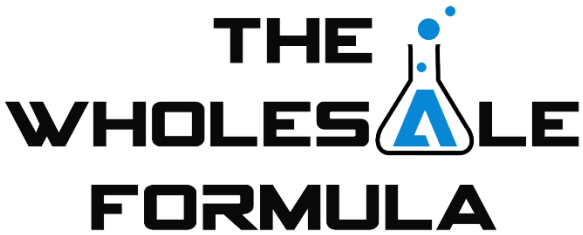

Module 5 – Defining Your Product Range, Part 2

Hey, it's Dan. Welcome back for part 2 of Defining Your Product Range. In this video, I'll cover factors that influence your sourcing decisions both before you've landed the account and after. This will allow you to make better scouting and sourcing decisions. You'll have a better grasp on which products should make up your range and why. Plus, you'll know how to best invest in the products for which you've been approved to sell. Sound good? Let's get started.

So, what factors play a role in my product range? The core of your product range is deciding what products are worth pursuing. Effectively, being able to look at a product and say, does this make sense in my business? The primary factors that play a role in helping you to decide your product range are:

1) Available Capital – this defines what types of products you should be pursuing, and whether or not certain opportunities might make sense to you.

For example, if you have less capital, you will want to focus on the very best opportunity that provides a timely return on your money. Margin means more when you have less capital, and you need to make more profit with every dollar that you spend.

Whereas, someone with an abundance of capital can accept lower consistent returns. They are just looking to turn money into more money, whereas someone with limited capital is looking to increase their sourcing budget.

Remember, that while diversification is great, if your funds are limited default to purchasing the best possible item with the most demand. This will allow you to truly maximize your funds, and reduce the risk of getting trapped into poor selling products.

2) Available Capacity – How many units can I process, and does that prevent me from processing other units. The lower your capacity, the more meaningful your time is. That means that proportionally, you need to be making a larger return for every hour you spend processing product.

On the contrary, someone with lots of processing capacity can have lower returns and can focus on profitably processing MORE units. Generally, the more units they are able to introduce to their workflow the more profit they will generate.

3) Processing Costs – these are one of the primary factors that dictate your margin and more importantly your target sales price. In general, the higher your average selling price, the more money you will make in profit (even with the same or making a lower %). Basically, the lower the selling price,

the more these costs influence your profit.

4) Business Growth Goals – are you building a scaling business or a lifestyle business? This is critical in determining what type of products you should carry. For example, scaling businesses are always seeking to grow and will tackle pain points to push through that growth. On the other hand, a life style business looks to keep things simple and grow but without adding unnecessary resistance.

By acknowledging these outside factors and understanding their significance, we can manipulate and optimize the way our business spends money. Through that optimization we are able to see returns that make sense within the business we are trying to grow.

We have gone through the various factors that influence your product range. Now, we have to understand the components that help you to define it.

Those components are:

1) ROI
2) ASP, which is the amazon selling price of a product
3) Sales Velocity

These are the core components that will help you to understand cash utilization in your business, which is very important as we believe in a liquid model that values great cash flow.

Using those components in conjunction with understanding typical wholesale margins will allow you to see where you need to be targeting. In most instances with wholesale, you can expect a discount of 50% from MSRP. MSRP is an abbreviation meaning “manufacturer suggested retail price,” NOT necessarily what the product is currently selling for.

So, let's look at this in the world of Amazon.

Product MSRP: $12.00
Product Cost: $6.00

Let's assume this product is selling on Amazon for MSRP.

Amazon fees for a standard size item weighing less than 1lb is $4.80 at this price point (from the FBA Calculator).

This means that we will have a return of $7.20 (Net After Amazon Fees), with a gross profit of $1.20 before we consider shipping or processing.

What you have to ask yourself, is does this make sense in your business. While it may not, you have to realize that in some businesses with lots of available capital and excess capacity this may make tons of sense.

What you have to do is figure out your costs.

If you utilize a prep center, what do they charge?
What is your average per unit shipping rate into Amazon?
What is your target ROI based on your available capital?

Keep in mind with the last part that it is relatively defined. Very rarely will you find products with higher than a 50% ROI with high volume wholesale. Generally, if you do, that opportunity is short lived.

Jeff Bezos once said, "One man's margin, is another man's opportunity."

So, while you certainly can occasionally find those amazing, fast selling, high ROI products - you can't build your business around expecting them.

Now, let's go back to that example...

You have to look for what the variable is in the equation. In general, if you are the best negotiator on earth, you will not get more than another 5% off of that product. Most companies have fairly well-defined cost structures. So, that is not the variable. The other part is our cost structure internally (eg. our processing costs and shipping rates). If that margin is unacceptable, there is little that we can do to change it, particularly in the short term.

That leaves the selling price. If the price of the product is too low, we have to look for more expensive products. This just means we need to target products with a higher average selling price.

For example, let's look at this from the perspective of a product with a MSRP of $29.95

MSRP: $29.95
Product Cost: $15

The fees associated with this sale for a standard size product less than 1lb is $7.49. This leaves us with a potential gross profit of $7.46 per unit.

As you can see, the ONLY thing we changed here was the retail price of the product we were selling, and there is a huge change in profit!

The Amazon fees are fixed (even the percentage of sale is fixed at 15%). By selling a product for more money, fees will have a lesser impact on our profits (as there are more dollars).

As you can see, these costs play a large role in the amount of money we make. Over time, you will be able to scale your costs down (if that is your goal), but in the interim, you have to learn how to make them a non-factor in your decisions.

You should define your costs to determine how much money you need to make on a transaction to cover them and still hit your targets. For example, if the product makes less than $1 per transaction, and your processing costs $1 per unit, this would not be a good item for you to purchase.

By knowing our costs involved, and having a target ROI we can effectively determine what the lowest price point we should look at when scouting products.

In terms of equations, it is this:

ASP = (P + S + 3) / .22

ASP = Retail Price
P = Processing costs
S = Inbound Shipping Costs

This assumes keystone pricing on standard-sized items at a 30% ROI. This also accounts for all Amazon fees too.

If you don't have any basis to define your inbound shipping and processing costs, use preset values of: $1 per unit processing and $.50 per unit inbound shipping. Base your math on those numbers, and determine what your target retail price should be.

Now, I realize that some people don't like solving equations, and I promise you that creating this one wasn't easy. So, we have created a spreadsheet to help you solve this. As you can see, we have 3 inputs: Processing Cost, Inbound Shipping, and Desired ROI. All you have to do is provide an input for each of those and you'll see what selling price you should be using as a baseline minimum. For example, let's assume processing costs of $1 and inbound shipping of $0.50. Then, we would like to see at least a 30% ROI. Now, we see that we should be looking at items that sell at $22.50. Pretty cool, huh? Notice here that this assumes keystone pricing and that the items are standard size, less than one pound. If you were looking at a heavier item or oversize item this calculation wouldn't work. We can then take this information and apply it to scouting with Jungle Scout Filtering. After you've extracted some results, just filter using your target ASP and now you've narrowed down your search to products that better suit your needs.

After you download this spreadsheet, we recommend you simply copy the sheet over to your TWF Scouting & Sourcing System Workbook. Just open both excel files and you can copy it over like so. Just click here to select all cells in the sheet. Then add a new sheet to the other workbook and then paste it. Or, you can also copy it over like this. Right click on the sheet and select "move or copy." Then select the scouting and sourcing workbook as the destination and add it wherever you like.

The ASP calculator should be used as a simple baseline to help you avoid products that cannot possibly fit in your model. Effectively allowing you to define your product range.

Before we go, I would like to briefly summarize the most important lessons to take away from this video. First, you should review those four factors we talked about: available capital, capacity, processing costs and business growth goals. Then, determine what yours are for each one. This will help define your product range to allow the best return on your investments. After you've done that, you can then determine your ASP to help you focus on the products that are right for your business.

I realize that this video may seem complex. You should watch it multiple times, and revisit it regularly as your costs shift. This will help you to stay ahead of the curve and increase your efficiency drastically! That wraps it up for this video. Thanks for watching!