

Libey Multichannel Advisor

May 2010

Published Exclusively For Clients Of

Libey LLC

M&A Intermediary for Direct Marketing

Bodega Bay, California

www.libey.com

Why Don't You Follow the Money?

Don Libey

A great deal of Smart Money has expanded internationally. Most of our business to business direct marketing companies have not. Why is this? Does it make financial and strategic sense?

Haven't Been There or Done That

While most of us have international travel experience and many of us have international buying and product sourcing experience, only a few of us have international expansion experience. We live in the Global Economy and we are buffeted constantly by the effects of a global economy, but most of us are mono-national, doing business only in the United States. Rather than expanding through international business, we are rooted firmly in *intranational* business.

Over the last twenty years, the financial center of the globe has been dispersed. From the almost century-long dominance of New York City, capital has shifted meaningfully to other world centers, notably London, Hong Kong, and Brussels. New York is still the major global center, albeit bruised, but other parts of the world are growing in influence.

The largest U.S. corporations operate internationally. Many have much larger international business volumes than that generated by their purely U.S. business. Many middle-market corporations are international, as well. It is the small businesses doing under \$250 million a year that tend to be *intranational* businesses. During this decade, the

U.S. has a total of 25,409,525 businesses. Of those, only 5,885,784 employ one or more employees. All the others are legal entities, or “pass-through” companies. And of those 5,885,784 businesses, only 1,198,914 (20 percent) have sales over \$1 million. And, the total number of businesses in the U.S. that employ over 2,500 employees is only 7,068. We are a nation of small and micro-businesses. As a nation, we have not entered our small business international expansion phase.

The investment money, however, is moving internationally. This also means money from other countries is being invested in the U.S. If you were to look at the number and size of companies owned by businesses from the Netherlands, I think you would be astounded. The Dutch have always been legendary global traders, and they are continuing in that tradition today. There are times when I believe New York will, once again, be New Amsterdam.

We all know stories about investment from China. The difference, however, is China has a two-hundred year plan. It is becoming clear from their international expansion activity that the plan calls for China to control *all* of the world’s mineral and natural resources in the next century. They are not buying U.S. businesses that sell specialties or tote bags. They are buying the minerals and resources that are essential to *all* existence. When one country controls the lowest-cost units of labor and the raw materials, it ultimately dominates global commerce.

And, China’s strategy involves very subtle expansion plans. As an example, Door County, Wisconsin grows most of the cherries that are used in the baking industry. The Door County cherries are dried and sold to large commercial bakeries. Over the past five years, China has been actively buying most of the annual crop. They will pay more for the cherries in the short term to essentially corner the market, perhaps for as long as twenty years. But, during that twenty-year period they will learn to grow their own cherries and will ultimately drain Door County of all its non-China markets.

In Sebastopol, California, the Gravenstein apple orchard center of the U.S., the U.S. apple juice market was lucrative for nearly a century. Then, China learned how to grow juice apples and now exports apple juice concentrate to the U.S. at prices far below those needed by California growers to make a profit. As a result, China has the U.S. apple juice market and it only took China about ten years to turn the tables.

That is a subtle kind of international expansion, yet it is taking place in every industry, in many countries around the globe. American businesses are becoming static and “out of the loop” relative to international growth. With the largest economy in the world, we continue to believe in the infallibility of our market destiny, even when almost a third of our market disappeared in a two-week period, triggering the Great Recession.

As a small sub-set of American commerce, our business-to-business direct marketing industry remains largely rooted in the U.S. Yes, there are exceptions. Brady Corporation does most of its business internationally. A number of companies are in Canada. But, on balance, most of our industry has not “been there or done that.”

Market Size

For most of the growth years in direct marketing, we looked at the U.S. market and concluded it had almost infinite opportunity for direct sales. At one time, that conclusion was probably true if, indeed, fallacious in its premise to begin with. We had enough market share to capture to keep us busy for most of our careers. Today, that may no longer be the case.

At some point, all markets exhaust. They run out of customers, energy, demand, or affordable growth opportunities. And, it has always been thus. Wars are fought over the access to new markets when those at home are no longer sufficient for wealth maintenance. For most civilizations, more is always needed; our nature is to never be satisfied with what we have, but to always find and take more.

All of our companies are seeking to exist and grow in a market of 350 million people and, essentially, 2.5 million businesses. That describes the playground.

And yet, we are ignoring markets of—by my count—about 6.5 *billion* people. If we use the U.S. population to business ratio of 310 million to 2.5 million, it means there is one business for every 124 people.

On a global basis, we may be looking at a population to business ratio of 6.5 billion to 52.5 million using the U.S. rate of one business for every 124 people. Even if we *triple* the number of people to 372, the potential number of businesses “out there” could be 17.5 million! That is a business to business market that is 7 times the size of the U.S. market! Don’t you want just a little bit of that?

I know . . . I know . . . “It’s hard.” Well, so was settling Pennsylvania and crossing the Rockies. Anything that’s worth something is hard. The fact remains that the future is “out there” and not just “right here.” In case you haven’t got your head around the potential in the international world—It’s HUGE!

International Expansion Redux

We tried this once before. Back in the 80s, a few brave souls expanded their catalog operations to Canada and the U.K. Brady’s Seton Nameplate—under the direction of Dick Fisk—led the way. Soon, mostly because of the egos of the owners attending the Business Mailers Group (now the BDG), others crossed the pond and the border. Great investments were made; lots of business class miles were racked up on British Airways; good hotels were frequented in London; and the Americans landed.

In most cases (except Seton), after a year or two of dealing with British managers and the differences between the English and American ways of doing things, most of the American managers went home and left the British in charge. That didn’t work out, so after another year or so, the Americans came back and it was, “By God, they’re gonna do it my way this time.” That lasted another year or so, and finally most of the intrepid U.S.

catalogers gave up and sold the businesses back to the Brits. End of conquest. But, to be fair, we did get to see a lot of good theater in London.

A few even tried Spain, Germany and France back in the 80s. Now, just imagine the success that was in store for those folks. Let's see . . . they couldn't manage the British employees and they thought . . . 'Let's do France!'

In the end, the U.S. business to business Armada came home and never went back. By then, it was the mid-1990s and other things were occupying our attention: the Internet and "e-commerce." Suddenly, market expansion was being redefined.

The Future Consideration to be Decided

This is not a matter of speculation. The reality is that the world markets are progressing and demand is building in other emerging nations, a number of them larger than our country. Also, wealth is building in those nations. If you will investigate the economies of India, China, Japan, and others, you may be surprised by the amount of money that is spent by businesses.

Of course, there is perspective to be maintained. If you get excited by Canada's nearly 34 million population, or Australia's nearly 22 million, you might be interested to know that California is a market of almost 37 million.

But, if you think of the English-speaking markets of the U.K., Canada and Australia, it is a combined market of 117.5 million people. At the U.S. ratio of people to businesses, that is about 940,000 businesses. At a direct market share of 20 percent, that could be 188,000 new business-to-business customers waiting to be cultivated. And you don't have to do that much translation.

It is less about the fact of markets than it is about the philosophy of expansion. The biggest consideration in a decision to expand internationally is one of subjective concern. Do you want to expand internationally? Do you have staying power and time? Are you willing to invest? Can you manage dislocation? Can you manage culture? Do you like to go "out there?" Are you willing to live on airplanes? Can you find the people you need as well as the systems required for integration? Do you have the capacity to do the research and the proper merchandising and marketing in another market culture?

If you can answer these questions positively, there is a pot of gold to be had. However, it will not be *your* pot. The benefits of serious international expansion and new market investment will come years down the road. You will doubtless be gone. But what you set in motion will doubtless have described the future of your company. International expansion is an end-game, not a short term tactic.

Interestingly, in almost every company I have been involved with that expanded internationally there has been at least one senior manager who really wanted to do the expansion. This person was willing—*eager*—to live in Britain, Europe, or wherever.

Taking on the challenge of building a parallel business somewhere else is, for some, heady and exciting. As luck would have it, generally the person bitten by the international bug is also very competent and able to meet the challenge. I don't know why that is, but it seems to be common. It has something to do with intelligence, blended with confidence and a sense of adventure.

There is also a price to be paid for ignoring international markets. That decision also sets in motion an outcome for your company that cannot be easily changed. By not seeking new markets, your company may experience declines in earnings, or be forced into an acquisition strategy for growth, or into entering an entirely new business here in the U.S. It is relatively certain that just adding products is not going to be the answer to future market growth and business viability. Some other strategic alternative is required.

There are attractions to entering new and undeveloped markets. To be first often means you own the space. In these markets—like India—the response rates are what they were in the 1960s; prospecting responses above fifteen percent are not uncommon in emerging markets. All of the low-hanging fruit is still on the trees. Training a new market is often easier than attempting to attract an old market. Expenses are lower in new markets than in exhausted markets. And, for some, it is fun.

But it takes commitment to be successful. I tried it in the late 80s in Mexico. I started the first business forms catalog in Mexico City. The response was superb; the costs were low; but the infrastructure was just not there. It took six months to get a telephone installed and then you had to bribe the installer. Mail delivery was spotty (and I was only doing Mexico City, population 20 million; 100,000 businesses). It would have been successful if I had stayed with it. By my calculations, I would have begun to make a profit about now, twenty-one years later. But, I didn't have the necessary investment capital to build a new market in Mexico City. Today, it is flourishing. The products are different, but the concept is viable. I was twenty years too early.

For you, however, the future of your company requires that you ask a different question: “Can I afford to be twenty years too late?”

The Expansion Strategies

For many years, I advised owners on profitable growth strategy. There are only six choices: 1) new growth from new customers; 2) new growth from existing and lapsed customers; 3) new growth from new products; 4) new growth from new adjacent markets; 5) new growth from acquisitions; and 6) new growth from international expansion.

The order above was—for almost twenty years—my preferred approach to growth. Customer growth, product growth and adjacent market growth (new product lines) always came before acquisitions and international.

Today, I may be inclined to look at international expansion as the most logical approach to new customer growth, especially for companies that are planning for a long

future. It's a matter of market maturity and new customer cost. It may be that there is more return on investment in emerging markets than in the mature market of the U.S. Of course, that depends a great deal on the individual business and the market niche. But, the U.S. market is getting more and more difficult. It is costing more to find growth. And, it is becoming incredibly complex, especially as we turn more and more to technological algorithms. Sometimes I find myself thinking Mumbai . . . sixteen-page catalog . . . hand delivered to 100,000 businesses once a year next day delivery by bicycle courier keep doing it day after day . . . simple.

What's the Take-Away?

It's this: If you have not explored international business expansion, maybe this is a good time to look at the potential. The economic growth in most of these nations may well outpace that of the U.S., at least for the next five years or so, or maybe forever.

If you simply considered Canada, it's a place to begin. Canada is not arcane. It is a lovely nation of 33 million and only asks that you do business as a Canadian company. If you are going to take international business seriously and be trusted by your new-found customers, you really should set up shop in that country. It doesn't have to be big. Canadians only ask that you employ Canadians and you act as if you cared about Canada. There is really nothing wrong in that.

Europe may be difficult in the near term. It is a big market, almost twice the size of the U.S., but the economics are going to be tested, I believe. The looming vagaries of the Eurodollar are a bit off-putting at present.

The U.K. is a good market. It is worth considering. The size is about 62 million, almost twice Canada. The great advantage—even though they are now officially in the EU—is that they did not give up their British currency. The Pound is reasonably sound and they love catalogs and online buying. And, I'll let you in on a secret: the U.K. direct marketing industry is far more sophisticated than the U.S. industry. American direct marketers have been going over and doing seminars since the 1980s and the British direct marketers listened and *applied everything*. In 2002, they surpassed U.S. direct marketing in knowledge, analytics and skills and now have the most advanced catalog and online performance in the world. You would learn a lot from your British peers.

If I were starting out at age twenty-five, knowing what I know and have learned, I would pack up my servers in the cloud and head for India. There, I would make my fortune in a short time as a peddler—online, by catalogs and mail, and through distributors. I'd own an entire market by simply doing what works and selling what customers want and need. It's morning in India!

Ω

Thoughts Looking From My Window

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

As I write, looking out of my library window, I observe many systems of Nature at work. There, in the distance is the ocean, the vast, complex and constantly changing system; above, the limitless sky and the engine of the atmospheric systems; directly under the house is the tectonic plate system, in fact, the San Andreas Fault; everywhere in view is the plant world; ocean birds soar and land birds flit in and out of the bushes and trees; almost daily on the hills I see deer, bobcats, blue herons, enormous rabbits, egrets, gophers and moles, coyotes, and dairy and beef cattle. My life is constantly involved with all of these natural systems; yet, I understand little about any of them and control none of them.

It is as if I were living inside one of your companies. Numerous complex and unknowable systems exist, whirring away in the night, and we interact with them all day, every day, yoked to them for our very existence; yet, we really don't understand them or exert any control over them. Our navigation algorithm is guided by Endeca . . . But, what is Endeca? Can you hold it on your hand? Can you see it? It is all so complex.

Many of us use web analytic systems, database analytic systems, product merchandising analytic systems, and dozens of other inter-dependent analytic systems all integrated with other systems in order to tell us more and more about what we are doing. But, most of don't know what we are doing. We don't know how the systems work and we don't understand what they are doing. We know less and less about more and more.

I could no more fly like the vulture soaring over the hills looking for a meal than I could explain to anyone how the merchandising system selectively and individually determines what product is going to be shown to a specific repeat customer on the next visit to the home page. I might as well try to control the fault line running under my bedroom. I have NO CONTROL!

I cannot make the weather do anything I want it to do. And, I cannot make Google do anything at all. Yet, I am almost totally beholdng to Google for online search business in the exact same way I am totally beholdng to the weather system for keeping me dry, wet, hot or cold. I have NO CONTROL!

The plants are going to bloom and the trees leaf out regardless of what I do. The deer are going to breed regardless of what I do. I know nothing about their lives, only enjoy seeing them when they allow me to watch. The same goes for the U.S. Post Office, UPS and FedEx. I do whatever it is they allow me to do under the rules and dictates of *their* systems. I have NO CONTROL!

Nature is complex . . . infinitely complex. We probably shouldn't have any control over it because we'd just screw it up more than we have already. We just go along, existing partially in and out of it all, hoping for the best but never expecting to actually understand how it all works, or why.

But our businesses? WE have made them complex. WE have added unknowable system upon unknowable system, abdicating all control over everything to a nameless entity somewhere in the GooglePlex or in The Cloud in an attempt to know more and more, and WE now know less than we ever knew when we were ignorant and in the dark.

I keep trying to follow all the analyses by all the analysts and read all of the blogs and tweets and daily postings because it is all so important and I might miss something really necessary that I need to unlock the mystery of all the complexities so I can finally understand why my margin is shrinking and my customer counts are smaller and my PPC investment is so expensive and what happens when I add or drop sixteen pages but I CAN'T KEEP UP! I have NO CONTROL!

And so . . . sometimes I just turn and look out the window. I let Nature do its thing without asking any questions or expecting any particular outcome. I exist with no purpose other than to observe. I breathe slower, my heart rate drops and I relax and find it's time for a nice nap. More and more, I relate to Snoopy.

But, I know—out there—in the hurly-burly of the systems, just like the angst-ridden analysts in a hundred direct marketing businesses pouring over a thousand undecipherable spread-sheets, Nature has billions of earthworms at work keeping the soil system aerated; 24,000 gray whales swimming north to Alaska; four vultures finishing up an old road kill; and a million ants and spiders are under the house all looking for something and I have no control. I don't understand. I don't know.

Ω

Merchandising

Please remember Ray Considine and the eternal wisdom of WAYMISH

Ray Considine was a gifted Irish storyteller and, along with his friend Ted Cohn, brought to the world the concept of WAYMISH, an acronym for “Why Are You Making It So Hard” and then add the ending of your choice, usually “For Me To Give You Money?”

There isn't a day—at some point—either online or at retail that I don't mutter to some fool, ‘WAYMISH . . . you idiot.’

I particularly get bent whenever I encounter an officious retail employee who wants to make sure I understand the obstructive procedure for buying something. Usually these make no sense and only serve to drive away customers. Recently, I applied for a service at Wells Fargo Bank. This involved no risk, no loan, and no money. It was simply an attempt for me to consolidate all of my corporate services. It wasn't like I was asking them for anything; in fact, I was trying to give them more deposit business. "Well—let me tell you, Mister—there are regulations you have to comply with and hoops you have to jump through if you think we are just going to accept your business!" They wanted five different proofs of corporate existence and actual notarized copies of my corporate By-Laws in addition to a bunch of forms I had already filled out once. I sat across from my Private Banker and looked her in the face and asked, "WAYMISH?" I wound up having to explain it three times and she still didn't get it. It's easier to just move everything to a friendly local bank who actually wants my business. Why does Wells Fargo, one of the biggest banks around, make it so hard for me to give them my money?

When did you last look hard at what your customers think about doing business with you? How many WAYMISH traps do you have throughout your operations? You find them all the time online. A WAYMISH trap is anything that interrupts the smooth accomplishment of creating satisfaction. If one has to fill in information more than once, it's a WAYMISH trap. If one has to try to figure out colors, or sizes or weights, or lengths, it's a WAYMISH trap. Go from top to bottom of your business and constantly ask, "Does this create a WAYMISH response by the customer?"

It is endlessly amazing to me that retail stores don't begin with the parking lot. Why do you make it so hard for me . . . to park. If I can't comfortably and easily park, I'm going somewhere else that sells what you sell and does make it easy. There is the active element of WAYMISH. Making it hard is exactly opposite to making it easy. You want the customer to think, 'They are making it so easy for me to give them my money.'

That's merchandising of a whole new type. Attitudinal Merchandising. When you bend the customer's attitude to the happy, positive side, you increase the percentage chance of a sale.

Recently, I had an automobile warranty problem involving my transmission. Dreading taking it to the dealer because of the hassles, I nonetheless tried the local Chrysler dealership. The service representative, with only my name and vehicle identification number, extracted my car's history and said, "If you can leave it for two days we will replace the transmission. We'll arrange a rental car for you and pay for it under the warranty. Your only cost is the \$100 deductible." She took care of everything, arranged everything, and called me three times with updates. This dealer—the very large, nationwide dealer, Lithia—had taken every possible WAYMISH out of their system. In fact, they don't normally make repair appointments; they ask that you just come in and they will complete the work that day. Attitudinal Merchandising!

You know, it really doesn't get any more fundamental than making it easy for me to give you money, or my maintenance work, or my business. It is the fundamental thing.

We cannot exist in business unless we are able to make the experience pleasant for our customers. We spend money and resources on pleasant photography, pleasant design, pleasant products; but, how many of us look for the traps that drain all the pleasantness out of a transaction?

If you want to understand the power of Attitudinal Merchandising, think of what Anthem BlueCross is doing; in fact, think how all of the health insurers have *created* countless intentional WAYMISH traps. Would your customers allow you to do that? I think you would last about a month before going out of business.

And when Wells Fargo can't figure that out, it's time to find another bank. And that is a type of merchandising known as Attitudinal Disconnect.



The *Libey Multichannel Advisor* is published seven to eight times annually by MeritDirect. The information provided is published for information purposes only and does not constitute recommendations for investment or other financial activities. No guarantee of business performance is made or implied and readers are encouraged to seek adequate professional advice prior to making strategic and financial decisions or investments, or altering planned business activities. Copyright 2010 by Libey LLC. No reproduction or dissemination of this material by any means whatsoever, electronic or printed, is permitted without written consent of the author and publisher. Copyright infringements will be pursued to the full extent allowed by law. The *Libey Multichannel Advisor* is provided to clients of Libey LLC and its strategic partner, MeritDirect, LLC.

Libey LLC

M&A Intermediary for Direct Marketing

P.O. Box 938

Bodega Bay, California 94923

Tel: (877) 903-9448 Fax: (866) 221-8346

E-mail: libey@libey.com

www.libey.com