

Determining your product winners—and losers

This month, we're going to begin looking at a number of the pre- and post-merchandise analyses, systems, and flow charts that you can use to improve your merchandising efforts. Since sales-per-page analysis and square-inch analysis are two of the most important tools you can use to assess and hone your

merchandising practices, we'll start by exploring how to use them.

Build on your product winners

Your merchandising strategy should be based on building upon your winners—your best-performing price points and product categories. By studying and analyzing how customers respond to the products offered in each catalog, you can eliminate the losers and give customers more of the types of items they want. While merchandising has a strong intuitive side to it, and determining the next big trend may be based partly on gut feeling, you must also use left-brain thinking and quantitative analysis to achieve success.

Begin the analytical process by physically marking up a catalog to indicate the units sold and sales for each catalog item. Summarize your sales for each page and spread in the same manner.

This process of physically tracking sales of each item helps both the merchandisers and the creative team. Many factors affecting catalog performance will become strikingly apparent, including the positions on the page or spreads that consistently produce winners and differences in design, photo treatment and even the types of models used.

Calculating sales per page (or spread)

To increase performance, merchants and the creative team can establish a sales goal for each page before producing the catalog and then judge a page's actual performance against that standard. For example, a \$20,000 sales-per-page performance may be satisfactory or lacking, depending on whether your sales-per-

page goal is \$15,000 or \$25,000.

To compute your sales-per-page goal, consider this example: Your 48-page catalog is mailing 500,000 pieces for a spring drop. Cost per catalog in the mail (variable cost) is \$0.60. Advertising cost is therefore equal to \$300,000 (\$0.60 x 500,000).

In a profitable catalog business model, advertising is normally 20%-25% of sales. Dividing your total advertising cost by these percentages will give you the total sales goal for the catalog (\$300,000 divided by 20% = \$1.5 million; \$300,000 divided by 25% = \$1.2 million).

Divide the total sales goal for the catalog by the number of selling pages to determine the estimated sales per page goal. In our example, we're not going to count the cover as a selling page (\$1.5 million divided by 47 selling pages = \$31,915 sales goal per page; \$1.2 million divided by 47 selling pages = \$25,532 sales goal per page).

By understanding the sales-per-page goal, the creative team and the merchandise staff will have a far more accurate barometer of how each page in the catalog is doing from front to back, from peak pages to valleys.

Square-inch analysis

Square-inch analysis, often referred to as "squinch," shows the hard facts—what has sold, how much it cost, and how much space on the page was required to sell it. Squinch measures how productive an item, a page, a spread, or an entire catalog is. It also allows us to look at the key variables—customer response or demand, cost of goods and advertising—to better understand how each figures into the

profitability, or lack thereof, of a page.

The squinch spreadsheet (see chart below) should be organized by page, showing each item and its cost, actual selling (or retail) price, number of units sold, total sales, cost of goods, gross margin, cost of catalog space, and most important, contribution to fulfillment, overhead, and profit.

The chart shows the cost breakdown of a page from a typical catalog. Overall, this page is an underachiever, contributing just \$414.77 to the bottom line—hardly what a successful and profitable catalog is looking for. The problem is that this page has many poor-performing products. Overall, the page has six losers that detract from profit, compared with five winners that make money.

When reviewing the results, the important thing to assess is not how many units sold or even the overall sales dollars earned, but the profit contribution of each item and page. This information will be a revelation and guide product buyers as well as the creative people in allocating space and paginating the next catalog.

So for example, on the page charted below, you would probably want to get rid of the potholder, which took away \$119.10 from profit, and the extra binder pages, which lost \$110.05. You could then replace them with items similar to those that did well, such as the tea towel, which contributed \$289.90 to profitability, and the recipe binder, which contributed \$167.45 to the bottom line.

Calculating space allocations and costs

When determining for your squinch how much catalog space each item took up, you don't need to measure down to the tenth of a millimeter. Rather, allocate space on the basis of pages or fractional pages—for instance, 1/8 of a page or 15% of a page.

When it comes time to calculate the cost of producing each page, you can subtract whole non-selling pages, such as the front cover and the president's page. But when allocating space on

(Continued on page 96)

Merchandise Square-Inch Analysis

DESCRIPTION	COST	RETAIL	COST OF GOODS (%)	ACTUAL UNITS SOLD	SALES	COST OF GOODS (\$)	GROSS MARGIN	SPACE ALLOCATION	SPACE COST (%)	SPACE COST (\$)	CONTRIBUTION TO PROFIT
Recipe box	\$9.00	\$18.00	50.0%	15	\$270.00	\$135.00	\$135.00	5.0%	1.3%	\$145.05	(\$10.05)
Coupon keeper	\$4.50	\$9.00	50.0%	24	\$216.00	\$108.00	\$108.00	5.0%	1.3%	\$145.05	(\$37.05)
Recipe binder	\$12.50	\$25.00	50.0%	25	\$625.00	\$312.50	\$312.50	5.0%	1.3%	\$145.05	\$167.45
Organizer	\$8.00	\$16.00	50.0%	12	\$192.00	\$96.00	\$96.00	5.0%	1.3%	\$145.05	(\$49.05)
Extra recipe cards-set of 50	\$1.75	\$3.50	50.0%	62	\$217.00	\$108.50	\$108.50	5.0%	1.3%	\$145.05	(\$36.55)
Extra binder pages-set of 75	\$2.50	\$5.00	50.0%	14	\$70.00	\$35.00	\$35.00	5.0%	1.3%	\$145.05	(\$110.05)
Plaque	\$13.00	\$26.00	50.0%	34	\$884.00	\$442.00	\$442.00	10.0%	2.6%	\$290.10	\$151.90
Rug	\$6.25	\$12.50	50.0%	91	\$1,137.50	\$568.75	\$568.75	15.0%	3.9%	\$435.16	\$133.59
Potholder	\$1.50	\$3.00	50.0%	114	\$342.00	\$171.00	\$171.00	10.0%	2.6%	\$290.10	(\$119.10)
Oven mitt	\$2.05	\$6.00	34.2%	82	\$492.00	\$168.10	\$323.90	10.0%	2.6%	\$290.10	\$33.80
Tea towel	\$2.00	\$6.00	33.3%	145	\$870.00	\$290.00	\$580.00	10.0%	2.6%	\$290.10	\$289.90
Page summary				618	\$5,315.50	\$2,434.85	\$2,880.65	85.0%	22.1%	\$2,465.88	\$414.77

(Continued from page 95)

pages that are primarily selling pages, all space, including nonselling space such as testimonials and editorial sidebars, needs to be accounted for. While there are compelling reasons to use nonselling space in a catalog, such as providing additional editorial information that establishes your catalog as an authority in its field, all the prod-

ucts must ultimately pay for these spaces.

To determine productivity, the cost of each product's space is calculated by taking the entire cost of the catalog in the mail divided by the number of pages, divided by the amount of space each product occupies on the page. You can use just variable costs (printing, mailing, postage, and list costs) or fixed costs (which include design, pho-

tography, page production, and color separations) plus variable costs. The fully loaded, or combined fixed and variable costs, is typically the more accurate measure for this calculation.

Let's say you are mailing a 48-page catalog, and the fully loaded cost is \$0.60 per book. If you mail 100,000 catalogs, the overall catalog cost in the mail would be

\$60,000. Then you would divide this number by 48 pages to arrive at the cost per page, of \$1,250 per page.

But as mentioned earlier, you would need to subtract any nonselling pages from the total number of pages. If you took out the cover, the president's letter, and a one-page editorial, you would end up dividing the total cost by 45 pages, which equals a cost per selling page of \$1,333.

Other analyses

Once you've completed your squinch by page, you can look at the data in a number of other ways, including sorting the information by profit contribution, from high to low. Once you do, it probably won't take long for you to see that the 80/20 rule was in effect: 20% of the items contribute 80% of the profits.

Fortunately, spreadsheet software can easily sort the compiled information by other parameters, such as

- price point (for instance, \$0-\$10; \$10-\$25; \$25-\$50; \$50-\$75)
- product category
- rank order by contribution
- rank order by number of units sold
- rank order by sales
- new vs. repeat items and their performance

This last analysis is an important one if your catalog offers a significant portion of items from book to book. Individual products have a life cycle. This analysis can help you determine when to reduce the space for an item in the catalog or when to "rest" a product before repeating it. Indeed, smart catalogers often take a winner, run it for a period of time—say, three months—and then leave it out for a month or two, before putting it back in (on the part of consumer catalogers, typically in time for the holiday season).

Both sales-per-page analysis and square-inch analysis enable the merchant and the creative team to look at more than just units sold and sales per item; both are directly tied to profitability or profit contribution. Too often we see merchandise departments look more at the number of products sold, rather than the profit contribution. These analytical tools are probably the most important ones to understand and can be used to drive profitability of a catalog.

Next month we'll take squinch one step further and look at analysis of product categories and benchmarks of success. ■

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