Episode 16:

The Essential Elements of Ecommerce Evaluations

<u>A transcript of this episode</u>.

The Professional Website Investor's Podcast

Welcome to the Professional Website Investor Podcast, the show where we talk about what it takes to successfully buy, operate, scale, and sell a thriving e-commerce business. When it comes to doing business online, we believe that buying an existing website is far superior to building one from scratch. If you're a career professional who's looking to becoming an e-commerce store owner. Listening to this show will give you the knowledge, tools, and community support you need to be successful.

I'm your host Ryan Cowden. And this week we're joined by Ian Bond from ProfessionalWebsiteInvestors.com. In this episode of the Professional Website Investor podcast, Ian and I discuss how to properly evaluate available e-commerce websites. When you're ready to enter the market place and purchase an e-commerce website, you'll find an active marketplace with many potential sellers. It's an exciting time to be examining your options and determining where you'll spend your money.

There is a lot of information available for you to peruse as you examine potential new online properties. But if you're getting into this market for the first time you may not know exactly what you're looking for. Once you get the readily available data, it's important to know what the information means and which indicators are most likely to minimize risk. On today's episode you'll hear the profit margins and search engine optimization indicators that you should examine before anything else. Ian recommends investing in websites that have a 25% profit margin or higher, and that you use Google Analytics to evaluate the search engine optimization of a potential purchase.

Then, you'll hear possible times to make exception to this rule. You don't want to often break this rule, but if your website is moving a lot of goods you maybe able to compromise a little bit on the profit margins.

Next we'll take about how to analyze a website's navigability and usability. You're looking for websites that are simple, easy to use and have great search features. After that we'll talk about how to tell if a website conveys trustworthiness to its customers. These are some of the intangible features of a website but you're looking for elements like the use of space, lifestyle photos of the product, and other indicators that will communicate trust to potential buyers.

And finally, we'll talk about places to find accurate data about these websites. These will include places like Google Analytics and the resources available at ProfessionalWebsiteInvestors.com. You could also consider joining the free professional website investor VIP Facebook group for more support. If you're looking for sound ways to ground your investments then this is one episode you won't want to miss. There is a lot of actionable advice in this episode. So grab something to write with 'cause you're going to want to take notes. As always, I'll be back on the other side to wrap up any loose ends. So without any further ado, here is my conversation with Ian Bond.

RYAN: Hi Ian. Welcome back to the show. How are you doing man? Been a while.

IAN: I am doing great. Ryan you've moved a few time zones since the last time. Are you in sunny California or are you in Northern California?

RYAN: I'm in sunny Southern California so winter is officially over for me.

IAN: It's 70 degrees here. It's spectacularly beautiful and I can only imagine after leaving Oxford in the UK that you are delighted to be back to some sunshine.

RYAN: It's pretty nice, yeah. It feels like a different season. You know?

IAN: Yeah. Right.

RYAN: We've got an interesting topic we're talking about today. We're talking about how to evaluate e-commerce websites and the elements that you should be looking for when you do that. I kind of thought just to kick ourselves off here, when you go to a web page we are the first things that pop out at you? Just kind of got level, what jumps out at you when you're looking at a brand new e-commerce website?

IAN: Okay. With the title being the essential elements of e-commerce evaluations, I guess e-commerce site evaluations, I am going to start off and come out like I like to do with you, and say that I won't even go to a website if I don't like the number. And specifically the gross profit. We do a high ticket drop shipping and if the sales price less the cost of goods sold which includes shipping, if I don't have a 25% margin, I'm not going kind of get involved. I can fix anything on the website but I can't fix the margins. I might be able to fix the margins a little bit if I can contact suppliers and pre-purchase things, you can often get a five or 10% discount. But in general margins are some thing you have to deal with. So let me just put it out there as a caveat that I won't, no, I'm overstating it, but I won't go to the website like everyone.

I'm curious when I get a prospectus or an offering memorandum, I love to go to look at the website. So let's go there for a second. And yeah the first thing that I like to do, if I'm really getting serious is, we feel like that SEO aspects, the search engine optimization aspects that are important in high ticket drop shipping are all surrounding in the hierarchy of the product pages, the collection pages, the brand pages, and then what I would call other information, which would include things like blog posts and buyer's guides and things like that. I will look at, will go to Google Analytics and we will look at the best selling products and then Google those products and see how those product pages look relative to competitors product pages because we want to have the best product pages on the Internet.

And so that means we want to have all of the relevant PDFs that show sizing. We want to have great product photos, we want to have great lifestyle photos, we want to have frequently asked questions, we want to have videos if they're available. Sometimes we make videos I think I've mentioned that. We want to have the best page on the internet and Google will recognize that over time and we'll send you traffic and you'll rank very

highly for that. Ditto with collection pages. The way that brands do things is they do things in collections. Sometimes it's a similar style or sometimes it's the same type of thing and some different kinds of configurations. And then very, very important is the brand page itself because the brand page has to tell the story. We are marketing right now for a brand that's made in the northern UK not far from where you were and it's 160 or 170 year old brand.

And we have pictures of the factory and these are craftsmen and doing it the same way their fathers and their fathers, fathers and their fathers, fathers, for that long. And I will tell you that that story, and by the way these products come with a little crest on them even. These guys have really sold the heritage of what they're doing. And I think that that brand is 30-40% more expensive than things that are of comparable material. And this is not a complex product, comparable material because of the story to be honest with you. And so those brand pages are really important and they garner, we pay a lot of attention to them because they garner just an enormous amount of, people buy into the brand pages. So the first thing I do is I look at kind of the SEO elements of a store that has margins that qualify for me.

RYAN: Okay. Why focus on the 25% margin of profit? Why is that kinda your cutoff?

IAN: Because in high ticket drop shipping, you're going to be running mostly Google product listing ads, maybe some additional ads. And in order to have to pay merchant processors, to pay Google, to pay your employees and other people and still be able to get to a 10-15% margin, you can't start lower than 25%.

RYAN: Okay.

IAN: You might be able with scale to start a little bit lower than that and make up on high volumes what you don't get in margins. And we have a store that is always threatening to go below 10%, go below a 25% at the gross profit margin, but the volumes are so high that it's really worth it. Right?

RYAN: Yeah.

IAN: If you happen to be in that position, and again these are, those are percentage margins, but we always focus on dollar margins and not percentage margins, but I'm not looking at anything that doesn't have a high dollar margin. The percentage margin has to be 25% in order for me to really be able to pay Google to be honest with you. And then the staff and other expenses we have.

RYAN: Okay. And just to clarify, all of these numbers, are you doing this research on your own or how do you get these numbers on? Like profit margin and SEO, that kind of stuff?

IAN: Usually when, a site is advertised, listed by a website broker, I'm on the mailing list or Ill inquire, get a copy of the offering memorandum. That offering memorandum will then have an income statement and very quickly you can see, kind of what the sales price is and then what the cost of goods sold is and what the shipping is. And you can even look and find out kind of what they're spending on paid traffic and all other kinds of miscellaneous fees. It's actually a very obvious once you get the details of the listing, it's usually not obvious when you're just reading the high level blurb that people post in their listings. You have to actually inquire to get it.

RYAN: Okay. Gotcha. All right. So just because a store doesn't necessarily meet that requirement, doesn't necessarily mean you won't invest in it. Are there any times where you might make an exception or find some wiggle room?

IAN: The only time that I would violate my margin rule is if I think that the volumes are high enough, but I really won't. I really won't go beyond that … I won't go there very frequently unless I have some kind of an oddball perspective that maybe I can extract better margins from the suppliers, but if a site's been up and running for two or three years, you would probably presume that the people that are running it have tried various things and you can ask.

RYAN: Yeah.

IAN: But no I won't do that. Anyways, going back to your original question and I digress. The first thing we're going to do is look at these SEO

elements. The second thing I'm going to do is I'm going to go to this site and I'm gonna look at how easy it is to navigate around the site. It's a make intuitive spent. When my wife and I bought our second site, we spent an enormous amount of time and she did a terrific job making it so that people came there shopping for one thing could find other things that were comparable, kind of stealing a page or at least the concept from Amazon. Buyers who like this also bought that, little bit different because we're showing people basically the same thing. We're not showing add-ons, but you can go to Google Analytics and you could look at how much time people spend on the site.

And if people are shopping kind of multiple pages and you're getting six, seven, eight plus pages on any given visit and the time is three or four minutes or more. And our biggest site people come and oftentimes spend seven or eight minutes. Then you've got a site that's really easy to navigate, and having done this for a while now there are some fairly easy things that you can do to make it simple for people. That's the second thing that we would like to do, is make it, kind of take a look at how easy it is to navigate the site to see if we can, if that's a room … Offers room for improvement or if they're really doing a great job.

It also kind of puts you in the position since you're checking a product and, on the SEO, you're looking and finding out who the competition is. You also then can look at the navigation of the site you're looking at versus the navigation of your competitor's sites. And so while you're going through this process, you're building kind of knowledge of what the competitive landscape looks like, which is very important.

RYAN: Okay.

IAN: That is, I would say a collateral benefit from kind of doing it, kind of the way we do it. And then just to polish off my third thing is, I step back and I take a look at what I would call the aspects of the site that are some intangibles. The most important to me is, does it look like it inspires trust? Online shoppers are still going to choose carefully who they do business with, your About Us page has to look good. There are associations, industry associations that you can join that make you look legitimate, obviously the better business bureau. The fact that you have various trust guards and

trust seals can, and security certificates can inspire trust. Do you inspire trust?

RYAN: Yeah.

IAN: I will look idiosyncratically at whether or not there's wasted space and if it looks like the layout is good, you want to see things above the fold. I like to see products above the fold. We always put lifestyle photos well above the low fold because people like to see how things are gonna look in their home. We like lifestyle photos and we'd like to put bestsellers. Write someplace we can kind of hook somebody to see if they are gonna maybe explore a little bit further some of the things that are bestsellers and then what is the social proof, how many stars, how many reviews, how many stars, how many testimonials do products get? How does that inspire trust?

The third bucket would be, I would call it somewhat idiosyncratic in terms of how the website looks, but I really am focusing there and does it inspire a shopper's trust.

RYAN: Okay, great. I want to circle back to navigation real quick cause you brought up some interesting points there and then you talked about how people might spend up to seven or eight minutes on the site, kind of looking around. What is it about a website that keeps people there for seven, eight minutes. Are there any common features there that websites have?

IAN: Yeah, I think we use a lot of faceted search. So that faceted search means that you can narrow down very specifically what you're looking for. If you're looking for something that's 33 inches, you don't want to go to a page that has stuff that's 12 inches to 108 inches. I mean, you're looking for something that fits, that's 33 inches. It fits your, now. You might be open to suggestions on whether or not you want something that's white or oyster or gray or espresso or some other color. You may want, you may be open to a texture but you've got 33 inches to play with. That's it. And so if you can show people something that's relative and I'm using inches just because in this example this would be the relevant constraint. If you can show something that's in the relevant constraint, show different styles, different suppliers, different brands, different price points, you can show people the best sellers.

And we always require, we always ask all of our suppliers for their best sellers and we put our most effort into the SEO and the product descriptions behind those bestsellers. And if you can lead people to what you know are their best sellers, we think you're helping them. And we think that by giving them a smaller number of highly relevant things to look at, you're doing them a favor and you're probably converting at a much higher level, a much higher rate than you normally would.

Imagine going and looking at something and seeing four or five pages of results of products and Lord knows how many products per page and it's got all different sizes. That's just not helpful for most people. The more relevant you can make it the better it can be. Now, in our faceted search, it would have 33 inches. It would also have white, and so you can let people help themselves. I think faceted search is something that's under utilized and we use it to the best of our ability every time we can.

RYAN: Right. Okay. If we could tie kind of these three things, you kind of mentioned the search engine optimization, the navigation, the intangibles.

IAN: Yes.

RYAN: How does all that come together in your mind when you see the listed price of a website?

IAN: Well, it tells me how much work I might have to do right. Or flip that around, what the opportunities are. We think that the search option optimization aspect in high ticket drop shipping is under utilized. I think frankly, the people that do Amazon affiliate sites spend more time on, particularly on the fourth piece of content, which I didn't spend much time on, which is on information like guides and reviews and things like this that are aimed at kind of broader searches that people go into Google that ultimately, top of the funnel that ultimately get people to your product page. But, but we think that the guys that do Amazon affiliate sites do that better than most of the people that are selling higher priced items and where, quite frankly it's not uncommon for people to have thousands of products and don't write unique product descriptions, they'd take what the suppliers get and they copy and paste them.

Everyone has almost nearly the same description because everyone just takes a copy paste approach to putting their webpages together. And so we think it's a big deal.

RYAN: Right? So you want to have it more personalized.

IAN: Well, we want to have it be as helpful as possible. I mean I think that there's kind of two reasons that we exist, okay. One is to provide incredible, helpful advice for people. And then the other is logistics. I can tell you that, we don't have unique products. You don't have to shop with us to get what you want, you have choices of places that you can shop. And so for us to help you make a decision that's right for you by giving you the best on page experience but also on the phone information or by email information that's crucial. And that in this day and age where delivery is so important and we do a lot of things in the home furnishings market where people are doing remodelings. People are on tight time schedules and they need something because they have a contractor maybe doing a remodel for them. And so Amazon has unfortunately spoiled people that they can, and sometimes get it same day, but two day delivery is a must these days. And oftentimes it's next day.

Now we ship big bulky things. And so we're in the logistics business. And so the kind of advice and kind of keeping people up to date with a rational expectation for when they can receive what they've order. We think we really excel at providing people with an ongoing tracking of something that's complicated to get to their house, that came into the port of Los Angeles. It was in a staging area. It may have been assigned a tracking number before it actually got on a flatbed of an 18 wheeler. It then went across the country and got to a local terminal, you have to be contacted in order to schedule delivery.

There's a lot of touch points that are required in the logistics piece. And quite frankly being a niche authority in the niches that we operate in, we do that better. We think then the big box guys, whether it's home depot or whoever it might be in the niche that we operate in. Providing the advice and then providing people with the delivery expectation and experience that they would want to have for what is a large purchase. We think that those are two crucial reasons we exist.

RYAN: Okay, great. Let's kind of wrap up here. It sounds like there's a lot of information that goes into these calculations, where's the best place for people to go to find all this information?

IAN: Well, I think the best place that you can go is just keep listening to us and we're going to keep hammering these concepts home and put content up on the blog. I think we're all in choppers and what I hope to do by providing this information is to kind of sharpen people's focus when they do go shopping. So that they start to pay attention to things like this. And the best way to learn about these things is to dive in and sign up and get term sheets and look at deals yourself to see if you can spot where you think the moving parts are. Just start to come up with a checklist of things that you can evaluate things on.

Now, I would be remissed if I didn't tell you that we're in the process of putting together a Webinar for people that want to learn, kind of from soup to nuts these concepts. And so hold tight for that. We're not ready to go live with that but we will have that coming out soon. Little shameless self promotion.

RYAN: Sure, All right Ian that was great. Thank you so much. This was really helpful.

IAN: Ryan. My pleasure and welcome back to sunny Southern California. All right.

RYAN: It's great to be back in the warm weather.

IAN: Yeah. Thanks man.

RYAN: We'll see you next week. Yeah.

IAN: Thank you.

RYAN: All right folks. There you have it. That wraps up my conversation with Ian Bond of Professional Website Investors. We shared a ton of valuable insights and advice today and how to analyze and evaluate available e-commerce websites. We also shared some tools and resources which will

all be linked up in the show notes at ProfessionalWebsiteInvestors.com. I hope you enjoyed our conversation. Please consider subscribing, sharing with a friend or leaving us a review in your favorite podcast directory. Until next time, best of luck in all that you do and we look forward to seeing you on the next episode of the Professional Website Investor podcast.

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