

# Libey Economic Outlook

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## **Why You Should Not Participate In the Coming Economic Slowdown**

**Don Libey**

*Let's be honest with each other: Things are going to slow down in 2008.  
Here is why I believe you definitely should not participate in that slowdown.*

### **The Avowed Contrarian**

For most of my life I have been an ardent contrarian. If it was raining, I was not one to put on a raincoat; rather, I put on sun tan oil. I could never see the benefit of doing what everyone else was doing; rather, I could only see the advantages that came from doing something different. In my earliest businesses, my bait shop and vegetable stand at age nine, I ran them on the principle of always being different, always doing the unexpected instead of the expected. If the bait shop in town opened at 9 a.m., I opened at 5 a.m. If my competitor sold large minnows for a nickel each, I sold them four for a dime; after all, I caught them free; it was 100 percent gross margin. Never a conformer; always a contrarian.

During the 1970s cycle of oil scarcity and price inflation, when there were lines a half-mile long to purchase a few gallons of gasoline and interest rates were 20 percent, I bought my first retail business, a very large (for then), 5,000 square foot pet shop. Nobody else was starting a pet shop and I had a three-year head-start at owning the regional market for exotic pets, birds, fish, and the first massive salt water aquarium supply business in the State of Illinois. After three years, I sold it for top dollar as the

economy began to recover. It was a successful business with tons of customers and was the market leader in the “nouvelle pet shop” niche. All the other “mom and pop” shops had pulled back, shrunk their inventory and abandoned advertising. I was the new concept in pets during a bad economic time when people stayed home and set up aquariums and found a bit of joy in life through their pets. Contrarian? You bet!

During my years as a trader on the Chicago Board of Trade, I bought gold and platinum when it was at twenty year lows, at a time when no one was interested in precious metals. As a contrarian, I could only see the advantage that would come when the inflationary spiral of the late 1970s would push the price of gold to all-time historic highs in 1981-82. It did. I won. Now, twenty-six years later, in another cyclical move, gold is back at similar all-time highs, and I was a buyer six years ago. Nobody else cared about it six years ago. You had to be “contrary” to even consider buying sleepy, lackluster gold in the first half of 2001.

### **A Contrary Direct Marketer**

The contrarian strategy continued to follow me as a direct marketer. I very quickly learned by observing that postage increases, economic downturns, political unrest, imbalances of expenses, and other disruptors to the business cycle created a contra-momentum that always resulted in an increase in customers for those people who focused on growing their business without regard for the economic, political or business cycle disruption. Early on, I was taught and mentored by some very successful people, such as Stanley Marcus of Neiman-Marcus legend. He was a classic contrarian and whenever there were difficulties in the economy, he dreamed up a bigger promotion (matching His and Her elephants for Christmas at \$349,000) and mailed out more catalogs. What Mr. Marcus did so successfully each year was to create demand for his *catalog*, and that created more customers for his business. The legendary contrarians—Barnum, Ringling, Trump—have always understood that fact. In tough times, creating demand for your product creates customers you did not have. More germane, however, is the ineluctable secret fact of direct marketing success: *Regardless, always be in the market to recruit new customers.*

The minute you stop recruiting new customers, you begin to reverse direction. It really is that simple. If you ask twenty successful business owners what is the secret of their success, you will get twenty slightly different versions of “recruit new customers.” (A few—and only a few—will have added the second all-important contrarian strategy to customer acquisition: new product expansion.)

### **How I Discovered the Secret of Contrarian Success**

Allow me to wander a bit and to describe a contrarian philosophy from my first book, *On Gold*, a history of investing in the world gold market, written in 1981. I researched and unearthed an ancient method of charting the market for rice that was first used in China around 800 c.e. This unique technical method of charting—similar to today’s stock charts—produced an approach that—once I understood it—allowed one to flow *with* the market without having to guess *where* the market may be headed. It didn’t make any difference if the market went up or down because you are always positioned to follow the market rather than attempt to make a correct decision—or guess—as to the market’s direction. That was a revolutionary way of looking at the market.

I came to my understanding of this contrarian approach to investing by looking at—really looking at—the Great Wall of China. The wall provides resistance and support: resistance from attackers outside the wall and support to the Chinese people inside the wall. Similarly, a market’s direction is all about points of resistance and support. Resistance on the upside and support on the downside. But, the Great Wall of China disregards that fact. It gets its strength from its length and mass. The Great Wall has no bridges, no tunnels under it, no rivers, no breaks of any kind. It follows the land in whatever configuration the land takes—up, down, over—there are no weak spots in the wall. Because it follows the organic shape of the land, it cannot be breached at a pass, or a river crossing, or at a bridge. It cannot be beat and it never has been beaten.

When I realized where the strength of the Great Wall came from, I began to look at the ‘landscape’ of the historical market for buying and selling rice, and I discovered a way to display price and to chart the market that was only concerned with going “with” the market—over hill and dale—without concern for the direction. And that was a contrarian revelation. It took me almost two years to figure out what this all meant.

By adjusting the buying and selling of gold (instead of rice) to this natural, holistic, contrarian approach to the market, I found that it was possible to successfully obtain a profit on the purchase and sale of gold about 85 percent of the time and a break-even on most of the remaining 15 percent of trades. The small number of trades that lost money was controlled to the point where the losses were small. The underlying secret of this strategy was: *Regardless, always be in the market.* Sound familiar? *Regardless, always be in the market to recruit new customers.* You cannot win if you are not *in* the market, whatever that market may be.

We are in the market every day. Our market is defined as buyers for our products. Therefore, to be *in* the market, we must have products and customers. And, to be in the *growth* market, we must have *new* products and *new* customers. And, that demands new product expansion and new customer acquisition. When we have both, we obtain customers from other sellers, just like we obtain rice or gold from other sellers at a lower cost and sell them at a higher price. But, unless we obtain an always increasing share of the market (through product and customer prospecting), we either remain static or we shrink. At the point, we are no longer *in* the market and decline begins. At that turning point, we are bucking the market rather than flowing with the market. And that is a near-universal strategy for loss.

### **The Architects of The Great Wall**

Very smart people designed and built The Great Wall of China. They knew what they were doing physically and intellectually, and also strategically. That’s why it worked.

Think of the Great Wall as your Circulation Plan. Your circulation strategy provides you with support and resistance; resistance from outside competitive assaults and support for customer growth within. It must conform to the lay of the land of the market you serve, moving solidly over known terrain with no weak spots or breaches in the defense. Only then will you obtain the best possible ‘response’ from the market.

The Chinese Emperors decreed that only the very best designers would be allowed to plan and build The Great Wall; in fact, they were members of the Imperial Court. The Emperors—being highly intelligent and strategically superior—knew that only the very best, most experienced and proven minds would produce a flawless and impenetrable defensive Wall. The Emperors knew the power of dedicated specialists. The results speak for themselves. The Wall is still standing. China has remained impervious for centuries. They ‘won.’

### **The Architects of The Circulation Plan**

It takes equally intelligent and smart people with great experience to design, build and maintain a circulation plan and strategy. It is still the most important thing you can do to assure you remain viable and *in* the market for acquiring new customers. Regardless of the channel, circulation strategy is at the center of success.

And yet, many of our direct marketing companies are allowing third party membership co-op vendors, such as Abacus, to be their primary designers and builders of their circulation plans. Read what Kevin Hillstrom has to say (reprinted with permission from [www.minethatdata.blogspot.com](http://www.minethatdata.blogspot.com)).

#### **Co-Ops and Dissatisfied Consumers?**

While the numbers vary, many catalogers allocate about half of customer acquisition circulation to co-ops (Abacus, Z-24, NextAction, I-Behavior, Circ Base, Prefer Network, Wiland Direct).

So if the cataloger allocates half of circulation to customer acquisition activities (customers who have never purchased from the brand), and half of the customer acquisition circulation is allocated to co-ops, then that means that co-op statisticians decide who receives one out of every four catalog mailings.

To be fair, this isn't dramatically different than cataloger practices in the early 1990s, when the Garnet Hill list might be rented by Newport News. In either case, customers received unsolicited mailings.

There is a subtle difference, however. Customers might have been tolerant of receiving catalogs from a "similar brand" ... the fundamental difference between Eddie Bauer and L.L. Bean isn't enough for the Eddie Bauer customer to get ticked-off when an L.L. Bean catalog arrives. However, the co-op statistician uses equations to decide who receives catalogs. And equations, while more precise and profitable than list rental/exchange models, will frequently target customers incorrectly.

If the co-op statistician notices that apparel customers have an "affinity" with another merchandise line, the statistician builds that information into the model. This might result in an increase in response rate, from 1.5% to 1.65%, a wonderful result for a cataloger. But it could also mean that twenty or thirty percent of the names mailed are "different."

It is in this twenty or thirty percent that problems occur. If the statistician gets

creative, there will be better response, but more "risks" are taken with the customers who are mailed. Co-ops may substitute "brand affinity," which customers might be tolerant of with "product affinity," which customers might not be tolerant of.

Is this the fault of the co-op? Does the co-op provide enough information for you to know who the co-op is mailing on your behalf? Do you provide enough oversight of the co-ops to know who they are mailing on your behalf? Did you pre-think how your customers might respond to knowing that you dumped their purchase information into multiple co-ops, so that they could be mailed complimentary offers by competing brands?

Kevin raises interesting questions. As we move into a time when new customer acquisition may be more important than it has ever been, are we abdicating our strategic as well as tactical strength to 'black box' models? Would the Emperors of China have outsourced the Great Wall to the Mongols, or worse, given over the responsibility for the design and construction to their least experienced architects and builders? Not if they really wanted to remain Emperor.

### **The 2008 Imperative**

I can find no strategic imperative more significant than being in the market to create new customers with new product offerings. The contrarian in me says, 'This is the time for expanding prospecting and giving the market more new product choices than anyone else.'

The contrarian in me says, 'This is the time for intelligent and experienced creation of a multichannel circulation and contact strategy that supports being in the market for building share.'

The contrarian in me says, 'Once more, into the breach! And while my strategic superiority has no breach, my competitors do have breaches. They have weakened their defenses by partially pulling out of the market. Since they are no longer "in" the market, I will double my efforts and take away their customers. In the next 3 years, I will emerge as Emperor of All!'

Go forth into this New Year and multiply!



## The First Quarter 2008 Economic Outlook

As of early January, the economic outlook continues to slip with disappointing holiday sales, a weaker dollar, overburdened debt, a negative Federal current account balance, a record-high Federal debt ceiling, high oil prices and ongoing global instability.

The now assured reasonable conclusion is that the first quarter will, indeed, be a bit sobering. One could almost envision a near-perfect storm gathering on the horizon. It is a daily reality that costs are increasing; equally, it is clear that credit is tightening. Those two influences will cause spending to decrease. Spending at the retail level creates seventy percent of the U.S. economy because we are a nation of consumers. Decreased spending will create lowered demand for goods. Lowered demand will create fewer jobs and, therefore, continued tightening in disposable income, leading to even less demand. And so the spiral begins. It is the long-feared cycle of stagflation that appears with regularity among the repetitive, historical economic cycles.

Of more concern to the multichannel direct marketing industry, however, are the rapidly conjoining problems of Do Not Mail, Do Not Track, Postage Costs, Privacy, Database Proliferation, "Black-Box" Prospect Mailing Selects, Environmental Activism, Carbon Footprints, Supply Chain Economics and Globalization. These problems could, in 2008, create a maelstrom of bad weather. However, regardless of the weather, you have to be in the market to prosper.

### *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 Seven (IL, IN, MI, WI, IA)  
Region Nine (MN, WI, ND, SD, MT, MI)  
Region Ten (KS, CO, MO, NE, NM, OK, WY)

### *Flat or Slower*

Region Three (PA, NJ, DE)  
Region Five (KY, MD, TN, VA, NC, SC)  
Region Six (GA, AL, FL, LA, MS, TN)  
Region Eight (MO, IL, IN, KY, TN, LA, AR)  
Region Eleven (TX, LA, NM)  
Region Twelve (CA, UT, AZ, NM, OR, WA)

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# **The First Quarter 2008**

## **Circulation and Prospecting Outlook and Recommendations**

### **Synopsis**

The short-term economic outlook for the catalog industry in the first quarter of 2008 remains relatively positive. The intermediate-term outlook remains positive for the first half of 2008 and the long-term outlook for the last half of 2008 remains positive. While positive, the outlook continues to show slower growth than that seen over the last three years. I will, at the beginning of the year, estimate economic growth at less than 3 percent for 2008, perhaps as slight as 1.5 percent. Within the multichannel direct marketing industry, I see, perhaps, 4 to 5 percent growth overall for 2008. Within the channels, I see overall catalog and mailing growth at the 3-4 percent level and overall online marketing growth at the 6-8 percent level.

### **Investment Prospecting**

As the new year begins, we recommend a far more intensive review and study of your investment prospecting plan for 2008 than normal. Here is our reasoning.

If history is any teacher, many direct marketers will experience economic and credit pressure during 2008. Most will decrease their marketing efforts or shift allocations to less expensive media, particularly online. This will result in a two- to three-year diminishment of the new customer files and a longer-term deterioration on profitability and growth.

Adopt a contrarian approach and find as much investment resources as possible to put into new customer acquisition in 2008. When your competitors are slowing, that is the time to increase market share through two primary strategic initiatives: 1) new product offerings; and 2) increased investment in new customer acquisition (investment prospecting).

Many of you have been my readers since my first newsletter in 1988. Over those 20 years, we have had four periods of economic slowing. In every one of those cycles, I have pleaded with you to expand product offerings and investment prospecting leading to greater new customer acquisition and market share during the downturn and after the coming recovery. Those who have followed that advice have done well; those who pulled back have not had comparable success and growth.

These are the normal cyclical periods of necessary contrary strategy. If you can take the pressure and operate as a forward-looking contrarian, capitalizing on opportunity, you will grow and prosper consistently over the long haul. If you cannot take the pressure, you will first expand during good times, then contract during difficult times; you will go ahead 2 and back 1.5, over and over. Meanwhile, your contrarian competitor who follows my advice will go ahead 2, then 1.5, then 1, then 2 again as the cycles continue to rotate. It is a *cyclical* economy and you must use a contra-cyclical strategy to maximize growth and market share.

And so, January, February and March are the months for an intense scrutiny of circulation planning, new customer budget allocation, database modeling, and product

development research. Call in your Trusted Advisors; obtain opinions and advice; share your position with those who can find ways to optimize your performance. Look at these strategic issues closer and with more intensity than you have done so in the past several years. It is on this effort that a great deal of your 2008-2011 growth, profitability and success will be determined.

### Nation at a Glance

We have revised our mailing recommendations slightly for the first half of 2008. We caution against decreasing prospecting or customer mailings except for normal hygiene and mailing frequency improvements. Do not fall into the trap of reducing mailings; the end result is always diminished customer acquisition performance. Changes are in **bold**.

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

Virginia Normal  
Washington Normal  
West Virginia—East Normal  
West Virginia—West Normal

Wisconsin—North Increase  
Wisconsin—South Increase  
Wyoming Normal

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