

The Cliptomania™ Web Store

Cliptomania, LLC, a limited liability corporation, sells clip-on earrings on the Internet at www.cliptomania.com. Cliptomania is owned and operated by the Santo family—father Jim, mother Candy, and daughter Christy. Its business is conducted from the lower level of the Santo home in Indiana, but it sells non pierced earrings throughout the United States, Canada, Ireland, Australia, and New Zealand.

Most people who wear earrings have pierced ears, so stores offer a limited assortment of non pierced earrings. Those who want clip-ons have a very difficult time finding appealing choices. Cliptomania sells nothing but non pierced earrings, and it offers its customers a choice of hundreds of different styles of clip-ons. Although the percentage of people who want clip-ons is small, the total number of potential customers available to Cliptomania on the Web is huge. The Santos have found an underserved market niche. According to Candy:

A lot of our buyers are first-time buyers on the Internet, and some of them are older women. But you would be surprised how many teens and young twenties buy because for one reason or another they have had trouble with pierced ears. There are young mothers whose babies ripped the earrings out of their ears and their ears cannot be pierced again. And there are people like me who have problems with scarring forming keloids and don't want any unnecessary scars. There are people for whom piercing their ears is against their religious beliefs.

Some women are so thrilled to find us—they will tell me that they have this problem or that problem and ask which of the earrings will work best for them. Because there are several different types of clip mechanisms, I can often help them out.

Our customers are pretty evenly distributed by age from pre-teens to the elderly. We had not anticipated it, but we estimate that we get some 5 percent of our sales from the cross-dresser and transgender population.

The Santos want Cliptomania to become the first name someone thinks of when looking for non pierced earrings. They concentrate on providing a quality product

at a competitive price with outstanding customer service. They have worked diligently to provide quality, honesty, and friendliness through the Cliptomania Web site. For example, Cliptomania has a very liberal return or exchange policy that allows customers to return or exchange any item within 30 days for any reason without question. Less than one percent of their customers return any items.

First established as a Yahoo! store in November of 1999, Cliptomania has had spectacular growth in sales during a very difficult period for retailing. Although it sells only clip-on earrings, by June 2003 Cliptomania was the fifth largest jewelry store on Yahoo! in terms of gross sales.

Yahoo! store customers are encouraged to rate their satisfaction (or lack thereof) with their experience with the store. If they choose to rate the store, in two weeks (by which time they should have received their purchases) they are sent an e-mail pointing to an online rating form to complete. The ratings are on the following scale:

Excellent Better than I expected. Tell everyone that Cliptomania is a great store.

Good Everything went just fine.

OK There were a few problems, but I would probably still order from Cliptomania again.

Bad There were real problems. I would be reluctant to order from Cliptomania again.

Awful I had such a bad experience that I want to warn everyone about Cliptomania.

Although the default rating (already checked) is Good, an amazing 81 percent of Cliptomania's ratings have been Excellent! Ninety-eight percent of Cliptomania's ratings have been either Excellent or Good, so Cliptomania quickly earned a five-star Yahoo! rating for service.

In addition to a numerical rating, the rating form provides space for customers to submit specific comments that are available to the store through a database. Cliptomania has received a great deal of effusive praise such as the following:

I am very pleased and satisfied with the service I received from Cliptomania. The customer service representative was polite, helpful, and patient with me being a new customer ordering with a credit card.

The service was superb! I am also very pleased with the earrings. They are light, comfortable, and no pinching of my ears. And the cost you cannot beat. I am so thrilled with this. I plan on ordering more earrings from them, and have told several of my friends about this Web site. It is hard to find good quality clips, and I found just what I was looking for, and more. Working with the customer service representative was just like talking to a friend. I appreciated that.

History

In the mid-1990s, Jim and Candy Santo were living in New Jersey near New York City. Candy was the development director for a large nonprofit organization that provided a broad continuum of care for the homeless, and before that she had been executive director of a crisis line. Jim had a long-time career in insurance sales that he still continues. According to Jim:

In 1998 I went out to buy earrings for an anniversary present for Candy, and I could not find a good selection of nice clip-on earrings anywhere. I looked everywhere I could think of in the New York metropolitan area. I could find plenty of earrings for pierced ears, but it was clear that all the stores had decided that they could not sell enough clip-ons to justify carrying an adequate stock in their stores.

I knew that there must be millions of people in the world who wanted clip-ons and could not find what they wanted, so this appeared to be a great opportunity to sell them on the Internet. This intrigued me, but I knew little about the Internet or jewelry so I started staying up at night and working weekends doing research on jewelry and how to sell via the Internet.

After 13 months of research I concluded that the Internet was the ideal medium for this type of business. Earrings had a high markup, you could get started with little capital, and the Internet was the way to access the widely distributed market for clip-on earrings.

The Santos decided to try to sell clip-ons on the Web, and Candy came up with the name Cliptomania for their new Web store. They decided that if the URL *Cliptomania.com* was available and the name *Cliptomania* had not been registered as a corporate name, they would go forward with the endeavor. They employed a patent and trademark attorney who checked and found that the corporate name appeared to be available. And they were able to purchase the URL *Cliptomania.com* from Network Solutions, so they decided to go ahead.

On Thanksgiving day, 1999, traditionally the beginning of the Christmas holiday sales season in the United States, they went live with the Cliptomania store on the Web, operating out of one small room of their home in New Jersey. Their total capital investment was \$10,000, which came from their savings. Although Jim had hopes that Cliptomania would grow, they expected it to be a side-line activity that they would take care of in their spare time while continuing their regular jobs.

Setting Up the Web Store

Neither Jim nor Candy had any expertise in the creation of a Web site, so Jim had devoted a lot of time and effort to determining how they would go about setting up the Cliptomania Web site. Jim found that one way would be to contract with an Internet service provider (ISP) for the computer resources required, purchase several software packages to perform the various functions that would be needed to run the store, and design the site and write the HTML code to set up the pages. The problem was that they did not have the personal experience or any IT development background to design the site and write the code or to integrate the various software packages. To hire someone to do all of that would be expensive, and they might have little control over the process or the result.

The other alternative was to pay a vendor for hosting a store. For a price, the vendor provides the computer resources and integrated software as well as templates for setting up the Web pages that provide the basic Web store structure but allow you to customize them to suit your business. The Santos chose this option and contracted with Yahoo! to establish their Cliptomania Yahoo! store.

Yahoo! provided templates for setting up the home page and the pages that displayed images of and described the items offered, as well as for navigation across the site. Yahoo! made it easy to add and delete items offered for sale and to make changes in the images and descriptions of these items. It used a shopping cart approach that holds selected items there until the customer wishes to place an order. Then it provides an online order form with the selected items detailed and accepts a credit card number and other billing information from the customer. Yahoo! then sends the completed order to Cliptomania and presents the customer with a page confirming that the order has been placed with Cliptomania. By checking a box, the customer can request that the order also be confirmed by e-mail.

Another company, Paymentech, is integrated with Yahoo! to validate the credit card by making sure that the customer address on the order is the same as the billing address of the credit card. After Cliptomania accepted the order, Paymentech collected the money from the credit

card company and deposited it in Cliptomania's bank account once a week.

Jim was very concerned with transaction security via the Internet. When he was doing his research, he had read that 40 percent of the transactions on the Internet were fraudulent. He also read that Yahoo! had the best security among the vendors providing support for Internet stores. In addition to encryption to restrict access by outsiders to credit card numbers and other financial data, the Yahoo!/Paymentech combination detected and eliminated most fraudulent purchases, and that was crucial to Jim. The outstanding security and the ease of setting up and operating the store were the main reasons the Santos decided to go with Yahoo! as their vendor.

The Yahoo! store also had a "back office" that collected and made available data about Cliptomania's Web site transactions. The Santos got a historical report for each month showing the number of customers that visited the store, the number of page views, the average number of page views per customer, the number of orders, the income, the number of items sold, the average number of items per order, and the dollar value of the average order. This report also included daily and yearly totals. They could also print out graphs showing the volatility and seasonality of their orders. On many orders they could find what search engine sent the customer to Cliptomania and what search terms were used, and this information could be summarized by search engine. All of this information was of great value to the Santos in managing the store and evaluating the effect of their marketing efforts.

When Cliptomania was started in 1999, there was only a \$100 monthly charge for the Yahoo! store. However, over the years Yahoo! has changed its pricing structure and as of 2003 it charged \$49.95 per month for hosting, \$0.10 per item carried per month, a 0.5 percent fee on all sales, and a 3.5 percent revenue share on sales that originate through a Yahoo! Store search.¹ Paymentech charged \$0.20 for each credit card transaction it processed, in addition to the percentage of the amount of the sale charged by the credit card company (typically 2.5 percent to 3.5 percent).

Designing the Cliptomania Web Site

Jim and Candy did most of the set up work on the original Web pages themselves, with some help from a freelance consultant they employed to help them with problems that were beyond their technical capability. Since then Candy has learned the basics of the HTML language. The consultant

is still available to the Santos via telephone and the Internet for tougher questions, although they have had to turn to him less and less often.

Before starting the store the Santos examined a number of Web stores and they had a pretty good idea of what they liked and what they didn't like in these Web sites. Candy explains what they wanted to do:

I designed the logo in the banner at the top of our page. I wanted the "t" to be dangling down from the "p" like an earring hanging down. We chose the burgundy and gold colors for our page because we wanted to give the impression of a quality jewelry store and not look like the typical Web store with bright colors crying for your attention. We put our names—Jim, Candy, and Christy—on the front page and we use personal pronouns throughout the site because people need to know that we are real people. Some people call before they will place an order on the Internet because they feel the need to talk to a real person and have a sense that we are legitimate. A lot of our buyers have been first-time buyers on the Web. We are asking them to make a leap in faith and we want them to feel comfortable about making that leap.

From the start we put the various categories of products that customers can click on down the left side of the page. The names of these categories are very important because they must guide the customers to the products that they like. I have set things up so that no more than six items appear on one page. I do this because I think that most people don't like to scroll down a page—they will only look at the top items. Also, our pages load fast, which is important when people are coming in through regular phone lines. Customers often mention how nice it is that our pages load so fast.

Getting Items to Sell

Initially one of their biggest problems was finding sources from which they could get earrings to offer in the Cliptomania store. They searched yellow pages on the Internet for jewelry wholesalers and manufacturers and called lots of them. Half of them did not exist any more, and the rest were not very helpful. They finally found a man in Virginia who bought overruns and closeouts, so in the beginning most of their stock was not the most attractive. Jim remembers:

We were very naive in the beginning. We got any stock we could get because we were almost desperate. We didn't know anything about jewelry, about

¹ For current charges see <http://smallbusiness.yahoo.com>.

what styles were popular, or about fashion. And we are in the fashion industry, so there was a big learning curve there. But somehow we survived.

I knew there was a jewelry district in Manhattan, so I took a day off from my insurance business and went to the city to the fine jewelry area, the diamond district. I tromped around for five or six hours before I concluded that I was in the wrong area. Finally someone had mercy on me and told me where to find the fashion jewelry area. That was a major breakthrough.

We finally found the wholesalers that would provide the kind of product we were looking for. These wholesalers had the product, but they were relatively expensive because they were several layers down from the manufacturers, and each layer tacked on its expenses and profit. After searching everywhere for manufacturers, we finally found this woman manufacturer/wholesaler out on Long Island who got all excited about what we were doing. We started getting stock from her and developed a relationship with her. She told us that we should go to the manufacturers' International Fashion Jewelry, Accessories and Gifts (IFJAG) national show in Rhode Island, which is very difficult to get admitted to. She got us an invitation that allowed us to get into that invaluable show that we now go to each February and September.

Before we went to the show, manufacturers' reps wouldn't talk to us because at that point we weren't buying in large enough quantities to interest them. But when we went to the show and got to talk directly to the manufacturers, some of them connected with our passion to offer quality products for women who don't want to pierce their ears. Some of the manufacturers would say: "I think you've got a good idea, and you remind me of my wife and I when we were your age. We're going to gamble on you. I'm going to take orders from you that I would kill any rep of mine if he came in with them." They started providing stock to us that we couldn't have gotten otherwise.

That was the beginning of some mutually beneficial relationships. Since then we have grown to the point that we are ordering in such volumes that we are higher up on their customer lists. Some manufacturers will now make special manufacturing runs for us. At the 2003 February show one of the manufacturers said that it was time that we had our own exclusive earrings, and that manufacturer designed some for us and we have had our own special designs ever since.

Early Growth

The year 2000 showed steady growth in Cliptomania's sales. The Santos had only three orders in January, but by the end of the year, they were up to more than one order a day. In 2001, Cliptomania's sales continued to grow rapidly to where sales had more than quadrupled over its sales for the year 2000. Candy recalls:

Jim and I both had full time jobs and Christy was a student. We took no pay out of the business for the first two years—we just plowed everything back in. We started with pure sweat equity.

It started very, very slowly. When we got to one order a week we were celebrating. But it just grew and grew. Around October of 2001 I left my full-time development director job because I was really burning-the-candle-at-both-ends at that point. I took a part-time job where I could just go to work and leave it behind when I came home.

The Move to Indiana

In December 2001, the Santos sold more than they had in the entire year 2000. They were running out of space for operating out of their small house in New Jersey. Candy was originally from Indianapolis, Indiana, and she began to think about getting away from the high costs of New Jersey to the Midwest where the costs of space were much lower. She explains:

I could see after the holiday season of 2001 that we would not be able to handle the next holiday season out of the space in which we were working. If you needed packing material you either went up into the attic or out into the garage. We didn't have separate offices—we were all trying to work out of one room. After we searched for a suitable space in our area and found that everything available was far too expensive, it dawned on me that the people on the Internet don't care whether you are doing it out of high-cost New Jersey or lower-cost Indiana.

Jim provides another perspective on the move:

Another reason we moved to Indiana was to change our lifestyle. Candy and I recognized that if I continued to work 80 hours a week, I was going to kill myself. Our expensive lifestyle wasn't giving us any quality of life.

Also, I think that the events of 9/11/2001 had something to do with it. We lost several friends and some neighbors in the World Trade Center disaster. Moreover, after 9/11 thousands of people who felt vulnerable living in Manhattan wanted to move out of

the city. They bid up real estate by 50 percent in our neighborhood across the river in New Jersey, so we could sell our house easily and at a very good price.

In March 2002, we took a trip out to Indiana, and after that trip we decided to move. We sold our house in New Jersey and bought our present one in Indiana. We got twice the house for half the money, the equity in our New Jersey house paid for our new home, and we now have no mortgage. That was a big plus in enabling us to devote the time necessary to bring Cliptomania to the point where it could fully support the three of us and enable us to hire adequate help to make sales 24/7 without having to cover every day on our own.

When they moved to Indiana, Candy quit her part-time job. She has been full time with Cliptomania since then. Also, Jim cut back his insurance agent job to half time and has since hired his own help to continue to build his insurance clientele in Indiana.

Later Developments

In 2004 Candy began to question the use of Paymentech to verify and process credit cards. She explains:

Paymentech proved to be very expensive and difficult to work with. In credit card processing there are three costs to us: the monthly fee we pay for the service, a per transaction fee, and the percentage that the credit card company gets. In addition to a hefty monthly fee, Paymentech was charging us 20 cents for each transaction, and in addition was charging us 30 cents for any credits or voids.

I went to our local bank and they set me up with a group called Nova that was much lower cost to us. Nova only charges us 10 cents per transaction and they charge nothing on the credits. Also, the monthly fee is less and the percentage that the credit card company keeps is almost a full percentage point less than it was with Paymentech. That adds up quickly.

Furthermore, I am dealing with either my local bank or Nova, and they are much easier to deal with than was Paymentech. They provide much better support at substantial savings.

Cliptomania's Operations

Candy is Cliptomania's CEO and Christy is Customer Relations Manager. In addition to sharing responsibility for receiving and processing orders with Christy, Candy maintains the Web site, chooses the styles of earrings to

stock, orders the stock, sets the prices, and manages the inventory.

Customers access the items for sale by clicking on one or more of the categories arranged vertically along the left side of the main page. Therefore, Candy carefully chooses the categories and selects the words to describe them. Candy also produces the images of the items that are shown and writes the descriptions that appear alongside the pictures. According to Jim:

Candy describes each earring very honestly so that the customer knows exactly what she is getting. But she has the gift of wording it in such a way that the person reading about it thinks that she will look like a million bucks when she wears our \$10 earrings.

The quality of the pictures is critical. The customer cannot pick up an earring and look at it like you would in a brick-and-mortar store, so if she does not feel she is seeing the real thing and is not attracted to the earring, she is not going to buy it. Candy also does all of our imaging and her pictures look great!

Earrings are fashion items, so the market is continually changing. Candy changes Cliptomania's Web page almost every day as new items are added, old ones are removed, items are featured during special times of the year, items are put on sale, the categories are reorganized, and so on.

Buying Earrings to Stock

About half of their sales are for fairly standard items that sell year in and year out. But the other half are fashion items that are very dynamic. Candy and Christy try to keep abreast of fashion trends to choose what to stock. There is a long lead time in ordering and receiving fashion items—in fact many decisions must be made at the national manufacturers' show in February. Therefore, they depend heavily on the manufacturers whose judgment they trust to help them decide what will be hot for the next year.

With the dynamism and long lead times of the fashion business, keeping adequate stocks of the good sellers while not getting stuck with items that don't sell is a continuing challenge for Candy. She describes the problem:

We do about 60 percent of our business in the last third of the year—September through December. September is the latest that I can order fashion items and expect to get delivery before Christmas, so I have to make decisions as quickly as I can figure out what items are going to be hot for Christmas. In mid-December the manufacturers worldwide close

down, and don't open back up until mid-January. They have the IFJAG show in February, so they won't really start making the stock to fill the IFJAG orders until March and I will be lucky to get the new stock in May. When I order in September I figure it is going to have to hold me until May, but I don't want to overbuy on something that will have passed its peak by the time February rolls around so I will be sitting on it forever.

Many of the newer fashion items are designed and manufactured in the United States. Many of the standard items that do not change are made overseas where costs are much lower. Even the standard items can be difficult to maintain in inventory because the lead times on them are long and delivery schedules can be uncertain. Candy sometimes runs out of some of her standard earrings that are best sellers because of shipping problems in getting deliveries from China.

Candy gets lots of helpful information that is gathered by the Web site, which helps her with stocking decisions. She can see how many people visited, how many put items in the basket but have not bought yet, what they put in the baskets, and which search engine they came from and what search terms they used. She can get online graphs showing sales trends by item as well as for total sales. She can request summaries for various time periods and sort by gross receipts or number of items sold.

Candy also uses an Excel spreadsheet she developed that has a line for each item Cliptomania sells. It shows the Cliptomania product code, the name of the item, the cost per unit, the total number she has received, the dollars she has invested in the item, how many they have sold, the number damaged or lost in the mail, gross receipts for the item, total net margin, the vendor of the item, the vendor's product code, the current inventory, and the value of the current inventory. But even with all this information, there is still a lot of judgment involved in deciding what to stock and how much to order.

Processing Orders

Cliptomania operates out of the lower level of the Santos' home in Bloomington, Indiana. There is a large workroom that contains the inventory in wide shallow drawers in cabinets and small plastic containers in cubbies along one wall. There is also room for assembling and packing orders, two desks with computers, and workspace for receiving orders. In addition, there are two offices and a storeroom for packing materials and reserve stock.

There are four PCs connected by a network, along with a fax machine and a printer. They have two high-speed lines coming into a router on the network, one from a telephone

company and the other from a cable company, so that they can continue operations if one vendor's lines go down for some reason. Once a month Candy backs up key records onto a zip drive and puts it into their safe deposit box at the bank.

In addition to the security features provided by the Web site provider, they have firewalls to deter break-ins to their own computers. They have many different layers of security to make it more difficult to break into their store either physically or electronically, including central security alarm systems for their house.

When an order comes in on the computer, Candy or Christy checks Nova's assessment of whether the billing address the customer has given matches the address for that card in a central database. If these addresses are not the same, it is a red flag that the order may be fraudulent. She also looks all orders over for other indications that they may be suspicious. If it appears that there might be problems, she can call Nova to obtain the telephone number of the issuing bank and call it to determine whether or not the card is legitimate. If she cannot verify that the card is legitimate, she can cancel the order, which does occur, but rarely.² If everything seems all right, she checks the inventory to make sure the items are available and, if so, prints out the picking ticket and the mailing label for shipment. The order is then assembled. Each pair of earrings is wrapped in plastic padding; the more expensive ones are also placed in an attractive box. Once the earrings are protected, they are placed in a small corrugated cardboard shipping box. For some kinds of clip-ons, a set of printed instructions for putting on the earrings is inserted. Then the box is sealed, and the mailing label is affixed. Once a day, the completed orders are taken to the local U.S. Post Office³ and mailed. Most orders go out the same day that they are received. The shipping options and charges for shipping and handling are detailed on *Cliptomania.com*.

After the orders are put into the mail, Christy sends each customer an e-mail thanking her for the order, telling her it has been shipped, spelling out the return policy, and where appropriate, encouraging her to read the instructions in the box describing how to put on the earrings. Candy explains:

We found early on that customers were having trouble with some of the earclips because they didn't know how they worked—they were twisting them and breaking them. So I made a graphic and wrote

² Their credit card verification process has been very effective. There have been very few instances in their history where they were charged back on a credit card transaction.

³ The boxes are too small to make it feasible to use a package service such as UPS.

directions showing how to put them on properly and we include these instructions in the box with the earrings.

Some customers are not comfortable ordering over the Web, so Cliptomania also accepts orders by mail or fax. Such orders are relatively rare (less than 2 percent), which is fortunate because it is more work to process them as the information has to be manually entered into the computer and the credit card processing must be done manually. Mail orders sometimes include items that were in stock when the buyer decided to make the purchase but are sold out by the time the order is received by Cliptomania. Initially the Santos accepted personal checks in payment of mail orders, but they have had enough problems with this that they now only accept credit cards and U.S. Postal Money Orders as payment.

Cliptomania also reluctantly accepts orders over the phone. They discourage phone-in orders because this requires someone to sit at the computer and enter the order while talking over the phone, and this is quite time consuming for their small staff. Despite the following plea on the "how to order" page, they still receive and handle several phone-in orders a week:

Please do not use our phone number to place an order. We are a small family-run store and that would overwhelm us. We would be happy, however, to answer any questions you may have at that number.

One of Cliptomania's PCs is a laptop. The office printer has two trays, one with plain paper and the other with mailing labels. Things are set up so that if the Santos go on a trip they can log onto the network via the laptop, process orders from the Web as though they were in the Cliptomania office, and print out the orders and mailing labels. Workers can come in and pack and mail the orders, and Cliptomania's operations can continue uninterrupted.

Foreign Sales

About 10 percent of Cliptomania's sales are to customers outside of the United States. Selling overseas has some challenging aspects. There is the language problem—their overseas sales are restricted to English-speaking countries—Canada, Ireland, Australia, New Zealand, and English-literate persons in Japan. Initially Cliptomania sold earrings in the United Kingdom, but because of long delays in clearing British customs, they no longer accept orders from there.

The cost to a foreign customer is considerably higher than in the United States because of higher shipping cost and import duties that may be charged. A major problem is

verifying the validity of credit cards. On the other hand, currency exchange is not a problem as the credit cards take care of that—Cliptomania bills in dollars, and the customer's credit card is charged in his or her local currency at a reasonably good exchange rate.

Although Canadian import duties on jewelry make Cliptomania's earrings cost as much as 60 percent more for Canadians than they cost for Americans, the majority of their foreign sales are to Canadians. Overseas customers may pay even more than Canadians because shipping costs are higher.

In July 2003, Cliptomania attempted to expand its presence in Japan. They had been told that Japan could be a big market for clip-ons. They tried to set up a Japanese language Web site, but were not successful. Eventually they wrote off the Japanese experiment as a failure, but they still accept orders from there as long as they are in English.

In 2003, a man from Mexico e-mailed Cliptomania and was adamant about needing three pairs of thin hoop earrings. Although they do not usually sell in Mexico, Candy worked with him and describes what transpired in this case:

Mail theft is rampant in Mexico, and has been for at least 10 years. As the U.S. Postal Service does not serve his area, the customer said he would pay for UPS or FedEx shipping. The shipping costs exceeded the costs of the earrings as neither company would ship by ground due to theft problems. The customer was afraid a money order would not reach us, so he sent his credit card number by three different e-mails and the expiration date by a fourth. And then the whole order had to be manually done. The time it took to research this and all the e-mails sent back and forth added up to a loss to us if we add the value of my time. He was thrilled with his earrings, but I am convinced we have made the right choice not to sell in Mexico!

Marketing on the Web

Marketing on the Web is primarily a matter of getting potential customers to visit your Web store. For several years, Jim spent half time as Cliptomania's Vice President for Marketing and half time with his insurance business, but Jim's son, Greg, has recently taken over most of Cliptomania's marketing efforts.

The primary way that potential customers find the Cliptomania store is by searching on a term such as *clip earrings* on a search engine such as Google, Yahoo! Search, or Microsoft's Bing. When Cliptomania got started

in late 1999, search engines on the Internet were still listing sites by relevance based on the site's fit with the search terms. In very quick order, Cliptomania was listed number one on all the search engines when someone searched for clip-on earrings. But soon the environment changed radically. Jim explains:

When the dot-coms went "dot bomb" in 2000, the whole environment got even more dynamic—it went ballistic. Since I was devoting lots of time to keeping up with what was going on, I quickly caught on to the fact that the industry somehow had to generate revenue and profits instead of just expanding its customer base. This is when Yahoo! went from a modest fixed monthly charge to adding fees based on volume.

About this time the GoTo search engine started charging for listing position. There was not a fixed price for the top positions. You stated how much you would pay per click for each of your search terms, and if you bid high enough you could be number one or number two on a GoTo search. But if you did not pay you might be down on the second or third page where 95 percent of the people would not find you. I jumped on this and immediately agreed to pay GoTo (which changed its name to Overture and eventually became Yahoo! Search in 2005). We had an instant increase in our business! Within a week, it was very obvious that our sales were up significantly, and they stayed up.

At the start we paid one cent whenever GoTo sent a person to our site. However, only 1.2 percent of these clicks resulted in a sale, so the cost was about 83 cents per sale. That cost was quite acceptable, but since that time our cost per click has increased to where the cost per sale can eat up most (or sometimes all) of the profit on that sale. However, we are willing to pay a high price because we view this as an acquisition cost—hopefully a good proportion of these buyers will be repeat customers who will come directly to Cliptomania without going through a search engine (which is one reason why we encourage people who visit our store to bookmark us).

—People search the Web by entering combinations of keywords, and the search engine produces lists of Web pages that are related to these search terms. Today there are two ways that your Web store may appear on search engine results—sponsored links and relevancy ranked listings. The sponsored links appear at the top and along the right-hand side of the results page. Search results ranked by

relevancy appear below the top-level sponsored links and may go on for page after page. A Web site may appear both as a sponsored link and on the relevancy ranked listings.

Search Engine Advertising

Sponsored links are the major way Cliptomania advertises on the Web. Your sponsored link is an advertisement, and you get to write the short description that is displayed as the sponsored link. You want this description to attract potential customers so that they will click on it to visit your store, but you want it to realistically describe your offerings because you do not want persons who have little probability of buying to click and cost you money.

To establish a sponsored link on Google AdWords, you bid a specified amount that you are willing to pay per click on a Google search for a specific search term. Thus, you must specify the search terms that you are interested in and you may bid a different amount for each of your specified terms. You may not pay the amount you bid for each click as you actually are charged one cent more than the next lower bid on that term. You can specify your search-targeted keywords as broad matches, phrase matches, exact matches, or negative matches.⁴

The amount that you bid determines your position among the sponsored links for that term—the highest bid gets the top position, the next bid gets the second position, and so on. For several years, Cliptomania tried to be among the top three positions on its major search terms.

The Cliptomania site includes over a hundred search terms, but most customers access them through a small number of terms such as "clip earrings" or "clip-on earrings." Cliptomania only pays for the terms that are used by most customers because it doesn't make sense to pay for a search term where a person will click on your site and find that she has no interest in buying your product.

The placement of your sponsored links can change instantaneously as your competitors can change their bids at any time. If you want to stay at the top of the sponsored listings, you have to pay close attention to what is going on so that you can respond to competitors' moves. However, there are limits to what you can afford to pay per click without losing money on each resulting sale. The search engines provide tools that allow you to analyze the results you get from your sponsored links so that you can make informed decisions about how much to bid on each of your search terms.

⁴ Explanations for these terms can be found on the Google Web site.

Jim and Candy's son, Greg, has examined their strategy in pay-per-click advertising and sharpened its focus. Greg explains:

In a search for a longer term that includes "clip-on earrings" we have what is called a general match which means that if we don't have a specific term set up that matches the search term then the search engine will default to a general search on clip-on earrings. So if somebody does a search on "little girl clip-on earrings" and we don't have that term there is no problem—a Cliptomania advertisement still comes up—but we don't pay the 10-cent minimum. Instead, we pay what we bid on the term "clip-on earrings," which is much higher. So I am going through and adding those more specific terms to bid on. These terms are converting for us at a higher percentage because they are very specific terms, and they cost less per click because there are fewer people bidding on them.

We have set up specific search terms for any non-pierced term (non-pierced, clip-on, clip, clasp, etc.). There are lots of them and we find new ones all the time. Our conversion rate on these terms once we set them up is pretty high. We don't have to bid high on them so we are converting at a lower cost per click. Also, I am setting up specific search terms that include the words men, boys, male, guys, etc. A certain percentage of men, particularly the young men, are going to be non-pierced, so we want to be in the top five for those searches. And the child-related terms are good too, as they will convert at a higher rate than more general terms. Only one in twenty women have non-pierced ears, but a higher percent of children and young men who want to wear earrings will have non-pierced ears.

The recession in 2009 caused Greg to modify his approach to advertising:

My approach to advertising Cliptomania on the Internet is different right now than it was in the past. Currently, it is mostly like "damage control." The cost per acquisition for bidding on the top 3 spots for Cliptomania's most common search terms can be as high as, and often higher than, the net first-time sales they generate. There is a lifetime value of a customer, but in this economy I have to be pragmatic about how long it will take to realize a profit from aggressively bidding for customers. So my goal is to try to keep Cliptomania on the first page of paid advertising for our most common search

terms, but I avoid the top position unless it is relatively inexpensive to occupy. The few times in the past year that I have deviated from this approach by aggressively bidding for the top positioning have demonstrated that the extra cost was not justified by the relatively few extra sales that were generated.

The Relevancy Listings

Although the sponsored links are important, according to Greg about three-fourths of the clicks Web sites receive come from the relevancy listings, so it is very important to appear among the top few relevancy listings. If you are not on the first page, most of the searchers will not find you. Therefore it is very important to understand how the search engines work and how they determine their relevancy rankings. For competitive reasons Google and the other Web search companies are reluctant to explain exactly how their search engines determine their rankings, but each of them has a different algorithm for determining its relevancy rankings. As of this writing Google is the dominant search engine, and it seems to have the most complex approach to its relevancy rankings. The following excerpts from the Google Web site explain in general how its search engine works:

The process by which we find content to include in our search index is known as "crawling." Google is a fully automated search engine that uses computer programs known as "spiders" to "crawl" the Web and find sites for inclusion in our search index.

The spiders analyze the Web pages for relevant terms and phrases that characterize the content of the site, and Google includes these terms in the giant index that it uses when you perform a Google search. Google's Web page explains:

Google goes far beyond the number of times a term appears on a page and examines all aspects of the page's content (and the content of the pages linking to it) to determine if it's a good match for your query.

The following presents what Google reveals on its Web site about its relevancy rankings.

Search results are generated automatically using algorithms that weigh numerous factors about the quality of a given Web page and its relevance to a user's search query. Google doesn't accept payment either to include sites in our search results or to improve or alter the ranking of sites in our search results.

Google uses PageRank to examine the entire link structure of the Web and determine which pages are most important. It then conducts hypertext-matching analysis to determine which pages are relevant to the specific search being conducted. By combining overall importance and query-specific relevance, Google is able to put the most relevant and reliable results first.

PageRank Technology: PageRank performs an objective measurement of the importance of Web pages by solving an equation of more than 500 million variables and 2 billion terms. Instead of counting direct links, PageRank interprets a link from Page A to Page B as a vote for Page B by Page A. PageRank then assesses a page's importance by the number of votes it receives. PageRank also considers the importance of each page that casts a vote, as votes from some pages are considered to have greater value, thus giving the linked page greater value. Important pages receive a higher PageRank and appear at the top of the search results. Google's technology uses the collective intelligence of the Web to determine a page's importance.

Hypertext-Matching Analysis: Google's search engine also analyzes page content. However, instead of simply scanning for page-based text (which can be manipulated by site publishers through meta-tags), Google's technology analyzes the full content of a page and factors in fonts, subdivisions, and the precise location of each word. Google also analyzes the content of neighboring Web pages to ensure the results returned are the most relevant to a user's query.

In summary, Google combines at least two major factors to determine the ranking of Web sites in response to a search: (1) how well the content of the site matches the search terms and (2) the quality of the Web site defined primarily by the number and quality of the Web sites that link to it.

In regard to the page content component of the ranking, it is important that the crawlers find indications of the content that people may be searching for on the page. For example, Cliptomania has a number of what they call "bead earrings," but many potential customers search for these as "beaded earrings" and may not find Cliptomania's store under that search term. Also, Web crawlers cannot deal with images, so if your content is in images, it will not show up on searches unless the images are also described in text. For example, if you are a dude ranch that features horseback riding and emphasize that in pictures but not in

text, the Web crawlers will not rank you high on "horseback riding" searches.

Other Marketing Approaches

Jim experimented with "site-targeted advertising" through Google AdSense where Google places an ad for you on Web pages that are found via related searches. These ads would not appear on one of Cliptomania's competitor's pages, but might appear on the page of someone who sells scarves or beauty products or on other categories that Jim might specify. You may pay by the click or by how many persons view your ad. Google pays the person who allowed your ad to appear on his page and charges you for your clicks or views. After trying this type of advertising, Jim decided that it was not profitable and discontinued that approach.

Jim will not accept ads for related products on Cliptomania's Web pages. He says:

We don't like the idea of cluttering up our store with links that send people away and they may not come back. Furthermore, we have worked hard to provide superior service and achieve an outstanding excellence rating. We have control over how you are treated when you deal with us, but if we refer you out to another site we lose that control. If someone gets bad service from a store we sent them to, they might associate that experience with us, and our good reputation is too important to risk.

The Santos have established another Web site, *www.earringinformation.com*, that contains a lot of information about non-pierced earrings including information on how to adjust them, what styles are best with different shaped faces, and other interesting information and ideas. This site also extols the virtues of Cliptomania and encourages visitors to click to visit Cliptomania, so this site is a marketing tool for the Santos. Although Jim will not accept advertising on *Cliptomania.com*, he does allow ads on *www.earringinformation.com* and receives some revenue from this source.

Like many Web businesses, Cliptomania also owns quite a number of URLs with names that are similar to Cliptomania or have to do with clip-on earrings. For example, if someone in desperation keys in the URL *www.cliponearrings.com*, his or her browser will pull up the Cliptomania Web site. Cliptomania gets some business via these URLs, and it is relatively inexpensive as it only costs a few dollars a year to maintain a URL.

Another marketing approach involves the use of e-mail. Cliptomania has a file containing the e-mail addresses of all its customers. It also has a box on its home

page where a visitor can provide an e-mail address. About eight times a year, Candy sends everyone in this file a promotional e-mail. Candy cites examples:

For the Twelve Days of Christmas (December 26 through January 12) everything in the store is a fixed percent off. I give our customers a jump on that by sending out an e-mail that lets them get the discount a few days before other visitors so that they can get the most desired stock before it sells out.

These e-mails can be very effective. I sent out an e-mail around April 25 that said: "Here comes Mother's Day, graduation, wedding season and proms. If you or someone you know doesn't have pierced ears we have what you need for these occasions." That produced a tremendous spike in our sales over a two-week period.

Incidentally, repeat customers provide a lot of Cliptomania's business. Through their eclectic product offerings and outstanding service, the Santos have built a very loyal customer base, so a sale to a first-time customer is just the beginning of a very productive relationship for Cliptomania. They also get a lot of new business by word of mouth from satisfied customers.

Jim is always seeking ways to increase sales so he continues to search for and experiment with new marketing approaches so that Cliptomania doesn't fall behind. However, the Internet is such a dynamic environment that not all Jim's initiatives work out well. He has spent several thousand dollars each year on experiments that were failures, but he realizes that in such a dynamic environment you must take some calculated risks.

Changing Web Service Providers

In 2006, the Santos began to have problems with the service that Yahoo! was providing. Customers were reporting that they were having trouble placing orders, and Cliptomania was being charged more than once for some transactions. They called in their consultant to help them deal with these problems but were not able to resolve them all.

To make a long story short, it turned out that the consultant's company, NetProfits Internet Consulting, had also become a Web service provider and was serving a number of former Yahoo! customers. In the fall of 2006, Cliptomania switched to this new Web service vendor with the URL *Cliptomania.net*. The new vendor charged substantially less than Yahoo! and provided services that in many ways were better than those Yahoo! offered, so Cliptomania is no longer a Yahoo! store.

Advantages of the New Store

Jim and Candy's son, Greg, who joined the family business in 2006, says that the new vendor's software offers a number of somewhat subtle advantages that he is taking advantage of to improve Cliptomania's performance. Greg is particularly concerned with improving Cliptomania's performance on the relevance rankings on Web searches. Greg notes:

The new site has two improvements that are helpful. First, the new store allows for meta-tags for each product, while the Yahoo! store only allowed a meta-tag on the main page. A meta-tag is a description that the customer does not see, but is available to the Web crawlers. Second, the Yahoo! store severely restricted the length of product descriptions, but the new store can have longer descriptions. Both of these allow us to include more descriptors that can be picked up by the Web crawlers and thus increase our relevancy rankings.

For example, the meta-tag gives me the opportunity to be specific about the type of gem stone in the earring. In the product description that the customer sees we may describe the earring as a gem stone, but in the meta-tag I can be more specific and describe the gemstone as garnet—the January birth stone—which allows people to do more specific searches.

As another example, in our product descriptions we describe our earrings made of beads as "bead earrings," while some customers may search for them as "beaded earrings" and not find ours. In the meta-tag we can call them beaded earrings and thus be found by searching on either term.

An Unforeseen Consequence of the Change

When the Santos changed Web service providers from Yahoo! to NetProfits Internet Consulting, they operated the two stores in parallel for a while, giving the new store the URL *Cliptomania.net* and keeping the old one as *Cliptomania.com*. When they switched over to the new store, its URL remained *Cliptomania.net* rather than *Cliptomania.com*. Although this small change did not affect Cliptomania's position on its sponsored links, it had serious consequences for Cliptomania's relevancy rankings. Before this change, *Cliptomania.com* was among the top five in the relevance rankings on most searches for non-pierced earrings. However, by late December the Santos discovered that neither *Cliptomania.com* nor *Cliptomania.net* was in the top 100 of the relevancy rankings on the

major search engines—they had fallen off the radar! The Santos had been so busy handling the Christmas rush that they had not monitored the relevancy rankings so they do not know exactly when the rankings collapsed.

The Santos had retained both the *Cliptomania.com* and the *Cliptomania.net* URLs, but the information on all the earrings for sale was on *Cliptomania.net*. If someone went to *Cliptomania.com*, he or she was automatically transferred to *Cliptomania.net*, so the store was indirectly available via *Cliptomania.com*.

This change seems to have confused the search engines, some more than others. *Cliptomania.net* gradually rose in the relevancy rankings on Yahoo! Search and MSN Search to where by February they appeared on the first or second pages. However, neither *Cliptomania.net* nor *Cliptomania.com* appeared in the top 100 of the Google relevancy rankings. Greg tweaked the content of their pages every way he could think of to try to increase their relevancy on Google, the most popular search engine, to no avail. On March 1, the Santos finally gave up and returned the store content to *Cliptomania.com*. In about a week *Cliptomania.com* was near the top of the Google relevancy rankings and also near the top of the other search engines. Things were back to normal, but the Santos have no idea how many sales Cliptomania lost due to this episode.

Challenges

Although the Santos have had to overcome many difficulties and problems, Cliptomania has been an outstanding success. During a period where most Internet retailers have struggled, Cliptomania has done relatively well. Started as a part-time sideline for Jim and Candy, Cliptomania is a thriving business despite the downturn in the economy.

Up through 2005 Cliptomania's yearly dollar sales grew at least 20 percent a year. However, in 2006 Cliptomania's sales leveled off for the first time. Jim explains:

I am sure that some of our lack of revenue growth was due to the problem with our search engine relevancy rankings, but there were also other factors involved. When the price of gasoline hit \$3.00 a gallon that summer we got the number of orders that we expected, but they were much smaller. It is obvious that people were buying earrings with their disposable income. Although our number of orders in 2006 was up about 20% over 2005, the total dollar sales for 2006 was about the same as 2005. Also, the advertising is getting much more

expensive, so the cost of doing business went up and our profits went down.

The year 2006 was the beginning of difficult times for retailers who sell discretionary items such as earrings. By 2010, Cliptomania's sales were down almost 40 percent from the peak in 2006. Although many of its competitors have gone out of business, Cliptomania has remained profitable because it has a good reputation, loyal customers, low fixed costs, and (other than the Santos' initial investment) it has been financed entirely from revenues so it does not depend on bank financing. Times have been hard, but Candy is confident that when the economy recovers Cliptomania will be back on a growth path.

In 1999, when Jim and Candy started Cliptomania, they had little competition as a specialized Web store. Today, however, competition is fierce. If you do a search on "clip-on earrings," you will get over a million responses. Jim explains his competitive situation:

We have competition from stores that exclusively sell clip earrings, fashion jewelry stores that sell clip earrings on the Web, and big portals like eBay, BizRate and Shop.com that do not stock products themselves but present the goods of others. All this competition is vying with us for position on the relevancy search results and bidding for position of ads on the Web pages, which is driving up the cost of our basic advertising.

As an example of the intensity of competition, when a person types Cliptomania into the Google search box rather than keying in the *Cliptomania.com* URL, the results page includes advertisements for some Cliptomania competitors. It appears that these competitors are bidding on Cliptomania's trademarked name as a search term! On one of these ads the top line, the one the user clicks on, contains Cliptomania in large letters, a blatant attempt to mislead the customer. The Santos don't know how often, but it seems certain that some people click on one of these ads thinking that they are going to the Cliptomania store. One confused lady called Cliptomania to complain about poor service on a product she purchased from a competitor that she thought was Cliptomania. Despite repeated requests from Candy, Google has refused to block ads from appearing in the results of searches on the Cliptomania trademark.

The Web is a jungle out there, and it is still evolving rapidly. Jim explains:

The Web is so dynamic and so competitive that we have to keep running hard just to keep up. I look at

other successful Web stores and try to learn from them. And I devote a lot of time and energy to identifying and keeping up with new developments and trends relating to the Internet. For example, an obvious trend in this country is to go mobile. Everyone has a cell phone, and the Internet is going on the cell phone. The URL for mobile ends with .mobi, so we have purchased our most critical URL terms with the .mobi ending. If someone wants to shop for clip earrings through her

cell phone we want Cliptomania to be found, so I have purchased those URLs just to protect our turf.

We are lucky that we started when we did. Today there is no way that we could be successful starting Cliptomania from scratch, but we have reached the point where we believe we can continue to prosper despite competition, downturns in the economy, and a few missteps like we had when we changed service providers.
