

# Libey Economic Outlook

August 2008

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Published Exclusively For Clients Of

**Libey Incorporated**

*Advisors and Intermediaries in Multichannel Direct Marketing*

Cherry Hill, New Jersey

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## The Age of Relationships

Don Libey

*It has occurred to me that we have embarked on an era of direct marketing marked by the quality of our relationships with others in our industry. With some regrets, I have concluded that the era of the independent entrepreneur has ended. The more I listen to owners, CEOs and boards, the more I hear of the need for long-term, beneficial relationships that produce future value. The reason for this need appears to be simple: no single person or single company can strategically or financially do all of the increasingly complex things that need to be done to be successful.*

The old direct marketing model was fairly simple: identify a niche and products that niche needed and then go secretly into hiding, create a circulation plan, mail like crazy, and stay out off the radar screen. A lot of people made a lot of money that way.

Today, I look at the people who are attempting to keep that model alive and I see a lot of people losing money and going out of business. The multichannel world has become too big and too complex to allow solo operators to succeed. It is a business of collaboration of experts; the revered solo 'generalists' are no longer able to compete.

The entrepreneur who once made all decisions, beginning with creating and sourcing products and extending to how much to pay the lawn service, is an anachronism. Even in a small company, there is too much to understand, to much to be done; it is simply no longer possible.

The unfortunate outcome of this increasing complexity is that most companies cannot cope. I talked recently with a senior executive with superb management skills at a

\$100 million industrial products B2B company who relates the Swiss-cheese approach to understanding the business and making decisions – “Throw stuff at the wall and see what sticks.” And that company is not unique. *Most* companies are managed partly or wholly in that manner. Those who have the poorest performance and profitability are almost always those being run by a solo, autocratic entrepreneur.

A few companies have “gotten it” and have evolved from entrepreneurial to collaborative. They have embraced other companies with specialized skills and knowledge and have established beneficial relationships that allow them to obtain what they need to grow without having to own or invent those essential elements. Most important, they have learned to expose their weaknesses, ask for solutions, invest in those solutions and give up their ill-conceived fascination with secrecy. The transformation is remarkable. New ideas are introduced, proven tactics and strategies are applied, costs are reduced, risk is reduced, morale is raised, and growth and profitability are experienced. Once tried, these companies never revert to the darkening age of entrepreneurship.

The collaborators are also evolving. The old model was one of selling services to companies, either as a ‘vendor’ or as a ‘consultant.’ Today, most of the consultants are gone. A few have evolved into true trusted advisors, valued for their wisdom and their understanding of the forces changing the landscape of direct marketing. The come in and “do stuff” type of consultant, however, is rapidly disappearing. In their place are the evolving “relationship companies” that offer sophisticated specialized solutions, analytics, planning, and execution that produces a better result for the business owner. As an example, a leading B2B list brokerage firm (I’m sure you can figure out who) is evolving a comprehensive circulation planning capability that will utilize proprietary software, models, in-depth analytics, expert firepower, even on site staffing in a client company. And the circulation planning is not focused on only their lists, but on any and all lists in the industry that can improve performance. It is the only way it can possibly be done to create trust. And, when it is a relationship with paid services, you have the rightful expectation of improved results.

Some will say we are just redefining the old agency model. I disagree. The agencies of old were focused on creative and media sales, not on analytics and the very specialized skills in the various channels. Also, the agency required you to meet all of your needs with that one agency, often with one account representative who ‘managed’ your account. This is different. Today, we assemble specialist firms to service our needs and we use a number of them at one time. The difference is that we ‘integrate’ their activities with not just our firm, but with all of the other collaborators to assure an integrated outcome leading to success. That integration ability is a unique management skill by itself, and is often not something the solo, secretive entrepreneur is able to do well.

Ask yourself a question of logic. In a complex management environment that now demands four or five magnitudes of knowledge and understanding compared to that of a decade ago, is it logical for one person to continue making all decisions, or is it more logical to adopt a collaborative model using many minds, many ideas, many options, and many more chances for making the correct decisions in many areas of the business?

I have concluded that the answer is becoming self-evident among the successful multichannel companies who are growing in the face of difficult times.

# Global Changes in Sourcing, Supply Chain and Economics

## The View from 35,000 Feet Redux

*So many of you have called or emailed asking for a transcript of my presentation at the MeritDirect Co-Op in July, it seems there is genuine interest in the future. So, with the Publisher's kind indulgence for possibly repeating myself, here is the written speech for the entire audience of readers. I hope it causes each of you to ask, "What if . . .?"*

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*"Things are more now like they have never been before."*

*--Dwight D. Eisenhower*

President Eisenhower's quote was one of his frequent lapses of thought and the spoken word, but it perhaps best describes the state of multichannel direct marketing today.

First, let's look at the word 'global' and attempt to understand what that means for our immediate and longer term future in this industry.

### **Globalization**

In less than twenty years—two decades—one generation—the U.S. has moved from domestic sourcing and supply to international sourcing and supply. That fundamental shift in supply side economics is profound. We are in the earliest stages of global supply and sourcing, and there is no proven model for us to follow. We are, literally, writing the history of globalization. We are also in a longer economic period driven by consumption, an economic phenomenon that first emerged in the Industrial Revolution and has peaked in the 50 plus years post-WWII, 1946-present.

During this most recent twenty-year period, we have come to understand what occurs when global trade focuses on lowest-cost supply. As a result of employment and increased wages, the lowest-cost supplier country advances socially and prices increase to pay for that social advancement. This forces a secondary search for alternate sources of lowest-cost supply; in effect, doing the same thing over and over and hoping for a different result. In time, the relentless demand of consumption creates more new consumers where only poverty once existed and a global inflation occurs, causing all costs and prices to increase and forcing an economic valuation of any given nation's currency based on its relative position in the global balance of trade. As a result, the U.S. dollar is weak and the Chinese Yuan has strengthened.

Globalization has also redrawn trading blocs. Where we once had many, isolated trading blocs, today we have essentially three: Europe; Asia; and the Americas. In an ideal world, each of the three would compete for the business from each other; however, the truth is that Asia and Europe are attempting to absorb the consumption of the Americas, and specifically the U.S. The combined European economy may now be larger than the U.S. economy. And the combined Asian economies would likely bogle the

mind, if it was well-understood. The point: the U.S. economy is ‘more like it has never been before.’

Globalization also demands continuation of consumption. Consumption growth ultimately reaches a point of equilibrium and slows to a maintenance level. The U.S. may now be reaching that point. In order for global consumption to continue growing, other large populations must be advancing on the social growth path, such as China, India, Indonesia, and others, thereby creating new demand for goods and services. As long as that occurs, and the slack in the slowing consumption of other economies is absorbed and neutralized, the global economy continues to expand. If, however, the global consumption demand is abruptly slowed or stopped by economic forces destructive to consumption, then the whole engine grinds to a halt and the lights go out.

Societies are driven by one of three primary drivers: 1) consumption of goods; 2) social welfare; 3) ideology. Put another way, these describe: 1) capitalism; 2) socialism; 3) extremism. If the focus is on consumption, the manufacturing-based economy expands. If the focus is on social welfare, the services and humanist provisions expand; if the focus is on extremism, the ideological controls and centralization of powers expand. Sometimes, specific countries or trading blocs are in a period of transition. It can be logically stated that the U.S. is moving from a cyclical, fifty year period of consumption of goods to a cyclical future period of provision of social welfare. This may drastically alter the economic balance of trade and the position of the U.S. in the global market.

The clear evidence of the global effects of increased consumption is seen in China. As the world’s lowest cost manufacturer, China created a middle-class with money of its own to spend. So have India, and Indonesia, and Vietnam. Consequently, costs have increased significantly in China and the global consumers (U.S., Europe, others) are looking for lower-cost manufacturers in other countries. In fact, China itself is beginning to become a global consumer even though it is still primarily a global supplier.

With double-digit GDP growth and new wealth, China is learning about global trade and ownership of offshore businesses. In a chilling turn of the tables, China is—in some cases—buying companies in the U.S. in order to obtain manufacturing capacity at a lower future cost. European companies are also buying companies in the U.S. in order to lower their manufacturing costs, avoid rising Euro taxation and over-regulation, and to take advantage of the low value of the dollar. They produce a good at a lower cost of labor and send that good to Europe where it is sold for far more than it is sold for in the U.S. and repatriate the money to their newly-formed U.S. corporations at a much higher rate of return than they could obtain selling domestically to Europe from Europe. The U.S. has, by default of a different economic cycle of history, become a low-cost producer.

It appears this trend may have positive benefits for the U.S. manufacturing sector, especially as other people’s money will be used to retrofit and modernize the U.S. manufacturing capability and capacity; in effect, financing the ‘Rust Belt’ revival with China’s and Europe’s wealth while our own is spent on war, plus national health care, Social Security, Medicare, Medicaid, education, infrastructure, and social benefits that loom so large in our aging population’s future.

Global competition is not only about consumption of goods but consumption of energy, as well. It is clear that the low-cost energy era the U.S. has enjoyed since the Industrial Revolution is over. The best that we can hope for is an energy cost on par with Europe, and that is a near-doubling of our present levels. The reasons are straightforward: supply and demand globally; consolidation of political power by energy producing countries (read: special interests and political corruption). The point: energy costs will go up, not down, and do so significantly.

The scenario I see for the U.S. is one of shedding consumption as a primary driver and adopting social welfare as a primary driver; foreign investment in U.S. manufacturing infrastructure; lower cost labor source for global consumption; higher costs of energy; low value of the U.S. dollar; loss of the U.S. dollar as the world currency in favor of the Euro and, perhaps, the Yuan; shift of the financial market from New York to London and ultimately to Asia; and partial, but growing, shift of ownership of the U.S. supply chain to European and Asian companies.

## **Supply Chain**

Let's begin with some broad observations. Supply chain logistics became a specific, stand-alone discipline in the early 1990s in the U.S. In the nearly twenty years since, the supply chain has become highly sophisticated, driven by companies like Wal-Mart, Target, Amazon, and closely associated companies like FedEx, UPS, and even the USPS. Supply chain management has evolved to a primary strategic position and experts in supply chain management have infiltrated the board rooms and leadership posts of companies from all sectors of the U.S. and European economies.

Warehousing and movement of goods from A to B to C have been revolutionized by operating systems advances, specialized, advanced software, and expansive technological accomplishments. Facility and fulfillment design have also experienced enormous advances in that time. And customer-focused applications in call centers, order entry, and tracking have pushed the supply chain progress further and faster than at any other time in our history.

Now, we are entering a prolonged cycle of supply chain dynamics no longer driven by consumption speed and convenience, but by energy and environmental conservation and the carbon footprint. We are, additionally, entering an era (finally!) of integrated, uniform information and metric analytics of multichannel marketing providing truth, defined metrics, a common understanding of the metric process and outputs, and a universal view of the cardinal metrics required for optimal management of multichannel companies.

## **A New Multichannel Model**

The centralized, stocking distribution model no longer makes sense, either economically or environmentally. Change will be demanded and legislated in the U.S. as it is being changed and legislated in the European Union. Asia will follow, in turn.

The model progression for multichannel direct marketers will be from a centralized, stocking inventory model to a decentralized, direct dispatch (drop ship) model, regionally, domestically, and globally.

Economics and energy consumption will no longer allow the sourcing and transporting of products globally to your warehouse and then to a distributor or end-consumer. There are too many future prohibited steps to that model. Rather, the future model will entail far more direct dispatch of products from the source direct to the end-buyer, regardless of their source location in the world.

That model describes another profound change in multichannel commerce: the dispersion of inventory. Merchants will migrate to being merchandisers and manufacturers will migrate to being fulfillment experts. One can see an early evolution of this trend among catalog printers. Believe it or not, catalog printers used to deliver pallets of printed catalogs to the catalog company who then trucked them to the mailing houses for address label affixing and then trucked them to the post office. Once printers took control of catalog mailing and distribution, the entire supply chain for catalog inventory changed. We will now see a similar evolution for product inventory.

Accompanying the dispersed inventory, direct dispatch model will be the managed marketing model. Specialized marketing firms serving numerous multichannel companies will take over the website creative and hosting, catalog creative and production, search engine marketing, affiliate relationships, call center, order entry, IT, systems, analytics and reporting and circulation planning activities for ‘merchandisers.’ This will leave the catalog merchants with product selection, sourcing, finance and strategy. The marketing, customer service and inventory fulfillment will be outsourced and dispersed and the result is a company with a pure product, merchandising and market focus having no customer support staff or inventory and least-distance delivery costs.

### **The Future Global Model**

In the 1990s, manufacturers in the U.S. discovered they could see direct to end-consumers and not jeopardize their businesses. Today, the direct model of distribution is practiced by many manufacturers.

In the next twenty years, the global manufacturers will learn multichannel marketing. At first, they will fulfill for primarily U.S. and European merchants. As they gain experience, they will either acquire those merchants, or learn how to be direct merchants on a dispersed global basis.

Imagine, buying a pair of shoes, not from Zappos, a centralized, stocking shoe merchant, but direct from the factory in Bangladesh, or China, or India, shipped two-day to your door in Boston, at a price lower than Zappos can sell them for. Problems? Of course. Learning Curve. You bet. But, there are thousands of out-of-business local shoe stores that twenty years ago denied the probability of such a creature as Zappos. It has nothing to do with being new, hard to do, difficult to learn, or being far away. It is all about economics and energy and what will be allowed.

Think of the ad specialties market. Why should you order 150 tote bags in inventory from a company in New York to be imprinted with your logo and sent to you in Seattle? The bags come from China, are sent to New York to sit in inventory. Then, 150 are picked, packed and shipped to a decorator in West Virginia who then repacks them and sends them to you in Seattle. Way too much transport and energy cost! Why not do 150 logo totes at the factory in China and send them direct to Seattle. Ultimately why

wouldn't the manufacturer in China learn to do online marketing and *sell them direct to you*? Trust me; they will.

The point: supply chain efficiency is the next frontier in multichannel marketing, just as it was for retail when Wal-Mart pioneered it in the 1980s.

### **Economies of Scale**

There are economic principles that always seem to dominate any cyclical period of change. Supply and demand, substitutes, elasticity of price, opportunity cost; each influences the current models and business cycles, as they have for centuries.

In multichannel marketing, over the next twenty years, I see two diverging principles of economics: 1) specialization; 2) economies of scale.

I believe the merchant will become more specialized. The merchant will focus on products demand, product sourcing, merchandising (offers, pricing, motivation, analyses), and finance. The (for want of a better term) 'operator' will focus on operations: advertising, marketing, circulation, online, customer service, call center, order entry, and reporting. The manufacturer will focus on production and drop ship fulfillment. The result is a three-way relationship that better manages the economic economies of scale. The operator manages the scale through doing operations for many client merchants. The manufacturer manages scale by producing and shipping for many client merchants. The merchant manages the focused activities of finance, product identification (or relevance), sourcing and merchandising.

The distribution of labor costs is optimized by the economies of scale. The distribution of goods costs is optimized by the economies of scale. The variable costs of merchandising, product procurement, and money are optimized by the merchant who benefits from a lower cost of labor, goods, and distribution.

### **Integrated Systems**

The new global merchandising and distribution model, for the first time, will assign a greater benefit from integrated systems intelligence than from individualized employee intelligence. That is also a profound change.

In the old model, a company benefited from an individual marketer's skill and experience and an individual merchandiser's skill and experience in direct proportion to the levels of that skill and experience and to their successful execution.

In the new model, integrated information and analytic systems, specialized for multiple channels of direct marketing, will 'dashboard' performance and describe optimized execution strategies.

For the first time, we are beginning to see integrated systems with the capability of optimizing ideally the heretofore foibles of humans. We see these systems in global financial trading, currency arbitrage, commodity futures projections and trading, energy demand projections, and sophisticated manufacturing processes planning. It is not 'outside the box' to believe that multichannel marketing and merchandising systems will

be developed in the coming years that will outperform the variable experience and skills of humans.

When these systems are built into the new distribution models, the entrepreneur becomes a strategic executor of business intelligence within a focused, specialized area. That executor then brings together opportunity and finance with product sourcing and operations sourcing to produce a more profitable transaction in keeping with the demands of the market and the demands of the environment/energy/economic factors.

The end result of these integrated components of the New Multichannel Model is a very old economic principle: *We can do it better for less.*

### **A Model Not For Everyone**

What you have read, depending on your current evolution as a multichannel direct marketer, is either heresy or confirmation of your own insights.

I am the first to state that this is not a future model for everyone. There are those companies who cannot adapt to such a model, and probably should not. There are those who have no desire to compete in a new economic cycle. There are those who simply find such a future as being highly suspect.

However, I would offer that none, part or all of these things will happen. What is of value to each of you is not whether it does or does not, but whether you have the ability to ask yourself and your management team, “What if . . .?”

The only way to manage future change is to approach change with open minds and innovative questions that begin with “What if . . .?”

Several “No Brainer” conclusions, however, can be considered:

1. Technology will increase in importance;
2. Fixed costs will increase;
3. Integrated analytics will be superior to guessing;
4. Lowest-cost distribution is in the cards;
5. Energy costs will increase substantially;
6. Globalization cannot be stopped;
7. Specialized, focused competitors are more successful than general, unfocused competitors;
8. Integrated systems intelligence always trumps human intelligence;
9. Common sense and strategy is the domain of human management;

10. Elimination of redundancy and automated integration of processes are essential;
11. Outsourcing for optimization of economies of scale will be important;
12. The world wants your customers. All of them.

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### **The Third and Fourth Quarter 2008 Economic Outlook**

The economic outlook continues to weaken as the third quarter ages. All regions of the country remain in a generalized economic slowdown with little growth in GDP. Inflationary pressure related to energy and food continues to be serious, although we are seeing generalized inflation as other areas of the economy react.

The credit/mortgage/housing difficulties have spread even deeper into the market with many families facing loss of their homes if jobs are lost due to the slowdown. The recent Freddie Mac and Fannie Mae debacle touches on half of the homes owned in the U.S.

The usual paralysis of a presidential election season has surfaced. The unknown, however, is this dying administration's intent relative to Iran. A third war is not unlikely; if so, bar the door, Katie.

And yet, even with the deepening troubled economic outlook, the evidence is that the multichannel and direct marketing industry performs better than retail, and business-to-business markets continue delivering a modest performance for the year with many companies reporting between 2-6 percent growth and reasonable growth in profits. Being in business-to-business is good.

The fall budgets and circulation plans are done; some of you have ignored our advice on not cutting circulation; some of you have increased your prospecting and will be taking share from those who have cut back. Our recommendations to invest even now continue to signal our belief in the inherent strength of the direct marketing channels and our now two-year long admonition to always invest in new customer acquisition, and particularly in a period of difficult economic performance.

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

None

#### ***Flat or Slower***

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)

## **The Third and Fourth Quarter 2008 Circulation and Prospecting Recommendations**

### **Synopsis**

The short-term economic outlook for the catalog industry in the third quarter of 2008 continues weakly positive. The intermediate-term outlook is now also weakly positive for the fourth quarter of 2008 and the long-term outlook for 2009 has also moderated to weakly positive.

Within the direct marketing channels, I see overall catalog and mailing performance growth continuing at the 2-3 percent level and overall online marketing growth at the 5 percent level. If you are doing better, be pleased. You probably have superb analytics and will fare better than those who are “guessing and hoping.”

### **Investment Prospecting**

For the rest of the third quarter and for the fourth quarter, we continue to encourage careful review of your investment prospecting plan and your attempts to remain in the market for new customers. With your Fall mailings, 2008 is over and the outcome is likely to be less than desired, but you cannot compete if you are out of the market. Continue doing the thorough, fact-based analyses of financial performance—under a variety of economic scenarios—for 2009 while attempting to productively remain in the market for new customer acquisitions.

Looking ahead to the fourth quarter, I would continue to encourage a modest expansion in prospecting and a solid contact strategy to the customer files.

### **Nation at a Glance**

Adjustments should be made for the hardest hit Midwest flood areas. Otherwise our recommendations continue for “Normal Mailings” nationwide.

<b>State</b>	<b>Mailings</b>		
		Delaware	Normal
		District of Columbia	Normal
Alabama	Normal	Florida	Normal
Alaska	Normal	Georgia	Normal
Arizona	Normal	Hawaii	Normal
Arkansas	Normal	Idaho	Normal
California	Normal	Illinois—North	Normal
Colorado	Normal	Illinois—South	Normal
Connecticut	Normal	Indiana—North	Normal
Connecticut-Fairfld	Normal	Indiana—South	Normal

<b>Iowa</b>	<b>Reduce</b>	North Carolina	Normal
Kansas	Normal	North Dakota	Normal
Kentucky—East	Normal	Ohio	Normal
Kentucky—West	Normal	Oklahoma	Normal
Louisiana—North	Evaluate locally	Oregon	Normal
Louisiana—South	Evaluate locally	Pennsylvania—East	Normal
Maine	Normal	Pennsylvania—West	Normal
Maryland	Normal	Puerto Rico	Normal
Massachusetts	Normal	Rhode Island	Normal
Michigan	Normal	South Carolina	Normal
Michigan—Up. Pen.	Normal	South Dakota	Normal
Minnesota	Normal	Tennessee—East	Normal
Mississippi—North	Evaluate locally	Tennessee—West	Normal
Mississippi—South	Evaluate locally	Texas	Normal
Missouri—North	Normal	Utah	Normal
Missouri—South	Normal	Vermont	Normal
Montana	Normal	Virgin Islands	Normal
Nebraska	Normal	Virginia	Normal
Nevada	Increase	Washington	Normal
New Hampshire	Normal	West Virginia—East	Normal
New Jersey—North	Normal	West Virginia—West	Normal
New Jersey-South	Normal	Wisconsin—North	Normal
New Mexico—East	Normal	Wisconsin—South	Normal
New Mexico—West	Normal	Wyoming	Normal
New York	Normal		

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