2015 BENCHMARK REPORT SERIES

Ecommerce Growth

How fast are ecommerce companies growing?

What sets the top performing ecommerce companies apart?

What are the indicators of top performing companies?

RJMETRICS

Foreword

Blake Lyon, LERER HIPPEAU

At Lerer Hippeau Ventures, we believe in ecommerce.

Over the past four years, we have watched ecommerce evolve from the "cheaper alternative" to a sector known for innovative products, powerful brands, and data-savvy founders.

This study shares the data behind a shift that we have observed from the front lines. While the ecommerce landscape is becoming increasingly competitive, best-in-class brands are writing the playbook on achieving breakout success.

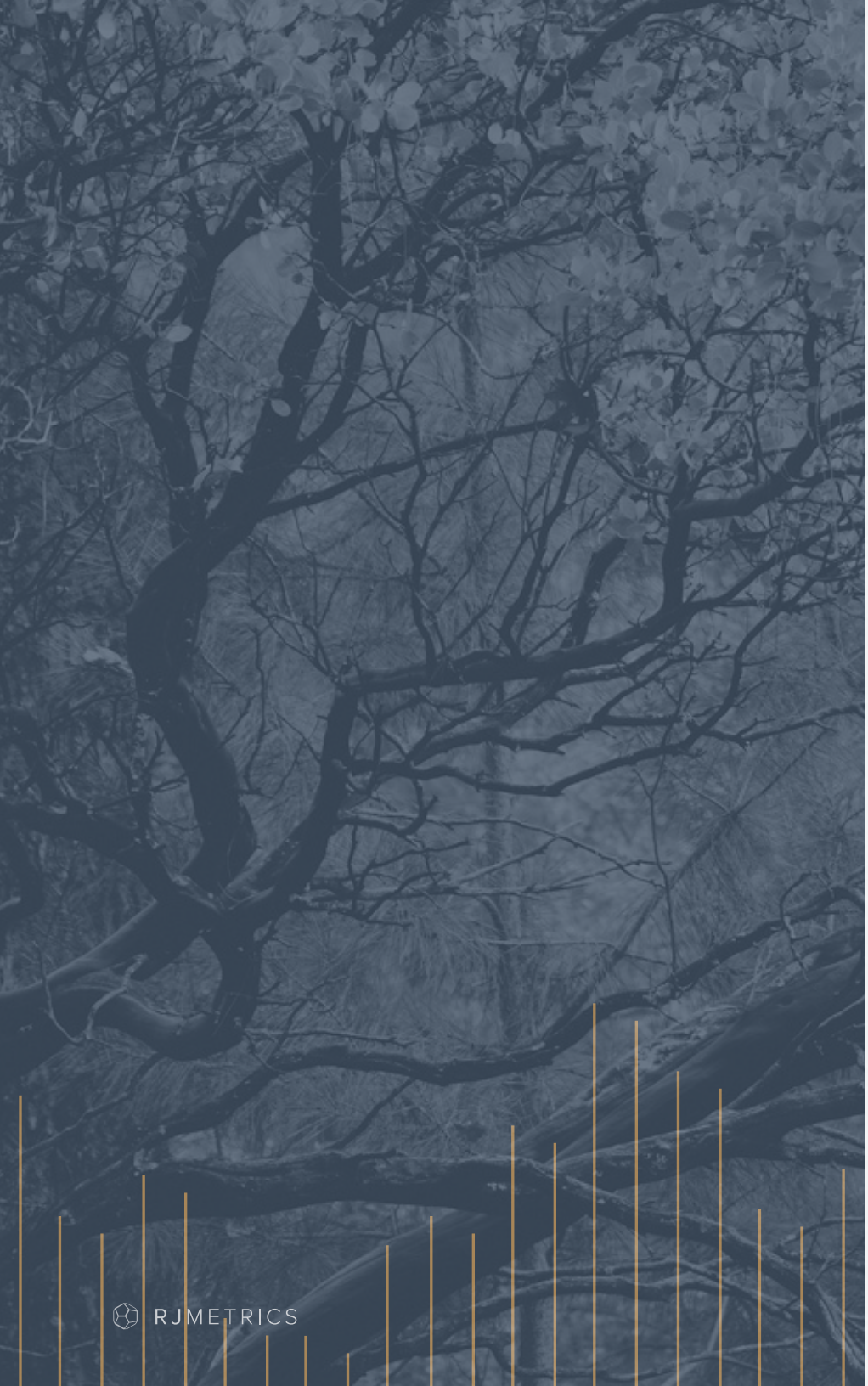
Here are few of the strategies that we have seen driving these top performing companies:

Creating a near frictionless buying experience

From solving the inconvenience of mattress shopping (Casper) to delivering all the ingredients for a healthy home-cooked meal (Plated), ecommerce companies are building lasting consumer brands by blurring the line between product and service.

Building passionate communities

Amazon owns commodities, but best-in-class companies build competitive advantage by engaging with vibrant communities. Bark & Co. has built a strong community around shared interests of dog lovers, just as Chubbies has done with shorts for "bros." In these companies, customer loyalty fuels growth.



Blending content and commerce

Other companies have reimagined the catalogue and turned it into an editorial experience. Examples of this include Thrillist with Jackthreads and Glossier with Into the Gloss.

Offering a "try before you buy" experience

The "What if it's not like the picture?" hurdle is a barrier that any ecommerce retailer needs to overcome. But some of today's biggest success stories come from companies who have made overcoming this hurdle a core part of their experience. Warby Parker's home try on kits for prescription glasses build returns into the process. Birchbox reinvented the cosmetic sample, creating an entirely unique buying experience.

What we see is that the most successful companies excel at two things:

1. *A product and brand experience that customers love and keep coming back for.*
2. *A keen focus on their KPIs, particularly around customer acquisition.*

It's the ability to bring customers back again and again, while aggressively acquiring new customers, that gives best-in-class companies the edge. We're excited about these companies. They are where product-market fit meets excellence in execution, and they will continue to redefine the ecommerce landscape in the coming years.

Executive Summary

At the beginning of 2014, Jeff Jordan of Andreesen Horowitz wrote a widely quoted post that examined the rapidly changing retail landscape. His takeaway was simple: “We’re in the midst of a profound structural shift from physical to digital retail.”

In 2013, the growth of ecommerce significantly outpaced brick-and-mortar both domestically and worldwide. 2014 kept up this pace of growth, and according to recent projections from eMarketer, this trend is going to continue in the coming years.

These numbers are a positive sign for the ecommerce market, but they conceal an important fact. Behind these averages are ecommerce companies that have achieved breakout success, far beyond standard industry growth rates. In 2013, jewelry retailer Alex and Ani grew 250%. NoMoreRack, a flash sales site, also hit a 250% growth rate. Flash sale site TheRealReal was even higher, growing 295%. These companies are outperforming the market by leaps and bounds.

In this report, we look at the data to find out what separates the leaders from the laggards, and help you determine if your company is one of the best.

PROJECTED COMPOUND ANNUAL GROWTH RATE THROUGH 2018:

5%
Total retail, worldwide

15%
Ecommerce only, worldwide

3.3%
Total retail, U.S.

11%
Ecommerce only, U.S.

All projections from eMarketer

Key Findings

Average Growth Rate

There is no “average growth rate” in ecommerce. Splitting companies by quartiles reveals that some ecommerce companies grow dramatically faster than others.

Monthly Revenue

By month six in business, top performing ecommerce companies have separated from the pack, reaching a monthly revenue over $450k, 68% more than everyone else.

Repeat Purchases

Top performing companies excel at turning customers into repeat buyers. Customers of the fastest growing ecommerce companies purchase 2x more than everyone else.

Average Order Value

Top performing ecommerce companies have an Average Order Value (AOV) 36% higher than everyone else ($94 vs. $60).

Customer Lifetime Value

Companies in the top quartile have a Customer Lifetime Value (CLV) 5x greater than everyone else.

Customer Loyalty

Top performing companies create a “renewable resource” of loyal customers. By the end of year three in business, a majority of their revenue is coming from repeat purchases.

Methodology

RJMetrics is the analytics platform of choice for over 400 online businesses, many of whom are ecommerce retailers. Our global customer base ranges from new ecommerce companies with less than $1 million in annual revenue to some of the fastest growing companies in the IR 500.

The conclusions in this report are based on analysis of:

200+
Ecommerce Retailers

31M
Customers

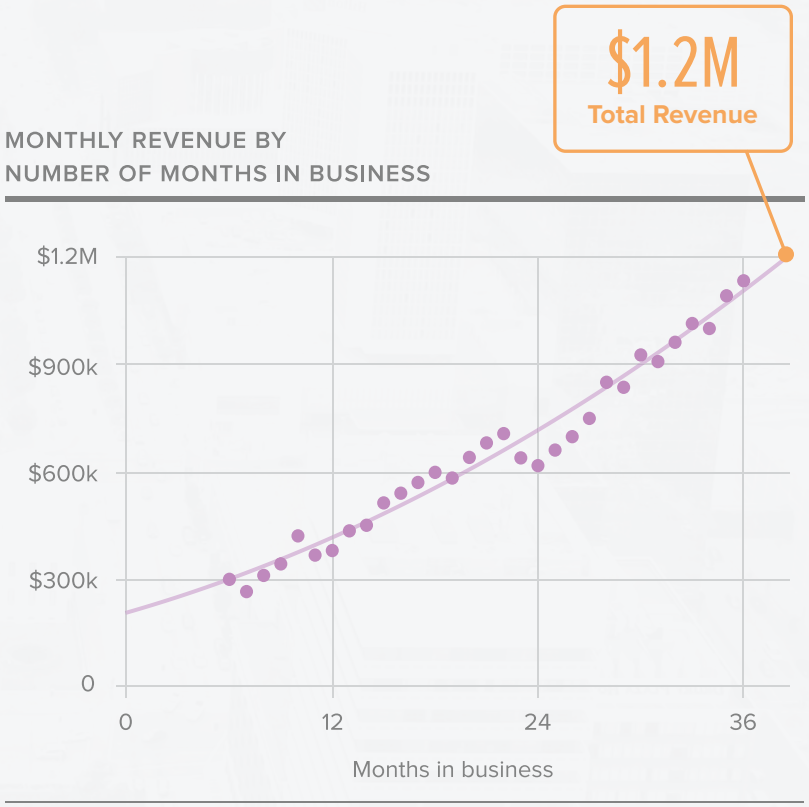
$25B
Transactions

Understanding the Ecommerce Landscape

Growth of the Average Ecommerce Company

The first thing we wanted to explore is what average ecommerce growth looks like. To do this, we plotted monthly revenue from the date of a store's first purchase onward.

This chart seems to show that the average ecommerce company is making $1.2M per month shortly after the end of its third year. This statistic, however, is a dramatic oversimplification. As Avinash Kaushik famously said, "The interesting thing about averages is that they hide the truth very effectively." To tease out the profile of top performing ecommerce companies, we needed to look deeper.



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Growth by Retail Category

While ecommerce is steadily gaining market share in the retail industry, certain categories have been more successful at gaining traction online than others. Apparel/Accessories and Houseware/Home Furnishings categories have above average rates of ecommerce penetration, but Food/Drug and Health/Beauty haven't had the same success.

It would seem then, that retail category would play a role in a companies ability to grow, but this doesn't seem to be the case. Across the four categories we explored in our research, there is no significant difference in their growth rates.

TAKEAWAY

Ecommerce category alone is not an indicator of future growth.

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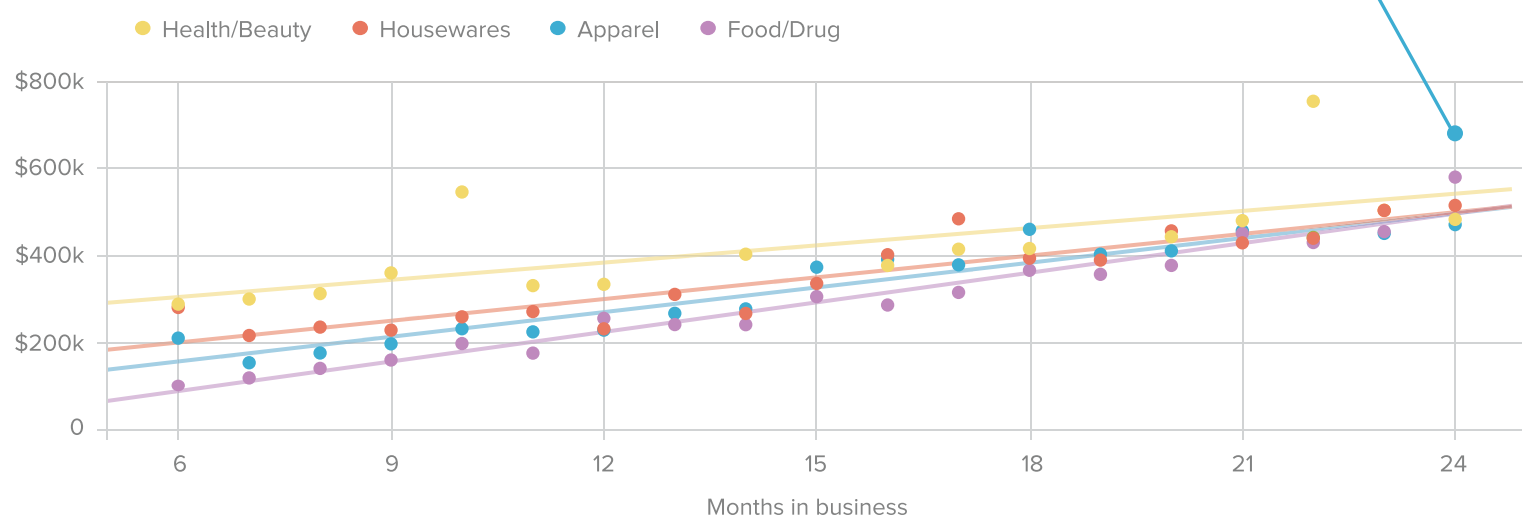
MONTHLY REVENUE BY INDUSTRY



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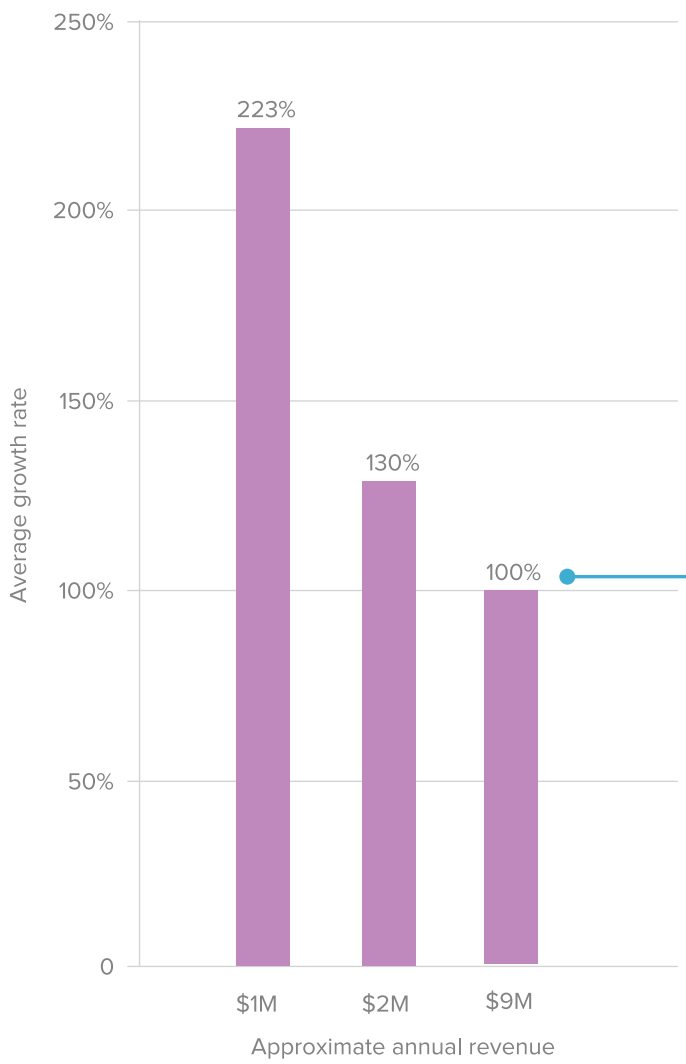
GROWTH RATE BY REVENUE SIZE



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Growth by Revenue Size

As companies get bigger, it becomes harder to sustain a rapid rate of growth. Jeff Jordan calls this effect "gravity". We expected to see this effect play out in our research, and it did.

This insight is helpful for companies in two ways:

1. **It's a helpful guideline as you set growth targets for your company.**
2. **It's a good indicator of when you will need to move past the low-hanging fruit and start exploring new sources of growth.** In the early days of your company, you'll grow simply by building awareness. You'll build a high-functioning website, create some ads, and grow a subscriber list. This alone can be enough to get you growing quickly. But once you cross the two million in revenue line, you're going to need to work harder to achieve the same results.

TAKEAWAY

Revenue alone isn't an indicator of future performance, but it's useful in helping us understand what average growth rates look like at different stages of a company lifecycle.

FACTORS DRIVING FASTER GROWTH IN ECOMMERCE

The increase in technologically-savvy consumers

Consumer shopping behavior has changed dramatically with the adoption of emerging technologies such as mobile and social media. "Generation Z," those aged 18 to 24, are now spending one in ten of their dollars online.

Mobile purchasing

In Q2:2014, purchases made via tablet or smartphone increased 48% YoY, three times the growth in desktop purchasing. Gartner found that mobile commerce currently generates 22% of digital commerce revenue, and predicts mobile revenue in the U.S. will account for 50% by 2017.

Logistics

FedEx and UPS committed to addressing previous seasonal constraints by hiring seasonal employees. While the larger ecommerce companies, with Amazon setting the pace, are increasing their ability to handle their own deliveries and warehousing.

Product and brand differentiation

Ecommerce stores like Birchbox, ThinkGeek, and Nine Naturals have found that the best way to compete with Amazon is by creating highly differentiated product and brand experiences.

Emerging international markets

All-in-one logistics providers have made it easier to penetrate international markets by making international shipping and transaction processing smoother.

Store-based retailers catching up to web-only

The threat of "showrooming" is subsiding as traditional retailers make the transition to the online marketplace. Traditional retailers saw 22% growth in ecommerce sales over the 2nd quarter, a pace faster than overall ecommerce. However, the influence of the online channel as it extends to offline is continuing to evolve, and many physical retailers are still attempting to balance new growth with the proper pace of closing physical locations.

Growth by Year Founded

Over the past decade and a half, the face of ecommerce, from ad platforms to shopping carts, has changed dramatically:

- Amazon was founded in 1994
- Mailchimp was founded in 2001
- Google Analytics came on the scene in 2006
- The first release of Magento was in 2008
- Facebook Exchange became widely available in 2013

Because of these advancements, we were curious to see if ecommerce companies founded more recently grow faster in the early days of their company.

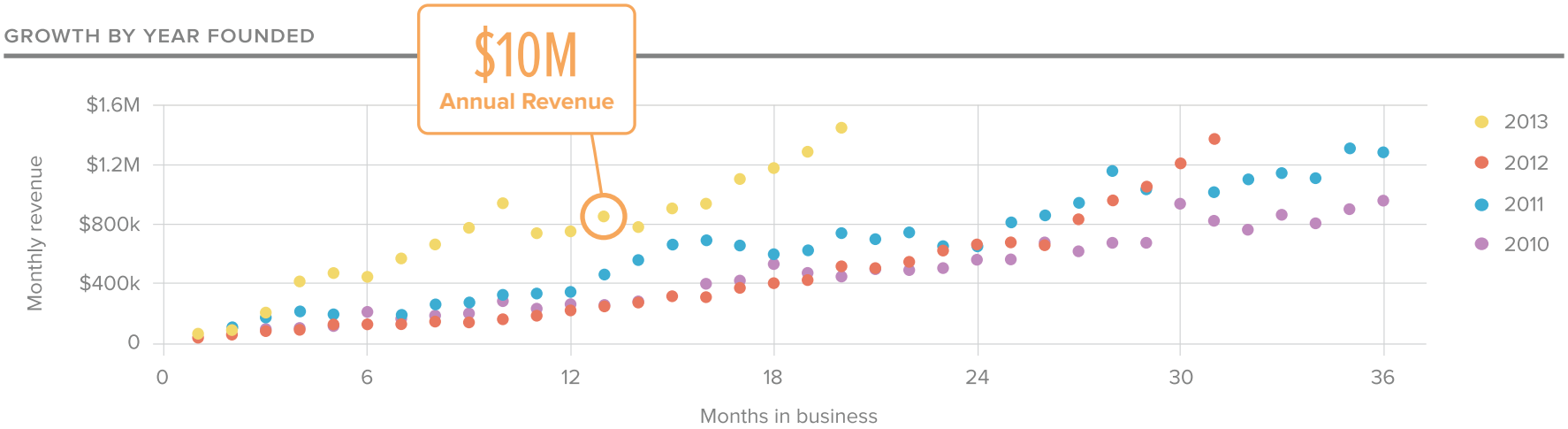
2013 is the most recent year we can make accurate estimates on, but the data indicates that companies founded more recently get to $10 million in annual revenue at a much faster pace than companies founded in earlier years.

This is likely the result of an ecosystem of changes: more high-quality ecommerce talent on the market, better technology tools that help retailers with everything from reducing cart abandonment to fulfilling orders more efficiently, or venture capitalists showing a greater interest in the ecommerce market. **But one thing is clear, there has never been a better time than now to start an ecommerce company.**

Wrapping Up

Our first round of analysis revealed a few interesting tidbits about growth patterns, but other than year founded, we didn't uncover any clear indicators that tell us whether a company might become a top performer.

GROWTH BY YEAR FOUNDED



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The Profile of Top Performers

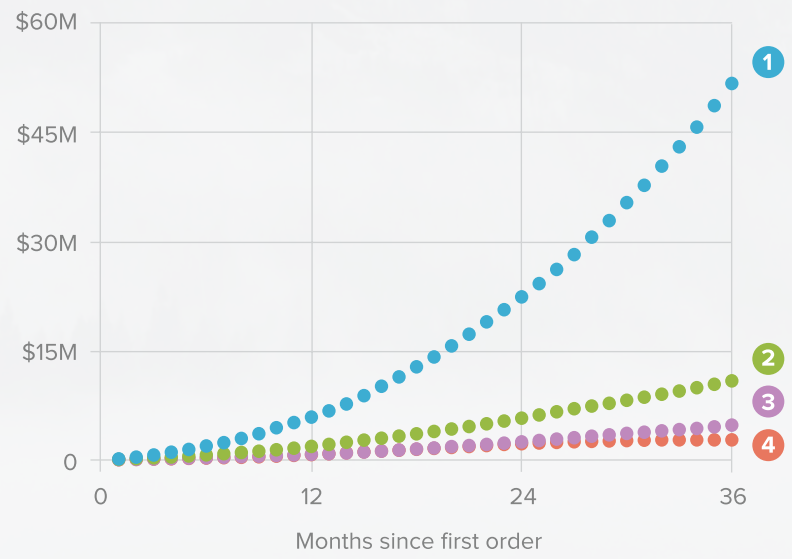
At this point, it was clear we needed to get away from averages and look closer at top performers to gain a better understanding of who will become the next break-out hit in ecommerce.

Revenue by Quartile

To do this, we split our sample into quartiles based on total revenue in their third year of existence. The fastest growing companies are in the first quartile, next-best in the second, and so on.

This data paints a sharp contrast between the very best and the rest of the pack. The top quartile (Q1) companies are nearing $60 million in total revenue by the third year they're in business, the rest of the pack hasn't crossed $15 million.

TOTAL REVENUE BY QUARTILE



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This distinction becomes even more apparent when we look at monthly revenue. After one year in business, monthly revenue for top-quartile companies is literally off the charts compared to the rest of the pack.

This rapid rate of growth so early on in a company lifecycle points to the significance of natural product/market fit and execution. Marketing spend can get you far, but marketing alone is unable to drive this kind of accelerated growth.

GROWTH INDICATOR

*By month six, top performing ecommerce companies have nearly **$450k** in monthly revenue.*

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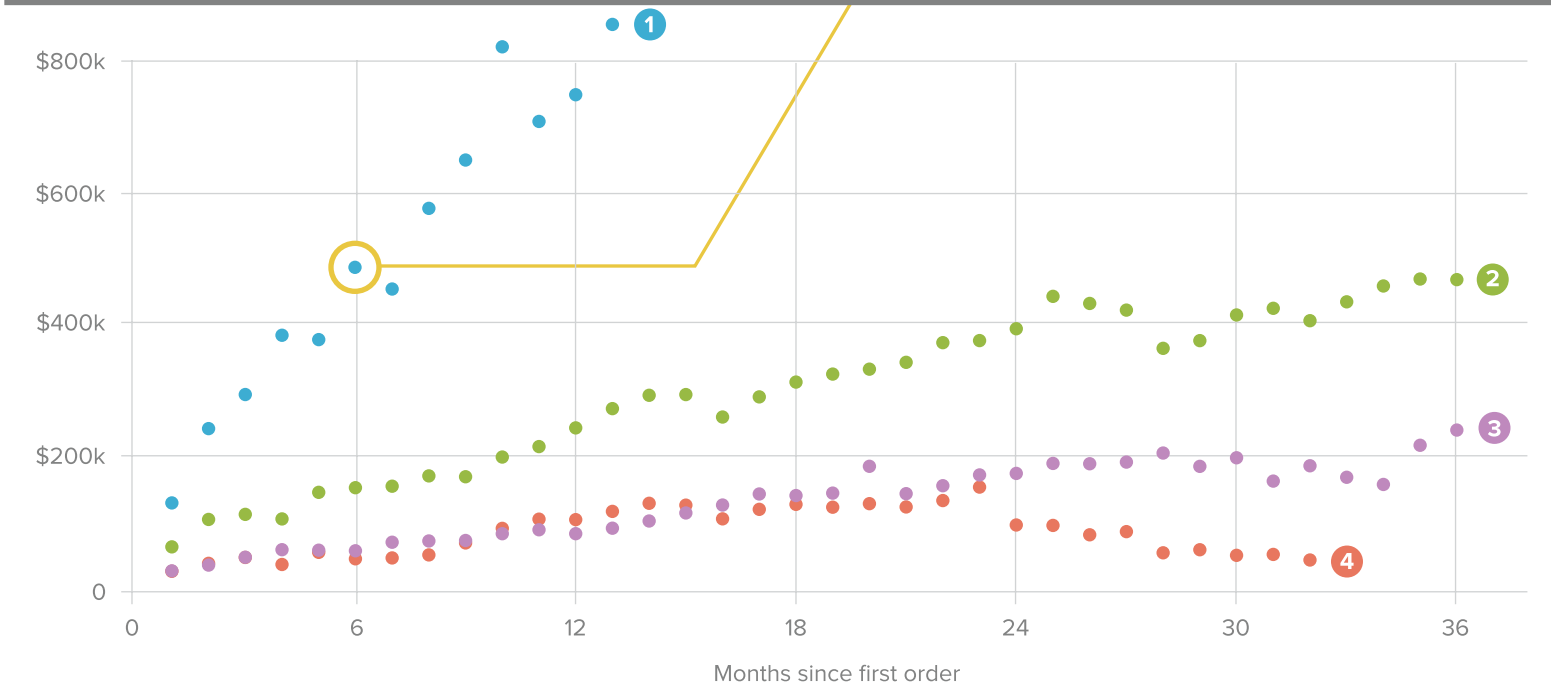
MONTHLY REVENUE BY QUARTILE



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Customers by Quartile

This rapid revenue growth is fueled by excellence in customer acquisition. By month six in business, top performing companies are acquiring new customers at a rate over 2x that of their competition (2500+ vs. 1300 new customers per month).

The 2x advantage is maintained consistently throughout the early years of top performing companies. This aggressive acquisition accumulates into a massive competitive advantage—143% more total customers by the end of year two.

GROWTH INDICATOR

*Top performing companies acquire new customers at **2x** the rate of other ecommerce companies.*

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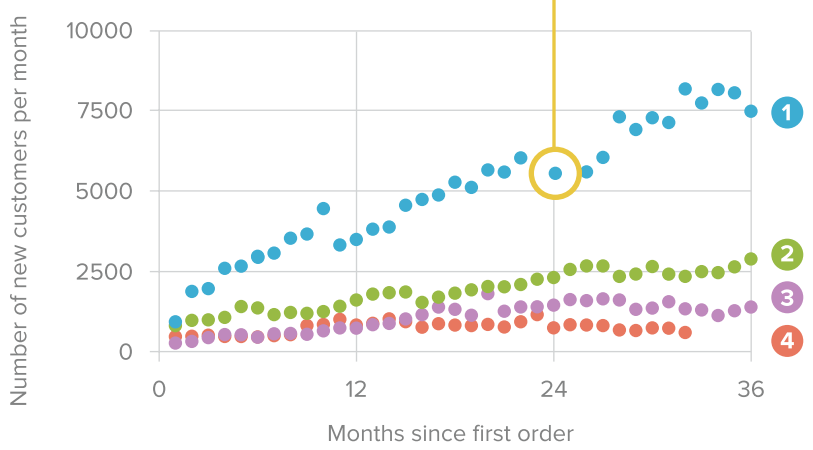
NEW CUSTOMERS



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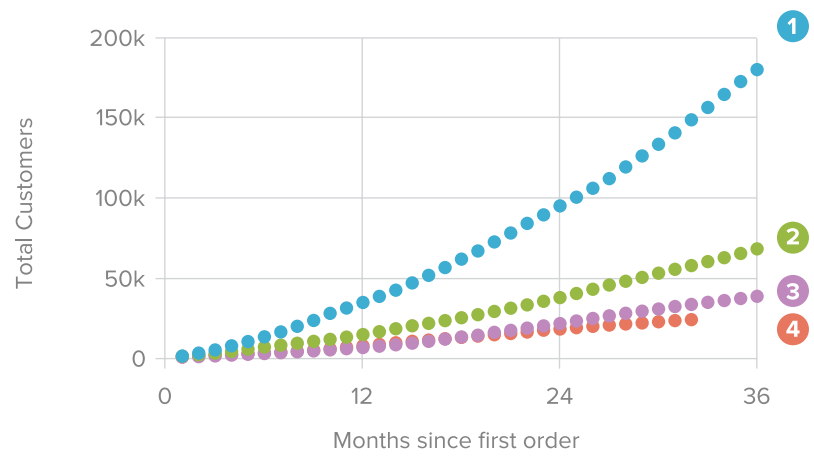
TOTAL CUSTOMERS



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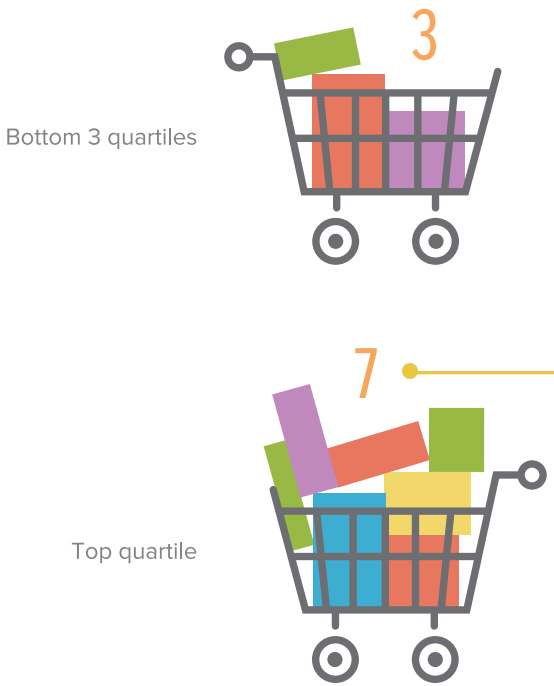
AVERAGE NUMBER OF
CUSTOMER ORDERS BY QUARTILE



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Lifetime Number of Orders per Customer by Quartile

We mentioned earlier that the top performer's rapid growth is likely a result of product/market fit. It's when we look at Q1 performance at the customer level that this story starts to take shape.

The average lifetime number of orders per customers is two times higher for top performing companies than the bottom three quartiles. And top performing companies aren't just amazing at acquiring customers; they know how to keep them coming back. Whether this is due to great products, clever marketing, or a combination of both, the results speak for themselves.

GROWTH INDICATOR

*Customers at top performing companies purchase an average of **seven times.** Customers in the bottom three quartiles purchase an average of **three times.***

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Average Order Value by Quartile

Customers of top performing companies place a greater number of orders over their lifetime, but that's not all. The orders are also a higher value. Top performing companies have an average order value (AOV) of $94. Companies in the lowest performing quartile have an AOV of only $60.

GROWTH INDICATOR

*Top performing ecommerce companies have an Average Order Value of **$94**.*

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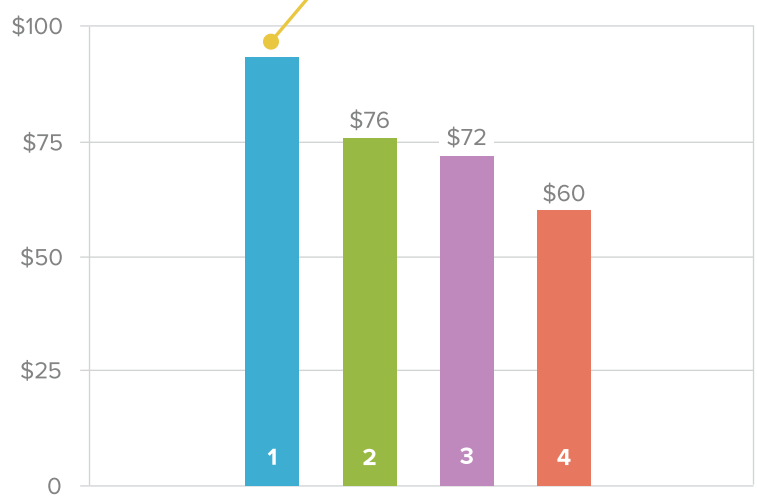
AOV BY QUARTILE



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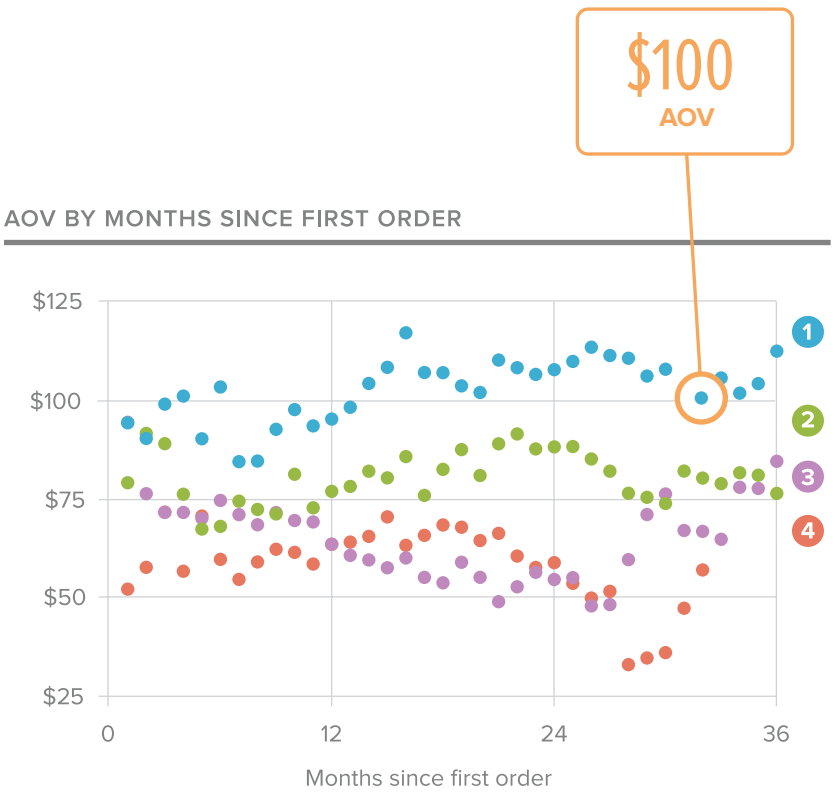
Another interesting pattern emerged around AOV. As they grow, top performing companies maintain an AOV that consistently stays very close to $100. Companies in the bottom two quartiles show much greater fluctuation. While AOV for Q3 companies is $63 at the end of year one, that number dips below $50 at the start of year three.

This dip is likely the result of an increased reliance on discounting in the face of poor performance.

AOV BY MONTHS SINCE FIRST ORDER



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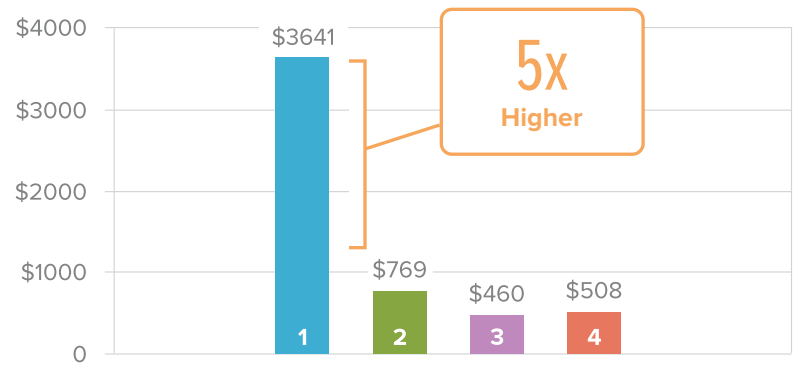
CLV by Quartile

We now know that top performing companies have higher average order values and more orders per customer. Together these numbers form the gold standard of ecommerce performance—high customer lifetime value (CLV).

Top performing ecommerce companies have a customer lifetime value that is 5 times higher than the next best quartile. On average, a customer at a top performing company is worth $3,600, whereas customers at bottom-performing companies are worth between $460-770.

This difference does not come from more marketing dollars alone. Top performing companies are great at acquiring new customers, but they also have a product good enough to keep customers coming back again and again.

CLV BY QUARTILE



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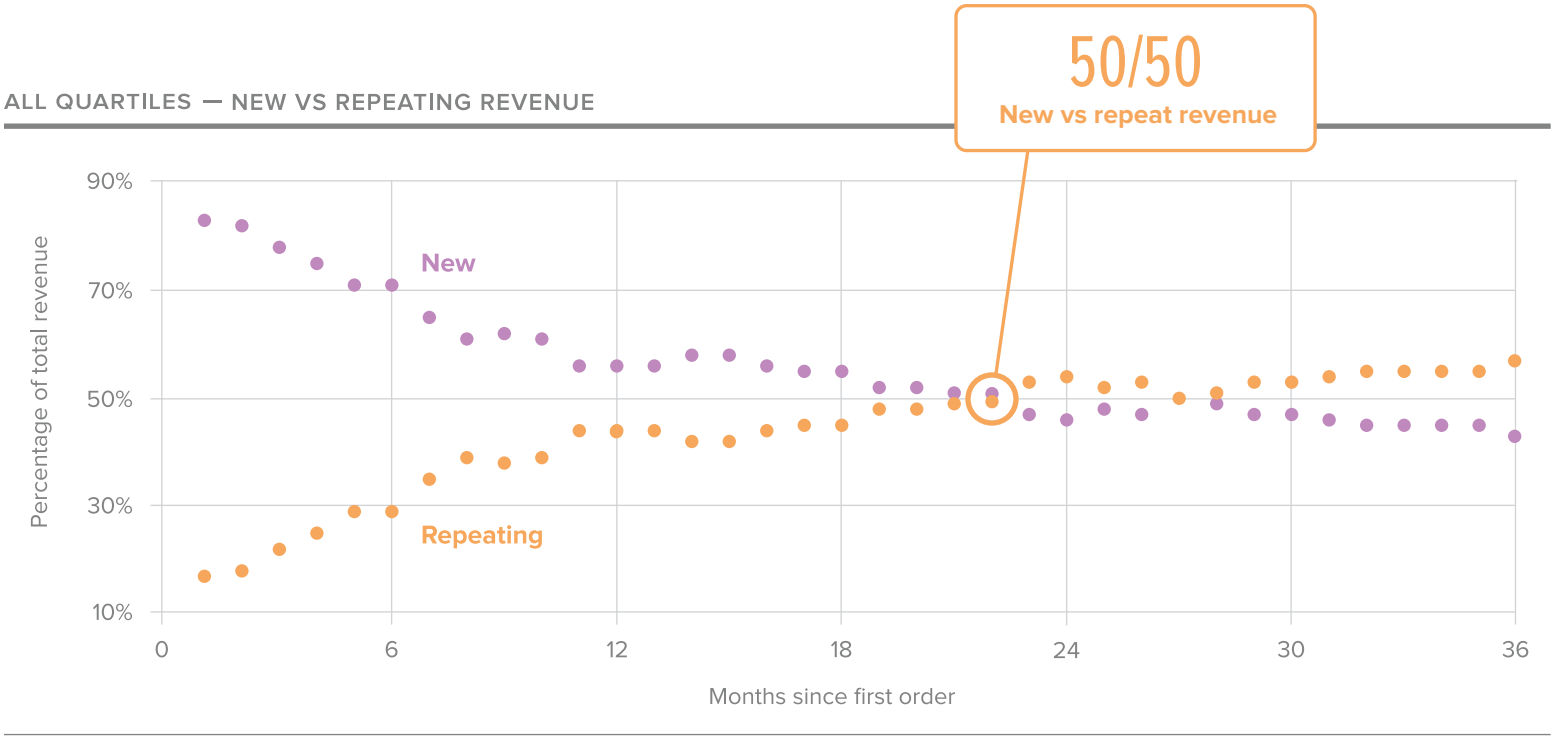
New vs. Repeat Revenue by Quartile

Acquiring new customers is increasingly expensive. Getting existing customers to purchase again is cheap—costing between ⅓ and ⅛ as much. Companies that excel at turning one-time buyers into repeat purchasers have more profitable, sustainable businesses, with higher lifetime values.

We already saw that the fastest-growing companies have higher AOV, repeat purchases, and CLV, but we wanted to see how the mix of new vs. repeat revenue changes as a business matures. Take a look at how this plays out across all quartiles:

This looks pretty much as you'd expect. In the beginning of a company's life, almost all of its revenue is coming from new customers, and that gradually converges over time. By two years in, about 50% of revenue is from new customers and 50% is from repeat customers.



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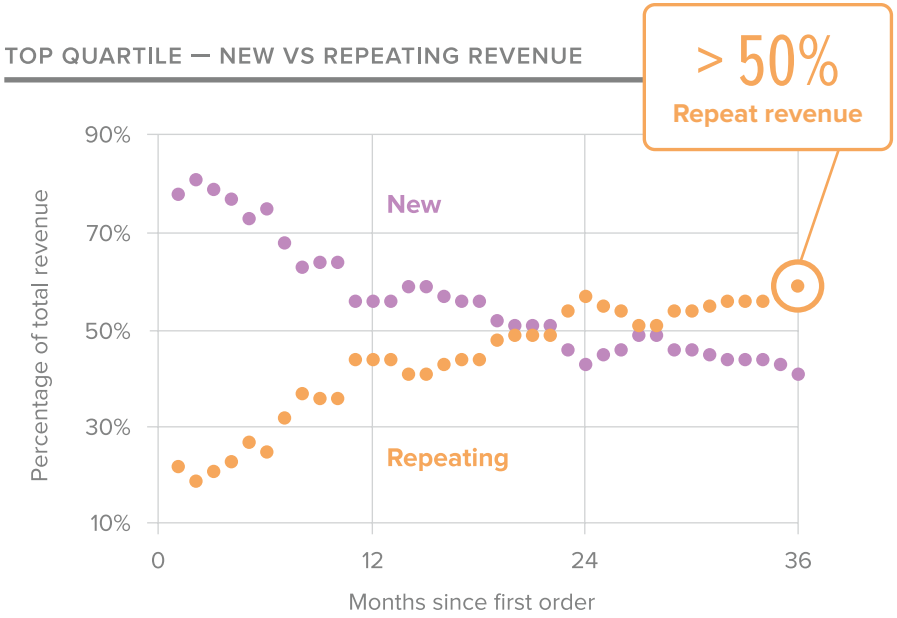
TOP QUARTILE — NEW VS REPEATING REVENUE



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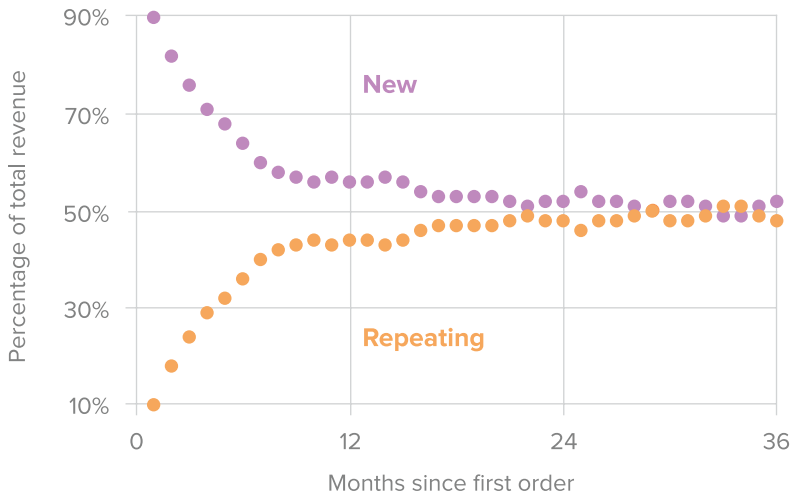
BOTTOM 3 QUARTILES — NEW VS REPEATING REVENUE



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Now let's separate out our top performing companies.

There is a similar pattern here, but some significant differences show up. The first obvious one is that in months one and two, around 20% of revenue is coming from repeat purchases, double the rate of bottom performers. This is impressive: **top companies are getting customers hooked in their very first months in business.**

But what's more important is that in top performing companies, by the end of the three-year period repeat revenue begins to take the lead. This is critical to a business's growth. Growth becomes more challenging as a scale increases. Remember, growing 100% year-over-year at $1M in revenue is easier than at $100M in revenue.

But as a company scales, it also creates a "renewable resource"—its existing customers. A business needs to rely on these customers for loyalty (repeat purchases) and advocacy (referrals) if it's going to continue to grow beyond initial scale. It's clear that this is happening in top companies, while the rest of the market struggles.

This is potentially the most significant signal of the ability for these top quartile companies to become lasting ecommerce powerhouses. Building a brand that inspires customer loyalty is the ultimate secret to scale.

Conclusion

The ecommerce landscape is changing quickly. New ecommerce companies are born every day, and many of their stars burn bright.

The top quartile of new companies does almost $2M in revenue in its first six months as an operating business. This growth is being driven by fundamentals: massive venture investment in ecommerce, increasing platform maturity, growth in scalable marketing channels, and growth in the underlying market. The combination of these mean that there has never been a better time to start and grow an ecommerce store.

But it sets a high bar for retailers. In this competitive environment, it is increasingly hard to stand out. Acquisition channels are crowded and inventory is bid up. Inboxes are crowded. Competitors saturate the market with discounts.

In our exploration of ecommerce growth, we've seen that there is a class of companies who are head and shoulders above the rest. These companies acquire more customers, faster. They have higher repeat purchase rates, higher average order values, and higher customer lifetime values.

These companies are simply executing better than their peers. They have better products and they bring them to market more successfully. Their customers love them and keep coming back for more.

How do you measure up?

If you'd like to understand how you compare on these key metrics, we'd be glad to help.

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