

THE WHOLES^ALE FORMULA

Module 2 – Product Analysis

Hey guys, welcome to one of the most important videos in the course. The time has come for us to take everything we've learned so far and put it all together to be able to evaluate and identify great product opportunities with ease. The method taught here is designed to take all of the guesswork out of scouting. So, if you're clear on everything we've covered so far, let's get started.

Let's briefly review all of the elements that will help us to identify those awesome products.

First up, we have the buy box. This is where the magic happens as they say...

- The buy box is the primary method of sales on Amazon, and we should shoot to achieve our equitable share of sales that come through it. The buy box rotates among the sellers who Amazon deem as competitive and that meet their metrics for being buy box eligible.
- Buy box control is based on multiple factors with the 2 most important being fulfillment method/prime eligibility and price
- As previously mentioned, there are other contributing factors all based on our seller metrics. Improving those other metrics will increase our likelihood of getting the buy box, and will give us the opportunity to sell even more products.

The next element we care about is the competition. We only care about the sellers we deem competitive using our metrics. Generally, each prospective listing will have plenty of sellers, but the ones that qualify as competitive are the only ones that really matter.

- To qualify as competitive, a seller must meet the following requirements:
 - Prime eligible; non-Prime sellers should be ignored UNLESS they control the buy box. The advantage that Amazon gives to Prime offers is real and large.
 - AND be within 2% of the lowest Prime price.

If a seller meets both of these criteria, they are a competitive seller.

Third, we have sales rank, which is a linear comparison of products where each one is assigned a score based on the revenue that product generates.

- Each product on Amazon has its own unique sales rank. So, the item ranked 1,346 is the only

item with that sales rank.

- Sales rank is on a positive scale that starts at one and goes up.
- The lower the sales rank, the more revenue the product generates. It acts as a direct apple to apple comparison.
- Sales ranks are relative to each category. They do not translate to other categories. So, you can't look at the estimated monthly sales of the number 1 ranked item in sports and make an assumption about the products in automotive. The sales rank of sports items are based only on sports items and so on.
- We only care about top level category sales rank and do not factor sub-category rank. Subcategory ranks are irrelevant and should be ignored.
- Sales rank is the metric that we use to find projected sales per month. We use Jungle Scout to find the estimated monthly sales.

Ok, by now you probably have a good understanding of those concepts. The next thing I'm going to talk about is very important and that is The Wholesale Formula 4-point checklist. Each and every prospective product must go through this checklist and pass each point to be considered. We have already established each one of these in previous videos. The 4-point checklist is as follows.

1. The selling price is \$20 or more. If the product is priced below \$20, we can rule that product out because it's probably not profitable enough for us to consider. Through experience, you may be able to look for cheaper products, but we recommend starting here.
2. Amazon is not a seller. If we see Amazon listed as one of the sellers, it's time to move on to the next product. They are almost impossible to compete with.
3. The brand owner is the ONLY seller. If we find a product, and after some quick research find that the current and only seller is the brand owner, the product is no longer up for consideration.

These first 3 points are all checked by simply viewing the product. The final point must be calculated using the methods taught in this module.

4. We want a product that will generate 40+ sales per month. That's 40 sales per month for *us*, not total. Our estimated piece of the pie needs to be 40+ sales. We want to focus on fast moving items that allow us to turn over our investment quickly and reliably.

Remember, to calculate our monthly sales, we simply take the Jungle Scout Pro total monthly sales estimate and divide it by the number of competitive sellers plus one. The plus one represents the addition of ourselves to the buy box control rotation. So, for example, if Jungle Scout estimates 500 total sales and we determine that there are currently 9 competitive sellers, then we would divide those 500 sales by 10 and see that we could expect to generate 50 sales per month.

Every item you evaluate when scouting must pass this 4-point checklist. If it fails any one of these 4 points, throw it out and move on.

Ok, now let's put it all together to analyze a product and calculate how much gross profit we can expect to make.

To calculate our potential profit, we use this simple calculation.

Expected Sales Equity x (Lowest Prime Price x .15) = Expected Gross Profit Per Month

Remember when we said we wanted a minimum of 15% profit? This is where that comes in. By assuming a 15% profit margin, we are looking at the estimated minimum profit.

It's this simplicity that has led to us being able to outsource our entire scouting operation through employees and virtual assistants.

Ok, let's go over some examples.

Here's a product with a sales rank of 2600 in Health & Household. Let's run this product through the 4-point check. The retail price is greater than \$20; check. Amazon is not a seller; check. And, there are more than 2 sellers currently selling this product; check. Now, we need to find our estimated sales equity. So, we open Jungle Scout Pro to see the monthly estimated sales is 1,686. To solve our equation, we need to know how many competitive sellers are currently on the listing. Again, those are the prime offers that are within 2% of the lowest prime offer. In this case, the lowest prime offer is \$27.43, so we multiply that by 1.02 and find that to be competitive, the other prime offers will need to be priced at \$27.98 or lower. So, we look and find that there are currently 3 prime offers at or below that price. Those are our competitive sellers.

Now we have everything to solve our equation for the fourth checkpoint. We take the Jungle Scout estimate of 1,686 sales and divide that by 3+1 competitive sellers, and see that we could expect to sell 421.5 units per month of this product.

Now, let's use that number to estimate our monthly profits from this product.

We take our expected sales equity, 421.5, and multiply that by the lowest Prime price of \$27.43 and then multiply that by 0.15. Now, we know that this one product could generate around \$1,700 every month for us.

How about another example?

We have another product with a Sales Rank of 418 in Patio, Lawn and Garden.

Jungle Scout estimates that there are 1,070 sales per month on this product.

Now, let's perform our 4-point check.

The Product has a current sales price of \$94.91, so that passes. Now let's look at our competition.

After reviewing the sellers, we see the brand owner is not the only seller and Amazon doesn't sell this product. That passes points 2 and 3, so let's see if it would generate 40 or more sales for us.

First, we calculate the competitive price. To do that we multiply the lowest prime offer of \$94.91 by 1.02 and see that the competitive price is \$96.80.

We notice that despite having 13 total sellers, this product only has 2 competitive offers; Prime and less than or equal to \$96.80.

Now, we just have to plug the numbers in to make sure they work for us:

We take 1,070 sales and divide that by the number of competitive sellers plus one which is 3, and we see that we could expect to sell around 360 times per month. That's well over 40 so now let's see what kind of profit we could expect. Using our monthly profit formula, we multiply 358 sales by the lowest prime price of \$94.91. Then, we finally multiply that by our estimate of 15% and see that we could expect to generate around \$5,100 per month from this one product.

As you can see, with some practice, these calculations are very simple to make. Our goal when designing this system was to create a basic set of rules and instructions that could be outsourced to hourly employees.

This system has been revolutionary in helping us understand the Amazon marketplace, and has led to several breakthroughs in growing our business. It has allowed us to grow our business immensely over the last few years while having minimal day to day interaction. Our employees are able to follow simple, rigid rules which reduces mistakes and promotes efficiency. You should now have a much better understanding about how you can affect your sales, the ways that you can improve your business strategically by increasing your Buy Box percentage, as well as determining what might be a great prospective product.

In the next module, you'll learn the exact strategies we use to scout for prospective products. Through our experience, we have developed several scouting strategies that make finding profitable products easy and efficient. In the meantime, thoroughly study the material and practice the lessons presented in this module until you have a firm understanding of it all. That wraps it up for this video. Thanks for watching and I'll see you soon!