

THE WHOLESALE FORMULA



Module 2 – Competition Analysis

Hey there, welcome back. In this video, we're going to be looking at the competition on Amazon. Competition plays a huge role in our scouting and sourcing decisions. But don't let the threat of competition scare you. You'll soon find out that the majority of other Amazon sellers are mostly irrelevant. So, the number of real competitors is a lot smaller than most people might think. With that being said, let's get started.

In this lesson, we're going to cover:

- 1) Why it's important to analyze your competition
- 2) How to identify competitive sellers, and
- 3) How to calculate your estimated monthly sales of a product by determining your share of the buy box, which is based on those competitive sellers

We'll then follow that up with some examples.

This is a very important video that contains one of the core components to The Wholesale Formula business model. I highly recommend you take notes and watch this video multiple times. The material covered here will need to become second nature to you.

First, let's go over why it's important to analyze and identify the competition. There are two types of products that are vitally important for us to recognize: products sold by Amazon and Private Label Sellers. This is because any product sold by either of these sellers is usually off limits for us. So, when you first look at a product, you'll need to quickly identify if Amazon is selling the product or if you're looking at a private label product.

Let's take a look at an example of a product sold by Amazon. You'll be able recognize Amazon as a seller when you see this under the seller information: "Ships from and sold by Amazon.com." It's virtually impossible to compete with Amazon as a seller. We don't do it and recommend you don't as well. So, that's red flag number one.

Red flag number two is when you see a private label product. Here is a good example of a private label product. If you're not familiar, a private label product is where a company buys generic, non-branded products from a manufacturer and then applies their own brand to the product and sells it on Amazon. There are different ways to recognize a private label product. One way to tell is when the

brand owner is the only seller. We can see here that the brand is Copper Joint and the seller is Copper Joint Health & Fitness. It shows that there are multiple sellers, but when we click that link we're taken to this page where we see that Copper Joint is both of those sellers. Now, it's ok if the brand owner is one of many different sellers, like this for example. Here you can see the brand owner is Jobst and you can see that they are a seller. But, you can also see that there are multiple other sellers; pages of them. In fact, there are 21 other sellers. This is perfectly fine.

There are other ways to tell, but to save time, we have a general rule of thumb. If there are 2 or less sellers on a product, it's safe to assume it's a private label product. This isn't always true, but the vast majority of the time, if there are 2 or less sellers, you're looking at a private label product.

Again, the reason this is so important is that if a product is either sold by Amazon or a private label product, it is virtually useless to us. We aren't interested in sourcing the product if either of those things are true. But, if a product passes those two tests, we can continue analyzing it.

Ok, now that we know who we can't compete with, let's talk about identifying the competition that matters to us. Remember the buy box and how we said that control of that box rotates? Well, the control of that box rotates mostly among competitive sellers only. The competitive sellers get a lot more time in the buy box than non-competitive sellers; substantially more in fact.

The best way to think of it is to imagine that each product is a pie that represents total sales of that pie. Each seller receives a piece of that pie according to their sales. It's important to notice that not all slices are equal, which means some sellers are getting more sales than others. The sellers with the bigger slices are the competitive sellers. So, why do they get more sales?

It has everything to do with buy box control.

Remember, we learned that over 80% of purchases are made through the buy box. So, naturally, it makes sense that the sellers that share the buy box will have more sales than those that don't.

Also, remember that buy box control is determined by key factors with some of the more important ones being fulfillment method and price. We need to talk about these two factors again to determine competitive sellers.

Let's first talk about Fulfillment Method.

Here are the current fulfillment methods offered by Amazon.

FBA (fulfilled by Amazon), Merchant-Fulfilled Prime Offer, and Standard Merchant Fulfilled.

If the current buy box is an FBA offer, the offer will say "sold by Company X" and "fulfilled by Amazon" like in this example. Amazon rewards FBA sellers with Prime eligibility which is a huge advantage compared to non-FBA offers. This will be your fulfillment method with your professional seller account.

Here's an example of a Merchant-Fulfilled Prime Offer. In the instance, it will still denote that Prime Shipping is available, however, it will not say fulfilled by Amazon. Instead it will say "ships from and sold

by Company X" like in this example.

For Standard Merchant-Fulfilled, The listing will show "ships from and sold by Company X", without denoting Prime as a possibility and is likely a great wholesale opportunity as long as it's not a private label product.

When comparing FBA sellers vs. Merchant Fulfilled, we consider the merchant sellers largely irrelevant. This is due to the large importance Amazon places on fulfillment method and how it contributes to buy box control. For a merchant seller to get the buy box over the Prime seller, they would need to be significantly cheaper. That's generally somewhere between 5 and 10% cheaper; that's a big margin to have to cut off the top. Therefore, if we find a product that's standard Merchant Fulfilled (non-Prime) with control of the buy box, this can be seen as a huge opportunity for us. This typically means we can come in with an FBA offer and charge 5 to 10% more!

Ok, now that you know how to identify sellers and their fulfillment methods, let's talk about the importance of price in identifying competitive sellers.

When looking at price, we are interested in the total landed price. That's the price of the product, plus the price of the shipping combined. We have already determined that we can be price items roughly 10% higher than merchant competitors if they have buy box control for us to be able to overtake the buy box. But what about other FBA sellers? What makes an FBA price competitive?

To compete against other FBA sellers, our price needs to be within 2% of the lowest FBA price to be eligible for the buy box. If you are outside of that range you will never get a sale.

So, what is our goal? That's right, we aren't trying to conquer the buy box. We want to share the buy box and get our piece of the pie! That's what it's all about. You don't want to eat an entire pie anyway, that's unhealthy.

What this also means is that we now know how to identify competitive sellers. A competitive seller is one who is Prime eligible and is within 2% of the other Prime offers. Remember the pie graph? The competitive sellers are all the people getting the bigger pieces of the pie and they are the only sellers that matter. Any seller priced over that 2% is considered non-competitive, and their sales are nothing compared to the competitive sellers. They represent the tiny slices.

We can now use this information to calculate our estimated sales. To estimate our monthly sales, we use the following equation:

We simply divide our estimated total sales per month, which Jungle Scout Pro gives us, and we divide that by the number of competitive sellers plus one. The plus one represents the addition of ourselves to the buy box control rotation. We have to add ourselves to the total number of current sellers in order to find out how many units of this product we can expect to sell. Am I making sense? That gives us our expected sales equity. This is an estimation of the number of units we could expect to sell per month for any Amazon product worth considering.

Pretty cool, huh? Pretty easy too. We'll look at some real examples in a minute, but for learning purposes, let's practice this equation using an imaginary product.

Let's say we have a product that Jungle Scout Pro estimates a total of 500 sales per month. To calculate our monthly sales, we simply take that Jungle Scout Pro total monthly sales estimate of 500 and divide it by the number of competitive sellers plus one. Let's say we determine that there are currently 9 competitive sellers. Now, all we have to do is divide those 500 sales by 9 plus 1. When we do this, we see that we could expect to generate 50 sales per month. Pretty simple, right?

Ok, now let's take a look at some real-life examples.

First, let's look at this product. Now, as you can see, the buy box offer says "Ships from and sold by Buster's Marine", therefore, this is a Merchant Fulfilled offer.

When we are first examining a product, and see there is no Prime offer in the buy box it is very exciting. So, let's examine further.

Below the buy box, we can see that there are currently 19 offers for this product. Let's click this link and look at those other sellers.

Scrolling through these, the first thing we notice is that there are no Prime offers, as they would otherwise be denoted with a Prime Free Shipping Offer. This bodes VERY well for us, as being the only Prime offer would potentially allow us to dominate the buy box and get all of OR the lion's share of the sales.

An interesting bit of information to notice here is that the sellers have an extremely low amount of ratings, indicating that they are likely new sellers or have very low volumes and won't be able to compete with a seller using a higher volume strategy like us.

This example is pretty cut and dry. There are 19 sellers on this product and we can deem all of them as NON-competitors. If we came in with an FBA Prime offer, we could expect to get the buy box nearly 100% of the time in the current landscape even with a slightly higher price, due to the priority of Prime offers given by Amazon. Knowing this, I would set my initial price around \$38 for this product as an FBA seller. However, if I didn't gain buy box control, I would incrementally lower my price until I did gain total control. On the contrary, if I did gain control with my initial price, I would incrementally raise it until I started losing the buy box. Doing this allows me to find the maximum price I could charge while still maintaining full control of the buy box.

All in all, this product looks like a real potential winner due to the lack of Prime offers. The next step would be to use Jungle Scout to look at monthly estimated sales to see if it fits our guidelines for prospective products. So, let's do that. We run Jungle Scout and it tells us that this product sells, on average, 78 times per month. All or the majority of those sales could be ours.

Makes sense, right?

Conceptually, it is beneficial for sellers to try to get as sales as possible while maintaining the highest profit as possible. Like in this first example, we would control the entire pie, so we would get all of the sales. That being said, this rarely happens on Amazon for any amount of time, and what many people fail to realize that there is still plenty of pie for everyone even when other competitive sellers jump in.

In the next examples, we are going to see some competitive offers.

Looking at this first product, we open Jungle Scout Pro and it shows us that this products has a rank of 3,900 and sells an estimated 887 times per month. Ok, next we need to determine the number of competitive sellers on this product. Under the buy box, we see that there are currently a total of 19 sellers. Whoa, that's a lot of sellers, but don't let that scare you. Remember, we only care about the number of competitive sellers. So, the first thing we need to do is eliminate non-competitive sellers. After we click on that link and see that currently, the lowest prime offer is \$27.47. So, for other sellers to be considered competitive, they will need to also have a prime offer and be within 2% of that offer. So, we multiply \$27.47 by 1.02 and see that the competitive maximum price is \$28.02. Ok, so let's count those competitive offers real quick. One, two, three, four, five, on this page. Then just one more on page two. That last FBA offer is priced at more than 2% over the lowest offer. Now, we know that there are six competitive offers on this product.

We're now ready to calculate the estimated total monthly sales we can expect from this product. Using our formula, we take Jungle Scout's estimate of 887 and divide that by $6 + 1$ to see that we can expect to sell around 130 units of this product every month.

At this point, we have done all of the analysis we can do. We know that the sales volume and competition levels are in-line with our guidelines. From here, the only factor outstanding would be profit margin and ROI, both of which will be covered later in this module. If those numbers lines up, we will proceed to order and start selling this fantastic new product.

It should be stated that our examples assume "all things equal" which excludes several factors (mentioned in our Understanding the Buy Box video) which can affect your buy box percentage by varying small degrees. But again, since these are all competitive sellers, the important factors of price and fulfillment method are equal.

It's really quite easy once you practice it a few times. It may take you some time to get the hang of it, but this process is essential. The good news is that we'll give you some additional tools in the scouting module that make this process both faster and easier. But, for now, it's important that you know exactly how this process works so you have a fundamental understanding of it.

So, while it isn't perfect, it does serve as an excellent starting point and estimate for your equity of the sales. Remember, we simply need estimates to use as a jumping off point to place an initial order. From there we can build our own data.

Let's go over one final example; the Tenzi dice game. First, let's see what Jungle Scout says about this product. Jungle Scout shows a 1,400 Sales Rank in Toys and Games and that it sells approximately 1,160

times each month.

Next, we need to examine our competition. As you can see there are currently 85 sellers who offer this product. So, let's determine which of those sellers are competing for the buy box. 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. So, we take \$13.95 and multiply it by 1.02 and we get \$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 50 competitive sellers, meaning when we jump in, there will be 51 relevant, competitive sellers.

1160 sales per month divided by 51 sellers, means we could expect to sell just over 22 of this product each month.

This is generally an unacceptable amount of monthly sales, especially considering the low retail price of this product. This product would not generate enough revenue for us to consider sourcing it. We'll provide you with some general minimum monthly sales guidelines later on in this module. For now, I just wanted to walk you through some real examples to teach you how to calculate your estimated monthly sales.

To wrap up this lesson, I want to reiterate the important concepts of competition analysis:

Number one, you have to ask is the product sold by Amazon or is it a private label product? If the answer to either of these is "yes", that product is off limits. If the answer is "no", we can continue our competition analysis.

Number two, determine if your competition is FBA or Merchant Fulfilled. If you would be the only FBA seller and/or Prime offer, you can expect to dominate the buy box. If there are very few FBA sellers and Prime offers, you can expect to share the buy box with those sellers, assuming that their price is within the competitive range.

Number three, determine the number of competitive sellers on the listing. This will be the Prime offers that are within 2% of the lowest Prime offer. The more relevant sellers there are for a product, the fewer sales you will be able to attain. With that in mind, it's always relative. The number of competitors you are willing to accept should directly correlate to the sales rank of the product. A lower sales rank that represents higher sales allows for more competition. The converse to that rings true as well. A higher sales rank that represents less total sales allows for less competition. Makes sense, right?

Number four, use our calculation to determine your estimated monthly sales. After you've determined the number of competitive sellers, you can then use Jungle Scout's estimate to calculate how many monthly sales you can expect to see from any product on Amazon.

Ok, I know I've thrown a lot of information your way, but it's all summarized in those four points. Like I said earlier, this is a very important component to our business model. Make sure you thoroughly understand the material and I also recommend that you practice this several times on your own.

If you can master this lesson, the rest of the course should be easy as pie... See what I did there?

Alright, that wraps it up for this video. Thanks for watching and I'll see you soon!

THE WHOLES LE FORMULA