

5 Ideas for Profitable eCommerce Future-Proofing



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"The future cannot be predicted, but futures can be invented." Nobel Prize winner and inventor of the holograph, Dennis Gabor, wrote those words back in 1963 – and they are even more relevant today. Nobody could have predicted that 2020 would give way to grounded fleets of aeroplanes, empty city streets during lockdowns, and entire workforces going remote.

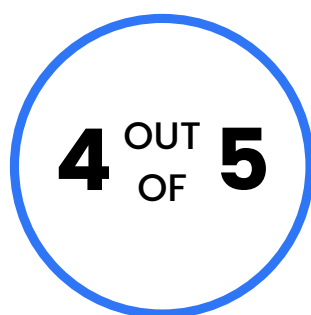
COVID-19 was a catalyst for business reinvention. Companies that chose to adapt to consumer changes and adopt new ways of doing business stayed a step ahead, while others fell behind. Traditional sales models were challenged, and sales channels diversified.

B2B companies, manufacturers, and wholesalers began capitalising on B2C and D2C channels that were gaining momentum. Future-focused brands learned not just to survive but thrive in a new normal.

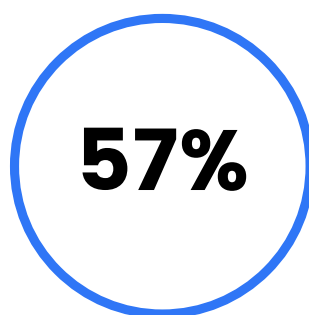
In 2020, four out of five Australian households made online purchases. 1.3 million of those households had not purchased online in 2019, highlighting changing buyer behaviours. Sales figures further demonstrated growing online opportunity. eCommerce sales in 2020 rose by 57% YoY, with Australians spending a record \$50.46 billion, upping spend by a massive \$18.36 billion from the previous year.

As consumers keep spending online post-COVID-19, brands are switching from short-term survival mode to long-term strategy mode. This shift in focus isn't just about expanding established presences, however. Increased competition from online marketplaces and retail giants is forcing brands to future-proof themselves.

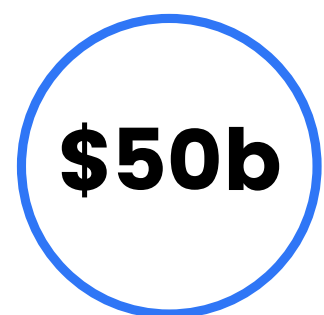
Read on for five future-focused ideas for becoming a more profitable eCommerce business that stays a step ahead.



Australian households in 2020 made online purchases.



YoY rise in eCommerce sales during 2020.



Record online spend, up from \$18.36b the previous year.

Source: 2021 Australia Post eCommerce Industry report.



Regular Product Reviews

The “lipstick index” is a term coined by Estée Lauder chairman Leonard Lauder in the early 2000s. In past periods of economic instability, lipstick was considered an affordable indulgence when higher-priced items were out of reach. Enter COVID-19, however, and the lipstick index exited the building. With face coverings, lockdowns, and working from home creating a new normal, demand wasn’t as expected, causing lipstick sales to take a significant hit.

The future cannot always be predicted. However, regularly reviewing product sales data can keep you in check with trends and changes – and provide the best, most relevant products to customers. After all, the products in which your customers are interested are the ones that will sell now and keep them coming back in the future.

When reviewing or switching up your product offering, here are a few questions to ask yourself:

Is the product trending?

There are many tools such as Google Trends and SEO tools to understand product and keyword trends. Up-front research to understand interest can bring added clarity when choosing new products to sell.

Does the product solve a problem?

Online competition is intense, and consumers are more mindful of how they are spending their money post-COVID. Think about whether products solve a genuine problem or even improve on and set themselves apart from existing products.

Is there an emotional connection?

Are you personally passionate about your products, or you know that others will be passionate about them? Finding that emotional connection makes it much easier to sell your products.

Is there a niche market?

To be a successful eCommerce business, you don’t need to fulfil everyone’s needs. The specific audiences looking for niche products will often be highly engaged, convert faster, and become return customers. The minimum viable audience for a product or category may be all you need to see ongoing success.



The Price Is Right

As companies continue to expand online, it also becomes easier for customers to shop around. As a result, pricing is one of the strongest influences on online purchasing decisions. Knowing when to cut margins and on which products and categories is key to a successful pricing strategy.

There are numerous methods of setting pricing, including RRP (recommended retail pricing), MSRP (manufacturer suggested retail pricing), cost-plus, competitive, bundle pricing, and so on.

Here are a few ideas on making sure the price is right for customers while still protecting product margins:

Charm pricing

Charm pricing, also known as psychological pricing, aims to change the perception of a price without needing to reduce it significantly. Using odd numbers at the end of a price can make it appear “cheaper”. For example, changing a price from \$4.00 to \$3.99 is only a one-cent difference. Still, it can create an immediate perception of a \$4 vs \$3 price variance.

Customer-based pricing

Customer-based pricing lets you set special pricing for strategic customer relationships and those who may regularly order without exposing that price to everyone. These customers have different rates set up in your back-end system. Setting these structures to show the best price, first time can be an essential tactic for B2B companies and those selling in bulk.

Prestige Pricing

Contrarily to charm pricing, prestige pricing, also known as luxury or premium pricing, uses rounded numbers. For example, a \$99.99 price would become \$100. Many studies have shown that rounded numbers are processed more fluently and rely on emotions driving the purchasing decision. Prestige pricing can be a successful strategy for products that demonstrate high quality and value and create strong brand and emotional impressions.

Bulk pricing

Instead of setting blanket lowest possible prices, bulk pricing sets lower price breaks for larger order sizes. These price breaks create an incentive to order in larger quantities without sacrificing margin on smaller orders.



Free, Flat-Rate or Free Threshold Shipping?

Many shoppers now look for free shipping. Unfortunately, it's also something that can quickly eat into profit margins. Shipping can have significant variances depending on item size and weight, quantity, destination, etc. If you have multiple warehouses or use a mix of direct and drop shipping, this can further complicate matters.

Free shipping on a minimum cart is becoming a popular option. It also protects profit margins and encourages buyers to increase their order size. A simple formula to sanity-check a free shipping minimum is to find the difference between your ideal minimum cart value and average order value. Then, multiple that difference by your gross profit margin and subtract the average shipping cost, e.g. minimum cart (\$75) – average order (\$60) = \$15.00 x gross profit margin (\$5) – average shipping (\$15). A minimum cart of \$75 in this case would ensure a \$15 profit inclusive of shipping costs.

Of course, a back-end system that handles purchasing, shipping, sales, and finance can make short work of this process. It can also provide the reporting and business intelligence needed to monitor shipping costs and margins and quickly adjust when needed.

When determining whether free shipping, flat rate, or free shipping thresholds are the right fit for your business model, you may want to consider your average order value, average shipping costs, landed costs, minimum cart value, and gross profit margin.

If you still want to pass exact costs on to buyers, live shipping calculators are another option. Many eCommerce platforms have shipping calculators or plugins to manage calculations, generally based on weight and dimensions. Alternatively, you could pull data directly from an ERP back-end system for reliable calculations every time.

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Serve Live Information

"If your inventory system has API capability, integration with your eCommerce front-end is possible to ensure customers always see the most accurate data."

With more and more drop-shipping sellers coming online, standard delivery times stated on websites are under added scrutiny. Live stock-on-hand information gives users added confidence in product availability and removes barriers to order completion.

For companies with multiple channels or warehouses, it can be a struggle to maintain this live data. It would be an immense task using spreadsheets and local files to continually update stock information. We're in the age of connectivity, however, and of best-of-breed cloud infrastructure. If your inventory system has API capability, integration with your eCommerce front-end is possible to ensure customers always see the most accurate data.

With an eCommerce ERP system in the back-end, you can additionally leverage live data from across your entire business. An ERP (Enterprise Resource Planning) system is the "jack-of-all-trades" back-end. It handles finance, procurement, inventory, CRM, sales, product information, pricing, business intelligence, and a lot more.

A cloud-based ERP can serve information via API to your eCommerce front-end, keeping product information up to date, enabling customer-based and bulk quantity pricing structures, and showing live stock levels and the most up-to-date leads times for any back-orders. All of this information works together to create better online experiences that keep customers coming back.



Keep an Eye on Net Profit

Sometimes people think about profit as a simple formula, $R - E = P$, or revenue (R) minus expenses (E) equals profit (P). However, this assumption can create a misunderstanding of true profitability and the viability of the products you're selling. For example, imagine you buy a hat for \$1.50 and sell it for \$15. This sounds like a decent profit margin, right? Well, unfortunately, your revenue and expenses are just the tip of the iceberg.

There are several ways to measure profitability, including gross profit margin, operating profit margin and break-even calculations. Net profit margin is one method that takes additional factors, such as taxes, operations, and other expenses into account. It's considered the "bottom line".

Net profit margin can be calculated as $(NI) \times 100$, divided by revenue. Keeping in mind that net income (NI) is your revenue, minus the cost of goods sold (COGS), taxes, interest, operating and other expenses.

Aspects of your net income can include:

- Manufacturing or obtaining your products, which includes freight from suppliers to your facilities
- Taxes on products or parts that you're importing
- Fulfilment costs including warehousing, 3PL fees, or marketplace warehousing costs (for example, if you sell on Amazon and use their warehouse facilities to hold stock)
- Labour for warehousing, and packaging and labelling costs
- Storage costs, which can add up quickly depending on item size and quantities
- Selling fees for marketplaces or merchants
- Transportation of stock between multiple warehouse facilities
- Marketing and advertising to get your products found

When you factor in all these additional items, the hat you were buying for \$1.50 could now be costing \$13.00 to sell each unit, leaving a much slimmer net profit.

You may also need to reassess profit margins as different aspects of your business or the broader environment change. For example, if you start to incur additional tariffs, how much more do you need to sell to cover those costs? If products sales slow, can you decrease other costs to maintain healthy profit margins? Again, the right back-end system can be invaluable in these assessments.

An eCommerce ERP system with live financial reporting can help you stay on top of profit changes. In a competitive online marketplace, making fast decisions can translate to seeing fast results.



How DWR Can Help

Since 2009, DWR has been implementing technology platforms that help customers amplify business performance.

A back-end eCommerce ERP solution delivered by DWR can create better customer experiences on the front-end while managing your business more effectively in the back-end. Centralised data with enhanced business intelligence gives you accurate information for agile decisions that create a more profitable future.

As true business transformation specialists, the team at DWR knows that customer needs can be as individual as every business. So work with a collaborative technology partner that will incorporate your individual business processes to amplify your success faster.

Take the next step to leap ahead.

Have a chat with the experienced team at DWR now.

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