

Of Tales & Treasures

Chinaberry's winning combination: soft on the outside, savvy on the inside

BY DONNA LOYLE

Imagine for a moment that your catalog company's main competitors are book-selling giants Amazon and Barnes & Noble.

The grueling price wars—behemoths battling for market share tend to inflict that on their industries—are driving the smaller players in your space either to bankruptcy court or to the arms of consolidators.

But through it all, your niche catalog company continues to enjoy annual sales growth of about 13 percent—for 10 years running. And, in all but one of those years, your company recorded healthy profit margins.

Chinaberry, a cataloger specializing in books and other products for children, women and families, combines a carefully selected merchandise lineup with warm customer relations—all layered over a savvy business acumen.

The result is a fascinating case study of a successful niche cataloger.

Once Upon a Time

In 1982, Ann Ruethling, a new mother living in Oregon, went scouting for children's books suitable for her 2-year-old daughter. She sought content that was nurturing and uplifting, but what she found left her disappointed.

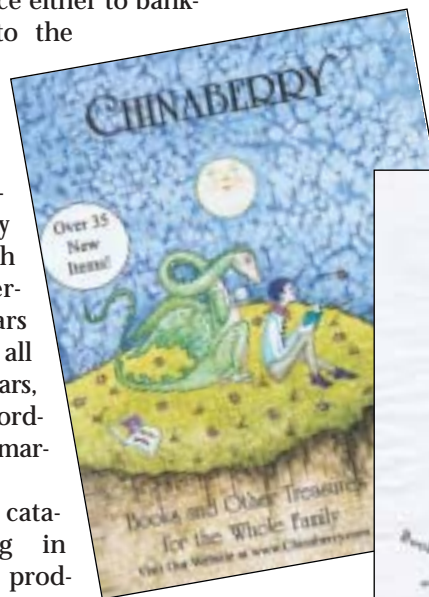
Violence and even abuse ran as undercurrents through many story lines, including Mother Goose classics.

In her ongoing quest for more appropriate reading material, Ruethling visited area libraries and subscribed to children's literature publications. When she found books she liked, she carefully recorded the information on index cards for her own future reference.

"By the time my stack of index cards was several inches high, I realized there were probably a lot of other parents who could greatly benefit from this information," she says.

At first, Ruethling thought of offering the data for free to other parents, but realized they may not have easy access to the books. So she started a catalog company and began selling the books she found. For years, she ran the company out of her home, filling orders from her kitchen table, her children playing at her feet.

During the next few years, the company grew and its product line expanded. Ruethling's husband, Ed, came on board to help run the cata-



he company offers two titles, **Chinaberry and Isabella, that sell books and other items aimed primarily at children, families and women.**

log, now based in San Diego. The couple hired a president, a veteran of the financial and investment worlds. They started a second catalog, Isabella, and developed Book Fairs and a Web site.

In 2000, the company's sales reached \$8.9 million, up 24 percent from the previous year. And this year, Chinaberry is projecting sales of \$10.5 million, for an 18-percent growth rate.

Today, the company employs 50 people and has warehouse space spanning 22,000 square feet. It mails 3.6 million cata-

logs a year, or 200,000 drops per month for the Chinaberry catalog and 100,000 per month for Isabella. Moreover, company executives are in the throes of a direct public offering in which customers, employees and other investors can buy stock in the company. But more about that in a minute.

A Peek Inside the Books

While children's books remain a mainstay, the company has expanded its merchandise selection

in the Chinaberry catalog to include toys, arts and crafts kits, puzzles, games, story tapes, pottery, ornaments and more. Ann Ruethling, currently vice president of creative and merchandising, and her staff judiciously select books and ancillary items that promote character-building, environmental awareness and gender-neutral themes.

Each edition is separated into sections: Books are featured in the front of the catalog and are grouped by their suitability for different reading levels. For example, Level III includes books that "can be read to a child who is capable of sitting through a story without needing an abundance of illustrations to hold his or her interest."

The ancillary products are featured in the back of the book.

Each catalog page displays three to four products. Accompanying copy is lengthy—200 to 400 words per item. For the books, descriptive copy reads like a review; each includes a synopsis of the story and a brief description of the lessons children can learn from the tale.

"We've been told by others in the catalog industry that lengthy copy is bad, bad with a capital B," says Ed Ruethling, marketing director. "But we've been successful with it. Go figure." He says they may test shorter copy in the future to ▶

Ann Ruethling, co-founder and VP of creative and merchandising, started the company on her kitchen table in 1982. This year, sales are set to reach \$10.5 million, and the company is undergoing a direct public offering.



photos by Melissa Jacobs

see how it pulls.

Sprinkled throughout the Chinaberry catalog are customers' testimonials, in addition to articles and tips to help parents engage their children in the reading experience.



to today's busy women.

An oversized book (12"x10"), the Isabella catalog is printed by Trend Offset in California on 40# matte. The Summer 2001 edition offered 64 pages worth of product.

"We went from thinking [the catalog] was a good way to make extra income, to thinking it could give us our entire income, to now a public offering."

—ED RUETHLING, CO-FOUNDER,
MARKETING DIRECTOR

For example, the 120-page Spring 2001 edition featured a compilation of ideas for reading to very young children.

The Chinaberry catalog is printed on newsprint by Shakopee Valley Printing in Minnesota. "Newsprint is an inexpensive printing medium that makes dealing with mistakes in prospecting easier to weather," says Ed Ruethling. In addition, he notes that Chinaberry's customers care about the environment and like that the catalog uses soy-based inks, and recyclable and partially recycled paper.

Chinaberry's target demographic includes married women, 25 to 54 years old, with children or grandchildren, and annual household incomes of \$45,000 or more.

Founded in 1995 by Ann Ruethling and Patti Pitcher, Isabella offers products mainly targeted at women. Its tagline, "Books and Tools for Reawakening the Spirit," sets the stage for the merchandise lineup found within. The buyers have gathered offerings—including books, health and beauty items, home decor, jewelry and more—that promote relaxation, spiritual guidance, and health and well-being

Like its sister publication, copy is lengthy, but Isabella's oversized pages make for a less-dense read. Its four-color design coupled with plenty of soothing white space results in a cleaner, more contemporary feel.

Isabella's target demographic includes women age 40 and older, with annual household incomes of \$40,000 or more. In all, 40 percent of the company's revenues now come from the Isabella catalog, says Gary DeMaine, president.

Some Creative Play

The copy for both catalogs is written in-house by four or five contributors, including Ann Ruethling. Pages are designed by an employee who now works from her home in Texas. "It's all done with scanned images, which we repurpose for the Web," says Ed Ruethling.

The company's Web site is designed in-house but hosted by third-party vendor BookZone. "Sending the hosting out of house was a cheaper route to go

for now, rather than us having to hire a full-time Web master," Ed Ruethling explains. "When Web sales are high enough to produce substantial earnings, we'll probably bring the Web design and hosting in-house."

Currently, 11 percent of the company's sales come from the Web. While DeMaine would love to see that increase to 20 percent or 25 percent, he notes that in today's market, e-commerce is no gold rush. "It's a channel that's just as difficult to make work as any other," he says.

Prospecting initiatives include list rental and exchanges, says Ed Ruethling. "We've used co-operative databases like Abacus, but we've found that the response rates from them have been steadily declining over the years."

Recently, he tried ZIP select and lifestyle modeling, but the results haven't yet been tabulated. The company does not purchase space ads. "I've tested them, but they're too expensive for the small number of responses we get," Ruethling says.

A more successful prospecting method has been the company's Book Fair program, which includes both online and off-line versions. Begun in 1992, Chinaberry has so far hosted about 6,000 of them. Group leaders from organizations around the country gather orders for ▶

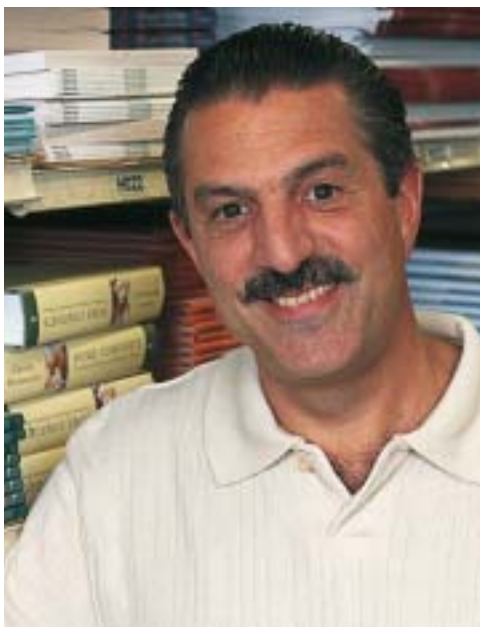


Chinaberry's customer service reps are specially chosen for their personal warmth.

Chinaberry books from their friends and family members, collate them into one large order and get discounted group rates.

The Story Unfolds

Both the Ruethlings and DeMaine say they are continually surprised at the warm responses they get from customers regarding Chinaberry's product selections and the company's attentive service.



Says Ann Ruethling, "We get many letters that state, in one way or another, 'I've never written to a catalog company before, but I really love ...' Then they list either our thorough annotations and book reviews or the customer service they got when ordering. Or they'll say they appreciate the support and encouragement we give them as parents," she continues. "They say they feel we're walking the same path as they are."

Customer service reps (CSRs) are specially chosen for their personal warmth, says Ed Ruethling. "We have one CSR whose main job is to hand-write letters and notes in response to customers' written inquiries."

So important is the positive feedback from customers that it's the reason Ruethling dropped his old career to join his wife in the company. "No sooner had we moved from Oregon to San Diego in 1984 than Ann was called to her mother's bed-

side in St. Louis. So I started picking up the mail for her catalog company and reading it. I saw all of the handwritten letters from customers thanking Ann for her work. They said how much they loved the book selections. After that, of course, I saw the business's potential."

Ruethling quickly ditched the job he had lined up in San Diego and threw himself into helping his wife

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—GARY DEMAINE, PRESIDENT

run Chinaberry. (The couple divorced in 1994, but they still work together.) "I had never run a company before, so I had to get myself up to speed," he says. "I read many books on direct marketing and mail-order management—and I did everything by the book, as it were."

Today, he continues, the business couldn't be more different from what he had originally anticipated it would be. "We went from thinking this is a good way to make some extra income, to thinking this could give us our entire income, to now a publicly traded company and thinking about the business as a separate entity from ourselves."

And Then They Went Public

Unlike an initial public offering (IPO), a direct public offering (DPO) is a limited sale of company stock, primarily to customers, employees and other investors,

DeMaine notes.

Chinaberry executives hope to sell 40,000 to 200,000 shares of stock at \$5 per share, for a total of \$200,000 to \$1 million. According to its prospectus, proceeds from the sale are earmarked for working capital; debt reduction; and an increase in inventory, marketing and employee training. The company plans to retain future earnings to finance continued growth. And the current owners will continue to control the business, retaining 90 to 98 percent of company stock.

DeMaine says a DPO makes more sense for Chinaberry than an IPO. "Research shows that if you make customers shareholders, you make them better customers. They spend more money with you, and they recommend you to more people."

Strict regulations control DPOs, notes DeMaine, and the laws vary from state to state. "Going public is not a panacea for all that ails a company," he says. "But we needed outside capital to grow even more."

The Great Game of Business

Another program that's helping growth is The Great Game of Business, a formalized plan to recognize and reward employees who strive for excellence. Based on a book by the same name and authored by Jack Stack, the program eventually will be open to all Chinaberry employees, but currently is being tested by DeMaine on managers only.

"In the game, I give managers our balance sheets and teach them how to read them," DeMaine recounts. "I've devised a score card around which the game revolves. We track both financial and non-financial things, such as customer acquisition, so everyone knows how the company is doing at any given moment."

Either cash bonuses or equity shares in the company are rewarded to managers based on the goals they achieve. While he doesn't discount the significance of financial rewards, DeMaine finds that what excites employees more is simply being ►

asked for their opinions and suggestions. “Money motivates people, sure, but mostly they just want to know they’re contributing, that they’re making a difference in the company.”

DeMaine notes there are challenges, as well. Not all employees understand financial statements, so setting up rewards programs based on spread-sheet data first requires employee training. Once that’s been tackled, the rewards for both employer and employee can be great, DeMaine says. “The game gives employees clarity. We’re showing them various levels of our income statements and challenging them to meet some pre-set goals of profitability.”

Ed Ruethling likes the program because it not only gives employees a sense of ownership, but *actual* ownership in the form of equity shares. “With ESOPs [employee stock option plans], employees can become shareholders simply by being employees. But with the Great Game of Business, employees have to actually earn those shares,” he says.

DeMaine says initiating these programs points to the methodical approach to success that now defines Chinaberry. “In the early years, Chinaberry had metrics that other catalogers couldn’t believe and were envious of,” he says. “But in business, success isn’t guaranteed and failure doesn’t have to last forever. You can’t get a big head in this business.” ■