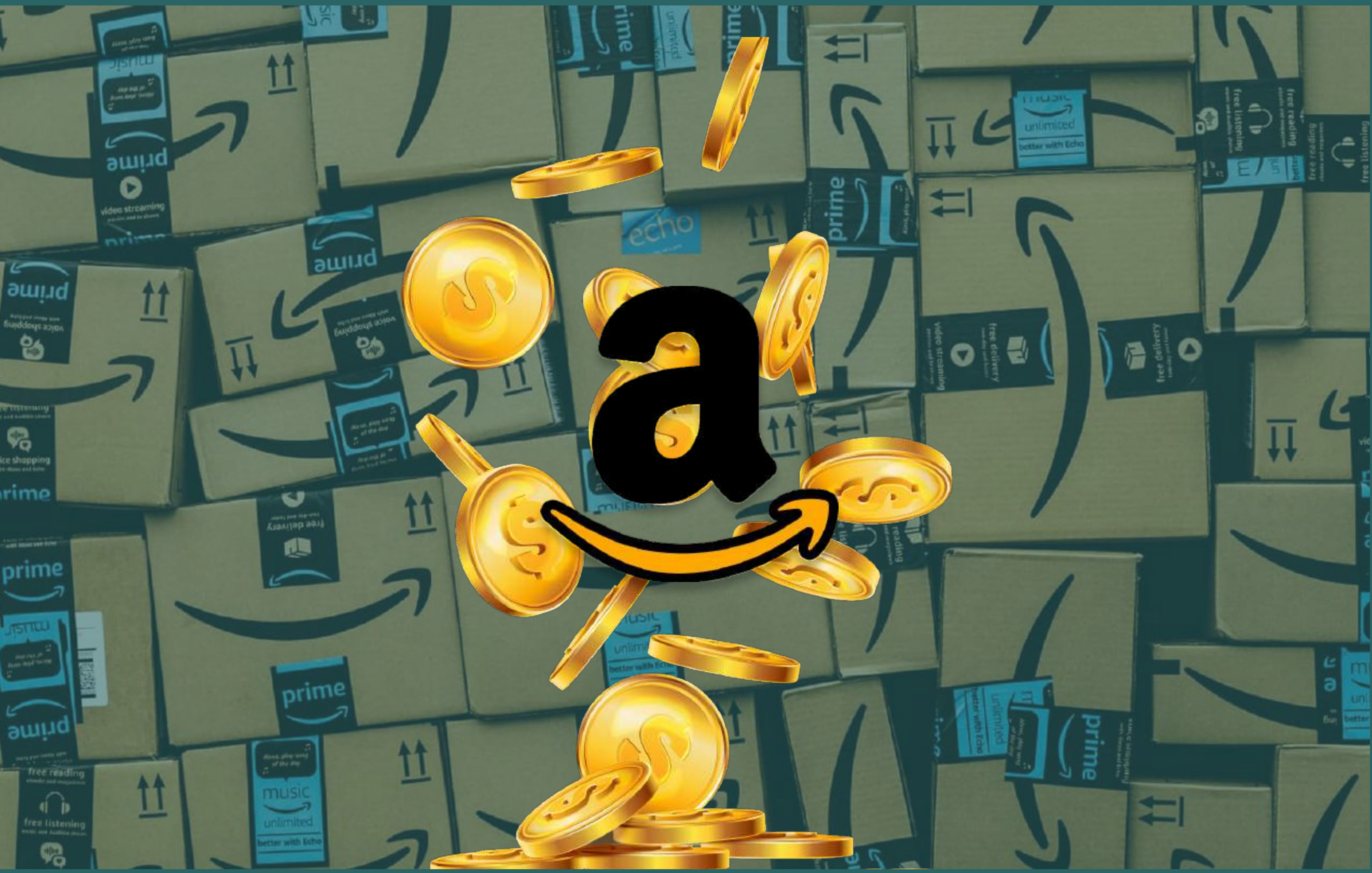
Cartograph

White Paper

Growth & Strategy

Profitable Growth in Uncertain Times

How CPG Brands Can Operate on Amazon Profitably



By Jessica Green & Chris Moe

December 2023

Managing Amazon in 2024

2023 was a strong year for Amazon from a consumer demand perspective, posting record quarters and peak sales periods.

That said, it hasn't been an easy road for brands: costs continue to rise, both on and off platform, and most of all, fundraising and capital markets are tighter than ever. Brands across CPG are looking for paths to profitability on the Amazon channel.

In this paper, we'll outline our proven **profitability framework** for Amazon brands, and detail how to improve contribution margin on the platform.

What You'll Learn

- P&L Benchmarks
- Major cost buckets on Amazon
- Margin Expansion Levers

Profitability: Benchmarks

Yes - Profitability on Amazon is achievable! We define Amazon profitability as positive contribution margin net of all fees. 90% of our brands over $1mm run rate on Amazon are profitable.

Key Data Points

>70%

Profitability is a function of gross margin. It's difficult to attain profitability if gross margins (SRP-COGS) are below 70%.

20-35%

The best Amazon contribution margins in CPG are between 20-35%. This is true for very large brands with scale, and lower cost to ship products (smaller and lighter). Gross margins are 90%+.

10-20%

Typical range of contribution margins for emerging brands with a healthy P&L.

Insights by Category

Beverage is often managed to break even contribution margin (0%) unless you have a high cost/oz (i.e., you can sell 10oz for $5 or more).

Beauty, Pet and Supplements typically have higher margins and can afford more ad & promotional spend (closer to 30% reinvestment).

Grocery brands, on average, spend **around 20%** in advertising reinvestment.

Can We Be Profitable?

Amazon P&L Breakdown

Gross Margin

+80% →

Gross margin is gross retail price minus your product COGS.

How To Improve: Increase your price, shift mix, or make unique kits that cannot be price matched.

Referral Fees

-15% →

Think of this as Amazon's commission. This is typically 15%.

How To Improve: In some categories, referral fee drops based on low price. You can offer a <$15 item for Grocery, or can offer a <$10 item for baby, beauty, health, and personal care.

Shipping

-25% →

FBA Fees

The cost for Amazon to ship your product to the end customer.

How To Improve: Rework kits to be optimized to the smallest size tier. Beware of dimensional weight which often drives costs up. Additionally, if your retail price is below $10, a Low-Price FBA Fee table applies, saving $0.77 per unit. This replaced the Small & Light Program in August 2023.

Ads

-20% →

The advertising bucket: we think of this as total elective spend. PPC and DSP ads, any ad platform fees, coupons and promotions.

How To Improve: Pull back ad spend, starting with your least efficient.

Other

-5% →

The other costs of selling on Amazon.
Inbound freight, Subscribe and Save funding, returns/refunds. If you're north of 5% total, there's probably room to save.

Net Margin

+15% →

After all the fees, **this is your profit, or contribution margin.**

Expanding Your Margin

Levers for Improvement

Fast

Price

Simple enough! A retail price increase can often add 1-3% to the bottom line with limited impacts on velocity. Test price elasticity and consider the time of year / upcoming promotions.

Pro
Direct impact on bottom line

Con
Potential impact to velocity, price matching or omnichannel constraints

Advertising

Every dollar you don't spend on ads is profit, so it's worth testing downward to cut wasted spend and understand your elasticity.
***Note, this sometimes takes months to play out as momentum slows.**

Pro
Cut wasted spend

Con
Can negatively impact sales and decrease momentum

Mix Shift

Push sales towards products that have more favorable margins. This is doable, but difficult at a meaningful scale. +5% margin on 20% of your catalog is just 1% contribution margin lift.

Pro
Can action easily (i.e., branded ad adjustments)

Con
Difficult to scale; incremental strategies and ad costs to shift consumers to different SKU

Operational Improvements

Work to optimize pack size. Is there anything additional that can be done to avoid kittings/stickering/re-boxing labor at the 3PL? This can mean launching a multi-pack, variety pack, or doing prep ahead of time (overboxing).

Pro
Decrease Pick, Pack & Ship costs, and simplify order fulfillment

Con
Time consuming and costly to make new items as well as outline new processes

Product Innovation

Launching a format of your product that plays nice with eCommerce (switching from glass jars to plastic, switching from liquid to powdered - one well-known example: shipping laundry sheets vs jugs of detergent).

Pro
Allows you to design most optimized format

Con
Product development takes time, requires capital investment

Slow

The Impact

Forecasting Your P&L Changes

Model out what a 2% lift can mean for your revenue and contribution margin. We like to make a sensitivity map of year-over-year revenue growth % and contribution margin %, with the table showing total **contribution margin $**. This helps us visualize possible scenarios where contribution margin $ grows but revenue growth is muted, or vice versa.

Contribution Margin Modeling $4,000,000

Current
Target range

YoY Revenue Growth %

		$4,000,000	$4,400,000	$4,800,000	$5,200,000	$5,600,000	$6,000,000	$6,400,000
		0%	10%	20%	30%	40%	50%	60%
	3%	$120,000	$132,000	$144,000	$156,000	$168,000	$180,000	$192,000
	5%	$200,000	$220,000	$240,000	$260,000	$280,000	$300,000	$320,000
Contribution Margin %	7%	$280,000	$308,000	$336,000	$364,000	$392,000	$420,000	$448,000
	9%	$360,000	$396,000	$432,000	$468,000	$504,000	$540,000	$576,000
	11%	$440,000	$484,000	$528,000	$572,000	$616,000	$660,000	$704,000
	13%	$520,000	$572,000	$624,000	$676,000	$728,000	$780,000	$832,000
	15%	$600,000	$660,000	$720,000	$780,000	$840,000	$900,000	$960,000

Other Amazon Profitability & Cash Concerns

A common question we hear:

> **How can I be selling so much on Amazon and there is no payout?**

Besides the fees and margin waterfall outlined in prior pages, Amazon cash flow and accounting has a few other wrinkles. In our experience, the two biggest contributing factors are:

1. Amazon keeps a reserve amount in your account called "**Account Level Reserve**" on Seller Central, similar to the Provision for Receivables on Vendor Central. This is a rolling amount to ensure that you can fulfill any financial obligations, such as refunds, claims, or chargebacks.

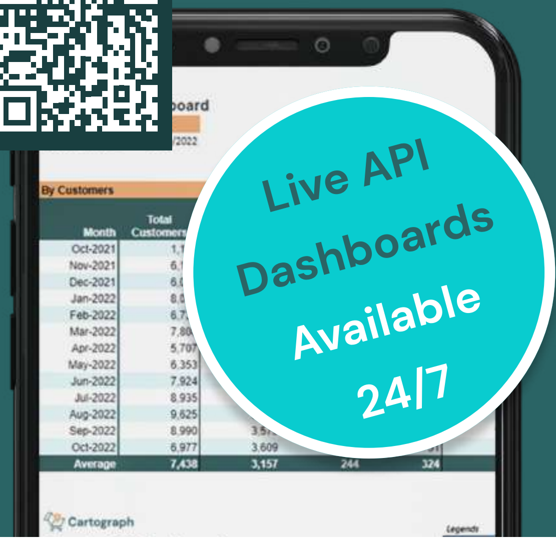
2. Your advertising spend might be coming out of your Seller Central account balance rather than being separately billed to a credit card. Check your default payment method in the advertising console. It's okay to 'deduct from balance,' but we do recommend having a Credit Card as a backup payment method to avoid ads turning off.

Our P&L Dashboard

Worried about your P&L and not sure how to track all of Amazon's hidden fees?

Our real-time API-driven P&L dashboards break down the full financial picture on Amazon. Furthermore, it enables you to forecast future months and make strategic decisions. Reach out if you'd like a free trial to see where your Amazon business stands.

**Scan the QR code to check out our free demo!*



Conclusion

A good, focused margin expansion project should be able to deliver 5-10%pp to the bottom line in a relatively short period of time. While revenue may be flat or slightly declining, you should see growth in contribution margin dollars, which should be the ultimate goal for any brand making a push to profitability.

We have a proven track record of delivering profitability and are always happy to discuss and strategize. Please reach out if you'd like to chat!

Jessica Green
Senior Brand Director
Reach out on LinkedIn!

Chris Moe
Chief Executive Officer
Reach out on LinkedIn!

Helping brands grow products that are better for people and our planet

We are an eCommerce-focused agency that helps CPG brands sell on Amazon. Our mission is to help brands grow products that are better for people and the planet. We support brands end-to-end with strategy, pricing, SEO, advertising, and operations and logistics.

Schedule a **free consultation** and let us help grow your business on Amazon.

Cartograph