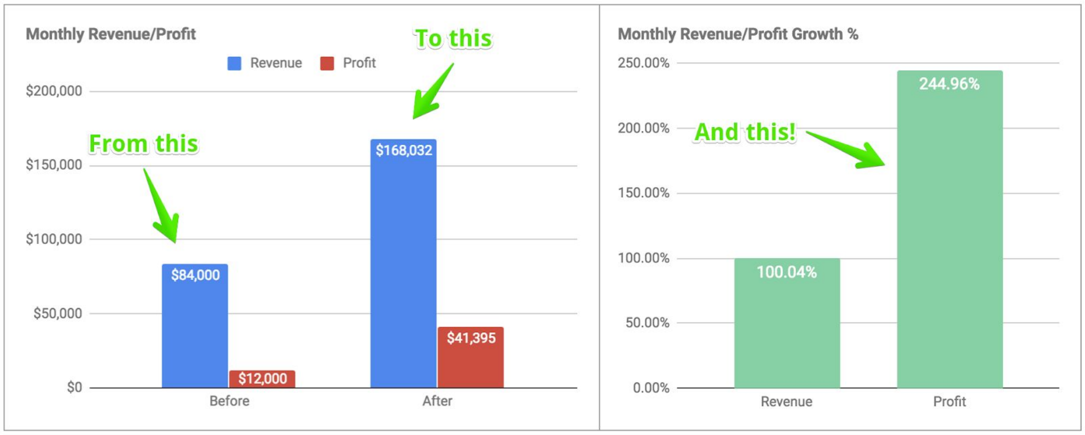
HOW TO DOUBLE YOUR BUSINESS WITHOUT SPENDING ANOTHER CENT

Written by Mark Patchett,
Founder of The Ecom Academy

THE ECOM ACADEMY

Before we get started, let's take a peek at the best part; what your numbers are going to look like. Take particular notice of the profit growth on the right – that's all cream!



Whether you're selling tracksuits for chihuahua's (actually a business I started), beautiful boutique skin care products, fishing gear, knitting needles or anything in between – this will work for you.

Let's dig in.

UNDER THE HOOD OF THE GROWTH MACHINE

With traffic being the fuel, there are three main levers in the growth engine. These are:

- Contribution margin (including AOV)
- Conversion rate
- Repeat transactions

If you've been in the space for a while, you'll mostly likely know these levers – BUT have you mapped out just how important they are when pulled individually or…most epically, when pulled together?

This is what will happen when you start getting it right...

In order to double your business without spending another cent, we don't actually need to double anything individually, but instead just increase each of the three levers by just......26% EACH!

Now, you may have done the maths and noticed that 26%*3 = 78%?

WTF's going on?

Fortunately, I don't have my math wrong. The magic here is in the power of compound impact. This lovely theory was coined as Geometric Growth for Exponential Results by the mighty Jay Abraham – who's marketing prowess is just as impressive as his hair.

INTRODUCING, THE LEVERS:
LEVER 1 CONTRIBUTION MARGIN (CM)

A definition from our friends at Harvard Business Review says: “When you make a product...and deduct the variable cost of delivering that product, the leftover revenue is the contribution margin.” hbr.org

CM is so often neglected as a core KPI, despite being the lifeblood that determines how much $$$ we keep per transaction.

People get massively fixated on trying to drive more and more transactions without considering the importance of increasing the profitability of each transaction. When you start pulling apart what goes into each transaction you discover that not every dollar drives the same value or has the same cost.

The first step to peeling back the layers is to separate the fixed and variable costs.

Fixed costs are anything that we get charged for at a flat rate, regardless of the transaction value, e.g. components of transaction fees, pick and pack fees, packaging, some shipping fees, etc, and then there are variable costs which are primarily the costs of the goods inside of the box/bag. Then of course, there are the marketing costs that helped us get the order. For this model, we’ll assume marketing costs remain flat.

So what’s our overall aim here with Contribution Margin?

Our aim is to increase the revenue of an order while keeping fixed costs as flat as possible and the variable costs at the same or an improved gross margin %.

For example, could you fit a higher value item in the same size package or perhaps even add additional items in the same box? When fixed costs remain the same and the overall value increases, the percentage of profit you make from that additional revenue increases.

Let’s take an example:
For argument sake, let’s say that you have a consistent 50% profit margin and your current Average Order Value (AOV) is $70. Our aim is to boost AOV up by 26% while keeping fixed costs flat.

Think we can do it?
Here’s the breakdown of our costs in our current transaction:

- Transaction fee: 2.5% of revenue, plus 25 cents fixed fee = $2
- Packing and shipping: $8
- Cost of goods: $35
- CPA (marketing cost to drive the sale): $15
- Total costs: $60
- Gross profit: $70 – $60 = **$10**

As you’ll know from running a business, there are plenty more costs that we haven’t included, such as returns, operations, staff, Krispy Kreme’s etc. Unless you’re driving huge volume or it’s just you and you’re pet *axolotl* running the business from your parents basement, that $10 we just backed out isn’t a hugely exciting amount of gross profit to work with.

So what are some options to send that average order value (AOV) heading north, and...to stay there?

How about we make that $10 a whole lot more interesting of a number...

Game on.

9 WAYS TO INCREASE YOUR AVERAGE ORDER VALUE

1. Get new inventory that attracts a higher price:
Seems obvious, yet business owners often don't realise what people are willing to pay. Are there related products that you could be stocking that attract a higher price tag? Are there opportunities to release special limited edition ranges, premium quality versions with better materials or ingredients or even bigger volume/sizes (think Cosco)?

2. Optimise onsite merchandising:
Dig into your [Google Analytics Product report] to hunt for products that are selling with decent relative transaction volume and at 25%+ above your AOV (that also have solid profitability). Next, tweak your category listing to ensure that these products have more prominence. Also consider using call out labels on the tactically selected products, such as "most popular", "best seller". You can also take advantage of featured collections and onsite banners (sidebar, topbar, bottom bar) that drive people to these targeted collections.

3. Leverage channel mix dynamics:
This fella is often neglected. Run an analysis on your average order value by channel in Google Analytics. If you're selling a range of products, you may find that certain channels, e.g. Google Shopping, attract a lower AOV than say Facebook. You of course need to take into account your channel level CPA (cost to drive the sale), as a channel may have a lower AOV but also a lower CPA, which net net, means that the channel is a winner. Regardless, make sure you do some digging in here, as certain channels may present opportunity or be pulling you down more than you realise.

4. Jack up the prices on your existing products:

This will really depend on the type of products you're selling. If you're selling branded products where people can easily price compare, it's going to be tough BUT if you're selling your own brand, you've got plenty of control here. It's normal to feel hesitant when considering increasing your prices, but you may be amazed to see that conversion rate stays the same, or even increases (due to higher perceived quality).

Please note: Price testing can be quite tricky. You'll need to be aware of things like communicating changes to previous customers, updating prices on other websites that have listed your products (like affiliates), competitor price points, ads and emails that mention price etc, so keep in mind where your price may be listed before making the update.

5. Offer Premium Warranties:
Super fun fact, one of the most lucrative profit centres for major electronic stores is the up-selling of warranties and after sales service. Based on what you're selling, would there be any opportunity to slice into this pie?

6. Offer Bundles:
Could you be grouping products that would go nicely together? You can either go by gut if you know your customer well or you can analyse the products most frequently purchased together in Google Analytics (some Ecom platforms like Shopify allow you to do this as well). You don't even always need to give a discount here, the recommendation is often enough. Just think of mannequins...if plastic people can convince us to buy clothes, I've got no doubt you can start bundling your heart out!

What about automation? Plenty of good opportunity here that we'll cover in another post. There is a HUGE amount of value kicking off manually first to learn the patterns and gaps for tagging etc.

7. Cross-selling:
Similar to bundles, yet you allow people to add specific items to their order that go nicely on an à la carte basis. Think of a toiletries bag with a face cleanser, sheets with a bed, pants with a shirt, extra batteries with a camera or that extended warranty with non perishables. Start by

thinking of any other product that would be used before/during/after using your product.

8. Launch Up-selling:
If you've got multiple models of certain products, the aim here is to push people towards the more premium offering. There's lots of fun pricing theory at play here. The idea is to make the perceived improvement of the premium product a higher % than the % of the increased cost. For example, say you're selling blenders, one is The Super Spin 500 at $200, the other is The Hammer Time Ultra Whirler 800 at $279 – who's going to be able to resist some hammer time?

9. Leverage Post Purchase OTO's (one time offers):
Testing the above ideas can be risky, as sometimes your experiment may in fact reduce the conversion rate, e.g. if the price increase is too high, less people may buy which could increase your cost per purchase. There is one place to start testing that is as safe as Switzerland; the post purchase page. After someone has made a purchase, you have free reign to try and sell whatever you want without the risk of losing the first sale. It's also a perfect opportunity to give "exclusive" and "one time offers", as in order to see this page again they'll need to buy something again.

Many think that "my customer has just given me all dat money, why would they give me more???" People go through quite a cognitive quest to finally make a purchase. Once they buy, they've actually sold themselves on you, so the hard work is done. This means that a percentage of customers will immediately buy something that you put in front of them even without an offer, adding an offer will of course increase this further. Also, unless you're a single product seller, a percentage of customers will most likely have wanted more products than what they finally checked out with, so offering a sweet little incentive to buy more can work brilliantly.

The ultimate flow for a post purchase offer is to allow them to buy with one click, rather than needing to add payment details again e.g. you can do this with Shopify and Magento. You'll need to double check your terms of service and privacy policy if you are holding credit card details, though.

Back to the mission…

Congrats, it's fair to assume we've hit our 26% increase in AOV by now. Let's find out what happens to our numbers:

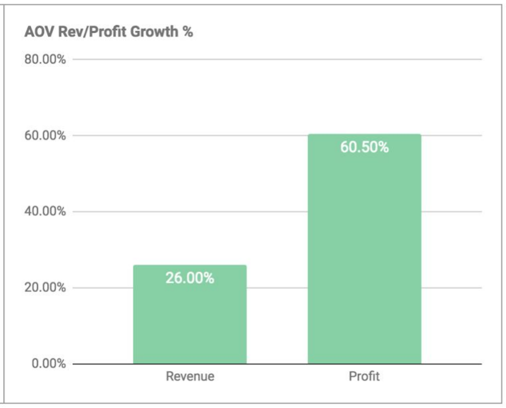
All our costs stay the same, with the exception of our cost of goods (this assumes we can fit everything into the same package) and there is only a small increase in the variable credit card processing fee.

So the 26% bump in order value takes us from $70 to $88.20, with the cost of goods landing at $44.10.

So $88.20 revenue – $72.15 total costs = profit of $16.05 vs the previous profit of just $10.

Now, $6.05 extra may not seem like much but…if we're doing 1,000 sales a month, that's $6,050 in freshly squeezed PROFIT that didn't exist before!

What's really magical here, though, is that our order value only increased by 26% but our profit increased by 60.50%!!! All because we took advantage of our fixed and variable costs AKA our efficiency of contribution margin.



Where to next?

Our machine is starting to feel warmed up...but we're only a 1/3rd of the way there.

In the next two sections we're going to be pulling:

- **Lever 2 CRO:** the rapid growth approach to conversion rate optimization
- **Lever 3 Repeat Rate:** how to get customers boomeranging back faster than you can say "A Dingo ate my..."

Intermission: Who's this Mark Patchett guy?

I'm the ex VP of Growth for Resident (Nectar Sleep, DreamCloud Sleep, Awara, et al). We scaled Resident from $0 - $240m in just two years, awarding us the fastest growing Ecommerce business in the USA (and probably the world) in 2018.

Before that I was the Marketing Director for Trouva.com, which is a marketplace for independent boutiques across the globe. A really cool business model. We scaled Trouva from just a handful of sales to be in the top five fastest growing startups in Europe in just 18 months.

Throughout that time I've built hyper growth teams, managed $100m+ in ad spend, driven over $350m in revenue and learnt a WHOLE LOT.

The cliche entrepreneurs quest may have you believe that success is all about the enduring hustle, blood, sweat, tears, high fives, huddles, strategizing, synergising, low hanging fruit and blue sky thinking, but that mentality is as useful as a Hang In There cat poster.

I started The Ecom Academy to help people learn from what I've found to be the real deal and all the very best stuff that's worked for me over the years, as my real passion is helping people achieve amazing results for themselves!

LEVER 2: CONVERSION RATE

Your conversion rate is the one little bitty metrics that improves every other single metric in your business (with the exception of the customer service team needing to deal with more order enquiries #SorryNotSorry.

There's so much magic here as when your conversion rate increases you get MORE customers from THE SAME amount of traffic/cost.

More customers. Same cost.

Same cost. More customers.

Amazing.

Said in another way, you drive more transactions AND you pay less for each of them. We could honestly wrap up the three part series after this article BUT things only get steamier when your conversion rate starts to samba with our final lever as well…so stayed tuned.

Let's chuck in some numbers:

In our scenario, we've already increased our order value up to $88.20 at a CPA of $15 (the marketing cost to drive the sale).

To illustrate the impact of our conversion rate on our CPA, we'll need to model out what our conversion rate is. You can achieve this in a few ways, but a handy trick is to divide your CPC by your CPA. So that's your cost per click (all the money you spend on marketing divided by your clicks) divided by your average cost per transaction.

In our example our Blended CPC is $0.50 and our CPA is $15 which gives us a conversion rate of 3.33%

On our mission our aim is to give our good friend conversion rate a kick up by 26% (not to 26% but by 26%). If your Ecom CNVR is 26%, call me now, we need to talk.

Conversion rate is a epic topic, so for now I'll cover the concept of my methodology with some actionable ideas.

A high level approach to CRO

I approach CRO (conversion rate optimization) in a few ways:

Technical:
Is your website working as intended. People are often so used to using their own website AND typically on the same device that they can easily miss a bunch of technical errors that are holding the site back from optimum performance.

Losing money from technical errors is quite literally like relieving yourself into the wind.

A handy way to start digging is the device and browser reports in Google Analytics to look for big variances in transaction conversion rate. Sort by users or sessions highest to lowest then look for transaction opportunity.

A major technical factor (which is becoming more and more critical) is the speed of your site.

Just like how conversion rate will improve all your metrics, so will site speed.

People now have a shorter attention span than goldfish (fact), so any delay = lost customers. If you want a reality check about how your speed is looking, head to the Google PageSpeed Insights Tool to see where you stand. You want to be over 90 for mobile AND desktop.

The best way to find other technical issues, is through Usability testing, as per below.

Usability:
If your website isn't super easy to use, even if people like what you're offering, you're going to lose sales. Period.

Many people feel that their website should be an artistic masterpiece yet the job of a website IS NOT to be pretty but to be exceptionally effective in turning users into money.

The challenge is of course discovering what these issues and opportunities are.

A cheap and easy yet highly effective way to get started:
My preferred method is to first take advantage of friends and family who may not use your site all the time. The aim here is NOT to get their opinion on colours, or branding, it's to observe how they use your site from a functionality standpoint.

Give them a basic challenge to purchase a common product using a similar funnel flow based on your typical customer (e.g. if you're driving the majority of sales from Facebook, show them a Facebook ad, and start them where your ad links to. From there get them to browse and purchase like a normal visitor would while you observe. You'll be amazed at what you find, e.g. you'll find filters that don't work, funky search results, navigation buttons that don't make sense, weird products showing up in the category pages and much more. If you're looking for completely random people, head to Trymyui.com.

Bonus: also try adding exit and onsite poles using a service like HotJar.com. With these surveys you can simply ask "Is there anything that we could be doing better?". You'll find that people are very happy to be honest (expect 25% of responses to say "yes, stop showing this stupid popups!" – all in the name of
research!)

Your Offer/Pricing:
Assuming that your website isn't functionally horrific, arguably the most important conversion element is YOUR OFFER. If you have a great price for a great product (particularly if you're selling the best offer for

a branded product e.g. Samsung, Nike), people will jump through rings of fire to buy what you've got. I once had a client who's website looked like it was spat out of the dark ages, it was next to impossible to purchase, yet the conversion rate was unbelievable – all because his product was $5 cheaper than the next guy.

If you can't move on price, consider how you can increase value, e.g. whether through a rewards program, a free gift, free upgraded shipping etc.

Traffic Quality:
As the saying goes "guano in, guano out". If you're driving crappy traffic to your site, your conversion rate will take a hit. I have built a methodology called ClickSmart Analysis, that allows you to quickly identify dirty traffic to then wipe it clean while also finding untapped oil wells of opportunity.

The easiest place to start when looking to improve traffic quality is to focus on the 98% or so that isn't converting. (Average Ecom conversion rates sit at 2-3% on sessions). So how do you do this? Take advantage of GA to drill down into what campaigns have super high bounce and exit rates. Then go deeper to assess a time on site that would indicate a rubbish user, e.g. 5 seconds. Then work backwards to assess which sources and campaigns can be culled.

Segmentation:
The aim is to be able to speak to customers on as much of a one to one basis as possible. Achieving that is all about using both basic and advanced segmentation with personalisation strategies.

When starting out, ensure you're emailing previous customers differently to potential prospects. Your returning customers can be one of the most powerful ways for you to increase your conversion rate, as you've done all the hard work already! There are many different layers of segmentation and personalisation that we'll be covering in-depth with follow up guides.

Life Cycle Marketing:
This aspect is quite a bit more advanced. The aim is to understand the buying cycle someone goes through, to then use a combination of segmentation paired with email automation and/or segmented retargeting audiences to ensure that the people that you're delivering the most relevant message at
the right time. E.g. if someone visited for the first time, didn't buy, but we have them pixeled or their email, we have the opportunity to follow up with them immediately, then 24 hours after, 72 hours after etc. We know that as time passes we'll need to tweak our message and/or offer to get them to come back. This is an awesome article that goes deeper.

Tactical Promotions:
This is all about how to repackage and rework inventory that is hard to move in a way that attracts a super high conversion rate. Very powerful. Do you have any promotional inventory or excess inventory that you could clear and use as an opportunity to drive high converting sales? Perhaps you could bundle that inventory with other higher margin products as well...

Ok, back to the numbers!

Our existing conversion rate was 3.33%, after actioning the above we've definitely upped our performance by 26%, which brings us to 4.21%.

To backout our new CPA, we divide our CPC by the new conversion rate. So $0.50/4.21% = $11.88!

To recap, when we started our profit per order was $10, we then moved to $16.05 and NOW we're at $19.17!

At 1,000 sales a month you'd now drive an extra $9,170 in P.R.O.F.I.T! Think of that increase in profitability relative to what you're turning over..any ideas how you could use that extra moula?

Well done team, we're two levers down, one to go!

Up next we're we're going to be covering how to get your existing customers coming back for more and more. Read on!

GAME TIME:
LEVER 3: REPEAT TRANSACTIONS

Repeat transactions are truly transformative. Repeats are like finding a marketing channel that has double the conversion rate yet doesn't cost anything. Despite this, for some reason people are more concerned about courting new people rather than giving love to the customers that already love them back.

We simply can't neglect our existing customers. They are BY FAR our most important customers (*depending on your business model*).

The first time customer vs repeat customer dynamic is a whole lot like dating. Getting that first date can be a nerve racking experience. Yet after you've had that Disney like first date, locking in the second is easy (assuming things went nicely).

Before customers make their first purchase, they go through a crazy cognitive journey of comparing different suiters, sniffing for signals of trust, hesitating whether they even need the product to then finally say, 'screw it, I do need another Potty Putter".

Back to business

Getting that person to purchase again, is therefore unbelievably easier. And there's another bonus, repeat customers tend to spend more as their trust levels increase.

Best of all...you can drive your repeat customers via your email list, which is essentially a $0 CPA channel!

You can ramp up your repeats using very basic or exceptionally advanced methods. The good news is that the basic methods work very well as a starting point.

Email something:
That's literally it. Email them products and a % of them will buy them. If you don't bother emailing your customers at the moment, you may be surprised to find that you're not alone. In terms of content, think like a typical customer as to what is attractive: new products, sale products, limited inventory
Products.

The really interesting debate with email is of course frequency...to no surprise, more emails more often than not equate to more sales. The art is of course not pissing too many people off that results in less overall sales in the long run. I must preface that you will ALWAYS get complaints, even if you email once a month, weigh up those complaints with the increase in sales and/or implement a frequency subscription option. Another method is to mix in non product focused emails, such as value added content related to your products, e.g. natural home remedies for beauty, tips to improving your golf
swing etc.

Email Segmentation:
We touched on this with our conversion rate post. To recap, the aim here is to start making our emails more persona and relevant by using information via buying, browsing, or through structured feedback, to then try and show them products we feel will be more relevant to them.

For example, if you sell mens and women's clothes and you have a customer who has made two female only orders, send them more of what they've shown they like. One big caution is not to get too granular too quickly, as you need to establish patterns to actually predict what someone will buy next. A pitfall I have come across many times is when someone is buying something for their partner or as a gift, they may wear female clothes, but have bought a male jacket as a one off. I've found most success in staying more general with a higher frequency of send until I have more certainty.

Email Automation:
This is the bees knees and also the guts of lifecycle marketing and another very BIG topic. The idea is to have automatic emails setup that are mapped to typical pre and post purchase behaviour. One effective example is to send an email immediately after someone purchases with another highly time sensitive offer. Another idea is to run an analysis to determine the detractor point, which is, if they don't make a subsequent purchase by this point, the propensity that the return rapidly declines. Once you find the point, in sure you're hitting them up! Lots of fun numbers to work out what these points are. I'll be sharing the methodology in a follow up guide.

Subscriptions/Auto re-buy:
If you're selling perishable products, then subscriptions will be your gold mine. Give incentives to people who take advantage of a subscription plan and prepare to see your repeat purchases skyrocket. You can clearly see the impact repeat has, as businesses with a strong repeat/subscription model can attract double, triple and beyond the valuation of those that don't.

Retargeting 3.0:
When the numbers make sense I also use a number of super powerful retargeting strategies to drive repeat transactions. The numbers can work so nicely as repeat buyers typically have an increased conversion rate, which means you can hit CPA's of less than half. The other reality is that not everyone uses emails, or even when they do, your emails can land in spam or promotions and be missed, retargeting helps fill

that gap. One trick is to create custom audiences of people that don't open your emails after X days.

Mine for related products:
As with our AOV suggestion, a very easy way to boost your repeat rate is to consider what others products your customers would be interested in that sit nicely with what you're offering.
Again, think tactically about what they may use before, during or after using your product.

Just ask your customers!
You'll often find some gold by sending a personalised, plain text email asking people what else they wish you offered? I'd start with sending the email to customers who you feel are engaged, whether through social engagement or order count.

Give a welcome back offer:
Regardless of what you're selling, people love a deal. Whether this comes in the form of a discount, or perhaps freebees – I've never seen it not work. You can consider the discount just like a CPA, e.g. if your new customer CPA (also known as Customer Acquisition Cost / CAC) is $15, and you're orders have a value of $70, a 10% discount would be like a $7 CPA, not too shabby. The art is of course only offering this if you need to. So save this trigger when you need to kick up sales, move old inventory, or you feel like the customer is detracting.

Back to the numbers!

So without further adieu, let's pull that final growth lever to properly illustrate the impact of driving repeats. Time to plug it all together.

Here's a summary of what we're seeing below:
Our AOV goes from $70 to $88 (with a 60.50% improvement in profitability due to the shift in fixed and variable costs)

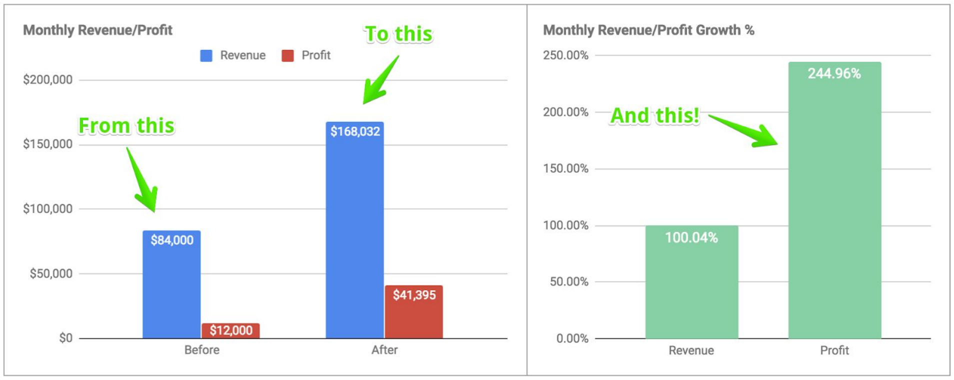
We have gone from 1,000 new customers to 1,200 thanks to boosting our conversion rate by 26%

Our repeat transactions kick up massively, as we have not only increased our repeat rate, but we've also got more customers to become repeat buyers thanks to the increase in conversion rate which is driving more new customers.

*Please note, the repeat calculations would mean that the increase in repeat would be happening within that same period, which is actually very possible but repeat will typically build month on month.

The end result is that we've DOUBLED our revenue from $84k to $168k BUT the most exciting part is that our profitability has EXPLODED FROM $12K to $41.4k – that's a 245% increase.

Truly some awesome stuff AND all very, very achievable.



That's it for now. We hope you got some value out of our article, if so we'd love to hear about it. You can say hello via our Facebook page, of feel free to ping us an email.

Cheers, Mark
Founder @ The Ecom Academy

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