ECOMMERCE GENOME

A Practical Guide to Launching and Growing an Online Store

WITH EXCLUSIVE DATA FROM COMPASS

RAMON BEZ

Ecommerce Genome

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Contents

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INTRODUCTION

The most important job anyone analyzing large sets of data has to do is translate that data into stories that other people can relate to. It's from stories (in the widest sense of the word) that people draw insights that can lead to real improvements. A pile of numbers and tables is useless if it doesn't generate any actionable ideas.

Ironically, I wrote the first draft of this book in direct contradiction to my own advice. Having worked for Compass for more than two years, I knew we were sitting on a treasure trove of data that needed to get out to the world. The question was how to present it.

Every online store that signs up with Compass (tens of thousands at the time of this writing) makes much of their data available (anonymously) to Compass's system. The system crunches all that data and returns individualized benchmarks to help entrepreneurs, marketers and analysts make better management decisions.

I spent months going through Compass's database – countless hours in front of Jupyter and Excel – and, though I can't look at any one store's data individually, I can see patterns in the data that can explain how top online stores in each segment became successful. These patterns led to the insights contained in this book.

With that data in hand, I created lists of the best performing online stores through a variety of lenses. For example, I learned what are the best performing stores acquiring customers via Facebook Advertising, who were the best at retaining customers, the fastest growing stores, and so much more.

Top performers in our sample were kind enough to answer my surveys and participate in interviews. Many of them are featured in this book, not only because they are among the best at what they do, but because they helped me tell stories that illustrate what the data was telling me about how to run a great online store.

The first draft of this book (now in my trash folder) was categorically described as “dull” by my first test readers. And with good reason. It didn’t extract any relatable stories from the data. All I was doing was presenting figures.

The version you’re reading tells the stories behind the data, illustrating the information we gathered after months of researching data from Compass and the company's earlier iteration, Startup Genome. Startup Genome focused on researching the common characteristics among the world’s most successful startups. The combined insights from both these companies’ research is at the core of this book.

To help readers put the insights of this book into practice I added Action Points after each chapter, summarizing the findings from our research and translating it into actionable advice. You should come out of each chapter with a clear idea about how to translate these lessons into an actionable plan for your online store. If you’re in a hurry, skip a chapter and jump directly to the Action Points, if you like.

The insights contained in the upcoming chapters are based on best practices I learned from analyzing the data of some of the best-performing online stores in the world today. It’s the first time anyone has done such a research project, and it’s high time. The lessons from these successful entrepreneurs are invaluable.

I am not, however, going to describe the only possible way a successful ecommerce company can be managed. For every rule in this book, there are dozens of companies out there that broke it and are incredibly successful. Take each idea as testable hypotheses. Experiment with them and put them in practice only if they work for you.

PART I: GETTING STARTED

Chapter One: Discovery

Josh Willard's success story begins, as perhaps all great success stories should, with his childhood.

"I grew up catching frogs and turtles from a swamp near my house," he told me. "And my mother was kind enough to let me keep them around and return them the next day."

Collecting interesting creatures grew into an adult hobby. But as he began collecting more of these exotic pets, he needed to find a way to support it. Caring for exotic pets, he found – feeding them, housing them and cleaning up after them – demands a substantial financial investment.

To save money, Willard bought supplies in bulk and sold the rest to friends and to people he met online who "did the same kind of stuff." Eventually, he launched an online store. Today, Josh's Frogs is a seven-figure business selling exotic pets and related products, such as food, cages, and other supplies to exotic pet hobbyists and aficionados.

I came out of my conversation with Willard dumbfounded. One really starts to run out of excuses when he sees a guy in the frog business building a multi-million dollar company. Willard gave me the impression that each piece of his business had fallen effortlessly into place. Every step he took, from starting a blog, to selling leftovers, to launching and growing his store, was part of a natural progression.

For example, this is how Willard described the moment he decided to turn his side business into a full-time job: "At one point I thought, 'Hey, I'm gonna make a go at this.' I had seen some significant growth in what I was doing, so it wasn't so much of a turning point, but a point of increase, you know? A decision that was already made for me when I arrived at it."

What can we learn from Josh's Frogs success story? According to Startup Genome's research, new companies go through four key steps to become successful: Discovery, Validation, Efficiency and Growth.

- Discovery Phase: Research your market before you start the business starts.
- Validation phase: Test your discoveries and start growing sales.
- Efficiency phase: After initial growth, prepare your company to scale.
- Growth phase: Increase budgets to grow aggressively.

Skip any one of these steps, and your store will have trouble growing revenue and profits. Josh's Frogs is a great example of a company who's success can be largely credited to the time and attention they put into the Discovery phase (even if they didn't realize that that's what they were doing at the time).

During the Discovery phase, you immerse yourself in your target market, learning as much as possible about them. Who are they? What are their needs, desires and pain points? Where do they hang out, what types of people are they? How do they communicate? Do they even have the problem you're trying to solve with your product? How are they solving this problem now? How can you best reach them?

Discovering the answers to these questions can be daunting, but Willard had an unfair advantage: He had been engaged with his niche market all his life. He didn't have a business idea first, before learning more about the market, as most entrepreneurs do. For him, it was the other way around. The market, in essence, "pulled" his business into existence, presenting itself as an opportunity as his online sales of leftover products grew. And that made things much easier.

Entrepreneurs that start businesses in a market they don't know very well spend a lot of time talking to potential customers, suppliers and other people in the business. Others start a blog, a YouTube channel or a social media account aimed at sharing content about the industry they're getting into.

Whatever the case, you should come out of the Discovery phase with strong hypotheses for why your business would work. During the Validation phase, you'll put your hypotheses to the test. That's what Josh Willard did when he bought products in bulk and sold the leftovers using online forums. He may not have known it, but he was testing to see if the target market he envisioned was interested in buying the products he was offering – or existed at all.

The most important milestones for a young business to overcome are 1) knowing what products people want to buy and 2) figuring out a way to attract customers in an efficient, scalable and profitable way. (We'll learn more about these milestones in upcoming chapters). Most businesses struggle with one or the other (or both). But Willard had them both figured out before he even had a company, which gave him a significant advantage.

By selling leftovers, Josh Willard was testing both his product and his marketing channel hypotheses. He landed on a marketing strategy that can be classified as "Community Building," the work of connecting people around a subject they're passionate about. You've seen the kinds of companies who are great at building strong communities in order to grow sales: They're companies like Harley Davidson, Vans and Lego.

Not all products or niche markets are suitable for this type of marketing strategy, of course. There were two good signs that Willard's niche audience would respond to his community channel approach: The niche is small and it is active.

Willard built a community by producing content that he knew was both helpful and missing for his target audience. He wrote a blog that became very popular in his community that provided useful information about the subject of exotic pets. He was also active in forums, communities and social platforms about his niche. Willard's high-value content helped his website show up higher and higher on Google for people who searched for keywords related to frogs, spiders, snakes and other types of exotic pet care.

When Willard mentions that there was a point at which he knew it was time to take the next step and make this side hustle a full-time job, he means that he had just validated the two most important hypotheses for a business to be successful: a product that fulfills the needs of a specific target market and a marketing channel to reach them. He didn't use those terms and probably wasn't as systematic as I'm making it sound here, but the steps he took were the same, and they are important.

If you're not as lucky as Willard – falling into a promising niche market – it's important that you take time to immerse yourself into your customer's world. The story of Josh's Frogs illustrates the importance of the Discovery phase. Entrepreneurs who are just starting out should invest in marketing only once they thoroughly understand their target niche market's shopping behavior and have used that knowledge to elaborate on their hypotheses. These hypotheses will be confirmed or dismissed during the Validation phase, the subject of the next chapter.

ACTION POINTS

To increase your chances of launching a successful online store, start your journey by spending as much time as possible in the Discovery phase:

(1) If you're starting a business in an area you're passionate about, you're already living in the Discovery phase. Write down your business plan using your knowledge of the audience. Make sure your plan answers the questions: Who are they? What are their needs, desires and pain points? Where do they hang out, what types of people are they? How do they communicate? Do they even have the problem you're trying to solve with your product? How are they solving this problem now? How can you best reach them?

(2) If you're not part of your future target market, there are two ways you can go about the Discovery phase. The first is to interview as many people in your prospective market as possible, from suppliers to end customers and everyone in between. Ask for recommendations in your network of people that work in the industry, set up calls or meetings with them and learn as much as you possibly can.

(3) The second way is to get started with a blog, a community or a social media account, producing content relevant to your future target market. That's what Josh Willard did when he started a blog about exotic pets years before he launched an online store. He learned a lot about his market and built up an audience for his upcoming online business.

Chapter Two: Validation

Steven Ford, Brandon Liebel and Bruno Aschidamini were hanging out on a beach in San Diego one day when a rather inconsequential conversation about the terrible quality of the beach towels around them led them all to quit their jobs and jump head first into an entrepreneurship journey that would change their lives forever.

They left the beach on a mission. After setting up a website, opening an Instagram account and finding a manufacturer to help them make their first products, Sand Cloud, an online store for beautifully designed quality beach towels, was born. Today they are one of the leading sellers of beach towels in the world.

Stories like this make me want to jump out of my chair and start a business today. None of them knew a thing about the clothing or accessory business when they started. They knew nothing about beach towels other than how poorly made the majority of the towels on their favorite beach looked. They learned everything from friends and YouTube videos. Lots of YouTube videos.

And yet, they built a successful business from scratch.

Perhaps the most discouraging phase for anybody starting a business is not the ‘having a good idea’ part. Or finding manufacturers or wholesalers to source the products (they’re all online). It’s the step after that: How do you know if people will even want to buy what you’re trying to sell? And how do you market it?

An online store idea is only a good one if it can answer three questions:

1. Is there a market for my products? (Product/Market Fit)
2. What is the best channel to promote my products?

(Product/Channel Fit)

3. What's unique about my approach to market? (Unique Marketing Advantage)

1. The Product/Market Fit Question: Is There a Market for my Products?

To answer the Product/Market Fit question is to figure out – preferably before you quit your job – if people would even be interested in your products.

That's what Brandon Liebel and Bruno Aschidamini did as soon as they picked up their first beach towels from the manufacturer. They headed to the beach to sell them one by one.

When you're ramping up and growing sales, you want to automate as many processes of the business as possible, since you're dealing with high volumes. But in the very beginning your goal is to learn about your customers and the industry as quickly, cheaply, and directly as possible. Being hands-on by engaging with your potential customers directly is the best way to accelerate learning.

Walking up and down the beach selling towels is not how you build a scalable business. But it is how you validate your idea directly with the consumer. Even though most people didn't have enough cash at the beach to buy their towels, the three co-founders sold quite a few of them, heard some valuable feedback, and managed to get their first Instagram followers. Instagram was an integral part of their plan and this validation gave them a promising answer to the Product/Channel Fit question.

2. The Product/Channel Fit Question: What is the Best Channel to Promote my Products?

If there was one step in their entrepreneurship journey that Ford, Liebel and Aschidamini could say they were savvy about, it was Instagram. As early users of the up-and-coming photo-sharing platform (this was in 2014), they observed its popularity growing among their friends and seized the opportunity to use it as a sales channel.

To answer the Product/Channel Fit question is to figure out your first promotion channel. As you grow, you often need to diversify your marketing, but young companies are better off focusing on one marketing channel first. They had no doubt that their first channel would be Instagram.

Instagram, as a visual media, was perfect for promoting one of the main aspects of their beach towels: their beautiful design. In addition, the most active users of Instagram are young people, their target market.

The image-sharing social network was such an important piece of their business plan that when I asked Steven Ford what made him realize their store was going to be big, his answer was: “It was when we got to the ten thousandth followers on Instagram.”

It wasn’t the number of sales, their revenue or winning an award. It was the number of Instagram followers that gave him the feeling that they had made it. That’s how much faith they put into that channel. Their bet paid off. Here’s why:

3. The Unique Marketing Advantage Question: What’s Unique About my Approach That Makes me Stand Out From the Crowd?

Ford, Liebel and Aschidamini’s plan was to invest on a free marketing channel: social media. But opening a social media account and posting product photos on there isn’t enough. There are thousands of companies promoting their brands on the most popular social media sites, so they had to do something different to stand out: find a Unique Marketing Advantage.

Marketing online products comes down to two things: 1) Making sure that the chosen marketing channel brings a high volume of interested shoppers to your store and 2) Managing the ratio between the cost of convincing a customer to purchase your product (Customer Acquisition Cost) and the projected lifetime value of an individual customer (Customer Lifetime Value). This is known as the CAC/CLV ratio.

CAC/CLV Ratio

Customer Lifetime Value (CLV) is a measure of how much gross profit (before marketing) a single customer brings in during the entire time they remain a customer. For example, if your average customer shops with you 10 times, their average order value is $100 and your average gross profit is 20%, then your CLV = 10 x (100 x 0.2) = $200.

Having a CLV of $200 means your Customer Acquisition Cost (CAC) needs to be $199 or lower to turn a profit. The goal then is to manage your marketing to have the lowest CAC possible, combined with the highest possible CLV, creating a positive CAC/CLV ratio and a higher profit.

There are many “knobs” you can turn up or down to make this equation work in your favor. A store that has high conversion rates and/or uses a very cheap (or free) marketing channel will have a low CAC. A store that has high margins, high repurchase rates, and/or high average order value will have a high CLV, thus being able to spend more per customer acquisition.

Sand Cloud’s Unique Marketing Advantage was to take their chances on an upcoming social network that wasn’t as competitive as the others at the time. In 2014, most companies were focusing on Facebook and Twitter. Instagram was still new and unexplored, but growing at a remarklable rate. It was also the best social network for mobile devices at the time, something that fit with the lifestyle of their customers and demonstrated potential to provide high traffic volumes in the long run.

When it comes to social media marketing, you’re not only competing with other online stores in your niche. You’re competing for your customers’ attention with Coca-Cola, Unilever, Cristiano Ronaldo, Times Magazine, the latest rom com, friends, family, boyfriends, girlfriends, crushes and millions of pictures of carefully framed avocado toasts. Sand Cloud needed to do something special to stand out.

That said, a Unique Marketing Advantage doesn’t have to be anything out-of-this-world creative. Sometimes just being at the right place at the right time, being smart enough to seize an opportunity or working diligently is a big advantage.

The three co-founders spent most of their days coming up with different strategies to grow their follower count. They hosted giveaways and quizzes, asked followers to tag friends and created an Ambassador Program to reward people who were sharing their products.

Their strategy wasn’t an overnight success. It took Sand Cloud two years to gather a large enough following to bring in significant sales results. But they were seeing progress every step of the way, learning from every mistake and working hard to get things right.

In time, Sand Cloud developed a social program to help preserve marine life, something the founders were passionate about. Customers could see that their social cause was authentic, which helped them build up their brand on their site and on Instagram.

Sand Cloud also diversified their product range, offering accessories that line up with their marine conservation cause, such as glass water bottles and metal straws. This helped increase retention and CLV. Later, a subscription program was also an important step in making the company more profitable because it helped increase repurchase rates, positively affecting CLV.

ACTION POINTS

The step after the "I have a great idea for an online store" is often overlooked, but it's fundamental to a company's success. Before you take the plunge, there are three main questions that will form the backbone of your ecommerce strategy : the Product/Market Fit question, the Product/Channel Fit question and the Unique Marketing Advantage question.

(1) Product/Market Fit validates that there's going to be a market for your product. When you're starting out, you have a lot of energy and enthusiasm. Use that eagerness to speak to your customers directly. Gather unique insights that will help refine your business strategy going forward. Learn as much as possible about your customers or directly from them without worrying yet about whether your techniques are scalable or not.

(2) Product/Channel Fit is all about finding the best promotion channel for your initial marketing efforts. We'll learn more about the most popular marketing channels available in upcoming chapters, but whatever acquisition channel you choose, the key component of a successful acquisition strategy is to have a favorable CAC/CLV ratio.

(3) Addressing your Unique Marketing Advantage is how you make sure that your marketing will stand out among the competition within your chosen channel and bring high volumes of qualified traffic to your store. It can be a new approach, unique to your brand, that no one else can copy. Or you can bet on a new, up-and-coming channel. No matter which route you choose, work hard to learn everything about the marketing channel you've chosen, optimizing every aspect of your marketing plan.

Chapter Three: Pivot or Persevere

In 2009, when David Ferree founded Anson Belt & Buckle with his dad, the world was a very different place, at least in terms of online shopping. Most people were still skeptical about putting their credit card information online. Influencer marketing, today a fad among ecommerce entrepreneurs, was in its infancy. It was in early 2009 that Ferree sent a sample of his belts to an upcoming YouTuber named Antonio Centeno. He got it and loved it. But it wasn't until much later that this small gesture paid off.

Anson Belt & Buckle specializes in selling what they call the "micro-adjustable belt," a new type of belt, designed and produced by them, inspired by what they saw in Asia. Their buckles don't require holes and don't leave a mark.

They had high hopes for their product, but sales were low in the beginning. Their first break came along when a competitor went on Shark Tank – the TV show where entrepreneurs pitch their ideas to potential investors – showing an exact copy of their product. Ferree was smart enough to write a blog post explaining how their belts were superior, which was repeatedly found on Google by people who saw the show and wanted to find out more about it. This was a good idea – it gave them a nice little bump in sales – but it wasn't a sustainable acquisition plan, since the interest generated by the TV episode soon faded away. So he tried sponsoring a radio show, Google ads, and Facebook Ads, but nothing gave them the sustainable growth they needed.

In 2013, after years of hard work, Ferree landed on an acquisition strategy that was sustainable and scalable: YouTube Influencer Marketing. Anson Belt & Buckle became the main sponsor of the now very popular Antonio Centeno's YouTube channel, focused on men's fashion. Every time Centeno featured their belts on the show, sales almost immediately spiked.

"It wasn't cheap, but it was worth every penny," said Ferree. "We learned that our product needs to be shown in detail to convey its quality. Centeno took the time to explain the benefits of our belts while holding the viewer's attention."

Today, Anson Belt & Buckle sponsors several different YouTube channels focused on men's fashion. Most of their marketing budget is spent on Influencer Marketing, complemented by Retargeting Ads and Google Adwords to reinforce their brand.

I found out about Anson Belt & Buckle's story when I sent out a survey asking successful store owners how much time it took them to get to $100,000 in yearly revenue. Their answers surprised me.

Almost all of the successful entrepreneurs surveyed (89%) said it took less than a year to achieve that goal. More than half (63%) got there in under six months. As much as I'd like to romanticize about how much hard work it takes to build a successful business (it would certainly make for a more action-packed ecommerce book), most of the entrepreneurs I interviewed had the main pieces of their business put together in a few months.

This, however, wasn't the case with Ferree's company.

It took them more than three years to arrive at the $100K number. Even then, their sales grew slowly compared to the majority of successful stores in our research sample. Despite his company being in the minority, Ferree's perseverance illustrates how sometimes it can be worth it to stick with your businesses through good and bad times.

"Every customer we talked to loved our product." said Ferree when I asked him why they persevered. "That's what kept us going."

As we've seen in the previous chapter, there are two early milestones an online store needs to reach before building a successful business: 1) selling products that people are interested in buying and 2) finding an efficient marketing channel to attract customers for these products.

When a company reaches these milestones early in their development (within the first six months), it dramatically increases their chances of success.

Anson Belt & Buckle designed a desirable product early on but struggled to attract a growing number of customers in an efficient and scalable way.

Most young companies aren't able to stay in business for very long under the conditions faced by Ferree and his team. It becomes increasingly expensive to keep the business running if it takes too long for the sales graph to point upward.

Another question I had for the successful ecommerce entrepreneurs in our survey was: "How much did you spend to get to the $100,000 revenue?" I was trying to learn if the saying "You have to spend money to make money" was also true for ecommerce businesses.

Not quite. Almost three-quarters of the respondents (74%) estimate that they spent less than $25,000 to reach that goal. Nearly half (45%) spent less than $10,000.

Anson Belt & Buckle was right to keep on going even though they had relatively low sales numbers, but our survey shows that's not always the best course of action. For every case of entrepreneurial perseverance that pays off, there are hundreds of companies that don't make it, despite the tenaciousness of their founders.

So how do you know if you should give up or keep going when sales take a long time to pick up? What if you're at the end of your first year in business, have spent $25,000 or more and are still far from the $100K mark? How do you proceed?

Luckily, you don't have to wait until you're broke to find out. There are clues in your data that can help you determine if it's worth it to persevere while you're struggling to attract your first customers.

Startups call these data clues "Product/Market Fit" metrics. Stores that achieve Product/Market Fit are ones that offer:

1. Products their customers can't live without
2. A great shopping experience, so customers come back to the store over and over again

3. Great value to their customers while remaining profitable

These three criteria can be empirically measured through six metrics:

Bounce Rate: The percentage of users who visit a page on your website and then leave before taking any action is the Bounce Rate. A high Bounce Rate (usually above 57%) means that your site is not giving the right first impression, probably because it's not in alignment with what the visitor wants.

High bounce rate doesn't necessarily mean that your business is a lost cause, though. A user may also bounce because of poor design or slow page loading time. Try fixing those issues first, then re-evaluate. But if your potential customers keep bouncing from your site, it can be a sign that you're not meeting their expectations with what you're offering them.

Time On Site: Once visitors get past the first page, you want them to spend as much time as possible on your site. Spending time on a website is a sign that people are having a good experience. According to our analysis, a good average time on site is above 120 seconds. If your average time on site is much lower than that, it could be an indication that your visitors aren't seeing value in your products.

Pages Per Visit: This is the average number of pages a user navigates on your site during a single visit. A high number of pages per visit (around 4) indicates that people are interested in what you are selling.

Returning Visitors: Returning Visitors data tracks the percentage of visitors that have been to your online store before and have chosen to come back. According to a 2017 Compass studies, if the percentage of returning visitors is above 20%, that's a good indication that people liked what they saw.

Customer Lifetime Value (CLV): Hopefully you've made your first sales and you have a few customers coming back. If so, it's time to look at the average profit from each customer during the entire time they remain your client, or the Customer Lifetime Value. To have a sustainable business, you need to profit from these repeat customers.

This is important because CLV is directly linked to profitability. A company with a high average CLV will be able to spend more to attract customers and will have a higher profit margin.

Must-Have Score: Send customers a survey with one simple question: “How would you feel if our store was no longer available?” Your clients can respond “Very disappointed,” “Somewhat disappointed,” or “Not disappointed.” This survey, created by Sean Ellis, is designed to verify if your customers would miss you if you were gone. If at least 40% of your customers respond “Very disappointed,” you have an indication that your store is a must-have and you should persevere.

If some of the metrics above are below average, try putting yourself in the shoes of your customer, brainstorm ideas on what can be improved, and test solutions until you see those numbers improving. If the metrics still don’t indicate improved performance, it’s probably best to reconsider, or “pivot,” as they say in Silicon Valley. A new store, a new angle, or even an entirely new set of products may do the trick.

ACTION POINTS

Most of the successful stores in our survey reached $100,000 in revenue in under a year and spent less than $25,000 to get there. If it's taking your business longer to achieve the same result, does that mean there's something wrong with your store? It's likely. But make sure to look at your metrics first.

(1) Are your customers very satisfied? If they are, you may be an exception to the rule. One of the best ways you can assess this is by looking at your Bounce Rate, Time On Site, Pages Per Visit, Returning Visitors ratio, and Customer Lifetime Value. Are most of them above average? That's a good sign. Still in doubt? Run a survey among your current customers asking: "How would you feel if our store was no longer available?" Your clients can respond "Very disappointed," "Somewhat disappointed," or "Not disappointed."

(2) Are your customers not happy? It's probably a sign that you should rethink your business. This can be a great opportunity to "pivot" and change the direction of your store. You have learned a lot about the industry you're in by now. You have essentially gone through a very deep Discovery phase. Use that unique knowledge to draw a new business idea around the same industry or directed at the same target market.

Chapter Four: Efficiency

TourRadar.com, the leading marketplace for multi-day tours was founded by two Australian brothers, Travis and Shawn Pittman. The Pittman brothers started with the hypothesis that though thousands of people around the world participate in multi-day tours, there wasn't a good place for customers to research, compare and book them online.

Being a marketplace, they also had a supply-side hypothesis to prove: Are tour operators around the world interested in distributing their products through such a platform?

They arrived at such theories during the Discovery Phase in the most expensive way anybody can go at it: By trying and failing at a SaaS[1] business model, then pivoting to the marketplace with their multi-day tours idea.

For the first two years, TourRadar was a software as a service company (Saas) that developed Facebook, Mobile and other apps for tour operators. They were paid monthly for the leads they generated. Though it was a good idea, it didn't resonate with their prospective customers.

Failing to execute on a business model then pivoting to an entirely different one is expensive. But it's also one of the best ways to learn about a particular market. This is good news for any entrepreneur that is having difficulties. If you have the means, you can always use what you learned to start over.

Travis and Shawn saw that their new idea had the potential to fit the market well, from both a supply and a consumer side. At about 55 billion dollars a year, the market for tours was big enough to sustain a multi-billion dollar business, their goal from the start.

The next step was to figure out how to promote their tours: the Product/Channel Fit question. Google was the obvious choice. Most travelers use Google to research where to travel and to book hotels, tours, flights and the like. So TourRadar had to make sure their site showed up first on Google search results. That required investing in Search Engine Optimization (SEO), hiring engineers and SEO specialists to improve their website's performance, number of pages and copy.

That's where the Unfair Marketing Advantage question came in. High volume search results, organic or via paid advertising, are very competitive. Hundreds of travel companies bid for the same keywords. How would TourRadar stand out?

Their Unique Marketing Advantage was that TourRadar was a tech company at its core, while most bidders for the same search terms were travel companies that used the internet as a sales tool. Their strategy was to out-engineer their SEO competitors.

Month after month, year after year, TourRadar was growing steadily. After securing a bigger round of funding, Travis and Shawn thought "it was time to move TourRadar to the next level." They decided to test the waters by doubling their Google Ads budget.

Unfortunately, sales numbers didn't grow at the same pace as their marketing investment. In fact, sales growth had stalled and conversion rates were decreasing. It's not uncommon for conversion rates to decline as companies increase their marketing budgets, which is what happened to TourRadar. That's when they realized they needed to spend more time in the Efficiency Phase.

During the Efficiency Phase a company optimizes its acquisition tactics in preparation for the Growth Phase. This can mean different things to different companies, depending on what you're selling and what's been your biggest shortcomings. In the majority of cases, however, the biggest problem will be the Conversion Rate.

The team identified the problem and worked out a plan to solve it. They were going to tackle their conversion problem on two fronts: Improving

Conversion Rate and investing even more in Search Engine Optimization (SEO).

During the following year TourRadar invested more into optimizing their site for SEO than anything else. To do so, they diverted most of their engineering team to carry out the task. Just one year later, their SEO traffic had grown by 130%.

The company also set up a Conversion Optimization task force to improve their conversion rate issues. A team of seven people from different departments met every week to discuss new A/B tests and tweak every aspect of the conversion funnel. Hundreds of tests and analyses later, the website's overall conversion rate improved by more than 100% in under a year.

At the same time, the marketing team worked on the efficiency of their campaigns, improving their SEM technology and capabilities (which was still a large part of their customer acquisition strategy). The Customer Support team more than doubled in size to handle the increase in customer inquiries. The Business Development team tripled to accelerate the supply of new tours to the site.

After all that work, they were finally ready to scale.

ACTION POINTS

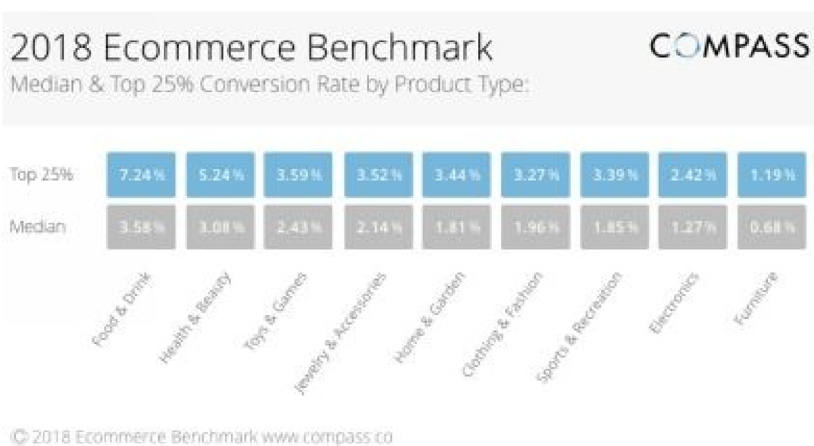
Launching an ecommerce store is like building a new car. Unless you're sure about the structural quality of it, you won't feel safe driving it at 100 miles per hour. You do a few tests first and work on the parts that need fixing to certify that it can run faster without breaking down. Then you can accelerate.

To address the structure of your company, watch these main metrics while you're improving your customer acquisition efficiency:

1. Conversion Rate

The percentage of people that visited your website and either signed up or made a purchase is your conversion rate. The lower your conversion rate is, the more expensive and time-consuming it will get to make a sale.

According to a 2018 Compass study, the average conversion rate in ecommerce is between 0.68% and 3.58%, depending on the type of product a store is selling. Below is a table showing the average ecommerce conversion rate for the most popular product types:



If your store's Conversion Rate is below average, you can launch A/B tests to optimize your campaigns and landing pages (we'll look into it in more detail on chapters thirteen and fourteen).

2. Page Load Time

Our study shows that page load time can have an impact on revenue of as much as 16%. Increasing speed has become a fundamental product requirement. People need websites to load faster and information to be clearly presented. Every second counts when it comes to the time it takes for a page to load. If your visitors can’t find what they’re looking for, it will have a direct negative effect on business results.

If your pages are taking too long to load, conversion rates will plummet, which will have a negative impact on the efficiency of your customer acquisition efforts. According to a Compass study done in 2017, if a page takes two extra seconds to load, bounce rates go up to 50%. Moreover, conversions fall by 12% for every extra second it takes for your page to load. By simply improving average loading speed from four to two seconds, for instance, revenues can increase by 3.2%.

If we put ourselves in the shoes of an average consumer, this shouldn’t come as a surprise. With higher competition and lower attention spans, users get frustrated after waiting for just 400 milliseconds for a web page to load.

3. Customer Acquisition Cost (CAC)

If you're spending more money than you're making, your business won't be profitable. So the metric that matters most to you is the ratio between Customer Lifetime Value (explained in the previous chapter) and Customer Acquisition Cost (CAC). (Remember, CAC measures the amount of money you’re spending to acquire each customer.) Since customer acquisition is the main expenditure in ecommerce, if your CAC is higher than the lifetime value per customer, you will be operating at a loss.

Improving Conversion Rates, CAC and Page Load Time will be a constant effort for anyone running an online business but it’s important that you prioritize them early on. Keep monitoring and optimizing them, as it’s normal to see variations over time.

PART II: GROWTH

Chapter Five: Direct Sales

When Juan Chavez approached his dad proposing they transform their local automotive equipment store in New York into a nationwide ecommerce business, there was worry that their main asset would not be translatable to the online world: the close relationships they had with their clients.

After some consideration, they went ahead and JMC Automotive Equipment, an online store selling automotive equipment to small and mid-sized auto repair shops, was born. As an ecommerce business, JMC has grown over 200% in the past three years, achieving annual revenues of over $3M, and was named as one of Inc. 5000's fastest-growing companies in America in 2018.

"I didn't know much about internet marketing when I started," Chavez says. "But I set up a website, called up some of the manufacturers my dad had been working with for the past 20 years and uploaded their products."

It didn't take very long for Juan to realize that they were on to something.

"In the third month we sold a product worth about five thousand dollars. Then another product after that, worth nine thousand. So I thought, 'Oh my god, this is amazing, it's working!'"

Talking to Chavez gave me the impression that, even after all their success, he's still a little surprised they're doing so well. "When I started I didn't know we'd be in the situation we're in today, seven years down the line, with the amount of sales that we have."

JMC invests heavily in building and maintaining an efficient sales team, designing their entire company structure around it. To keep them happy they go so far as to pay for their employees' gym memberships and finance many of their hobbies.

Chavez’s strategy helps their sales team handle their clients almost as well as his dad did when they were just a small shop in New York: “If they’re happy they’re going to show that to the client,” says Chavez.

* * *

While many starting entrepreneurs focus on their product idea, dethroning marketing to a secondary conception, the best stores we interviewed had, by conscious choice or lucky break, found a sound strategy for growth early on.

A good business idea isn’t “I’m going to sell automotive equipment to auto repair shops.” That’s incomplete. A business idea that has a better chance of success would be something like: “I’m going to sell equipment to auto repair shops by generating qualified leads to a high performance sales team.”

Due to high competition and diminishing attention spans, the most challenging part of creating a successful online store is knowing how to market it in an efficient way, gaining scale at low costs.

Finding the best marketing channel for your store requires some thinking and consideration of the pros and cons of each channel in relation to your products and target market. But you’ll find out when you start researching and planning that there aren’t that many realistic options available for each type of store.

Because of the nature of their business, for example, there weren’t a whole lot of options for JMC to market their products. Hiring a sales team supported by a lead-generation strategy is the best way to sell high Average Order Value (AOV) products to Small and Mid-Sized Businesses (SMBs).

In the coming chapters we’ll look in more detail at the most popular marketing channels to scale growth available for different types of online stores.

ACTION POINTS

In ecommerce, scaling growth means growing sales. There's nothing wrong with having a slow-growing company that simply helps pay the bills. But if you have a popular product and a lot of people want it, why not try to sell as much as possible?

As you're scaling growth, the main business metrics you need to watch are:

- **Transactions:** Make sure growth is steady by improving your number of transactions weekly or even daily.

- **Average Transaction Value:** Selling more items or higher-priced products per transaction will help you improve your overall business performance.

- **Revenue:** Make sure that your monthly revenue numbers are going up.

- **Unique Visitors:** If all your other metrics are trending up, then your unique number of visitors will naturally reflect more sales and revenue. Just be careful not to pay too much attention to this metric before the above numbers are also positive. Make sure to manage your CAC / CLV ratio (explained in Chapter Four) while you grow your number of unique visitors so that you remain profitable.

- **CAC/CLV Ratio:** Monitoring to make sure your CLV is higher than your CAC will help you keep your business profitable as you grow.

Chapter Six: Search Engines

If your customers are actively looking for your product or category online, it's likely that the most effective channel for you to scale growth is via search engines. TourRadar, for example, didn't have many options available when they were starting out, knowing that most travelers search for flights, hotels and tours on Google.

The most popular ways of bringing traffic from search engines to your site are Search Engine Optimization, Search Engine Marketing and Google Shopping. We'll focus on the first two in this book, since they're by far the most popular.

Search Engine Optimization (SEO) is the process of improving your website, content and marketing efforts with the goal of making your pages organically appear higher in the results of Google searches for products in your category, without paying to appear there.

Optimizing for search engines requires, among other things, to 1) adequate your copy to better match the keywords and keyphrases your prospective customers use to search for the products you're selling, 2) improve the overall customer experience on your site, 3) create product pages and blog posts that target specific, high-purchase intent keywords, 4) work on getting reputable websites to link to your pages.

The first step, before investing any time or money in SEO, is to verify whether or not there's enough searches in your product category to handle your growth plans. If there aren't enough people searching for keywords related to your products in Google, Bing or other search engines, you'll never be able to generate enough traffic from them to sustain a growing business.

How many searches is enough? That depends on many different factors.

Let’s say you need 200 sales per month to be profitable and your conversion rate from search traffic is 5%. That means you need 4,000 clicks per month. If the click-through rate from the search results to your pages is 2%, it will require 200 thousand people per month searching for your products on Google for you to make those 200 sales.

The second step is to assess the level of competition for your keywords. A high-volume keyword has potential to bring in a lot of traffic. But if there’s a lot of competition for it, you’ll have a hard time ranking your website high enough to get any of its traffic.

According to Moz, a company that specializes in developing SEO software, the first page that appears in any given Google search captures between 71% and 92% of the clicks. Second-page results get fewer than 6% of all website clicks.

SEO has been a subject of intense study over the years, and there aren’t many high-volume keywords left out there with low competition. But you might get lucky, as Rory Westbrook did. Westbrook is the founder of the UK-based clothing online store True Vintage, one of the best performing stores in our study. Here, he explains how they got started with SEO.

“Two or three months after setting up the website I had my IT guy sort out our SEO. We got to the first page of Google results for vintage clothing keywords in just a few weeks. It was probably about 500 pounds of work, which is amazing,” he says. “A lot of it comes down to there not being many vintage clothing websites at the time so it was serving up a shortage.”

That’s lightning quick in the world of SEO. It can take much longer – up to three years – to appear in the top results for competitive keywords. Sometimes longer, as Josh Willard from Josh’s Frogs explains. He uses content marketing to bring search engine traffic to his website.

“It does take awhile [for the content] to gain full traction but I think every year it gets it a little bit sooner and that’s why we are moving along. We have more and more people engaged in our content every month because we have a track record of creating good content for the last 14 years. The content bar is definitely the long game.”

Blogging was the pillar of Josh’s Frogs’ growth. His blog grew organically over time. It became popular even before he came up with the idea of opening an online store. So when Josh’s Frogs was launched, they had four years of evergreen content already attracting thousands of visitors a month. It’s a strategy that requires long-term thinking.

“We may write a blog article that’s not going to make a lot of money by next week or next month but it will continue to trickle in money for years,” says Willard. “On social media, when a post goes viral, and we’ve had a couple of those, it might get tens of thousands of views or even close to one hundred thousand, but it's gone in about ten days. So despite all the work we put in to get content on social media, it has a very, very short shelf life and doesn't last very long.”

An alternative is to follow in TourRadar’s footsteps. Travis Pittman, their CEO, knew that it could take a long time to optimize a website and show up in the first search results for the high-traffic keywords and key phrases he was targeting, such as “tours in Europe.”

So while they were building up their reputation, TourRadar focused on less competitive search phrases such as “tours in Europe departing in november,” which have high purchase intent but low search volume. For the high-volume keywords they used Search Engine Marketing (SEM), even though it meant not being profitable for the first few years.

SEM allows you to control how much you pay per click. The more you pay, the higher your ad will show in your prospective customer’s search results, which will generate more traffic.

Because SEM works as a bidding system, clicks on competitive search terms are more expensive than the less popular ones. The trick is to bid high enough to drive traffic, but not so much that your cost per acquisition (CAC) will be too high, hindering your profitability.

CAC in SEM is calculated based on your average conversion rate and average cost per click. For example, if your conversion rate is 10%, that means you need 10 clicks to make one sale. If every click costs $2, your CAC will be

$20. If a Customer Acquisition Cost of $20 is too high for you to make a profit, you'll be losing money while generating sales.

While you don't have a lot of influence over the costs per click[2], you can optimize your campaigns and website to increase your conversion rates which, in turn, increases the profitability of your campaigns.

According to a 2018 study done by Compass, the average conversion rate from SEM traffic is 1.42%, while top performers convert an average of 3.5% of their SEM visitors into customers. Visitors coming from SEO typically convert at 2.08% on average, with top performers converting at around 4.07%. Below is a detailed study of the average SEO and SEM conversion rates in the most popular product categories in ecommerce:

2018 Ecommerce Benchmark COMPASS

Median Conversion Rate by Product Type & Acqusition Channel:

Product type	Organic	Adwords
Food & Drink	3.06 %	2.46 %
Health & Beauty	2.87 %	1.98 %
Toys & Games	2.03 %	1.66 %
Jewelry & Access.	2.61 %	1.44 %
Cloth. & Fashion	2.24 %	1.38 %
Sports & Recreation	1.51 %	1.22 %
Home & Garden	1.77 %	1.43 %
Electronics	1.15 %	0.98 %
Furniture	0.88 %	0.59 %

© 2018 Ecommerce Benchmark www.compass.co

Scaling growth via search engines in competitive markets requires high investment in technology. Today Google offers a range of products aimed at automating campaigns using machine learning to increase their profitability. You have to do a lot of tech work on your side to connect with their algorithms, but the results can be very rewarding.

ACTION POINTS

If you’re starting with Search Engine Optimization and Search Engine Marketing, follow the steps below to increase your chances:

(1) Verify whether or not people are searching for your product category on Google, Bing and other search engines. Make sure that the search volume is large enough so that even if a small percentage of searchers click through your pages, you’ll still end up with enough traffic to sustain long-term growth.

(2) Verify whether or not there is a lot of competition for your high volume keywords. If not, invest in optimizing your store’s website and content to climb up the search results. If so, consider investing in SEM while you build up your SEO reputation.

(3) SEM can get expensive fast. Make sure that your cost per customer acquisition isn’t higher than your margins by controlling how much you pay per click. Optimize your site to improve your customer’s experience so that you can convert as much of the traffic coming from SEM as possible.

Chapter Seven: Influencers

If your customers are passionate about the industry you're getting into, grow your business by becoming (or sponsoring) a thought leader in your space.

Take Josh's Frogs. Their products are targeted for the small but active niche of exotic pet enthusiasts. Josh Willard spent 14 years writing blog posts on how to care for frogs, lizards and other unusual pets. Post after post, he built a reputation and an audience that would later pay off when he launched his store.

Building an audience before launching also worked well for Luxy Hair. Co-founder of the online store for hair extensions, Mimi Ikonn, started a YouTube channel a few months before she launched the store with her fiancé, Alex. Their channel, focused on content about hair, collected thousands of fans in just a few weeks.

When Mimi and Alex started, they didn't have money for advertising, so they decided to produce YouTube videos and use them as content marketing to attract their first customers.

"We really believe in the power of content marketing, because that's the way we ourselves consume content and information," Alex says. Luxy Hair, the YouTube channel, became one of the biggest hair-related channels on YouTube, helping the business grow organically.

Luxy Hair reached a million dollars in revenue in their first year of business.

"Sometimes it's about being at the right place at the right time, doing the right thing," Alex says. "Being on YouTube at that time [2010] was really fortunate."

Building up reputation isn't easy, especially if there are other experts creating content in your field. A path to more immediate results is to sponsor – instead of becoming – an influencer, as DockATot and Anson Belt & Buckle did. Both companies built solid brands by liaising with existing social media influencers that had large audiences of their own. The key was to invest in those who truly believed in their products.

DockATot invented an inflatable mini-crib that fits on the bed. Parents use this crib to co-sleep with their newborn babies without the risk of rolling over them, an issue many new parents take very seriously.

They identified the most important influencers in the baby products industry and sent them samples of their product. After receiving DockATot’s items and testing them out, many influencers promoted the brand for free, driving thousands of customers to the store’s website.

“Spontaneous influencer marketing was the most important growth driver for the company since our early days,” says Elina Furman, the company’s marketing manager. “Influencers loved our product and were happy to post about it for free.”

As they evolved, DockATot developed a more sophisticated influencer program, building relationships with and sponsoring several high profile influencers in their field.

As we explored in an earlier chapter, Anson Belt & Buckle’s co-founder, David Ferree, bet on up-and-coming influencer Antonio Centeno to promote their belts. Building long-term relationships with Centeno and other influencers like him was paramount to the development of their influencer program. DockATot used a similar approach which led to the development of their partnership program.

Most online stores struggle to generate significant revenues from Influencer Marketing. Anson Belt & Buckle and DockATot are exceptions because they approach influencer sponsorship systematically. Paying for tweets or posts at random is not as effective as developing long-term relationships with the right influencers.

ACTION POINTS

If your target market belongs to a passionate community, such as moms, fashion aficionados or owners of exotic pets, then influencer marketing can be a great channel for you to scale growth. There are two ways of making influencer marketing work for you:

(1) Become a thought-leader in the community by starting a blog, a YouTube channel or other content-sharing initiative. Spend time regularly producing good quality content to build a following. Building a large following may take some time, so start as soon as possible. You can start creating content before you launch your store or build up your reputation as an influencer while acquiring customers through other channels.

(2) Sponsor influencers that have a large following in your community. Start by sending them samples and choose the ones you feel genuinely believe in your store. If you can, invest in up-and-coming influencers so you can both grow together. Increase your reach by sponsoring a few big influencers as well as smaller ones so that your audience will be likely to hear about your products multiple times during a month.

Chapter Eight: Facebook Ads

If your customers are not actively looking for your products online, then social advertising – sometimes combined with a content strategy – may show social users that you can solve a problem they didn't even know they had.

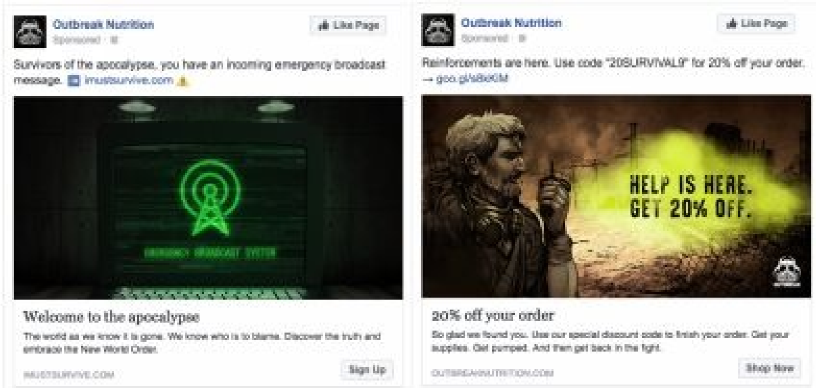
Facebook advertising's most important contribution to online marketing is the ability to target consumers by interest. Outbreak Nutrition was one of the best-performing Facebook advertisers in our research sample because they created a unique approach to Facebook Ads by striving to understand their customers' interests.

The food supplement market contains hundreds, if not thousands, of supplement brands selling pills, protein shakes and the like. One drawback? They all look very similar. Most consumers can't tell the difference between one protein formula and another, not to mention the similar labels, almost all featuring photos of overly fit models in scant clothing.

Outbreak Nutrition created a brand designed to appeal to a different type of customer, a segment that had been completely neglected by the other brands: people who like sci-fi and fantasy shows.

"I was surprised at first to see that the stereotype of the gym-goer is not actually true," says Diego Mey, whose agency manages Outbreak Nutrition's Facebook ads. "There is a much broader market for food supplements out there, a good portion of which loves [role-playing games] and fantasy fiction. Outbreak's brand was built to relate with them."

Their most successful campaign is the Outbreak Story. The main goal of this outlet – an animated web series in the genre of *The Walking Dead* – is to generate leads for the store. When people sign up to watch it, they can opt in to receive product promotions and become part of their potential customer base.



“People don’t click on ADS, they click on CONTENT.” says Mey. “The Outbreak Story allows us to curate a very detailed and engaged audience, which we used to target via shopping ads and retargeting. We offer value and entertainment first, before we promote products.”

Piotr Komorowski, owner of The Dove Store, a Christian Jewelry store that is among our sample’s high performers in Facebook Ads, also recognizes the need to attract attention from Facebook via their customers’ interests, but he does it by reducing the price of his offer to new buyers.

“I know that a few of my products are very popular, so I offer them below the cost to attract people,” he says. “Once they’ve bought it, they’re likely to return to shop for more items. It’s a way of getting noticed on Facebook and building an audience.”

The first challenge in getting started with Facebook Ads is choosing your target audience. New Mom Design, an online store for baby products, has over 50% of sales coming from customers that found them via Facebook Ads. Yaniv Copel, the founder, has an interesting take on how big the target audience size should be.

“Around one million works best for us”, says Copel. “Audience size is very important. You don’t want to get too broad or too narrow.”

Narrowing your focus on a niche market makes it easier to create relevant and profitable ads. If you’re having difficulties pinpointing your perfect target audience, Komorowski of the Dove Store has a recipe for finding the ideal Facebook customer that might work well for you, too.

“My audience is Christians, which is very broad. When I started I didn’t know the gender, age, location, etc. that would better respond to our products on Facebook. So I started targeting ads to very broad audiences (millions) until I saw some patterns in the data. Certain demographics were buying more frequently than others. I then created lookalike audiences based on these different buyers and was able to narrow my focus on them.”

Komorowski also told us about a clever trick he uses to discover Facebook audiences that are likely to buy his products. “I sometimes create short video ads just so I can create a custom audience of people that watch it for some time. Facebook measures how long people watched the video and I built audiences based on users that watched 75% or more of each video.”

Optimizing for conversions on Facebook can be challenging, due to the unpredictability of the platform. “I’ve run two identical campaigns to the same target audience and got completely different results,” Komorowski says. “We had a campaign that was working well for months, driving most of our sales as we spent tens of thousands on it until one day it suddenly stopped working.”

Facebook advertisers need to be prepared for ad fatigue, the point when a particular ad that was bringing results suddenly stops working because most of the target audience has seen it a few times already and can “tune it out” when it comes up again.

“Don’t stop testing,” Mey says. “We have ads that worked for 30 days, then stopped working. Keep on creating variations, test images, copy, audience, content and landing page. Once you find an ad that works, increase spending.”

Initial attempts to run ads on Facebook can be very frustrating for new advertisers. Copel advises beginners to “Try out some stuff. But if you don’t get it right and don’t know how to, spend that initial money on a consultant instead of ‘donating’ it to Facebook.”

ACTION POINTS

Facebook Ads is one of the best-performing marketing channels available to online stores, but it can be difficult to manage. Top-performing ecommerce Facebook advertisers pay special attention to audience, content and optimization of campaigns to turn a profit.

(1) Discovering the right audience for your store on Facebook isn’t always easy. It’s often not enough to segment people by interest. Try using “lookalike audiences” based on a list of your past customers. Start with a broad audience and start narrowing down to the perfect target market. Or get creative by publishing videos and creating an audience based on who watches them.

(2) There are many ways to create content for your ads. While product pictures and videos may work for some, other companies such as Outbreak Nutrition need to think outside the box. By creating content that’s entertaining for your audience you can attract them to your brand and later use retargeting to advertise your products.

(3) The key to a successful Facebook Ads strategy is to be constantly innovating. Never stop testing and optimizing every aspect of your campaign, from ad creatives, landing pages, audiences, budgets and the like. Once you find what works, increase spending.

Chapter Nine: Social Media

While it's free to drive social traffic, social networks can be a challenging acquisition channel for ecommerce. According to our research, social traffic is the least likely to convert of all acquisition channels in our sample:

2018 Ecommerce Benchmark COMPASS

Median Conversion Rate by Product Type & Acqusition Channel:

Product type	Direct	Email	Organic	Facebook	Adwords	Referral	Social
Food & Drink	3.73 %	11.11 %	3.06 %	1.52 %	2.46 %	7.51 %	1.09 %
Health & Beauty	2.99 %	9.21 %	2.87 %	1.21 %	1.98 %	6.84 %	1.16 %
Toys & Games	1.96 %	5.56 %	2.03 %	0.88 %	1.66 %	5.48 %	0.94 %
Jewelry & Access.	2.32 %	4.27 %	2.61 %	0.66 %	1.44 %	6.93 %	0.76 %
Cloth. & Fashion	2.00 %	4.43 %	2.24 %	1.05 %	1.38 %	5.10 %	0.68 %
Sports & Recreation	1.92 %	3.95 %	1.51 %	0.47 %	1.22 %	3.90 %	0.62 %
Home & Garden	2.10 %	5.32 %	1.77 %	0.60 %	1.43 %	5.21 %	0.69 %
Electronics	1.60 %	3.85 %	1.15 %	0.93 %	0.98 %	2.96 %	0.51 %
Furniture	0.90 %	1.78 %	0.88 %	0.28 %	0.59 %	1.48 %	0.20 %

I mentioned in chapter six how Rory Westbrook, founder of True Vintage, told me he invested in SEO early on and that has contributed to their success. The bulk of their sales, however, come from social media. More specifically, Instagram. This surprised me considering our findings which show that SEO generally performs much better than social.

Rory Westbrook founded his vintage clothing online store when he was just 18 years old. It's been profitable from day one. Always self-funded, True Vintage arrived at the seven-figure revenue mark in fewer than three years.

The idea for the online store came to Westbrook when he was going from one vintage shop to another in Shoreditch, one of the hippest neighborhoods in London at that time, searching for outfits for himself.

"There was no one place to easily find vintage clothing so I started an online store and began selling some of the things I liked and thought would appeal to customers," he says.

One of the first things he did was start an Instagram account, posting photos of his new products every day. His followers grew organically.[3]

"The target market was very young people who never stay away from social media sites. I started getting a real good following within only a week of setting up," he says. People starting "tagging" their friends by mentioning them in the comment section and their following grew exponentially.

True Vintage uses Instagram as an active sales channel, not an engagement tool, which is a rare case among our sample of successful ecommerce companies. The reason Instagram works for them has to do with the company's intimate understanding of how their target market behaves online. Their social media strategy is based on what PwC's 2018 Global Consumer Insight report called "Competing for Shoppers' Habits."

"For today's shoppers, triggers of mental activity are always close by," the report says. "Popular ecommerce portals, websites, and social media platforms have developed sophisticated ways to engender superior customer experience, drawing people in and inspiring their loyalty with gratification, value, dependability, and transparency. Repeated again and again, the resulting behavior becomes a routine."

True Vintage is tapping into their visitors' addictive behaviors,[4] fostered by social networks. Companies like Instagram, Twitter and Facebook have become a daily (if not hourly) habit in the lives of their millions of users via a habit-forming mechanism called "variable rewards."

According to Nir Eyal, author of the book "Hooked: How to Build Habit-Forming Products," social networks explore our endless desire for three types of rewards: those of the hunt, the tribe[5], and the self[6]. Rewards of the hunt are at the core of True Vintage's marketing strategy. As Eyal puts it: "The need to acquire physical things, such as food and supplies, is part of the brain's operating system and we clearly wouldn't have survived the millennia without this impulse. But where we once hunted for food, today we hunt for deals and information."

A habit is more likely to be formed if it's performed daily, which is something Westbrook and his colleagues understood early on.

"We make sure we add new stock every day, and that's something we still do today. It's a way of getting customers back daily, making visitors aware that there's always something new to look at on the site. That has worked pretty well for us."

Even if visitors don't make a purchase, every time they visit the site or see a post on Instagram, the act of browsing through different clothing items as a pastime can eventually become a habit. The more they browse, the more the situations they're in – browsing while waiting for the bus or taking a break from work – become triggers for that habit. It's similar to biting your nails when you're nervous or a smoker wanting a cigarette when his stomach is full after lunch.

Our brains have evolved to form habits that are performed automatically given a specific trigger. It's a shortcut that keeps us from calculating and pondering every small decision, saving brain energy. A habit cycle includes a trigger, an action and a reward. When it's time to go to bed (trigger), you brush your teeth (action) and feel a freshness in your mouth after brushing (reward).

Brands have been trying to infiltrate in our daily habits (with alarming success) for decades. In fact, the rewarding sensation of freshness in the mouth after brushing your teeth isn't a necessary by-product of your teeth having been cleaned. It was added by a toothpaste company from the '50s called Pepsodent as an after-brushing reward in order to increase the likelihood that people would brush their teeth and use their toothpaste. They were encouraging people to form a habit.

While brands like Coca-Cola and Unilever spend millions on advertising to ensure their customers have some type of contact with their brands on a daily basis, True Vintage does that for free by becoming a constant feature in their target market's social media feeds.

ACTION POINTS

Traffic from social networks has a low conversion rate compared to other channels, so make sure your social followers visit your social feeds and website regularly. Here are a few actionable points to turn social networks into a profitable and scalable acquisition channel:

(1) Social networks are popular because they become a daily habit in the lives of their users. Manage your product offering, promotions and events so that you'll have something new and interesting to offer your followers every day.

(2) Focus on the social network that best fits your products and target market. If you sell visually enticing products, such as clothes and beauty items, Instagram, Snapchat and Pinterest can work well for you. If not, consider engaging with your audience on Facebook or Twitter.

(3) When we say social networks, we immediately think of the above five players. But consider investing in audience engagement on Whatsapp, YouTube, LinkedIn, Medium or Reddit. Even a good old-fashioned forum can work better for you than Facebook or Instagram if that's where your target market hangs out online.

PART III: RETENTION

Chapter Ten: High Purchase Frequency

In my research I noticed that a significant portion of the stores I had classified as *above average in customer retention metrics* sold baby products. That intrigued me. So I interviewed some of them to find out what was special about their segment comparison with other product categories.

The first thing I learned: New parents are more likely to be loyal and frequent customers. Babies – spoiler! – grow up quickly. In a few short months, those cute little shoes that were easy to put on no longer fit. For a new parent, who's tired and overwhelmed, this is a giant pain in the butt. They now have to spend their precious free time finding affordable shoes that are just as good as the old ones.

When parents of small children trust a brand, they will not waste their limited time looking for alternatives. Elina Furman, marketing manager for DockATot – one of the baby stores in our study with the highest performance in retention metrics – calls her customers "born again consumers." According to her, parents overhaul their shopping habits (and indeed nearly every life habit) when a baby is born. It's a massive opportunity for brick-and-mortar stores as well as e-retailers.

Some of the world's largest retailers go to great lengths to convince new moms to make their first parenting purchases on their store. A few years ago, Target went so far as to create an algorithm to predict if their customers were pregnant, based on what they were buying at their stores. The (creepy) goal was to start advertising baby-related products as soon as possible, extending their bond with these customers prior to many years of parenthood to come.

This is an exploitative ploy, but it's also true that, as an online shopper and a parent, I'm twice as grateful to those going through the trouble of selecting or manufacturing trustworthy products I can buy in a few clicks. It prevents me from having to drag my one-and-a-half year old to a physical store, where I'll spend half the time picking up every item she pulls off the shelves and throws on the floor.

High Purchase Frequency

As with almost everything in ecommerce, different customer retention strategies will work for different types of stores or customers. Baby product stores stood out in our research because their customers purchase new items frequently.

High purchase frequency is one of the main causes for loyalty and retention in retail. When shoppers don't have time to research and compare prices – as is the case for new parents – and the item isn't a high value one (i.e.: a computer, a car or a smartphone), few people will spend their mental cognitive reserves doing research before every single purchase.

An online store will increase the probability of becoming a one-stop-shop for a particular line of products if it has a good selection of items and is a trusted brand. Convenience and trust will lead to a high purchasing frequency, creating loyalty between the customer and the store.

Take Natural Baby Shower. When Clifton Vaughan and Victoria Hampson moved to the UK from New Zealand, they noticed a gap in the market of natural products for babies, a niche industry that was booming in their native country.

Being parents themselves who were passionate about this type of product, they knew what their customers wanted.

"We're passionate about buying and selling more considerate and natural baby products. We personally vet every product we have," says Clifton. "The store just grew. It's been 12 years now, doubling each year. It's really exciting."

The company started small: "We were working from the kitchen table, really," packing each order and driving to the post office to ship them,"he says. As they grew, they hired "stay-at-home moms" to help with the packing and shipping. "It was the perfect job for moms and a great way to get their insights and feedback on the products we were selling."

Eventually, the company moved to a 15-thousand-square-foot warehouse just outside London. "We're now the one-stop-shop in the UK for new moms that are conscious about the purchase decisions they make," says Clifton, highlighting one of the main reasons for their success. As the preferred online destination for parents of young children for natural and organic products, they have earned the trust of a frequent and loyal type of customer: a gold mine for retailers.

It's well known among ecommerce experts that online stores serving a customer niche have higher chances of success. But little is said about the importance of considering the purchasing habits of that niche.

To monitor the purchase frequency of your store, pay attention to your store's Average Time Between Transactions, a calculation of the average time returning customers take between each time they make a purchase. A long time between transactions (above 60 days) normally causes repurchase rates to go down.

Low repurchase rates can lead to low average Customer Lifetime Value and low margins, putting pressure on marketing to keep customer acquisition costs down. Sometimes unrealistically so. But if your target market has a high frequency purchasing habit, then investing in a well-thought-out product range will help keep shoppers coming back and Customer Lifetime Value (CLV) high. A high CLV will allow you to spend more money acquiring new clients, opening up many more marketing possibilities.

In addition to a wide product range, Natural Baby Shower offers a very flexible return policy (three months) that shows how well they understand their customers. I know from experience that parents of young children have little time to organize returns, frequently missing deadlines. Combined with an outstanding customer service (they have a score of 9.4 out of 10 in Trustpilot, an independent reviews aggregator), their return policy is another detail that helps create loyalty to their brand.

* * *

Livie & Luca shares many of Natural Baby Shower’s characteristics. The founders, Mitzi Rivas and Amie Garcia, are also parents themselves and saw an opportunity to sell products missing in their market: high-quality, beautifully designed, affordable baby shoes.

Michael Hixson, marketing manager for Livie & Luca, emphasizes how the quality of their shoes increases retention.

“It’s a well-made product. It’s durable, it’s comfortable and looks very cute,” he says. “That to me is what drives retention. When you’re selling baby products you have to realize that mothers don’t have a lot of time to research. They’re shopping in the small breaks they have, when the baby is napping. When moms find quality products, they tend to be loyal customers.”

Some years earlier, Michael ran his own online store focused on home baby-proofing products. What prevented his store from becoming as big as Livie & Luca, he thinks, was the short period of time in their children's lives when customers need these products.

“Baby-proofing starts from when the baby starts crawling, at six months or so, to about two and a half year olds,” Michael explains. “So I continually had to find new customers. If I had a different model, where I could have those customers for a longer period, it would’ve been a totally different thing but customers would time out of me.”

In contrast, Livie & Luca sells shoes for children ranging from babies to nine-year olds. To increase repurchase rates further, they invest in loyalty programs and in the personalization of their site and emails. All great ideas that help serve the needs of an already frequent shopper.

ACTION POINTS

An online store that needs to continually acquire new customers because their Repurchase Rate is poor will have a hard time remaining profitable. Especially if Average Order Value isn’t high or margins are low.

(1) When starting a company, research to see if those in your desired target market are high-frequency shoppers. If yes, work diligently on your product range, customer service, and other details of your store to earn their trust and keep them coming back. Once you’ve earned the trust of frequent shoppers, your Repurchase Rate will soar, causing lifetime value and profit margins to increase. This will, in turn, allow you to invest more heavily in marketing and grow your business.

(2) Investing in a loyalty program, a subscription model or personalization can help you improve your retention numbers. But don’t expect any miracles if your customers aren’t frequent purchasers of your type of products.

(3) If the products you’re selling aren’t serving high-frequency purchasing customers, don’t panic. There are other ways you can leverage what you have to drive up repurchase rates. It will depend on the type of product you sell or Average Order Value. Both subjects of upcoming chapters.

Chapter Eleven: Retention Based on Type of Product

Not all online stores sell products suitable for high frequency buyers. But that doesn't mean they're doomed to have low Repurchase Rates. Many of the online stores in our research sample didn't fit a high-frequency purchase description, but they nevertheless have outstanding repurchase rates.

There are other techniques you can use to improve retention, though not all of them work for every type of product you're selling. I categorized a few high-retention online stores by the type of products they sell and the strategies they used to increase customer retention. The three different product categories I found are anchor products, high AOV products and ever-changing products:

Anchor Products

In the previous chapter, I left out one high-performing baby store I interviewed for this book: DockATot. Technically a baby product store, they differ from the others because their strategy is based on an *anchor product*. An anchor product is a flagship product that can serve as "bait" for high-frequency buyers to learn about the brand and come back to shop for other related items.

Lisa Furuland, DockATot's founder, used her experience as a mother to conceptualize a product that would prove to be in high demand. So much so that, as we've seen in chapter six, influencers and celebrities would not even charge to promote them.

Despite their popularity, co-sleeping cribs are a once- or maybe twice-in-a-lifetime purchase. Even though many of their customers might come back to purchase a crib as a gift for another parent, that product alone is not enough to bump up purchasing frequency and cause retention rates to grow significantly.

DockATot's co-sleeping cribs function very well, however, as anchor products. Many new parents who buy a DockATot crib come back to purchase covers, travel bags, toy arches and other add-on products, driving Repurchase Rates and Customer Lifetime Value up.

To create an effective anchor product strategy, carefully select a single product or limited range of products that are in line with your brand and that can be bought at a high frequency by your customers. In addition, use email newsletters, personalization and retargeting ads to make sure that customers learn about these offerings, luring them to come back for more.

High Average Order Value Products

JMC Automotive Equipment sells items that frequently cost five to ten thousand dollars or more, causing their Average Order Value (AOV) to be very high.

Improving retention for high-priced products can be challenging since customers don't consume expensive products with a high frequency. JMC achieved this by heavily investing in customer support.

One of the most important reasons for their success has to do with not letting go of one of their core ideals: creating close ties to the customer. "We give the best customer service and we educate the client so they can buy the best product, even if that means suggesting a cheaper item," he says. "A by-product of that is retention." To this day Chavez and the team call every single customer that shops in their store to verify if everything went well with the delivery of their items.

"Even when a product arrives damaged they still appreciate that we call them up." says Chavez. "A client bought three expensive items from us, a ten-thousand-dollar sale, and all three items arrived damaged from the manufacturer. I call him up. He was pissed off at the manufacturer, not me, but he said: 'Listen, the only reason I'm going to continue buying is because you called me."

JMC can afford to call every client because of their extremely high average order value. When you sell items worth five, ten, twenty-thousand dollars, individual calls to every customer can be worth the investment. Even if the call takes a long time:

“I once spoke for half an hour with a client and at the end of the call he said ‘Thank you for listening.’ He told me everything that was going on in his life and that’s how you win clients. It’s business but at the same time it’s personal. People keep doing business with people they like and trust.”

Perishable Products

Luxy Hair, the online store for hair extensions, was born out of Alex and Mimi Ikonn’s desire to “escape the nine-to-five.” Inspired by the book *The Four Hour Work Week* by Tim Ferris, they were trying to come up with a business idea to pursue while planning their wedding.

“My wife was looking for hair extensions for the wedding and that’s how it all began,” Ikonn says.

Luxy Hair stood out in customer retention and profitability in our research sample. One important reason for this is that hair extensions eventually wear out, compelling customers to continuously buy them if they use hair extensions on a regular basis. Alex, however, highlights that this is not enough to guarantee a high repurchase rate in his line of business:

“That [perishability] doesn’t mean anything. Our type of customer isn’t very loyal. They like to shop around. But it’s hard to find good quality hair extensions at a good price, and we deliver that. That’s been a big factor of our success.”

Ever-Changing Products

Unlike perishable products, fashion items don’t wear out as quickly. They can, however, go out of fashion (literally) just as fast, becoming what we call ever-changing products.

The fashion industry is known for “manufacturing desire” for new clothing items, generating big opportunities but also a lot of competition. In competitive markets such as fashion, brand recognition becomes an important factor in the purchasing decision process. Large fashion retailers spend millions of dollars a year in advertising to ensure that their brand stays recognizable among their target market.

Brand recognition is all about impacting your customers with your brand as frequently as possible. Even when shoppers aren't buying. The practice of being present in their daily lives creates an affiliation between customer and brand. When facing the choice between similar products, customers will usually choose the ones from the brand with which they have more familiarity.

Competing with the monetary power of large fashion retailers is hard, but True Vintage, remember, developed a clever plan. Since they add new stock every day and post it on Instagram, visitors are aware that there's always something new to see on the site. This strategy works well for acquiring and retaining customers and is one of the reasons that they turned up as one of the top-performing stores in our research.

The closeness between the True Vintage brand and their target audience makes them reluctant to switch to a competitor. Customers that have a habit of visiting the store's website or Instagram account daily will be more inclined to be loyal and purchase from the store it, while other customers might be influenced by promotional pricing or other ephemeral tactics. Because True Vintage customers are very loyal, the company doesn't need to resort to promotions to increase sales often, other than special deals associated with Black Friday and the holidays.

ACTION POINTS

Your retention strategy will depend on the type of products you're selling.

(1) If you're selling anchor products, use the appeal of that product to lure your first customers and then invest in creating a range of product offerings that can be appealing to these customers. DockATot sells a wide range of baby products, apart from their co-sleeping crib; Josh's Frogs sells food, cages and other products that help their customers take care of their pets. Sand Cloud sells plastic-free products that customers use on the beach, in line with their brand's cause of preserving marine life.

(2) If your store has a high Average Order Value (AOV), you can afford to heavily invest in customer service. That's how JMC Automotive Equipment keeps their customers coming back. They go so far as to call every single buyer to find out if they're happy with their purchase.

(3) Customers of perishable products have to keep buying them, but that doesn't mean they will be as loyal to your brand as an anchor product customer can be. Make sure your product consistently delivers the high quality customers are expecting to get.

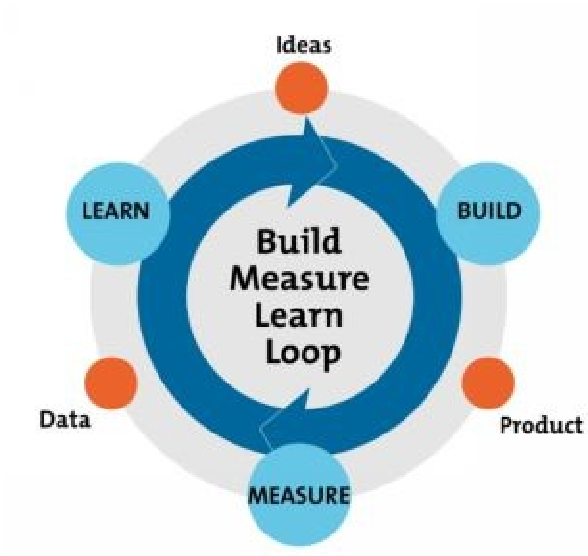
(4) If you sell products that go out of fashion quickly, you can manage your inventory so that you always have something new and exciting to present. Keep your customers entertained with a constant flow of new items and deals, creating recognition and attachment to your brand.

PART IV: LEARNING

Chapter Twelve: Build, Measure, Learn

Despite our culture's current share-without-reading habit and 140-character attention spans, it's hard to find someone in Silicon Valley who hasn't read Eric Ries's "Lean Startup" book.

One of the most important principles of the Lean Startup is called "Build, Measure, Learn," a cycle that starts with (1) building something that's simple but good enough to be used by customers, (2) measuring the impact of that feature or product among customers, (3) learning as much as possible from that data and (1 again) using those lessons to build something better as the cycle restarts.



"Build, Measure, Learn" is a simple method that can be useful to every type of company. Organizations (and people) that are quick learners have higher chances to succeed since they can better adapt to the uncertainty of the online market today.

This is a shift from what used to be best-practice in business mangement just a few years ago. Before the Lean Startup, the most critical skill in managing a company was the ability to write a business plan and follow it thoroughly.

Ecommerce entrepreneurs can learn a lot from startups and the Lean methodology. Creating a new company is risky, so a few experts developed the Lean methodology with the goal of helping entrepreneurs mitigate those risks. I believe the Lean method can help ecommerce entrepreneurs increase the chances of success in their new store, new product line, or new marketing campaign.

Josh Willard was “doing Lean” when he began by selling leftovers online instead of investing all his savings on his new business. It was also the way Sand Cloud started, when they were selling beach towels one customer at a time on the beach. Natural Baby Shower did same thing, by starting small, from their kitchen table and employing stay-at-home moms to help them package products.

Josh’s Frogs, Sand Cloud, Natural Baby Shower and other companies we analyzed have many things in common, one of which is an ability to adapt to new conditions and learn as quickly as possible from their failures and successes. That’s the essence of the Lean Startup method.

Ecommerce entrepreneurs aren’t strangers to learning new things. Starting an online store requires several newly acquired skills in a short period, from accounting to web design, digital marketing to logistics. Most of the successful entrepreneurs mentioned in this book had zero experience in ecommerce before launching their stores. They learned all the technical aspects of running an online store as they went.

While individual humans may have an innate capacity to learn, companies (lots of humans working together) need an operating system that will help them learn from things they experience and use that new knowledge to grow.

The first step is to create a work environment that is conducive to learning. Many companies make learning hard and traumatic by trying to predict every single problem that might occur in the next six months to a year, spending time creating a plan that will cover all potential problems and opportunities that may arise.

When trying to anticipate every possibility, you will run into two issues. First, you’ll find that it’s just not possible to predict everything that's can possibly happen. To quote Bob Dylan, “There’s nothing as stable as change.”

Second, the more money you spend pursuing a specific strategy, the more difficult it will be to change when the market shifts or the outcomes fall short of expectations. It’s like a slot machine. After spending a considerable amount, it gets increasingly difficult to walk away. The more you spend, the more likely you are to keep playing the game, keep throwing in chips thinking it must pay off soon. The same type of thinking happens when companies spend a lot of money heading in the wrong direction: “Now that we spent all that money, let’s keep at it.”

Companies can eventually learn from their mistakes working this way, but it’s a painful, expensive lesson. A better way to learn is to create an experiment that simulates the conditions of a particular event and calculate its potential impact.

A good analogy is driving a car. You know the direction you need to go, but if you adapt to road conditions as you go instead of trying to guess where every speed bump and road block will appear along the way, you’ll be in much better shape. The true measurement of progress in a lean company is its constant evolution. Each new discovery should serve as a way to improve and align with the needs of the customer.

One of the biggest mistakes a new company can make is to insist on a path that will not bring good results. But changing direction too frequently, trying anything you hear on a Facebook group or ecommerce forum, can be equally dangerous. There’s an endless list of things that a company could do. Few have died for lack of ideas. Usually, the opposite happens. Companies waste time and money going many different directions, blindly testing new ideas without learning what to do next, only what *not* to do.

The focus on learning should not be an excuse to make as many mistakes as possible and trying everything on the menu. It’s engaging in targeted efforts that will teach the company something new about their consumer, marketing channels, tools and products, to move toward building a better company.

If an entrepreneur manages her company as she drives a car, we could extend the simile by saying that most of her driving is done at night and analytics data are the headlights. Next, we’ll learn more about how top companies use data to help them grow.

ACTION POINTS

Companies that learn quickly have a better chance of succeeding in a volatile marketplace. Successful ecommerce businesses apply a version of the method designed to help startups learn and grow quickly, called “Lean Startup.” To implement this methodology, follow these steps:

(1) Whether you’re planning to launch a new store, a new product line, a new campaign, a new loyalty program or any other new idea you’re not certain will work, think of ways to simplify your idea first. Create a cheap and quick prototype to test it before putting in all of your efforts and resources.

(2) Create a culture of experimentation in your company. New ideas should be treated as experiments that need to be tested and proven, before they become accepted as truths. Shift your conversations from “I want to do this” to “Let’s test this.”

Chapter Thirteen: Learning from Data

When you run a physical store you get a feeling for how your business is doing because you see people coming in, you talk to them and can see their reactions. In an online store you don't have access to customers in the same way so analytics become your eyes and ears.

However, the signals you get from analytics are very different from the words people say and the facial expressions they project offline. You don’t get to hear your customers’ stories online, so you need to “visualize” them based on the numbers you see on your metrics dashboard.

One of the most important, yet underutilized principles of running a learning business is fluency in analytics. Analytics give you a deeper understanding of your customers’ actions, allowing you to better serve them, engage with them and, ultimately, increase sales. Equipped with the basics of analytics, you’ll be able to make better decisions as you get your business off the ground.

There’s as much art as there is science to analytics. A good data analyst will be able to spin an accurate story from the numbers she is analyzing.

Among thousands of clicks, visits, bounces, seconds, conversions and the like., there are dozens of stories to be told. You can learn, perhaps, from the total number of visitors to your site in a given week, that only a few of them (say, 50%) enjoyed your website enough to spend some time on it. A small percentage of those 50% actually made a purchase, and a smaller percentage yet got stuck at the checkout page, became frustrated and left.

That’s a story of a group of individuals who, for reasons you’ll be wondering about, took very different actions on your online store. Having that kind of detailed knowledge will already put you ahead of most of the competition, but it will also end up raising more questions. Is 50% good or bad? How many seconds (or minutes) is enough to be considered “some time”? How many people should I expect to buy out of that sample? How do I figure out why some of them aren’t buying?

Depending on the type, size, industry and stage of your company, the answers to these questions will be vastly different. It’s not enough to know that some people made a purchase while others didn't. The story only ends once you learn why they didn’t buy, and then do something about it. And the answers to that question, and others like it, depend on the context.

For example, on a social networking site such as Facebook, the average time spent by users on the site needs to be much higher than on an ecommerce site. Social networks need you to spend as much time as possible there, so you'll be likely to click on more ads. By contrast, an online store may be happy that you spent only a few seconds on it if you manage to buy something during a quick visit.

Shoppers will even spend differing amounts of time on different types of ecommerce stores. For complex and expensive products, such as the ones sold by JMC Automotive Equipment, people do more research. So it’s often a good sign if someone spends several minutes on the site, learning more about the product. But if you’re selling something simple like a baby bottle at Natural Baby Shower’s store, a lot of time on the site probably means shoppers are confused.

You have tell your own stories from the numbers you see in your analytics dashboards and improve them. Understand what data points should be important to your store, how to measure them and how to use them to sell more online.

Incorporating Data into Your Company's Routine

Bureaucrats love pointless processes and meetings. They use them as artifices to hide from real work, or as political maneuvers to advance their careers without producing any tangible result. But that doesn’t mean that as builders, movers and shakers we have to follow suit. We can use processes to get some real work done.

Result- and action-oriented people often reject any type of institutionalized process because they want to distance themselves from bureaucracy. But there are processes that can help productivity, especially those that are conducive to learning. Unlike individuals, who learn organically, companies need organized methods and processes to help them manage newly acquired knowledge.

When you come across companies that incorporate data in their weekly routines, you can really see the difference in performance. Most of the successful stores in our data report some type of data analysis routine, in which they explore the numbers, extract insights and put these insights into action.

Making data analytics a habit is simple. Whether you’re a solo entrepreneur or part of a team, implement weekly data check-ups so you’re on top of your most important metrics. Be mindful of the metrics that aren’t performing, they’re the bottlenecks that keep your company from meaningful growth.

Successful companies focus on solving their most crowded bottlenecks first. Open your analytics at the beginning of every week to get a clear view of your priorities for the coming days.

By understanding, for example, that your Average Page Load Time is high, and that page load time directly impacts conversions, you’ll know that its reduction should be a top priority for you.

As we saw from TourRadar’s example in Chapter Four, conversion rates were a problem for them at one point. They realized it quickly and focused their efforts on optimizing their landing pages, store experience and sales funnel to improve their conversion numbers.

Keep track of your metrics in a simple spreadsheet or on a whiteboard. You need to understand if you’re improving your numbers over time, so always compare your data with that of the previous weeks.

Once you find out what your biggest problems are, brainstorm ideas that can positively impact the red metrics in your dashboard. Put these ideas into action and follow the same check-up next week to find out if your numbers improved. Repeat this process every week, *ad eternum*. The work of innovating and improving never ends.

ACTION POINTS

A learning business uses data to gather insights and put those insights to the test using the Build, Measure, Learn methodology. Get started with data analytics by following these three simple steps:

(1) At the very least, install Google Analytics with Ecommerce tracking enabled on your website. Companies that are advanced in analytics utilize more sophisticated tracking services, such as Hubspot, Mixpanel or Amplitude, to keep track of their customers' activities.

(2) Make sure to have a dashboard that can clearly signal which of your most important metrics are improving or worsening over time. You can simply use spreadsheets for this (Google Sheets allows you to build automated reports relatively easily) or a dedicated report automation tool.

(3) Perform weekly check-ups with your team. Routinely analyze your most important metrics, verify which metrics are your biggest bottlenecks and prioritize your next actions based on your findings.

Chapter Fourteen: Running Experiments

Before writing this book, I ran an experiment to see if my desired target market, ecommerce entrepreneurs, would be interested in reading the sort of book I intended to write. To do that, I set up a simple website, describing the main aspects and contents of the book. Then I offered a way for people to sign up to read a sample and stay informed about the launch date. Nearly 40% of the people who came to the site signed up, showing me that this was something worth working on.

We tend to only measure losses in monetary value, but time wasted working on the wrong things can be just as bad as losing money. If I hadn't run my experiment, it's possible that I would have spent one year of my life writing a book that, when launched, would find no audience to read it. One year is enough time to get a new job, start a company, have a baby, travel the world or simply find more time to be with the family: All better alternatives than working on a book that would be dead in the water.

To confirm that writing the book would be something worth my time, I designed an experiment to confirm or reject my hypothesis: "Ecommerce entrepreneurs are interested in reading about our research."

Screenshot of the experiment's website

The experiment took me a week to prepare and another two weeks to run, plus $300 in Facebook advertising. That's all I needed to help me make a decision and significantly reduce the risks of making a bad one.

The type of experiment I did by setting up a simple website, or that Josh Willard from Josh's Frogs did by selling leftovers, or what the Sand Cloud founders did by selling towels on the beach, are called exploratory tests. They are designed to explore the responses to a new idea in the cheapest way possible.

The type of experiments TourRadar was running, however, are of the optimization type. They were looking to improve upon what they already had. So they designed a series of experiments called A/B tests to optimize their website and increase sales.

An A/B test compares a modified version of a piece of content to its original. The original works like a control group in a science experiment as the modified version is being tested. Having a control group is important because there are many external variables influencing results. Sales may go down after a change in the checkout page, for example. But it could be that the sales shift was caused by external factors. From a simple bug in the previous page to a presidential announcement on TV that disrupts the industry, there are many outside influences that can cause a sales slump.

To run an A/B test of a new web page, for instance, run both versions of the page at the same time, showing each to 50% of your audience. If there's an external factor influencing the results, they'll both show low results at the same time. But if you replaced the old version with a new one and sales went down, you might explore whether the new page was at to blame.

While it's tempting to test a complete page redesign, it's usually better to test one element at a time. If you change the logo, image, button color and headline at the same time and the experiment showed worse results than the control, there would be no way of determining which item was responsible for the low performance. Instead, isolate each aspect of the page to make sure you know what has caused an improvement or slump.

What can you experiment with? Anything you want, really. Just make sure you prioritize. When you investigate your data and conclude that the most urgent problem of your online store is bad retention, for instance, conduct experiments designed to improve its most important metric: Repurchase Rate. One way to test this, for instance, would be to install a beta version of a subscription program.

Every experiment needs a quantifiable goal, an you can use metrics to measure them. A useful tool to help prioritize ideas and define quantifiable goals for each experiment is a funnel-like categorization that represents the customer's journey:

Marketing funnel

The ideal customer starts her journey as a stranger, knowing nothing about your company. Then she becomes a client, a repeating customer and finally an evangelist of the store, if everything goes well. This journey is represented by a funnel because only a minority of the people end up reaching the bottom, since every company inevitably loses people along the way. The funnel is ordered in five phases: 1) acquisition, 2) activation, 3) retention, 4) referral and 5) revenue.

Of course every customer journey is different, and reality isn't as neatly organized as the graph above. But the funnel graph can be useful as a simplified model of the customer journey and as a way to identify potential improvement areas for your store. Here are a few examples of important metrics that fall within each stage of the marketing funnel.

Acquisition:

- **Customer Acquisition Cost (CAC):** CAC is the amount of money spent in advertising divided by the number of sales those ads have generated. Lower CAC means higher profits. You can conduct many experiments to decrease CAC, from trying different ad campaigns or target markets to A/B testing landing pages and optimizing the checkout process.

Activation:

- **Conversion Rate of a Landing Page:** A landing page is the first page a customer sees on a website. Your landing page should be designed with a goal in mind: to move the consumer closer to the checkout, for instance, or to capture an email address. You can perform an infinite number of A/B tests on landing pages, tweaking each part to see how it improves your conversion rate.

- **Conversion Rate of a Marketing Channel:** If a marketing channel's conversion rate is low, investigate which of its campaigns is doing poorly (see below) then perform experiments to improve it.

- **Conversion Rate of a Campaign:** A campaign will show up in Google Analytics' acquisition report if you set up UTM parameters[7] for them. Make sure to learn more about UTMs if you aren't using them already, and apply them to all your marketing efforts. If a campaign's conversion rate is low, you can experiment with copy, audiences, keywords, ad or landing page content.

Retention:

- **Repurchase Rate:** The percentage of people who buy from your online store at least twice. Companies often experiment with remarketing and email marketing in order to increase their Repurchase Rate. Other popular methods of increasing it include testing with subscription options, loyalty programs and website personalization.

Revenue:

- **Gross Revenue:** It's the bottom line of your business and it's directly linked to the number of purchases. There are a number of experiments that can help you determine the best ways to increase revenue, from raising the budgets of the best-performing marketing channels to trying new ones.

- **Customer Lifetime Value (CLV):** CLV is the amount of profit brought in by the average customer. Try experimenting with ideas aimed at improving Repurchase Rate or Average Order Value (the amount of money the average customer spends in each purchase) to increase CLV.

Referrals:

- **Referred Customers:** Having a referral program can help improve the number of people inviting others. I have experimented with different types of incentives: rewarding invitees with discounts, store credit, points and even cash, as Sand Cloud does in their ambassador program. It's worth testing different types of copy and landing page designs for your referral program, as well.

Coming up with experiments, running them and analyzing their results requires creativity, problem-solving skills and attention to detail. Once an experiment has been well executed, your job is to use the results, positive or negative, to learn from them and improve your store, make more money and create new and better experiments.

ACTION POINTS

Running experiments is one of the most effective ways of learning about your customers' behavior. Follow the steps below to start running your store like an ecommerce scientist:

(1) The first step is to gather test ideas for experiments. You can gather insights about what can be improved on your site by analyzing your data, surveying your shoppers or interviewing your best and worst customers. Then set up A/B tests that can objectively prove or disprove the hypothesis you came up with during your investigations.

(2) Prioritize experiments based on what the data says about your store's weakest points. A simple tool you can use prioritize ideas is the marketing funnel, which divides the customer journey into five phases: 1) acquisition, 2) activation, 3) retention, 4) referral and 5) revenue.

(3) Make sure to analyze the correct metrics in your experiments. If you're experimenting with acquisition methods, measure your tests in terms of Customer Acquisition Costs. If you're testing activation , then measure for Conversion Rates. For retention, measure for Repurchase Rates. For revenue, measure to see if your CLV is improving. For referrals, measure for Conversion Rate and Growth of Referred Customers.

ACKNOWLEDGEMENTS

This book started when Bjoern Herrmann, CEO and founder of Compass, called me to say that he was terminating my position as Compass's Head of Content. I had been writing for Compass for over two years but even though we were producing high quality articles (or at least we thought so), they weren't helping the company grow.

Our research produced a ton of useful and otherwise unavailable data for ecommerce executives and entrepreneurs, but somehow a blog wasn't the right medium for it. I asked Bjoern if Compass would support me in writing a book instead. Surprised by his positive response, I started the long journey of analyzing Compass's entire set of millions of data entries and dozens of tables, and putting all of it together into a comprehensive book.

This work wouldn't have been possible without the help of Stefan Sedich, a senior developer at Compass, who helped me set up all the tech tools. And Jean Carlos Racoski, my friend and business partner at Growth Hack (my consulting company in Brazil), who helped me write better and faster queries to extract the data I needed for my analysis.

Jennifer Crain, from Perl & Ink, is responsible for accommodating my ideas into the best possible words I could use to describe them. Bjoern's wisdom and clarity of thinking helped me shape my findings into a cohesive and useful framework on how to start, optimize and grow an ecommerce company.

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ABOUT THE AUTHOR

This is Ramon Bez's first book. He is a growth marketer with more than ten years of experience working for technology companies in the United States, Europe, India and Brazil. He's also the founder of Growth Hack, a consulting and training company for marketers and entrepreneurs.

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[1] SaaS: Software as a service, a business model where a company will provide a service via their software, paid on a monthly or yearly basis.

[2] Google, in fact, rewards websites that are giving users a good experience by giving them preference over other bidders. This can mean that if you provide a great experience to your visitors, you'll pay less than your competition for clicks.

[3] True Vintage didn't acquire their Instagram followers through paid advertising. They posted photos of their items and encouraged people to share their photos with friends.

[4] The use of these social engineering tactics, pioneered by companies like Instagram and Facebook, and formalized by authors such as Nir Eyal and BJ Fogg, has been facing harsh criticism. Studies (quote) suggest that extensive use of social networking services can lead to depression, especially among young people.

[5] Humans evolved to be part of a tribe, so we have a basic need to feel connected and accepted by other humans (even strangers). Facebook, Instagram, Twitter and others give users "variable social rewards" such as likes and comments to keep them engaged with their products.

[6] Rewards of the self has to do with personal gratification. Experiencing things like new sensory stimulation or having a sense of mastery give us pleasure, which are used as rewards by companies that are interested in getting us hooked on their products.

[7] UTM parameters are standardized addendums to URLs that help analytics softwares such as

Google Analytics categorize traffic data. By convention, UTMs have three main parameters: utm_campaign (signaling the name of the marketing campaign you're running), utm_medium (indicating which medium is this campaign being used – for example: email or cpc), and utm_source (which points to the origin of the click – for example: Facebook). So if you have a Facebook pay-per-click ad campaign for running shoes, you'd link your advert to the following example URL: https://www.mystore.com?utm_source=facebook&utm_medium=cpc&utm_campaign=running+shoes. In Google Analytics you'll then be able to measure the behavior of users that clicked on this ad in the acquisition report, under traffic from Campaign, Source or Medium.