

Why Revenue Growth Failed to Deliver Profitability

Amazon Sales & Advertising Case Study

How advertising-driven growth led to negative contribution margin

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Case Structure and Analytical Flow

1. Business Context & Key Question
2. Current Performance Snapshot
3. Growth Drivers vs. Profitability Impact
4. Key Insights & Business Recommendations

Business Context and Problem Statement

Business Context:

- Amazon FBA product in the children's toy category
- Revenue increased primarily through paid advertising
- Advertising spend, discounts, and Amazon fees increased simultaneously

Problem Statement:

- Despite revenue growth, the business generated negative contribution margin
- The key question is whether advertising-driven growth was economically sustainable

Objective:

Identify the primary drivers of profit loss and assess whether the business can scale profitably

Current Performance Snapshot

ROI

-6.39%

CONTRIBUTION

\$ -1061.77

BE TACOS

30.41%

TACOS

37.23%

CVR

8.71%

Revenue growth was achieved at the cost of profitability.

Advertising spend exceeded the break-even threshold, resulting in a negative contribution margin despite an average conversion rate.

This indicates that the current growth model is not economically sustainable.

Key Hypothesis

Primary Hypothesis:

- Inefficient advertising spend was the primary driver of negative contribution margin.

Secondary factors considered:

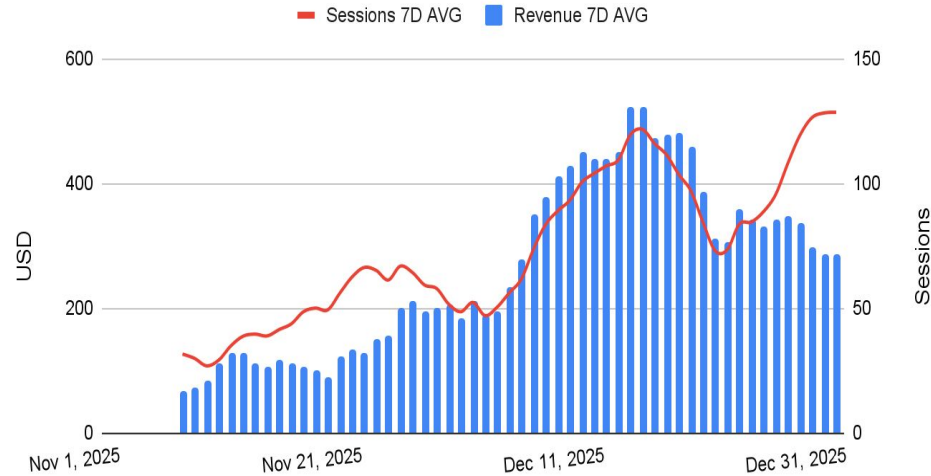
- Discount-driven demand distortion (coupon-dependent demand)
- Potential pricing pressure (limited margin buffer)
- Observed conversion ceiling of the listing

The hypothesis was evaluated using aggregated sales, traffic, and advertising performance data.

Revenue & Traffic Growth Drivers

Traffic growth outpaced sustainable conversion gains

Revenue & Sessions Trend (7D AVG)



Conversion Trend (7D AVG)

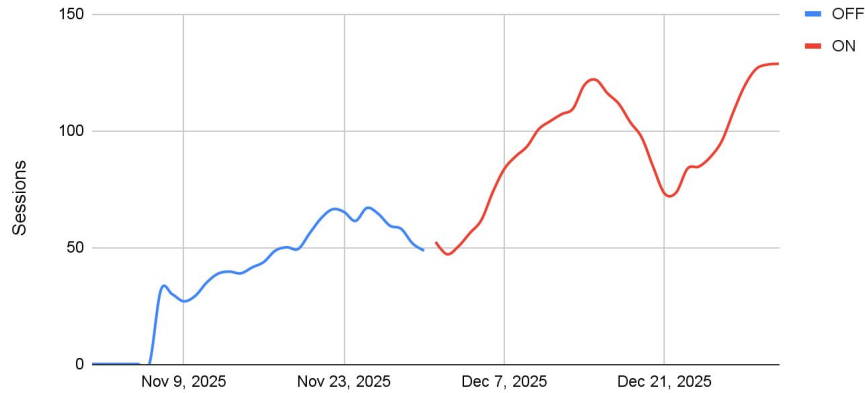


Traffic and conversion trends are based on daily data with 7-day rolling averages to reduce short-term volatility.

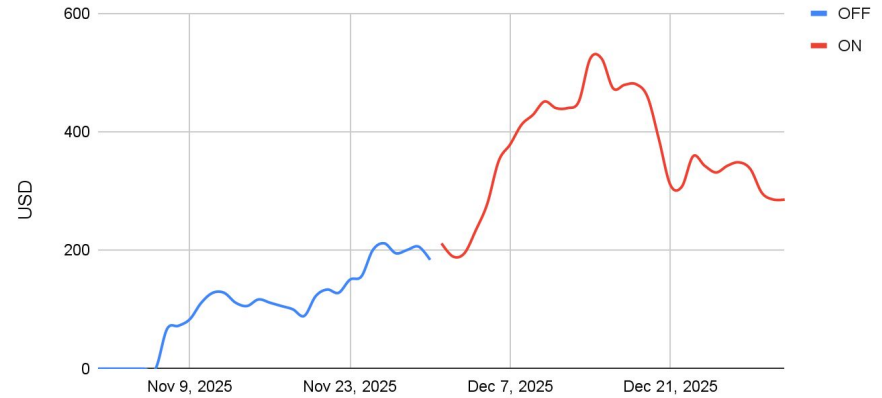
Coupon Impact

Coupons increased demand but diluted unit-level profitability

Sessions Coupon OFF vs. ON (7D AVG)



Revenue Coupon OFF vs. ON (7D AVG)

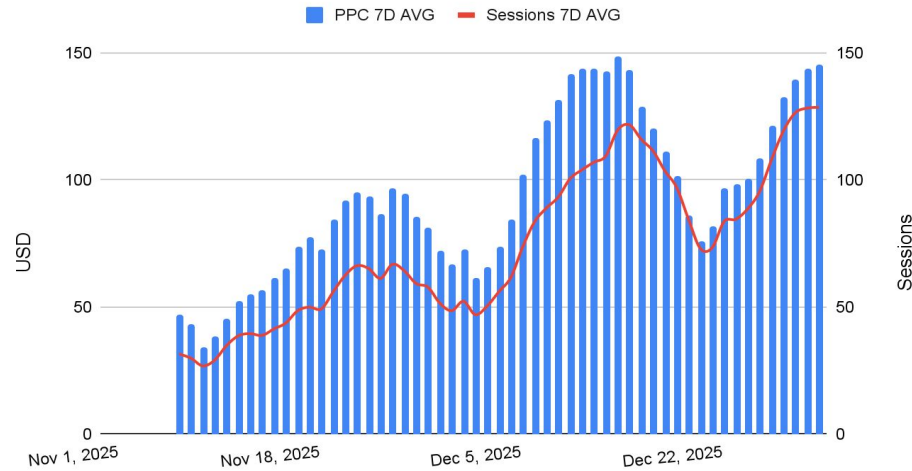


Coupon impact is evaluated by comparing performance during active and inactive coupon periods.

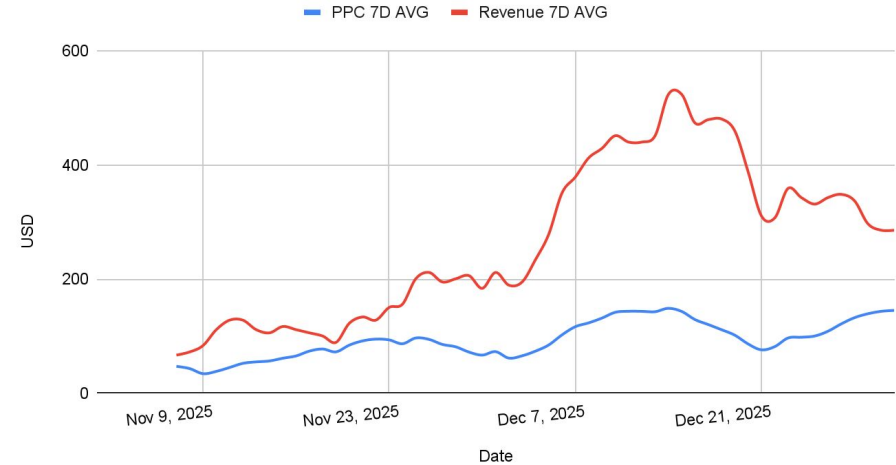
PPC Impact

PPC spend closely tracked traffic growth, while sales gains lagged

PPC & Sessions Trend (7D AVG)



PPC & RevenueTrend (7D AVG)

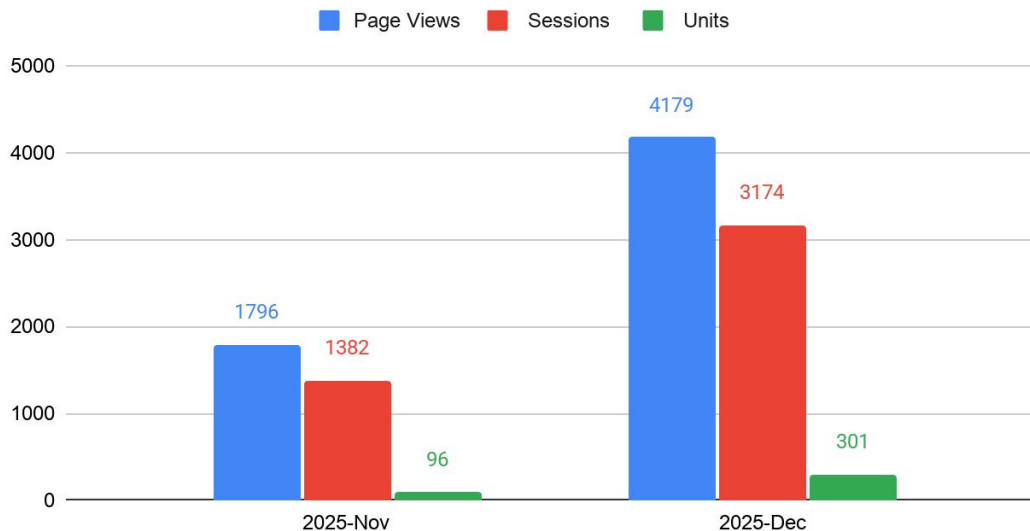


PPC impact is assessed at an aggregate level across all campaigns, without bid- or keyword-level optimization.

Conversion Funnel Analysis

Order growth outpaced traffic growth during promotional periods

Funnel: Page Views → Sessions → Orders

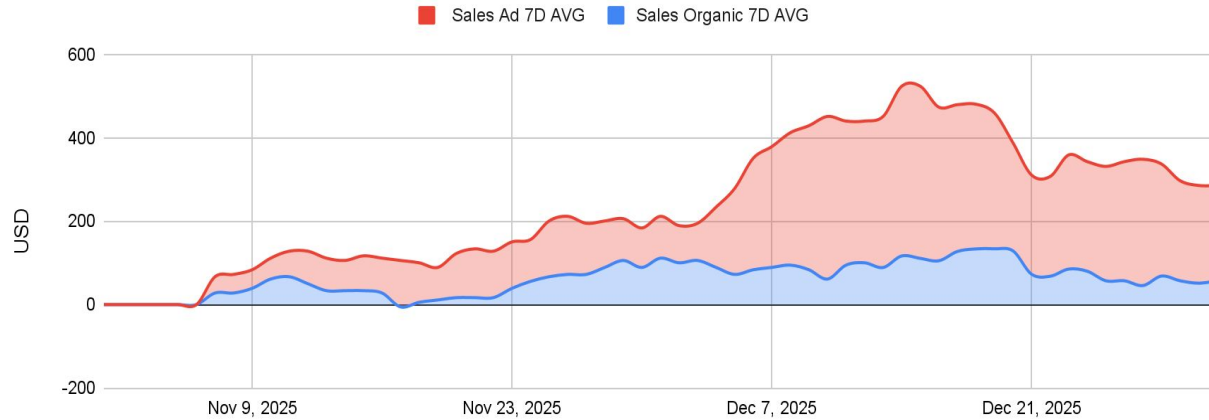


Funnel analysis compares month-over-month performance to identify structural changes in conversion efficiency.

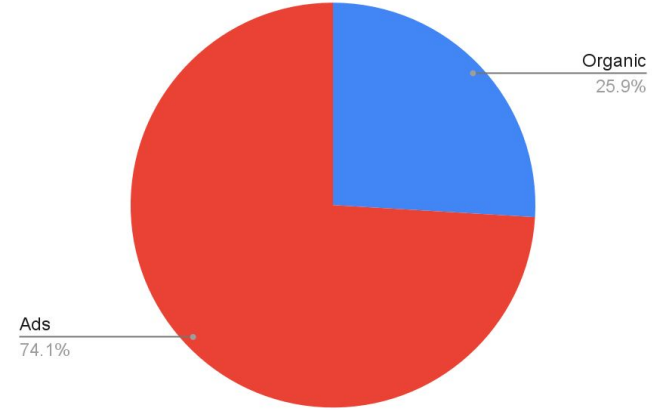
Paid vs Organic

Revenue growth became increasingly reliant on paid traffic

Paid vs. Organic Revenue Trend (7D AVG)



Revenue

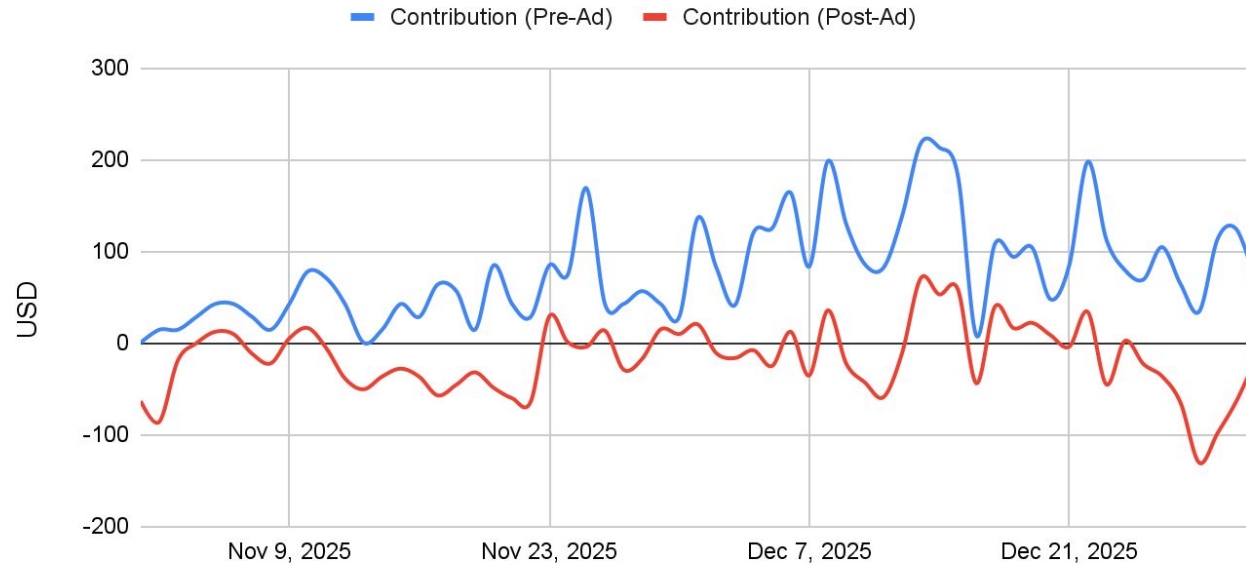


Paid and organic sales are reported using Amazon's standard attribution logic and analyzed at the channel level.

Pre vs Post Ad Contribution

Post-ad contribution remained negative despite revenue growth

Contribution (Pre-Ad) vs Contribution (Post-Ad)

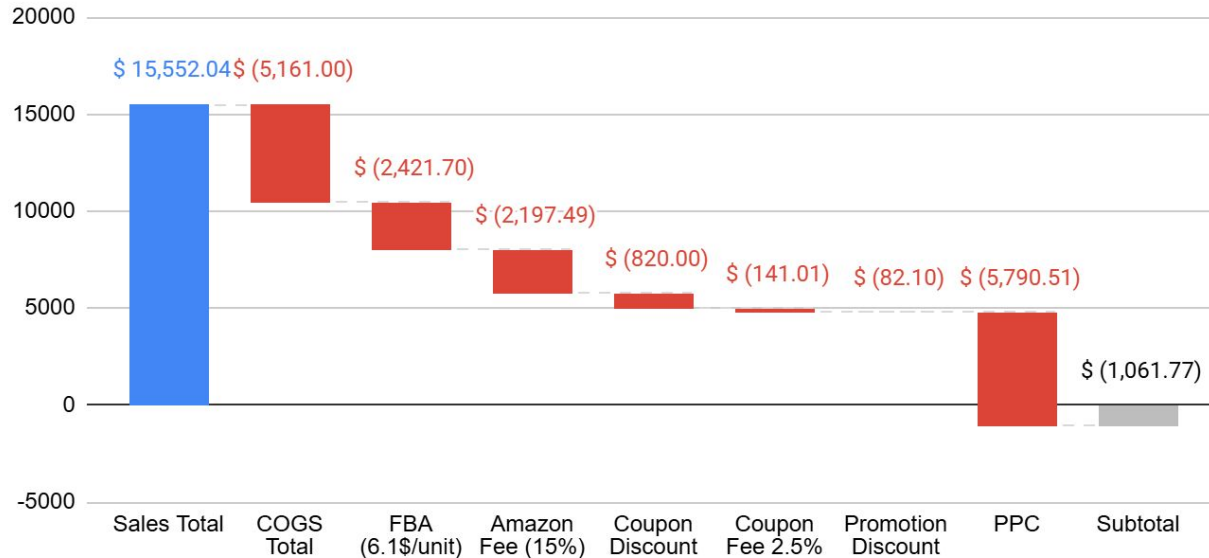


Contribution margin is calculated post-discounts and post-advertising spend.

Cost Drivers

Advertising represented the largest variable cost component

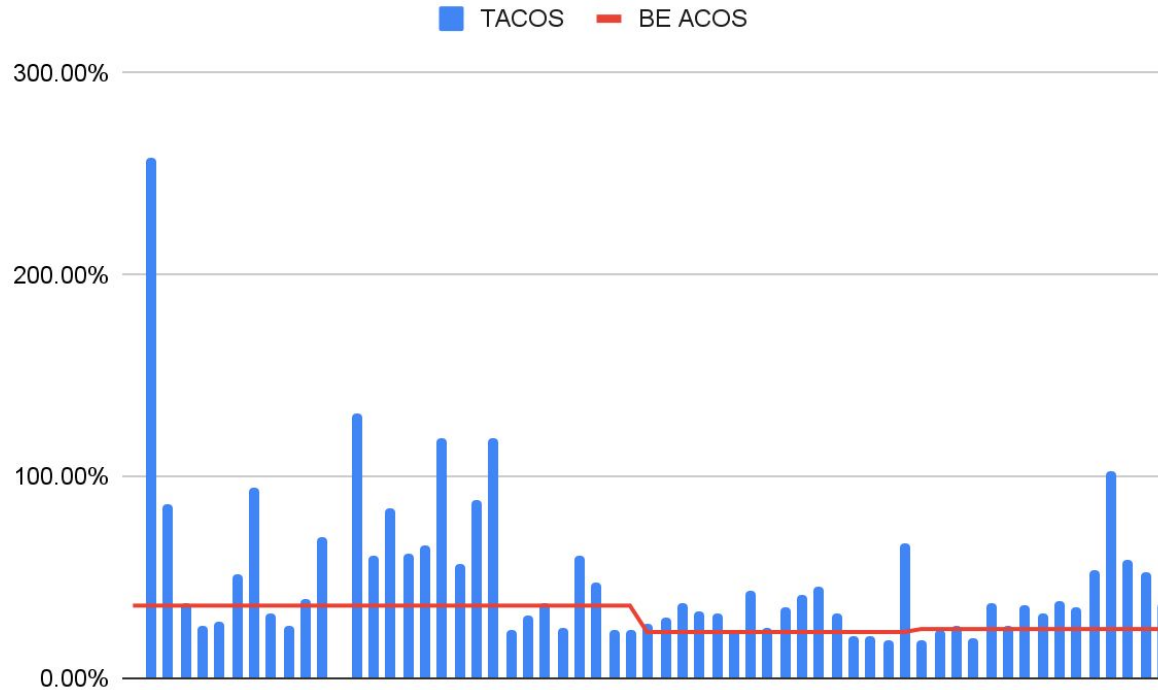
Contribution (Post-Ad) Waterfall



Cost breakdown highlights variable cost components; fixed operational expenses are excluded from this view.

TACoS vs Breakeven

Observed TACoS exceeded calculated break-even levels



Break-even ACoS is calculated based on current unit economics and defines the upper limit for sustainable ad spend.

Key Strategic Takeaways

- **Negative Post-Ad Margin:** Revenue growth is currently offset by unsustainable advertising overhead.
- **ACoS vs. Breakeven:** Advertising spend consistently exceeds breakeven thresholds, eroding net profitability.
- **High PPC Dependency:** 74% of sales are driven by paid traffic, indicating a significant reliance on PPC over organic growth.
- **Unit Economics Deficit:** Current performance shows a \$2.67 loss per unit, making scaling counterproductive under the existing model.
- **Operational Mandate:** Performance data highlights the urgent need for funnel optimization to improve conversion rates and organic visibility.

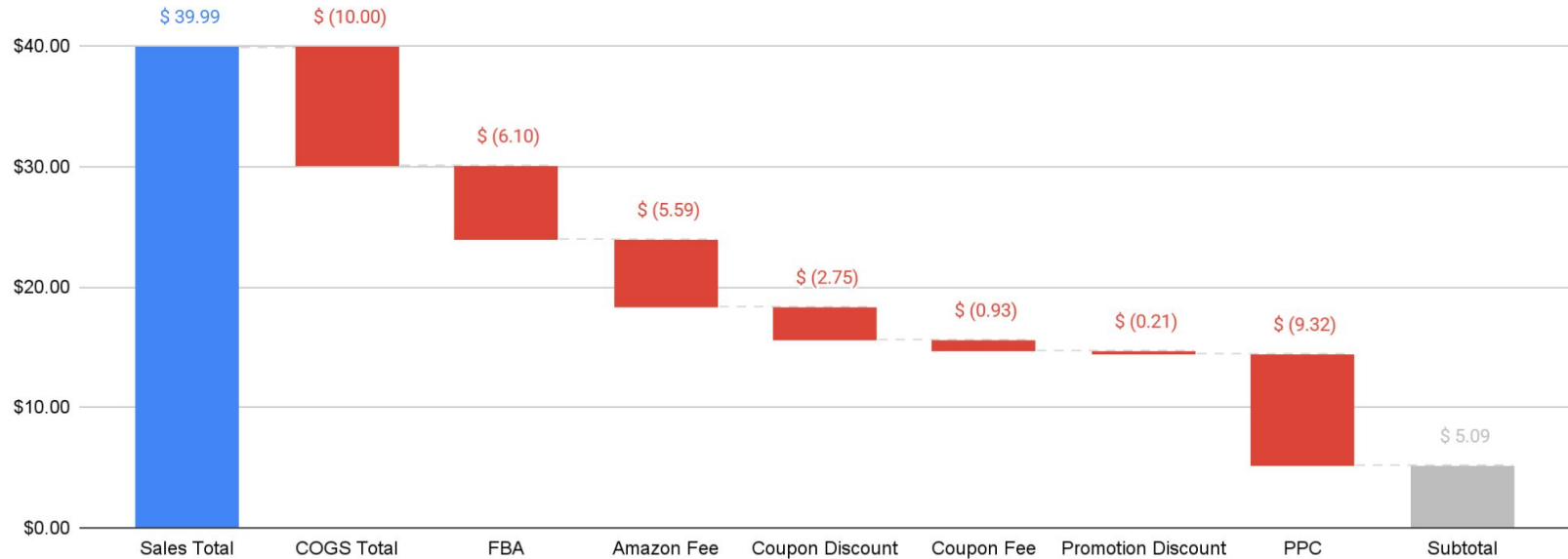
Strategic Recommendations

1. **PPC Optimization:** Align marketing efforts to achieve a target ACoS of 37% while stabilizing CVR at 13%.
2. **Organic Growth & SEO:** Enhance SEO strategy to reduce dependency on paid traffic, targeting a minimum 37% Organic Sales Share.
3. **Cost Leadership:** Initiate negotiations with suppliers for product modernization to reduce COGS by \$3.00 per unit.

Projected Financial Impact

Incremental performance and cost improvements can restore positive unit economics

Achieving target KPIs (37% ACoS, 37% Organic Share, and \$10.00 COGS) will shift the project to a **\$5.09 Net Profit per unit**, representing an **12.7% Profit Margin**.



Projection represents an illustrative scenario based on incremental performance improvements and validated supplier pricing.