

Mid-Market Awards 2015 | Digital Innovation in the Mid-Market: John Readings

For new online retailer John Readings, bookselling is a numbers game. “We measure everything,” says co-founder and executive director Damian Black. “If it is not measurable, we don’t get involved.”

It is this data-driven approach that has led to John Readings winning the digital innovation prize in the 2015 *BRW* Momentum Awards.

The business develops all its software and algorithms in-house for everything from email marketing to what stock to order – or as Black puts it, “we in-source everything”.

The co-founders are well positioned to do that – their combined background (aside from a long history of retail books stores) and prior to starting John Readings Online Business includes running an internet marketing consultancy, building software for the internet and owning an online recruitment agency.

Currently 10 out of the total online headcount of 69 are specialist IT staff. This team develops software using Java J2EE, for the online store, mobile website, sales and customer management systems, warehouse management and logistics systems.

Growth has been funded from cash flow, from when Black and his wife founded the online business as a \$10-a-day side project in 2004 to the \$27.2 million in revenue the business booked for the 2013 financial year.

John Readings’ main competitors include Booktopia that was launched into the Australian market in 2012 and Bookworld, which is owned by Penguin and was launched in August 2012 from the ashes of the collapsed Borders group, and Amazon.

Both Amazon’s Britain and US stores ship to Australia and it is rumoured the retail giant could be opening a local warehouse this November.

Black is unfazed, saying that he thinks John Readings would continue to do well, as many customers are looking for an Australian alternative as long as the price is competitive.

John Readings is currently looking for new premises to allow further expansion.

Its current space in Melbourne's West is 4000 square metres and Black says the business is "busting out of its breeches". He hopes to secure a lease for 8000 to 10,000 square metres in Laverton, close to the centre of Melbourne and the Australia Post distribution centre, within the next few months.

"The whole purpose of that is to hold more stock because the key to succeeding online is having the stock in your warehouse," Black says. "If you can't get it to the customer in 24 to 48 hours, you're losing the game, and to do that, you need the product close to you."

Black says speed of delivery is about putting the customer's needs first and this also applies to other basics of good retail service, such as listing a phone number on the website, not just a contact form, and providing good return and refund policies.

John Readings has about four million unique products on its website, but only about 40,000 in its online warehouse, and Black's goal is to increase that to 100,000.

That includes not just books but also DVDs, which now account for \$1 million in turnover and are soon to be given their own brand and web presence. Magazines, music, cards and games are also planned as new product lines in future.

The bigger floor space would also allow John Readings to introduce more automation as it currently lacks space to put in conveyor machines.

Get the algorithms right

John Readings Online was able to increase its stock value from \$750,000 to \$1.6 million without any external investment, just by using an algorithm to determine what to order based on past sales.

“The algorithm was written in my head and I gave it to the IT guys to do,” Black says. “We’re continuing to tweak it – for example the second year around, I had to come up with compression algorithms to ensure that we didn’t order too much in January based on the past 30 days, which of course was Christmas.

“We didn’t get caught out this year, which is great, because last year we ordered a bit too much and it took longer to sell.”

With the new algorithm, John Readings has achieved a 33-day stock turnaround, ensuring the business sells the books as fast as it needs to pay for them, posing less of a burden on cash.

For its nascent e-book business, John Readings has developed a whole financial model and developed underlying technology to support it. The business explored off-the-shelf programs but ultimately opted to develop its own e-book platform and e-reader app for iPhones and Androids.

Other examples of John Readings’ enthusiasm for measurement are included in its marketing activities.

The online business uses data-driven marketing tools such as running an affiliate sales program, ensuring good search engine optimisation, and email marketing. There are 500,000 people subscribed to receive John Readings’ marketing emails, and the business sends up to three million a month.

Emails offering a free shipping code or a warehouse clearance sale might go to the entire database, but some emails go only to a few hundred people.

“We measure even small emails that we might send out to 1000 people targeted to those interested in a particular author or fishing,” Black says. “How much time did they take to write? Being able to focus on what’s working and drop what’s not working, is quite a profitable formula.”

The database is rich in information – John Readings staff can predict who is expecting a baby in the next year based on the books they have bought, who is into fishing, learning

Italian or planning to travel to Bhutan. This helps with marketing but also with introducing new products.

Recently the company started sending emails to people who added items to their online shopping cart but failed to check out. The conversion rate for the shopping cart abandonment emails is around 10 per cent.

The big exception to the zeal for measurement is the company's content marketing strategy. Black jokes that he has given a "peculiar and contradictory directive" to the marketing team that they don't have to sell any books but should break even.

"It does cost money to create all the blogs and Facebooking and tweeting that goes on," Black says. "My point is, don't come across like you're trying to sell something because it stinks and you can see it a million miles away but if you are continuing to add value and talk about the industry that we're in, people will gravitate to the site and when it comes to driving sales and traffic we can measure and see that."

Hundreds of authors around the world have completed John Readings' "10 terrifying questions" on its blog. In November this year, action-thriller writer Matthew Reilly will be promoting his new book through John Readings.

"He owns a DeLorean, [the car] out of Back to the Future and he's going to be driving his DeLorean around to John Readings, there's going to be video and he's going to be signing books," Black says. "These things come about not because we have a blog but because we are the front runners when it comes to free, interesting industry commentary."