

# THE WHOLESALE FORMULA

## Competition Analysis

This video covers the most critical factor, combined with sales rank, that we take into account when sourcing products, and that is analyzing the competition...AKA, the other people selling the product you want to sell.

### How Does Competition Affect Sales?

There are several ways competition on a product will directly influence the amount of said product you can expect to sell. The first and most important is pretty simple, more competition equals fewer sales. Each product is essentially a pie, with the pie representing the total sales expectancy for the product and each seller that is in contention for the buybox getting a piece of the pie. Oftentimes, a product will have a large number of offers, but only a handful of them are considered in contention for the buybox and thus your only true competition. We will show you how to properly identify and separate the two.

Sellers that aggressively reprice products are another factor that can affect sales. These are typically mega sellers that habitually beat the price down on products to the point that margins become slim or non-existent, as their focus is entirely cash-flow based. If the product you are considering has a seller with a massive amount of feedback and is currently beating the price of all other offers, it is a good idea to check other items carried by that seller to see if that type of pricing pattern appears across their entire inventory. If it does, they are what we would consider an aggressive repricing megaseller and you want to avoid these types of sellers when possible.

Another key note is to avoid products that are sold by Amazon. It is very difficult to compete head to head with them.

## Identifying Competition

Before we get to examples of competition analysis, we need to address the most rewarding part of using FBA rather than Merchant fulfilled and thus why Merchant offers are largely irrelevant and disregarded by us.

**Amazon rewards FBA offers** – a merchant offer must be a significantly cheaper price for a product to get the Buy Box over an FBA offer. It generally functions somewhere between 5 and 10%. Therefore, we realize that we can price this much higher than merchant offers – and still retain all of the Buy Box sales.

If the current Buy Box offer is an FBA seller – the offer will say “sold by Company X” and fulfilled by Amazon”. In the instance that the offer is merchant-fulfilled, the offer will say “Ships from and sold by Company X”

Here we have this Peroni Etched Signature Italian Beer Glass | Set of 2

Now, as you can see, the buybox offer says, "Ships from and sold by Company X" therefore it is a merchant fulfilled offer.

When we are first examining a product and see there is no FBA offer in the buybox, it is very exciting.

So, let's examine further.

Right here 4 new from \$23.99 is where you click to see all other sellers for this particular product.

So we do that...

### **Continued**

and we see this screen.

Now we are looking at all the other sellers for this product and their offers.

The first thing we notice is that there are currently no FBA offers, as they would otherwise be denoted with a Prime free shipping offer. This bodes very well for us, as being the only FBA seller, our only competitive FBA offer would effectively allow us to dominate the Buy Box and gain the lion's share of the sales.

The additional things that we should be aware of is that all of these sellers have similar pricing – which means that there isn't currently an aggressive re-pricer to drive the profits out of the product.

An interesting bit of information to notice is that these sellers have a low number of ratings. Having a low number ratings indicate that they are either new sellers OR low volume sellers and are unlikely to be able to compete with a high volume seller.

This example is pretty cut and dry. There are 4 sellers for this product and we can deem them all irrelevant. If we came in with an FBA offer, we could expect to have the buy box nearly 100 percent of the time against these sellers as long as our price isn't significantly higher, due to the priority Amazon places on FBA sellers. Knowing this, I would set my initial price for this product at \$35 (FBA). However, if that price didn't give me 100% control of the Buy Box – I would incrementally lower my price until I did gain total control of the product.

All in all, this product looks like a winner from a competition standpoint and is prime pickings with no FBA offers. If you look at our sales rank chart from the last video, you will notice this product is just outside our recommended range even considering we would control 100% of the buybox, but knowing a sales rank will rise quite nicely when introducing an FBA offer to a product that had only been available via merchant fulfilled, this product would meet our sales rank and competition requirements.

### **Pie Concept**

All of our examples will assume “All things equal” – which excludes factors (mentioned in our Buy Box video) that can affect your Buy Box percentage by varying small degrees.

This pie chart represents the total sales of a fictional product which sells 1100 units per month.

Assume there are 45 total offers, but only 9 are currently relevant – using our guidelines previously outlined in this video. If we carry this product, we would effectively become the 10<sup>th</sup> seller. So we will examine this product from the perspective of 10 total sellers.

Now, there are ten sellers, including ourselves, fighting for their part of 1100 total sales per month. This means that each seller, all things being equal, would get their equitable split of the sales and would get 110 sales from this product. Clearly, this product would surpass our sales rank expectations, and has passed our competition analysis. At this point, we would add this product to our pre-contact spreadsheet, which is our method of organizing wholesale leads and is taught in a later module.

We have done all of the analysis we can at this point. We know our target volume and competition levels are in-line with where we want to be. From here, it simply becomes a question of profit margin and ROI – which are covered in the Profit Margin expectations portion of this course. If that aspect lines up – we will proceed with ordering and start selling this new fantastic product.

## **Let's Examine a Couple More Live Examples**

B009NVR3J8 7 Quest Nutrition Variety Pack

First, let's examine this product's sales rank (currently 89). That tells us, that this product is well within our sales rank range – We use the program Jungle Scout to estimate the sales per month for products, and it tells shows that this item sells approximately 2000 times each month.

Let's look at this product more closely, from the competition aspect – to see if it is a product that we should consider carrying. As we notice, there are 232 sellers carrying this product.

Now, let's examine to see how many are relevant and competitive sellers. As we can see, the current lowest FBA price for this product is \$27.20.

Analyzing competition with other FBA sellers is quite different from merchant sellers. We no longer have the luxury of Amazon preferential treatment, allowing us to take the buybox away from merchant competitors while being up to 10% higher in price. To compete against other FBA sellers, your price has to be within 2% of the lowest FBA price to be eligible to be in the buybox. If you are outside of that range and you will never get a sale.

## **Pie Concept For Quest Nutrition Bars**

Extrapolating that information:

$$\$27.20 * 1.02 = \$27.74$$

This means, anyone priced beyond the \$27.74 range, we will consider to be an irrelevant and non-competitive seller.

At the time of this video, I found 11 FBA sellers selling the product within this 2% price range. Assuming that we would be the 12<sup>th</sup> FBA seller, let's again examine our pie:

So,  $2000/12 = 166.667$  units per month, which is well inside our range. This is another product that would meet our sales rank and competition requirements.

This calculation assumes that all things are equal and each seller will get 1/12<sup>th</sup> of the sales of this product BUT as our Buy Box module teaches, all things are not equal. Our Buy Box module shares strategies and tactics to get an even more equitable share of sales.

### **One Last Example:**

B004TAAGFQ  Tenzi Dice Game

This product has a 1,760 Sales Rank in Toys and Games, which is well within our range. Jungle Scout suggests that this product sells approximately 585 times each month.

Next, to examine our competition. As you can see there are 89 seller's who offer this product.

### **Tenzi Pie Chart**

Further, we only need to look at the sellers that are competing for the buybox. The lowest FBA price is \$13.95 (which also is the qualifying Buy Box price). With that knowledge, we apply our 2% addition to see where we can start discounting irrelevant sellers:

$$\$13.95 * 1.02 = \$14.23$$

All sellers selling FBA at a price higher than \$14.23 will be considered irrelevant.

As it stands, I found there are currently 30 relevant sellers, meaning when we jump in, there will be 31 relevant sellers.

585 sales per month divided by 31 sellers, means we could expect to sell just over 18 of this product each month.

$$585 / 31 = 18.87 \text{ sales per month}$$

Despite having the necessary sales based on the rank, our competition analysis shows that the quantity of Buy Box splits between 31 sellers make this product one that we should avoid based on our previously noted criteria of (90 sales per month).

### **Facets of Competition**

Reiterating the important concepts of competition analysis:

1. Determine if your competition is FBA or Merchant Fulfilled. If you are the only FBA seller, you can expect to dominate the buy box. If there are very few FBA sellers, you can expect to share the buy box with those sellers, assuming that their price is within the competitive range.
2. Identify aggressive repricing megasellers. Monitor the pricing habits of any seller that seems to be aggressively pricing a product low and avoid them when necessary, as they will drive the margins out of your products.
3. Properly determine the number of relevant sellers that are eligible for the buybox. The more relevant sellers there are for a product, the fewer sales you will be able to attain. With that in mind, the number of competitors you are willing to accept should directly correlate to the sales rank of the product. A lower sales rank will afford more competition while still allowing me to reach my 90 units per month goal. The converse to that rings true as well.
4. Finally, and perhaps most important of all, avoid going head to head against products that Amazon sells themselves. Heed my advice here. It is very hard to make any money with a product that Amazon carries.

### **Closing slide**

When sourcing products you are looking for a good sales rank and low competition. When a product has both of those things, you capitalize. As you gain more experience, these processes will start to become second nature for you, and finding applicable products will become easy!