

# Libey Multichannel Advisor

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## The Outlook for 2010

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*Every December I attempt to look ahead to the coming year. This is the 20<sup>th</sup> year that these thoughts have been gathered, and it is the 10<sup>th</sup> year under the current newsletter and sponsorship of the good people of MeritDirect.*

### Is the Great Recession over?

This is the question, isn't it?

The direct marketing community has been on edge for some time now. The economics are not what they were. But I'm unsure if the Great Recession is over or if it will continue. I have looked at the fundamentals and the technical elements of the economy, read everything I can find regarding future potentials, talked to experts with long perspectives and experience, and visited with many of you to gauge your views. The result is, I just don't know; there is equal justification for recovery and for a deepening recession. But, more important, it may not matter.

For the past ten years or so, we have repeatedly heard an expression that has made its way into our daily conversations: "It is what it is." It's a fairly profound philosophical sound-bite, similar to Doris Day's "Que sera, sera" of the 1950s. You and I can do nothing about the economy. It is what it is. We can only influence our own micro-economy, our businesses. The more we worry about the future, the more we allow it to constrain our businesses, the more we create self-fulfilling outcomes.

Whether the Great Recession is over or not is not important. It is what it is, so what are you going to do with what you've got? That is the issue for 2010.

### **What Have We Got?**

Mostly we have a very slow-growth economy for 2010. You may be fortunate if you get a one percent growth *from where you are now*. Don't look at growth based on pre-recession sales. Look at growth based on sales right now. One percent on sales right now may not be exciting, but at least it is a positive increase. If the economy can deliver a one percent increase, it would signal the beginning of future growth and I would look for signs of strengthening momentum throughout the last half of 2010 and into 2011.

Perhaps there is another growth factor. If you can produce an additional one or two percent growth through diligent application of solid, proven customer and investment prospecting tactics, that is where the meaningful results will come from over the next two years. Two percent growth from you and one percent from the economy: for me that is a realistic objective.

One percent of your internal growth can be expected simply by repairing the damage done to your customer list. I am seeing upwards of forty percent of the names on customer lists no longer at those companies. If you go into 2010 using your existing customer lists without a monumental cleaning effort, you are going to shrink and waste money, not grow. Your list has been permanently damaged by the Great Recession; only you can fix that. You need to turn your call center into a voracious list updating operation, otherwise your most valuable asset will deteriorate and your business will decline precipitously.

Another thing we seem to have going into 2010 is stable prices. With the exception of drug companies, health care insurance, banks, lobbyists, politicians and the other parasites plaguing our society, prices have somewhat declined. My research tells me this is temporary. The only possible way out of our debt is to print money and that can only result in inflation. These are absolute relationships, not potentials. Inflation will occur. But, for 2010 it seems prices will be reasonably stable, at least through the first six months.

We also seem to have a slight increase in money available to businesses. In several recent acquisitions I have been involved with as an intermediary, I see fairly decent financing available for larger deals, but not for small deals. Larger deals are above \$40 million. The average deal size for 2009 in the under \$100 million market was around \$17 million, up from about \$8 million in 2008. Banks want to loan money to large, successful, sustainable companies, not small companies with higher risk. Nothing new there.

While unfortunate, some of us also have a slight decline in competition as we enter 2010. There are direct marketers exiting their businesses for a variety of reasons. There is also a quiet consolidation taking place, especially in business-to-business direct marketing. I have been privy to acquisition "roll-ups" of small companies by larger strategic buyers in

four distinct market areas. It appears that those entities with money and financing are quietly on the move and are beginning to acquire sizeable portions of specific niches, often buying companies they have been following for years. This is a transition period; all recessions produce transition periods. Following this period of consolidation, we can expect a period of new business formation. Whenever consolidation occurs and companies become large and lumbering, opportunities for small, fast-moving, innovative competitors always follow. It is the classic American cycle of business that is almost never seen in other countries.

That decline in competition provides you with a five-year window to gain market share if you are positioned to do so. You will need a “re-think” about your products, prices, propositions, services and customer relationships—and your channels.

And, at the moment, you have available a growing talent pool. People are in transition due to the Great Recession. People are always in transition during any recession. However, “transition” means something other than just movement. In the period following recessions, the talent pool is always refreshed. Those with the skills of the pre-recession period are flushed out of the pool and replaced with people having the necessary skills for the post-recession years. If you look at the channel controversies, you see a clear demarcation between the past and the future. The growth companies with their vision on the future are gathering talent to compete with 2011-2015 market technologies and strategies. The knowledge and skills for 2011-2015 are very different from those that served 2005-2010, and vastly different from those that served 1995-2005. Read, heed, weep or rejoice; it is what it is.

Finally, we have some improvement from the causative elements of the decline of 2007-2009. Probably most of the toxic mortgages have been resolved. Some of the toxic banks have been stabilized or have been taken over. It appears the American people have recognized that they cannot continue spending more than they make; that is the prerogative only of congress and politicians. The securities markets have improved significantly. Yes, there are still very troubling and dangerous patches in the economy, but it has at least pulled back from the brink of the abyss.

### **What Do We Need?**

The “Six Cs”: customers, courage, confidence, care, conservatism, capital.

Put your capital to work investing in the growth of your business through internal and external investment prospecting to grow your customer base and expand your products and service capacity. Do so with courage, confidence, care and conservative practices. Take calculated risks; concern yourself with facts, measurements, realities, and the supremacy of the customer.

Keep these timeless basics as your 2010 strategy and you can't go wrong. We begin where we are at the end of 2009. We move forward into 2010 and do everything in our power to take advantage of a one percent economic growth and a two percent internal

growth. It is what it is and we will wind up 2010 with whatever we create. The only thing that matters is progress forward and a steady hand on the controls.

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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.*

From several windows I can see one of the great annual events of nature: the migration of the gray whales.

The Pacific population is moving from their summer feeding ground on the Alaskan coast to their mating and birthing grounds in Baja, Mexico, a 6,000 mile migration. After a few months in the warm waters of Mexico, the whales and their new calves will repeat the trip and migrate back to Alaska to feed. There is an unending cycle of feeding, mating, giving birth and migration.

From December to May, here in Bodega Bay, we get to observe these magnificent mammals as they pass by, first heading south and a few months later returning north. These are 80,000 pound creatures up to 50 feet in length and we get to watch them swim, breach, dive, spout and surface over and over less than 50 yards off the rocks and the surf line near the beach below my window.

The experts tell us there are about 18,000 to 22,000 gray whales in the eastern Pacific population. That is thought to be almost as many as there were before the whaling fleets drove them to the brink of extinction. Efforts to preserve the whales over the last 100 years have been successful, and the population is stable, healthy and growing.

The males migrate first and the females follow a bit later. The pregnant females feed later and are the last to move south. On the reverse trip, the same is true. The males leave for the feeding grounds followed by the now pregnant females. The mothers who gave birth follow last with their calves. There is order and logic to everything they do. From the birthing lagoons of Mexico, the babies gain up to 50 pounds a day, nursing on rich milk from their mothers. At birth they weight 1500 pounds, and a year later they will be more than 50,000 pounds, attaining full size by four to six years.

This cycle of migration has been going on for millenia. In fact, whales are examples of an almost counter-evolution. Apparently, they began as land mammals and returned to the water to evolve as whales. And, for that reason, whales remind me of catalogers.

Many of us began as catalogers and evolved into online marketers. Now, some of us are remembering the mists of time and are returning to our native catalogs. We are, in many ways, like the gray whales. Ours is an unending cycle of creative, circulation, birthing new products, and seeking food. Ours is a life of seasons, driven by the instinct to survive and to grow. We have been around a very long time and we are going to be around for a long time to come. While other whale species live, feed, mate and birth in other waters and other channels, ours is a stable and growing species migrating between our summers and winters, our cold and warm waters, our birthing and feeding grounds. As long as we stay close to shore, follow the food, and tend the babies, we'll be fine.

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### **Merchandising**

#### *Display*

*Products exist only in context. Remove the context and you remove the product reality. Remove reality and you remove sales.*

#### **Metafiction**

Metafiction is a fiction about fiction. It describes itself in fictional terms. While only those of us who were seriously odd English majors care about such things, there is a genuine fiction that surrounds products. And if you understand the fictions, you can sell a whole lot more product!

A customer looks at a picture of a product and does not see the product itself; rather, the customers see what the product can do specifically for them. As an example, I look at a hat and I do not see a hat. I see scalp protection for a bald guy. I see skin cancer protection. I see epidermal *shade*.

Sometimes I drive by a pasture and see dairy cows. I don't actually see dairy cows; rather, I see cottage cheese. Occasionally, I see blue cheese and crackers on the hoof. Now and then (mostly now), I see butter. That leads to visions of popcorn drizzled with the rich, churned and salted by-product of contented dairy cows.

I look at an artichoke and see Hollandaise sauce. I look at a bunch of grapes and see Pinot Noir in candlelight. I look at the Chicago skyline and see hot dogs piled with mustard, relish, onion, tomato, and pickle. I tend to see most things in the context of food.

#### **Consumer Catalogers Get It**

Have you ever wondered why consumer catalogs shoot product photos on location? Because they have tapped into the metafiction their customers create about their products.

I once observed up close and personal the efforts that went into selling bikinis. Venus Swimwear was a catalog master of metafiction. First, they had their own modeling agency that sourced bikini-worthy models for their swimsuits. Then they took them to tropical locations and made those models and swimsuits sizzle photographically. They created the male metafiction interpreted through the desires of their female customers. The result: every customer who was buying a bikini thought to herself, 'I will look like that.'

Catalogs that sell cookware create a metafiction by showing incredibly creative gourmet dishes produced in that cookware. The fictive element is that anyone who has this pan can make this lobster, scallop and shrimp dish that will make people say "Wow!"

The metafiction of consumer merchandising is legendary. It consists of a conceptual bouillabaisse (there I go again) of copywriting, photography, styling, application analysis, and something I call "product promise."

### **Product Promise**

What does a product mean to you? The answer is whatever you want that product to promise you. The promise is not the same for all people. A Jaguar convertible promises one person status, another luxury, another exclusivity, and yet another speed. A bar of soap promises one person cleanliness, another bacteria control, another scent, and another moisturized skin. All different; all unique to the individual.

Take a product that you sell and sit down with a pencil and paper and write down every promise you can come up with. Try and decide which are major promises motivating many people and which are minor promises motivating only a few. Now, take your major promises and imagine how you can "dress them up" with copy, styling, props and photos to convey the promise fully.

That's visual merchandising.

### **Why Do We Do What We Normally Do?**

We normally take a photo and send the work to India to be cut into silhouettes for use in the catalog. Our intent is to remove everything surrounding the product that might deliver a promise so that we have only the product itself to show, thereby saving space, time and cost. Wrong!

When you show the product without the dominant metafiction, you show reality and *nobody buys reality*. I can get all the reality I want. What I'm looking for is *my personal fiction*.

## **Mastery of Metafiction Leads to Mastery of Cataloging**

If you want to sell more products you have to surround those products with the story that the buyers want to read and see. To a great degree, merchandising is storytelling. Storytelling is an ancient and revered art form. It is fact and history and reality dressed in the costume of personal fiction and personal promise. Master the metafiction of merchandising and you move ever-closer to the mastery of the art of cataloging.

Think back to the great masters of metafiction in catalogs. Regardless of their success or failure, they could make people buy things. Of course, the ultimate magician was J. Peterman, a creator of nearly pure metafiction for every product. Early, there was Gary Comer, founder of Lands' End, who created a fictive Dodgeville, Wisconsin and product promises that were individual and were delivered. Victoria's Secret was a veritable Sistine Chapel of metafiction and product promise. Levenger's described a genteel metaworld for its customers. On the business-to-business side there was the early PaperDirect, certainly New Pig, and most of the business holiday card catalogers.

## **Atmosphere, Applications and Styling**

By and large, these are terms unfamiliar to business-to-business catalogers. Every product has a "resident atmosphere." Think of a hammer. The atmosphere is construction, predominantly male, outdoors, strong, solid. The applications are building, connecting, nailing, pulling, hammering, forcing, wrecking, smashing, and a dozen or more other possible uses. The styling is rugged, jeans, boots, muscles, tanned, powerful. Create copy, photos and "sets" with these elements and you have a metafiction suitable for selling more hammers. Show a hammer by itself and you have reality.

There really is a difference. It really is worth mastering.

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## **A "Must Do" for 2010**

*When we attempt to look at the coming year and offer thoughts about the expectations, one element always trumps the others: financial stability.*

### **Financial Stability**

I have been reviewing numerous third quarter financial statements recently. One thing that strikes me is that some companies are in a stable shortfall and some are not. Let me explain.

Company "A" is down 25 percent in sales. They are down only 10 percent in earnings. That company has managed the shortfall.

Company “B” is down 30 percent in sales. They are down 50 percent in earnings. That company has not managed the shortfall.

If there was one thing that is an imperative for 2010 it is financial stability. I can see no justification in the current economic climate, or in the outlook for 2010, for excessive risk or for depletion of financial capability. Company “A” is showing capital expenses of \$75,000 for 2009 versus \$278,000 for 2008 and \$1,150,000 for 2007. That is active management of finance. Yes, it beggars the future, but cash now is better than cash later in every instance.

In a slow growth economy with less than 2 percent growth occurring naturally, there is little room for investment beyond the customer base. Repairing the lists and retaining the customers will be a significant investment, but they are cardinal investments if the future is to be met.

For many companies, another three years on existing systems may be required. Distribution center expansion or new market penetration versus cash have to be examined very carefully. As we go into 2010, your cash position and your line of credit protection may be the most important elements of your financial strategy.

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### **But . . . Then . . .**

*The outlook for acquisitions is positive and gaining momentum.*

It is measurable. The phone rings fairly often now and there are more questions about selling and acquiring companies than there has been in the last two years. I am actively involved in several larger than normal transactions and others are in the early stages.

For a few companies, this is an excellent time for acquiring a business as an add-on or as a new market penetration strategy. Owners who have been unable to sell over the last several years are anxious to exit and do not wish to remain another two or three years. With some, age is a factor; with others, the economic unknown is a factor.

At present, some companies that are available are distressed, but solid companies are increasingly coming on the market. Almost all of these transactions are quiet; they are not being sold as “auctions.” It seems most owners wish to test the market very quietly and confidentially to see what they can obtain for their business without the industry being aware of their willingness to sell.

I agree with that approach and am using a pre-emptive strategy that gives a qualified, selected buyer an exclusive, time-limited opportunity to make an offer and close a deal without others knowing about the transaction. The multiples of earnings are generally in the range of 5 to 7 x EBITDA with a possible premium for exceptional companies.

So, if your strategic planning allows you to do acquisitions, this could be an excellent time to do so. If you wish further insights, feel free to give me a call.

This is also a good time for small expansion efforts to Canada, in my opinion. Canada is doing well and the outlook there is positive. If you are considering a small investment in international markets, then Canada might be a good opportunity in 2010.

I am not quite so sanguine about the U.K. As I spend a good deal of time with U.K. interests, I don't see the opportunities in 2010 as being sufficiently risk neutral to encourage investment there. The Royal Mail is relatively unstable as is the foundation British banking system and economy. Time will tell.

For 2010, my primary growth strategy would be focused on new customer penetration, existing customer penetration and reactivation, product expansion, and acquisition expansion in that order. And, frankly, I am not at all sure about channel expansion. My inclination is to maintain what exists and see what happens while bolstering the tried and true basics of solid catalogs and websites. I do like trigger email and alternative, low-cost online operations. Since your online "net gnats" are already taking customers away from you, set up similar operations and get as much of the market as you possibly can. Just be sure you keep these online only operations at arm's length with a different positioning, look and trade dress. Competing with yourself is okay, to my way of thinking.

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### **A Plea for 2010**

*Please . . . Please . . . Please*

*Join, Support and Become Active in*

### **The American Catalog Mailers Association (ACMA)**

Our industry made great steps forward with the U.S. Postal Service in 2008 through 2009.

ACMA has made a difference.

ACMA has saved you money in cooperatively forestalling or adjusting postal increases for catalog mailers with the USPS.

ACMA has returned more to its members than its small membership fees.

ACMA “gets it.”

ACMA has done more for catalogers in two years than any other organization has done ever.

ACMA has only one constituency: catalogers

ACMA has an Executive Director—Hamilton Davison—who knows what he is doing and gets it done . . . . *without* a meaningful budget. Imagine what he could accomplish *with* an adequate budget.

ACMA is the only effective and proven alternative I can see to “Standing Together and Surviving” or “Standing Alone and Perishing.”

Read the name: American *Catalog* Mailers Association. The active word is *Catalog*.

Come on . . . . It’s \$5,000 . . .It’s peanuts and it’s your *entire future!*

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