

Controlling Mail Order's Key Expenses

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Controlling Mail Order's Key Expenses

At this time you may be starting a mail order business maybe you started a business some time ago... In either case this information is designed to make you aware of the critical expense

categories of our business

Business entrepreneurs generally channel most of their energies into building a customer base. We all know that without customers there will be nothing else to worry about.. At the same time it is important to be very cost conscious right from the start. The mail order business requires very cost conscious management.

A mature mail order business has 6 major expense categories which will make up about 85% to 90% of its total monthly cash outlay:

- Cost of product
- Advertising
- Postage
- Printing
- Labor
- Rent

The new mail order enterprise will however not be concerned with either labor cost or rent for office or warehouse space. Those expenses will come later as your business grows, However, the other 4 expense categories are critical from the start.

1. Cost of Product

These are the items you buy from your suppliers for resale to your customers. In the first two years of operation your cost of product will be higher than later when you can buy in larger quantities at better prices and when you have a good understanding of what sells. At the start it is important to know

that your cost of product should be kept at below 35%. That does not have to work out for each product but it should represent an average for all goods. You may for example elect to have some sales leaders which have minimal mark-ups but you feel that they will generate additional sales. Your mark-up may be as little as 10%. On the other hand, you will have items that have mark-ups of 10 or even 20 to 1.

In establishing your pricing you must be aware what your competition charges. It is best to be in line or slightly below your competition. Or you may choose to charge more than your

competition because you give more or better service.. Do not succumb to greed. Newcomers to the mail order business sometimes commit this folly. Since volume of sales is ultimately more important than profit per item careful pricing is important.. If the cost of a book you are selling for \$15.00 is \$4 you may be better off to lower the selling price to \$12.00 and increase your sales. As you know - since you are one of them - the American consumer is very sophisticated. Suckers are in very rare supply.

The dropship method is the only way to go for a beginner. This way you do not have to tie up any start-up capital for inventory.

You want to be sure you are dealing with a reliable company and therefore price will not be your only consideration. Make sure as possible that your supplier is as responsive to a \$4 order as to a \$100 order. As soon as your volume increases start shipping and you will be in a position to enclose your promotional material.

2. Advertising

This is a major expense for a new mail order company and in the early months of building your business it may be your highest expense. Essentially in our business there are only two ways to find new customers via advertising or via direct mail.. Although many newcomers have a fascination with mailing lists they will soon learn that adverting is more effective and less expensive. Here is a hypothetical cost comparison for both approaches:

Direct Mail - 1000 pieces

Mailing list

\$40.00

Postage (bulk rate @ 0.16.7)

167.00

1000 #10 envelopes

55.00

1000 return envelopes

50.00

Promotional material (est)

120.00

Total excluding labor

432.00

Cost per unit

\$0.43

Response 1.5% == 15 orders

X avg sale \$25.00

375.00

Cost of product 35%

130.00

Net

245.00

Loss for above mailing is

<187.00>

Although the above is hypothetical, it must be understood that returns of higher than 1.5% are rare when using someone else's list. When using your own list, they may be substantially higher.

Therefore direct mail campaigns rarely work unless the average

order is in excess of \$45.00 or you profit per order is about 500%. Before you undertake a mailing you owe it to your pocketbook to calculate your expected return. Your aim should be to break even at a 1% rate. Our mailings are geared to break even at 0.7%.

1. Response for a well written classified ad in a monthly publication may vary between 60 to 250 depending on the publication and the season.

2. The national average for conversion from inquirer to buyer is between a low of 5% and a high of 12% depending on price and other factors.

In the advertising scenario, you have a good chance to make a little money right from the start. Many mail order companies are satisfied to break even. The initial effort in responding to the inquirer of your classified is only the start. Over the next 12 months you should be sending at least 3 more mailings to those inquirers who did not buy the first time.. And you should mail to

your buyers about every 6 weeks to 3 months until they have not bought from you for about one year. Now if you had a crystal ball

or a very sophisticated way of tracking the progress of each of the above initial 150 inquiries of your classified ad and could take another look at the results a year later, you would most likely be very pleasantly surprised since the \$23 has now grown to several hundred dollars.

The greatest assets of a mail order company are its mailing lists. In the beginning you will have zero names, a few months later you may have a couple thousand, a year later 10,000 and gets out on a daily basis, the more orders will come in. The more

mail are several important ways you will save money in your advertising:

1. Select well known monthly publications which are read by individuals interested in what you have to sell. Monthly publications will generate inquirers over many months since they are kept on hand and read by different people. Bi-monthly or weekly publications may be acceptable also. Stay away from Daily Newspapers. They have a shelf-life of a day or less. They should only be used for testing... And above all stay away from "cheapies" like ad sheets, shoppers papers, etc.

2. When evaluating the cost effectiveness of an ad it is not the cost of the ad that counts but the number of inquiries it generates. A very inexpensive \$15 ad which generates 3 inquiries, \$5 per inquiry, is terribly expensive compared to a \$150 ad which

generates 200 inquiries, 0.75 per inquiry.

3. To test an ad one insertion is enough. The results will either be very good in which case you should buy 3 insertions the next time for a saving of about 10%, or the results will be average in which case you may want to run another test, or they will be poor which may be caused by any of the following reasons: Wrong publication, wrong heading, or ad, reader not interested in the particular offer.

4. Keep the cost per inquiry below \$1.00

5. Write a tight ad. Each word including your address is counted.

6. By all means, set up your own In-House Advertising Agency. It is easy to do and will save you 1% right from the start.

3. Postage

Postage is a big expense for any mail order firm.. This cost covers three areas: Responding to initial inquiries, cost of shipping orders to customers (this will include carriers such as UPS) and the cost of repeat mailings to customers and previous inquiries.

The first category of responding to initial inquiries is most often handled via First Class Mail. If the cost of mailing a single piece exceeds 65 cents strong consideration to use Third Class Bulk Mail should be given. This is especially true if catalogs are mailed to prospective customers.

Repeat mailings to previous buyers and inquirers as well as mailings to a rented list should always be sent via Third Class Bulk Mail. The exception to this may be when mailing a piece which weights 1 oz or less. The cost for First Class postage is 25 cents compared to 16.7 cents via Third Class Bulk Mail.

Following is a broad overview of the usage of bulk mail. Your local POst Office will give you specific information. The major advantage of using bulk mail is the considerable savings. The major disadvantages are the time it takes for a piece to reach its destination and the reliability of delivery. Recent surveys have indicated that a sizeable percentage of bulk mail never reaches its destination. This appears to be especially prevalent with light weight pieces such as #10 envelopes.

Basic requirements to utilize the bulk mail rate are that a bulk mail permit has to be obtained. The annual cost is \$60.. Anyone can obtain this permit.. Secondly, each mailing must have a minimum of 200 pieces and it must be sorted by zip code according to Post Office regulations.

The rate for the first 3.37 oz is 16.7 cents. Weights in excess

of that weight are calculated by the combined use of a per pound and per piece rate. Each piece in a mailing must have the identical weight.

If as an example your piece weights 3 plus ounces your rate to send it via First Class mail is 85 cents. This compares with 16.7 cents for bulk mail... If you were to send 1000 piece per month, First Class cost would be \$850.00 versus \$167.00 for Bulk rate. This is a very sizeable difference. Even if you lost a few potential customers, it would most likely still more profitable for you to use bulk mail.

Bulk mail will generally reach its destination in a radius of about 500 miles in about 7-10 days, 500-1500 miles, 10-15 days, over 1500 miles 15 to 25 days. Some mail order companies will use a combination of bulk and first class. They may use bulk mail for destinations of less than 1500 miles and first class for greater distances.

If you can not generate at least 200 pieces per week you may want to consider to combine the responding to new inquiries with remaining the same piece to a previous inquiry.

The cost of getting the product to your customer is also quite expensive and needs to be carefully managed.. If you are utilizing the dropship services of a supplier you will not have any control over this expense.. It is advisable that you ship at least some of the orders yourself as soon as your volume makes this feasible.

The Post Office has given shippers of books and certain other bound written material a special rate category which makes substantial savings possible. Special 4th class mail costs 95 cents for the first ounce and 35 cents for each additional ounce.

Unless your customer pays you extra for first class or UPS service, this class of mail should be utilized. It will take a little longer in reaching its destination, but the savings are quite substantial.

UPS rates are generally less expensive in distances of up to about 1100 miles when compared with first class rates. Since UPS charges a basic weekly pick-up rate of \$5.00 you may want to utilize the services of an outside company until your volume is large enough to justify daily UPS pick-up.

4. Printing

Printing is another major expense and, unlike postage, a certain percentage of your printing cost may be for material that will become obsolete before the supply is exhausted. This is especially true for beginning mail order operations. You may

decide to discontinue promoting an item and find yourself stuck with several thousand useless circulars.

For the above reason it is wise in the beginning stages of your new business to print in small quantities until you know exactly what sells and how it should be promoted.. You may wish to make exceptions for certain items such as envelopes which have continued usage. Printing in small quantities will cost more per piece but it is better than throwing money into a trash can.

As your volume increases and you see fit to have larger volumes of given pieces printed, be very careful in selecting your printer.. In addition to price you will, of course, also be concerned with quality and service. Some printers will provide additional free services with a print job, such as typesetting.. Always obtain several bids when doing larger jobs.. For example, at this time (summer 1990) 1000 11 x 17 pieces (this is a 2 page foldover) imprinted on both sides will cost \$130.00 in the Washington, DC area. The very same piece can be done by a printer in a medium size midwestern city for a little as 435.00. This represents a difference of over 8 cents per single piece.

If you are doing business in one of the many high cost areas of the country or in Canada, by all means consider doing business with out of town printers. You will see many ads in mail order publications.. Some of the best prices can be found in some midwestern and southern states. Lower labor and operating costs make these prices possible. Before giving a larger job to an out of town printer test his quality with a small job.

The cost of creating camera ready art work through professional graphic designers is substantial. It is strongly recommended that you utilize the free art work supplied by many suppliers until you are large enough to absorb this substantial expense or are able to produce it yourself through a desktop publishing software program.

Learning how to think on a per unit basis is real important in our business. The cost of printing, mailing and other costs are generally quoted and calculated for 100 pieces.. But to evaluate the cost effectiveness of mailing or advertising, etc get used to thinking in the per unit mode.

An acquaintance of ours who recently did mailing of 32,000 pieces was able to make a small profit on his mailing which was of limited success by making tow changes: 1. He utilized an order form which was built into the piece rather than a separate order form -- saving 2.7 cents. 2. He used a #66 3/4 business return envelope instead of a #9 envelope -- saving 0.4 cents. The saving was 3.1 cents per piece or \$992.00 for the entire mailing.

