

Libey Multichannel Advisor

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Why is Rethinking Products So Important?

Don Libey

I need to simplify the raging debate on change from the catalog model to the online model in order to get my head around what is really important and what is not.

Channel . . . Schmannel

I have to tell you, I'm getting pretty tired of all the talk about channels. I really don't care how stuff is sold. I do care that stuff is sold, and that means: 1) good stuff; 2) good offers; and 3) good prospects and customers who want and need the stuff. That's how business has always been done and that's how it's likely to continue to be done. While everyone is enamored with all things channel and online, maybe it would be of a lot more value to get your head around the simple fact that what you do is sell stuff to people. And while you're at it, you might cogitate on the reality that you're going to have to get better at being a peddler, 'cause that's what we all are.

Wherever direct marketers gather, there are lots of people yelling at you about the 'online revolution.' It seems there is no other topic of any interest or value other than the in-your-face screed about the online technologies that make a mountain out of every minor aspect of selling stuff. Hey! It isn't all that difficult. And it certainly isn't as arcane as the 'online gurucracy' wants you to believe. After all, there are thousands of online service businesses out there looking for another \$10,000 of your money because they have found yet another obscure micro-measurement that you can't live without for some unproven element of the social channel or the mobile channel or the San Andreas Fault channel. Everybody's looking for \$.03 of every transaction you scare up. Enough of this nonsense!

Sometimes I just don't believe what I see. Grown direct marketers who have built very successful businesses and who have run them for years during ups and downs, all conflicted and tangled in their underwear because they don't know how to make Twitter work and spending a ton of money totally 'on the come' with no foreseeable pay-back. Give me a break!

Have you got a market that wants your stuff? Do you have the stuff the market demands now? Are your prices competitive? Can you get it to the buyer fast and accurately? Do you have good customers and good prospects? Is your customer service first class? Is your customer file accurate, clean and up-to-date? Are your products top quality? Do you answer your phones? Are your people intelligent and understand the products and the uses of those products? Do you have the distribution model down cold? If so, who cares about Twitter or FaceBook or online or catalogs? Can you sell stuff to people who want your stuff? That is the only thing that matters.

We are Remote, "Bring-it-to-Me" Merchants

We are different. If I decide to "get" a pressure washer today, I'll go to a store. If I decide to "have it delivered to me," I'll go to a catalog or a website. As a customer, I 'seek' products and sellers of those products. As a merchant, you 'offer' better selection, speed of delivery, price, and ease of ordering in order to capture my business. Direct marketing is predicated on the "bring it to me" model of business. Direct marketing is the junction of 'seekers' and 'offerers.' Smart offerers do a few things to increase their percentage rate of success. They master the art of list selection; they model 'seekers;' they create offer incentives; they look in the nooks and crannies for customer/product affinities. In short, good merchants pro-actively *sell* stuff.

And yet, here we are almost two decades into the online world and we are relentlessly chasing expensive mythologies and ghosts of non-profitable potentials. One of the saddest things there is is watching a company wallow in the online Swamp of Despond and spend so much of its scarce and valuable resources on nonsense that in no way creates additional sales or profits. We are so absorbed in the minutia of guru-hyped B.S. that we have lost sight of what it is we set out to do: Sell more stuff to more people any way we can. We *really* need to get back to being good peddlers.

Define, Focus and Prioritize

Define your future. What do you want to do: Spend more time tangled in your underwear understanding more and more about less and less, or do you want to sell more stuff to more people at a profit? If you choose profits, then it's time to choose pro-active selling strategies. It's time to look at products, investment prospecting, circulation planning, models, offers, copy, better creative, and an agnostic preference for *how* stuff is sold.

Focus your future. Until you can say you are the best there is in product selection, in-stock fulfillment, customer service, price competitiveness, effective sourcing, gross margin, merchandising, and marketing, why are you plunging after wispy tangents of

extraneous technologies and ‘micro-channels’ that have nothing to do with your fundamental capacity as a merchant? What is your strength and weakness profile and what are you doing to bring it to 100 percent?

Prioritize your future. Forget about channels. Here is the list of potential things that require accurate and sustainable prioritization (and funding): 1) products; 2. new customer acquisition; 3) new markets; 4) new businesses; 5) offers and creative merchandising; 6) international expansion; 7) acquisitions; 8) talent; 9) financial stability; 10) end-game strategy. These are the strategic priorities. These have little or nothing to do with the vagaries of PPC, Ad-Word bids, SEO, CoreMetrics, Twitter or any of a thousand other bits of minutia. These are the business-building priorities that demand focus and concrete definition within the structure of your company. These are the CEO concerns. Without these elements fully- and intelligently-furnished, no direct marketing business can survive.

The Products

As an advisor and board member of numerous successful companies over the years, I can only report what I see. Those companies that have product excellence have been far more successful than those who don’t. The problem comes in defining ‘product excellence.’

It is not simply product quality; that is a given. Rather, it is an amalgam of numerous product attributes. Some of those attributes that are observed are:

1. *Application.* How a product is used and the features that make it best for that application. This is tied to design and understanding of the product users’ needs. A pressure washer for window-washing needs to be different from a pressure washer for wood decks. When a company selling pressure washers has products for every need, that is an indication of mastery of product application. You can see a very highly developed attribute of product application in businesses that sell surgical instruments. There may well be over 500 specific styles and sizes of surgical scalpels. Opening the myriad layers of the body is not a ‘one-knife’ affair. You can build a nice business on scalpels alone.

2. *Size.* A coffee cup for restaurant purchase could conceivably be one size and one design. That would be the old Russian approach: one-size fits all. But, the fact that there are literally thousands of coffee cups of many different sizes and designs to choose from establishes the boundaries between a serious restaurant supply business and one that dabbles in a few bits of crockery. A merchant has to come to terms with the depth and breadth of product; it is fundamental to the buyers’ perceptions of the business.

3. *Cost.* Commerce has a long and proven penchant for “good-better-best” selection. Most buyers want to see and evaluate what they get for their money. There will always be low-end buyers and there will always be high-end buyers. The reality is that most buyers will opt for the “better” product over the “good” or the “best.” In that regard, purchasing of inventories can be modeled and tend to be reasonably accurate based on historical cost preferences of buyers. The quantity price breaks are one of the most significant aspects of

cost and price artistry in merchandising. A well-designed quantity and percentage price break schematic can force margin better than almost any other product element. Cost and price relationship is one of the most fundamental and least understood elements of merchandising. It is also one of the most fruitful elements for definition, focus and prioritization. I will make you more money with cost/price manipulation than you will ever make on Twitter.

4. *Sourcing*. Who makes the products? Where are they coming from? What are the associated costs? Can the product be obtained elsewhere at a lower cost and higher quality? What does volume have to do with the equation? How do you estimate and manage a sourcing flow of product? Sourcing begins with factory visits and establishing relationships with manufacturers (or ending them).

5. *Life-Cycle*. One of my favorite product attributes, the life-cycle describes where the product is on the relevance/price continuum. Any direct marketing company must have control of product life-cycle to remain relevant. If all of the company's products are mature or obsolete, and nothing is in the growth phase or the introductory phase of the product life-cycle, that company is headed for irrelevance. The balancing of introductory, growth, mature and obsolete products within the overall product offering is a critical balancing act and one of the most significant of the product elements to be managed.

6. *Gross Margin*. Every product has a unique gross margin. Some are high producers; some are low producers; some are average producers. The balance or weighting of gross margin is, perhaps, the most important element of product management. Nothing happens without adequate gross margin. The net change of overall product gross margin from month-to-month is one of the most carefully watched aspects of the merchandising art. Allow gross margin to shift out of control by a point or two and the profit plummets. Nothing replaces product-by-product analyses and calculations of gross margin on a regular basis for the successful operation of a direct marketing business.

7. *Stocking versus Drop-Ship*. A product in inventory versus a product that is drop-shipped will have very different gross margin and per order fulfillment costs. Those must be known, tracked and balanced for the overall maximization of profits. The carrying costs of inventory versus the costs of non-inventory are dynamic and powerful. This is a product attribute that demands enormous attention, definition, focus and prioritization. Shifting an inventory that is 70 percent stocking and 30 percent drop-ship to 70 percent drop-ship and 30 percent stocking can be one of the most dangerous and perilous high-wire acts you will ever undertake. Yet, it can be (in either direction) one of the greatest producers of bottom line profits that you will ever do. And, yes—for every business there is an ideal ratio for maximum profitability.

These are seven attributes of product that should be concerning you far more than the vagaries of Twitter. These are real money generators or money drains. Until these seven are fully-controlled, you are not a controlled business. And if you are not a controlled business, why would you want to play in the channel sand-box where it is all expense and portends little meaningful return?

In fact, these seven product considerations are only a part of a total of twenty product attributes that I routinely evaluate. However, the other thirteen can wait for another article. These seven can take almost a lifetime of work to get right.

A Bit of Equivocation

My enthusiasm for a return to the foundation elements of being a good peddler and my equal enthusiasm for selling stuff does not mean that I am an online Luddite. You know better from reading this newsletter over the past 20 years. I'm an early adapter and encourage change; I'm usually the one predicting the change.

But, we have gone too far in our slavish focus on all things online. We went too far when we abdicated our skills as peddlers and good remote merchants for the glimmer of an online Nirvana. We took our eye off selling—and off everything we know and respect—and placed our hopes on flash and hype. That is dangerous. And, for me, there is nothing as important as the products. Product is and always has been king. I cannot see that changing. Define, focus and prioritize on products and selling and you cannot go wrong.

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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.*

This is the time of year that the grapes are being harvested and The Crush is underway at the Sonoma and Napa wineries. The vineyards are particularly lush this year with great hanging clusters of fruit on the vines. The weather has been near-perfect and the vintage is predicted to be exceptional with high yields. Of course, the opposite side of the coin is that wine buyers have abandoned high-end boutique wines in favor of inexpensive 'tank farm' producers who—it turns out—are producing some fairly decent wines. The upshot: lots of grapes on the market and wineries that are not buying them, and that means the price of good grapes has dropped from last year's \$2,800 a ton to maybe \$1,100 or, in some cases, \$900 a ton or less. Demand, supply, and price.

On the hills above my window, there is a new vineyard. The small vines will produce in about eight years. My guess is that the economics will require this vineyard to sell a bottle of wine for \$50 or more. The unknown is whether the market will pay that much in eight years or, as some believe, ever again. Some say we are evolving like the Europeans who drink a decent, inexpensive table wine but export all the expensive wines to America and Britain. Even the great French wines are having trouble retaining their U.S. market presently.

But that new vineyard also represents hope. The owner is hoping to make a profit on the wine the grapes will produce. To plant a vineyard is a statement of belief in something worth the risk. It is the physical act of—essentially—prospecting. The owner is investing not for the present but for the future a number of years off. There is no guarantee that the end product will sell, but you can't sell wine without growing grapes and you can't grow grapes without planting vines.

It seems to me we are a lot like grape growers and vintners. We have to invest long term to have a chance at success. The wineries grow grapes; we grow new customers. It takes a long time, but there is no other way. Some years, the weather is perfect and the wine is superb; other years, the yield is low and the wine is not great. Over all the years, though, there is a consistency and an average return that makes it worth the risk. And we are doing better than most.

On the other hills to the south, I see about fifty cattle. This is a dairy ranch, one of the many large dairy farms here in Sonoma County that make our dairy industry larger than Wisconsin's. That is another type of risk because it takes so much land to obtain a gallon of milk. I could grow enough grapes on that hill to produce thousands of gallons of good wine at \$25-35 a bottle. The rancher is using a lot of capital in the hope that milk prices will create a profit. With millions of dollars in valuable land, herd, and infrastructure, the rancher might make the same amount (probably less) that the vintner makes with just 10 acres of vines and \$100,000 of equipment.

What would you rather have: a vineyard, a ranch, or a direct marketing company? Looking out of the window, I think we can safely say we are lucky to do what it is we do. It may not be perfect, but it sure smells better and it doesn't rely on the weather.

The conclusion: Plant more new customers; the return is faster and better.

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Merchandising

Is there still a question about who does what?

Years ago, another debate raged within the direct marketing discipline: What exactly did Merchandising and Marketing do and where were the territorial boundaries?

In those days, Marketing had ascended to the top of the mountain. Marketeers (as they were called) did it all: creative artwork, layout and design; copy; product development; list selection and circulation planning; response reporting (the term prior to 'metrics' and 'KPIs'); and, in some cases, ran the call centers and mail rooms.

Somewhere in the 1990s, Merchandising began to gain traction in direct marketing. The concept that Merchandising (which, up to then, had always been a *retail* discipline) had a place in direct marketing began to gain some followers. True Merchandisers were brought into direct marketing and shortly thereafter the turf wars with Marketing began in earnest. The debate centered around power: Who has responsibility for what? Back then, responsibility equaled people and people equaled power and access to the CEO. It really had nothing to do with profits or ROI because nobody was really keeping accurate score anyway. If there was 15 percent net profit at the end of the year, everything was good. And there was *always* at least 15 percent net profit back then.

The novel ‘new thing’ was the idea that products and all things related to products were a specialized domain of product buyers, product managers, and—Yikes!—creativity including photography, copy layout and design, and offers. This was heresy! Only Marketeers were skilled enough for these responsibilities!

Well, the Merchandisers won. The Marketeers took a step down on the ladder and began focusing on New Customer Acquisition, Database Marketing, Metrics and Circulation Planning. In many companies, the Merchandisers took over the creative aspects (usually leaving the Marketeers with print buying and postal database and addressing stuff) and began formulating offers, sales, and product features. And the industry hasn’t been the same since.

Today, the Merchandisers are rising to the top of the C-Suite, as well. A number of intelligent companies have recognized that the MBA financial types may be good with numbers, but they haven’t got a clue about products the customers want. And so, the Merchandisers are becoming the next wave of CEOs. It is their turn to see what they can do with this ever-changing industry.

I began as a Marketeer. I sincerely believed in the omniscience and infallibility of Marketeers. Then, I learned respect for the accountants and their ability to see things I couldn’t see in the numbers. And, finally, I came to respect the skills and talents of Merchants and Merchandisers. Now, I see them as the key to success, because they know and understand every element of the product-to-customer cycle, and that is what this business is all about. Merchandisers are peddlers, and that is a great attribute.

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The DMA and Catalog Marketing

Well, it appears the DMA is coming out of the closet. They appear poised to finally admit that the organization is interested in online marketing only. Perhaps this is a good thing and offers the catalog world a unique opportunity to finally have a new advocate organization that actually cares about catalog marketing.

Below is the article from *DM News* regarding the DMA's potential change in focus:

DMA poised to shift focus to interactive

Carol Krol
September 21, 2009
DM News

The Direct Marketing Association is considering repositioning its entire organization around interactive marketing, including a name change, industry sources told *DMNews*. This reflects increasing industry focus on digital marketing. Some industry sources said the pivot is critical to the group's survival.

"They're trying to position the whole organization as interactive," said one well-placed industry source privy to internal discussions. That person added, "They really need to if they plan to survive."

Sue Geramian, SVP and chief communications officer at the DMA, said that the group "will continue to see the transition from non-direct brand marketing to measurable direct marketing speed up, and more dollars shift from traditional direct mail and teleservices channels into the rapidly growing digital channels of e-mail, search, mobile and social media marketing."

"With that in mind, conversation in this arena revolves around making sure the DMA brand reflects the realities of direct marketing," she said via e-mail. "There are no immediate plans for a name change."

The trade group plans to discuss possible courses of action at its board meeting in October during the DMA09 Conference & Exhibition in San Diego, one list industry source indicated. The conversation began eight or nine months ago, the person said.

"The Email Experience Council Conference does well, and their social media and wireless events are doing well," the person added, saying that the DMA wants to better compete with well-attended shows such as Ad:tech.

The DMA has more than a decade-long history of attempting to include digital direct response in its range of services and educational programs, running through several iterations of digital initiatives in the process.

In 1998 it acquired the Association of Interactive Media, which was renamed the Association of Interactive Marketing (AIM) in 1998; in 1999 it acquired the Internet Alliance. In 2005, DMA dissolved AIM, absorbing it into the parent organization and instead created an internal Interactive Marketing Advisory Board (IMAB).

In July 2007, DMA acquired the year-old Email Experience Council, which it merged at the time with its Email Marketing Council. That group within the DMA was formerly known as the

Council for Responsible Email. As part of DMA's agreement to acquire the EEC, the memberships of EEC and DMA's Email Marketing Council merged under the EEC name.

The impending possible name change was perhaps foreshadowed on June 16 when DMA announced the formation of the iDirect Leadership Committee, described at the time in an announcement as "a strategic reinforcement of DMA's broad commitment to developing the power of multichannel direct marketing for advertisers and consumers in the digital age."

The DMA said the focus of the iDirect leadership committee is to provide thought leadership around a digital approach to marketing strategies, and to help pool the best thinking and experience in direct and digital marketing within DMA's membership. The committee, it said, will drive new educational programs, conduct and publish research, and connect DMA members with public policy advocacy issues which increasingly impact digital marketing.

The committee is comprised of 23 marketers, agency executives and industry analysts, including David Barnes, Vice President, Best Buy for Business; Bruce Biegel, Senior Managing Director, Winterberry Group; Jill Cowen, Vice President, Citi Cards e-Business Group; Lisa Fischer, Managing Vice President, Marketing Strategy, Capital One; Gabe Greenberg, Senior Vice President, Global Strategic Relations, Vibrant Media; and Matt O'Grady, President, Nielsen Claritas.

You may have noticed there isn't a single catalog person on the DMA's committee. Kind of tells you something, doesn't it?

I would offer that a change in focus from direct to online marketing by the DMA (or whatever it will call itself) would offer the catalog marketing world a wonderful opportunity to come together and expand our representation and advocacy as pure-play catalog marketers. It is clear that we have had little advocacy or representation over the years, and only during the past two years has the American Catalog Mailers Association taken the lead in making the catalog marketing discipline meaningful and visible in Washington.

Perhaps it is time for the industry to seek a logical way to finally unbuckle entirely from the DMA and to seek representation from an organization that has professional understanding, interest in and empathy for the needs of catalogers. We have been the red-headed step-child for years and it would be nice finally to be the fair-haired heir to all we have built. In my many years in this business, I don't see much that has been done to advance the catalog industry as a stand-alone industry. I don't see what your DMA dues are getting you in return. Maybe there is a better place to spend the money.

Perhaps now is the time to strike and to take control of our destiny and to enlist an association to represent us that knows what we do and has a desire to see catalogs continue to have a place in direct marketing. Above all, clearly it is time to choose an effective and pro-catalog *leader*. I can think of a very logical choice: Hamilton Davison, Executive Director of the American Catalog Mailers Association, doubtless one of the finest association executives in the U.S. today and one who cares deeply about catalogs and catalogers. Just my thoughts; no axe to grind.

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