HOW to SELL BETTER THAN amazon

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Chapter 1: How To Sell Better Than Amazon

$97,680.10.

That's a decent amount of money by almost anyone's standards. For many eCommerce companies, that may represent an entire month's sales revenue, or even quarterly revenue. But according to their filings, for Amazon.com, the towering, titanic juggernaut of the eCommerce world, that's roughly the amount of revenue that they made during every minute of every day during Q2 of 2012.

For a long time, the way to make money on the Internet was to run lean. The average profit margin for eCommerce companies in 2012 was a mere 6.8 percent according to IBISWorld. The idea was that eCommerce companies could create an economy of scale that would enable massive profit volume even if profit per transaction was low. With more than seven out of ten US consumers shopping online, eCommerce companies had a massive market with which to scale this process, and the race to the bottom began. eCommerce companies based their entire business models on having the cheapest prices and even wrote scripts to scan competitors' websites and adjust their prices to constantly be lower.

Price-sensitive consumers were always an attractive market to eCommerce companies because of their velocity. In the overall consumer buying cycle, consideration of pricing by vendors falls at the very bottom, and therefore the number of those consumers who would hit a site, find a product, and buy right away was extremely high. Because eCommerce companies chose to engage in this arms race of low margins, their main streams of revenue were built around high-velocity, low-profit consumers making individual, one-time transactions.

The advent of product and price aggregators such as Google Shopping vastly accelerated this process. Consumers no longer even had to shop around for the lowest price; by simply entering the product they were looking for into a search engine and clicking "sort by price," they could instantly find the website with that product for the cheapest cost. This led to the inevitable breakdown of this

business model as a viable revenue stream. When your main focus is price-sensitive consumers, and the race to the bottom gets out of control, you're confronted with a singular, unavoidable, and ultimately devastating fact: there's always someone willing to make less money than you.

This corporate obsession with the acquisition and conversion of price-sensitive eCommerce consumers also led to another phenomenon—sometimes colloquially called "getting Amazoned." Most product, vertically oriented websites (websites oriented around specific industries or product groups) by their nature and definition were infinitely better than Amazon at providing information to consumers in higher phases of the buying cycle, where they were researching exactly which product would address their need or pain point (the problem or reason that the consumer wanted to address by purchasing the product). Knowing that they were losing the short-tail and price-point race, eCommerce firms halfheartedly invested in blogs or—for the very advanced—even a single buyer's guide on their websites that would attract and help consumers identify which product they needed. However, once consumers had educated themselves and decided what product to buy, a significant portion would then leave the site and go to Amazon (or another highly price-oriented website) and buy the product there. This meant that a significant amount of the traffic that was coming to the vertically oriented eCommerce sites wasn't converting there, and firms concluded that content marketing wasn't, in fact, the war to end all price wars.

However, eCommerce firms that don't invest in content and insist on continuing to fight the pricing war are making a grave and—in the long term—fatal error. Amazon has a massive strength in its *long-tail* inventory offering, but that strength is also its weakness. The long-tail theory is one that's most frequently heard in relation to keyword strategy for search engine optimization; that is, it is orders of magnitude easier to rank for "best television to connect to a PlayStation for first person shooter gaming" than it is to rank for "best television." For firms without massive resources or existing domain authority, focusing on long-tail keywords with multiple words makes it plausible that they can be competitive with larger, more-established firms.

The long-tail theory also refers to the amount of inventory that an eCommerce store can carry and offer as opposed to a conventional brick-and-mortar store. Large conventional bookstores, for example, can carry around 130,000 titles. However, Amazon (who sold only books in its early days online) attributes more

than half of its revenue to titles outside of its top 130,000 best sellers. In the same way that long-tail keyword phrases allow firms to capitalize on the innumerable permutations of keyword queries that consumers are looking for answers to, long-tail inventory strategy enables firms to capitalize on the innumerable specific product offerings that appeal to the vast number of online shoppers.

However, this great strength of Amazon's is also its greatest vulnerability. Although it's difficult for anyone with Amazon's dominant market share and positioning (not to mention its massive gross revenues, as we discussed earlier) to feel a great sense of urgency in altering their business model, Amazon has key weaknesses that provide significant opportunity to eCommerce firms. Quite simply, Amazon's long tail is so massive that it's been unable to effectively address the higher phases of the buying cycle, where education to aid consumer research and topical credibility are key. Also, Amazon has been unable to address the long-term value of consumers due to their weak, price-specific value proposition and inability to adequately define and target buyer personas.

This book will focus on how to be competitive in the eCommerce marketing battle space without focusing primarily on product price to drive traffic and conversions. In the opinion of the authors, Amazon and the other major long-tail eCommerce firms have effectively won the race to the bottom and will continue to dominate online transactions for highly price-sensitive consumers. If you're committed to being competitive in an eCommerce price war, then this book will have little value to you; we focus on how modern eCommerce firms can compete by shining a light on the inherent weaknesses in long-tail eCommerce business models.

eCommerce Consumer Long-Term Value

We once had an eCommerce marketing team come to us with a confusing and devastating problem: their competitor was massively outspending them per click in Google search engine advertising, which both this team and their competitor relied on to drive the majority of their business.

The team's members were very confused because they knew that they had the same product supplier and roughly the same cost of goods sold (COGS). They also knew that their competitor's website had roughly the same visit-to-customer conversion rate. There was no way that they could think of that their competitor was able to afford to spend so much to acquire each customer.

To explain this to them, we told them about a quote from one of our favorite eCommerce marketers, Matt Lauzon, at Gemvara. Lauzon's prediction is that effective eCommerce marketers will very soon have to think of eCommerce revenue models from the perspective of SaaS (Software as a service) economics, where the cost to acquire a customer is only one-half of the economic equation—and arguably not the most important half.

SaaS companies express their unit economics using the ratio formula COCA:LTV (cost of customer acquisition to long-term value). It's the balance of the numbers in this ratio that defines the economic value of the enterprise. Since most SaaS firms are on monthly recurring revenue (MRR) models, the average LTV is a simple function of their average sale price and their revenue churn coupled with their ability to upgrade customers along whatever their secondary axis of pricing is.

However, most eCommerce firms express their unit economics using COCA:ASP (cost of customer acquisition to average sale price). This ratio formula is fundamentally flawed and overly simplistic. Although most eCommerce marketers understand and acknowledge intellectually that cross-selling, upselling, and reselling to existing customers is important, very few of them model or bake this fact into the way that they consider the unit economics of their business.

For our customer's competitor, however, we were able to identify how they were using social media and e-mail marketing automation to very effectively stimulate repeat and recurring purchases from their existing customers, thereby vastly increasing the LTV of their individual customer contacts. Whether or not they were doing this on purpose, they'd effectively out-leveraged our customer, who was very focused on customer acquisition and price competitiveness, in the grand equation of COCA:LTV unit economics. Quite simply, they could afford incredibly slim—or even negative—profit margins on the individual transaction because they were being very effective at increasing the LTV of their individual customer contacts.

Long-tail eCommerce firms like Amazon have a fundamental weakness here because the best way to improve customer LTV is through content and engagement. Amazon, like many eCommerce marketers, relies on the somewhat lazy fallback of discounts and price incentives to drive buyer behavior. The traditional eCommerce method for extracting value from a list of existing

customer contacts is to blast the list twice a week with special discounts and sales. This method is dangerous because it has the potential to turn customers that aren't already highly price sensitive into ones that are by framing the entire conversation from the perspective of competitive price. Also, it fails to address the fact that consumer buying cycles aren't a linear continuum. In fact, consumer buying cycles are a dynamic function of the many products and accessories that are related to their buyer personas, which we'll discuss in-depth in a later chapter.

Amazon, because of its diverse inventory and product offerings, has a massive challenge in identifying and nurturing micro personas in a highly targeted and effective way. They're fairly good at identifying related products or offering product suggestions based on historic purchase patterns, although they've been known to fail at this rather spectacularly as well. For example, Amazon sent an e-mail to a user recommending they buy a book called "Crafting With Cat Hair" – even though that user neither owned a cat nor was particularly crafty. While the specific factor of their algorithm triggered that suggestion isn't clear, a real human would never have recommended that particular item to this user if they'd had a micro-persona defined for him.

However, they've historically avoided entirely using any kind of related-content nurturing in e-mail automation (much less social media nurturing) that helps address the dynamic buying cycles involved in selling interrelated or upgraded products. The sheer scale of what they're selling makes it implausible that they'll be able to compete with a vertically oriented eCommerce marketer who truly understands all the dimensions of his or her buyer personas and has an inherent expertise and experience in the factors and topics related to their product categories and accessories.

Research-Phase eCommerce Marketing

eCommerce websites traditionally have very low visit-to-customer conversion rates, averaging between 2 percent and 5 percent for many websites. However, most Internet traffic is no longer arriving at websites accidentally or from unqualified sources. With somewhere north of one trillion web pages on the Internet, and the primary methods of page discovery being search engines, referral links, and social media, the traffic to websites is self-selecting to be fairly well targeted and qualified. For example, if you're searching for information on

flat-screen TVs using a search engine, you're very unlikely to end up at a website about baking homemade apple pies.

Then why are conversion rates on eCommerce websites so low? If the traffic that's arriving at eCommerce sites is coming from a qualified source, why is so little of that traffic converting into customers?

The simple fact is that the vast majority of the Internet's eCommerce website traffic is in a higher, non–price sensitive phase of the buying cycle. Most of the people visiting eCommerce websites are only somewhat aware of the fact that they have a need and have identified a product category that will address that need—much less a specific product. We'll discuss later specific strategies for how to address this top-of-the-funnel (a.k.a. TOFU) traffic and how eCommerce marketers can be competitive by widening the tops of their funnels.

This is another example of how long-tail eCommerce firms like Amazon are handicapped by their sheer scale. As this book will discuss, effectively attracting and converting research-phase traffic involves defining effective buyer macro personas and creating a volume of content that targets each persona. In addition to the massive challenge of creating that volume of content across a wide variety of product categories, long-tail firms are handicapped by the simple fact that they don't possess the knowledge or expertise required to effectively address the research-phase needs of consumers within any given product vertical.

Although Amazon may move logistically into new consumer product verticals by adding more products to their long-tail inventory, competing in a content battle with every eCommerce marketer dedicated to a specific product vertical would involve such a massive and unscalable operation on their part that it's highly improbable that they'll ever make such a fundamental shift in their marketing—and even less likely that they'll succeed should they try.

In this book we'll teach you how to attract research-phase consumer traffic, lower your COCA while improving your customer contact LTV using persona-driven content and marketing automation and avoid the mutually destructive race-to-the-bottom of a price war. Amazon and other long-tail firms will continue to dominate the price-sensitive consumer segment for the foreseeable future, but this book will teach you how your firm can go toe-to-toe with long-tailed

monsters like Amazon and win by creating a unit economics model that they simply can't compete with across the vastness of their inventory offerings.

Thanks for reading!

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