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Margin Protection

What Your P&L; Isn't Telling You
— And Where Your Profit Is Actually Leaking

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Your P&L; Looks Fine. That Is the Problem.

Most e-commerce founders review their Profit & Loss statement and see a number at the bottom. If it is positive, they feel good. If it is growing, they feel great. But the P&L; is a summary — and summaries hide details. The details are where your margin leaks live.

A P&L; can show you made \$12,000 in net profit last month and still be hiding the fact that three of your top ten products are losing money, your Amazon fees increased 8% without you noticing, and your refund rate on one product line is destroying the margin on everything else.

Leak 1: Blended Margins Hide Losers

Your overall gross margin might be 42%. That sounds healthy. But if you have 15 SKUs, that 42% is a blended average. Some products might be running at 55% margin and carrying the portfolio, while others are at 18% or even negative after fees and returns.

Without per-product margin analysis, you cannot see which products are earning their shelf space and which are draining your business. You might be spending ad dollars scaling a product that costs you money on every sale.

The fix: Break your COGS and revenue down by product or product line. Calculate gross margin per SKU. If a product has less than 25% gross margin after all platform fees, it needs attention — either renegotiate supplier cost, raise price, or consider discontinuing.

Leak 2: Platform Fees Creep Silently

Amazon charges referral fees, FBA pick-and-pack fees, monthly storage fees, long-term storage fees, advertising fees, return processing fees, and more. Shopify charges transaction fees, payment processing fees, and app subscription fees. These fees change. Amazon adjusts FBA rates at least once a year. New fee categories appear without announcement.

If you are not reconciling platform fees against your settlements every month, you will not notice when a 2% fee increase quietly erases \$1,500 from your monthly profit.

The fix: Use A2X to break every settlement into its components — gross sales, each fee type, refunds, and net payout. Compare fee totals month over month. Flag any category that increases by more than 5%. Investigate before it compounds.

Leak 3: Returns Are Not Just Lost Revenue

When a customer returns a product, you lose the sale revenue. But that is only the beginning. You also lose the outbound shipping cost, the return shipping cost, the FBA return processing fee, and often the product itself — because returned items frequently cannot be resold as new.

A product with a 15% return rate does not just lose 15% of revenue. After all associated costs, the true impact can be 20-30% of the revenue from that product line. Your P&L; shows refunds as a single line. It does not show you the cascade of costs attached to each return.

Leak 4: Cash-Basis Timing Creates Phantom Profits

If your books are on cash-basis, your P&L; is lying about timing. You buy \$30,000 of inventory in March. You sell it through May, June, and July. Cash-basis makes March look terrible and May through July look extraordinary. Neither reflects reality.

Founders on cash-basis often make decisions based on these phantom patterns — cutting ad spend in a "bad" month that was actually just an inventory purchase, or over-investing in a "great" month that was actually just delayed revenue recognition.

The fix: Move to accrual-basis accounting. Inventory purchases go on the balance sheet as an asset, not the P&L; as an expense. Revenue is recognized when the sale happens, not when the payout arrives. Every month reflects what actually happened in that month.

Leak 5: You Are Making Decisions Without Margin Data

The most expensive margin leak is not on your P&L; at all. It is the decisions you make without accurate data. Launching a new product without knowing your true cost structure. Running a promotion without understanding the margin impact. Reordering inventory for a product that is actually losing money after fees.

Clean financial data is not a reporting exercise. It is a decision-making advantage. Founders who know their real numbers per product, per channel, per month make better decisions — and better decisions compound over time.

What Margin Protection Actually Looks Like

- **Monthly per-product margin analysis** — know which SKUs earn and which drain
- **Platform fee reconciliation** — catch fee increases before they compound
- **Return rate tracking by product** — identify the real cost of each return
- **Accrual-basis P&L;** — see what actually happened this month, not last month's cash
- **Red-flag alerts** — get notified when margins drop, fees spike, or cash tightens

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