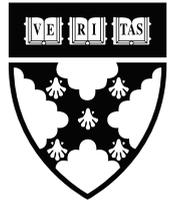


Harvard Business Review

Data-Driven Decisions Start with These 4 Questions

by Eric Haller and Greg Satell
February 11, 2020



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WHY CATALOGS ARE MAKING A COMBACK

Their real power is how—for certain products—they increase the vividness of a product by enhancing consumer's ability to visualize and imagine product usage experiences.

by Jonathan Z. Zhang
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Why Catalogs Are Making a Comeback

by Jonathan Z. Zhang

Despite two decades of email and social media marketing, and the digitization of the consumer experience, catalog mailings have been steadily increasing since 2015. What's more is that consumers are surprisingly enthusiastic about receiving them – response rates from catalogs have increased by 170% from 2004 to 2018. The effects are not just confined to digital laggards who do not go online – in fact, there's evidence that Millennials are particularly interested in catalogs they receive in the mail.

Has the catalog made a comeback?

Retailers in some categories appear to think so. Many brands and retailers, such as Nordstrom, Patagonia, Crate and Barrel, Restoration Hardware, and leisure services such as vacations and cruise lines, are investing heavily in physical catalogs. Even pure-online retailers that prided themselves in creating efficient and digitized consumer experiences such as Wayfair, Bonobos, Birchbox, and Amazon are now printing catalogs.

What is happening to this age-old, analog marketing tool that email and social media marketing were promised to replace? Is “the catalog effect” here to stay? How can e-commerce companies benefit from them? We've used recent trends in retail technology, decades of research in consumer psychology, and our recent field experiment to answer these questions.

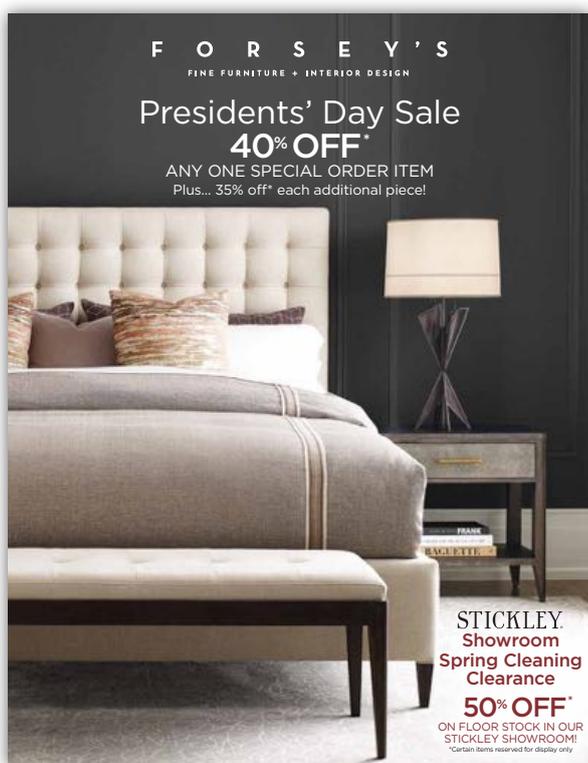


Evidence from a large-scale field experiment with a luxury e-commerce retailer

To test the effectiveness of catalogs, we partnered with a U.S.-based specialty luxury watches and jewelry e-commerce retailer with a global clientele and without physical store presence. The company generates annual revenue of \$60 million and operating profit of \$12 million, with a database of approximately 28,000 customers.

The company acquires new customers through online search and other online platforms, so all customers are comfortable with e-commerce and digital communication. More than 75% of the company's revenue comes from repeat purchases, and so relationship development efforts are critical. When a customer's first order ships, the company obtains permissions for future marketing contacts, then uses weekly email marketing campaigns to promote repeat purchases.

Acting on our advice, the company launched a new bi-monthly catalog campaign featuring professional and artistically rendered product photography with high-quality printing. The company conducted the field experiment using a random 30% of its U.S.-based customers. Of those customers, 5% of them received neither email nor catalogs for six months, 55% of them received a weekly marketing email, and 40% of them received the new bi-monthly catalogs in addition to the weekly email marketing. To control for effects of content, over 90% of the products were the same between emails and catalogs. The same set of photos and descriptions were also used in both media. We then tracked purchases and product inquiries across all three groups.



Results showed that “Email + catalog” group experienced a 15% lift in sales and a 27% lift in inquiries, compared to “Email-only” group.

Compared to the Control group, “Email + catalog” group experienced 49% lift in sales and 125% lift in inquiries. In comparison, “Email-only” group only had 28% increase in sales and 77 % lift in inquiries over the control group. The sales and inquiry lifts from catalogs almost doubled those from email marketing. Furthermore, of those customers that received the catalogs and also made product inquiries, surveys by the company’s staff found that over 90% of the customers have browsed through the catalogs and kept them for an average of seven days. The open rate was much higher than that of the email campaign which was around 26%. During the six-month experimental period, customers in the email only group purchased an average of 0.3 additional products.

A quick ROI calculation indicates that a 15% increase in sales on an average order size of \$6,700 due to the catalog campaign, at approximately 30% gross margin, translates to an additional \$90 profit (or \$180 additional annual profit) per customer. The average cost of the mailing with front-end design cost factored in is \$5, yielding a direct ROI of 600%, not to mention the additional customer engagement from increased inquiries. If this campaign is instituted across the entire customer base similar response rates would result in an incremental annual profit of over \$5 million, a boost of 40% from its current profit level.

Finally, we surveyed 500 random customers from each of the “email-only” and “email + catalogs” groups and measured their perceived vividness of the emails vs. the catalogs. We told them that we were in the process of evaluating and improving catalog designs, and asked them the following two questions:

- 1) How easy it is for you to imagine wearing the product? (scale of 1 to 7, 1= not very easily imagined, 7=very easily visualized)
- 2) How vivid are the product descriptions in the email (or catalog)? (scale of 1 to 7, 1= not vivid, 7=very vivid)

Those in the email-only group gave an average rating of 4.3, whereas those in the catalog condition gave a rating of 5.6, and the difference is statistically significant. These results provide evidence that catalogs can increase sales and consumer engagements through enhanced product vividness and the ease of product imagination.

Why catalogs still work

When we marry our research above with a review of retail trends and consumer psychology, we see how catalogs stand apart from the increasingly cluttered digital inboxes and social media feeds. As physical products, they can linger in consumers’ houses long after emails are deleted, which increases top-of-mind awareness among consumers. But their real power is how—for certain products—they increase the vividness of a product by enhancing consumer’s

ability to visualize and imagine product usage experiences. Vividness is highly influential in consumer behavior as it can increase consumer involvement and joy in the purchasing process, ultimately influencing preferences and sales. Vividness is especially important for hedonic products and services (vs. utilitarian) that are purchased for fun, enjoyment and pleasure, and contain richer experiential aspects.

Finally, physical stores are expensive. For e-commerce retailers, especially those in hedonic categories who do not have or do not want physical stores, well-designed catalog campaigns allow them to make the product presentation more vivid, tactile, and memorable. The potential results are increased customer involvement, loyalty, and sales, all without the geographic constraints and the expenses associated with stores.

Creativity, aesthetics, and empathy will determine competitive advantages for modern e-commerce

Based on our research, we recommend that e-retailers that sell products that people purchase for fun, pleasure, and excitement to consider investing in aesthetic designs and experimenting with the catalog mailings. Whether other retailers should dive into catalogues is a subject for further research; the psychological theory of vividness suggests that visually rich categories such as luxury goods are more responsive to vividness, and utilitarian and functional products such as household tools, cleaning products, home security systems would not benefit from catalogs.

Just like the evolution of the retail landscape, catalogs have also evolved – they should no longer be a rambling collection of product pages reminiscent of Sears’ golden days. Instead, firms need to focus on designing stunning imagery and creative presentation of products to evoke emotion (e.g., Celebrity cruise lines, Nordstrom), blending in these product imageries with literature that embody higher-level values that the brand stands for (e.g., literary and art magazines issued by the French luxury brand Hermes), and narrating the experiences of others so that consumers can almost live vicariously through the catalogs (e.g., the wine retailer KLwine.com sends out printed newsletters with staff’s tasting notes and visits to wine)

As logistics and manufacturing outsourcing convergences are leveling the playing field, operational efficiencies can no longer serve as meaningful differentiators in e-commerce as they did in the last decade. Creative and aesthetic capabilities and firms’ abilities to empathize with consumers and evoke emotional connections will constitute crucial competitive advantages in modern e-commerce. Catalogs can be a powerful medium to achieve them.

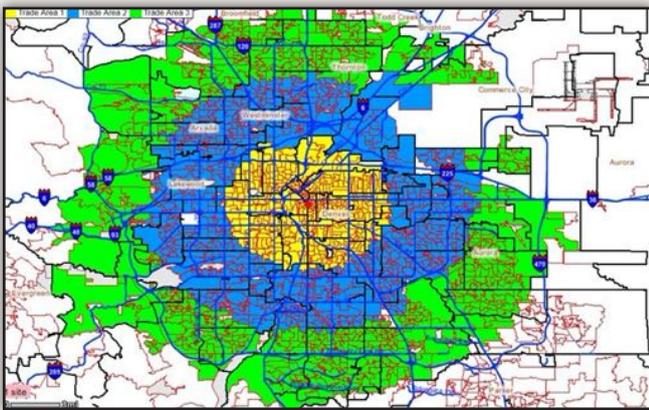
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RELEASE THE POWER OF YOUR DATA

Customer Database Analysis

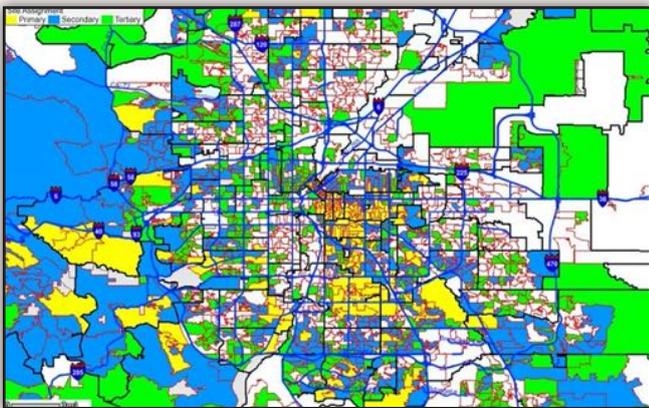
Total Home Furnishings Direct enables your company to “Release the Power of Your Data.” Turn your customer data into actionable information. Target your customers by who they are... where they live... and what they do. Discover where your customers really come from and combat your competition for your share of your primary market area. Total Home Furnishings Direct’s process will develop an integrated plan to invite your customers and their neighbors to build a relationship with you. Strengthen your customers’ loyalty and increase their purchase frequency and maximize their life value.

Know Your Market and Own It!



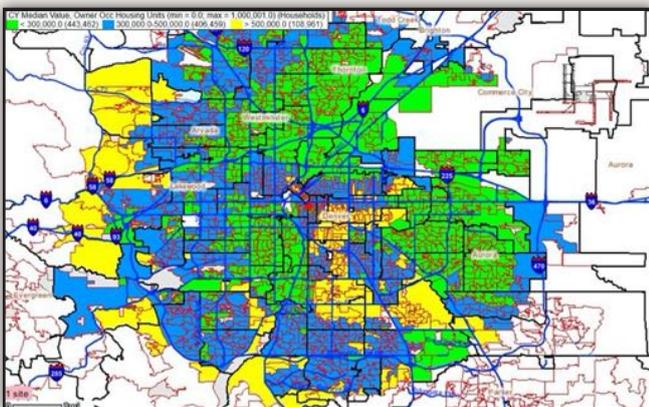
Geographic Market Area Profiling (No Data)

Geographic profiling identifies the 5, 10 & 15 mile radii of your location & generates a Primary Geographic household count report which includes demographic information about your primary market area. (No relational data)



Database Carrier Route Profiling Analysis

Database Carrier Route profiling identifies “where” your customers reside relative to your store location. This analysis provides you with a demographic profile of “who” your customers are and how they behave utilizing Total Home Furnishings Direct’s predictive demographic information and lifestyles characteristics.



Predictive Lifestyle Prospect Profile

Total Home Furnishings Direct Predictive Lifestyle Prospect Profile identifies your existing customer’s demographic characteristics & lifestyle. This analysis enables Total Home Furnishings Direct to provide you with a Target Prospect Profile which identifies those look-a-like households with the highest economic viability and similar lifestyle characteristics to capture new customers and grow your business.