

# Libey Economic Outlook

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## Next Year

**Don Libey**

*September always brings the poignant realization that the current year is done. We have planned and executed the year's destiny, whatever it is to be. It is no longer in our hands, but in those of our data processors, our printers, our postal service, our product vendors, our fulfillment partners, and the political fools on the world stage who we somehow allow to determine the future. September is the month we begin thinking about the coming year; the month when we wonder how bold we can be, how the external influences are lining up, who is going to want to dig a bit deeper in our pockets. September is the month of warm days, yellow sunlight, the beginning of the harvest, the close of the seasonal cycle. It is a time for toting up and jotting down; a time for weighing in the balance; a quiet month for reflection, for hope or worry. What will the coming year bring . . . ?*

### **The Certainties**

#### **Growth**

One thing is for certain. The world of direct marketing will grow. It always does. Some years it grows a great deal; some not so much. But, it always grows and expands. It will do so again in 2009. Perhaps not as much as we wish, but it will grow. If I had to guess, I would say it will grow by five percent in total. If your business grows by five percent in 2009, you will likely be doing fairly well. There will be a few that shrink and a few that grow by twenty or twenty-five percent, but the bulk of our businesses will probably be in the five percent growth area. We are like tree rings. Some years the growing conditions are perfect and we put on a spurt of spectacular growth. Other years

there is drought and we grow only fitfully. The important thing is that we remain alive, take nourishment, put out leaves and create oxygen.

## **New Customers**

A second thing is certain. We will need new customers. That never changes. It is always the objective for each year. Without new customers we begin to shrivel and die. With new customers we grow. But new customers require investment prospecting. Without investment in new customer acquisition, we stop all growth processes. The difficult part is in knowing where to prospect, where to find new customers. Some tell us to use catalogs; some tell us online; some say search; some say telephones. It is certain you will waste money unless you know *exactly* where to prospect to obtain the most valuable customer possible. Most of us still don't know that critical part of the annual puzzle.

## **Talent**

It is certain you will need better talent. I have never known a September when I have sat and thought about the coming year and thought to myself, 'I need to cut back on talent and find some mediocre people this year.' Unless we are looking for and attracting better talent, we are banking with yesterday's skills on tomorrow's demands. That is a formula for failure. If there is one month a year that we should reflect on the quality of people leading our business forward, it is September. And it is the month that we must challenge ourselves to recruit people smarter, brighter and more experienced in today's direct marketing skills than we are. That humility and understanding of our own intellectual mortality is what defines a truly smart and successful leader. Pardon my candidness, but in all reality your business doesn't need any more "you;" it needs people smarter than you.

## **Increased Costs**

Next year will certainly be more expensive. Inflation is higher than it should be. Oil—while enjoying a post-July 4th momentary down blip—will once again increase and the cost of energy is a long-term escalating problem. The cost of money is likely going to go up because it is likely going to get quite scarce. The credit industry is in a many-year process of re-hanging its draperies. FedEx, UPS, postage, paper, products—the whole spectrum of commerce—is going to be more expensive in 2009. Count on it. Can you think of a single year in your entire business career where next year *wasn't* more expensive? That simply doesn't happen. Plus it's a post-election year and that means *everything* goes up because the smoke and mirrors are over!

## **Competitive Expansion**

It is certain that direct marketing, retail marketing, field sales force marketing, wholesale marketing, distributor marketing, affiliate marketing, and every other type of marketing will come closer and closer together. All this nonsense about "multichannel" simply means that the process of selling is rapidly becoming homogenized. You—as a cataloger—may have less *catalog* competition, but you will have more competition overall from all other types of marketers combined.

## **Analytic Depth**

Also certain is the need for far greater understanding of analytics. Let's clarify this a bit. I am deeply disturbed by all of the hype about channel behavior and customer quality per channel and other abstruse analyses. Before we go off the deep end in predictive analyses of customer behavior, perhaps we should deal with the basics of catalog analytics. The fact remains we don't know the source of customers about half the time; we don't even know old-fashioned key codes on about forty percent of the orders. We don't know our customer retention rate at most of our catalog companies. Three-quarters of our industry cannot even do simple RFM analysis and fewer and fewer "catalog marketers" know what square-inch analysis is or what it means. We are woefully behind the analytic curve, and far too many companies are attempting to do advanced behavioral analyses without being able to first tie their shoes. Most companies are still trying to figure out how to get different systems in different parts of the company to talk to each other. I am convinced that it is not a matter of needing *more* information; rather, I believe it is a matter of needing *better* information. If we were to take the baseline thirty-five cardinal metrics and produce accurate measurements that we fully understand and which reflect the precise truth of our business performance, we would be far better off than chasing a hundred different *ad hoc* analyses that are half-baked and malformed.

## **Relevant Products**

For 2009, in order to be more successful, it is certain that you will have to offer customers more products that solve more needs than you did in 2008. If you go to market next year with this year's products, you have a fool for a merchandiser. The market is not interested in old news or old loves. It is interested in What's New. Product is and remains king. Product demands an annual re-invention and re-deployment. Product is your reason for existence. Without constant re-fitting of the product line, in five years you will be irrelevant in the marketplace. If you examine the long history of commerce, the one constant is that products come and products go; products are not static, rather they are dynamic.

There are many more certainties that we could explore together, but for a nice, sunny day in September these are likely sufficient for our next year's thinking and cogitation. The certainties do, almost by definition, require us to deal with the basics of our businesses. In my experience, the basics are what I have to work on year after year. That recognition is a certainty by itself, and one that will always benefit your company and its ultimate valuation.

## **The Uncertainties**

### **Economy**

The uncertainties are a different matter altogether. These are not controllable. They are occasioned by external events which, most often, we cannot influence. The best we can hope for is that, by thoughtful anticipation, we can evolve alternatives and options for the short term in the event of uncertain occurrences.

The economy is uncertain. There is a 50-50 chance of it going either way. We may weather the economy and resume a slow recovery, or we may slip into a deeper

slump than we are presently experiencing. No one really knows. It is reasonable to expect that this large and reasonably strong national economy of ours is able to withstand shocks. Yet, we have had quite a number of fairly large shocks and there is a perceptible ‘wobble’ in the performance. It seems the logical thing is to manage cash well, maintain positive banking relationships, strengthen the basics of the business, invest in customer acquisition at a rate that is affordable and that does not place the company in jeopardy, control inventory cost, pare out inefficiencies, and utilize affordable technologies to advance sales. This is a selling environment; it is time to generate sales at the least possible cost, but generate them you must. It is not a time for pulling back or eliminating advertising. It is, however, for knowing more about the *effectiveness* and *profitability* of advertising and making the adjustments that produce the greatest amount of sales.

## **Inflation**

The longer term inflationary trend is uncertain. In the short term (two years), I am convinced inflation will be problematic; after that, it’s unclear. But, if we operate as if inflation will be significant, we probably will be better off than if we deny it. The thing that is very different from the last period of major inflationary pressure in the very early 1980s is the global nature of the underlying economics. There are too many people (world population) competing for too few resources (commodities) and that portends a long-term inflationary period that could have profound effects on the economies of the dominant financial nations of the world. Your primary decision in 2009 will be whether you can increase prices without losing market share to the low price competitors. Additionally, you will be faced with the constant requirement for removing cost from the supply chain. Those two concerns will take up a great deal of your time and energy.

## **Global Tensions**

On a very short term basis, there is some concern about potential escalation of U.S. wars. Afghanistan is not going away. Iran is a potential disaster waiting to happen. The Straights of Hormuz begin to figure heavily in our future energy outlook. These are, perhaps, more than uncertainties; these are true Wild Cards. They could, however, be very serious and exert an almost deterministic effect on our nation’s future.

## **Postage Increase**

Postage rates are uncertain. It is fair to say the U.S. Postal Service is faced with some very significant economic challenges; indeed, survival in its present form. As catalogers, our future is inextricably linked to what happens in Washington, and we all know that is a very unsavory reality. It is clear that postage will continue to increase and likely the maximum allowed under the Postal Reform regulations. Our best alternative is to aggressively support the American Catalog Mailers Association—and yes, with real *money* in substantial amounts. It’s the only organization that is dedicated only to *catalogers* and your place at the table.

## **Green and Privacy**

The Green Movement and the Privacy Movement are uncertain. I think it means less mail being requested and sent, but I have no idea what that means. Both of these influences are ‘activist’ in nature and that generally tends to mean ‘uncompromising’ and

‘special interest-driven’ without regard to economic realities. The chance of these two activist movements hurting your business is, in my humble estimation, greater than any benefit you might see. This is, in all candor, no different from the ‘no smoking’ activists or the ‘do not call’ activists. It is, pure and simple, activism with activist passions and that bodes unwell for you and your catalog business. To the activist, it is immaterial that you are part of a trillion dollar industry employing millions of people. Absent a sustained multi-million dollar annual public relations effort that convinces Americans that direct marketing is a benefit, we lose. And we have no organization to tell our story. Even hog farmers were willing to pony up the cash to convince America that pork is “The Other White Meat.”

There are clearly many more uncertainties in the world today. These, however, are enough to get us started. As I have said, there is little you can do about these possible influences. What you can do, though, is *think* about them and develop in your mind the strategic approaches you will take with your business if they, in fact, rear their ugly heads. Your ability to pre-think at leisure is the basis for making reasoned decisions during times of stress.

## **Credit**

The credit market is poised for additional slogging in 2009 and perhaps beyond. The availability of money is uncertain. One sees the interconnectedness of the various credit markets in the prophetic analyses of economist Nouriel Roubini: “Reckless people have deluded themselves that this was a subprime crisis. But we have problems with credit-card debt, student-loan debt, auto loans, commercial real estate loans, home-equity loans, corporate debt and loans that financed leveraged buyouts.” All of these forms of debt, he argues, suffer from some or all of the same traits that first surfaced in the housing market: shoddy underwriting, securitization, negligence on the part of the credit-rating agencies and lax government oversight. “We have a subprime financial system,” he said, “not a subprime mortgage market.” Regardless of Nourini’s prescience, the fact remains that the major problem for many direct marketers is undercapitalization, and access to money is going to become scarcer. That means the cost of money goes up.

## **The Positives**

### **Resilient Economy**

We have many positive things to be thankful for in our nation, our industry and in general. As always, there is good along with the troubling.

The economy is not as bad as the media would have you believe. Ours is a huge economy and it has experienced far greater difficulties and survived to grow larger and stronger. When you look at the very long term economic performance, you realize that we are, in almost all areas, at or near the top of our historical economic record. The reforms that are likely to emerge from the mortgage and credit crisis are likely good reforms. The reforms in the banking sector are, unquestionably, needed and a step in the right direction (of course, anything that reigns in bankers and lawyers is, by definition, positive. Now, if there was just some crisis so we could forthwith neuter and spay politicians, things would be much improved. It’s good to be H.L. Mencken).

## **Changing Direct Marketing Capabilities**

Our beloved direct marketing industry is evolving in a positive way. The list industry is becoming a fully-furnished marketing knowledge industry. Companies like MeritDirect are bringing together technology, database structures, high-power processing, professional expertise and experience and morphing into the oft-discussed Trusted Advisors for client companies to serve as consultants, third-party service providers, planners, executors, and analysts. Ultimately, I see alliances with the other logical Trusted Advisors for full-spectrum multichannel marketing services: the printers.

## **Global Demographics and Demand**

The world demographics are positive. Step away—if only for a brief glance—and see that the population of the U.S. will double in another fifty years and you begin to see the size of the market. Couple this with China and India—and with Europe—and you see an emerging global market demand for products that simply is beyond the potential for comprehension. Yes, there will be problems. But, there will be as many opportunities, as well. What I see as overwhelmingly positive is the opportunity for international expansion by savvy and efficient U.S. direct marketers. As I reach the last years of my long journey in direct marketing, I see ahead an unlimited and bright future for an industry that has a better way of going to market—no matter where it is located.

## **Thinning Competition**

While competitors become more homogenized in an economic environment like that seen for the next five years or more, giving the illusion of an increase in competition, competitors also become fewer. There is an inevitable purging that will take place in the next five years. The weak competitors, the undercapitalized, the strategically impoverished, the lazy and inefficient, and the just plain dumb competitors will disappear. Some will be acquired; some will liquidate; some will die on possession; but, the ranks of the weak will be thinned and that is positive for the strong. This is the natural cycle of business, a cycle that has reasserted itself constantly throughout the long span of commerce.

And so, those thoughts occur as September stretches out in the sun and we move on to another year, another challenge, another triumph, another revolution of the great wheel of the direct marketing season. *Bon chance!*

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***“Personalization, Benjamin – Personalization!”***

# The Fourth Quarter 2008 Economic Outlook

The economic outlook shows some small stabilizing in the fourth quarter as oil prices moderate somewhat. However, this is likely temporary; the fundamentals point to a resumption of energy inflation before the year ends, perhaps only after the endless election process. All regions of the country continue to remain in a generalized economic slowdown with little growth in GDP. Inflationary pressure related to energy and food continues to be a drag on economic performance and growth.

The credit/mortgage/housing difficulties continue to spread even deeper into the market with many families facing loss of their homes if jobs are lost due to the slowdown. The recent Freddie Mac and Fannie Mae debacle touches on half of the homes owned in the U.S. and has yet to be solved. Regional and local banks are beginning to post staggering drops in profits and there is more on the horizon. The banking and credit sector has gone 'subprime.'

The usual paralysis of the presidential election season increases as the national political conventions begin immediately after the Olympic focus. The unknown Wild Card continues to be the moribund administration's intent relative to Iran, and now Poland/Russia. A third warring front is not unlikely.

But, even with the continuing and perhaps deepening troubled economic outlook, the evidence is that the business-to-business multichannel and direct marketing industry performs reasonably well. Catalogers continue delivering a modest performance for the year with many companies now reporting between 4-6 percent revenue growth and reasonable growth in profits. Being in business-to-business continues to be the right sector. This is not the time to be in consumer marketing.

The winter budgets and circulation plans are done; again, some of you have ignored our advice on not cutting circulation; but, some of you have increased your prospecting and will be taking share from those who have cut back. Our recommendations to invest even now continue to signal our belief in the inherent strength of the direct marketing channels and our now two-and-a-half year long admonition to always invest in new customer acquisition, and particularly so in a period of difficult economic performance.

## ***Signs of Regional Stability or Status Quo***

None

## ***Flat or Slower***

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)

## The Fourth Quarter 2008 Circulation and Prospecting Recommendations

### Synopsis

The short-term economic outlook for the catalog industry in the fourth quarter of 2008 continues weakly positive. The intermediate-term outlook is now also weakly positive for the first and second quarters of 2008 and the long-term outlook for 2009 is weakly positive.

Within the direct marketing channels, I see overall catalog and mailing performance growth continuing at the 3-5 percent level and overall online marketing growth at the 5 percent level. If you are doing better, continue doing whatever it is you are doing.

The potential Worst Case that concerns me for early 2009 is the very real potential of a deepening deterioration of the regional banks, as well as the large banks. There is simply too much fundamental symptomology out there pointing to growing weakness.

### Investment Prospecting

For the fourth quarter of 2008 and the first quarter of 2009, we continue to encourage careful review of your investment prospecting plan and a strong recommendation to remain in the market for new customers. At this point, 2008 is over and the outcome is likely to be less than desired, but you cannot compete if you are out of the market. Continue doing the thorough, fact-based analyses of financial performance—under a variety of economic scenarios—for 2009 while attempting to remain as aggressively as possible in the market for new customer acquisitions, especially as the vulnerable competition weakens.

Looking ahead to the first quarter of 2009, I would suggest considering a modest expansion in prospecting and a solid contact strategy to the customer files.

### Nation at a Glance

Our recommendation continues for “Normal Mailings” nationwide. The Iowa, Louisiana and Mississippi mailing levels can, at long last, return to normal.

State	Mailings		
		California	Normal
		Colorado	Normal
Alabama	Normal	Connecticut	Normal
Alaska	Normal	Connecticut-Fairfld	Normal
Arizona	Normal	Delaware	Normal
Arkansas	Normal	District of Columbia	Normal

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

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