

# **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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January, 2026

# **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.**

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# Key Hypothesis

## Primary Hypothesis:

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

## Secondary factors considered:

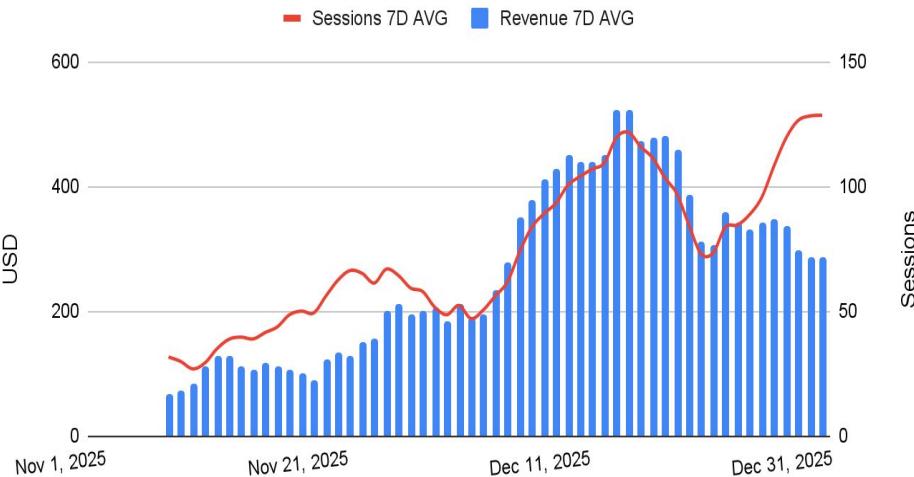
- Discount-driven demand distortion (coupon-dependent demand)
- Potential pricing pressure (limited margin buffer)
- Observed conversion ceiling of the listing

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

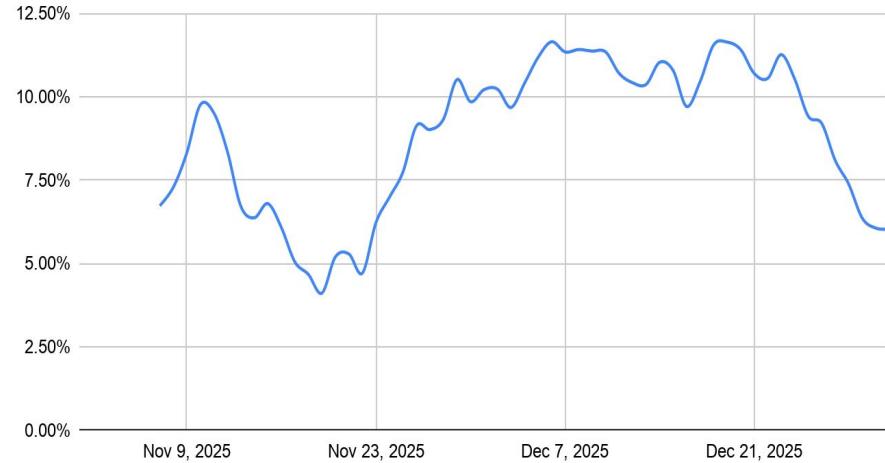
# Revenue & Traffic Growth Drivers

Traffic growth outpaced sustainable conversion gains

Revenue & Sessions Trend (7D AVG)



Conversion Trend (7D AVG)

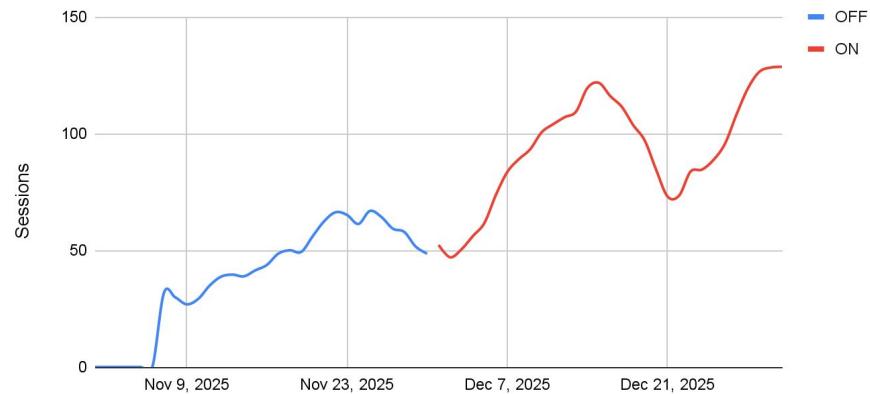


*Traffic and conversion trends are based on daily data with 7-day rolling averages to reduce short-term volatility.*

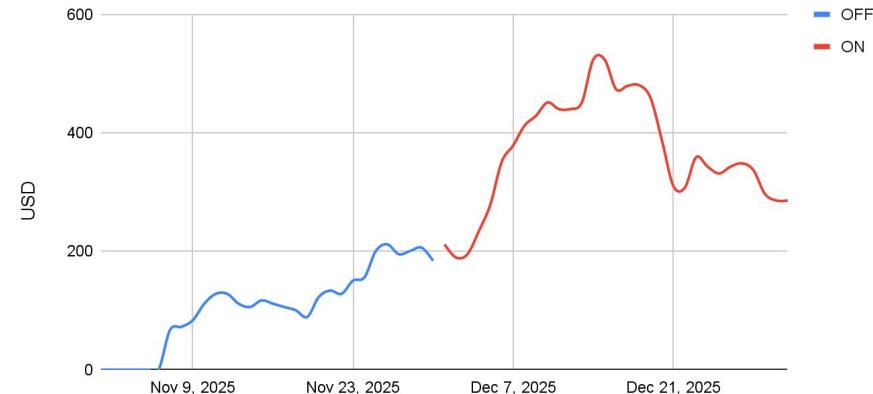
# Coupon Impact

**Coupons increased demand but diluted unit-level profitability**

Sessions Coupon OFF vs. ON (7D AVG)



Revenue Coupon OFF vs. ON (7D AVG)

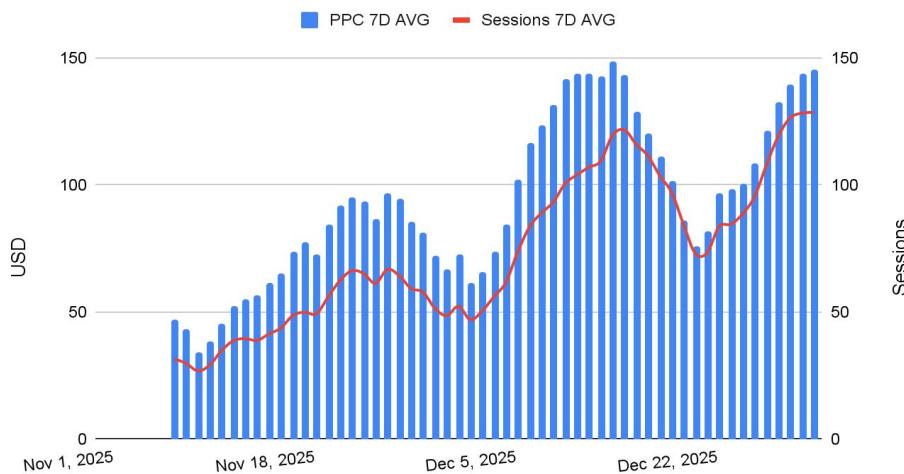


*Coupon impact is evaluated by comparing performance during active and inactive coupon periods.*

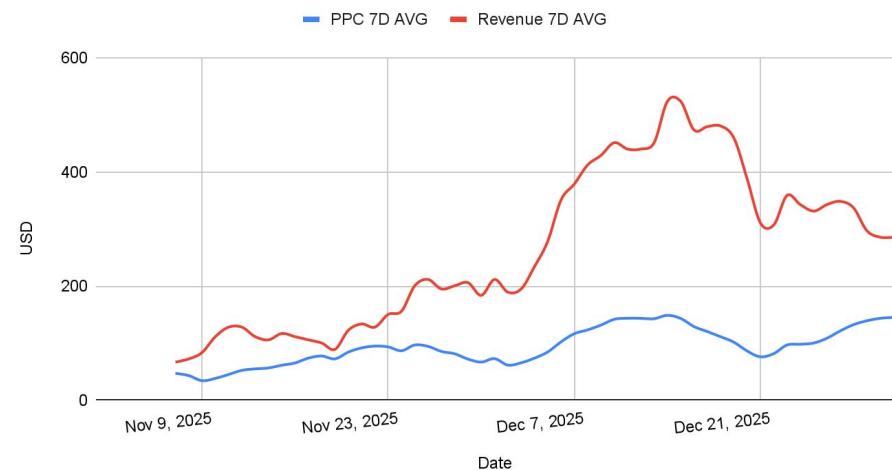
# PPC Impact

**PPC spend closely tracked traffic growth, while sales gains lagged**

PPC & Sessions Trend (7D AVG)



PPC & Revenue Trend (7D AVG)

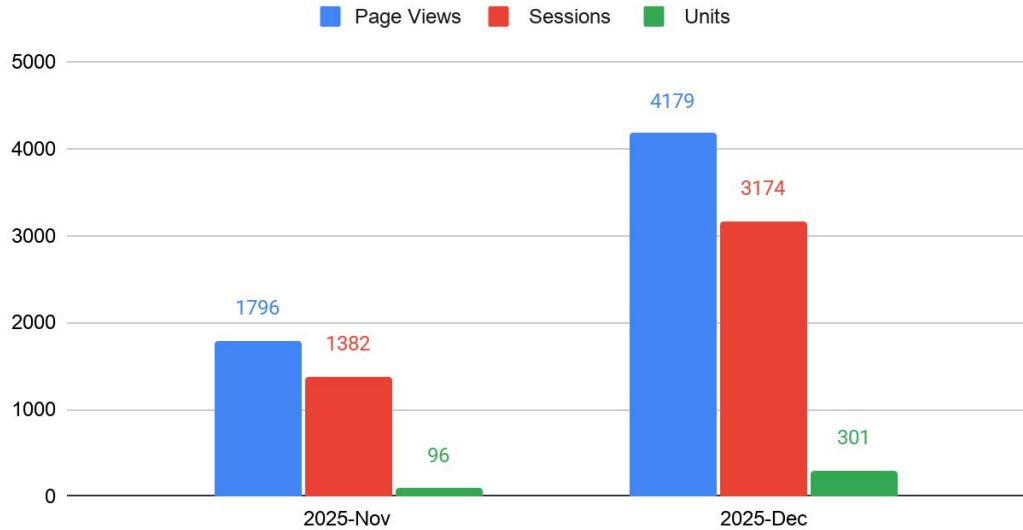


*PPC impact is assessed at an aggregate level across all campaigns, without bid- or keyword-level optimization.*

# Conversion Funnel Analysis

**Order growth outpaced traffic growth during promotional periods**

Funnel: Page Views → Sessions → Orders

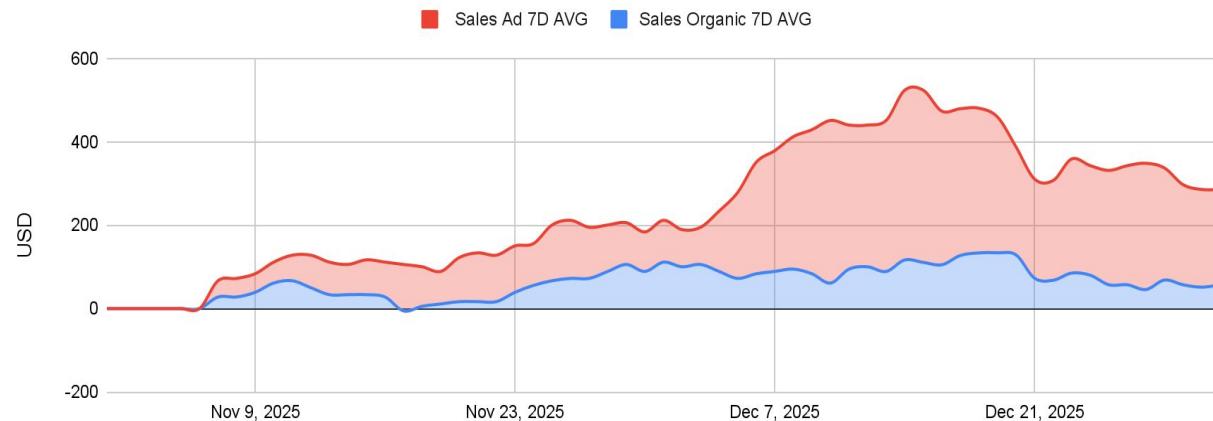


*Funnel analysis compares month-over-month performance to identify structural changes in conversion efficiency.*

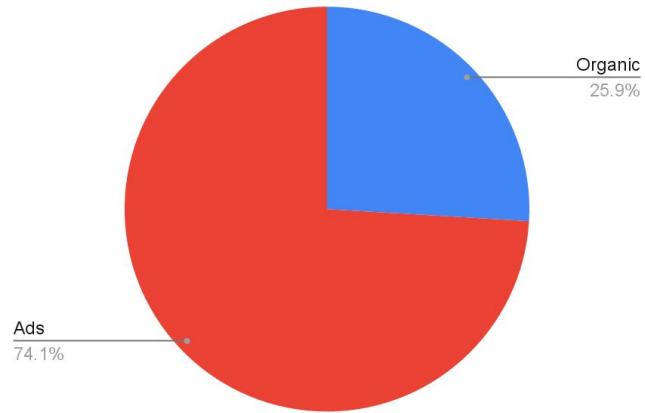
# Paid vs Organic

**Revenue growth became increasingly reliant on paid traffic**

Paid vs. Organic Revenue Trend (7D AVG)



Revenue

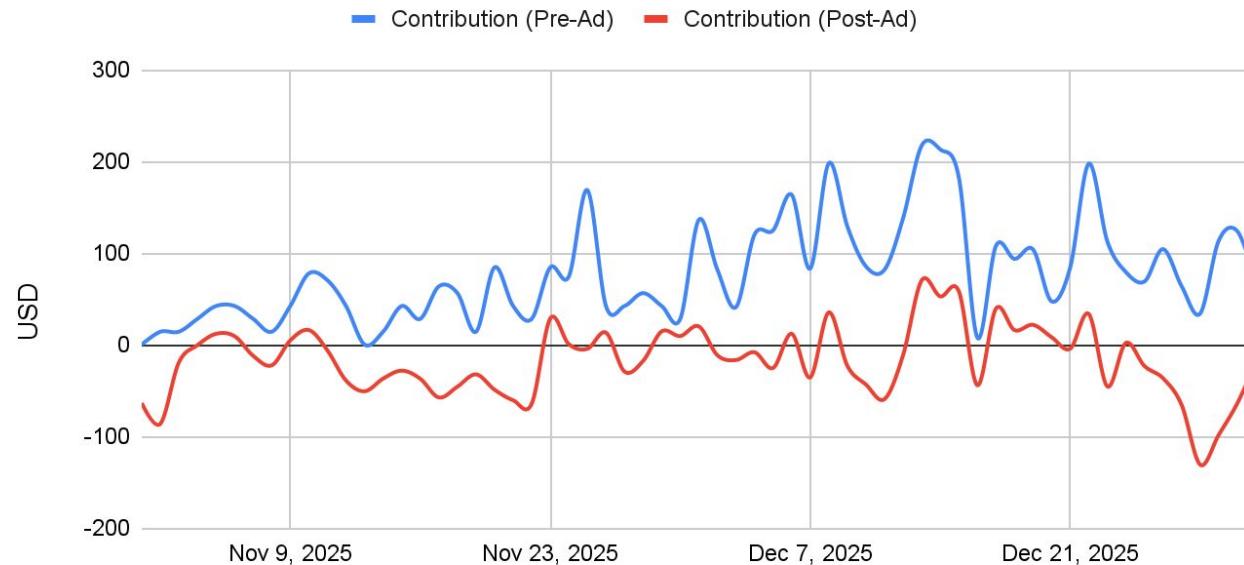


*Paid and organic sales are reported using Amazon's standard attribution logic and analyzed at the channel level.*

## Pre vs Post Ad Contribution

**Post-ad contribution remained negative despite revenue growth**

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

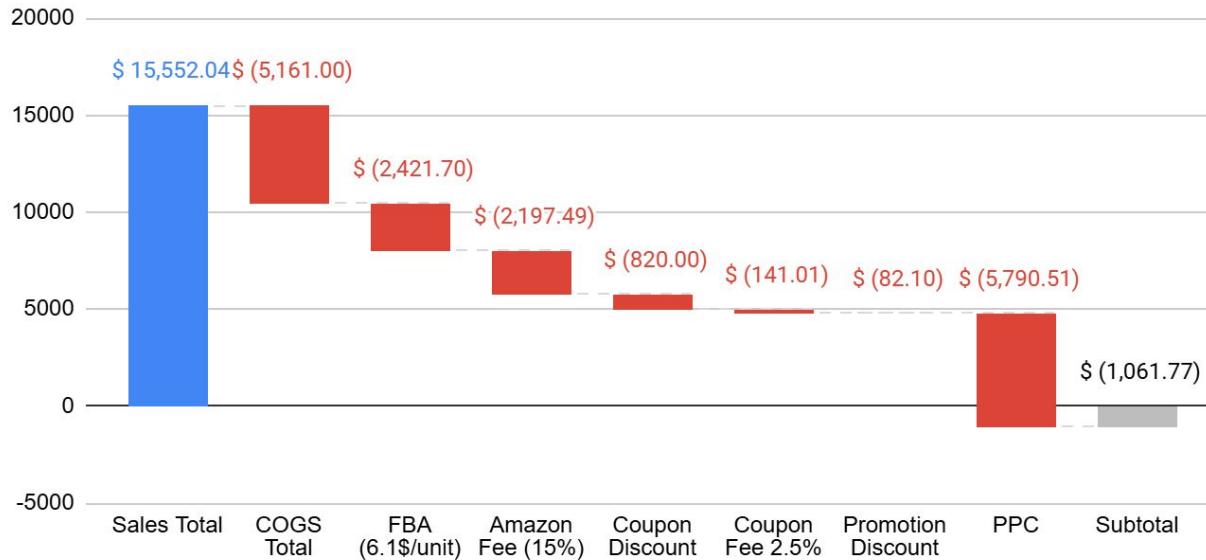


*Contribution margin is calculated post-discounts and post-advertising spend.*

# Cost Drivers

Advertising represented the largest variable cost component

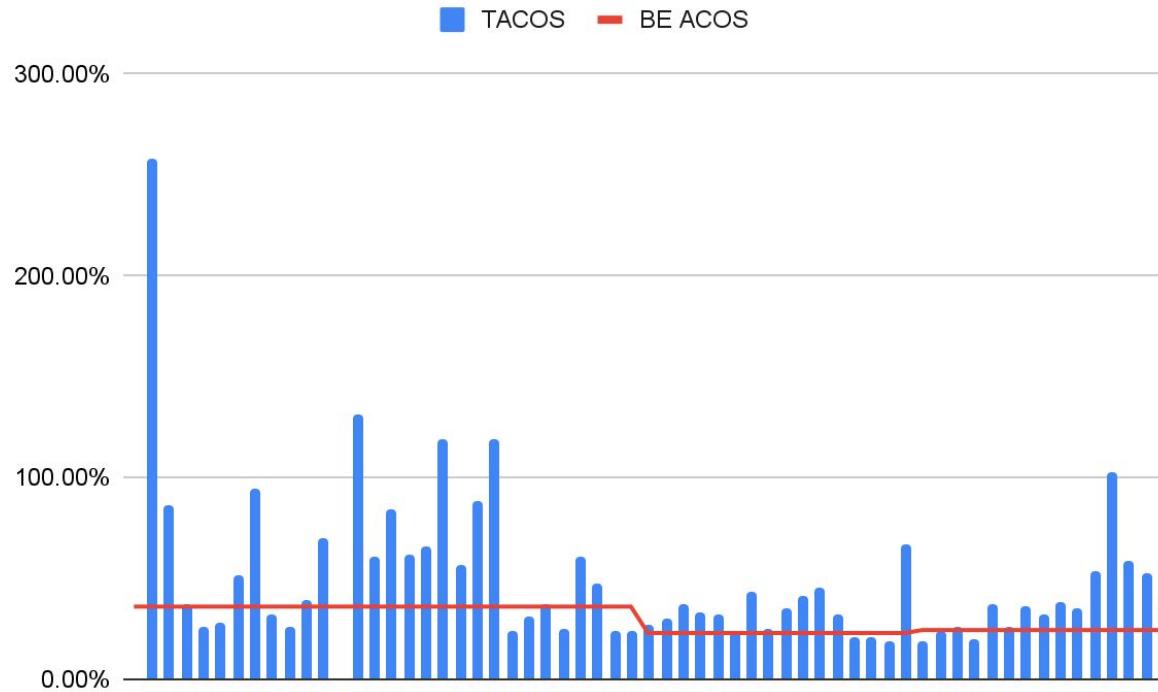
Contribution (Post-Ad) Waterfall



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.*