Mastering fulfillment by Amazon

Why you need to sell with FBA & The 4 key steps for long term profits.
Table of Contents

Introduction 3
What is Fulfillment by Amazon (FBA)? 5
Why FBA Means More Money in Your Pocket 8
The 2 Secrets of Smart FBA Sellers 11
The Amazon FBA Profit Cycle 15
  Step 1: Where’s the Profit? Identifying Suppliers 19
  Step 2: Source New Products 22
  Step 3: Price it Right 24
  Step 4: Review, Restock, Repeat 26
Wrap up 27
Why we wrote this book

We wrote this book to fill a knowledge gap. There's little reliable information online targeted at serious Amazon sellers who are past their initial growing pains.

This book is aimed at sellers looking to master the basics of scaling an FBA business for efficiency and growth. The topics touched upon—inventory management, product sourcing, and repricing—each justify their own book, so this is a summary of some best practices.

Nothing we talk about here is rocket science, but we know from first-hand experience that executing this strategy—over and over again—is what separates the wheat from the chaff.
About Teikametrics

In 2001, CEO Alasdair McLean-Foreman started his first ecommerce company out of his Harvard dorm room, reaching one million in sales in two years.

Afterwards, he set his sights on the world’s most popular and promising ecommerce platform: Amazon.com.

By harvesting and drilling down into the data, he began to see what made some products sell and others go stale. Finding existing software inadequate, he cobbled together his own Excel spreadsheets and data feeds. From there, Teikametrics was born.

At Teikametrics, we realize that software isn’t just something you plug your store into mindlessly.

*Software is useless without implementing the right strategy.*

That’s why we’re generous with our expertise. Sophisticated sellers are our best customers.

Want to learn more about Teikametrics? Visit our [website](#) or click the button below to request a free demo of how our software can grow your Amazon FBA business.
What is Fulfillment by Amazon (FBA)?

“Third-party sellers who use FBA stand out from competitors with faster delivery time and while having access to a much wider customer base.”
Why You Need to Target Amazon’s Prime Subscribers

You already know about Amazon’s meteoric rise from the press. Lesser known is how many millionaires are still being made in the wake of the ecommerce giant’s success.

In 2013, 2 million Amazon marketplace sellers sold more than a billion units worldwide, making up 40% of Amazon’s total unit sales. If you’re reading this, you’re likely part of this tide.

That same year, 65% more sellers began using Fulfillment by Amazon (FBA) to quickly scale their businesses and to reach Prime subscribers, who get free 2-day shipping on FBA items.

What’s so great about reaching Prime subscribers?

Prime Subscribers are the stuff of a retailer’s dreams: loyal customers with cash to burn. These are consumers who are willing to pay extra for convenience. Members fork over $99 per year for free 2-day shipping and promptly buy 150% more, spending $1,340 on Amazon annually whereas non-prime customers clock in at $529. They buy more often, spend more money, and buy more expensive items.

Oh, and there are over 20 million of them.

These are the customers you need.

How Does Fulfillment by Amazon (FBA) Work?

The dawn of ecommerce was tough. You had to do everything, from web development to server maintenance, yourself.

Today, you can plug-and-play with hosted shopping carts or install premade software in minutes. Service providers will take care of your call centers, payroll, and your SEO, leaving you to focus on your core strengths.

With Amazon’s FBA program, you leave picking, packing, shipping, returns, and customer service to the industry leader - not to mention a customer base of hundreds of millions.

Third-party sellers who use FBA stand out from competitors with faster delivery time and while having access to a much wider customer base. In fact, in 2013, a survey showed 73% participants had unit sales increases of 20% or more after becoming FBA sellers.\(^1\)

Prime subscribers receive free 2 day shipping, and the item is also eligible for free Super Saver shipping (orders over $35). Finally, Amazon also handles customer service and returns.

**How FBA Works**

- You ship your products to Amazon.
- They store your inventory and list it on Amazon.com.
- When a sale is made, Amazon picks it, packs it, and ships it to your customer from their world-class fulfillment centers.
- Amazon handles any returns

Fees depend on product type, dimensions, weight, and holding time. See their most up to date chart of FBA fees.

A common refrain we hear from potential clients is that FBA fees are too high for them to turn a profit. For most cases, that’s simply not true. We’ll explore why in the next section.

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Why FBA means more money in your pocket

FBA fees shouldn’t be viewed as an additional cost. Selling with FBA is a competitive advantage, and one that is often recouped in pricing strategy and higher sales volume.
Who is FBA Right For?

First, let’s get the bad news out of the way. FBA isn’t right for your business if you fit any of the following:

FBA Isn’t the Right Fit If Your Business...

- **Is low volume, low margin.** This is a tough business, with or without FBA.
- **Sells heavy and inexpensive or large, low margin items.** FBA fees can eat up your profit if you’re not careful with storage fees.
- **Cannot invest upfront capital in inventory.** On the flip side, this means you’re in a better position if you are able to, since this is a barrier to entry for competitors.
- **Sells hazardous products or other items that Amazon won’t ship.** These include items like flammable liquids, flammable solids, and aerosols.¹ Some beauty products fall under this category.
- **Sells products under $10, where fixed pick and pack fees will eat up most of the profit margin.** However, some sellers do low margin, high volume businesses this way. It’s your call.

Now for the good news.

FBA fees shouldn’t be viewed as an additional cost. Selling with FBA is a competitive advantage, and one that is often recouped in pricing strategy and higher sales volume.

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Competitive Advantages of Selling with FBA

1. **Customers are willing to pay more for the same product** if it’s Fulfilled by Amazon since they get free 2 day shipping or Super Saver shipping.

2. You can **build the shipping price into the total price** when competing against Fulfilled by Merchant (FBM) products for Prime customers. For example, if a baseball cap is selling for $14 plus $4 in shipping, you can price your total price at $18 with free 2-day Prime shipping. Which leads us into our next point.

3. **FBA is a tiebreaker in the Buy Box.** Depending on the product category, you can price up to 2-10% higher than competitors and still win the Buy Box if you are using FBA and competitors aren’t.

4. **Higher volume of sales.** While this isn’t a guarantee, we—along with our clients—have found that just by switching over, you’ll see a lift in unit sales volume, to the tune of 20% or more.²

5. **Exposure to millions loyal Prime customers** who seek out FBA listings for free 2-day shipping. Prime customers buy more often, buy more expensive items, and spend 150% more annually than non-Prime shoppers.³

6. **Easier to scale your business.** Unlike a traditional retail operation, you won’t need space to hold expanding inventory, or have to hire additional customer service reps.

7. **Happier customers** who leave great feedback, leading to more customers. Amazon’s customer service is legendary.⁴

These are the reasons why we’ve used FBA, paired with our software and strategic guidance, to grow our clients’ businesses **an average of 45%**. It’s just good business.

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² [http://services.amazon.com/content/fulfillment-by-amazon.htm](http://services.amazon.com/content/fulfillment-by-amazon.htm)
The 2 Secrets of Smart FBA Sellers

As an Amazon seller, you have the freedom to carry only what’s profitable. And as an FBA seller, this is even more important since not every product is profitable to sell with FBA.
What Smart FBA Sellers Know

FBA is not a silver bullet. While it significantly reduces your fixed costs, it requires a more strategic approach to inventory management and product sourcing in order to succeed.

Unlike drop shipping, where you can offer unlimited inventory without upfront capital, FBA is more akin to investing in the stock market, where you choose which stocks (products) and how many shares (units) to order, depending on your investment strategy and capital.

In this analogy, each product you choose to carry is like betting on an individual company’s stock. If your “portfolio” of products performs well on Amazon, you can reinvest the profits back into the bestsellers and purchase promising new products to diversify your inventory.

This analogy is powerful because it focuses on the Return on Investment (ROI) of each product in your inventory. You’re not a Wal-Mart or CVS who is required to carry particular products because customers expect to find them.

As an Amazon seller, you have the freedom to carry only what’s profitable. And as an FBA seller, this is even more important since not every product is profitable to sell with FBA.

Succeeding with FBA requires a more sophisticated seller.
The 2 Secrets of Smart FBA Sellers

1. You need to be constantly scouting profitable new products to add to your portfolio of products. Retail profits are cyclical, and you can’t afford to be behind the curve. We’ll discuss exactly how to find and determine the profitability of wholesale products later.

2. You need to actively manage inventory so that your bestsellers stay in stock and stale products get liquidated. Stale inventory incurs a double whammy: Amazon charges semiannual fees of $22.50 per cubic foot, plus money tied up in inventory that doesn’t sell means you can’t invest that capital in products that sell. This is called “holding cost,” or more broadly, Opportunity Cost.
When we talk to clients about growing their Amazon businesses, we emphasize the importance of repeating this process: analyzing your inventory to restock the winners and sweep out the losers, then scouting new products to test out.
Putting the 80/20 rule to work

Named after an Italian economist, the Pareto Principle states that 20% of the inputs produce 80% of the outputs.

This is an incredibly important concept in running a business. If you can identify the most profitable SKUs and suppliers—a not-so-simple feat when you have tens of thousands of them—you can keep them in stock so you don’t miss out on valuable sales. You could even identify stale inventory and liquidate it, freeing up capital to reinvest in your profitable SKUs.

Finally, you can spot trends to uncover similar products or products from bestselling brands to carry. All of these actions together have a multiplicative effect.

Let’s show how powerful this is with a simplified example:

Alan, owner of Awesomesauce Shoes, has 10 sneakers listed on Amazon and and 100 units of each in stock. Each sneaker sells for $50. He is able to sell 250 sneakers, bringing in $12,500, with a profit margin is 20%. At the end of the month, he’s $2,500 ahead. Not bad, but how could he do better?

According to the 80/20 rule, 20% of his inventory (2 out of 10 sneakers) make up 80% of his sales. So 200 out of 250 total sneakers sold were one of 2 sneakers. In fact, he’s completely sold out of both at the end of the month!

What if Alan liquidated the unprofitable sneakers in his store, and invested all his money into the profitable ones?

After selling 250 shoes, he has 750 left, which he returns to the manufacturer at cost for $30, yielding $22,500. He also has the profit from the previous month, so he has $25,000 total in the bank.

Do you know exactly which 20% of your inventory is driving 80% of your profits?
With this money, he’s able to put all his money back into the 2 profitable shoes, buying up 833 total at $30 each. This time around, he’s able to sell 700 shoes instead of 250, yielding $35,000 in revenue, $7,000 of which is profits.

In this simplified example, that’s a 280% increase in revenue and profits from focusing on his most profitable products.

This is a core feature of our FBA Insite inventory management software because this granular, SKU-level feature was what we needed for our own Amazon FBA business.

It starts to get more exciting if Alan is able to find 2 more SKUs that are profitable to re-invest his profits into—which is why we created Product Scout to find these for you.

When we talk to clients about growing their Amazon businesses, we emphasize the importance of repeating this process: analyzing your inventory to restock the winners and sweep out the losers, then scouting new products to test out.

We call this the Amazon FBA Profit Cycle: practicing strategic, data-driven assessments of your existing inventory and staying ahead of the curve with constant growth.
THE FULFILLMENT BY AMAZON PROFIT CYCLE

STEP 1
Identify Profitable Brands/Suppliers

BUILD PURCHASE ORDER
Restock profitable SKUs
Add profitable new SKUs

STEP 2
Scout new products from step 1

STEP 3
Use strategic repricing

STEP 4
Review, restock, repeat!
1. Where's the profit? Identify the most profitable brands/suppliers. This is the heart of an 80/20 analysis—deciding where to focus your optimization efforts. See which of your suppliers’ SKUs are consistently profitable and selling well. Unfortunately, Amazon doesn’t provide this information (which is why we created Teikametrics), but you can start by reviewing and aggregating sales data and using your existing knowledge.

2. Scout new products from brands/suppliers identified in Step 1. Scout profitable new FBA products from the best brands/suppliers to amplify growth. Make sure you’re restocking profitable SKUs from these brands/suppliers and liquidate stale inventory across the board.

3. Execute a repricing strategy that matches your business strategy. Your repricer should update in real time and be configured correctly to match your business strategy. Do not compete with Fulfilled By Merchant prices. Beware of unprofitable price wars.

4. Review, restock, repeat. Review sales results, restock profitable items, and repeat.

You need all of these steps to succeed. You need the right product, the right price, and the right restocking time. The common mistake we see is that clients think all they need is a repricer for their product to fly off Amazon’s shelves. The truth is, no repricer can create demand for a product. And ultimately, even if you managed to out price a competitor, it’s a matter of time before you get into a price war. Competing on price alone isn’t a viable, long-term strategy unless you’re Wal-Mart.
Step 1: Where’s the Profit? Identify the most profitable brands and suppliers

First, know thyself.

You probably already know a few bestselling SKUs. But which brands or suppliers are profitable, and which aren’t? Once you determined that, do you know exactly when to reorder each SKU to prevent stock-outs? Do you know which SKUs are stale? Which are costing you money in FBA fees?

In our experience working with clients, sellers are good at managing their bestselling products, but don’t see the whole picture. They don’t know which brands/suppliers are ripe for optimization, they ignore stale inventory, and they don’t scout new products often enough.

In our software, we automate this evaluation process so you can see at a glance which brands and suppliers are performing, and which aren’t.

On the next page, we’ve included a basic framework for assessing individual SKUs, which you can then aggregate to evaluate your brands and suppliers.
Assessing your SKUs

1. **What's the sell-through rate?**
   How many units are you selling? Is it enough to justify continuing to carry, assuming you're turning a profit?

2. **What's the profit margin?**
   While higher is preferable, this depends on your business's strategy. Some sellers specialize in high volume, low margin businesses.

3. **How is the price trending?**
   If the Buy Box has been driven below your lowest acceptable price (floor), it's not worth restocking.

4. **Determine how many units to reorder (“Reorder Quantity”).**
   If the first 3 steps checkout, you need to decide reorder quantity. This will vary depending on the product (since it doesn’t make sense to reorder Christmas lights for January based on holiday sales), but here's a simplified model:

   \[
   \text{Re-order Quantity} = \left[ \frac{\text{Days of Inventory}}{\text{Lead Time}} + \frac{\text{Safety Stock}}{\text{Lead Time}} + \frac{\text{Basic Stock}}{\text{Lead Time}} \right] \times \text{Unit Sales per Day}
   \]

   **Lead time:** Number of days to receive products after issuing purchase order.
   **Safety stock:** The number of days’ worth of inventory kept in case of emergency.
   **Basic stock:** The number of days’ worth of inventory you keep on hand normally.
   **Unit Sales Per Day:** Average number of products you sell per day.

5. **Once you’ve identified the winners and how many units to reorder, add these to your purchase order.** In Teikametrics, this can be done right in the app.

Great! you’ve now evaluated your existing FBA inventory using this checklist. But that’s just one piece of the puzzle—in order to make money on Amazon over the long run, you have to be constantly testing out new FBA products. **What’s selling now may not be selling in 6 months.** Amazon may start selling a product themselves, or new competitors may drive the price down. You don’t want to be scrambling later. We’ll explore a simple formula for sourcing and evaluating new products next.
Mastering Fulfillment By Amazon

Stale inventory is the silent killer in a FBA business. That’s because it’s a two-sided problem - it represents lost money in both fees and opportunity.

**Stale Inventory Cons**

- Semi annual fees from Amazon. These vary depending on cubic volume.
- Tied up capital. Stale inventory represents dollars that can’t be used to invest in new products or other parts of the business.
- Some products are seasonal, trend-driven, or perishable. These will keep incurring fees, unless you take action.

How do you deal with the duds? A quick review of options:

- Liquidate items by selling at a loss
- See if you’re able to return for credit to the brand/supplier. However, keep in mind that this will incur return fees from Amazon.
Step 2: Scout New Products

Take the best brands and suppliers from step 1 and turn up the volume.

We like laziness in small doses. It’s called being efficient. When sourcing new products, start with the lowest hanging fruit in product sourcing: your best existing brands and suppliers. One of the biggest hurdles is signing on new brands, so leverage your existing relationships first to grow and optimize.

Let’s say you’ve identified Glam Shoes Inc as a profitable brand. You don’t yet carry their red clogs. Should you stock them in FBA?

We’ve created a flowchart to map out the new product evaluation process.

Should You Sell It?

1. Is Amazon a seller?
   If no, keep going.

2. Sales rank
   We generally recommend clients choosing ranks below 5,000 in an Amazon “top-level” category, although in practice, it varies depending on specific category, number of competitors sharing the listing on FBA, etc. Our software helps sift out these and additional factors when scouting new products.

3. Are there other FBA sellers?
   If few or none, go to next step.
4. Are there other FBM sellers?
   Just keep these in mind, but don’t let competition here deter you. FBM sellers means there’s demand.

5. Is it profitable to carry?
   Calculation:
   \[
   \text{[Current Buy Box Price} - (\text{FBA Fee} + \text{Commission} + \text{Amazon Fee} + \text{Wholesale cost} + \text{Shipping cost})\text{]} \times \text{Quantity to order} = \text{Total Profit}
   \]
   This is a simplified formula—you can use Amazon’s FBA Revenue Calculator here.

6. Is it adequately profitable for your business?
   If yes, add to purchase order.
   If no, do not add to purchase order.
Step 3: Price it right

Use strategic repricing.

Congratulations—you’ve now built a purchase order that reflects your smart FBA strategy.

You’ve drilled into the data and discovered which suppliers are your top performers. You’ve also invested in new inventory based on a profitability analysis.

Now, you need to conquer the Buy Box.

Repricing justifies its own book, but let’s start off with a quick overview. In the past few years, repricers have become a necessity rather than a real competitive advantage. Winning the Buy Box can be a bloody business, but there’s still plenty of opportunity for profit if you reprice strategically.

We see three common mistakes with clients:

1. **They think all repricers are the same.**
   A repricer is more than a machine that adjusts your SKU one penny down from a competitor. Truly great repricers—the kind that can move the needle in your business—have greater levels of customizability and reprice in near real-time. For example, can your repricer handle FBA-specific situations, like knowing to ignore FBM sellers or sellers with a particular feedback rating? Also pay attention to the kind of support you’ll receive. Do you have a dedicated account manager to handle all your questions? Are they able to provide strategic insight and custom configuration/development capabilities? You may not need this if you’re a small seller, but larger sellers who have a lot on the line and complex requirements should tread carefully.
2. **Price rules don’t match strategy**
   This is a big one, and unfortunately, one of the hardest to figure out without expert help. One of our Teikametrics repricer clients switched over from another repricing solution. His goal was to own the Buy Box, so he priced 1 penny below his competitor. It sounded logical, but what he didn’t realize was that by pricing within 2% of a competitor’s price, he was actually sharing the Buy Box rather than always winning it. We reconfigured this so that it matched his strategy, resulting in a 15% lift in sales.

3. **Pricing for competitive advantages**
   Repricing requires understanding the subtle, changing quirks of Amazon’s Buy Box. One of the ways that we help repricing clients is configuring our software to price items higher if a competitor is stocked out, or if they’re the only seller on the listing. We also configure products to have higher or lower prices depending on fulfillment type and the fulfillment type of competitors. For example, you would reprice 2-10% higher against an FBM seller, but the same rule wouldn’t apply against another FBA seller.
Step 4: Review, restock, repeat

This is the most important step. Our goal is for our software clients to grow—and this step is the most crucial for continued growth.

Make sure to restock profitable SKUs, since this is the most common issue we see with FBA sellers. At the same time, keep a watchful eye: did the new red clogs you added turn a profit? What brands are selling well, and which are just generating inventory holding fees?

Amazon is intensely competitive, and your bestseller of today isn’t guaranteed for tomorrow. If Amazon starts selling the product, or if competitors are willing to take lower margins, your sales will drop. In our own business, we’ve experienced a variety of external factors that have cut into our sales, ranging from suppliers deciding they no longer want their products on Amazon, or Amazon not allowing particular products to be listed. These are frustrating, but they’re par for the course. As a result, your best move is to always be on the offensive: keep scouting new products, starting with existing brands and suppliers, to grow the business.
Wrap up

Here’s a quick overview of what you’ve learned:

• Amazon is the world’s largest ecommerce platform, and ripe with business opportunities for retailers
• Prime subscribers are the customers you should be targeting since they buy more and are willing to pay a premium for convenience and free shipping.
• Selling with FBA allows you to leave picking, packing, shipping, and customer service to Amazon
• Selling with FBA means you need to take a more strategic approach to inventory management and product sourcing.
• In order to turn consistent, long term profits with FBA you must consistently follow the 4 steps of the FBA Profit Cycle.
• The 4 steps of the FBA Profit Cycle are:
  1) Where’s the profit? Identify profitable brands/suppliers
  2) Source new products from profitable brands/suppliers identified in step 1.
  3) Price it right with strategic repricing - make sure repricing matches your business strategy.
  4) Review, restock, repeat. Review sales and profitability, restock winners and clear out stale inventory, repeat the process.
Thought leaders share their expertise.

You’re not in this alone. Share this guide with your followers and start a conversation about what does and doesn’t work in your business.
Want to grow even faster?

Visit our [website](#) or click the button below to request a free consultation and demo of how our software can grow your Amazon FBA business. We’re looking forward to hearing from you.

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