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Okay: You Have Heard All the Bad News . . . So Let's Get Happy!

Don Libey

Let's focus on some good news this month. I am not an advocate of denial or 'head-in-the-sand' approaches, but there is a lot to be said for positive thinking. After all, spring is coming and life is good in the sun.

Oil

The price of oil is down. In only a few months, the pressures on costs have been substantially lowered. And, these cost reductions will make their way through the economy in many, small incremental reductions over time. This is good for your business, good for your suppliers, good for consumers, and good for the economy in general. Whether the price cycle on oil returns to prior inflated levels is a partial function of demand and a partial function on market manipulation by traders and energy corporations; but, for now, the cycle has reversed from the levels of a year ago and we are all better for that reversal.

Direct Model

Our business model does not rely upon consumers, foot traffic, mall locations, retail locations, or huge amounts of inventory. Be thankful that you are a direct marketer having the ability to control the cost elements of doing business. You can expand or contract almost at a moment’s notice; not so for consumer retailers. When they were passing out business models, you chose Door B, and it turns out you were right.

Paper

Paper prices are declining and will likely continue to do so for some time. The logical extension of this drop in demand is that printing demand is also dropping. This means lower costs for catalogs. With the progress being made by the American Catalog Mailers Association, it is likely that postage costs may provide you with some relief, as well. Your largest marketing cost has moderated, and that is positive. It gives you a better opportunity to continue new customer acquisition via mailed catalogs.

Online Costs

Online marketing costs are moderating, as well. With pay-per-click demand dropping like a rock, the cost per click also drops. This allows you to selectively refine your programs and optimize for performance at a lower cost. Similarly, key word bids will drop and SEO will produce a better return on investment.

Outsourcing

Given the lack of demand for many services, third-party outsourcing may be a bargain and offer you a way to reduce staffing in a number of areas. Whether the outside purchases are photography, creative, fulfillment, call center, software as a service, website hosting, or any of dozens of other services, it is likely that the negotiation potential has never been more in your favor.

Interest Rates

Interest rates are low. The cost of money is less, even if it is scarce. For those of you with solid financials and reserves, you can negotiate better financial deals in this environment. Oddly, for those with no money and poor financial performance, the banks really don’t want your inventory and are likely more interested in working out an arrangement that assists you with a recovery and keeps you in business.

Willing Vendors

Your vendors—especially your Trusted Advisors—are more than willing to give you more and better service in their dedication to maintaining your business. Now is the time to ask them for the power and benefit of their innovative thinking and their creative solutions to your present needs. If ever the bond between you and your Trusted Advisors was to be strengthened, now is the time: You need each other.

Weak Competitors

Your weak competition and many of the irritating net gnats are disappearing. This frees up market share and helps you recruit new or returning customers. If you have money, invest in the customer lists of competitors who go out of business. If nothing more than keeping *another* competitor from obtaining the lists, it is a good strategy. If your niche has five major players and you absorb the customers of two, you could grow by twenty-five percent—or more—and wind up with a much larger portion of the pond.

Data Advantage

We direct marketers have the distinct advantage of knowing almost everything we wish to know about our customers. Most retailers don't even know the names of their customers who walk through the door. We have more data than we can possibly analyze; retailers have almost none. I continue in absolute awe of my supermarket chain which works on four percent and hasn't a clue who I am or what I buy. How smart you were in choosing Briefcase 7 after choosing Door B.

Sales

The current economic period is an excellent time to come to grips with the basics of selling. Get real. Online sales are less than ten percent of *all* sales. Ninety percent of sales are *offline*. Re-deploy some of the money you have been spending trying to be web cutting-edge. Get back to prospecting, to new customer recruitment by mail; maybe this is a perfect time to take on a few good field sales people who have been let go by your competitors. They will never cost you less and they are hungry. There is nothing wrong with a carefully controlled field sales force. If they can pay their way, they create incremental sales, and that is good. And, unlike a lot of PPC, SEO, affiliates, and email, it is trackable and measureable. That is what we do best: Track and measure; adjust; track and measure; adjust; track and measure; adjust.

Shipping

Shippers—UPS, FedEx, freight haulers, consolidators—the whole shipping matrix—are experiencing a drop in demand. That means there is an opportunity to strengthen your position relative to your shipping contracts and rates. For those of you doing $100 million a year or more, imagine what a $.25 improvement on each order could mean for your bottom line. For those doing less, imagine what $.50 an order could do for you. The point: You won't get it unless you negotiate for it, and the time is now when the advantage has moved back to your side of the table.

People

This is an opportunity for compassion. If you are able to offer your employees some security, you will gain a great deal of respect and, perhaps, loyalty. In past economic recessions, I have observed those owners who were compassionate and did everything they could to maintain the employment security of their employees emerge with far more dedicated organizations. It is a very difficult call. You have to reduce employees to survive in some instances, but the effects are difficult. However, these tough times are crucibles of training and the outcomes are either positive or negative, and the way employees are treated can have lasting and important meaning for the corporate history.

Re-Set the Values

If you think of this recession—and it is historic—not as an end but simply as the pushing of the re-set button, you begin to see it for the opportunity it really is. After the economy has been re-set, all the values will be lower giving us more room to grow. I believe most of our businesses will be smaller, tighter, leaner and more focused on what we do well. Our inventory will be smaller and cleaner; our employees fewer perhaps but more productive and focused; our projects fewer and more relevant to our core business; our vision less expansive but more precise; our marketplace less populated by competition and having future market share for development; our systems, analytics and metrics finally nailed down, integrated and useful; and our fulfillment processes streamlined and more efficient. We have needed to push the re-set button for a number of years; finally, the economy forced us to do so, and the result is positive.

Taking Back Our Industry

Our industry may emerge from this recession—and this tectonic upheaval to the financial industry—back in charge of our own destiny. For too long, we have been under the sway of private equity groups, hedge funds, and quick buck investors who had only the "buy-spin-profit" motive. When this is over, I believe we will have a long period of private ownership returning to our small business-to-business direct marketing universe. I believe that corporate valuations will return to those long-cycle norms of five times earnings, not the nine, ten, fifteen and nineteen times that were emblematic of the excesses of private equity deals in 2002-2006. We do better when our catalog and direct marketing companies are owned by individuals and closely-held corporations; we deteriorate, as all things do, when our businesses are hosts for financial parasites and stock analysts.

Enjoyment

And, when it is all over and life returns to new halcyon days, I think it will once again be fun to be in business, leading a company, being innovative and building something of value. I think our businesses will once again be realistic. Growth will be a steady, quiet and stress-free two or three percent a year, not the high-wire act of fifteen and twenty percent demanded by some artificial measurement of success dictated by the Gordon Gekko's of the investment world. We will see the rebirth of a smaller and more realistic direct marketing industry that rewards us for excellence not risk.

Optimism

And so, there are a lot of good things happening in the direct marketing world, things we don't think about too often. There are positive changes emerging from these difficult times; once-in-a-career opportunities that will present themselves; and new directions that we will be in a better position to take than our cousins in retail. As with all recessions we have come through, it will be behind us and the future will be new. That is good.

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Thoughts Looking From My Window

A few thoughts that you may want to consider yourself . . .

Too Complex to Profit From

I've just spent three months in full emersion in the online world of direct marketing. This is nothing new; I have been involved in online marketing since 1994. After spending ten hours a day for three months working with a staff of fifteen people evaluating the performance and profitability, as well as the quality, of a large online undertaking, I have come away with a far more realistic view of the future of direct marketing. It's just getting all too complex.

You begin to question the viability of paying for clicks, keywords, email conversions, and all the minutia of the online world when you realize that there are many third parties parasitically living off of your $.08 events. When I fully cost the online staff and infrastructure against the returns, 80 percent of this stuff will never turn a profit of any meaningful size.

And that revelation led to me sit down in my favorite chair, look out over the cornfields, watch the Canada geese for the last three weeks, and think.

The Thoughts

Humans are driven, Darwinian, by the need to survive. Essentially, we do whatever it takes to eat and breed. Our lives are really nothing more than a quest for heat: caloric heat from food; radiant heat from clothing and shelter; and emotional heat from the drive to reproduce (for a much deeper discussion of this, see my 1991 book, *Libey On Customers*).

Suddenly, over the past decade, we have become addicted to the online world. We have also become connected to technology in ways that are unprecedented in our history.

We are beginning to erode our ability to seek the three types of heat as a result of our connectedness. That is an imbalance, and Nature corrects imbalances.

The recession will, it seems to me, cause a meaningful disconnect from many of the complexities of the connected, addicted-to-information life we are leading. We will, as a species, seek simplicity.

During this three-week period of introspection, I cancelled my Blackberry account, my land line telephone, my US Cellular cell phone, my Twitter, FaceBook, Plaxo, and other “social media” accounts, and have begun to revel in unavailability. I purchased a pay-as-you-go cell phone that does one thing well: places and receives telephone calls for less than $15 a month. I shed some $400 in monthly “connectedness” costs.

It would appear I am not alone and I am not just a weird, old guy. Others seem to be doing the same thing. Droves of people are canceling their cable TV subscriptions and simply hooking their laptops to a wide-screen panel, taking only what they want when they want it from the web; one connection in place of two or three; control of content over the banality of the ‘connected’ broadcast and cable garbage programming. We are choosing simpler, higher quality alternatives at lower costs. We are freeing up ‘connected’ time to enjoy caloric, radiant and emotional sources heat and survival.

The Take-Aways

What I take away from my sojourn in the cornfields with the geese is the following:

1. Keep it simple. A good transactional website doing the basics is probably what you need. All the other stuff is unprofitable and distracting. Breed, raise goslings, eat, migrate, and repeat.

2. Have a catalog, phone and website, all done well. Three or four goslings protected by adults to join the flock and return.

3. Spend time on *selling* rather than preparing to sell. Build nests, hatch eggs, rather than flying around looking for better ponds.

4. Unclutter your business and concentrate on what makes the most money. Eat left-over corn from harvested fields, green weeds from ponds.

5. Do a few things exceptionally well. Fly, swim, breed, and eat.

5. Stop being seduced by technological minutia; start getting excited by your *business* instead of your channels. Be a Canada goose, not a Toucan.

The Wisdom of Geese

My time at my window tells me these geese have figured out survival. They mate in their second year and stay together for their entire lives, about 20 years. They return to the exact patch of water they were born on (like salmon) their entire lives, and raise their goslings on that water, generation after generation. They work in a community of common objectives, helping each other. After breeding, they concentrate on finding radiant heat (migration or latitude) and spend the rest of their time eating. They are connected only by their distinct calls, the male's lower and rising at the end; the female's softer and steady. They have successfully spread all over the world because they know it's a numbers game and they stick to the basics.

One can find such promise looking out of a window.

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An Experiment

If you have been a reader since the beginning, this is you ninth year. If you were a reader of my earlier newsletter, this is your twentieth year. In all those years, I have received hundreds of comments from you on the content, but not a single comment on the economic analyses. So, while you may not have noticed, I am changing the title to **Libey Multichannel Advisor** ***and I am replacing the economic information with content on merchandising and other topics. Let's see what you have to say.***

Merchandising in the Next Cycle

Product selection, breadth and depth are about to be transformed by the economic re-set button. When we come to the end of this recession—this global recession—the basic concepts of product merchandising are likely to be very different from those of the first decade of this century.

We are leaving an era where we thought of products as infinite; that is, the long tail idea that we can offer anything and everything and the online channel can absorb an infinite number of products. While theoretically true, the costs of maintaining product content, display and tracking, as well as large numbers of drop-shipping vendors and their marginal relationships, make this a past strategy of the "Era of Excess" we are now exiting. With the economic re-set button pushed comes an inevitable era of focus and efficiency. The discipline of merchandising will adjust to this new scrutiny.

Begin with the concept of consumption. It is inevitable that consumption will decrease in the U.S. and in most of the developed nations of the world. Manufacturers will, by necessity, pare down the number and varieties of products they make. Where a plastics manufacturer offered 20 storage bin sizes in 15 colors, they will now offer five sizes in five colors. The mantra “Make Do With Less” replaces “Have It Your Way.”

Shrinking the number of choices raises the margins for manufacturers as it costs less to make and inventory fewer products. The matter of demand, however, could be a variable. Will demand shrink, or will demand accept substitutes at the same rate? I believe demand will shrink, and the manufacturer will either be content with being smaller, or will expand into other related product markets, or will find ways to sell more of fewer product choices. You have the same choices to make.

Regardless, the business-to-business merchant will perhaps have only 25 percent of the products available as were previously available for sale. This translates to 75 percent less online storage capacity, 75 percent less photographic images, 75 percent less written content, and similar reductions in catalog content, space, paper and production and mailing costs.

Given our example above, the question then becomes, “Which five storage bins and what colors?” The answer, of course, is found in sales analyses. However, merchandisers may need to do ‘substitution analyses’ in order to get the right answer. If a product is removed, what other product receives the bulk of the substitution buying? It may or may not be the next size up or down; in fact, it may *always* be the next size up or the next size down. Consider this example:

> If the 10 gallon size is eliminated, will more customers buy the 25 gallon or the 5 gallon product? It all depends on what they are storing and what the master carton or barrel size is of the product they are storing. If the liquid originally comes in 55 gallon drums, the 5 gallon may be acceptable, but the 25 gallon is not due to weight and portability. This is where the product understanding of the merchandisers must be flawless. Make an error in judgment and you now have 150 containers for 25 gallons that no one wants and no 5 gallon containers that everyone wants.

Here is the merchandising exercise that must be understood *before* the shrinking begins, as it absolutely will. You now have 6,000 SKUs in your inventory. Which 3,000 SKUs are your core and acceptable substitute products?

We all need two inventory listings: 1) the inventory we have; and 2) the inventory we *need*. The inventory you need is that which will sustain your customers’ purchasing while meeting the shrinkage in available products and the need for improved margin. But, you have to logically determine that inventory through analysis and ‘art’ well in advance of the coming age of Make Do With Less.

Another 101 Annoying Questions from Libey:

"When the Going Gets Tough . . . the Tough Get Thinking"

Here is the product of an hour or two of thought. There is no particular order or importance, only the potential of a "Whoa . . ." moment.

1. If fewer companies want to buy my stuff, what should I be selling instead?

2. Where are my new customers coming from? Why?

3. Is my inventory to drop ship ratio optimal?

4. Should I inventory only the 20 percent of the products that produce 80 percent of the profits and drop ship the rest?

5. If I have to cut 30 percent of the employees, do I know *now* who goes and who stays, or will I be caught in the emotional wishy-washy of "maybe it will get better and I won't have to do this?"

6. If I hired field sales people, could they be immediately accretive to profits?

7. What are my alternatives if credit insurance is revoked for my imported products?

8. Have we projected the impact on our performance due to China's manufacturing problems over the next two years?

9. How do I reduce warehouse space by half?

10. How do I use the same warehouse space to move twice the volume of inventory?

11. I have $25,000 to invest. Where will I get the greatest return in the shortest period of time?

12. Do I invest in new customers or new productivity?

13. Have I gotten serious about profitability? If I used cost accounting and apportioned fixed expenses against all marketing activities, what would *really* be profitable?

14. Why am I doing the other stuff, then?

15. Before it was purchased, EMEDCO was legendary for its 30 percent EBIT and the frugality of its two owners. They took turns every night turning off lights and turning down thermostats. What am I doing in the 'frugal' department?

16. Frugal is good; cheap is bad. Which am I?

17. If I sat down and really *thought*, could I come up with two realistic ideas that could produce an additional $500,000 in earnings? Why don't I do that, then?

18. What if I did #17 with my top three managers?

19. When did I ever ask my Trusted Advisors to look at my financials and help me find 5 percent more sales and 5 percent more earnings?

20. If I do that—and they come through—would I split the profits with them?

21. Am I just constantly chasing operating systems and really getting nowhere? Does the expense ever stop?

22. What hard, proved, profits have come from Mercado (or its ilk), CoreMetrics (or similar), or any of the other 'bolt-on must-haves' for online performance?

23. So, when I get right down to it, is 90 percent of all the activity around here spent in actually selling stuff, or is it spent in *preparing* to sell stuff?

24. What is my requirement for a satisfactory return on my money in my business for a new product, an old product, a new market segment, a new product line, a new business?

25. Why don't I know that? How can anyone else be required to produce what I don't know?

26. Is my line of credit for the coming 12 months secure? Do I have it in writing from the bank?

27. What are my financing alternatives? Have these been pre-staged and pre-arranged and pre-cleared? Why not?

28. Okay, so I have a few dollars, and we're doing okay . . . What company would I specifically want to buy if the opportunity comes up?

29. Have I prepared that ground?

30. In this economy, is my company prey or predator?

31. Has anyone shown me the *actual, proven* profitability for pay-per-click, affiliates, adword, social media, and all the other micro-stuff? Is it accounted for in the same way as catalogs or any other marketing effort? Is it accurate? How do I know that?

32. Should I hire *really* talented people or just keep the drones?

33. If I stop BSing myself, how much inventory is dead?

34. Why don't I have someone who will actually challenge *me*?

35. I need a new add-on product line and market concentration. What are they?

36. What's the game plan for the economic downturn? Does anybody know?

37. How much is AOV off?

38. How can I save $.50 per cost of an order?

39. What if I adjusted the "sweet spot" between quantity and price? How can I force a better margin through price/quantity manipulation?

40. I hear there are a lot of companies that are not even bar-coded. How can that be in 2009?

41. Any chance of raising prices this year?

42. Am I one of the strong competitors who can set the direction in this economy, or am I one of the weak competitors who has to follow?

43. What is saving us?

44. What is killing us?

45. What are we doing about both?

46. After all the excuses, why do we still not have the metrics we need to properly manage this business and my resources?

47. Is this the time for internal managing or outsourcing?

48. If I could earn the same or more by cutting the company to 50 percent of its present size, why would I not do that, or why would I do that?

49. Since the "corporate value curve" is now sloping downward and I missed the "sale window" of 2003-2007, how much longer before I can expect to obtain the value for my business that I want?

50. What are the alternatives to full-time, full salary staffing?

51. If I did nothing for the next three years except recruit new customers and find good products to sell them, what have I got to lose?

52. What is *really* going on with email marketing? Has anyone in the business turned this into a tight discipline like cataloging?

53. What's wrong with outbound telemarketing?

54. Why isn't our outbound telemarketing better?

55. Okay—honestly—I've got, what, two competent senior managers and three who don't produce? What am I going to do about that?

56. Why should I or why shouldn't I ask the senior managers to voluntarily reduce their salaries by 10 percent?

57. What have I done this month to maintain and manage employee morale?

58. Why have we still not found the 15 percent of our catalog circulation that is not productive and does not improve our business?

59. Why is Abacus performance deteriorating?

60. Why am I abdicating circulation control and design to a mega 'Black Box' with little vested interest in our profitability?

61. Have we done the optimal page count to postage calculation?

62. If I reduce pages or increase pages in this economy, what are the financial facts that result?

63. Does paper weight, brightness and quality matter anymore?

64. Is there any advantage in this economy of spending money on improving photography, design, copy or other creative elements, or should we just mail what we've got and keep costs low?

65. It all comes down to sales. What are we *doing* about sales? What 3 things have we done in the last few months to assure sales in the first half of 2009 increase?

66. Have I finished the top three priorities from 2008? What still needs to be done? Why isn't it done?

67. Should I ask for a top-to-bottom review of our entire package shipping routines? If I spend the time, are there savings to be made in shipping and with shippers? Can I get $.50 per order reduction in shipping costs?

68. What is today's customer definition of fast delivery? Can I add a day or two and save some money without damaging my customers' expectations?

69. For my buyers and merchandisers, would they get any benefit from a proven inventory forecasting system, and would I get a quick return on my money?

70. If there is a 5-7 percent increase in postage in 2009, what will this mean for my earnings this year? What can I do to offset that cost?

71. Co-mailing is becoming more sophisticated and widespread. Why not look at it as a cost benefit rather than a convenience/mail date problem?

72. Libey uses a sophisticated forensic protocol for discovering “leaks” in profits. Have I been through every nook and cranny of the company and plugged <u>all</u> of the leaks in the hull?

73. Is my board of directors real or imagined? Or are we avoiding the issue by having a “Board of Advisors” that is just there for appearances?

74. If I cannot reliably source products from the Far East (or other overseas locations), what are my alternatives?

75. This economy and the product supply chain almost demand adding six months to a year more to the process. How are we managing that extension of buying and product supply?

76. The latest example of what happens when you cut catalog mailings dramatically is L.L. Bean. They’re in trouble and so is everyone else who took that route over the last two years. Is there <u>any</u> sense whatsoever to cutting back on circulation and on new customer acquisition?

77. The bulk of improved performance is found in the fine-tuning of details. Have we achieved 20 percent of the needed fine-tuning, or 30 percent, or 60 percent, or 90 percent? What is the plan? Who is managing that?

78. Is my CFO a change-agent for improvement or a builder of barriers?

79. Is my call center performing at peak efficiency? Is it managed by metrics or cup cakes?

80. Does anyone know how to use <u>all</u> of the ACD system and is it programmed to the level of sophistication that we are learning everything we need to know about our call center effectiveness?

81. When I look at our business requirements and our operating system, am I getting 60 percent of potential integrated efficiency, or 70 percent, or 50 percent?

82. Do I have a plan for health care insurance costs that balances the responsibility of the employee and the company?

83. Does my niche industry (office products, safety products, food producer products, health care supplies, whatever) have a positive outlook in the future for sales growth, gross margins, and scalability, or am I kidding myself?

84. When we emerge from this downturn, what will we rely on for growth: acquisitions; market share growth; customer penetration; new markets; new product lines; or international expansion?

85. What should I be doing right now to be ready for that growth strategy?

86. Do I need to bring in someone with more talent to run this business? Can I?

87. Is there any logic to a vertical integration strategy, and should I consider buying a supplier or two?

88. Why not launch a clearance catalog and website under another name?

89. In this difficult time, how do I avoid employee staleness and how do I infuse the business with smart, talented people, especially when relocating is difficult?

90. Is it time to think about multiple distribution sites? Can I avoid getting closer to my customers?

91. There are over 350,000 small businesses closed or closing in 2008-2009. How do we clean our house list?

92. Can we afford our present facility for the next five years at our projected financial performance?

93. In my niche, are there five competitors that may be a potential roll-up for an investment group? Should I worry or should I join them? Consolidation is a given.

94. Am I doing enough testing of mail/don't mail to segments of the house to learn what my "Natural Demand" is?

95. I *have* to do three things in 2009 . . . those are:

96. Do I have the ability to re-budget and re-forecast monthly if necessary?

97. How can I get information on where we are faster?

98. What co-operative arrangements should I work out with my top suppliers?

99. In this economy, what is my primary weakness?

100. In this economy, what is my primary strength?

101. I think __________________ is the most important thing in the next 2-3 years. What do the rest of the people here think it is?

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