Cartograph
Helping brands grow on Amazon

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How and when emerging CPG brand should launch on Amazon

The key takeaways:

- Amazon can often be a substantial portion of an emerging brand's growth - often the largest single customer, and up to 40% of a brand's DTC sales (and at a baseline, return 0.25X on all non-Amazon digital spend)
- Brands must focus on constructing a profitable eCommerce offering inclusive of all Amazon channel costs, including packaging, freight, and logistics
- Pricing needs to consider potential retail price matches as well as competing with DTC offerings

Amazon's already enormous presence swelled to such a degree during the pandemic that it's importance to consumer goods brands is now far too large to ignore. Before, brand owners used to be asked the "Amazon question", and some would say it's not a priority, or not a good match for their brand. Nowadays, the answer to the question is much less of an "if", and more of a "how".

At Cartograph we are an Amazon-focused agency. We work with US-based CPG brands in the "emerging" subset: brands typically with $1-50mm in global sales. We've launched dozens of million dollar Amazon businesses and captured Best Seller status for many challenger brands, often in the better-for-you segment.

Success on Amazon is not just driven by ads. A large portion of the value comes from the work done before the product gets to Amazon and the product pages are built. New assortment, supply chain, and pricing approaches needed to be crafted for Amazon to stay profitable. Getting the approach wrong on Amazon doesn't just mean lost sales - often, it can mean poor brand representation and reviews, bad customer experiences, and negative contribution margin. In this piece we'll discuss how brands should think about an Amazon launch, and what they should focus on depending upon their capabilities and existing distribution as a brand.

For the purposes of this article, we're going to divide brands into two categories: Digital Native brands (or DTC), and Retail Native brands (or B&M). Furthermore, for both of these groups we'll discuss how your approach and view might change if you're launching on Amazon for the first time versus if you have an existing Amazon business and you're ready to invest in growth.

Retail Native Brands

Retail Native brands are "built for the shelf", and generally launch in B&M retail first. With this approach, you often make decisions good for retail, but not so good for eCommerce: glass packaging, bulky (or small!) sizes, and visual design fit for a shelf. In addition to this, there's a fundamental pricing difference between grocery stores and eCommerce: most items in a store are $3-5 or less. On Amazon as well as eCommerce more broadly, these sizes simply don't work, as every offer must account for shipping costs. So the first place a retail brand must look is in their assortment, with a focused eye on profitability.

Figure 1: a classic "Retail Native" product – tough to sell online at $3-5.

Profitability and Margin Management

For a retail brand, a move to eCommerce is effectively a retro-fit of their in-store products to make them workable for being shipped around the world. A brand should start with a full waterfall of costs to serve the Amazon channel, which generally includes:

- Amazon's platform or referral fee
- Product COGS, including any costs to re-kit products
- Trade and/or ad spend
- Freight, storage, and 3PL fees

Pricing

In the US, CPG companies generally need gross margins at a minimum of 70% to make the Amazon channel profitable. This further needs to be higher if serving the channel introduces significant rekitting or packaging costs.

However, as opposed to retail, brands have some flexibility to set higher prices on Amazon. Amazon consumers see value in the convenience of Prime delivery and are willing to accept 10-20% higher per-unit product costs on the channel. In our experience, CPG brands see the greatest velocities in the $10-15 range, and furthermore Amazon gives a fee break for Grocery products under $15.

That said, Amazon enforces a "most favored nation" pricing rule, requiring you to match the online prices of retailers such as Target.com and Walmart.com. This often pushes products to be unprofitable, necessitating the creation of unique kits.

Kitting and bundling

Most brands end up selling multi packs on Amazon - and variety packs of different flavors tend to be the best sellers. These packs have a dual benefit: they tend to increase margin as fixed costs are spread across most products, and they increase pricing flexibility by avoiding price matching.

It's important brands consider how Amazons fulfillment costs change by weight and dimensions - Amazon has a table of tiered fixed prices that create the opportunity to create "optimal" packs. Some brands even go as far as to manufacture a unique size or pack for Amazon, to maximize profit, avoid price matching, and prevent any channel conflict.

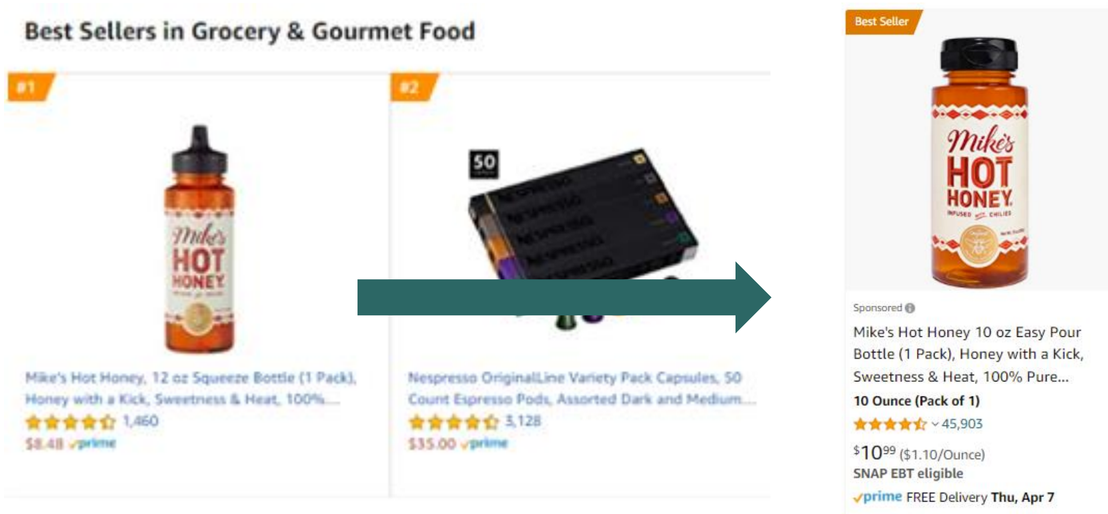
Channel conflict

Retail brands in the US inevitably have their products available to purchase from distributors at wholesale pricing, which often creates the opportunity for 3rd party sellers to purchase the product and then compete with your offers on Amazon. This is particularly exacerbated by the club channel (Costco, Sam's Club, etc.) where bulk product is offered at low prices.

Unfortunately, Amazon won't do much to police these sellers. To them, as long as the customer experience and product quality is good, they are not concerned with who is selling the product. The burden falls upon the brand to ensure that distributors limit sales to these bad actors, and most of all, that brands create competitive offers that "price out" resellers.

Cartograph case: In 2020, we re-launched a best selling condiment on Amazon that was being price matched on Amazon. We decreased the size slightly, and then increased the price adding significant points to the bottom line. This product went on to be the best seller in all of Amazon Grocery for December 2019 and much of 2020, and had million dollar sales months.

Figure 1: Condiment client as #1 Best Seller in 2019 in larger size; same product as Best Seller in 2022 at smaller size with higher pricing.



Digital native brands

Digital native brands should focus on different topics when getting ready to launch on Amazon. Generally, they don't have to worry as much about supply chain, as they are already fulfilling DTC orders. Furthermore, DTC products tend to have larger margins to account for shipping and customer acquisition costs. If they're in retail, they likely were launched carefully so not to undercut the core DTC business. Therefore, launch must focus on how the Amazon business can work in tandem with the core DTC business.

DTC brands typically **launch their Amazon business in line with their DTC - with the same assortment**. This is the most common approach as the brand can learn how the product will perform on Amazon, how the audience might be different, and how they will compete against competitors without undercutting price of the core business. The most important learning is to ensure that customer reviews are healthy - if reviews are poor, it can harm conversion and performance of the DTC business.

These brands typically price either at the same price as their DTC, or a few dollars higher than DTC for the same offer on Amazon. This is to account for free shipping thresholds on Amaozn which are typically higher than buying just 1 unit on your DTC.

Once a DTC brand has a stable initial offering on Amazon, their next move will be to launch a lower price offering that is long term competitive with the Amazon category leaders. DTC offers are usually priced in the $35-50 range, while Amazon best sellers usually fall between $10-20, due to a lower blended acquisition cost. A lower price offering can serve as an acquisition vector to help win customers from competitors or from general category prospecting.

The lower price item doesn't necessarily need to be the long term best seller, instead it can serve as the acquisition vector. The higher priced unit - often the one in line with DTC - can be the longer term higher seller that you build your subscriptions around.

Cartograph case: We launched a breakfast food brand in 2021 with exactly this approach: starting with a higher price offering similar to their DTC, then later launching a smaller unit with a lower price point. They grew rapidly, crossing the 8-figure mark within a year.

Sizing up the opportunity

We tell DTC brands that Amazon should be around 10-40% of their DTC. 10% is the floor, while 40% is generally the size if you're able to become a top seller in your category.

This usually translates to getting approximately a 0.25X ROAS from your digital spend in Amazon sales. This is driven by shoppers seeing your digital ads across the web, and pulling up Amazon and entering an unattributed brand search. Playing out the math, this is about 10% of a business with a 2.5X blended ROAS across all channels.

Integrating the channels

Long term Brands should think about how they can integrate the Amazon channel in the customer journey. Most shoppers engage with brands in multiple fronts - for example, looking at reviews while shopping in store, or considering competitive products on their own websites online.

Brands can send portions of their audience that feels better suited to the Amazon channel - for example, abandoned carts on their DTC that fail to convert on retargeting marketing campaigns, or email lists that have never made a purchase.

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We'd love to hear from you! If you'd like more information, please reach out at contact@gocartograph.com.

ABOUT CARTOGRAPH

Cartograph is an eCommerce focused agency that helps food brands sell their products on Amazon. Their mission is to help brands grow products that are better for people and the planet. They support brands with strategy, pricing, SEO, advertising, and operations and logistics. Cartograph is based in Austin, TX.