

2023 vs 2024 Tokuhn 1,000 Merchant Cohort: A Comprehensive Analysis of Product and Merchant Dynamics

Introduction

This white paper presents a comprehensive analysis of 1,000 small Shopify merchants from the Tokuhn network between December 2023 and September 2024. All merchants in this cohort are considered small businesses, each carrying 500 or fewer SKUs. The average number of SKUs per merchant is 92, with a maximum of 505 and a minimum of 1. This context is crucial as it reflects the challenges and dynamics specific to small-scale e-commerce operations.

TL;DR

Merchants who did not significantly change their pricing had the lowest survival rate among the cohort studied. In contrast, merchants who lowered prices had a higher survival rate (94.3%) compared to those who raised prices (88.3%). This indicates that strategically adjusting prices - either increasing or decreasing - on a significant portion of inventory increased the likelihood of remaining operational between December 2023 and September 2024. Electronics merchants demonstrated remarkable resilience with a 100% survival rate, while merchants in

fashion and food categories experienced the highest churn and lowest survival rates (around 86%).

These findings underscore the importance of adopting dynamic pricing strategies, managing SKU turnover effectively, and tailoring approaches based on specific product categories to successfully navigate the volatile e-commerce landscape, especially for small merchants with limited inventories.



Top 5 Strategic Questions for Shopify Merchants

First, is my pricing strategy responsive to market conditions? Frequently adjusting prices to reflect demand, seasonality, and competition is crucial. Merchants who did not significantly change their pricing had the lowest survival rates, while those who strategically adjusted prices - either increasing or decreasing - experienced higher survival rates.

Second, am I managing SKU turnover effectively within my limited inventory? Assessing how often you introduce new products or discontinue old ones is essential. For small merchants with an average of 92 SKUs, high SKU turnover (over 50%) is linked to lower survival rates.

Balancing new introductions with existing successful products is key to avoiding unnecessary volatility.

Third, am I proactively managing risks inherent in my product category? While changing product categories may not be feasible, recognizing the inherent risks is crucial. If you operate in higher-risk categories like fashion or food, it's important to be more diligent than the average merchant in making adjustments. This includes implementing dynamic pricing, closely monitoring trends, and managing inventory carefully to mitigate volatility.

Fourth, how do I balance core products versus trendy items within a limited SKU range? Avoiding over-reliance on short-lived, trendy items is important, especially when your total SKU count is limited. Maintaining a stable core product line while responding to seasonal demand is essential in high-risk categories.

Fifth, do I have a clear pricing rationale tailored to my business size? Adjusting prices based on data and strategic considerations leads to higher survival rates. For small merchants with fewer SKUs, each pricing decision can have a significant impact on overall performance. Merchants who changed prices significantly had better outcomes than those who kept prices stagnant.

Top 5 and Bottom 5 Categories by Merchant Survival Rate

The following categories represent the highest and lowest merchant survival rates among small merchants.

Category	Merchant Survival Rate
Top 5 Best Categories	
Electronics/Accessories & Supplies	100%
Electronics/Camera & Photo	100%
Electronics/Cell Phones & Accessories	100%
Electronics/Computers & Accessories	100%
Electronics/Car & Vehicle Electronics	100%
Bottom 5 Worst Categories	
Men's Apparel/Tops	85.97%
Men's Apparel/Bottoms	86.12%
Food/Pantry Oils & Vinegars	86.17%
Food/Pantry Condiments	87.62%
Little Ones/Toys/Learning	90.10%

Section 1: Impact of Pricing Strategies on Merchant Survival

1.1 Merchants Who Did Not Significantly Change Prices

Small merchants who maintained static pricing across their limited inventory had the lowest survival rates. The failure to adjust prices in response to market conditions may lead to decreased competitiveness and higher risks of business closure.

1.2 Merchants Who Lowered Prices

Merchants who strategically lowered prices on a significant portion of their inventory achieved a higher survival rate of 94.3%. Price reductions can have a substantial impact on stimulating demand and attracting cost-conscious consumers.

1.3 Merchants Who Raised Prices

Those who raised prices on a significant portion of their products had a survival rate of 88.3%. Strategic price increases can enhance profit margins without severely impacting sales volume.



Section 2: Product Churn Analysis

2.1 Overall Product Churn Trends

Across the 1,000 small merchants, 40% of all products were discontinued by September 2024. The churn was higher in fashion (44%) compared to non-fashion categories (38%). For merchants with an average of 92 SKUs, this level of churn represents a significant portion of their inventory.

2.2 Impact of Price Changes on Product Churn

Price adjustments significantly affected product churn rates. Products that underwent price changes, whether increases or decreases, had lower churn rates and better inventory retention. In contrast, products with no price change experienced higher churn, indicating that lack of price responsiveness contributes to product discontinuation.



Section 3: Merchant Stability and Growth

3.1 Proactive Risk Management in High-Risk Categories

For small merchants in higher-risk categories like fashion and food, being more diligent is crucial. Strategies include dynamic pricing, trend monitoring, and careful inventory management to mitigate volatility. Staying agile and responsive helps in coping with the rapid changes characteristic of these markets.

3.2 SKU Turnover and Business Implications

High SKU turnover (over 50%) was associated with a survival rate drop to 70.7%. Excessive churn strains limited resources and can confuse customers. Conversely, moderate SKU turnover (0-50%) maintained a 100% survival rate. Balancing new product introductions with existing products is critical for small merchants operating with a limited number of SKUs.



Section 4: Strategic Recommendations

4.1 Implement Dynamic Pricing Strategies

Small merchants should regularly review and adjust prices to reflect market conditions. Proactive pricing enhances competitiveness and customer perception. Given the limited inventory, each pricing decision can significantly impact overall business performance.

4.2 Diligent Management in High-Risk Categories

Merchants in higher-risk categories should stay agile, enhance market research, and optimize operations to reduce risks associated with limited inventories. This includes closely monitoring industry trends and being prepared to make swift adjustments.

4.3 Balance SKU Turnover

Aim for moderate SKU turnover to keep offerings fresh without overwhelming operations or customers. This balance helps maintain customer interest while managing resources effectively.



Key Findings

Merchant Size and Inventory Context

All merchants in the study are small businesses with 500 or fewer SKUs, averaging 92 SKUs. The SKU counts range from a minimum of 1 to a maximum of 505. This limited inventory size amplifies the impact of pricing strategies, SKU turnover, and inventory management on merchant survivability.

Merchants Who Did Not Change Prices Had the Lowest Survival Rates

Merchants who did not significantly change their pricing strategy experienced the lowest survival rates. For small merchants, the lack of price adjustments may indicate a failure to respond to market dynamics, leading to decreased competitiveness and higher risk of discontinuation.

Higher Survival Rates for Merchants Who Adjusted Prices

Merchants who adjusted their prices on a significant portion of their inventory fared better. Those who lowered prices had a survival rate of 94.3%, while those who raised prices had a survival rate of 88.3%. This suggests that proactive pricing strategies enhanced the likelihood of survival, especially important for small merchants where each product carries more weight in overall performance.

Pricing Strategy Matters

Dynamic pricing strategies contribute positively to merchant survivability. Lowering prices can increase sales volume and improve competitive positioning. Raising prices can enhance profit margins or reflect perceived value enhancements. Both strategies, when applied thoughtfully, can benefit small merchants significantly.

High Product Churn in Fashion and Food Categories

Merchants in fashion and food categories experienced higher product churn and lower survival rates (around 86%), highlighting the volatility in these markets. For small merchants with limited SKUs, constantly changing consumer preferences necessitate agile strategies and diligent management.

Merchant Stability by Category

Electronics merchants exhibited a 100% survival rate, reflecting stability and consistent demand, which is advantageous for small merchants. In contrast, fashion and food merchants had lower survival rates, indicating the need for more proactive strategies to cope with market volatility inherent in these categories.



Conclusion

Dynamic pricing and strategic inventory management are crucial for the survival of small Shopify merchants. Those who proactively adjust prices and maintain a balanced SKU turnover significantly increase their chances of success. By tailoring strategies to their specific product categories and remaining agile in volatile markets, small merchants can navigate the competitive e-commerce landscape more effectively and position themselves for sustainable growth.