

# Libey Economic Outlook

DMA Annual Conference Issue  
September-October 2006

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Published Exclusively For Clients Of

**Libey Incorporated**

*Consultants & Recruiters to Multichannel Direct Marketing*

Cherry Hill, New Jersey      Des Moines, Iowa

[www.libey.com](http://www.libey.com)

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## Re-merchandising

Donald R. Libey

### **What is merchandising, anyway?**

The *Merriam Webster Collegiate Dictionary* assigns meanings to the Middle English and Latin prefix *re-* of “back, again” and even “backward.” It is an interesting prefix, *re-*. It denotes freshness and newness, a renewal, rebirth or revisiting, if you will. The word *merchandise*, used as a transitive verb, comes from Middle English and Old French and has the primary meaning “the occupation of a merchant” as in “to merchandise” and a secondary meaning “commodities or goods bought and sold in business” as in “stuff.” The noun *merchandising* was first referenced in 1932 and means “sales promotion as a comprehensive function including market research, development of new products, coordination of manufacture and marketing, and effective advertisement and selling.” And the related noun *merchant* means “a buyer and seller of commodities for profit” or a trader, as well as “the operator of a retail business” or a storekeeper.

As we can see, during the scant seventy-two years since the term *merchandising* was first coined (no pun intended . . . well, actually, yes, pun intended), we merchants of old have progressed only a short distance from the local market town fairs of Britain and Europe and the bazaars of the Silk Road. (I have always used the term *peddler* or *peddler* to describe what it is that we do, which broadly equates to “one with wares for sale,” a not too-far-off-the-mark *nomen dubium* for the modern-day *cataloger* and, certainly, a bit more refined term than the 1713 French, back-formation, transitive verb *hawk* or “to offer for sale by crying out”).

And so, as we journey from the Middle Ages to the zenith of the Sears, Roebuck and Company age when the term *merchandising* first acquired its meaning the year after Sears, Roebuck and Company's retail sales topped its mail order sales for the very first time (1931, at the height of the Great Depression), and thence to the present-day multichannel festival, where we are all still trying to figure out what *merchandising* is, let alone the meaning of *re-merchandising*.

Perhaps the best that can be said for merchandising is, "I really don't know what it is, but I when I see it done well, I know it's good" And the good examples of merchandising are easy to spot because there are so few of them that they pop up and jump out from the flat, one-dimensional drabness of the collective yawn that ninety-five percent of the modern *merchants* produce. After all, we have only been talking about, experimenting and testing merchandising approaches and principles for a little over seventy-five years, a veritable blink on the vast continuum of commercial time. The spice merchants of the 10<sup>th</sup> Century knew more about the basics of merchandising than we can ever hope to understand (and they had no deciles, RFM or square-inch analytics, focus groups, or multivariate regression analyses; they only had a bad-smelling, nasty camel).

### **The "Re-Merchandising" buzz**

Regardless of how we got to where we are, we're here. And most of us have never had a course in merchandising, and it's something we think we know how to do intuitively, and—after all—we hire people to do that, anyway. So, we have VPs of Merchandising, product merchandisers, product managers, copywriters, and we're managing and supervising all that activity, and our basis for excellence is, "I really don't know what it is, but I when I see it done well, I know it's good." Suddenly, the buzzword in business-to-business catalog and online marketing is *re-merchandise*. It's being sounded as a clarion call by company after company frantically trying to find margin, growth, earnings and new market share; the Holy Grail has been deemed to be hidden in the Land of Re-Merchandising. Maybe we should try to get a little better handle on this thing.

Your existence as a cataloger is a constant state of *re-merchandising*. At no time is the merchandising ever done or stable; it is always in a state of reflux, redux, and re-bloviation. When you stop re-merchandising your products, you ossify. The customer is moving on down the road, and you are sitting on a bench in the park, enjoying the Mary Poppins-like tranquility of "practically perfect products in every way." No such thing exists. There is no Emerald City, there is no Oz; in fact, there is no park.

### **It starts with positioning**

By now, I hope you have read Chapter 7: Position in the book Christopher Pickering and I wrote last October, *Libey and Pickering on RFM and Beyond*, available from MeritDirect Press ([www.ForBetterBooks.com](http://www.ForBetterBooks.com)), 338 pages, hard cover, \$59 + S&H (pay attention, *this* is merchandising) in which we discuss the principles of positioning as the first step to knowing *how* and *why* to sell products. This is the chapter where merchandising begins.

Before you *re-merchandise*, you have to have a total understanding on what you are *merchandising* to begin with. Based on the outcomes of many of my forensic

consulting reviews, I have to believe that many, if not most, of our catalog companies have not nailed this basic down. Yes, they know all about their products, but they don't understand what the customer knows and thinks about their products. Most owners and CEOs are merchandising their *baby*, the hallowed and sacred product they built the company with. Everything is merchandised through the *owner's* eyes and beliefs, not through the customers' experiences, desires, wants and needs. And when you are a worm in the horseradish, everything looks and smells to you like horseradish.

### **The position blockage**

The primary merchandising blockage that I commonly encounter in consulting is the misguided belief that everyone understands everything that you understand about your product. Stated another way, this is what I call *The Merchant's Fallacy*. Isolated in the vacuum of your own product development and merchandising vision, you are excluding every other possible application, interpretation and product understanding that exists in the vast realm of potential buyers. As an example, I once unsuccessfully merchandised business-to-business holiday cards for their beauty, gold foil embossing and up-market elegance; in other words, all the elements of card creation that I found attractive. It wasn't until I asked the question, "Why do you send holiday cards in December?" that I began to understand how this product needed to be re-merchandised. It had nothing to do with beauty, elegance or up-market embellishments; it had everything to do with 'top-of-mind' memory, appreciation for that year's business and the protection of next year's customer retention. The motivation (that is, the *merchandising* reason) was greed. Send a card, make a buck. While not, perhaps, the "vision of sugar plums" that we hope would pervade the holiday spirit, the appeal to greed *did* sell a bunch of cards. I just had to re-think my positioning for my product.

Consider this common merchandising cause and effect. It is an outdoor art fair and there are painters and watercolorists and photographers, all with their displays and walk-in booths. Generally, the artist is sitting in a director's chair or a lawn chair, quite often painting or reading, but almost never customer engaged with other than a cursory interest. In other words, the artist is *merchandising* by conveying, "Here is my work. It is self-explanatory. If you wish to buy something, I'll sell it to you, but—otherwise—don't bother me." The merchandising approach here assumes that I understand exactly what the artist understands, and that only one out of every one or two hundred people will have a positive connection and actually buy something (a merchandising practice, I might add, not unlike most cataloging).

But, what if the artist walked over and asked, "What kind of space would you like to enhance in your home with artwork?" The positioning and the point-of-view now have shifted from the artist to the buyer. If the buyer says, "Great room," the artist says, "What do you have there now?" The buyer says, "Landscapes," and the artist says, "Here is a lovely gardenscape that would bring focus from the distant landscapes to a more intimate conversation area or, perhaps, a smaller, unadorned focal wall." Suddenly, the seller and the buyer are involved in planning and selection; or what is known in merchandising as intellectual product involvement. The next step is closure. How much better is that for sales than sitting and cleaving to the starving artist's innate and stubborn sense of product merchandising omniscience?

How is it that so many merchants *know* that they know everything there is to know about their products? That is a conundrum that has haunted me since my first week in direct marketing.

### **When to re-merchandise**

Re-merchandising is *not* a process that allows flopping about in the marketplace to see what you can get. It is a deliberate, planned and carefully researched approach to changing your product position to obtain market share in a defined and identified market niche or sub-niche. For example, let's say you sell tools for amateur woodworking and you want to move into industrial tools for professional woodworking. The whole point-of-view, applications, pricing, service, product lines, durability, shipping and installation concerns, and a thousand other elements are different. In fact, the only commonality is that these are woodworking tools. Yes . . . this is a new business.

But, let's say that, at Christmas, the spouses of woodworkers are looking to purchase gifts. Now, the point-of-view changes for a *season* and it may prove fruitful to *re-merchandise* the products for gift-givers for just that season. This might include bundles, expansions to existing products, suggestive selling, consultive selling, price incentives, or any number of other *re-merchandised* product approaches. The merchandising could also be combined with circulation tactics and targeted specifically to spouses . . . or . . . directly to the woodworker with a special merchandising appeal to, "Circle what you really want this year, leave this catalog where your spouse will find it, and we'll do the rest!"

### **The moment of merchandising truth**

The Master Merchandisers are able to Roto-Rooter their way through the blockages. They can create a merchandising approach for as many niche markets as the product will support, and all from a different merchandising or positioning point-of-view. The slavish handcuffing to *one* merchandising point-of-view for all-time and all-buyers simply assures that only a fraction of the total market ever purchases the product. The Master Merchandiser is a chameleon, able to blend with a hundred micro-markets for any given product or line of products. *You* may understand your product, but when you understand your product through the mind of dozens of different *buyers*—that is the moment you begin to achieve mastery of merchandising; that is the moment of truth in merchandising execution.

One of my primary tests of a merchandising candidate is to show the person a product and give them all the information necessary and then to ask them to create for me at least five thumbnail merchandising approaches for that product for five separate markets—in an hour. I am looking for imaginative people who can think on their feet and innovate quickly and skillfully and who are not bound by rigid preconceptions and imaginary merchandising rules.

### **The hierarchy of re-merchandising**

The greatest opportunity-laden potential for re-merchandising is to create new applications for new potential buyers. If you are selling olive oil, remember, it can be used to easily and cheaply remove the residue of adhesive labels. Arm & Hammer have

found hundreds and hundreds of applications for soda bicarbonate and have expanded the market for their flagship product exponentially.

The next exciting potential after applications in the existing market is to re-merchandise to reach new markets, or my “concentric tree-ring” approach. If you are doing products to hog farmers, think about products to chicken farmers.

The third potential for re-merchandising is to create a merchandising presence based on a position other than the one you are known for. If you are the selection leader, add the service leader. If you have the fastest fulfillment, add the slowest. If you are full service, create a limited service alternative. All of these re-merchandising, re-positioning approaches may have different price points or shipping and handling costs.

The fourth potential is often the trickiest: price. If you are the price leader (most expensive), create a mirror of the business that is the low price, strip-down market player. This re-merchandising approach usually attempts to getting a piece of the market at *all* prices. The resulting ‘brands’ often have different, totally unrelated names, locations, and creative, sometimes different channel emphases. For example, the high price catalog may feature similar products in a low-price, web only channel strategy.

Of course, one of the most ambitious re-merchandising approaches is international expansion. What works in the U.S. may or may not work in Portugal, depending on the product, the application, the position, the price, the service demands and the market nuances. Often, very different merchandising creative work must be accomplished. The U.S. style of copywriting is not a universal standard, nor are the layout and design elements.

## **Summary**

Re-merchandising is a constant evolution and must be ongoing to assure validity of product relevance and positioning. Merchandising demands an expanded point-of-view, not the mono-vision of the product originator, which all too often results in the straight-jacket of “more of the same.”

Re-merchandising—as well as initial merchandising—begins with a solid, intentional understanding of positioning. What do you want to be to the market and the customer, and what is it that the market and the customer want you to be? Any other beginning point must be seen as arrogance leading to *The Merchant’s Fallacy*.

All re-merchandising is deliberate and based on knowledge and analytics. Floundering in search of a direction is best left to the invertebrates.

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## **The Fourth Quarter 2006 Regional Economic Outlook**

The fourth quarter of 2006, I believe, may have some slowing due to a combination of fundamental economic influences (the slowing of the housing market engine) and psychological influences (growing dissatisfactions). However, economic growth continues in all regions and that must be factored into the last quarter mailing plans to customers and prospects. We would also draw your attention to the six-month decline in consumer confidence. This is a predictive indicator and one that has validity. It has been telling us that the nation's consumption outlook has weakened steadily since February. The indicator often portends economic conditions as much as six months in advance. It's a red flag.

The U.S. economy, however, has continued its expansion through August. Fortunately, even the various energy industry landmines have not resulted in further price escalations; although gasoline is still prohibitively expensive for most individuals and businesses.

Economic growth remains slowed in five out of the twelve regions, but again not enough to move those regions to a slow outlook. None of the twelve regions have dipped enough in economic performance to be moved to the Slower column; all continue relatively flat to slight progress.

For multichannel marketers, the third quarter of 2006 appears to be relatively positive with increases in sales and marketing performance pretty much across the board in business-to-business and in consumer cataloging.

Hiring in the industry is quite active. At the beginning of September, despite some reports of slowing in hiring, Libey Incorporated was conducting searches for 10 senior multichannel direct marketing executives, more than at any other time in 2006 or in recent memory. We have to conclude that you are investing in your businesses and, apparently, in prospecting, products, markets and in management talent. That indicates a positive outlook for 2007 is building and bodes well for a continuation of the positive outlook for direct marketing in general.

Just a side note: We see a continuing double-digit increase in web channel marketing again at the conclusion of 2006. There appears to be little slowing in the growth of the channel or in the conversion to online sales. All projections that we see are for this to continue apace in 2007. As the web channel morphs to include video, technology and speed enhancements, this is not a time to rest on your accomplishments from the past several years; indeed, this is likely the time to invest aggressively in staying current in the web channel.

### ***Signs of Regional Stability 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 Five (KY, MD, TN, VA, NC, SC)

Region Six (GA, AL, FL, LA, MS, TN)  
 Region Seven (IL, IN, MI, WI, IA)  
 Region Eight (MO, IL, IN, KY, TN, LA, AR)  
 Region Nine (MN, WI, ND, SD, MT, MI)  
 Region Ten (KS, CO, MO, NE, NM, OK, WY)  
 Region Eleven (TX, LA, NM)  
 Region Twelve (CA, UT, AZ, NM, OR, WA)

*Slower (Individual states)*

**Louisiana**  
**Mississippi**

## **The Fourth Quarter 2006 Circulation and Prospecting Outlook and Recommendations**

### **Synopsis**

The short-term economic outlook for the catalog industry continues positive. The intermediate-term outlook remains positive for the fourth quarter of 2006, and the long-term outlook through 2007 remains positive.

### **Continue Prospecting**

Continue with normal strategies for circulation and prospecting plans. There are no substantive economic reasons for any cuts in prospecting or reductions in customer circulation. Keep mailing, emailing, telephoning and searching at normal to increased levels.

### **Nation at a Glance**

There have been no substantive changes to the state-by-state circulation strategies.

<b>State</b>	<b>Mailings</b>		
		Idaho	Increase
		Illinois—North	Increase
Alabama	Normal	Illinois—South	Normal
Alaska	Normal	Indiana—North	Increase
Arizona	Normal	Indiana—South	Normal
Arkansas	Normal	Iowa	Increase
California	Normal	Kansas	Normal
Colorado	Increase	Kentucky—East	Normal
Connecticut	Increase	Kentucky—West	Normal
Connecticut-Fairfield	Increase	Louisiana—North	Evaluate locally
Delaware	Increase	Louisiana—South	Evaluate locally
District of Columbia	Normal	Maine	Normal
Florida	Normal	Maryland	Increase
Georgia	Normal	Massachusetts	Increase
Hawaii	Normal	Michigan	Normal

Michigan—Up. Pen.	Normal	Pennsylvania—East	Increase
Minnesota	Increase	Pennsylvania—West	Increase
Mississippi—North	Evaluate locally	Puerto Rico	Normal
Mississippi—South	Evaluate locally	Rhode Island	Increase
Missouri—North	Normal	South Carolina	Increase
Missouri—South	Normal	South Dakota	Increase
Montana	Normal	Tennessee—East	Normal
Nebraska	Increase	Tennessee—West	Normal
Nevada	Increase	Texas	Normal
New Hampshire	Increase	Utah	Normal
New Jersey—North	Increase	Vermont	Increase
New Jersey-South	Increase	Virgin Islands	Normal
New Mexico—East	Normal	Virginia	Normal
New Mexico—West	Normal	Washington	Increase
New York	Normal	West Virginia—East	Normal
North Carolina	Normal	West Virginia—West	Normal
North Dakota	Increase	Wisconsin—North	Increase
Ohio	Increase	Wisconsin—South	Increase
Oklahoma	Normal	Wyoming	Increase
Oregon	Increase		

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### **It's All About Margin: Reaping the Whirlwind**

*Margin is the pivot point, and we have created this reality*

Regardless of the reasons, American commerce has created a troublesome reality of margin erosion. Some cite NAFTA; some technology; some Wal-Mart; some the EU; some the alignment of the planets. It makes no difference why, because that is the past. It only matters that we recognize that—in the present and the future—it is much more difficult to make a buck.

I was struck by this reality recently while listing the various alternatives for improving performance and growth at a major business-too-business multichannel catalog company. This company has a highly competent CEO and management team and almost all of the obvious needs were basic and began and ended with gross margin improvement. The CEO, after quietly studying the five essential steps on the flip chart, made the revelatory observation, “It’s all about margin, isn’t it?”

Back in the early 1990s, when I was doing some 200 days a year of speaking and seminar work, I began focusing on the coming emergence of margin erosion due to the rise of a three-tier global market: 1) the Orient; 2) the European Union; and 3) the Americas. Logic told me that labor would be cheaper in the India, China and other far

eastern nations, and that they would supply the other two global trading block entities, the Americas and the European Union. Logic also told me that gross margin would erode due to price pressure as a result of low-cost substitutes and that the historic high gross margin U.S. footprint would shrink.

And it did.

And now we must deal with the whirlwind and the withering Sirocco that is blowing across the commercial landscape, desiccating the juices of profitability. When everyone buys cheaper and sells cheaper, the only possible outcome is an erosion of earnings if all other operating factors remain constant. Technology can only do so much, and we are now more than two-thirds of the way through the technological productivity era. Cost-cutting has been the mantra for some time, but there is a limit to that, as well. There are only price increases, response increases, or retention increases in order to stay even. At some point, that has to be recognized and acted upon. The *basics* are what have to be focused on if enhancements in performance are to occur. We cannot continue to chase the next two percent off the cost of goods in yet another small factory somewhere in the interior of Bangladesh. That is nothing more than a self-fulfilling hamster wheel. Keep on turning and the retail prices go down another two percent due to universal price wars. Where will that get us?

It seems to me the base foundations of buying and selling have been lowered in the last fifteen years. Many of our business-to-business direct marketing companies have seen gross margin retreat from as high as 65 percent to, in some cases, as low as 40 percent. This is almost entirely due to price pressure *as a result* of importing lower cost products. *We have been engaged in a price war against ourselves.* At the same time, advertising cost has increased and response has diminished. Fixed costs have increased. Normally, earnings will decrease given that combination of factors. In some companies, they have decreased. In many, however, they have actually *increased*, and I think it is temporary and primarily due to technology influences and, frankly, cost-squeezing, particularly getting more productivity and sales per employee. But, my guess is that the outermost limits of those temporary solutions to the issue of margin erosion are being reached.

The real question is: “Now what?”

Frankly, I don’t see magic amulets. What I see is hard work and blocking and tackling across all channels and a re-commitment to *The Basics*. If there is a new frontier in direct marketing, it is going to be where you should expect it to be—in database proficiency, in list testing, in new product development, in new merchandising approaches, in a re-commitment to customer-focused, *sincerity* marketing and a universal casting out of the systematized CRM demons that automate and reduce the customer to a pre-determined action and threaten the bond of trust, and to wringing out the chronic waste that is the all-too-common by-product of our prospecting and customer retention performance. Inside nearly all of our present multichannel direct marketing companies is another company of equal size struggling to emerge. These unborn, “shadow” companies

need only to overcome inefficiency, sub-optimal response, ignored customer retention levels, uninspired merchandising, ineffective and insufficient product development, medieval analytic understanding, untalented and under-talented management, and mediocre customer service to reach the sunlight of profitability and margin improvement.

It may be all about margin, but first and foremost, it is about *The Basics*.

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