Don Libey

Five Defining Trends in the Catalog Industry

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ABSTRACT

Don Libey contends that the Web-based, E-commerce construct described herein is the single most significant event of commerce since the Industrial Revolution, and that it will alter forever the catalog industry of the past and change it irretrievably into the massive scale, digital, transaction fee-based, operations and fulfillment consolidated, procurement infomediary construct for the future.

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Introduction

Redefining forces are converging in the catalog industry. These forces alter forever the concept of cataloging, as well as the process. The forces themselves have been self-evident over the past ten years; indeed, I have spent the past decade speaking passionately about those forces that are now meeting in the greatest transformation in the history of this industry. The influential forces include margin erosion, globalization, E-commerce technologies, growth of competition, and fundamental shifts in distribution structures. It is not these self-evident forces and the future trends now emerging that will define the catalog industry for not only the next five years, but the first quarter of the 21st Century.

Downtown and high street merchants were the hallmark of the 1950s; malls took over in the 1970s and 1980s; the “category killer” superstores superseded in the 1990s; now the trend is towards E-commerce for the 2000s. Interestingly, while the retail world and, to some extent, the business to business world was remade four times in the last half of the 20th Century, the catalog industry experienced consistent, stable, linear growth. Perhaps change has finally caught up with our industry.

When the primary forces of change -- margin erosion, globalization, E-commerce technologies, growth of competition, and fundamental shifts in distribution structures -- are all rolled into one mass of transforming energy and applied to a specific industry, certain outcomes are inevitable. Five of those outcomes are clear and worthy of exploration.

Price Determinism. Price historically was an outcome of the multi-level distribution system. The end-user price elasticity determined the several levels of price downstream from the manufacturing starting point. End-users lowest on the feeding chain paid more than those higher on the feeding chain; economies of scale determined price. The right to determine price was held and exercised by the seller. Requests for price concessions were made by the buyer. Sometimes negotiations produced price reductions, but ultimate price determinism was firmly on the side of the seller. Where price parity existed for all, the prices were marked as in the retail universe; where price parity was secretive, the prices were proprietary information as in the bid universe. The customer was required to bring to the table the economies of scale and quantity, contractual obligation, exclusivity, or other inducements to the seller to receive a negotiated price reduction. In return, the seller provided certain guarantees as to services, quality, delivery speed, and payment terms. The dominant price principle was that price was determined by the seller based on demand elasticity of the buyer. In other words, the seller controlled price.

Turn this historical construct upside down. Put control of price in the hands of the buyer. All sellers have a vested interest in maintaining high prices; all buyers have a vested interest in reducing all prices to their lowest possible level. On balance, over the length of the post-Industrial Revolution model of commerce, price has been controlled by the sellers. Suddenly, that long-standing construct has been inverted by technology and price control is rapidly shifting to the buyer.

Price determinism, or the point of price control, is altered by the capability for and ease of price comparison. When price comparisons are impossible or difficult, owing to secrecy, non-standardization of product, difficulty with value conversions, or other essentially mechanical reasons, price is firmly in the control of the seller. When price is easily and quickly compared, price is firmly in the control of the buyer. Aberrations to these relationships of price and control exist, but if one were to bet on the norm, one would be well served to conform with these ancient constructs of price and its point of control. Until now.

A hand-held computer has been introduced to the marketplace that has a built-in bar code scanner and a connection via cell phone to the Internet. This allows any buyer to scan the bar code of any product and see an instant price comparison from a price infomediary service on the Internet. Standing at the cash register of a retail store, one is empowered to ask the question, "Since I can buy this product cheaper at these 7 places, what will you do about the price?" Point-of-purchase price comparison of that type causes extreme nausea among retailers suddenly bereft of pricing control.

Among business to business sellers, especially catalogers, there exists a seldom-discussed truth: price is often maintained at the upper limits of elasticity; in fact, the business to business catalog companies have, for years, priced at the highest possible ranges to assure a sufficiency of margin. As response rates have dropped, the inflated pricing has been required to assure the ever-increasing cost to acquire a new customer could be sustained. Introduce the specter of price determinism to the business to business catalog world and the outcome will be anathema. These businesses cannot afford forced price reduction; shareholder demand for return on investment will not allow margin erosion of that degree. One begins to see how price determinism turns worlds upside down.

As a defining trend of cataloging in the years ahead, price determinism offers nothing to the cataloger; all gain is credited to the buyer's ledger.

Reactivity. The historical tactics of cataloging have been near-passivity expanding to proactivity, and maturing ultimately to "in your face" hyper-activity. To one degree or another, these were, however, all proactive tactics. The cataloger actively went out and created new customers, albeit often at a rate of less than two percent. The observable characteristics of this proactivity were media planning, list testing, aggressive roll-outs, frenzied database building and modeling, and the use of an entire information-based industry designed to segment buyers into manageable pieces of prospecting activity. The catalogers forced their catalogs into the hands of as many potential customers as possible; the mantra of growth was always, "Mail More!"

Now, the cataloger is being constrained to create a "Web presence" and to wait for potential customers to "visit their site." The cataloger is turning into a digital store-front retailer who attracts customers with "banners" and other visual signs hanging in their "Windows." Tactically, this amounts to reactivity for the traditional catalog company, not proactivity. Catalog companies are not very good at reacting; they know more about proacting. Once again, the norm has been turned upside down.

Reactivity is, by definition, a response to customer demand. In the previous model, the customer was offered product choices at set prices; now the customer is canvassing for a specific demand. Whether the seller can meet that specific product demand determines the sale: "I'm looking for orange ones, and if you have orange ones at less than $3.00, I'll buy them." How different that is from, "Available only in blue or green. $7.00 each/2 for $12.50." The new customer construct says, "Someone will sell me orange ones at my price." The prior seller construct said, "Redirect your expectations to either blue or green, and $7.00 each is our only price." At every turning of the E-commerce world, the norm is turned upside down.

Procurement Infomediaries. The third trend in the catalog industry that is seen emerging now and over the years immediately ahead is the rise of the procurement infomediaries. This is an impressive sounding title that is simply a name for a new type of distributor and middleman in the commercial process.

As the 1980s-1990s trend of disintermediation continues, middle distribution alters and either consolidates, mutates or disappears entirely. In its place is a new middle distribution structure that functions as a true intermediary. An intermediary exchanges information and provides services, usually for a fee. Think of an intermediary as a marriage broker. An arrangement is made; a fee is paid; a service rendered; a relationship established; the marriage broker has no part in the running of the marriage, however. The marriage broker brings an inventory of eligible brides and bridegrooms and makes connections at a fair fee and then disappears. The new intermediary, operating in a E-commerce milieu, performs the same function.

Amazon.com is, essentially, a procurement infomediary. Amazon provides the systems, the access, the information archives, the inventory arrangement through Ingraham's massive distribution warehouses, and the database functions. They do not own bricks and mortar, books, or have retail employees; they simply arrange orders for books and take a fee; hence, their category function: "procurement" and "information intermediary" or "procurement infomediary." Amazon.com is a huge interactive listing of all books and the Internet-based, reactive system that allows for the proactive, self-purchasing of those books by customers.

The trend emerging is an Amazon.com for every industry. Chemdex.com will offer 700,000 chemicals to industrial customers. Chemdex.com owns no chemicals; it has no warehouses; it arranges for the purchase, payment and drop-shipment of chemicals for an entire industry that uses chemicals, however, and takes a fee on every transaction. Chemdex.com is to chemicals as Amazon.com is to books. Chemdex.com is the procurement infomediary for the chemical industry, and it will process the vast majority of the chemical purchases in this nation within 5 years.

Name any industry or industry niche and someone, somewhere is building the procurement infomediary system right now that will dominate and control that industry or niche. It is estimated that over 100,000 procurement infomediary organizations will be created within the next 5 years. A niche like beekeeping will have its sole or dominant procurement infomediary, albeit smaller when compared to an Amazon.com or Chemdex.com, but most of the equipment and supplies necessary to the apiary industry will be handled through that single niche infomediary. Why? Price.

As supply and demand consolidation occurs through infomediaries, the economies of scale relentlessly drive prices lower. At some point, a buyer cannot afford to be on the outside of the procurement infomediary system that has emerged; it is simply too expensive not to be part of the new economic model of distribution and commerce. In a free market, it is almost always safe to bet on the side of lower prices, particularly where they apply industry-wide.

As this is written, the vanguard of smart investment money is looking for industry and industry niche procurement infomediary opportunities to back or create; venture capitalists, as well as institutional money, understand the significance of repetitive transaction-based fees. Procurement infomediary models have the potential of changing forever the economic structure of commerce. Rather than mark-up, transaction fees become the centerpiece of future profitability. Re-read the last sentence; it may, in fact, describe the most profound structural change ever experienced in the modern capitalism model, and it describes absolutely the most profound change ever to emerge in cataloging.

Consider the provocative future of business to business E-commerce by imagining the organizations and consolidated structures developing in the immediate months ahead to support such concepts as Plumbing.com, Electrical.com; Insurance.com; Autoparts.com; Gaskets.com; Filters.com; Lightbulbs.com; IndustrialSawBlades.com; Safety.com; Newsletters.com and on and on until there are no industries or niches left to colonize with the new commercial structure of transaction-based distribution.

Auto-Serve Customer Relations. Automating all of the informational, transactional and relational elements necessary to successfully complete a transaction will carry the catalog industry further away from traditional customer services and traditional operational procedures and protocols that rely heavily on one-to-one contact. After several years and many purchases of books through Amazon.com, I have yet to talk to or need to talk to a live person. After several years and many purchases of airline tickets through Preview.com, I have yet to talk to or need to talk to a human. Each of these organizations have organized and automated the information and the procedures to allow me to auto-serve myself easily, consistently and with faultless outcomes.

When price determinism is in the customer's control, and reactivity is systematized efficiently using technology, and economies of scale and price are compelled by procurement intermediary organizations, the customer is not likely going to be looking for a warm and fuzzy relationship; the customer is looking for exactly what the customer wants: an immediate successful transaction at the lowest price and the highest automated efficiency. That's all that matters in an infomediary-driven future; all the rest is tinsel.

For those who interpret this last paragraph as the beginning of the end of Customer Relationship Management, One-To-One Customer Relations, traditional Customer Service, or any other previous description -- you may be right. If not the end of these temporary constructs, all conceived and fleshed out essentially during the 1980s-1990s, then it is the beginning of a massive change in the way customers are serviced and related to by sellers. That change is the new construct that I call Auto-Serve Customer Relations.

If we examine the processes of service and customer relations, as they are best exemplified by Amazon.com and other procurement infomediary organizations, we find that 99.8% of everything a customer needs to do to achieve a satisfactory, efficient and successful transaction is automated at the Web site. Designing the automated services that allow for Auto-Serve is a process of creating and managing a series of complex algorithms that replace 99.8% of all the former "human resolutions" of all conceivable customer needs. For example, last night at 01:30 AM, I purchased ten books from Amazon.com and used a gift certificate purchased on-line for me by my daughter some months ago. The books and the shipping totaled slightly more than the gift certificate amount, a problem that would have normally required one or more "human resolutions" in the past or even today at one of the super retail bookstores. At Amazon.com, my American Express is archived and the algorithm calculated the difference and billed the extra--as well as the difference in shipping costs based on one shipment or multiple shipments--to the card automatically. The point: I had no problem doing what I wanted to do at 01:30 AM and I did not require a person or a "relationship" to make it happen; algorithm technology had created a flawless, seamless and transparent efficiency that made me happy. The price was low, the fulfillment was immediate, and the "hassle" factor was zero; Auto-Serve worked.

In another venue, examine the experience of, say, Dell Computer in servicing direct computer buyers. Help desk and technical support services generate, say, 65,000 phone calls a week, a significant overhead cost for the company. After development of an "auto-serve-like" system that allows customers to isolate and solve their own problems or questions interactively, the number of telephone calls are reduced by, say, 50,000 a week, or 2,600,000 calls a year. If an average phone call for customer service is 3 minutes, the total hours annually are 130,000; if a technical service representative spends 6 hours a day in customer contact, the total is 18,571 tech-days a year; at 220 working days per year, it takes 98 people to meet the demand for technical service. At a salary and benefit level of, say, $40,000 annually, the cost is nearly $4 million a year. If a Web-based algorithm could seamlessly, transparently and satisfactorily serve the needs of customers--and those customers were happy--would that be worth saving 98 employees and $ 4 million a year? Probably.

Before this important trend is reduced to simply an argument over technology versus "warm and fuzzy," it should be noted that my personal position has always been on the side of warm and fuzzy; in fact, my first book, Libey On Customers, was written urging the development of customer-focused strategies and tactics based on intimate relations between buyer and seller. Ten years and a burgeoning E-commerce later, however, I am persuaded to the seamless and transparent preferability of not having to "relate" to yet another supplier. This is a palpable trend; it is one that resonates in the consciousness of many--indeed, perhaps most--buyers in an ever-increasingly complex, noisy and brutish world. One cherishes the tranquility of a self-sufficient, successful transaction without problems or attitude.

As always, history is the best teacher of future trends. There was a time, less than two decades ago, when catalog shopping was considered outre; only a very small percentage of customers were willing to give up their "personal relationship" with their High Street or Main Street retail merchants. Today, nearly eighty percent of the marketplace has purchased from catalogs and an enormous, repetitive transaction channel has emerged globally. Why then should Auto-Serve or E-commerce and the self-sufficiency of transactions in anonymity be regarded with continuing scepticism and the hysterical admonishments of obsolete catalog patricians that, "Old-fashioned personal service will never go away!" Humbug! These models work better. The world has discovered that it can do without travel agents, insurance agents, booksellers, haberdashers, music stores, video renters, real estate agents, mortgage brokers, stockbrokers, and hundreds of other mark-up-driven constructs in favor of flawless, algorithmic, self-administered services and lowest-cost, transaction fee-based commerce.

Operations and Fulfillment Consolidation and Outsourcing. The fifth trend to be considered in the confluence of margin erosion, globalization, E-commerce technologies, growth of competition, and fundamental shifts in distribution structures is the massive consolidation of operations and fulfillment services and the resultant outsourcing by many niche catalog companies.

The ten books I ordered last night from Amazon.com just arrived at my door as I was finishing this article. Total elapsed time of fulfillment: 17 hours; total in-stock: 100%; total miles from the decentralized, outsourced warehouse: 38 miles. Economies of scale are demanded to achieve a level of seamless efficiency of that magnitude. The fact that Amazon.com is located on the Pacific Ocean coast of the U.S. and I live on the Atlantic coast and the warehouse handling my order is in Delaware is testament to the necessity for outsourced fulfillment; the satisfaction expected from the self-sufficient Auto-Serve relationship could not support the transaction unless outsourced, geographically dispersed fulfillment services were made an integral part of the business. The point: Amazon.com's operations and fulfillment barrier to competition is massive; small competitors without Amazon.com's economies of scale haven't got a chance.

Again, another venue, another procurement infomediary-like company: Viking Office Supply. Orders placed by 11:00 A.M. will be delivered to your door by 4:00 P.M. anywhere in the U.S. Why? Operations and fulfillment systems have been structured as consolidated businesses, and decentralized warehousing allows seamless, transparent fulfillment "reach" that drives a self-sufficient, Auto-Serve customer satisfaction. Simply put: It works, and I'll keep on doing it as long as it feels good! Viking has yet to make the transition from a mark-up-based company to a transaction-fee-based company--and, it may never do so--but, it could if it chose to adopt the procurement infomediary model and to use price as the driver for pan-industry domination globally.

The seminal element of this fifth trend is the ascendancy of operations and fulfillment discipline and structure to the absolute leading-edge of direct and catalog marketing. Re-read this last sentence as well; the back-end has become the centerpiece of these businesses. Product? A sourcing issue and a digital image on a screen. Marketing? A reactive positioning where customers can find your company. Catalog creative? Good Web-page design. Customer service? Algorithms in an interactive environment that have no bad days or require attitude adjustments. What is it that the customer experiences? The operations and fulfillment physicality; the seamlessness and the transparent delivery of immediate satisfaction. Those are the business-leading divisions of our direct and catalog companies of the future. Those are the breeding grounds for the next classes of CEOs.

Conclusions. The current vogue is to predict that the catalog industry will not change all that much; that it will expand much as the use of paper has expanded greatly in this, the "paperless" era; that catalogs will grow in their role as supportive media to the E-commerce world; that more catalogs are destined as the definition of direct marketing broadens and encompasses nearly all marketing.

Having reflected long and thoughtfully over my nearly three decades in the catalog industry in one way or another; having done the research for three books that explore the future changes of the direct catalog milieu; having talked to many smart people in the past three years who have a responsible and controlled hand on the E-commerce phenomenon--for that is what it can only be called . . . a "phenomenon" in the classic definition of the word: A rare, exceptional, significant event--and who truly understand its "turn the world upside down" implications; and having slowly but inexorably been persuaded from the solidity of the conservative, minor change position to that of the futurist who finally has sufficient performance evidence and facts at hand for a rational conversion, I conclude that the Web-based, E-commerce construct described herein is the single most significant event of commerce since the Industrial Revolution, and that it will alter forever the catalog industry of the past and change it irretrievably into the massive scale, digital, transaction fee-based, operations and fulfillment consolidated, procurement infomediary construct for the future.