based on the size of their audience. What I’m saying is this represents the new business model. If you were in the ice business before refrigeration, you were doing pretty well. All of a sudden refrigeration shows up, and what do you need ice for anymore?

► **Counselor:** Is that the only future for the ad specialty marketplace? A lot of distributors pride themselves on building personal, one-on-one relationships with clients, something they say can’t be beat by low margins and Internet-based companies.

► **Canton:** The premium business may continue to be worth billions of dollars selling all kinds of products like calendars, but there may be 10 players in it. In fact, that’s the business I’ll go into. I’ll do a roll-up of all small companies and my partner will be a group of factories in China. Or maybe I own those factories now and I want to disrupt everybody in this space. I’ll use aggressive social media, do innovative stuff like give away shirts that have buttons on them that can talk. I’ll buy a bunch of small companies, roll them up into a big one and justify them, because it’ll cost me little to keep the factories going in China. By the way, it’s going to be a completely Internet-based, network-based model. There will be no real estate. And I’m going to also not care about undercutting everybody because at the end of the day, I’m going to have higher premium products.