

Cost-Cutting, Revenue-Building Checklists '09

By Stephen R. Lett

Don't cut recklessly; it'll cost you

The economy's in the tank. Costs continue to increase. Response rates are down. What can you do to cut costs that you haven't done already? You can't slash and burn your way to prosperity, even in difficult economic times. I see catalogers making cost-cutting decisions that'll negatively affect their businesses in the long term. It's not just a matter of reducing expenses, but rather a combination of continued marketing with smart expense control.

One of the first things catalogers do to save money is cut circulation. In his B-to-B Cataloging column in this issue (see pg. 26), my fellow columnist George Hague explains some effective ways to do that when you basically have no choice and management insists you do so. But my personal opinion on circ cutting is it's a wrong move, period. A drastic cut in circ doesn't necessarily mean improved profitability. Circ cutting can accelerate a downward spiral, which is difficult to reverse.

Reducing circ will reduce the amount of business you do through the Internet (the catalog remains the largest single driver of traffic to the Web — see my February column for more on that).

Above all else, don't let your 12-month buyer count decrease. With this in mind, here's my five-step economic checklist for reducing expenses, followed by a three-step plan to increase your revenue affordably.

5 Steps to Cut Costs

For this list, consider first and foremost a tactic I've strongly recommended in past columns: co-mailing (even for smaller mailers); then take it from there ...

1. Stop mailing one-time-only Internet buyers. Most first-time Internet buyers never make a second purchase. They were surfing the Web for a specific item they wanted, so mailing them catalogs has little impact. Start by eliminating them from your circ plan.

2. Stop mailing rental multibuyers generated from the co-op databases. There's a 25 percent to 30 percent duplication rate from one co-op to another. Rental multis created from co-ops against co-ops generally don't perform well, although rentals against rentals, and rentals against co-ops, are fine.

3. Reduce paper costs. Paper prices have been coming down, so push your printer to ensure these savings are passed on to you. Get a competitive bid from a reliable catalog paper merchant. Consider buying your own paper and managing its use as a way to control costs. Don't just switch to a lower-weight paper or a super cal sheet (i.e., SCA) without first testing the effect on response. Lost sales can more than offset the savings.

4. Reduce the number of version changes. Don't repaginate every time you mail — versioning is expensive. Try a simple front cover change. Print to mail three times, changing just the front cover. You can produce two extra covers for less than \$1,000 per cover change.

5. Save postage using add-a-name. This age-old process of adding one or two records to a carrier route to qualify for a discount where you were previously short of the 10-per-carrier-route requirement works. The records added bring your postal costs down.

Most mailers need a national circulation of 700,000 or more before add-a-name makes economic sense. At this level, about 5,000 to 10,000 catalogs will be added.

3 Affordable Ways to Increase Revenue

1. Increase page count if you can. Don't reduce pages to save money. Adding pages and selling more products to existing customers are good ways to increase sales, especially when business is hard to come by.

Pages are a good value. The cost to increase pages is approximately one-half the percent increase in the page count. Sales should increase by approximately one-half the percent increase in page count, i.e., an 8 percent increase in page count will equal a 4 percent sales gain.

2. Add a housefile drop. Reducing the number of drops means eliminating a mailing to the housefile — and that's never good — so try adding an extra drop. The housefile is what generates income. It's the lifeblood, and it's difficult to overmail certain segments.

Obviously, not all segments should be mailed. Your RFM results will let you know how deep to mail. Leveraging your own database can have positive results.

3. E-mail append program. Append e-mail addresses to your customer file when the e-mail address is unknown. This costs about 20 cents per e-mail address delivered to you. It's a cost-effective way to increase the number of e-mail addresses you market to regularly.

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