ECOMMERCE SOLVED by Real Time Calculation of Sales, Margins and Net Profit

WHITEPAPER - IRP effectively solves eCommerce by demonstrating novel technology that calculates merchant net profit in real time.

IRP demonstrates novel technology and maths that effectively solves eCommerce by calculating net profit in real time

Net Profit is essential to know yet this calculation is difficult enough in ecommerce that no platform has been capable of achieving this in real-time... until now.

With £2 Billion in sales transacted on the IRP - the problem for merchants is not only revenues - it is costs. Cost control and understanding of the Gross to Net is the key ecommerce problem that we have now SOLVED.

The Net Profit Position is the true measure of a merchant's ecommerce operation. IRP has invested in novel technology that not only shows sales and margins, but reveals net profit in real time.
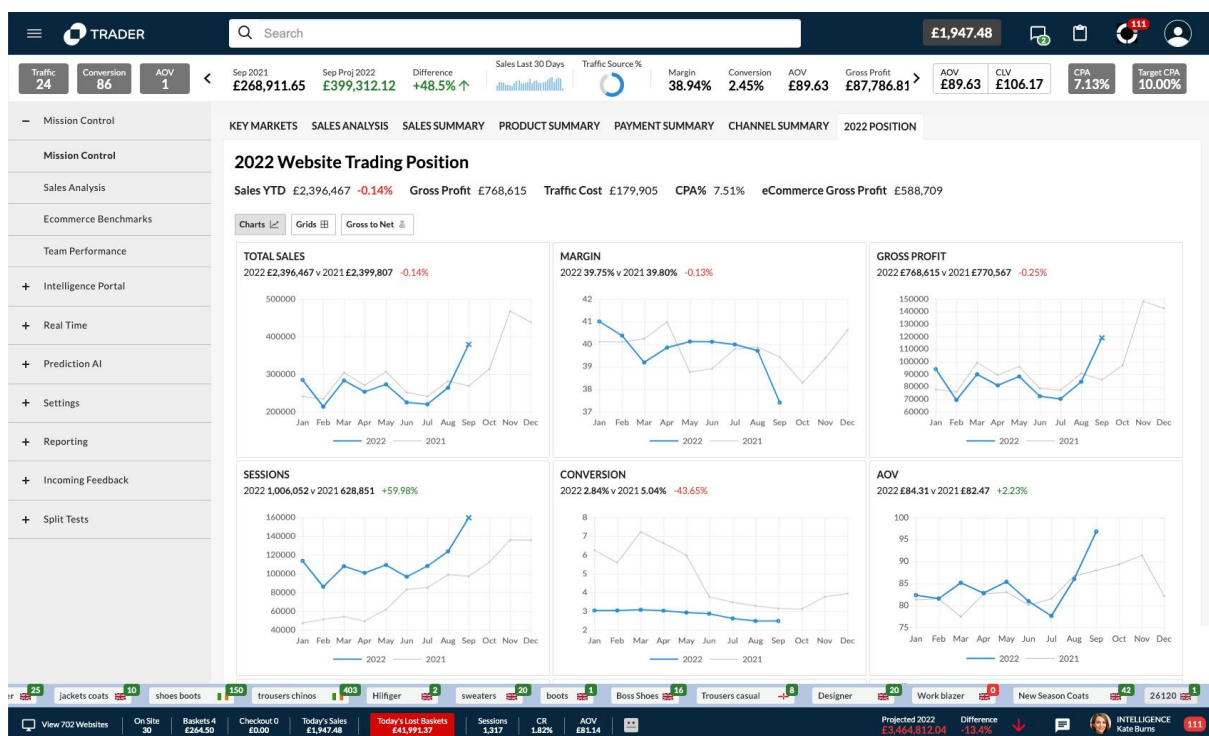
IRP Trading Terminal presents merchants with a full view on sales, margins, costs and profits that detail true trading positions.

The Trading Terminal crunches millions of data points in real-time to:

- Calculate Sales and Margins with 100% accuracy to get Gross Profit
- Accurately calculate all Traffic Costs to show Ecommerce Gross Profit
- Reveal Net Profit with a Gross to Net Waterfall incorporating Overheads

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The PROOF - Step by Step Accounting from Sales to Net Profit

Ecommerce profits are achieved by maintaining product margin, controlling Traffic Spend and managing overheads. Trading Terminal Positions uses sessions, conversions and AOV to calculate sales. The terminal works from there to determine net profit.

The following equations show the link between traffic and net profit:

- Traffic x Conversion Rate x Average Order Value = **eCommerce Sales**
- eCommerce Sales - Cost of Goods = **Gross Profit**
- Gross Profit - Traffic Spend = **eCommerce Gross Profit**
- eCommerce Gross Profit - Overheads = **NET PROFIT**

STEP 1 - ECOMMERCE SALES

Ecommerce sales only grow by increasing TRAFFIC, CONVERSION RATE or AVERAGE ORDER VALUE (AOV). These are the three inputs that change sales numbers.

Traffic x Conversion Rate x Average Order Value = eCommerce Sales

Total Sales Traffic, Conversion & AOV Example
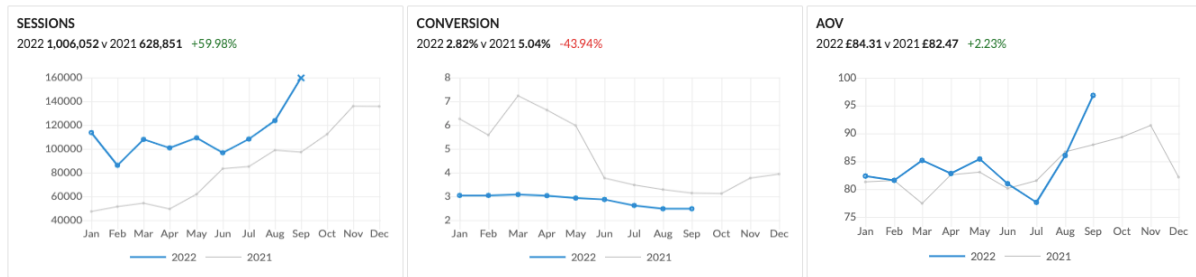
Above example: Realtime YTD September = Sessions **1,006,052** x Conversion **2.82**535% x AOV **£84.31** = Total Sales **£2,396,467**

STEP 2 - GROSS PROFIT

IRP Trading Terminal takes the ecommerce sales above, and by using Product Margin calculates the Gross Profit.

eCommerce Sales - Cost of Goods = Gross Profit

Gross Profit Example

Above example: Realtime YTD September - Ecommerce Sales **£2,396,467** - Cost of Goods **£1,627,852** = Gross Profit **£768,615**

STEP 3 - ECOMMERCE GROSS PROFIT

The Ecommerce Gross Profit construct is a core Ecommerce metric - it indicates true performance by revealing profit after the variable cost of the Traffic Spend.

Traffic Spend is the total cost paid to Google, Facebook, Bing, Affiliates, Email and all paid traffic sources. This Traffic Spend in ecommerce is measured as the percentage cost of sale - the CPA%.

Variable Traffic Spend dictates overall merchant profitability.

Gross Profit - Traffic Spend = eCommerce Gross Profit

Ecommerce Gross Profit Example

Above example: Realtime YTD September - Gross Profit **£768,615** - Traffic Cost **£179,906** = Ecommerce Gross Profit **£588,709**

STEP 4 - ECOMMERCE NET PROFIT

Below "Ecommerce Gross Profit" other costs of revenue such as credit card and postage costs are combined with the operating overheads for simplicity - and then all deducted as overheads as follows.

eCommerce Gross Profit - Overheads = Net Profit

Online Sales	£2,396,467
Cost of Goods	(£1,627,852)
Gross Profit	£768,615
Variable Traffic Spend	(£179,906)
eCommerce Gross Profit	**£588,709**
Overheads	(£376,765)
Net Profit	£211,944
Net Profit Margin	**8.84%**

Above example: Revealing the Merchant's Net Profit and Net Profit Margin in realtime with a CPA% of **7.50%** and Product margin of **39.75%**

ECOMMERCE SOLVED

Ecommerce has converged where people, data and profit must be connected in real time to deliver value. The IRP Trading Terminal has fundamentally solved the complex ecommerce profit problem.

"Not only does this completely transform ecommerce thinking - it puts the Merchant Owner in control and puts their interests first."

Supporting Information & Notes about this Whitepaper

The whitepaper is a true and realtime example of the IRP Gross to Net Waterfall available in IRP Trading Terminal. The numbers above especially conversion show major YOY differences because of lockdowns in 2021. IRP took the view it was best to show accurate numbers

We have also made the Overheads section more simplified than we would recommend in accounting. While not being in any way essential - Cost of Sale such as postage costs and payment costs are often separated from overheads as a separate line. This however does not affect in any way the accurate calculation of Net Profit.