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Ecommerce Founders KPIs Playbook

Metrics for business growth

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Key Performance Indicators (KPIs) are an essential part of keeping an eye on your business, so you can focus on the most important figures, without being distracted by the detail.

Our KPI playbook is a short guide on the most useful KPIs. Every company is different, so these will vary from business to business and by industry.

If you want to understand your business and be able to explain it to potential investors, you must identify and focus on the few critical numbers that really matter to its trajectory.

There are 2 categories of recommended KPIs:

1. Financial KPIs
2. Industry specific KPIs – these can be both financial and non-financial. In this guide we cover the ecommerce sector.

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Financial KPIs

Items to use for your financial KPIs:

1. Total Revenue year to date
2. Gross Profit
3. Gross Profit Margin (%)
4. EBITDA Margin (%)
5. Pre Tax Profit Margin (%)
6. Cash Balance
7. Accounts Receivable Days
8. Accounts Payable Days
9. Inventory Days
10. Current Ratio

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1. Total Revenue year to date

Cumulative revenue in the current financial year. Most useful when compared to the prior year or versus budget, or both.

2. Gross Profit

Proportion of revenue left after deducting all costs directly related to Sales. Expressed in £. Useful for competitor and sector benchmarking.

3. Gross Profit Margin (%)

Proportion of revenue left after deducting all costs directly related to Sales. Expressed as %.

Formula: Gross Profit / Sales x 100

Example: £20,000 / £100,000 X 100 = 20%

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4. EBITDA Margin (%)

Profitability ratio showing ***Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA).*** Used by many finance professionals as a proxy figure to assess the cash generation capability of businesses. Expressed as %.

Formula: EBITDA / Revenue x 100

Example: £10,000 / £100,000 X 100 = 10%

5. Pre-Tax Profit Margin (%)

Measure of revenue left after all expenses have been paid, before any taxes. Expressed as %.

Formula: Pre-Tax Profits / Revenue x 100

Example: £5,000 / £100,000 X 100 = 5%

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6. Cash Balance

Cash and cash equivalents in actual possession by the Company at a given point in time. Expressed in £.

Useful when measured each month end to track trends in the cash profile.

7. Accounts Receivable Days

A measure of how long it takes for the business to collect its debts from its customers. The lower the figure the better. Expressed in days.

Formula: Accounts Receivable Balance / Total Revenue x 365 days

Example: £500,000 / £3,000,000 x 365 = 60.8 Days

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8. Accounts Payable Days

A measure of how long it takes for the business to pay its creditors. Aim for this number to higher than the debtor days. Expressed in days.

Formula: Aged Payable Balance / Cost of Sales x 365 days

Example: £400,000 / £2,200,000 x 365 = 66.4 Days

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Industry Specific KPIs

Ecommerce

1. Average Order Value
2. Customer Life Time Value
3. Number of transactions
4. Conversion rate
5. Shopping cart abandonment rate
6. New customer order versus returning customer orders
7. Return on Ad Spend
8. Advertising Cost of Sales
9. Returns

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1. Average Order Value (AOV)

A measure of how much on average each customer orders. Expressed in £.

Formula: Total Revenue / Total Number of Orders

Example: £3,000,000 (Revenue) / 400,000 (Total Orders) = £7.50 (AOV)

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2. Customer Life-Time Value

Measure of what a customer spends over the entire period of being a customer of the business. Expressed in £.

Formula for revenue based approach:
Average Order Value x Average Purchase Frequency x Average Customer Lifespan

Example:
£7.50 (AOV) x 4 (Purchases per year) x 2.5 years (Customer Life Span) = £75.00 (Customer Life Time Value)

You can take this a step further and apply the average Gross Profit Margin to work out the Gross Profit achieved for the average customer

Example: £75.00 (CLV as above) x 15% (Average Gross Profit Margin = £11.25 (Gross Profit for the average customer)

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3. Number of Transactions

The total number of transactions for the ecommerce site.

We suggest tracking this on a monthly as a graph to ascertain how the site is performing on a seasonal basis. For a more granular approach use a weekly basis.

The metric is also useful when used in combination with number of visitors to the site.

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4. Conversion Rate %

The rate of users of the site that are converting to customers and buying the goods from your site.

Expressed as a %. We would recommend calculating this on a monthly basis. Ensure you use the same timeframe for both components of the formula.

Formula: Number of conversions (i.e. typically purchases) / Number of website visitors x 100

Example: 3,000 (Conversions a month) / 100,000 (site visitors a month) x 100 = 3%

What does a good conversion rate look like?

Conversion rates vary by vertical, but research points towards an average conversion rate of around 2%-3%. If you are exceeding this figure then you are on the right track.

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5. Shopping cart abandonment rate %

Percentage of site users of that are adding products to their cart but not checking out (i.e. not buying).

Expressed as a %. We would recommend calculating this on a monthly basis. Ensure you use the same timeframe for both components of the formula.

Formula: Number of abandonments / Number of carts created x 100

Example: 4,000 (abandonments a month) / 5,000 (carts created a month) x 100 = 80%

What does a good abandonment rate look like?

Research suggests the average abandonment rate is circa 70%, so aim to be below this figue.

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6. New customer versus returning customer orders

This compares the number of new customers to existing customers. This can be expressed in various ways.

Ideally you want a high retention rate of existing customers to keep customer acquisition costs low.

Formula for Returning Customer Rate:
Returning Customers / Total Customers x 100

Example: 6,000 (returning customers) / 20,000 (Total Customers) x 100 = 30%

If we know that existing customer accounted for 30%, then new customers were therefore 70% of total orders (100% - 30% = 70%)

Research suggests that a good benchmark of repeat customers is around 30%. This will vary by sector.

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7. Return on Ad Spend (ROAS)

Amount of Sales generated from your Ad spend. Expressed as a multiple of Ad Spend.

Formula: Ad Sales / Ad Spend

Example: £5,000 (Ad Spend) / £25,000 (Ad Sales) = 5x

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8. Advertising Cost of Sales (ACOS)

Similar to ROAS, but in this case the Ad Spend is expressed as a % of Sales generated.

Formula: Ad Spend / Ad Sales x 100

Example: £3,000 (Ad Spend) / £20,000 (Ad Sales) x 100 = 15%

Research suggests the ACOS will be very dependent on the sector and its respective Gross Margins. It can therefore range from 5% - 30%.

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9. Returns

Rate of returns based on the total number of orders. Expressed as a %.

Formula: Number of returns / Total Orders x 100

Example: 15,000 (Returns) / 100,000 (Total Orders) x 100 = 15%

You want to keep the return rate as low as possible. Research suggests this can range from 15% - 30% and is largely dependent on the sector.

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How to make this useful:

Put these in a monthly dashboard to guide strategy, not just report history.

If you want management accounts that make decision-making simpler, get in touch.

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“We have worked with Sean and Team SAS for over 7 years. His advice and service has been crucial to the growth of my company and I would 100% recommend the range of services they offer.”

Andy Gilbert, Founder of Total Fishing Tackle

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