1. **Negotiate additional margin.** After negotiating a final price on buys, negotiate out ad allowances, trade discount terms, return allowances, overstock return privileges and other possible allowances to further reduce price. Although payment terms are negotiable, keep in mind that if you ask for ongoing 60 day terms, suppliers will factor in the cost of money for 90 days (recognizing that most buyers pay beyond negotiated terms) and will subsequently increase your base merchandise cost going forward. Once that increase is factored in your cost, it will be harder to negotiate it out. Bottom line: take control of your costs and manage your business more effectively. Considering these steps could gain several points of margin.

2. **Ensure the profitability of chasing backorders, especially lower retail price points.** As backorder costs average between eight and thirteen dollars, planned overstock (within reason) may be a better option. For example, liquidating a $20 retail item, using an $8.00 cost, would result in a loss of fewer than seven dollars versus the average overstock costs and potential long term disappointed customers and future lost sales. The amount of overstock and potential liquidation costs must be measured against these factors for your company.

3. **Don’t split purchase orders inefficiently just to improve flow.** As we try to maintain lower inventory levels and more “just in time” inventory flows, always consider the cost of freight, DC efficiencies, etc. into the equation. If you improve inventory turn but pay more in freight costs for multiple shipments or your warehouse has to increase their variable costs to process the additional shipments, the net result may be a loss.

4. **An upsell feature on the web is a visual reminder of how much money a customer can spend before the next shipping & handling threshold is met.** King Arthur Flour is an excellent example of how to improve upsell and increase items per order. Showing the amount available, relevant choices within the price range balance, and one-click addition to the cart is a feature that every multichannel merchant needs to include.

5. **Monitor search terms on your web site.** Use the most frequently used terms as part of your keyword search to enhance organic search within copy blocks as well as use within print media. One excellent way to increase productivity is to review the terms that are “not found.” You’ll learn the wording and spelling that customers are comfortable using. As an example, one important finding was the use of the word “wheelie bag” instead of “carry-on luggage” or
“roller bag”. Use this information to modify your search terms. Also, transferring these learnings to headlines and body copy immediately captures customer interest.

6. **Price markdowns based on inventory** and use web hot spots and top product sort order to expose the most attractive markdowns. Keep in mind the general reason for a markdown is to sell slow moving inventory. In effect you want to entice the customer to buy what YOU want them to buy (based on your overstock inventory), so offer the greatest markdowns on the items, colors or sizes where you have the largest inventory rather than a standard percent off approach.

7. **Use the web for liquidation.** Before the wide spread appeal of the Internet, sale books were generally the largest movers of overstock inventory both for quantities and net margins. However, sale books are now a distant second to the advantages of the Internet. Net margins are much higher as you are not locked into printed price and the cost of Internet liquidation is negligible compared to costs of a printed and mailed sale book. In addition recently identified overstocks can be added to a web’s sale pages and just as quickly removed should it be sold out. Following the markdown pricing guidelines mentioned in our previous point, companies are able to move substantially all their excess via the Internet.

8. **Demand vendor compliance, be fair not a sucker.** Regardless of the size of your company, it is imperative to establish a vendor compliance manual for all suppliers and enforce it! A partial list of inclusions: requirements for packaging (include box strength if you have fragile items), item labeling and placement, boxing (e.g. pick boxes), routing instructions (i.e., which carriers they should use when shipping to you), chargeback policies for violations or backorders, carton label requirements, etc. I have never been an advocate for creating a line on the P &L for “income from vendor chargebacks” however by creating a policy that they will be charged for example, $5.00 for every backorder and enforcing it, helps the suppliers understand there is a cost to your business for their mistakes. By reviewing these policies with your suppliers up front, you can actually build a stronger partnership and address concerns on both sides up front, thereby avoiding in season delays and additional costs to your company.

9. **Paying an up-charge for buying less than minimum quantities may be a better decision than liquidating overbuys.** Certain commodities e.g. shoes are sold in case packs, items with designated graded size scales (e.g. 1-2-2-1) and most imports require minimums or specific case lots or prepacks. These quantities are often acceptable for initial buys however as you fill in end of season buys, the overstock purchased to fill in the sizes needed may not justify the buy thus forcing a decision between filling customer orders and having excess inventory versus walking away and disappointing customers. Work with your supplier and offer to pay an up charge per piece on the final buy to have them break the case pack. Your margin might take a small hit, however you could end up with a win-win of filing customer orders (sales = margin) and little or no overstock.

10. **Understand manufacturing efficiencies and cycles as a price advantage.** Partner with your suppliers. Understanding their business cycles may open possibilities for you to negotiate production during their off season at substantial cost reductions. It allows suppliers to maintain work forces during their normal off seasons and helps you gain increased margins. Perhaps taking overstock fabric and producing items for next season or even off-price at greatly reduced cost (25-30%) thereby increasing margin.
11. **When pricing items, use market value pricing versus cost plus markup.** Always determine what the optimum price point should be when pricing items. Consider the item’s value in terms of quality and as perceived by the customer and in comparison to similar items being offered, not only in your brand but your competition as well. Once you have settled on a target price point, then find and /or negotiate the best cost to achieve the desired margin. Avoid using company or category initial markup targets, as your pricing only becomes mechanical and will not achieve the sales desired.

12. **Pay yourself for exclusive products and designs.** Using the same approach in pricing as described in the point above, the one added benefit that can improve an item’s price point and “value” in the eye of your customer is its uniqueness and exclusivity. If the item truly has these qualities, you can certainly charge a premium (and you should) to increase your margins. However, be certain that the items qualities meet these objectives or your customer may not perceive the “value” and draw the wrong conclusions.

13. **If you’re offering a promotion for dollars-off, determine if the dollars off will hit margin (based on each item on promotion) or if dollars-off is a marketing expense allocated to the total order value.** This is an important distinction because of the financial impact to the organization as well as specific departmental budgets. For example, if the promotion is item driven, perhaps the manufacture is offering special pricing and therefore the margin is not impacted. However if the margin is impacted, the rule of thumb is, “a point in margin is a point to the bottom line.” You can see how the Profit and Loss Pro-forma is impacted as margin is eroded. If the dollars-off promotion is taken as a discount on the total order amount, the dollars are usually considered a marketing expense. As a marketing expense, the dollar allocation can be attributed to a specific segment of the mailing or as a total, the margin percentage is lowered.

14. **Use multiple pricing/pricing discounts correctly—to influence customer behavior.** Whether developing pricing strategies for consumer or business-to-business organizations, construct the quantity breaks to encourage an increase in the order volume. Review your sales data to analyze the average quantities purchased and then structure the quantity pricing tiers to influence sales. You also want to work with your shipping department to identify pick/pack/ship issues. For example, if the widgets are prepacked from the manufacture in one dozen increments, you may to promote increments of 12.

15. **Identify future overstocks in season and use them for in-season offensive promotions.** The key to improving forecast accuracy is a disciplined approach to planning and the key to profitable overstock liquidation is identifying overstock early in the season and taking steps to move that inventory while still in season. As we noted in the tip above on pricing markdowns, offering in-season sales via emails, your website, separate branded sites or as an enticement to increase average order, will increase your cost recovery and improve your inventory turns which impacts cash flow.

16. **Perform simple P&L checks at category, subcategory and item level.** Even if math is not your favorite subject, you can and should perform a simple check – take your initial margin and subtract the Advertising Ratio (percentage of advertising costs to gross demand sales.) If the remainder is 25% or higher, then you know, generally speaking, that the item (or category) will contribute to overhead and profitability. As you uncover unprofitable items, or entire categories, you can make contingency plans prior to the catalog mailing…including dropping the unprofitable item.
17. “Ands” vs. “ors” reduces internal competition - beware the Paradox of Choice. When adding products to your assortment be sure to justify the addition so the customer perceives the item as an add-on purchase to other items versus a choice between items you may already offer. Studies have proven that when customers are offered too many choices their propensity to buy decreases. I like to use an everyday analogy to corroborate these studies. For example, when handed a 10-page menu of choices in a diner, how many of us read the entire menu and simply settle for a basic selection (usually less expensive). Now compare that to an elegant restaurant whose one-page menu offers only 10-12 items. We read the descriptions of each and are less likely to worry about the price. So be sure your customers view your assortments in the same manner where they want or need every item.

18. **Forecast need based on true estimated demand – not based on minimums or lead times.** Items should never be planned or forecasted based on vendor lead times or minimums as this guarantees overstock and backorders/out of stocks. (Remember that your buys/coverage will be placed based on these forecasts). Items should always be planned based on your best reasoning as to what it will sell regardless of minimums or lead times required. This will ensure a more realistic forecast. For example, if an item is truly forecasted at 500 units yet the minimum order is 1200, then evaluations would have to be considered about the true performance of the item versus the cost of overstock--perhaps resulting in a decision to negotiate minimums or run a more productive/profitable item. Conversely, forecasting lower needs because the supplier can ship quickly can result in under-forecasting which in turn results in backorders, split shipments and increased costs. The result will be a vicious cycle of out of stocks and overstocks. If the true item estimate cannot justify the minimum – FIND a better item.

19. **Rule of 50.** We are strong believers in using simple guidelines to assist in the decision making process. One of these widely used guidelines is called the Rule of 50. As we increase products, circulation, space, etc. the impact will only produce about 50% of the expected results (the actual range is 33-67% but to make it easier we use 50%). For example, a planned 20% increase in products (circulation, space, etc.) will only result in a demand lift equal to approximately 50% of the 20% is 10%. Using this benchmark to justify increasing products, circulation, pages, space, etc. will highlight if the increase is potentially profitable. Also note that the converse is also true – a decrease in pages, circulation, etc. of 20% should only result in a 10% decrease in demand as it is presumed you are removing the under performers.

20. **Plan items for multiple offers.** Planning items for multiple offers across a “horizon” view (or season) will provide greater flexibility to manage potential runaways or slow sellers. For example, if an item is planned for several consecutive books and is a runaway best seller, it can be removed from future books and replaced with an item that is in stock or until stock can be replenished. Conversely, if the item is not selling and buys have been scheduled across the horizon, future buys can be reduced or canceled. Don’t buy it if you can’t reorder it.

21. **Place the highest margin items in the hot spots of the catalog: upper right corner, inside front cover, inside back cover, back cover.** Remember to utilize eye flow patterns when designing catalog pages (shape of the letter C.) It’s best to design pages in two-page spreads to guide the customer through the merchandise. Place higher margin items in the upper right-hand corner. When choosing products or services for the coveted real estate on
the back cover, make sure your criteria is a variety of bestselling categories, best selling price points and highest margin.

22. **Break the rules for strict category product listings and sell complementary items together.** As you design the catalog, paginate to include add-on items that are relevant and/or necessary. If you sell an inflatable bouncy toy, include the electric air pump as part of the selling copy (and show an inset of the product!) If you’re selling running shoes, allocate space to sell the socks or running gear. While it’s not practical to show every single cross-sell item, you can include a page reference where to find the item in the catalog.

23. **Make sure you reference items sold on the model even if the product is on a different page.** It’s very frustrating for a customer when they cannot find the item shown in the picture. This is especially true for products featured on the front cover! It’s best to identify the product and indicate the page number (e.g. pants, p.17 or widget p.22.) And a big lesson learned by photo stylists, make sure the props aren’t the featured item in the photo! Yes, customers will call asking to buy the props and not the merchandise you are trying to sell!

24. **When offering choices, guide customers with a good-better-best strategy usually showcasing the highest margin item.** When several items within a merchandise category are featured, ensure you help customers navigate the differences. One way to guide customers is the good-better-best presentation. Use creative treatments like call-outs and insets to quickly identify product differentiators. If you’re not sure how to implement the good-better-best strategy, then by default, put the highest margin product in the hero spot (upper right-hand corner of the right-hand page.)

25. **At the photo shoot, take two shots of the photo: one with (seasonal) props and one without.** Save time and money plus increase versatility by planning to take two photos. For the first shot, include all of the seasonal props but for the second shot, remove all props. Doing so allows you to sell the product after the season on the Internet, or in future print advertising. It’s also a good idea to shoot the ensemble products individually, particularly for the Internet. For example, if a model is wearing jewelry, take a second shot with a close-up of the jewelry or a separate shot exclusively with the jewelry. These incremental photos are very cost effective and provide options for future campaigns and for use on the website.

26. **Talk to your printer about the imposition prior to developing the layout of the catalog.** Before you begin designing the catalog (or any direct mail piece) talk to the printer about the impositions. The imposition is the architecture defining which pages are printing together on press. You may find that your 32 page catalog prints on one form (one sheet) and you can change all pages for a single plate change. Keep in mind, not every 32 page catalog prints on one form…which is why you need to ask about the imposition.

27. **Promotional Strategies consist of two elements: Message and Offer.** Think about promotions that do not affect margin yet increase performance. Target-audience messaging influences behavior without decreasing margin. Use black plate changes to inexpensively create versions of the front/back cover with messages. Simple messages such as delivery cut-off dates for holidays, welcoming back inactive buyers, thank you messages for VIP customers, or indicating how many new products are inside…all influence behavior but do not affect margin. When developing offers, make sure that you are aware of the customer’s
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By George Mollo & Gina Valentino

current buying behavior. If you are offering free shipping when a customer spends $49, make sure the current average order value is lower than $49, and also achieving $49 is reasonable.

28. **Increase prospect performance by reviewing the merchandise bought by first-time buyers. Use the first-time best sellers on the cover.** A simple technique to improve performance is to feature a product that prospects have purchased on their first purchase. Run a report to identify the products most purchased on an initial order. If it’s too difficult to identify a specific product, then look for the merchandise category and feature a best seller from that category. Side note: price point is also critical. Just because the widget category is popular, make sure you choose an item in the popular price point, too. A $19 item from the widget category is not comparable to the $79 item from widget category.

29. **When mailing to customers and prospects, best practice is to assign fully loaded costs to customers and variable costs to prospects.** The fixed catalog creative costs such as copywriting, page layout, and photography are assigned to customers. These costs must be incurred whether you prospect or not. The variable costs of paper, printing the catalog and postage are assigned to prospects (as are all specific prospecting costs such as the list rental.)

30. **Review segmentation results to identify the lowest performers and give this group to a cooperative database for optimization modeling.** When making segmentation decisions (deciding which groups of customers to mail) supply the lowest performing groups to a cooperative database for optimization. A typical opportunity is the 1-time buyer for optimization. Another opportunity is the lapsed (inactive) buyers, as are the requestors or trade show inquirers.

31. **Watch trends in Average Order Value, Items per Order, and Price Point Sold.** These metrics are important indicators of the health of your customer file—indicating consumer confidence and willingness to make purchases. Last year most catalogers reported average order values were down. Thus, customers were willing to spend money but the amount they were willing to spend was lower. Reacting to this information and making changes to email offers, merchandise assortment and promotions will align your efforts with customer behavior.

32. **Matchbacks: Understand the true source of your demand.** Although a greater percentage of demand is transacted through the Internet, be sure you identify the true source to properly allocate your marketing spends. For a multichannel marketer only 10-20% of web demand is truly incremental based on industry averages. This means that another medium is driving customers to your website. This of course will vary depending on your own demographics and product assortment. To further complicate the matter, customers who receive a catalog/email may go to a search engine and type your company name to get a link (rather than typing your web address directly), which might then be interpreted incorrectly as an “organic search” result. So identifying the true source of demand and accurately proportioning the results across the several channels (as identified through your analysis) will allow your ad spends to be allocated more efficiently.

33. **When developing hard goods product, be sure the final product will fit in standard size outgoing packages or you will end up with increased freight costs.** It’s important to know how merchandise will ship to customers. If you are offering a bundle or a kit to customers (more than one product is sold for a single price) you must assemble the products and ensure
the shipping department can efficiently deliver the merchandise. It is financially defeating if the product is appealing to customers but the shipping costs erode profitability.

34. **Ensure item forecasts are supplied to your DC for proper bin profiling and increased warehouse efficiencies.** We often forget the efficiencies that can be affected in the DC by providing a preseason SKU forecast. Although the specific forecasts may not be 100% accurate, it provides the DC a sense of which items may be the best sellers or in relationship to other items might require larger pick locations or perhaps be located closer to the pack station all of which improves DC staffing, receiving, put-aways, picking efficiencies and replenishment schedules.

35. **Work with your DC to improve usable returns percentage.** Can products be repaired, pressed or repackaged to recycle returns? Are returns processed timely? The small extra effort gains large rewards (e.g. free exchanges) as reusable returns can fill demand (and backorders) faster than re-ordering and timely usable returns can reduce the overall buy amounts thus saving cash and improving fill rates and inventory turns. Another simple tip to expedite returns processing: have a separate return address to force common carriers to sort returns from new shipments, which allows returns to be processed faster.

36. **Review your top 10-20 high return items (at least quarterly) and solicit multi-department feedback.** Create a small “committee” which includes operational areas. Review your top 10 or 20 return items for consensus on issue resolution or dropping the item. By having operational areas involved, they may surface issues not easily identifiable but heard from customers first hand (e.g. the zipper sticks, handle breaks, etc.) If the issue can’t be resolved, consider dropping the item. Our experience following this method can yield 25% reductions on overall return rates.

37. **Understand the true cost of “going direct” on imports.** We all acknowledge the cost benefits of buying overseas however there are hidden costs which must be factored. Longer lead times (for both production and shipping) and minimum quantities could result in higher backorders and overstock, as well as limited abilities to rebuy in a timely manner without incurring expedited shipping costs. Most critical is the large drain on cash flow that letters of credit and/or wire transfers will have by freezing cash many times in advance of your product receipt. There are many advantages to importing as long as these hidden factors are being considered relative to your business.

38. **Know the cost of your inbound freight.** The industry average for inbound freight is 2-4% of sales. This may be a “hidden” profit center for your vendor. Industry average markup for shipping and handling by suppliers is 40%. (Although not a flat percentage, look at your own handling charges passed to customers versus actual postage costs and remember suppliers are doing the same thing). Research your actual costs. There are several reasons to do so: to verify actual freight-bill discounts from those stated in your tariff contract; to determine if you can negotiate FAK (freight all kinds) rates; to ensure that proper product classifications are being used rather than NOI (“not otherwise indicated”). By verifying actual freight bills you can determine if the carriers have given you “paper rates.” Do not simply look at discount percentages. Understand the base rate, accessorial charges (if they apply) and FAK (freight all kinds) exceptions. Carrier’s rates are also tied to product classification which is based on a combination of weight and density. For example, a bag of concrete mix has one of the lowest classifications, while comforters (bulky as they take up space but do not have weight or density) have one of the highest. FAKs allow a range of
products to be billed at the lower end of the range. Apparel generally ranges from class 70 to class 100 and to have an FAK billed at class 70 can save 7% to 26% before overall discounts are applied. Compare pricing based on total actual cost for shipments.

39. **Review your “free freight” terms on frequently used vendors who use “free freight.”** Determine the average unit freight cost using your own carrier rates, shown as a percentage of product cost. Using this target percent, renegotiate “freight out” pricing with your vendors. If you can lower your unit cost, then freight is not “free.” Only allow prepay and add freight terms when you can verify that your vendor ships at a lower rate than your negotiated carrier rates.

40. **Establish a 3rd party UPS/FedEx, etc. “bill to” account for small package inbound shipments (under 250 pounds).** By doing so you will be charged only the actual shipping costs rather than any additional “handling charge” by the vendor. You will also build a larger volume base upon which you can negotiate your overall UPS/FedEx rates.

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