

Amazon FBA Due Diligence Report

Prepared on September 19, 2022, for a brokerage listing on Empire Flippers. This report was created by the [WebAcquisitions.com](https://webacquisitions.com) Amazon FBA M&A team. This is a sample report.

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Basic Information

- **Business Name:** Squooshi
- **Where is it listed:** Empire Flippers
- **Price:** \$450,449
- **Valuation:** (L12M, 36X)
- **Niche:** Reusable food Pouches

M&A Advisor Verdicts

The baby products market has seen strong growth over the past few years and it is expected to grow more as more and more consumers turn to eco-friendly and reusable products. Squooshi has a long history of selling on Amazon but has gradually lost market share as new competitors have entered. Year over year, they are declining making this a turnaround situation.

One of the biggest strengths of the business is the 8,600+ reviews of the core listing. This is approximately 5,000 more reviews than the average competitor and represents a significant moat to new entrants.

There are multiple opportunities that the previous owner has not taken advantage of. Among the biggest is overhauling the listing images to improve the conversion rate and put it more in line with competitors. Currently, the conversion rate is significantly lower than competitors which is hampering the business as a whole.

One opportunity to improve profitability is through enrolling the product in the Small and Light program. This program reduces FBA fees at the expense of slightly slower shipping times. In many cases, this improves profitability instantly through the lowered FBA fees.

Given the long history of selling on Amazon, strong review structure, and numerous opportunities for quick growth and improved profitability, this business is an attractive proposition at the right price.

Overview

The goal of this report is to get a better knowledge of the brand Squooshi and how it operates in a competitive baby products niche. Our main focus was on how to fix the gradual decline of the business and the competitiveness and longevity of this business moving forward.

Strengths

- First mover advantage in the category
- Over 8,000 reviews and a 4.5-star rating provide a large barrier to entry to new competitors
- Competitive price point in the market
- Attractive product margins

Weaknesses

- Traffic to the listing and Amazon organic ranking has significantly declined year over year
- Big box competitors in this niche have better unit economics due to bigger economies of scale
- Amazon advertising performance has gradually declined over the past few months

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:

- Improve the Amazon listing through new images and new listing optimization for the target keywords
- Enroll the product in the Small and Light program to reduce FBA fees and improve profitability
- Improve advertising strategy through implementing a proper campaign structure, using negative keywords, and increasing cross-selling of category SKUs

Risk Analysis

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

- Big box competitors pursue a low price strategy in order to gain market share
- Advertising performance continues to decline
- Organic ranking continues to decline

[Business Analysis Summary](#)

Squoooshi has seen a 23% decline in overall revenue and a 49.77% decline in revenue for its core product year over year. This is a turnaround situation where action would be needed in order to halt revenue decline. There are multiple opportunities to improve the business and optimize the P&L making the overall business attractive at the right price point.

Verdict: **Pass**

[Amazon Listing Summary](#)

At a competitive price point and with a strong review structure, there is high evidence to suggest that this Amazon listing will remain competitive in the niche for years to come. Although the listing has slipped in recent months, there is the opportunity to improve the main image and listing images in order to significantly improve the conversion rate and quickly grow revenue in the upcoming months.

Verdict: **Pass**

[Advertising Analysis Summary](#)

The current advertising strategy is inefficient and represents an opportunity to increase revenue and net profits while reducing ad spend. By optimizing ad spend by product lines and increasing the use of manual campaigns, advertising efficiency can be improved leading to higher net margins.

Verdict: **Pass**

[Inventory Management Summary](#)

The current owner has worked with the same factory for the last 3 years and has not conducted a search for new factories in that time. The current owner has also had to use air freight 3x in the last twelve months leading to a 25% increase in COGS. Better inventory management would allow for the use of sea freight and reduce the COGS improving net margins. Conducting a search for a new supplier represents promise - there are multiple factories that are capable of offering a similar product and price comparison may allow a new owner to reduce COGS further.

Verdict: **Pass**

Niche Analysis

The baby food pouch market has been growing for multiple years. As more and more consumers turn to reusable and environmentally friendly solutions, interest in the space has grown.

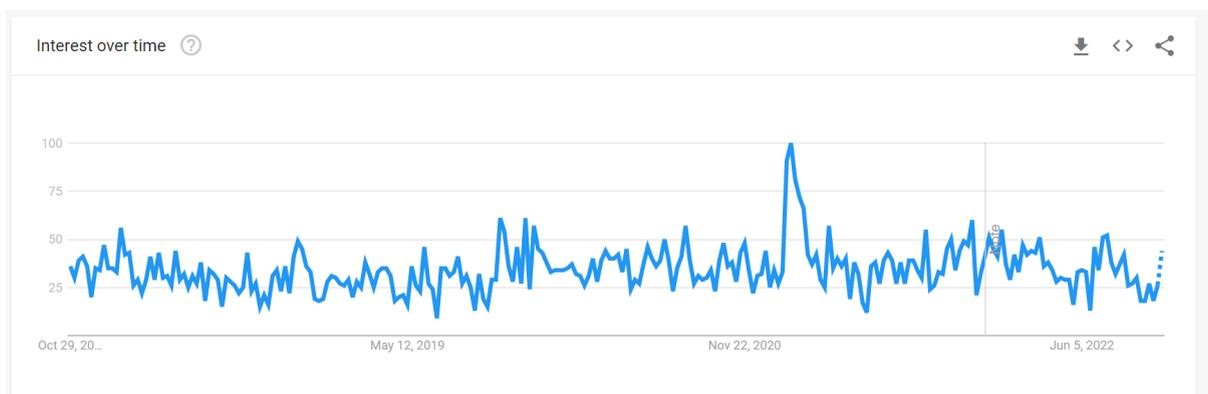
	Total Revenue	Average Revenue	Average Price	Average Reviews
Market Overview	\$1,667,868	\$35,487	\$15	3,238

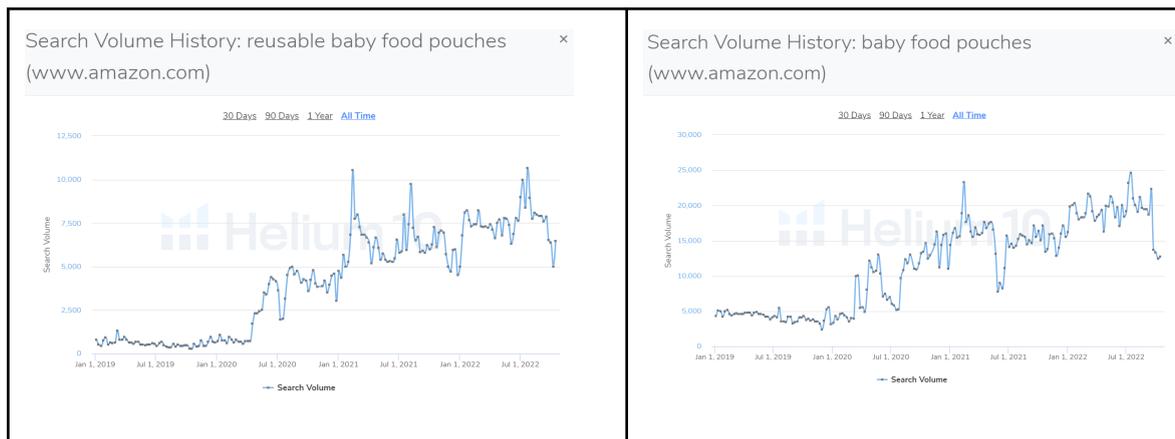
The total size of the market on Amazon is estimated to be ~\$1.5-\$2 million/month with the average competitor doing ~\$35,000 in monthly revenue. One important factor to notice is the average review count of 3,238.

This is an established market on Amazon filled with competitors who have been selling for multiple years. New entrants to the market face an uphill battle to gather that many reviews and successfully compete against the entrenched players.

Although Squooshi was first to market in this category, new competitors started to enter the market in the 2019/2020 timeframe. Perhaps the most dominant is Simple Modern, a 9 figure company, which has partnerships with Target, Walmart, and Amazon. With their exclusive partnerships with companies such as Disney, they are able to offer unique designs that competitors are not able to use. With their scale, they are also able to offer better pricing than many competitors making them a formidable opponent in the niche.

Seasonality & Trends





Although Google Trends shows a consistent interest in baby food pouches, we can see search volume on Amazon steadily increasing year over year for the main keywords of reusable baby food pouches and baby food pouches. This indicates an increased interest in the space and high potential for revenue growth.

Market Potential

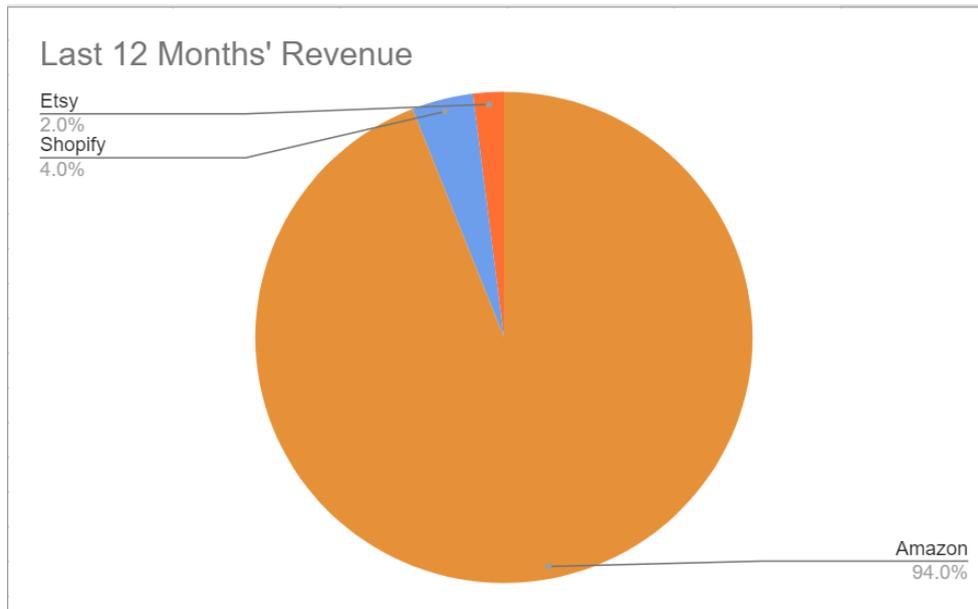
With the increase in search volume on Amazon, Squooshi is well-positioned to take advantage of this growing category and get back to the top positions. We estimate that if the recommended listing changes are implemented, the business should, at a minimum, get back to its prior year revenue numbers.

Squooshi could also introduce new designs for their reusable food pouches catering to different categories of the market to further grow revenue. This is a strategy used by Simple Modern to great success. In the past, Squooshi has tested a limited number of new designs but has not seriously decided to explore the option. Introducing new variations would take advantage of the large number of reviews and drive further year-over-year growth.

Business Analysis

Squooshi has been selling reusable food pouches for babies for multiple years on Amazon and has seen great success. They were first to market but have gradually seen competitors (including Amazon) come into their market reducing margins and taking away market share from their brand. As a result, they have seen revenue decline year over year.

Revenue Analysis



Amazon: 94%
Shopify: 4%
Etsy: 2%

Squooshi displays a typical revenue breakdown for an Amazon-based business with over 90% of revenue coming from Amazon. Shopify and Etsy accounted for 6% of revenue in the trailing twelve months. For a product at this price point, Amazon is one of the most feasible options for e-commerce.

The presence on Shopify and Etsy could be expanded though. In particular, Shopify represents an interesting opportunity where you own the customer relationships. Driving traffic to the Shopify store and starting an email list could help with future product launches on Amazon.

Revenue Trends

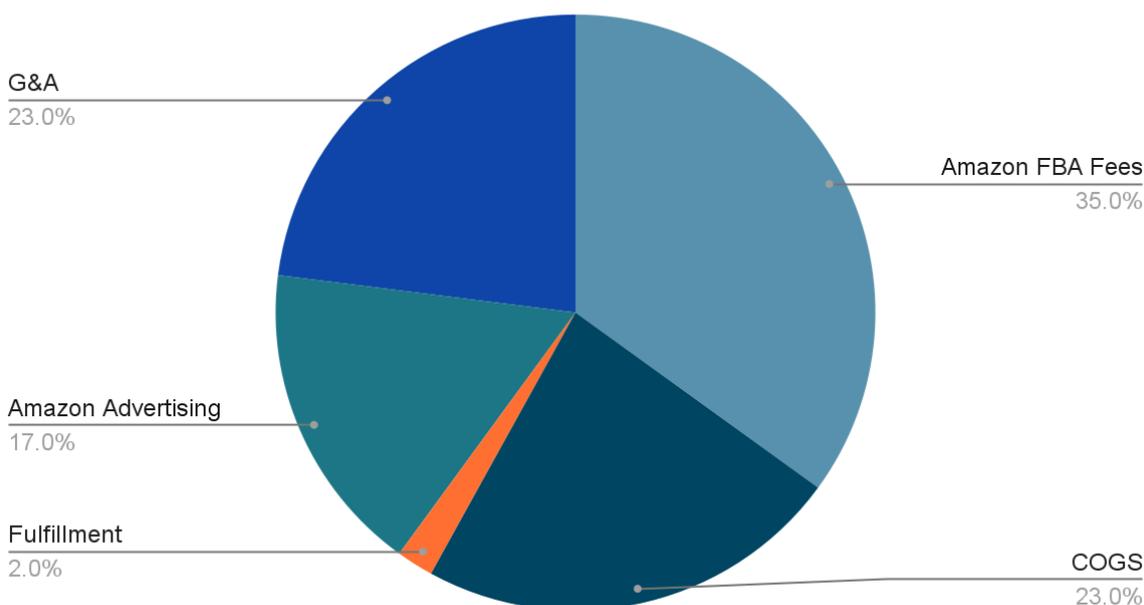


As more competitors have entered the market, Squooshi has seen declining market share and declining revenue year over year. The overall decline in revenue is entirely from the decline in Amazon's revenue.

Expenses Analysis

For an Amazon FBA business, there are a number of areas where you can optimize costs for higher profits.

Expenses Breakdown as % of Revenue



For the most part, Amazon FBA fees are fixed depending on the size tier. For this particular business though, there is the opportunity to enroll in the Small and Light program. This would reduce the FBA fee/unit from \$2.50 to \$2.39, 4.6% savings that would go directly to the bottom line.

Representing 17% of overall revenue, the Amazon advertising costs for this business are also a little high. A standard percent of advertising would be anywhere from 7.5% - 10%. Optimizing the advertising strategy to reduce ad spend would add an additional 7% to the net margins.

G&A stands for general and administrative expenses. For the most part, these are pieces of software that aid in the running of the business. While you could eliminate these expenses, they are mostly fixed - so as you increase revenue, the % of G&A expenses should go down. Another way to save on expenses like these is to pay for annual plans which are typically discounted 10-20% over a monthly payment.

Unit Economics

Although COGS is typically lumped together in a P&L, one of the best ways to truly optimize a business for higher net profits is to differentiate between profitability by product. This allows a business owner to prioritize ad spend and inventory orders to focus on the products with the highest profitability.

Product	Price	Amazon Referral Fee	Amazon Fulfillment Fee	Cost of Goods Sold	Net	Net Margin
Product #1	\$8.99	\$0.73	\$4.27	\$1.99	\$2.00	22.2%
Product #2	\$24.95	\$3.74	\$5.71	\$8.45	\$7.05	28.3%

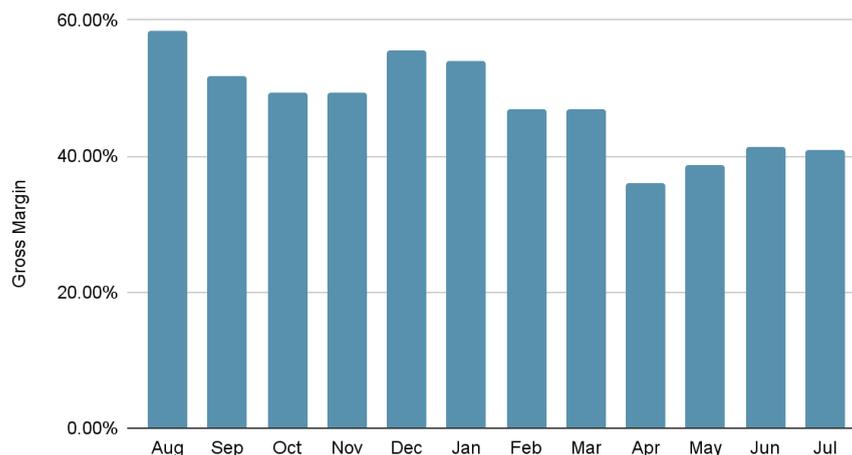
We can see above that both products have ok net margins before advertising. Typically advertising accounts for 7.5-10% of overall revenue. An ideal net margin would be 30+% prior to advertising costs which would result in a healthy net margin of 20-25%.

One way to optimize the cost of goods sold is by optimizing the supply chain. This particular business used airfreight multiple times in the trailing twelve months which increased COGS by ~25%. Through the use of sea freight, an enterprising buyer could reduce COGS and improve the net margin.

Gross Margins

Gross margin for an Amazon FBA business is defined as Revenue - Amazon Fees - Cost of Goods Sold (COGS) - Fulfillment - Postage & Shipping.

Gross Margin

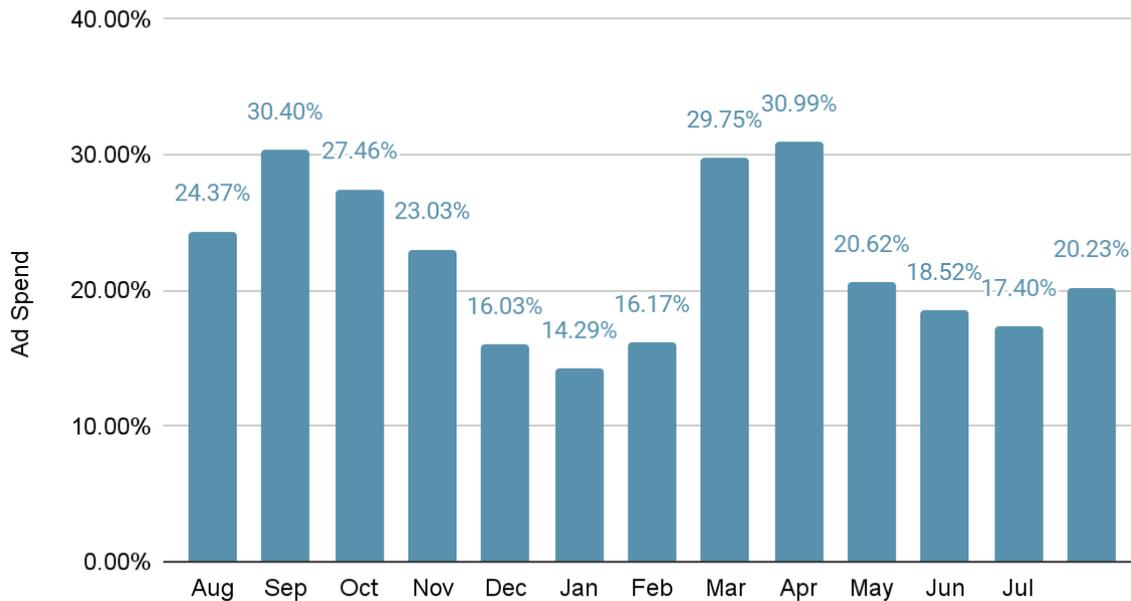


We can see from the chart above that the gross margin has seen a slight decline over the past couple of months. If we look at the P&L closely, we can see that Amazon FBA fees increased at the end of April which caused a portion of this decline in gross margin.

Advertising Analysis

One of the best ways to optimize for profitability in an Amazon FBA business is to reduce ad spend while maintaining revenue.

Paid Advertising as % of Revenue



We can see that the % of ad spend has varied drastically across the last twelve months. Over the last 3 months, the average has been 18.72%. In the last month, it was 17%. Optimizing the ad strategy to reduce this expense could quickly improve the bottom line of this business.

Amazon Listing

- **Title:** SQUOOSHI Reusable Baby Food Pouches - 5 oz - 6 Large Pouches - Baby Food Storage - Pouches Toddler - Refillable Squeeze Pouch for Kids
- **Images/Video:** 6 images, 2 videos on the listing
- **Price Point:** \$8.99
- **Review Rating:** 4.5/5
- **Reviews:** 8,865
- **Listing:** [Squoshi Reusable Baby Food Pouches](#)

With over 8,000 reviews and a 4.5 average rating, this product has the capability to regain the top spot in the category. The price point of \$8.99 is similar to competitors with one exception: most of the top competitors in this category offer 10 pouches for \$9.99 while this listing only offers 6 pouches for that price.

Listing Metrics (August 2022)

Sessions	Units Ordered	Unit Session %	Ordered Product Sales	Average Price
12,900	1,528	11.84%	\$17,224.73	\$11.27

Sessions - Total amount of unique visitors to the listing

Units Ordered - Domain Rating (Ahrefs)

Unit Session % - units ordered/sessions

Ordered Product Sales - Revenue from listing (excluding B2B)

Average Price - ordered product sales/units ordered

Sessions Analysis

Sessions to the top-selling listing have gradually declined over the previous months leading to the decline in revenue. From August 2021 to August 2022, sessions declined by 49.77% corresponding directly to a 50.82% decline in revenue over the same time period.

	Sessions	Units Ordered	Unit Session %	Ordered Product Sales	Average Price
August 2021	25,681	3,075	11.97%	\$35,022.29	\$11.39
August 2022	12,900	1,528	11.84%	\$17,224.73	\$11.27
YoY Change	-49.77%	-50.31%	-1.09%	-50.82%	-1.03%

Fixing this trend and improving traffic to the listing will be the core driver for growth for this business in the next few months.

Unit Session % Analysis

As mentioned above, the unit session % is low for a product at this price point. Through tools like Brand Metrics and Search Query Analytics, the average conversion rate for competition in this niche is 15-20+%. Improving the unit session % represents one of the best ways to improve business performance quickly.

Search Term	Search Query Volume	Competitor CTR	Brand CTR	Category CVR	Brand CVR
Baby food pouches	124,820	1.39%	0.37%	16.04%	7.14%
Reusable baby food pouches	20,745	1.58%	0.48%	22.08%	11.25%

Search Term - how consumer found the listing

Search Query Volume - search volume of search term

Competitor CTR - average competitor click through rate from main search results to listing

Brand CTR - brand click through rate

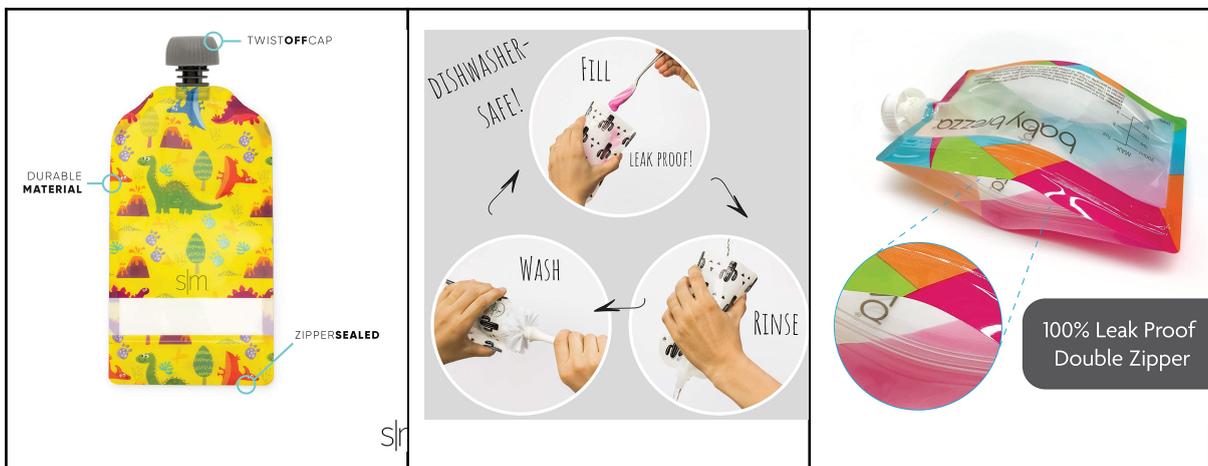
Category CVR - average competitor conversion rate

Brand CVR - brand conversion rate

When I went through the listing, here is what I noticed:

- Non distinctive main image - the listing blends in with competitor listings in search results leading to significantly lower click through rates than the competition. A/B testing new main images can quickly improve this metric.
- Minimal text overlays on listing images - text overlays help to explain each image and can point out key features that your competitors lack
- No infographic image - A classic infographic image is easy to add and will help improve conversion rate. I would add text pointing out key features of your product compared to competitors

Example Images:



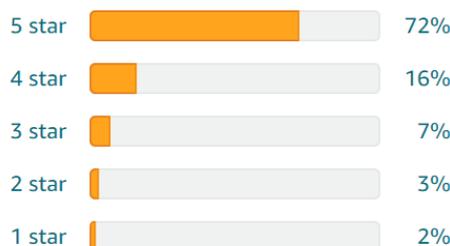
You can also improve the unit session % by incentivizing customers to purchase multiple units. One of the best ways to do this is by offering promotions for buying multiple units and introducing virtual bundles to increase the average order value.

Review Structure

Customer reviews

★★★★☆ 4.5 out of 5

8,865 global ratings



While the average competitor has 3,238 reviews in this category, Squooshi has over 8,860+ reviews with a 4.5 star average rating.

The top reviews shown at the bottom of the listing are all 5 star reviews (one of which includes pictures) which improves conversions.

The review velocity of the listing is the change in the number of reviews over the last 30 days. The average review velocity of the top 3 competitors in this niche is 147. Squooshi currently has a review velocity of 167 so it is slightly better than the average.

Overall, the review structure of this listing is very strong. There is very little risk of the review rating dropping from 4.5 to 4.24 (would show as 4 stars - significantly impacting conversions).

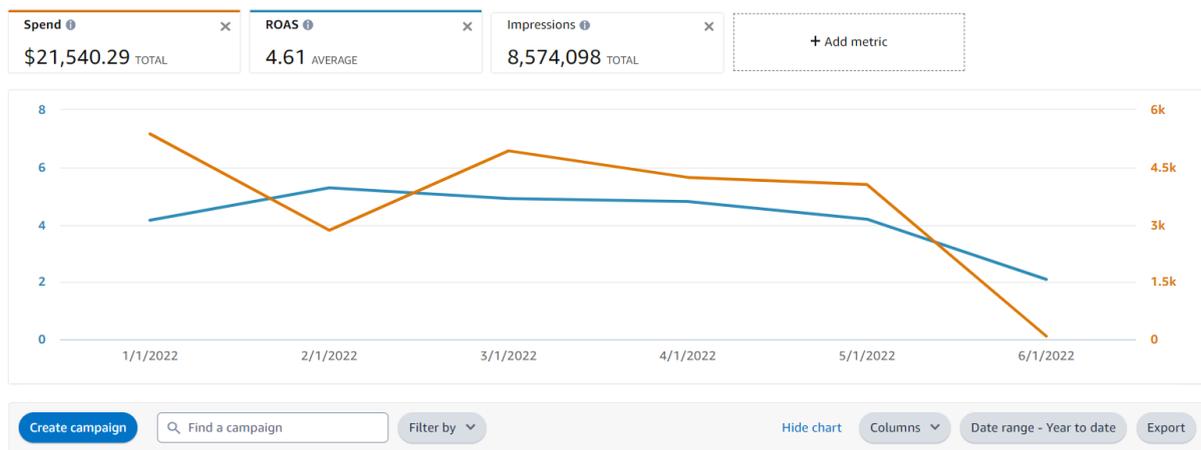
Advertising Strategy

For most FBA businesses, Amazon advertising represents the largest proportion of costs after FBA fees and COGS.

Campaign Structure

In the last 30 days, there are 5 Sponsored Products auto targets campaigns running, 1 Sponsored Product manual targeting campaign, and 1 Sponsored Brand running. There are no Sponsored Brand Videos, or Sponsored Display campaigns currently running.

Year to date, advertising results have been roughly constant but in the past 3 months, ROAS has gradually fallen. Reversing this trend and increasing overall revenue year over year is the top priority of this report.



Across the entire account, 77% of the spend is dedicated to auto campaigns with the other 23% being allocated to manual campaigns. This split represents a big opportunity to shift more spend to manual campaigns where you have greater control over targeting, bids and placements.

Advertising Profitability by Product

Optimizing ad spend by product line can improve overall net margins quickly.

Product	Units Ordered	Total Revenue	Amazon Referral Fee	Amazon Fulfillment Fee	Cost of Goods Sold	Ad Spend	Net
Product #1	2,759	\$24,803.41	\$2,014.07	\$11,780.93	\$5,490.41	\$3,159.00	\$2,359.00
Product #2	619	\$15,444.05	\$2,315.06	\$3,534.49	\$5,230.55	\$865.00	\$3,498.95

Performed on data from August 2022

We can see above that by increasing ad spend on Product #2, we could move more units and increase net profit. Simultaneously, if ad spend was reduced on Product #1, it would improve overall net margins.

Optimization Potential

As discussed in the Business Analysis section above, the % of ad spend compared to overall revenue represents a large opportunity to increase the monthly net profits of the business.

The biggest opportunity lies in optimizing the ad spend on a per-product basis. If we compare profitability by product, we see that Product #2 has a higher net profit/unit despite lower ad spend. By increasing ad spend on Product #2, you can increase sales velocity and overall net profits for the business.

In terms of tactical ad strategy, there lies a big opportunity to optimize by shifting the majority of spend from auto campaigns to manual campaigns. Auto campaigns are designed to be easy to manage but are less efficient than manual campaigns. By shifting to manual campaigns, ad spend may be reduced while maintaining overall revenue.

Inventory Management

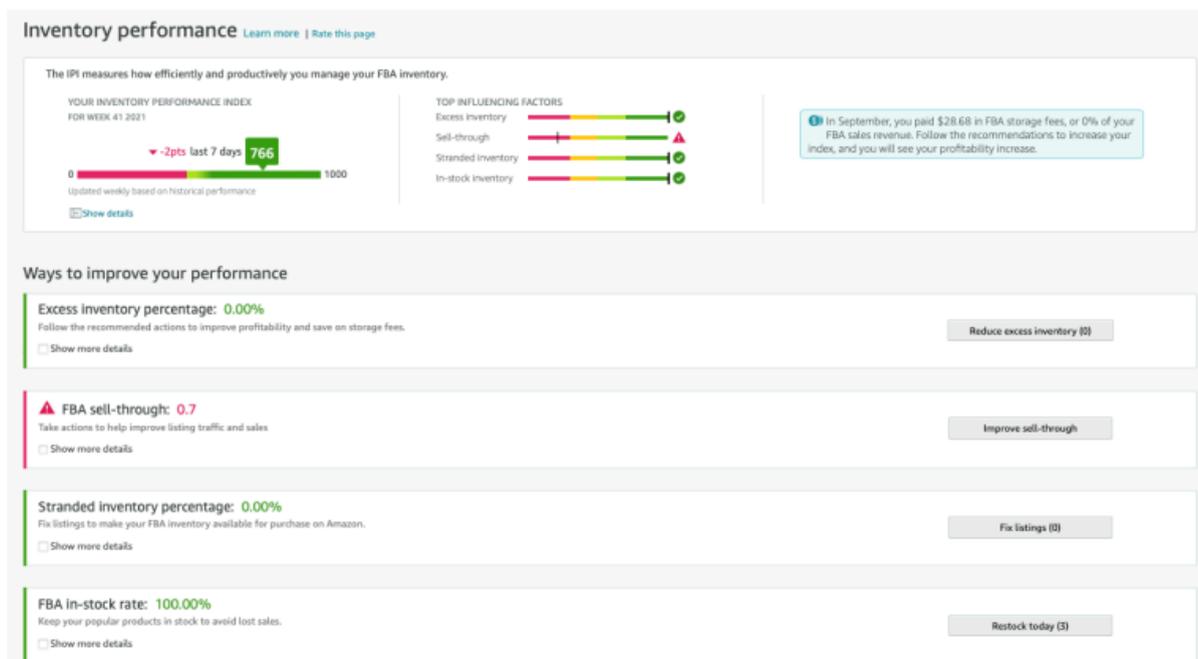
Supplier Relationships

Currently the business utilizes one supplier for both of its products. The supplier is located in China in the Ningbo province. The business owner has been working with their current supplier for the past 3 years and has not tested different suppliers for the past 2 years.

Supplier Relationship	
Supplier	Haixin Haoren Factory
Lead Time	25 days
Shipping Method	Sea Freight (air freight 3x in TTM)
Contract Terms	50% upfront, 50% upon shipment DDP (Direct Duties Paid)

The terms of the supplier relationship are currently DDP with 50% paid upfront and 50% paid upon shipment. In the past, the business owner has used sea freight through the supplier instead of using a separate freight forwarding company. During the trailing twelve months, the business owner had to use airfreight 3 separate times to stay in stock on Amazon. While this prevented any out-of-stock period, this resulted in a 25% increase in COGS.

Inventory Performance



The current IPI score is 766 which is well above the cut off of 400 where limits on inventory storage are placed. There are no issues with excess inventory or long-term storage fees.

Inventory restock limits are also not currently a problem with 40% availability for more stock in Amazon warehouses. It would be prudent to fill that up prior to the holiday season in order to prepare for the rush.

Supplier Optimization

Since the owner has been working with the same factory for multiple years, there is a large opportunity to engage a sourcing agent and test out different suppliers in order to reduce the costs of goods and maintain the same high quality of the product.

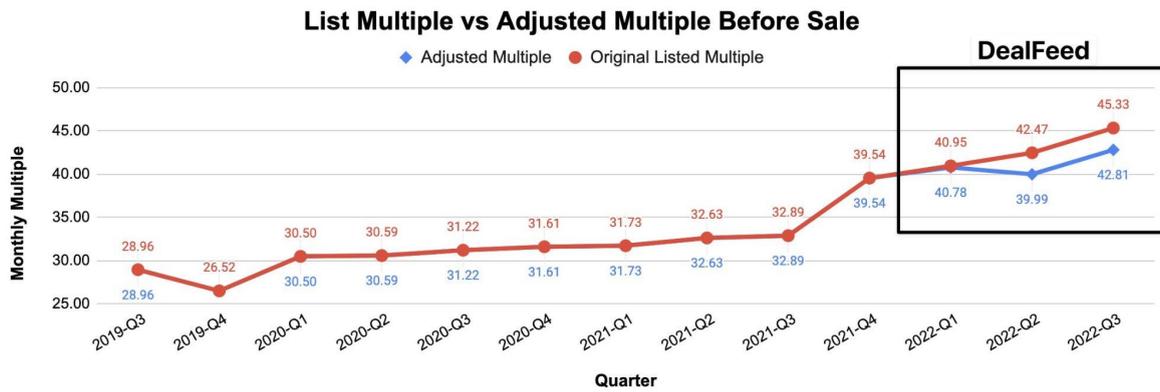
Although air freight is a good option to reduce out of stock times, it significantly increases cost of goods sold. Better inventory forecasting could utilize sea freight instead of air reducing COGS and improving net margins.

To improve free cash flow throughout the business, it would be wise to ask for payment terms of net 30 if possible on the inventory orders. This would give an additional 30 days of a cash buffer to the business and improve the cash conversion cycle.

Valuation

The broker has listed this website at a 36X multiple of the last 12 months of earnings. The list price is \$450,449. However, the business has been declining over the past 12 months which must be factored into the valuation.

This broker tends to inflate multiples. Through our analysis of many business listings for this broker, we've found that the average list multiple was 45.33X and then the final adjusted multiple (right before the sale) was 42.81X. See the analysis below.



This means the broker lists high and then adjusts internally the multiple down to an average of 42.81X.

Therefore as a baseline, the broker will reduce the multiple down to roughly 33X after the website sites are on the market for a while. This can act as your baseline.

The recommendation is to offer around the 28X multiple and close between 30X and 32X.