



## The Vermont Marketing Economy 2012

*Potential Impact of Online Sales Tax Legislation*



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# Contents

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<b>Economic Overview</b>	<b>3</b>
Compare and Contrast	3
Northern New England	3
VT NH Marketing Survey	3
Survey Results	4
<b>Marketing Trends</b>	<b>4</b>
Seasonality by Category	5
Potential Impact of Proposed Tax Legislation	6

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# Economic Overview

This report is an executive summary of the Vermont economy from a marketing perspective with particular emphasis on the implications of proposed online sales tax legislation. The market focus was limited to those categories, primarily B2C catalogs and online retailers, with a high dependency on sales from remote states. The takeaway is that Vermont-based marketers contribute in great measure to their local community of suppliers and consumers, and any legislative effort intended to increase state tax revenues should be evaluated in the context of its full economic implications. The online marketplace continues to attract out-of-state buyers to the unique quality products made in Vermont. Brick and mortar storefronts continue to do well as online marketers pay shipping costs and retail outlets remit Vermont sales tax.

## Compare and Contrast

### Northern New England

Vermont's economy may be the smallest among the northernmost New England states, but it is by no means less significant. This is especially true with regards to the direct marketing sector, which attracts much of its revenue from remote states where consumers place a high value on unique products made in Vermont. Furthermore, the retail trade for Vermont is highly dependent on ecommerce as a result of the digital age – and that is unlikely to change any time soon.



	RETAIL	WHOLESALE
VERMONT	\$2,031,000,000	\$1,199,000,000
NEW HAMPSHIRE	\$4,523,000,000	\$3,636,000,000
MAINE	\$4,325,000,000	\$2,456,000,000

## VT NH Marketing Survey

In April 2012, the VT NH Marketing Group compiled survey results from 34 responding member organizations. A stratified sample of 13 manufacturers, cataloguers and online retailers was extracted to calculate averages for total sales, sales from remote states, cost of goods sold (COGS), and employment.

### VERMONT RETAIL SECTOR<sup>1</sup>

#### ▲ VERMONT

Retail trade accounts for 9.3% of the GDP for private industries in Vermont.

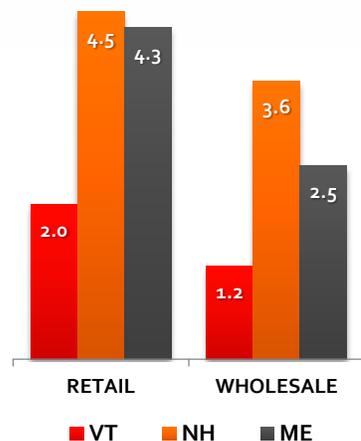
#### ▲ NEW HAMPSHIRE

Retail trade accounts for 8.9% of the GDP for private industries in New Hampshire.

#### ▲ MAINE

Retail trade accounts for 9.8% of the GDP for private industries in Maine.

**Column labels represent current 2010 dollars in 'billions'**



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## Survey Results

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The respondents included 27 organizations from Vermont, 6 organizations from New Hampshire, and 1 organization from Maine. The resulting sample included 13 Vermont-based businesses specializing in the crafts, collectibles, entertainment, food, gardening, gifts, home furnishings, and outdoor equipment market categories. The following organizations contributed top line statistics for the most recent fiscal year or trailing 12-month period: Against the Grain Gourmet, American Meadows, Ann Clark Ltd., Classic Designs by Matthew Burak, Country Home Products, Dakin Farm, Gardener's Supply Company, Green Mountain Spinnery, International Coins & Currency, Lake Champlain Chocolates, National Gardening Association, Production Advantage, and Sugarbush Farm. The average total sales volume for these 13 organizations was \$14.3 million with \$12.5 million from remote states. This represents a revenue dependency of 87 percent from remote states, and further validates the following hypothesis presented in the September 2003 Middlebury College Economic Impact Study<sup>1</sup>:

*"Would there be traditional retail channel storefronts at Vermont Teddy Bear or Orvis or Vermont Country Store or Dakin Farm absent these companies' thriving direct marketing channel business? We would argue that they would not, as each of these companies' business models relies first and foremost on catalog and Internet sales for their viability and growth. Remove the direct marketing channel, and it is arguable that at least some of these companies – along with their sales, employment, personal income, value-added and tax revenue contributions to Vermont – would evaporate."*

The direct marketing revenue generated from remote states, via online and offline channels, is a clearly a leading contributor to the Vermont economy. Based on previous economic analysis and the most recent sample, there is sufficient data to suggest that this dependency and contribution is increasing consistently with migration to online response channels.

The average cost of goods sold (COGS) for these same companies is 57%, and the average payroll and benefits expense is 20% with an average full-time count of 54 employees. It is important to realize that much of the business is also seasonal, resulting in high demand for temporary or part-time labor at peak production times and holidays. Other VT NH Marketing Group members and survey respondents from the services sector reported higher margins, but these results were excluded from the calculation due to the lesser impact of potential legislation on their core business.

## Marketing Trends

The market for Vermont based catalogs and online retailers is predominantly female, based on the categories of products sold. For example, collectibles buyers are 61% female compared with golf products buyers who are 76% male. This may justify a closer look at female audiences on social networks like **Pinterest** ([www.pinterest.com](http://www.pinterest.com)) and **Glam** ([www.glam.com](http://www.glam.com)) as attractive channels for Vermont marketers in the crafts (85.0% female) and home decorating (72.5% female) categories.

Marketers are becoming more diversified. There is a continuing shift towards integrated marketing that combines branding with direct response by leveraging online and offline channels to work together. This is creating increased demand for analytical services that can help with attribution and optimization, as well as the need for social monitoring and engagement at multiple levels. The greatest challenge is to bring it all together and make sure that the marketing messages are aligned with customer needs and behaviors at the right time.

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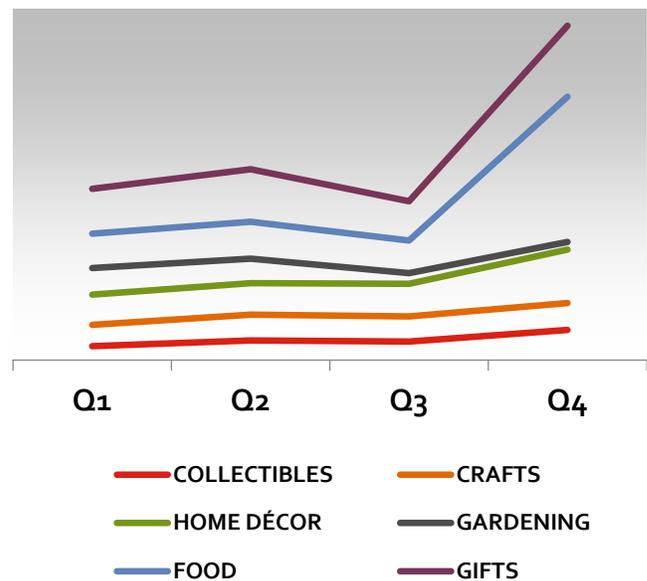
While not everyone has a smartphone, tomorrow's consumers will all be digital.

“The smartphone has become the communications device of choice,” says Chicca D'Agostino, president of Focus USA. “As a result, location-specific messaging is growing — and why not, when clickthrough rates are 5- to 10-times greater than email,” she adds.

Further developments with mobile integration and tablet technology will continue to influence marketing innovation, as advertisers demand solutions that encourage interaction, foster engagement, and deliver tangible results. Marketing plans will continue to be refined and adjusted as opposed to being an event that occurs annually at budget time.

### Seasonality by Category

According to the updated reports on **Universe Trends, LLC** ([www.universetrends.com](http://www.universetrends.com))<sup>3</sup>, a response metadata research web site, there is a high dependency on fourth quarter sales in the food and gifts categories. This requires significant planning and a seasonal workforce to meet objectives. The average quarterly counts are provided below for each of the market categories referenced. These counts are calculated from a sampling of multichannel media rate cards to include, but not limited to, Vermont based businesses. The sample sizes (n) reflecting the number of branded catalog titles are indicated to the right of each category below. For example, the 'GIFTS' category averages the quarterly catalog buyers for Brookstone, Carol Wright Gifts, Vermont Country Store, Vermont Teddy Bear, Yankee Candle, and 46 other media titles.



CATEGORY	Q1 2011	Q2 2011	Q3 2011	Q4 2011
COLLECTIBLES (12)	42,712	60,052	56,773	92,206
CRAFTS (12)	64,936	78,543	76,354	81,955
FOOD (13)	104,650	112,778	99,130	443,320
GARDENING (13)	80,967	74,824	32,653	23,442
GIFTS (51)	137,268	159,999	120,342	216,706
HOME DÉCOR (43)	92,343	96,075	99,839	163,042

The average **unit of sale (UOS)** for these categories is also significant as it relates to the lifetime value (LTV) of a customer, and would be affected by potential taxation on sales from remote states.

CATEGORY	AVERAGE SALE	MALE %	FEMALE %
COLLECTIBLES (12)	\$52.23	38.9%	61.9%
CRAFTS (12)	\$62.40	15.0%	85.0%

FOOD (13)	\$71.38	33.1%	66.9%
GARDENING (13)	\$71.26	38.0%	62.0%
GIFTS (51)	\$74.75	32.4%	67.6%
HOME DÉCOR (43)	\$135.48	27.5%	72.5%

## Potential Impact of Proposed Tax Legislation

Online sales tax is still a major concern for retailers, according to a recent article in *Digital Marketing News*. Although it is not expected that a federal bill will pass before the upcoming national election, there is a continued push behind online sales tax collection legislation. This is especially true at the state level. Laws are currently being proposed in Florida, Kansas, Indiana, Michigan, and other states; California, New York, Illinois, Connecticut, North Carolina, Arkansas, and Rhode Island have already enacted legislation in this area. The states continuing to face financial challenges, some of which are in crisis mode, will not back down considering that the projected tax revenues from e-commerce could potentially exceed \$50 billion. Highly funded pure-play Internet retailers are on the front lines defending a tax free position for all online direct marketers, but a resolution is yet to be seen.<sup>5</sup>

Although advocates of the online sales tax would promote a 'streamlining' initiative, the reality is quite different. There are over 10,000 tax jurisdictions in the United States and the digital landscape is continually changing. For example, what is the ship-to location for an app download or a dynamic IP address? Would the GPS on your iPhone determine the tax jurisdiction? Even if the cost of administration absorbs a large portion of the revenue gains from taxation, there are even greater economic concerns as demand is adversely affected by the increase in total cost to the consumer. The **elasticity of demand** is the ratio of the percentage change in quantity demanded to the percentage change in price that brings about the change in quantity demanded.<sup>6</sup>

What does that mean laymen's terms? If elastic, then the increase in price due to sales tax would impact sales (negatively) by an even greater amount. This only accounts for the direct impact on revenue, jobs, and the tax revenues from corporate income. The total impact includes indirect and induced consequences, which are defined below:

**Direct Impact (marketer): sales, jobs, and tax revenues from company profits**

**Indirect Impact (supplier): all of the above for companies contributing raw materials or other inputs to the marketer.**

**Induced Impact (consumer spending): the resulting change in demand due to decrease in discretionary income from unemployment and cutbacks.**

The total impact of an online sales tax is an important subject as it relates to Vermont's economy, not only with consideration to the direct marketing channel, but also dependency on local suppliers (indirect impact) and discretionary income (induced impact). This report is intended to create awareness on the subject, which at times can be a moving target with regards to changing legislation, and is not to be perceived as authoritative or to prove a hypothesis. The VT NH Marketing Group encourages its members to share their views and challenges in a collaborative environment, online and offline, to help promote good decisions at all levels.

#### Sources

<sup>1</sup> U.S. Bureau of Economic Analysis (BEA), <http://www.bea.gov>

<sup>2</sup> *The Economic Impact of Direct Marketing Sales on Vermont's Economy*, Michael P. Clandon and Pavel Gavrilov, Middlebury College, September 2003

<sup>3</sup> Multichannel Merchant Magazine, <http://multichannelmerchant.com/crosschannel/digital-data-takes-off-1214tpp7>

<sup>4</sup> Universe Trends, LLC, <http://www.universetrends.com>

<sup>5</sup> Digital Marketing News, <http://www.dmnews.com/online-sales-tax-still-tops-the-agenda-for-major-retailers/article/231457>

<sup>6</sup> *Economics Principles and Policy*, Ninth Edition 2003, William J. Baumol and Alan S. Blinder, Thomson South-Western, p.88