Turning a Positive Test Into a Rollout Show

This is going to seem simple, but we can guarantee you that if you don't understand these numbers from day one, you are at huge risk of losing a lot of money. Many well-intended and smart entrepreneurs don't understand these highly publicized numbers and, unfortunately, many novice companies operate and make decisions as if they were already making millions of dollars on their infomercials.

Produce a DR ad — it could be short form or long form, it makes no difference. Then, in consulting with some of the top industry experts, you figure out that you have the standard five-to-one mark-up that you supposedly need from the cost of goods to the retail price (these days, you really need to be closer to seven to one).

Next, you do a *pro forma* and it tells you that a 1.8 media efficiency ratio (MER) is your break-even. You've been thorough — factoring in media, telemarketing, fulfillment, credit card processing, tape duplication, returns, royalties and bad debt. You even added 5 percent for other miscellaneous expenses. Every estimate seems reasonable, meaning that if you do anything more than a 2.0 MER, you stand to make millions!

Your show is complete and, as recommended, you decide to spend $10,000 to $20,000 on a small media test. Right out of the gate, your show does a 1.5 on the hard offer (price included) and 2.0 on the soft offer (no price included). You are thrilled, counting your money all the way to the bank because you are going to get media funding to roll out the soft offer.

Wrong! Actually, you are going to lose your shorts because here is what your *pro forma* didn't account for: to roll out a show, you need to take your initial media test results and multiply the results by 0.70. In other words, the rollout results will typically be 30 percent less than your test.

Next, you must adjust your return and bad debt figures that you estimated at 12 percent combined. Make that number 25 percent because that is much closer to what the reality will be. After that, you need to add another 4 percent to your costs for

the media funding. At the time of the test, it felt like free money, but now you must recalculate what the actual results will be.

You can look at this two ways: either adjust your test break-even figure higher (you must really test at 2.5 or better) to accurately determine what your true break-even is, *or* figure that your apparent results in a test will actually be lower during a roll out. In the scenario above, your 2.0 will actually fall much closer to a 1.4 — far below the 1.8 you need to break even.

Before you go spending all the money you think you will make on your infomercial, make sure your results will hold as you begin to spend more money on media. ■

Take 2 Direct specializes in providing uniquely creative and highly responsive commercials and campaign management. If you want to sell your product and need a company that has the creative vision to drive the call, as well as the practical experience to manage the intricate back-end process, contact Take 2 Direct CEO Adam MacDonald at (714) 979-5555 or E-mail him at adam@take2direct.com.