

# Amazon Merch Due Diligence

Prepared on July 23, 2023, for a brokerage listing on Empire Flippers. This report was created by the [WebAcquisitions.com](https://www.webacquisitions.com) Amazon Merch M&A team.

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## Disclaimer

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## Basic Information

- **Business Type:** Merch by Amazon
- **Where is it listed:** Empire Flippers
- **Price:** \$95,896
- **Valuation:** (L10M, 40X)

## 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 25% year over year? Did the business see a similar peak in June 2023 as it has in previous years? Can you update the financials with the latest numbers?
- Do you have a process for introducing new designs? Do you do the designs yourself or do you pay a contractor?

## M&A Advisor Verdicts

This Merch by Amazon business has established a strong baseline across hundreds of products and thousands of live listings on Amazon. There is strong revenue diversity across the top 10 designs on Amazon providing confidence that one content policy violation will not significantly impact revenue. The account itself has little to no history of content violations and no history of repeatedly defying Amazon Merch content policies. This provides confidence that the account has been in good standing in the past and will continue to be in good standing in the future. While there is an advertising strategy in place now, it is rudimentary and unprofitable. Revamping the advertising strategy and introducing new designs could lead to significant growth and increased revenue.

## Overview

The goal of this report is to get a better knowledge of the brand Kemford and how it operates in the competitive health and fitness niche.

## Strengths

- The top selling ASINs have hundreds of reviews in competitive niches
- Low operational complexity - no fulfillment and no customer service means the seller is only responsible for designs, listing SEO, and advertising work

## Weaknesses

- Little to no moat against competition
- Low margins provide limited opportunity to advertise designs

## 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:

- Increase number of available designs on Amazon
- Improve the Amazon listings through listing SEO optimization for higher search volume keywords
- Implement a new advertising strategy across the account

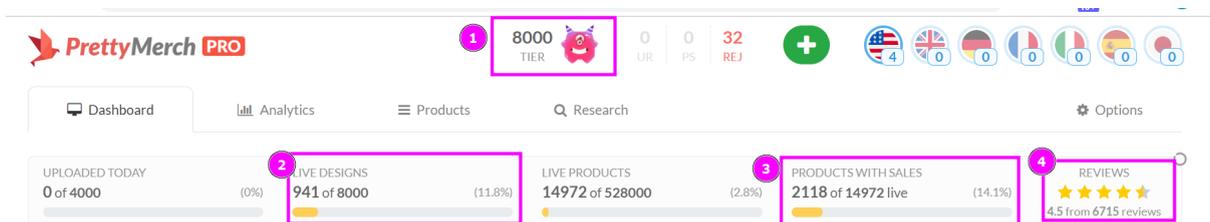
## Risk Analysis

We didn't find any major red flags during our analysis. Below, you will find a list of risk factors.

- Some of the top sellers in the account are risky and may not fully abide by the content policy
- Year over year revenue is on track to decrease by 25%
- Advertising spend as a % of revenue continues to increase impacting profitability.

## Market Overview Analysis

This Merch by Amazon business is in the 8000 tier (#1 below) which indicates that you can upload 8,000 different designs to the account. Normally, the tier gets upgraded if you have 8,000 sales and >80% of the design slots filled. This account has the opportunity to be upgraded if the requisite design slots are filled.



There are currently only 941 live designs out of 8000 possible (#2 in the image) . Introducing 7,000 new designs is a great opportunity to grow the business and expand revenue on Amazon.

Of the current live listings on Amazon, 14.1% of them have gotten a sale. This is a fairly typical breakdown where a minority of all designs will get a sale and an even smaller minority will account for a large % of revenue. Merch by Amazon businesses are strongly

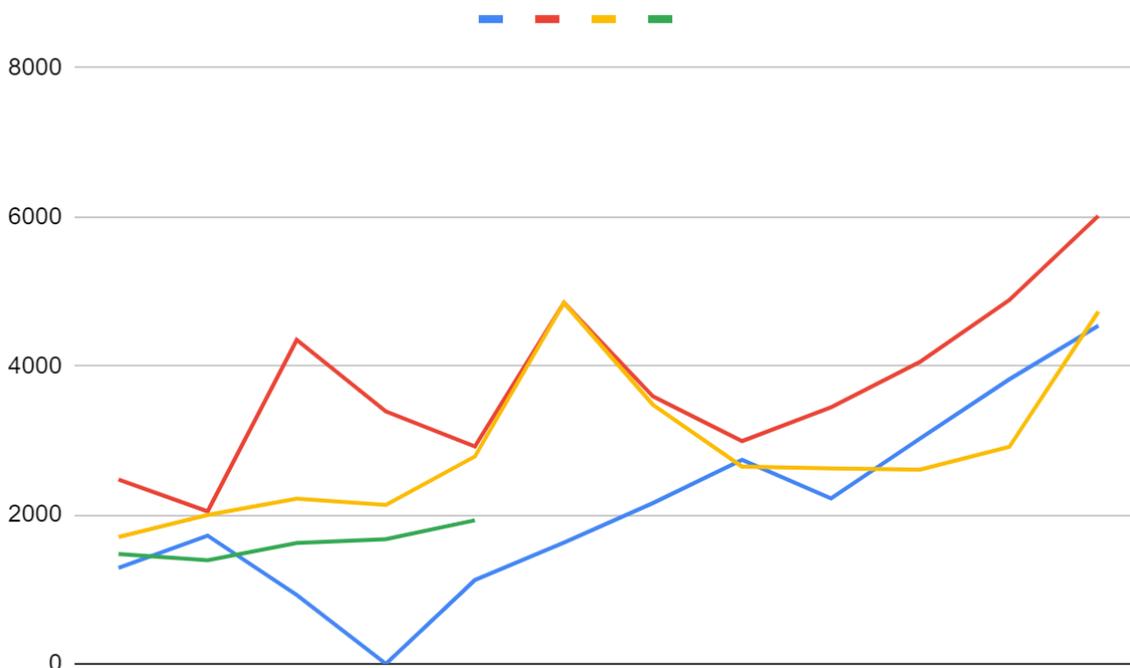
subject to the Pareto Principle where a minority of all of the designs will drive the majority of revenue. This is investigated later in the report.

In the prospectus, the seller states that 11 new designs have been added thus far in 2023, 180 designs were added in 2022, and 1,000+ designs were added in 2021.

## Revenue Analysis

Below shows a graph of the gross profit of this Merch by Amazon business over the last 3 years.

- Blue - 2020
- Red - 2021
- Yellow - 2022
- Green - 2023 (Jan - May)



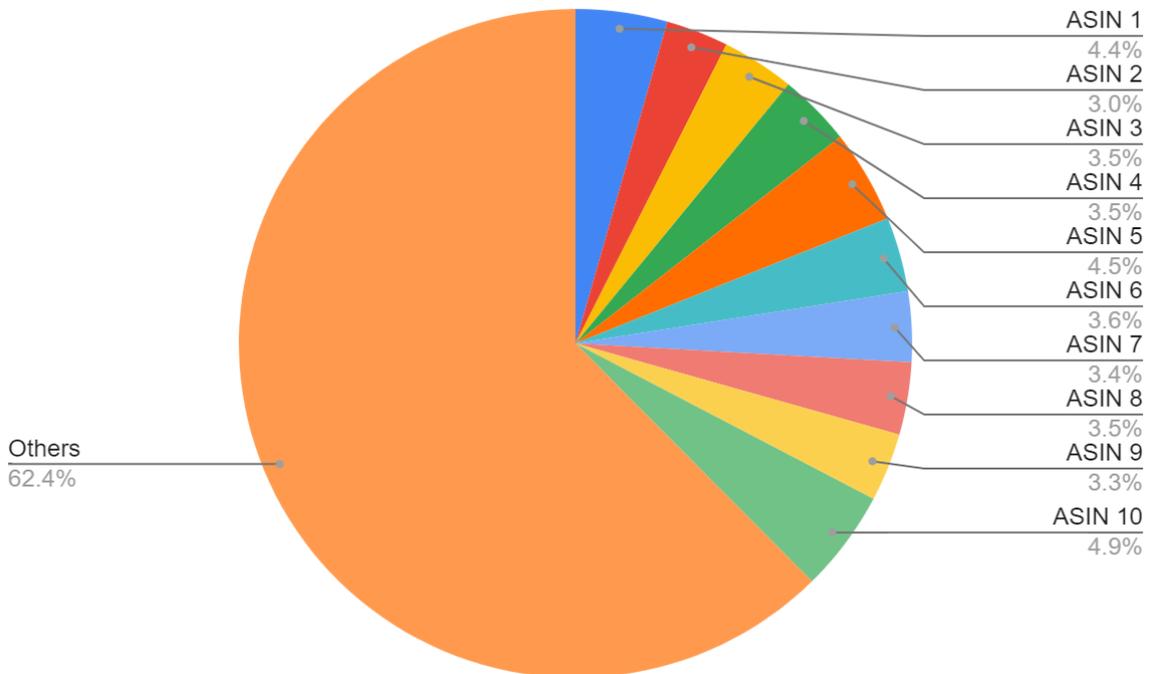
As can be seen from the graph and provided P&L, overall profit peaked in 2021 and has declined since then. In 2023, year to date, the business is on track 25.3% down compared to the same time period in 2022. A direct year to year comparison is hard with the unusual events over the past 3 years but this trend is concerning and should be investigated further. At a minimum, this decline will influence the potential valuation of this business.

Also evident from the graph above, is the seasonality inherent in this business. In 2021 and 2022, the business saw a large peak in revenue in June. This is most likely due to the design shown below - a design referencing patriotism and the 4th of July. Implementing a strong advertising strategy on seasonal designs like this can significantly influence overall revenue and drive a large addition in net profit.



A revenue breakdown by Amazon listings was also performed. This analyzes the concentration of revenue to ensure 1-2 designs do not account for a significant portion of revenue. If there are only a select number of designs 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 Merch by Amazon platform.

Shown below is the revenue breakdown by the top 10 selling ASINs.



We can see no top selling design accounts for more than 5% of overall revenue. Overall, the diversification of this business is very healthy with the top 10 designs only accounting for 37.6% of overall revenue YTD in 2023.

## Design Analysis

An initial list of the designs available with this account was provided [here](#). A full list of designs has been requested by us and will be analyzed once received. The subset of designs provided was analyzed in concordance with the Merch by Amazon content policies.

#	Product Title	Link to Product
1	Funny Anti-Liberal Adult Halloween Costume T-shirt	<a href="#">Funny Anti-Liberal Adult Halloween Costume T-shirt T-Shirt</a>
2	I Am The Militia Pro 2nd Amendment Proud American Gift	<a href="#">I Am The Militia Pro 2nd Amendment Proud American Gift T-Shirt</a>
3	Funny Trucker Gift for Men My Peter is so Big Truck Driver T-Shirt	<a href="#">Funny Trucker Gift for Men My Peter is so Big Truck Driver T-Shirt</a>
4	Funny Truck Driver Gift 18 Speed What Don't You Understand T-Shirt	<a href="#">Funny Truck Driver Gift 18 Speed What Don't You Understand T-Shi</a>
6	Funny Dog T-Shirt Head Tilt Joke Dog Owner Humor T-Shirt T-Shirt	<a href="#">Funny Dog T-Shirt Head Tilt Joke Dog Owner Humor T-Shirt T-Shirt</a>
7	I Am The Militia Pro 2nd Amendment Proud American Flag Gift T-Shirt	<a href="#">I Am The Militia Pro 2nd Amendment Proud American Flag Gift T-Sh</a>
8	Service Human Tshirt Funny Dog Owner Emotional Support Human	<a href="#">Service Human Tshirt Funny Dog Owner Emotional Support Human</a>
9	Funny Pilot Tshirt Airplane Tshirt This is my Plane Tshirt T-Shirt	<a href="#">Funny Pilot Tshirt Airplane Tshirt This is my Plane Tshirt T-Shirt</a>
10	Thou Shall Ingest a Satchel of Richards Eat a Bag of Dicks T-Shirt	<a href="#">Thou Shall Ingest a Satchel of Richards Eat a Bag of Dicks T-Shirt</a>
11	4th of July Proud American Shirt Merica Nutrition Facts Tank Top	<a href="#">4th of July Proud American Shirt Merica Nutrition Facts Tank Top</a>
12	Funny Cigar Smoker Tshirt Cigars are my Therapy Gift Shirt T-Shirt	<a href="#">Funny Cigar Smoker Tshirt Cigars are my Therapy Gift Shirt T-Shirt</a>
13	Funny 21st Birthday Gift Finally Legal Tshirt for Men Women T-Shirt	<a href="#">Funny 21st Birthday Gift Finally Legal Tshirt for Men Women T-Shir</a>
14	Funny 50th Birthday Gag Gift I Smell Old People oh its me T-Shirt	<a href="#">Funny 50th Birthday Gag Gift I Smell Old People oh its me T-Shirt</a>
15	Funny Trucker Gift for Men My Peter is so Big Truck Driver Pullover Hoodie	<a href="#">Funny Trucker Gift for Men My Peter is so Big Truck Driver Pullover</a>
16	A Pig A Chicken And A Cow Funny BBQ T-Shirt BBQ Joke Shirt T-Shirt	<a href="#">A Pig A Chicken And A Cow Funny BBQ T-Shirt BBQ Joke Shirt T-Shi</a>

Whenever creating designs that touch sensitive topics such as gun control and politics, it's important to be aware of the Merch by Amazon content policies and exactly how they enforce them. Repeatedly submitting designs that don't fit the content policies can get your account suspended or banned. In addition, just because an existing Merch by Amazon design is live does not mean it is safe. It can be removed retroactively for a content policy violation - and this can occur frequently.

Below shows the Merch by Amazon content policy.

### 2. Offensive or Controversial Content

- Content that promotes, incites or glorifies hatred, violence, racial, sexual or religious intolerance or promotes organizations with such views.
- Content that graphically portrays violence or victims of violence.
- Content depicting children or characters resembling children in a sexually suggestive manner.
- Youth sized products that contain adult content, profanity and/or sexual references.
- Content related to human tragedies and natural disasters.
- Content that is misleading or deceptive with risk to cause harm.
- Content using profanity to attack a group or individual.
- Content that promotes illegal activity.
- Sexually obscene content.
- Inflammatory content.

All of the designs shown in the subset of designs received appear to be congruent with the policy. It is important to not use trigger words such as "kill" though as that could be construed as inciting violence. Diligence should also be taken on design #10 - "Thou Shall Ingest a Satchel of Richards - Eat a Bag of Dicks T-Shirt". This design may violate the sexually obscene policy by Merch by Amazon. Looking at the last 30 days, that design has only generated \$8.88 out of the total \$1,678 in royalties generated.

## Amazon Listings

This Merch by Amazon business has 14,972 listings live on Amazon and it's multiple marketplaces. In the US, it has 922 designs live and each design available on between 22 - 32 different products. Merch by Amazon can be a game of longtail design opportunities. If you have 1000 different products each selling 1-2 units/month that equates to a \$4,000 - \$5,000/month net profit business.

We analyzed the sales trends of the top 5 listings in order to determine if they were consistent sellers, trending upwards, or trending downwards.

	2020	2021	2022	2023
<b>ASIN 1</b>	4100	3800	3040	2280
<b>ASIN 2</b>	3500	3750	3000	2250
<b>ASIN 3</b>	2275	2750	2200	1650
<b>ASIN 4</b>	2160	2200	1760	1320
<b>ASIN 5</b>	1501	1750	1400	1050

We can see from 2021 to 2022, all of the top 5 ASINs saw a decrease in total royalties. That trend appears to have continued year to date in 2023. This is concerning and revisions to the listing SEO or ad strategy should be considered in order to rectify this trend.

## Listing SEO

While there are strict rules about listing customization in the Merch by Amazon program, getting your listing SEO correct is the key for success with organic sales and advertising. A typical Merch by Amazon listing is shown below.

1

2

Funny Anti-Liberal Adult Halloween Costume T-shirt  
T-Shirt

4.8 ★★★★★ 335 ratings

\$19<sup>99</sup>

FREE Returns

amazon merch on demand [Learn more](#)

Fit Type: Men

Men Men's Big and Tall Women

Women's Plus

Color: Black

Size: Select

3

- Solid colors: 100% Cotton; Heather Grey: 90% Cotton, 10% Polyester; All Other Heathers: 50% Cotton, 50% Polyester
- Imported

1. The listing images are fixed by the program. For every listing, there are two images: the core image and a sizing chart.
2. Sellers are allowed to customize the title but the product type (“t-shirt” in this case is automatically added to the end of each title).
3. Sellers are allowed to customize 2 bullet points but the other 3 bullet points are fixed. Making references to specific product types is strongly discouraged.



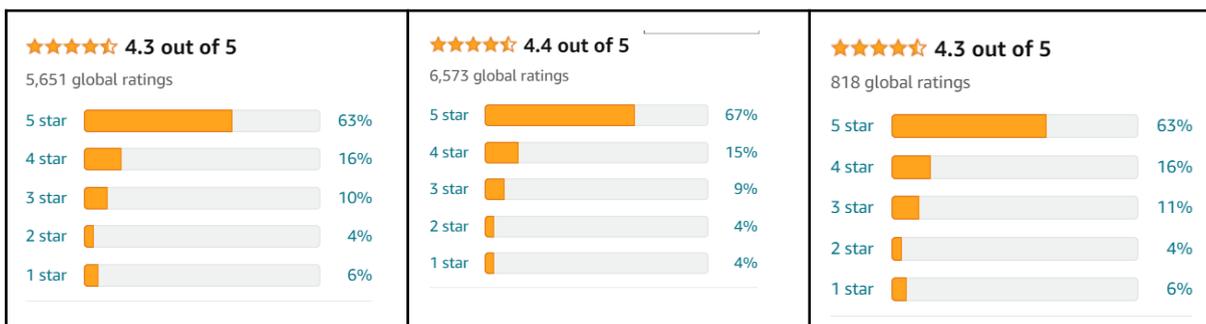
This listing violates some of the recommendations by specifically including the product type in the title - causing a repetition of the word “t-shirt”. Most likely this is an old design where this policy was not in place. In situations like this, we do not recommend editing the design or changing the listing SEO because it could trigger a re-review of the shirt and the new listing may be removed - essentially deleting it from the Amazon catalog.

Improving the listing SEO of the rest of the catalog through using tools like Helium10 or DataDive represents a significant opportunity to improve organic sales and bolster the advertising strategy.

## Review Structure

When browsing a listing, consumers look at 3 things: the number of reviews, the star ratings, and the top 3-5 reviews at the bottom of the listing.

All products have hundreds of reviews and all show as 4.5 stars in search results.



ASIN 1	ASIN 2	ASIN 3
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If we scroll down to the bottom of each listing, the reviews shown at the bottom of each listing are positive and are mostly 4 to 5 stars. This gives the consumer confidence in the product.

## Advertising Strategy

Initially, most Merch by Amazon businesses did not have to run any advertising on Amazon. Instead they relied purely on organic sales. As the competitiveness on Amazon and prevalence of sponsored results has increased though, more and more Merch by Amazon sellers are turning to advertising to promote their designs.

Below shows the % of revenue this business spends on advertising by year.

Year	Ad Spend	Overall Royalties	% of Revenue
2020	\$2,316	\$25,186	9.2%
2021	\$1,987	\$45,003	4.4%
2022	\$2,015	\$34,677	5.8%
2023 (YTD)	\$768	\$8,086	9.5%

There are no clear trends regarding the advertising strategy in this business. Ad spend as a % of revenue has increased significantly from 2021 -> 2023 which is concerning and something to keep an eye on. However, the low amount of ad spend relative to overall royalties generated leads our team to believe that advertising has been mostly insignificant in terms of driving revenue and net profit.

## Campaign Structure (US)

In the last 30 days, there were 65 active campaigns that got spend. There are 20 auto campaigns and 45 manual campaigns. The campaign with the most spend in the last 30 is a low budget auto campaign advertising 715 different products. Below shows a snapshot of the ad performance in the last 30 days.



With an ACOS of 35% account-wide, it is clear that the current ad spend is unprofitable. Eliminating ad spend entirely may reduce overall revenue slightly but it should improve net profits.

Below you can see the distribution of ad spend by ASIN. This distribution does not match the sales distribution by ASIN - indicating misallocation of PPC budget to poor performers. Improving this and giving best selling designs adequate budgets and campaigns could improve overall sales.

Row Labels	Sum of Spend	Sum of 14 Day Total Sales	Average of 14 Day Conversion Rate	ACOS
ASIN 1	121.48	279.86	0.03125	43%
ASIN 2	75.39	339.83	0.142512077	22%
ASIN 3	46.76	159.92	0.132160895	29%
ASIN 4	43.83	39.98	0.005291005	110%
ASIN 5	41.36	259.87	0.090812325	16%
ASIN 6	40.66	59.97	0.016666667	68%
ASIN 7	37.38	0	0	#DIV/0!
ASIN 8	33.09	0	0	#DIV/0!
ASIN 9	27.01	79.96	0.013468013	34%
ASIN 10	26.91	19.99	0.008474576	135%

There are multiple ASINs advertised that spent more than \$30 in the last 30 days with 0 sales. There are also multiple ASINs advertised that unprofitable and not close to being profitable (highlighted in purple).

There is a significant opportunity to improve the advertising results through implementing a typical campaign structure for the top ASINs. Each top ASIN should have 4 campaigns.

- Auto campaign
- Broad match keyword campaign
- Exact match keyword campaign
- Product targeting campaign

Keywords should be graduated through the campaign structure (auto -> broad, broad -> exact) as each keyword generates orders for the shirt. Implementing an account standard structure could significantly reduce ACOS and drive profitable sales across the account.

Looking through the changelog on the top 3 campaigns in the US, there appears to be no regular schedule of bid optimization, search term harvesting, or negative keyword implementation over the past 30 days. Implementing an optimization schedule weekly or biweekly could improve advertising efficiency.

## Optimization Potential

The campaign structure and foundation of the account shows a beginner level of skill with Amazon PPC.

There is a significant opportunity to improve ad account efficiency and drive increased revenue for the business through a comprehensive advertising strategy. For an account like this, it is suggested to use a consultant to implement the campaign structure and takeover day to day management of the account after the consultant has laid the foundation.

Looking at the search term report, over the last 65 days, \$419 has been spent on keywords with 0 conversions. This is exactly 47% of overall spend on Sponsored Products in the last 65 days. This is extremely high for an advertising account. A more regular % would be 10% allocated to research and 90% allocated to "performance keywords" - keywords which have been shown to generate orders profitably.

There is also the opportunity to use Sponsored Brands, Sponsored Brand videos, and Sponsored Display ad types. Fewer Merch by Amazon sellers are using these ad types reducing competition and increasing ROAS.

## Valuation

The broker has listed this website at a 40X multiple of the last 10 months of earnings. The list price is \$95,896. Year to date, the business is on track to decline 25% YoY. There is the potential to completely revamp the advertising strategy, improve the listing SEO, and add more designs in order to grow revenue.

However, the declining revenue year over year is a point for concern and should be accounted for in the valuation. Given its current performance, a lower multiple makes more sense.

**The recommendation is to offer around the 30-33X multiple and close at 33-36X.**