

## IS THE WEB “KILLING” THE CATALOG BUSINESS?



Three leading catalog brands, Lillian Vernon, Sharper Image, and Red Envelope, filed for Chapter 11 bankruptcy protection within a few months of one another in early 2008. At the same time, Bloomingdale's announced the closure of its mail catalog business to concentrate its direct efforts on growing internet sales. Were those isolated incidents, or is there a common pattern behind their failures, perhaps the impact of the web?

Pundits have already declared that “the catalog business is dead”. The catalog business is one of those hybrid industries (somewhat media, somewhat retail) that is not included in typical conversations about trends in the media industry, but there are many similarities. It would be hard to deny the impact of the internet on the catalog industry, given its similarities with the magazine publishing business. Why would what is happening to magazines be any different for catalogs? Paper and postage costs have increased dramatically in both industries. More significantly, the impact of the internet has shifted from being initially a source of cost savings (in customer service and order processing for example), to a source of competition. The web now competes against catalogs for new customer acquisitions, and against magazines for advertising. In each industry, the internet has now become a threat to legacy business models, and there is much discussion about whether and how that tide can be turned.

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I think the comparison to the magazine industry is quite revealing, but it leads me to a more nuanced view of the impact of the web on catalogs. The web's impact need not be uniformly negative on all catalogs, and could be negligible to even positive in certain cases. The analogy with the magazine industry helps explain this.

To stick to our theme, “magazines are dead” may be true for many magazines but not for all. Some news magazines, some business magazines, and some parenting magazines are “dying” for the same reason that certain catalogs are “dying”: the web is simply a superior platform to deliver the value of the content to readers, and new web-centric competitors are taking the business away from the incumbent publishers.

There are a set of characteristics about the information conveyed in magazines and the nature of the experience of reading the magazine that differentiate how a given magazine will be affected by the web. While some magazines are suffering, others are doing great. For example, magazines for which photography is a central part of the reader experience, or magazines that cater to an audience that seeks in-depth treatment of subjects (think Atlantic Monthly not

### **Lillian Vernon**

Newsweek) are still selling. Many women prefer paper copies of Elle or Vogue because they can take the books with the beautiful fashion photos to bed at night or read them during their commute (the magic of portability!). The web will not substitute for this experience any time soon and, all else being equal, these magazines will continue to do well.

The same pattern should be true for catalogs. In those product and demographic categories in which the web is simply a better delivery platform, catalogs are “dying”. For example, general purpose catalogs such as the Sears catalog are long gone. But in product/demographic categories where the functional utility of the catalog remains superior to its web alternative, catalogs are likely to continue to do just fine. High end catalogs with wedding or home goods are doing well because of the importance of the photography. Even catalogs that target youth are doing well. For example, CCS, a catalog company selling skate board gear and apparel primarily to young male skaters is doing great because the kids love to fold the book into their back pockets and backpacks and take it to school. Or, I can tell you from personal experience that, when the Birthday Express or Costume Express catalogs arrive in our household (with a 4 and a 6 year old), the kids consider the catalogs theirs and flip through them for days choosing the theme for their next birthday party or their favorite Halloween costume. These catalogs create a wonderful opportunity for parent/child interaction that just cannot happen around a PC, and many parents look forward to the ensuing conversations.



The other factor differentiating various catalogs is whether the target group is identifiable using readily available demographic factors. For example, Celebrate Express mails their Birthday and Costume catalogs into households with children, and there are dozens of good lists that the cataloger can buy to learn which households those are. Conversely, if you are Bloomingdale’s you must mail into households that want to buy from Bloomingdale’s. How do you characterize such a household? “Want to buy from Bloomies” is a psychographic attribute that is not observable, and therefore the cataloger is reduced to using demographic attributes as a proxy to identify households that are likely to “want to buy from Bloomies” i.e., households with above average income, with women present, who have purchased from catalogs in the past.

Everybody knows that there is at best only a very weak causality between any psychographic preference and demographic attributes (which is a fundamental issue of all non-addressable mass media today, but that is a topic for another day...). This makes the mail-based prospecting inefficient and expensive, particularly at a time when paper and postage costs are going through the roof. This combination of factors may very well be why Bloomingdales and other leading catalog brands have shut their catalogs down.

In sum, it is misleading to generalize the impact of the web on catalogs (or on magazines). That impact will be driven primarily by the consumer, as a function of how well a catalog manages to adapt its promise to a web-centric media environment.

Michael Zeisser  
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Liberty Media Corporation  
[michael@libertymedia.com](mailto:michael@libertymedia.com)

