

# Libey On Catalog Sales and Acquisitions

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## The Outlook for 2012

Recently, I offered my outlook for the coming year to the members of the Business Direct Group, meeting in San Francisco. Ironically, I gave my first industry presentation to the same group over thirty years ago, a discussion of what I saw coming in direct marketing during the 1980s. Here are my observations and thoughts on what you can expect in 2012 and the years immediately ahead.

## A Conversation about the Future

### Introduction

Good afternoon. Thank you for your kind invitation to be with you again. It has been several years since my last visit to the BDG, and almost thirty years since my active involvement as a member. If I remember correctly, the group has been meeting now for close to sixty years, in one form or another, a remarkable

achievement for any organization.

For those who may not know, I thought I would give just a brief overview of my career in direct marketing. I have been primarily a B2B marketer, beginning with Watts Business Forms, Lewis Business Forms, Streamliners Business Forms, Duplex Products, Rapidforms, and then the Cahill Book Catalog, the Olde Maine Lobster Company, my own businesses in the B2C side, and owning several other catalogs along the way. In the late 1980s I also began a consulting, seminar and speaking career and, in the mid-1990s, I began focusing on catalog and online M&A, primarily representing sellers of catalog companies, along with some acquirers. I have been a copywriter, marketing manager, EVP, CEO and outside board director of some twenty different catalog companies, both here and in Europe and the U.K. where I did my first acquisition in 1987. I now do only sales of catalog businesses as an intermediary, and have completed over 70 catalog transactions over the years. Most of my deals are in the middle market, with catalogs in the \$10 to \$100 million revenue range. Along the way, I have written twelve books on direct marketing (three on RFM alone), been the publisher of another dozen or so by well-known direct marketing experts, and--this year--have had two novels published as well as my collected poetry. Basically, my career has been one of thinking, writing, speaking, and buying and selling catalogs.

### **Perspective: The Essential Constant**

Long term strategic advantage and success always has two elements: 1) sufficient money; and 2) accurate perspective of the present and future. Money is fairly easy; accurate perspective requires really hard work. I have always spent more time attempting to understand where we are and where we are headed than I have spent on the day-to-day operations of my businesses; I hired good people to manage those activities, but reserved strategic outlook and direction for myself. I was always more of a navigator than the ship's captain. As I spent more and more time doing this, I became fairly good at it and built a number of businesses and guided many others to growth and profitability through numerous recessions and booms.

The key to perspective is cause and effect analysis. "If this happens, this will result." Knowledge--blended with proper strategy and tactics--results in accuracy for being on the advance edge of trends and business cycles. It's not talent; it's not intelligence; it's mostly common sense and the ability to think and reason.

My three long-running newsletters over the past thirty years have always been about strategic analysis of events, economics and trends and have always attempted to provide a reasoned direction and options for owners of catalog companies. And so, several days a week, I go to work, which consists of sitting at my desk, looking out my window at the ocean, and thinking for six hours or more at a time and reading a wide variety of information from a wide variety of sources on the state of "things." Out of this activity comes perspective. And that is what I would offer to share with you today.

### **The Global Balance Sheet**

Economics, policies, ethics and ideologies are out of synch. Since the 1980s, it has all gone pear-shaped. Globalization--whether right or wrong--has been an historic force of change, perhaps more than any other in world economic history. The mix and control of raw materials, labor and capital has been turned upside-down in just one generation. You see the evidence, yet you refuse to credit that evidence and fall back on obsolete policies and ideologies labeled "conservative" or "liberal" in an attempt to deny the change that is inevitable. That is normal; human nature abhors change, but our world has changed radically.

Looking only at the balance sheet of the United States-ignoring the morass that is Europe, the Middle East, or South America-we find the following negative cause and effect elements:

1. Total national debt of \$16 trillion or 103% of GDP, growing to 106% by 2012.
2. \$413 billion annual interest payments on the national debt and a total of \$8 trillion dollars in interest payments alone since 1988.
3. A projected \$1.1 trillion (over 100% increase) annual interest payments on the national debt by 2021, just ten years away. And, for every 1 point increase in interest rates, it adds \$140 billion a year to the interest payments alone.
4. Projected annual interest payments on the national debt by 2046 that exceed all tax revenues. There will not be \$1 for any federal government service or functions of any kind, only debt service.

Looking at policy of government, we find intractable polarization, gridlock, a leadership vacuum, and--frankly--extremism and increasing bizarre thinking and behavior by politicians irretrievably controlled by special interests.

Looking at ethics, we have a uniformly corrupt Congress and a uniformly corrupt financial and banking system. Special interests define ethics and those interests are in the consolidation of wealth in the hands of an elite plutocracy. Sorry, but the evidence is overwhelming, regardless of the last element: ideology.

Ideology has polarized to support the ethics and the policies resulting in consolidation of wealth. In short, as the ship sinks, the powerful are grabbing the life vests and the life boats.

Agree or disagree; it's not important. What is important is the inescapable conclusion--based on reason and common sense--that there is major upheaval coming, economic and social, in the U.S., Europe and Asia, and escalating unrest and violence in the Middle East. And it is coming in the near future.

What I am describing is a macro event, something experienced rarely, like the Roman Empire, the Industrial Revolution, Globalization, or the Digital Revolution.

At work underneath are many micro events-significant and powerful-yet not macro-historic events. These include budget deficits, imbalance in trade, collapse of

the housing market, the coming collapse of the student loan system, implosion of the banks, failure of monetary systems, sovereign debt defaults, increasing permanent unemployment, wage declines, negative GDP, recessions, inflations, stagflations, job-eliminating productivity gains through technology, obsolete and crumbling infrastructure, declining tax receipts, social services failure, healthcare inequality, aging populations, worthless pension programs, and on and on.

While the macro and micro events present unsolvable problems, there is an overarching event that is deterministic and negative: a world population of 7 billion people. There are simply insufficient resources of any kind to support such an explosion of human population. By logic, we will destroy our potential over time, simply in order to eat. But, our concern is the next ten years, not the next three centuries.

### **Business Structure**

The inevitable economic and social upheavals will determine your future business structure and strategy.

If you look back (which I prefer not doing), you will find that for the past ten to fifteen years most of your energy and investment has been going into online channels, often to the detriment of catalogs and basic "old-fashioned" direct marketing. Many people have told you that you have to invest in online, social networking, mobile marketing, affiliate marketing, SEO, and on and on, and-of course-all of those people were selling something that they believed you could not exist without.

And, as a result, in the whole spectrum of commerce--retail and commercial--ecommerce now consists of a whopping 4.6% of all sales. Yes, you may be getting 40% of your orders online, but--the macro economy--ecommerce is only 4.6% of all sales. It will grow next year by 9% (maybe), taking it all the way up to 5.1%. The Point: It may not be viable to continue to spend money on such a small channel, given the macro and micro influences that are coming in the next few years. Maybe you would be better off with a face-to-face field sales force or a larger more effective inside sales department that specializes in account management. I don't know. I don't have the answers, only the most logical cause and effect perspective. But, I do know one thing: You had better get it right.

### **Primary Strategy**

Social and economic upheavals will create shortages and price increases. Therefore, your primary strategy for the next twenty years will be on product sourcing, quality, and cost. Extreme product breadth and depth, as we have seen emerge in successful catalog companies over the last 30 years, will no longer be affordable. Product innovation and customer-product customization will become the key strategies. You may have to source and supply one product in fourteen different versions for one customer in order to get all of that customer's business. We have barely scratched the surface of true, revolutionary product innovation in the last thirty years.

From what I see, the only viable strategy for the future is one that places the product and the customer in small, individualized relationships and manages those transactions for the customers' customized needs.

To do that effectively, you have perhaps ten years to assure the second and, perhaps, more important element of this strategy: Own your niche. To own the product/customer strategy, you must be the dominant supplier in the niche. Beware--commodity product suppliers!

### **Secondary Strategy**

You must follow the money and the demand. Asia and China may well be the next frontier for direct marketing as we practice that discipline. If growth is essential to your business, you may have to rethink the concept of growth in a globalized business structure.

The alternative to international expansion is, of course, an acquisition strategy in order to be the dominant player in your niche.

One of these two strategic directions will be essential to most companies in the next ten years.

### **Heresy**

Each time I visit you, I ask the same heretical question. Given that there are macro and micro challenges ahead, what if you simply improved and maintained your business at its present size? If you have a \$20 million company that produces \$2.5 million a year, what's wrong with continuing to do that? Why do you have to grow? Where else could you earn that return? Why expend the energy and angst to be \$40 million and make \$3.0 million?

The answer for most is usually, "A buyer wants to see year-over-year growth." If the business is scalable, and you choose not to increase the sales, this does not detract from the value; in fact, a buyer might jump at the chance to take the business to \$50 million.

Here is a question to ask? With the serious economic, social and structural issues ahead, can I afford to grow or can I afford not to grow? Explore both sides of the questions with yourself and your trusted advisors and explore them dispassionately. Look ahead at your wishes for your business and for yourself and attempt to envision the causes and effects of both options. Allow yourself the space to consider your business as a growth business or as a safe annuity producing a comfortable and stable annual income.

### **The Great Catalog Debate**

For B2B, the catalog remains viable to generate sales. Two significant changes are the shift to small catalogs and the off-setting shift to larger catalogs. I see more and more B2B companies mailing large catalogs (up to 700 pages; sometimes more) on a less frequent basis and experiencing in excess of 10 percent growth, some as high as 20% in 2011. Consumer catalogs are somewhat different and the

shift to other advertising is more prevalent, but I don't see as rapid a change in B2B in the next 10 years.

Many catalog companies are now mired in an internal debate over online, social, mobile and catalog advertising. As older traditional catalogers retire, their positions are being filled by the digital illuminati and they see digital technology as the answer to all questions.

Granted, you must learn how to better deploy your catalogs and learn what size catalog is best for your business. But, allow me to share what I learned this year from clients I am working with to prepare their businesses for sale in the next two years:

1. In all cases, we put through a 5% to 10% price increase with no resistance. You can get price increases.
2. In each case where revised, moving from reduced or free shipping to a three-tier shipping rate based on order size was successful with little push back. You can charge for shipping.
3. In all cases, we obtained a 5% to 10% reduction on product cost simply by asking (demanding) for it. You can improve gross margin.
4. In each case where implemented, outbound telemarketing (done well) and account management was successful, increased sales, and was profitable. You can do outbound telemarketing.
5. In one case, moving from a four-color catalog to a B/W catalog was VERY profitable (talk about retro!). You can do things cost effectively.

### **The Indicated Strategies for the Next Ten Years**

1. Financial stability and cash.
2. Product focus with entirely new levels of innovation and customer-tailoring, one-to-one.
3. Growth from international expansion or from acquisition, or both, or not.
4. People-channel enhancement (field sales, outbound telemarketing, account management).
5. Intense circulation analyses with attention to basics.

### **Conclusion**

A career is sandwiched between business cycles. Sometimes it flows with the cycle upward, and sometimes it flows with the cycle downward. My cycle ran from the 1970s to 2010s and was almost entirely positive and upward trending. From here it appears that the cycle is going to be difficult for the next 50 years or so, until the U.S. and Europe resolve their debt problems, the demands on their exhausted economies, and the resolution of this thirty-year experiment called "globalization." Out of this turmoil, it is likely that Asia will rise as a dominant economic power and that the U.S. supremacy will recede, perhaps to a U.S., Euro, China parity. Out of this will emerge a new economy and a new structure of American business, provided the social and political turmoil does not pre-empt the economic emergence which is a risk.

You or your successors will likely not experience the future success, growth and profitability that you and your predecessors experienced in the past. The trend is different; the cycle is different; a rare macro event is occurring and our current business world will be virtually unrecognizable in another ten to twenty years. Will you be relevant?

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## **Current Conditions**

While the economic outlook is increasingly fragile with only momentary glimpses of short-lived progress, the market for catalog sales and acquisitions is robust.

Multiples are reasonable, running between 5 and 7 times adjusted EBITDA. Private equity groups have softened somewhat and are offering lower multiples than previously, in the 4 to 5 range, but strategic buyers are steady at 5 to 7 times Adjusted EBITDA. Strategic buyers continue to voice confidence in their ability to monetize good acquisition opportunities in the future years.

The potential for a "Black Swan" continues to be concerning -- especially as regards the European Union. The intransigence of the U.S. government has become even more dangerous to economic well-being, but it is what it is in an election year that grows more wierd by the day, so don't look for any improvement anytime soon..

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