

# Understanding Mail-Order Sales

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Mail-order sales continue to flourish, in part because companies can attract customers without incurring overhead costs such as retail space and related expenses. Specialty catalogers — particularly those that sell niche items like hand-made apparel, kitchen equipment, luxury items, and organic foods — have enjoyed considerable success. This article looks at the advantages and disadvantages of direct mail selling and also points out a few regulations that affect operations.

## What You Need to Know

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### What are the advantages of selling by mail?

Mail-order selling is increasingly popular, and there are good reasons for that. Operating a mail-order business is good for cash flow, because credit cards make it possible to routinely receive payment in advance for goods that a business may not even need to stock. What's more, a company typically has 30 or 60 days to arrange payment for the goods it then sells to consumers. That's a boon to cash flow, if managed properly, of course. Other costs can be controlled or avoided outright: There is no need to rent or buy retail space, for instance, and little or no need to maintain stocks. Flexible working hours can be the norm, which can help attract customer service personnel, and staffing usually can be adjusted in line with demand. For a specialty retailer or manufacturer, setting up a mail-order operation is a good way of expanding market reach. Mail-order also appeals to almost every income level.

### Aren't there disadvantages?

First-time customers may be wary about sending money or providing credit card information to an unknown firm at a distant address. Mail-order houses must also continually send brochures or catalogs via direct mail to attract more sales, and the response rate can be less than 1%. As postal rates keep climbing, this expense can mount. There's also the cost of purchasing lists of prospective customers, which are essential to generating new sales. To a degree, there's also a limit on what can be sold by mail order, although limits keep being stretched. Finally, mail-order houses must rely on delivery firms like UPS and Fedex; in turn, customer satisfaction is unusually dependent on these third-party firms over whom your business has no direct control.

## What about other competitors?

Telemarketing and television advertising that feature 800 numbers have long been threats, but mail order has always been able to hold its own against them. The Internet poses perhaps the greatest challenge, because customers can see essentially the same products on a web site as they can in a catalogue and then order online. However, it's now typical for mail order houses to have Web sites of their own and use both channels in tandem. The Internet is one of many ways you can promote your mail-order business.

## What to Do

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### Choose the Right Products

There are a number of basics you should consider in starting a mail-order business. Early on, it's important to think about the product you plan to market. You need to determine if there is a market for the items you have chosen to sell. Customers should be able to see the advertised product and want it enough to send for it. It's best to choose a product that is not generally available in stores and doesn't require demonstration. You will also need enough of the product to fulfill orders. The product should be reasonably inexpensive, even with postage, and must be able to be packed and sent easily. If possible, choose a group or set of products—such as packaged food items, books, CDs, and DVDs. This encourages people to keep coming back, especially if future items can be bought at a discount.

### Promote Your Business

Unlike a retail shop, which will attract customers, people must be told what your mail-order business offers, why they should buy your products, and how to do so. There are various ways to get your message across. Direct mail is one. You can rent lists of names and addresses from list brokerage services until you have amassed your own. Thanks to computers, data can be sorted, re-sorted and arranged at will, so even small segments of likely buyers can be targeted and contacted efficiently.

If you are marketing several items or your product line is sophisticated, then brochures or catalogs will be the best means of promotion. Their production costs can be high, though, so consider charging for catalogs—yes, it's a viable tactic, although it can take time to build an audience. The advantage is that only serious potential customers will request copies; moreover, you can offer to refund the cost if a customer then orders.

Small advertisements can be alternate selling tools. Place advertisements in special-interest media to reach the target market. Some national newspapers and specialty magazines have specific sections for small mail-order businesses. To boost response rates, make sure your timing is right, and don't

squeeze too much information into a tiny space. A good headline, a few words and a drawing (rather than a photo) will do. Coupons have a good response rate, and, since respondents are sending their names and addresses, you're adding leads for future use as you send them a more comprehensive leaflet or catalog.

Giving a guarantee is a must! You are expecting customers to buy having seen only a few words and a drawing, so they should be able to send the product back at the business's expense. Don't use an address with a post office box number: They have a low response rate and can imply that your firm is evasive and not to be trusted. Keep price and postage and handling cost separate and give a delivery time that you can consistently honor.

Web sites can be used to promote your business and also generate orders. Experience to date also shows that enabling buyers to arrange payment on the web site is a convenience well worth investigating. Indeed, it's fast becoming the norm.

## **Keep Track of Responses**

Being able to evaluate the success of targeting is a fundamental mail-order activity. Be sure to code all your coupons with an identifying letter or symbol to identify their origin. That gives you information about where sales are strongest—and weakest. If there's no room for a code, then use a slightly different name or address for each media source.

Keep a record of where each response comes from (type of media, personal recommendation, direct mailing, etc.), and whether the response becomes a sale. This allows you to determine which responses to advertisements generated actual sales and, in turn, to target future advertising even more effectively.

Aim to recover the cost of mailing with your first set of orders. Then make it a priority to convert those requests into regular, loyal customers. This conversion rate should be significantly higher than the initial response rate. If brochures draw little or no response, it's in order to telephone a sample of recipients and ask why. However, before making any calls, be sure that the customer has given you prior permission so that your company does not violate federal "Do Not Call" regulations that govern telemarketing.

## **Collect Payment Promptly**

It's now standard for mail-order firms to ask for payment with an order, and credit cards make it a matter of routine. In fact, it's hard to imagine a mail-house business not relying on credit cards—and the payment is guaranteed, too. If a customer does pay by check, it's a good idea to wait for the check to clear before sending the purchased goods.

Web sites offer secure payment by credit cards using systems such as PayPal, now a subsidiary of eBay. Many of these providers offer a broad range of merchant bank services. It is worthwhile

to investigate using such services, because individual transaction fees can vary depending on the services being purchased. Because prompt payment is often critical to the cash flow of a mail-order business, it's worth using a third-party service to ensure it.

## **Package, Ship, and Deliver the Order**

The critical importance of secure, efficient packaging, as well as fast, efficient delivery of what you sell is the cornerstone of customer service for any mail-order company and one that your employees must thoroughly understand and appreciate. A separate packaging area should be set up with materials in hand to avoid delays. Accordingly, it's smart to evaluate different packaging services and methods early on by sending items to and from your business.

Plan how your business will deliver goods sold. Free delivery (or free delivery for orders over a specified amount), guaranteed next-day delivery, or a surcharge for guaranteed delivery within 48 hours are all service options worth exploring. Of course, you need to decide whether such guarantees can be met and whether the resulting expense will generate enough increase in customers and customer loyalty to make such guarantees worthwhile. Arrangements with shippers such as Fedex, UPS, and others that offer discount rates can increase customer satisfaction and loyalty, too. This is such an important part of a mail-order business, you can even acquire training videos on the subject!

## **Make Use of Direct Marketing and Selling Support**

Organizations such as the Direct Marketing Association provide assistance and guidance to direct mail companies. Their advice can be very helpful, especially during your early days of operation. These organizations also track otherwise obscure political developments and provide lobbying support.

The Direct Selling Association provides assistance to manufacturers who sell direct to the customer. If your mail-order business sells and distributes your own manufactured goods, it would be worthwhile to subscribe to the DSA code of ethics and display that commitment on your marketing materials.

## What to Avoid

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### **You Don't Prepare Adequately**

Be aware of how *not* to start a mail-order business. Make sure that you have the resources to set up this type of business. It may look like an easy way to sell, but you need to be absolutely certain that you have the right product and that you have pinpointed the right market for it.

### **Your Fulfillment is Substandard**

The key to your success is processing orders flawlessly and shipping goods just as flawlessly. Don't cut corners in these areas. One bad experience—especially early on—will cost you a customer when you need one the most. There are too many other sources of goods and many strong established competitors.

### **You Worry About Poor Response**

Your business may get only a few replies initially. Don't fret! If those replies lead to high-price, high-margin sales, they can be well worth it. Never mind what a television ad might suggest. This is a marathon you're running, not a 100-yard dash.

## Where to Learn More

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### **Book:**

Fiumara, Georganne. *How to Start a Home-Based Mail Order Business*. 3rd Ed. Globe Pequot, 2005.

### **Web Site:**

National Mail Order Association: [www.nmoa.org](http://www.nmoa.org)