

Diversify or consolidate? The list industry's dilemma

By Giselle Abramovich

IF YOU DISCOUNT the current brouhaha over the direct marketing industry's data practices, two themes stand out for the list services segment: diversification and consolidation.

Those trends, and an increased emphasis on multichannel marketing, reflect the quandary list brokerage and management firms face as they strive to remain competitive in this consumer-controlled media environment.

"Consolidation may help in some cases, but the key is partnership and cooperation in working together for the good of clients," said Phil Wiland, chairman of Wiland Direct, Longmont, CO. "The health and prosperity of our mutual clients is the most important ingredient in the health of the list industry. We need to hold that standard higher than any other."

Direct mail used to account for 100 percent of the marketing mix of most direct marketers. But that's not the case anymore.

"Fundamentally, what we are seeing is not best viewed as consolidation of the list industry," Mr. Wiland said. "Rather, it is a tendency of direct marketers to employ multiple media, adopt more sophisticated circulation strategies, and thus require more services from list professionals."

"The fundamental trend is increased demand for multichannel services and new, more sophisticated approaches to circulation planning that result in bottom-line improvement for mailers," he said.

Back then ...

The marketplace for data was different years ago than what it is today, said Fran Green, president of data management at ALC, Princeton, NJ. Data was the key to successful customer acquisition, retention and loyalty.

"The economy was robust, direct ordering was accepted as a convenient benefit for time-challenged consumers, and new products and services were entering the marketplace," Ms. Green said. "For data marketing companies, like ALC, it was much more of a seller's market."

In the booming days of the list industry, it did not take much of an investment to get into the game. An individual with a telephone, a vision and a few clients previously could launch a company. The list business today is complex due to a history of rising costs, multiple channels and superiority of sophisticated methods.

"Rising costs are, and always have been, a business reality," Mr. Wiland said. "The current postage increase is large, but not a new phenomenon. The inefficient postal system has been problematic for decades. Costs rise too much."

"Direct marketers have to find ways to offset rising costs not only with continued vigilance on the cost side but also with increased productivity of marketing offers," he said. "They must utilize new media effectively and push direct mail response rates up. Doing so demands



Fran Green



Donald R. Libey

"Agencies have limited knowledge about list brokerage and management"

— Donald R. Libey

multiple skills, multiple channels and sophisticated approaches to circulation strategy."

E pluribus unum

To deliver on these fronts, list companies are offering more services and some are consolidating in order to do so.

However, there are plenty of companies offering duplicate services at inefficient cost structures, according to Heather Winnicki, an account executive at Direct Media Inc., Greenwich, CT. Some list companies also are willing to sacrifice profit for the prestige of servicing an account.

"Some companies are consolidating for the potential money to be had on Wall Street, some are consolidating to provide superior services to their clients, and some are doing it because other industries are," Ms. Winnicki said. "If a company is consolidating for the pure profitability potential, then this increases the probability for the lines of ethics to be breached."

In the good old days, list brokerage firms were focused on education, religion, sales organizations, finance and similar niches within commerce.

"As these are consolidated, the unique list and industry characteristics knowledge is lost and those niches become part of a homogenized list world," said Donald R. Libey, president of Libey Inc., Des Moines, IA. "A greater change that appears to be beginning is the morphing of list firms to agencies, particularly e-commerce agencies."

Some list firms are offering full Web development, search, pay-per-click and similar services. The hybrid list firm/agency may also manage both print and Web creative for its clients.

"I have no problem with the list firm expanding to an agency, because these firms are grounded in direct and e-commerce mar-

keting," Mr. Libey said. "I do, however, have a real problem with agencies expanding into the list business. Agencies have limited knowledge about list brokerage and management and database management, and virtually none about statistical modeling."

"List firms can successfully add other services; traditional agencies do not have those same skills," he said. "As the list firms become more involved in the total multichannel service milieu, they will have the statistical and metric foundation to assure competency-based services for their clients due to their in-depth understanding of the precise, formulaic nature of direct marketing."

InfoUSA Inc., Omaha, NE, is a key driver of consolidation, with its purchases of storied list firms such as Edith Roman, Wilter Karl, MokrynskiDirect, Millard Group and Rubin Response.

Direct mail has always been expensive per piece but has always produced superior response. Today, costs have risen faster than response rates, creating a profit squeeze, Mr. Wiland said. So the way list companies are addressing this is by consolidating.

Diversification — or focus loss?

Interestingly, consolidation can result in diversification.

"In consolidating services, a melding of minds occurs, whether it is by the consolidated companies or companies watching consolidations occur, the catalyst for diversification often times arises," Ms. Winnicki said.

Mr. Libey is not very optimistic when it comes to such activity within the list industry.

"With a consolidated industry, what happens when it disappears?" Mr. Libey said. "What do we do when that firm is bought by a mega corporation in India or China? Where do we go to replace that consolidated list foundation for our country?"

"All of the experienced people will have moved on to other careers, all of the infrastructure will have been dismantled or sold, all of the vital relationships will be dissolved."

"We will have off-shored another asset of our commercial portfolio," he said. "Plus, in a time when it appears our global embarrassment — the Congress — is attempting to regulate anything that moves, a consolidated list industry is very visible in the privacy and information-regulation-feeding frenzy."

"The key to diversification is to offer services that you are prepared to do successfully," Ms. Winnicki said. "In other words, no one wants to be the guinea pig of a diversification strategy that was created just so a company can say they diversified. That is how disastrous mistakes can happen and in an industry where personal privacy is paramount, mistakes cannot be afforded."

For the direct marketing industry, companies like Direct Media that offer not only traditional list and insert brokerage and management services, but include agency (May Development) boutique (Clark MacKain), analyt-

ics, e-commerce and database services, give their clients a competitive advantage by affording them a comprehensive approach to their DM business.

Companies like ParadyszMatera, a New York-based multichannel media services firm, are diversifying their approach to offer their clients one-stop shopping as well. ParadyszMatera has a list business in addition to providing insert, modeling, research and analytics services. The company also has a digital agency.

Chris Paradysz, CEO of ParadyszMatera, posits that diversification is not a result of the changing list industry. It is the result of a changing consumer who is more Internet-savvy. It therefore opens the door for marketers to be able to target these consumers through various channels and not just direct mail.

Prayers or slayers

To succeed in this environment, a data marketing company needs a sophisticated technology and financial infrastructure, along with the capital to continually invest in upgrades, improvements and new products and services, ALC's Ms. Green said.

"Small companies may not be able to do that, and being acquired may afford them the opportunity to tap into the resources of a larger entity," she said. "Continued consolidation in the industry seems inevitable, but it is challenging the spirit of entrepreneurship and creativity that comes with independent ownership."

Ms. Green said that smart data marketing companies began diversifying and evolving their value proposition years ago. That's true for ALC. The company offers database management and fulfillment, data enhancement, modeling and analytical services, interactive products, insert media, private prospecting databases, competitive intelligence and industry trend reports.

Mr. Libey has been around the block a few times. He fears an over-consolidated list industry.

"If we are suddenly faced with only one or two large list firms, then that poses a very real danger to this highly fragmented world of multichannel marketing, not only financially but also competitively," he said. "Presently, the list firms grow and shrink based on results. Take away the competitive alternative and you are left with the potential of gray mediocrity."

Also, with consolidation comes what Mr. Libey calls the "vampire syndrome." List commissions will be reduced to get more and more brokerage until any remaining competition is either forced out of business or reduces its services and levels to a point where they can semi-compete.

"The consolidated firm slowly sucks the blood out of the industry, leaving it a bloodless husk," Mr. Libey said. "Competition is essential for innovation; competition is essential for high-service cultures; competition is essential for price control. With one or two consolidated 'super list agencies' we would have another silent partner preying our pockets, essentially another U.S. Postal Service."

"In every way, list industry consolidation is a bad idea," Mr. Libey said. "It is, sadly, inevitable. It will consolidate. Things will become intolerable. Then it will decentralize once again and return to competitive excellence. It will take 25 to 50 years and we will have lost massive amounts of time, opportunity and money in the process. Best to just leave it as is: the best list industry in the world." ■

Acquired Company

Opinion Research

MokrynskiDirect

Prediction Analytics

Edith Roman

Buyer

Merkle

infoUSA

infoUSA

infoUSA

Morex Mktg Group

Experian

infoUSA

infoUSA

Month/Year

April '07

Dec. '06

Nov. '06

May '06

Jan. '06

Oct. '05

Nov. '04

June '04