

NEIGHBORS GROW MAIL ORDER CATALOG FROM SCRATCH

by Liz Plotnick,
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Gooseberry Patch began 14 years ago when two Delaware, Ohio neighbors, Vickie Hutchins and Jo Ann Martin, met by chance and discovered a shared love of country decorating and antiques. Their mail order catalog company, founded in 1984, began as an exciting way for two young mothers to work out of their homes and still watch their children.

Five years later, the business grew too big for their basements and kitchen tables. What started as a 12-page catalog with 40 items now features over 400 products, half of which are priced under \$20!

In 1992, with the support of loyal customers, Gooseberry Patch began publishing their own line of original cookbooks. And, in 1997, the company moved into its very own 17,000 square-foot building in the country...designed exclusively for the company's growing needs.

This type of rapid growth presents a company with many opportunities and challenges. In the beginning, Gooseberry Patch mailed their catalog to just 5,000 names and inventory was kept at a minimum. If a product didn't sell, Vickie and Jo Ann would personally purchase the items in order to break even. They, along with family members, would handle the phone and mail orders.

Today, targeting mailings to the right people is critical and mailing to the wrong people, more costly. Current mailings of nearly 5,000,000 must balance out to a profitable response rate. Selecting successful products is crucial...what would Vickie and Jo Ann do with 5,000 products that failed to sell? And, Gooseberry Patch now hires over 100

seasonal employees each year to help with order placement and fulfillment.

Getting to know your customer is more difficult than many new catalog companies would think. It was initially believed the Gooseberry Patch customers had young children at home. It took years to accumulate enough customer history to ensure proper results of a demographic study. When these names were compared with the census, it was discovered that Gooseberry Patch customers had grown in age along with Jo Ann and Vickie. The trend that Faith Popcorn called "cocooning" in her book, *Clicking*, was very evident in the Gooseberry Patch customer base and the types of products they desired. Year-round holiday decorations, cookie cutters, candles and collectibles are consistent best-sellers.

In addition, Gooseberry Patch hard- and soft-cover books account for over half of the company's total sales. Filled with old-fashioned recipes, family traditions, decorating ideas and easy tips that loyal customers generously share, each book is a treasured keepsake of what Gooseberry Patch is all about. Their first book, *Old-Fashioned Country Christmas* is already in its eighth printing. And Gooseberry Patch continually gives their customers new books to enjoy; nearly 1.4 million copies of their 13 hard-cover titles have been sold to date.

Casii Dodd, a Gooseberry Patch customer, sent this note:

"When a Gooseberry Patch catalog comes in the mail, it's not only a catalog, but also a connection to home and family in a world where people are finding it harder to keep in touch."

Success doesn't come easily, however. One of the most difficult lessons entrepreneurs learn when starting a new catalog is to fill their catalog with merchandise customers will buy, rather than products employees happen to prefer. Good merchandising and detailed inventory management are both an art and a science. Attending the many gift markets in search of best-sellers is just a part of this process. Trends, category sales and return history, square-inch analysis, and vendor relations are all a part of the equation when determining a product's profitability.

Simple example: You're aware that candles are a very hot trend right now.

Now you should attempt to determine if it can be profitable:

Total catalog costs	\$500,000
# of items in catalog	250
Cost per item	\$2,000

Break-even analysis per item:

Sales	X
Cost of Goods Sold	.5X
Gross Margin	.5X

Catalog cost per item	\$2,000
Fixed operating costs	\$1,000
Variable operating costs	.15X

Break-even net income \$-0-

X=\$8,572 Do you feel that these candles can generate \$8,572? Do you think you can buy them for \$5, retail them for \$10, and sell 857 of them? Can your vendor make 857 of these candles?

When Gooseberry Patch mailed its very first catalog with a miniature wing back chair on its front cover, the company purchased just one chair. When it didn't sell, Jo Ann purchased it from the company to turn the inventory. Today, a poor product choice is very costly. You will never get it right 100 percent of the time, but with proper inventory manage-

ment, risk is reduced if a product doesn't do as well as expected.

Developing a strong relationship with every vendor, whether a large importer or a small artisan, is also imperative to the success of a growing catalog. Vendors can point out new trends, educate your company and its customers about the items you're selling, and most importantly, must be able to produce and ship needed quantities to fulfill pending orders. In the above example, the catalog cost per item was \$2,000 — no company can afford to have such catalog space "sit empty" because a vendor may be unable to meet demand, and backorders can be very costly. For the upcoming Fall and Holiday season, Gooseberry Patch plans to work with over 90 vendors from across the country.

In addition to maintaining outside vendor relations, Gooseberry Patch faces the challenge of hiring and retaining seasonal staff. Located in an area that has an unemployment rate of under 3 percent, the company's permanent full- and part-time staff includes about 30 employees. During the Fall/Holiday season (July through December), both the customer satisfaction and order fulfillment departments need to increase staff by approximately 733 percent each. Gooseberry Patch managers strive to accommodate the schedules of local working moms and students by planning flexible shifts and work hours. This allows seasonal employees to earn extra holiday money while working around family obligations. Gooseberry Patch also offers high school clubs and sports teams opportunities to work on various projects. The company gives back to the community through fundraising opportunities, and in turn receives assistance with its time-consuming yet essential assembly and re-stocking projects.

Finally, the biggest challenge for a small, growing catalog is to balance key figures (sales per book, costs per item, profit per category, sales per customer representative hour, cost per package picked and packed, etc.) while maintaining the sense of creativity which initially brought the catalog to life! ♦

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Purchase Quantity — how many of the items for sale are being purchased on average? What's the contribution of the second or third item bought?

Future Re-Purchase Rate — how much repeat business are you going to receive that can be tied back to this particular marketing campaign? Except in the case of big-ticket items, people who buy your product once should not even be counted as customers until they have bought a second time.

Future Purchase Amount — how much are tomorrow's customers going to spend (don't forget to discount this potential revenue stream back to the present value).

Referral Rate — what's the discounted dollar value of new business sent your company's way by your satisfied customers?

The measured marketer is concerned with each of these, and builds a line item for each as part of the strategic plan. Then the evaluative process begins.

A Fascinating, Complex Challenge

The *pro forma* P&L quickly grows complex. For example, 500 people buying two products each would create the same revenue as 1,000 people buying one each (assuming the second purchase of the same item is not being offered at a discount). But of course, the first approach costs less. Since it does, would a slight discount on the second item purchased create even more sales? How would the forsaken margin be offset by the increased revenues? Or, as another example, if the marketer knows he can trade response rate to sell a higher-margin item, then at what point does a more focused campaign generate a higher ROI? (See the sidebar, "Does Response Rate Really Matter?")

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