

ECOMMERCE GENOME

Deciphering the DNA of
Successful Online Stores



WITH EXCLUSIVE DATA FROM
COMPASS

RAMON BEZ

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INTRODUCTION

When I arrived in our brand new offices on the 13th floor Parker Tower in Holborn, London, I felt like Leonardo DiCaprio in the “King of the world” scene of Titanic. I had come from a small town in South Brazil and here, in my first real digital marketing job, I found myself at the top of London’s skyline, working for a hot new tech startup. It felt great.

Not long after that, however, the company nearly completed the Titanic metaphor, and was saved by the tenacious steering of its founder. The startup was called BraveNewTalent. We had built a first prototype – called, in startup jargon, a Minimum Viable Product – that caught the attention of blue chip clients and investors. We raised millions of pounds in Venture Capital funding, rented a funky new office in Central London and hired a world-class team whose passion for the vision of the company almost sank the whole thing down.

You’d think that with an inspiring vision, world-class talent and money in the bank, success would be inescapable. So why did this happen? We were missing a fundamental ingredient: focus.

Lucian Tarnowski, the founder of BraveNewTalent, had a vision for what professional education should look like. It was exciting. Our current educational system was conceptualized for the industrial age, when the ability to stay disciplined and follow a plan was important. But the future belongs to knowledge-based companies that need creative and entrepreneurial employees to help them compete in a different type of market. BNT was the solution to that problem, bringing recruitment, social media and education together in one platform.

Our Minimum Viable Product looked promising, but it was rough around the edges. An MVP is supposed to be rough because its only job is to give early customers indications that the product will be able to solve a problem worth solving. If it works, even as a prototype, it’s enough to sustain a company going forward.

Once an MVP has been validated, in what’s called the Validation Phase, a startup moves to a new era, in which it needs to increase the efficiency with which the product solves that problem: the Efficiency Phase.

Increasing efficiency means different things to different companies. Online stores, for example, usually need to improve their conversion rate at this point (the percentage of site visitors who buy something). In our case, that meant building features that would increase user engagement.

At BNT we wanted to build a social network to help companies engage with prospective employees, helping young talent develop the necessary skills that would complement their education, and becoming more employable in the process. There are a number of ways we could have done that. I believe we tried them all, from a Yammer-like site to a Facebook App, and a lot of good and bad ideas in between. Eventually, BraveNewTalent almost went bankrupt, then became BraveNew and finally pivoted (as startups like to say when they change their minds) to become a growing knowledge-sharing community platform for large companies.

BNT correctly forecasted where the macroeconomic environment was heading, had a grand vision and a worthwhile problem to be solved. The problem we couldn't solve when we were struggling to get our engagement numbers up – drowning the company in the process – was how to build a product that would make our founder's vision a reality. It was the subject of intense internal debate throughout my three-year stint with the company

New ideas for how the product should look started popping up among different groups inside the company, dividing it in the process. We wasted a lot of time, our most precious resource, building beautiful software that nobody used.

We had an incredibly talented team with one fatal flaw: spending time on things that didn't make a difference. We didn't do it on purpose, of course. In fact, every expert we consulted with, in both the startup and recruitment fields, including high-profile clients and investors, told us we were on the right track. At the time, we had no way of knowing that we were skipping ahead and ignoring an important phase in our development, jumping into the Efficiency Phase too soon when we should have been validating our MVP instead.

BraveNewTalent's story is common among startups and ecommerce businesses (the real focus of this book). When I joined Compass, years later, I learned more about how companies succeed and fail. Contrary to what I previously believed, young companies don't fail because of lack of execution or incompetence. They fail because they efficiently execute the wrong things. This made me feel a little better about the whole experience but one question

remained unanswered: How can companies avoid working on the wrong things if they have no way of knowing what the right things are? This book is an attempt to help ecommerce entrepreneurs figure that out.

Before I joined Compass, the company was called Startup Genome. It was a research company specializing in producing reports about startups, interviewing founders from thousands of startups around the globe. The founder, Bjoern Herrmann, went on to start Compass, an ecommerce analytics solution for ecommerce. Startup Genome remained active under the leadership of JF Gauthier and is probably the most respected ongoing research about the startup industry today.

One of Startup Genome's most interesting findings was that successful startups go through four different development stages: Discovery, Validation, Efficiency and Scale. If any one of these steps is not thoroughly executed, startups inevitably lose money and often go bankrupt. Entrepreneurs don't skip an important step in the development of their companies because they're in a hurry or forget something. They miss them because they don't have the right data available to make the right decisions about what to work on and when.

Any online business has more data at their disposal than they know what to do with, but few are able to take actionable insights from it. For instance, how does a company decide how much to spend on advertising? Is a 2% conversion rate good or bad, and should they work on improving it? When is the right time to scale growth? These types of questions can't be answered by Google Analytics.

Following Startup Genome's findings, Compass was built to help entrepreneurs make decisions by benchmarking their data with similar companies. In doing so, Compass gathered millions of data points from thousands of online stores, allowing me to tap into that data and extract insights that I believe can help companies improve their chances of success. This book is a product of that research combined with the findings of Startup Genome. It's a guide for ecommerce entrepreneurs about how to focus on the right things at the right moments of their company's journey.

We'll start the book by looking at Startup Genome's findings in "Section One: Focus on Learning," where we'll learn a new way of managing a company based on how successful tech startups operate. It's true that ecommerce companies operate under more certainty than a

startup, but every new business, especially one that operates online, needs to innovate if it's going to stand up to the constant environmental changes that are part of selling over the internet. In that respect, an online store has a lot to learn from successful startups.

Startups can teach online store owners how to build a company that can survive – and thrive – under strong competition in a volatile marketplace. The key is a willingness to learn. If a company can adapt to whatever comes along, be it bad PR or a scary new competitor, it will multiply their chances of success. Section One will help us understand how to build a learning organization in a few simple steps.

Starting with Section Two, we'll start digging into Compass's data on successful online stores. After years of working in ecommerce, and even trying (and failing) to start an online store myself, I learned what questions most afflict ecommerce entrepreneurs. I've also learned that there aren't satisfying answers for most of them. When I joined Compass as a content writer, I found half of these answers inside our database of client data. The other half I learned from our customers.

Many successful ecommerce entrepreneurs using Compass were kind enough to answer a questionnaire detailing how they found a niche market, how much money is enough to open an online store, if digital influencers are worth it, whether to do free shipping, and so on. We used the results to compile some evidence-based answers to some of the most popular questions asked in Facebook groups and ecommerce forums. I've summarized our findings in the second section of this book.

"Section Three: Focus on Growth" is about how to start a business that is prepared to grow. Every business needs to scale but it's getting increasingly harder to convince people to shop in any online store, given the amount of competition for customer attention online. In this section, we'll look at a few notable case studies and dive into our data to learn more about the different marketing channels available. At the end of the section, we should be able to understand what is the best way to market each type of online store and how they can acquire new customers.

The next section is all about the customer. In "Section Four: Focus on Loyalty," we'll dig into the data of thousands of successful stores to learn how valuable loyal customers can be for

ecommerce businesses and learn what the data says about different strategies that can help increase loyalty, from loyalty programs to subscription models.

This book is meant to be a guide for ecommerce entrepreneurs that is based on data, not personal experience. Case studies and anecdotes are used to enliven some of the aspects of our research, but the true insights come from ecommerce analytics data and a survey of thousands of successful ecommerce entrepreneurs. Data can give us recommendations on how to run an online store and make better business decisions, but that doesn't mean there aren't exceptions to these rules. Our data reveals a best-practice guide, a path to follow, but sometimes there are roads less travelled that can be just as good or better. Just make sure you read this book before taking a route you don't know well, make sure there aren't any icebergs along the way, and you should be fine.