

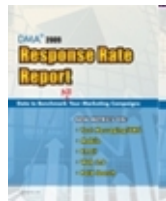
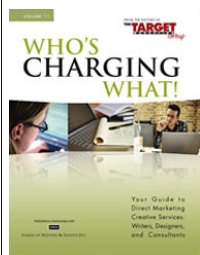
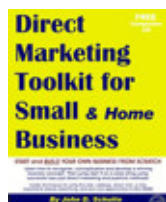


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Tough Times May Still be Forecast, but The "Three Cs" can Help Catalog Retailers Weather the Storm

By Patrick Fodale, Managing Director, Loughlin Management Partners + Company

The 2011 holiday shopping season ended with reasonable cheer. The National Retail Federation estimated that November and December sales increased 4.1 percent over the same period in 2010. This boost, along with catalog demand growth of an estimated 3 percent to 4 percent through the first three quarters of 2011 driven largely by increased circulation, signals an improving climate.

However, catalog retailers shouldn't start to celebrate just yet. These gains may not translate into robust profit growth given last year's higher merchandise and shipping costs, primarily due to commodity-driven inflation (think cotton and oil). And a host of other issues will likely burden catalog companies in 2012, including a still fragile economy, low consumer confidence, the distraction of the election cycle, higher shipping costs, postage rate increases and operational cuts within the U.S. Postal Service.

What can catalog retailers do to face these headwinds? Over the last few years, most companies have repeatedly combed through their budgets to reduce catalog and operating costs. Typical cost reductions have included producing less expensive catalogs (size, pages, paper quality, etc.), cutting staff, eliminating benefits (or increasing employee contributions), and reducing travel. By focusing on some "not-so-obvious" opportunities, or the "three Cs" – Costs, Customers, and Combinations – management can help weather the upcoming storm.

Let's start by looking at the first "C," Customers.

Customer acquisition – Prospecting for new customers is extremely expensive for catalog retailers who only use the traditional method of list purchasing. To attract new customers, catalog retailers need to consider search engine optimization techniques, better use of social media and "friends and family" type discounts to encourage your best customers to spread the word. Smart use of these techniques can quickly yield results; for example, partnering with Google or Amazon can help even the smallest catalog companies reach a new, wider customer base quickly.

Drive orders online – Even the most efficient call centers generate significantly higher costs than orders placed on the internet, where order placement costs are measured in cents as compared to phone order costs of \$3 to \$4. So, catalog companies should not only cultivate more customers, they should target and attract the right kind of customers. For direct retailers, that means online customers, not phone customers.

Driving online orders makes more efficient use of a company's eCommerce platform. As orders shift online, call center management can reduce staffing and consolidate offices or centers. To spur more online ordering, instructional greetings can navigate callers to the company's website. Also, promotional discounts or free shipping for online orders can be used to incentivize customers to move to the Internet. And once a customer orders online, there is a strong likelihood of repeat online business – according to a Nielsen Global Online Survey of more than 26,000 Internet users, 60 percent of online shoppers say they buy primarily from the same sites.

Let's examine the second "C", additional ways to cut costs, especially if the obvious steps have already been taken.

Invest in IT – Invest to save. Even for the least sophisticated Internet users, ordering online should

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be just as easy - or easier - than ordering over the phone. That makes a competitive eCommerce platform vital, and one area where an added investment can pay off quickly in significantly reduced costs. In general, IT costs go down when functionality has improved.

Additionally, merchandising, fulfillment and inventory management systems should be properly integrated to maximize distribution efficiency and limit over-stocking. These upgrades can seem costly but efficient fulfillment is essential to maximizing profitability. And the payback is almost immediate.

Outsource non-core functions – The merchandise selection (the perceived value) and the look and feel of the catalog/mailling/website graphics (the look and feel) are "core" to a catalog brand. So beyond merchandise planning (design, sourcing, pricing, etc.) and catalog creation, all other functions are non-core and should be assessed for outsourcing.

For example, if a company's scale, systems, resources or competence is limiting its operational efficiency in certain areas, perform an assessment of the cost/benefit of outsourcing those functions. This is especially critical for smaller catalog retailers that don't have the economies of scale of their larger competitors. Keep in mind it's not just the call center that can be outsourced effectively today; all aspects of fulfillment, from warehousing to distribution, can frequently be outsourced to save money and improve operations.

For multiple brand catalog companies, this outsourcing principle can be applied internally. Duplicative functions within each brand can be consolidated into "central services" groups. Shared services can go beyond the typical IT, finance and administrative functions to include catalog production, circulation planning, purchasing, and inventory management.

Ask and you shall (usually) receive – In this environment, vendors are under pressure to retain business, and are ready to negotiate with their best customers. Therefore, catalog retailers should negotiate aggressively with vendors on pricing. One of the biggest opportunities is with printers, many of whom are just trying to survive. In addition to negotiating lower pricing and bulk discounts from vendors, retailers should also consider asking for better credit terms, such as higher discounts if bills are paid in less than the typical 60 days. And don't forget equipment lessors, which have fewer new revenue prospects these days and generally lower cost of capital. They are typically willing to make deals.

Another area to look at is rent expenses. Commercial real estate vacancies remain high, and many landlords are still willing to negotiate monthly payments and offer other benefits and enticements to keep tenants.

The final "C" in our "Three C" approach is Combinations.

Mull a merger (or acquisition) – In an environment where competitors are struggling, it's time to think about mergers or acquisitions. The time might be right for a catalog company to acquire a competitor, to expand its customer base and gain economies of scale. Valuations have stabilized, and there are still good deals to be had in this economy, especially if a competitor's offerings enhance or complement existing product lines.

While mail order and catalog companies can't control the many unknowns that lie ahead this year, they can take control of their company's cost structures and operations to save money. Even a strong company can become more competitive by incorporating some new ideas.

About the Author:

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