

# Libey-Concordia Economic Outlook and Secrets of the Catalog Master

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## **Macro Change**

**Donald R. Libey**

*We all are sensing change coming upon our world and our society. Whether those changes are orderly and progressive or chaotic and regressive is worth thinking about as we begin 2005. Ultimately, we will all exist within the design of an increasingly global society and within the design of an increasingly complex commerce, both of which are evolving and mutating, seemingly by the hour. The portents and signs of the future that are beginning to appear, however, are increasingly disturbing.*

### **The Power of Long Range Thought and Visualization**

This article is perhaps a somewhat rambling departure from the usual and usually practical information I attempt to write for the newsletter, but it has become time for all of us to truly *think* and to try to make sense of the many small but indicative changes that are occurring, not only in direct marketing but almost anywhere you look. Only after serious and long thought and reflection will we gain even a partial understanding of the progression from the small changes to the ultimate macro changes that are occurring so that we will have the necessary insights to make the far-reaching decisions and strategic shifts that will successfully guide our businesses over the next 10 to 25 years. To underscore the importance of that process of necessary thinking, reflect on this unsettling realization: If we had *truly* thought deeply and visualized accurately back in 1995 and had fathomed the potentials of investment prospecting, interactivity, the Internet, email,

integrated channels and how search engines would centrally drive comparative pricing, we would all have done almost everything differently. That was only a decade ago. Our entire world changed within the last 10 years, and most of us chose to be followers rather than pathfinders.

Dedicating a part of your strategic mind to figuring out the future is not a waste of time. For young managers, their entire career, indeed their lives, may well be shaped by what they determine today. For senior managers, they have, for the most part, at least a decade of relevance left, but—more important—they have the harvest of the exit reward still to achieve. Our companies are being irreversibly shaped by the decisions we make today. How very sad it is that most of those decisions in most of those companies are being made based on last year's data and not on today's clear evidence of the coming future.

### **Symptoms of Macro Change**

It's really all of the little things that shape the big things: IBM sells its computer manufacturing to a Chinese company; K-Mart buys Sears; the entire airline transportation model disintegrates in a failed fifty-year experiment of feeders and hubs and unions; "illegal citizens" (a new oxy-euphemism) have taken over the hospitality, construction, restaurant, labor, and manufacturing industries, and are poised to capture the service industry; high-tech skills are outsourced to India, China and elsewhere; a run down, sixty-year old, two-bedroom house in San Diego costs \$790,000; the pharmaceutical industry is a fraud; the energy industry is a fraud; the financial investment industry is a fraud; schools and bridges crumble; the highest paid government employee in Iowa is the football coach at the University of Iowa; the gross national product is driven by addictions to consumption and parasitic lawsuits; gasoline prices will never drop below a national average of \$1.70; there are growing numbers of poor; you get an obscene tax break for buying an even more obscene Hummer; the ragged claws scuttle across the ocean floor; the center will not hold.

And yet, things have never been better: Sales and profits are up; we will need 50% more housing to shelter the exploding U.S. population in the next 25 years; life expectancy is almost double that of 1920; quality of life is good; we've never had so many billionaires and millionaires are common; the rate of new business formation is unprecedented; broadband has arrived as predicted; the Postal Service is making a profit and raising rates double-digits; the catalog industry is expanding; investment money is plentiful; prospecting models are working; business valuations are improving.

Note the polarity, the dichotomy, the strange juxtapositions? These are the cardinal symptoms of huge changes in the offing.

### **Power Shifts**

Europe and Asia are going to assume greater importance and control over the world economy and policies. America's economic and policy leadership role will moderate. The practice of American democracy is only 229 years old; the American economic and political leadership period has really only existed since 1946, a scant 59 years in the merciless sweep of history. For much of recent history, most of this country

belonged to Mexico and Spain; we have only occupied it for a century-and-a-half or so. Within 20 years, the United States of Europe will be far larger economically and in population than the United States of America; China and India will present formidable near-term scale. The balance and quality of economics as well as lifestyle will begin to shift, perhaps even reverse. Our national and world position and our dominant economy are not permanent, immutable fixtures in a shifting global evolution of power, wealth and ideology. At various points in history, dominant economic and political power has been held by Great Britain, Spain, Portugal, The Netherlands, Austro-Hungary, Rome, Byzantium and others. Power shifts are historically normal. They are also caused primarily by shifts in economics. The world's masses must be fed, clothed and sheltered. That is the changeless common thread through all of history regardless of technology, finance, war, political ideology, education, or anything else. Economic power is gained by the merchant nations who dominate and control the feeding, clothing and sheltering. When that control is lost or abdicated, power shifts. That control is currently shifting whether you care to admit it or not. It is shifting to Asia and the financing is shifting to Europe. And, in its turbulent wake, as a consequence of the vacuum created by the power shift, we will weather polarity, dichotomy and juxtapositions due to the domestic dislocations that occur. This is what is beginning, what is occurring in the micro changes leading to or stemming from the macro changes. This is not news. Ross Perot told us this was going to happen back in 1992, just a little over a decade ago.

Granted, these are tidal influences that we cannot change. However, we can—and must—attempt to understand our businesses in relation to these long-term macro changes and then learn to adapt the strategies we employ to govern the micro components of who, what, where, when, why, how and how much that steer our corporate futures. If we can't do that much in the face of unprecedented change, then we have no individual or collective business leadership and we will fail.

### **Attitude Shifts**

Again, it's all the little things that make up the big thing: Customer service and customer loyalty almost totally disconnect; Christmas softens to Holidays, then reduces to Shopping Event, which is further minimized to It's Too Much of a Hassle, until ultimately becoming just another day; the focus on sports is more intense than on education; gratification replaces achievement; loyalty erodes to opportunism; certitude ascends over acceptance; special interests eliminate community; whining replaces positivism; price or money becomes the sole arbiter of everything. The big thing that changes is vitality: It mutates to cynicism in the same way that symptomatic baggage handlers for U.S. Airways no longer care enough to come to work after being beat up on wage and benefit concessions by a bankrupt employer poorly attempting to deal with a failed business model exacerbated by a complete absence of management's understanding of the future of its industry.

As with our response to macro power shifts, we have an obligation to our businesses to understand the attitudes that are changing and, again, adapt the strategies we employ in response to those changing attitudes to improve our percentage chances for future success and, indeed, survival. The responsibilities of not only leadership, but stewardship of our industry, demand that we think and envision to the best of our abilities where we are going and to what future position we want to lead our companies.

## Signs and Portents

There is massive change coming. I don't know what it is or when it will occur, but I do know the signs, symptoms and indicators are actively creating turbulence all around us, some positive but a great deal less positive. Begin to enumerate what you see. Evaluate events with a view to their place in a reformatting economy, domestic society, world position and a new, interrelated global society. For a year or so, stop looking at trees and attempt to clearly understand and see not just the forest, but the 100 Acre Wood surrounding your business, the U.S. and the world. Until you do that necessary work, you cannot evolve a guiding strategy for the future of your career, your business or our industry. In the 30 years that I have been doing whatever it is that I do, I cannot remember a time when the need was so evident or so palpable for superior strategic *thinking*.

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## The January 2005 Regional Economic Outlook

The end of the year sort of wimped out. True, some of the fourth quarter economic reports were positive, but the momentum just wasn't there at the end. Yet, most of the business-to-business direct marketers made their numbers and turned in what will likely be a good year. The consumer catalogers struggled a bit.

When we look at all of the government and Federal Reserve data, the first quarter of 2005 projects fair growth, perhaps a bit constrained to the 1.5 to 2 percent level, but not meeting our recent projection of 3 to 4 percent growth. While we remain positive for the First Quarter 2005, our enthusiasm is muted somewhat, even though all twelve regions continue as improved. But the loss of velocity and momentum are signaling a need for some conservatism in mailing. Therefore, we are shifting some recommendations from aggressive to normal until we see how the first month or so of 2005 shakes out.

### *Signs of Improvement*

Region One (CT, ME, MA, NH, RI, VT)  
Region Two (NY, NJ, CT, PR, VI)  
Region Three (PA, NJ, DE)  
Region Four (OH, KY, PA, WV)  
Region Five (KY, MD, TN, VA, NC, SC)  
Region Six (GA, AL, FL, LA, MS, TN)  
Region Seven (IL, IN, MI, WI, IA)

Region Eight (MO, IL, IN, KY, TN, LA, A  
Region Nine (MN, WI, ND, SD, MT, MI)  
Region Ten (KS, CO, MO, NE, NM, OK, WY)  
Region Eleven (TX, LA, NM)  
Region Twelve (CA, UT, AZ, NM, OR, WA,

### *Mixed to Slower*

*None*

# The First Quarter 2005 Circulation Outlook and Recommendation

## Synopsis

The short-term economic outlook for the catalog industry remains positive through the first quarter of 2005, perhaps somewhat slowed. The intermediate-term outlook is positive for the first-half 2005, and the long-term outlook through 2006 remains positive. Our outlook for growth in the first quarter of 2005 is revised to 2 to 3 percent. Slowed velocity in the economic conditions causes some changes to recommended mailing volumes.

## Nation at a Glance

The detailed economic conditions for each state have been integrated into the following recommendations. **Changes to circulation recommendations through the First Quarter 2005 are highlighted in bold italics.** A number changes are recommended for January-March, all shifts from Increase to Normal mailing

State	Mailings	<i>Michigan—Up. Pen.</i>	<i>Normal</i>
Alabama	Normal	Minnesota	Increase
Alaska	Normal	Mississippi—North	Normal
Arizona	Increase	Mississippi—South	Normal
<b><i>Arkansas</i></b>	<b><i>Normal</i></b>	Missouri—North	Normal
California	Increase	Missouri—South	Normal
Colorado	Increase	<b><i>Montana</i></b>	<b><i>Normal</i></b>
Connecticut	Increase	<b><i>Nebraska</i></b>	<b><i>Normal</i></b>
Connecticut-Fairfield	Increase	<b><i>Nevada</i></b>	<b><i>Normal</i></b>
Delaware	Increase	<b><i>New Hampshire</i></b>	<b><i>Normal</i></b>
District of Columbia	Increase	<b><i>New Jersey—North</i></b>	<b><i>Normal</i></b>
Florida	Normal	<b><i>New Jersey-South</i></b>	<b><i>Normal</i></b>
<b><i>Georgia</i></b>	<b><i>Normal</i></b>	<b><i>New Mexico—East</i></b>	<b><i>Normal</i></b>
Hawaii	Normal	<b><i>New Mexico—West</i></b>	<b><i>Normal</i></b>
<b><i>Idaho</i></b>	<b><i>Normal</i></b>	New York	Increase
<b><i>Illinois—North</i></b>	<b><i>Normal</i></b>	<b><i>North Carolina</i></b>	<b><i>Normal</i></b>
<b><i>Illinois—South</i></b>	<b><i>Normal</i></b>	North Dakota	Increase
<b><i>Indiana—North</i></b>	<b><i>Normal</i></b>	<b><i>Ohio</i></b>	<b><i>Normal</i></b>
<b><i>Indiana—South</i></b>	<b><i>Normal</i></b>	<b><i>Oklahoma</i></b>	<b><i>Normal</i></b>
Iowa	Increase	Oregon	Increase
Kansas	Increase	Pennsylvania—East	Increase
<b><i>Kentucky—East</i></b>	<b><i>Normal</i></b>	Pennsylvania—West	Increase
<b><i>Kentucky—West</i></b>	<b><i>Normal</i></b>	<b><i>Puerto Rico</i></b>	<b><i>Normal</i></b>
Louisiana—North	Normal	<b><i>Rhode Island</i></b>	<b><i>Normal</i></b>
Louisiana—South	Normal	<b><i>South Carolina</i></b>	<b><i>Normal</i></b>
<b><i>Maine</i></b>	<b><i>Normal</i></b>	South Dakota	Increase
Maryland	Increase	<b><i>Tennessee—East</i></b>	<b><i>Normal</i></b>
<b><i>Massachusetts</i></b>	<b><i>Normal</i></b>	<b><i>Tennessee—West</i></b>	<b><i>Normal</i></b>
<b><i>Michigan</i></b>	<b><i>Normal</i></b>	<b><i>Texas</i></b>	<b><i>Normal</i></b>
		<b><i>Utah</i></b>	<b><i>Normal</i></b>

<b>State</b>	<b>Mailings</b>	<i>West Virginia--East</i>	<i>Normal</i>
<i>Vermont</i>	<i>Normal</i>	<i>West Virginia--West</i>	<i>Normal</i>
<i>Virgin Islands</i>	<i>Normal</i>	Wisconsin—North	Increase
Virginia	Increase	Wisconsin—South	Increase
Washington	Increase	Wyoming	Increase

## Secrets of the Catalog Master

### Sampling Programs

Donald R. Libey

**Nothing works like a sample. It's that simple.**

Many very successful catalogs have been built with samples. Dollar for dollar there may not be a better prospect and customer tactic for acquiring and keeping customers.

#### How Samples Work

A sample works by putting the product into the potential buyer's sensory recognition. If the product is perfume, it has to be smelled. If it's hand lotion, it has to be felt *and* smelled. If it's food, it has to be tasted. If it's wine, it has to be smelled and tasted. If it's a shipping label, it has to be peeled and stuck. If it's pre-printed letterhead, it has to be seen. If it's music, it has to be heard. If it's fabric, it has to be felt and seen. If it's a car, it has to be driven. The secret of the catalog master is that you don't put the sample in the buyer's *hands* as is usually stated; rather, you put the sample into the *sensory recognition* of the buyer that will create desire. When you think about it, what you are really sampling is an application of the product, not the product itself. The application is what sells the product; therefore the application is of greater importance. If the label doesn't stick or peel, it isn't going to be purchased. If the wine smells bad, it isn't going to be bought. Samples entail both a product and a delivery mechanism for the application. Stated another way, you have to deliver aroma to sample perfume; you have to deliver taste to sell candy; you have to deliver smooth handling to sell cars; you have to deliver pleasing design to sell stationery; you have to deliver luxury to sell high-ticket fashion accessories; you have to deliver functionality to sell business forms.

## What Products Benefit By Samples

Most products benefit from sampling programs. You will sell more products by sampling than you will by not sampling. Products that are far to the left in individuality require more intense sampling. For example, gourmet foods are at the far left of individuality—that what makes them gourmet. They require tasting. At the opposite end of the scale, at the far right are products that don't benefit from sampling. These tend to be commodities or products that just don't demand differentiation. Like gasoline. I cannot remember ever being sampled with gasoline. What does it matter? If it ignites, I'm good to go!

Interestingly, high-ticket products seem to be exempt from sampling. A \$900 briefcase bought from a catalog is *assumed* to be right in every way because of its exclusive product attributes; touching it isn't necessary, plus that why we have 100 percent money-back guarantees. Where samples really kick it up a notch is in low-value products, such as spices or cosmetics. Consider the best spice catalog and retailer there is: Penzey's. Whether you receive a box by UPS or go to one of the retail stores, there are samples included in the experience to get you to have a sensory experience that creates desire, demand and add-on sales. As this involves one of my favorite product categories—foodstuffs—I can vouch for the efficacy of this approach. Two things about sampling: 1) you have to change the products constantly or sample a large variety of products; 2) you have to stick with it until the customer base is trained to look for new product experiences via the well-thought-out sample program.

Think back to some legendary business-to-business sample programs. In the late 1980s and early 1990s, there was the brilliant Sample Box from PaperDirect. It provided samples of most of their products at that time in a plastic file box—and they charged you for it! But, it worked. In fact, they are still being used today by customers and the company has been sold three times.

Another *tour de force* of sampling was Nelson Marketing which became 4imprint. Remember the 10 x 12 envelope with the catalog and a variety of new goodies inside? It came every two weeks, as I remember, and it always had neat stuff. Dick Nelson did very well with that impressive sampling program.

How about the Myron pocket calendar samples? What about Union Pen's sample pen with your company's name imprinted on it? Then there was the Stephen Fossler business anniversary labels that built one of the great 25-year product continuity programs. And, of course, the Day-Timers monthly planner sample that built an entire product category. There are the plastic, numbered ear tag samples for sheep, cattle, pig and goat farmers. We have the hay bale plastic cover samples for hay farmers. And let's not forget the honorable American pharmaceutical industry which stocks doctors' office closets with millions of *free* samples and then spends a few billion dollars on TV advertising telling people to *go ask for those free samples for medical problems you don't even have!* Is that multi-channel, integrated marketing, or what? Ah, the incredible power of free samples, morons and greed!

I first learned about samples selling business forms for Streamliners. I created a new shipping label design and put it in the catalog where it essentially died. Suffering from a terrible overstock on this item due to my high-volume sales estimate, I decided to get rid of the damning evidence of my stupidity by including 5 or 10 labels in each #10 envelope mailing that prospected for business form sales with products that actually worked. Well, that was nothing short of genius! Sales of the orphan shipping label skyrocketed and I was in the envious position of having to reprint. This of course, led to my somewhat legendary history as a new product mucky-muck and I was off and running on a fairly spurious career requiring new jobs every two years or whenever the various warehouses filled up with unsold stuff I dreamed up that wouldn't fit in a #10 envelope as a sample. This all culminated 12 years later when I owned the Olde Maine Seafood catalog selling lobster dinners overnight. A dearth of actual business required that I convert the entire inventory to samples which I then had to consume myself within a 24-hour period. After I got out of the hospital, I sold the company to Jo Von Tucker at Clambake Celebrations and quite naturally went into consulting.

### **Sample Linkages**

I try to give you consumer examples because we can all relate to them. You can draw the business-to-business parallels as they occur for your particular business. There is a concept used by the catalog masters known as "sample links" or sometimes as "stepped samples" or "progressive sampling." Here's how it works.

Let's say you sell skin and beauty products for women 35 years old and older. You begin with the most common skin problem and sample a dry skin lotion. When they order that product, you sample with a product aimed at improving the next most common problem, crows' feet around the eyes. When that product is bought, you move to problem number three and sample a product for age spots. Each of these samples is progressive in terms of commonality of problem, degree of complaint, and product dollar value. In short, you are moving through a logical sales progression attacking increasingly serious complaints with products that are increasingly expensive. You have to have the ability to track what you have sampled to whom and what they bought and what they didn't buy. Samples can be repeated until the customer buys or until they receive a certain number of that particular sample without a purchase of that product. Then you move on to another problem, another sample and another offer. In short, sampling means you *manage* the progressive product sales process proactively for *each customer* and for each product and each product category.

If you were in the spice business, you might begin with a nice sea salt, then a cracked black pepper, next maybe red pepper flakes, then dried rosemary, perhaps working up through the curries and garmasalas. Each progression would entail more and more complex cooking techniques and spicing techniques, as well as more and more expensive spices. You might include recipe cards with each sample. Remember: It isn't a successful sample until the application is delivered as a sensory recognition. They have to taste the success of their own cooking in order to complete the repeat sale of the product

and set up the next progressive sample and sale. Sampling is not serendipitous; it is planned, logical, progressive, tracked and measured.

### **How You Obtain Samples**

If you manufacture your own products, you'll need to set up a separate sample manufacturing program that anticipates all of the operational, marketing and fulfillment elements of a fully-furnished sample program. The samples are tacked on the back of normal manufacturing runs, but may include variable formats, sizes, etc. depending on the product. Manufacturing scheduling, make-readies, run parameters and cost absorption have to be looked at in as much depth as the normal product runs. Somebody has to be in charge of the sample program. Since it is a marketing initiative, marketing is usually the best place to assign the program, especially for accountability. However, if self-manufactured, you will have to have close cooperation and planning between marketing, manufacturing and fulfillment. These are complex programs and require precise execution to be successful.

If you purchase your products, you ask the manufacturers of those products to provide you with the samples. Whether you pay for them or negotiate reduced costs or get them free is entirely dependent on your negotiating skills. Remember, each manufacturer has a vested interest in providing samples that will increase your sales. You may have to educate them on this point, however. One client requires a sample program from every supplier as a contractual condition of the product being accepted for their catalog. Nice if you can get it.

Sample sizes are a critical aspect of the program. If you are doing spices, the amount of the spice will be determined by the amount of the ingredient in the sample recipe, or some other common amount in customary recipes that the consumer might follow when making a particular dish. If you are doing moisturizing lotion, the sample should be sufficient to produce a positive application and create a beneficial sensory recognition. Remember, it is self-defeating and actually regressive to have samples that are so small they are ineffective in creating a positive application of the product. We have all seen the teeny-tiny little vials of hand cream that drive you nuts getting them open and then deliver nothing even remotely resembling a positive experience. You want the person experiencing the sample to think, 'Wow' not 'Why bother.'

### **Sample or Gift: It's All the Same**

Some merchants call the sample a gift. This removes the sample from the realm of "product come on" and turns it into "a gift." That's a nice touch. It is no longer a crass commercial prod but rather a thoughtful token of appreciation. The Levenger catalog could pull off the gift aspect of sampling. Perhaps one of their printed note card products would be a nice "gift" with your name on the top. That isn't a sample; it's a gift. See how that slight perception shift is beneficial. I doubt however, that the same perception would be experienced by, say, Seton. Embossed pipe markers, regardless of how nice they are, are simply always going to be seen as samples, not gifts. Common sense has to prevail.

The sample presentation, however, can be ginned up a bit to make it special. Anything is an improvement over dumping a few free goodies into the box. Put them in a special presentation envelope; include an information card extolling the virtues of the product; entice customers with a special offer; incent customers with an immediate reward for immediate orders; and time limit the reward for ordering.

### **Accounting for Sample Programs**

How will you know whether samples work for you? Did the inclusion of samples increase response? How much? What did it cost? Should you include the sample in the campaign cost, or should you account for samples separately? What is the return on sample investment, per campaign, per catalog, per quarter, per year? Should the sample program be expanded or cut back? Is it making money or losing money? What would happen to sales if you doubled the sample initiative?

All of these questions have to be answered. Therefore, you have to design a sample tracking and accounting program that allows you to slice and dice performance data to accurately answer all of these (and many other) questions. You also need to test sample campaigns against non-sample campaigns so that you have empirical data to support your subjective observations and the fulsome seat-of-the-pants acceptance of, “Hey, samples are good!”

There are those who enjoy life out on the edge and who tend to go with their gut on sample programs, simply including them in orders without a plan or measurements of success. For many, that works well, too. I would only offer that, of all the great samplers in business-to-business and consumer cataloging that I have observed and known, the *consistently* successful and profitable ones ran and managed fully-furnished, planned sample programs with the same intensity and accountability as their circulation plans. They are the catalog masters who built strong sample programs that drove their businesses and vaulted them to the top echelons of their product categories.

### **Samples: One of the Secrets of the Catalog Master**

In a hierarchy of catalog magic and secrets, I don't quite know where to rank sample programs, but it's up there with the best tactics for building successful businesses. Of course, there are businesses where samples are meaningless; however, there are far more where samples can be a powerful driver. The real secret behind sample programs is that they have to be taken seriously and managed with as much precision, performance and financial accountability and hard work as any other keystone of catalog mastery.

Go forth, and sample!

## An Open Invitation

Many of our readers have asked us in to assist in reviewing their strategic directions, or to conduct a deeper forensic analysis of their catalog and organizational performance. Many of these are one-day consultations; the deeper investigations often require several days. In some instances, these are purely performance reviews and are focused on growth. In others, these are initial or continuing reviews to develop sound exit strategies and to outline the logical steps to be taken to maximize the value of the business at the harvest event. As a MeritDirect client, we extend to you a significantly reduced, or shared, consulting fee for these reviews and extend an open invitation to call and talk with me directly about your requirements. As always, I can be reached anytime, anywhere through my toll-free direct line (877) 903 9448. We also currently represent a number of interesting catalog companies for sale. If you have interest, or if you are thinking about your own exit strategy and are considering a sale of your business, I would be pleased to visit with you anytime and invite your call.

The *Libey-Concordia Economic Outlook and Secrets of the Catalog Master* is published seven times annually and synthesizes economic information from around the country, filtered through analyses of the Federal Reserve, The Department of Commerce, and numerous public and private analytic sources, as well as a broad base of industry contacts developed as a part of the extensive contact base of the *Libey-Concordia* investment banking firm.

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