

# Libey Economic Outlook

October 2007

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Published Exclusively For Clients Of

**Libey Incorporated**

*Advisors & Intermediaries & Recruiters to Multichannel Direct Marketing*

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## Major Concerns

Don Libey

*Perhaps continuing to exhort the direct marketing industry to take action and responsibility for political intervention is a hopeless cause, but my fear is that one day we will find ourselves essentially out of business. We are an industry of fiercely individual companies with little history of collective organization against the growing forces that threaten our economic existence. Sadly, much of the evidence points to a short-sighted unwillingness by those individual companies to spend the money needed to secure our common future.*

If the newsletter you are reading has, as its central theme, economic factors influencing your direct marketing businesses, then it is time to get down and dirty about what is going on.

We direct marketers—defined predominantly as significant *mailers*, as well as online and other direct channels—are in serious danger of economic throttling and we have only ourselves to blame.

### Postal Threats

You experienced, in 2007, a huge postage increase that blindsided this industry. Some of our companies have experienced 40 percent increases in postage; some even more. Most of our companies seem to be absorbing increases of around 20 percent. Large volume mailers have been hurt less than small volume mailers; yet ours is, by and large, an industry of small mailers. It hurts.

For some reason, the reaction to this inevitable, debilitating drain on profitability has been “ho-hum.” Perhaps we just raised prices, or shifted advertising to the online channel, or maybe we just don’t care. But, let’s face it: since the 2007 increase took effect, there hasn’t been much heard about it from mailers. Has the USPS finally gotten us to the point of Skinner box imprinting? Do they just push the lever and we peck at a kernel of corn without thinking? Have we been ‘shocked’ enough times that we just jump a little higher whenever the voltage is increased?

The American Catalog Mailers Association ([www.catalogmailers.org](http://www.catalogmailers.org)) was formed in reaction to this postage increase. For the first time in our history, the catalog industry has an organization focused *solely* on *its* interests. And, the ACMA has been *very* active; it has accomplished a great deal and has created influence with the USPS. Quite correctly, it has told the USPS and the PRC that they really don’t understand the catalog industry, and it is in everyone’s best interest to learn about what we do and what we contribute—not only to postal revenues, but to the nation’s economy. Good! It’s time some organization was able to get that ‘catalog-specific’ message across.

But, has there been an outpouring of support among catalogers for these efforts? Yes, but mostly no. A core group of catalog companies and industry vendors have given their support as members, but the vast majority of catalog companies have done nothing to support the association’s efforts. I have come to the conclusion, after decades of encouraging collective organization and political intervention by the catalogers, that we view our industry the same way many view Public Television. We watch the programs and get all the benefits of intellectually superior programming, but we are not willing to pay our share of the costs. The prevailing activism attitude is, “Let a few carry the water, but we’ll all drink from the bucket.”

Postage increases are just like Water Torture. The slow, drip, drip, drip, drip at some point drives you insane . . . or bankrupt, in this case.

In a recent communication to members and prospective members, Hamilton Davis, the effective and skilled Executive Director of the American Catalog Mailers Association, outlined a number of positive and negative influences on the future of postage and catalog mailing. Here they are for you to think about:

**Threats:**

- Postal Reform mandates a CPI cap on future rate setting – can turn into imbalanced rate increases for minority sub-classes (such as the cataloger subclass as happened in the last rate case).
- The last rate increase disproportionately burdened small to medium sized flats mailers; there is nothing preventing this from continuing.
- There remains the potential for another “old style rate case” with more of the same.
- The rules for the future are being defined now – catalogers must participate and continue to engage in this process – the procedures and rules defined in the next 24 months will govern postal policy for decades.
- Postal reform (Postal Accountability and Enhancement Act) gives more pricing power to the USPS but these folks admittedly (a) do not know the catalogers and (b) do not understand the catalog business model – we must educate and build a close

working relationship with those that control our destiny (they are already hearing from the other mailers).

- The USPS is in the middle of the largest automation project involving catalog mail ever attempted and it is sure to impact catalog mailer operations; we may *or may not* be in a position to meet the new requirements this entails; if we do not participate in this implementation we may not even find out about these new requirements until they are finalized, giving us little or no time to adjust our operations or mail plan to accommodate them; FSS may involve cost shifting to mailers or requirements we cannot meet.
- The increased likelihood of regulatory enforcement of the consumers' growing interest in privacy and greater control over what comes in their mail – as the telemarketers discovered, ignoring this issue leads to eventual Legislation that we may not like.
- The growing perception catalogs contribute to landfill and waste.

### **Opportunities:**

- Postal Reform (Postal Accountability and Enhancement Act) gives USPS management greater flexibility in rate setting, the process now has fewer opportunities for prior review before the new rates and regulations take affect; those engaged in dialog with the USPS pricing managers are more likely to get rates, classifications and products designed to meet their unique needs as mailers.
- The USPS is a natural ally in building catalog mail volume; catalogers not only contribute significant revenue and profit dollars to the running of the system, we send “valued” mail into the household that further enhances USPS brand and recipient receptivity – drivers to keeping mail welcome and viable for all types of mail borne messages.
- Help the wider mailing industry understand their enlightened self interest – the long term health of the catalog industry is important.
- Partner with the USPS and PRC to explore, test and implement new products or rates to ameliorate the punishing impact of the R2006-1 rate hike, for instance:
  - - Prospect mailing rates, because each successful conversion of a prospect to a house list customer results in over twenty additional pieces of mail being sent each year for the next three or four years.
    - Co-op NSAs or other “bundles” of the NSA process to get the benefit down to smaller mailers who do not have >100 million pieces annually.
    - Exploration of “total relationship pricing” that recognizes the significant potential mail volume catalogers have with both catalogs and package shipments.
    - Additional discounts on automatable mail, higher density (ECR) mail, mail plans that help level load the USPS work, etc.
- Partnering with the USPS operations and technical experts to leverage the FSS implementation to remove cost from the system, lowering the total supply chain cost and making catalogs more profitable at any given rate.
- Demonstrating the ecologic benefit of a “national warehouse direct to end user” business model employed by catalogers.

What Mr. Davis is saying is that there are serious economic threats to your future, as well as significant opportunities related to postal matters. But, you *must* take a proactive, involved position and you *must* be willing to spend the money necessary to gain influence and create favorable outcomes for the catalog industry. And you don't have much time left.

It is an interesting comparison, but from here in Iowa it is legendary. The meat industry does not attack Washington and Congress as one large group. Rather, the pork producers have their association; the beef producers have their association; the chicken producers have their association; the veal producers have their association, and so do the corn and soybean growers. Positive outcomes result when you are able to tell one, industry-specific story, rather than the watered-down, homogenized, collective story of many industries, all of whom have their unique ox to protect from goring.

That is exactly where we are: a collective, homogenized, non-specific story has been told for years—by well-meaning people and groups—but without the laser-sharp focus on the unique needs of catalogers *only*. Hey, it's your ox.

If we are to be successful—indeed, if we are to survive the drip, drip, drip—we simply have no alternative but to assure *our* story is told. Read the name: American Catalog Mailers Association. A group representing just you. For your economic future. For your profitability. For your survival. Get involved. Support the work. Finance the future.

I spent a day or so at the end of September talking with CEOs about their postage experience in the past two months. I'm not going to name companies, but here is the general summary of my discussions:

The postage increase has hurt, but not enough (yet) to cause any major abandonment of paper catalog mailings. However, the mailings have been—once again—cleaned up. Lots of address hygiene and verification is taking place. Equally, house circulation is being evaluated—once again—for straight forward RFM segmentation based on provable returns. In short, fewer dogs are being mailed fewer catalogs.

The encouraging finding is that prospecting has actually *increased* by something like 6% for the fourth quarter 2007 and definitely for 2008 circulation plans. That is positive. We are not buckling in and abandoning catalog mailings, a strategy that can be nothing but fatal. Neither have we shifted our new customer acquisition in bulk to the web or to search. Apparently, we are maintaining our stable mail marketing history and our stable investment prospecting history. And that is wise.

As positive as these findings are however, there is concern among the owners and CEOs. They are concerned about another looming postage increase (perhaps as big as the last), about the U.S. economy, about globalization, about further governmental influence in the free-market, about a lot of things. I suppose it has always been thus; owners and CEOs have constantly been worried about something. In the past, it is these worthy worries that have driven improvements and strengthened the businesses. Invention is, truly, the mother of necessity.

What is most encouraging, in the end, is that catalog mailers have not gone strategically astray. There is method, logic, rational thinking, common sense and conservatism at work in the changing industry we all know as direct marketing. The postage increase was a wake-up call and there is evidence of progress in meeting the ongoing postage challenges. But, now, what is needed is a bit of fire in the belly, a bit of old-fashioned revolt and activism for what we believe is important. After all, if we don't do it, who will?

Okay, that's one concern. But, there are others.

## **Do Not Mail**

I know: *It doesn't affect business-to-business direct marketing.*

Yes, it does.

It is just like rats in the grain bins. If they start in the corn, they will spread to the soybeans, the wheat, and the oats. Any Do Not Mail legislation that succeeds is a threat to direct marketing.

If you wake up one morning to the news that 50 percent of U.S. households signed up for the federal "Do Not Mail" program (like the "Do Not Call" program), what do you think will happen? Paper prices will increase (paper mills don't care *who* you mail); printers will close their facilities (printers don't care *who* you mail); all other support services will contract, as well.

With no growing industry, talent will migrate to other careers. Talent is, for all intents, nearly interchangeable between B2B and B2C, although many will debate this point. Regardless, direct marketing will be the loser in the talent wars.

Technology will turn away from direct marketing, given that the marketplace will be diminished by half. Most of our meaningful advances and our analytic, competitive advantages have come from direct marketing technologies. Technology doesn't care *who* you mail.

Investment will seek other growth industries, not shrinking industries. Investments in direct marketing are in great measure responsible for our amazing growth and our multichannel proliferation. When that money goes elsewhere, all direct marketing is the loser.

More government regulation and intervention is, simply put, anathema to free-market capitalism. *Any* regulatory control (outside of criminal activity) is negative for a market-based economy. Do *you* want the government determining who you can do business with, either overtly or passively? Do *you* want the government controlling the valuation of your business?

Once again, as we so brutally experienced with postage, we need to be able to influence the dialogue and to be able to tell our story and demonstrate our worth to the national economy. And that will require massive activism and relentless work. If not the direct marketers—the *mailers*—then who?

Can you really afford to continue giving this a strategic priority somewhere around “spruce up the trash receptacle area behind the warehouse?” Probably not. At least, it deserves a coordinated effort of Congressional lobbying. Are we any less deserving than the oil, pharmaceutical, or health insurance industries. Do you *really* believe that if those industries had not been congressionally active we would actually be having \$3.50 gasoline, \$400 prescriptions, and \$175,000 hospital bills?

Unless we unite in a strong, frontal effort, you *will* wake up one morning to the news that “At the end of the first month since the national Do Not Mail list was created, over 50 percent of American households have opted to no longer receive junk mail.” At that point you may as well bend over and kiss your mailbox goodbye.

### **Free Shipping**

Most of the foreign owners of U.S. catalog businesses push for free shipping. After all, if it is done that way in Germany, it has to be right for the U.S.

Wrong. The U.S. market has a very complex and unique economic structure between the distribution elements. First, businesses *expect* to pay shipping. Second, UPS, DHL, FedEx, USPS and every common carrier I’ve ever encountered increase their rates every year as regularly as the Winter Solstice. Third, freight in has not decreased—ever—in my thirty years in this business. Fourth, the only significant pressure for free shipping is coming not from other catalogers but from pure-play online companies. (By the way, you really should go to Zappos.com and buy a pair of shoes. This is—without exception—one of the very best online learning experiences I have ever had, plus they pay the shipping *both* ways by FedEx next-day.)

If the catalog mailing industry is somehow forced by customers into offering free shipping, we will see one of the most significant negative impacts to the bottom line that we have ever experienced. Please, do the numbers and see what this really means for your business. The old shibboleth is that you will make it up in new volume. Do the math.

### **Privacy**

This one scares me. Every time some mega-company loses a laptop with a gazillion Social Security or credit card numbers on it, some federal agency or citizen watch-dog group calls out the pack of fox hounds and demands a kill and someone’s hide.

Nothing makes a member of congress more gleeful than the prospect of writing legislation that gives the federal government more control over anything and, therefore, *more lobbying money and PAC donations*. That is how you prospect for campaign contributions. Somewhere, inside the Capital, there is a minor member of the House of Representatives thinking, “Let’s see, if we can get legislation restricting the list industry from renting lists, that has to be worth about \$150,000 a year for my re-election. Yeah, that’s good . . . Okay . . . Let’s write a bill.” Next thing you know, we’re in the soup.

The problem is, I just don’t see this as a “What if” issue, rather a “When” issue. It’s going to happen and we don’t have much going for us. Unfortunately (or fortunately),

the cause of all the angst is not the catalog mailer, but the mega-companies with all of the aggregated data files. Unlike our well-operated catalog businesses, these titans of commerce just can't seem to keep track of their computers. They're always leaving one in some Chinese restaurant or in the bleachers at Wrigley Field and—doggone it—it's always the ones with all of the medical data and social security disability information for twenty-seven eastern states.

Privacy is the nine-hundred pound gorilla in the room. This one could reduce us to tears. What are you doing about this threat? Without access to business or consumer information, what happens to direct marketing? It is not a consumer versus business concern. It concerns *all* of direct marketing in the same way that Do Not Mail does.

These are concerns that threaten to diminish our industry, our businesses, our go-to-market strategy. These are the Big Picture concerns that we, as a force of commerce, should be directing and controlling before the unpleasant alternatives are forced upon us without our having had a say in the outcomes.

Perhaps there is no better time to think about these concerns than during the annual DMA Conference.



## **The Fourth Quarter 2007 Economic Outlook**

As of early October, continuing caution is wise due to the fluctuating economic performance indicators. Consumer confidence and corporate confidence have both dropped sharply in the last month. The subprime mortgage difficulties are, in fact, much deeper than first thought and the effects on the international credit markets continue to be significant. The tear in the private equity bubble that we mentioned last issue has, to some degree, spread as an increasing number of deals are being refinanced, postponed or abandoned due to the higher cost of money and the lower tolerance for risk

The political climate is a miasma domestically and globally with the U.S. dollar weakening daily. Congress and the administration are actively 'spin controlling' the economic outlook until the primary and national elections. The reality of a severely battered economy is going to surface at some point.

My view for the fourth quarter has not changed much from last month. The holiday season will be constrained for consumers. Less money will be spent this year as the heating season forecasts mention record-setting costs for petroleum products. The housing market sinks further and, yet, consumer spending is up. Go figure. There is nothing to justify this increase in spending.

Given the fundamentals of the overall economic performance, the stock market should not be as robust, and I believe a serious second correction is building and will occur at some point in the near-term.

The balance of the year, however, bodes reasonably well for the economy. I will remain with my belief in a 2% to 3% growth in the economy, when all is done. That is less than half of where we were in the last two years and points to continuing pressure in 2008. Still, I would not pull back on mailings or prospecting in the fourth quarter or in the first quarter of 2008. Many of our catalog companies are projecting 6 percent increases for 2007 and, while not robust, these are, nonetheless, positive gains. Follow the money.

***Signs of Regional Stability or Status Quo***

Region One (CT, ME, MA, NH, RI, VT)  
Region Two (NY, NJ, CT, PR, VI)  
Region Four (OH, KY, PA, WV)  
Region Six (GA, AL, FL, LA, MS, TN)  
Region Seven (IL, IN, MI, WI, IA)  
Region Nine (MN, WI, ND, SD, MT, MI)  
Region Ten (KS, CO, MO, NE, NM, OK, WY)

***Flat or Slower***

Region Three (PA, NJ, DE)  
Region Five (KY, MD, TN, VA, NC, SC)  
Region Eight (MO, IL, IN, KY, TN, LA, AR)  
Region Eleven (TX, LA, NM)  
Region Twelve (CA, UT, AZ, NM, OR, WA)

***Evaluate individually***

**Louisiana  
Mississippi**

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**The Fourth Quarter 2007  
Circulation and Prospecting Outlook and Recommendations**

**Synopsis**

The short-term economic outlook for the catalog industry remains positive. The intermediate-term outlook remains positive for the fourth quarter of 2007 and the long-term outlook into the first half 2008 remains positive. While positive, the outlook continues to show slower growth than that seen over the last two years.

## Prospect as an Investment

For planning purposes, turn your attention to the 2008 circulation planning. Even with the signs of slowdown in the economy and in overall business, we recommend maintaining normal strategies for circulation and investment prospecting plans, but we remain with our recommendation of not more than 10 to 15 percent increases. The economy is likely to slow further in the fourth quarter and into the first half of 2008, but there are, as yet, no valid reasons for reductions in either prospecting or customer circulation, or both, in the first quarter of 2008. We remain comfortable with modest increases in prospecting levels, particularly where there pockets of concentrated niche-related prospects can be found. Test lists!

## Nation at a Glance

We will stick to our mailing recommendations extending into 2008. We caution against decreasing prospecting or customer mailings except for normal hygiene and mailing frequency improvements. Do not fall into the trap of reducing mailings; the end result is always diminished customer acquisition performance. Changes are in **bold**.

State	Mailings		
		Maryland	Increase
		Massachusetts	Increase
Alabama	Normal	Michigan	Normal
Alaska	Normal	Michigan—Up. Pen.	Normal
Arizona	Normal	Minnesota	Increase
Arkansas	Normal	Mississippi—North	Evaluate locally
<b>California</b>	<b>Normal</b>	Mississippi—South	Evaluate locally
Colorado	Increase	Missouri—North	Normal
Connecticut	Increase	Missouri—South	Normal
Connecticut-Fairfield	Increase	Montana	Normal
Delaware	Normal	<b>Nebraska</b>	<b>Increase</b>
District of Columbia	Normal	Nevada	Increase
Florida	Normal	New Hampshire	Normal
Georgia	Normal	New Jersey—North	Increase
Hawaii	Normal	New Jersey-South	Increase
Idaho	Normal	New Mexico—East	Normal
Illinois—North	Normal	New Mexico—West	Normal
Illinois—South	Normal	New York	Normal
Indiana—North	Normal	North Carolina	Increase
Indiana—South	Normal	North Dakota	Normal
Iowa	Increase	Ohio	Normal
Kansas	Normal	Oklahoma	Normal
Kentucky—East	Normal	<b>Oregon</b>	<b>Normal</b>
Kentucky—West	Normal	Pennsylvania—East	Normal
Louisiana—North	Evaluate locally	Pennsylvania—West	Normal
Louisiana—South	Evaluate locally	Puerto Rico	Normal
Maine	Normal	Rhode Island	Normal

South Carolina	Normal	Virginia	Normal
South Dakota	Normal	<b>Washington</b>	<b>Normal</b>
Tennessee—East	Normal	West Virginia—East	Normal
Tennessee—West	Normal	West Virginia—West	Normal
Texas	Normal	Wisconsin—North	Increase
Utah	Normal	Wisconsin—South	Increase
Vermont	Normal	Wyoming	Normal
Virgin Islands	Normal		

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