

Amazon KDP Due Diligence

Prepared by [WebAcquisition.com](https://www.webacquisition.com) M&A Team on December 6, 2023, for a brokerage listing on Flippa.

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Basic Information

- **Business Type:** Kindle Direct Publishing
- **Where is it listed:** Flippa 
- **Price:** \$188,000 including 2 royalty payments due to the Seller
- **Valuation:** L3M, 16x monthly multiple

Follow-Up Questions to Ask Seller

During our due diligence, we compiled a list of questions you should ask the seller before the final purchase. Most information is already here, but sometimes we discover things that need further explanation from the seller.

- Why is revenue down so much over the last 3/6 months?
- Were reviews paid for at any point since the business's inception? Were reviewers told to use specific phrases in their reviews?
- There are no expenses related to promotion strategy in the P&L statement provided. Yet 50% of the sales in the first 3 months of the business came from free eBook sales. Can you explain how thousands of books were sold with 0 costs?
- In promotion strategy, Facebook advertising was mentioned. However, there were no costs related to Facebook advertising on the P&L statement provided. Were there Facebook Ads run and if so, how much was spent?
- How many people are on the email list? How often are they emailed? What were the metrics on the last email campaign (open rate, clicks, sales)?

M&A Advisor Verdicts

This Kindle Direct Publishing business has established a strong foothold in competitive niches through its launch process for new books. They quickly rose to a high of \$120,000+/month in revenue before quickly declining. In the last 3 and 6 months, revenue and profit has been relatively stable albeit at a much reduced level. There is significant risk inherent in this business with multiple Amazon policy violations found. The severity of these violations ranges from minor to severe. The most impactful is a suspicion of review manipulation. There is also a significant lack of communication or transparency with regards to promotion strategies - despite 50% of sales (thousands of books) during the first 3 months being given away for free. Given the quick rise and decline of the business, the suspicious review profiles of top books, and lack of detail on promotion strategies, there is significant account risk inherent in this business.

Overview

The goal of this report is to get a better knowledge of this Kindle Direct publishing business and evaluate its strengths and weaknesses.

Strengths

- The business has top-selling books in massive niches.
- Low operational complexity - no fulfillment and no customer service means the seller is only responsible for uploading books, listing SEO, and advertising work
- Good diversification - no book accounts for more than 10% of overall revenue in 2023
- High net profit margins of 50%+

Weaknesses

- No diversification in revenue channels
- Low margins provide limited opportunity to advertise books

Growth Plan

There are opportunities to grow this brand's presence on Amazon in both the short- and long-term. Here are some of our recommendations that could be beneficial for both traffic and revenue:

- Implement an advertising strategy in international markets to drive additional revenue there
- Expand to other platforms like Draft2Digital, ACX, IngramSpark, and Audible.
- Upload more books to the platform

Risk Analysis

We found multiple red flags during our analysis.

- There is evidence of review abuse across some of the top sellers. The full extent of the review manipulation is unknown. If found, Amazon could remove the relevant reviews and/or take action against the account and seller.
- The current QR Code -> Website -> Free eBook funnel is borderline in terms of legality. Amazon could consider it incentivizing reviews and take action against the KDP account as a whole or the seller.
- The business has seen a drastic decrease in revenue over the last 3/6 months.
- We have concerns that certain costs related to promotion are left out of the provided P&L. Giving away thousands of books using free platforms is possible but not probable given the sheer quantity involved.
- There are numerous health claims made in the description of some of the books. These claims are not allowed per Amazon guidelines.

Business Model Analysis

Kindle Direct Publishing is a program created by Amazon to allow independent publishers to easily publish books and access the Amazon customer base. It is free to sign up for the program.

Once accepted to the program, publishers can choose to sell their book as an ebook, hardcover, or paperback - or all three. They can also repurpose their book as an audiobook and offer it on Audible for more opportunities to earn royalties.

The core benefit of the program is the passive nature of the business. Once published and launched, your catalog of books can continue generating revenue for years to come. Amazon handles all of the fulfillment and customer service post-sale.

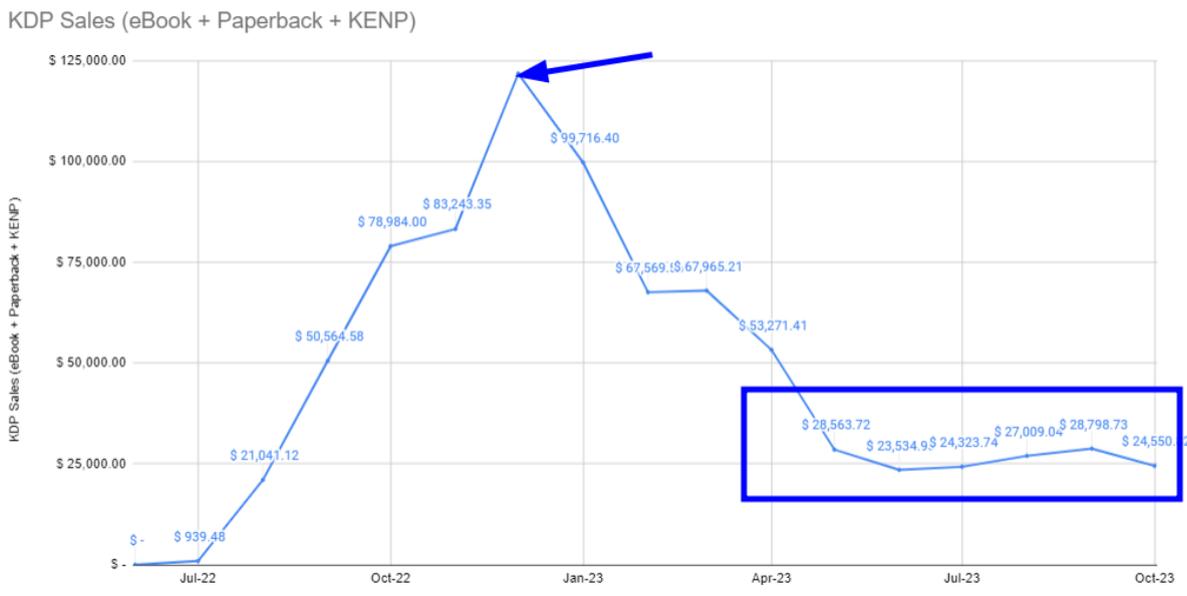
The program offers 60% royalties on the list price of the book. The final profit to the seller however is calculated as 60% royalty - printing cost = profit to seller.

These businesses are popular with investors but the low barrier to entry invites a lot of competition to the space. When evaluating these businesses, it's important to assess the durability of the revenue and the catalog to ensure it will continue to generate revenue in the future.

Revenue Overview Analysis

This KDP business was started only 18 months ago in June 2022 making an analysis of revenue durability and sales history difficult. Below shows a chart of revenue over the lifetime of the account.

After inception in June 2022, revenue hit an all time high of \$121,744 in December 2022.



Since then, revenue has shown a steady decline before stabilizing in the May-June time frame. From May 2023 to October 2023, the average monthly revenue is \$26,130.16. This is a 51% decline from the trailing twelve month revenue of \$54,190.94.

With the drastic revenue decline and lack of history with this account, trailing twelve month averages are not appropriate to use. This is a very significant revenue decline and should be investigated further.

Revenue Diversification

This business only receives revenue from KDP and does not have any revenue from Draft2Digital, ACX, IngramSpark, and Audible - Amazon's audiobook section. Many other KDP businesses diversify revenue through these additional on-demand book publishing services.

The lack of diversity in revenue channels is understandable due to the book catalog but diversifying to other platforms like Etsy, Draft2Digital, or IngramSpark is a growth opportunity

This business also does not receive a lot of revenue from international marketplaces on Amazon. US revenue accounts for 95% of overall revenue so far in 2023.

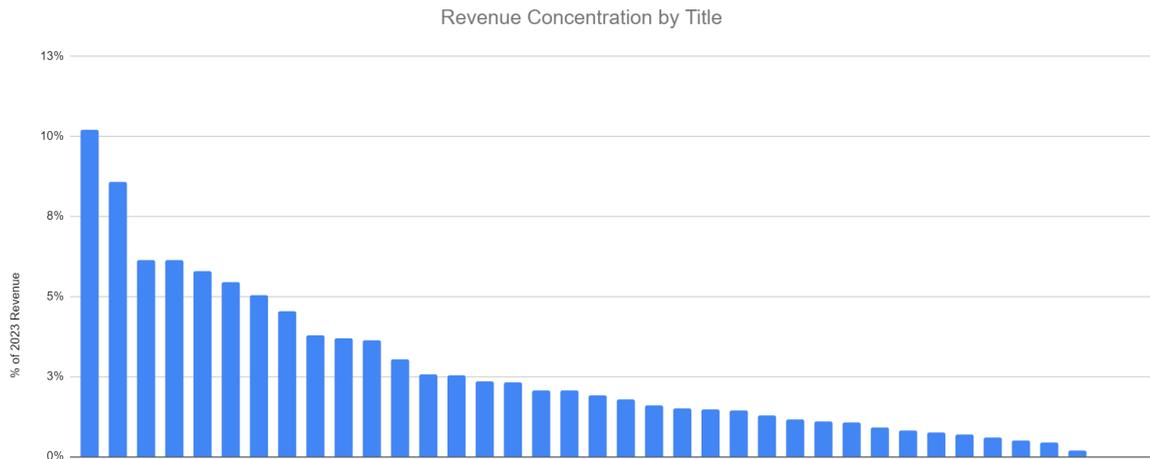
In 2023, there was some advertising spending in the UK market to promote the books from September 2022 to April 2023. There is no advertising in the other international markets.

Restarting advertising in the UK and other international markets could improve revenue and represents a potential growth opportunity.

A revenue breakdown by books offered was also performed. This analyzes the concentration of revenue to ensure 1-2 books do not account for a significant portion of revenue.

If there are only a select number of books that account for the majority of revenue, each of these designs should be carefully inspected to ensure they fit the content policies and are not at risk of being rejected or removed from the Kindle Direct Publishing platform.

Shown below is the revenue breakdown by live books on Amazon.



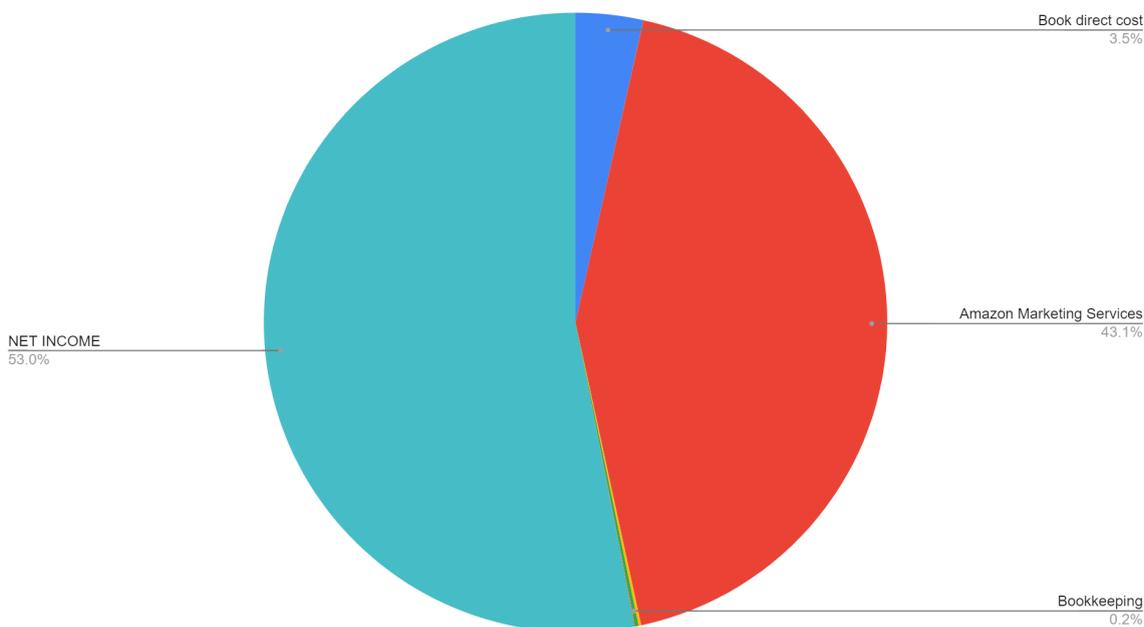
No book accounts for more than 10% of overall revenue in 2023. Out of the total catalog, the top 5 books account for 27% of overall revenue.

The top 10 books account for 59% of overall revenue. There is a significant long tail here with the other 28 books accounting for the remaining 41% of revenue.

Expense Analysis

We analyzed the expense section of the profit and loss statement to see if there was an opportunity to improve profitability through reducing expenses. Below shows the percent of expenses as a percentage of overall revenue.

Expenses as % of Revenue



Net Profit is an astounding 53% over the lifetime of the account. Amazon Marketing Services is the highest percentage of expenses at 43% of revenue. Optimizing the ad strategy would be key to improving profitability and is most likely one of the biggest levers you can easily pull to improve the business. The direct costs of producing the books are \$27,259 (3.5%) over the lifetime of the account.

It's important to note when analyzing the expenses that since June 2023, it appears this business is not actively adding new books to its catalog. Actively adding new books, hiring ghostwriters, and creating cover art, would affect profitability to a small extent.

It's also important to note what's missing from the expenses. According to the seller, over 50% of the orders in the first 3 months consisted of free books. There are no expenses related to the promotion strategy that the seller used to sell free eBooks.

Additionally, from February - April 2023, the seller sold an average of 5,992 eBooks for free each month. There are no expenses related to the promotion of these free eBooks as well.

While there are free methods of promoting your KDP catalog, this should be investigated further. We talk more about questions relating to the Promotion Strategy later in the report.

Book Catalog Analysis

The full book catalog for this business was provided [REDACTED]. Using this, we were able to inspect the listings to ensure they aligned with KDP and Amazon policies.

Title	Link	2022 percent out of total	2023 percent out of total		
T		21605	6%	42447	10%
D		12062	3%	35708	9%
D		11399	3%	25530	6%
A		27518	8%	25517	6%
M		32388	9%	24107	6%
D		25533	7%	22721	5%
L		8071	2%	20956	5%
E		9903	3%	18905	5%
Q		6638	2%	15716	4%
R		1262	0%	15343	4%
D		15256	4%	15151	4%
W		10823	3%	12659	3%
M		15445	4%	10707	3%
iF		5116	1%	10557	3%
D		7261	2%	9789	2%
M		3711	1%	9603	2%
A			0%	8654	2%
T		12949	4%	8654	2%
T		7632	2%	7988	2%
B		1460.19	0%	7423	2%
T		7376	2%	6626	2%
A		3284	1%	6274	2%
P		11763	3%	6094	1%
F		9809	3%	5958	1%
G		4910	1%	5415	1%
T		4291	1%	4828	1%
O		4081	1%	4518	1%
M		2719	1%	4396	1%
N		25533	7%	3777	1%
D		8132	2%	3442	1%
T		1558	0%	3086	1%
F		8479	2%	2850	1%

Note that multiple books mention 2023 in the title, cover image, and A+ content. The cover image and A+ content can be easily changed at any time. To change the title, you will have to create a new version of the book. Creating a new version of the book will maintain the reviews of the parent listing.

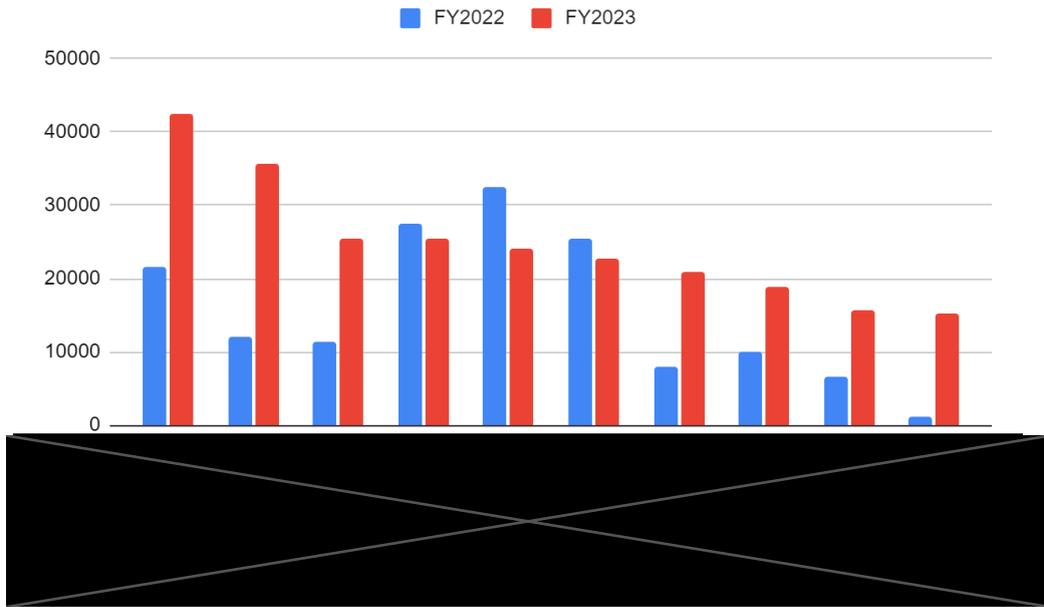
There are a couple of themes around diet, technical tutorials (Microsoft 365, Office, Quickbooks), and cookbooks that could be expanded upon as growth opportunities.

If a new owner wanted to expand revenue by adding new books, it would make sense to use their existing presence in these niches to launch new books.

Amazon Listings

This Kindle Direct Publishing business has 38 books live on Amazon and available in multiple international Amazon marketplaces.

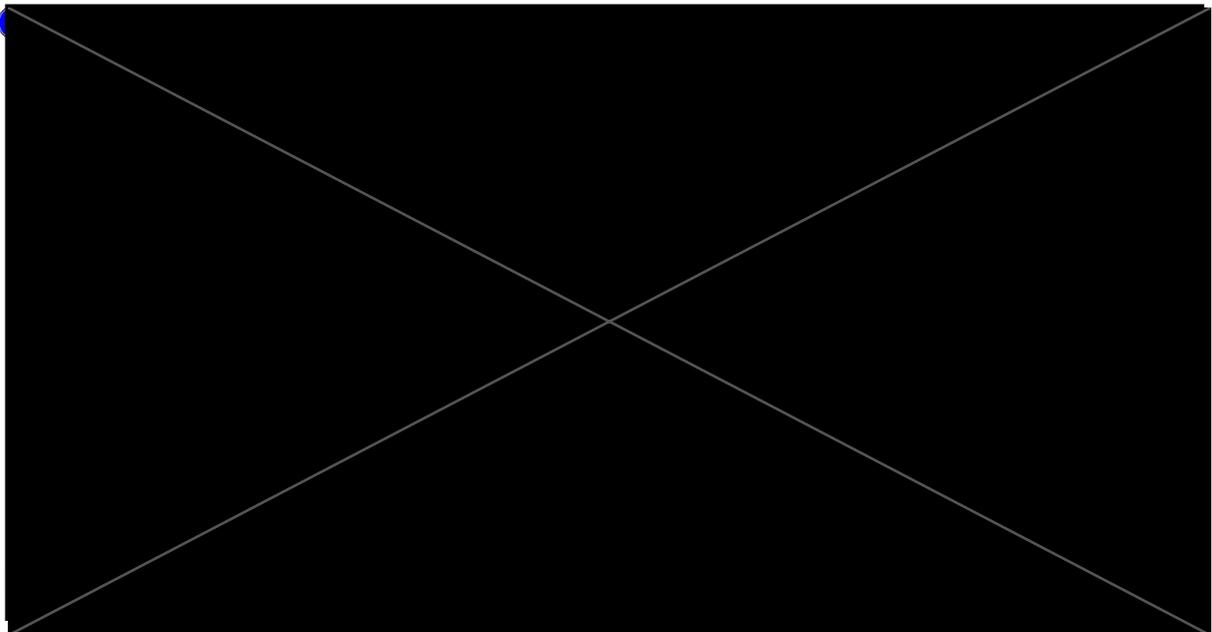
We analyzed the sales trends of the top 10 listings in order to determine if they were consistent sellers, trending upwards, or trending downwards.



We can see from 2022 to 2023, 4 of the top 5 ASINs saw an increase in royalties. This comparison is slightly offset due to the different time lengths involved. In 2022, the books only had 6 months of selling vs 10 months of selling in 2023.

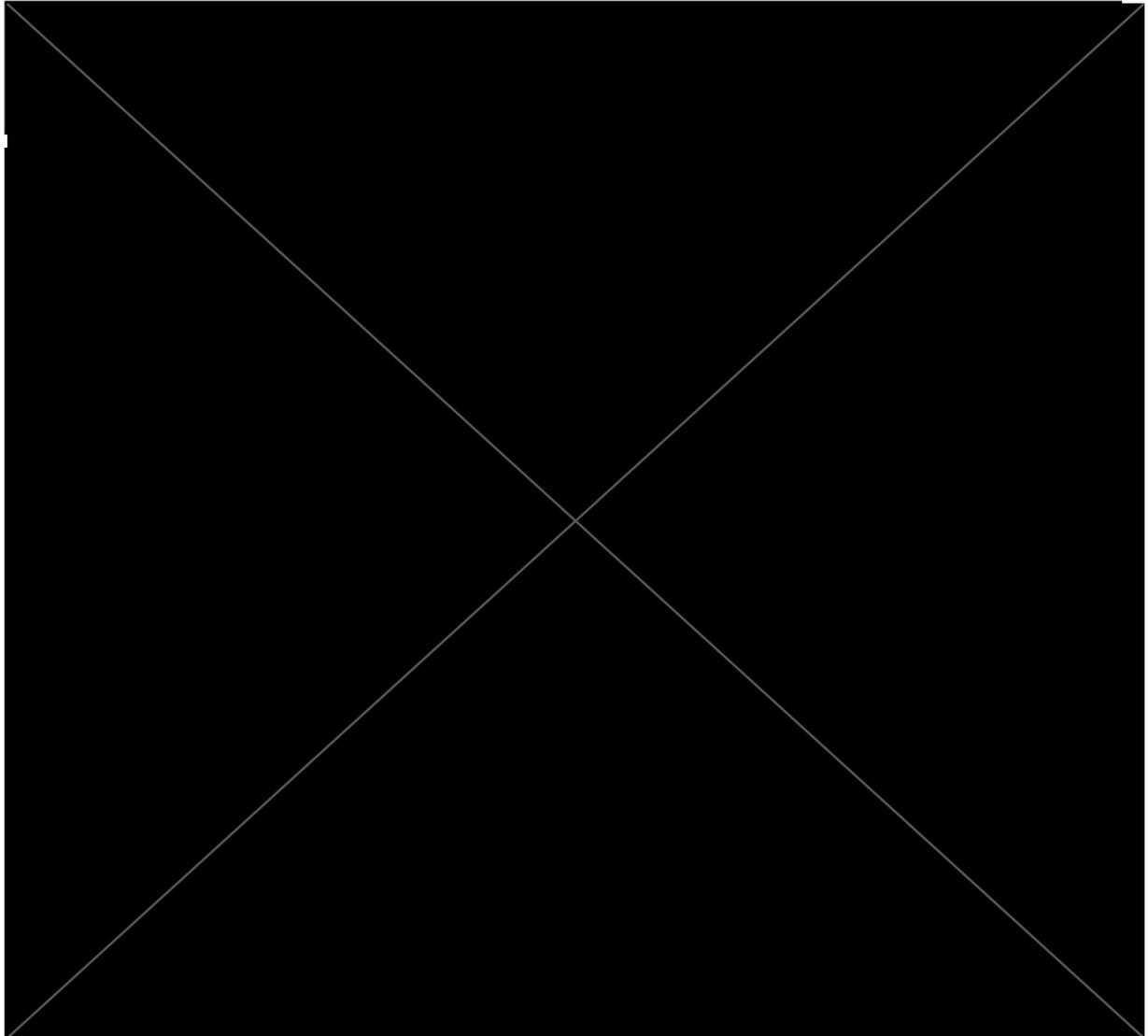
Listing SEO

While there are strict rules about listing customization in the Kindle Direct Publishing program, getting your listing SEO correct is the key to success with organic sales and advertising. Shown below is an analysis of the Listing SEO for the top selling book - [REDACTED]



WA WebAcquisition

1. The cover image includes the year and features good color coordination to stand out in the search results.
2. The title contains the words found on the cover of the book. This title does not have 2023 in it which means it doesn't have to be updated every year.
3. Sellers are allowed to customize the description. Amazon describes this space as "the elevator pitch for your book" - making the case for why prospective readers should buy it. The description is shown below



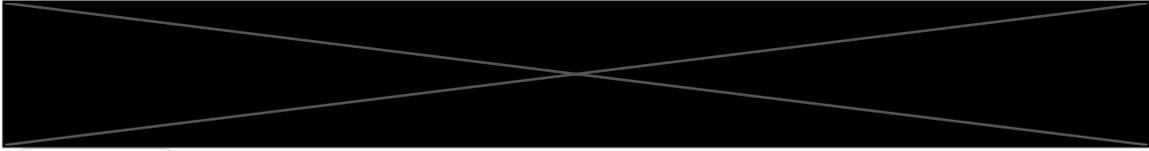
There are numerous issues with the description of this title.

1. Unicode emojis are not allowed in the description and should be removed.
2. There are numerous health claims made in the description. Per this [content policy](#), these claims are extremely borderline and may not have been approved.
 - a. In particular, the "improve your heart health" and "regain your heart health" appear to directly contradict Amazon KDP policy.

 Carol Orange

★★★★★ **Heart-Healthy Eating Made Exciting!**

Reviewed in the United States on October 22, 2023



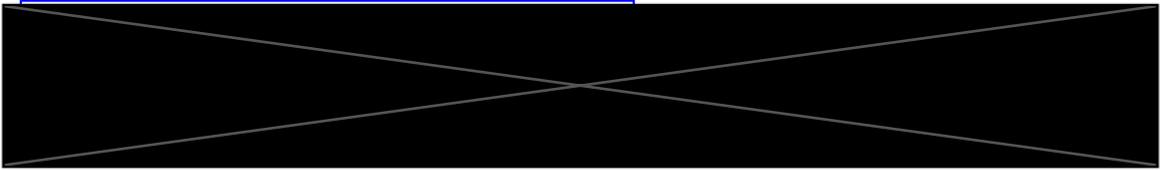
Helpful

Report

 Don Harkey

★★★★★ **Delicious Heart-Healthy Fare!**

Reviewed in the United States on October 22, 2023

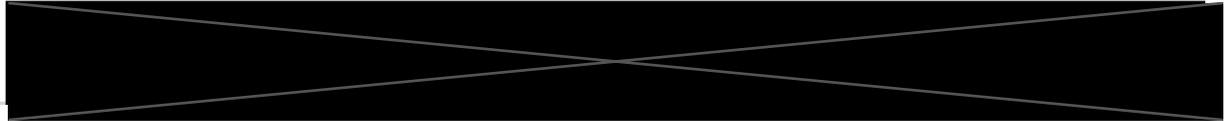


Helpful

Report

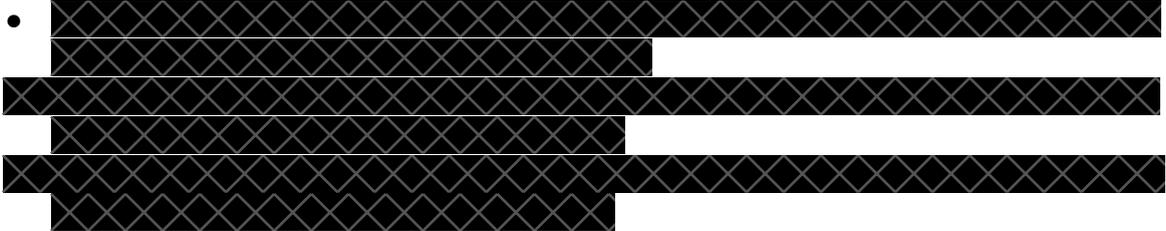
 Antonio Davis

★★★★★ **Heart-Healthy Lifestyle Simplified!**



3 different people using the exact same search terms (happens to be a core keyword for this book)

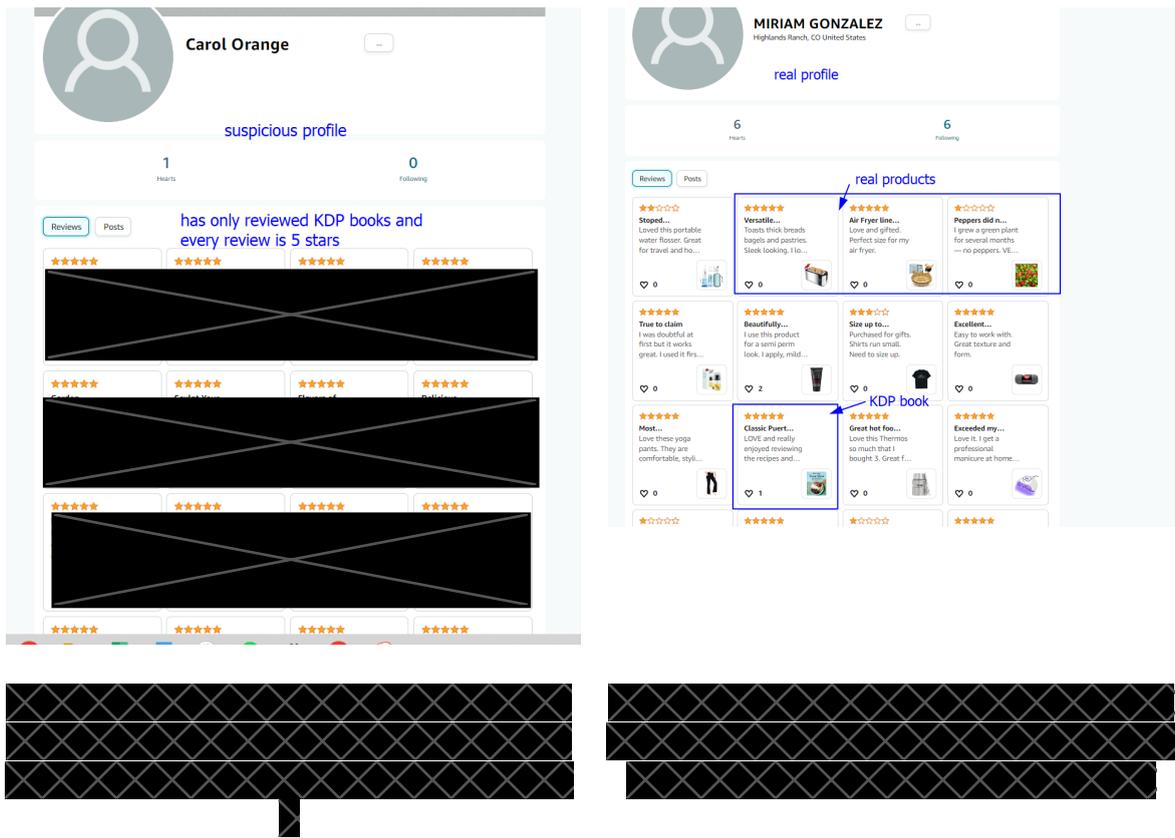
If we look at the reviewer profiles, they have only reviewed other KDP books - no real products or anything else on Amazon.

- 

Below is a comparison between these profiles and a more accurate “real profile” for a reviewer on Amazon.

Suspicious Profile

Normal Profile

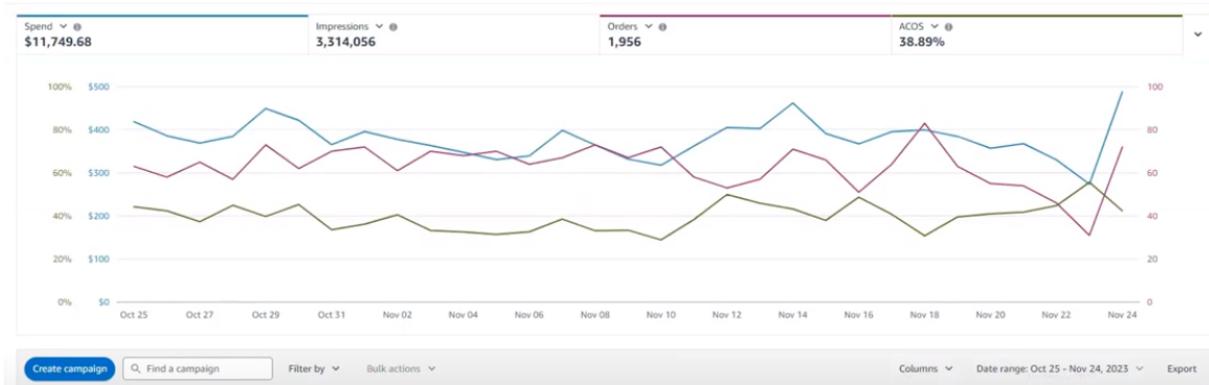


This is enough evidence to take the seller and conclusively ask if there was any review manipulation. The extent of the risk profile depends on the extent of the incentivized reviews and the methods of obtaining the reviews.

Advertising Strategy

Advertising represents the largest expense for this business on Amazon. And, at the time of this writing, Amazon Advertising is the fastest growing segment of Amazon. Everyday, they are adding more sponsored placements and reducing organic positions making it a pay-to-play marketplace.

We were provided with a video overview of the Amazon Ad account. In the last 30 days (Oct 25 - Nov 24), there was \$11,749 spent on Amazon Ads to generate 1,956 orders at a 38.89% ACOS.



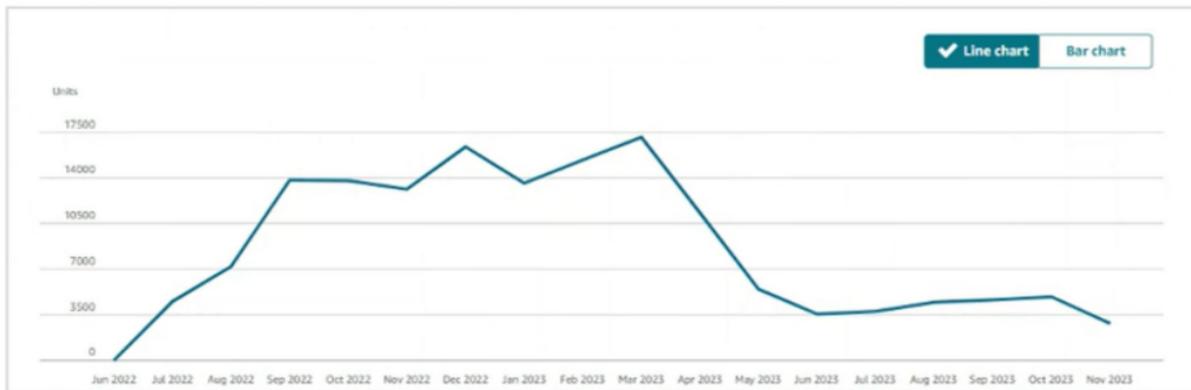
With an ACOS of 38% account-wide, it is clear that the current ad spend is unprofitable. Instead, the ad spend is most likely used to improve organic ranking of the books and capture more organic sales.

Promotion Strategy

KDP sellers often have a specific launch and promotion strategy to give new books traction and visibility in the marketplace. While PPC is part of that (and analyzed above), often KDP sellers have a social media presence, email list, or use other services to help boost their books.

From June 2022 (inception) to November 23, 2023, the business recorded 155,888 units sold averaging 9,170 units/month.

Units ordered
155,888 | All 47 books
 Jun 22, 2022 - Nov 23, 2023



One extremely important thing to note is that over 50% of the orders in the first 3 months were free books. It is not known whether the seller used the [Free Book Promotion program](#) through Amazon KDP or not. Using this program is allowed and recommended to promote books. In it, you can make your book free for up to 5 days every 90 day time period.

Often sellers will promote their book while it is free in order to encourage downloads and reviews. There are free websites and paid websites for this service. In this [Youtube Video](#),

one seller describes her experience “selling” 8,000 units of her eBook for free using services like the below for a total cost of ~\$500. Services like the below are often used:

- BookRaid
- Many Books
- FussyLibrarian

At this point, it is worthwhile to note that no expenses relating to promotion strategy (outside of Amazon Ads) have been included in the profit and loss statement. This is unusual. If this is true, every promotion method used must have been free.

Given the volume and quantity of books given away, this is suspect and should be questioned.

We asked the seller about their promotion strategy. Their response is shown below. We have already talked about the last one (advertising within the Amazon platform).

The promotion strategies used were:

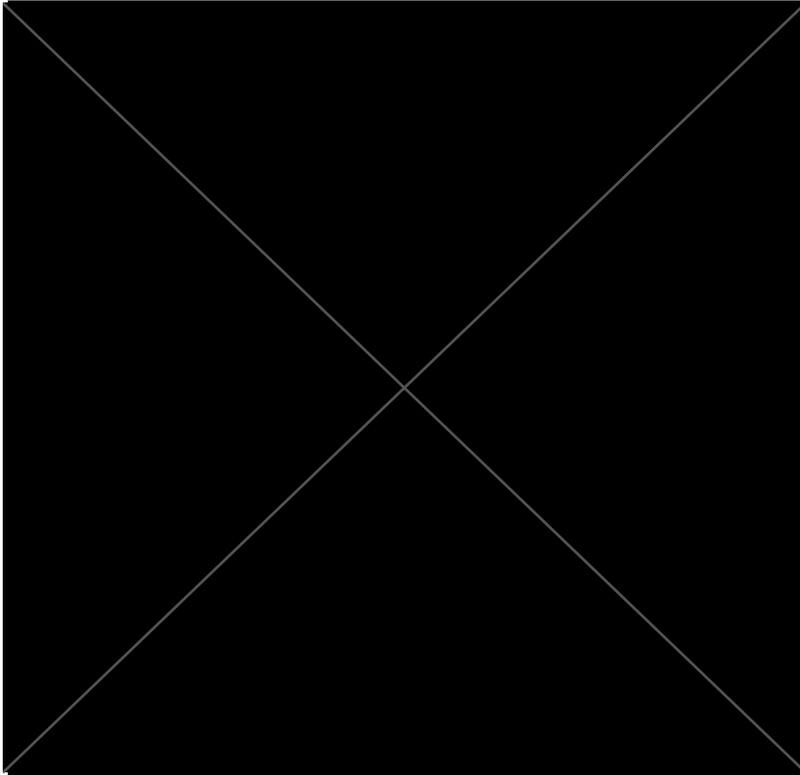
- Direct book promotion [in Facebook](#) via advertising.
- Promotion of books through specialized freelancers who were looking for target readers in social network groups.
- Advertising within the Amazon platform.

These strategies will be transferred in detail to the new owner, as a result of hard work and experience

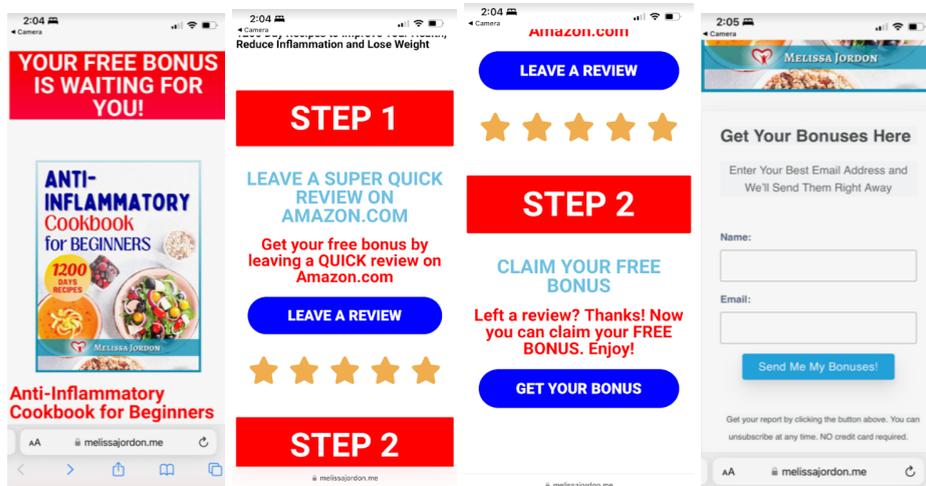
They also state direct book promotion on Facebook via advertising. However, there are no Facebook Advertising costs in the profit and loss statement.

Additionally, the Flippa description states that there is an email list. This has most likely been created from the QR code inside of each book. As shown below, nearly every book has a QR code inside of it leading to a “bonus” free ebook.

- ★ This book includes a **FREE BONUS**: the eBook 
- ★
- 👉 Find out how to download it inside your book



If you use the QR code, it goes to the below page:



This page incentivizes a review and then collects the email address. **Legally, this is in a gray-area on Amazon.** This review request doesn't directly ask for a 5 star review (that would be illegal) but it does say "get your free bonus by leaving a quick review". This is essentially an if-then statement. If you leave a review, you'll get a bonus -> incentivizing the review. This goes against [Amazon community guidelines](#) as shown below.

Can I give free discounted copies of my books to readers?

You may provide free or discounted copies of your books to readers, as long as you do not require a review in exchange or attempt to influence the review. Offering anything other than a free or discounted copy of the book, including gift cards, will invalidate a review, and the Amazon Community team will remove it. To learn more, see [Community Guidelines](#).

↑
or other bonuses

To make this compliant with Amazon policy, you would have to give away the eBook for free beforehand and then ask for a review.

Valuation

The current offer for the business is a purchase price of \$188,000 including the 2 royalty payments due to the seller. The business has a strong standing on Amazon and high net profit margins but has only existed since June 2022.

The current offer price is a 15.5x multiple of the average L3M, a 14.8x multiple of the average L6M, and a 6.4x multiple of the average L12M. It is inappropriate to use the trailing twelve months given the swift rise and decline of the business.

Given the existential risks to the business associated with the reviews and QR funnel, seller financing would be appropriate to use in this case. The current multiple of 15x is appropriate but incorporating seller financing to leave the seller with “skin in the game” would better align interests with all parties involved.

The recommendation is to incorporate seller financing or performance-based financing into the offer.