

# Libey Multichannel Advisor

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### **A Radical and Fresh Approach to Your Business**

**Don Libey**

*For more than a decade we have been debating the future of direct marketing in terms of channel development. The bulk of the debate—and the bulk of the pundits—has been devoted to increasingly fragmented online strategies and modalities.*

*What if that is wrong? What if we are digging ourselves into an impossibly expensive and unproductive, self-destructive hole?*

*What if we approached our future from another perspective and focused, not on the channels, but on the controllable and constant elements of business success that are being ignored?*

*What if we simply made ourselves available across a variety of channels, but began an innovative and aggressive strengthening of product, customer knowledge, customer service, distribution, fulfillment and cost-control that assured our competitive superiority without the necessity for unsustainable discounting?*

*Beware. This is radical thinking. But, it is thinking that you have come to expect from me over the past thirty years of advising, speaking and writing.*

*Buckle up!*

## Maybe You are Focused on the Wrong Thing

Refresh your memory with an old technology—the dictionary. Look up the word *iconoclast*. For each of its rationalist definitions, it is one of my favorite words, but for Webster's definition **2**: it is an essential part of my career, intellectual outlook and approach to change:

**Iconoclast** \-,klast\ n [ML *iconoclastis*, fr. MGk *eikonoklastes*, lit., image destroyer, fr. Gk *eikono-* + *klan* to break—more at CLAST] (1641) **1**: one who destroys religious images or opposes their veneration **2**: one who attacks settled beliefs or institutions—**iconoclastic** *adj*—**iconoclastically** *adv*

It is in that thoughtful application of the word—*one who attacks settled beliefs or institutions*—where I most often find the essential ingredients of, and impetus for, future change. And make no mistake; we are all involved—right now—in finding the essential ingredients of immediate and future change. Throughout all of humankind's history, change has occurred only when the accepted beliefs (or mythologies) have been challenged, shattered and reconstructed in a new context. The result is Reason through progressive enlightenment; in business the result is Survival through profitability.

Almost every industry and company that has faded from prominence has done so because of a failure to focus on what was *truly* important during the inevitable progressions of change. Railroads focused on iron rather than speed and convenience. Airlines are focusing on cost per mile rather than convenience, decency and comfort. Oil producers are focused on short term profits rather than long term alternative energy solutions. Pharmaceutical companies are focused on financial rape of the patient rather than universal patient health. Legislative bodies are focused on meaningless ideologies and personal wealth-building rather than problem-solving solutions to the massive difficulties confronting them. We direct marketers have focused on the allure and illusion of the online marketplace almost to the exclusion of those elements of the customers' purchasing process which are the only important factors determining who will buy our products.

We may well be off on the most expensive wild goose chase of commercial history.

## The Exquisite and Sublime Beauty of Logic

Think about this fact: Today (and every day) you have eight hours to create a profit from the investments and expenses incurred during those eight hours. At the end of the day, you either have more or less money than when you started. This is the Don's Bait Shop Law of Commercial Viability, or the lesson I learned from my first business, a bait shop, in 1952. I have \$.50 invested in the day and I must end the day with \$1.20. As the thirteen generations of my ancestors on our Indiana farms said, "Don't eat the seed corn."

Now, let's imagine that you have several choices for those eight hours. Let's call this first approach Customer-Centric. You can focus on your products; you can focus on your knowledge of your customers; you can focus on your customer service; you can focus on your customer fulfillment; you can focus on the distribution model that best fits your customers; and you can focus on your internal operations with an eye to productivity and efficiency.

Alternatively, you can focus on the online channel, Google, SEO, PPC, emails, social media, and complex, non-integrated software dedicated to further channel fragmentation. Let's call this Channel-Centric.

Now apply logic in classic A and B couplet hypotheses:

A. The Customer-Centric approach always begins and ends with the customer and in between is the profit-generating purchasing process.

B. The Channel-Centric approach always begins and ends with the channel and in between are the expense-generating technologies and algorithms.

A. The Customer-Centric approach results in a margin-sustaining sale.

B. The Channel-Centric approach results in a margin-depleting discount, commission or fee.

A. The Customer-Centric approach supports a symbiotic relationship with you as an entity having human interest and a desire to serve your customers and offers you the opportunity to prove the merits of a long-lasting commercial relationship. This is the agar feeding the Multiple Buyer strain of customers resulting in a solid and productive customer base requiring simply good maintenance, care and feeding.

B. The Channel-Centric approach supports a parasitic relationship with Google and Google-like third parties and distances the customer from you based almost entirely on price and the ever-changing and indefinable fickleness of search optimization. This is the agar feeding the One-Off buyer resulting in a fluid, unproductive, customer base always requiring increasingly expensive replacement customer recruitment.

A. Across the commercial history, products, service, satisfaction, delivery, and efficiency have been essentially constant and dependent entirely upon the merchant's level of skill and attention—in other words, a focus on excellence.

B. Across the online history, media, channel fragments and technological complexity have been the constant, consuming and ever-changing challenge to the

merchant's ability to understand, implement and profit from—in other words, a distraction from excellence.

A. The Customer-Centric approach is relatively simple, good for customers and merchants, and preserves the merchant's incoming revenues and profits while minimizing expenses.

B. The Channel-Centric approach is exceptionally complex, good for profit-motivated third-party technology suppliers but not for merchants, and benefits customers only through price but not through relationships. It lowers the merchant's revenues, increases expenses and transfers large portions of profits to third-party vendors.

A. The Customer-Centric approach captures and holds customers and their subsequent purchasing behavior and intensifies the performance of internal, proprietary database knowledge and analyses. You control your destiny.

B. The Channel-Centric approach fragments and leaks customers and re-distributes their subsequent purchasing behavior based on the technological whims of Google, Google-like entities and the indiscriminate, industry-wide Black-Box mysteries of the "one solution fits all" entities. Some other for-profit entity controls your destiny and expects you to fund that loss of control.

The logic is there for you to evaluate and debate. You are the one who must decide where you wish to reside on this issue. My belief is it will be somewhere in the middle.

### **The Middle Ground**

I suppose one can say these are almost polar issues. If so, we must then find the temperate zones that can be successfully inhabited and avoid the extremes of polar freezing and barrenness and equatorial dehydration and exhaustion.

While I am unsure where the temperate zone may be located, I am sure that we cannot survive in either of the Zones of Extreme Direct Marketing. We cannot deny the online channel and we cannot be catalog Luddites. Illogically, there are growing numbers inhabiting each of those inhospitable regions. It seems to me a migration is needed to the area where it is easier to survive. That would be a middle ground.

And yet, there is a part of my too logical mind that tells me we have neglected our seed corn for too long. Our ability to evolve innovative product strategies has suffered due to the now-three year economic disturbance. Our ability to evolve innovative customer service and distribution models has, similarly, been in hibernation. It may be necessary to over-correct the migratory course to bring us to the place where advantage can be identified and mapped by—yes, the customers. Maybe what we really need is a

breather from all the technology and all the unknown online mysticism. Maybe we need to recommit once again to being good merchants.

### **Product Advantage**

First, there is an elegance to a relentless focus on products. Products are what we sell and what our customers buy. The relationship between merchant and customer begins with the products.

As some of you know, I used to teach a week-long, in-depth seminar on new product development. It has been attended by several thousand people over the years. I'm not sure anyone taught new products the way I did. My approach was to crawl inside the customer's psyche and project the customer's product needs onto the blank screen of product development. That technique tends to result in very innovative new products because it is customer-centric and not manufacturer-centric. Put a product user and a product manufacturer side-by-side and the customer will out-develop the manufacturer every time. They are, after all, the people who actually *use* these things. In short, great new products are not selected at trade shows; they are created from customer need.

Once again, the logic of a constant flow of innovative, problem-solving, customer-defined new products is irrefutable. The very best companies have always known this and always assured that constant flow.

Of course, the illogical reverse approach is also irrefutable: old, tired products that simply offer the same solutions for old problems and are available anywhere do not cause customers to beat a new path to your door—or website.

It is not my intention to disgorge here a lifetime of new product lore accumulated through the painstaking trial and error of customer-centric interpretation and hard work. It is my intention, however, to remind all who will listen and examine the logic that innovative new products that uniquely answer the current and future needs of the customers' perceptions are a timeless and technology-less strategy of maximum advantage and are the foundation for the navigation of successful change management in commerce.

### **Customer Knowledge Advantage**

Call it whatever you wish: database marketing; data mining; modeling; RFM, or any other catch-all term; in the end, it is simply knowing more about your customers in order to get them to buy more products, more often, for a longer period of time.

You can obtain that information either through a technological surrogate ("systems") or through first-hand, live discussions with the actual customers themselves. Sorry, but that last one isn't an old-fashioned concept, even in these days of thrice-removed analytic analyses using transactional mysticism and covert black boxes.

Two merchants standing toe-to-toe with one having only database models and the other having only first-hand insights from real customers will always result in more sales and better sales going to the merchant who understands the customer as a living, breathing person. Regardless of the complexity and pseudo-predictability of unproven and impossible-to-integrate-and-allocate “systems,” the living and communicating relationship directly with the customer will always be superior and more profitable.

As merchants obsessed with technology and the myriad dead-ends and unprofitable nooks and crannies of the third-party-benefiting online world, we are losing our hard-won favored relationships with our customers. We are hiding behind the search engine and whispering to our customers as they click past . . . “Pssst!” in hopes they will stop and maybe buy something.

Again, logic tells us that being ready and reliable, with knowledge of the customer at the time of purchase interest, and having new innovative products that answer the customer’s needs today and tomorrow, is far more preferable than attempting to pimp the search engines.

Almost all of us have the most effective customer intelligence-gathering device known to direct marketing: the call center. Almost all of us use it as a place of minimum wage and no cachet. It is the first place we cut costs when sales are down. It is an ill-understood and managed pseudo-formulaic mix of “benchmarks” from another era of direct marketing. The call center is thought of as an expense. And that is so wrong.

Now for the true iconoclast who lives within. I don’t care a whit how much it costs to put an intelligent, motivated, well-rewarded human being on the phone with a strategically defined program that creates a variety of market advantages for my company. I can list thirty-six non-order-taking call center projects that will create more sales from more customers at a cost that is far below the amount being spent to get a low AOV, one-off order online.

Business is war. The troops on the ground are in the call center. Those are the people who can do more good for your company than legions of keyword analysts. Yes, cryptographers are important in war, but the battles go to the side with the best infantry. And we are not using our call center warriors for anything outside of lowest-cost order-taking. Shame!

You cannot abdicate your customer intelligence and communications to technological alchemy. No customer has ever been satisfied or delighted into loyalty by a keyword or a unique visit. They are won and kept by relentless understanding of and attention to their wants, needs and desires. And that begins and ends in the call centers of intelligent companies led by intelligent people who cannot be bamboozled by the false diversions of thrice-removed glitter and gaud.

### **Distribution Advantage**

I have written about this topic before and my positions regarding distribution strategy are slowly being put in place by forward-looking companies. Three primary factors influence this strategic advantage: 1) inventory; 2) closeness to the customer; 3) cost of shipping.

Inventory strategies demand minimization. You cannot have an imbalance between stocking and drop-ship inventory. You must know your customers so well that you know *exactly* their tolerances for in-stock and out-of-stock ratios, one-shipment delivery and multiple-shipment delivery, speed of delivery and the associated costs and expectations, and the importance of regional versus national perception. Somehow, you must balance all of those customer-centric considerations with an inventory and fulfillment burden that results in the lowest possible cost.

The future logic must accept markedly increased costs to source and ship products from the manufacturers, domestically and internationally. It will be prohibitive to move inventory around the globe and the nation and *any* unnecessary transshipments will be economically unsustainable. Therefore, inventory fulfillment either is local or it is one-step, one-stop. That is a very different reality than our present situation.

The evolution of inventory—hand-in-hand with the innovation of new products—will demand a thinning of obsolete and slow-selling inventory. The SKU count is going to have to actually count for something—real sales. Another balancing act.

Those who are still approaching the strategies of distribution, inventory management and shipping as they did in the 1990s or even the early 2000s will be outside the loop of efficacy for the 2012-2025 horizon in the evolution of direct marketing; indeed, all marketing.

What concerns me, however, is the amount of focus placed on search engine optimization while many companies can't get the products to their customers in under fourteen days. Further concern occurs when PPC, email, search, and other figments of profit take \$150 to create a first-time customer and then the shipping has to be *free!* Is that a case of technology envy, getting the cart before the horse, forgetting the basics, or just plain stupidity? I'm not sure anymore. But, I know one thing: it is not logical and it is not sustainable.

We are going to have to rethink distribution and rethink it from the *customer's* point of view; not from the point of view of what some technology, third party, or "system" will *allow* us to do.

### **Fulfillment Advantage**

Can you consistently, flawlessly and identically deliver the products to the customers at an advantage over any other competitor? If not, why not?

This would be the Zappos model. Any pair of shoes out of thousands and thousands of choices FedEx'd by tomorrow morning free and ditto for returns. Try to top that one. Just a billion or so in revenues in a couple of years. Not just an online advantage, but an insurmountable fulfillment advantage.

Fulfillment matters. And that means in-stock selection, speed, cost, presentation and no surprises. Zappos can get orders out fast, correct, by the next morning, and the shoes fit, otherwise you just reverse the process and pay nothing. This is a model that causes me to like shopping for shoes, one of my formerly most-hated chores. I haven't been in a shoe store for two years and don't plan on going to any again. And I wear a 9 EEEE and am only interested in slip-ons and Zappos gives me 150 selections to choose from. I know I am paying more, but I don't care.

And, how about that NetFlix! Actually creating incredible success using the *mailbox!*

How will you build a fulfillment advantage like those by September? That's what you are going to have to do to remain ahead of the game.

### **Cost Control Advantage**

I have begun to notice something after thirty years of doing this: no company ever successfully and permanently plugs the leaks in the hull that are draining away profits. I can read the financial statements and see where there is a missing \$1 million in earnings, go to work and forensically identify where the leaks are, tell the owner/CEO what to do to plug the leaks, and—lo and behold—they show up again in two years. Same leaks; same drain on EBIT.

A cost control advantage is a work of art. It demands the financial attention to detail and to cost-allocation that is absolutely pristine and non-debatable. Then, it requires exactly what it says—controls.

Now, I grant you that in entrepreneurial-dominated companies, the owners are usually the worst culprits when it comes to leaky profit. There are always expensive pet projects, false starts, impetuous peccadilloes, and the other usual trappings of "It's my money and I'll do what I want with it." So be it.

But, if one desires *true* financial advantage over any other competitor; if one desires *true* superior corporate value in preparation for the exit, or 'harvest' event; if one desires *true* one-upmanship and the ability to say—when all around you are going under—"We are up 15 percent this year," then a scrupulous discipline of cost control will deliver those advantages. The active word here is 'discipline.' Most companies have too little discipline in my experience.

The central problem to effective cost control is the ability to properly and accurately allocate costs. Most companies today don't know how much a new customer

from *any* channel costs; and that is a reality I have seen unchanged from the early 1980s. Why is that?

If as much attention and effort was paid to cost control and to accurate costing allocations in all areas as is being lavished on search engine optimization and the online micro-channels, what would be the outcome on profitability, I wonder? I have to believe \$1 million dropped to the bottom line due to proper cost control advantage will outweigh the meager production of another social media foray.

## **Conclusions**

I am not the Anti-Google. I am not out to prove the Catalog and the Call Center married and gave birth to the Sion of Google. I am, in fact, an online advocate and a member of the online *and* the catalog brotherhood. I just happen to believe that online is an element, not the Alpha and Omega, of direct marketing.

We may be wise to pause in our worship of The Online and give reflection to the adoration of The Customer. We are dangerously close to creating another vast myth, what with the drinking of too much Kool-Aid and all.

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### **Thoughts Looking From My Window**

*A few thoughts that you may want to consider yourself.  
A regular feature of the newsletter.*

Something new has shown up on the lawn outside the Iowa window: a For Sale sign.

It is time to load the wagon and move on to new places. This happens to me about every seven years or so; it is my naturally occurring cycle of adventure and change. Iowa is a wonderful state, Des Moines a wonderful city, and I have enjoyed every bit of my “time back in The Middles,” but it is mined out after seven years and it is time for new sights, new explorations, new interests, and new adventures.

And so, we are off to California by September 1st, somewhere on the ocean between Morro Bay and Monterey, perhaps Carmel-by-the-Sea. After all, the Iowa winters are unrelenting and why would someone want to do that every year when there is a sun-drenched patio overlooking the Pacific beckoning and singing its siren song of Hedonistic delights.

This stretch of the Left Bank is the heart of the Central Coast wine country. Life among the vineyards is pleasant, and the availability of the freshest produce and seafood year-round adds to the piquant expectation of life in the sun. As a near-vegetarian and grazer of mostly fresh vegetables and fresh-made soups (cold and hot), the Salinas Valley locally-grown produce farm stands are a bit of culinary paradise.

The Pacific is, for me, a surrogate mother. As a callow youth, I went to sea on destroyers out of San Diego, Long Beach, San Francisco, and all foreign ports of the Orient. I grew up on the Pacific, and returned to the Midwest years later as a different person. Now, it is time to return to the ocean and its solace and warmth. It is the cycle of a life and it must be heeded.

With the inanity of the airline industry, it is possible for me to fly from San Francisco to Chicago, New York or London directly, cheaper and faster than flying multiple connecting legs from Des Moines. Plus, much of my work is shifting to remote, video-conferencing, and a lemon and orange tree shaded patio makes a much better office. These days, I tend to drive more because it is more enjoyable and Oregon, Washington, Vancouver, Arizona, even Las Vegas, are waiting to be discovered and savored.

So, as I look out the window on the June-planted corn field with its infant two-foot-high shoots of new corn emerging, I see a green sea and wind-driven waves rolling and washing on my shoreline below. My morning-visiting robin has transmogrified into a seagull. Perception has nothing to do with reality; reality is entirely of your own creation . . . if you have the ability to create and command reality as you wish it to be.

## **Merchandising**

*This issue, I want to explore product ideation. Where do new product ideas spring from? For some this is a naturally occurring skill; for others it is agony. Learning how to “ideate” is an essential part of the mastery of merchandising . . . regardless of the channel.*

### **The Idea and the Mind**

You may believe that new product ideas come from thought. They probably do, but it is thought derived from the collective minds of customers who buy the products. Let me offer an example:

A chef knows what she can prepare and what her customers will order and pay for. As a beef supplier to that chef, it is presumptuous to attempt to sell her cuts of beef that she doesn't prepare well or that her diners will not order. Therefore, you undertake a

consultive sell: “Chef, what cuts of beef would you buy if I were to make them available custom-cut for you?”

This approach to merchandising may take more work and effort and require some personalization, but it sells a lot more beef and retains more chefs as repeat customers. Here, ideation has been mined from the mind of the chef herself (no pun intended . . . well, no, actually it *was* intended).

Derived ideas are, in most cases, better ideas for new product offerings because they are based in reality and need. Ideas based in perception and wishful thinking are, by and large, flops out of the box. They are also the lazy merchandiser’s last refuge.

I am a devotee of Rex Stout’s mystery classics about Nero Wolfe, the stay-at-home genius detective. Wolfe demonstrates the incomparable skill of ideation (the accurate, reality-based idea of who committed the crime) by hours and hours of close questioning of witnesses and suspects, all recorded and transcribed by his intrepid assistant, Archie Goodwin. Wolfe “sees” the solution, often using the phrase, “feeling the phenomenon.” He has entered the mind of the criminal and has recreated the crime in his own mind and his mind’s eye. He “knows.”

That is the skill needed by a new product genius. You must be so far inside of the mind of the collective customers that you “see” and “know” and physically experience the “phenomenon” of the purchasing event. In other words, you know and feel what the customer wants and needs as a result of thorough detective work and in-depth interrogation of the suspect customers.

When that degree of certainty about a new product is absent, it is a fair assumption that you have not done enough detective work. And, I do recognize that the company is demanding you to find sixty new products by next month and this is a time-limited schedule. However, ten successful, evergreen products are worth far more than thirty non-performing products, regardless of the quota demands. Even the most unreasonable owner/CEO will understand the economics of that reality when they take the time to do the math. Your job is to do the math before they do and show them the wisdom of highly intelligent product development.

Just a tidbit.

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