

## 1999 Fontanini Business Review

This reviews the Fontanini Brand Business for 1999 YTD as of the end of July 31, 1999 and outlines key learnings, indicated actions, next steps and timing.

### BACKGROUND

In 1998, the Fontanini sales were average showing an increase of 2% to \$17,126.3M versus \$16,737.5M in 1997. Growth was evident in the Nativity category, up 8% while the other two product groups, Licensed (-40%) and Giftware (-20%) were off. We believe the key factors influencing this growth were: 1) a strong product line, specifically the 5" and 7.5" Nativity Figures, Accessories and Buildings, 2) offering a product line that was not only broad, but deep in comparison to current competition and 3) the introduction of the Vision 2000 program. Based on 1998 performance, our 1999 sales objective is \$17,800, a 4% increase versus sales of \$17,126M in 1998.

### OVERVIEW

The Fontanini business is down in 1999. Specifically, sales are down 1% YTD to \$12,813.5M versus \$12,945.8 in 1998. We believe this performance is due to several factors: 1) a price increase of 7% on figures and all items with figures as components, 2) a decrease of 23% in our customer base 3) a reduced number of introductions in the 2.5" Nativity, 7.5" Nativity, Giftware and Licensed category products which negatively affected sales.

### YEAR-TO-DATE RESULTS

1. Year to date booked and shipped sales for Fontanini Brands as of 7/31/99 are down 1% at \$12,813.5M or -\$132.3M versus \$12,945.8M in 1998. Fontanini's overall performance was led by Nativities (+4%), but offset by Giftware (-35%) and Licensed (-9%).

#### **Fontanini Brands Shipped and Booked --\$M (Difference/Index versus 1998)**

	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>
Nativity	11,593.9	11,143.5	+450.4	104
Giftware	1,037.6	1,602.4	-564.8	65
Licensed	<u>182.0</u>	<u>199.9</u>	<u>-17.9</u>	<u>91</u>
Total	12,813.5	12,945.8	-132.3	99

2. The Retail Nativity business is flat due to lack of introductions in several categories and figure price changes across the board. Although the Retail Nativity business continues to be the "bread and butter" of the Fontanini lines, sales in this category did not increase as expected. Focus was placed on the 5" scale and strong results were found in the open stock stables and specialty set categories. However, 5" figure sales increased by only 1%, while village buildings and accessories decreased by 7% and 2% respectively. We believe the combination of a 7% price increase and minimum purchase reduction to 1 piece had a negative affect on 5" figure sales as 1998 dealers spent \$215.5M or 4% less in 1999, which is also \$43.8M or 7% less figures than in 1998. Sales of 2.5" Retail are down 21% and sales of 7.5" Retail are down 35%.

We believe these declines are due to less marketing and sales rep emphasis on these departments as well as fewer introductions in this area than in 1998.

3. The Institutional Nativities show exceptional sales increases for 1999. With continued emphasis placed on the Vision 2000 program, sales in the 20", 27" and 50" departments continue to increase with Institutional sales up an average of 23%. Vision 2000 Program efforts have included: 1) an advertisement placed in two national church publications, Ministries Today (circulation of 32,000) and Your Church (circulation of 150,000), 2) a letter and brochure mailing sent to more than 45,000 Catholic/Protestant churches and 3) a direct mail postcard sent to 150,000 Catholic/Protestant churches providing information on Fontanini Institutional Nativites.
4. The Giftware and Licensed business is down mainly because of lack of interest in carryover SKUs and a price increase of Fontanini components. Specifically, Giftware is down (-35%) with sales at \$1,037M in 1999, versus \$1,602M in 1998. Additionally, there was a (-49%) reduction of SKUs in this department with 75 in 1999, versus 146 in 1998. Licensed is down (-9%) with sales of \$182M in 1999 versus \$199M in 1998. SKUs are down (-34%) with 27 in 1999, versus 41 in 1998. Lastly, with the price increase on all Fontanini figures, Giftware price points increased as several items contained figures as components. We believe the price increase contributed to the decline in sales in these categories in another way. As there were less dealer open-to-buy dollars available after Nativity purchases were selected, less dollars were spent on the auxiliary products—Giftware and Licensed.
5. The Fontanini line is slightly more profitable in 1999 than in 1998. The YTD profit margin for the 1999 Fontanini line is 55% versus 54% in 1998 YTD. The Nativity Product Group has a profit margin of 56% YTD, up 1% from the 55% profit margin in 1998. With the continued focus on the 5" Nativity category, specifically figures and accessories which are at a higher price point, as well as better margins. The YTD profit margin of 44% for Giftware and 47% for Licensed also increased from their 1998 YTD profit margins of 41% and 45%, respectively.

## MAJOR FINDINGS/CONCLUSIONS

1. SKUs: A 1% drop in overall SKUs is a step towards the corporate SKU reduction objective. New items are contributing a larger share of total sales in 1999 versus 1998. (Refer to Appendix A1-2 for details of all items performance and Appendix B for details of all new items performance).
  - a. Based on a total resale SKU count (Appendix A-1) of 903 in 1999 and 912 in 1998, along with sales of \$12,814M YTD in 1999 versus \$12,946M YTD in 1998, SKU productivity has remained flat at an average \$14.2M per SKU.
  - b. Sales of new SKUs are contributing 20% of total dollars in 1999 versus 19% in 1998. Additionally, new SKU productivity has increased from \$2,518M in 1999 versus \$2,456M in 1998, or 3% since the new SKU count was lower in 1999, this equates to a 14% increase per SKU. Meanwhile, sales of carryover SKUs are contributing 80% in 1999 compared to 81% in 1998. While carryover SKUs productivity has decreased 2% to \$12.9M per average SKU in 1999 versus \$13.2M per average SKU in 1998.

SKU TYPE	<u>YTD Results and SKU Productivity</u>											
	<u>-- # of SKUs --</u>				<u>-- Sales / \$M --</u>				<u>-- \$M/SKU --</u>			
	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>
NEW	106	118	-12	90	2,518	2,456	+62	103	23.8	20.8	+3	114
C/O	<u>797</u>	<u>794</u>	<u>+3</u>	<u>100</u>	<u>10,296</u>	<u>10,490</u>	<u>-194</u>	<u>98</u>	<u>12.9</u>	<u>13.2</u>	<u>-3</u>	<u>98</u>
TOTAL	903	912	-9	99	12,814	12,946	-132	99	14.2	14.2	0	100

2. Product Groups: Sales gains are up in Nativity, but down in the Giftware and Licensed Group.

- a. Nativity - Sales are up 4% YTD to \$11,593.9M versus \$11,143.5M in 1998, a gain of \$450.4M. The average SKU in Nativity is \$14.5M YTD, which has an index of 102 versus the line average of \$14.2M YTD. Nativity sales account for 90% of the YTD business compared to 86% in 1998. With (75%) of total Nativity dollars derived from the 5” categories, continued emphasis is placed on developing these categories, as well as the need to continue to expand our collector’s interest. Additionally, with the Vision 2000 Program, Institutional sales are up an average of (+23%) in all departments. Overall, nine of the fourteen Nativity departments (excluding 5065/5070) show an increase for 1999 YTD. With noted declines in other departments, which we believe are due to the following reasons: 1) 2.5” which is due to uneven sell through, specifically with village buildings and figures because of a lack of new introductions in 1999, coupled with an absence of marketing focus, 2) 7.5” due to lack of introductions in comparison to 1998 (6 vs. 23) in this category 3) 5” building sales dollars are beginning to slow. With the phenomenal success of the village concept and the introductions of ten buildings with high price points in a two-year period, our market has begun to saturate, as we are now starting to feel the affects. With offering such a wide product selection in this category, we are seeing consumer interest move away from the buildings and focus more on accessory items with lower price points.
- b. Giftware sales are down (-35)% to \$1,038M YTD versus \$1,602M in 1998. The average SKU in Giftware is at \$13.8M YTD, which has an index of 97 versus the line average of \$14.2M. Giftware sales account for only 8% of the YTD business compared to 12% in 1998. We believe the decline in Giftware is due to few new significant introductions. Only 13% of all new SKUs were in Giftware in 1999. Additionally, from our customer survey research findings, we found dealers are not able to display all Giftware items due to lack of retail space, therefore not enabling them to have a complete line of Giftware items. Another contributing factor is lack of emphasis placed on the department from both retailers and sales reps. All departments in the Giftware category are significantly down (6-60%) YTD in 1999.
- c. Licensed sales are down 9% YTD to \$183M versus \$200M in 1998. The average SKU in Licensed is at \$6.7M YTD, which has an index of 47 versus the line average of \$14.2M. Licensed sales account for just over 1% of the YTD business compared to 2% in 1998. We believe the decline of this product category is due to inadequate retail focus, coupled with consumer interest lying in the genuine Fontanini figures versus replicas with other mediums,

such as metal or photos. Jewelry is our best selling category in Licensed. It seems consumers are accepting Fontanini replicas in the metal format in this category. Only 8% of all new SKUs in 1999 were in Licensed. Licensed figurals are up 55% while offset by Paper, which is down (-43%) in 1999 YTD.

3. 80/20 Rule: The Fontanini business is sustaining the common trend that the majority of sales are a result of a relatively small percent of available products. Specifically, 22% of the Fontanini SKUs, or 195 SKUs of the total 903 SKUs, are generating 80% of sales.
4. Price Points: Nativity – Our analysis indicated that most of our price point strategies are right on target. Each of the Fontanini departments offers a variety of both price strengths and weaknesses, which are recapped below. (Refer to Appendix C1-2 for new and old department code breakdowns.)
  - a. Nativity – 50% of our SKUs and 30% of our sales are in the \$10.00 wholesale and under category. There is some growth and movements into the higher price points, specifically \$10.01 - \$20.00 wholesale which we will continue to focus on. This second key price point of \$10.01 – 20.00 wholesale represents 13% of our SKUs and 21% of our sales. An area we made need to focus special attention to is the \$100+ wholesale price point as it has 11% of total SKUs and represents only 10% of sales.
  - b. Giftware – The strongest price point range for the Figurals and Ornaments departments are the \$0 - 10.00 wholesale price point with this representing 5% of total SKUs and 3 of Giftware sales. The strongest price point for Musicals and Wall Décor is in the \$10.01-20.00 price range, which represent 2% of total sales in this department. The strongest price point for Glitterdomes is in the \$20.01-30.00 price point.
  - c. Licensed – The strongest price point range for Figurals and Paper is the \$0 – 10.00 wholesale price point as the two combined represent 3% of total SKUs or just under 1% in this category.
5. Customers: Gift/Card Shops, Christmas Shops, Gift Departments and Seasonal Shops represent 67.3% of sales and 66.4% of our customer base. (Refer to Appendix D1-2 for sales by customer type in 1999 and 1998.)
  - a. Gift/Card Shops, Christmas Shops, Gift Departments and Seasonal Shops generate the principal amount of sales for the Fontanini brand. In total, they represent 67.3% of the sales and 66.4% of our customer base. Please note, within this mix Gift/Card Shops and Gift Departments account for more than 50% of the customer base, however Christmas Shops purchase three times the amount of product per account, therefore offering a lucrative opportunity for additional sales.
  - b. Department Stores (\$22,412), Church Good Dealers (\$6,671) and Mail Order (\$6,484) offer high sales average per account, therefore special concentration should be placed on these type of accounts as they will provide for future growth opportunities.

	<b>% of Dollars</b>	<b>% of Accounts</b>	<b>Ave \$/Acct</b>
Gift & Card Shops	23.6	37.5	1,603
Christmas Shops	17.0	6.0	7,179
Gift Dept.	14.0	17.9	1,966
Season Shops	12.7	5.0	6,533
Christian Bookstores	6.4	10.7	1,514
Florist/Garden Shops	5.6	5.5	2,584
Church Good Dealers	4.9	1.8	<b>6,761</b>
Religious Article Store	3.9	4.2	2,400
Dept. Store	3.7	0.4	<b>22,412</b>
Ltd. Ed. Shop	3.3	2.3	3,628
Mail Order	1.6	0.6	<b>6,484</b>
Other	<u>3.3</u>	<u>8.1</u>	1,206
	100%	100%	

6. Customer Base: The total number of Fontanini Guild Dealers has decreased 8% versus 1998. The total customer base purchasing Fontanini product has decreased by 23% to 4,704 in 1999, versus 6,084 in 1998. At this point, we believe the Guild Dealer number will increase later in the year due to the Fall Open House beginning in September. Although the number of Guild Dealers has decreased, the number of dealers requesting the Guild Kit has remained flat. Therefore, the number of dealers actively promoting Fontanini is stable.

The YTD number of Guild Dealers is lower than anticipated. The drop can be attributed to the following reasons: 1) the sales force has not presented the line to as many new accounts as in previous years. Because the line had the tendency to "sell itself" in the past, sales reps may not be devoting as much attention to starting new accounts as they could, 2) retail stores might be reluctant to commit to the line due to space limitations 3) with the introduction of the Village buildings and accessories retail storeowners may perceive the Fontanini line as very complex. Customers may be overwhelmed and not sure how to begin to carry the line in their store and dealers who are buying at the minimum purchase level for dealership may have dropped the line.

	<b>TY 98</b>	<b>YTD 99</b>	<b>Diff.</b>	<b>Index</b>
Fontanini Dealers	3,984	3,664	-320	92
Fontanini Non-Dealers	<u>2,100</u>	<u>1,040</u>	<u>-1060</u>	<u>50</u>
Total	6,084	4,704	1,380	77
Dealers Requesting Promo Material	2,806	2,607	-190	93

Fontanini Non-Dealers has decreased by more than 50% versus 1998. We feel this is due to sales reps concentrating their efforts on Fontanini Guild Dealers as they average a higher sale per account. To illustrate, in 1999 the average sale per account for Fontanini Guild Dealer

verses Non-Dealer is \$3,164 versus \$1,173 YTD. Whereas, in TY 1998 the Fontanini Guild Dealer and Non-Dealer average sale per account was \$3,481 versus non-dealer \$1,532.

7. Ph.D. in Fontanini Program - Although the total number of Fontanini Guild Dealers has slightly decreased, the number of Ph.D. in Fontanini Candidates has increased by 17%. A total of 1,022 Candidates are actively participating in the Ph.D. in Fontanini Program versus 845 Candidates at the end of 1998. This shows that dealers that are carrying the Fontanini line are committed to learning more about the Collection.
8. Region: Overall, Fontanini business was up (+3%), with three of the five regions nationwide showing an increase, with the best performance in the Central region (+9%), while the pace has slowed in all other districts.
  - a. Overall, the sales volume by region has increased, with only two regions being slightly off, West (-1%) and North (-2%). We feel this is due to the decline in our current dealer base coupled with the inability for Fontanini dealers to offer the entire line due to space constraints. The best performance was in the Central region (+9%)
  - b. We saw an overall decrease in the House (-42%), International (-49%) and Special Markets (-98%) accounts. We believe this may be a result of less interest by consumers in purchasing giftware items through catalogs.

**Performance by Region--\$M 1999**

	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>
East	3,056.5	2,899.3	(+157.2)	105
South	3,707.8	3,640.8	(+67.0)	102
Central	2,207.8	2,032.2	(+175.6)	109
West	2,334.3	2,351.1	(-18.8)	99
North	<u>1,253.9</u>	<u>12,84.8</u>	<u>(-30.9)</u>	<u>98</u>
Total	12,560.3	12,208.2.	(+350.1)	103
Int'l	46.4	91.0	-44.6	51
Spec Mkts	5.9	298.7	-292.8	2
House	201.4	346.5	-145.1	58

9. Account Type – Account type “B” had the greatest sales growth with an increase of 3%. Typically, “A” accounts are favored as they have the greatest sales potential and still produce the highest sales volume, but we saw a decrease of 2% YTD in “A” accounts. Whereas, type “C” accounts have remained somewhat flat with an increase of 1% and type “D” accounts decreased by 49% which is probably a result of borderline dealers dropping out of the dealership program.

**1998 Shipped (\$M)**

Account Type	<u>1999</u>	<u>1998</u>	<u>Diff.</u>	<u>Index</u>
A	10,835.6	11,003.7	(-168.1)	98
B	1,469.0	1,422.4	(+46.6)	103
C	493.5	488.6	(+4.6)	101
D	<u>15.9</u>	<u>31.3</u>	<u>(-15.4)</u>	<u>51</u>
Total	12,814.0	12,946.3	(-132.3)	99

10. Club Membership: The number of Fontanini Collectors' Club members continues to remain strong. At the close of the 1998 membership year, there were a total of 17,182 active members in the Fontanini Collectors' Club. Current active membership is 17, 257. Although the YTD increase is only up by 75 members, this is an excellent membership count for this time of year. From July of 1998 until the close of the 1998 membership year, the number of Club members increased by (+32%); see chart below. The fourth quarter is always the strongest for obtaining new members and renewing existing memberships in the Club.

	<b>July 1998</b>	<b>End of 1998 Membership Year</b>	<b>YTD 1999</b>
<b>Number of Memberships</b>	12,959	17,182	17,257

Membership in the Club remains strong for the following reasons: 1) High quality Club exclusive figures and benefits. Even though the Symbol of Membership angel is an unusually large 6 1/4-inch size, the response from Club members has been very positive, 2) Improved shipping schedule. During the first quarter of the year delays in receiving product from overseas resulted in a back order situation. By April, all Club Kits shipped to new and renewing members. Since then, all new, renewing, and Instant Gratification Kits have shipped out within the 6-8 week time frame, 3) Exciting new promotions and contests have been announced to all members. Club members were given the opportunity to name a Nativity figure, participate in a mid-year membership drive, and now a year-end membership drive, 4) Increased presence on the Web. The Club section of the Roman, Inc. Web site encourages consumers to join our Club and features all benefits a member receives. Also, the Collectors' Corner section is updated quarterly to provide educational and interesting information regarding the Fontanini Collection. Games are designed to draw new collectors into the Web site and learn more about the Fontanini Collection and 5) Club members are excited about the line. Club members have provided positive feedback on introductions, they are excited about sharing stories and learning the history and research behind the line.

11. Profitability: The 1999 Fontanini line is slightly more profitable than the 1998 Fontanini line. Profitability for the 1999 Fontanini line as of 7/31/99 is 55% compared to 54% as of 7/31/98. For comparison, 1998 year-end profitability was at 52%. Of the three Product Groups in the Fontanini line, Nativity is the most profitable with YTD profit margin of 56% followed by Licensed and Giftware with YTD profit margins of 47% and 44% respectively. We believe this

makes sense due to the price adjustments, vendor negotiations and better margins, which we received this year on village and accessory product.

**Profit Margin by Product Group as of 7/31/99**

	<b>1999</b>	<b>1998</b>	
	<b><u>Profit Margin</u></b>	<b><u>Profit Margin</u></b>	<b><u>Difference</u></b>
Nativity	56%	55%	+1%
Giftware	44%	41%	+3%
Licensed	47%	39%	+2%
Total Fontanini	55%	54%	+1%

12. Competitor Displays – Displays and merchandising continue to play a key role in increasing sales. To date we have sold 439 or \$87.7M of our display trees. In addition, we have received feedback from retailers and our competitor analysis that the need for a self-contained floor displayer is increasing popular. Dealers are looking for simplified and cost effective display techniques, which allow for a wide selection of merchandise to be displayed in a limited space. In comparing key competitors in the Nativity and Village business (Anri, Enesco, Lefton, Dept. 56 and Kurt Adler) all have product merchandised in this format. In general, several dealers are moving towards putting most collectible merchandise in a self-contained displayer for cleaner, more complete presentations and cost effectiveness. (Refer to Appendix E1-2 for pictures illustrating this merchandising format).

13. Trends – Market trends can positively affect our sales if adapted to our customer’s needs. The following trends have been noted in the marketplace:

***Nativity:***

- “Re-creating the scene of Christ’s birth is one of the most tender and enduring Christmas traditions. Making representations of the Nativity is a universally popular art form which has flourished since the sixteenth century.” Marian Library Research Institute.
- “Nativity collections are contributing to the study of religion and culture, providing material for analyzing the various expressions and the interaction of religion and culture as depicted in religious festivities, costume and folklore.” Marian Library Research Institute.
- “Nativity scences also highlight the popular character of religion, the ways in which it reflects the age-old aspirations of the human soul.” Marian Library Research Institute.

***Decorating:***

- “Retailers/manufacturers have cited an emerging trend toward decorating not just for Christmas, but in a “generic mode” that spans all seasons.” Christmas Décor.
- “There has been a heightened emphasis on “cocooning” in the home with family and friends as a form of entertainment—people want to make their home environment attractive.” Christmas Décor.
- “Consumers are finding additional enjoyment of seasonal decorating and want to continue the momentum no matter what the calendar.” Christmas Décor.

- “Retailers are seeing an increase in sales in home décor, specifically Easter. There has been a heightened interest for product designed specific to the occasion. It is the number two growth category to date.” Christmas Décor
- “Non-Christian consumers prefer more generic wares which extend out to Spring decorating.” Christmas Décor. Kurt Adler has been on the edge of this market expanding their plates/accessories offering vibrant to pastel shades, florals and fruits.
- “The Millennium is causing a resurgence in angels with spiritual theme—offering the idea of past and future meeting together.” Collectibles Market Guide

***Collecting Statistics and Demographics:***

- “With more products and designs to choose from today’s collector are becoming more selective and knowledgeable about their purchases. They are joining clubs and using the Internet as a source of information and to interact with other collectors.” Collectibles Market Guide
- “Lifestyle is setting trends to mirror new collectibles—with such hectic lifestyles and new technology, collectors are “looking back” surrounding themselves with items that reflect a simpler day and age. Collectors are drawn to items that are sentimental and nostalgic.” Collectibles Market Guide
- “Baby-boomers are focusing on nature and preservation and have an increasing fascination with miniatures.” Collectibles Market Guide
- “The most popular group to collect are the 40+, as they look for pieces that offer accomplishments and historical values.” Collectibles Market Guide
- “Licensed products are having a tremendous positive impact on industry.” Collectibles Market Guide
- “Any product that preserves historical landmarks is key information to collectors and offers itself as an educational tool for future generations.” Collectibles Market Guide

14. Competition - The market for Nativity sets consisted of many segments and product categories. With many competitors in the market, the best way for Roman to cultivate brand loyalty is to maintain a broad selection of Nativity Sets and to continue to introduce new sets frequently (i.e. yearly). Consumer opinions about where different brands ranked on the quality scale related chiefly to price, selection, and brand image.

Due to the importance of convincing retailers to stock a company’s brand and of gaining favorable shelf location, distribution capability is one of the keys to market and competitive success. Retailers preferred to allocate their “key space” to the best-selling brands. Price competition was more a factor across category (i.e. superpremium versus premium vs. regular) than within categories. Consumer gains are being made primarily by brands that 1) succeed in making their product offering more economically price conscious without sacrificing quality, 2) have captured buyer interest with a new offering and 3) were adding additional distributors to gain wider geographic coverage.

***Midwest Cannon Falls ('98/99):***

Midwest Cannon Falls seems to focus their Nativity sets on offering a wide product selection. They had more than 20 styles that focus on specific markets (i.e. youth vs. adult). The styles consisted of both traditional/classical Nativity sets with muted colors. While the rest of their items were playful offering a vivid color palette that is used to draw the attention of children.

The most popular material they are using is resin. The most popular size is the 5” category with their figures ranging in size from 2” – 5.5”.

***Kurt Alder ('99):***

Kurt Adler’s line consisted of more than twenty Nativity sets. The preponderance of their styles is more traditional/classical and is muted in color. Several of their sets include stables, while also offering stables sold in a set. The majority of the stables are made of wood, moss and bark. There has been an increase in the 2.5” category since 1997, offering more options to the children’s market in both the 9 and 10-piece count range. The most common sizes seem to have maintained in the 6” and 10” range while offering a 10 and 12-piece count.

***Silvestri ('99):***

Silvestri’s Nativity line offers a much more limited selection. Most are considered more traditional/classical in style with muted colors. The most popular piece count is the 9 and 10-piece within the 5” category. Silvestri does not seem to offer much in the way of stables within their Nativity collection.

***Anri ('99):***

Anri’s Nativity line offers more than nine styles that range in size from 3” all the way up to 20”. All pieces are hand carved sculptures made out of the Austrian-Italian border. Most all limited editions are as low as 150 pieces worldwide. The individual styles of the Holy Family and other figures are traditional/classical with the coloration looking dark and wood-toned. They are considered the “superpremium” of Nativity set collections with their prices being two to three times higher than “premium” brands. The most popular size is the 6” figures. Additionally, they offer stables with each style that can be purchased separately or with a set.

***Enesco (Precious Moments/Cherished Teddies '99):***

Enesco’s line offers several Nativity selections to the consumer. Their most popular are the 2.5” and 5” 3-piece set. Additionally, they offer a 10-piece in 2.5” category and a 9-piece set in the 5” category. The color variations offered were more of a muted palette. They were one of the few competitors offering Nativity buildings, other than stables. They offered both a Nativity wall and inn in the 2.5” and 5” category. The majority of their pieces are made of porcelain with their price points being somewhat consistent to Roman.

***Lefton ('99):***

Lefton offered a variety of Nativity sets that were more themed based. For example, the Shamrock Nativity or Gold-Trimmed. They offered more selections within the 2.5” and 5” category. The majority of the figures are made of porcelain with the more traditional/classical style. Their most popular piece count is nine in the 2.5” and 5” category. Additionally, they were the only known competitor to offer a Nativity set in the 6.5” category. Their prices seemed to be less expensive than that of Roman.

***Nativity Village Concept:***

The main competitor capitalizing on the village concept is Dept. 56. They originally focused on the *Snow Village* capturing a nostalgic spirit of Americana with offering varying ceramic buildings such as, schools, homes, churches, shops and all other items representing mainstreets and neighborhoods. They highlighted the village items relevant to that time period, much like we do, such as service stations, bowling alleys or drive-in dinners. They offer village

accessories that tie-in with the building and help to capture a theme and give the display more life. Later on, they developed a line known as the *Heritage Village Collection*, which includes the *Dickens's Village Series*. The porcelain buildings capture the London society incorporating pieces into the famous novel, *A Christmas Story*. They have incorporated several accessories including landscape items. The other series in the *Heritage Village Collection* is the *New England Village Series* which depicts the historic New England era of the mid 1800's. Its buildings focus on items such as farmhouses, lighthouses and cottages. They also offer the *Alpine Village*, which focuses on the European Mountain village deriving from the German ancestry. Additionally, the *Christmas In The City* series is a more contemporary collection depicting buildings from more modern times. Whereas, the *North Pole Series* focuses on Santa, the reindeer and elves. Lastly, the *Disney Park Village Series* incorporates all the inspirational buildings from the Magic Kingdom. Overall, Dept. 56 has found great success with developing "new" village concepts, with great historical value and theme offerings, but more recently has begun to develop "general" themes that can tie into existing lines without focusing so heavily on the Christmas theme. Additionally, they are possibly going to be penetrating into the 2.5" department offering items that will coincide with *the Little Town of Bethlehem*.

### **INFLUENCING FACTORS**

We have identified six factors influencing the Fontanini business in 1999:

1. Strength of the 5" Retail and Village Concept – Strong product design is driving sales of the 5" Retail and Accessories line; however the opportunity exists for greater growth in the line with added exposure from Fontanini dealers and year-round displays of the village.
2. Vision 2000 Program continues to increase sales in the Institutional Product – Sales in the 20", 27" and 50" Institutional departments have continued to increase with year-round emphasis being put on the program via advertising and direct mail.
3. New merchandise continues to drive the line and increase sales – Sales on new items have a higher per SKU average versus last year which reinforces the theory of new products keep the line fresh. In addition, strong, more detailed product designs using historical research have contributed to this growth.
4. Non-Dealer Gift Sets are proving successful – With the additional offering of Nativity Gift Sets and redesign of packaging for Non-Dealer sets, sales are stronger. This allows for additional exposure in non-dealership locations and increasing future growth opportunities.
5. Lack of focus on Giftware and Licensed departments has had a negative impact on the brands success – Sales in Giftware and Licensed are down versus 1998 due to dealers not carrying the entire line, fewer catalog placements and concerns from dealers regarding space limitations.
6. Our customer base is slipping - The amount of Fontanini Dealers (-9%) and Non-Dealers (-50%) has declined versus 1998. Our customers are spending more dollars on the average per account, but the increased purchases per account are not making up for the loss in sales from the accounts that dropped the line.

## KEY LEARNINGS

1. The 5” Retail, Accessories and Buildings continue to be the most important Fontanini Departments and should be given a significant amount of attention. The 5” Retail, Accessories and Building Departments consist of 68% of the Fontanini business.
2. New products keep the line fresh and interesting, but carryover product is still very important. Average sales of new SKUs are much higher than carryover SKUs, but their contribution to total sales is less. Particularly, the average sales of a new SKU is \$23.8M YTD versus \$12.9M YTD for a carryover SKU, but the contribution to total sales for new SKUs is only 20% versus 80% for carryover SKUs.
3. Despite continuing efforts to develop attractive, diverse giftware and licensed product lines, annual sales continue to decline in these areas. Giftware sales are down 35% YTD and Licensed sales are down 9% YTD. The average SKU in Giftware and Licensed is \$13.8M and \$6.7M YTD. The two departments combined account for only 10% of the YTD business compared to 14% in 1998 and 16% in 1997.
4. Retailers realize the importance of merchandising, marketing and product knowledge. Retailers are continually asking for assistance with new display techniques and realize the benefits of increasing sales with effective displays. Additionally, continued education is key for both retailers and sales reps and the number of stores participating in the Ph.D. Program continues to rise.
5. Interest in the Fontanini Club is growing and members are loyal. Membership continues to grow at a progressive rate (+32%), while cultivating continued interest in the line. Club members are very brand loyal and are continuously searching out additional information and interaction with the line. For example, they are using the Internet as source to gain knowledge about products about the company while also interacting with other club members.
6. Our customer base has decreased by 23% versus last year. Fontanini dealership has significantly dropped YTD in 1999 with a (-8%) loss in Guild Dealers, coupled with a (-50%) loss in non-dealers. We believe that sales reps are concentrating their focus on established accounts, which on average offer a significantly larger volume of dollars per sale, versus new accounts. In addition, we have received feedback that identifying non-dealership merchandise versus dealership in the catalog has caused some confusion and may be hindering some sales in the market.
7. Brand recognition serves key to gaining market share which in becoming more challenging with the emergence of additional competitors in the marketplace. With the increase in collectors (i.e. baby boomers) more companies are emerging in the collectible industry everyday. Specifically, with e-commerce rapidly expanding on the Internet we have seen more “niche” segmentations and direct consumer channels.

## **1999 OUTLOOK**

We currently estimate year-end sales of \$16,900M for Fontanini, which reflects a decrease of 1% versus sales in 1998 of \$17,126M. To achieve this PYE an index of 98 needs to be maintained for the balance of the year, which we believe is achievable. With the Fall Open House in September, mailings and advertisement in support of the Vision 2000 Programming 3<sup>rd</sup> quarter and the introduction of new starter 4ft. display packages during Open House we believe this is possible.

### **Fontanini Sales --\$M**

	<b><u>1999</u></b>	<b><u>1998</u></b>	<b><u>Diff.</u></b>	<b><u>Index</u></b>
<b>YTD</b>	12,813.5	12,945.8	-132.3	99
<b>BAL</b>	<u>4,086.5</u>	<u>4,180.2</u>	<u>-93.7</u>	<u>98</u>
<b>TOT</b>	16,900	17,126	-266	99

## **2000 OBJECTIVE**

Our objective for 2000 is to generate revenue of \$17,400M, an increase of 3% or \$500M versus 1999 projected sales of \$16,900M. We believe this 3% growth is realistic considering the overall strength of the new line placing emphasis on themes verses individual SKUs, efforts to expand our dealer base, as well as the development of marketing plans focused on enhancing displays and the collectibility of our line.

## **INDICATED ACTION**

1. Continue to focus on the 5" Retail and Accessories Departments and incorporating 40-50% of the 2001 line introductions into these categories. Special emphasis will still be tailored toward the traditional Nativity theme in the specialty sets, stables and gift items. Additionally, to help promote the concept of year-round displays and increase sales, a significant portion of the future introductions will have "general village themes" such as family and trades that can be easily identified and displayed year round. Also aiding in the year round display effort is the Life of Christ Collection, which taps into another seasonal market, that being Easter/Spring.
2. Focus on merchandising product in the "matrix" format that can be easily adapted by Fontanini dealers and Roman showrooms. This will allow for a number of accessories and buildings to coordinate through a general theme, or display with existing pieces. In addition, it will make it easier for sales reps, dealers and consumers to buy and sell all the items within the line.'
3. Focus efforts on our strongest Giftware and Licensed categories, reduce efforts in slower categories and introduce a couple of new categories that seem to be a good fit with our collector profile and current marketing trends. We will more closely monitor the Giftware industry and trends to assure items are in line with current trends, such as home décor, seasonal items and gifts to help our efforts of increasing sales in these departments.

4. Explore new display techniques with a self contained floor displayer, while allowing new Fontanini dealers more options (i.e. starter pack focused on the basic Nativity versus starter pack that focuses on the village concept). Moreover, continue to educate dealers and the sales force on the benefits of merchandising and the most effective display techniques. We will be introducing plan-o-grams and sell-sheets while continuing features in newsletters. In addition, will focus on creating additional point-of-purchase displays, offering more packaging consistency (i.e. more photo boxes) and produce more signage for brand identification and sales assistance.
5. Focus efforts on building Club membership through marketing programs, promotions and public relations efforts based on the 10<sup>th</sup> Anniversary of the Club and the 2001 Trip to Italy.
6. Place emphasis on expanding our dealership base. We need to focus our efforts on our most popular channels of distribution, specifically Christmas shops and gift shops. In addition, lucrative opportunities such as placement in department stores should be explored.
7. Increase our public relations process to create and maintain a positive image coupled with an on-going relationship between us and both the sales reps and dealers. By nature, public relations is among one of the most invisible functions in marketing, but powerful, and we must assure that it does not appear to be self-serving or a "hard sell." Continued efforts should also be placed on gaining presence on the Internet.

#### **NEXT STEPS/TIMING**

1. Continue to set-up new items in the sample system and the placing of sample orders. Have new items transferred into the ARGUS system so initial stock orders can be placed by 9/30/99.
2. Produce the 2000 Fontanini catalog by 12/15/99.
3. Present the 2000 Line to the Sales Force at National Sales Meeting in December.
4. Focus on year-end marketing programs that will help to sustain, or increase sales for the Fontanini Brand for the remainder of the year.
5. Attend Fall Fontanini Open Houses and conduct consumer and dealer research to assure our marketing/merchandising programs are aligned to meet the demands of our customers.
6. Prepare Product Knowledge and PrePack Sheets for distribution in the NSM binder for enhanced sales rep knowledge and understanding.