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Using Data to Drive Your E-Commerce Business' Growth

If knowledge is power, then the information available to e-commerce business owners provides nearly unlimited potential. The same platforms that host your websites include data collection tools that – if used properly – can guide your decision-making process and inform your business strategies. The metrics offered can easily overwhelm anybody who doesn't have an MBA, but they don't have to. Extracting the most valuable information for your particular business relies on identifying your own goals and understanding which key performance indicators (KPIs) tie into those goals. Combining those two lets you take advantage of the information that will help you the most.

E-commerce is a unique business model. With that in mind, we have assembled a list of the six e-commerce KPIs we think will most help you assess how your business is measuring up when compared to where you want to be. By reviewing these metrics regularly (and understanding what they mean), you can compare your performance to your goals and make important adjustments to your strategy.

- **Net sales** – As much as gross sales numbers may give you a warm fuzzy feeling about how well you're doing, the truth is that it is your net sales number that tells the real story. That's because it reflects the deductions and losses that are a cost of doing business and selling your services, whether online or anywhere else. Net sales are your real revenue number, and it not only tells you how much money your sales efforts have brought in, but also can give you a snapshot of how your business performed during a specific period of time. This is not only useful for your profit and loss statement, but also as a way to assess the success of marketing campaigns and to forecast future performance.

- **Basket size** – If you run an ecommerce business, knowing how much money your customers are buying and how many items they buy with each visit is essential. This metric provides you with an average of both for a specific period of time and allows you to analyze the impact of a sales campaign, the appeal of products being sold, and other information to guide future promotions.

- **Sales dilution rate** – This metric helps you see where you lost revenue as a result of returns, discounts, and allowances. Though it is easy to just write the difference between total revenue and net sales off, doing so misses an opportunity to improve performance and eliminate inefficiencies. Taking a deeper dive into the merchandise that was most frequently returned or for which you had to offer discounts helps you identify and eliminate or improve products that are not only losing profit for you, but also disappointing your clients.

- **Customer Retention Cost (CRC)** – Once you've attracted a customer to your e-commerce store, it is important to hold onto them because it costs less money to keep a customer than to attract a new one. The amount of money that you spend on inspiring loyalty is your Customer Retention Cost, and though it will differ for each customer and with each time you spend money on retaining them, it can also be averaged out across all of your customers to see whether the expense is warranted, needs to be cut back, or even expanded.

- **Customer Lifetime Value (CLV)** – Your Customer Lifetime Value is the average amount that a consumer is likely to spend on your business from the time that they first discover your store to the last dollar they spend. Knowing this number helps you project the number of clients you'll need to make your business a success and achieve your long-term goals. To make this KPI truly valuable it needs to be combined with other indicators such as cost of goods sold and the costs to attain and retain the client. Otherwise, you're only measuring revenue and not profitability.

- **Contribution margin** – This measure of how much you're spending on marketing and selling your goods or services is absolutely essential. It can not only tell you whether you need to keep your selling costs in check, but also the converse – whether you might be smart to put a bit more money into them. The contribution margin gets added to costs of goods sold and other operational costs as a way to determine your net profit. If the margin is too high then you need to cut back on your efforts, as they may not be doing you enough good to justify the amount you're spending. By the same token, a low margin in combination with not meeting your engagement goals can be an indication that you need to spend more to drive greater brand awareness.

As always, we are here to help you grow and manage your ecommerce business. If you have any questions, feel free to ask.