

MARGIN OPTIMISATION IN PRODUCT SORTING

In the competitive online retail landscape, balancing sales volume and maximising profitability is crucial. Traditional approaches focus heavily on conversion optimisation to increase transactions. However, by not promoting higher-margin products, opportunities for profit margins can be missed.

Cloud Retail team identified a way to optimise conversion rates and profitability by improving sorting algorithms for product catalogues. We aimed to increase profitability and business performance by focusing on margin optimisation.

CHALLENGES

CONVERSION-CENTRIC SORTING ALGORITHM

The existing sorting algorithm was focused on conversion optimisation, driving sales volume but **not maximising profit margins**. High-margin products were not prioritised, resulting in **missed opportunities for increased profitability**.

DATA INTEGRATION AND TRACKING

Implementing a margin-focused sorting algorithm required detailed data on each product's performance and profitability. The existing system **lacked the capability to track and integrate this essential data** for developing an effective margin optimization strategy.

INCREASING THE NUMBER OF ITEMS PER ORDER

Building a healthy business requires **a healthy target average order value**. One of the methods of raising AOV is to incentivize customers to buy more items in one order.



SOLUTIONS

DEVELOPING THE NEW ALGORITHM

Using the integrated data, our team developed a sophisticated sorting algorithm that:

- **Prioritised higher-margin and more expensive products at the top of the catalogue.**
- **Considered product conversion rates to maintain a balance between profitability and sales volume.**
- **Dynamically adjusted rankings based on real-time performance metrics.**
- **This algorithm was seamlessly integrated into the app, ensuring a smooth transition and immediate impact on product visibility and sales.**

SOPHISTICATED TRACKING SYSTEM

We implemented a sophisticated tracking system within the app, capable of monitoring each SKU at a granular level. This system tracked key metrics such as:

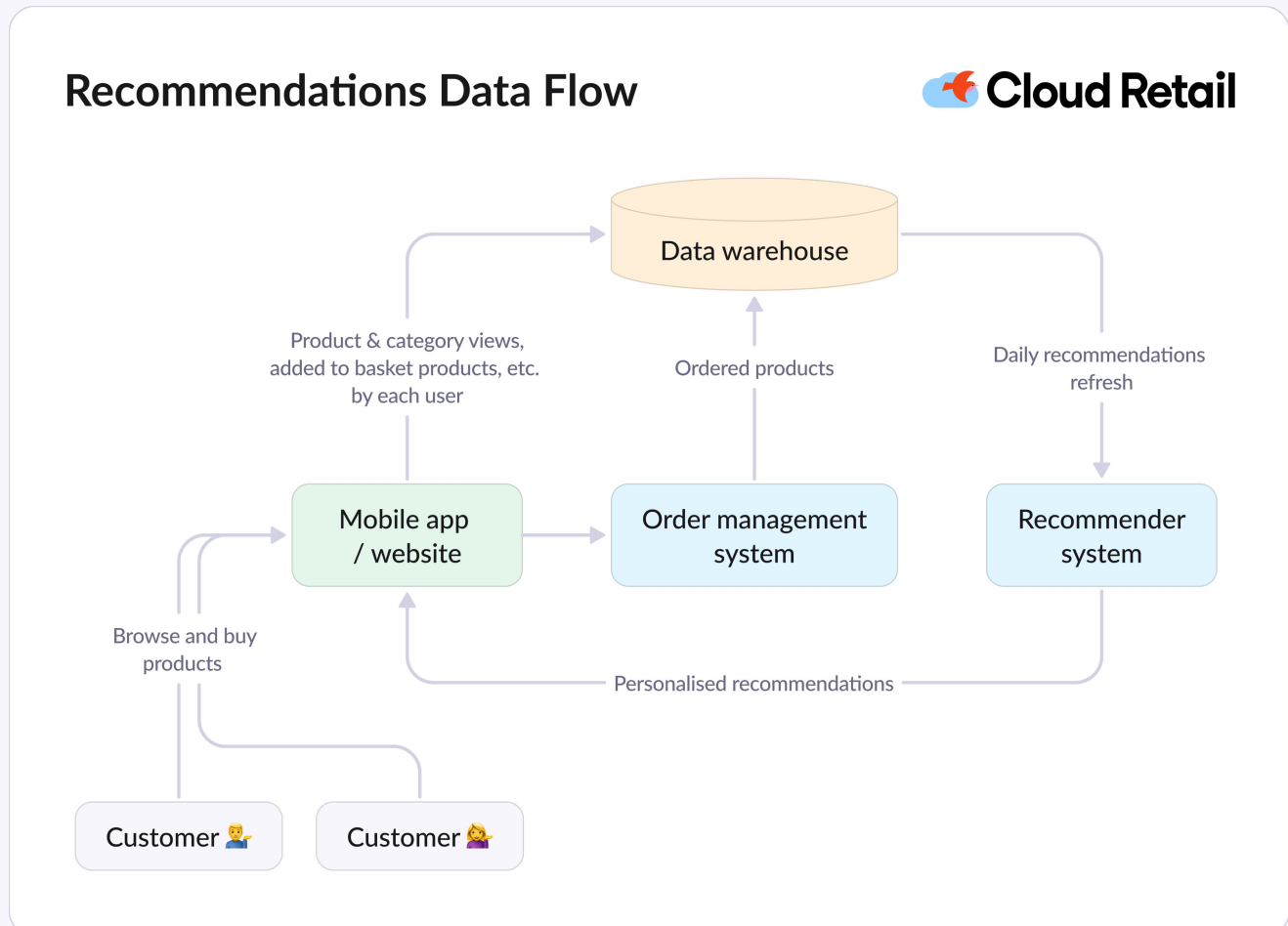
- **Product snippet impressions on the catalogue and search results pages**
- **Detailed sales data, including the number of orders and items sold**
- **Purchase prices and customer prices**

CREATING CROSS-SALES RECOMMENDATIONS

After testing a variety of methods, we decided to implement a product recommendation system. Our team used sales data on the item level to build an algorithm that analyses which products complement each other in customer orders.



At regular intervals, the algorithm recalculates the latest data. Then **the results were delivered to the app to show the recommendations for complementary products on the product page and in the basket.**



RESULTS

The implementation of the new sorting algorithm yielded significant results. **The margin per order increased from 25.6% to 27.1%**, a statistically significant improvement. This enhancement in profitability was achieved by ensuring that higher-margin products were given greater prominence in the product catalogue. The new sorting algorithm successfully balanced the need for high conversion rates with the goal of maximising profit margins, leading to a more profitable overall product mix.

