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E-COMMERCE

PROTECTING MARGINS IN A HIGH-COST ENVIRONMENT

E-commerce is evolving fast. Rising fulfillment costs, increasing marketplace fees, and growing digital ad spend aren't just minor challenges, they're **direct threats** to profitability. Many companies don't realize the impact until it's too late.

The smartest businesses aren't waiting for margin pressures to squeeze them out. They are proactively reshaping finance and operations, preventing problems before they start. Success now requires a financial strategy that is **tech-driven, adaptable, and built for resilience.**

THE NEW REALITY

MARGIN EROSION AT EVERY TURN

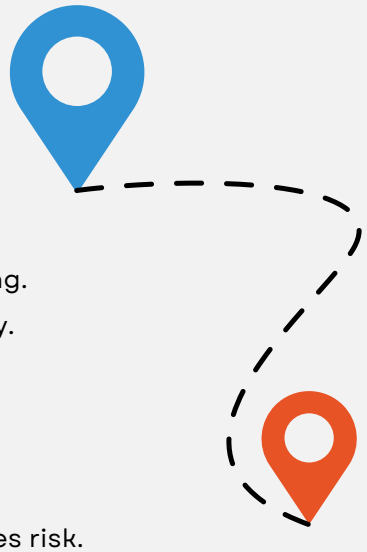
E-commerce businesses face mounting financial pressures:

- **Rising Customer Acquisition Costs (CAC)** – Digital ad spend is climbing, while conversion rates remain stagnant.
- **Fulfillment & Logistics Challenges** – Supply chain unpredictability and shipping costs continue to climb.
- **Marketplace & Payment Fees** – Platforms like Amazon demand a growing share of revenue.
- **The Discount & Return Culture** – Consumers expect promotions and hassle-free returns, cutting into margins.

Companies that succeed aren't just slashing costs; they are implementing **tech-enabled financial strategies t**o protect and grow profitability.

RETHINKING THE PLAYBOOK

HOW THE BEST STAY PROFITABLE



1. Shift Focus from Revenue to Profitability

The best brands assess every SKU, channel, and transaction.

- Which products are draining margin? Not every sale is worth making.
- Is your pricing model reactive or strategic? Predictive pricing is key.
- How much of your revenue is converting to actual profit?

2. Master Supply Chain & Logistics

Fulfillment inefficiencies quietly erode profits.

- Are you overly dependent on one provider? Diversification mitigates risk.
- Is inventory tying up too much cash? Smart stock management boosts liquidity.
- Are shipping inefficiencies costing you? Optimizing packaging and carrier selection can significantly cut costs.

Top-performing companies use **real-time analytics** to improve supply chain decisions.

3. Manage Marketplace & Payment Costs Strategically

Marketplaces offer visibility, but at a steep cost.

- Have you negotiated lower payment processing fees? Many businesses overlook this.
- How much control do you have over customer relationships? Owning the relationship means better margins.
- Are platform fees growing faster than revenue? If unchecked, they will eat into profitability.

4. Marketing Spend: Optimize for Growth & Profit

Smart brands treat marketing as an investment, not an expense.

- Are you tracking ROAS in real time? If not, you're wasting spend.
- Are you focusing on customer retention? Repeat buyers cost less to convert.
- Do you know your cost per incremental sale? Without it, marketing spend is guesswork.

The best companies use **AI-driven marketing models** to optimize spend and maximize ROI.

5. Returns & Discounts: The Hidden Margin Killers

Promotions and returns must be carefully managed.

- What percentage of revenue are you refunding?
- Are returns policies optimized using customer data?
- Are you converting returns into future sales or absorbing the loss?

Leading companies turn behavioral insights into strategies that improve profitability.

CASE STUDY

HOW CHEWY PROTECTS MARGINS THROUGH STRATEGIC OPERATIONS

Chewy, a leading e-commerce pet supply retailer, has successfully maintained strong margins while scaling in a competitive market:

1. Efficient Fulfillment Network

- Chewy has invested in automated fulfillment centers, which have reduced costs and improved efficiency. By 2024, they operated multiple automated facilities, with plans to automate over 70% of their fulfillment volume (*1*). These centers have lowered unit-level costs by approximately 15% compared to traditional facilities (2).

2. Private Label Expansion

- The company aims to increase private label penetration, expecting these brands to contribute up to 500 basis points of higher gross margin (3). In 2021, Chewy entered the fresh pet food market with Tylee's, their private label brand, expanding their total addressable market (4).

3. Subscription-Based Model

- Chewy's Autoship program generated about $8.5 billion in customer sales throughout 2023, accounting for over 75% of total sales (5). This subscription model enhances customer retention and allows for better inventory management.

4. Dynamic Pricing Strategy

- Chewy uses real-time pricing algorithms to adjust prices based on market demand and competitor pricing, with adjustments occurring several times a week. They maintain competitive pricing, typically 5-10% lower than traditional retail stores (6).

5. Technology-Driven Operations

- Chewy leverages AI and automation to optimize operations, improving productivity and efficiency across their fulfillment network (7).

By implementing these strategies, Chewy has demonstrated resilience in protecting margins in a high-cost environment.

THE BOTTOM LINE

Financial strategy isn't a back-office function anymore. It's a competitive advantage. The companies redefining e-commerce integrate finance, operations, and technology into a cohesive system designed for profitability at scale.

Please don't hesitate to reach out to prashant@prajapatico.com or rohan@rovapartners.com with any questions.

REACH OUT
TODAY