How to Calculate Cost Per Order for Your Ecommerce Store

By [Shannon Callarman]

One major benefit of running an ecommerce business is that profit margins can be higher than traditional retail since you don't have to lease expensive retail locations. This allows you to offer high-quality products at an affordable price.

But even with the lower costs associated with launching an online store, there are hidden costs to selling a product online that you may not be aware of. With so many different factors like marketing, fulfillment costs, shipping costs, and more, how can an ecommerce store accurately calculate how much profit they're making per order?

In this guide, we'll go over how to calculate the true costs that comes with a single customer order, how to decrease those costs, and how partnering with a 3PL can help improve your bottom line.

What is cost per order?

Cost per order (CPO) is the total calculated cost that is incurred by a customer making a purchase and determines profit made from a single order.

Common overlooked order costs

When calculating order costs, ecommerce businesses typically account for the cost of goods sold (COGS), shipping costs, storage costs, and more. While they are necessary costs to calculate, there are also additional costs that you need to incorporate.

Marketing/advertising costs

Also known as your customer acquisition cost (CAC), this is how much money you spend on marketing and ads to get customers to make a purchase. Unsurprisingly, it's one of the most important ecommerce metrics to track.

CAC includes what you pay for online marketing campaigns, social ads, and costs from other marketing channels. By tracking this metric, you can make better decisions on how much you're spending upfront to increase conversions.

For example, if you spend $100 to get one customer, and your average order value is $80, you're losing $20 on each sale — and that doesn't even include the logistics costs associated with fulfilling the order.

Custom packaging

Depending on the type of packaging you're using, costs can quickly ramp up. Branded, custom packaging can make a huge impact on the unboxing experience, and it makes sense for high-quality, luxury products. But if it's not cost-effective, it can become an unnecessary expense if you're selling a low-cost item.

In general, packaging shouldn't cost any more than 5% of your average order value.

How do you calculate cost per order (CPO)?

Calculating your cost per order includes everything from customer acquisition costs to fulfillment and shipping costs. To calculate cost per order, you first need to add up all of your order expenses — everything you spend to acquire, fulfill, package, and ship orders — for a set period of time. Then, you divide your order expenses by the total number of orders you received during the same timeframe.

The cost per order formula

(Customer acquisition costs + packaging costs + fulfillment costs + shipping costs + COGS + storage costs in a time period) / # of orders in that same time period.

A CPO example

Let's look at an example of how the cost per order is calculated for a single month where you received 300 orders that each brought in $25 worth of revenue:

- Marketing/ads (CAC) – $4,000
- Packaging – $180
- Shipping costs – $900
- Fulfillment costs – $100
- Storage costs – $100
- COGS – $1,000

Total costs = $6,280

$6,280 in total costs / 300 total orders = $20.93 CPO (your cost per order)

$25 in revenue per order – $20.93 cost per order = A total profit of $4.07 per order

Want to reduce CPO? Start here

Once you have a better idea of what your average CPO is, you can make better decisions on where to cut costs to reach the amount of profit per order you desire.

High COGS (cost of goods sold)

COGS is the direct costs of producing the goods sold by a company. It's an important metric for calculating profits because it lets you know how expensive your manufacturing costs are. If you're seeing high COGS, have a talk with your manufacturer to see if there are ways to cut costs and production lead times.

Shipping costs

Shipping costs can add up depending on where orders are being fulfilled. For instance, if you have one storage or warehouse location in Florida, the cost of shipping the order to the other side of the country in Oregon is going to be much more expensive than shipping to a neighboring state, Georgia.

Ecommerce businesses can reduce shipping costs by negotiating volume discounts with major shipping carriers (or work with a 3PL who can provide shipping discounts).

Storage or warehousing costs

Storing ecommerce inventory can be expensive, especially if your inventory is not being sold very quickly. For every item you have, you need storage space. If you have too many items that are unsold, you'll have to expand your storage space to account for these costs.

4 more ways to decrease your cost per order

Reducing your cost per order can not only can help your ecommerce business be profitable, but it also results in better supply chain efficiency with opportunities to improve your warehouses, fulfillment operations, and overall ecommerce supply chain.

1. Map out your workflow

There are many unseen improvement opportunities in your retail order fulfillment processes. Work with your pickers and warehouse staff to see how you can reduce costs by improving routing, picking, inventory storage, and the other day-to-day processes throughout the order fulfillment process.

2. Process orders faster

Running a more efficient ecommerce warehouse can help reduce costs. Faster order processing means you pay less for order fulfillment because there's less labor and time involved. For even faster order fulfillment, send orders to the warehouse closest to the customer to save on fulfillment and shipping costs.

3. Get shipping rate discounts

Shipping rate discounts are great if you can get them. If you ship in large amounts, many big carriers will give you shipping rate discounts. If you start working with a 3PL, many of them offer discounted rates due to their volume.

4. Outsource to a 3PL

More and more ecommerce businesses are seeing the benefits of outsourcing fulfillment to a 3PL. While you may think it's cheaper and more efficient to manage fulfillment in-house, many ecommerce

2-day shipping

Many ecommerce businesses can't compete with Amazon's 2-day delivery. It's a high-converting shipping option that many ecommerce businesses wish they could have.

Shipping to a far away location increases both the cost of shipping and transit time. But setting up the logistics network capable of delivering items in two days is going to take months and cost millions of dollars.

Reduced fulfillment and shipping costs

Many service providers have a growing network of warehouses. When a customer places an order online, it’s sent to the warehouse that has your inventory that’s closest to them. This reduces your overall costs because these orders can be fulfilled quickly and the shorter distance means your overall shipping costs are lower.

Better inventory management

Running your own warehouses and storing inventory can be costly, complicated, and time-consuming. You also have to count inventory every day, manually reorder more inventory, and manage labor.

Conclusion

By calculating CPO, you can easily find ways to cut costs and increase profit margins.

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