

Libey-Concordia Economic Outlook and Secrets of the Catalog Master

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Outlook for the Fall 2005 DMA Conference and the Fall 2005 MeritDirect CEO Roundtable

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The Fall DMA Conference will be held in October and the Fall MeritDirect CEO Roundtable will be held in mid-November, a time for reflection on the performance experienced in 2005 and the strategic planning for 2006. For business-to-business CEOs and COOs. The roundtable is an excellent opportunity to analyze the outlook for the coming year and compare and modify expectations based on the collective thinking of peers. Since the summer CEO Roundtable in July, there have been significant shocks to the economic system. It is possible that these could move the national economy either direction over the next six months and longer. Looking at the Leading Economic Indicators, we can attempt to project what can be expected as the year comes to a close and what may be ahead in 2006. Once again, we applaud MeritDirect for sponsoring the CEO Roundtable for its clients and Derrick Egbert for his skilled facilitation of the two-day sessions.

Oddly, the widespread damage caused by Katrina may have different outcomes depending on how economic activity in support of rebuilding is viewed. In the coming months and years—indeed, decades perhaps—this can be either a positive or a negative economic driver. If the total cost is \$200 billion in losses, the solution can also be seen as

potentially \$300 billion in reconstruction, given that reconstruction will be bigger and better for the future. Left as a massive insurance loss and a federal bailout, it is a strong negative, but viewed as an economic opportunity to rebuild, strengthen and invest in improvements of the infrastructure of the entire Gulf coast, it is a strong positive for the American future.

Too much focus is being exerted on New Orleans. Nearly the entire State of Mississippi and large parts of Alabama, as well as Louisiana, will require near-total reconstruction. An opportunity exists to create something better than that which was there prior to the devastation. An opportunity exists to create a significantly improved business-supporting infrastructure that will be meaningful and important to the economic health of the entire Gulf coast region of the country. Will the nation respond to this opportunity? Possibly.

The unknown question is how Congress will act faced with \$300 billion dollars of need. Obviously, the money—regardless of the actual amount—will all be borrowed. What that means is unclear. There exists a growing unwillingness to *invest* in the U.S. by foreign investors; yet, there is a disconcerting willingness by foreign investors to *buy* large holdings in U.S. companies having dominant global positions. Investing and buying are two different things. Investing means to hold paper; buying means to own tangible assets producing cash flow. What is at work here is the ageless economic law of substitutes. When one form of investment does not hold utility, either present value or future value, that investment is shifted to some other form that does have utility. It's all Opportunity Cost. What utility could be gained from the money if some other opportunity was chosen?

This is, of course, all theoretical economics. At some point, we will know how the world reacts to Katrina, either as an economic blip or as (in the current in-term), a 'tipping point' for the U.S. economy. What we do know, however, is pure common sense that can be fairly well relied upon going into the immediate 2006 future.

First, there's a lot of dislocation. Infrastructure, housing, services, medical systems, school systems, oil production, grain transport, cement transport, all these and much more will be slow to return to normal any time soon.

Second, there's a lot of politics. And it's going to get worse and get ugly before it all goes away. What will likely be left is more of the same and a huge amount of wasted money. Some good will result, but it will be so mired in political sludge that it will be largely unrecognizable.

Third, about ten percent or less of the nation's businesses will be impaired for a long time, but at least one percent of the GNP will be lost. That would logically halt or slow the increases in interest rates that the Fed has been taking for the past year, but only if inflation (read: oil prices) is controlled.

Fourth, rebuilding \$200 or \$300 billion worth of infrastructure means \$200 or \$300 billion worth of expenditures—positive expenditures. Jobs will be filled, building products will be bought, materials to resupply the homes and businesses will be purchased, money will move and things will happen. I would much rather see \$300 billion for reconstruction than \$300 billion for tobacco industry settlements. Reconstruction *creates* money; lawyers just *redistribute* money, generally into their own bank accounts. The reconstruction of the Gulf region will benefit people; litigation only benefits lawyers who, as we all know, rank somewhere below most people.

Fifth, as a result of the unchangeable political malaise, the solution, whatever it turns out to be, will cost the U.S. an enormous amount of money producing, at best, only fifty percent or less of the potential utility that *should* occur. In other words: inefficiency in the economic sense of the word, or capital applied less than optimally.

Sixth, the class and societal implications involved in the event, stirred by the forces of polarization, will result not in a unification of spirit but a further polarization of ideologues and will tend to distract policy from the significantly important topics of economic stability to a preoccupation with social issues that only delay or deepen the budgetary deficits that drive our place in the global economy.

Seventh, *in toto*, there will be economic costs that will influence every aspect of your business, likely for the next decade. It's going to increase your costs one way or another. Gross domestic product will go down; inflation will remain stable (ex-oil); consumer spending will go down; unemployment will remain stable; interest rates and the cost of money will go up.

The U.S. Economic Forecast through 2006 (as of: September 1, 2005)

	2005			2006			2004	2005	2006
	II Q*	III Q	IV Q	I Q	II Q	III Q	Annual	Annual	Annual
Real GDP	3.3	3.1	3.2	2.8	2.9	2.8	4.2	3.4	2.9
CPI Inflation	4.2	3.3	3.0	3.0	3.0	3.1	2.7	3.1	3.1
Real Consumer Spending	3.0	3.1	1.5	3.3	2.8	3.7	3.8	3.3	2.9
Unemployment Rate (%)	5.1	5.0	5.1	5.0	5.1	5.1	5.5	5.1	5.1
90 Day T-Bills (%)	2.86	3.41	3.86	3.97	3.97	3.97	1.36	3.16	3.97
10 Yr Treas Bonds (%)	4.16	4.35	4.45	4.50	4.50	4.50	4.27	4.31	4.50

**Actual values*

***Seasonally adjusted, annual rates except where noted.*

Source: The Conference Board

It is important to note that this information is as of September 1, 2005, prior to the Katrina devastation. The impact on the fourth quarter GDP could bring the 2005 annual figure to something less than the projected 3.4 percent growth, perhaps as low as 3.2 percent. Nationally, we would require an unusually strong fourth quarter to sustain the 3.4 percent annual growth figure that was projected September 1, 2005. In short: growth will slow.

Equally important is the recognition that the CPI inflation projection of 3.1 for 2005 and 2006 is derived pre-Katrina and pre-oil industry shocks. Whether the complex forces at work, including supply and demand, OPEC production increases, the very questionable validity of the futures market 'frothiness,' and the equally suspect actions of the major petroleum companies will conspire to lift U.S. prices to a comparable level with European petroleum prices, an outcome logically desired by the global petroleum and refining conglomerate. If so, inflation post-Katrina would, in our view, be closer to 3.4 percent in 2006 than the projected 3.1 percent, or nearly a half-point increase.

While GDP and inflation moves as discussed are, I believe, almost givens, the real question for the balance of 2005 and all of 2006 is consumer spending. From all

indications, restaurants are experiencing softness. I would expect to see similar softness in non-essential spending. However, the potential boost in both consumer and business spending due to reconstruction would seem to indicate some stability in the projected number for 2006, particularly as the rebuilding and refurbishing gains momentum, funding and the supply chain catches up with demand. I believe there will also be a moderate increase in business capital spending due to the rebuilding of infrastructure and the overall Gulf region business footprint. This should help to sustain a portion of the business-to-business outlook, or perhaps better stated, moderate the potential softening for business-to-business spending in 2006.

The Balanced Perspective

The multi-channel direct marketing business up to mid-September 2005 has been good. The fourth quarter year may not be quite as good, but I also don't see the bottom falling out. As always, energy costs are the unknown externality. There will be positive effects in the coming months and year from reconstruction and there will be offsetting effects due to the seven influences discussed above. The net result, I believe, will be a zero sum outcome, neither growth nor decline, rather a status quo with slightly increased costs. If this is so, the meaningful question is, "What do we do?"

Logic Prevails Almost Always

The market is almost always orderly; logic tends to prevail, over even greed, waste, corruption and the unpredictability of nature. And so is direct marketing logical, extremely so, particularly as regards predictability.

The direct marketer who proceeds with building the business through the logical, tried and proven technique of investment prospecting will be more successful over time than the direct marketer who forsakes new customer acquisition for immediate cash preservation, even during difficult business environments. And there is more to the logic.

The direct marketer who responds to a distressed market with new products, improved products, an alternative price position, and an additional channel is twice as likely to emerge from the rough patch intact and with greater customer acquisition and retention. There is only one time in the life of a direct marketer that justifies maintaining the status quo: the top of the economic cycle when business is incredibly good. And those economic peaks tend to come about every fifty years. Logic—cyclical, economic logic—proves that the greatest portion of the time you will spend in business will be spent investing in your business to assure future growth. If you are lucky, once a career, you just might catch a peak—and that's when you should cash out!

It's very clear to me that the next three months, year, probably decade will logically be spent investing in the growth of the direct marketing through timeless, conservative investment in new customers, new products and, perhaps most important, new markets. It is equally clear to me that the post-Katrina and immediate future is *not* the time for cutting back on investment in new customers through multi-channel prospecting, nor is it the time for deferring new product development and introduction. And, frankly, I can't imagine a better time to pursue a new or concentric market expansion than a time when the competitors are unsure and tentative. Let me relate a story about an Iowa farmer.

Leonard Maasdan was a Dutch farmer who spent his whole life on a Century Farm in rural Iowa. He grew corn and soybeans and raised cattle and hogs, but he also was the owner of a large sorghum mill he took over from his father and grandfather. Leonard had the ability to 'read' people and events. He just 'knew' what was going to

happen, and he was always right. After the stock market crash of 1929, Leonard bought land for more crops. In 1932, he figured stock prices were as low as they were going to be and would move up, so he bought stock at a time American investors were thoroughly beat and had no confidence in the stock market. Within two years, he had doubled or tripled his investment and he sold out and—you guessed it—bought more land. Leonard wound up a very wealthy man with a unique mix of products, including the sorghum mill that not only made a lot of money during the Depression but continues today under the care of the fifth generation. Leonard was a contrarian opportunist. That is exactly the logical strategy that will prevail today. In fact, there will never be a better time to invest in Mississippi than right now, or New Orleans either. But only a few smart and logical people who can ‘read’ the events and the circumstances will succeed. The timid will always be on the sidelines observing.

Three Things to Do Over the Next Year

1. Bring in the Trusted Advisors. Invite your circulation partners to examine your present prospecting performance and ask them to develop a circulation plan that will create above average growth for your business based on the projections above. In fact, convene a full-blown circulation reformation and get back to the foundation of solid investment prospecting. I’ve said it time and again, and it remains as true today as it was twenty years ago: there is twenty to twenty-five percent of your circulation that can be optimized if you will bring in the experts who know how to do that. You must get closer to your Trusted Advisors, whether they are your brokers, your printers, your postage formatters, or whomever. You need a full-disclosure, trusting environment in which to create innovation for the growth of your business.

2. Take a full-blown, comprehensive strategic planning approach to new products. As I have written over the years, new product strategy is equally complex with database analytics or any other element of direct marketing. Merchandising is a skill that has been ignored by catalog and Internet marketers for years and it is now absolutely essential if you are to compete in a fully furnished manner. With the exception of circulation planning, nothing will assist you in rapidly expanding and growing your business than a definitive and well-constructed new product strategy. And it begins with analyses. Begin now—in the status quo years when others are scared and tentative—to fuel the New Product Machine and to wrest control of the market throttle. This is a business about *products!*

3. Develop fully one new and significant market as an expansion or adjunct to your core market. Done correctly, two markets are better than one market in every instance. The time for market expansion is now when few have the nerve, the resolve or the foresight to capture a major piece of the economic battlefield. Like product and circulation, bring in the experts. Seek advice. Listen to creative thinkers and veterans of the battles. Map a total campaign to secure the high ground of the next market, and do it when the enemy is asleep or has retreated to the bunkers to weather the storms.

The time for action and planning is now. Even if the economic conditions deteriorate, you win. Even if the economic conditions improve, you win. Only if you do nothing or retreat will you lose. And the victory always goes to the logical, active and opportunistic ‘reader’ of the times.

The Fourth Quarter 2005 Regional Economic Outlook

I will repeat with some modifications my September Special Issue recommendations. I repeat that I absolutely see this as a time of necessary investment prospecting, new product development and new market expansion. A number of common sense, rational factors must continue to be carefully considered. First, there is no benefit or gain from a hasty, 'pull back' mind-set. All that will do is create a serious drop-off in your business downstream. What is needed is a logical and comprehensive analysis by your broker and Trusted Advisor as to where you can decrease and substitute, and where you must increase circulation, and to what levels.

First, using logic, let's reiterate the estimated regional economic performance through the end of 2005. I believe it will look something like this:

Signs of Improvement or Status Quo

Region One (CT, ME, MA, NH, RI, VT)

Region Two (NY, NJ, CT, PR, VI)

Region Three (PA, NJ, DE)

Region Four (OH, KY, PA, WV)

Region Seven (IL, IN, MI, WI, IA)

Region Nine (MN, WI, ND, SD, MT, MI)

Region Twelve (CA, UT, AZ, NM, OR, WA)

Region Ten (KS, CO, MO, NE, NM, OK, WY)

Slower

Region Five (KY, MD, TN, VA, NC, SC)

Region Six (GA, AL, FL, LA, MS, TN)

Region Eight (MO, IL, IN, KY, TN, LA, AR)

Region Eleven (TX, LA, NM)

Regions Five, Six, Eight and Eleven will continue to be the most effected, specifically (and you must adjust for these regional inclusions and exclusions) **all of** Louisiana, Alabama, Mississippi; **parts of** Florida, Texas, Arkansas, Tennessee. And due to the effects of oil prices, likely **parts of** Georgia, South Carolina, Arkansas, and possibly North Carolina. There may even be more storm damage as the hurricane season continues through October.

We believe the general economy will continue to be fairly stable in Regions One, Two, Three, Four Seven, Nine, Twelve and Ten. The primary wild-card effect in these relatively stable regions will be the influence of oil prices and possible, resultant inflationary spikes. However, the overall economy in these regions is healthy and should continue to remain healthy.

In business-to-business, we see a rapid, huge demand surfacing in the months and year ahead as the devastation is cleared and these vast areas of the Gulf region begin to undergo reconstruction and, ideally, improvement. As an equivalency, perhaps up to ten percent of the total U.S. businesses will require refitting from the ground up as they are in the reconstruction area. These are predominately small businesses. We believe access, although initially mostly alternative, will be restored quickly and will include alternative

telephone, online and email channels with mail and UPS/FedEx/USPS package services established quickly, especially as the demands of reconstruction grow.

Because the majority of the economy will continue status quo, there are areas of the country that will be able to absorb increased circulation to offset the reduced circulation in the area of reconstruction. We have attempted to describe those decreases and increases below for your end-of-the-year guidance and consideration in adjusting your circulation and prospecting plans.

The Fourth Quarter 2005 Circulation and Prospecting Outlook and Recommendations

Synopsis

The short-term economic outlook for the catalog industry continues to be positive, but pressured, through the fourth quarter of 2005. There will be signs of slowing emerging in the leading indicators, and there is likely to be moderation in the fourth quarter and early 2006. The intermediate-term outlook, however, remains positive for the balance of 2005 and into 2006, and the long-term outlook through 2007 remains positive. This outlook is dependant upon the effects of oil prices short term and during the winter.

Continue Prospecting

Again, I repeat my Winston Churchill position: *Never, Never, Never Give Up*. Continue maintaining circulation and prospecting plans but adjust them logically and rationally. Do not allow new business momentum to wane. The path back from knee-jerk prospecting reduction decisions is always littered with failure.

Once again, perspective is essential. If you will think back over the years and recognize how many companies have regretted their short-term decisions to pull back in emergencies, or during periods of uncertainty, you will reflect again on the reality that reducing prospecting and house mailings *at any time* is always a strategy for slowing the growth and profitability of the business longer-term. The savings of a few thousand dollars in times of uncertainty or cloudy economics can result in the loss of many more thousands of dollars in future profits and business valuations. Our strategy should be about focus, consistency and growth. Those are the qualities that deliver the greatest percentage chance of stability in an unstable time. *The point: Prospecting in all channels isn't an optional strategy in stressed economic conditions; it is a constant strategy that must be adjusted and logically addressed. But, it never stops.*

Nation at a Glance

The detailed economic conditions for each state (and specifically the Katrina-devastated states) have been integrated into the following recommendations. **Changes to circulation recommendations through the Fourth Quarter 2005 and are highlighted in bold italics.** A number of offsetting and moderating changes are recommended through the fourth quarter to assist in your circulation adjustments to offset as much as possible the effects of Katrina. There are obvious decreases, but there are also offsetting increases.

In those states with a **suspend** recommendation, please carefully monitor the resumption of mail and package services to those areas. Additionally, attempt tests to determine the level of Internet activity and potential for email programs to your customers in those areas. As an example, an acquaintance operates a major recording studio in New Orleans and will soon be replacing all of the electronic equipment necessary to the business. This will, at some point, all be purchased online.

Each state is listed with a recommendation for **H** = house and **P** = prospecting circulation.

State	Mailings		
		Missouri—South	Normal
		Montana	Normal
Alabama	Suspend H/ P	Nebraska	Increase H/P
Alaska	Normal	Nevada	Increase H/P
Arizona	Increase H/P	New Hampshire	Increase H/P
Arkansas	Normal	New Jersey—North	Increase H/P
California	Increase H/P	New Jersey—South	Increase H/P
Colorado	Increase H/P	New Mexico—East	Normal
Connecticut	Increase H/P	New Mexico—West	Normal
Connecticut-Fairfield	Increase H/P	New York	Increase H/P
Delaware	Increase H/P	North Carolina	Decrease P
District of Columbia	Normal	North Dakota	Increase H/P
Florida	Decrease P	Ohio	Increase H/P
Georgia	Normal H	Oklahoma	Normal
Hawaii	Normal	Oregon	Increase H/P
Idaho	Increase H/P	Pennsylvania—East	Increase H/P
Illinois—North	Increase H/P	Pennsylvania—West	Increase H/P
Illinois—South	Normal	Puerto Rico	Normal
Indiana—North	Increase H/P	Rhode Island	Increase H/P
Indiana—South	Normal	South Carolina	Decrease P
Iowa	Increase H/P	South Dakota	Increase H/P
Kansas	Normal	Tennessee—East	Normal
Kentucky—East	Normal	Tennessee—West	Normal
Kentucky—West	Normal	Texas	Decrease P
Louisiana—North	Suspend H/P	Utah	Normal
Louisiana—South	Suspend H/P	Vermont	Increase H/P
Maine	Normal	Virgin Islands	Normal
Maryland	Increase H/P	Virginia	Normal
Massachusetts	Increase H/P	Washington	Increase H/P
Michigan	Normal	West Virginia—East	Normal
Michigan—Up. Pen.	Normal	West Virginia—West	Normal
Minnesota	Increase H/P	Wisconsin—North	Increase H/P
Mississippi—North	Suspend H/P	Wisconsin—South	Increase H/P
Mississippi—South	Suspend H/P	Wyoming	Increase H/P
Missouri—North	Normal		

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The Fall Ritual

There has always been something magic about October and November in the catalog business. The fourth quarter catalogs are finished and at the printer. The first nine months of the passing year are complete and the performance is being analyzed in preparation for adjustments to the circulation plan for the coming year (which was completed in September).

This is the time for the leisurely review of the creative state of the catalog. How does the catalog *really* look?

Get out of the office. The weather is great. Go somewhere and enjoy the fall scents and the cool air after the long, dry summer. Get in the mood for creative exploration. Have a nice lunch.

Take someone you trust with you. Someone who will actually tell you the truth when you pose a creative question, not just parrot the party line: “Well, you know I really like those crammed pages with forty little boxes showing small products. It’s actually cost-effective and doesn’t have anything to do with response or sales.”

Stop defending the creative and look at the catalog dispassionately. Does it accomplish what it should? Is it any good? Just how dated is the catalog anyway? I keep seeing catalogs that have become business-to-business and consumer classics, but most of them looked pretty much the same in 1990 . . . and 1980 . . . and 1970 . . . and Maybe—just maybe—it’s time for an updated look. Perhaps while things were going along pretty well, the market changed or the customer got older, or younger, or richer or poorer, in sickness or in health, till death do us part. Stuff changes! Catalogs have to change to remain relevant. Even business-to-business catalogs.

Tear out pages and look at them in isolation. Concentrate on individual page attributes and approaches. Is there an old style protocol or an old typography protocol being continued past their prime of relevance? Are those individual pages done the way you would do them for next year’s business?

How could you stand the catalog on its head and do three things totally different and totally *interesting*? Creative is all about keeping people interested. And showing them what’s new. So . . . what’s new and interesting in your catalog? There a number of the biggest catalogs out there that I look at and I don’t know what year it is. These

dreadfully boring catalogs have looked like they look for the past twenty years or more. This is usually a sign that there hasn't been a fresh creative idea in a decade. Why is this?

Talk about the covers. Are they predictable? Is there something that might be fresh and exciting that could be done to the cover that just might get a customer to say, "Wow! That's different. I wonder what's new?" That is the magic saying. It's the only salvation from irrelevance and tossing the catalog in the Pile For Later.

Is the photography any good at all? Or is this the same, tired, old photography that every customer has seen now for several years? Was it skillfully done to begin with? Or was it just cheap? Is it digital and are the angles correct? Is the lighting dramatic or dull; exciting or boring; does clarity rule or obscurity?

What about the copy? Some stuff, different catalog? Do the words echo the expressions of today or mimic the past? Is there continuity to the copy? Does one part of the catalog use specification copy and another descriptive copy and yet another persuasive copy? Are the customers confused? Are you?

Have a heart-to-heart with yourself. Look out at the trees and the fall sky and smell the air. Tell yourself the truth about your creative. Take the rest of the day off. Then go back to the office tomorrow, and do something about it.

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BoardRoomAdvisor

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Web-Site-Advisor

For a full description, please review www.Web-Site-Advisor.com or the Web-Site-Advisor page at www.libey.com

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