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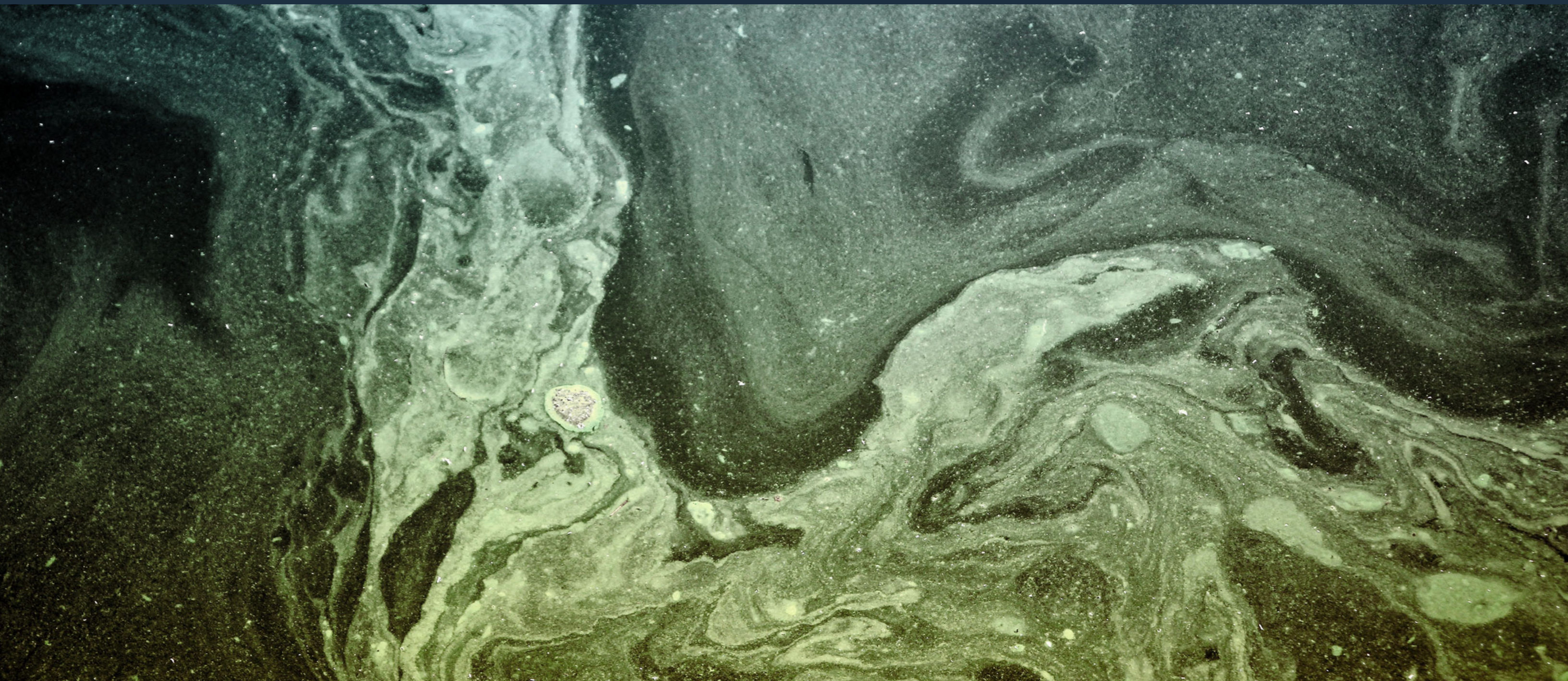
The Ecommerce Diagnostic Toolkit

Your guide to identifying your biggest opportunities



The only way to move forward is to know exactly where you stand.

That's one of our core principles at CTC, and it's the driving idea behind this diagnostic tool.

We see too many business owners, marketing managers, and CMOs make the same mistake over and over:

Solving problems they don't actually have.

Most often, this looks like attempting to solve poor Facebook ROAS by pumping the account full of new creative or using the latest media buying "hack".

But what if the COGS on your product mix is so high, you'll *never* turn a profit on your paid media spend?

What if the people you do get to purchase … never return to your store?

Or, on the flip side — what if your customer value grows so significantly over 60-180 days that first-order profitability actually doesn't matter?

In each of these cases, poor Facebook ROAS is a small part of a much larger problem, or it isn't a problem at all.

POOR FACEBOOK ROAS IS A SMALL PART OF A MUCH LARGER PROBLEM, OR IT ISN'T A PROBLEM AT ALL.

How would it change the way you run your business if you could precisely identify your weak points and expend all your energy running after your biggest opportunities?

That's what this tool aims to help you do.

Together, we'll go through an interactive assessment that identifies where your business needs work and where it's thriving.

Then, we'll show you how to turn it into a rocket ship.

But first, we have to talk about a plant called duckweed.

PART 1.

THE 10 ATTRIBUTES OF A DUCKWEED BRAND

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What is a Duckweed Brand?

First, what is duckweed?

Duckweed is an aquatic plant that floats on top of ponds, providing food for ducks.

It also grows at an incredibly rapid rate compared to most species.

Why?

Duckweed only has *half* the number of genes that are regulated by light/dark cycles compared to other plants.

While most plants grow in the day and stop growing at night, duckweed grows fast in the light, and it grows fast in the dark.

In other words, duckweed grows so quickly because duckweed can grow *all the time*, no matter the circumstance.

GROW YOUR BRAND IN ANY ECONOMIC ENVIRONMENT

We think that's an apt metaphor for the types of brands that succeed in ecommerce — they have a set of "genetic" attributes that cause them to grow in any economic environment.

At the time of this writing, it's a dark time for ecommerce. Most brands are stagnant, with year over year projections collapsing left and right.

But there's a certain type of brand that's growing faster than ever despite the downturn.

Like the botanists who discovered the genetic secret to duckweed's growth, we've identified 10 core attributes that, when combined, result in a brand that can't be stopped.

This diagnostic tool is built around those 10 attributes.

The 10 Diagnostic Metrics

While this diagnostic tool uses the benchmarks below to evaluate your business' growth potential, it's very rare that any business hits all 10 of them.

Most often, a good brand's excellence in one area makes up for a deficiency in another.

This section will familiarize you with the diagnostic metrics before you actually dive into the interactive portion of this toolkit.

We've broken these down into two main categories, operational metrics and marketing metrics.

Operational Metrics

- Cost of Delivery (COD) as a Percent of Revenue
- Operating Expenses as a Percent of Revenue
- Cash Conversion Cycle

Marketing Metrics

- 60-Day Incremental Revenue Growth Percent
- 1-Year Incremental Revenue Growth Percent
- First Order Value to New Customer Acquisition Cost Ratio (FOV:nCAC)
- Number of Distribution Channels
- Percent Organic Traffic
- 1-Year LTV to New Customer Acquisition Cost Ratio
- Number of Revenue Peaks

Operational Metrics

THIS SET OF METRICS REVOLVES AROUND COST AND CASH FLOW.

Metric 1:

Cost of Delivery (COD) as a Percent of Revenue

Benchmark: Less than 30%

Cost of Delivery includes every expense associated with getting a product to a customer.

THIS METRIC INCLUDES:

- Cost of Goods Sold (the cost of producing a product)
- Cost of getting the product from the manufacturer to your warehouse
- Shipping costs to the customer
- Packaging costs
- Pick/pack fees
- Payment processing fees
- Taxes

IT'LL GIVE YOU A SENSE OF HOW MUCH YOU CAN AFFORD TO PAY FOR A CUSTOMER

The inverse of COD is **Item Contribution Margin**, which is the revenue left over after COD and before advertising costs.

Knowing this number is crucial as a marketer, because it'll give you a sense **how much you can afford to pay for a customer.**

Too often, the marketing team goes after a Customer Acquisition Cost (CAC) that has no basis in objective reality.

Knowing your COD % gives you a grounding point for establishing how efficient your advertising needs to be to result in profit.

Metric 2:

Operating Expenses as a Percent of Revenue

Benchmark: Less than 25%

Operating Expenses, or OPEX, traditionally includes all the "below-the-line" expenses on a balance sheet — rent, inventory, agency fees, etc.

Most balance sheets include shipping costs and transaction fees as operating expenses — we don't.

We define OPEX as any expense that **does not** directly scale with sales volume. In other words, every expense not included in Cost of Delivery (see above).

Why? Because the costs included in COD are *variable* on a day-to-day basis and thus need a different toolset to manage.

The most common objection to this definition:

"We have to hire more staff to handle increased sales volume, so that shouldn't count as an operating expense."

That may be the case, but you (hopefully) don't have to hire a new person or increase payroll every single time you make a sale.

Metric 3:

Cash Conversion Cycle

Benchmark: Less than 0

YOUR CASH CONVERSION CYCLE IS:

- Days of Inventory Outstanding, plus
- Days of Sales Outstanding, minus
- Days of Payable Outstanding.

In other words, CCC = **how long you have to float inventory costs.**

While many successful businesses have a terrible cash conversion cycle (think big-ticket items like furniture or cars) fast-growing ecommerce brands have a **negative cash conversion cycle**, which gives them a consistent supply of cash on hand.

Marketing Metrics

THE NEXT 7 METRICS MEASURE THE EFFECTIVENESS OF YOUR ENTIRE MARKETING OPERATION.

Note that none of these metrics have to do with single-channel performance.

Rather, they give a snapshot of your ability to generate **Contribution Margin (CM)** — i.e., net dollars *after* Cost of Delivery and advertising expenses, and *before* Operating Expenses.

Metric 4:

60-Day Incremental Revenue Growth Percent

Benchmark: 30% or greater

The % increase in customer value after 60 days have passed.

THIS NUMBER GIVES A GOOD GENERAL INDICATOR OF:

- The short-term effectiveness of your retention strategy
- The window you have to become profitable against your acquisition costs

Some brands' capitalization may not allow for a 60-day profit realization window.

But for those who *can* afford to float the cash, taking a worse CAC on first order may be the ticket to unlocking more acquisition volume.

After all, the more you spend on paid acquisition, the more customers you acquire ... and the worse your CAC gets.

But if your customers repurchase within a 60-day window, they get more valuable **while your CAC stays the same.**

Metric 5:

1-Year Incremental Revenue Growth Percent

Benchmark: 100% or greater

The % increase in customer value after 365 days have passed.

This metric indicates customer satisfaction, product quality, and long-term retention effectiveness.

Metric 6:

First Order Value to New Customer Acquisition Cost Ratio (FOV:nCAC)

Benchmark: Greater than 0

THIS METRIC IS:

(First Order Revenue - Cost of Delivery) / Customer Acquisition Cost

GROW LIFETIME VALUE QUICKLY *AND* MAKE MONEY ON THE FIRST ORDER.

This is the best indicator of your advertising efforts' **short-term efficiency.**

While we mentioned a couple sections back that you don't *have* to be first-order profitable if you get the money back in a 60-day window, the fastest-growing brands grow lifetime value quickly *and* they make money on the first order.

Metric 7:

Distribution Channels

Benchmark: 3 or more

Includes sales from your online store, retail, Amazon, etc.

A diverse mix of distribution channels means your business won't fail if one of those channels falls apart.

Metric 8:

Percent Organic Traffic

Benchmark: Greater than 50%

A good general indicator of revenue volatility.

If you're sub-50% on this metric, you're over-leveraged on paid channels — the more reliant you are on paid acquisition, the more CAC and CPM fluctuations increase the total risk to your business.

And, of course, **organic traffic is free,** which means that a high percentage of organic traffic drives down your overall FOV:nCAC ratio (see metric 6).

Metric 9:

1-Year LTV to New Customer Acquisition Cost Ratio

Benchmark: Greater than 0.5

THIS METRIC IS:

(1-year Revenue - Cost of Delivery) / Customer Acquisition Cost

This metric is a good answer to the question, "is this business a good investment?"

If your business hits the duckweed benchmark of 0.5, for example, that essentially means that every time you spend $1 on marketing, you get $1.50 back.

Blow that up to the million-dollar scale, and you'll see why this is such a powerful indicator of your growth potential.

60 Days
+30%
Customer LTV

Initial Purchase AOV will only make up
50%
Of total Customer LTV

1 Year
+100%
Customer LTV

Metric 10:

Number of Revenue Peaks

Benchmark: 4 or more

Revenue peaks are specific moments throughout the year when sales spike.

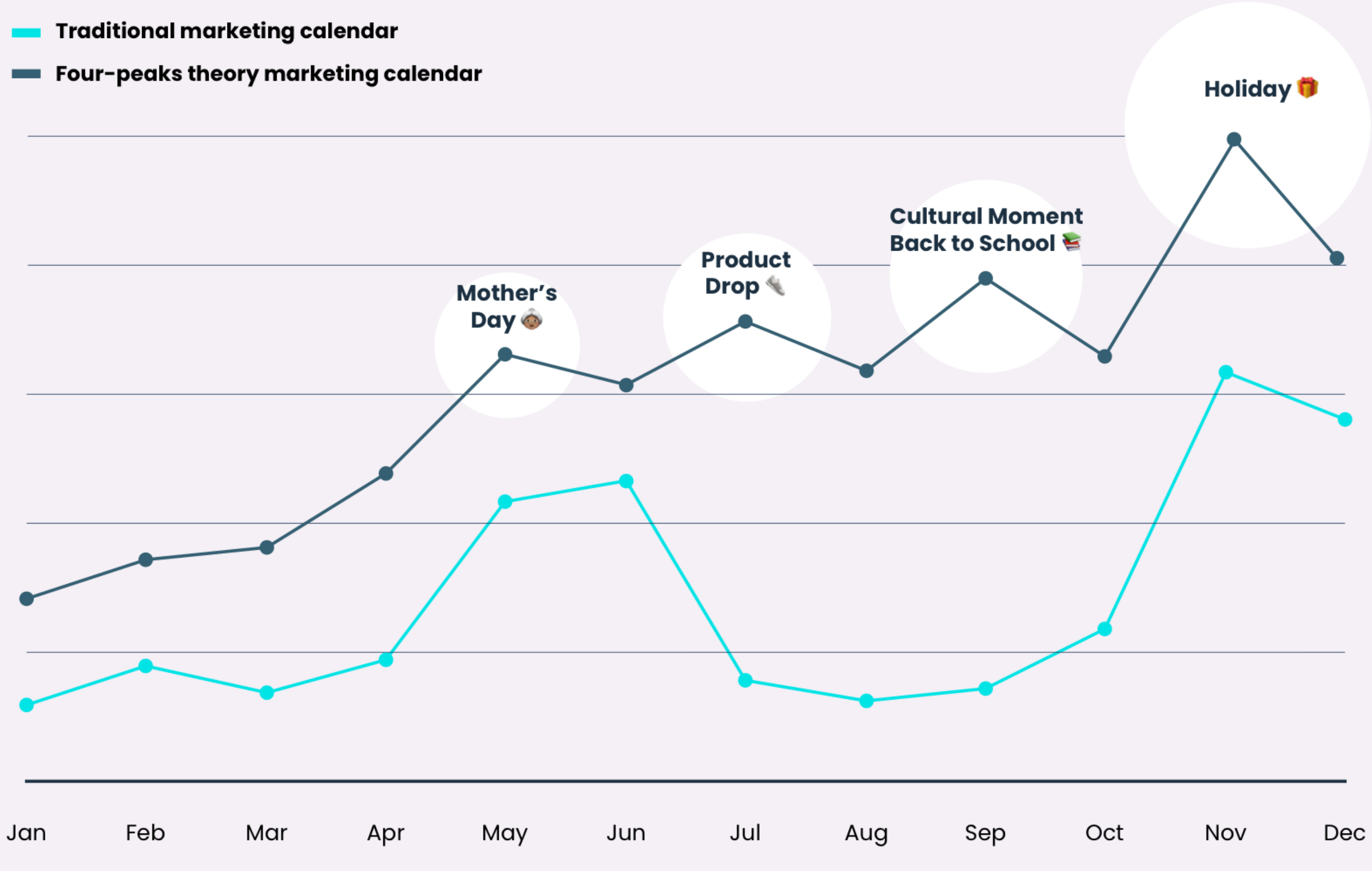
Most brands have *one* revenue peak — Black Friday/Cyber Monday/Holiday.

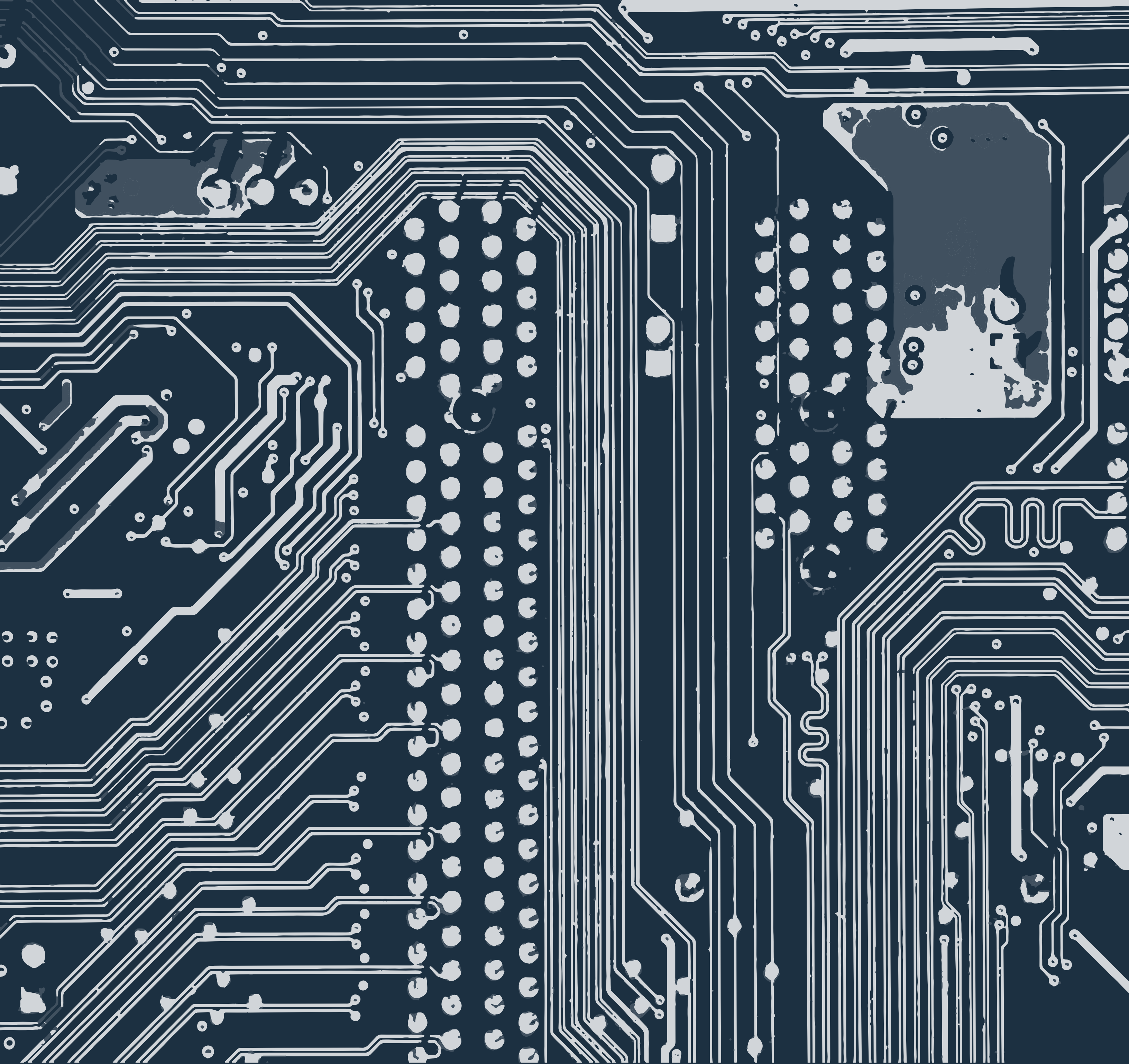
But other moments — a new product launch, Father's Day, a seasonal sale — can generate revenue over the mean.

We define a "revenue peak" as any month that exceeds non-holiday mean monthly revenue by 25% or greater.

**Don't worry — we'll have a video that explains how to find your revenue peaks in the assessment.*

We recommend filling in the "valleys" in your marketing calendar by developing special reasons for customers to buy.





PART 2.

RUN THE ECOMMERCE DIAGNOSTIC TEST

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How the Diagnostic Test Works

THIS REPORT IS ANCHORED AROUND A SINGLE SCORE:

Your **Growth Quotient**, or **GQ**.

This number gives you an idea of your business' growth potential, not its overall health. So a poor GQ score doesn't necessarily mean you're in trouble, but it does indicate that you'll have difficulty growing beyond where you are now.

To contextualize this number, we've made the "perfect" GQ 130, which corresponds to the IQ score required to get into Mensa.

If your business hits every benchmark above exactly, you'll score 130.

ANY DEFICIENCY IS A HUGE OPPORTUNITY FOR EXPANSION

An excellent score in one area pulls that number up; a poor score in another pulls it down. Many businesses, therefore, will miss one or two metrics wildly but still end up with a +130 GQ because they excel in one or two others.

It also means that there's theoretically no upper or lower limit to your GQ. Case in point — the best GQ we've ever seen is 1450. The worst is -30.

If your GQ is at or above 130, you're in a great position, and any deficiency is a huge opportunity for expansion. If it's below that number, there are urgent areas to work on to unlock growth potential.

Next Steps ...

DON'T WORRY — ALL THE NUMBERS YOU NEED CAN BE FOUND IN STATLAS

Now that you're familiar with the 10 metrics, it's time to run the test on your own business.

At the end of the assessment, you'll receive a personalized report giving you a set of action steps addressing your brand's unique growth opportunities.

If you read the previous section and thought "how am I going to find all these numbers?" don't worry — all the numbers you need can be found in Statlas.

Here's what you'll need to do:

Step 1: Connect Statlas to your Store

Before beginning, we strongly recommend that you begin your free trial of Statlas, and get completely onboarded.

It'll make the whole process much easier.

Step 2: Take the Assessment

When you're ready, visit: commonthreadco.com/pages/ecom-diagnostic to begin the diagnostic process.

Step 3: Review Your Metrics Report

Once the diagnostic is complete, you'll be able to review your metrics and see how they compare to our "duckweed" benchmarks.

Step 4: Review Your Key Issues

Your report will contain directional guidance on what to do next, including links to CTC resources to help.

Step 5: Break it Down With an Expert (Additional Fee)

If you have further questions or want to address the nuances of your report, our team of experts is available to weigh in for an additional cost.

Book a CTC Growth Strategist

Any questions or concerns? Any difficulty using the tool? Just email hello@commonthreadco.com.

Ready to begin?

Take the Ecommerce Diagnostic test and identify your brand's biggest opportunities.

START THE DIAGNOSTIC

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