

Everything You Ever Wanted to Know About Starting a Catalog

Yes, you can still start a catalog from your kitchen table, but it takes creativity, savvy and sweat

BY SUSAN MCINTYRE

AT LEAST ONCE a week, I receive a call from someone who wants to start a new mail order catalog. These callers fall into two categories:

■ Entrepreneurs in search of financial independence.

■ Established companies who want to add a mail-order catalog to their existing sales channels.

For the entrepreneurs: Yes, you can still start a catalog business on your kitchen table, but the rules are tougher today. Success demands creativity, savvy and sweat.

And for the established businesses: Your path to adding a catalog is quite a bit easier, thanks to the many synergies you can take advantage of when adding a mail order catalog to your existing marketing channels.

The Merchandise

Almost anything can be (and probably has been) sold in a mail-order catalog, but your life will be easier if your products have the following characteristics:

1. Can be photographed attractively.
2. The main benefit can be instantly understood just by looking at the photo and reading a short, clear headline.

How do you select hot-selling products? Some catalogers have an instinct for knowing exactly what the public wants—but for most catalogers, merchandising involves

a lot of trial and error. You must learn your audience's likes and dislikes, and all the focus groups in the world won't tell you what will happen when you finally mail that first catalog.

And remember that even top cata-

logers with years of experience seldom beat the Rule of Thirds: For any given catalog, one-third of the merchandise will sell well, one-third will sell OK and one-third will bomb.

One thing you can and should do is take advantage of any personal merchandising edges you may have. For example:

You're an expert in something. ("My family has made cotton candy for three generations, so I know cotton candy equipment better than anyone.")

You can get better prices. ("I speak Portuguese, so we buy directly from the factory in Brazil.") Personal edges like these help a lot in mail order.

Pricing and Markup

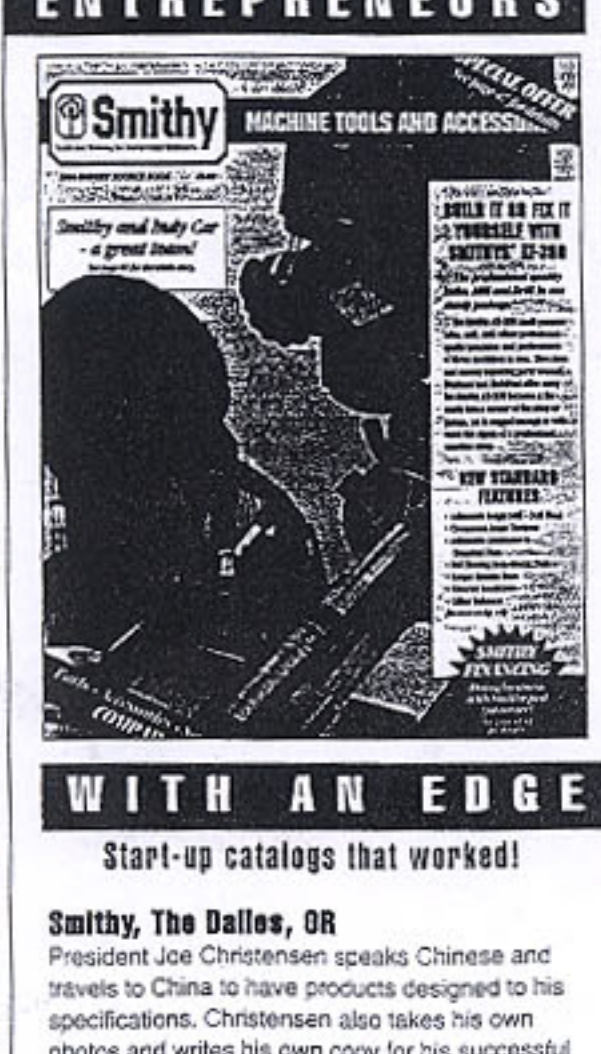
Importers/resellers often work with a 50-percent gross margin and a \$75-plus average order size. Manufacturers often work with 70-percent gross margins and somewhat lower average order size. Either way can be profitable.

But a 20-percent gross margin won't do it. Your gross margin (price minus cost-of-goods) must cover all your marketing and operational costs, and 20 percent is not enough.

And if your average order size is low, even 50 percent may not be enough. For example, food catalogers often have an average order size of \$40, and for them a 50-percent gross margin leaves only \$20 to cover all operational, marketing and over-

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ENTREPRENEURS WITH AN EDGE

Start-up catalogs that worked!

Smithy, The Dalles, OR

President Joe Christensen speaks Chinese and travels to China to have products designed to his specifications. Christensen also takes his own photos and writes his own copy for his successful new tool catalog.

CATALOG WORKBOOK... head costs. That's not enough. By contrast, upscale gift and decor catalogers commonly have a much higher average order size (\$120 is typical), and the same 50-percent gross margin yields \$60/order, which should cover all costs and leave some profit behind.

Inventory Issues

If you're a manufacturer, getting merchandise is easy—it's already in your warehouse. But for the rest of us, acquiring merchandise is a tedious process of shopping merchandise marts, trade shows, foreign travel, negotiation—whatever is required.

How much inventory should you buy? After you've gained some actual sales experience with a product, you'll be able to predict sales (and hence appropriate inventory levels) quite well—but for catalogers just starting out, I urge caution. It's true that buying smaller quantities increases your cost of goods and backorders. But that's better than getting stuck with a warehouse full of something you can't sell.

What level of returns should I expect? Food returns are usually less than 1 percent. Hard goods/gifts frequently show a 3 percent to 6 percent return. And apparel is the worst—returns are as high as 25 percent to 40 percent. Some will be restockable, some won't.

How many SKUs* should I have? More merchandise in your catalogs means more opportunities for each customer to find something to buy. Doubling your SKUs won't double your response rates, sales, and profits; but they will all rise by a healthy percentage until your catalog becomes quite large.

Some experts say you need 150 products (plus sizes and colors) to be profitable, but I've seen highly targeted niche catalogs make fine profits from just 25 products and 75 SKUs.

One tip: Higher product density per page lets you offer more products without increasing your printing or mailing costs. That's why so many catalogs are looking jam-packed these days.

Creating the Catalog
Don't go to a general agency for a

catalog. Catalog design is a specialized field, and you will be better off using designers and copywriters who have catalog experience.

Catalog design is one area where the lonely entrepreneur can match or even beat the biggest competitors. That's because the key to great catalog creative is to genuinely understand your audience and then to tell them your product's benefits clearly and persuasively.

But large companies generally send their designs through layers of committees, and the result is often expensive photography, beautiful printing, and no personality or meaningful message for the audience. I often see simple, inexpensive catalogs that pull three to four times better than fancy, professionally-produced catalogs, because the undernourished entrepreneur's little catalog really speaks to the audience's needs.

Printing and Mailing. Printing and mailing are potential problems for new catalogers. Ideally, the beginning cataloger would prefer to print and mail in small test quantities, with many ver-

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ENTREPRENEURS WITH AN EDGE





Linen & Lace, Washington, MO
President Sunny Drewel gained her lace expertise from her grandfather, who was a Belgian lace merchant. Drewel also has a special knack for PR, which keeps her customer acquisition costs low.

Start-up catalogs that worked!

*Stock-Keeping Unit (SKU): One item of inventory, regardless of quantity. One small woman's blue-and-white plaid skirt is one SKU. Fifteen small women's blue-and-white plaid skirts represent one SKU. Fifteen small, six medium and three large women's blue-and-white plaid skirts equal three SKUs. A women's small skirt with matching belt sold together is one SKU—even if the belt and skirt come from different manufacturers.

CATALOG WORKBOOK... sions to test various design concepts, merchandise selections and pricing levels. The winning combinations could then be rolled out in higher volumes.

But the economics of printing and mailing won't permit this. The price penalty for printing quantities below 100,000 becomes severe. So beginning catalogers generally must choose

between accepting high per-catalog costs for printing and mailing in test quantities, or risking large sums of money on large volume printing.

I believe you should opt for lower volume printing to limit total financial exposure until your new catalog has proven itself. The alternative is simply too risky. Of course, this means you won't be profitable at first. But you

won't go broke either while you learn about your audience and merchandise. After you've fine-tuned your operation, you can graduate to high volume production and dramatically lower your printing/mailing costs.

Building your Customer List

New catalogers are always surprised to learn that rental lists and ads are so expensive that they usually soak up all the profit generated by the first sale to each customer. In other words, your first sale to a new customer will usually generate a loss.

It's repeat sales where catalogers earn their profits. And that means that the key to long-term catalog profitability is to build a large house list of repeat customers.

The fast, expensive way to build a house list is to rent lists and take out ads. You can tap huge customer universes, build a house list fast and spend a lot of money doing it.

The slower, more economical way to build a house list is to use a variety of non-standard list building techniques. These techniques deliver "free" names that you generate via channels like public relations, using other lists you may already own, piggy backing your prospecting message with other vehicles that you're already sending out (packages, inserts, warranty cards, labels, general ads), using in-store guest books, and so on. Except for PR, these mostly apply to established firms, but PR can work particularly well for entrepreneurs. Several major catalogers have built their businesses primarily with PR.

Response Rates

You will not get an 8-percent response rate from any rented list. If you mail a well-constructed catalog to a well-qualified response list (meaning a list of proven mail order buyers who have bought something similar to your product by mail) you will get a 1-percent response if you are fortunate. If you mail to a "compiled" list (which contains people identified only by their demographic characteristics), you will get even less.

A little arithmetic shows that with any reasonable set of costs, you will lose money on the first sale to customers gathered via mailing lists. I mentioned this earlier—you rent lists in order to build your house list. not to

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Getting the Most from Your Printer

TAKING ADVANTAGE of some of the new state-of-the-art production processes and equipment can not only save you time and money but will help you produce a better quality product. For example, the introduction of digital proofing and saving text and images on a database have all but eliminated the need for traditional methods such as mechanicals.

Following are some tips on making sure you get the best printing job for your money.

- If you start with good material, you get good material. You can't resurrect something from nothing," says Don LaVigne, a customer service representative from Acorn Press, who's seen thousands of jobs—catalogs and other—through the printing process. His point is simple: start with a competent designer and high quality photography and/or artwork.
- Use a glossy stock and at least four colors. The reason for using color is obvious. As for more expensive stocks, LaVigne comments, "It's worth investing in a more expensive, glossy paper if a person will be looking through the catalog for a year." Hopefully, prospects will want to hold onto your catalog.
- Catalogs don't have to be as expensive as they might seem, especially when they're designed on desktop. Mike Abel of Lancaster, PA-based Abel/Savage Advertising, Inc., has designed catalogs for companies of all sizes. He comments, "Re-salvaging materials from the past is one of the beauties of electronic design. To save money, but still give a catalog a fresh look, recycle existing photography. You can develop a whole new look for an old photo by simply electronically re-sizing it—no re-separating as in the not-

too-recent past and no being forced to make do with the old size to make budget. And, the photo has the added advantage of having already been color-corrected and approved."

LaVigne adds, "Some of our most cost- and time-efficient catalogs are done with clients who do repeat projects which entail minor changes. Electronic files may be inventoried, then easily accessed and revised on a regular basis."

- You or your designer must be aware of your printer's capabilities, says Frank Kenavan, electronic prepress interface manager for Acorn Press. "Knowing your printer's hardware and software is key," he notes. "If you're like our clients, you'll be surprised to find out your printer can do more than you assume. This can save valuable time and money—but only if your printer teaches you how to best submit a desktop file."
- Kenavan also urges you to realize that savings are overall. He explains, "Desktop designers who work directly with printers for electronic prepress operations will save the money otherwise spent for separators, typehouses and service bureaus. But be sure to compare apples to apples. Your printer's price may appear higher, but, remember, it reflects prepress operations you'd normally be paying for elsewhere."
- In addition to the efficiencies of working electronically, one of the great efficiencies Abel takes advantage of is working with a printer he knows he can trust. He says, "There are a lot of Johnny-come-latelies out there. I can't afford either production or personal time schooling a newcomer. It pays to go back, whenever possible, to a printer that's proven its ability to carry a whole project."

earn money on the first sale.

Can you do better than 1 percent on a cold mailing to a rented list? Probably not. Many beginning catalogers pump up their projections by applying 3-percent or 4-percent response rates to their rented lists, but this is unrealistic. It's better to use reasonable response rates, and think of the loss on the first sale as your cost to add a new customer to your house list.

What response rates can you earn from your house list? Catalogers commonly earn house list response rates of 3 percent to 10 percent—sometimes more from certain subgroups. And since you own your house list, your costs are lower too. Repeat sales to house list customers will be your main source of profits.

Order Processing and Fulfillment

Each order you incur from the moment an order arrives until the moment it ships is order processing and fulfillment. I've seen total costs as low as \$7/order, and as high as \$20/order. And there's no

relation between cost and customer benefits, either—the \$7/order operation was fast, responsive and efficient, while the \$20/order operation was slow, sloppy and irritating to customers.

Try to keep this cost below \$15/order, preferably below \$10. Here are some proven ways to hold down operations costs without sacrificing customer service:

- Keep your return rate (and hence your customer service costs) low. One good way is to show each product in your catalog realistically, so customers won't be disappointed. Another is to pick and pack accurately.

- Answer as many questions as possible in your catalog. When customers call with questions, that means your catalog isn't doing its job. Keep a question log, and pack the answers in your next catalog.

This month, I've covered the basics of starting a mail order catalog. In a future issue, Part II of this article will look at the special synergies that are available to established businesses adding a catalog.

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ENTREPRENEURS WITH AN EDGE

Start-up catalogs that worked!

Guggisberg Cheese, Millersburg, OR
President Richard Guggisberg learned cheese-making from his dad, a Swiss-educated Master Cheesemaker. Being a manufacturer keeps his cost of goods low.


SHIPPING COSTS TOO HIGH?

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Jiffy Foam


Jiffy Bag


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Jiffy Co-Em


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