

Price Pack Architecture for Low ASP items on Amazon – December 17, 2019

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Early eCommerce was focused on higher priced catalog-like items: categories like electronics, home goods, and sporting equipment. Today, however, consumers are increasingly looking to buy a wider range of consumer goods online. Brands in Fast Moving Consumer Goods (FMCG) have a unique challenge in making their products profitable on eCommerce platforms. Lower ASP items make it much more difficult to cover shipping costs and platform fees.

eCommerce and Amazon optimized kits, sizes, and multi-packs are increasingly important to remain profitable and competitive on the platform. It's not just profit – custom kits offer a number of strategic advantages:

- Expand Margin – a custom kit should both minimize shipping cost per unit as well as platform fees per unit
- Protect Customer Value Perception – custom kits can bring down the cost per unit to consumers. Research shows consumers are willing to bear a 10-20% premium per unit for Amazon convenience. Pricing above this will often limit growth and result in negative reviews.
- Prevent Price Matching – Amazon will sometimes match B&M retail prices, which are often not economically feasible to match online. An eCommerce optimized kit, particularly with unique flavors and configurations, decreases the chance Amazon price matches another retailer
- Open Customer Acquisition & Brand Building – a custom kit ideally allows for a profitable ASP below \$15, making the eCommerce channel viable for introducing products to new consumers. Presently, most FMCG brands only sell their products online in bulk

In this paper, we outline the key drivers of cost for selling items on Amazon, and our methodology for designing eCommerce optimized kits for FMCG, specifically grocery.

Elements of an Ideal Amazon Package

\$14.99: drop Amazon's referral fee from 15% to 8%

[Amazon's Selling on Amazon Fee Schedule](#)

Amazon charges a 15% referral fee for selling items on the Seller Central platform. However, for items listed in the Grocery category, items priced \$14.99 or lower get a fee discount, down to 8%. The **7% of margin** drop to the bottom line, making a \$14.99 price point as profitable as an item priced at \$16.25.

Items in the \$10-15 range have the highest sales velocities on Amazon. Within this range, consumers are much more likely to make impulse purchases – a difference we see reflected in stronger detail page conversion rates of products in this range versus those priced higher.

Furthermore, there is a first mover advantage for many brands. Most national brands are currently only selling bulk packages of their products. A lower priced, higher velocity item has the opportunity to capture an outsized share of their category and key search terms.

Item Price	\$ 16.25	\$ 14.99
Shipping	\$ 0.00	\$ 0.00
Total Revenue	\$ 16.25	\$ 14.99
Selling on Amazon fees	\$ 2.44	\$ 1.20
Fulfillment Cost		
Cost of Seller Fulfillment	N/A	N/A
Fulfillment by Amazon Fees	\$ 3.35	\$ 3.35
Ship to Amazon	\$ 0.00	\$ 0.00
Total Fulfillment Cost	\$ 3.35	\$ 3.35
Seller Proceeds		
Seller Proceeds	\$ 10.46	\$ 10.44
Cost of Product	\$ 4.00	\$ 4.00
Net Profitability		
Net Profit	\$ 6.46	\$ 6.44
Net Margin	39.75%	42.96%

Figure 1: Amazon's Revenue Calculator, showing near identical margins of the same Grocery item priced at \$16.25 vs. \$14.99

Optimized Shipping Weight & Dimensional Weight – ship a unit for \$3.28

Amazon's Fulfillment by Amazon shipping fees in Seller Central are tiered on three levels: Small, Large, and Oversize. For Grocery-focused brands, Large will almost always be the tier brands play in. "Small" items generally fit in an envelope, and Oversize is even more expensive than Large.

Large packages have dimensions of 18 X 14 X 8 or less, for longest, middle and shortest sides, respectively. For Large packages, Amazon charges based upon the greater of the physical weight and dimensional weight.

Notably, the largest jump in fee is from <16oz to 1-2 pounds – the shipping fee rises from \$3.28 to \$4.76 – on a \$15 item, a potential 10% margin impact.

Physical weight is calculated as the gross weight plus 4 ounces, for Amazon's packaging – therefore brands should aim for gross weight of 10-12oz.

Dimensional weight is calculated by multiplying the dimensions and dividing by 139: $\frac{H \times W \times D}{139}$ + and then adding 4 ounces (to account for Amazon's own packaging), rounding up to the closest pound.

For categories that package with air, such as salty snacks, dimensional weight tends to be the higher value of the two, and therefore drives shipping costs. **Most importantly – if a product falls in the <16oz tier, Amazon does not calculate dimensional weight**, creating a very attractive opportunity for lightweight larger cube items.

An increasing number of best-selling Grocery items on Amazon are **\$14.99, ~10oz products** – showing more brands are keying into the ideal price and weight for Grocery items on Amazon.

Thinking Outside Your Normal Box

Brands should consider alternative packaging options – for example, shrink wrap or outer bags – when trying to minimize weight, particularly dimensional weight. Boxes are often heavy or have empty space that you pay for in shipping fees. If product is not extremely fragile, these options can save both shipping space and weight.

There are a few general paths we see with pack configuration:

- 1) Multipacks of small units – with the savings on shipping and referral fee, a multipack of 5-10 small units weighing 1-2oz can be a great way to offer "on-the-go" sizes, and/or offer a variety of flavors. This path is best executed at production, as 3PL rework labor rises with SKU count.
- 2) "Family" or "Jumbo" options – bulk single bags offered in the Club channel can fall under the 12oz limit and limit additional cost to assemble a kit.
- 3) 2-3 packs of standard size bags that fall in gross weight under 12oz.

Standard-size	
Small (10 oz or less)	\$2.41
Small (10+ to 16 oz)	\$2.48
Large (10 oz or less)	\$3.19
Large (10+ to 16 oz)	\$3.28
Large (1 lb to 2 lb)	\$4.76
Large (2 to 3 lb)	\$5.26
Large (3 to 21 lb)	\$5.26

+ \$0.38/lb above first 3 lb

Figure 2: Amazon's Fulfilled by Amazon pricing tiers, highlighting the jump in FBA fees for from 1lb to 2lb packages



Figure 3: An example of a "family size" product

All three of these options can be helpful in mitigating Amazon price matching other channels – including B&M retailers who list their retail offers online, such as Target and Walmart, and direct eCommerce competitors like Thrive. Furthermore, Amazon sometimes matches cost per unit and even cost per ounce. While we recommend brands introduce eCommerce MAP pricing with all retailers, creating unique sizes and variations for Amazon can provide a further layer of protection against price matching.

Unboxing – do Amazon Shoppers Care?

Amazon will almost always put the product, whether it is boxed, shrink wrapped, or bagged, into an Amazon over-box. This means the “unboxing” experience is less important for purchases made on Amazon. Letting go of a nicely designed box can unlock big margin opportunity on Amazon if it moves your product to a cheaper fulfillment tier.

In Conclusion

Winning on Amazon starts with offering the right product at the right price, size, and margin. For many brands, the ideal package will be a 10-12oz unit at \$14.99 – a unit up to 17% higher margin than a non-optimized unit line priced at \$20. Making an Amazon-optimized SKU should be a consideration for any brand trying to take the Amazon channel seriously.

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We'd love to hear from you! If you'd like more information, please reach out at contact@gocartograph.com

ABOUT CARTOGRAPH

Cartograph is an eCommerce focused agency that helps food brands sell their products on Amazon. Their mission is to help brands grow products that are better for people and the planet. They support brands with strategy, pricing, SEO, advertising, and operations and logistics. Cartograph is based in Austin, TX.