How Our Choices Influence The Future

Kevin Hillstrom
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1995: Catalogs On Top Of The World

E-Commerce At Eddie Bauer: 1996

1996: Eddie Bauer
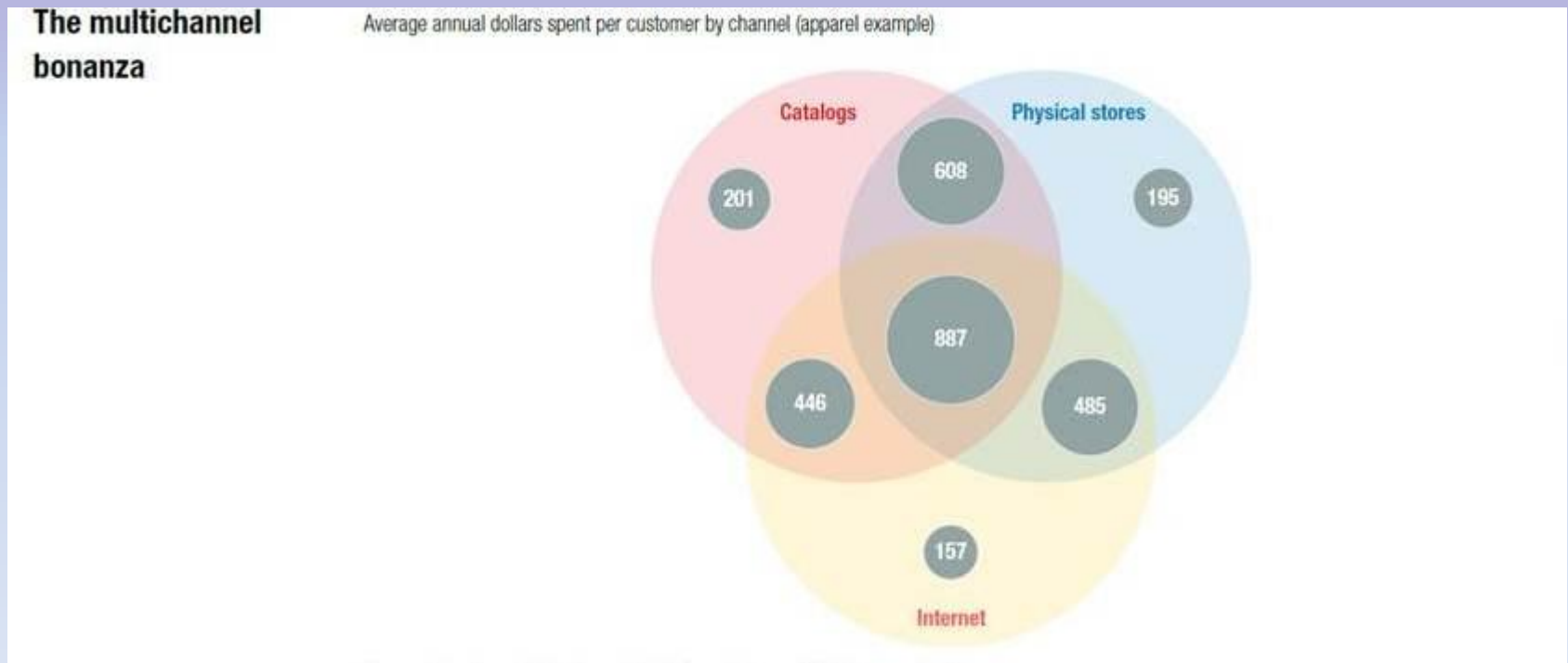
Billion Dollar Business

Thriving Stores

Thriving Catalog

$1,000,000 Annual E-Commerce Volume

Derision from Marketing Leadership … "*Did you get six or seven orders today? Six? You missed forecast by 14%, let's try to do better*."

2001: The Worst Advice We Ever Got

We chose to believe that customers who bought from multiple channels spent more. We chose wrong. If the thesis were true, then all of our businesses would have grown exponentially. The query failed us, because the query was highly biased.

The multichannel bonanza

Average annual dollars spent per customer by channel (apparel example)

Then We Botched Our Matchback Logic

The multi-channel query led catalogers and vendors to create matchbacks ... matchbacks grossly overstated catalog effectiveness.

Mail / Holdout Test Results	Mail	Phone	Online	Total
Mailed Segment	$0.25	$1.50	$1.50	$3.25
Holdout Segment	$0.00	$0.30	$0.75	$1.05
Lift	$0.25	$1.20	$0.75	$2.20
Matchback Demand per Book =			$3.25	
True Lift / Demand per Book =			$2.20	
Overstatement Factor			47.7%	

Overstated Demand = Overmailing Customers

Matchbacks tell us that $2.50 per book or $2.00 per book works!! Reality (mail/holdouts) show us we are actually losing profit. The lost profit opportunity means we cannot invest for growth elsewhere.

Mailing Decisions	Matchback Results		Mail/Holdout Results	
Demand	$2.50	$2.00	$1.69	$1.35
Net Sales	$2.18	$1.74	$1.47	$1.18
Gross Margin	$1.31	$1.04	$0.88	$0.71
Less Ad Cost	$0.75	$0.75	$0.75	$0.75
Less Ship Exp.	$0.22	$0.17	$0.15	$0.12
Variable Profit	$0.34	$0.12	($0.01)	($0.16)

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2000 – 2005 = Short-Term Choices, Long-Term ?

We chose multichannel tactics over earned business growth.

We chose co-ops over list organizations.

We chose to use the website as an order form and not as a demand generation channel.

We chose to listen to vendors, researchers, trade journalists, and consultants, when we should have listened to <u>our customers</u> and <u>our merchandise assortment</u>.

We chose to market to our core customer base when we should have chosen to grow via customer acquisition.

2005 – 2010: Outsiders Flee Catalogers

Catalog Age Becomes Multichannel Merchant.

Walter Karl, Edith Roman, Rubin Response, Millard, Mokrynski-Direct, American Church Lists, Jami, Direct Media all folded into infoGroup / InfoUSA – the utter collapse of an industry – and the beginning of a dramatic brain drain in the catalog industry.

The final Catalog Conference was held in New Orleans in 2009.

Co-Ops dominate prospecting efforts for catalogers, at a time when online marketers learned how to use online marketing to acquire customers. The reliance on co-ops results in an acceleration of a customer demographic feedback look, a feedback loop that greatly spills over into customer merchandise preferences.

2005 - 2010: The Feedback Loop Accelerates

The feedback loop is this:

1. We get cheap names from the co-ops.
2. Co-ops model "success" ... the names buying are 55+, they like merchandise Baby Boomers like.
3. Amazon doesn't contribute names, causing the co-op pool of names to age.
4. Aged co-op names prefer Baby Boomer merch – causing catalogers to alter their merchandise assortment.

Recent Co-Op Names From Matchbacks

Catalog Marketing, Online Support

Merchandise Loved By 62 Year Olds

Read Catalog, Buy Online

Matchbacks Show Catalogs Work
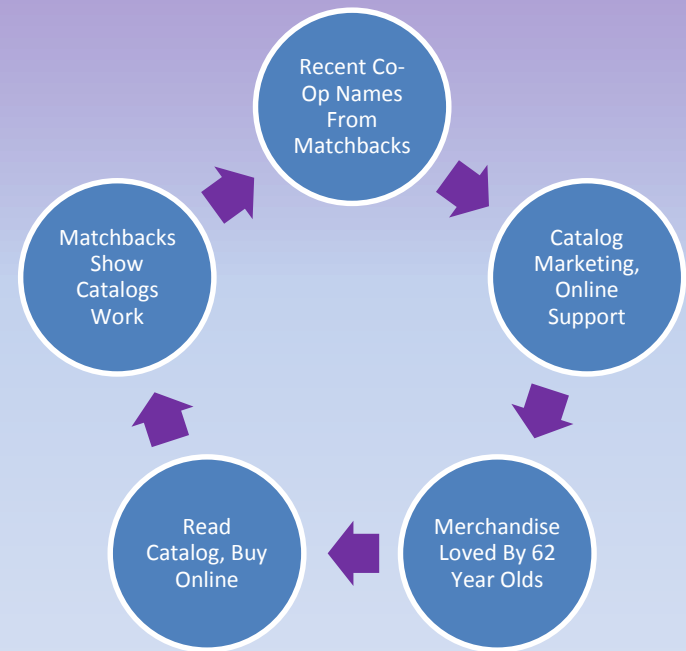
2010 – 2015: Stuck In The Feedback Loop

Catalogers are now locked-in to the feedback loop.

The "best practices" and "pro tips" that promised success in 2005 led to major problems in 2015. We chose a path – now we have to deal with the consequences.

Countless "multi-channel" and current day "omnichannel" businesses failed after adhering to industry-leading advice.

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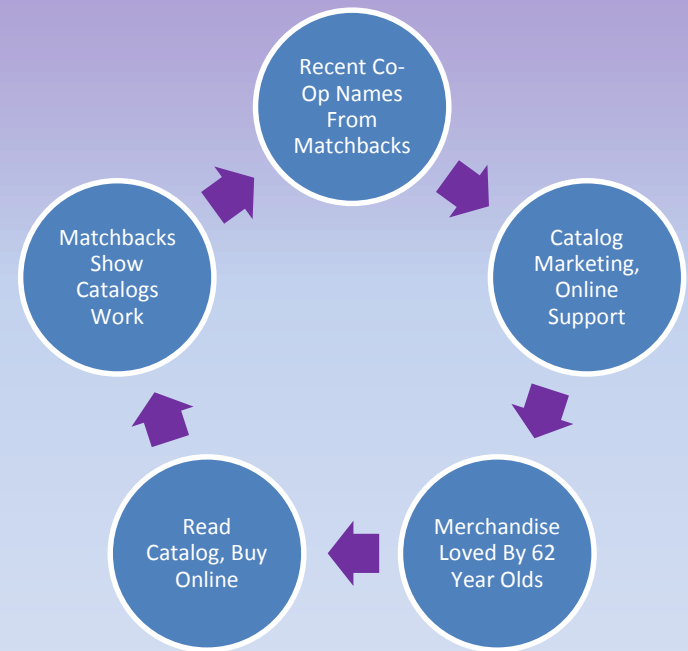
The Experts Are Wrong … Often … Me Included!

Compare 2006 to 2014

Coldwater Creek – A 2006 Success Story

"Coldwater Creek is an example of company that has benefited greatly from going public. The women's apparel retailer blossomed from $116 million in sales in 1996 to $1.1 billion in 2006. Interestingly enough, much of Coldwater Creek's growth can be attributed to the capital it raised through its IPO and its decision to move to become a multichannel merchant. **Coldwater was able to transform itself from the once solely catalog based merchant into a much more quickly growing multichannel merchant with storefront locations and a successful online store***. The company experienced a 33% increase in internet net sales in fiscal 2006.* **With internet sales steadily increasing and catalog sales decreasing over the past five years***, Coldwater Creek has launched several successful marketing campaigns to bolster internet sales.* **Coldwater's user friendly, attractive, and constantly updated website has allowed for the company to continue its growth via the internet***. Coldwater Creek's transformation demonstrates one company's successful IPO and willingness to adjust to an evolving market,* **moving beyond a traditional direct mail cataloger to embrace the power of e-commerce***."*

http://www.tullyandholland.com/t-h-publications-page/items/changing-times-for-direct-marketers.html

Coldwater Creek – 2014 = Bankrupt

*"Coldwater Creek's bankruptcy is not a harbinger of anything, nor is it a one-off. There are more reasons for a specialty retailer to fail than there are to succeed: **inability to keep up with the fast-changing fashion scene**, poor locations, weather, **a lousy website** and, of course, **very stiff competition**. Coldwater Creek is just another victim of what was once a [successful business](#) model that management didn't move fast enough to change. That story will repeat itself several more times in the months and years ahead."*

http://247wallst.com/retail/2014/04/12/coldwater-creek-bankruptcy-is-not-a-canary-in-the-coal-mine/

Turns out that the experts were not right about Coldwater Creek. The very dynamics that seemed to guarantee success sunk the business.

If Multichannel Worked, Then ……………….. ???

Orchard Brands	Loehmann's
Blockbuster	Linens' n Things
Oriental Trading Company	Mervyns
Coldwater Creek	Alco Stores
Love Culture	G.I. Joes
Bombay Co.	Delia's
The Sharper Image	Brookstone
Red Envelope	Dots LLC
Harry and David	Gottschalks
Burpee Holding Co.	Deb Shops
Foster & Gallagher	Silver Jeans
Borders	Betsey Johnson
Circuit City	Filene's Basement
Radio Shack	SkyMall
Eddie Bauer	

Why Doesn't This Stuff Work?

We Misunderstand The Interaction Between Merchandise And Demographics.

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A Quote From A Former Co-Op Executive

"We are essentially recycling the same 10,000,000 customers who purchase from catalogers 0-3 every three months. These customers are generally age 55 and older, and they prefer to purchase over the telephone or via online catalog matchback. That's what we do."

A Quote From A Catalog Executive

"I run a nine figure business. That's a big business. I asked my primary co-op to calculate the percentage of names they gave me that purchased from my product category in the past year. It was 45%. How is that possible? And when I queried my co-op about the low percentage, they told me they were finding names that had affinity to my product line. Some affinity. I spend more than a million dollars with them, and lose $."

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We Chose Print, We Chose Co-Ops, We Chose Multichannel. What Did We Get?

We Earned An Aging Customer Base
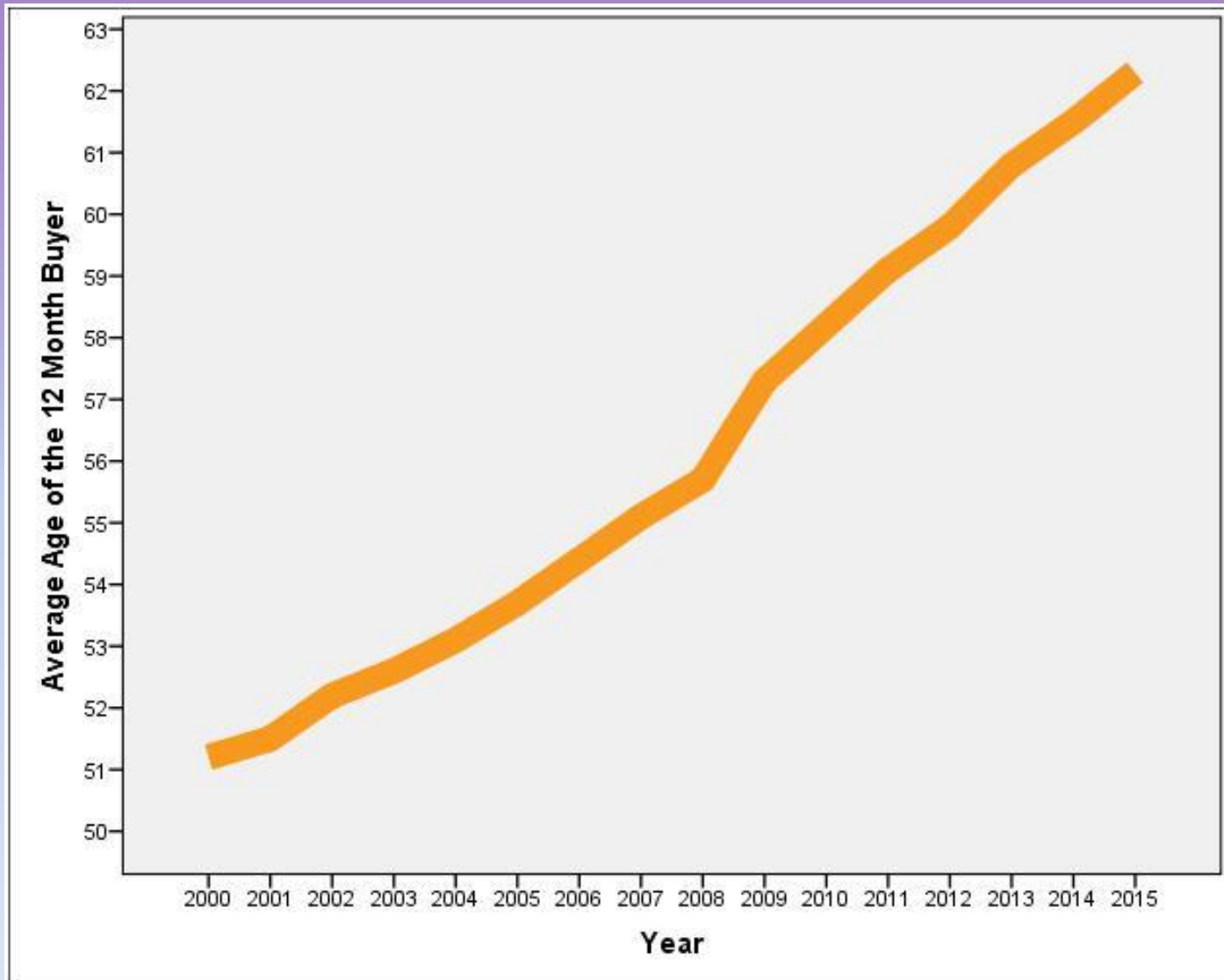
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Print-Based Customers Are Disconnected

Today, half of the United States population is under the age of 45.

In my projects, it is rare to find a print-based business with more than 10% of the customer base under the age of 45.

Think strategically about what this means.

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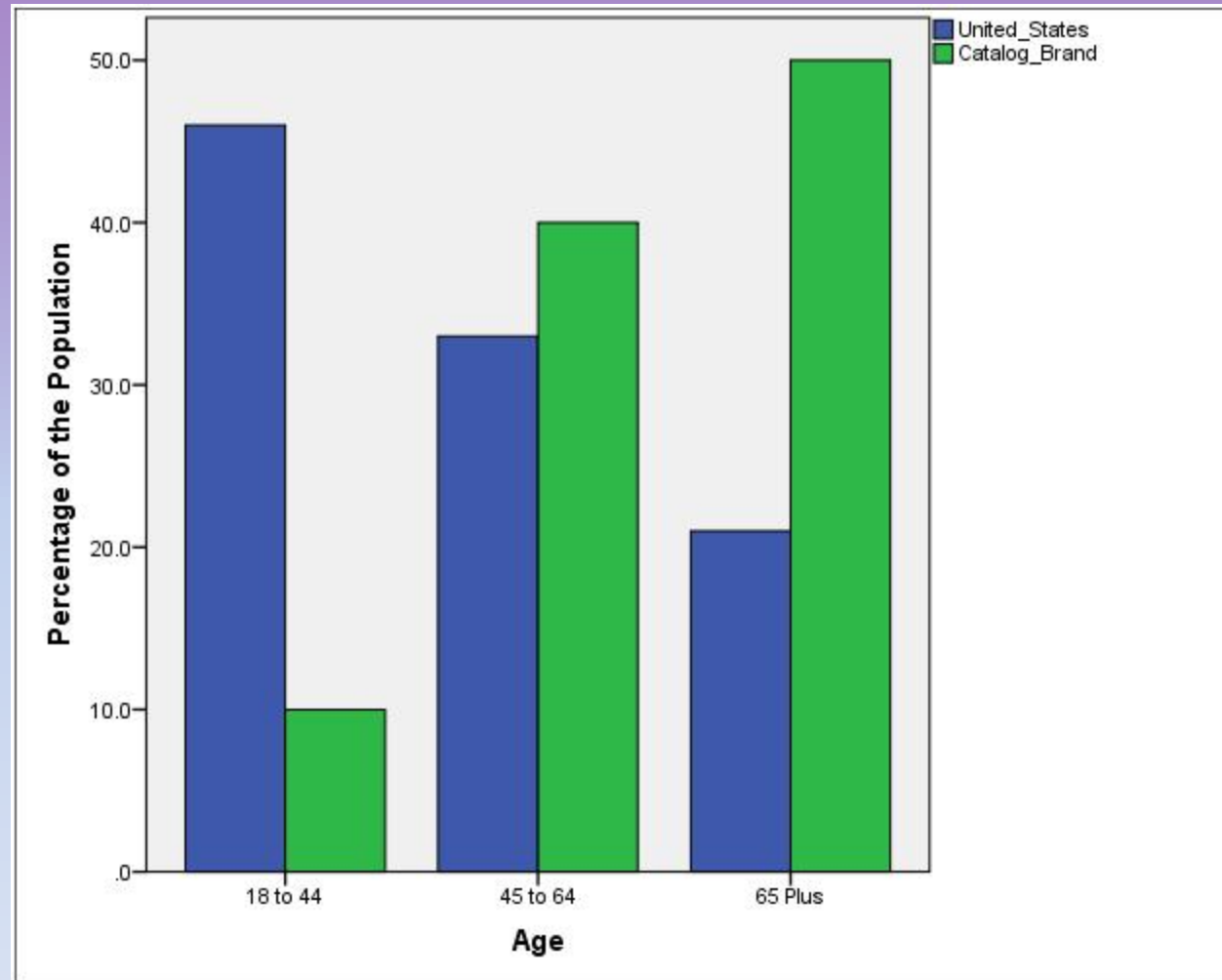
Judy Stayed With Us: She Is "Multichannel"

Judy:

Current Age = 62 Years Old.

Classic Baby Boomer, Raised On Catalogs.

Loves to thumb through the catalog, then is equally likely to shop via phone, or online.

75% of her demand is print driven.

She is among the 10,000,000 customers the co-ops send to us.

We Ignored Jennifer, She Chose Amazon

Jennifer:

Current Age = 46 Years Old.

Gen-X / Amazon shopper.

Presented her persona at Spring NEMOA 2012, heard numerous audible groans from the audience (*i.e. the audience did not like this shopper*).

40%-ish of demand is print driven, measured via mail/holdout tests. Jennifer makes attribution vendors $$$$$$$.

A Typical "Jennifer" Marketing Life Cycle

Awareness via Social Media.

Social Media leads to Paid Search, SEO.

Paid Search, SEO leads to Affiliates, Discount Seeking, and a Purchase via Desktop / Laptop.

Purchase yields and E-Mail Address.

E-Mail Address leads to Site Visits. Site Visits generated via Tablets.

Tablets lead to Mobile / Apps, Mobile / Apps are where Loyalty is finally realized.

We Ignored Jasmine. She Ignores Us

Jasmine:

Current Age = 30 Years Old.

Millenial / Mobile / Social shopper.

< 5% of catalog customer file, usually < 1%. Customer has no interest in catalog merchandise designed for Mom/Dad.

20% to 25% of demand is catalog driven, when measured via mail / holdout tests.

is a generational shift

Digital Is Reaching The New Generation
Top Five Media Mentions Among all Adults, 2013

- Watch TV
- Read Newspapers/Maga
- Listen To The Radio
- Go Online On A Compute Laptop/Netbook/Tablet
- Use A Smartphone

Aged 75+
Aged 65-74
Aged 55-64
Aged 45-54
Aged 35-44
Aged 25-34
Aged 16-24
Total

Demographics Impact How We Present Merchandise, And Demographics Impact The Merchandise We Choose To Sell.

An Example? Here's Footsmart

Compare FootSmart to Zappos

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Compare FootSmart to Shoemint

Merchandise / Creative / Demographics

Key FootSmart Themes:
- **Foot Health, Body Health, Ailments, Bunion Relief.**
- **Free Shipping on Orders > $59.**

Key Zappos Themes:
- **Fashion, Brands, Gender/Kids**
- **Free Two Day Business Shipping, All Orders, Free Returns.**

Key Shoemint Theme:
- **Personalization – It's About You.**

Pretend you are age 25-45. Which message resonates?

Geography Increasingly Dictates The Audience

Urban = Retail, Fast Broadband, 4G, Mobile/Apps Drive Business.
Suburban = Omnichannel + Amazon. Search. Affiliates.
Rural = Print, DSL. Co-Op Sourced Names.

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Demographic Cohorts Dictate Channels

Nine year ago, 38% of survey respondents thought it would be hard to give up the internet. Last year, that percentage was 53%.

Conversely – nine years ago, 44% of survey respondents thought it would be hard to give up television. Today, that percentage is 35%. And land-line phone dropped from 48% to 28%.

What does this have to do with catalogs? The numbers are driven by demographic cohorts … the impact of Jasmine on society shifts the direction of the numbers in the chart. These numbers are also impacting catalog growth in 2015.

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Americans More Attached to Internet, Cellphones

Percent who say ... would be very hard to give up

60%

INTERNET
53% of internet users

50
48%

CELLPHONE
49% of cellphone owners

44%

43%

40

TELEVISION
35% of all adults*

38%

30

LANDLINE TELEPHONE
28% of landline telephone owners

0

2006   2014
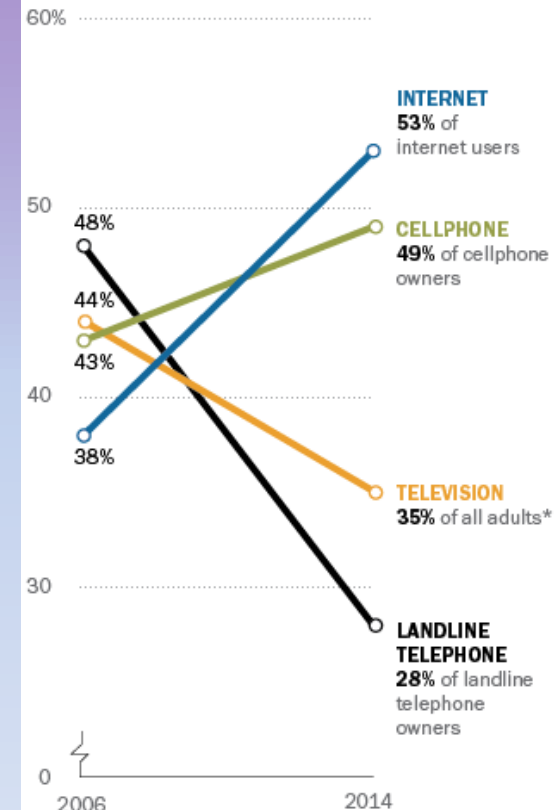
*Only 12% of those ages 18-29 say television would be very hard to give up.

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Meanwhile … Amazon

On pace to hit one trillion dollars ($1,000,000,000,000) in annual sales in the next 5-10 years. Current annual net sales are the same as the sum of 1,000 catalogers with annual sales of $100,000,000. Let that one sink in!

Amazon did not use catalogs.

Amazon did not leverage retail.

Amazon focused on merchandise assortment, price, customer service, devices.

Worst of all – we use all of our omnichannel advertising tactics – and those tactics drive traffic to Amazon. We pay, they profit every day.

An Actual Graph From Amazon
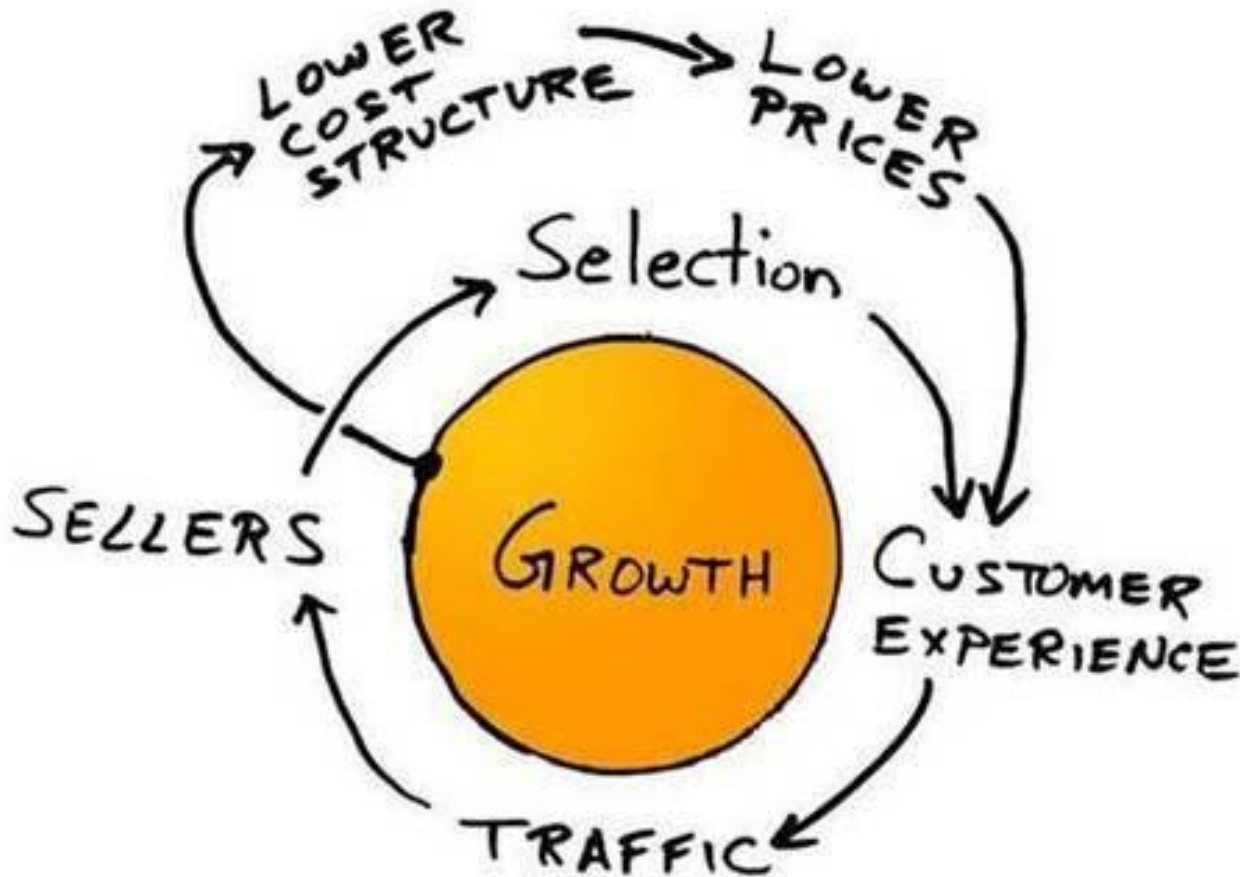
(Source: Amazon)

A Graph From A Print-Centric Business

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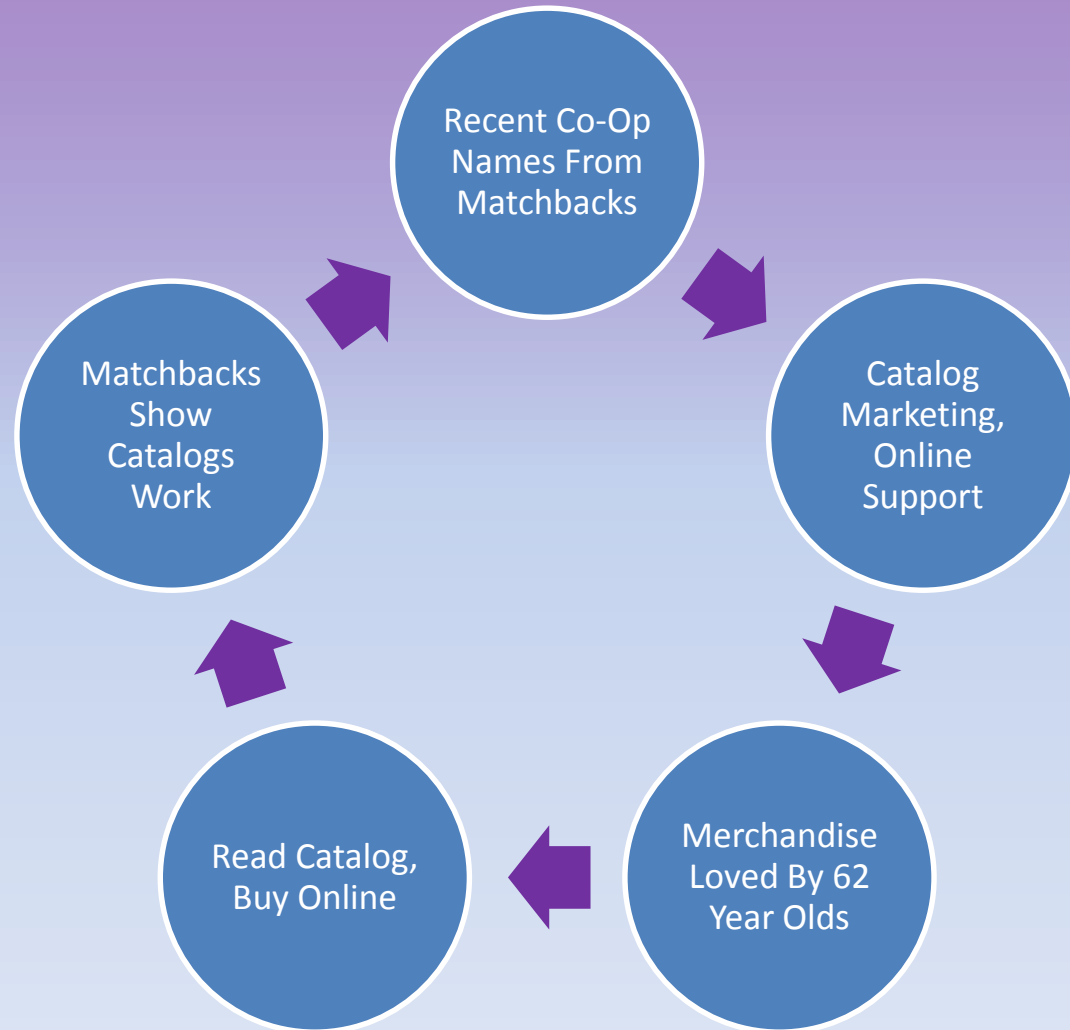
Mobile / Social / Scale / Ops Excellence

The current generation of online businesses continue to cut off the customer acquisition opportunities of traditional catalogers (and increasingly, many retailers).

Question From A USPS Employee

"Jasmine has been trained to love Facebook, Twitter, Verizon, Apple, Amazon, Samsung, and Google.

Judy was trained to love the USPS, Postcards, and Catalogs.

How do we, as classic direct marketers, train Jasmine to love postcards, catalogs, and print? How do we train Jasmine to love what we've loved for decades?"

Demographic Cliff Hurts Customer Acquisition

Catalogers are really, really struggling to find new+reactivated customers under the age of 45 … ½ the population … 10% of the file.

From 2012 – 2014, Retailers became cut off from new+reactivated buyers, too. And e-commerce growth is slowing. This is the challenge of 2015, folks.

Customer File Trajectory - Same Reactivation / Newbie Trends						
	End of 2012	End of 2013	End of 2014	End of 2015	End of 2016	End of 2017
12 Month Buyers, Start of Year	106,583	110,454	109,050	104,916	100,229	95,488
Repurchase Rate	38.3%	38.8%	38.5%	38.5%	38.5%	38.5%
Active Buyers	40,821	42,856	41,984	40,393	38,588	36,763
Reactivated Buyers	32,695	30,733	28,889	27,156	25,527	23,995
New Buyers	36,938	35,460	34,042	32,680	31,373	30,118
12 Month Buyers, End of Year	110,454	109,050	104,916	100,229	95,488	90,876

Plugging The Holes = Tepid Or No Growth

Demographic cutoffs make it hard to change trends. Even if we plug the holes, our customer files will, at best, level off.

Our multi-channel / omnichannel focus cut us off from a younger demographic ... we are now paying the price.

Customer File Trajectory - Stop The Losses	End of 2012	End of 2013	End of 2014	End of 2015	End of 2016	End of 2017
12 Month Buyers, Start of Year	106,583	110,454	109,050	104,916	103,324	102,711
Repurchase Rate	38.3%	38.8%	38.5%	38.5%	38.5%	38.5%
Active Buyers	40,821	42,856	41,984	40,393	39,780	39,544
Reactivated Buyers	32,695	30,733	28,889	28,889	28,889	28,889
New Buyers	36,938	35,460	34,042	34,042	34,042	34,042
12 Month Buyers, End of Year	110,454	109,050	104,916	103,324	102,711	102,475

E-Commerce Is Starting To Hit A Wall, Too

eBay lays off more than 2,000 employees amid slowing growth.

The source of new customers for e-commerce businesses is beginning to dry up.

E-commerce rebuy rates are poor.
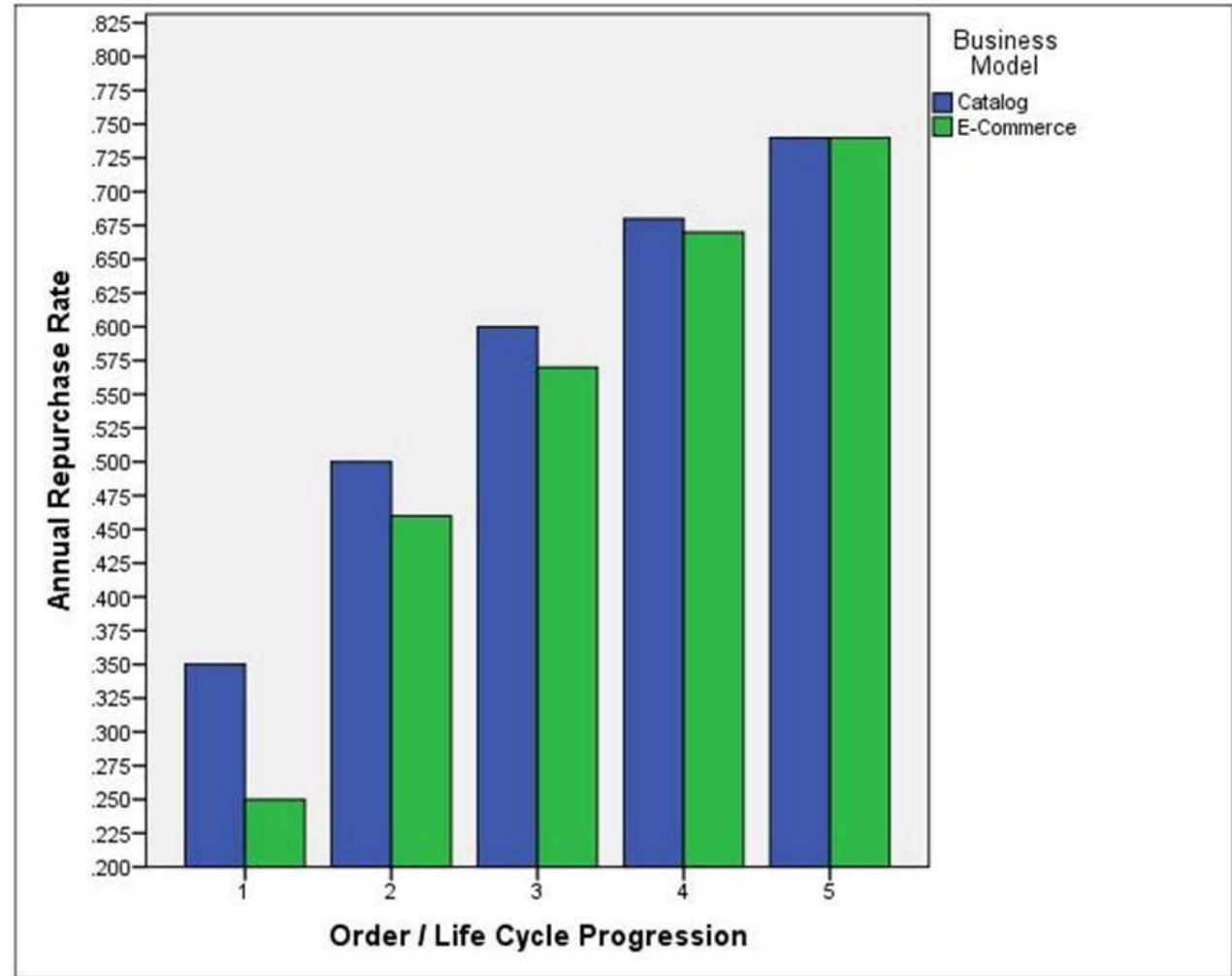
Choices In E-Commerce: Conversion

Remember how catalogers made choices, and those choices resulted in an older customer now disconnected from the mainstream of commerce?

E-Commerce businesses spent 15 years making "conversion choices". These choices are also detrimental to e-commerce.

A lust for "optimizing conversion" results in all sorts of crazy tactics that do not increase annual purchase frequency or annual repurchase rates.

Example: *I analyzed an e-commerce brand where good customers visited the website 120 times per year*. Why demand a conversion today?

Choices In Retail: Three Challenges

In my projects, retail comps are experiencing tepid growth, for three reasons.

Reason #1 = Merchandising problems post-Great-Recession (significant). This can be fixed.

Reason #2 = Movement of retail customers from in-store buying to online buying (very minor). Will not be fixed, sum of $ is constant.

Reason #3 = Not enough new+reactivated customers setting foot in stores (significant). We trained prospects to not visit stores/malls, and as a consequence, we've cut ourselves off from 10% - 50% of the new prospects available to us.

Our Merchandising Choices Are Killing Us

We all know the importance of a healthy customer file. Similarly, it is very, very important to have a healthy merchandise assortment.

After the Great Recession, too many of us created self-inflicted wounds by cutting back on the number of new items, starving the customer file of good merchandise.

Common Issue:
- 2010 = $9.4 million from new items, $15.4 million from existing.
- 2011 = $8.7 million from new items, $16.6 million from existing.
- 2012 = $8.5 million from new items, $15.9 million from existing.
- 2013 = $7.7 million from new items, $16.3 million from existing.
- 2014 = $6.9 million from new items, $16.6 million from existing.

Choices In Retail: Clicks > Bricks

We spent 15 years teaching retail shoppers TO NOT VISIT RETAIL STORES – asking them to instead sit at home and click. It's working! Run the query yourself. This is one of the factors that is causing retail comp store sales to struggle – why drive to a store when you can sit and click? Omnichannel!!

Share Of Sales Via In-Store Retail

Five Year Trend		
	2010	2015
0 to 5 Miles From a Store	94.8%	94.8%
6 to 10 Miles From a Store	91.6%	85.9%
11 to 25 Miles From a Store	88.3%	82.4%
26 to 50 Miles From a Store	72.7%	64.3%
51 to 99 Miles From a Store	49.3%	38.7%
100+ Miles From a Store	15.9%	11.4%

Choices In Retail: Clicks Hurt In-Store Newbies

With 10% to 50% traffic declines in-stores, we're losing out on new + reactivated customers, costing us sales. Secondarily, sales are shifting out of Spring-Fall, and are shifting into December (at 30% off).

New + Reactivated In-Store Buyers	14 vs. 13	13 vs. 12	12 vs. 11	2014	2013	2012	2011
January	-2.6%	2.0%	3.0%	5,975	6,134	6,014	5,839
February	-6.9%	-3.5%	-1.0%	2,273	2,442	2,530	2,556
March	-6.2%	-4.7%	-2.0%	2,679	2,856	2,997	3,058
April	-6.2%	-5.3%	-1.5%	2,810	2,995	3,163	3,211
May	-11.7%	-6.1%	-2.7%	2,695	3,052	3,250	3,340
June	-14.1%	-7.5%	-1.8%	2,401	2,795	3,022	3,077
July	-16.6%	-8.3%	-0.7%	1,772	2,125	2,318	2,334
August	-14.2%	-8.7%	-1.6%	1,754	2,045	2,240	2,276
September	-14.1%	-11.1%	-0.8%	2,221	2,586	2,909	2,932
October	-15.3%	-11.5%	-2.6%	3,475	4,102	4,635	4,759
November	-14.1%	-2.7%	0.4%	8,021	9,338	9,597	9,559
December	11.7%	6.8%	7.3%	11,593	10,379	9,718	9,057
Totals	-6.3%	-2.9%	0.8%	47,670	50,849	52,392	51,998

Macy's: America's Omnichannel Store

What does "omnichannel" buy the recognized omnichannel leader?

Generally flat retail comps.

E-commerce growth.

The closing of 14 stores in 2015, stores that generate $130,000,000 in annual net sales. If omnichannel worked, why would they close stores?

READ THE ANNUAL REPORTS AND QUARTERLY REPORTS OF LEADING RETAILERS ... THEY ARE TELLING US THAT OMNICHANNEL TACTICS LEAD TO UNDERPERFORMING STORES THAT WILL BE CLOSED.

Abercrombie & Fitch

Omnichannel strategy = 40% of sales will be online in a few years.

Merchandise alignment did not appeal to young customers, cutting Jadyn out, leaving company with Jasmine.

Online sales gains + merchandising problems + demographics challenges = 300+ store closures.

This is what omnichannel delivers ... and catalogers know this ... we cut off younger demographics, we ignore merchandise productivity, we move sales online, we close low-performing retail stores.

MERCHANDISE + DEMOGRAPHIC ALIGNMENT MATTERS!!!

Retail's Omnichannel Future

The lower 30% of the store portfolio are generally weakening, in the face of the online channel. In the next 5-10 years, these locations will close, lowering retail net sales, increasing company profit.

Omnichannel Evolution: A Market With Two Stores			
	2010	2015	2020
Store #1	$1,500,000	$1,875,000	$2,394,000
Store #2	$1,200,000	$960,000	$0
Total Retail	$2,700,000	$2,835,000	$2,394,000
Total E-Commerce	$2,000,000	$3,000,000	$3,394,000
Total Net Sales	$4,700,000	$5,835,000	$5,788,000
Earnings Before Taxes	$835,000	$1,137,750	$1,435,400

Digital Hates Offline Inefficiency

40% to 50% of all catalog pages mailed in 2007 are not mailed in 2015. This didn't happen because of "the economy". This happened because e-commerce rendered those pages inefficient.

My forecast – 30% of all major retail mall-based store locations will close over the next ten years, as in-store sales are digitized.

There will be retail winners – especially those businesses that cater to younger customers.

Otherwise … **RETAIL 2015 = CATALOGING 2005.**

Choices Have Led To Challenges

Catalogers chose co-ops, print-to-website customer engagement, leading to older customers, leading to an evolution of merchandise catering to an older customer, leading to a feedback loop.

E-Commerce businesses chose "optimized conversion", requiring discounts to close sales TODAY, largely ignoring long-term customer relationships that actually exist, unmeasured.

Retailers trained customers to click instead of getting in a car to drive to a store. Customers listened. Now mall traffic is down, driving comps down, with the likely result a full digitization of the business and the closing of 30% non-prime, below-average retail locations. The best retail locations are likely to grow.

However, The World Is Not Coming To An End

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Opportunity Exists For All Of Us

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Every Business Model Can Be Successful

Time To Get Busy!

Who Is Looking Out For Your Interests?

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Free Data Feeds Do Not Benefit Catalogers

Mr. Rose: "Do you feel bad that Bing was such a failure?"

Mr. Ballmer: "Bing was not a failure. Bing was a major success. Don't you understand? Without Bing, Microsoft does not have an Artificial Intelligence program! Data from Bing feeds our AI infrastructure."

Your business partners (Adobe / IBM / Google / Microsoft / Abacus – Epsilon / Datalogix – Oracle) use your data, YOUR DATA, which you freely give to them (web analytics via Adobe / IBM / Google). Then, they monetize the freely offered information, and finally, they sell the data back to you (why, by the way, can IBM Watson grow your business but cannot stem a three year sales drop at IBM?)

Listen Carefully – Is The Message Fair / True?

From a conference organizer: *"Kevin, I realize we reached out to you to speak at our conference. I realize we asked you to volunteer your time. And we appreciate that you put in the time to create a presentation. But our sponsors have informed us that they need to deliver a sufficient return on investment, or they will not partner with us going forward. Our sponsors have asked us to grant them access to the attendees via the speaking sessions. Therefore, we will be giving our speaking assignments to our sponsors, because without them, we wouldn't exist. But thank you for being willing to partner with us."*

From a conference organizer: 1/3 of revenue comes from sponsors, 1/3 of revenue comes from vendors attending the conference, 1/3 of revenue comes from "brands" attending the conference. *"We don't exist without sponsors / vendors"*.

The Messaging Ecosystem: "Brands" Fund The Whole Ecosystem – Ecosystem Needs Eyeballs

Confer-ences

Trade Journals

Vendors

Research Brands

Employees at Brands who read trade journals, attend conferences, and buy services.
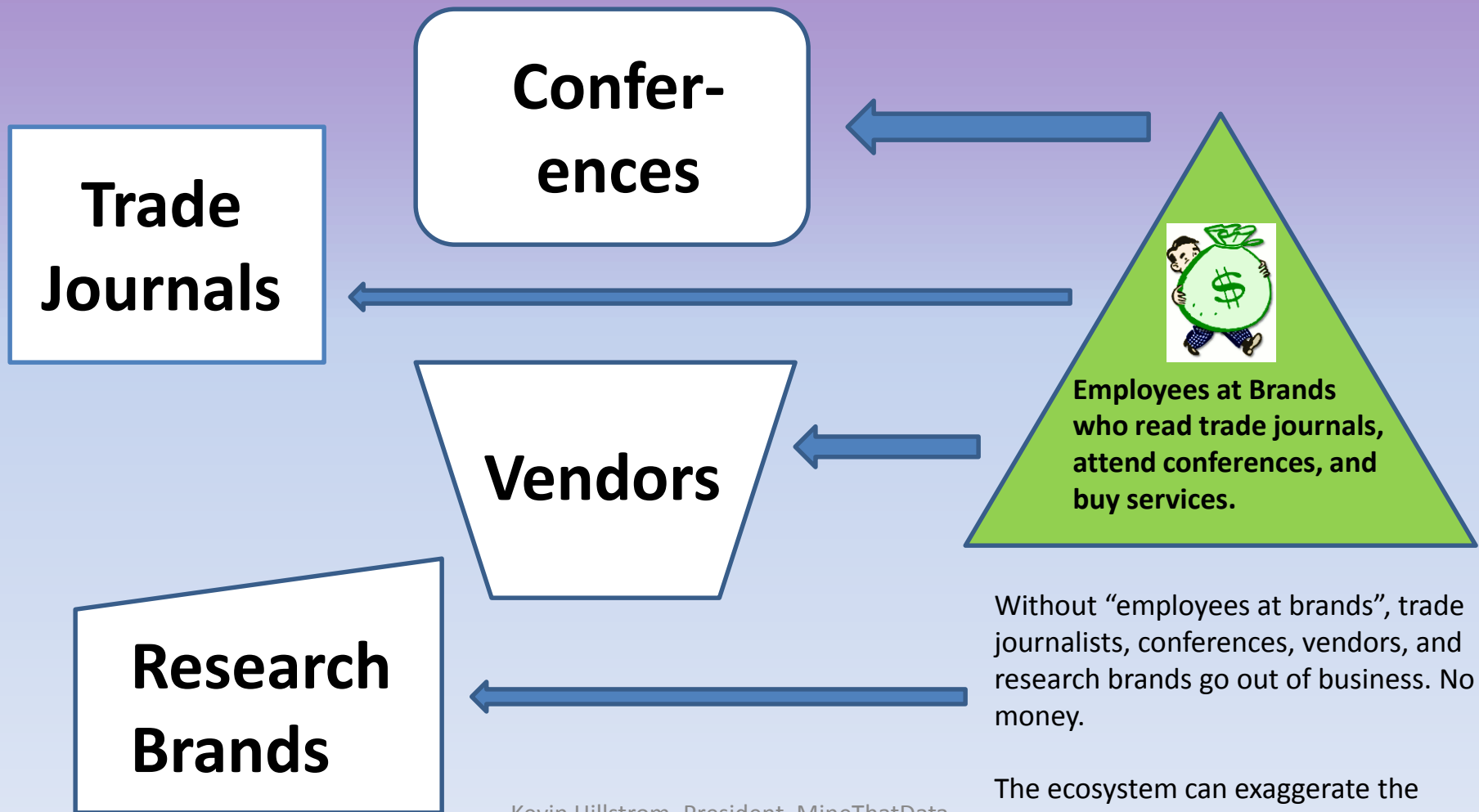
Without "employees at brands", trade journalists, conferences, vendors, and research brands go out of business. No money.

The ecosystem can exaggerate the message to generate eyeballs, $.

Every Business Model & Every Customer Demographic Can Work Profitably.

Your Business Is Not "Dead" If You Don't Do What Vendors, Trade Journalists, Researchers, And Consultants Tell You To Do!

Find Companies And Partners You Can Trust

Up Next

Customer Metrics From A Successful Catalog Business

This Business Markets Through More Than 20 Marketing Channels. It Found The Secret To Their Success!

A Successful Cataloger: Annual Demand
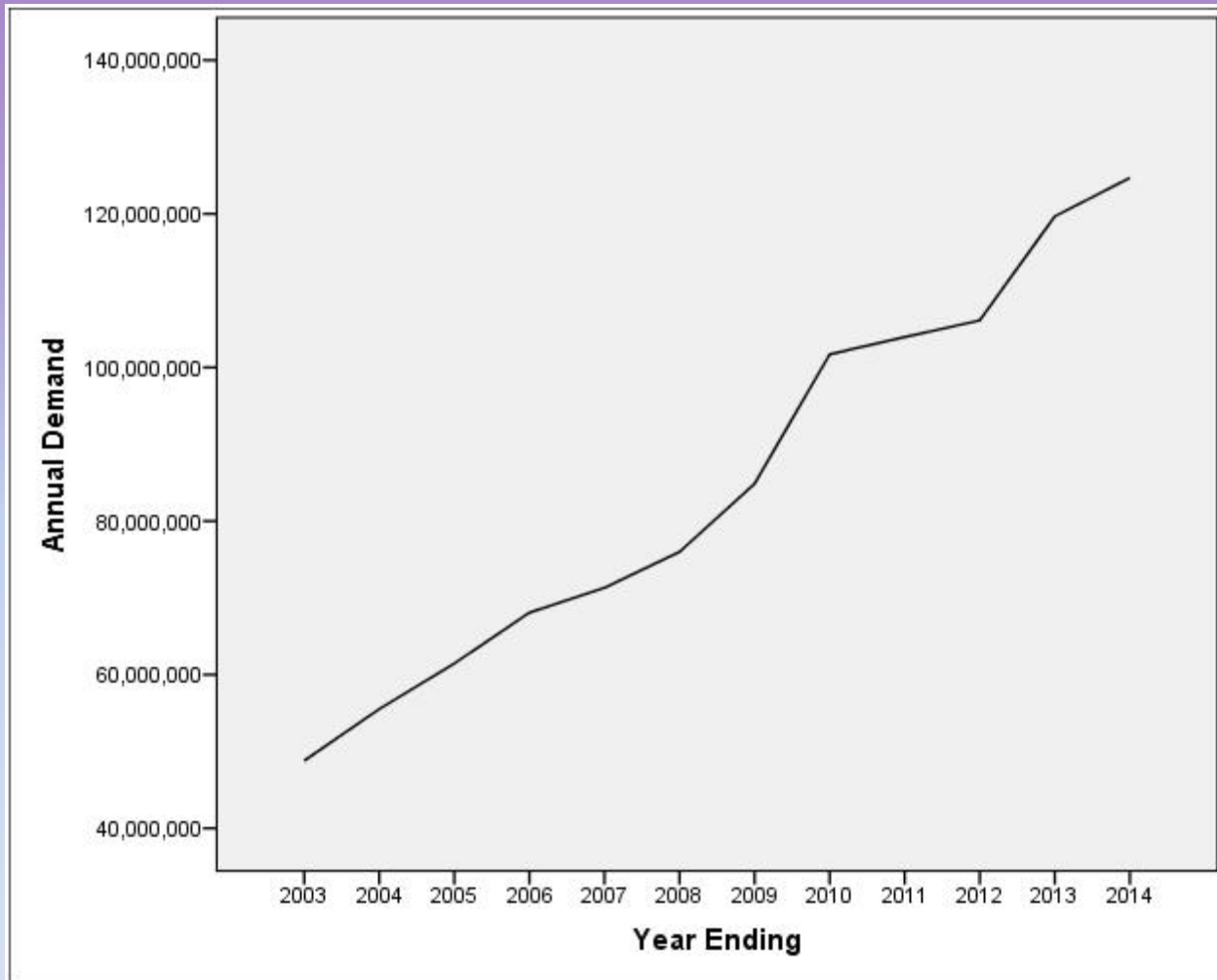
A Successful Cataloger: Annual Buyers
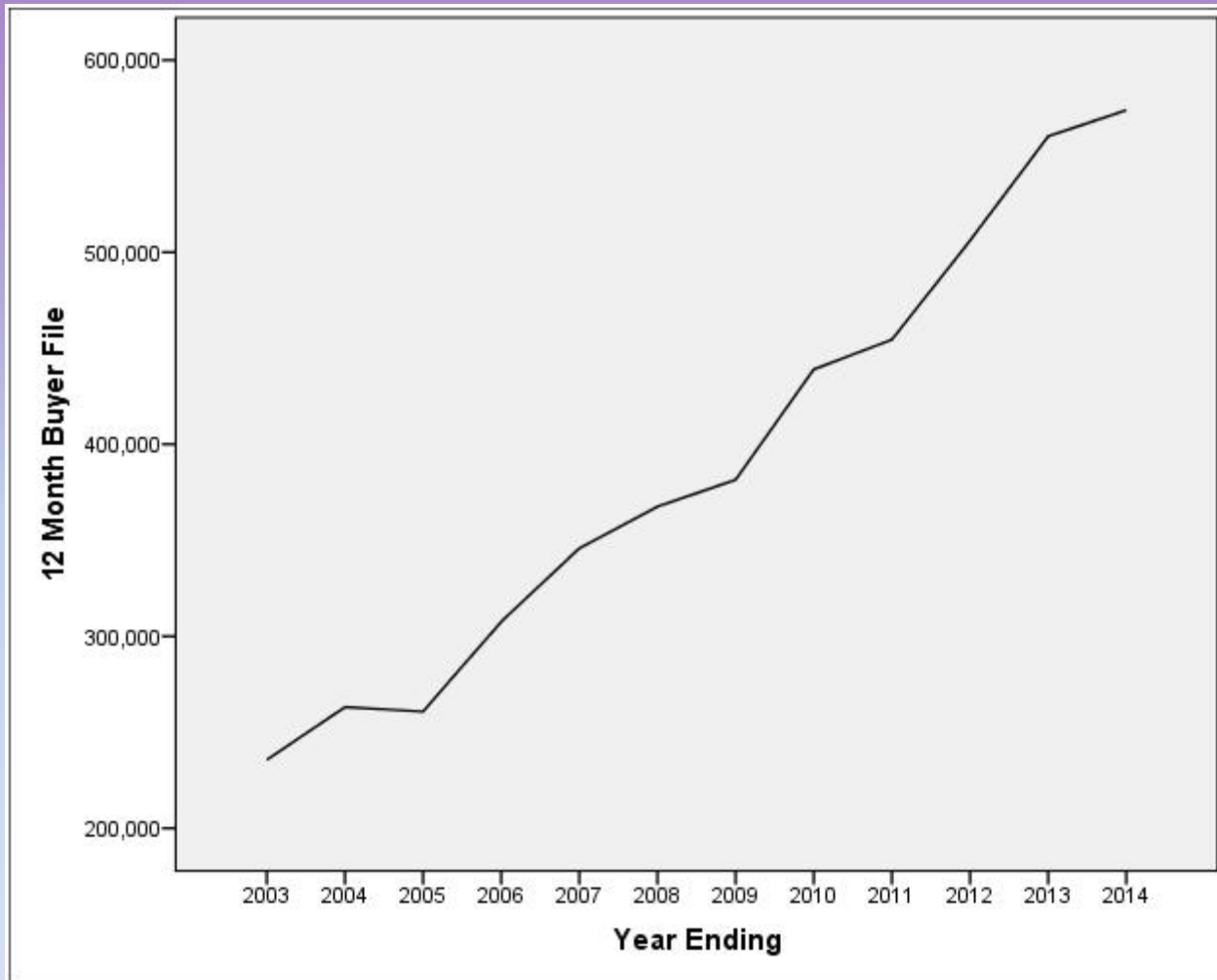
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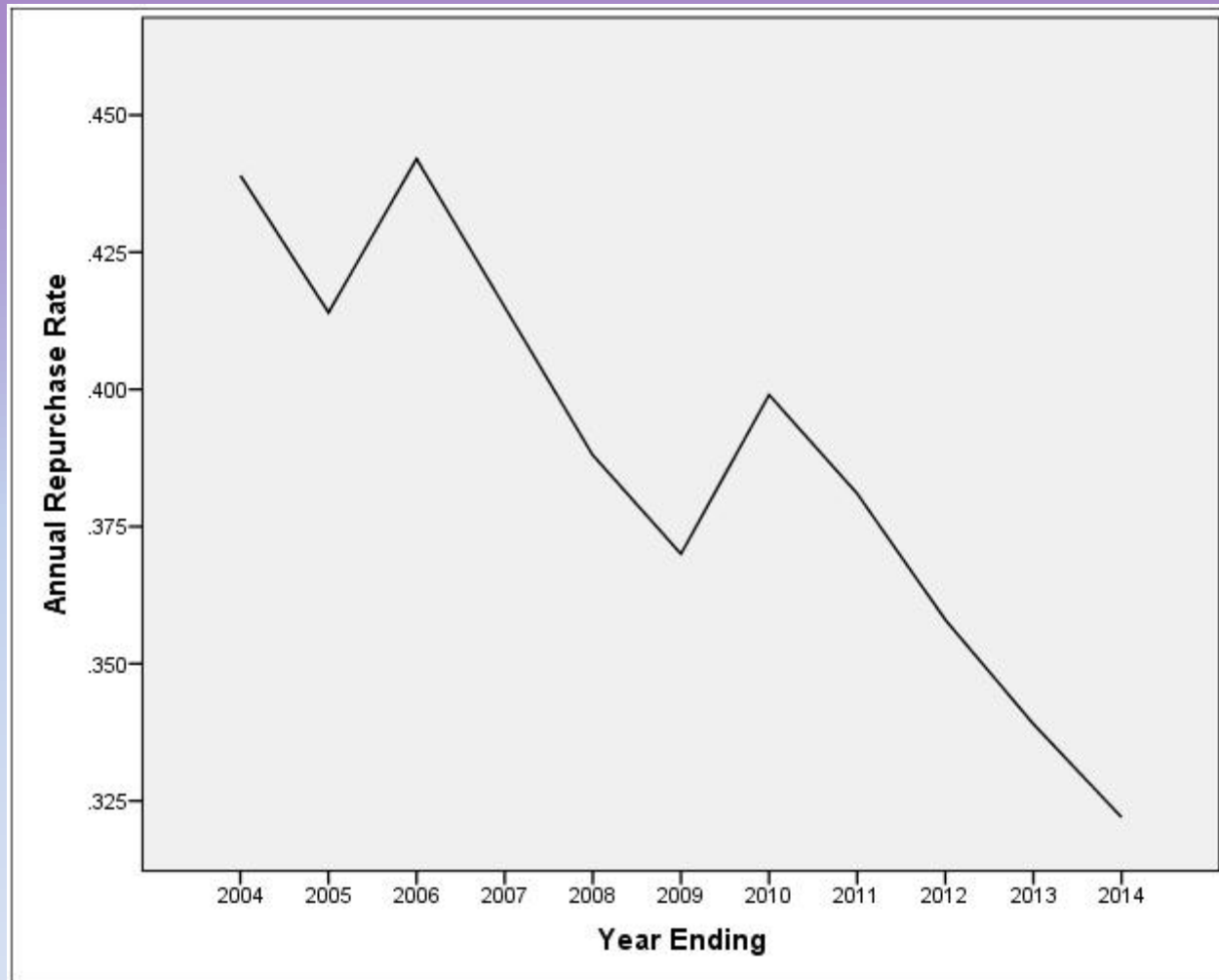
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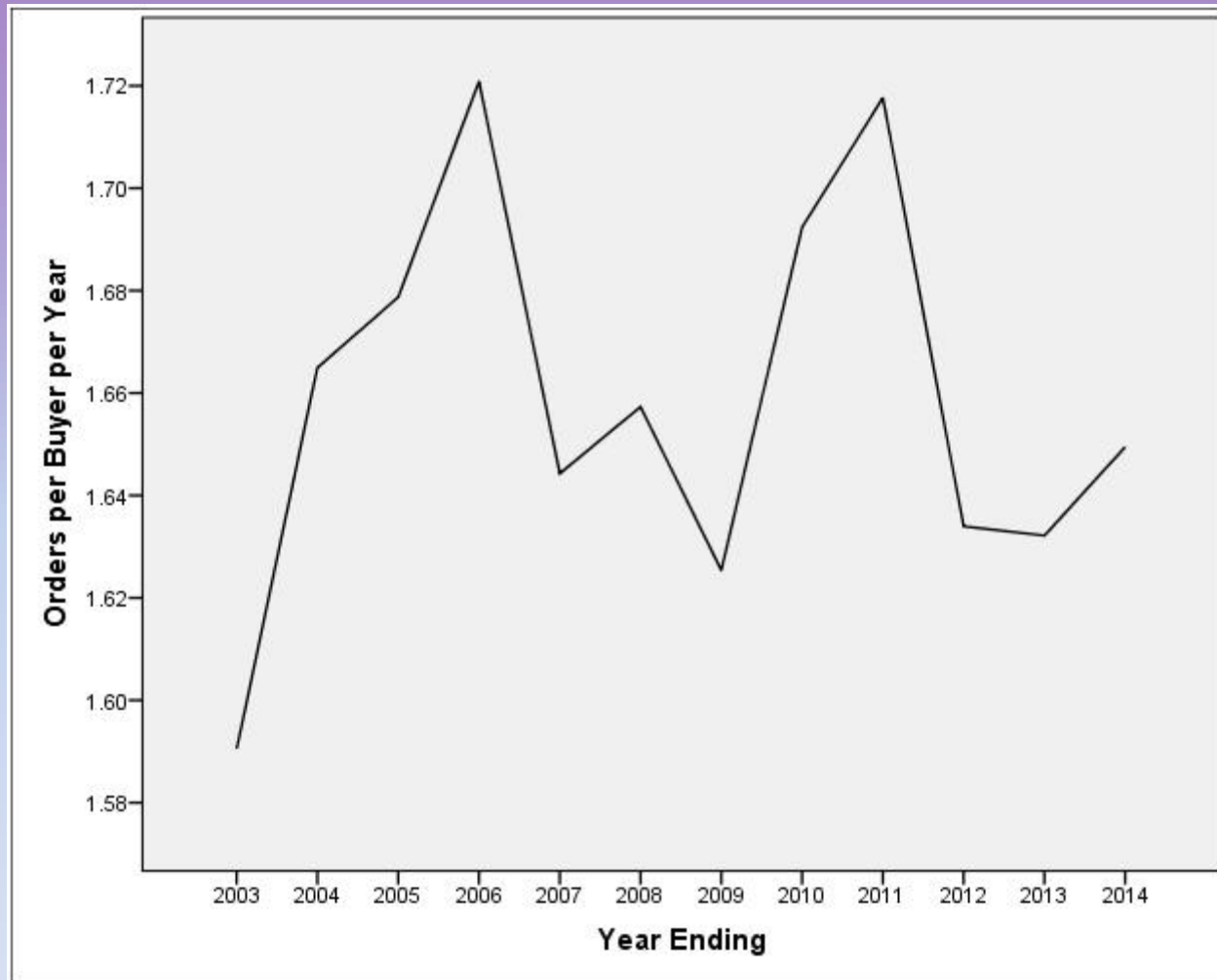
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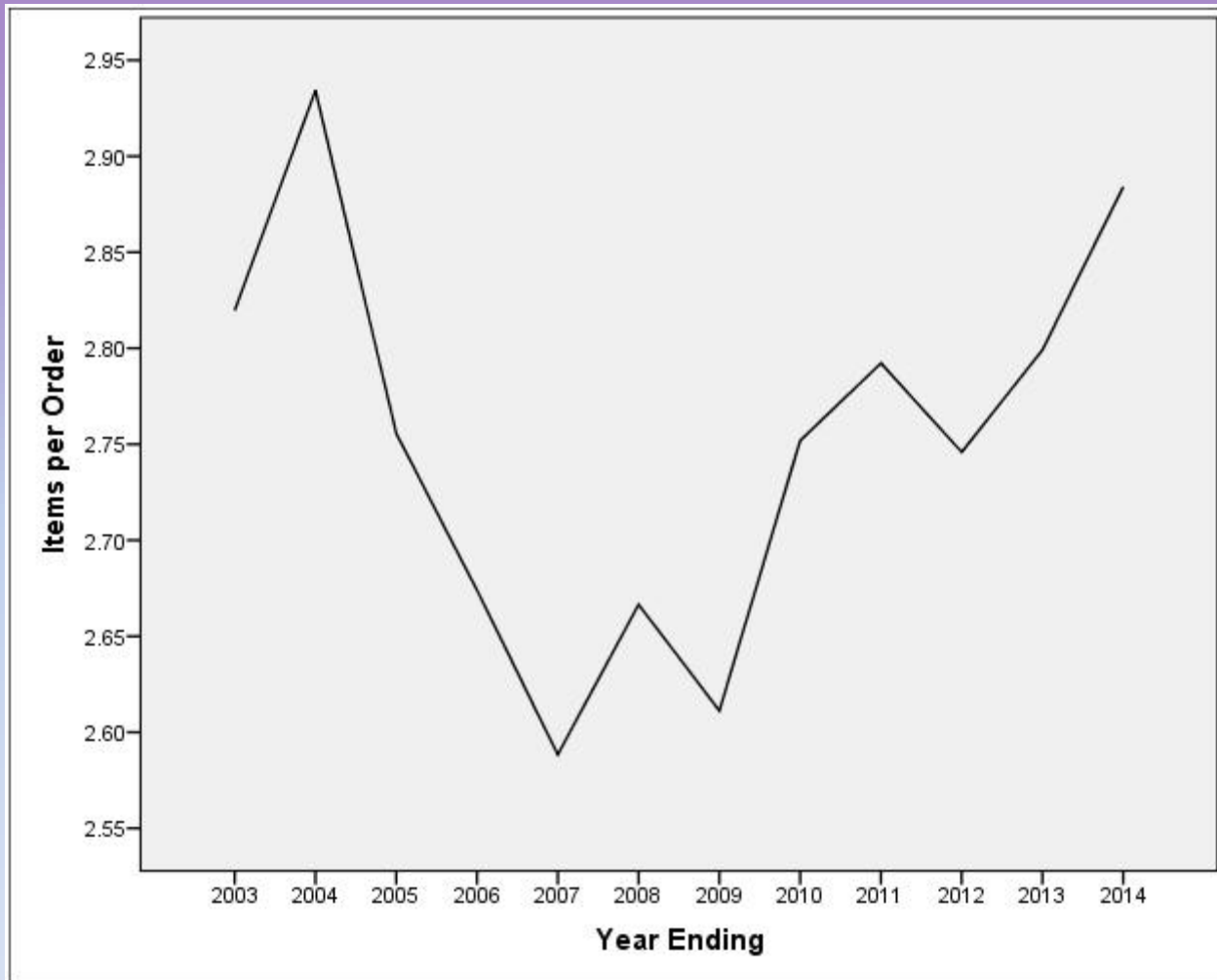
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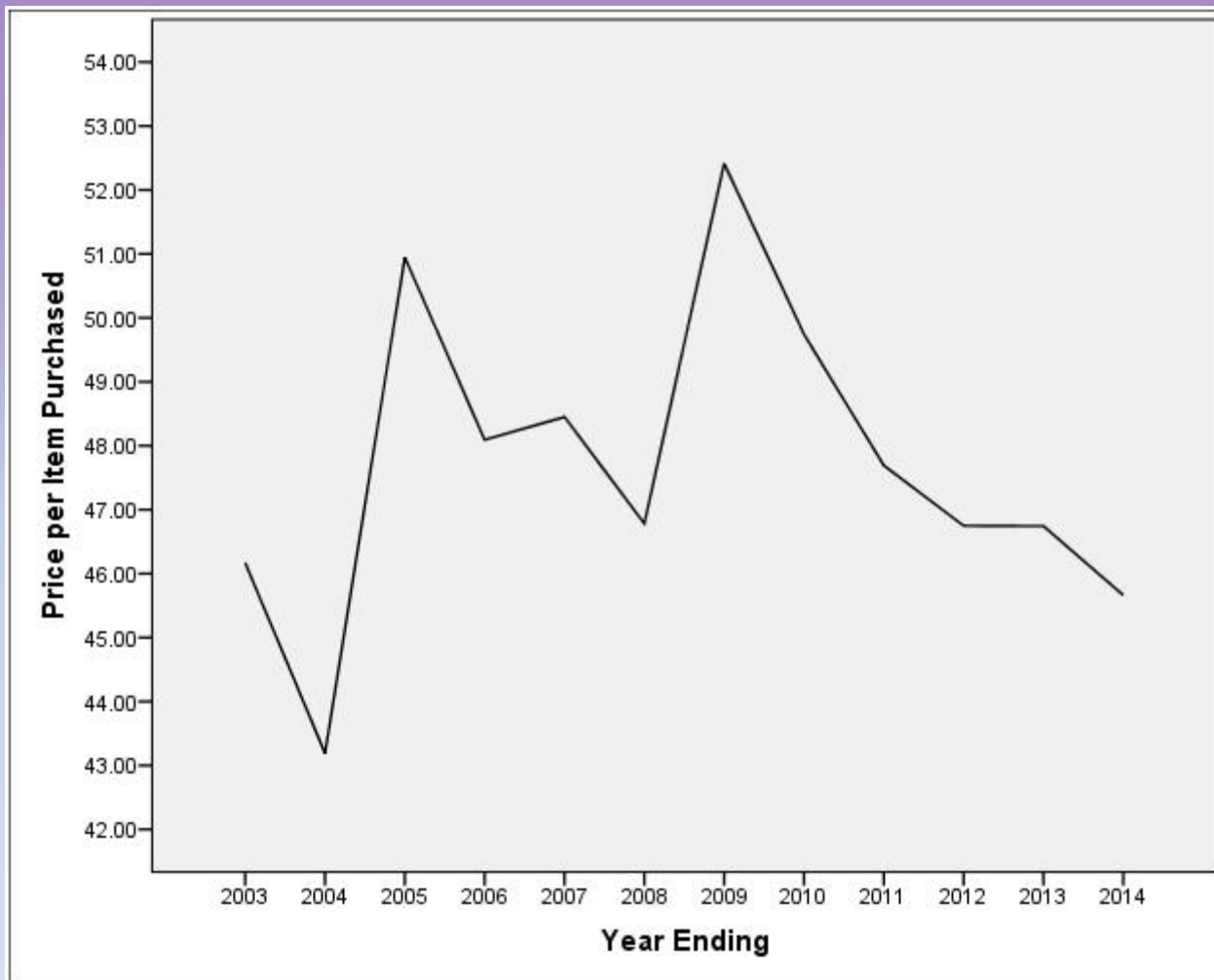
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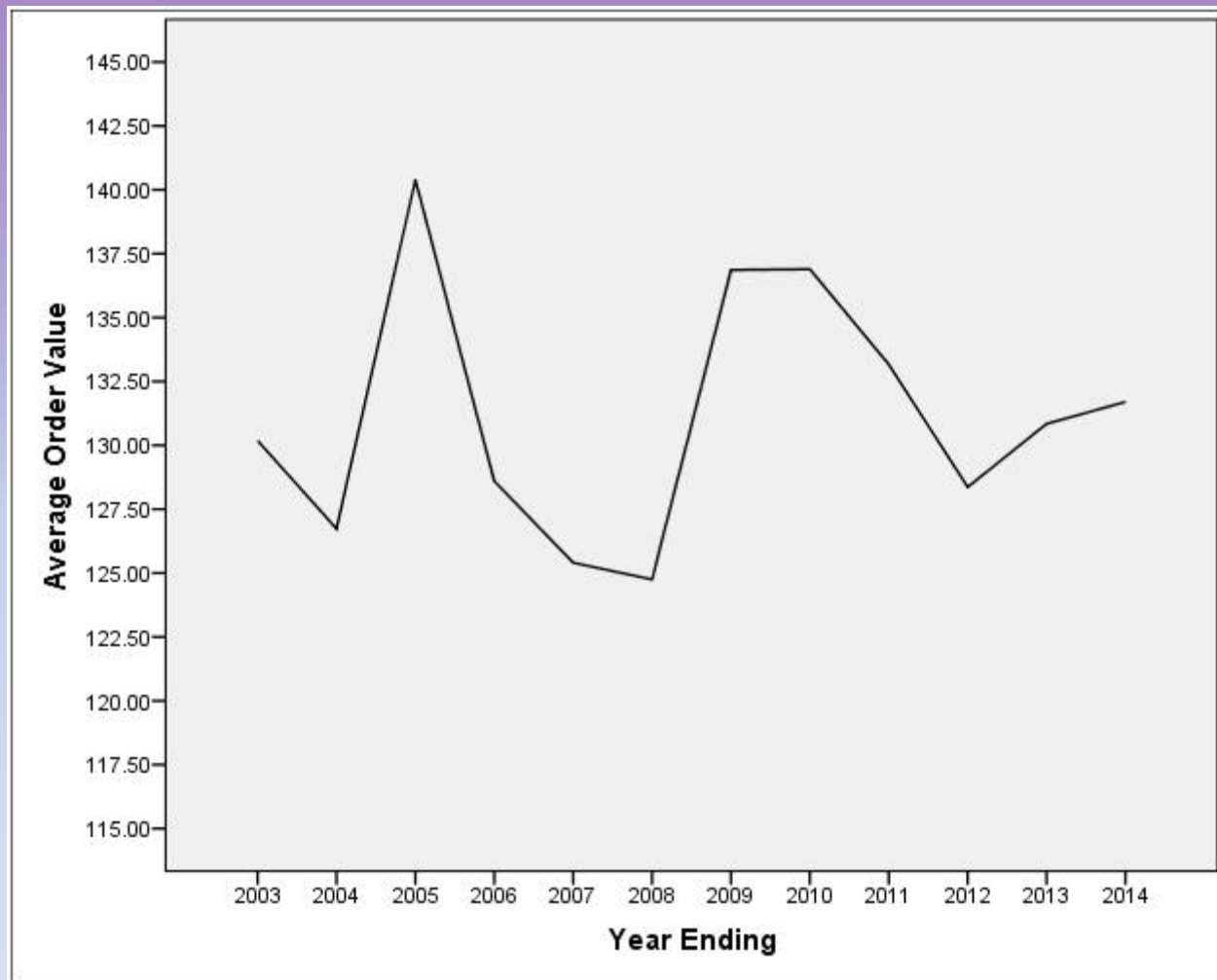
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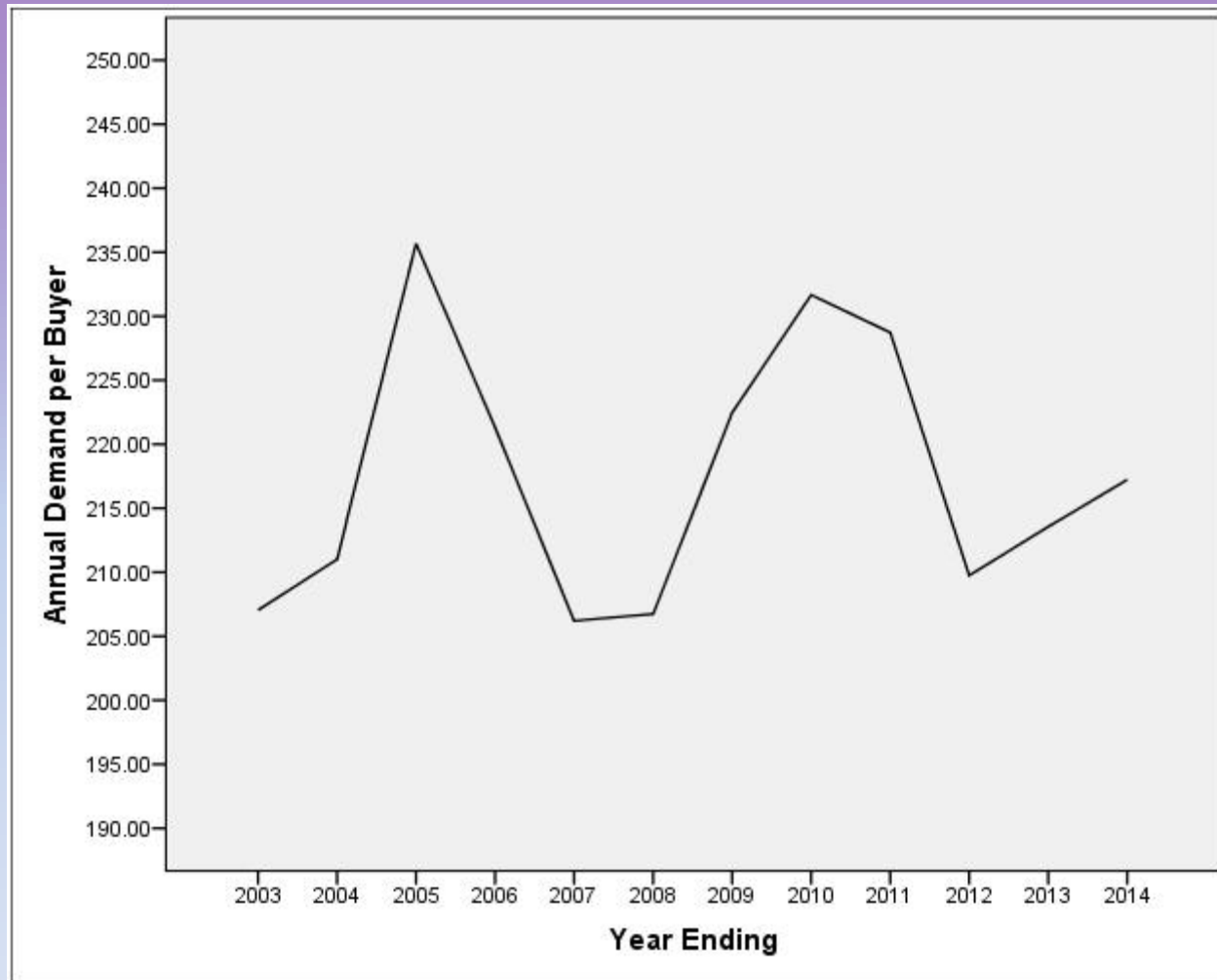
A Successful Cataloger: New + Reactivated #s
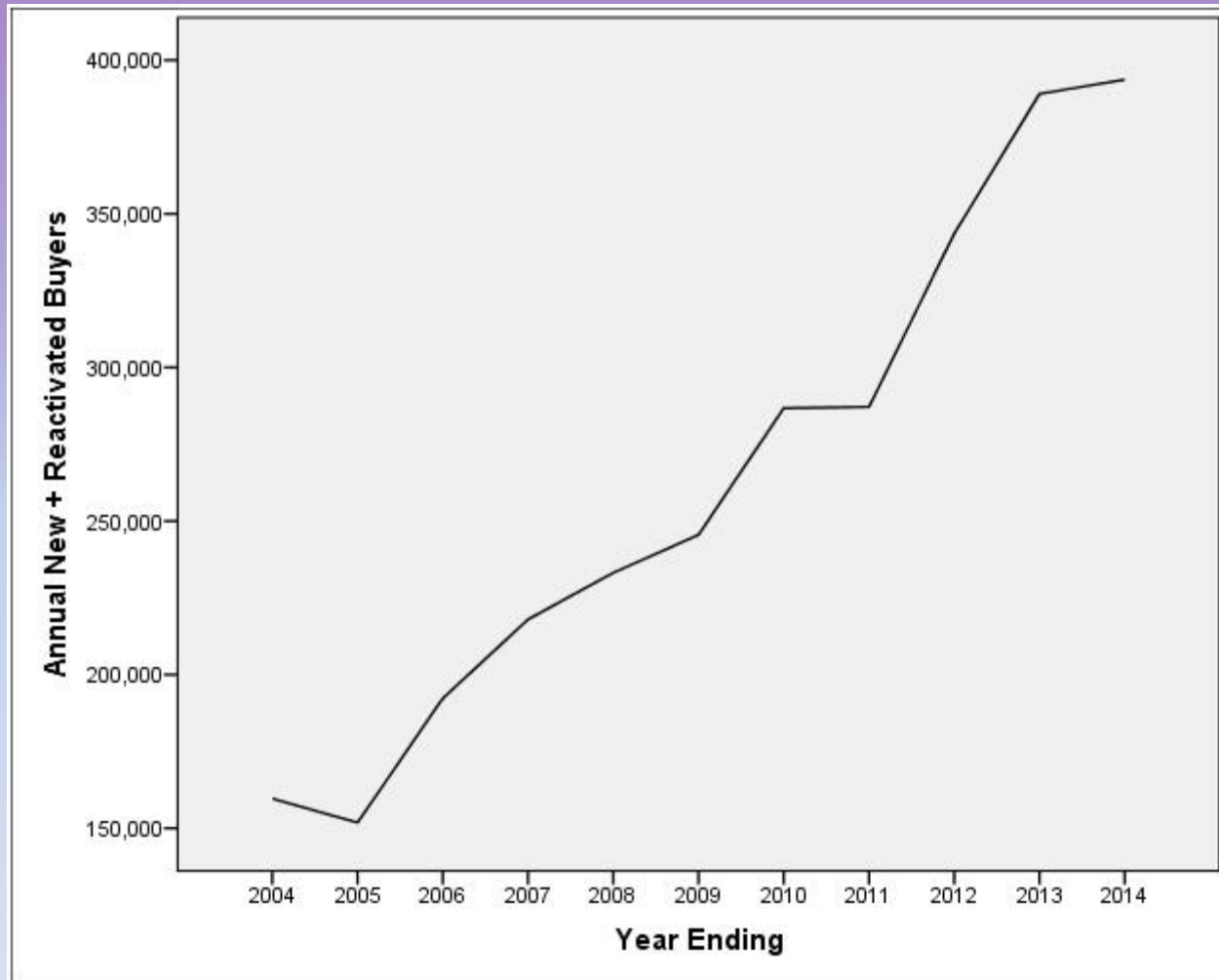
A Successful Cataloger: Loyal Buyers
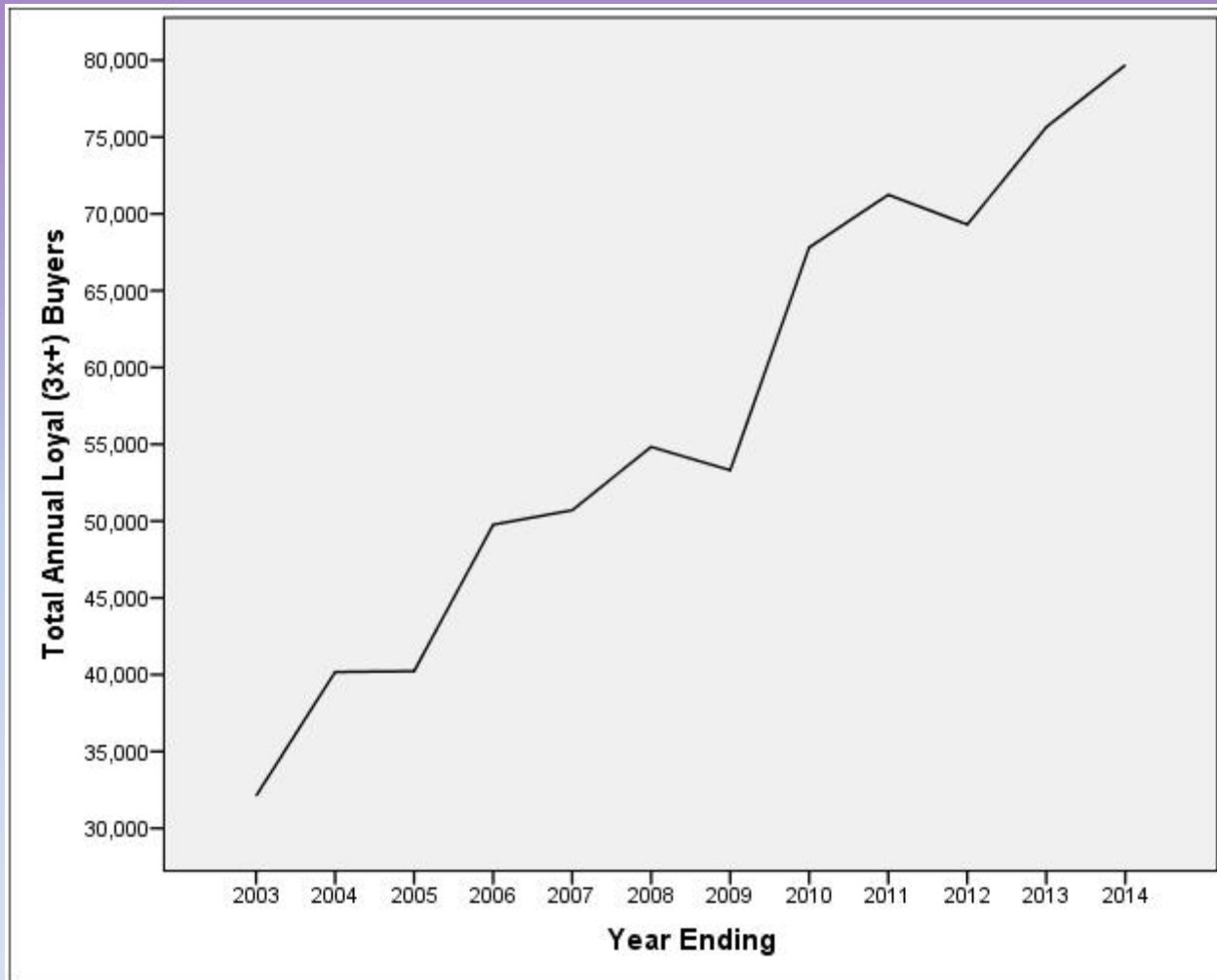
A Successful Cataloger: 1 Annual Purchase
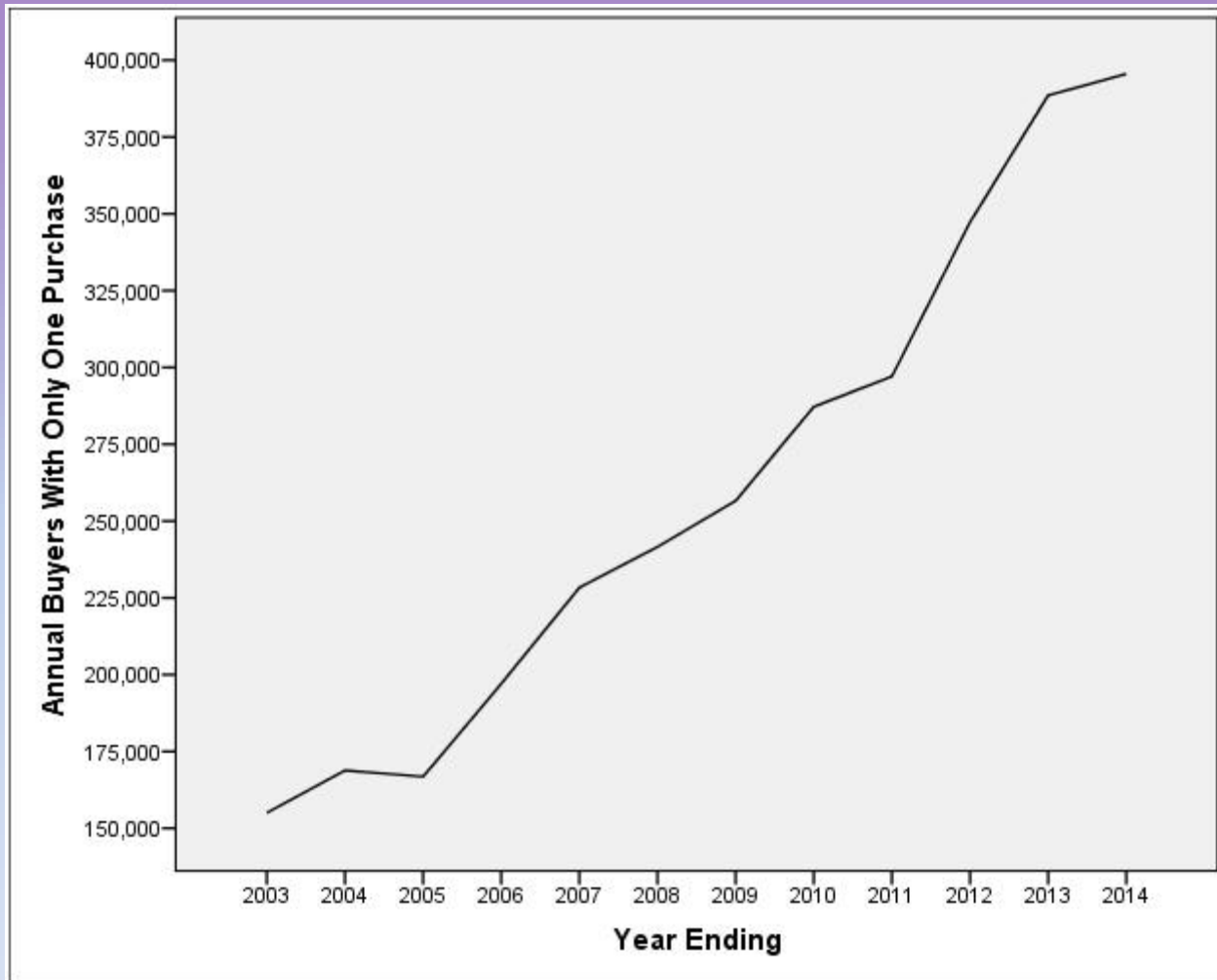
A Successful Catalog Business

Secret = **Customer Acquisition**

Churns 1x Online Buyers

Retails Loyal Catalog Buyers

Overcomes Declining Rebuy Rates

This Business Made A Choice

The Time Is Coming … Make A Choice

All business models can succeed … all customer demographic cohorts can generate profit.

But we cannot be all things to all customers. Soon (maybe today), it will be time to make a choice.

Nostalgia, Need   Convenience   Friendship, Fashion

Catalog Future: Follow Judy?

The current catalog shopper (age 55 – 85) is moving into and through retirement.

What are the products needed by this generation? What is the creative message that resonates with a person entering or moving through retirement?

Nostalgia, Need	Convenience	Friendship, Fashion

E-Commerce Future: Ruthless Competition

E-Commerce is splitting real commerce into two halves.

First Half = Commodity Items Shipped Quickly And Conveniently.

Second Half = Unique Items And A Compelling Story.

Nostalgia, Need   Convenience   Friendship, Fashion

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Commodity / Convenience And Retail

A physical store must provide superior entertainment and/or other emotional benefits and/or unique merchandise, in order "have a purpose". Without a purpose, lower-than-average performing retail locations are under severe financial pressure, and will be closed as the world is digitized.

Nostalgia, Need   Convenience   Friendship, Fashion

Mobile Is Not For Everybody

If your customer is Judy, mobile is close to irrelevant.

If your customer is Jennifer, mobile is not "native" – it's a piece of the puzzle.

If your customer is Jasmine, it's "mobile first", all day, every day.

Nostalgia, Need   Convenience   Friendship, Fashion

Mobile: The Assortment Challenge

Each marketing channel poses challenges.

In my projects, the distribution of items sold is dependent upon the amount of real estate and "searchability" available to merchandise.

Catalogs: Moderate Head, Short Tail.

Online: Big Head, Long Tail.

Mobile: Huge Head, Short Tail.

In-House Data, Purchased Data, Algorithms will need to create a personalized assortment that ensures that all merchandise is featured to all customers. Think Amazon … no two home pages are alike.

Data, Data, Data

Data is not as necessary to market to Judy. You need to satisfy her needs, quite possibly via nostalgia.

Data / Social / Mobile are not channels with Jasmine. They "are" the business / experience. The style of marketing needed to partner with Jasmine is unique, different, and rapidly evolving. Think Uber.

Nostalgia, Need   Convenience   Friendship, Fashion

Data + Demographics + Merchandise + Story

We can combine customer data with demographic customer preferences, the merchandise that a specific demographic cohort cares about. Then, we bundle the message within a story. If we do that, and we do it well, we experience success.

Nostalgia, Need   Convenience   Friendship, Fashion

Competing Against Infinity

The omnichannel thesis argues that if you digitize a business, and if you sell via many channels, you will please the customer, and your sales will increase.

In practice, the theory is failing. Why?

Here's the problem. We're all competing against infinity. "The customer" is being bombarded with infinite messages from infinite businesses. It's all noise.

We must have a compelling story, one that stands out among infinite messages from infinite businesses.

What Is Their Story?

What Is Their (Billion $ In 5 Years) Story?

Zulily: $0 to $1,000,000,000 In Five Years

"We're sort of like a newspaper in that we publish something brand new every single day." **Darrell Cavens, CEO, Zulily**

"I just can't wait for September to get here. We've been selling the same assortment for six months, and quite honestly, we don't have anything left to say to the customer." **Major Retail Brand Executive, To Me During A Consulting Project**

In a world where Zulily is publishing compelling merchandise and content daily, we catalogers are trying to figure out how many times we can profitably send out the same remail catalog to the customer.

Think about that, for a moment.

What Is Their (Chapter 11) Story?

What Is Their (Chapter 11) Story?

What Is Their Story?

What Is Their Story?

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How Do We Tell A Mobile Story?

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Catalogers: Three Options

The majority of catalogers now cater to a 55+ audience, often 65+. Some don't (those who offer products loved by 30-49 year olds). But for most, there are three emerging options.

1. Ride the Baby Boomer generation through retirement. Embrace 'em. Offer products that a 65-84 year old customer needs. Be a merchandising genius (new + winners), use productivity to fuel customer acquisition activities.
2. Generate as much profit as possible in the next five years – use the profit to migrate some of the merchandising assortment to stuff a 45-64 year old customer likes, marketed online. This is a bridge-merchandise and bridge-customer strategy.
3. Use profit from current activities to fund a new brand catering to a 35-54 year old customer.

E-Commerce: Three Major Issues

My e-commerce clients are hitting a wall. There are three things e-commerce clients are working on.

1. End of easy customer acquisition via catalog/retail cannibalization. The next five years will be critical as the names dry up.
2. Merchandise brilliance. Easy/cheap new customers covered-up serious merchandising errors. These errors are now rearing their ugly head. Merchandising discipline will become critical.
3. Mobile. Carefully analyze the age distribution of loyal mobile users. If the age distribution is lower than your desktop/laptop customer, big changes are in the offing … changes similar to what catalogers experienced as e-commerce took over.

Retail: Omnichannel Is Not The Answer

What we continually read about (omnichannel) is in direct conflict of what is actually happening. What is actually happening? Get ahead of the curve, folks.

1. We trained customers to stay at home. For 10 years, 5 times a week, we told the customer to stay home. Our actions destroyed in-store traffic. This will result in 30% of stores closing, in my opinion.
2. Omnichannel tactics cater to core customers – cutting businesses off from the 13-34 year old audience that is shopping fast fashion, for instance.
3. Our industry has no choice but to find reasons, entertainment, strategies for causing customers to want to get in a car, drive to a store, and be entertained.

We Have All Become Media Companies

In many ways, we've become media companies. We are competing against all forms of entertainment.

Commodity / Branded products are moving to Amazon / Wal-Mart / Some Big Box Brands. Lowest price. Fastest shipping. Most convenience. None of us can compete with that. Stop competing against infinity.

What can we compete on? Unique merchandise. A compelling story. Great customer service. Entertainment. An emotional benefit. We can be interesting. The customer should WANT to spend time with our content and merchandise. Pick a customer. Pick the entertainment methods relevant to that customer. Offer unique merchandise & a compelling story & great customer service & emotional benefits.

What My Projects Tell Me

My projects indicate that growth comes from three areas.

50% = Merchandising Brilliance & New Item Brilliance (fuels customer loyalty & acquisition)

30% = New Customer Acquisition Brilliance.

20% = A Compelling Brand Story.

"Yes, We Already Know All Of This. Now How About You Help Catalogers Find A Path Out Of The Forest? Give Us Specific Tactics, Now."

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Specific Advice: **The catalog customer is Judy. Embrace Judy. Give Judy exactly what she wants.**

Specific Advice: If your core customer is Jennifer, then you are not a cataloger. You are a direct merchant selling to Jennifer via a website and catalogs. This is an important distinction. Classic catalog strategy is no longer relevant when marketing to Jennifer. It is ok to churn through Jennifer, just find more of her!

Specific Advice: Execute mail/holdout tests, learn your organic percentage, tell your attribution / matchback vendor to incorporate your organic percentage into your reports.

Payoff: $1,000,000 to $2,000,000 profit per $100,000,000 business.

Specific Advice: Mail / Holdout tests strongly suggest that phone-centric 0-12 month Judy customers should receive 15 – 35 mailings per year. Those same tests suggest that online-centric 0-12 month Jennifer customers should receive 3 – 9 mailings per year. *There is no longer a "mailing middle ground", it's gone*.

Specific Advice: Execute mail/holdout tests in email marketing. What happens when you do not email Jennifer? The best catalogers know exactly how to mix email contacts and catalog contacts to Judy and Jennifer. Often, page count reductions are offset by smarter email strategies.

Specific Advice: If your customer is a younger Judy and/or Jennifer, then have 5-10 versions of email campaigns ... merchandise centric of course.

Payoff = 20% increase in email productivity.

Specific Advice: Increase "winning new items" by 20% this year, next year, and the year after. Too few new items are the #1 weakness for my clients, hands down.

Payoff: 5% to 10% increase in net sales, compounded, per year.

Specific Advice: **Increase carryover of winning products, and have specific criteria for how long to carry over winning items.**

Payoff: 5% to 10% increase in net sales, compounded, per year.

Specific Advice: Partner with your co-ops … demand that they tell you what your customers are doing elsewhere in the Big Data ecosystem. Many of your co-ops know this already, they pass your data into the Mobile / Social ecosystem. Get a return on your investment, and gain some knowledge.

Specific Advice: **Immediately increase customer acquisition circulation by 20%.**

Payoff: 10% increase in new customers, a likely net of $0 profit increase this year, a likely increase in sales/profit next year. Grow!!!

Specific Advice: Do not be afraid to acquire customers via non-traditional methods ... and then limit how many times you mail these customers, moving forward.

Specific Advice: If you must go down the free shipping path, then you must fund those free shipping dollars (Jennifer) by reducing catalog contacts. Free shipping mavens are usually in Jennifer's cohort, and they are buying because of deals, not because of catalogs.

Specific Advice: The impact of free shipping decreases over time, so try to have a hurdle in order to generate enough profit to offset the cost of shipping (and if the customer is Jennifer … again … mail less often).

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Specific Advice: Be very careful about moving business into December. This is a huge trend right now, and a negative trend. December buyers have lower lifetime value than do buyers in other months, and are less likely to pay full price. (Bad * Bad) = Really Bad.

Specific Advice: **Given the choice between mailing a 128 page catalog one time per month, or mailing a 64 page catalog two times per month, always choose the 64 page catalog two times per month.**

Payoff = 10% Sales Increase, Annually.

Specific Advice: Merchandise the first twenty pages of your catalog with proven winners, with the exception of the very best customers, who crave new merchandise – paginate / version / target differently to them.

Specific Advice: **Stop demanding that your customer purchase from you NOW. In most of my projects, best customers (younger Judy, Jennifer) visit the website every 4-7 days. Why give away margin dollars when the customer will visit anyway, a total of 50 – 100 times per year? Why? WHY??**

Specific Advice: Measure the items that catalog recipients purchase. What percentage of items are in the catalog? If the percentage is 95%, then increased page counts matter. If the percentage is 75%, then you can scale way back on pages, save $$, and your customer will still buy online. FYI, Jennifer will buy online anyway.

Specific Advice: New creative / pagination performs 30% to 40% better than remail catalogs. Hire more people, talented people, and create exciting content. In 2015, catalogs are content … for Judy. Give Judy great content.

Specific Advice: **Share every aspect of your catalog business with a non-competitive partner. There is no reason why PC Connection and Orvis, or Crutchfield and Plow & Hearth should not share every detail of their strategy / measurement with each other. Learn. Grow!**

Specific Advice: **We spent fifteen years teaching customers to click instead of drive to a store. Customers listened. Create exciting reasons for customers to drive to a store – it's becoming a mission-critical imperative.**

Specific Advice: **Traditional Direct Marketers essentially give younger employees a 20 year apprenticeship. Those days are over. Give younger employees responsibility, now, especially in online/mobile tactics you know very little about.**

Specific Advice: **In pure e-commerce businesses, new customers, cannibalized from catalogs & retail brands, are slowly drying up. The next frontier e-commerce experts must master is the conversion of a first-time buyer to a second purchase. Evaluate your business. Independent of catalogs/emails, what tools do you have to convert a 1x e-commerce buyer to 2x status?**

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