HOW TO BUILD A PROFIT FIRST E-COMMERCE BUSINESS

Welcome

Welcome to our ebook on "Building a Profit First Ecommerce Business". We've curated expert insights from industry leaders in the ecommerce world to help simplify the process of building and maintaining a profitable ecommerce business in today's ever-changing landscape.

Our ebook is divided into six chapters, each focusing on a crucial aspect of profitable ecommerce. We start by examining the current ecommerce landscape and the challenges businesses face. We then define success and provide practical tips for businesses looking to optimize acquisition, conversion, and retention.

We also delve into unit economics, an often-overlooked aspect of profitability, and provide actionable strategies for businesses looking to build a sustainable and profitable ecommerce business.

Finally, we summarize the key takeaways from each chapter and provide actionable tips to help businesses navigate the challenging ecommerce landscape.

We hope that this ebook will provide valuable insights and actionable strategies for businesses looking to build a profit-first ecommerce business.

Contributors

We're excited to announce that we have partnered with industry leaders from Shopify, Fortia Group, DataShips, Vinny O'Brien, Dean McElwee, and more to provide the clearest outlook on the state of the ecommerce landscape in 2023. These experts have shared their valuable insights, experiences, and best practices to help businesses navigate the challenging ecommerce landscape and build a profit-first business.

Our partnership with these industry leaders ensures that our ebook provides the most up-to-date and relevant information for businesses looking to grow in 2023. We believe that their expertise will help simplify the process of building and maintaining a profitable ecommerce business and provide valuable insights and actionable strategies for businesses looking to optimize acquisition, conversion, and retention.

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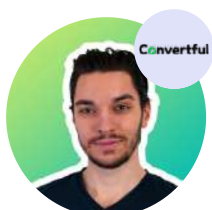

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StoreHero

1
Introduction

One of the most important tasks as a leader in a startup is to pick the right metric to track. This is often referred to as the 'compass metric' because it will be your compass for growth. It's important to note that 'compass metrics' will likely change over the lifetime of a business."

Tobias Lutke, CEO of Shopify

In today's commerce landscape, change is the only constant. Businesses must be adaptable to survive, as unexpected events have become the new normal. Despite the challenges posed by the pandemic, many businesses have displayed remarkable resilience, contributing to over $27 trillion USD of retail sales worldwide. However, 64% of global businesses are still recovering from the pandemic's negative impact.

The economic obstacles of the pandemic were compounded by the Russia-Ukraine war in 2022, leading to trade delays and inflation. The pandemic accelerated the adoption of digital commerce, but people now crave meaningful connection across all facets of life, including commerce. As we move forward, businesses must be flexible in their products, plans, and policies to confront the unexpected, with an economic recession looming on the horizon.
This report outlines global trends that will equip brands to meet the challenges of the future.

Inflation has not only affected the cost of goods and the supply chain, but it has also impacted customer acquisition costs (CAC) and return on ad spend (ROAS) for direct-to-consumer (DTC) businesses. As a business model that relies heavily on paid marketing, e-commerce has been hit hard by the rising cost of online advertising. This means that the marketing and finance departments of businesses must work together closely to achieve profitability goals in 2023 and beyond. Tighter margins make it even more important to ensure that marketing efforts are effective and efficient. By aligning marketing and finance, DTC businesses can navigate these challenges and thrive in the ever-changing world of e-commerce.

"What we need to do is always lean into the future; when the world changes around you and when it changes against you - what used to be a tail wind is now a head wind - you have to lean into that and figure out what to do because complaining isn't a strategy."
- Jeff Bezos, Founder of Amazon

Setting the Scene

It's no secret that growing an e-commerce store isn't plain sailing. The e-commerce landscape is currently influenced by various macro factors such as talk of recession, inflation, and other economic uncertainties. These factors have contributed to significant shifts in user behaviors, including:

Cost-conscious consumers

With growing concerns about recession and inflation, consumers have become more price-sensitive, seeking better deals and discounts. This has led them to prioritize trust and value in their purchasing decisions, often over brand loyalty. Brands need to adapt by offering competitive prices and showcasing the value they provide.

Longer decision-making window

Longer decision-making window: As a result of economic uncertainties, consumers are taking more time to research and weigh their options before making a purchase. They are willing to commit time to make informed decisions, often comparing products and reading reviews to ensure they are making the best choice. E-commerce businesses should provide comprehensive product information and make it easy for consumers to access reviews and testimonials.

Reduced purchase frequency

Consumers are becoming more cautious with their spending, particularly when shopping organically. They may choose to delay purchases or limit the number of items they buy at once. To counter this trend, e-commerce businesses must focus on building customer loyalty and offering incentives to encourage repeat purchases.

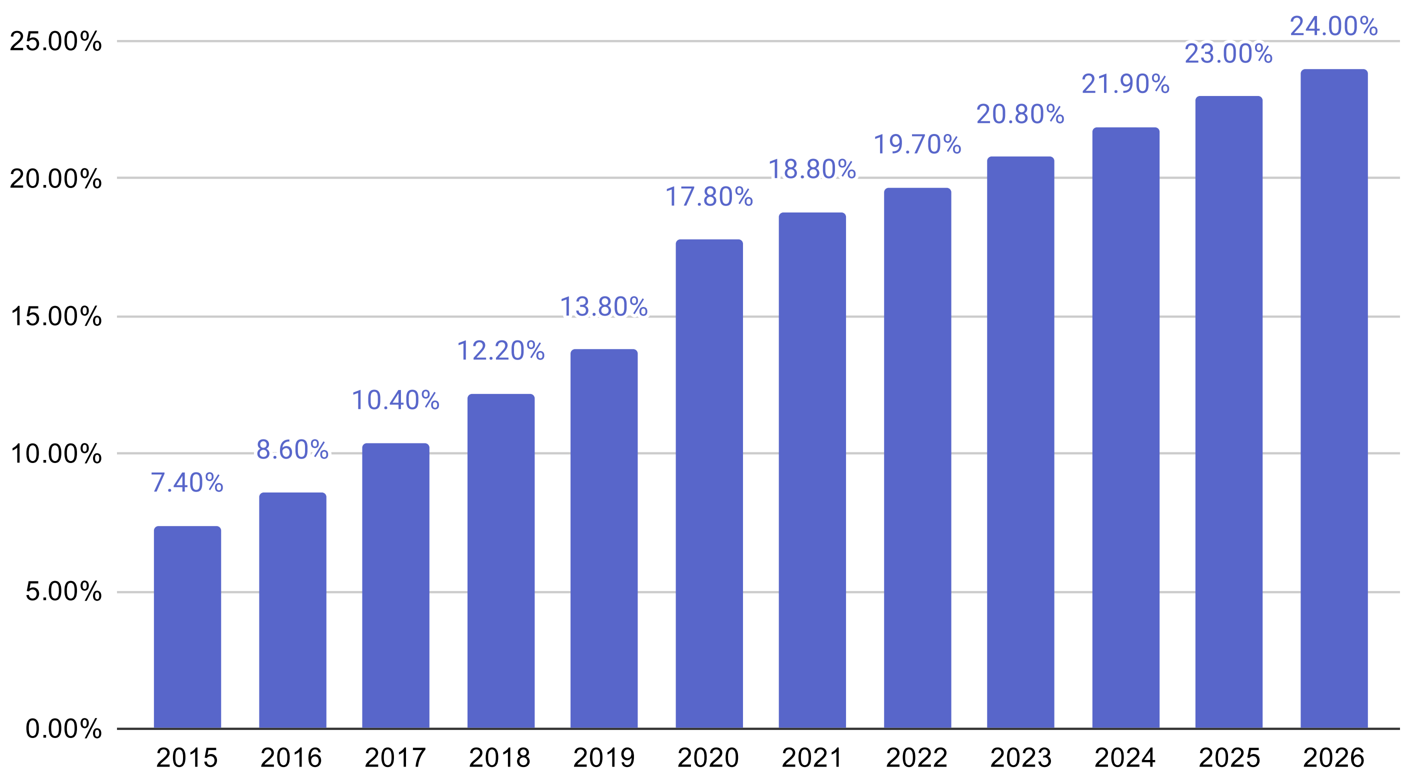
By understanding and adapting to these changes in user behaviors, e-commerce businesses can better navigate the challenging environment and continue to thrive.

Industry Growth

In addition to the challenges faced by e-commerce businesses, there is also a continued increase in e-commerce adoption as a percentage of total retail sales, leading to increase competition. According to a recent report from Statista, the compound annual growth rate (CAGR) of e-commerce as a percentage of total retail sales worldwide has been steadily increasing since 2015. In 2015, it was 7.4%, rising incrementally to 13.8% in 2019. In 2020, this number jumped to 17.8%, driven in large part by the COVID-19 pandemic, which changed buying habits for many consumers.

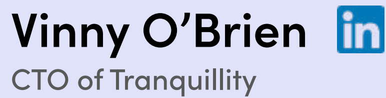
Despite initial skepticism about whether this trend would continue post-pandemic, the graph shows that e-commerce adoption has continued to increase, reaching 18.8% and 19.7% in 2021 and 2022 respectively. Statista predicts that this trend will continue to rise, reaching 24% by 2026. This highlights the importance of businesses continuing to invest in their e-commerce capabilities and adapting to the changing landscape of retail.

E-Commerce as Percentage of Total Retail Sales Worldwide



Data from Statista

StoreHero



TRANQUILLITY

"Short termism is one of the most destructive impacts on businesses today. It is not to say deny accountability or not to employ tactics. But we need to understand the days of hypergrowth are gone. We need to be off the mindset that we are building businesses that we want to last. The old Japanese model of family business is one to consider. We are building our businesses, teams and skills for the next phase to enjoy and build on. Let's leave it better than we found it. This type of culture can help us to have accountability, focus and an understanding that our weekly metrics are not the be all and end all. For these reasons and many more, we need to get used to long term thinking. We should embrace patience and empower our teams to grow slowly, make mistakes, learn and adapt. More than ever patience is more than a virtue, it is protection against external forces outside of our control. Patience can only be granted with clarity of strategy, smart goal setting and a willingness to try new things. Patience will be the thing that allows us to sleep at night. A skill worth learning in the months ahead."

Defining Success

In the current e-commerce environment, success involves various factors that businesses should focus on to achieve sustainable growth and profitability. These factors include:

- **Well diversified channels traffic sources:** Relying on a single channel for customer acquisition can be risky. Success involves diversifying your traffic sources, such as organic search, paid search, social media, and email marketing. This approach helps to mitigate risks and ensures a more stable flow of potential customers. Utilizing a platform like Amazon can also be an effective way to diversify traffic sources and reach a larger customer base.your way to building a successful, profit-first e-commerce business.

- **Reasonable cost to acquire customers:** A crucial aspect of a successful e-commerce business is managing customer acquisition costs (CAC) effectively. By optimizing your marketing spend, targeting the right audience, and using efficient ad strategies, you can maintain a reasonable CAC while still driving growth.
- **High cross-channel LTV:** A high customer lifetime value (LTV) indicates a strong relationship between your brand and your customers. To achieve high cross-channel LTV, focus on nurturing customer relationships, offering personalized experiences, and providing excellent customer support across all touchpoints.
- **High cross-channel AOV:** Increasing average order value (AOV) across all channels is a key element of success. By implementing strategies like upselling, bundling, and offering incentives for larger purchases, you can boost your AOV and improve overall revenue.
- **Clear understanding of unit economics:** Successful e-commerce businesses have a thorough grasp of their unit economics, including costs, revenues, and profitability associated with each transaction. This understanding allows them to make informed decisions about pricing, marketing, and overall business strategy.

By focusing on these factors and continuously refining your strategies, you'll be well on your way to building a successful, profit-first e-commerce business.

Director of Digital, Strategy & Partnerships at Milk Bottle

"New e-commerce businesses often make the mistake of relying solely on vanity metrics to measure their success. Although social media engagement and follower count have some relevance, there are more crucial metrics that should take precedence. To achieve business success, it is essential to prioritize metrics that directly impact profitability, such as the cost to acquire each customer, the lifetime value of each acquired customer, and the underlying operating costs of the business."

2
Profitable Unit Economics

"Anything that is measured and watched, improves.
Anything that is not managed will deteriorate"
Bob Parsons

Why unit economics are so important

Understanding unit economics is important for any ecommerce brand, especially in today's fast-paced and competitive market. In simpler terms, unit economics means knowing the costs and revenues tied to a single unit of a product. This includes production costs, shipping, transaction fees, fulfillment costs and how much it costs to get a new customer (CAC). In the past, many brands didn't need to pay much attention to unit economics, because getting new customers was pretty cheap. But now, with rising costs and more competition, it's never been more important for brands to really understand unit economics, so they can grow their business wisely and make a good profit.

When you really understand unit economics, it helps you make smart decisions about things like pricing, which products to promote, how to merchandise your site to optimise for absolute profit and to scale your ad spend and business in confidence. This way, you can focus on getting the best return and boost your overall margins. For example, knowing your unit economics inside and out can help you decide which products to feature in your promotions, or how to structure special offers that will make customers excited to shop, while still keeping your profits in mind.

In a nutshell, getting a solid grasp on unit economics is like having a secret weapon for your business. It gives you the confidence to make the right decicions about your business strategy, with the ultimate goal of maximizing your profit.

The Dangers of ignoring these Unit Economics

In a world of rising costs, not understanding unit economics can be risky for any ecommerce brand. It's like trying to navigate through a maze without a map, which can lead to costly mistakes and prevent a brand from reaching its full potential. Brands that overlook the importance of unit economics can find themselves in financial trouble, struggling to grow and stay competitive in the market.

To stay ahead of the game, brands should be familiar with key metrics like BEP (Break-Even Point) ROAS, Break-even MER (Marketing Efficiency Ratio), and Contribution Margin. Understanding these metrics is crucial for making informed decisions and avoiding pitfalls in the rapidly evolving world of ecommerce.

LTV/CAC

Dean McElwee

Director, Global eCommerce Collaboration

StanleyBlack&Decker

"There is a saying that goes "Revenue is Vanity, Profit is Sanity, and Cash Flow is King". In the frenetic world that is eCommerce, growth is a big focus. But staying sane in the frenetic world of eCommerce means focusing on Profit first. You may focus on metrics such as clicks, and engagements but real profit comes from focusing on driving sales and being ruthless in driving costs down. Take the advice that follows in the following pages, it will greatly assist you to run a profit first eCommerce business and stay sane doing it!"

Maximizing Customer Lifetime Value" is key for businesses to sustain and grow in the long term. Calculating the LTV/CAC ratio and monitoring it over varying "lifetimes" can inform customer acquisition and retention strategies. The contribution value helps understand the actual value of each customer.

It's not just about revenue, but the gross profit derived from each customer over their lifetime. By focusing on LTV, businesses can make informed decisions about how to acquire and retain customers, and ensure they are generating enough value to sustain and grow their business in the long term.

The LTV/CAC ratio is a comparison between the value of a customer and the cost to acquire them. If the ratio is less than 1.0, the business is losing money, but if it is above 1.0, the company is making money.

When calculating LTV/CAC, it's important to define what "lifetime" means for your business. Depending on the nature of the brand in terms of industry and how long you've been around, it can be interesting to monitor these ratios over varying "lifetimes" such as:

- Actual total lifetime
- 3 years
- 1 year, or
- 6 months
- 90 Days

By doing so, businesses can get a better understanding of how their LTV/CAC ratio changes over time, and adjust their customer acquisition and retention strategies accordingly. This allows businesses to stay agile and adapt to changes in the market, ensuring that they are generating enough value from each customer to sustain and grow their business over the long term.

When calculating the Customer Acquisition Cost (CAC) for an ecommerce business, it's important to note that this is not the same as Cost Per Acquisition (CPA) or Cost Per Order

(CPO). Rather, CAC represents the cost per customer acquired, assuming that you are paying for the customer rather than the CPA (cost per order). This may seem counterintuitive since many customers may be acquired through multiple CPAs, but calculating CAC allows you to measure the cost of acquiring a certain group of customers over a specific period of time

Maximizing Customer Lifetime Value is crucial for businesses to sustain and grow in the long term. In order to accurately determine the value of each customer, it's important to calculate the Contribution Value by taking lifetime revenue and subtracting costs like Product Costs, Transaction Fees, Fulfillment Fees, Shipping Fees, and Taxes from the Lifetime Revenue. This value represents the true contribution margin of the customer and is the "V" in the CLV ratio.

The ideal range for the LTV/CAC ratio is between 3 to 5. For example, if it costs €50 to acquire a customer, but that customer brings in €150 in value over their lifetime, then the LTV/CAC ratio would be 3.0. By optimizing their LTV/CAC ratio, businesses can ensure they are not overspending on customer acquisition and are generating enough value from each customer to sustain and grow their business.

Maximizing profits by finding the optimal CLV/CAC ratio.

CLV and CAC are important for businesses. They're the real metrics that show revenue and costs, but they're measured at different times. CLV happens all the time, tracking sales and variable expenses for each order. CAC only happens when you get a new customer, measuring how much you spend on marketing to get them. So, when CLV is more than CAC, you make money from each new customer. But just going for the highest CLV/CAC ratio isn't always the best way to make the most profit. Let me explain.

Let's consider a scenario in which a business is generating €16,000 in gross profit from 100 customers, resulting in an LTV of €160, a CAC of €40, and a CLV/CAC ratio of 4. While this may seem like a profitable situation, it doesn't necessarily mean the business is operating at optimal efficiency.

If the business increases their marketing spend to acquire more customers, their CAC will also increase. While it may be tempting to aim for a high LTV/CAC ratio, it's important to keep in mind that higher isn't always better. In fact, investing more to decrease CAC may actually be more beneficial for the overall profitability of the business, as counterintuitive as that may seem.

This is assuming a perfectly correlated relationship between the growth in customers and the growth in CAC, increasing the number of customers you want to acquire by 10% will lead to a 10% increase in the average CAC for all customers.

Many business owners are hesitant to increase their marketing spend due to the fear of rising CAC. However, investing more to decrease CAC can ultimately result in greater profitability for the business. In fact, understanding LTV:CAC on a contribution margin level is one of the most important KPIs for growing a successful ecommerce brand in 2023.

Profit = Profit Per Customer x Acquired Customers

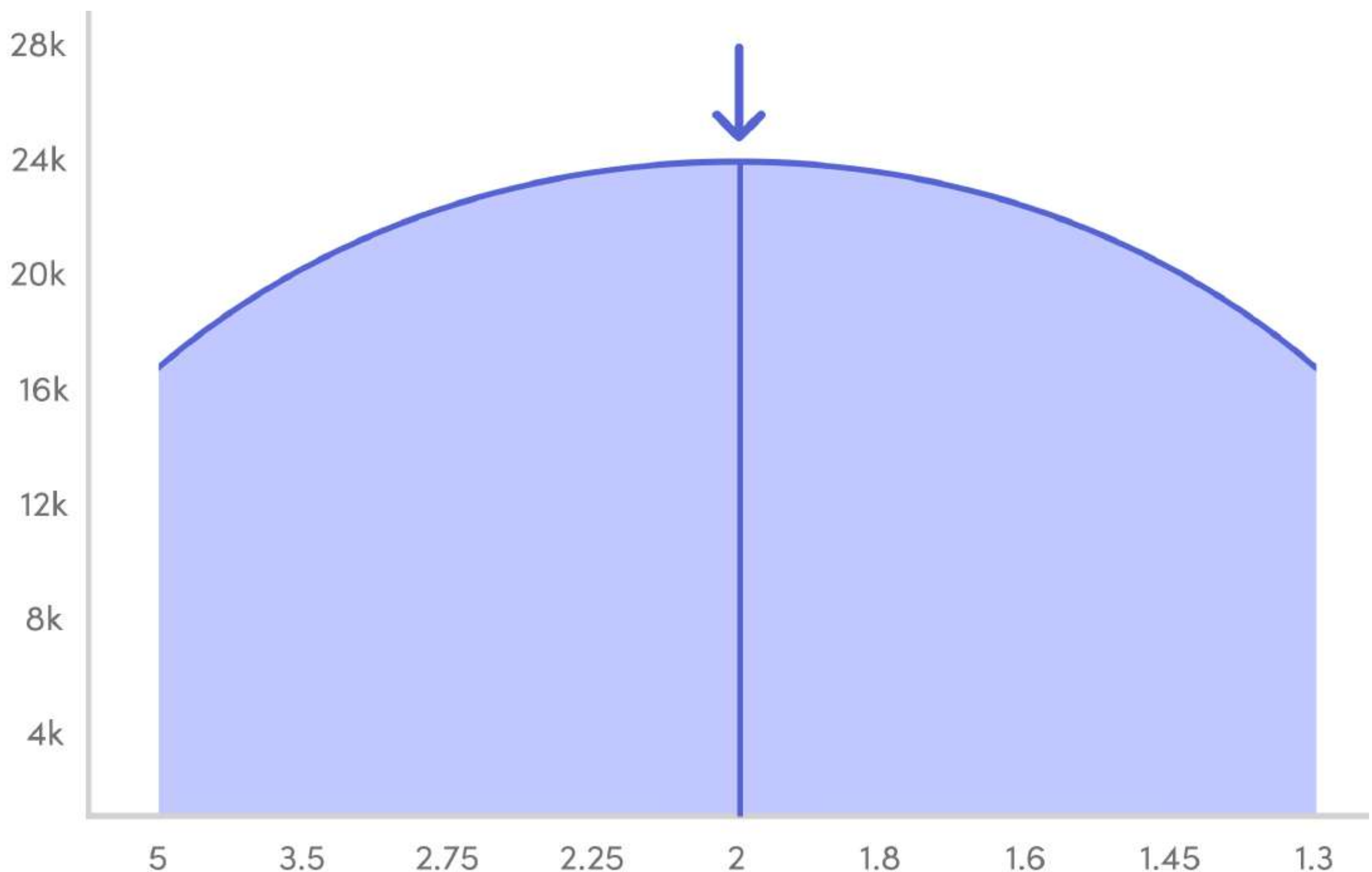
CLV	€200
CAC	€40
CLV/CAC Ratio	5
Profit Per Customer	**€160**
Acquired Customers	**100**
Profit	**€16,000**

CLV and CAC are important for businesses. They're the real metrics that show revenue and costs, but they're measured at different times. CLV happens all the time, tracking sales and variable expenses for each order. CAC only happens when you get a new customer, measuring how much you spend on marketing to get them. So, when CLV is more than CAC, you make money from each new customer. But just going for the highest CLV/CAC ratio isn't always the best way to make the most profit.

CLV/CAC Ratio by Absolute Profit

While it's important to find the perfect CAC target, it's not just about maximizing the CLV/CAC ratio. You also need to think about the context of your business, like how much you make from each sale, and how your marketing spend affects your CAC. And if you make most of your money from customers after their first purchase, you have to take that into account when you calculate your CLV/CAC ratio.

For example, if the business increased its CAC to €100, they could acquire 250 customers per month, resulting in a CLV/CAC ratio of 2 and a profit per customer of €100, a decrease of 37.5%. However, the total amount of profit they could generate is up to €25,000, a 56% improvement.



Founder of Defiant

"Knowing the relationship between your customer lifetime value and your customer acquisition cost has never been more crucial. Whether you are looking to grow your profits, increase market share, or review your ad spend, leveraging this ratio is like having a key that unlocks every door.

You're doing well as a merchant if you can calculate these numbers. You're going to be doing an awful lot better if you can put them to work for you.

Coupling this ratio with your ideal customer profiling will be the secret sauce to focussing your ad spend. This will mean that you can afford to outspend your competitors, acquiring better quality traffic, leading to increased conversions, and adding to a growing pool of customers for your retention efforts. It's here that the magic happens as you have created a flywheel for growth that your competitors won't be able to match."

CAC Payback Period

Seamus O'Connor

Founder & Managing Director of TheIrishBusinessAdvisor

"eCom brands are investing in new customer acquisition every single day. It's usually the biggest investment they will make each year. Appraising the return on this investment is crucial in understanding the impact on current and future profits as well as cashflow, to ensure the business can tolerate the impact."

As you start to grow and scale your business, cashflow becomes vitally important for your business. The **CAC payback period** is also a crucial metric for businesses to consider. The CAC payback period is the length of time it takes for a business to recoup the cost of acquiring a new customer through their customer's lifetime value. For ecommerce businesses, profitability on the first order may not always be necessary. Depending on industry and product nature, businesses may prioritize a longer CAC payback period to achieve long-term profitability

A shorter payback period means that the business can reinvest in customer acquisition sooner, which can lead to faster growth. On the other hand, a longer payback period can indicate that the business is overspending on customer acquisition, which can lead to cash flow problems and hinder growth.

By understanding their CAC payback period, businesses can make informed decisions about their customer acquisition strategies and ensure that they are not overspending on customer acquisition. A shorter payback period also indicates that the business is generating enough value from each customer to sustain and grow their business.

Let's say you run a subscription-based business that sells razors, and it takes you six months to recoup the cost of acquiring a new customer. Meanwhile, if you're selling toothpaste, it might take you 12 months to break even. That's because people tend to buy toothpaste more often, which means they stick around longer and have a higher lifetime value. By knowing your payback period, you can make smart choices about how to attract new customers and ensure that you're getting enough value from each one to keep your business growing.

CAC payback period is calculated by dividing the cost of acquiring the customer (€50) by the contribution value per period (€75), which is the lifetime value (€150) divided by the average purchase frequency (2 times per year). This results in a CAC payback period of approximately 8 months.

KEY Metrics

Metric	Definition
Blended ROAS	A metric that combines the return on ad spend (ROAS) across all marketing channels to give an overall view of ad performance.
Breakeven Point ROAS	The point at which your return on ad spend equals your costs, meaning you're neither making nor losing money on your advertising efforts.
MER (Marketing Efficiency Ratio)	The ratio of gross revenue to marketing spend, used to measure the efficiency of marketing efforts.
CPA (Cost Per Acquisition)	The average amount of money spent on advertising to acquire a new customer.
New Customer CPA	The average amount of money spent on advertising specifically to acquire new customers, as opposed to retaining existing ones.
Contribution Margin	The difference between the selling price of a product and its variable costs, which can be used to cover fixed costs and generate profit.

BEP ROAS

Many brands today lack a clear understanding of their unit economics on a product level, leading to wasted resources and reduced profits. Although the cost of running online ads has increased considerably, many businesses are still under-spending due to poor understanding of their Break-Even Point (BEP) Return on Advertising Spend (ROAS). By understanding their BEP ROAS, businesses can make informed decisions about their advertising budgets and maximize their return on investment. In this section, we'll explore the importance of BEP ROAS and how it can help businesses achieve greater profitability.

Let's take a business that sells a product for €80. Say they acquired an order for €15, resulting in a 5.33x ROAS. However, to truly grasp their profitability, we need to break down the numbers using the Break Even ROAS (BEP ROAS) formula.

BEP ROAS = (Revenue per product) / (Revenue per product - Total costs per product

First, let's tackle the VAT issue. Remember, ad spend numbers don't have VAT, while the reported revenue does. So, we're comparing two different things. To get an accurate ROAS, we must remove VAT from the revenue. The ad spend without VAT stays at €15.

Revenue	€80
VAT (23%)	€14.96
Revenue without VAT	**€65.04**

Now our ROAS is €65.04 ex VAT divided by €15.00 ex VAT.
With this adjustment, the real ROAS is not 5.33x, but 4.36x instead.

BEP ROAS

Next, we need to factor in the costs associated with delivering the product:

Product Cost	€20
Shipping (free shipping threshold surpassed)	€5
3PL fee	€4
Transaction fee (2%)	€1.60
Our variable costs amount	**€30.60**

Now, let's calculate the BEP ROAS:

BEP ROAS = 65.04 / (65.04 - 30.60) = **1.89**

Gross profit	€65.04
- Costs	€30.60
Maximum cost per acquisition	**€34.44**

By multiplying the gross profit by the BEP ROAS, we arrive back at our generated revenue. In simpler terms, we cannot spend more on the cost per acquisition than the full gross profit generated for this product.

Gross profit	€65.04
x BEP ROAS	1.89
Generated revenue	**€65.04**
23% VAT	**€14.96**
Revenue with VAT	**€80.00**

Breakeven MER

The Breakeven MER (Marketing Efficiency Ratio) is an essential metric for measuring the overall performance of your business, it tells you the absolute maximum amount that you can spend on marketing before you become unprofitable. BEP MER considers all of the key metrics of the business including your operational expenses. It's calculated as total revenue divided by total spend. With attribution becoming increasingly subjective, MER serves as a guiding light for marketing and general business efforts. Breakeven MER is an essential benchmark that helps businesses set a minimum MER goal, ensuring they don't fall below it. This metric is closely tied to the gross profit of a company. For instance, let's consider an ecommerce business with these numbers:

Sales	€5M
Gross margin	50%
Fixed costs	€500k

If the goal is to break even, the breakeven MER is 2.5, which means the advertising budget should be €2 million. In this case, the breakdown would be as follows:

Sales	€5M
- COGS (50%)	€2.5M
Gross profit	**€2.5M**
- Advertising/CAC	€2M
- Fixed cost	€500k
Net income	**€0**

Breakeven MER helps businesses monitor their marketing spend and make informed decisions, ensuring that their advertising efforts are both efficient and effective while maintaining a healthy balance between growth and profitability.

Breakeven MER

"The cyclical nature of eCommerce means you are always investing money into customer acquisition to fuel growth. It's absolutely vital that you understand your breakeven MER to ensure that your advertising spend is efficient and aligns with the financial aspirations of the business"

Contribution Margin

Contribution Margin represents the amount of money left over from sales after deducting variable costs associated with producing and selling those products. This metric is crucial for understanding the profitability of individual products, as well as the overall health of the business. Failing to monitor the contribution margin can lead to offering products that eat into profits, rather than boosting them.

Contribution Margin = Net Revenue - Variable Costs

First, we'll calculate the Net Revenue (gross revenue minus discounts & refunds): Since there are no discounts or refunds, the Net Revenue equals the gross revenue.

Net revenue	**€50**

Next, we'll calculate the total Variable Costs:

COGS	€10
Shipping costs	€5
Fulfillment costs	€5
Payment processing fees	€2
Advertising spend	€10
Our variable costs amount	**€32**

Now, we can plug the values into the Contribution Margin formula:

Contribution Margin = €50 - €32 = **€18**

Contribution Margin

In this example, the Contribution Margin is €18. This means that for each product sold, the brand has €18 left over after covering all variable costs associated with that product. This remaining amount can be used to cover fixed costs and contribute to the brand's overall profitability.

Jonathon Blair

Founder | Fractional CFO of Free to Grow CFO

"Contribution margin is the first and most important measurement of product and sales channel profitability that every D2C brand must seek to understand. Without a deep understanding of it, you risk making scaling decisions at the product and sales channel level that you think will drive company profitability up, when in fact those decisions are driving profitability down. Most D2C brands assess product and sales channel profitability using gross margins. However, a product or sales channel with a healthy gross margin can have a very low or negative contribution margin. Understanding the contribution margin of your products and sales channels will equip you to make profit optimizing decisions as you scale your D2C brand."

3
Profitable Acquisition

"Half the money I spend on advertising is wasted;
the trouble is I don't know which half."
John Wanamaker

Today's marketplace, from fuel to Facebook ad clicks, comes with a higher price tag. This is particularly evident in digital advertising, where the formerly low cost per thousand impressions (CPM) now takes a hefty slice of marketing budgets. Marketers face the task of maintaining potential clients during onboarding and plugging sales funnel leaks due to escalating CPMs.

The rise in digital advertising costs, isn't a dead-end for marketers. They're inventing strategies to handle increasing CPM while guiding potential customers towards conversion. Recent reports show a worrying CPM increase across top digital advertising platforms, including an 89% hike for Facebook and 92% for TikTok, directly affecting the crucial customer acquisition cost (CAC) metric. Paid ad costs are like a hidden tax on businesses that doesn't often show up clearly in the P&L. We've had to accept higher costs over the last 2 years, but if this as a 2x increase in our government taxes there would be riots in the streets!

Two primary factors spurring CPM's surge are Apple's new privacy policy and the growing demand for digital ad space. Apple's App Tracking Transparency, offering consumers an opt-out for app data collection, has created challenges for digital advertisers. Concurrently, the COVID-19 pandemic's boost to e-commerce has ramped up demand for digital ad space.

Profitable acquisition entails:

- **Decreased CPA**: Reducing the cost per acquisition (CPA) is vital to maintain profitability in your e-commerce business. To decrease CPA, focus on improving the efficiency of your ad campaigns by optimizing targeting, bidding strategies, and ad creatives. Additionally, analyze and refine your customer segmentation to ensure you're reaching the most relevant audience with the highest potential for conversion. When we audit a Facebook ad account for example, a lot of the opportunities we see are the basics - are you doubling down on the campaigns that are driving a strong CPA and pulling back on the ones that aren't?
- **Increased AOV**: Boosting your average order value (AOV) can significantly impact your profitability. Implement tactics such as upselling, cross-selling, and bundling to encourage customers to spend more in a single transaction. Offering free shipping

thresholds and personalized product recommendations can also incentivize customers to increase their order value.

- **Increased LTV**: Enhancing the lifetime value (LTV) of your customers ensures long-term profitability. To increase LTV, prioritize customer retention strategies such as loyalty programs, personalized marketing, and outstanding customer service. By nurturing ongoing relationships with your customers, you can encourage repeat purchases, boost brand loyalty, and ultimately increase the overall value they bring to your business.

Review your acquisition funnel:

- **Benchmarking each lever**: Comparing your funnel metrics against industry benchmarks or your own historical data can provide valuable insights into areas that require improvement. This will help you identify which aspects of your funnel are underperforming and allow you to focus your optimization efforts accordingly.
- **Assessing website traffic costs**: Analyze your marketing spend and evaluate whether it's too expensive to attract users to your website. High traffic costs can lead to unsustainable customer acquisition costs (CAC) and negatively impact profitability. By optimizing ad campaigns, targeting, and creatives, you can reduce the cost of driving traffic to your site.
- **Examining conversion rate**: Take a close look at your site's conversion rate and identify potential bottlenecks or pain points that might be preventing users from completing a purchase. This could involve improving your site's user experience, streamlining the checkout process, or addressing concerns about trust and security.
- **Evaluating creatives**: Review the effectiveness of your ad creatives in terms of attracting and engaging potential customers. High-performing creatives can contribute to lower traffic costs and higher conversion rates, so it's important to regularly test and optimize your visuals and messaging.
- **Ensuring accurate tracking:** Accurate tracking of your funnel metrics is crucial for making informed decisions and optimizing your acquisition strategy. Verify that your tracking setup is correctly configured and captures all necessary data to provide a clear picture of your funnel's performance.

SEO

Even after more than two decades, SEO remains an invaluable tool for e-commerce stores aiming to lower their customer acquisition costs, particularly because it doesn't incur ongoing ad costs that channels such as Google Ads do. While there are numerous sources of knowledge to identify SEO opportunities for your e-commerce store, it's essential to consider a profit-first approach.

In terms of profit-first e-commerce, SEO can be divided into three main categories:

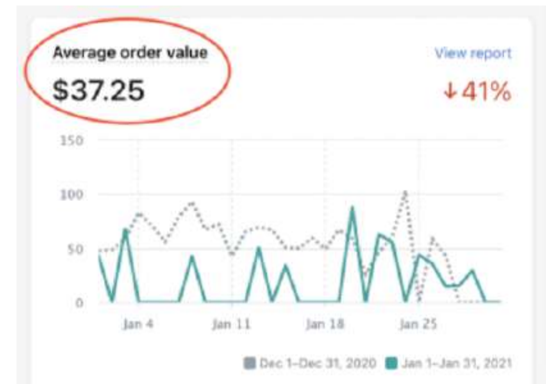
- **On-Page SEO**: Optimizing headlines, descriptions, and page content to increase the chances of appearing for relevant keywords.
- **Technical SEO**: It focuses on improving performance and optimization aspects to ensure that your store is favored by search engines like Google.
- **Domain Authority & Link Building**: Establishing credibility across the internet by obtaining backlinks from other reputable websites.

Here's a quick win to consider: ensure that your branded Google Ads campaigns do not cannibalize conversions from organic SEO. If you already rank number one for a particular keyword without any competition, you may be paying for conversions that would have been obtained organically. Use Search Console or StoreHero to check your average position for top keywords in Google search console. The "Abs. top of page impression %" metric will indicate the percentage of time your ad appears in position 1 and help determine whether it's worth bidding on that keyword.

"Topical Authority eCommerce brands who are building for the long term should have an SEO strategy to build topical authority in the eyes of Google. A well-executed SEO strategy will help diversify reliance on Paid Media and reduce CAC over time.

By creating written content for your brand that is informational and transactional, you will help customers find your website when they start their search."

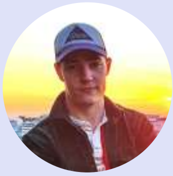
Average Order Value



Improving the Average Order Value (AOV) for your ecommerce brand is a crucial factor in maximizing the overall profitability and growth of your business. AOV is the average amount spent by a customer during a single transaction, and increasing this figure can significantly impact your bottom line. By focusing on strategies to enhance AOV, such as upselling, cross-selling, and bundling products, your ecommerce brand can increase revenue without needing to invest in acquiring new customers. This ultimately leads to a higher Return On Ad Spend (ROAS) as the value of each purchase increases relative to the amount spent on advertising.

A higher AOV also has a direct impact on your ROAS, as it allows your business to generate more revenue from your existing customer base. With a higher AOV, you can allocate a larger portion of your marketing budget to targeting high-value customers who are more likely to make substantial purchases. This strategy will maximize the effectiveness of your ad spend and result in a more efficient allocation of resources. As a consequence, you'll see a boost in your overall ROAS as the value of each purchase increases in relation to the cost of your ad campaigns.

Moreover, an increased AOV contributes to the long-term sustainability of your ecommerce brand. By enhancing customer loyalty through personalised offers, loyalty programs, and product recommendations, you can keep your customers coming back for more. This not only increases the lifetime value of each customer, but it also reduces the need for continuous investment in customer acquisition, which can be costly and time-consuming. As a result, your ecommerce brand will witness improved ROAS, customer retention, and overall profitability, paving the way for steady growth and success.Taking the example of a brand that generates €1,000,000 in annual revenue through 20,000 orders, with a current AOV of €50, let's examine the impact of increasing the AOV by 20% and 40% while keeping the number of orders consistent.



Verneri Brander

Co-Founder of GrowthTrigger

GROWTH TRIGGER

“One of the easiest ways to increase AOV is to implement shopping cart gamification. This is done by encouraging customers to add more items in their order in exchange for free shipping, free gifts, and other bonuses”

Lets Run The Numbers

Orders	AOV	Sales
20,000	€50	€1,000,000
20,000	€60	€1,200,000
20,000	€70	€1,400,000

Many businesses overlook the potential of leveraging AOV as a powerful tool to bolster their growth and overall performance. They may be more focused on customer acquisition, while neglecting to capitalize on the value of their existing customer base. AOV strategies are often either overlooked or poorly executed, leading to missed opportunities for enhancing revenue and improving ROAS. By recognising the importance of AOV and implementing effective strategies to increase it, ecommerce brands can unlock their full potential, optimize their ad spend, and achieve significant growth in a sustainable manner.

Here are some of the top AOV boosting strategies:

- **Bundle products:** Keep an eye out for products that are often bought together. Offer customers bundled products or services that complement each other. This can encourage customers to purchase additional items, thereby increasing AOV and boosting ROAS.
- **Upsell and cross-sell:** Encourage customers to upgrade their purchase or buy additional products by suggesting complementary items or offering special deals on higher-priced items.
- **Offer free shipping with a minimum purchase amount:** This can incentivize customers

to add additional items to their cart to reach the minimum purchase amount, thereby increasing AOV and boosting ROAS. A good rule of thumb here is to set your free shipping threshold to be 20% over your AOV.

- **Implement a loyalty program:** Offer rewards or discounts to customers who spend above a certain threshold. This can encourage customers to make larger purchases in order to earn rewards, increasing AOV and boosting ROAS.
- **Use targeted promotions:** Target customers with personalised promotions based on their past purchases or browsing history. This can encourage customers to purchase items that they are more likely to be interested in, increasing AOV and boosting ROAS.
- **Dynamic Merchandising:** Traditional merchandising online is not only time-consuming but can also be biased and not cater to each shopper's individual needs and wants. To capture shoppers' attention in the first few seconds of visiting an online store, engaging them in real-time and adapting dynamically can help showcase more relevant products, cross-sell and increase the size of their shopping basket.
- Highlighting relevant promotions and popular items can also drive customer interest, further boosting the AOV. Smart, dynamic merchandising techniques leverage AI to automate and optimise the merchandising process, making it more efficient and effective. This approach delivers a more personalised and relevant shopping experience to each shopper, resulting in increased basket size and AOV.

CEO at Shopbox

"Keeping an eye on the AOV is essential when running an eCommerce business. Getting new customers can be expensive, so it's a good idea to focus on increasing AOV for each shopper that visits your site to boost your ROI. For example, if someone's buying running shoes, you could suggest running socks or a water bottle, at that moment, to enhance their experience and potentially increase their AOV. This is common practice in physical retail. It sounds easy in theory, but it's impossible to do this effectively when manually managing and updating 100s or 1000s of online stock items.

Discounts

Oren Charnoff

Co-Founder & CEO at Fondue

"Discounts are the most overlooked part of the customer journey and most neglected growth and profit opportunities for brands. Not every shopper converts due to the discount but because most brands discount with coupon codes, all shoppers demolish brands margins by applying effortless coupon codes. Brands are becoming much more intentional around margins and discounting is an incredible place for margin expansion by ditching the old coupon code"

Discounting is a powerful tool for eCommerce brands to attract customers, generate sales, and increase revenue. However, using discounts effectively requires a strategic approach, constant evaluation, and careful consideration of the long-term impact on the bottom line.

Here are five primary discount methods that eCommerce brands can use:

- **Percentage discounts**: This is a discount that takes a percentage off the total price of a product or order. For example, a 20% discount on a €100 order would reduce the price to €80.
- **Fixed amount discounts**: This is a discount that subtracts a fixed amount from the total price of a product or order. For example, a €10 discount on a €100 order would reduce the price to €90.
- **Free shipping**: This is a discount that offers free shipping on a product or order. It can be a powerful motivator for customers who are reluctant to pay shipping fees.
- **Buy-one-get-one (BOGO)**: This is a discount that offers a free product when a customer purchases a specific product. For example, a BOGO deal might offer a free t-shirt when a customer buys a pair of jeans.

- **Cashback:** In their welcome series popup, email, and SMS, brands have replaced coupons with CashBack, which shoppers can redeem post-purchase as cash or a gift card back to the brand's store. To encourage more shoppers to claim their CashBack, brands reinvest the unclaimed money into larger offers, aiming to increase conversion and revenue.

Discounts may lead to short-term gains, but they can also lead to long-term problems such as reduced margins and lower perceived brand value. One way to use discounts more strategically is to trade discount dollars for ad spend, which can result in a more efficient customer acquisition cost (CAC) or marketing efficiency ratio (MER). However, there are two important things to keep in mind when using this approach:

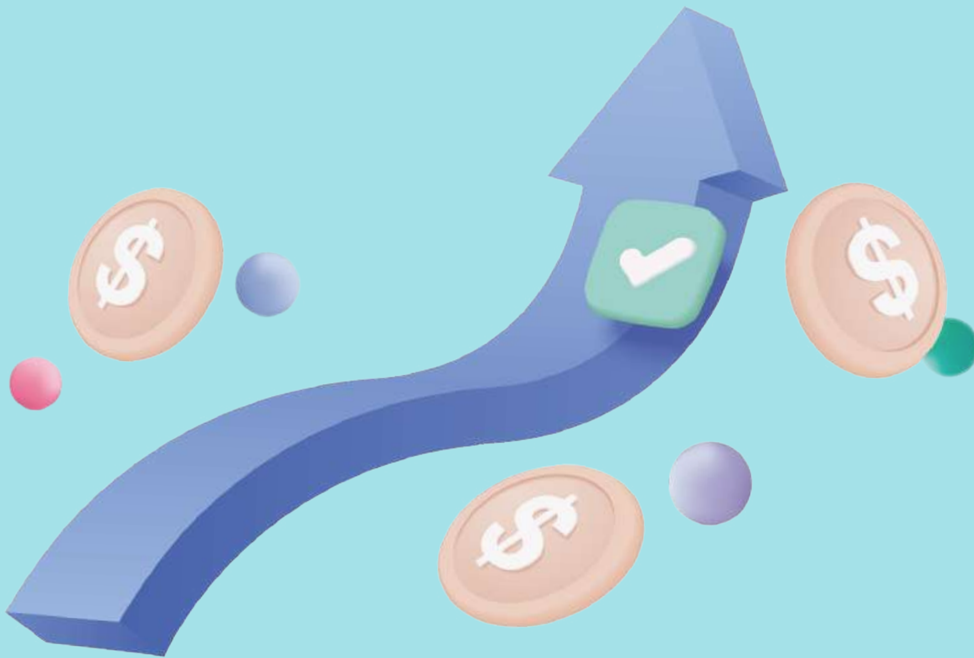
- **Watch the impact of the discount**: acquired customer on the lifetime value (LTV) of a customer. Discounts can attract customers who are primarily interested in the discount and may not become loyal, repeat customers.
- **Make sure that acquisition discounts or offers do not impact the orders of existing customers.** Repeat customers bring in more profit and ignoring their needs can quickly harm the profitability of the business..

eCommerce brands can use discounts effectively, but it requires a strategic approach and constant evaluation to ensure they aren't not harming the bottom line over time. By carefully considering the impact of discounts on customer lifetime value and retention, brands can use discounts as a powerful tool to drive sales and increase revenue.

4
Profitable Conversion

"I have not failed 10,000 times.
I have successfully found 10,000 ways that will not work."

- Thomas Edison



Key Metrics

Breige Grogan
Founder of Little Rock Digital

"When a customer enters a retail store in the offline world, the salesperson will deploy all their persuasion tactics & selling skills to close (or convert) the sale. We need to think about the eCommerce experience in the same way. It's not enough to bring the customer in the door of our virtual store and finish there. We need to stay with that customer – to understand what they're searching for, to suggest things they might be interested in, to persuade them to buy, and crucially, to ensure that they have a great experience on our site.

Our digital marketing efforts are critical in driving traffic to our sites but think how much more impactful (and profitable) they would be, if the website converted at a higher percentage. Thinking about the online customer journey from end to end is the key to delivering a higher conversion rate, and in turn, increased profitability."

Conversion Rate

The significance of Conversion Rate Optimization (CRO) in the realm of direct-to-consumer (DTC) businesses cannot be overlooked, as it can drive significant growth in sales and profitability. Although CRO may initially appear as a secondary concern for some DTC companies, focusing on this vital metric can yield considerable results. A full-funnel approach to CRO is essential to optimize the entire customer journey, taking into account various factors that contribute to the overall conversion rate.

To illustrate the impact of conversion rate on a business's success, consider a company with $1,000,000 in annual sales and an average order value of $50. This translates to 20,000 orders and a 2% conversion rate, which is deemed good for ecommerce brands.

However, it is important to recognise that 98% of website sessions do not result in a sale. By working to improve the conversion rate from 2% to 4%, a business could potentially double its sales and halve its blended cost per acquisition, all while maintaining the same number of website sessions.

Embracing a full-funnel approach to CRO requires analyzing every action a user takes throughout their journey on the website. Metrics such as:

- Bounce rate (single-page visits percentage)
- Product page views (number of product views)
- Add-to-cart rates (items added to cart)
- Checkout rates (users proceeding to checkout)

All contribute to the conversion rate. By continuously optimizing these metrics and running experiments, businesses can see significant improvements in their conversion rate and, ultimately, their sales. This highlights the importance of prioritising CRO in order to drive growth and achieve long-term success.

Choosing the right theme for your ecommerce store is essential for achieving a good conversion rate. A theme that is user-friendly, visually appealing, and optimized for mobile devices can help increase sales and grow your business.

CLEAN CANVAS

"UX in themes should always be human-centric. Great UX equals great experiences. The right theme needs to have an engaging and seamless shopping experience in order to be effective in increasing conversions."

Lawrence Stark

Founder of Convertful

Convertful

"DTC brands exist on a spectrum that I call the Highway to Profit which has 3 lanes – Slow, Fast, and Autobahn. The guys in Slow Lane think ROAS = profit and obsess over it. That's far from the truth and they either realize it or crash and burn.

In Fast Lane, brands discover the importance of CRO and optimizing your buyer journey. CPMs and CPAs will keep going up. The key is to improve your conversion rate, AOV, and LTV to afford those higher costs while also increasing profits.

And Autobahn Lane is where the top 1% rolls. They apply CRO to their whole business. They test and optimize everything – offers, ads, landing pages, website, emails, and more. CRO is already the most powerful profit-making tool in eCom. Combine it with marketing, financial, and business insights and you won't merely increase... but multiply your profits. That's your unfair advantage."

Muireann Fitzmaurice

Founder of MarketingCoach.ie

"In the post-COVID era, consumers are increasingly concerned about rising prices and scrutinizing their non-essential spending, with media coverage potentially exacerbating these worries. This means that marketers will need to work harder to persuade customers of the value of their brands. Another intriguing trend is the "phygital" swing between physical and digital retail, which is impacting the effectiveness of digital marketing strategies now that people are returning to physical spaces. This highlights the importance of adopting a 360-degree approach to the customer journey and experience, both online and offline."

How can I carry out effective CRO?

The top 5 most important activities for effective Conversion Rate Optimization (CRO) are:

A/B testing:

Compare different website elements to identify the highest-performing versions for conversions. **Top Tools include:** Optimizely, Crazy Egg, A/B Tasty

User experience (UX) improvements:

Enhance website layout and navigation to provide a seamless experience for users.

Analyzing website analytics:

Review data regularly to optimize user behavior and conversion rates.
Top Tools web analytics tool: Google Analytics

Streamlining the checkout process:

Minimise steps, offer guest checkout options, and provide multiple payment methods.

Optimizing page load speed:

Ensure fast loading on all devices to reduce bounce rates and increase conversions. **Top Tools to analyze speed:** GtMetrix

By focusing on these essential activities, brands can significantly improve their conversion rates and overall business performance.

5

Profitable Retention

"Do what you do so well that they will want to see it again and bring their friends."
- Walt Disney

Adam Kitchen

CEO of Magnet Monster

"Contrary to popular belief, profitable retention marketing actually starts with effective acquisition strategies. This is because certain cohorts of customers will yield a higher lifetime value and better contribution margin depending on product entry route, seasonality, and a myriad of other factors. Therefore, to master retention, you first need to understand cohorts and build your strategy around which customers it first makes sense to pursue to maximise profitability."

In recent years, the ecommerce industry has primarily focused on Return on Ad Spend (ROAS) and achieving low Cost Per Acquisition (CPA) rates. This emphasis on acquiring new customers was facilitated by inexpensive CPAs, allowing brands to dedicate their resources to constant customer acquisition. However, the landscape has shifted due to increased competition in online sales, heightened privacy regulations from Apple's introduction of iOS14, and subsequent challenges in attribution.

The adage "it's much cheaper to retain an existing customer than acquire a new one" has become increasingly relevant for direct-to-consumer (DTC) brands. As the cost of acquiring new customers rises, there is a growing need for companies to focus on customer retention strategies. This shift in emphasis, however, must be approached with balance. A brand that solely concentrates on retention at the expense of acquisition efforts will struggle to grow its business, as it needs a steady inflow of new customers to apply retention strategies effectively.

To maintain a balanced approach between customer acquisition and retention, DTC brands should employ a combination of strategies that cater to both aspects. These may include investing in personalised marketing campaigns, refining their product offerings, and providing exceptional customer service. By focusing on building strong relationships with existing customers while simultaneously attracting new ones, brands can optimize

their growth potential and ensure long-term success in an increasingly competitive ecommerce landscape.

Michael Storan

Co-Founder of Dataships

dataships

"Building long term relationships with customers has never been more important. This starts at acquisition and continues as brands building these relationships using tools such as email and SMS.

Optimizing data collection is the key in ensuring the brands' ability to engage with their customers through different channels and ultimately to the lifetime value of the customer."

The top 5 ways a brand can improve their customer retention are:

- **Personalisation and segmentation:** Tailor marketing communications, product recommendations, and user experiences to individual customers based on their preferences, purchase history, and demographics. Implement proper segmentation in email marketing efforts, ensuring that different customers receive relevant messaging. Distinguish between new and loyal customers, as their objectives and expectations may vary significantly.
- **Customer service and NPS monitoring:** Provide prompt, efficient, and empathetic support to address customer concerns and inquiries, fostering trust and loyalty. Monitor the Net Promoter Score (NPS) to gauge customer satisfaction and identify areas for improvement. Using customer service feedback to improve customer journey and overall experience.

- **Strategic incentives and discounts:** Implement customer loyalty programs, offering exclusive rewards, discounts, or perks to repeat customers. Employ targeted discounting strategies at specific points in the customer journey to maximize effectiveness without sacrificing margins. Understand the implications of discounting on margins and avoid blanket discounts for all customers.
- **Regularly communicate with customers:** Utilise email marketing, social media, and other communication channels to share valuable content, product updates, and promotions, keeping customers engaged and informed while promoting brand awareness.
- **Post-purchase surveys:** Collect customer feedback through surveys, reviews, or direct communication, and use the insights gathered to improve products, services, and the overall customer experience. Post-purchase surveys can help brands validate attribution issues and gather valuable feedback to drive new product innovation.

Founder of Va-va Voom Digital

"Not all euros, pounds or dollars are the same! $1 of revenue works out a lot less than $1 of profit. Not all customers are the same either. On average 80% of customers will never purchase from your store again. If you are breaking even or losing money on your first order when 4 out of 5 won't make a second purchase you are crippling your business from profitability, cash flow and the opportunity to scale.

Merchants need to focus on knowing their numbers intimidatingly through their P&L, targeting quality traffic & optimise for AOV so that there is enough margin to cover the cost to fulfil the first order AND to be able to go and acquire the next one with the leftover for free essentially! This is called customer financed acquisition. Merchants that focus on the fundamentals of ecommerce & business and do the non-sexy things well over & over will outlast and beat any new trends or unsustainable brands."

A study by McKinsey & Company found that 71% of consumers expect companies to deliver personalized interactions and brands that do will benefit with 40% more revenue.

To continue meeting the demands of the consumer, build loyalty, and entice new customers; brands need to establish personalized connections at each stage of the customer journey. Through personalization, brands can create a unique end-to-end experience that encourages sustained brand loyalty and facilitates repeat purchases.

A robust personalization strategy enhances the customer experience, increases conversion rates, and amplifies brand visibility across channels; ultimately leading to higher retention and an improved bottom line.

Founder of Chargezen

"In today's dynamic business landscape, personalization is not merely an add-on; it is an absolute necessity for fostering customer retention and maximizing revenue growth."

Important metrics for your Retention Strategy

Metric	Example
Repeat Customer Rate (RCR)	A clothing store finds that 30% of their customers make a second purchase. A high RCR indicates customer satisfaction and loyalty, directly contributing to increased revenue.
Customer Lifetime Value (CLV)	A subscription-based service calculates the CLV of a customer as $1,200 in total revenue, with $600 being actual profit. CLV helps understand how much a business can invest in acquiring and retaining customers while maintaining profitability.
LTV:CAC Ratio	An online retailer's LTV:CAC ratio is 3, meaning the value a customer brings is three times the cost of acquiring them. This metric helps businesses evaluate the effectiveness of their marketing strategies and make adjustments accordingly.
Purchase Frequency	A coffee shop's customers visit an average of four times a month. A higher purchase frequency indicates better customer engagement and higher revenue. Monitoring this metric helps identify opportunities to improve customer experience and encourage repeat purchases.
CAC Payback Period	A software company spends $200 to acquire a new customer who generates $50 in monthly revenue. The CAC Payback Period is four months, as it takes four months to recover the acquisition cost. Monitoring this metric helps businesses optimize their customer acquisition strategies and maintain healthy cash flow.

Fueling this Growth

Ecommerce businesses have unique cash flow cycles that can be irregular and unpredictable. For example, marketplaces like Amazon may pay online sellers on a 14-day cycle, while these sellers may pay their suppliers 30 or 60 days after purchasing inventory. This delay can create cash flow problems that impact the business's ability to grow and succeed.

Here are some reasons why ecommerce financing can be a valuable solution for these businesses. Please note the below is not financial advice.

- **Unlock working capital**: With ecommerce financing, businesses can access working capital to cover important expenses like advertising and affiliate program costs, as well as purchase additional inventory. This can help businesses grow more quickly by expanding their reach and product offerings.
- **Bridge the payment gap**: Ecommerce financing can help bridge the gap between the time revenues are generated and the time payment is made by the marketplace. This can provide businesses with the necessary cash flow to continue operating smoothly and without interruption.
- **Speed up cash flow**: By addressing cash flow issues, ecommerce financing can help businesses speed up their cash flow cycle. This means they can get paid more quickly and pay their suppliers in a more timely manner, which can help improve relationships with suppliers and customers alike.

As with any lending , you should speak to indepenent experts to assess your options as every sitation is different. As inflation continues to rise, more and more businesses are seeking financing solutions to help them navigate these challenging economic conditions. Ecommerce financing can provide these businesses with the support they need to thrive and grow, even in the face of economic uncertainty.

Richie Lennon

Richie Lennon, Around Finance, Owner, Partner

"Metrics are essential in e-commerce, but it's easy to get lost in them. AOV, ROAS, LTV, and CAC – they're all important, but they're often used to justify ad spend rather than focusing on profit. The challenge is not only defining these metrics but also understanding profitability from a P&L and product-level perspective. When working with e-commerce businesses, I've noticed that marketers tend to focus too much on ROAS and not enough on the actual cost of doing business in the e-commerce channel."

Getting your Business Ready for an exit

Emmett Kilduff

Co-Founder and CEO at The Fortia Group

"Our team has negotiated due diligence across an accumulative $80 billion worth of acquisitions and we cannot emphasize enough how important preparation is to the success of an exit. Hence, the Fortia mantra is "Failing to prepare is preparing to fail." This ebook provides some of the core metrics every entrepreneur needs to ensure their eCommerce business is Exit Ready and in a position to achieve the highest valuation."

When it comes to DTC business exits, it's important to realize that good businesses are not simply sold; they are bought. This means that to achieve the ultimate goal of an exit, DTC business owners need to focus on creating a strong, profitable, and sustainable business that will be attractive to potential buyers. The Fortia Group recently put together an excellent guide on "Exit Guide for DTC Businesses" that provides valuable insights into what you need to do to get your business in shape for an exit.

To get exit ready, it's crucial to be number-driven and to focus on the key metrics that investors will be looking at when evaluating your business. Some of the important metrics include revenue growth, customer acquisition cost (CAC), customer lifetime value (CLV), gross margins, and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Investors will be looking for a healthy combination of these metrics to determine whether your business is a good investment opportunity.

As macro-economic conditions have tightened, DTC companies are being acquired for lower revenue or EBITDA multiples than in previous periods. This means that DTC businesses need to be even more strategic when preparing for an exit. It's important to keep in mind that different investors may look for different things in a business when considering making an investment or acquisition.

Some investors may prioritize profitability, while others may value high-growth potential. As a DTC business owner, it's crucial to have a clear understanding of your company's strengths and weaknesses, as well as what potential investors may be looking for in order to maximize the value of your business.

Here are some key steps to getting your DTC business ready for an exit:

- Build a strong and profitable business model that can sustain growth over time.
- Focus on building a loyal customer base with a high CLV and low CAC.
- Invest in scalable marketing channels to drive revenue growth.
- Monitor and improve gross margins to maximize profitability.
- Optimize operations and logistics to minimize costs and improve efficiency.
- Keep accurate financial records and reporting to provide transparency to potential buyers.
- Hire a reputable M&A advisor to help you navigate the exit process and find the right buyer.

By focusing on these key areas, DTC business owners can increase the attractiveness of their business to potential buyers and position themselves for a successful exit.

Investors look at various KPIs to evaluate the potential of a DTC company. Different types of investors have different priorities and may look at KPIs differently.

- **Data-driven founders** who can articulate their business KPIs are attractive to investors.
- **Strong brand** recognition is a key indicator of a company's potential for growth and customer acquisition.
- **Revenue growth rate** is an important metric for measuring the pace of growth and forecasting future revenue.
- **Recurring revenue** is a reliable indicator of customer loyalty and retention.
- **Net margins** reflect the company's ability to manage costs and generate profits.
- **Net margin trajectory** shows whether the company's profitability is improving or declining.
- **CAC and LTV** are key metrics for evaluating customer acquisition costs and the potential lifetime value of customers.

Other criteria, such as market size, competitive landscape, and industry trends, may also be important for some investors.

Grow your store with profit in mind

Thanks for reading! StoreHero turns the chaos into clarity by giving store owners and managers a single source of truth with a real time view of their sales, marketing and profitability metrics. Discover your profitability on a store, product or even an order level in real time.

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