



# Profits in focus

Financial benchmarks for modern consumer brands

A joint report by Wayflyer + Iris

Q1 2024



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# Intro

Welcome to the first edition of **Profits in focus**, a new quarterly deep dive into the financial performance of the best direct-to-consumer brands.

This collaborative report is published by Wayflyer in partnership with Iris Finance. Combined we've worked with thousands of eCommerce businesses to help them better understand their financial performance and provide them with the flexible financing they need to thrive and grow. With so much valuable data on our respective platforms, we set out to see what insights we could generate to help DTC operators better understand the performance of their individual sector, as well as what the best-in-class metrics were for the top companies in their space.

As a result this report is based on an analysis of \$2.5B of Gross Merchandise Value generated by consumer brands in Q1 of 2024, broken down across nine major sectors. We took a total sample size of approximately 7,000 companies selling predominantly online. All the brands included in the overall market sections generated at least \$100,000 in revenue over the last 12 months. The sectors we examined were: (1) Apparel, (2) Beauty, (3) Food & Beverage, (4) Animal & Pet, (5) Consumer Electronics, (6) Home & garden, (7) Health, (8) Toys & Games and (9) Sporting Goods.

We're sharing the most important financial metrics and benchmarks on a sector by sector basis so brand owners can build towards the most profitable business possible. The best-in-class P&Ls for each sector provide a model of what to strive for, what levers to pull to improve them, and most importantly - how to squeeze more profit from your business.

We hope the data shared helps you improve your bottom line—we'd love to hear how you've used it in your business.

**Dan Nugent**, Wayflyer

**Drew Fallon**, Iris Finance



## A foreword from the CEO

In the early 2020s, a flood of venture capital money entered the Direct to Consumer space. Brands like Warby Parker, Allbirds, Rent the Runway and Casper immediately come to mind. **It prompted a "growth at all costs" frenzy** across the industry. Much of this venture cash went into paid ads and inventory, with the aim of growing top-line revenue as quickly as possible and reaching the huge scale that the venture-backed model demands. Founders made a bet that they'd recoup short-term losses over the lifetime of a customer. And VCs weighed in on this bet by investing **over \$5 billion** at the peak in 2021.

Many DTC businesses have faltered since, not because of the channel itself, but because they lost sight of this business fundamental: **you can't pay more to acquire a customer than they are worth to your company.** In the pursuit of revenue, brands overspent on acquisition costs and lost their focus on profitability. They were ill-disciplined. The post-pandemic period proved to be tough for many brands, and VC interest waned too, with just \$140m invested in 2023 - a **97% drop** from the peak.

At Wayflyer, we have had the privilege of partnering with thousands of consumer brands as they've navigated these ebbs and flows in the market. The characteristics of those who've come out the other side stronger are glaringly obvious. It's a combination of **profitable unit economics** and **careful cash flow management** that makes a good business. The best operators obsess over this fact. We remain steadfast in our commitment to help **bring the best products to the world.** Our financing product has been doing this since our inception. But given our unique access to rich industry data, we feel a duty to go one step further and provide guidance on what "healthy" financial performance looks like. This eBook is our first public foray into providing industry-specific financial insights. I hope you find it both interesting and genuinely useful.

**Aidan Corbett**

CEO, Wayflyer

## Executive summary

Don't tell the venture capitalists but based on Q1 performance the direct to consumer market is kicking into life again. As an industry whole the 7,000 companies analyzed by Waflyer and Iris Finance, shoots of top line revenue growth were seen across all sectors to varying degrees. For our best-in-class all business metrics suggest that growth was profitable and sustainable.

**Overall revenue grew by an average of 4%** across our entire sample when compared to Q1 2023, with **two sectors in particular demonstrating stellar growth—Animal & Pets (21%) and Health (16%)**. This is much higher than Home & Garden (1%), Consumer Electronics (2%), Sporting Goods (3%) and Apparel and Accessories (3.5%) were the sectors that demonstrated growth just below the overall average, although our analysis of the best performing companies in those categories show that it is still possible to build a successful business in them.

Best in class P&Ls	Gross Margin	Marketing /Revenue	Contribution Margin	OpEx /Revenue	Net Margin
Apparel & Accessories	69%	32%	37%	20%	17%
Beauty	74%	30%	44%	18%	26%
Food & Beverage	41%	10%	31%	15%	16%
Home & Garden	56%	18%	38%	14%	24%
Sporting Goods	52%	21%	31%	14%	17%
Health	75%	33%	42%	16%	26%
Electronics	63%	22%	41%	22%	19%
Animal & Pet	38%	15%	23%	12%	11%
Toys & Games	42%	11%	31%	15%	16%

## Executive summary (contd)

While there's a general narrative that eCommerce brands are becoming more reliant on existing customers rather than attracting new ones, the dynamics are very different across sectors. At one end of the spectrum you have sticky products and subscription models that underpin brands in Pets (70% repeat customers) and Toys & Games (60% repeat). At the other end you have big ticket purchases that are the mainstay of Home & Garden (72% new customers), Sporting Goods (67% new) and Consumer Electronics (65% new). Not surprisingly these were the 3 sectors with the highest AOV—Home & Garden (\$185), Sporting Goods (\$162) and Consumer Electronics (\$145). In response **we're starting to see brands in these categories look to innovations such as subscriptions and complimentary products** to drive repeat purchases and improve CAC:LTV.

Looking at best-in-class performers (a subset of 5-10 longer-established businesses in each sector that demonstrated growth and profitability) the dynamics in each sector become even starker. For example, the best **Apparel brands have to deal with return rates of 14%** which is in sharp contrast to the next highest rates of 4% for Sporting Goods and 3% in Toys & Games. The remaining categories have to manage return rates of 2% or less.

As you'd expect growth rates for the top performers was well above the DTC average of 4%, with **our Beauty subset head and shoulders above the rest at a remarkable 70%**. However, even the worst of the best—Sporting Goods—grew at 20% and the average across categories was 39%.

**The best Beauty brands also have exceptional gross margins at 74%**, which helps explain why the category sees software-like earnings with EBITDA margins typically in excess of 30%. Best-in-class brands in other sectors also have enviable gross margins including Health (75%), explained by the nature of the products, Apparel (69%), with its focus on low cost manufacturing, and consumer electronics (63%) thanks to its well developed supply chains.

CAC across top performers was even more of a spread than when looking at industry averages. The best Beauty brands spent just \$20.40 to acquire each customer in Q1 while the leading Pet brands were spending \$144.00, which goes some way to explaining the popularity of the Beauty category with entrepreneurs. But a high CAC isn't a problem if it comes with a high LTV. **Pets, with an exceptional 12-month LTV of \$640.00** driven by subscriptions, with a number of other categories—Apparel, Beauty, Food & Beverage, Health and Sporting Goods—clustered just north of \$200. While the absolute numbers are interesting the CAC: LTV ratio starts to tell the real unit dynamics story and leading Beauty brands top the table again at 9.9, followed by Food & Beverage (8.9) and Home & Garden (6.5).

Read on for a more in-depth, sector by sector breakdown of how the best DTC brands performed in Q1.

# APPAREL & ACCESSORIES





## Apparel and accessories: robust LTVs help drive impressive revenue growth

While Apparel boasts a substantial Total Addressable Market (TAM) and the potential for significant Lifetime Value (LTV), it also grapples with intricate supply chains, elevated return rates, and volatile seasonality. However, when executed effectively, it has the capacity to surpass virtually any other category in terms of both growth and profitability.

## Overall market

The DTC Apparel industry grew by approximately 3.5% this quarter, which is just below the all-category average growth rate of 4%. A positive point for the Apparel industry is that brands are still acquiring new customers at a high ratio, with 57% of revenue contributed by this cohort. While many sectors have begun to depend more and more on existing customers to fuel revenue growth, Apparel has only been moderately impacted by this trend.

When coupled with its capability to generate robust lifetime value, Apparel remains a highly attractive, yet fiercely competitive, space for brands that can successfully optimize their operations.

<b>3.5%</b>	<b>\$111</b>	<b>\$36</b>	<b>59:41</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



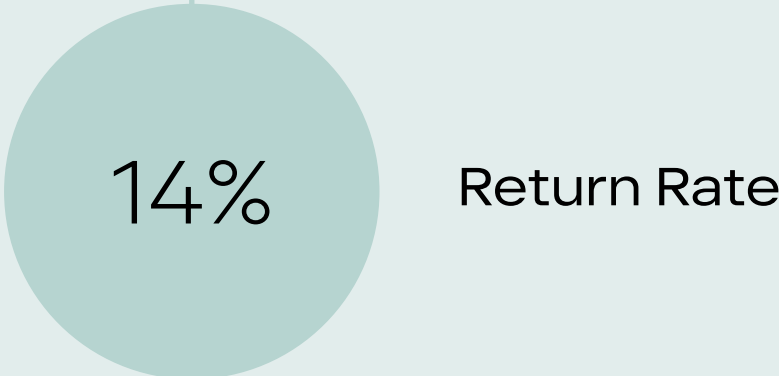
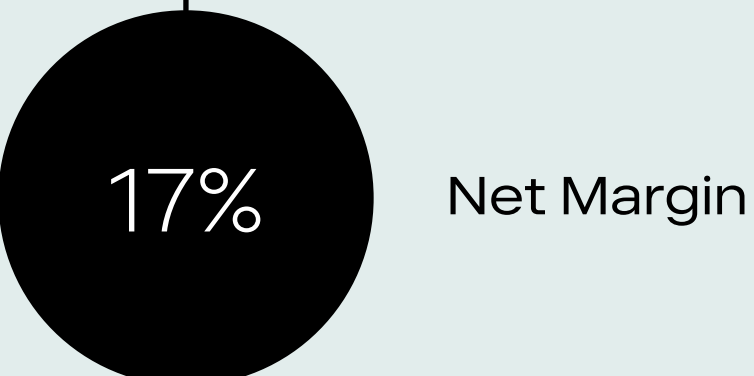
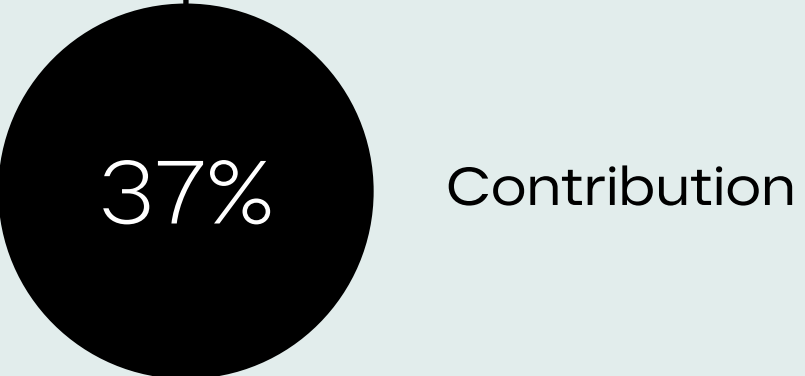
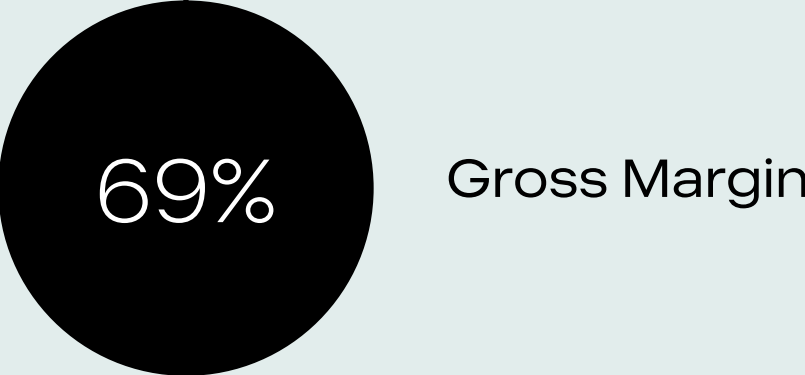
## Outlook for 2024

“In order to have success in the Apparel space in 2024, financial leaders must focus on contribution margin analysis at the granular product category level. Brands that are adept at leveraging real-time data analytics to make quick and informed decisions will be more relevant and profitable going forward.”

**Carter Shae**  
CFO, **Cuts Clothing**

# What does best in class look like for Apparel?

- Profitability metrics
- Performance metrics



## The Perfect P&L: Apparel

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$31
<b>Gross Profit</b>	<b>\$69</b>
Marketing Expense	\$32
<b>Contribution Margin</b>	<b>\$37</b>
Operating Expenses	\$20
<b>Net Income</b>	<b>\$17</b>

## Sales

Effective customer acquisition is paramount for scaling any DTC brand, and this rings particularly true for Apparel companies navigating the dynamic landscape of fashion trends and supply chains. Despite these challenges, our top-tier apparel brands have demonstrated healthy sales growth, boasting an impressive average year-on-year increase of 27% in Q1.

Typically, categories with high AOVs tend to exhibit lower repeat purchase rates, frontloading much of their LTV into the initial purchase. Best-in-class Apparel brands defy this trend while also driving AOVs 1.22 times higher than the industry average. This is facilitated by strategies such as increasing SKU count per transaction (through bundling of products) and leveraging seasonal launches to encourage repeat purchases of high value baskets. As a result, these brands enjoy strong LTVs, paving the way for strong growth and profitability.

Managing returns continues to be a critical concern. For best-in-class Apparel and Accessory companies, maintaining a return rate of approximately 14% or under is pivotal. This industry carries the highest return rate among all categories, underscoring the importance of implementing effective return management strategies. Investing in a website experience that facilitates accurate size and color selection can significantly reduce return rates, translating into improved net revenue margins and increased EBITDA.

## The Perfect P&L: Apparel

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$31
<b>Gross Profit</b>	<b>\$69</b>
Marketing Expense	\$32
<b>Contribution Margin</b>	<b>\$37</b>
Operating Expenses	\$20
<b>Net Income</b>	<b>\$17</b>

## Gross Profit

In our sample, standout Apparel brands consistently start with a robust gross margin, which hinges on first-class inventory management. Given the inherently seasonal nature of the industry, accurately forecasting demand is paramount to avoid accumulating excess, unsellable inventory. Failure to do so often leads to inventory write-offs or heavy discounting, which puts significant pressure on gross margins and profitable new customer acquisition.

The top-performing apparel brands we've encountered typically price their products to achieve a 69% gross margin. This margin accounts for a variety of expenses, including product costs, delivery fees, reverse logistics costs linked to returns, payment processing charges, and other seller-related fees. Achieving and maintaining this level of gross margin is crucial for sustaining profitability and competitiveness in the Apparel market.

## The Perfect P&L: Apparel

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$31
<b>Gross Profit</b>	<b>\$69</b>
Marketing Expense	\$32
<b>Contribution Margin</b>	<b>\$37</b>
Operating Expenses	\$20
<b>Net Income</b>	<b>\$17</b>

## Marketing

With their higher AOV and gross margin profile, top-tier Apparel and Accessory brands typically have greater flexibility in allocating gross profit towards customer acquisition. These brands can afford to invest more in marketing to new customers while also capitalizing on new season launches to re-engage the existing customer base. When executed effectively this strategy enables Apparel brands to surpass the performance of nearly any other industry.

The exceptional combination of elevated AOV and robust repeat purchase rates allows these brands to achieve heightened Marketing Efficiency Ratios (MER) without having to rely solely on repeat customers. In our sample best-in-class apparel brands allocate approximately 32% of their revenue towards advertising spend. This plays a pivotal role in sustaining brand growth, fostering customer loyalty, and driving long-term profitability within this highly competitive sector.

## The Perfect P&L: Apparel

<b>Sales</b>	<b>\$100</b>
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Marketing Expense	\$32
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Operating Expenses	\$20
<b>Net Income</b>	<b>\$17</b>

## Operating Expenses

The best-run Apparel and Accessory brands typically spend about 20% of revenue on operating expenses. These expenses encompass various overhead costs, including salaries, software tools, rent, and all other non-COGS (Cost of Goods Sold) and non-marketing expenditures.

# M&A

The apparel sector has faced significant challenges in recent years, particularly in terms of M&A transactions, which have been noticeably thinner on the ground and executed at lower multiples of revenue compared to historic deals. Notable transactions include:

## 0.6x Sales

Bonobos \$75MM  
sale to Express

## 0.47x Sales

Chico's FAS \$1B  
sale to Sycamore  
Partners

## 1.55x Sales

Capri Holdings  
\$8.5B sale to  
Tapestry

## Undisclosed

Tom Ford sale to  
Estee Lauder, value  
undisclosed

However, upcoming transactions involving **True Classic**, **Alo**, and **Skims** are expected to defy this trend, generating significant anticipation within the industry.



# BEAUTY



## Beauty: big gross margins key to scaling a profitable business model

Beauty has long been the earnings powerhouse of the CPG industry. With brands such as Olaplex achieving multi-billion dollar IPOs and boasting impressive EBITDA margins, this category has garnered significant interest. Over the past few years, billions of dollars have flowed into beauty products as consumers veer away from traditional brands in favor of cleaner, sustainable, and innovative ingredients. Known for its high margins and customer loyalty, the beauty sector demonstrates resilience even in times of economic downturn.

## Overall market

Much like the Apparel sector, Beauty witnessed steady, if unspectacular, year-on-year growth of 4% in the first quarter of 2024. The sector exhibited the lowest CAC among those analyzed, hovering around \$21, making it an exceptionally enticing market for entrepreneurs. Brands are becoming increasingly reliant on existing customers to drive the bulk of revenue, with new customers decreasing to 47% of total sales—a decline from 54% observed in the corresponding period in 2023.

<b>4%</b>	<b>\$63</b>	<b>\$21</b>	<b>47:53</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

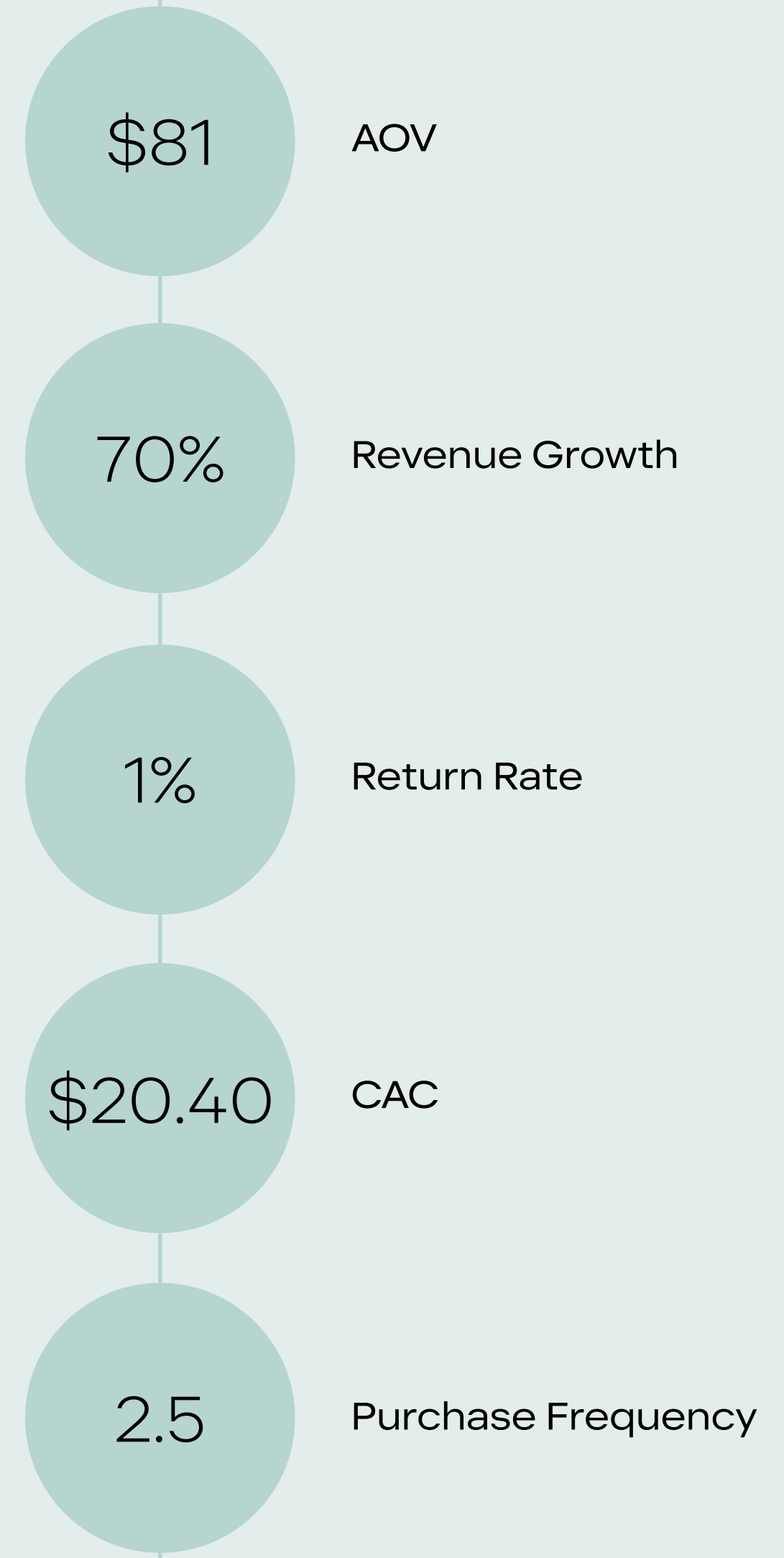
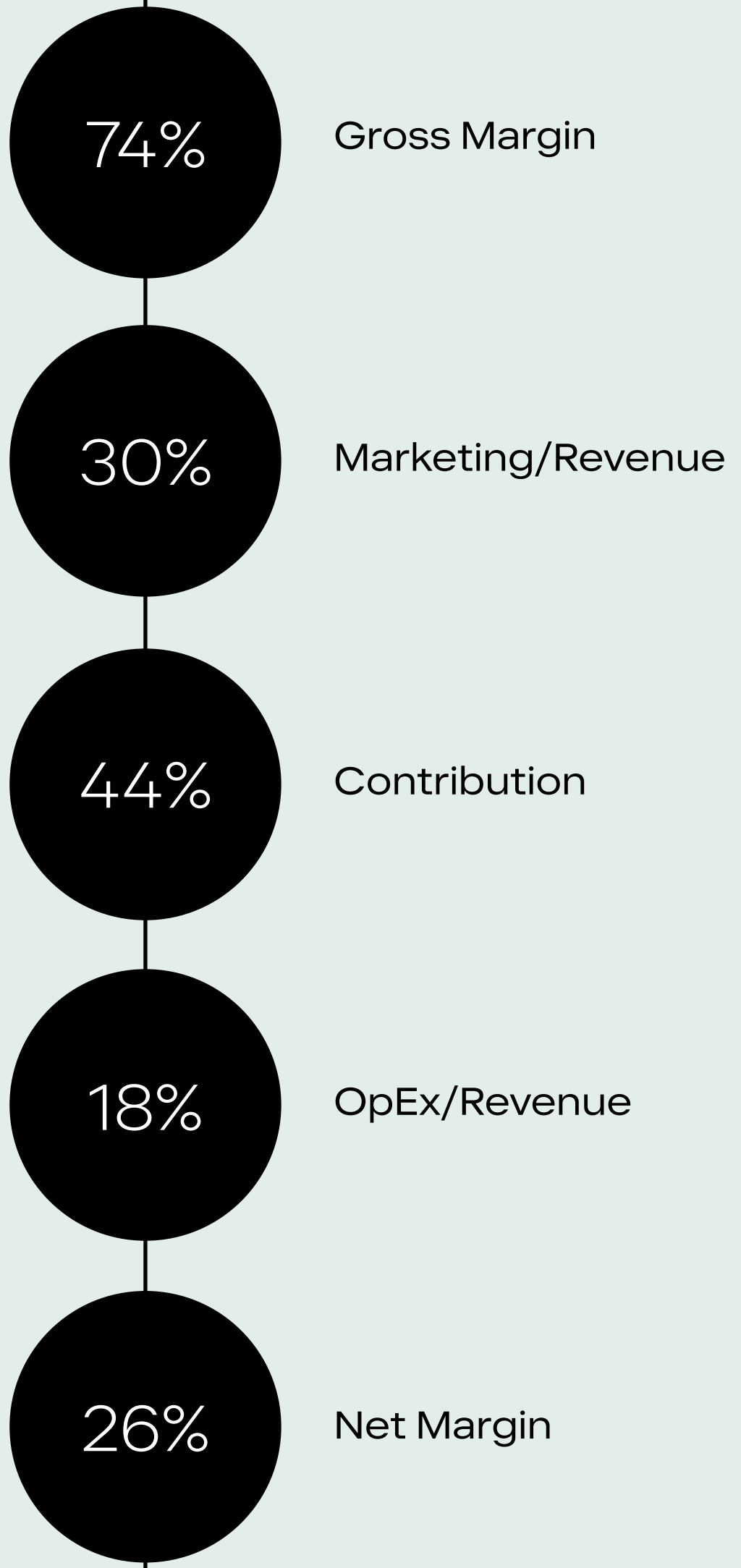
“The majority of expenses roll-up into three buckets: people, product and marketing. How you navigate those three major line items will determine your ability – or, inability – to create and leverage a sustainable and scalable P&L. ABA - always be auditing. Understand your channel-level and order-level unit economics. And never settle.”

**Matt Mullenax**

CEO, Huron

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Beauty

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$26
<b>Gross Profit</b>	<b>\$74</b>
Marketing Expense	\$30
<b>Contribution Margin</b>	<b>\$44</b>
Operating Expenses	\$18
<b>Net Income</b>	<b>\$26</b>

## Sales

Best-in-class Beauty companies possess a rare combination of all the most desired characteristics of strong revenue. The Q1 growth rate of our sample came in at 70%, significantly higher than the industry average of 4%. It's the industry that arguably benefits most from the creator economy, with some brands even being creator-led. This gives promising brands a rare ability to penetrate huge cohorts of target customers very rapidly and inexpensively, resulting in the kind of huge revenue growth achieved by our best-in-class sample in Q1.

High purchase frequency of 2.5x over 12 months and lower CACs (best-in-class brands recorded an average CAC of just over \$20) also mean that when a beauty brand achieves product market fit, the model is extremely scalable.

This is why some of the highest value acquisitions of recent years e.g. Hero Cosmetics, Aesop, and K18, all came from the Beauty sector and demonstrated extremely durable revenue and strong growth. The best-in-class beauty brands have one of the most desirable business models of all—generating outsized earnings power and doing so within massive markets with extremely passionate consumers. All in all, you'd be hard pressed to find a more promising category right now.

## The Perfect P&L: Beauty

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$26
<b>Gross Profit</b>	<b>\$74</b>
Marketing Expense	\$30
<b>Contribution Margin</b>	<b>\$44</b>
Operating Expenses	\$18
<b>Net Income</b>	<b>\$26</b>

## Gross Profit

The Beauty industry continues to maintain remarkable gross margins that surpass those of every other category. Based on our data set, top-tier beauty brands achieve an extraordinary 74% gross margin, after all costs associated with product manufacturing and delivery to the customer. This unparalleled margin profile offers the potential for software-like earnings power, with EBITDA margins reaching into the 30s—a level of profitability that is entirely achievable in this sector.

Operators launching or managing beauty companies should capitalize on consumers' willingness to pay for the perceived benefits of their products by pricing them in line with this strong gross margin, or risk missing out on one of the category's primary advantages.

## The Perfect P&L: Beauty

<b>Sales</b>	<b>\$100</b>
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<b>Gross Profit</b>	<b>\$74</b>
Marketing Expense	\$30
<b>Contribution Margin</b>	<b>\$44</b>
Operating Expenses	\$18
<b>Net Income</b>	<b>\$26</b>

## Marketing

Best-in-class MER for our Beauty companies is 3.3x. In the sample size of leading brands we analyzed, a significant portion of sales are influenced by a strong creator network, organic brand evangelists or the brand itself is creator-led. This is a big factor in driving down CAC.

## The Perfect P&L: Beauty

<b>Sales</b>	<b>\$100</b>
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<b>Contribution Margin</b>	<b>\$44</b>
Operating Expenses	\$18
<b>Net Income</b>	<b>\$26</b>

## Operating Expenses

Our data shows beauty companies are spending slightly under 18% of total sales on headcount and other operating expenses.

# M&A

The beauty industry has experienced a flurry of notable M&A transactions, marking a period of significant activity in recent times. Some noteworthy transactions include:

**4.7x Sales**

Aesop \$2.5B sale to  
L'Oreal

**3.94x Sales**

Naturium \$355M  
sale to E.L.F

**3.6x Sales**

Dr. Dennis Gross  
\$450M Sale to  
Shiseido

**Undisclosed**

K18 sale to Unilever

# FOOD & BEVERAGE





## Food and beverage: tight P&L but differentiated products with effective marketing still succeed

The Food and Beverage industry really is the elephant in the room right now. It's undergoing rapid transformation, marked by substantial innovation and fierce competition. Success in this industry can pave the way for lucrative acquisitions. For challenger brands, while securing listings in major retail outlets is still the Holy Grail, advancements in technology and logistics are breaking down traditional barriers in the DTC realm. New avenues for growth and expansion are appearing in a sector historically bound by constraints.

## Overall market

Food and Beverage sales grew 6% in Q1, slightly higher than the overall DTC growth rate of 4%. While it's difficult to amass a high AOV given the unit cost and logistical implications, repeat purchase rates can be very high in this sector. Repeat sales are trending upwards and 57% of sales came from returning customers in Q1. This is in part what makes Food and Beverage such a massive industry. Not only is every living being a market participant, they are avid market participants leaving quite literal 'I can't live without this' product reviews. Food and beverage has the ability to create hysteria, just ask Logan Paul.

<b>6%</b>	<b>\$65</b>	<b>\$25</b>	<b>43:57</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

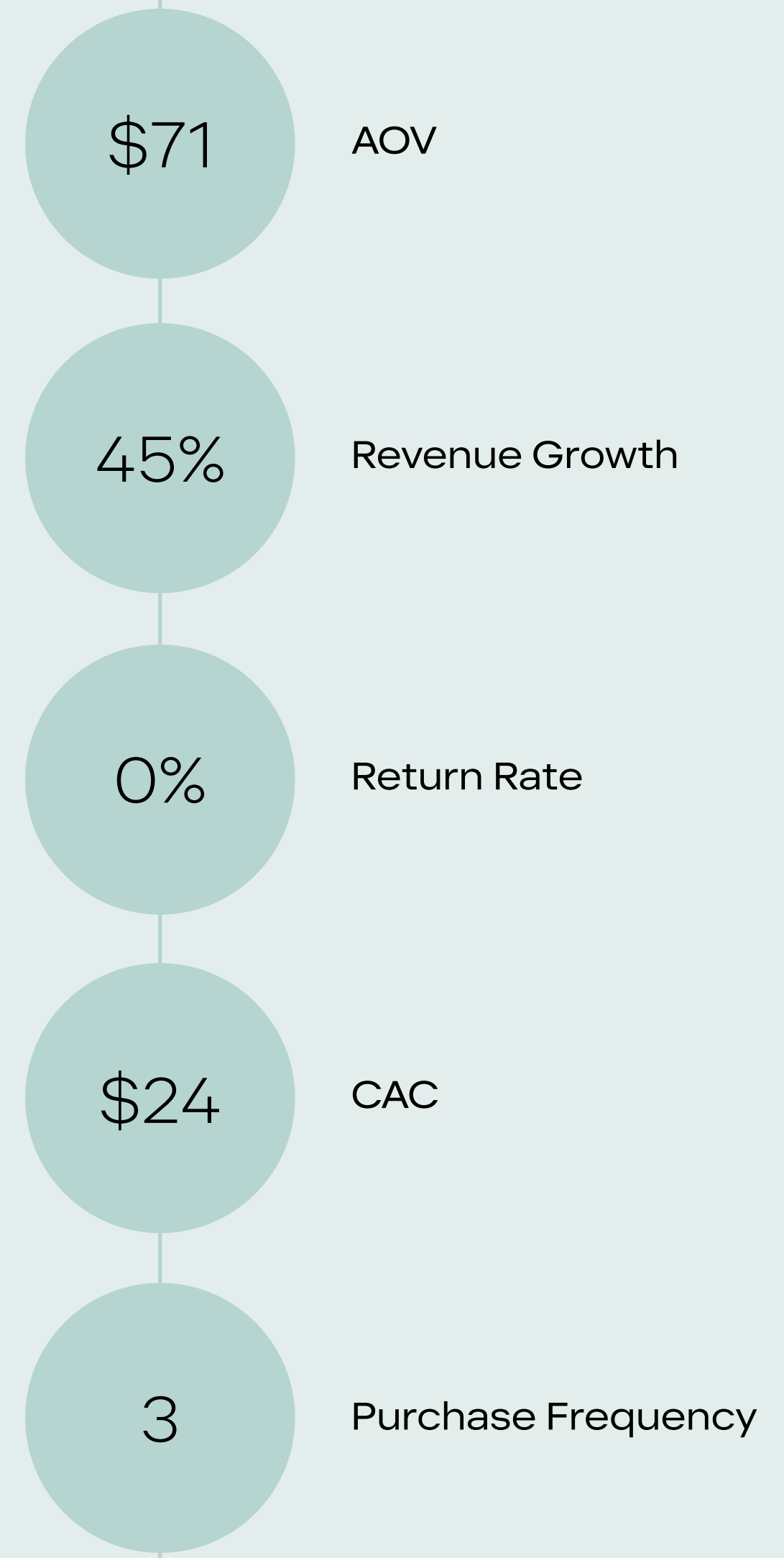
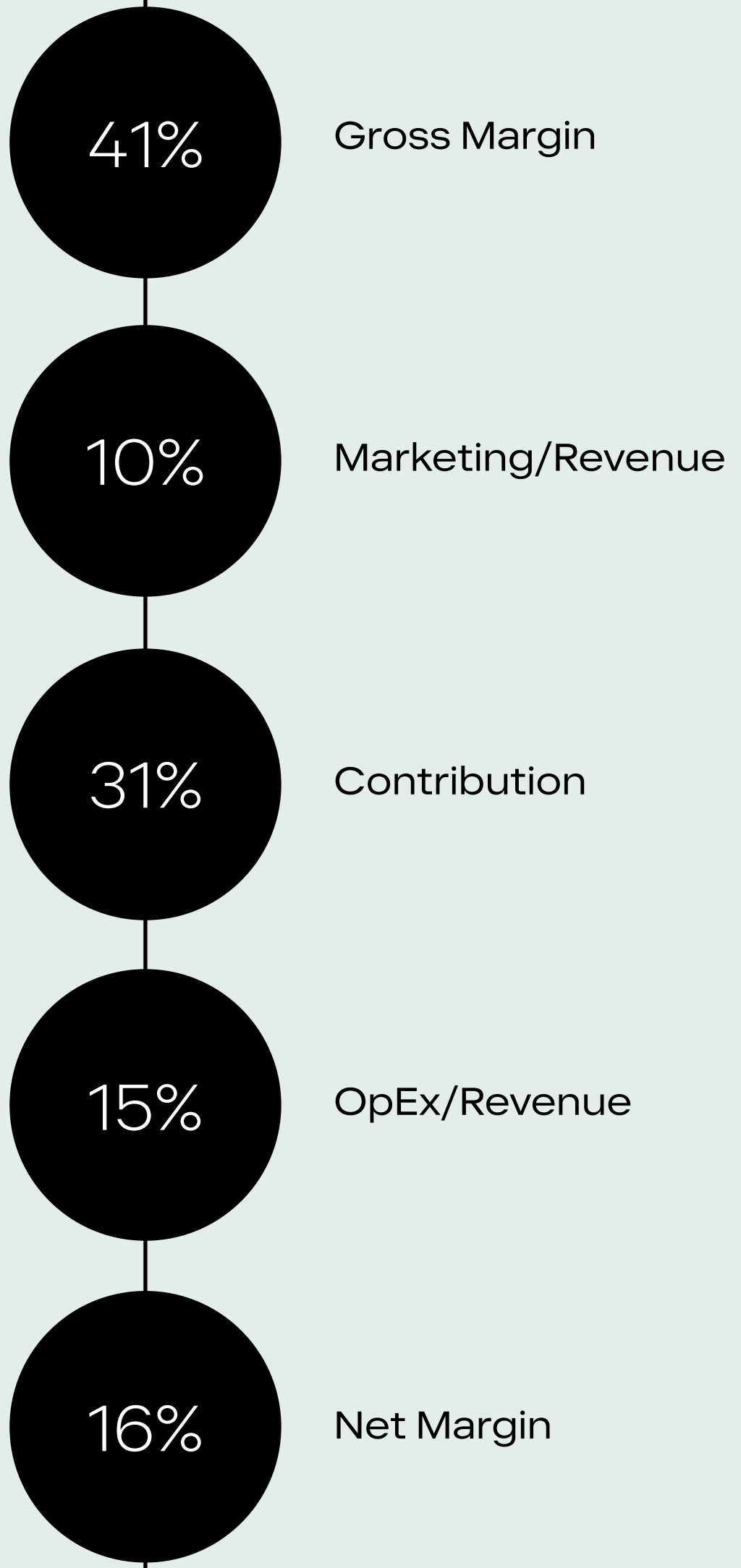
"In CPG, enticing new customers is crucial. Discounts are key to lowering barriers. Yet, excessive discounts erode profits. Balancing promos, weeks on promos, and discounts strategically is vital for brand growth and profitability. Timing, partners, and discount intensity require thoughtful planning in the annual promotion cycle."

**Danny Auld PhD**

Co-Founder, **Kekoa Foods**

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Food & Beverage

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$59
<b>Gross Profit</b>	<b>\$41</b>
Marketing Expense	\$10
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$15
<b>Net Income</b>	<b>\$16</b>

## Sales

Food and Beverage brands with the best products can prove it through one very clear metric: purchase frequency. The best brands see about a 3.0x purchase frequency, making it the second strongest category for this metric. However, this does not account for purchases that are made offline—a highly significant channel for this sector—so the true PF figure is likely to be even higher.

The massive size of the market also contributes to a low CAC for our best performers, which came in at an average of \$24. This means the best Food and Beverage brands are able to acquire relatively loyal customers for a reasonable price, which in turn helps fuel robust revenue growth. The best brands grew sales by 45% this quarter.

## The Perfect P&L: Food & Beverage

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$59
<b>Gross Profit</b>	<b>\$41</b>
Marketing Expense	\$10
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$15
<b>Net Income</b>	<b>\$16</b>

## Gross Profit

Food and Beverage DTC sales have always proven difficult. The main reason the category often struggles online is because of the weaker gross margin profile. Food and Beverage is truly a “retail-first” product, as liquids and foods are very heavy to ship, and fierce competition in the industry has driven pricing down to a level that yields razor thin margins. Even the best brands in our data set generate gross profits well below 50% of sales, with 41% gross margin serving as a best-in-class benchmark.

Recently brands like Liquid Death, Super Coffee and others have shifted their sole focus away from online sales and on to retail distribution partnerships. This is the natural evolution for a modern Food and Beverage DTC brand.

While the P&L has become tighter and tighter—with a range of middlemen like Facebook, Google, Amazon and UPS coming in for more of their share of the pie—that’s not to say selling food and beverages online is impossible. Instead, the product needs to be extremely differentiated, and marketing especially effective, to compensate for a lower starting point for profit.

## The Perfect P&L: Food & Beverage

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$59
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Operating Expenses	\$15
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## Marketing

The lower gross margin and higher reliance on returning customers meant that in Q1 2024, Food and Beverage brands had the lowest marketing expenses as a percentage of revenue of any category—just 10%.

As a general rule of thumb, we are looking for a contribution margin between 20-30%. When you are starting with a gross margin below 50%, most of the variable cost leverage is coming from marketing line items. This is lower than other categories as physical retail, the primary distribution channel for Food and Beverage, picks up much of the marketing expenses required to drive in-store product velocities.



## The Perfect P&L: Food & Beverage

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Operating Expenses	\$15
<b>Net Income</b>	<b>\$16</b>

## Operating Expenses

According to our data set, Food and Beverage companies are spending about 15% on headcount and operating expenses.

# M&A

From 'better for you' to the ketogenic diet, to plant-based, to clean label, the food industry is ever-evolving. Which is why it's been attracting the most deep pocketed investors looking for the next big trend. Food and Beverage was the most active category in consumer products for M&A in 2023. The market segments are so large that there will almost always be a good amount of activity. Notable recent transactions include:

## 4.0x Sales

Hostess Brands  
\$5.6B sale to J.M.  
Smucker

## 1.24x Sales

Bang Energy  
\$362M sale to  
Monster

## 2.87x Sales

Sovos Brands \$2.7B  
sale to Campell's  
Soup

## Undisclosed

La Colombe Coffee  
\$900M sale to  
Chobani



# HOME & GARDEN





## Home and garden: struggling to rebound from pandemic high despite favorable AOV:CAC ratio

From clever innovations like Jolie and Gardyn, to design-led modular furniture, the sector is evolving to meet the demands of modern living. While challenges may arise, such as navigating trends and seasonal fluctuations, the desire to create beautiful, space-maximizing homes continues to drive growth and innovation.

## Overall market

Successful brands in the Home and Garden space somewhat resemble apparel brands. Market share is typically gained by being in front of trends and building an agile supply chain that can flex with the seasons.

Home and Garden experienced rapid overnight growth between 2020 and 2022. However, it has struggled to rebound, recording the lowest growth rate across our data set with 1.5% this quarter year-on-year. With bulky goods that can be costly to store and transport, it's also the sector that suffered most from post-COVID overstocking.

Brands in the sector are still acquiring new customers at a similar rate to Q1 2023, with 72% of revenue coming from this cohort. At \$185, the sector also records the highest AOV across all the categories we studied. This also contributes to the most favorable CAC as a percentage of AOV of 23%. In a sector characterized by one-off high ticket purchases, being able to maintain metrics like this at volume is paramount to success.

<b>1%</b>	<b>\$185</b>	<b>\$42</b>	<b>72:28</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

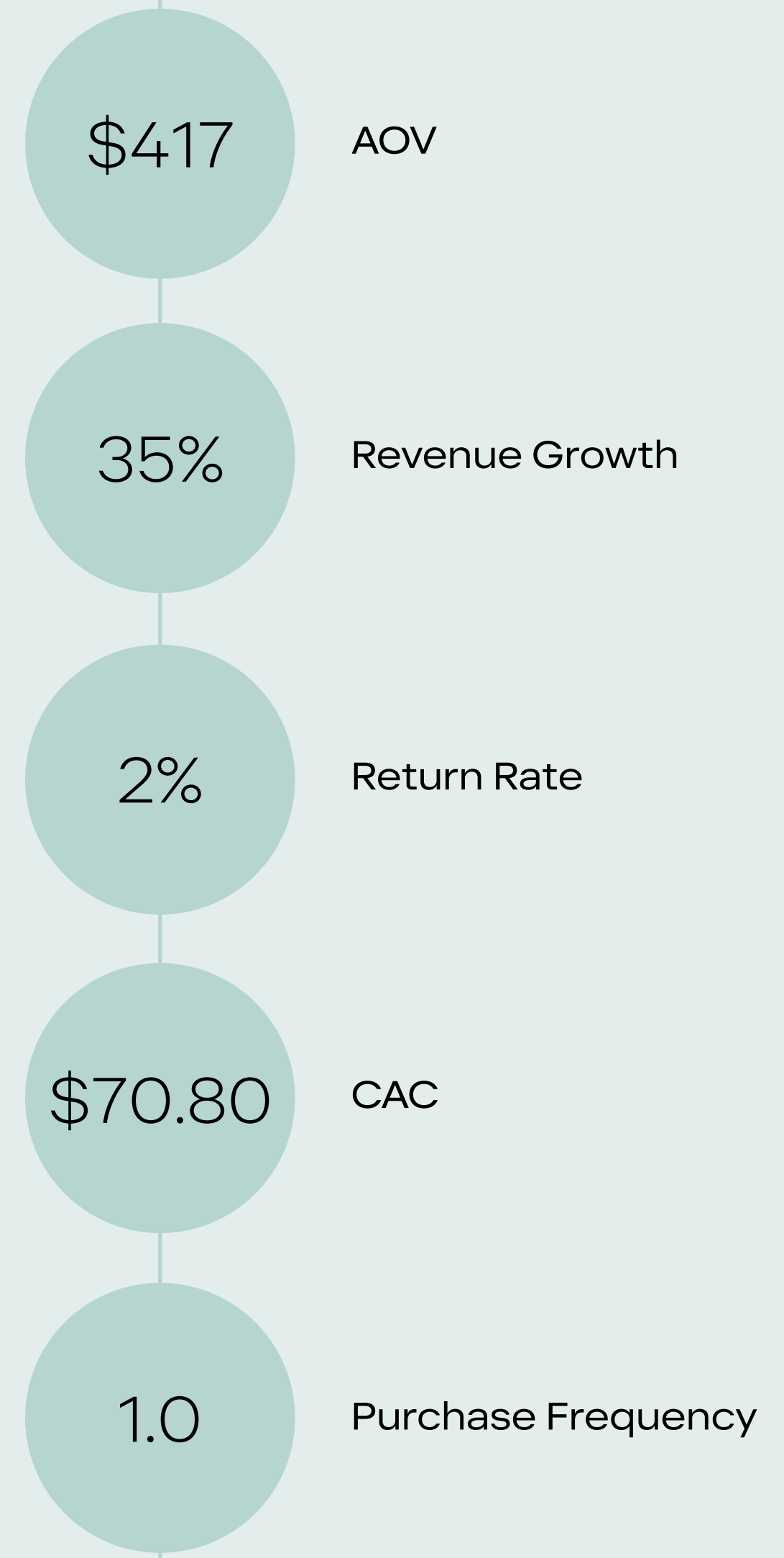
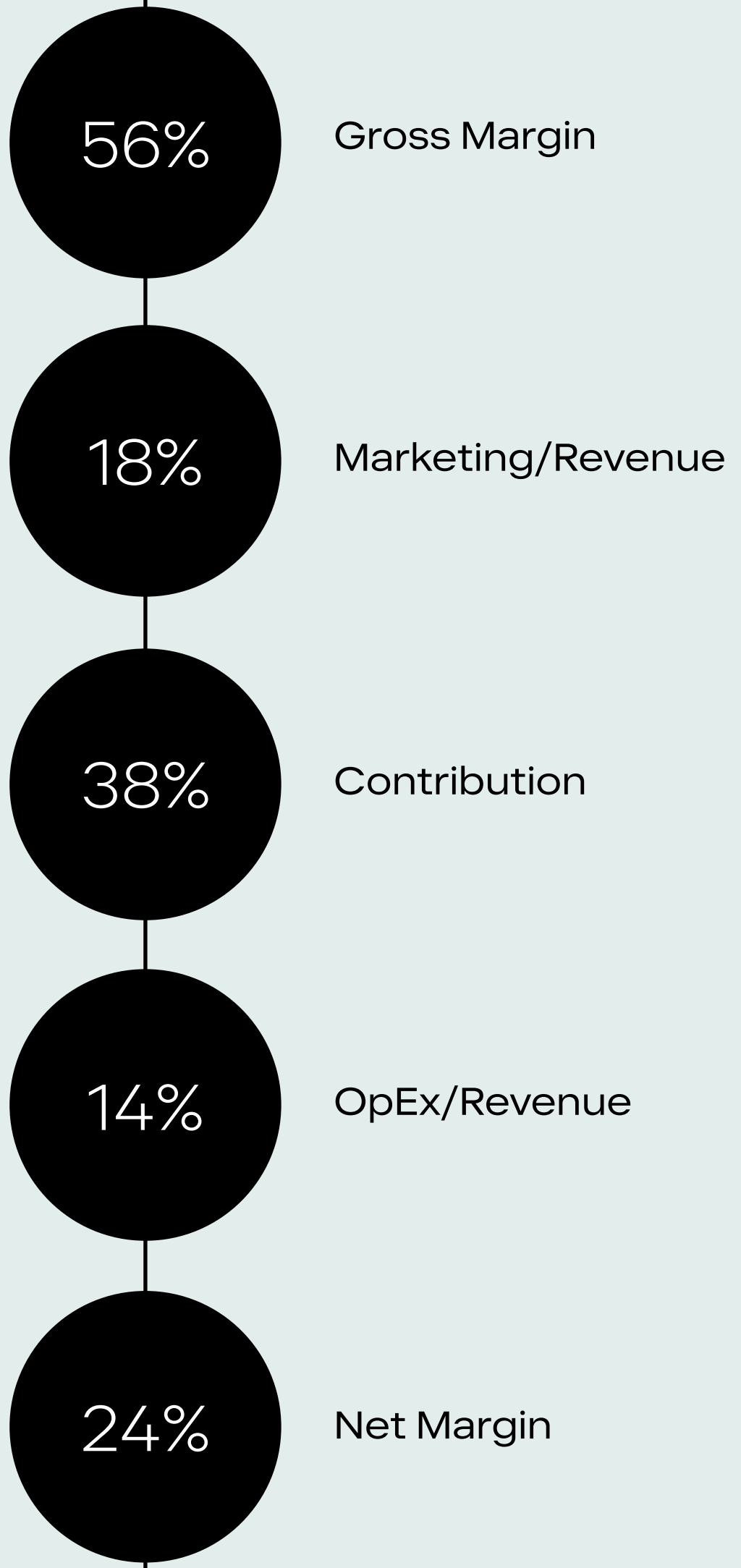
"Given the lower repeat purchase rates in the Home category, getting that initial sale at the best possible cost is crucial. You've got to demonstrate to the prospective customer that purchasing your product will be a seamless experience and will suit their home - we expect new AI tools to help massively with this in 2024. All this contributes to a higher conversion rate, and subsequently lower CAC and bigger margins."

**Luiza Melo Carneiro Fontes**

Chief of Staff, [Hoek Home](#)

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Home & Garden

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$44
<b>Gross Profit</b>	<b>\$56</b>
Marketing Expense	\$18
<b>Contribution Margin</b>	<b>\$38</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$24</b>

## Sales

What's initially interesting in our best-in-class Home and Garden group is that the AOV (\$417) is well over double the industry average. By some distance that's the biggest delta between industry average and best-in-class across all the sectors. It suggests that the healthiest Home and Garden brands are selling high ticket items, and likely justifying the spend with superior build quality, materials and branding.

What Home and Garden boasts in AOV, it gives up in purchase frequency. The sector shows up at the bottom of our list for purchase frequency, 1.1 times over 12 months. The underrated benefit of this model is that you can generate strong profits with almost 100% of the LTV coming on the first transaction. This can sometimes offer more certainty, given there's no 'payback period' where your brand must wait to move into the green on a cohort by cohort basis. However, as referenced previously, depending on volume can sometimes lead to difficulty.

## The Perfect P&L: Home & Garden

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$44
<b>Gross Profit</b>	<b>\$56</b>
Marketing Expense	\$18
<b>Contribution Margin</b>	<b>\$38</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$24</b>

## Gross Profit

The best-in-class gross profit margins of 56% in Home and Garden are quite competitive compared to the other categories, especially when we consider the cost to ship large items and the bulky nature of those products.

An increasingly common trait we see amongst leading Home and Garden brands is a 'made to order' model. They won't import products until they're actually purchased, creating a more favorable cash conversion cycle and decreasing the variable costs associated with storage. Strategic stock management strategies like this also positively impacts the need to discount. Luckily for Home and Garden brands, customers show a strong tolerance with long lead times in this sector.

## The Perfect P&L: Home & Garden

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$44
<b>Gross Profit</b>	<b>\$56</b>
Marketing Expense	\$18
<b>Contribution Margin</b>	<b>\$38</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$24</b>

## Marketing

With consumers paying high ticket sizes in such a massive market, the best Home and Garden businesses spend less than 20% of their revenue on marketing and customer acquisition. The CAC to acquire such a high value buyer is third-highest out of our categories. However, expressed as a percentage of AOV it's the lowest, at 17%.




## The Perfect P&L: Home & Garden

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$44
<b>Gross Profit</b>	<b>\$56</b>
Marketing Expense	\$18
<b>Contribution Margin</b>	<b>\$38</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$24</b>

## Operating Expenses

The best performing Home and Garden brands have an OpEx of 14% of revenue, heavily influenced by first-class stock management.



# SPORTING GOODS



## Sporting Goods: brand loyalty is hard to build but repeat purchases are the key to profitability

The DTC health and wellness trend of the past decade has significantly impacted spending habits, leading to a surge in investment in hobbies such as cycling, golf, and running. This shift has propelled the Sporting Goods industry to unprecedented heights, with consumers dropping significant disposable income on high-quality gear. Meeting the discerning expectations of this audience presents an opportunity for substantial profit margins.

## Overall market

During Q1 2024 the Sporting Goods segment grew 3% year-on-year, just below the total average of 4%. Sporting Goods brands don't benefit as much as the Health and Beauty sectors from the annual 'New Year, New Me' bump, but many of these brands are seasonal and most growth can be expected around the summer months.

It's a category defined by high-end athletic apparel and equipment and this is reflected in the average AOV of \$162—1.5 times that of the Apparel sector. Sporting Goods enjoyed a very strong percentage of new customer acquisition in Q1 compared to other industries. It's a highly competitive space where trust is paramount and hard to build. Brands can expect an average CAC of \$39—the third highest of any sector we examined.

<b>3%</b>	<b>\$162</b>	<b>\$39</b>	<b>67:33</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

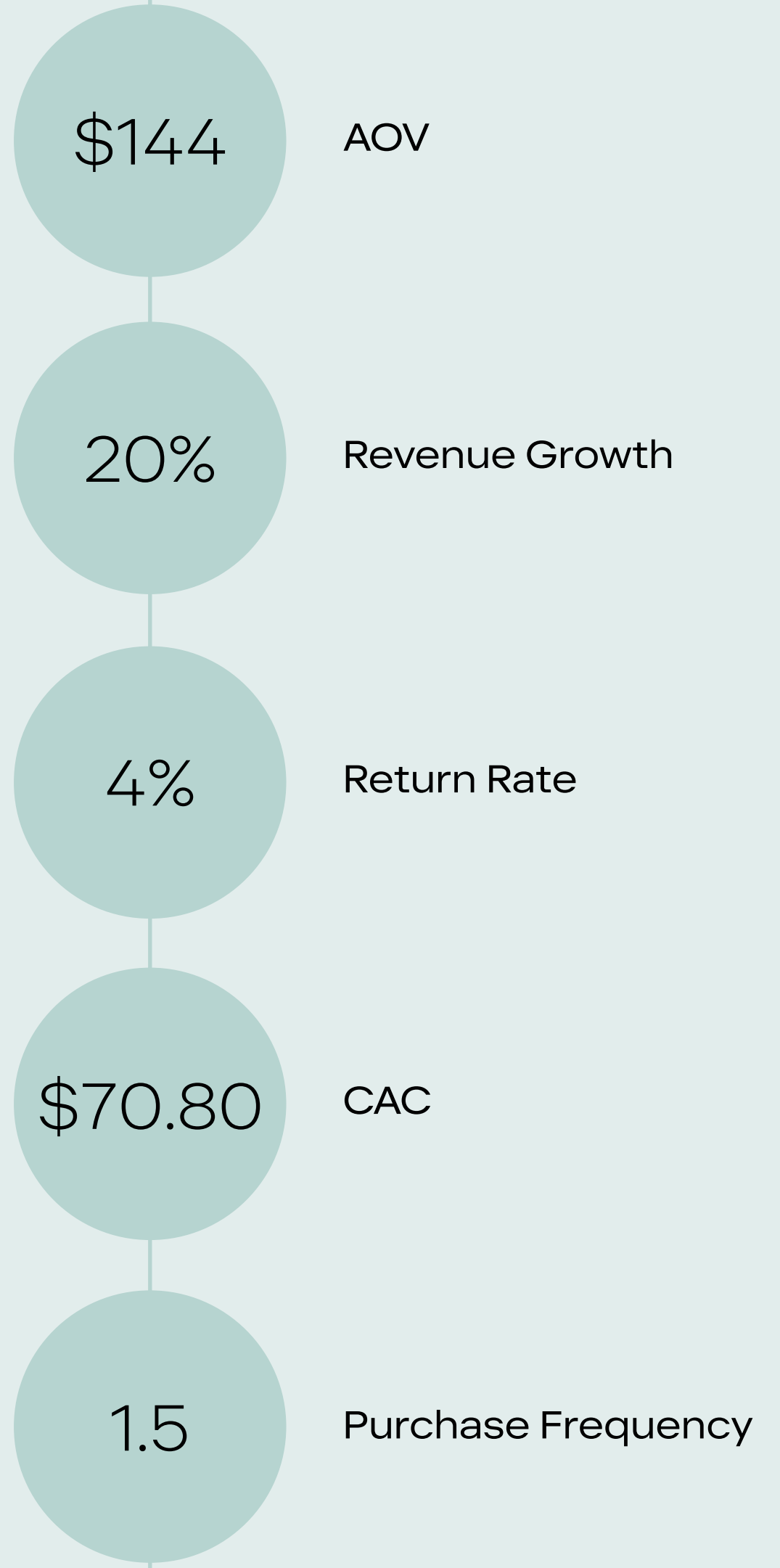
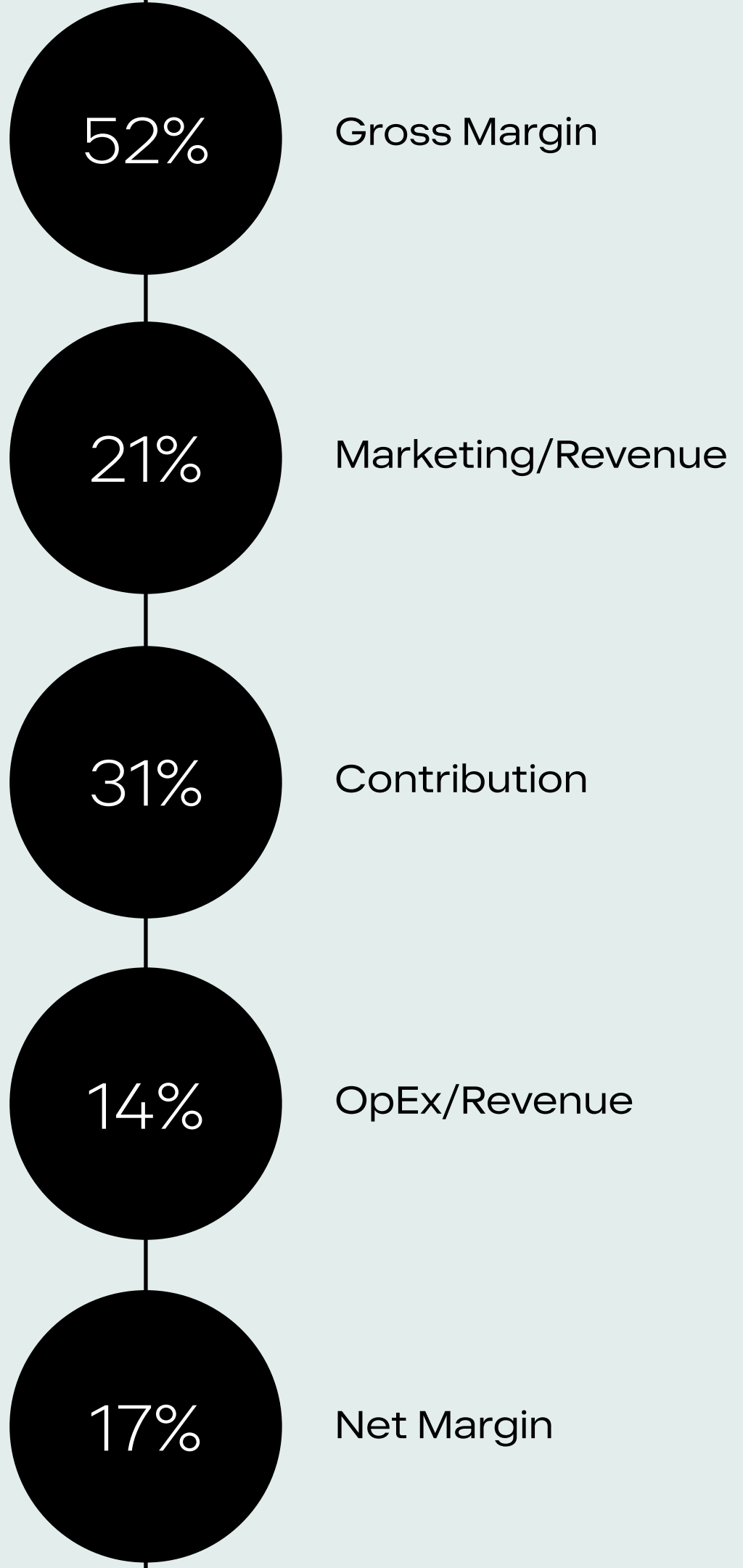
“Despite the challenges of cheap goods coming from platforms like Amazon and Temu, sports enthusiasts still maintain a strong willingness to invest in higher end brands more than any other cohort of customers. This isn't just a quality thing, it's a status thing. Everyday athletes will proudly fly the flag of a brand that they believe in—founders need to realize this and figure out how it can help them increase margins and AOV.”

**Sacha Cahill**

Co-founder, [everambr](#)

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Sporting Goods

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$48
<b>Gross Profit</b>	<b>\$52</b>
Marketing Expense	\$21
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$17</b>

## Sales

Average revenue growth for our top cohort of Sporting Goods brands was 20% in Q1 2023. Sporting Goods in our elite data set is composed mainly of activity-specific apparel and equipment brands. Given the passionate nature of the consumer base in this category, it generates the second highest AOV of the sectors, while maintaining similar purchase frequency to that of Apparel—1.5x over the trailing twelve months. Best-in-class brands are leveraging their aspirational consumer base while leaning into seasonal trends to generate sales growth and acquire customers at a profitable rate. Consider a ski gear company getting 1.5x purchase frequency when the season is only 4 or 5 months long versus an apparel business that has better opportunities to reactivate customers with seasonal drops. These brands are also seeing a considerably lower rate of returns than Apparel, just 4% compared to 14%.

## The Perfect P&L: Sporting Goods

Sales	\$100
Cost of Goods Sold	\$48
<b>Gross Profit</b>	<b>\$52</b>
Marketing Expense	\$21
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$17</b>

## Gross Profit

Top performing Sporting Goods brands have middle of the pack to lower gross margins compared to the rest of the data set. This is potentially due to the superior detail and materials that go into manufacturing them, compared to the broader Apparel sector. This category has a strong ability to generate second and third purchases however and subsequent purchases come with strong gross margins. This combination allows brands to support a reasonably high CAC and still generate profits.

## The Perfect P&L: Sporting Goods

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$48
<b>Gross Profit</b>	<b>\$52</b>
Marketing Expense	\$21
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$17</b>

## Marketing

Sporting Goods companies, similar to Toys and Games, have a level of virality to them. Additionally, they are generally more inelastic purchases e.g. if you are a cyclist, you are going to have to buy a helmet. This is similar to how Consumer Electronics purchases are often considered a 'need' (batteries, lights etc) and so we see a very similar MER around 5x. Despite this, CAC remains relatively high at just over \$70. Combine this with slightly lower gross margins and we saw a contribution margin of 31%, which is at the lower end of the scale.

## The Perfect P&L: Sporting Goods

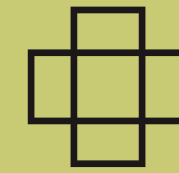
<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$48
<b>Gross Profit</b>	<b>\$52</b>
Marketing Expense	\$21
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$14
<b>Net Income</b>	<b>\$17</b>

## Operating Expenses

According to our data set, Sporting Goods companies are spending less on OpEx than every other category besides Animal and Pet. 14% of revenue is spent on fixed costs by the top performers, perhaps due to the seasonal nature of the businesses that gives them the ability to ‘take things slow’ in the off seasons.



# HEALTH



## Health: exceptional gross margins and high purchase frequency offset sectoral challenges

Successful Health brands, selling predominantly consumable produce, have some of the most desirable characteristics of DTC businesses. Boasting high margins, frequent repeat purchases, low shipping costs, and benefiting from the rising tide of health-conscious consumers, combine to make it one of the most appealing sectors in the CPG industry. If they can successfully navigate this landscape, Health and Supplement brands can rapidly scale and achieve substantial profitability. When executed effectively, these brands can carve a niche for themselves and rival the immense profits traditionally associated with the Beauty and Apparel sectors.

## Overall market

Total revenue for Health brands grew 16.5% year-on-year in Q1 2024—almost 4x the average across all sectors. This is impressive growth second only to Animal and Pet. By aggressively acquiring new cohorts during the New Year Resolution period, health consumable and supplement companies have set themselves up for strong year-on-year growth in 2024. Based on prior years data, we would expect to see the source of sales skew much more heavily toward returning customers across the rest of the year.

Being one of the most desirable categories for DTC entrepreneurs is not without its problems. Health is an industry associated with intense competition and limited ability to differentiate the product other than through effective marketing. That's why in Health CAC as a percentage of AOV is the highest of all categories at 50%.

<b>16%</b>	<b>\$69</b>	<b>\$35</b>	<b>43:57</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

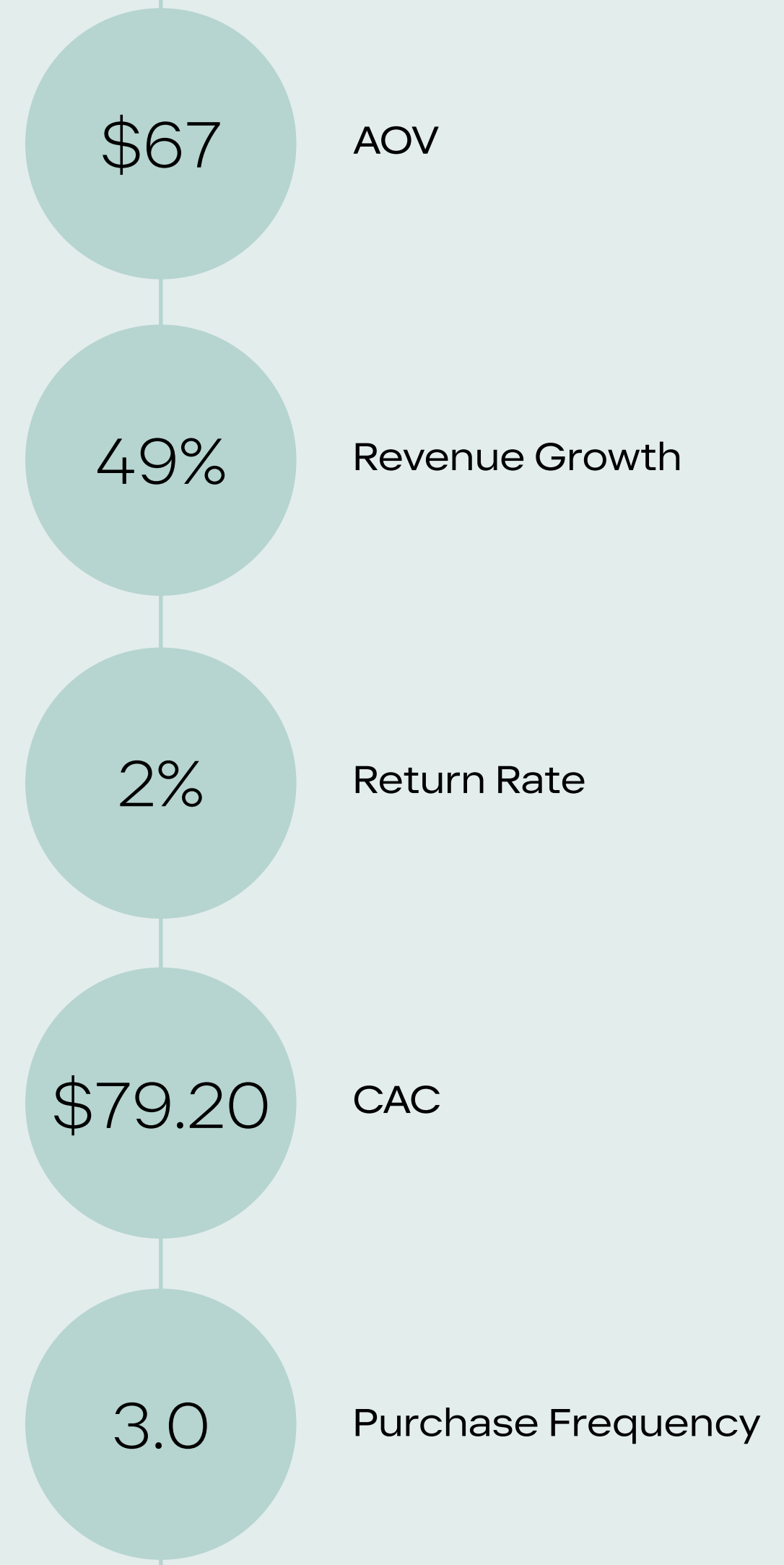
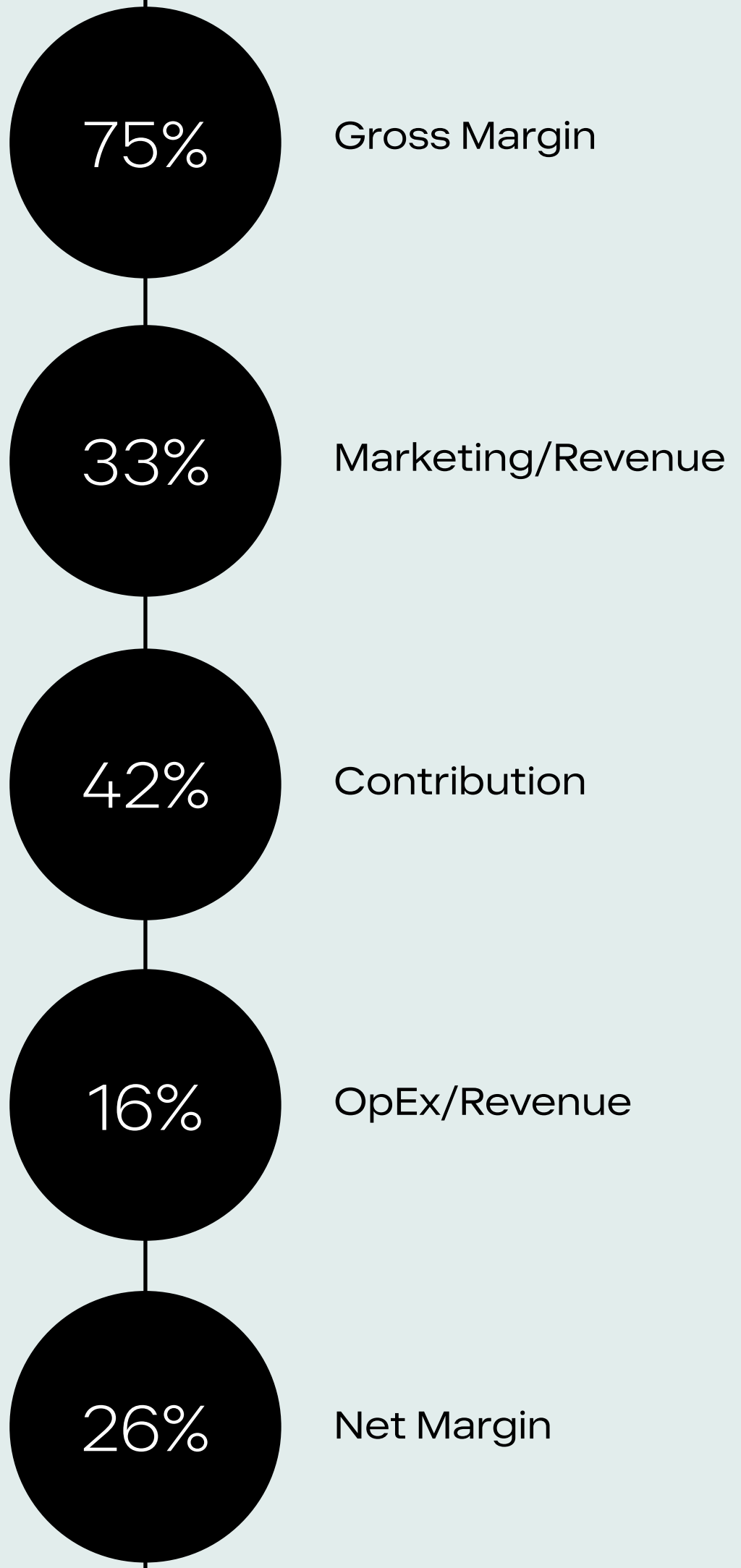
“A key metric for Health brands is net subscribers, new minus cancelled. On the acquisition side, focus offers and LPs on subscriptions. On the retention side, reduce churn by building out better educational and incentive flows. We've found the majority of new subs are coming in on a quarterly "Starter Pack" which is great for AOV and better for retention because it's building that habit.”

**Dan McCormick**

Co-Founder, **Create Wellness**

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Health

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$25
<b>Gross Profit</b>	<b>\$75</b>
Marketing Expense	\$33
<b>Contribution Margin</b>	<b>\$42</b>
Operating Expenses	\$16
<b>Net Income</b>	<b>\$26</b>

## Sales

Best-in-class Health brands, which enjoyed growth of 49% this quarter, boast a very unique set of revenue and profit levers. AOV is the lowest of all the best performers in any category at \$67 and also shows the worst LTV:CAC ratio of 2.5.

So why the hype? Well firstly, Health brands benefit from a high annual purchase frequency of 3x. Principal drivers of revenue are the massive TAM and the strong customer retention characteristics of the sector. But the real advantage for Health brands lies in a metric we have not yet discussed—Gross Profit Per User (GPPU)—which is driven by the best of the best gross margins.

## The Perfect P&L: Health

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$25
<b>Gross Profit</b>	<b>\$75</b>
Marketing Expense	\$33
<b>Contribution Margin</b>	<b>\$42</b>
Operating Expenses	\$16
<b>Net Income</b>	<b>\$26</b>

## Gross Profit

Health brands boast the highest gross margin across all categories, standing at an impressive 75%. This exceptional margin allows these brands to invest substantial budgets in marketing—where they spend the most of any of the best-in-class cohorts. Typically, these businesses sell powders, pills, or other lightweight products comprising relatively inexpensive ingredients, which align perfectly with the direct-to-consumer business model. With minimal product, storage, and shipping costs, this model thrives on efficiency and profitability.

## The Perfect P&L: Health

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$25
<b>Gross Profit</b>	<b>\$75</b>
Marketing Expense	\$33
<b>Contribution Margin</b>	<b>\$42</b>
Operating Expenses	\$16
<b>Net Income</b>	<b>\$26</b>

## Marketing

Marketing efficiencies for top-tier Health brands fall within the mid-range at 3, suggesting they're still focusing on building market share and credibility despite the robust repurchase rates. However Health brands face two significant challenges on the marketing front. Firstly, it's a challenge to demonstrate tangible benefits amidst a plethora of ineffective products in the market. Secondly, the similarity in composition of the various supplements, requires investing in strategic marketing for differentiation. This blend of marketing demands and consumer education ultimately impacts contribution margins—which is why Health brands trail behind Beauty and Consumer Electronics when it comes to contribution margin.

## The Perfect P&L: Health

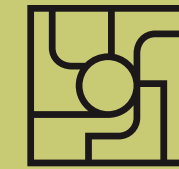
<b>Sales</b>	<b>\$100</b>
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<b>Gross Profit</b>	<b>\$75</b>
Marketing Expense	\$33
<b>Contribution Margin</b>	<b>\$42</b>
Operating Expenses	\$16
<b>Net Income</b>	<b>\$26</b>

## Operating Expenses

Best-in-class Health brands are spending about 16% of their revenue on headcount and other OpEx, falling largely in line with other categories.



# ELECTRONICS



## Consumer Electronics: higher AOV and gross margins compensate for lower purchase frequency

In a world marked by rapid technological advancements, the Consumer Electronics sector stands at the forefront of innovation and market dynamism. Breaking into this industry can pose challenges due to substantial upfront investment and the dominance of larger corporations with abundant resources. In 2024, expect success from an influx of "AI-powered" devices and also sustainable alternatives to common electronic goods.

## Overall market

Overall, the Electronics category grew just 2% for the quarter year-on-year. A considerable difference between this quarter and last year's is the sizable decrease in proportion of new customer revenue. In Q1 of 2023, that figure was 83%. For the quarter just passed, this had decreased to 65%.

Consumer Electronics showed one of the healthiest AOV:CAC ratios, second only to Home and Garden, of 3.2. The problem is, the majority of these purchases are once-offs. In times of economic downturn, luxury purchases like new tech products and appliances can be the first to be sacrificed by frugal consumers. It will become increasingly important for Consumer Electronics brands to build LTV into their business model.

<b>2%</b>	<b>\$145</b>	<b>\$45</b>	<b>65:35</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

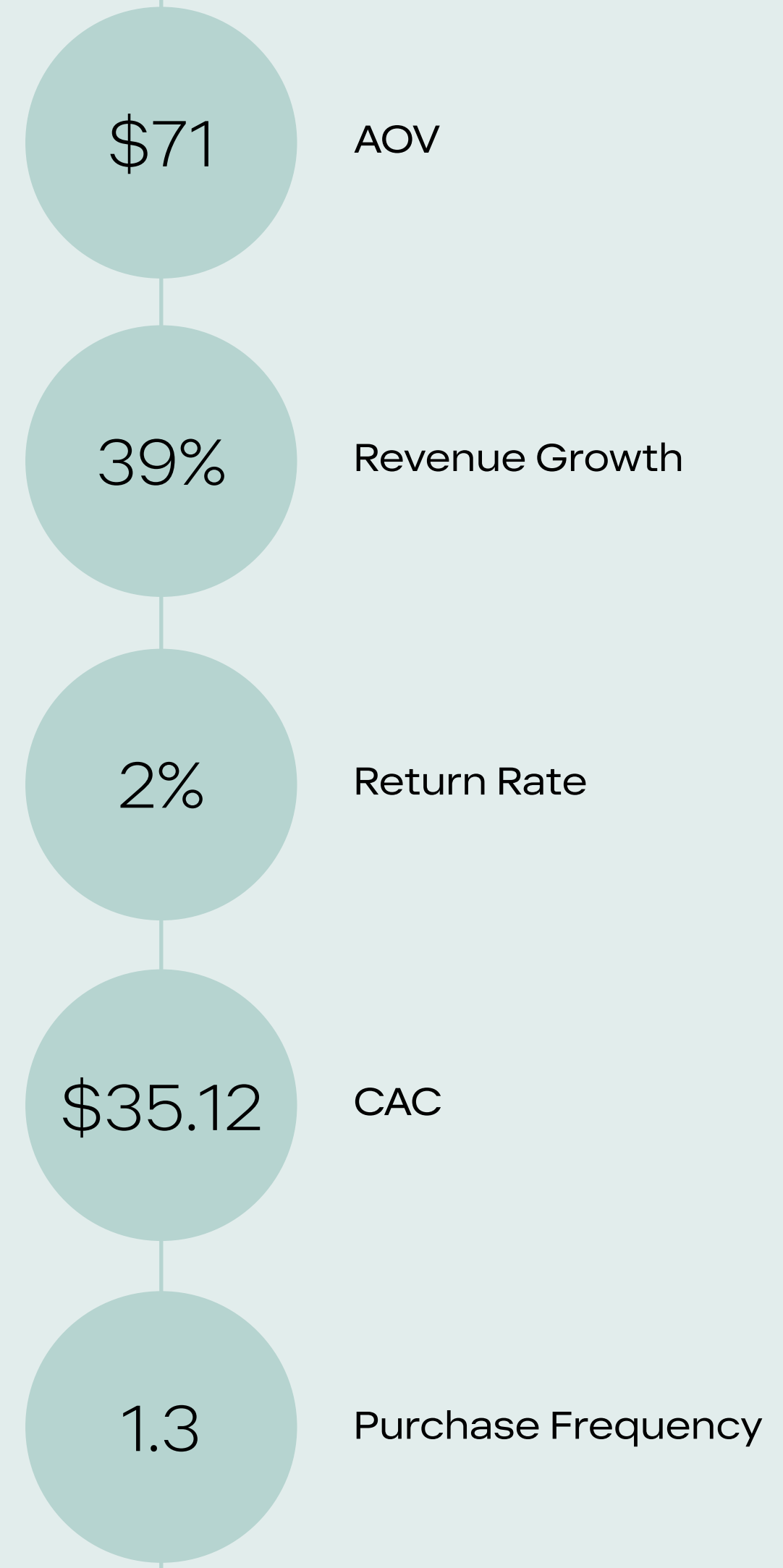
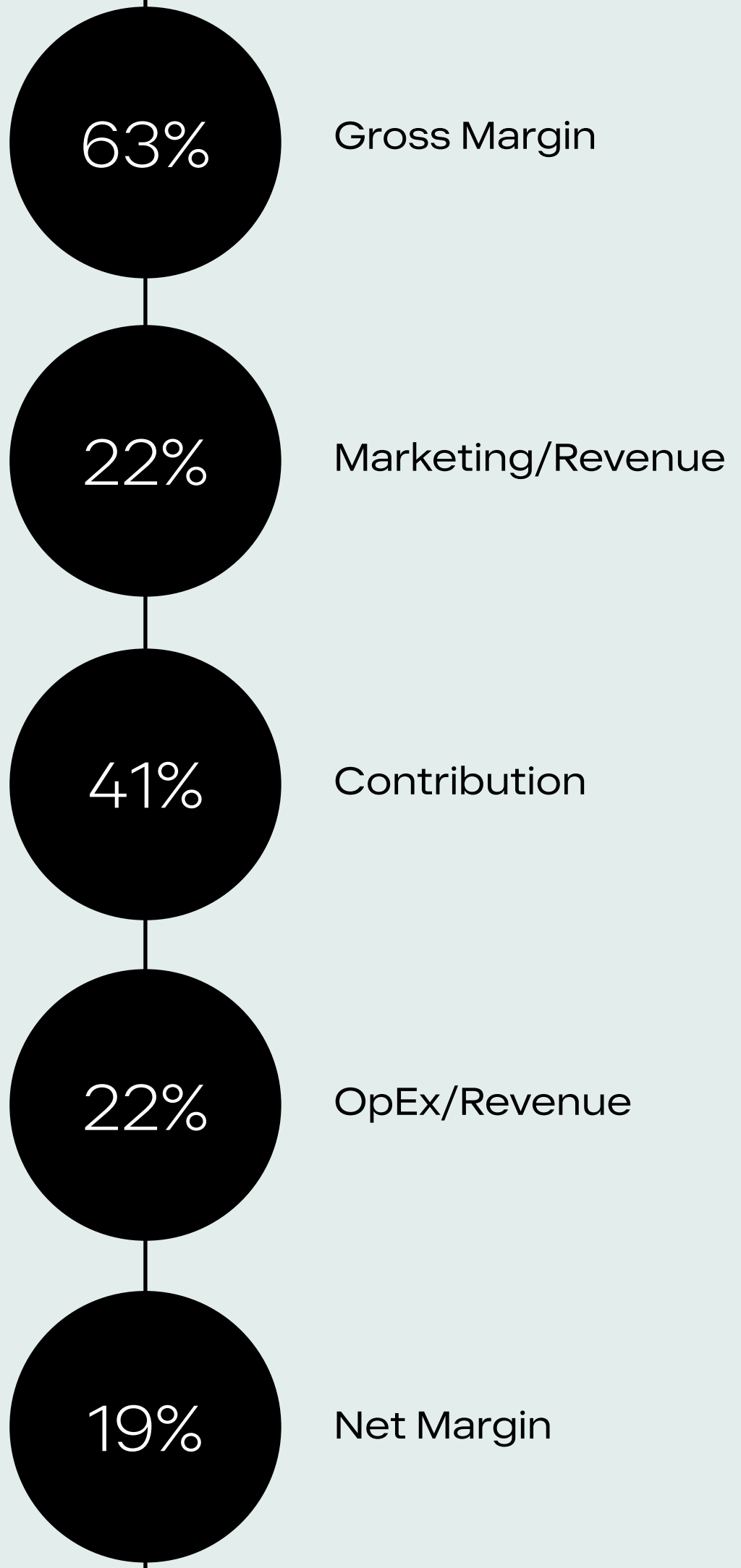
“Simple, negotiate everything!”

**Mark Rushmore**

Co-founder, Suri

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Electronics

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$37
<b>Gross Profit</b>	<b>\$63</b>
Marketing Expense	\$22
<b>Contribution Margin</b>	<b>\$41</b>
Operating Expenses	\$22
<b>Net Income</b>	<b>\$19</b>

## Sales

The best-in-class Consumer Electronics brands in our data set grew 39% this quarter year-on-year. While most revenue is still coming from new customer acquisition, many of the highest performing brands are implementing clever strategies to grow LTV. Within this leading sample set, we see commonalities like software subscriptions, updates/upgrades and replaceable parts, which all help drive up sales.

This helps explain the intriguing AOV dynamics. The “best-in-class” AOV was calculated at \$71, about 50% lower than the industry average. Leading brands aren’t obtaining all their revenue from the first purchase, so the initial purchase value tends to be lower. The wider industry figure is also influenced by a large number of resellers, who are selling twice-marked-up goods with lower gross margin, significantly driving up the AOV as a consequence. We found the majority of best-in-class brands were selling their own products, rather than reselling other brands.



## The Perfect P&L: Electronics

<b>Sales</b>	<b>\$100</b>
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<b>Gross Profit</b>	<b>\$63</b>
Marketing Expense	\$22
<b>Contribution Margin</b>	<b>\$41</b>
Operating Expenses	\$22
<b>Net Income</b>	<b>\$19</b>

## Gross Profit

Given the elevated AOV profile, Consumer Electronics brands are capable of generating stronger gross margins than many other types of businesses, sitting at 4th on our list at 63%. The higher AOV and gross profit margin of the sector is the flip side of the lower purchase frequency models. For the best-in-class cohort we saw annual purchase frequency coming in at 1.3.

## The Perfect P&L: Electronics

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$37
<b>Gross Profit</b>	<b>\$63</b>
Marketing Expense	\$22
<b>Contribution Margin</b>	<b>\$41</b>
Operating Expenses	\$22
<b>Net Income</b>	<b>\$19</b>

## Marketing

Despite the low PF of the category, Consumer Electronics are generally addressing a need in a market with extremely high demand. Think batteries, home appliances or phone chargers. The high demand nature of this market allows the best-in-class brands to continuously acquire new customers, and to do so while generating strong gross margins with strong marketing efficiency. Despite the relatively low purchase frequency, Consumer Electronics businesses can produce very strong contribution margins. The best-in-class benchmark was 41%.

## The Perfect P&L: Electronics

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$37
<b>Gross Profit</b>	<b>\$63</b>
Marketing Expense	\$22
<b>Contribution Margin</b>	<b>\$41</b>
Operating Expenses	\$22
<b>Net Income</b>	<b>\$19</b>

## Operating Expenses

Top percentile Consumer Electronics brands have a best-in-class OpEx of 22%, possibly due to the requirement to continuously invest in R&D to remain innovative and competitive.

# ANIMAL & PETS





## Animal and pet: customer loyalty drives surge in sales and large CAC spend

The Animal and Pet sector, predominantly consumables in our sample set, reigns supreme in terms of consumer loyalty. These businesses, characterized by their 'set it and forget it' model, boast some of the most enduring products in the market. Brands thrive in rapidly growing markets, driven by consumers' willingness to invest significantly in ensuring the well-being of their beloved furry companions. Increasingly, modern pet owners are sparing no expense in providing the best.

## Overall market

Sitting at the top of the growth leaderboard, the Animal and Pet sector surged by an impressive 19% this quarter. This surge can be attributed, in part, to the lingering effects of the pandemic, where pet ownership became even more widespread. As brands continue to accumulate customers with high LTVs, the sector experiences sustained momentum. Notably, churn rates for pet consumables are significantly lower compared to their human counterparts. This is evidenced by the 30:70 ratio, suggesting that once a customer is acquired, there is minimal likelihood of them disrupting their pets' new-found healthy eating habits.

<b>21%</b>	<b>\$59</b>	<b>\$28</b>	<b>30:70</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

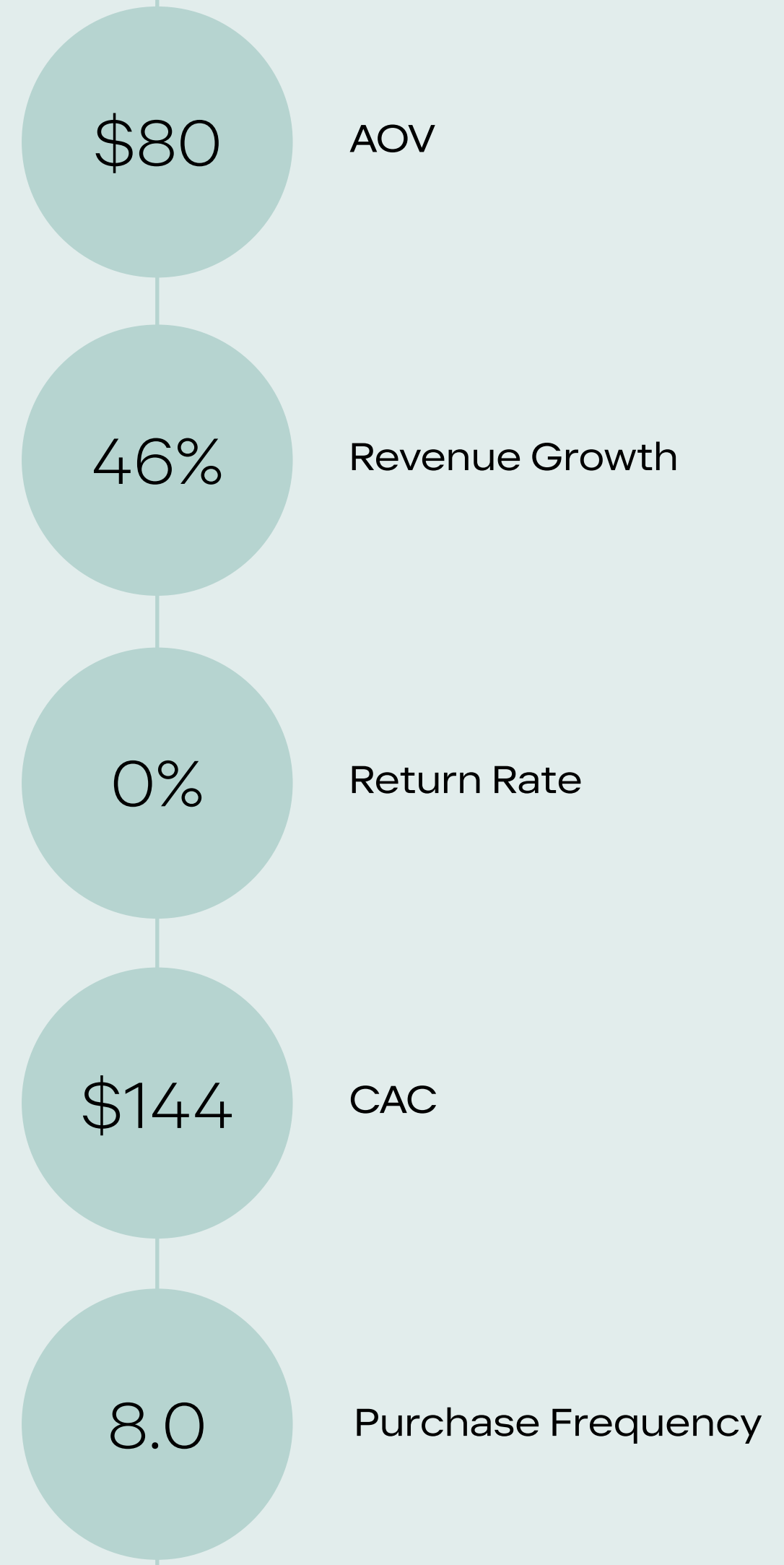
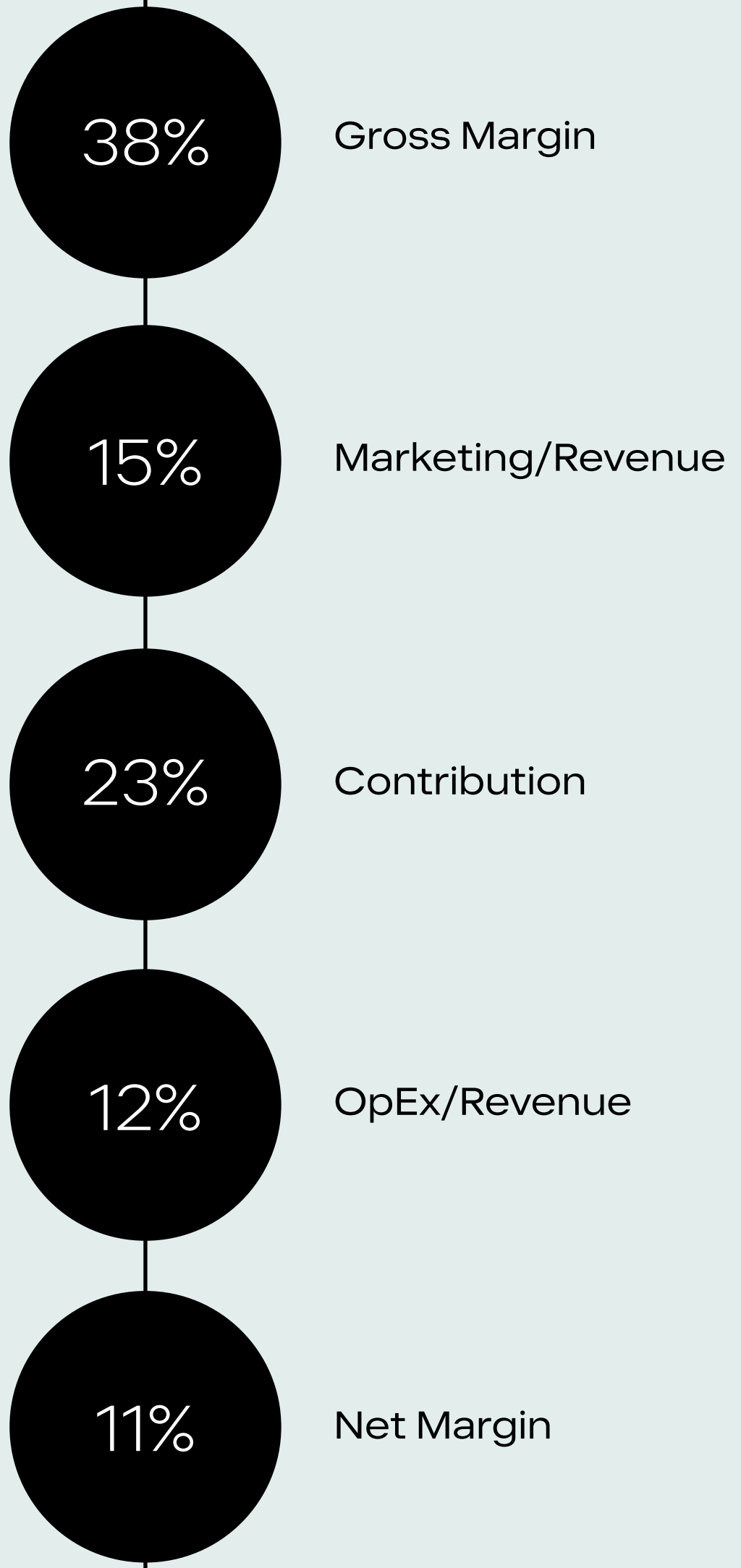
“Investment in automation and productivity improving software and machinery will be the biggest profit driver for the pet retail sector. Businesses who focus on this will be the biggest winners”

**Lexi Taylor**

Founder and COO, **Petshop**

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Animal & Pets

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$62
<b>Gross Profit</b>	<b>\$38</b>
Marketing Expense	\$15
<b>Contribution Margin</b>	<b>\$23</b>
Operating Expenses	\$12
<b>Net Income</b>	<b>\$11</b>

## Sales

Even though they grew 46% year-on-year, it's clear that the best-in-class pet brands are looking further over the horizon for profits than their DTC counterparts. The loyal nature of the customers in this market makes it fiercely competitive, with top tier brands averaging the single highest CAC of any category at \$144.

The high 12-month purchase frequency validates the high acquisition cost. Over a year the best brands can expect a new customer to spend eight times their initial AOV. To grow your brand, aggressively accumulate customers. It's that simple.

Animal and Pet purchase frequency is far and away the highest of any category, almost three times that of second-placed Beauty. Best-in-class Pet brands have an AOV of \$80— 1.35x more than their industry peers, although compared to other sectors the best Pet brands sit in the middle of the pack AOV-wise. This is really a strong starting point considering the potential for massive retention numbers.

## The Perfect P&L: Animal & Pets

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$62
<b>Gross Profit</b>	<b>\$38</b>
Marketing Expense	\$15
<b>Contribution Margin</b>	<b>\$23</b>
Operating Expenses	\$12
<b>Net Income</b>	<b>\$11</b>

## Gross Profit

Pet products typically have a somewhat lower gross margin profile, even for our best-in-class operators who have a gross margin of only 38%. This is the result of a range of factors including complicated supply chains, perishability concerns and intense competition from cheaper supermarket brands. Combined, these factors have gradually elevated manufacturing costs and constrained pricing flexibility, resulting in a less favorable gross margin profile. It is also worth noting the retail price ceiling for pet products tends to be considerably lower compared to that of the Food and Beverage industry, despite somewhat overlapping production costs.

## The Perfect P&L: Animal & Pets

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$62
<b>Gross Profit</b>	<b>\$38</b>
Marketing Expense	\$15
<b>Contribution Margin</b>	<b>\$23</b>
Operating Expenses	\$12
<b>Net Income</b>	<b>\$11</b>

## Marketing

As we've already discussed, Pet consumable sales are highly recurring. This contributes to an impressive MER of 6.5 for our best-in-class cohort, resulting in a strong contribution margin despite a lower gross margin.

Such is the confidence they have in their LTV, they're able to support a CAC that's, on average, 180% of the first order AOV. When retention holds, LTV:CAC can skyrocket and produce healthy profits. The name of the game in this sector is acquiring customers at a decent enough price, then holding on to them as long as possible.

## The Perfect P&L: Animal & Pets

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$62
<b>Gross Profit</b>	<b>\$38</b>
Marketing Expense	\$15
<b>Contribution Margin</b>	<b>\$23</b>
Operating Expenses	\$12
<b>Net Income</b>	<b>\$11</b>

## Operating Expenses

According to our data set, top percentile Pet companies are generally in line with other businesses when it comes to OpEx as a percentage of revenue at 12%.

# TOYS & GAMES





## Toys and games: massive TAM and viral hits underpin growth

Toys and Games, a global, age-agnostic sector characterized by fierce competition, represents a substantial \$300 billion consumer goods industry. From educational tools to entertainment products, this sector thrives on constant innovation and demands a nuanced understanding of effective IP licensing and distribution due to its highly seasonal nature.

## Overall market

The category grew 4% in Q1 2024 as demand normalized from pandemic affected levels. However, Q1 2024 is hardly this segment's peak period—we expect a much different growth rate towards the tail end of the year, as holiday shopping kicks in. CAC as a percentage of AOV came in at the lower end of the segments we looked out, possibly influenced by this category's innate ability to produce effective content across owned, earned and paid channels.

<b>4%</b>	<b>\$77</b>	<b>\$28</b>	<b>40:60</b>
Revenue Growth	Median AOV	Median CAC	New : Returning



## Outlook for 2024

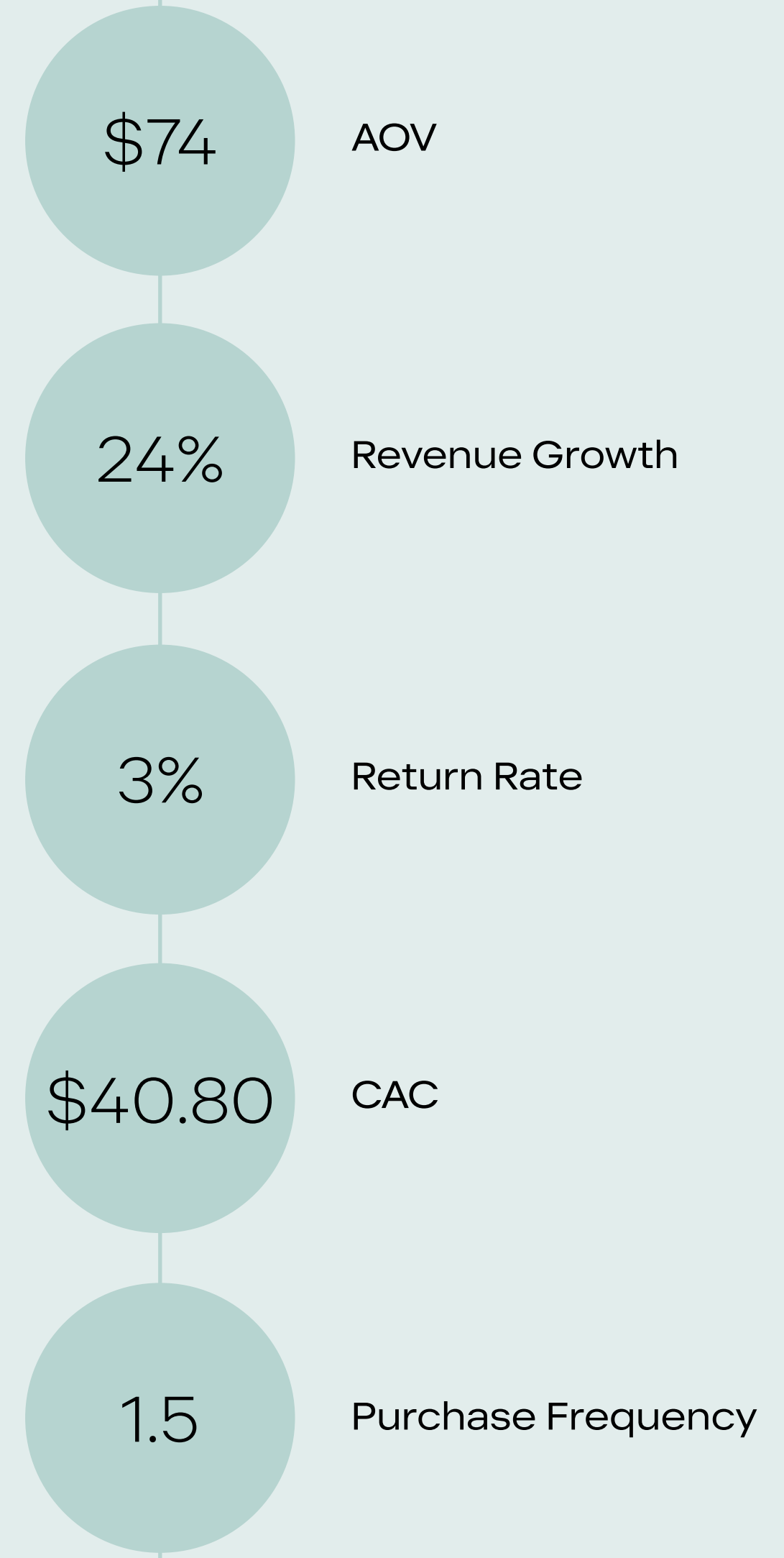
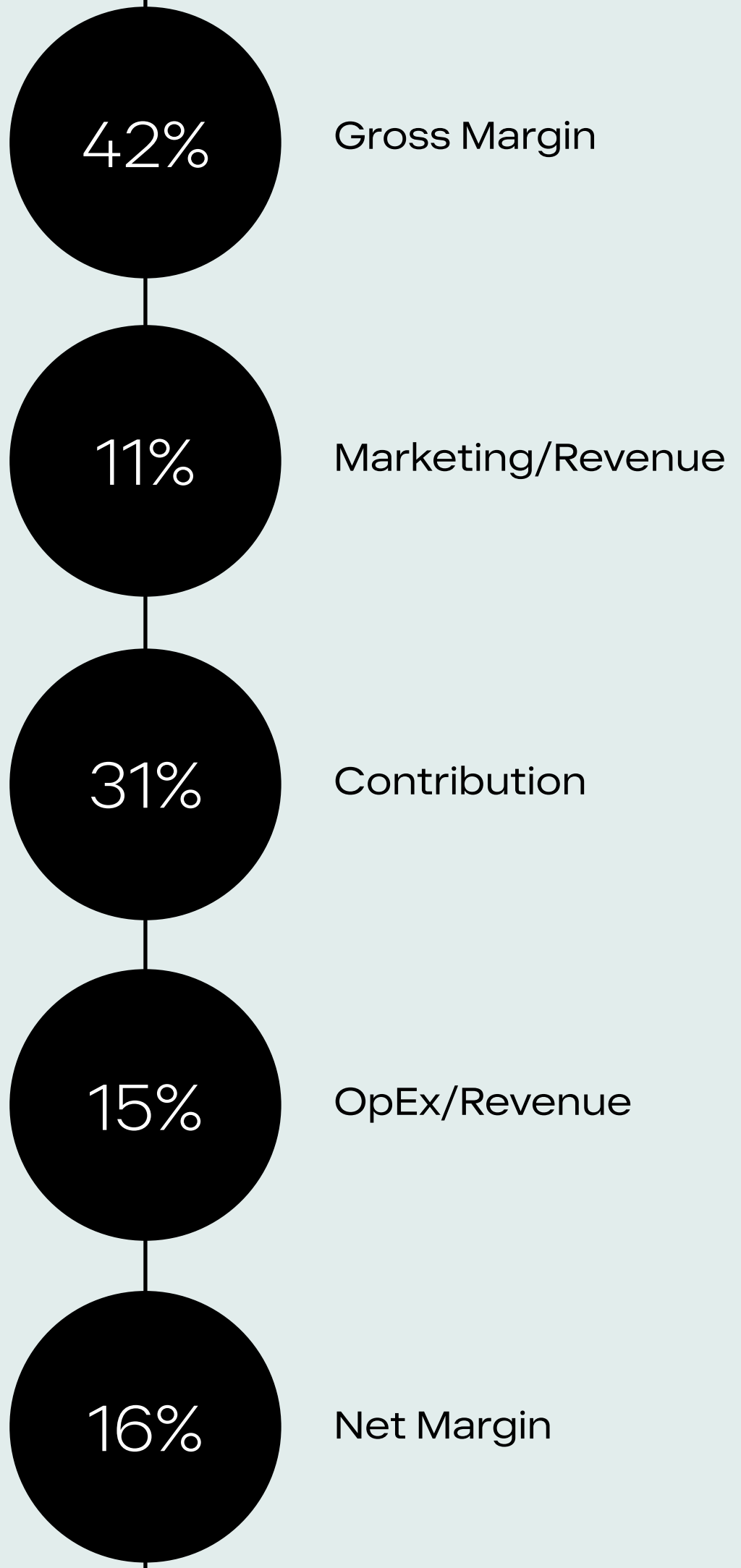
“Profitability can be improved by paying attention to the small stuff, I call this margin dilution. These are all the small areas where you lose margin. If you don't identify them, and solve the root cause quickly, they can cause long-term margin erosion. This detail is critical in consumer retail - retail is detail.”

**Ben Averis**

CFO, Yoto

# Best-in-class metrics

- Profitability metrics
- Performance metrics



## The Perfect P&L: Toys & Games

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$58
<b>Gross Profit</b>	<b>\$42</b>
Marketing Expense	\$11
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$15
<b>Net Income</b>	<b>\$16</b>

## Sales

The age-agnostic and global nature of the Toys and Games market makes it one of our largest TAMs, allowing for well-positioned brands to grow sales rapidly by leveraging the viral nature of their products. Toys and Games represents our second lowest LTV category, but more than makes up for that in market size. When you don't have consumers that are willing to repeatedly spend, you need a lot of volume. Thankfully, Toys and Games has that. The best Toys and Games brands are seeing a \$74 AOV combined with a 1.5x purchase frequency, and 24% growth fro Q1 year-on-year.

## The Perfect P&L: Toys & Games

<b>Sales</b>	<b>\$100</b>
Cost of Goods Sold	\$58
<b>Gross Profit</b>	<b>\$42</b>
Marketing Expense	\$11
<b>Contribution Margin</b>	<b>\$31</b>
Operating Expenses	\$15
<b>Net Income</b>	<b>\$16</b>

## Gross Profit

Given the furious competition within the market, gross margins in the sector have been compressed by large companies competing aggressively on price. In a sector where brand is not quite as prized as say, Apparel, it can be difficult for independent brands to convince customers to spend extra with them over Amazon or Temu. Additionally, many Toys and Games rely on licensing models, further compressing gross profits. All this highlights the need for building a moat through innovation, and leaves the sector's best-in-class brands with an average gross margin on a par with Food and Beverage at 42%.

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## Marketing

When we looked at our best-in-class Toys and Games samples, we found that the low marketing spend relative to revenue was influenced by a number of factors. Firstly, leading brands are building in repeat purchase mechanisms into the product - think new parts, software updates etc. We also saw a higher skew towards selling Amazon than our other best-in-class categories. Thirdly, best-in-class Toys and Games brands are able to generate huge traffic and conversions organically from content, furthering drive up that MER.



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## Operating Expenses

Toys and Games companies are in the middle range of operating expenses as a percentage of revenue, coming in at 15% for the top performers.

## Wayflyer

Wayflyer is a growth and insights platform that provides fast and flexible financing to consumer brands. Regardless of where you are on your journey - from startup to fully fledged DTC, Amazon or wholesale brand, to global brands with an omnichannel presence - Wayflyer aims to help you reach the next stage of your journey.

Building a consumer goods business is not easy. Wayflyer specialises in funding consumer brands, helping you solve critical working capital problems that can constrain growth. By improving cash flow, Wayflyer customers can seize new opportunities such as acquiring additional stock, increasing marketing spend or simply improving profitability and resilience. By solving the toughest problems facing eCommerce brands, Wayflyer gives you the power to pursue your ambition and achieve your goals.

If you're a consumer brand looking to finance the next stage of your growth, visit [wayflyer.com](https://wayflyer.com)

## Iris

Iris is the first automated source of financial truth and management designed specifically for modern consumer brands. Iris automates all your financial analysis and modeling workflows so that you can spend more time actioning and less time compiling and configuring your brand's financial data and forecasts.

By integrating with your existing tech stack (Netsuite, shopify, facebook, payroll, etc), Iris provides a real time view into profits, operating metrics, automatically generates 13 week cash flow and financial planning models, and uses genAI to produce recommendations on how to run a more profitable business relative to your peer-set, and more.

Learn more here at [irisfinance.co](https://irisfinance.co)

# Methodology

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For this report, Wayflyer partnered with Iris Finance to examine a total sample size of approximately 7,000 companies who predominantly sell their products online and had previously connected their eCommerce/analytics/finance systems to the Wayflyer or Iris platforms.

For the **Sector overview** of each of the 9 industries in the report, we filtered the list so that newer, less established businesses didn't skew the numbers. Each Sector overview is based on the average performance of brands in that space which have generated over \$100,000 in revenue over the preceding 12 months. While we couldn't totally filter out offline revenue, 93% of the total revenue analyzed was generated via online channels. Finally the data was aggregated and anonymised so that individual businesses could not be identified by third parties.

While average performance is useful to get a pulse of a sector, we all strive to be the best we can, so we wanted to dig deeper to see what the P&L accounts look like for established high-performing companies. For the **best-in-class** sections of the study, we zoomed in on smaller sample sizes—varying from 5 to 10 companies for each industry. As businesses grow, it becomes more difficult to maintain and improve profit and loss efficiencies. Hence, it is better to adjudge long-term profitability targets by looking at established best-in-class brands. We analyzed companies that fulfilled the following criteria before giving our interpretive view on what the perfect P&L should look like:

- Approved for financing from Wayflyer in the previous 6 months
- High-value—generating at least \$1M in revenue per month
- Revenue is growing year-on-year
- At least 75% of their revenue is generated through online channels
- Demonstrated best-in-class profitability and performance metrics
- Core product was most representative of the category as a whole e.g. we would choose a pet food company for the Animals and Pet sector, rather than a company selling luxury high-ticket dog beds.

If you're earlier in your journey this is what you should be striving for and what best-in-class in your sector looks like.

# Glossary

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## Sales

Sales includes revenue generated through all transactions conducted through online or retail channels e.g. Shopify, Amazon, and retail sales. Sales are calculated net of contra revenue adjustments including discounts, allowances, returns, or any other factors that may reduce or increase the actual amount of revenue generated by a company within the data set.

## Cost of Goods Sold

Cost of Goods Sold (COGS) is calculated as any expense immediately incurred at the time of the transaction including cost of products sold, costs to deliver the goods to the end customer, including third party logistics fees, seller fees, payment processing fees, etc.

## Gross Profit

Defined as Sales MINUS Cost of Goods Sold.

## Marketing expenses

Marketing expenses are the sum of all spend on digital advertising platforms including, but not limited to Facebook (Meta), Google, TikTok, Pinterest, Snapchat, and Twitter. It also includes non-digital marketing expenses such as out of home (OOH), linear TV, billboards, agency fees etc. To account for transactions not recognised as marketing expenses, marketing expenses were adjusted by +20% across the entire dataset.

## Contribution Margin

Gross profit MINUS marketing expenses.

## Operating Expenses (OpEx)

Operating expenses are all other non-tax expenses not captured in the definitions above. Examples include: payroll, software and other infrastructure, rent, interest, etc.

## Customer Acquisition Cost (CAC)

Marketing expenses for the period divided by the number of new customers acquired during that period. Because Wayflyer's platform is calculating this figure using only Meta, Google and TikTok integrations, we adjusted the CAC figures by +20% to account for potential marketing costs that weren't included - like affiliate spend, Snapchat spend and other forms of online advertising.

## Average Order Value (AOV)

This is the average monetary amount spent by customers on a single purchase transaction during a given period i.e. total revenue divided by the total number of orders.

## Purchase frequency

The multiple of the first-order AOV that a customer is expected to spend over the 12 months following that initial order.

## Return Rate

Return rate is represented as a percentage of the total number of sales over a given period. It is calculated by dividing the total number of returned products by the total number of sales and multiplying by 100.

# Disclaimer

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This report has been prepared by Wayflyer in collaboration with Iris for information purposes only, and is intended to provide comparative analysis, industry benchmarks and insights into certain metrics for the recipient's reference.

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