



Financial Information



Product Information



Category Information



Marketing Information



Jungle Scout Cobalt

# Due Diligence Checklist for Amazon FBA Investors

## Table of Contents

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- Ch. 1    How to Eliminate Risk and Maximize ROI When Investing in an Amazon FBA Business / 2**
- Ch. 2    Financial Information / 3**
- Ch. 3    Product Information / 5**
- Ch. 4    Category Information / 8**
- Ch. 5    Marketing Information / 11**
- Ch. 6    Jungle Scout for Amazon FBA Due Diligence / 14**

## How to Eliminate Risk and Maximize ROI When Investing in an Amazon FBA Business

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Fulfillment by Amazon (FBA) businesses present a large opportunity for investors. Almost 2 million small and medium-sized businesses (SMBs) sell on Amazon throughout the world as third-party (3P) sellers, according to Jungle Scout's [2022 State of the Amazon Seller report](#), and two-thirds of sellers earn profit margins exceeding 10%.

But acquiring an Amazon FBA business can come with risks. If you do not conduct thorough due diligence, you could acquire a business that has inaccurate accounting, a product with a high cost of goods sold (COGS) and low profit, or a brand with low market share in a saturated market, among other scenarios.

However, by following the strategies in this guide and the accompanying due diligence checklist, you can eliminate risk and maximize ROI with your acquisition.

## Chapter 1

# Financial Information

## Checklist

### Financial Documents

Balance sheet

Income statement

Statement of cash flow

Accounts payable & receivable

Debt schedule

Bank statements

Tax returns for the last three years

Credit reports

Gross profit margins on and off Amazon

Employee/independent contractor contracts

### Amazon Seller Central Reports

Sales reports

Amazon-fulfilled inventory report

FBA customer returns report

## Review Financial Statements

It is essential to review an Amazon FBA business' financial statements to see that all of the numbers add up and that the business is worth the purchase price. Request the balance sheet, income statement, and statement of cash flows from the owner, and then examine third-party records to determine the veracity of these statements.

Compare line items in the statements to supplier/customer invoices, bank statements, tax returns from the last three years, credit reports, reports demonstrating the value of all products, and expense reports. If the statements were not audited, it is worth engaging a certified public accountant (CPA) to do so.

Determine an ecommerce business' gross profit margins on and off Amazon. Profit margin is an essential metric that indicates their health. If they have a small gross profit margin, there is little room to spend funds on advertising and listing optimization and still generate an overall profit.

To uncover hidden liabilities such as unpaid supplier invoices and tax claims, seek a report on all outstanding debt. Also, review the contracts of employees/independent contractors to determine who works for the business on a full-time or part-time basis and how they contribute to the company.

## Review Seller Central Reports

It's important to review Seller Central reports as well:

Examine the sales reports, including the **Customer Shipment Sales** report, which offers product-level information on customer orders shipped through FBA. This report includes data on price, quantity, and ship-to location.

Read the **Amazon-Fulfilled Inventory** report, which offers a summary of a brand's inventory in Amazon's fulfillment centers on an almost real-time basis. However, this information can be outdated as shoppers can make purchases after the report is run, and, therefore, reduce a brand's inventory.

Study the **FBA Customer Returns** report, which provides a listing of returned FBA purchases. Amazon evaluates a product's condition when it is returned and handles the return based on that assessment.

**Note:** Amazon may give a refund to customers without requiring that they return an item. These refunds will appear as a product charge within the Refund portion of the **Payments** report.

## Chapter 2

# Product Information

## Checklist

Vendor contracts

Trademarks and patents

Purchasing agreements

List of all products on Amazon and off Amazon

Production costs per product

Profit margins per product

For each Amazon ASIN:

Brand registry confirmation

Number of reviews total and per listing

Average star rating and seller rating

Share of voice on relevant keywords

## Obtain Product Information

Obtaining product information is a key step in conducting due diligence on an Amazon business. Review vendor contracts and purchasing agreements to determine suppliers, along with production costs and payment terms, which are key for understanding their cash flow.

Seek a list of products on and off Amazon to ensure you're able to reorder inventory should you acquire the brand. Make sure the list includes the profit margins for each product. You can verify this metric once you have vendor contracts, purchasing agreements, and an income statement that lists out a brand's expenses.

Request proof and paperwork for all trademarks and patents. This information is key to protecting intellectual property from counterfeiters and copycats. It's also important because sellers need a registered trademark to be eligible for Amazon's Brand Registry, which provides many benefits.

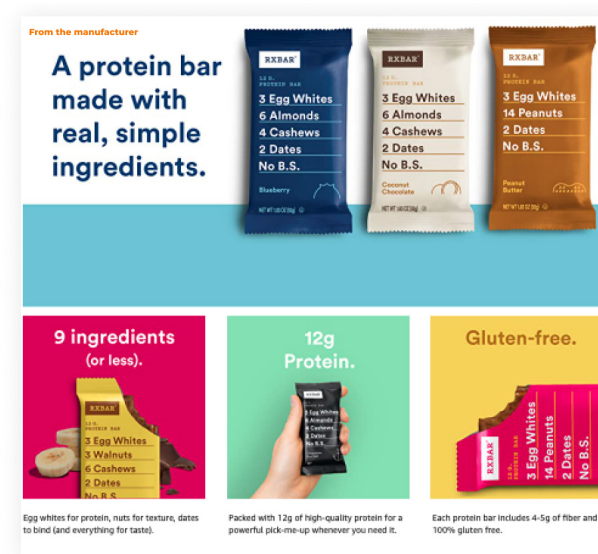
**Note:** An FBA business that has already gone through Amazon's Brand Registry process is more valuable than one that has not.

## Confirm Amazon Brand Registry Enrollment

Amazon Brand Registry comes with a number of benefits for brands on Amazon such as:

Tools to protect trademarks and a dedicated internal team for submitting and escalating IP infringement claims.





Access to additional forms of content for listings beyond text and product images, such as A+ Content, Brand Story, an Amazon Storefront, and more.





Investors should take these steps to conduct due diligence on products and brands listed on Amazon:

- 1. Determine the number of reviews for each listing.** This information can be a good proxy of the demand for a particular ASIN, as a higher number of reviews can indicate a higher number of purchases. Check the average star rating to validate a product's quality, performance, and likeness to its photos.
- 2. Review the brand's seller rating to validate their reputation in the marketplace.** This rating covers elements of their customer transactions such as shipping, whether or not their products match their descriptions on Amazon, and seller communication.
- 3. Calculate a brand's share of voice (SOV) for relevant keywords — the number of times its listings appear in the search results as compared to those from competitors.** You can manually calculate SOV by studying the search results, but the easiest way to get this data is [Jungle Scout Cobalt](#). Cobalt provides SOV for organic and sponsored listings.
- 4. Monitor the performance of a business' competitors.** Cobalt's Market Insights provides a breakdown of their revenue, 3P revenue, unit sales, and 3P unit sales. This feature also provides insights into changes in a competitors' revenue and unit sales over time.

Brand	ASIN	Revenue	1P Revenue	3P Revenue	Unit Sales	1P Unit Sales	3P Unit Sales
Trends International		\$53,085	\$53,085	\$0	2,615	2,615	0
	22 ASINs	↑ 90%	↑ 90%		↑ 119%	↑ 119%	
	 Trends International Minions 2	\$27,047	\$27,047	\$0	173	173	0
	 B09GPQWQD2	↓ 47%	↓ 47%		103%	↑ 103%	
	 Trends International Minions Le Minion Wall Poster 22.375" x 34"	\$369	\$369	\$0	18	18	0
	 B07HKT3JZF	↑ 2348%	↑ 2367%	↓ 100%	↑ 2345%	↑ 2363%	↓ 100%

## Jungle Scout Cobalt | Share of Voice

Top Brands					
Based on 160 placements					
	Placements	Weighted SOV	Basic SOV	Avg. Position	Avg. Price
Clif Bar	13	36.05%	8.13%	42	\$22.60
Quest Nutrition	12	18.75%	7.50%	84	\$36.22
Kind	13	14.82%	8.13%	50	\$17.92
Rxbar	6	11.25%	3.76%	60	\$31.06
Zone Perfect	6	6.03%	3.75%	68	\$34.37
Pure Protein	4	5.52%	2.50%	30	\$19.24
Balance Bar	1	2.50%	0.63%	8	\$18.15
Power Crunch	2	1.88%	1.25%	43	\$21.38
Nature Valley	5	1.66%	3.13%	32	\$7.59
Gomacro	2	0.79%	1.25%	14	\$30.49
Gatorade	1	0.33%	0.63%	15	\$18.00
Extend Bar	1	0.19%	0.63%	17	\$25.49
Lärabar	3	0.11%	1.88%	41	\$18.60
Fulfil	1	0.04%	0.63%	22	\$21.99
One Brands	6	0.03%	3.75%	65	\$24.80
Caveman Foods	1	0.02%	0.63%	25	\$17.20
Doritos	3	0.01%	1.88%	69	\$16.66

### Expert Advice

Amazon investors need to look at all facets of a brand (or company) before moving forward with an acquisition. Is the company gaining or losing market share? Do they have multiple products on Amazon, which could reduce risk? How is their supply chain and purchasing history? Are they spending too much on advertising? Investors must have a holistic view of each business in order to be successful.



**Mike Scheschuk**  
Chief Marketing Officer

## Chapter 3

# Category Information

## Checklist

### Category performance

Unit sales

Revenue (1P & 3P)

Number of brands

Number of ASINs

Median price

Average number of reviews

### Competitor performance

#### Competitor product performance

Unit sales

Revenue

Market share

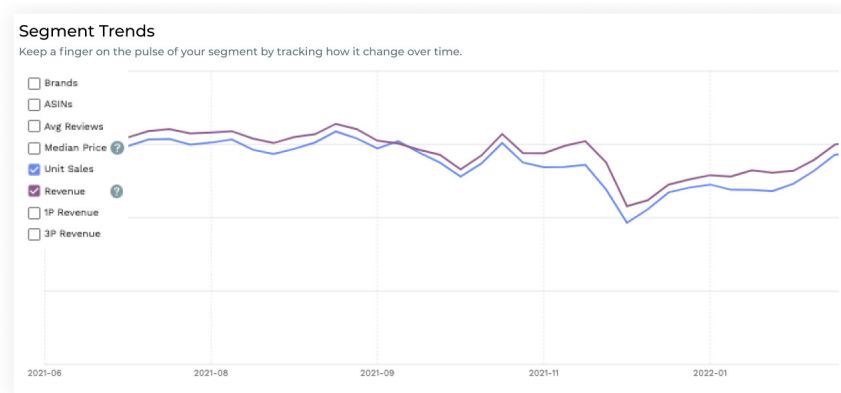
Share of voice on relevant keywords



## Category Performance

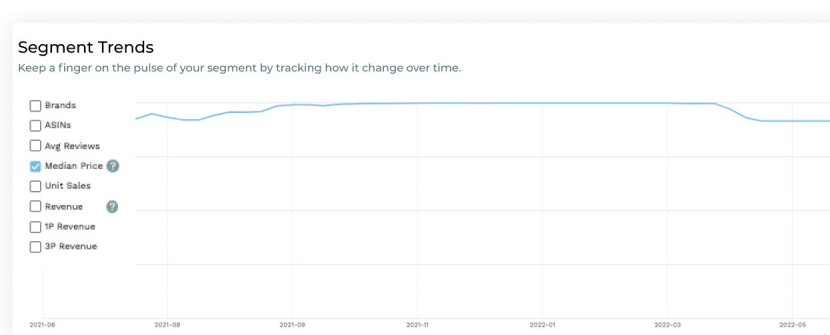
Studying category performance is a crucial step in conducting due diligence on an Amazon business. By conducting this research, you can ensure that sales in a category aren't trending down. You can use Cobalt to gather data to determine the potential opportunity presented by a category, along with market trends and market saturation, among other insights. You can examine estimated revenue (1P & 3P) and unit sales in a category to determine if a particular market is healthy or not.

Rising revenues and unit sales could be an indicator of growth in the market. Inversely, falling revenues and unit sales could be a sign of a slowing market. However, note that revenue and unit sales might trend in opposite directions: For example, if revenues are up and unit sales are down, a brand or category as a whole on Amazon might be raising their prices due to inflation.



You can use Cobalt to determine the saturation of an Amazon market. Cobalt provides you with the number of brands competing in a category and the number of ASINs available within a category. If there is a high number of brands and ASINs in a market, a brand might be facing strong competition. Inversely, if there is a low number of brands and ASINs, the category might present a growth opportunity for a brand.

Cobalt provides you with the median price of products within your category. This information can tell you if a brand's products are competitively priced in comparison to other brands in their category. You can also see if prices in the market are trending up or down. If prices are trending up and revenues and unit sales have not fallen, consumers might not be as sensitive to price increases for that category.



Cobalt displays the average number of reviews for each Amazon category. This data can tell you how important reviews are to a given product and its customers. If a rise in reviews heightens sales velocity, you can infer that reviews matter for a brand and you should acquire a brand with a high number of reviews or plan to grow that number if you acquire it.

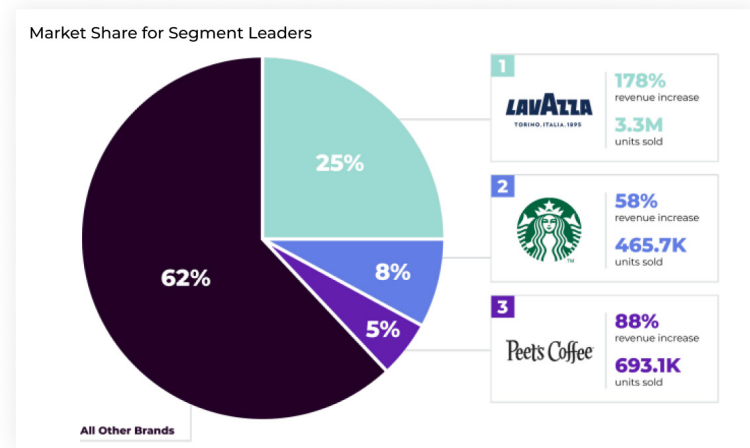
You can invest in collecting reviews via product inserts or tools like Jungle Scout's [Review Automation](#) should you acquire the brand.

## Competitor Performance

You may want to gauge the performance of products that compete with the offerings of an ecommerce business. Amazon's Best Sellers Rank (BSR), which is available under "product information" on an Amazon listing, can give you an idea of how a product's sales stack up against other items in the market.

Lower BSRs indicate more sales than higher BSRs: An ASIN with a BSR of 10 generates much higher sales than an ASIN with a BSR of 1,000. However, it is tedious to check the BSR for every product in your acquisition target's category. Fortunately, there are easier ways to find this data. Cobalt's Market Insights offers revenue and unit sales estimates for ASINs.

You can use Cobalt to find a competitor's estimated unit sales and revenues. This data can help you determine the health of competitors. Cobalt also provides data on the **market share** of every brand in a particular category, allowing you to identify both core and emerging competitors.



### Expert Advice

By identifying an Amazon FBA business' competitors on Amazon, you may also be able to find its competitors on other ecommerce platforms. 58% of businesses also list their products on one additional ecommerce site – and many more plan to expand to other platforms.



**Eva Hart**

Enterprise Ecommerce Expert,  
Jungle Scout

It is also essential to study the SOV of competitors on relevant keywords. Cobalt will show you a basic SOV – the number of times a brand appears within the search results divided by the total number of search results – and the weighted SOV – which takes the Amazon Choice Badge and higher position on the search results page into account.

Examining SOV provides insight into the visibility of a particular brand against its competitors. If the business has a low SOV, you might have to invest in advertising or optimizing a listing to boost SOV should you decide to acquire them.

## Chapter 4

# Marketing Information

## Checklist

### Audit listings

How many are fully optimized

How many need optimization work

### Review

All product images and videos

A+ Content

Amazon Storefront

Product insert files

Keyword strategy

Marketing strategies on and off Amazon

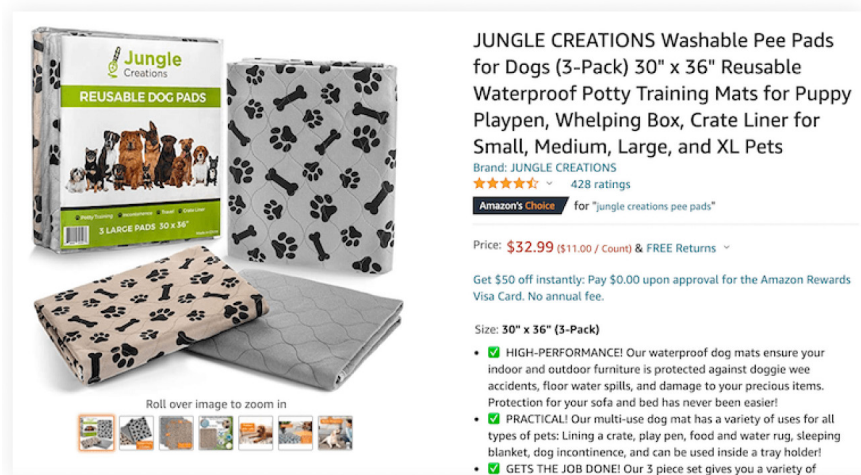
Obtain access to all marketing SOPs

## Examine Marketing Strategies

Examining marketing strategies is another important part of conducting due diligence. Study a brand's listings on Amazon to discover how they are positioning their products — and making them stand out from the competition. From there, decide how many listings need optimization work (which will be a financial investment for you) and how many are fully optimized.

Check to see if the listings have optimized titles and bullets that contain product features *and* benefits, with relevant keywords throughout. Keyword optimization is essential, as keywords tell Amazon's A9 algorithm precisely what your product is, and if your item is what buyers are seeking.

Review all product images and videos. Check to see if images and videos are in line with Amazon's terms of service and that the listings take full advantage of the six visuals — seven including the main image — that are permitted for each listing. It is recommended that listings contain lifestyle images and infographics that have text, logos, and design elements.



### Expert Advice

If a brand hasn't fully unlocked Amazon's potential for product imagery, videos, A+ Content, or their storefront, this can be a growth opportunity for you post-acquisition. You can invest in optimizing these elements and boost clicks, conversions, and, ultimately, sales.



**Eva Hart**

Enterprise Ecommerce Expert,  
Jungle Scout

Businesses on Amazon that are enrolled in Amazon's Brand Registry can create beautifully designed product descriptions for their Amazon listings through A+ Content. Examine these enhanced listings to ensure that they meet these criteria:

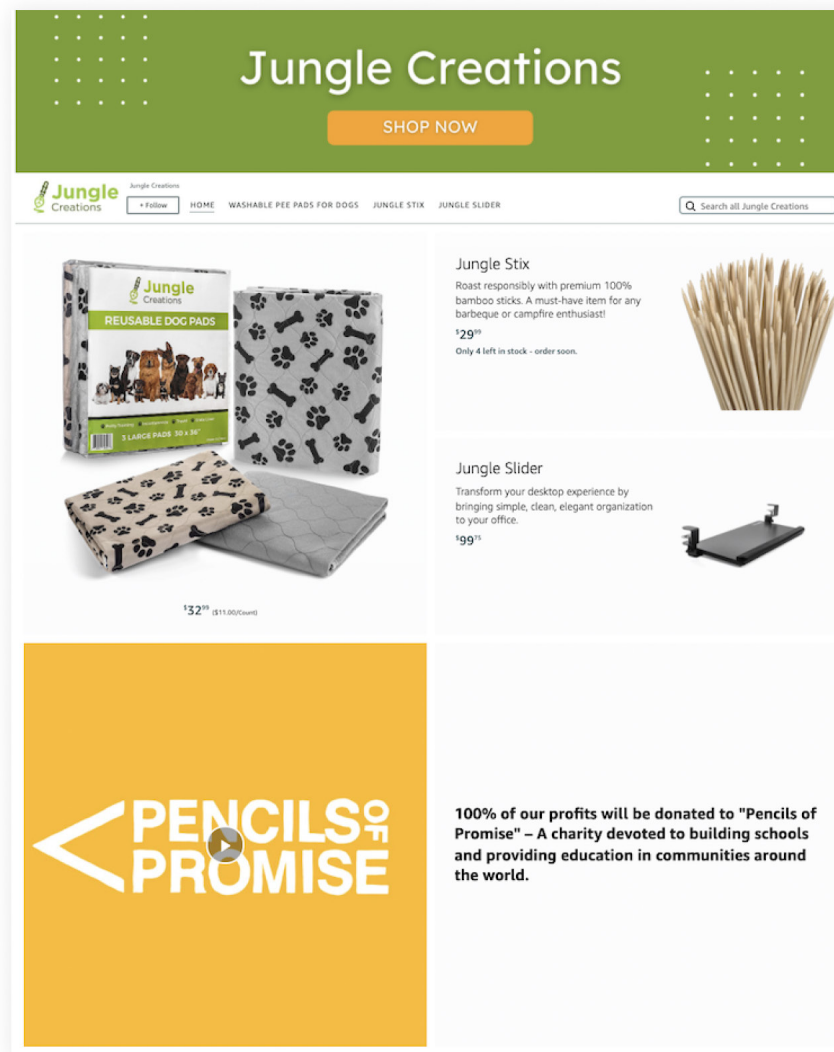
- Provide unique and relevant product information
- Contain easy-to-consume content
- Answer common questions posed by customers
- Provide a cross-sell for other products in the brand's Amazon catalog
- Contain professionally designed images & infographics (that aren't used in the secondary images)

If a business' A+ Content doesn't contain these elements, you can grow clicks and conversions by following the above guidelines to optimize the listings.

See if the brand has an [Amazon Store](#), which can showcase the business' products and increase its brand awareness. Ask them for product insert files. Product inserts are flyers that they can bundle with products shipped to customers and are important tools for requesting reviews. Ensure that the content of these inserts follows Amazon's [Terms of Service](#) (i.e. brands on Amazon cannot outright ask for positive/five-star reviews.)

You should also study a brand's keyword strategy. By entering one of their ASINs into Cobalt's Keyword Scout, you can discover all of the keywords for which that ASIN is ranking. This information gives you an idea of which keywords they are targeting and how customers are searching for their products.

You should also examine marketing strategies on and off Amazon and obtain access to all marketing standard operating procedures (SOPs) to ensure that a business' processes are efficient and documented.



## Explore Leading Solutions for Conducting Due Diligence on Amazon FBA Businesses

In this guide, we've covered a number of **Cobalt** tools available for researching Amazon FBA businesses.

### Jungle Scout **Cobalt**



#### **Market Insights**

Gather detailed sales data for ASINs and identify competitors in a given product category



#### **Keyword Scout**

View the keywords your competitors are using to drive discoverability and conversions



#### **Share of Voice**

View your brand's SOV and the SOV of their competitors

**Learn more about how  
Cobalt can help your firm  
evaluate potential Amazon  
FBA business acquisitions.**

**Speak with a Jungle Scout  
expert today!**

**Request a Demo**