

TrueRadar

Inside the DNA of **High Net Profit Margin** eCommerce Stores

Q2 2024



By **TRUEPROFIT**

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Introduction



Introduction

At TrueProfit, we live and breathe profitability.

Our obsession lies in helping you uncover the secrets to boosting your net profit.

We also firmly believe that every eCommerce business, big or small, should have access to actionable insights that drive profitability.

That's why we've poured over the data, dissected the strategies, and decoded the DNA of high-margin online stores to bring you this exclusive report.

Our mission? To illuminate the path to eCommerce success and reveal what sets the profit champions apart from the rest.

Methodology

We've leveraged an extensive database of approximately 700 eligible Shopify businesses across various niches to conduct a comprehensive analysis of the eCommerce landscape in Q2 2024.

Our analysis centers on **Net Profit Margin** as the primary measure of profitability. We define Net Profit Margin as the percentage of revenue remaining after deducting all kinds of expenses and costs.

By focusing on this comprehensive metric, you can gain a more accurate and holistic understanding of true profitability, taking into account the full spectrum of costs that a typical eCommerce business incurs.

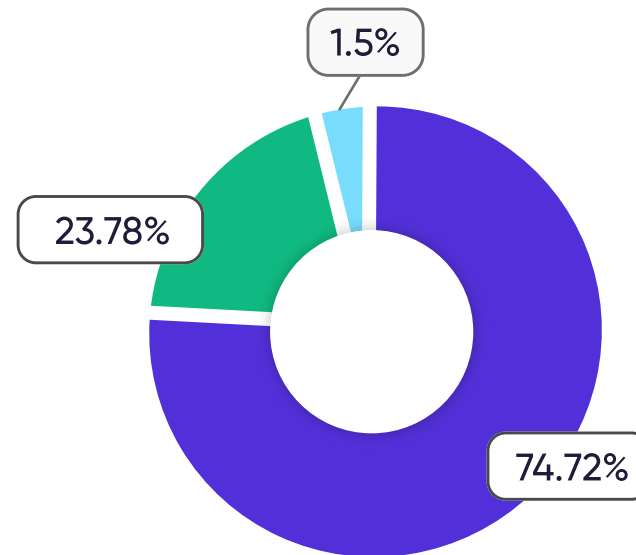
Uncover the Link Between Key Factors and eCommerce Profitability



More complex
business models
yield stronger
net margins

1. Business model

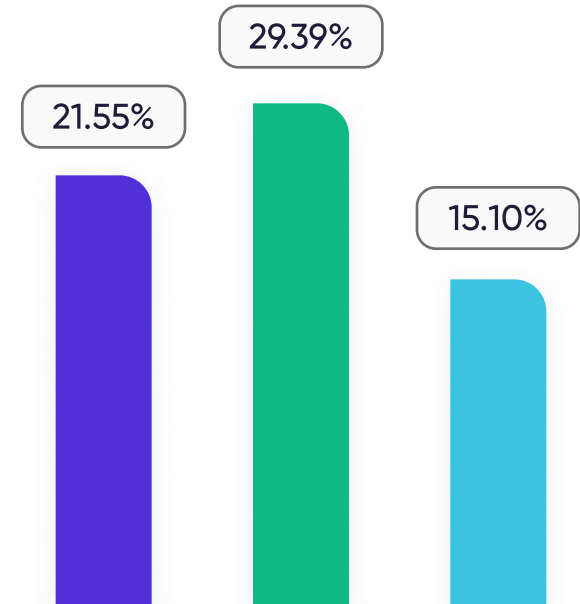
Percentage of Stores by
Business Model



Dropshipping

DTC

Net Profit Margin by
Business model



Print on Demand

Key insights

Selecting Business Models

More Pain, More Gain



There's a clear correlation between business model complexity and net profit margin.

Print on demand (POD) offers the lowest barrier to entry and minimal operational overhead but comes with a limited profit potential, averaging a net profit margin of 15.10%.

At the other end of the spectrum, **direct-to-consumers (DTC)** model, which requires greater upfront investment and operational complexity, offers the highest net profit margin (29.39%). The higher profitability is often attributed to the strong brand identity and customer loyalty that DTC brands cultivate through direct engagement and control over the entire customer experience.

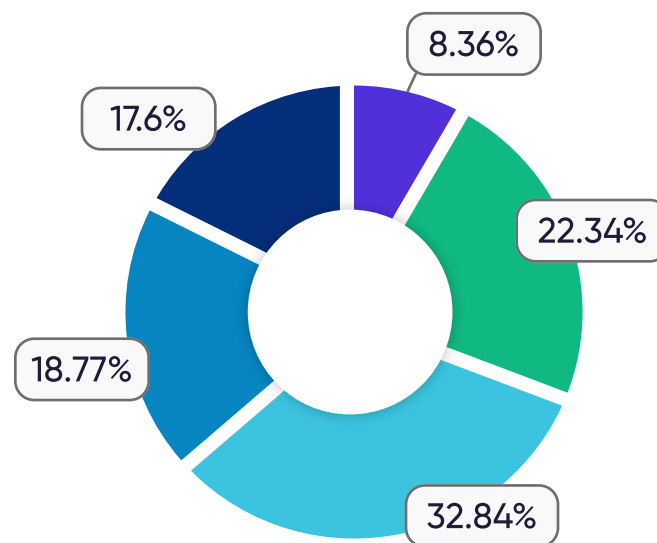
Dropshipping emerges as a balanced option, offering a solid middle ground between ease of entry and profitability. With an average net profit margin of 21.55%, it proves that a low-overhead model can still yield respectable returns when executed well.



Fewer products,
higher margins
(for the most part)

2. Product portfolio | The number of products

Percentage of Stores by
Product Quantity



1 - 5

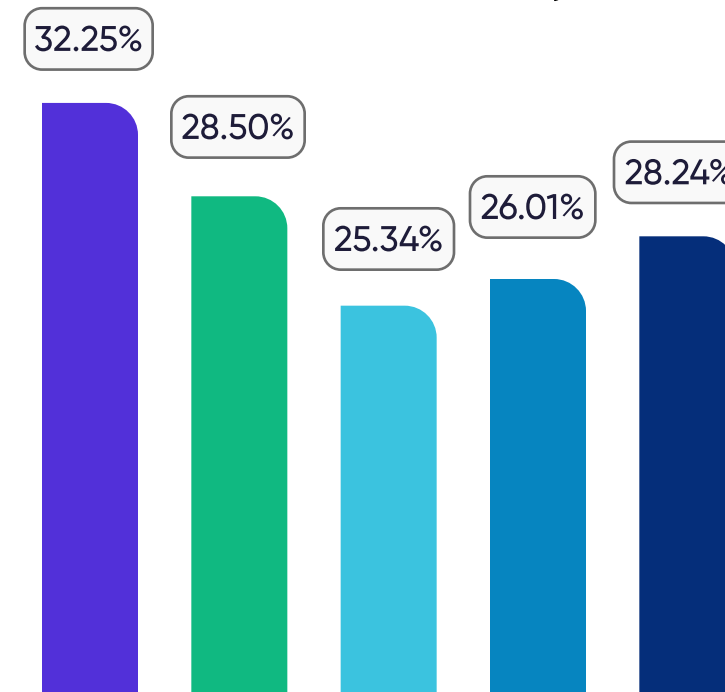
6 - 20

21 - 100

101 - 300

300 +

Net Profit Margin by
Product Quantity

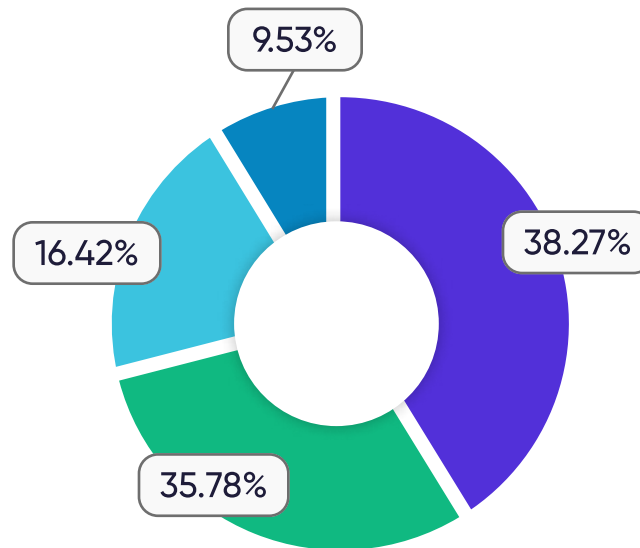




More variants lead
to lower margins
in most cases
(if not all)

2. Product portfolio | The number of variants per Product

Percentage of Stores by
The Number of Variants per Product



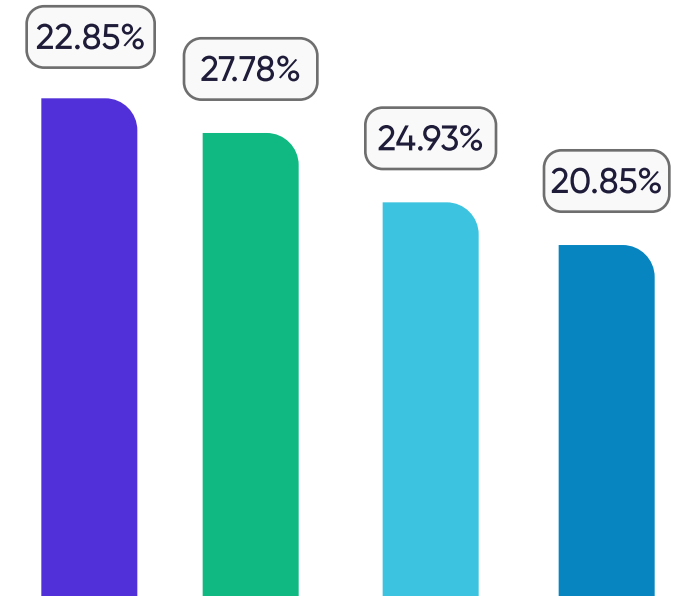
1 - 3

3 - 10

10 - 20

20 +

Net Profit Margin by
The Number of Variants per Product



Key insights

Product Portfolio

Less
is
More

A more focused product portfolio appears to make it easier to achieve higher profitability.

Although a wide range of products and variants per product may attract a wider customer base, concentrating on a select number of high-margin items often yields better results.

This trend likely reflects the benefits of streamlining offerings. A focused product range allows businesses to better target a niche, refine their messaging, and address specific customer pain points more effectively on their website, leading to higher conversion rates and, ultimately, increased net profit margin.

In fact, our data shows that businesses with the **leanest product range (1-5 products)** actually boast the **highest median net profit margin** at 32.25%. This figure tends to decline as product count increases.

In addition, product variants also influence profit margins. Offering too many variants for a product can overwhelm customers, leading to decision paralysis and reduced conversion rates.

Our data supports this, showing that businesses with **1-3 variants per product** tend to have **higher net profit margin** (28.50%) compared to those with a larger number of variants.

All in all, while some larger stores can successfully manage extensive catalogs (100+ products) leveraging economies of scale and optimization strategies, in most cases, less truly is more.

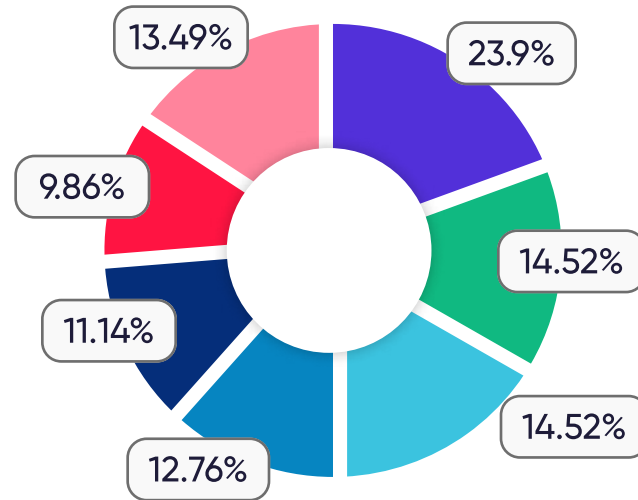


3. COGS*-based pricing

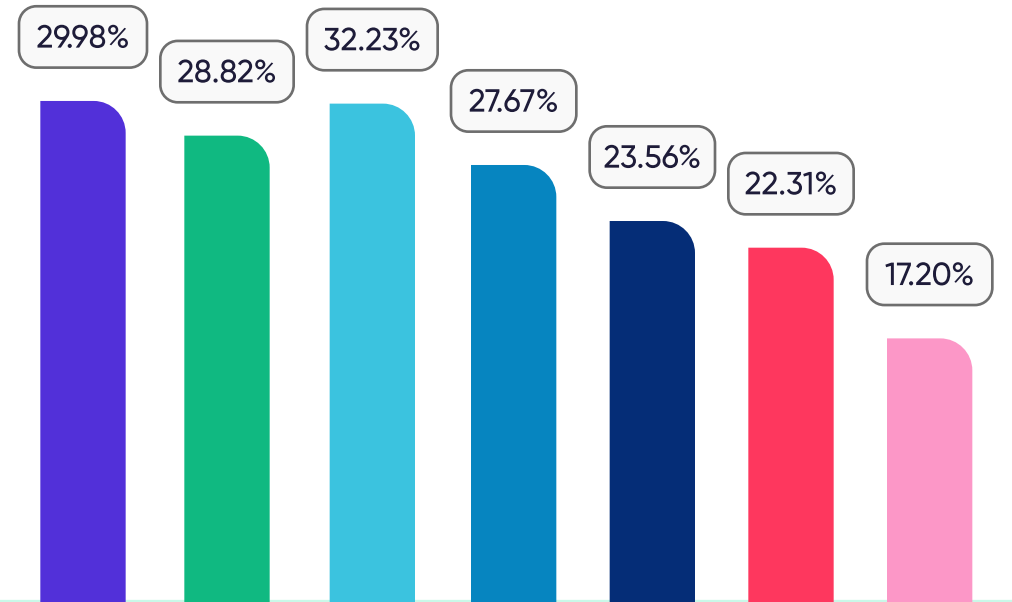


Ideal ratio
for maximum
margin:
20-25%

Percentage of Stores by
COGS/Selling Price Ratio



Net Profit Margin by COGS/Selling Price Ratio



■ <=15%
 ■ 15-20%
 ■ 20-25%
 ■ 25-30%
 ■ 30-35%
 ■ 35-40%
 ■ 40% +

* **COGS (Cost of Goods Sold):** The direct costs associated with the production of the goods sold by a company, including expenses like materials, labor, and manufacturing overhead.

Key insights 1

Pricing for Profit

The 4-5X Rule



Setting selling prices based on COGS is a simple yet effective pricing strategy. It ensures your prices cover the actual cost of the product itself while leaving enough room to cover other business expenses, and most importantly, generate a healthy profit margin.

Our data reveals a sweet spot for COGS/selling price ratios between **20-25%**, meaning a **4:1 or 5:1 ratio** of selling price to COGS is a good benchmark.

For example, if your product costs \$10 to make, you should sell it for around \$40 or \$50.

That said, when setting prices, it's important to consider other important factors, such as competitive factors, your unique business model and market conditions.

Key insights 2

Pricing for Profit

The Power of Perceived Value

Price isn't just a number. It reflects the value your customers see in your offerings. While COGS provides a solid baseline, the most successful eCommerce businesses understand that the perceived value of their products is key to pricing.

Remember, customers are willing to pay more for products that evoke **strong emotions, align with **their aspirations**, or **create a sense of exclusivity**.**



For instance, a piece of jewelry can be priced higher not just for its craftsmanship and materials, but also for the emotions it evokes and the messages it carries.

It might symbolize elegance, love, or self-expression, making the wearer feel cherished and unique. This emotional connection can significantly increase its perceived value, allowing you to push the selling price from \$19 to \$49 or even higher.

By highlighting these emotional values through effective marketing and branding, you can justify higher price points and enhance your margins.



Stop guessing. Start profiting.

Unsure about your bottom line and tired of outdated spreadsheets?
It's time to stop guessing and start growing.

As the #1 Net Profit Analytics tool for Shopify, **TrueProfit** empowers you to instantly focus on what truly matters – your net profit.

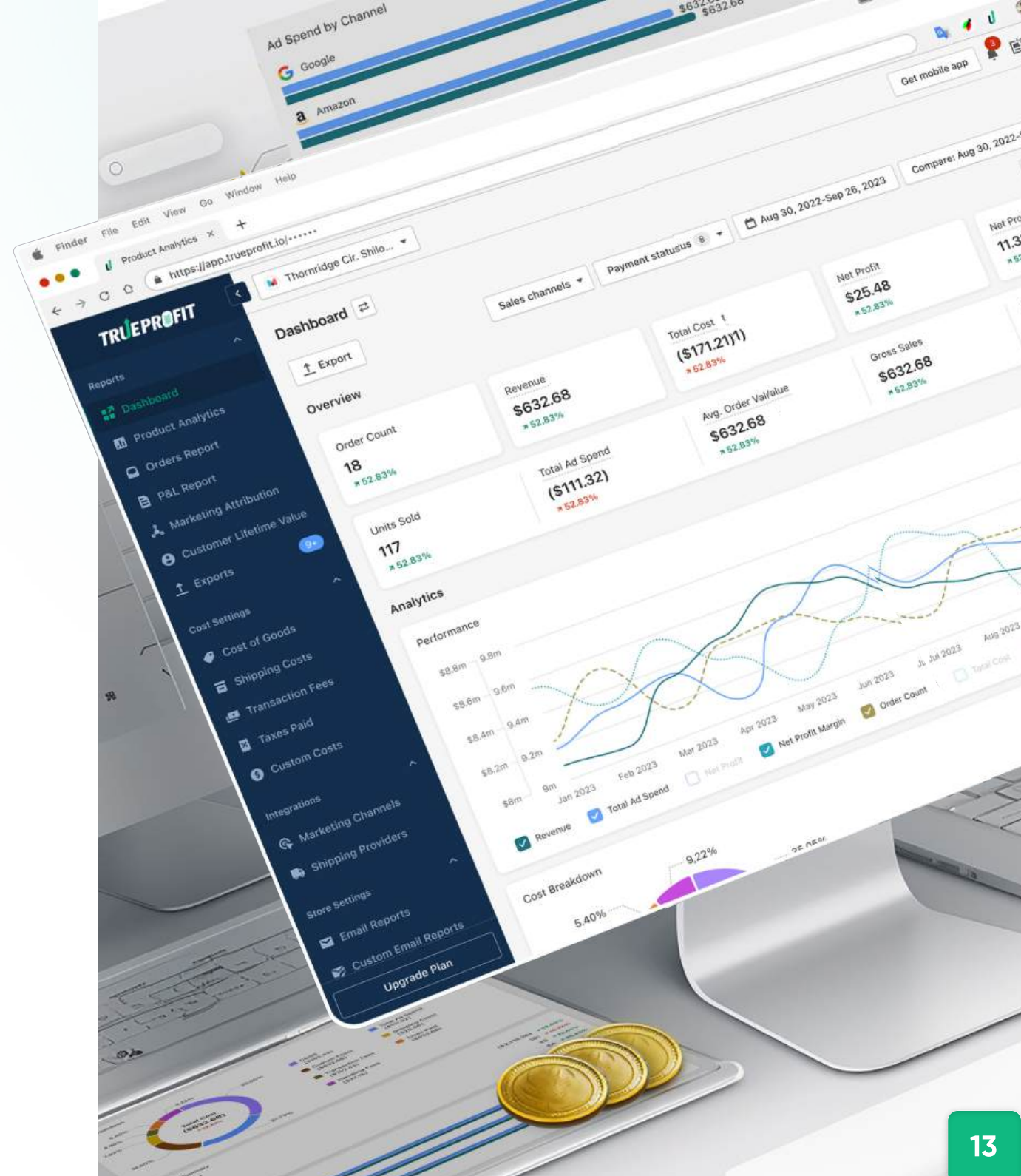
We seamlessly connect with your Shopify store and pull your data from all sources, providing you instant access to your real-time net profit and eye-opening net profit insights.

Don't let valuable time and potential profits slip away.

Add **TrueProfit** to your Shopify store today and start making smarter, more profitable decisions.



TRY TRUEPROFIT FOR FREE

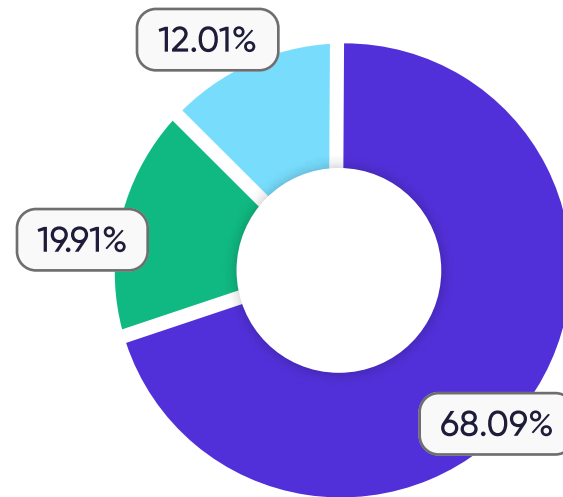




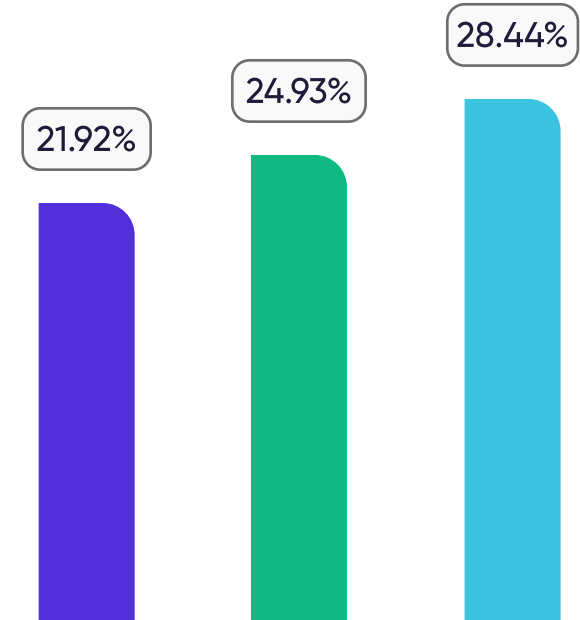
More
ad channels,
more
profit potential

4. Ad channel diversity

Percentage of Stores by
The Number of Ad Channels



Net Profit Margin by
The Number of Ad Channels



■ 1 ■ 2 ■ 3+

Key insights

Ad channel diversity

Diversify
ad channels

=

Multiply
profitability



There's a strong correlation between the number of ad channels utilized by businesses and their net profit margins.

In general, businesses employing **multiple ad channels** (3+ channels) **outperform** those relying on only 1 or 2 channels.

This is likely because diversifying ad channels allows businesses to reach a wider audience and mitigate risks (e.g. algorithm changes or unexpected account bans).

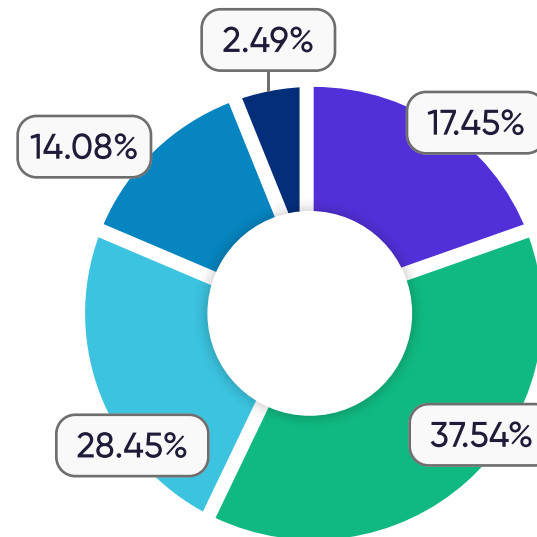
This multi-channel approach often leads to more sustainable growth over time, as it reduces dependence on any single ad platform.



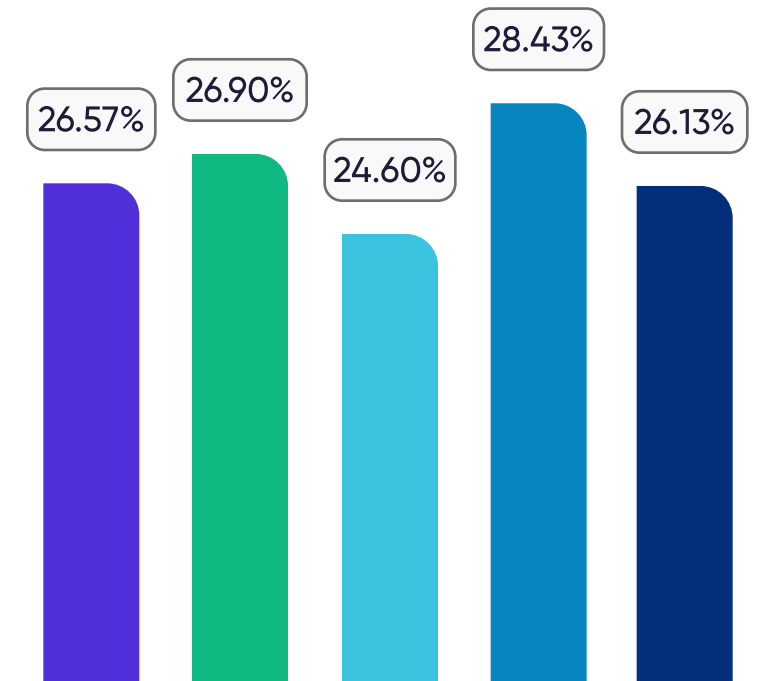
Faster speed
won't always
drive your net
profit margin

5. Page load speed | Desktop

Percentage of Stores by
Page Speed



Net Profit Margin by Page Speed



■ <=0.3s ■ 0.4-0.5s ■ 0.6-0.7s ■ 0.8-1.0s ■ 1.0 +

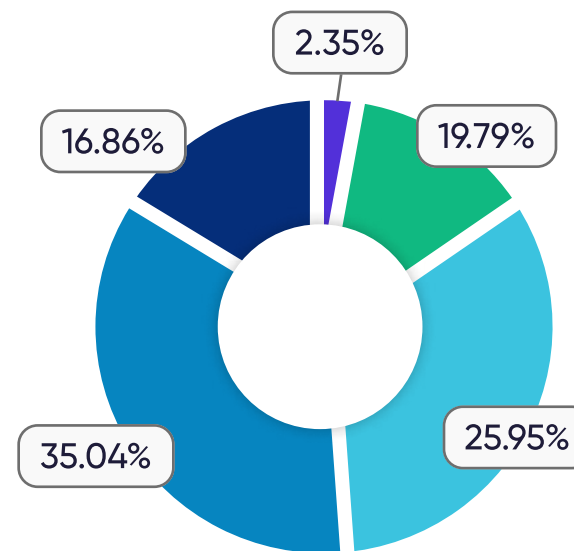




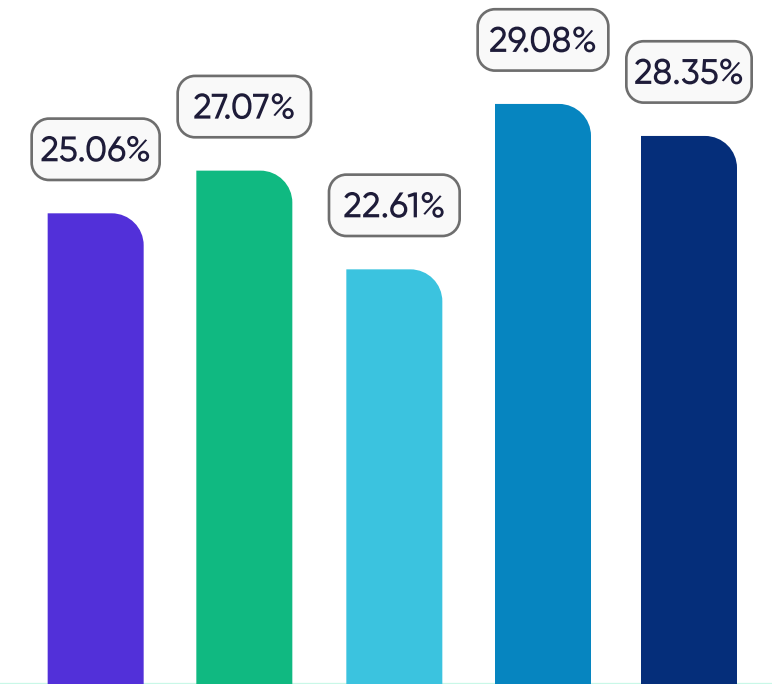
A fast page
doesn't mean a
fat net profit
margin.

5. Page load speed | Mobile

Percentage of Stores by
Page Speed



Net Profit Margin by Page Speed



<=1.0s

1.1s - 1.5s

1.6s - 2.0s

2.1s - 3.0s

>3.0s



Key insights

Page Speed

Vital,
but it's
not all.



Mobile optimization is more challenging than desktop, with most stores able to achieve desktop page speeds as low as **0.3 seconds**, while most stores are unable to reduce mobile load times below **1 second**.

This discrepancy arises because mobile devices have greater diversity in screen sizes and hardware limitations.

Moreover, mobile users expect fast browsing due to the on-the-go nature of mobile usage, making them more sensitive to delays.

That said, fast page speeds can lead to higher conversion rates, but they are not the sole factor driving net profit margins.

Optimizing page speeds can enhance user experience by reducing bounce rates and improving customer satisfaction; however, **the direct impact on net profit margins is less clear**. It is not a direct cause-and-effect relationship.

So, if your primary objective is to increase net profit margin, it is advised that you should prioritize other areas of your business over fast speed loading.

Retrospective

Retrospective

That's a wrap! We hope that this report has shed some light on the key factors driving profitability in the dynamic world of eCommerce during Q2 2024.

And while this report provides valuable insights, keep in mind that profitability is a journey, not a destination. It's an ongoing process that requires constant attention, testing, and learning.

That's where **TrueProfit** comes in. Our platform is designed to be your co-pilot, offering real-time data and net profit analytics to help you make the smartest decisions that boost your bottom line.

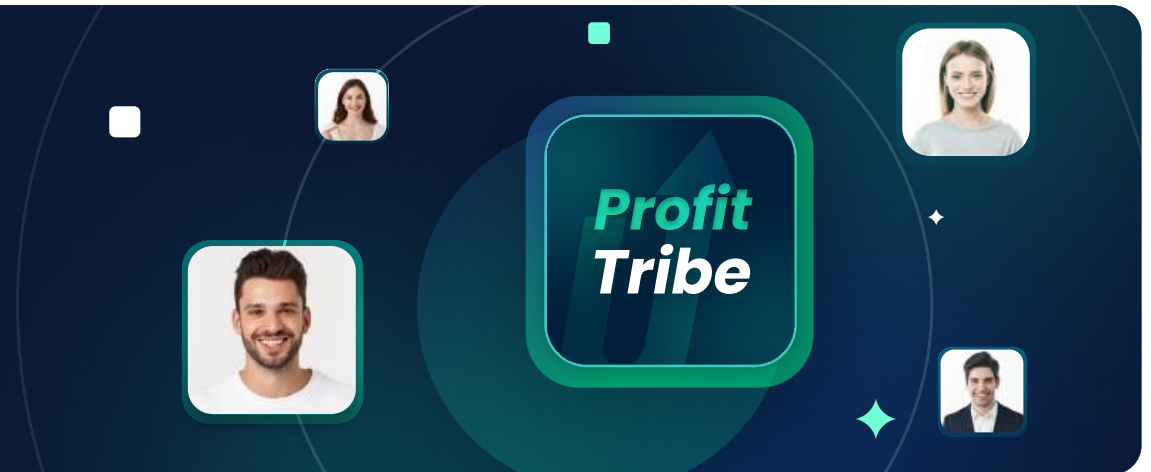
Knowledge is power, and with TrueProfit, you're equipped to turn insights into action and profits into reality.

Join our VIP eCom community

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