

PUBLISHING WITH CD-ROMS!

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PUBLISHING WITH CD-ROMS!

CD-ROMs are the way of the future. Not only do they turn your computer into a super-high-powered knowledge and entertainment machine, they can make a LOT of money for you, if you have vision and the willingness to try some new things. This report will explain exactly what CD-ROMs are, and how they can bring high profits for you. A CD-ROM is basically a compact disk (like the kind music comes on) that can be used in a computer. CD stands for Compact Disk, ROM stands for Read-Only Memory (which means your computer can read what's on the CD, but it can't write new information to it). In order to use a CD-ROM on your computer, you must have a CD-ROM unit, much like a disk drive, installed in your system. These CD-ROM units can either be internal (installed inside the computer case) or external (hooked to the computer by a cable). Note: Most CD-ROM units can also play regular music CDs, as well as the new Kodak Photo CDs.

Why would anyone want a CD-ROM unit? Well, for one thing, a CD-ROM can hold tons more information and programming than a regular computer disk, almost 400 times as much, to be exact. For example, there are whole encyclopedias that come on only one or two CD-ROMs! And these aren't just plain, boring encyclopedias, either. The high amount of storage on a CD-ROM allows full-motion video, digitized sound, and other special effects to be included. For example, if you look up the first moon landing, you might see an actual short video of Neil Armstrong stepping onto the moon, and you might hear him say his famous "one small step" speech! CD-ROM games are incredible! Many CD-ROM games are ultra-realistic, with real actors, real speech, and thousands of possibilities.

Desktop publishers love CD-ROMs, too. There are CD-ROMs available that hold thousands of typestyles and clip-art graphics. The ability to use CD-ROMs is almost essential these days if you run a BBS (Bulletin Board System, accessible by modem users). There are dozens of CD-ROMs available that contain hundreds of shareware programs each. Callers to your BBS can download these programs to their computer, so they can use them. With a few of these, you can have the largest file base of any BBS in your area literally overnight!

Major software companies are jumping onto the CD-ROM Catalog bandwagon. Some companies are now putting all of their programs onto a CD-ROM. These programs will be hindered in some way from functioning 100% (for example, a word processing program may not be able to save what you've typed). They do this so you can try the program and see if it's what you want. If you like the program, you can call them, give them your credit card number, they will charge you for the cost of the program, send you the manuals, and give you a code you can type in to make the program fully functional. They are discovering that it is very cost effective to operate

this way, plus, people get to try more software out, and potentially purchase more. So, this is the "why" of CD-ROMs. Just how can they make money for you, you might ask? First, you need to know how popular CD-ROMs are becoming. According to an article in Fortune magazine (February 21, 1994), about 15% of the 5.85 million computers sold last year contained CD-ROM units. That's over 877,000 CD-ROM units, just in 1993. That doesn't count the tens (or hundreds) of thousands of people who are adding CD-ROM units to computers they already own.

Have you ever been to a music store where they sell used music CDs? Used CDs are as good as new ones, and you can usually buy them for half the price of new CDs. This has become an industry in and of itself. People naturally want to save money, but get the same quality of product. Remember the number of people I mentioned earlier who either bought a computer containing a CD-ROM or bought one to add on to their current system? They'll be buying CD-ROMs. After awhile, they'll get tired of the particular CD-ROM they purchased. They may have finished a game, and not want to play it again. They may have bought a CD-ROM that they just plain didn't like. You can run a used CD-ROM business much like the used music CD business is run. Here's a nutshell description of what happens in a typical used music CD store. Almost everything will function the same for CD-ROMs. A customer brings in a CD that they want to trade-in. If the music store owner wants it for his or her stock, they'll usually offer the customer \$2 to \$5, depending on the demand for that particular CD. Then, they'll slap a price of \$6 to \$10 on the CD, and put it out for sale. That's basically all there is to it. The difference with CD-ROMs is the price. Music CDs, at least in my neck of the woods, retail for around \$14 to \$16 each. CD-ROMs usually start around \$25, and can cost over \$150! The price varies with the type of program on the CD-ROM (games are cheaper than encyclopedias, for example). If you were looking for an encyclopedia CD-ROM, and could buy the same one for either \$150 new, or \$75 used, and they'd both function the same, which would you buy? The basic formula for this is to offer the customer who brings in a CD-ROM 20% to 40% of the usual selling price for that particular item. Then, you retail it for 50% to 75% of the usual selling price, depending on the demand for that item. If it's a hot new game, give the customer a bit more and price it higher. You don't have to give the customer money, either. You can give them credit toward another CD-ROM from your stock. One used music CD store in my area might give me \$3 for a CD I bring in if I want cash, or one new or used CD for every two I bring in. This makes a lot of sense. For example, if they paid \$4 for the CD I want and I give them two CDs, they've basically paid \$4 for TWO CDs, which they might sell for \$8 each. Thus, they paid \$4 for \$16 worth of CDs. Not bad, and you can do this too, with your used CD-ROM business. Be sure to keep good track of the amount you paid for the CD-ROM your customer selects in this sort of trade, making sure that you will profit from the two they bring in. Well, that's an overview of the used CD-ROM business. Now let's get down to details. I'll tell you how I would run a business like this. You put your thinking cap on while you're reading this, and I'm sure you'll think of some ideas, too.

HOW TO START THIS BUSINESS

First of all, immerse yourself in the CD-ROM world. If you don't already have a CD-ROM unit, spring for one. Here are two sources for low-priced CD-ROM units: CRAZY BOB'S (yes, that's the actual name of the place), 50 New Salem St., Wakefield, MA 01880 (800) 776-5685 (an excellent source for CD-ROM units starting at \$259, plus tons of CD-ROMs at low prices - call for their catalog); and CORPORATE SYSTEMS CENTER, 1294 Hammerwood Ave., Sunnyvale, CA 94089 (408) 734-3475 (new and refurbished CD-ROM units from \$149). Read the computer magazines, especially ones dealing with multimedia topics. Many of them will have lists of the top selling CD-ROMs. Become a frequent visitor at your local computer stores - pay attention to what people buy.

All these will give you clues as to what the big sellers are. Take good notes, and keep them handy! Next, decide how you will run this business - in a store, or by mail. This business can be run equally well both ways, though the methodologies are a bit different. If you run it retail, you'll need to be in a good, visible location, with a decent amount of advertising and publicity. If you operate as a mail order business, you'll need to put together a catalog of what you have to offer and get it out to CD-ROM buyers.

Now, put together a starting inventory. You can do this by advertising in local and national magazines. Put a classified ad out saying something like this: "CASH FOR YOUR CD-ROMS!!! Excellent condition only, must have all manuals. Send your list for quote. (Your name and address)." Good places to put this ad include Computer Shopper Magazine, Computer Monthly, PC Magazine, multimedia-oriented magazines, BBSs, and local computer user group newsletters. When you receive lists in the mail, compare them to the information you compiled earlier. Find out what your local dealers and national mail order retailers are selling the titles for. Offer the person an average of 25% of the normal selling price. Most of them will take it, rather than have the CD-ROMs sitting around on a shelf, gathering dust. You should try to compile at least one to two hundred CD-ROMs before you advertise them for sale.

When you DO start advertising, emphasize that you will take trade-ins (remember the two for one deal described earlier) in addition to selling for cash. This is a very cheap way to build inventory. Remember to get at least double what you paid for each CD you sell.

If you want to run your business as a retail store, you should consider stocking some new CD-ROMs. Allow customers to trade their old CD-ROMs in for new ones, keeping your costs in mind. There's no reason why you have to have a hard set concrete rule, such as "you get one new CD-ROM for every three used ones you bring in." You can set a certain dollar credit amount for each CD-ROM they bring in, if some are more desirable than

others. Also, you don't have to take EVERY CD-ROM that people bring in. Like any other product, some CD-ROMs will be total dogs that no one will want to buy, except someone who's never heard how awful it is. Don't take these. If you manage to pass one off on an unsuspecting customer, good for you, but you'll probably never see them again. You want customers to return, and return, and return. You want them to buy a CD-ROM from you, come back and trade it in, then do the same again and again. That's where the real money is. After all, say a customer buys a CD-ROM from you for \$50 that you paid \$25 for. You've made \$25 profit. That customer comes back in a few months later to trade it in. Now, that CD-ROM might only be able to bring in \$35, so you offer \$17 for it. You still have \$8 profit. You'll make \$17 profit on it when someone else buys it, bringing the profit amount back up to \$25. The customer now buys another \$50 CD-ROM, giving you another \$25 profit. And so on...

If you're running a retail walk-in store, you won't need a huge one. In fact, a smaller store can be better than a large one. Your products are small, so a large store will just look empty, even when fully stocked. Plus, get four or five people into a small store and it looks busy. Put four or five people in a huge store, and it looks dead. You want your store to at least LOOK busy, don't you? The best way to display your stock is to put the CD cases out and keep the disks behind the counter. You can either put cheap racks on the walls to put the cases on, or build some cheap bins for people to flip through. The advantage to the racks is that people can see the artwork on the front of the case, which draws their attention. The big advantage is that you can store more CD cases in less space. Plus, it appeals to human curiosity to rummage through the bins. I'd have bins in my store. If you build your own bins, all you need to do is make a wood box that's 16.5 inches wide and anywhere from 10 to 15 inches deep. Now, divide the box into three compartments that are 5.5 inches wide. You will be able to stack the cases in each compartment so that the spine with the CD-ROM title is showing on the top. That will make it easy for customers to flip through them. Arrange them alphabetically by title in the bins. To keep the disks, get some 5 inch wide strips of 2 inch thick high-density foam (not the styrofoam that flakes apart - you want the tough stuff that can be sawed). Glue this foam to strips of plywood that you have nailed either under your counter or on shelves. Next, saw slots 3/4 of the way into the foam every 1/2 to 3/4 inch. Use a vacuum to get rid of any foam dust. Now, you can insert the disks into the slots, where they will take up little space. You may want to put labels on the foam and corresponding labels on the CD cases, so the disks are easy to locate when a customer wants to buy one.

A good idea, if you can afford it, is to have a computer or two out, so customers can try out the CD-ROMs. This will drastically increase your business, because customers will be less wary of being "taken". Plus, when it isn't busy, you can play some games...!

Where to advertise?

Use your head when buying advertising. You want your ads to be seen by people who will actually be interested in buying your products. You'd be better off to contact every BBS in town and offer to pay maybe \$25/month for a full screen ad that everyone who calls in sees, than to pay the same total amount for a few newspaper and radio ads. Why is this? Because the BBS ads are TARGETED ads. They will only be seen by people who own computers. The newspaper and radio ads will be seen by a higher total number of people, but most of those people probably won't own computers or even know what a CD-ROM is. Good avenues for targeted local advertising are: BBSs; computer user group newsletters; computer stores; high school and college newspapers (students are big CD-ROM freaks, especially games!); and other media that appeals directly to computer users. Be sure to put flyers up around school campuses, especially in computer labs, if possible. It may have occurred to you that there is a hidden possibility for profit in the used CD-ROM business... CD-ROM RENTALS! Why not? Video rentals brought forth video game cartridge rentals, which have exploded nationwide. Rent your stock of CD-ROM disks. You'll get the student who needs an encyclopedia for the big term paper; rent them an interactive CD-ROM encyclopedia. You'll get the game freak who just has to play something new; rent them your newest and most exciting CD-ROM games. You'll get the parent who's looking for a new educational program for their kids; there are hundreds of educational CD-ROMs out there. You'll get the business person who needs special reference material; rent that CD-ROM in your stock that contains the names and phone numbers of every buyer for every large company in the U.S. How much to rent your CD-ROMs for? Well, it's pretty much an open market, since there aren't many (if any!) CD-ROM rental stores around. I'd say, start your rentals at \$3.50/day, and see how it goes. You need to find the highest price the market will bear, without damaging your business. For example, if you can rent 100 of your CD-ROMS per day for \$3.00 (\$300), or 75 for \$3.50 (\$262.50), it should be easy to see which price to charge. As with any rental business, you should get a heavy supply of standard rental agreements. Standard video rental agreements should do. Your customer needs to fill one out and sign it before the first time they rent. Basically, the agreement states that anything they break or steal, they buy.

Should you charge for memberships to your CD-ROM rental club? I would answer a resounding NO!!! Many video rental stores charged for a membership. Those days are over. The smart rental stores realized that they'd make far more bucks down the line by giving out free memberships and having many more potential renters, than they would make by having only the people willing to pay \$10 to \$25 up front, before they rent. Make up some inexpensive rental membership cards (plain cardboard will work fine), and give them out FREE, after the renter fills out the agreement. A good idea is to stock up on CD-ROMs that contain collections of specialized programs. For example, get a collection of CD-ROMs with shareware programs on them. Let BBS owners know you have them available. Keep in mind that there are over 60,000 BBSs out there, with more starting every day. Sounds like a good market for rentals and sales. Or, put together a stock of CD-ROMs containing tpestyles and clip art graphics. Then, do a special

mailing to desktop publishers, businesses that have in-house art departments, schools, etc., any business that could need these CD-ROMs. Be careful about renting these, though. If you're dealing with CD-ROMs that contain programs that can be copied, such as graphics, make sure the contents of the CD-ROM aren't protected by copyrights. If they are, they are only intended to be used by the PURCHASER of the CD-ROM. If they are public domain, then you may rent them as many times as you want.

I hope you can see the profit potential locked inside CD-ROMs. They are not a fad, they are a coming wave. Look at how CDs revolutionized music... they WILL do the same for computers. Establish yourself as a source of quality new and used CD-ROMs, for sale or rent, and you'll do well! This is a fantastic business that is easy and fun. Start right away, though. It's hard to open a profitable video store these days, because everyone's in on the technology. CD-ROMs are the new technology on the block, waiting to be picked up and used profitably by you!