



Episode 20:

Best Online Business Models: 6 Models Compared

[A transcript of this episode.](#)

Welcome to the Professional Website Investors 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, so if you're a career professional who is looking to become 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 discussed six different online business models and how you should evaluate each one. On the previous episode of the Professional Website Investor podcast, Ian Bond introduced a new framework for evaluating online business models. His seven tiered pyramid contained a variety of factors pertaining to time commitment, scalability, and financial gain. It's a helpful framework for any investor who's looking for a common framework to assess the various online business models.

Today we get practical and use that framework to analyze six different business models. You'll hear how Ian assesses his investments and evaluates the risks and rewards of each type of online business. He'll also provide a good example of how to use Ian's framework in your own evaluation of websites and business models. On this episode, you'll hear Ian's description and analysis of six different business models. First, we'll discuss low ticket drop shipping. This model received the lowest score in

our rankings due to low profit margins and the constant need to drive high amounts of traffic to your website. Second, we'll discuss software as a service abbreviated as SAAS. While SAAS businesses do generate recurring income, they require the highest amount of content-specific and technological knowledge you need to have in order to run your business well.

Third, we'll cover advertising, which includes AdSense and paid ads to generate revenue. Low profit margins keep this model lower on our list, but it can work if you have the right content. Fourth, we'll cover the massively popular fulfilled by Amazon, abbreviated as Amazon FBA, business model. This is a popular model because Amazon does a lot of the work for you in terms of storing products and exposing you to traffic, but you have to pay Amazon for the storage and it is hard to add value to the types of goods you will be selling on Amazon. Fifth we'll talk about affiliate marketing. Affiliate marketing is similar to advertising business, but the profit margins are higher and there is a low level of customer service required. However you are limited in the amount your business can grow and a lot depends on who you are marketing for.

The final business model, which got a score of 9 out of 10, is high ticket drop shipping. While high ticket drop shipping is not the most popular model these days, that does provide less competition for you to get started and it provides a good dollar margin and access to high quality products that people still need. If you're looking for some detailed analysis of the current online business models in the market, then this is one episode you won't want to miss. There's a lot of actionable advice in this episode. So grab something to write with because you're going to want to take notes. As always, I'll be back on the other side to wrap up any loose ends.

RYAN: So without any further ado, here's my conversation with Ian Bond. All right, Ian Bond. Welcome back to the show. It's great to see you.

IAN: Yeah, Ryan. Second time here. A little power outage the last time. Great to see you again.

RYAN: Take two.

IAN: Yeah, take two. Great to see you again. And look forward to doing this again.

RYAN: Yeah, yeah. Should be fun. So this is actually part two. I think we should say something to our listeners about the episode that we recorded previously and then talk about what we're doing today. So do you want to recap what we talked about last week?

IAN: Yeah, so on our website, ProfessionalWebsiteInvestors.com, we've published now an infographic, and the infographic has kind of two component pieces. One is a framework for thinking about how to value and how to look at online business models. And we have different pieces of the framework that allow you different ways to think about it. It's supposed to be a thought starter, certainly not all inclusive. And then this was the second piece where we're going to actually discuss, from my perspective, how I look at valuing different ... The six very specific online business models. Now you know my background is as a career professional corporate executive, and I got into the online business world when I was 58, so this is my take. Somebody that has a different background can certainly have a different take, but I hope people will find this to be valuable. And this is kind of at least five years into this journey. This is kind of something that I hope that I could put out there that people can profit from.

RYAN: Okay, great. Well we're going to be diving into some really specific business models today. So the first one that we have that you had listed was low ticket drop shipping, which you gave a score of 5 out of a possible 10 is that correct?

IAN: I gave it as 5 out of 10 and I should have gone lower. I made a huge mistake. This is ... Five is way too high.

RYAN: Five and dropping, yeah.

IAN: Five and dropping, yeah. I wish I could re-rate that, but the ink is dry already. So low ticket drop shipping, Ryan, is where you source from suppliers things that sell, certainly generally less than \$100. We bought a site that sold wedding paraphernalia that most of it was below \$50, and because you're sourcing, in our case, we had a few thousand products, all

low price, from suppliers, you have very percentage margins and very low dollar margins and it's a horrible business model.

RYAN: Okay. Yeah, so some of the pros that you assume are that there's a higher resale value and there's a high quantity of websites out there?

IAN: Yeah, well if we listed it as a higher resale value, that has to be idiosyncratic to the ones that actually work because there shouldn't be a high resale value generally expected. Look, the reality is that this business model is incredibly hard to execute on for one very simple reason, which is when you have a large number of products that you earn small dollar margins on, you have neither the ability to drive paid traffic because you're not earning dollar, lots of dollars per sale, and you have a very diffused number products, so you're not able to really focus your SEO. And so traffic is a huge problem for you. And that's the reason that I don't like the business model.

And to be honest with you, the reality is that this world is going to Amazon. And so to be selling this independently on a website as opposed to through Amazon I think makes it a very difficult business model to execute. So we've had ... We've taken our lumps on this one and that's why I'm so circumspect about it. So horrible business model. Call me if you want to buy one.

RYAN: Okay. So we can learn from your mistakes today?

IAN: Absolutely. Yeah.

RYAN: Okay. So the next one you had up on the rankings above that was software as a service, which you ranked as a 6 out of 10. Yeah, if you want to say something about the SAAS model?

IAN: Yeah, so this is ... I think I'll probably be a bit of a lightning rod, and there's this rabid community of people that think they should own SAAS sites and I think they're delusional. I said it and they mostly have technology degrees, they're nerds. And look, the crow is recurring income. Now, read John Warrillow's book, *The Automatic Customer*. There's lots of ways to get recurring income. I think what people are missing with SAAS sites, in

addition to being few and far between and they're not low priced, the ones I'm talking about, is that most people think about this as being a technology driven business model, which it is. But if you don't know what problem you're solving for the consumer, you have no business buying one. All right?

I'm in the middle in my day job of evaluating for our business, which is a wealth and asset management business, we're looking at nine different vendors. We're spending all day looking at what our needs are that these vendors have. And I consider myself over three dozen years to be pretty good at this. And I'm seeing a lot of very good pitches. If you don't have deep domain expertise in the product you're solving, forget about the technology that's behind it. I don't care if you spent 20 years at IBM, you don't belong buying this business model or the business that you're going to see if you can find one.

So there are no cheap SAAS businesses out there. There are not a lot to begin with. And so that's one piece of the puzzle. And the other pieces of the puzzle is, and we've alluded to this in our last podcast, is that the technical support, which requires a lot of technical expertise, the customer support is brutal. So you've got high paid people that are going to have to hook people up to the service in order to get to earn that recurring revenue model. So I know that for a lot of people this is the holy grail, but I would tell you that there's easier ways to make a dollar.

RYAN: Okay. Okay. All right, well let's just keep moving up the rankings here. You've got this advertising model that comes in with a score of six-and-a-half, and it looks like according to your rankings, that this is the easiest model to scale and grow. Do you want to say a little bit about kind of on the upside, why is this such an easy product to scale?

IAN: Yeah. So you know, if you're a buyer of an online business and you're able to find a content site that ranks for a lot of keywords, where somebody who's really done the work and done a great job and has effective back links, and not withstanding the fact that Google changes their algorithm by the moment, you have the ability to look at a long history and a long history of operation on a high likelihood that the content, and you can read the content, but the high content is good quality and it's going to continue to drive traffic.

And that's the good news. So you've got a traffic strategy. Probably the detraction from this, which we talked about in our last episode, is that you're paying ... You're getting people to come to your site and you're only collecting a small dollar per click, or a fraction of a dollar per click. And that's the detraction. So you've purchased a site where somebody solved for getting you the traffic, but unfortunately your monetization model is weak. Now, to scale it as a dream because you basically fall asleep and it works for it. So yes, you're right. That's certainly the upside.

RYAN: So it makes money for you, but it's hard to get money from the clicks? Is that?

IAN: Well, no. You're going to get clicks, you're just not going to get paid a lot per click.

RYAN: A lot of money. Okay, okay. So this is you're trying to get people to click on ads basically. And you get money per ad click?

IAN: Yes, exactly.

RYAN: Okay.

IAN: Yeah. So look, see as we go through this, I really don't want people to leave my website when I get them there. So I want them to spend money on my website.

RYAN: Okay, great. Okay. All right. Well, so the next one, we're starting to get up into the sevens here. The Fulfilled by Amazon Model, which is, as you point out, is becoming much more popular. It's got a high resale value and it's got a low barrier to entry. So for people who are interested in this, it does have a good score from you. What are the reasons why someone might do a Fulfilled by Amazon Model?

IAN: Yeah, so this is the darling right now. FBA is the darling out there and there's lots of these sites out there. And the good news is that over \$40 billion of Amazon's revenue last year came from third party sellers. And Amazon is pushing suppliers to actually list their products. So even incumbent suppliers are being told that Amazon's not going to order from

you. They're saying, "No, you're going to have to go put things in Amazon's warehouse." So Amazon's embracing this model. And they do all the work for you and they're Amazon. So that's awesome. And they have a massive traffic source. So that's really the good news.

The bad news is that this is generally at the low end of the value chain. So the stuff you sell, without being too derogatory, is generally cheap stuff. That's \$9 to \$69, \$79 and can be knocked off either by Amazon or, oftentimes now, Chinese manufacturers are knocking off products that they see their customers being successful with and they're going directly to Amazon. So that's a big worry. So I don't think a lot, Ryan, of these commodity type businesses, and yet these sites are immensely profitable and I'm intrigued and looking at them myself. So never say never.

RYAN: Okay. Right. Right. So there's good profit, but the downside would be, is it the level of competition? Is that the problem?

IAN: I think there's ... For me, there's kind of a lack of appeal to sell things that are on the shelves in Walmart. And I don't understand silicone barbecue gloves any better than the next guy, or cheaper stuff. You have very little ability to add value to those equations, to those products in terms of kind of the content that you can deliver to people, or the help that you can provide through advice or other means. And so that that just makes it less exciting for me.

Now, the promise with FBA, which I think is way over-hyped, is everybody's out trying to build a brand. And probably 1.4% of the people are going to succeed at that, and everyone else is not going to build a brand, and they're just going to sell their five or 10 or 35 SKUs. And look, I wish everyone the best in that endeavor. And it's certainly a noble pursuit. Look, the reality is that you can be incredibly successful, not have a brand, but you're going to have to stay ahead of the competition, and in this price range, and whether the competition is other Amazon folks like you, or if it's the Chinese manufacturers, or it's Amazon themselves, it's going to be competitive. And by the way, these are all unbranded products. There's no brand.

RYAN: For all of these Amazon FBA stores, these are unbranded products?

IAN: By and large. By and large, no one's ever heard of any of these brands. I mean, they have product names, but no one knows that the brands.

RYAN: So people ... Okay, okay, gotcha. And one more comment you listed real quick was just the cost of keeping your inventory with Amazon, right? You have to pay for them?

IAN: Yeah, yeah, the old joke in the e-commerce world is that you'd never met an FBA guy that wasn't broke, because all of their money goes back into inventory. And so the one day that the FBA guy is wealthy is the day he sells his store, the rest of the time he's dumping money, he or she, are dumping money into inventory. And so they're perennially broke. It's horribly capital inefficient.

RYAN: Okay. Okay. Great. All right, well we'll move up the scale a little bit here. We'll go to the affiliate marketing, which has a score of 7.5, so definitely getting up into a little bit higher here. Let's define affiliate marketing real quick. What does that look like?

IAN: Yeah, so that's where you're somehow adding value through either your personal experience or through the experience of others to sell someone else's product. All right, so that could be a course you took, or a product that you endorse, and kind of at the low end of the spectrum you have people that have review sites for products that are sold on Amazon, that's Amazon affiliates. And at the high end, which is really where I'm more intrigued, you have people doing reviews of higher end products and then they have affiliate relationships where they get paid, hopefully large dollar, large dollars in affiliate commissions for those sales.

And so what I'm really intrigued by when I look at content related sites is their ability potentially to have affiliate relationships where you can monetize better than AdSense. And that would work even for even lower affiliate commission opportunities. But I'm particularly intrigued with ones where there's proven products where there are sites that act as affiliates for those products, that deliver good advice, good perspective, and then drive people to a sales page for a product where there's a high commission. And so there you have, Ryan, kind of two weapons, two traffic weapons. One is you can

with higher dollar margins, as we said in the last episode, you can actually run paid traffic. And then obviously you have all of your content, your SEO related traffic that you can drive to those sites. And so kind of the best of both worlds from traffic. And then, as you know, I liked high dollar margin situations.

RYAN: Right, right. So according to that pyramid that you set up, it runs well according to ... It's got a low level of customer support, high dollar margins. So when you're engaging in this business model, what is the focus of your time and your energy? Where's most of your work going if you're doing affiliate marketing?

IAN: If you're doing affiliate marketing, you're really looking for different ways to refine the conversation around the affiliate offer. And you're always thinking about what the problem is that you're solving. Usually the product that you're referring people to is morphing and changing. And so what you're doing is you're changing, it's never static. What you're doing is making sure that your current in kind of the content, the approach, the nuances that have evolved over time. And that's the upkeep. And you mentioned one of the positives, which is kind of the customer service is really minimal. That's really left to the people that ultimately sell the product. So that's the plus. And your time is your own because you just have to make sure you get the work done in terms of perceiving and tackling the issues around whatever the problem is that you're solving for people.

RYAN: Yeah. Okay.

IAN: And positioning the product correctly.

RYAN: Great. Okay. So then let's talk about the downsides though. So it's 7.5, it's not your highest ranked business model. What are the downsides of the affiliate marketing model?

IAN: It gets close, but you're relatively limited when you're generally looking at a product or maybe a small suite of products. So you're generally limited in terms of the size that you can be. So certainly that's a problem. It's relatively hard to scale. It's a content strategy, so it's relatively hard to scale and it has to be high quality content. You are tied to the kind of the fortunes

of the product that you're referring people to. So you have a few limitations but I don't want to detract too much from the strategy because I do rank it highly.

RYAN: Okay, great. So we just have a couple of minutes left and I know that we're going to do an entire episode on high ticket drop shipping. But I think as we kind of wrap things up, let's just point to the top of the pyramid here. And is there just maybe like a teaser you could point out as to why high ticket drop shipping made the top of your list before we sign off?

IAN: Yeah, yeah. So, as you mentioned, we're about to dive into this in more detail. But look, let's just tick through some of the things that we've mentioned. We have high dollar margins, we have the ability to have diversified traffic. You're going to be focused on a relatively few number of items that pay a high dollar price. You do have branded suppliers. Because you're in higher dollar offers, you have the ability to add real value to people and their purchases. And yeah, I think those things are very powerful. Now the ... And I'll come back, I have one more to add to this in a moment, which is counterintuitive, but the cons that most people would say, the two biggest ones would be margins are crummy. So generally you're working in for 10-15% net margins in drop shipping, even high ticket drop shipping. We have some ones at the higher end of that which makes it feel almost luxurious.

And then, most people don't want to solve the customer service paradigm. And I think that's a wonderful way to add value. And again, I'll go back and say that with the skill set that a corporate executive or a career professional has, that's worked in a team, to be able to direct people and put processes and procedures in place. This is something that you want to think really hard about. Drop shipping has a very discrete value chain. There are suppliers, there's website operations, there's customer service, doesn't take a lot of great technical expertise.

It does take some organization and I think that's eminently solvable. The other counterintuitive pro for this strategy, Ryan, is that it is out of favor. And so, go where people are less inclined to go. The darlings are FBA and probably Amazon associates. And drop shipping, everyone hates because of the margins and the customer service issues. And I would tell you, I'll take

the other side of that equation and when the world runs out of great brands and I'm holding a whole portfolio of great brands and boring products, I hope to prove people wrong. So that's where I shake out on that one.

RYAN: Great. Great. Well thank you for running through these business models, and again, let's just kind of tell people that there's more information UP on your website that they'll be able to find, like just more detail of what we talked about today.

IAN: Yeah, so we did a short run through of the six business models in the framework, and I will shortly be producing a much longer narrative for people who want to hear kind of a much more detailed rather than bite size kind of opinion where I'll ramble on ad infinitum with the notes that I have and give actual examples of sites that I've looked at or sites that we own and why things ... How kind of the inner workings are. So if anyone's interested in that, please join our mailing list and we'll be sending out something in the next six or eight weeks from now.

RYAN: Okay, great. Well we should invite everyone back next week. We're doing a deep dive just into high ticket drop shipping. It's an episode you won't want to miss. So thank you so much, Ian. This was great, and we'll see you next week.

IAN: Thank you, Ryan. It's a pleasure.

RYAN: Yeah. Thanks. All right folks, there you have it. That wraps up my conversation with Ian Bond of Professional Website Investors. He shared a ton of valuable insights and advice today on how to analyze different online business models using our evaluative framework. 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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