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20 Practical Performance and Profit Pillars

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The 'Multichannel Phenomenon' has occupied our energies and imaginations now for nearly a decade-and-a-half. Perhaps it is time for us to reconsider what we are doing and renew a focus on the 20 Practical Performance and Profit Pillars that simply will not be denied . . . ever.

Once upon a time, in the Land of Buying and Selling, a great merchant class grew and prospered for over 150 years. This class of merchants lived mostly in the northeast and middles of the Land of Buying and Selling. They were known as the Direct Merchants. You could not see the Direct Merchants. They existed only on paper, in flyers and catalogs and letters. They had no face-to-face contact with their customers. They relied on words and pictures and trust for the buying and selling. The Direct Merchants believed fervently about Customer Service.

Living with the Direct Merchants were their brick-and-mortar neighbors, the Retail Merchants. The two merchant classes rarely mixed; they did things differently. The Retail Merchants believed fervently about location and image. They invited customers to come into their stores and engage in a new activity called 'shopping.' Of course, there were many, many more Retail Merchants than there were Direct Merchants. In fact,

Retail Merchants had managed to corner most of the shopping business done with the Customer Class in the Land of Buying and Selling.

Then from the 1950s to the 1970s all of the Customer Class began working at two jobs for every family. Before that, they only had one job. But, in order to improve their life and their consumption rate, it became necessary to have two incomes. That way, everyone could buy stuff and new homes in which to keep their stuff. They would then outgrow those homes and would buy bigger homes so they could buy more stuff to keep in their bigger homes. Pretty soon, they had to work longer and harder to increase their incomes so they could get more stuff to make them happy.

The Direct Merchants really sympathized with the Customer Class and their hamster-wheel predicament. The Direct Merchants created 'shopping convenience' and made it easy to get stuff without having to go to retail stores to shop. They perfected their 'Store-in-a-Book' called 'catalogs' and learned how to describe stuff and take pictures of stuff and how to take orders over the phone using credit cards so it was even easier for the Customers to get their stuff. They perfected boxing stuff and making sure it didn't break, and they also perfected shipping stuff fast so that the Customers would be happier quicker and would come back more often to buy more stuff. And they even guaranteed all the stuff; you got your money back if you weren't happy. The smart Direct Merchants even perfected the dreaming up and making of all kinds of stuff themselves. They became Direct Stuff Merchants. Later on, they would go to a far-away land called "China" to have the people there make all the stuff so the Direct Merchants could just concentrate on predicting what stuff they could sell and to whom they could sell it. But, I'm getting away from the story.

The Direct Merchants became powerful. They actually began to cut in on the territory of the Retail Merchants. So, the Retail Merchants used more brick-and-mortar and built really, really *big* stores. These were called "Big Boxes." And they began to sell stuff at prices below what anybody else could even make or buy the stuff for. This was called Wal-Mart.

One day, after there were lots and lots of Wal-Marts, the Retail Merchants and the Direct Merchants got really weird. Both of them wanted to be alike. Direct Merchants wanted to be Retail Merchants and Retail Merchants wanted to be Direct Merchants. But, only the Direct Merchants had gotten to be good at all of the customer service and fulfillment and customer tracking and keeping customers happy and buying more stuff. The Retail Merchants didn't even know the names of any of the Customers.

And, then, in the early 1990s, it all got *totally* weird. The Direct Merchants and the Retail Merchants were all happy and competing and growing; the Customers were all happy and spending and consuming; the Families were all working and owning stuff and teaching their kids to, like, buy stuff, too; and then from somewhere inside the Earth came a whole new group of people called the Geek Class and they all had, like, computers and HTML connections. The Internet was introduced to the Customer Class.

And things have never been the same since.

Now, the Direct Merchants and the Retail Merchants spend all their time and money on creating online environments. One minute they're listening to vendors selling

Customer Relationship Management tools who tell them they need one of these things because it's pretty much what that vendor sells, although nobody knows what it actually does or how it works, but everybody should have one. The Merchant classes are totally addicted to things called 'clicks' and they contract with huge vendors who auction off words that Customers might enter in a place called "Google." They've begun to spend billions of dollars on concepts like usability and search and organic position and SEO and SEM and live chat and hundreds of other things sold by the Geek Merchants.

It has all become so complex in the Land of Buying and Selling. It is all so 'unknown' there anymore. The Geek Merchants only seem to 'get it right' about half the time; the other half things just don't work right. The Customers seem to be roaming around, confused and only semi-attached to the Direct Merchants or to the Retail Merchants or even to the drifting clouds of irritating Net Gnats. We seem to have misplaced our map of the Land of Buying and Selling. We seem to be a bit lost and perhaps scared and hungry.

But, what about those Customers? What do they want? How do they want the story to come out?

* * *

Nobody really knows how the story ends, or if it ever will end. If you believe it to be a fairy tale, you would look for a castle and a happy ending. If you believe it to be a mystery story, you would look for a "Killer Application" that gets caught in the end. If you believe it to be a tale of history, you would look for how it will influence the future by studying the past. But, if you view the story as one that has a hidden meaning—an allegory—then you will look for *absolutes* that you can count on in the midst of all the coming chaos; foundation blocks that assure you will remain competitive and profitable and growing; pillars upon which the business must stand regardless of the numbers of channels or the complexity of those channels or the vagaries of the Geek Merchants and their influences.

Here, then, are 20 practical foundation blocks that you can count on to give you the best possible ending to the story. All of these are direct from the real world—from your companies, your catalogs, your multichannel experiences. All of them are observed *in vivo* at living companies with real problems and real successes. These are the 20 foundation blocks of a successful, high-valuation direct merchant business. They are timeless and they are essential. And they are outside the ephemeral nature of technology, outside the excessive focus on the Next Big Technology and Web 2.0, SEO, Social Networking and Mobil . . . outside of the Land of Online.

These are the bones of the business, the skeleton framework of *any* and *all* successful businesses. These are the strategic pillars that create success, dominance, wealth and the ability and capacity to absorb any channel or technological evolution and harness it to your advantage. Without these 20 pillars, you would not be able to compete or survive, regardless of the channel or the technology.

For just a short time, think *inside* the box. Forget the hype, the buzz, and all of the gauzy prophets of the future. Instead, for just an hour or so, think hard and critically

about your foundations and the granite bedrock upon which you are building your company.

Vision

A successful company has a vision. Almost always, the business was started by the visionary and has been built with that vision intact. The vision is usually simple. It can be stated clearly and everyone can understand it. It's not a mission statement; rather, it is a reason for being.

Recently, I have been working on a sale of a company, and the entire reason for the company's success is that all aspects of the company were *intentionally* built. The owner intentionally set out to: 1) serve a defined niche in which he had exceptional knowledge; 2) make it easier to do what the niche does through unique, proprietary problem-solving products; 3) have the very best quality products and never compromise; 4) offer exceptional customer service; 5) respect the customers; 6) participate in the niche as a source of knowledge and innovation; 6) develop great employees; 7) operate with honor and absolute honesty.

Rarely do I see companies that have intentionally been built with those seven foundation blocks from day one. Many direct merchants are twenty, thirty or forty years old and have never been able to articulate what they intentionally set out to do, much less actually accomplish those objectives.

The company I have described doesn't have a mission statement; wouldn't know how to create one. But, the seven vision foundation blocks are part of that company's DNA. Every employee has been inoculated with the vaccine. The company lives beyond the influence of the founder; he has imparted himself to all of the managers and associates. And the company owns its niche and has exceptional earnings and, as a result, valuation. The vision has led to a superb balance sheet, no debt, strong ever-escalating sales and earnings, a fine facility in pristine condition, wealth, security, compassionate employment, industry respect and admiration, and customer loyalty.

Too often, I suspect, the vision only goes so far. It is to make money or to dominate a niche. It is almost never a rounded vision that encompasses products, customers, quality, people, knowledge, service, and money. There are, it seems, two classes of visionaries: short-sighted and far-sighted. The very best companies—as measured by the things that really count, as well as wealth—are all far-sighted.

One of the greatest rewards for the executive leader is to devote time to a thoughtful and complete vision of the company as it is desired to be in the years ahead. Taking that time now will guarantee much larger rewards along the way and at the time of the end-game. Of all 20 foundation pillars, this is the one where it all begins.

Product

Great companies—more often business-to-business—have exceptional products. In the homogenized, see-one-see-them-all, commodity product environment of today, products that are absolutely innovative, unique, one-of-a-kind, and proprietary are a thing of beauty.

It is easy to knock-off some other company's products (and many of our successful companies have been started that way), but when products come from understanding the niche to be served from a position of knowledge and experience *inside* of that niche, the products can be exceptional. A good example is the legendary New Pig catalog's spill absorbing products. These were born out of first-hand experience by the founders in containing and cleaning up noxious liquids. The entire spill absorbing industry was created from these initial products and New Pig has been very successful as a result.

It is very difficult work to find a niche and create unique, proprietary products that serve that niche *and* do it better than anything the niche has now. Those are truly breakthrough products and are almost guaranteed to be successful and to create utility, satisfaction and wealth, the basic economic components of success.

Something else I see often with highly successful product-oriented companies is patents. These companies protect their proprietary products and their trade names. This goes beyond just the protection; it becomes a brand. Every successful direct merchant with the foundation blocks firmly in place has an above average brand in their niche. The brand is what the customers value. Again, the brand has been *intentionally* created as a part of the vision.

Most commonly, I see owners, merchants and product managers who all *source* products. Rarely do I see individuals at any level who look at a niche, focus on needs and then *create* product solutions that do it better. Our product *gestalt* begins and ends with sourcing from someone else; hardly a creative effort that warrants an above average economic reward. What our market does not need is more people selling the same stuff; we need fewer people selling more proprietary stuff.

If we accept the first foundation block is vision, then we must, by definition, accept that the second foundation block must be product; product that is innovative, creative, problem-solving, proprietary and *intentional*. You may have a fully-furnished vision, but if you don't have a product to sell you have only a dream.

Not enough energy is spent in product ideation. We adapt products, adopt products, improve products, and expand products; rarely do we ever *scrutinize* products and their applications and uses in order to go beyond the norm to the point of solving needs through innovation. That is the hallmark of a product master. Taking a year to *think* about products and find things to do with them that have never been done before is to devote one year to perhaps a successful history stretching 20, 30 or more years into the future. It is this combination of concentrated thoughts and ideas that creates great product companies that achieve market leadership.

Distribution Model

As we Direct Merchants engage with a multiple channel market, we find ourselves competing with retail, direct sales forces, telemarketers, online marketers, wholesalers, and combinations of all of them. Worse, we commonly find ourselves competing in three or more pricing environments: high, middle and low price positions.

Add to that the competitive positions of service, speed, selection, and stocking versus drop-ship.

Ten years ago the distribution model for direct merchants was quite simple: catalog and telephony, stocking, central warehouse, and national 3-5 business day shipment. Product selection started with breadth and then slowly expanded to depth, best-sellers to low-sellers.

Today, that simple model may or may not work. As I look ahead, I see very different distribution models being created. For the largest companies, the model will be decentralized warehousing, a mix of stocking and drop-ship, a mix of catalog, telephony and field sales, a mix of direct, inside and wholesale sales, and a customer-driven product distribution matrix (products positioned in stock and geographically to serve those customers who buy them). It makes more sense to stock ice-melt products in the Midwest rather than in the south and emergency generators in Florida rather than in Ohio.

The distribution model demands operating platforms that allow the model to work. All too often, I see operating systems that do not allow for multiple warehouse models or strategic product movement. The technology is driving the distribution model, and that is fatal in every instance.

For some, these domestic distribution models have already expanded (or will soon) to a multinational or global distribution model. And, let's face it, the U.S. market may not sustain the necessary growth; it may be required to do business internationally. In 1983 to 1993, direct business-to-business merchants tried international expansion and, by and large, failed. Some—such as Seton—did well and have never looked back. It will more than likely be required if growth is to be chased; this time it will have to be done right and the distribution model will be much more elegantly defined and designed.

If there is one thing we can learn from Wal-Mart, it is that distribution logistics are the frontier. Annual inventory turns of 30, 40, even the 56 times that CDW is thought to do, will be the distribution model benchmarks for the next generation of multichannel merchants. At its foundation, the distribution model pillar does only one thing: get more products to the right customers faster. Local or regional positioning, reduction of shipping distance, reduction of shipping cost, in-stock and on-time delivery performance, and reduction of multiple shipments all will define the distribution winners and also-rans. In three years, if you are a one-warehouse company in Buffalo, you will likely not be the niche leader.

Many leaders have not given much thought to the future distribution models in their markets. In fact, most of the business-to-business companies have had the same distribution model for a long time; a few have added new distribution; a small number have made it a strategic essential, completely changing their model time and time again until they dominate.

Culture

This is a critical pillar of the direct merchant. Again, I come back to the vision and to the intentional approach to creating a company. Positive cultures do not happen spontaneously. Positive cultures are intentionally instilled from the vision.

The company described earlier has a founder who has all of the cultural attributes for success: passion, compassion, thirst for knowledge, dedication to quality and service, politeness, a giving nature, mentoring, caring for others, fairness, patience, and a reasoning approach to solutions and problem-solving. Consequently, he has surrounded himself with vendors, employees, industry leaders, even customers who value and respect those attributes. He has, in effect, intentionally created his work culture to support and mirror his vision. That is a remarkable achievement, more so because it *is* designed and pre-determined.

This cultural center for a company radiates in all directions. It radiates out to suppliers and vendors and is returned to the center as preferential status by them. It radiates out to customers and is returned to the center as customer loyalty and retention. It radiates internally to employees and is returned and re-directed outward to suppliers, vendors and customers. And it radiates within the employees and is returned to the corporate 'family' as harmony. As a result, this company uses its culture to drive a customer-dedicated attitude that has won the hearts, minds and wallets of its loyal customer base and, further, growth through word-of-mouth.

Another client defines culture more as a performance attribute. In this company, employees are imbued with the culture of independent decision-making, responsible choices, accountability, and customer-centric activities and actions. As a result, this company uses its culture to drive effectiveness and efficiency while it uses its distribution model to serve customers flawlessly and quickly.

In both instances, the foundation pillars *intentionally* are linear: vision; product; distribution model; culture. Each successive pillar is *intentionally* created to meet the defined requirements of the preceding foundation pillar. Neither company could have been created without this step-by-step intellectual design.

People

The finest restaurants use the finest ingredients; that's how they achieve greatness. The greens are just picked within an hour or so from the kitchen garden behind the auberge. The filet of trout has been plucked from a local stream that afternoon, nested on wet grape leaves and refrigerated until the sauté pan is hot. The crème anglaise is prepared fresh from cream from the local organic dairy and fresh Madagascar vanilla beans.

The finest businesses are no different. They have the finest employees. They choose them with care and attention to quality. For *intentionally* great businesses, only the best people will do. That's how 4-star businesses are built.

You see the 'People Pillar' when visiting various companies. In the great companies, the people are happy, enthusiastic, open, smart, and full of ideas. In the not-so-great companies, the people are uninspired, dull, closed to ideas or change, a bit obtuse, don't know any of the numbers, and haven't had any ideas in quite a while. In the great company, the people lead the way. In the not-so-great company, the people wait to do what they are told. They were once people looking for a great culture to become a part of; now, they are just 'employees' with a cubicle and a so-so health plan.

All too often, the reason for people mediocrity is money. The owner is simply not willing to spend what it takes to get the top ingredients. That is a short-sighted approach to people and culture and it only guarantees perpetual mediocrity. It's all about choices.

Like the radiating cultural center of an organization, the people radiate outward and inward. Mediocre people depress customers. Mediocre people depress suppliers and vendors. Mediocre people depress each other. When you do a forensic review of a diseased company, you find extreme territoriality, hostile politics, near non-communication, lack of common goals, manipulation, and outright stupidity. Ah, but those rarified reviews of healthy companies—such sweetness and progress; such laughter and trust; such joy in the work. And it is *intentionally* created and maintained.

A business owner or leader who sculpts the profile of the people on a daily basis winds up with a work of art. If you begin with the best marble available, you have a much greater chance of creating a wondrous, lasting and satisfying work of art.

If you have a clear vision, great products, a compelling distribution model, a dynamic culture, why wouldn't you furnish it with the very best people you can find? Why would you risk everything on mediocre people? It cannot ever make sense.

Tools

The sixth linear foundation pillar is tools. Call them what you wish: ERP, Systems, IT, Operating Systems, and on and on. They're *tools*. They are what people use to get the job done better, easier and faster. If you don't have good tools, you don't get good results.

You can buy cheap tools that always need fixing or sharpening, or you can buy quality tools that will serve you well for a long time without a lot of costly repairs or down-time. The real measurement of the utility of the tools is the output productivity. Generally, the better the tool; the better the productivity.

One of the most notorious causes of business failure throughout the multichannel world is bad tools. Either they are the wrong tools or they don't work or no one knows how to operate them—often, all three. And then we try to cover up the problems so the board of directors doesn't notice. Seems to me the problem may be at the board level. How did the company get stuck with bad tools to begin with?

For all of those whose tools are deficient, there is a little known fact: there are good tools out there that work. The *intentionally* designed companies almost always have great tools. They have spent time understanding exactly what they need, how the tools need to work in their niche environment, how they can be adapted, and what needs to be built in for the future. Then they spend lots of time training great people on how to operate the tool and how to get the greatest possible productivity out of the tools. And when it is all humming along, they begin studying what they will need next and begin adding new tools to the bag.

The 4-star companies also make sure the tool operators are dedicated to the vision of the company rather than to the tools. In our history as direct merchants, we have

caused way too many customers to be brutalized by the tools. At their worst, the tools are in charge and that is always fatal.

Tools have to be egalitarian; that is, affirming, promoting, or providing equal competitive, economic, cultural and visionary outcomes for all the people who must satisfy the customers. The tools cannot be only for merchants, or accountants, or marketers. They must serve the common master: the customer. The tool must exist only to fulfill the desired outcome of the linear foundation pillars of the business: *to sell more stuff to more people any way we can.*

Niche Depth

Our business is now prepared to engage in business. We have the vision, the products, the distribution model, the culture, the people and the tools to be successful. To some degree, the products have necessarily emanated from a niche market and are a fit in that small or large market segment that has been chosen.

I remember a couple who carved out the equipment and music niche for square dance clubs. He sold all of the portable sound systems used by mobile square dance callers as well as complete collections of karaoke-like sound tracks that they could play and then call live. It was a small business, but they owned it all and they made a very nice living from it until they sold it a year or so ago. The secret to the business was they knew everybody in the square dance world; all the dancers, all the callers, all the square dance promoters and dance hall owners. They belonged to all the associations and attended all the contests and festivals. If somebody was going to buy new equipment or music, they bought from my friends. They had niche depth in a small market.

On a much different scale, I think of a company that will soon do \$500 million in a large industrial products market. They are not the largest player, but they have solid footing in all of the major product categories within the larger niche market. They also have 30 years of experience in the market and the company has had the same owner from the beginning. That person *knows* this niche market. That person also understands the potential of the distribution model. This is a niche depth that will lead to aggressive geographic expansion as well as competitive acquisitions. Like the square dance product company, this group belongs to all of the associations, attends all of the conferences, and is a 'go-to' source for everything in their field.

Both of these extremes of niche depth describe companies that work very hard to know more about their niche than any other company. They are involved, committed, supportive and active in the niche that gives them their success. They are *leading* their niches forward, making a difference, taking a leadership role for the future. And what they get from that niche depth is information, contacts, opportunities, and word-of-mouth, all of the benefits that accrue to the company with deep and solid foundations.

Trusted Advisors

When you have erected the first Seven Pillars of Success, you reach a point where you have suppliers, vendors and advisors you have worked with and have come to trust. This is the point of the construction of the foundations that will determine almost all of

your future relationships with outside firms. A choice is usually made early in the history of most companies. They either trust their advisors and suppliers or they don't.

Let's look first at the majority of companies who choose *not* to trust their advisors. They give them very little information that might help the suppliers find ways of improving some aspects of the company's performance. The non-trusting company reveals nothing about their finances or their costs, always fearing that suppliers will use it against them or will inform their competitors on how they are doing. The non-trusting company rarely seeks advice or solutions from suppliers and advisors, preferring to have all the answers and to be in control of the relationship. These companies are often marked by secrecy, distrust and fear. Their employees learn to mimic these shortcomings, usually out of fear.

The untrusting companies move from supplier to supplier, believing that you never put your eggs in one basket and that there is always another one or two percent to be had by 'vendor bending.' The primary negotiation strategy is cost-reduction. Few long-term relationships are counted among the suppliers; the company's reputation among suppliers and vendors is a bit 'off.' Usually, they insist on taking the 1% discount for 10 day payment at 30 or 60 or 90 days; after all, "What are they gonna do, stop selling to us?" Is this who you want as a partner in your future?

Compare the foundation block of Trusted Advisors at another company, a trusting company. They surround themselves with their suppliers, vendors and outside advisors and explain to them their vision, products, distribution model, culture, tools, and niche depth. They give their Trusted Advisors the whole picture. Then they ask them to find ways for both the suppliers and the company to improve on performance so everyone grows and prospers. They believe that openness is better than darkness and that 20 minds are better than one mind. They allow fresh thoughts, new ways of doing things, different approaches to old problems, and ideas from outside the Throne Room. These companies flourish while the non-trusting companies lag behind.

The trusting companies have relationships with suppliers and vendors that may extend back years. They have come to rely upon and trust one another and they give each other Most Favored Relation status. The primary negotiation strategy is "how do we both grow?" The trusting company offers the supplier a monetary incentive over and above the fair price for improving performance, profitability and growth. So much money is saved by not having to constantly find new suppliers; even more is saved by the value-added ideas and services that come as a beneficial by-product of the Trusted Advisor relationship.

Yes, you can build a company based on suspicion and miserliness. It will probably do 'okay.' But, you can build a spectacular company in a quarter of the time based on trust and mutual sharing. It will be a one-of-a-kind, a jewel, a treasure. It's all about choices.

There is another very interesting difference between the two types of companies. The non-trusters almost always have a third-rate accounting firm and a law firm that has just recently begun to walk upright. The health care plan is not much; there's little training or executive development; the catalog paper is cheap; the website functions, but not well. Everything about these non-trusting companies is a bit tawdry, a bit wrinkled, a

bit dusty. Yet, the trusting company is first-class in every regard. They have the best advisors, audited financials, nice facilities; there is an intern program to develop skilled employees just leaving college, a tuition reimbursement program for people who want to move up, regard for families and their welfare. Wherever you look, they are bright, glimmering and positive and they are surrounded by Trusted Advisors who are also bright, glimmering and positive.

If one accepts the first Seven Pillars, how could one get to the pillar of Trusted Advisors and not understand the obvious implications for the future of the company? It is a part of the vision and the culture. If one must ask the question and make the choice whether to be a Trusting Company, then the choice has already been made. If the vision and the culture were properly constructed, the Trusted Advisors pillar is a given.

Image

As a company, you are as you are perceived to be. Perception, and therefore reality, is determined by the image others have of the company. The prior Eight Pillars, to a great extent, determine your image. There are several images: 1) an intellectual/philosophical image closely linked to vision and culture; 2) a niche image closely linked to products and service; and 3) a physical image portrayed by people, facilities, niche participation, and the Trusted Advisors you surround yourself with.

As many of you have heard me say, the first place I go when visiting any company for the first time is the men's room. I can generally understand everything I need to know based on what I see there. If it is a mess or smells bad, then usually the company's performance and financial statements will be the same.

The image within the niche is easily determined by talking with suppliers, vendors, customers and associations. Once again, my experience is a clean bathroom means a clean niche image.

It comes down to the most basic elements of what is thought to be important. If standards are high, image is high. If standards are low, image is low. Image is a planned, intentional pillar. It is not left to develop on its own. Image requires a guiding force, a firm and resolute hand on the tiller. Image is the reflection of the owner.

Urgency

I've had twelve lives and I have at least four more to accomplish. I have always had a sense of urgency. It is 4 a.m. and time to be "up and doing." Tomorrow must be completely different from today. This is not a dress rehearsal, this *is* the play!

We have just constructed a company on the Nine Timeless Pillars of vision, products, distribution model, culture, people, tools, niche depth, trusted advisors, and image. Get on with it!

If you believe you have 40 years to devote to the game, you might think that you should devote a quarter of the span to creation, a quarter to growth, and half to maximizing opportunities. The first ten years are spent perfecting the foundation; the next ten are spent generating as much growth as possible; and the last twenty years are

devoted to capturing and maximizing every opportunity to lead your market niche. Then you cash out and enjoy twenty-five years of meaningful involvement in those things that interest you. Then you die. Curtain. Thank you for attending.

The point: It is finite. Get on with it! Stop dithering!

Those are the first Ten Pillars. If you have them well-planted in the ground and properly aligned and level, you can build one heck of a business on top. Notice that none of these has anything to do with social networking, pay per click, landing pages, or RSS Feeds. These are the components that make it possible to excel at all of that. But, without these components, you can excel at nothing. Now, we are ready to look at the next ten pillars. Let's see what those might be.

New Customers

Nothing happens without new customers. This is not something that ever stops. You need new customers every single day of every single year you are in business. Without new customers and, therefore, new customer acquisition (or prospecting as it was once known) you have no use whatsoever for the preceding Ten Pillars because you will no longer be in business.

We are now locked in a great discussion of where those customers will come from. Will they come from catalogs, emails, paid search, organic search, cell phones, inserts, television, field sales, affiliates, or any of dozens of other sources (or what we now call 'channels')? The answer is, "Yes." You need to be a world-class customer acquisition company using any source of customers you can find. Remember, the only possible reason for being is *to sell more stuff to more people any way you can*. If I was a direct merchant and you told me I could get more new customers by walking up and down Main Street wearing a clown suit and a sandwich board, I would go after that new channel of new customer acquisition.

All of these sources are important. Some will be more important and some will be less important. They will change with time; all things do. But, for now, and for this discussion of foundation pillars, the numbers tell you what to do:

Direct Marketing:	\$2 trillion
Direct Mail:	\$520 billion
Telemarketing:	\$393 billion
Online:	\$340 billion
Other:	\$20 billion
Downstream *:	\$727 billion

* Printing, telecom, third-party fulfillment, and other beneficiaries of all direct marketing spending.

It is clear to me that your first and foremost Trusted Advisor remains your list firm. In all three primary channels—mail, telemarketing and online—your list firm is a highly skilled source of new customer acquisition. I grant you, it is no longer simply about lists; it is about lists *coupled* with analyses, models, profiles, statistics, consulting and raw computer power. It encompasses email addresses, telephone numbers, mail addresses, blogs, RSS and all of the other places where new customers can be found, but mostly it involves *people* and their *names and various addresses*.

With the foundations in place, your first responsibility is to be a Master of Names and a Master Harvester of New Customers. It is still the Prime Directive of direct marketing. It makes little difference what channel; it is *still* about names. Yes, more of them may have to find you, but you have to build relations with Trusted Advisors who can guide you and help you meet the larger imperative of acquiring new customers, and that remains the list and new customer acquisition professionals.

One of the great areas of strategic weakness right now is the abandonment of list testing and circulation planning to outside membership co-ops such as Abacus. It is a strategic abdication of the Prime Directive of new customer acquisition. My prediction is that those companies who circle back and retake the high ground of masterful list expertise in partnership with their Trusted Advisors will, in *all* channels, become formidable competitors in the increasingly complex multichannel world ahead. This is a Pillar, not a tactic. Without the solid plan and expertise for developing new customers, there is no reason to go on. Without the New Customer Pillar, you simply self-digest what remains of the business.

Analytics

To date, we have learned to measure a great deal of what takes place in our businesses. Compared to what we must measure in the future to maintain our niche dominances, we have only just begun our analytic apprenticeship.

I believe we are on the threshold of a new breed of tools that will define, standardize for understanding, and organize analytics to become useful and deterministic. Our present analytics mostly rely on various subjective interpretations and they only reflect the past. The next generation will be conclusive and predict an accurate future. At that point, we will have useful tools and we will no longer have to finance the analytic learning curve.

Whether those tools are housed in the individual companies or in the evolved list brokerage and management firms—the new consultants—the new Acquisition Science firms—remains to be seen. It makes sense to create one superb and powerful tool and share it among many. The cost is less and the maintenance and operation of the tool is best done on a consumption basis.

What is glaringly clear to me is that this pillar requires internal understanding and far greater statistical and mathematical talent than we have offered up over the past 20 or 30 years. This is no longer IT; no longer Database Marketing; no longer a marketing or financial or merchandising domain. This is the board level dashboard and it must be translated accurately and precisely in language that corporate guidance can assimilate.

If there was one pillar that I would spend more time on than New Customer Acquisition, it would be Analytics. I would not spend the time learning how to do the analytics, rather on how to find the right people and how to assure the communication of the findings into understanding for the future objective of *selling more stuff to more people any way we can*.

Customer Service

When the perception is that there isn't any, that is the time to dig the pillar deep into the foundation.

We got here on our commitment to giving better customer service than any other commercial channel. Direct marketing was all about the 100% Guarantee. It is why we are trusted. From there, it spread to great Customer Service Representatives and friendly customer relations. And in the 25 years since our creation of that image and deeper culture of excellence in customer service, the retailers and Big Box operators never really caught on. When you think about it, they're really kind of doofisses.

Unfortunately, we have become much more focused on our websites than on our call centers. Many of us have outsourced those call centers; some as far away as Bangalore. I was reminded by a Customer Service Representative of my credit card company to "Please enjoy looking at the stars and moon tonight." A nice thought and kind wish, but at that moment I was really rather more interested in tracking down my expired card replacement which no amount of stargazing could apparently produce. I still have the expired card and it has been a month. I don't hold out much hope. At least it has a zero balance and I have another card from a better bank that cares about my business.

While very tied to the pillars of culture and people, customer service is also a strong competitive positioning strategy. You can make a lot of money with great customer service. You can lose a lot of money with bad customer service. Seldom do we look at it as a part of merchandising. I have come around to believing that is where it belongs. If the merchandising performance is to be improved, one of the first places to look for ideas is in Customer Service. We keep forgetting that the CSRs are the "Keepers of the Customers." They are the people who actually know what the customers say, want, and like or dislike. Why, after all these years of nodding our heads and saying, "Yep, he's right. The CSRs are the front line of customer retention and satisfaction" do we blithely go on about running the company and ignoring the customer and never bother to use that knowledge as a merchandising strategy?

Customer Service. On a scale of 1 to 4 with 4 high, our only possible target for this pillar should be an 8. It's money in the bank and a ten time multiple of earnings at the cash out.

Fulfillment

Once you have taken the order and made the customer happy with exceptional service, you have to actually get the product to the customer—fast, right, unbroken, secure and at the least cost. Fulfillment is the pillar that can bring you to your knees faster than any other. When you can't ship the product, you're out of business.

I have recently visited a company where I saw something rare and unusual. The fulfillment side of the business is run by the Vice President of Supply Chain. This person knows warehousing and pick, pack and ship. A fulfillment veteran of 30 years and clearly very competent, he described his responsibilities. At this company, supply chain is defined as having responsibility for the product all the way from selection to sourcing to warehousing to shipping to returns and reverse logistics. Clever. I had never seen the traditional role of merchandising combined with fulfillment; yet, it makes perfect sense. His job, he explained, is simply to find, buy, describe and offer the right products, make sure they are in stock when needed, ship them fast to the customers, and manage the returns and replacements as required. He has responsibility for the total supply chain. Of course, he has 30 years of niche experience and understands the products better than anyone else at that company. The value-added comes by combining his skills at merchandising and fulfillment. The customers benefit; the suppliers benefit; and the company benefits. And he is doing the job of two vice presidents.

Whether merchandising and fulfillment are separate or combined, the mastery of product forecasting, advance sourcing, rebuying, inventory control, obsolete inventory clearance, logistics and freight cost-controls, packaging, fulfillment staffing and fulfillment productivity are all components of a main structural pillar of the direct marketing company. When it all works smoothly it is a beautiful thing; when it is broken it is really ugly.

Again, it is that all-telling visit to the men's room. If it's ship-shape, the warehouse will be, too. If not, there will be returns stacked to the ceiling and 48 different sized cartons when 4 would work better.

Fulfillment is not a cost-center. Fulfillment is a marketing strategy. When you have world-class fulfillment, *you sell more products to more people*. When you don't, you don't.

The point: Are you raising the bar on fulfillment to *use* it as a marketing strategy to attract and retain new customers. Fulfillment, like every other pillar, is about *selling more stuff to more people any way you can*.

Finance

You have to assure the financial pillar provides cash for operating, investing in the business, and growth. I have seen many, many companies that were under-capitalized; none of them were successful.

The primary use of money is to invest in new customer acquisition across as many channels as make sense for your niche. If that cardinal function is covered, the business will almost always succeed, provided the first Fourteen Pillars have been well-built.

The Finance Pillar is often a shared foundation involving institutional money or investment money. Regardless of where it comes from, it has to be advantageous to the business and it has to be readily available to meet growth opportunities, planned and unplanned. The only way around the necessity of managing relationships with the money-lenders is to be independently wealthy.

I once learned the Mantra of the Four “M’s” from one of the great direct marketers of our times, Tom Phillips of Phillips Publishing, who was on my board. He said, “Success is built with Money, Markets, Marketing and Merchandising, and the first of these is Money.” I found that to be true. I also learned from Tom one of the great, timeless finance principles: “Cash now is better than cash later in every instance.” I found that to also be true. And I observed one of Tom’s secrets for success. He had very strong CFOs who *absolutely* understood direct marketing. They knew more about circulation and response and AOV and net present lifetime value than any of the marketers or anyone else. Finance was a core and central pillar and the fulcrum point of the company.

The point: How are you using finance—in all its nuances—to further the objective of *selling more stuff to more people any way you can?* Finance is not a tool; it is a lever and the energy it exerts converts to lifting the business to a higher level. The larger the lever, the higher the lift. A business leader’s primary responsibility is to provide an appropriate assortment of levers at all times.

Creative

Catalogs, websites, emails, inserts, infomercials, whatever; it all has to be excellent. The creative pillar is built with creative talent, channel understanding, innovation, and testing. Sometimes, being just slightly off-center helps, too.

Internally produced or outsourced, it really doesn’t matter. Only the very best creative will create the very best companies. And creative is the full gamut: layout, design, copy, photography, typography, color palette, pagination, navigation, and on and on. Single channel or multichannel, it really doesn’t matter. It has to be good and it has to *sell more stuff to more people any way it can.*

Good creative requires creative people. Catalog people. Web people. Retail display people. Search linguists. Whatever.

The Creative Pillar has been allowed to weaken, indeed, crumble a bit in recent years as we focus more and more of our energies on the online channel. The ‘old’ creative has been left in place too long without the needed advances. Photography is still too often ‘vendor supplied’ and catalogs have not advanced much beyond the 1990s. We have been occupied elsewhere with usability, analytics, models and Google. When I do the lengthy and often distressing 40-60 page catalog critiques, the reports are not pleasant for the owners. Most of our catalogs are ‘just another catalog.’ Only rarely do I see extraordinary catalogs and, when I do, they are always from extraordinary companies.

Look back on the prior 15 pillars. If we are building a company for successful performance and profitability and have gotten this far, why would we settle for mediocre creative? Yet, we often do. We have ceased to value creative as we once did.

It is time to rethink and strengthen the Creative Pillar.

Circulation

Circulation is an art and science. It is mathematical and mystical. It is predictable and unpredictable. It requires an experienced circulation professional to manage it.

In recent years, especially with the advent of the ‘easy solution’—Abacus—we have often assigned responsibility for circulation to individuals with little experience in the art and science of list selection and contact management. In turn, these individuals have come to rely on the ‘Black Box’ for decision-making and, as a consequence, new customer acquisition has, in many instances, weakened.

We are direct merchants. Circulation and all of its intricacies are our prime function. I’m not going to go on and on about this; I am on record over the past five years about the importance of partnering with our Trusted Advisors, the list professionals, and recapturing this incredibly important strategic high ground as masters of our own destinies. If you do, you will excel and grow. If you don’t, you will perish. Again, it’s all about choices. Only, this one is so obvious.

The point: The Circulation Pillar—in *all* channels—is what *sells more stuff to more people any way we can*.

Strategic Planning

A common characteristic of the best direct merchants is that they actually *plan* where they are going. They take strategic planning seriously and they achieve a collegial understanding of the company’s directions among all of the managers responsible for carrying out that plan.

The recent example of an extraordinary business-to-business multichannel company bringing together outside advisors with their management team to craft the “Billion Dollar Company” plan—and proceeding with the plan—foretells that company’s future success. It *will* be a billion dollar company and in less time than expected.

The primary value of strategic planning as a pillar upon which to construct a company is that it unearths options. When many minds and many imaginations are set to the task of describing the opportunities for the future, options appear. And options offer choices.

The secondary value of strategic planning is the unified understanding of the company’s future choices. When all twelve oars are pulling towards the same spot on the horizon, the boat gets there faster and without going off-course.

Strategic planning costs almost nothing. It is a non-monetary investment in thinking. Thinking—innovative thinking—may well be one of the most hidden, seldom deployed and valuable aspects of figuring out how *to sell more stuff to more people any way you can*.

Communication

There are a few great direct merchant companies that succeed in communicating, both with customers and with employees. There are far more who do not. Those that do are making a lot of money, in my experience. Those that don't are not.

The two most common failures of the bedrock foundations are lack of focus and lack of communication. They almost always exist side-by-side. Owners are often unsure of the focus and, as a result, unable to communicate the first necessary pillar: Vision. From there, it is nearly impossible to construct the remaining Nineteen Pillars.

Communication moves two directions; perhaps even omni-directional. Clearly, however, it moves from customers to company and then from company to customers. During its round trip, it revolves internally, informing and enthusing every employee with a common culture, attitude, plan, and objective answering the question "*How do we sell more stuff to more people any way we can?*"

Board of Directors/Advisors

The final pillar supporting performance and profitability is the board. Whether a formal board of directors or the informal board of advisors, it is the pillar that guides and advises from wisdom.

The board is nothing more than the modern-day continuation of the tradition of the tribal elders. Experience has enormous value. Smart leaders seek wisdom of the elders. Sounding boards, mirrors, and 'other eyes' are essential to the decision-making process. It's good to be king, but it's better to be surrounded by competent Trusted Advisors.

My formula for any board is as follows: 1) a niche expert who knows your niche better than you do; 2) a direct marketing expert familiar with your channels; 3) a financial expert familiar with the world of money and financial backing; 4) an accountant with direct marketing experience; 5) a representative of the customers who buy your product; 6) a trusted, life-long personal mentor. Some include a lawyer. I don't.

Over the years I have observed and, therefore, concluded that direct merchants with a fully-furnished and fully-functioning board, where all decisions are respected and followed, are far, far more successful than the autocratic companies.

* * *

Those are my 20 Pillars for Performance and Profit. Any company that adopts these foundations will be a better company than those that do not.

As we embark on the most welcome and beneficial event of our year, the MeritDirect Co-Op, and as we are immersed in highly technical and advanced multichannel discussions, I believe someone, now and then, has to say, "Wait a minute. Until we focus on these pillars, we cannot achieve the many beneficial things that are in the future no matter what the channel."

These are the elusive and all too often unsung attributes of successful business-to-business direct merchant companies called “The Basics.” They are important. They are the difference between the ordinary and the extraordinary.

Go forth and multiply!



The Third Quarter 2007 Economic Outlook

As of late June, increased caution is running through the economic performance indicators. The subprime mortgage difficulties are having a prolonging effect on the housing market and may well extend the eventual time to recovery. The private equity frenzy may be slowing; indeed, maybe a potential bubble that could have a meaningful impact on economic performance. Energy and health care are receiving Congressional lip service as is to be expected in the two-year deathless campaign season. The bond market has reversed its upside-down yield relationship and is exerting pressure on stocks. Corporate earnings continue positive, but may be slowing or declining slightly as we enter the last half of the year. There are pressures to the economy, even if they are not blatant and openly detrimental.

It seems to me that the important recognition is that the last half of this year is best used as a period of consolidation of our corporate performance and financial health. This would be a year to solidify the foundations of the business; probably not a six-month period to take unusual risk. Yet, it is also a time to continue with normal and perhaps moderately increased new customer acquisition and investment prospecting.

There are indications for a further slowing in the economy in the last half; some are now predicting economic growth at perhaps less than 2.0 percent. I continue to see a slowing economy, therefore continue to manage your business for moderate growth; continue to invest in new customer acquisition; focus on new products and merchandising; control costs; and stop any and all leaks that are dripping money away from earnings. I would also reduce debt, find productivity gains through useful new technologies, evaluate staffing levels carefully, and look at potential outsourcing opportunities.

Signs of Regional Stability or Status Quo

Region One (CT, ME, MA, NH, RI, VT)

Region Two (NY, NJ, CT, PR, VI)

Region Four (OH, KY, PA, WV)

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 Twelve (CA, UT, AZ, NM, OR, WA)

Slower (Individual states)

Region Three (PA, NJ, DE)
Region Five (KY, MD, TN, VA, NC, SC)
Region Eleven (TX, LA, NM)

Louisiana
Mississippi

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The Third Quarter 2007
Circulation and Prospecting Outlook and Recommendations

Synopsis

The short-term economic outlook for the catalog industry remains positive. The intermediate-term outlook remains positive for the third quarter of 2007 and the long-term outlook through 2007 remains positive.

Prospect as an Investment

For the second half planning in 2007, even with the signs of second half slowdown in the economy and in overall business, maintain normal to increased strategies for circulation and investment prospecting plans, likely not more than 10 to 15 percent. The economy is likely to slow in the second half but there are no indications or good reasons for reductions in either prospecting or customer circulation, or both, in the last half of the year; businesses and consumers continue to spend money. We would remain comfortable with modest increases in prospecting levels, particularly where small pockets of concentrated niche-related prospects can be found.

Nation at a Glance

We will stick to our mailing recommendations for third and fourth quarter planning in 2007. We caution against decreasing prospecting or customer mailings except for normal hygiene and mailing frequency improvements. Do not be deterred by the post-September postage increase and fall into the trap of reducing mailings; the end result is always diminished customer acquisition performance. Changes are in **bold**.

State	Mailings		
		Arkansas	Normal
		California	Increase
Alabama	Normal	Colorado	Increase
Alaska	Normal	Connecticut	Increase
Arizona	Normal	Connecticut-Fairfield	Increase

Delaware	Normal	New Jersey—North	Increase
District of Columbia	Normal	New Jersey-South	Increase
Florida	Normal	New Mexico—East	Normal
Georgia	Normal	New Mexico—West	Normal
Hawaii	Normal	New York	Normal
Idaho	Normal	North Carolina	Increase
Illinois—North	Normal	North Dakota	Increase
Illinois—South	Normal	Ohio	Normal
Indiana—North	Normal	Oklahoma	Normal
Indiana—South	Normal	Oregon	Increase
Iowa	Increase	Pennsylvania—East	Increase
Kansas	Increase	Pennsylvania—West	Increase
Kentucky—East	Normal	Puerto Rico	Normal
Kentucky—West	Normal	Rhode Island	Normal
Louisiana—North	Evaluate locally	South Carolina	Normal
Louisiana—South	Evaluate locally	South Dakota	Normal
Maine	Normal	Tennessee—East	Normal
Maryland	Increase	Tennessee—West	Normal
Massachusetts	Increase	Texas	Normal
Michigan	Normal	Utah	Normal
Michigan—Up. Pen.	Normal	Vermont	Normal
Minnesota	Increase	Virgin Islands	Normal
Mississippi—North	Evaluate locally	Virginia	Normal
Mississippi—South	Evaluate locally	Washington	Increase
Missouri—North	Normal	West Virginia—East	Normal
Missouri—South	Normal	West Virginia—West	Normal
Montana	Normal	Wisconsin—North	Increase
Nebraska	Increase	Wisconsin—South	Increase
Nevada	Increase	Wyoming	Normal
New Hampshire	Normal		

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