



Electrify Me

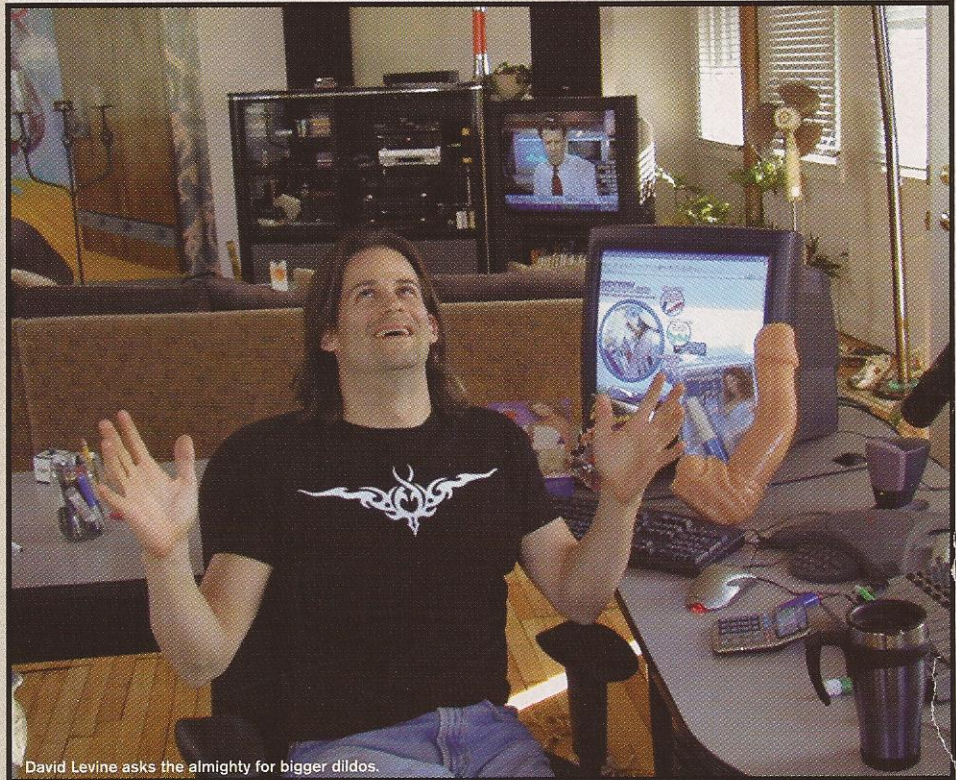
DAVID LEVINE CATCHES A PROFITABLE BUZZ SELLING SEX TOYS ONLINE *BY JACKIE COHEN*

David Levine took one look at the Web and began brainstorming online commerce possibilities. This was back in December 1994. The 25-year-old had just returned from Japan with plans to start his own business; he had no specific industry in mind, he just wanted to be able to work from home, and outsource rather than hire people.

That was considered unusual – if not insane – back then, before precedent-setting retailers like Amazon.com appeared. But within a few short weeks of his first peek at the Web, Levine was running a slew of online businesses out of his Boston apartment, trying to see which ones would earn the most money. During the first half of 1995, he literally started a new retail venture every week, trying his hand at vending all kinds of products: books, fine art, long distance phone services, gym shoes, merchant credit card accounts, and even lobsters. Some of these endeavors barely broke even, if at all. And while a few did reasonably well, none could compete with what turned out to be the killer app, and the only business he still runs: Sextoy.com.

At first, Levine may not have known the difference between a Magic Wand and an AccuVibe, but he caught on quickly. “The toy business was profitable from day one, with the highest traffic and consistent sales. When I started it, I doubled the wholesale prices to set retail prices – everyone else was tripling the prices or more. Now double the wholesale price is standard for retail,” he says.

Levine’s company targets the wholesale marketplace, selling at the suggested wholesale price to anyone who buys a minimum of \$250 in products. This strategy appeals to the so-called “home party” market, which is like a Tupperware gathering, except that the plastic being sold is in the form of vibrating eggs, g-spot stimulators, clit ticklers, and pussy pleasers. Most of the competition gives party organizers a starter kit and asks that they sell it at a fixed price, for which the host/ess gets a commission. Levine simply sells them the goods, allowing them to double the



David Levine asks the almighty for bigger dildos.

price at which it’s sold to the partygoers.

After his success with wholesaling, in 1996 Levine became one of the first to start an affiliate program in sex toys. He now has thousands of affiliates; some 30 people sign up each day for accounts, although only a handful get serious about it.

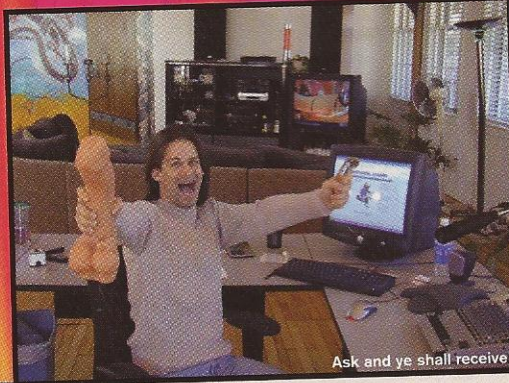
Currently, Levine gets 400 orders a day, with 80 percent of them coming from wholesaling and affiliate programs. His company sold \$5.4 million worth of toys in 2001, growing 80 percent during a year when most other industries saw their revenues decline. Although his business has grown at this rate for three years running, his profit margins have grown at a slower rate than overall sales. The reason: When he first started his affiliate programs, he a paid 10 percent commission; but copycats have since sprouted up, offering to

pay 25 to 30 percent, so Levine had to raise his rates to remain competitive.

And there’s plenty of competition, with the number of retailers totaling thousands, if not hundreds of thousands, due to the sprawl of affiliates and mom-and-pop sized operations. Many of the smaller enterprises sell just one or two items per month, but larger companies like SexToyNetwork and Good Vibrations are pulling in comparable revenues. The leading direct mail and online retailer, Adam & Eve, reportedly enjoyed twice as much business as SexToyFun.com this past year. With all of these companies peddling dildos and the like, Levine estimates the entire U.S. sex toy market to be upwards of \$1 billion in sales.

Levine and his competitors have helped bring this moderately taboo retail category into the mainstream. “Back when I started, all my mother

SEXTOY.COM



sxxx.com, doesn't generate any income, largely because he doesn't charge listing fees. He instead positions it as a traffic generator, submitting every listing page to the search engines. And wholesalers who want Levine to carry their products, but haven't landed in his catalog yet, are asked to post on the auction site as well. Levine hopes auctions might pick up once he sets up a simpler domain name, a process that was underway when this story was written.

If anything, the sex toy market will probably keep growing, as it has yet to reach the level of other adult businesses. Good Vibrations and Adam & Eve are currently preparing affiliate programs of their own, which could bring more entrants into the marketplace.

And, of course, there's the famously "untapped" female segment of the market to exploit. "Selling to women is about listening to what customers want," says Levine. "When I first got into the business, I didn't know what people would want, whether it was men or women." Today, however, "we make most of our money on realistic dicks and vaginas, along with multifunction vibrators like the Rabbit. We've even got one realistic dong that ejaculates. I try to carry all of the latest and greatest toys, from the largest

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cared about was that she couldn't brag about me to her friends. Now when she tells people what I do, everyone gets excited," he says. "Friends now give sex toys as gifts - people didn't want to at first. The Internet has moved the line of acceptance."

The Internet also makes it much easier for a sex toy store to grow. Offline, it can be difficult to launch a brick-and-mortar store due to municipal zoning laws and prudish neighbors. And if a single store wants to expand, buying additional real estate and renovating can be a lot more costly

than simply adding new product pages to a Website.

"Before the Web, where could you possibly have 5,000 products? We add 20 to 50 new products a week. Now we're like Costco for sex toys," says Levine, who, despite his early hopes of not hiring anyone full time, now has more than a dozen independent contractors doing programming, sales, customer service, and his newest pet project, auctions.

So far, Levine's auction site, www.sxxxauction.com

manufacturers and from the smaller ones with unique items, like the Sybian and other fucking machines, pyrex glass dildos, and even a \$6,000 realistic doll."

These more niche-oriented items coming to market parallels what's happening in the adult content space, where the competition is zeroing in on focused fetishes. Eventually, consolidation will likely hit sex toys as well. But at the moment, all the vibrations are good ones in the sex toy business.