

Promotional Items



March 2009 US\$395



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PROMOTIONAL ITEMS

Supplier capability in China

EXECUTIVE SUMMARY

China's \$5 billion promotional items industry is facing a tough year as the current global economic crisis has restrained export demand. Reduced shipments to hard-hit markets such as the US and Europe have resulted in a cautiously optimistic sales forecast for 2009.

Premiums suppliers are exercising measures to help spur revenue growth. These include either raising prices to stretch out profit margins or keeping quotes stable to attract more buyers. Suppliers are also significantly reducing minimum order requirements and delivery lead times, which are important to clients when sourcing high-volume products such as promotional items.

With these strategies in place, China makers are hopeful that sales can still rise by 10 to 20 percent despite the current downturn. The stabilization of the yuan in recent months and the China government's revised tariff rates in 2009 have also boosted suppliers' optimism.

The following are some of the key trends we see in China's promotional items industry:

- More suppliers are using environment-friendly materials in response to the growing popularity of "green" products. In the bags segment, for instance, designs constructed from organic cotton and biodegradable nonwoven fabric are receiving heightened attention.

Increased functionality is another key trend especially in the gift electronics segment. For example, USB-powered premiums in paper shredder, air purifier, foot warmer and shaver designs are being produced in greater numbers.

- Wearables continue to be the biggest premiums category, accounting for 25 percent of featured suppliers' total promotional item exports. Companies are widening their design assortments through the use of various

fabric types and logo-application techniques.

- Despite the recession, the US and Europe will remain key target markets, but suppliers will increase focus on emerging markets such as non-EU countries, South America and Russia.

This report covers the top promotional items exported from China—wearables, bags, keychains, umbrellas, pens and USB-powered accessories.

For each product, the report discusses the latest designs, materials and logo-application techniques employed by makers. It also highlights key factors that influence the price and quality of low-end, midrange and high-end releases. The industry composition and export hubs of each product segment are likewise discussed here.

Projections for the next 12 months for prices, overseas sales, capacity expansion plans and R&D focus are detailed in the Supplier Survey.

The Industry Overview section stresses the key issues surrounding China promotional item suppliers, and their means of coping with these challenges. It also provides information on the sourcing advantages and disadvantages from manufacturers and trading companies.

Reflecting the industry structure, about 80 percent of suppliers interviewed for this report are mainland-China owned. The rest are invested in by Hong Kong, Taiwan or Western companies.

Most suppliers are manufacturers with direct export rights. In fact, nearly 80 percent of the companies featured in this report directly ship their output overseas.

China's promotional items production is concentrated in the provinces of Guangdong, Zhejiang, Fujian and Zhejiang. About 60 percent of the country's premiums exports originate in these four hubs.

In this report

- 34 in-depth company profiles
- 65 additional suppliers
- 99 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth company profiles, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capability of each supplier.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry in the next 12 months. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

CONTENTS

INDUSTRY OVERVIEW	7
Supplier summary	
Main production centers	
Supplier demographics	
Bags	10
Wearables	12
Keychains	15
Umbrellas	17
Pens	19
USB-powered accessories	21
Supplier survey	22
Export prices, export capability, price increase, export sales, challenges, target markets, product trends, capacity expansion	
SUPPLIER PROFILES	23
Supplier locations	
Industry composition	
Exporter ranking	
Supplier matrix	
Production checklist	
Supplier profiles	
PRODUCT GALLERY	105
Top-selling export products	
CONTACT DETAILS	125
ADDITIONAL SUPPLIERS	129
Key products, contact details	

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INDUSTRY OVERVIEW

China's massive promotional items industry is currently on unsteady ground, due mainly to the global economic recession that has impacted most export industries in the country. As corporate groups, trade show organizers and hospitality establishments cut back on their premiums spending, suppliers are experiencing slower demand.

While China customs does not track the promotional segment independently, some companies have reported smaller purchase orders from key markets such as the US in the past six months. Nonetheless, they are hopeful that overseas sales will bounce back to precrisis levels gradually, thanks to a more-stable yuan and increased tax rebates for most consumer products in 2009.

Makers are also taking varied approaches in their pricing, R&D and export strategies to cope with the crisis.

Price outlook for the next six months, for example, is being pulled in opposite directions as companies look at the impact of the economic downturn differently.

Based on projections of makers profiled in this report, Global Sources estimates that 55 percent of China's promotional item suppliers will raise prices in coming months. This strategy is driven mainly by the need to recover from margin losses that stemmed from higher material and labor outlay in the second and third quarters of 2008, coupled with the yuan appreciation last year. To keep price increases within a reasonable level, premiums makers in China are setting a number of cost-cutting strategies in place.

For buyers who require expensive materials, suppliers suggest more cost-effective alternatives that can provide a similar effect. In applying logos and prints, for example, some suppliers propose that buyers go for offset printing instead of silk-screening, especially for bulk orders.

Makers also collate all orders for a particular period to see if any of their buyers require the same materials. Similar components are purchased together to save on costs and lead time.

Conversely, 45 percent of China companies will either maintain or reduce export quotes. This is an effort to remain competitive amid the declining purchasing power of the US market, the country's largest importer.

Further, China makers continue to reduce the validity period of their prices, which in the past were good for up to six months. Now, companies are quoting figures that are effective for only two to four weeks. Some have even cut the validity time to as short as seven days. This gives suppliers increased flexibility in adjusting prices and accounting for any changes in the export environment.

Additionally, some makers are requiring stricter payment schemes as more buyers are said to be canceling orders even though a deposit has been paid. A few companies, for example,

Supplier summary

Suppliers surveyed	34
Export sales	\$201.5mn
Export ratio	75%
OEM business	76%
Capacity utilized	68%
Annual R&D spending	\$7.1mn
Full-time employees	16,470

Data: All surveyed suppliers

are asking for the full amount before delivery. Generally, suppliers require 30 percent down payment with the rest to be paid before the delivery of goods. Stricter terms, however, may result in fewer orders to sellers and present more risks to buyers.

China suppliers also have different takes on product development during this period of economic recession.

For some makers, increasing R&D investment is the most-workable solution to boost competitiveness amid tough times. But for other companies that are tight on budget, product development takes a backseat. Such manufacturers opt to rely on buyers' specifications rather than conceptualize and release their own designs.

Major customers

Company	
ABC	Wal-Mart (US); Carrefour (France); Li & Fung (Hong Kong)
Changzhou Zhongya	DGD Werbeartikel (Germany); Dream Creation (France); Fifth L'ement (HK); Enchante Moments, Tradewinds (US)
Fuzhou Xingchun	Coca-Cola, McDonald's, KFC (US)
K-Pro	Disney (EU, US); Coca-Cola (Germany, Russia)
Ningbo Jiangdong Jodee	Corporate Merchandise (UK)
Ningbo Wantai	Sanrio (Japan); Koopman (Netherlands)
Quanzhou Debei	Samsonite (US)
Quanzhou Licheng Hongfa	Heineken (Netherlands); Coca-Cola (US)
Quanzhou Welldone	Slam (Italy); Artman (Poland)
Shenzhen Duolilong	Coca-Cola, Chrysler, Kodak (US); Henkel (Germany)
Shenzhen Eloam	Tchibo (Germany); Carrefour (France)
Shenzhen Tianxin	Abbott (US)
Wenzhou Jiade	Target (US)
Xiamen Probtain	Target (US); Tesco (UK)

All surveyed suppliers

ABC International (HK) Ltd

ABC's promotional items line generated \$5 million in sales or 100 percent of the total revenue in 2008. The selection includes mainly bags.

The Germany-invested company plans to raise its annual capital expenditure by up to 50 percent. Prices are expected to increase by less than 5 percent in the next 12 months.

Currently, ABC utilizes 100 percent of the total capacity of its 8,000sqm factory. There are a total of 300 employees, 20 of whom are QC inspectors.

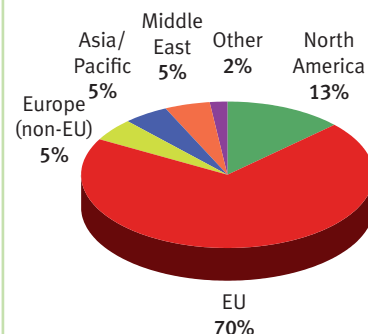
The bulk of the line is exported, with North America, the EU, Eastern Europe, the Asia-Pacific region and the Middle East the overseas markets. In coming months, the company will boost shipments to North America.

ABC currently makes an average of 100,000 promotional items every month, all of which are exported.

The company ships some of its promotional items to Wal-Mart, Carrefour, Metro Group and Li & Fung. Sales are expected to increase between 10 and 20 percent in coming months.

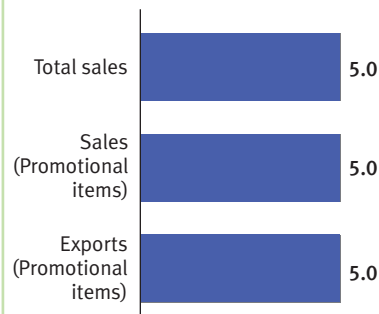
Profile

Export markets



Sales

\$mn/year



Contact details

Business contact

DOMINGO Arlene

Phone

(852) 3528-0939

Fax

(852) 3165-8385

E-mail

sales@abcinternational.net

URL

www.abcinternational.net

www.globalsources.com/abcintl.co

Address

Room A5F 12F Block A, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Lai Chi Kok, Kowloon, Hong Kong

Company facts

Year established	2001
Business type	Manufacturer
Company ownership	Germany-invested
Head office location	Hong Kong
Number of factories	1
Factory location(s)	Xiamen (Fujian)
Total factory area	8,000sqm
No. of full-time employees	300
No. of R&D/design staff	10
No. of QC staff	20
Annual sales (all products)	\$5.0mn
Annual R&D spending	•
ISO certification	Pending

Sales & output: Promotional items

Annual sales	\$5.0mn
Share of total sales	100%
Annual export sales	\$5.0mn
Total monthly capacity	100,000 pieces
Average monthly output	100,000 pieces
Capacity utilized	100%
Average monthly exports	100,000 pieces
Export ratio	100%
OEM % of exports	—
ODM % of exports	—
OBM % of exports	—
Major customers	Wal-Mart (US); Carrefour (France); Metro Group (Germany); Li & Fung (Hong Kong)

• Information not disclosed

Capability

Production checklist

Makes molds in-house	Yes
Plastic-injection machines	1
Cutting machines	1
Computerized sewing machines	2
Painting lines	—
Printing lines	Yes
Powder-coating lines	—
In-house surface treatment	No

Exports by product

Wearables	—
Bags	90%
Umbrellas	—
Timepieces	—
Drinkware	—
Pens	—
USB-powered accessories	—
Keychains	—
Other promotional items	10%

Outlook

- **Export prices**
Increase
- **Export price increase**
Less than 5%
- **Export sales**
Increase 10-20%
- **Target market**
North America
- **Capital expenditure**
Increase up to 50%
- **Major challenge**
Design copying/piracy
- **Export capability**
Improve operating efficiency
- **R&D focus**
Environment-friendly materials

Popular export models



Bag

Model	AD103
Minimum order	500 pieces
Packaging type	Polybag
Delivery time	28 days
Indicated price	\$3.50

Description: Grocery bag; 210d polyester, PVC, aluminum, 5mm sponge, PP, PU; silk-screened logo; 330x540x390mm; 412g; LFGB



Bag

Model	AD107
Minimum order	500 pieces
Packaging type	Polybag
Delivery time	28 days
Indicated price	\$4.30

Description: Grocery bag; 600d polyester, PVC, PP, wooden board; silk-screened logo; 490x240x230mm; 1.135kg; LFGB



Bag

Model	AD119
Minimum order	500 pieces
Packaging type	Polybag
Delivery time	28 days
Indicated price	\$12.40

Description: Trolley bag; 600/210d polyester, PU, wood; silk-screened logo; 450x500x240mm; 4.5kg; LFGB

PRODUCT GALLERY

Bags



ABC
(profile page 34)
Model: AD103
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 28 days
Indicated price: \$3.50
Description: Grocery bag; 210d polyester, PVC, aluminum, 5mm sponge, PP, PU; silk-screened logo; 330x540x390mm; 412g; LFGB



ABC
(profile page 34)
Model: AD107
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 28 days
Indicated price: \$4.30
Description: Grocery bag; 600d polyester, PVC, PP, wooden board; silk-screened logo; 490x240x230mm; 1.135kg; LFGB



ABC
(profile page 34)
Model: AD101ECO
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 28 days
Indicated price: •
Description: Grocery bag; 210d polyester, PP; silk-screened logo; 330x540x390mm; 150g; LFGB



Changzhou Zhongya
(profile page 36)
Model: FH-25
Minimum order: 1,000 pieces
Packaging type: Carton
Delivery time: 25 days
Indicated price: •
Description: Nonwoven fabric; OPP laminated; polished surface; 450x350x120mm



Fuzhou ShanHeCheng
(profile page 40)
Model: KS/CC001
Minimum order: 500 pieces
Packaging type: PP bag, carton
Delivery time: 25 days
Indicated price: \$0.60
Description: PU; woven logo; azo-free; 52g; 100x170mm; EN 71



Fuzhou Xingchun
(profile page 42)
Model: 2916-67
Minimum order: 300 pieces
Packaging type: OPP bag
Delivery time: 10 days
Indicated price: \$0.83
Description: 110gsm nonwoven PET; heat-transferred logo; 340x420x150mm; 65g

• Information not disclosed