Shockingly Simple Math for Ecommerce Growth

Guide for ecommerce brands

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Cut through the noise in the ecommerce industry around how to grow customer revenue.

Read on to uncover the shockingly simple formula for accelerating ecommerce growth.

Tadpull's team of data scientists and digital marketers has distilled the data into a simple formula that uses three metrics to help you accelerate your ecommerce growth.

This guide will share the formula and offer actionable strategies and insights you can use to accelerate your ecommerce sales.

The Simple Formula for Ecommerce Growth

Let's dive right in. Here is the magic formula:

Traffic x **Conversion Rate** x **Average Order Value** = **Revenue**

That's it - shockingly simple.

Log your site's traffic from every channel (paid ads, email, direct, etc.). Next, multiply by the average conversion rate of that traffic. Finally, multiply this by the average order value.

Using this formula, you can not only forecast your ecommerce revenue, but you can also use it to estimate competitors' momentum. You could even work backward for a view into Amazon's ecommerce revenue.

Once you master this simple equation, you'll be able to assess where your revenue sits on any given day/month/year and identify the most significant variables impacting revenue.

In addition, you will be able to quickly:

- Evaluate your competition
- Fully understand your current position in the market
- Communicate projections to your company
- Proactively respond to negative trajectory issues
- Build your action plan for long-term success

Shockingly Simple Math in Action

Let's walk through a few examples to see the formula in action.

Say we are a DTC brand named Rad Retail, doing $1M in direct sales, and we want to scale to $2M in 12 months.

Our average order value is $100, and our conversion rate is 1%.

Here's what that basic equation looks like:

1 million site visitors x **1% conversion rate** x **$100 average order value** = **$1M in revenue**

We have a few options for hitting $2M in 12 months to double this business.

First, let's start with the obvious lever everybody wants to pull - getting more traffic.

The math gets easy here - to double our site performance, we must get a million more visitors to our website in 12 months. That's about 83,000 every month or about 2,738 fresh visitors per day.

In total, we need 2 million visitors, which is 166,666 per month or 5,479 visitors per day. That's a lot of growth. If we're using ads to drive the most traffic, we may not be able to scale this in a way that makes financial sense.

The Not-So-Obvious Levers: Conversion Rate and Average Order Value
The other option is to look at our two additional variables: conversion rate and average order value.

So let's return to our challenge of doubling this business.

If we have the same amount of traffic (1M visitors), but we're able to move our **conversion rate** from 1 - 2%, let's see what happens:

1 million site visitors x **2% conversion rate** x **$100 average order value** = **$2M in revenue**

Okay, that's interesting and hits our target.
Or we could boost our **average order value** from $100 to $200:

1 million site visitors x **1% conversion rate** x **$200 average order value** = **$2M in revenue**

That also works out to hit our top-line revenue goal. By playing out different scenarios using these numbers, we can see that we have multiple paths available to help us our revenue goal.

How To Boost Growth With the 3 Variables

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Boosting Traffic Growth

Most ecommerce websites have a 1-2% conversion rate when all traffic sources are combined. So, let's say our example brand Rad Retail's website has roughly 1M people visit it in one year. This results in just 10,000-20,000 people becoming actual, paying customers. This asymmetric result can be confusing for some merchants to understand.

So then how can we boost traffic growth to increase our number of paying customers?

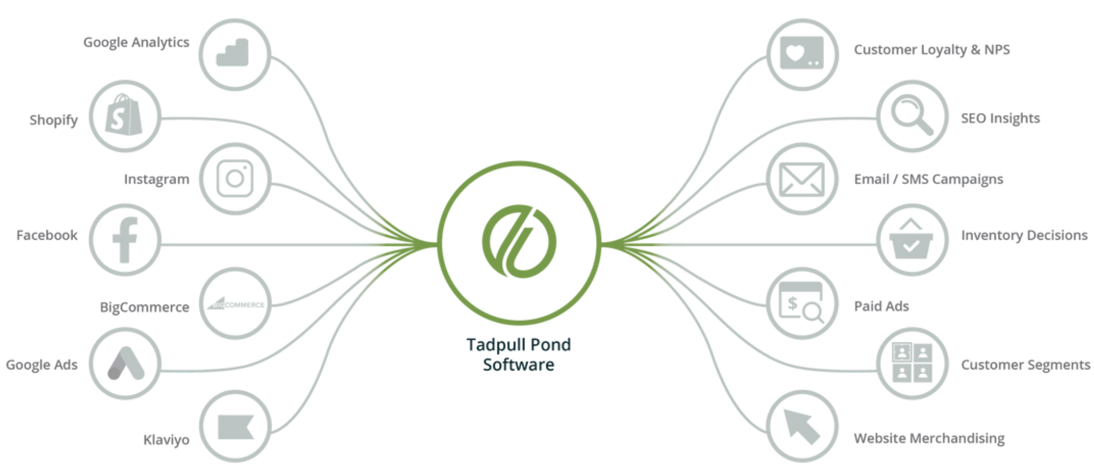
How to Analyze and Boost Traffic Growth

- Get a sense of unique visitors on-site over the past 12 months
- Look at if the number of visitors has grown, flattened, or declined.
    - Site visitor growth (or lack thereof) is a leading indicator of the health of the ecomm business since it all starts with growing traffic.
- Examine the traffic sources and identify which channels are performing well and which sources are declining.
- Take a cross-channel growth approach to diversify risk and get traffic improving annually.

Remember: No compounding growth in traffic almost always equals no compounding growth in revenue. And with iOS changes, traffic got a lot riskier to buy with paid ads, making it even more critical to have a cross-channel approach to growing traffic.

How Tadpull Analyzes and Boosts Traffic Growth

Tadpull's data science team uses its proprietary analytics product, The Pond™, to drive intelligence and help clients gain a competitive edge. The Pond™ pulls in three years of historical data from Google Analytics and applies machine learning to predict ranges for what a site's traffic will look like daily using this dataset. We then slice by traffic source for hints at what search engines or paid media can produce. The algorithm also accounts for seasonal swings like holidays, so it's a powerful signal to set forecast expectations.



The above machine learning for predicting traffic comes standard with all our Growth Plans.

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Improving Conversion Rates

Conversion rate is often overlooked as it requires a bit more creativity and technical expertise to improve, but making it easier for a visitor to get through checkout can have massive swings in driving top-line revenue.

Here's an example of how improving the conversion rate can have a significant impact:

Let's assume Rad Retail has an average order value of $65.

They've had 1M people on the site in the past year, and the site converts at 1%. The top-line revenue is:

Total Revenue	=	1M site visitors	x	$100 average order value	x	1% conversion rate	=	$1,000,000

Let's say we're able to get the conversion rate to 2%:

Total Revenue	=	100,000 site visitors	x	$100 average order value	x	2% conversion rate	=	$2,000,000

As we saw earlier, this doubled the top-line revenue with the same traffic. These are significant returns, and we haven't even focused on paid ad strategies yet.

So how can you increase conversion rates on your ecommerce site?

How to Analyze Conversion Rates

- Review your historical site traffic by source in Google Analytics and slice it by conversion rate.
- Look at this in a year-over-year segmentation to see if you can identify any meaningful differences in the quality of the traffic that is converting.
- Compare conversion rates by device to see what changes are afoot with mobile.
- Finally, use a tool like Lighthouse on high-value pages like checkout or product display pages to identify technical issues (take some of this with a grain of salt, too).

From here, you can begin to assemble your most significant conversion rate issues across the technical and user experience categories to determine what improvements will do for top-line revenue.

How to Increase Conversion Rates

Start with the basics:

- Ensure your site navigation is straightforward and intuitive so customers can shop with ease (especially on mobile)
- Focus on creating faster load times sitewide
- Manage inventory to keep best sellers in stock
- Improve product merchandising across the site
- Offer a one-click checkout option

There are many variables that can help increase your conversion rates. Establish clear prioritization for your creative and engineering teams to ensure efforts are focused on the highest priority variables.

Bonus Tip: When talking to peer leaders, mention the power of this variable not only to drive top-line revenue but also as a beautiful optimization tool for paid media performance.

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Increasing Average Order Value

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This is likely the most challenging variable of the formula for ecommerce teams to budget for making improvements, but increases here can yield a big impact on the bottom line. Increasing average order value can be difficult for brands because oftentimes:

- Brands don't have new scaled product offerings at higher price points
- Brands fail to cross-sell on their ecommerce site
- Customers naturally gravitate toward a specific set of products that average out over time

Data science repeatedly proves that everything regresses to the mean.

Let's run a quick example. Say Rad Retail can whip up some R&D, get additional products in the mix, and cross-sell onsite. They increase their average order value by 15%, from $100 to $115. They do not attempt to grow traffic or optimize conversions during this time.

They simply obsess about getting customers to buy more with different offerings. Therefore top line revenue looks like this:

Top line revenue = **1M site visitors** x **1.0% conversion rate** x **$115 average order value** = **$1,150,000**

Not bad! As you can guess, a 15% improvement in average order value gives us a 15% improvement in top-line revenue.

How to Analyze and Increase Average Order Value (AOV)

- Look at yearly trends to determine if the average order value is moving up or down
- Compare each traffic source's average order value (and consider your attribution model - especially if you're using last-click attribution)
- Look at SKU performance to see what is commonly purchased, then build potential cross-sells
- Compare inventory levels in your ERP to the average order value monthly. Did supply chain snafus throw off your average order value? This can also have massive impacts on conversion rates and traffic.
- Look at which products are purchased at what point in the customer journey and what products are a fast follow
- Consider running promotions to increase average order value, like offering free shipping on orders over $100 if your average order value is around $90
- Finally, take into consideration margins and turns as this will have a direct impact on throwing off cash

Advanced Insight - Rule of Lifetime Value

For the advanced ecommerce merchant or PE firm, Customer Lifetime Value or “LTV” is the holy grail to chase. This usually requires more data around customer transactions and a more advanced analysis beyond what a typical Klaviyo or Google Analytics dashboard will show.

In addition, getting at lifetime value requires in-depth conversations to uncover opportunities for how to get a customer engaged with a brand. However, it’s a powerful variable to understand for financial decisions. You can quickly elevate your ecommerce conversations from “future influencer campaigns” into “future cash flows” by showing how a customer acquired once can return multiple purchases at ever-increasing profits over the years.

As paid media continues to get more expensive and less visible for understanding returns, LTV is one of your most critical long-term variables to manage in scaling an ecommerce company with a meaningful moat around the digital castle.

Warning: An important lesson here for customer lifetime value (as it ties to the traffic variable) is that ecommerce brands built on paid ads are in for a very chaotic transition.

As capital gets tighter and attribution gets looser, stakeholders want to see profitability come to the forefront. If a customer bought on paid media isn’t profitable on the first buy and isn’t purchasing in a repeat pattern, these ecommerce businesses will get incredibly risky and capital intensive. Ultimately, their valuations will be tied to the customer lifetime value and the corresponding cash flows they throw off.

Ecommerce businesses that return earnings consistently year in and year out with solid profit margins without paid media addictions are much more valuable because they throw off consistent cash, which you can either reinvest to further fuel growth or return to the shareholders or investors.

How to use data to elevate LTV:

- Look at your yearly profit margins and slice them by month to see any historical trends.
- Map this over your customer acquisition costs (CAC) for macro insights by looking at what you spend on ads and labor to drive that traffic.
- Are these variables increasing in tandem? Is acquisition cost rising and profitability decreasing monthly or quarterly compared to yearly averages (warning signs!)?
- **Tip:** Tadpull Growth Plans identify all these variables and patterns in your customers' buying behavior to provide vital insights on where you might be hemorrhaging customers and, thus, future cash flows.

Conclusion

Ecommerce has a fundamental equation for predicting revenue:
Traffic x **Average Order Value** x **Conversion Rate**.

Brands looking to boost revenue can use these variables as levers to test new approaches to create growth.

When the brand actively manages all the variables and has a strong market position, magical things can happen for top-line revenue growth. However, brands should understand that growth takes capital and any big return requires significant investment.

About Tadpull.

Our tech-enabled services help mid-market companies accelerate and future-proof their ecommerce businesses. Tadpull's experienced mix of client services and proprietary software supercharge ecommerce growth. We help our clients unify customer, inventory, and campaign data into a cohesive system and use it to build ecommerce businesses that are robust, growing, and resilient.

What We Do

Growth plans

Complete data-driven analysis to reveal your store's most critical points of friction across the customer's path to purchase and a financial roadmap on how to fix them.

Strategy & Management

Our team of ecommerce and data science experts accelerate growth across specific channels or your entire ecommerce ecosystem.

Advising & Software

Already have in-house resources and/or partners? Gain access to our proven playbook and proprietary analytics AI-driven platform to accelerate your ecommerce business.

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