

# Libey Economic Outlook

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## **Financial Reality**

**Don Libey**

*We have seen an economic crisis and brinkmanship to a degree unique in our lifetimes. And it is global, another unprecedented, historic event. There is no guideline, no operating manual, no 'common knowledge' of how to deal with this emerging new economic model. We are in totally uncharted regions of the global economy. If ever there was a time for reality in our businesses, it is now.*

### **Tough Talk**

As you expect, I am going to speak candidly. For some, it will be painful; for others, it will be common sense; for all, it will be as close to reality as I can possibly make it.

For too long, we have put off knowing *exactly* what is going on in our business. Too many of us are not sure whether our business is doing fine, simply flat or slowing, dropping off the cliff, or collapsing. We don't know where the impairment may be. Is it in the new customer recruitment, the loyal 0-12 month customers, or is it the 13-36 month re-buyers who act as a forecasting bellwether for a gathering storm? What percentage is average order value dropping and what does that do to forecasts for the year? If shipped orders are off 8 percent and demand orders are down 12 percent, what does this mean on a cash flow basis for next month? To what extent are suppliers going out of business or slowing shipments to your warehouse because they don't have the products to ship because their lines of credit have been withdrawn? What if we had to pay cash in advance to obtain 60 percent of our imported products? And there are dozens of similar financial performance questions that require absolute knowledge *now*, if for no other reason than your bank is going to be asking these questions soon, if not already.

## Reality Numbers

When business is pressured, day-by-day information becomes critical to understand trends in advance of their becoming chaotic. If you are experiencing a shortfall in demand orders, is that shortfall accelerating, de-accelerating, or static? In which business, product and customer segments? Unless you know, you have no idea where the economic slowdown is taking your business.

Please, do yourself a huge favor. On a single sheet of paper, determine the daily vital signs you need to understand how the business is performing. This may require 10 numbers or 50 numbers, only you know. There are *cardinal* numbers, such as number of demand orders, numbers of orders cancelled, number of orders backlogged, number of orders shipped, number of orders billed, demand dollars booked, demand dollars shipped, demand dollars billed, and on and on and on. Get it all down to a daily report on one sheet of paper that you can actually look at and hold in your hand and carry around to talk with others about.

Make sure everyone understands the daily reporting numbers, agrees with their definition, agrees with who reports them, from what system, when and how. Four different interpretations of the same daily performance number is chaos, and chaos is what you are attempting to avoid. One number; one definition; one understanding; one value . . . for all.

Graph the daily results so you can visually see the trend over three days, three weeks, or three months. A line is 'more real' than a column of numbers. Most people understand pictures faster and clearer than they do abstract number values.

And begin getting people out of their silos and into a daily discussion—face to face and not email—about the daily report. Talk about what it shows, what it means, what the effects will be if it continues, and what needs to be done to improve or change the trends. In difficult times, companies need to communicate 100 percent more, and people need to cooperate and increase their trust of each other. This is what I call Three Musketeer Management—One for all and all for one.

## Leadership

As the CEO or Managing Director or Chairman or Owner, begin being decisive. Difficult economic times often mean reduction in staffing, cancellation of projects and planned spending, elimination of capital expenditures, travel and expense restrictions, freeze on new hiring, and other unpleasant changes to the plans of the business. When that occurs, it requires a firm and consistent hand on the management tiller. Now is not the time for making people happy or attempting to avoid confrontations. This is a time for action, and decisive action at that.

We have just seen how a lack of leadership in Washington has led us to the brink of disaster. Don't allow a similar lack of leadership to destroy your company. Employees want to know *exactly* where the walls are in difficult times. They require truth about their security. They deserve fairness and leadership 'best efforts' to preserve the business that employs them and feeds their families. Leadership cannot be done remotely, or via Outlook emails. Leadership is knowing, communicating, acting, and touching.

Leadership is measuring, questioning, understanding, and thinking. Leadership is gathering, reassuring, demanding, and ‘telling it like it really is.’ Leadership is doing things right, not doing right things. Leadership is being respected, not being liked. Leadership is focused and being present, not tangential and absent.

And, if it is your business, it is—after all—your money.

### **A Gathering of Eagles**

In economic crises such as the one we are experiencing, wise executives tend to gather the eagles around them. A flight of eagles is always better than a lone sparrow circling in the sky.

Skilled executives have a board of directors that has been gathered for just this reason; for a time such as this. Never has your business needed the collective wisdom of the ‘silverbacks’ as it does now. This is a time for the ‘tribal elders’ to focus a lifetime of success and business skill, and innate and inherent experience, on the very best outcome for your business that can be obtained.

Open yourself to observations, finding and recommendations. Listen to what the Trusted Advisors tell you. If they are good, they will be looking at the present and the future, the corporate valuation, the need for decisive action, the pure reasons for adjustments, cutbacks, and deviations from the strategic plan, and they will never allow emotion to cloud their strategic judgment.

You may benefit from having one or more of your Trusted Advisors work with you on a regular, perhaps even daily, basis. Eagles lend stability and a calming effect during a financial crisis. Eagles can reassure younger, less experienced employees and quietly scare the hell out of older slackers who are not pulling their weight. Eagles also are a sounding board for CEOs and owners and can challenge their judgments on a peer-to-peer basis, and that is exactly what is needed in periods of downturn and financial distress. Plus, executives need to talk through action steps, and eagles are essential to identifying all possible alternatives and ‘cause and effect’ outcomes prior to taking decisive action.

### **Money**

In times such as this, money is the scarcest of all commodities. The rule of thumb is that the banks won’t be your source of needed cash. Banks—as we are seeing—are dedicated to self-preservation and that means that they must eat their young. Your \$3 million credit facility is suddenly a liability. If you have not drawn it down entirely, it will be clawed back by whatever amount is open. If you have to give back \$2.4 million, you will only have \$600,000 for the immediate future. And you will never get the \$2.4 million back; in fact, you are likely to lose the remaining \$600,000 if you pay it down.

Being predators, banks will only give money to low risk customers who have the ability to pay back at a better rate of interest. If the Acme Direct Marketing Company needs \$3 million and Burlington Northern Railroad needs \$3 million, Acme is out of the running.

At the present time, it is impossible to forecast what will happen with the financial sector. It is unmapped. We have never been here before. However, it is logical to say that alternative sources of cash are likely to be essential. And, it is logical to say those sources are better identified sooner than later. It may well be that equity is what is at stake. It may be private lenders, or foreign lenders, or ‘angel’ investors. The point: Line up sources of cash now. Later could be too late.

## **Conclusion**

Difficult times call for decisive action. Decisive action is predicated upon four foundation elements:

1. Reality Numbers
2. Leadership
3. Trusted Advisors
4. Money

By taking action now to assure you are fully furnished in these four critical areas, you have a greater percentage chance of emerging from the economic downturn in far better condition than if you do not attend to these strategic imperatives.

There is every possibility that the next year or more will not be easy; however, it is also possible that you can mitigate the effects of the downturn to preserve more of your earnings and corporate valuation and to emerge in the years ahead with a higher valuation. That is, after all, the only objective we have. But, if you are in denial, hoping it will all ‘be better’ or choosing to deny the need for immediate, decisive action and leadership, then you are destined to be in deep financial trouble.

What I do not envision—even in the face of these unprecedented financial shocks—is collapse or implosion of our industry. Our businesses will be influenced and our performance will alter, but we are not going to disappear; the vast majority of us will continue to grow, albeit it at a slower rate. Yes, some will fade away, the victims of poor planning, undercapitalization, poor management or denial. But, the businesses that choose to survive will get tougher and will sharpen their operations. They will plug the leaks and wring out the ‘profit rag,’ collecting the very last drop of earnings. They will make hard choices and will prune. And—as with all prunings—the tree will spring back lusher, fuller, and larger, bursting with future new growth and vigor. It is good to prune. It is good to tend the vine. It is good to return to lean and efficient.

There are better years ahead. It will take time to reach them, and when you do, it must be as a stronger, more competitive, more focused business, having survived a time of uncertainty and economic hardship. That is what creates history and what creates wisdom. It is your time in the crucible and you will emerge stronger, tempered and true.

***You Will Go Forth; You Will Multiply***

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# The First Quarter 2009 Economic Outlook

The economic outlook in late October is precarious, to say the least. We are in the midst of an unprecedented global economic crisis. The conditions in the U.S., Europe, U.K., the Far East and Asia are extremely volatile and fluid.

At the base is housing in the U.S. and the U.K., bank stability and employment in Europe, and inflation and production upheavals in China. The outcome is likely an extended period of pressure and realignment of the global economies. I do not believe this is a one-year recovery; rather, it is likely a many year recovery.

Logic will tell you that the U.S. and U.K. housing markets are only fifty percent purged. The massive bailouts that have received such rave reviews have yet to deal with the valuations of the distressed housing stock that is represented by the failed mortgages. When the reality hits and those physical houses are revealed to have a worth of pennies on the dollar, the economic rescue package could tilt into chaos.

I am reminded of the investment adage “There are always three trips to the well” and we have seen but the first trip. The trillion dollar rescue doubtless will grow to the three trillion dollar level before the tide turns. Remember the savings and loan crisis; it cost three times the early estimate to resolve that banking debacle, and the taxpayer was on the hook then as now. The difference is that today’s debacle is global, and that makes the outlook precarious.

My perspective is different since I have been living in England. Here, the unemployment is soaring rapidly; the drop in valuations is more rapid; the slowdown in consumption more acute. The catalogues have individually begun to take significant action to adjust for the shortfall in orders. In the U.S., my clients and contacts are experiencing less of a shortfall in projected sales volumes; business-to-business is doing ‘okay’ if not great. Sales are beginning to slow, but there remains some hope (or delusion) that ‘things will work out.’ By late October, business seems to be up about 1-2 percent over last year and mailings and circulation plans seem to be fairly normal. Whether this continues remains to be seen.

When you read this, the elections will have been resolved and the sitting duck administration will be even lamer. But, there will—at long last—be a known outcome and direction. Barring surprises, this should lead to a resumption of the national course of events. History would offer hope for a positive turn to progress in solving our present debilitating problems; the national confidence should increase; and perhaps solutions will finally begin to be offered for the good of the nation rather than the enrichment of the special interests.

But, so much depends on the spending. As a business-to-business multichannel merchant, your company’s future is dependent (whether you want to believe it or not) on the spending at retail because it is fully seventy percent of the total U.S. economy. You have read my comment many times in the past that “If retail spending drops by fifteen percent, malls all across America will be shuttered.” We are at that point.

For many years, I have attempted to awake the direct marketing industry to the importance of economics to the strategic planning for growth, profitability and corporate valuation. This is the event for which that awakening has been attempted. Never before, and perhaps never again in your career, have you had to navigate such treacherous economic waters: lines of credit are in danger; credit insurance is becoming difficult to obtain; letters of credit on imports are being replaced with demands for pre-payments; overdraft facilities are being clawed back by banks; the cost of money is going up; and we all require immediate, sophisticated financial analyses that we too often don't understand and don't have.

Almost all of the common beliefs about direct marketing are called into question in difficult times like this. The essential question, however, is "what is *really* happening in our business?" A few actually know and can answer this, but most don't know. And that is a problem. Are loyal customers leaving? Are loyal customers reducing their spend? Are marginal customers gone or are they refreshing? Are average order values dropping in certain segments, or in all segments? And on and on. There are hundreds of questions that must be *known*—cold, if you are to navigate the economic trend that is battering your business. Absolute knowledge. Absolute analytic accuracy. Absolute strategic perspective. Absolute management navigation and firm hand on the tiller. That is what is needed—*Now*.

### ***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 First Quarter 2009 Circulation and Prospecting Recommendations**

### **Synopsis**

The short-term economic outlook for the catalog industry in the first quarter of 2009 has shifted from weakly positive to negative. The intermediate-term outlook is also negative for the first and second quarters of 2009 and the long-term outlook for 2009 remains weakly positive. This is the first shift in the short and intermediate term outlook in seven years.

Within the direct marketing channels, I see overall catalog and mailing performance growth trending to flat and overall online marketing growth at the 3 percent level. As stated previously, if you are doing better, continue doing more of whatever it is you are doing.

### **Investment Prospecting**

For 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. If AOV is dropping, make sure you recruit new customers. Assure more than ever that you are doing the thorough, fact-based analyses of financial performance—under a variety of economic scenarios—for 2009 while attempting to remain in the market for new customer acquisitions, especially as the vulnerable competition weakens further.

Looking ahead to the first quarter of 2009, I think results could be muted, but suggest stable prospecting and a stable contact strategy to the customer files. Evaluate all results in probing detail, list by list, segment by segment.

### **Nation at a Glance**

Our recommendation continues for “Normal Mailings” nationwide.

<b>State</b>	<b>Mailings</b>		
		Kentucky—West	Normal
		Louisiana—North	Normal
Alabama	Normal	Louisiana—South	Normal
Alaska	Normal	Maine	Normal
Arizona	Normal	Maryland	Normal
Arkansas	Normal	Massachusetts	Normal
California	Normal	Michigan	Normal
Colorado	Normal	Michigan—Up. Pen.	Normal
Connecticut	Normal	Minnesota	Normal
Connecticut-Fairfld	Normal	Mississippi—North	Normal
Delaware	Normal	Mississippi—South	Normal
District of Columbia	Normal	Missouri—North	Normal
Florida	Normal	Missouri—South	Normal
Georgia	Normal	Montana	Normal
Hawaii	Normal	Nebraska	Normal
Idaho	Normal	Nevada	Increase
Illinois—North	Normal	New Hampshire	Normal
Illinois—South	Normal	New Jersey—North	Normal
Indiana—North	Normal	New Jersey-South	Normal
Indiana—South	Normal	New Mexico—East	Normal
Iowa	Normal	New Mexico—West	Normal
Kansas	Normal	New York	Normal
Kentucky—East	Normal	North Carolina	Normal

North Dakota	Normal	Texas	Normal
Ohio	Normal	Utah	Normal
Oklahoma	Normal	Vermont	Normal
Oregon	Normal	Virgin Islands	Normal
Pennsylvania—East	Normal	Virginia	Normal
Pennsylvania—West	Normal	Washington	Normal
Puerto Rico	Normal	West Virginia—East	Normal
Rhode Island	Normal	West Virginia—West	Normal
South Carolina	Normal	Wisconsin—North	Normal
South Dakota	Normal	Wisconsin—South	Normal
Tennessee—East	Normal	Wyoming	Normal
Tennessee—West	Normal		

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