

Libey Economic Outlook and Secrets of the Catalog Master

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The Monster Trends

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For those CEOs and Senior Managers unable to attend the recent MeritDirect CEO Forum, here are the 2006 and beyond Monster Trends that were presented for consideration and discussion.

Since 1988, I have provided observations and thoughts on the trends for the coming year, either in my newsletter or in keynote speeches to the industry. To date, after seventeen years, those observations are running about eighty-five percent accurate which means nothing more than I continue to be reasonably able to observe and comment on that which is blatantly obvious. Once again, for 2006, my simplistic but tongue-in-cheek approach has isolated—out of a dozen or so significant, evolving, strategic changes—a number of Monster Trends for consumer and business-to-business direct marketing that I wish to explore in some detail. I hope they are of some value to you in planning your strategies for the coming century and meeting the ever-increasing challenges of rampant change in the year ahead.

The Monster Trends

Catalog Function

Clarity is emerging regarding the future function of the catalog. This past year (2005) has produced numerous tentative observations on the changing benefits and intents of the catalog. There is a philosophic twist to the buzz, a genuine questioning of the future *utility* of the catalog. That is an interesting term: utility. It is an economic term and implies benefit, as in the question “What is the benefit of a catalog?” Or, perhaps more strident, “How much benefit do we get from the catalogs?”

Perhaps the underlying question is, “What does the catalog do today?” Up until now, the function has been to cause a phone or mail order because the catalog actually *sells* products. Everything necessary to the creation of a sale has been embodied in the design, copy, photography, ordering process, and the customer service elements of the ‘catalog shopping experience.’ The utility of a catalog has been in its ability to silently and remotely make a sale. Everything we know about catalogs, and everything we do in creating catalogs, has been codified for one purpose: to sell.

Suddenly, half of the orders, or more, are coming to us online. Our online catalogs are absorbing more of our resources and energies than our paper catalogs. And wherever we turn and whatever we read, the predictions are for thirty or forty or fifty percent growth in online shopping, consumer or business-to-business. In fact, on the precarious and slippery slope of mall retail shopping, the growth is flat to declining. Yet, the share of the shopping dollar continues to shift to online and continues to grow unabated. The retail malls, those future Cities of the Dead, are in denial and ineluctable peril as this lumbering monster trend, this rough, online beast, slouches towards Amazon.

What is happening is the catalog’s function is changing from *selling* to *driving*. It is the catalog that causes an *online* experience where the selling now takes place. A high percentage (inevitably shrinking over time, however) of online orders are *driven* by catalogs, and that is rapidly becoming the catalog’s *utility*, its reason for existing.

Think of the logic and the common sense questions that arise. If the utility of the catalog is as a web-driver, why do we have expensive photography both places? Or, why do we show all of the products in an expensive catalog and also on an expensive web site? Or, why do we show a steak, or a doll, or an imprinted pen to drive us to the same picture online of the steak, the doll, or the imprinted pen? What we are currently doing is redundant. Nature abhors redundancy.

By definition, this philosophic construct demands that we question the future value and *form* of the catalog. If its value is to drive sales that take place online, perhaps the concept and present form of the catalog are obsolete. Perhaps what is wanted—what increases utility—is instructional information on how the products improve your life, your business, your service needs, your health, or the nutrition of your pet. Perhaps we have finally arrived at the magalog, that mythical mix of product and editorial content that informed and secondarily sold. Perhaps this incarnation will be called the *webalog*.

Webalogs have a very different utility. They exist to help consumers find you online where your lotions, potions and magic charms are arrayed on endless web pages masquerading as ‘old-timey’ catalogs. The webalog tells stories, features satisfied customers, offers recipes, gives hints and tips, displays box scores, tantalizes, strokes and encourages.

Even the format is very different from the cast-off catalog. A webalog has all the excitement and seduction of *Cosmopolitan* or the ruggedness of *Rod and Gun* or the luscious, gastronomic promise of *Bon Appetit*. But it doesn’t sell. It steers, drives, points,

refers, solicits, reveals, entices, encourages, promises, piques, calls, reveals, proselytizes and evangelizes . . . *but it doesn't sell*. The online catalog does the selling.

More logic. Maybe the webalog can do in sixteen or thirty-two pages what a full-line catalog did in 320 pages. Maybe . . . just maybe a cutting-edge article on a new product application that repeatedly calls for a further beneficial web experience can drive more online product sales than a full-page paper photo and descriptive copy with a price block. Maybe the concept changes from 'catalog circulation' and 'catalog frequency' to 'customer contact' and 'concept frequency.' And don't forget the all-important prospect. Can you get more prospects involved using concepts, ideas, interests, excitement and beneficial utility than you can with a discount offer? Could be.

And so, here is this year's requisite heresy that you have come to expect from me over the years. Create a new concept mail piece—a webalog—that presents three or four of your products the same way and with the same excitement found in a great infomercial. Tell a story and show *how* the products are used and *why* you benefit and push the sales to the web only. Do an A/B split with a normal catalog showing the usual sixteen square inches for each of those products somewhere in the book. Then measure the total online sales of the specific products from both media. You may learn something interesting. The classic catalog will, of course, sell more total dollars, but for the products in the test, I'll bet you a bushel of corn the webalog drives more online sales than the catalog for those products featured.

This trend will produce tectonic rifts in the art and science of cataloging, indeed, direct mail marketing. Notice that the *prospect name*, the *customer* and the *list* become much more important, and the attributes of the prospect shift to include *interests* and *affinities*. The names, however, become associated, not only with the classic physical addresses, but interchangeably-at-will with cyber addresses, Blackberry addresses, and alias addresses. With that level of desired, opt-in personal involvement, the customer will demand email contact, other forms of contact and constant informational refreshment. That changes the definition of direct mail marketing to *Direct Interest Marketing*.

And the final, killer-logic. If you really believe, in the year 2006, after all that your eyes and your intelligence have told you, that the form, format and relationship of the paper catalog and the online website is a static relationship that will never change, then you will ultimately savor the rusty taste of obsolescence and irrelevance. It is totally illogical that paper catalogs will continue on a utility par with websites given the constraints and costs of their six to twelve month creative cycles, their prices fixed unchanged in time for half a year, their inability to instantaneously discontinue or add products based on availability or demand, the redundancy of web and catalog pages, the twelve-month horizon for analyzing test results, the onerous reconciliation of tracking and analytics, the sheer cost burden, and dozens of other disparities and inequalities.

Direct and TV Convergence

We are about to enter upon what may be greatest Monster Trend ever to emerge in all of the history of commerce: the convergence of the Internet and television and the television viewing experience. Think of Internet channels and you will begin to see what I am talking about. The remote will be replaced by the mouse. And inane TV programming will be replaced by the limitless programming of the Internet. Let's just think about this . . .

Private Equity

The private owners of catalog companies are almost gone. The industry has grown up and become large—very large. Most of the largest catalog companies are, or are part of, public corporations. A large number of non-public catalog companies are now owned by private equity groups, leveraged buy-out firms. And, as you expect, there are reasons for this.

First, the multi-channel direct marketing company is attractive to financial buyers and operators because it is formulaic and consistently predictable. There may be no better business and financial model (except for a hot dog stand), than a catalog company. There is little risk in a solid direct marketing organization once you understand how they work. As we used to say back in the Golden Age of Catalogs (1970s and 1980s), “Just put a lot of stuff in the mail and people send you money!” It’s even better now: “Just put a lot of stuff on the web *and* in the mail *and* in the email *and* in stores, and even *more* people send you even *more* money!”

Second, the multi-channel ‘space’ as the private equity MBAs call it, is expanding. The rate of expansion is better than almost anything else (except hot dog stands). In fact, the multi-channel/catalog space consistently beats the rate of expansion of the U.S. economy, and that of most any other economy except for China, and that’s where we get all of our stuff!

Third, private equity groups have a gaztrillion dollars to invest. They get the money from really wealthy people who want a twenty percent return on their money (or better) which is a lot more attractive than Certificates of Deposit or savings accounts. And, here is the really interesting part: the private equity groups can’t find enough multi-channel direct marketing companies to acquire. You see, the fund managers *have* to invest the money or the really wealthy people ask for a refund. And so, the prices they pay go up. And what does that mean? Private entrepreneurs sell out. That’s why the private owners of catalog companies are almost gone. Oh sure, there a lot of \$2 million and \$5 million catalogs out there, but there are darn few \$50 million and \$75 million and \$100 million catalogs left. There are, however, a fair number of \$20 and \$25 and \$15 million catalog companies, and the private equity groups are turning their laser-like attention to these mid-size catalog companies.

First, the private equity groups buy a ‘platform.’ That’s a catalog company with a lot of customers, a lot of proven products, stable demand, scalability, good operating systems, under-utilized fulfillment systems, a savvy and seasoned management team, and the ability to absorb two to five ‘add-on’ acquisitions. Over a period of two to seven years, the private equity groups ‘add-on’ several \$15 to \$25 million companies with reasonable synergies. They pump up the prospecting, build great websites, expand the customer base, and drive the combined revenues up two to three times. And then they sell the resulting mega-group for four or five times what they paid for it to another, larger private equity group.

At some point, logic dictates that one enormous private equity firm will own all of the multi-channel catalog companies and will then merge with Wal-Mart. At that point, we will reach the end of life as we know it.

This is becoming a Monster Trend that changes the structure and the philosophies of direct marketing forever. We have seen a twenty-year trend to management by next quarter’s operating profits. Current earnings are now more important than customer service or satisfaction, or perhaps even long-term lifetime value. But, perhaps most disturbing is the shift from a customer-oriented, long-term relationship to a financial

‘model’ of operation. With all of the ‘Mom and Pop’ style of customer relations wrung out in the service of fast profits and multiples of earnings, the future is uncertain. This industry cannot exist only on financial modeling. It requires quality that goes beyond formulas. We got here by being good at what we do, not by managing for short-term gains.

If you will review the just completed year’s acquisitions, you will see that the investments are now moving down to the \$25 to \$100 million range. In another year or so, those companies will be ‘add-ons’ to the ‘platforms’ and the focus will be on the \$15 to \$50 million companies, and then the \$10 to \$25, and then the \$5 to \$15 . . . and then the industry is something else altogether.

Mega-Retail Dominance

It is clear to me that not only large investment groups, but the mega-retailers have set their sights on the direct marketing channels. Future competitors now include Home Depot, Lowe’s, Wal-Mart, and major department store consolidators. Fewer and fewer individually owned direct marketing businesses will thrive in this ever-consolidating environment.

Retail *must* battle for control of the share of pocketbook. The overbuilt malls and the boring retail structural complex are in danger of becoming Cites of the Dead at any significant economic downturn. Only the direct marketing channels offer a business model without the expense of the incredibly expensive retail locations. This monster trend is almost purely economic; however, increasingly convenience and customer service is driving the demand for direct marketing businesses by traditional retailers.

Retail must also invade the direct channels in order to stave off the flood of customer defection to the online channels. The just-completed holiday shopping season was rife with double-digit gains in the online channels and flat performance in the retail channel. That spells doom for the future unless the hemorrhage is stopped.

Creative Mediocrity

One of the insidious monster trends to emerge in the past few years—and one that is growing relentlessly—is the mediocrity of all forms of creative. Whether it is television programming, gaming, space advertising, long and short-form infomercials, catalog design, copywriting—even photography—the technological embedding, digitalization and all-important web functionality have supplanted true creative excellence with the drear grayness of creative expediency.

Direct marketing—a discipline that thrived and reached heretofore unachieved success in commerce—did so on the power of creative originality, innovation and mastery of the creative disciplines, as well as exceptional customer service. With the rise of technological disciplines, creative has lost its cachet, its prominence and its importance. Those who seek to maintain the highest standards of creativity will gain more than those who allow creative vigor to wane and become rote, flat and automated. We live in the dangerous “Gray Period” where only technology is admired and beauty has become abstract.

The First Quarter 2006 Regional Economic Outlook

With Alan Greenspan gone only a few days, the economy suddenly appears a bit vulnerable. Perhaps it is just the vacuum effect left from the departure of the *real* Chief Executive of the United States. The revision of the fourth quarter 2005 GDP downward is an indication of some softening, as is the drop in productivity and the heralding of a potential inflationary spike in early February. The economy is in reasonably good shape given that we are massively in debt and a bloated net importer and we have consumed our own savings in the mad festival of home equity refinancing over the past eight years or so. Yet, business-to-business hiring is up and capital and market spending is increasing.

As the year kicked off, the economy chugged ahead with manufacturing, employment and retail sales moving up and the housing market cooling. The one piece of news that most people missed came from billionaire investor Warren Buffett who focused on the U.S. trade deficit as “a bigger threat to the domestic economy than either the federal budget deficit or consumer debt.” Buffet warned this could lead to “political turmoil.” His cryptic remarks were pointed, “Right now, the rest of the world owns \$3 trillion more of us than we own of them. In my view, it will create political turmoil at some point . . . Pretty soon, I think there will be a big adjustment.” Buffet said he expects the 2006 trade deficit to exceed \$700 billion. “That’s \$2 billion a day. We are like a super-rich family that owns a farm the size of Texas. You sell off a little bit of the farm and you don’t see it.”

On the heels of the Buffet comments came a sharp increase in the price of oil, as well as \$38 billion in earnings for Exxon-Mobil. Some think this is a rigged game. At the January 30-31 meeting of the MeritDirect CEO Forum in West Palm Beach, the CEOs were in agreement that oil price hikes or any interruption to the supply of oil would have serious effects on distribution and profits. Some expressed a belief that \$100 a barrel oil is in the near future. Energy simply refuses to go away as a problem. And health care costs are right there fueling concern as well.

As of February 1, the economy appears to remain positive in the short, intermediate and long term views. However, there are problems that could escalate and contingency plans should be in place, especially for energy hikes, health care spikes, and a massively volatile Palestinian-Israeli situation.

Signs of Regional Stability or Status Quo

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, AR)

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)

Slower (Individual states)

**Louisiana
Mississippi**

The First Quarter 2006 Circulation and Prospecting Outlook and Recommendations

Synopsis

The short-term economic outlook for the catalog industry continues to be positive if not “irrationally exuberant,” to quote Mr. Greenspan. It appears the mild winter is fueling some activity and savings and the positive performance will last through the entire first quarter of 2006 and into the second quarter. There continue to be signs of sideways consolidation and ‘dithering’ in the leading indicators and, particularly, in historical consumer confidence charts. The recent interest rate Yield Curve inversion is troubling, indicating an approaching recession in almost every instance of its occurrence. The intermediate-term outlook remains positive for the first half of 2006, and the long-term outlook through 2007 remains positive. But, keep a wary eye on energy cost.

Continue Prospecting

Continue maintaining growth strategies for circulation and prospecting plans and do not allow new business momentum to falter or slacken without overwhelming evidence of a decided economic change. There is nothing in the economic outlook in the first quarter of 2006 to justify any cuts in prospecting or reductions in customer circulation. Keep mailing, emailing, telephoning and searching.

Nation at a Glance

There have been no significant changes to the state-by-state circulation strategies.

State	Mailings		
		Illinois—North	Increase
		Illinois—South	Normal
Alabama	Normal	Indiana—North	Increase
Alaska	Normal	Indiana—South	Normal
Arizona	Increase	Iowa	Increase
Arkansas	Normal	Kansas	Normal
California	Increase	Kentucky—East	Normal
Colorado	Increase	Kentucky—West	Normal
Connecticut	Increase	Louisiana—North	Evaluate locally
Connecticut-Fairfield	Increase	Louisiana—South	Evaluate locally
Delaware	Increase	Maine	Normal
District of Columbia	Normal	Maryland	Increase
Florida	Normal	Massachusetts	Increase
Georgia	Normal	Michigan	Normal
Hawaii	Normal	Michigan—Up. Pen.	Normal
Idaho	Increase	Minnesota	Increase

<i>Mississippi—North</i>	<i>Evaluate locally</i>	Pennsylvania—West	Increase
<i>Mississippi—South</i>	<i>Evaluate locally</i>	Puerto Rico	Normal
Missouri—North	Normal	Rhode Island	Increase
Missouri—South	Normal	South Carolina	Normal
Montana	Normal	South Dakota	Increase
Nebraska	Increase	Tennessee—East	Normal
Nevada	Increase	Tennessee—West	Normal
New Hampshire	Increase	Texas	Normal
New Jersey—North	Increase	Utah	Normal
New Jersey—South	Increase	Vermont	Increase
New Mexico—East	Normal	Virgin Islands	Normal
New Mexico—West	Normal	Virginia	Normal
New York	Increase	Washington	Increase
North Carolina	Normal	West Virginia—East	Normal
North Dakota	Increase	West Virginia—West	Normal
Ohio	Increase	Wisconsin—North	Increase
Oklahoma	Normal	Wisconsin—South	Increase
Oregon	Increase	Wyoming	Increase
Pennsylvania—East	Increase		

The Heartbreak of Customer Service

Donald R. Libey

This article appeared in the January 23 and 30 editions of DMNews. We believe it is sufficiently provocative to reprint here for the concentrated CEO universe of the business-to-business catalog and online worlds.

As an observer of the direct marketing industry for over thirty years, I have been afforded some perspective with which to comment on significant trends, positive and negative. Over the past twelve years, I have been carefully watching and collecting the evidence of a major shift in the concept and execution of customer service. In my 1993 book, *Libey On Customers*, I described the historic practice of customer service and its deep foundation for near-permanent customer loyalty. Superb customer service was, in my estimation at the time, the hidden secret causing the growing dominance of direct marketing over retail. Now, as we embark on the second half of the first decade of the somewhat tarnished New Millennium, America's practice of customer service—with a few bright exceptions—has plunged to what can only be called appalling new lows.

Three Influences

1. *Expectations.* Nothing really works any longer. The hub system of airline transportation is a horrendously flawed and utterly failed experiment that has produced no customer service, satisfaction, loyalty, utility or profitability. One could not create such a colossal failure even in great fiction. Cable television, cell phone and telephone

companies are faceless, service-starved behemoths dedicated to their own local oligarchies. Corporate restaurant chains produce cookie-cutter formulas that spew out mediocre food along with obsequious wait staff whose only skill is writing their name upside down in crayon on the cheap paper covering the table. The commercial experience nearly everywhere has become dreary and gray, and we have become anesthetized and tolerant of dreary, gray experiences.

The past twenty years have brought an erosion of customer expectations. It is no longer expected that retail personnel will be knowledgeable, helpful, courteous, or caring about your purchasing experience. As customers, we have learned to expect almost nothing, and we are seldom disappointed as a result. The shopping experience in the retail setting of 2006 is vastly inferior to that of 1976, 1986, or even 1996. The customer has either 'dumbed down' personally or has been 'dumbed down' by the industry—or both.

To compete, merchants much fight price at every turn. To compete, merchants must battle selection, facility cost, wage cost, cheap imports and a host of overhead, inventory and other costs, the control of which has been elevated to a finely-tuned art by big-box merchants with near-socialistic global appetites, specifically Wal-Mart and its spawn. As a result, staffing costs have been reduced in quantity, quality, training and benefits. The result: retail customer service staffing has migrated from a meaningful career to a minimum wage, part-time, temporary, high turn-over, zombie-like, dead-end job.

And so, after more than a decade—indeed, almost two decades—of customer service erosion, the 2006 customer has almost zero expectations as a learned *and* conditioned response. Wal-Mart—the present-day Skinner Box—has trained the rats to expect nothing and be happy when we get nothing. It only takes one generation to establish a new norm. If the only thing you have ever known is zero customer service, then zero customer service appears normal.

2. *Internet*. In its second incarnation, Internet commerce has elevated customer service to algorithms. A classic example of the dichotomy of the appearance of good customer service and the reality of appalling customer service is found with Amazon.com. If you wish to purchase a book, or a smoked turkey, or a toy, or a tool, the algorithms are essentially flawless and instantly satisfying. The appearance of customer service is matchless. But, if you are a supplier attempting to correct errors in product descriptions, release dates for newly published books, prices, carton quantities, or thousands of supply-chain details involved in fulfillment and product listing, or if you are a customer hoping to actually return something, Amazon.com is an unparalleled failure. The company cannot be telephoned. Human problem-solvers do not exist. Vendor service has been reduced to faceless emails sent in endless loops of frustrating, non-functional, problem non-resolution. There is no chink in the outer skin through which one might gain entry to the real company behind the façade. Amazon.com has wonderful algorithms, but no viscera, no blood, no soul.

The Internet experience has capitalized on the dumbing down of customer service expectations by reducing expectations further to canned processes that fit seventy percent of the demands. This 'seventy percent solution' goes by the pseudonym, Customer Relationship Marketing, which is a term that simply means, "No Service Here." The ubiquitous CRM systems have brought you the Festival of Miracles of attempting to

correct a telephone billing problem, retrieving the service history for your automobile warranty, finding your lost blouse at the dry cleaner, flying anywhere on schedule, registering your Microsoft Office software at some location in Bangladesh, and unsuccessfully downloading any driver for any computer peripheral without even the vestige of human intervention. Increasingly, little works and the only way to fix the customer service problems that crop up at every turn is to pay someone who knows how to go around the problem to the solution. The computer on which this is being written has a Hewlett-Packard wireless printer that has required no less than five house calls by the Geek Squad at \$89.00 an hour each to re-install the software due to glitches for which there are no solutions. Try to get someone at HP to actually talk to you about the problem. Try to use your printer at five in the morning by resorting to CRM. Nobody's home and never will be!

3. *Price*. Sorry. I will stand my ground. Price is becoming the primary driver of commerce and, as a consequence, customer service has eroded and will erode further. The customer without expectations, classically conditioned to expect nothing, Skinner-Box-trained to seek out a Smiley Face representing an impoverished mentality of Low Prices—Always, will ultimately use price as the mindless determinant for consumption. And the mega-retailers want that to occur. This disturbing trend is very real and growing, not only in the U.S. but globally. To obtain the lowest possible price, most people will forego customer service, convenience, quality, even cleanliness. And, at the end of the evolution, we are left with low price and virtually nothing else inside the maze. Combine price with the Internet *and* zero expectation for customer service, and you arrive at a place that the retail world had to go to in order to compete globally: lowest price-driven, comparative, product integrators that have reduced costs to the lowest possible level through 'greatest-majority' algorithms and the least number of employees. This is called *Profit Maximization*. It's what the shareholders have been classically conditioned to get when they peck at the investment lever.

The Retail Experience

The convergence of these three influences has produced a retail experience of customer *self*-service that has all but replaced customer service. If you want something, get it yourself, do it yourself, research it yourself, sell yourself. By and large, the only retail customer service function that has not been converted to self-service by the dominant retailers is the receipt of cash and credit card charges, and even that function is endangered. Within ten to fifteen years, I predict that the entire check-out/payment function will be automated in retail stores as it has been so successfully done through algorithms on the Internet. In fact, it may well be that retail stores will only be staffed with a few stocking personnel and a few guards to open and close the doors and to monitor theft. It is even possible that there will be no employees and no assistant managers, just a few part-time stockers, guards and an overall store manager supervising automated systems of self-service processes. If you think about it, the bar code is responsible for huge advances in the evolution of customer self-service. No one is required to price products; no one is required to know prices at the check-out; and bar

code readers are faster and infinitely less costly than cashiers over time. People—and their inherent service humanity—have been removed from the equation.

The 2005 holiday season produced repetitive headlines extolling the double-digit gains in online shopping versus the flat bricks and mortar retail store sales. For the first time, we saw clear evidence of the future online dominance over the malls and traditional stores. I have referred to the fifty-year-old mall experiment as ‘Cities of the Dead’ in other articles. The bleached bones of the Mall of America will be unearthed one day by paleo-consumptionologists who will attempt to uncover the meanings behind mystical gathering places called Food Courts and long-forgotten cults known as The Gap. Any serious blip in the U.S. consumption-driven economy will turn these overbuilt palaces of excess to vacant, weed-filled museums owned by rapidly disappearing pension funds and insurance companies with too many claims from hurricane disasters. The retail complex is tenuous at best, and building strong, expensive customer service capability and capacity is not on their horizon.

The Multi-Channel Direct Experience

The direct marketing world has had excellent customer service for decades. It is—as I stated earlier—the reason that direct marketing has shifted huge amounts of market share from retail and is now making double-digit, online gains during the holidays, year-on-year. These customers come from somewhere, and that somewhere is shopping malls. Run out the computer simulation. The gains in online satisfaction relative to the defections from bricks and mortar would indicate that shopping malls will be in real trouble in about five years, maybe sooner.

A great part of this shift is coming from a growing consumer backlash against non-existent customer service. And here is the interesting thing: there may not actually be any more customer service online, but the algorithms make it *seem* like there is more service, provided you don’t need anything out of the ordinary. A large part of my anecdotal collection of evidence is hundreds of conversations where people comment on how much easier and less frustrating it is to shop online compared to putting up with the rudeness and hassles of the retail stores. And this shift is palpable as a very real trend. You see the evidence in less gift wrap and ribbons being bought as more and more packages are sent to recipients via UPS, FedEx and USPS. You see few cars piled high with presents in the back seat as they drive to Grandma’s house. The presents were already delivered to Grandma’s door, and Uncle Justin’s, and Aunt Kim’s.

If the algorithms don’t meet the consumer’s needs for customer service, there is usually a proficient inbound staff or live chat staff to handle the customer’s wishes. Unlike retailers, direct marketers have perfected the entire fulfillment process, going well beyond the cashier function. Lands’ End, in its pre-Sears, innovative, halcyon days, pioneered live chat and personal shoppers. The result: dominant market share and incredible customer loyalty and retention. Compare that to the customer record of Sears or K-Mart retail stores which is bleak and seemingly getting bleaker. Direct marketers *value* customer service. We view it as being much more than just a cost-center.

But, there are cracks appearing. So many multi-channel direct marketers today come without the fifty years or more of catalog and extraordinary customer service heritage. Many of these new online, multiple channel merchants come *from* retail, and

they have as little regard for the customer as they did for those irritating people who disturbed them by walking into their stores and asking to purchase something. Many 'New Merchants' want to impose the same customer non-service learned psychology of the Skinner-Box response on the online marketplace just like they learned in the retail marketplace. And they will destroy direct marketing. We are at a bifurcation in commercial history. One direction is near-total direct commerce. The other is overbuilt and risk-laden bricks and mortar retail. And I would state that there is little success in a third direction: peaceful co-existence. The market abhors compromise. The market wants a winner.

We multi-channel direct marketers are poised to deliver the coup de grace to big-box retail. If ever there was a time for a total, all-out commitment to arming ourselves with the most powerful of all weapons—extraordinary customer service—it's right now while we are making incredible gains in online and catalog market share. Why?

1. We know how to deliver world-class customer service.
2. We have the systems to obtain the necessary information to deliver world-class customer service.
3. We have the cost-structure to opt for world-class customer service over bricks and mortar.
4. We have the fulfillment processes and systems in place to deliver world-class customer service.
5. We have the overall margins allowing us to deliver world-class customer service.
6. We have market share scalability because we recognize the inevitable intellectual consumer backlash demanding world class customer service that is coming.
7. We have a long heritage of caring *for* and *about* our customers.

Provocative? Yes. Divisive? Absolutely. Radical? You bet. We are, however, engaged in a never-ending, global war of economic dominance. That war, and the individual battles fought on the website plains, in the foothills of the Internet and across the rivers of catalogs, will determine what form of marketing dominates and continues and who owns the future. Were I asked to ride a powerful war horse into battle, I would choose as my mount Customer Service.

Roy Reiman's Top 10 Management Rules

The Iowa farm boy magazine czar, Roy Reiman, created a legendary publishing company, Reiman Publications, based on magazines without advertising. His company sold for \$640 million, and then sold again—twice—for a most recent price of \$760 million. Reiman used these Top 10 Management Rules over his forty-year career to achieve his success.

1. Keep meetings to a minimum.
2. Don't run a company by committee.

3. Don't make organizational charts.
4. Promote from within.
5. Never hire anyone you don't like.
6. Surround yourself with people you trust.
7. Seek people who know what you don't know.
8. Don't be a big shot.
9. First be different, then be better.
10. Keep business fun.

Reiman also offers these 'management tips:'

"When you interview someone for a job, note how fast they walk. I've learned slow walkers are slow workers. Just observe sometime how briskly people walk when they're really interested in what they're doing. They can't wait to finish it."

"Turnover is the most expensive problem for a company in any industry. Once you find good employees, do whatever it takes to keep them."

"Indecision is worse than wrong decisions. You're far better off keeping things moving, even if it means learning from mistakes. That sure beats what many companies do. They hold multiple meetings, have lengthy discussions, work up potential budgets, rehash the concept, rethink the approach, look at the downside, then hold more meetings. Valuable time goes by—sometimes months—as they discuss what they think without knowing what the public thinks."

This is an interesting person. Sometimes the simple freshness of the Iowa farm boy experience produces an unusual clarity of management common sense.

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