Key Performance Indicators in E-commerce: Average Order Value

Key performance indicators (KPIs) are a mode to measure and monitor the performance of an organization, business unit, department or specified activity on a short-term basis - daily or weekly ¹. They are focused on activities that are critical to the success of the business and indicate their success/improvement or failure.

How to choose KPIs

KPIs have to be chosen carefully in order to give valuable information. On one hand, the target has to be defined clearly to choose the correct measure. Once, this has been defined, the adequate KPIs have to be chosen. These should be defined in a way that is understandable, measurable and meaningful. So, there must be a strong link between the activity measured and the input factor observed. This depends very much on the department and the specific activity in question, because a KPI should tell the manager in the end, what actions need to take place. It may also give insight on whether a Marketing campaigns or CRM efforts are successful or not. Generally, it is recommendable to work with percentages, averages or numbers set in a relation to others. However, in order to show a drastic development with emphasis, it can be helpful to demonstrate this with absolute numbers ².

Example

To give an example: The number of parts rejected due to low quality would not serve to indicate performance in Marketing, but might be very valuable to quality control or supplier evaluation. They might give information whether new frame agreements with the suppliers give a positive impulse on the delivered quality or if more drastic actions have to be considered. Also, 50 pieces rejected might be a high number in one context, and a very low one in another. <note tip> SMART objectives as known from project management also apply in this case. Ideally, KPIs should be Specific, Measurable, Achievable, Relevant and Timely. These modes of performance measurement are often linked to performance improvement projects. Usually, the objective of measuring the performance of a certain activity is not only to indicate the status-quo, but to measure actual improvement or effectiveness and efficiency over a period of time. The number of visitors of an online store could indicate the effectiveness of a Marketing activity, a mailing, for instance. </note>

KPIs in E-commerce

There are many ways to measure performance and effectiveness of activities in E-commerce. Here are some examples ³:

- **Conversion rate** - classed as either order conversion rate (OCR) or buyer conversion rate (BCR) – the probability that a visitor will end up purchasing something on the site
- **New account sign-ups** – number of new customers creating an account
- **Ratio of new to returning visitors** – number of new visitors versus existing customers
- **Percentage new visitors** – number of new visitors on the site each week
Average order value – revenue per customer

Average number of items – number of items per visit

Conversion rate per campaign – probability that a customer will end up purchasing a certain product(s) based on a specific Marketing campaign linked to this product

Page “stickiness” – the success rate of retaining a visitor, who arrived on the landing page

Time spent per visit – average time spent on the site by the customer each visit

Revenue Per User (RPU) - ratio used to express the profitability of a company on a per-user basis: RPU = total revenue / total customers

Average Order Value

The Average order value (AOV) is a very simple and meaningful indicator for the performance of a website. It indicates how much money a customer spends when buying something on the website in question. As opposed to the number of items, the number in question here is referring to the total value of items purchased in one visit. The average is calculated as follows:

**Sum of Revenue Generated / Number of orders taken**

The value generated by this indicator gives insight on the shopping behavior of customers. It allows to segment visitors according to their order manner shown in the past. Then, Marketing campaigns can be targeted directly at those customers who seem to have potential to buy certain products or tend to spend a certain amount of money.

The AOV is also a very good indicator for the overall performance. It provides a direct link to revenue generated and indicates growth or reduction in sales. However, this number has to be seen in relation to the total number of customers.

Yet, performance in E-commerce is not only linked to visitors and customers and their purchase behavior, but also to system availability, for instance. Measuring total availability of a website or an online shop gives information on the quality and reaction time of IT services. Meantime Between Failure or Meantime To Repair are popular indicators in IT, but also frequently used in production and other departments.

List of Literature


External links

- KPI’s for Search Engine Marketing http://www.slideshare.net/akvilep/kpis-for-sem
• KPI Library http://kpilib.com/?gclid=CI3D9Kzzs60CFUfwzAodMic9nQ

1) compare Parmenter, D., 2010, p. 3
2) compare Clifton, B., 2010, p. 314
3) compare Sostre, P.; Le Claire J., 2007, p. 197f
5) compare Clifton, B., 2010, p. 326