Amazon Working Backwards: Validate Demand Before You Commit Capital

THE SCALING EDGE • ISSUE 9 • Amazon — corporate strategy spotlight

Educational example | Financial figures are hypothetical unless otherwise noted.

The strategy: what the business owner should understand

Working Backwards begins with the customer outcome and tests whether a product should exist before a company commits resources. The owner must validate demand and unit economics, not just customer enthusiasm.

A mobile service entrepreneur is considering equipment, insurance and a full-time assistant before securing paying customers.

How to apply the strategy

Write the customer promise and FAQs, interview prospects, run a small paid pilot, then model contribution, break-even and cash requirements.

Before acting, write down the baseline, the owner of the process, the cost of the change, and the evidence that would make you continue or stop.

Build the financial model before making the decision

Contribution per service = price − variable cost. Break-even units = fixed operating cost ÷ contribution per service (round up). Payback months = initial cash investment ÷ incremental monthly net cash inflow.

Current: 120 services × $150 = $18,000 revenue; direct cost $75/service. Pilot supports 150 services: $22,500 revenue and $11,250 direct cost. New fixed cost $900. EBITDA increases by $1,350. The added fixed cost requires 12 extra services ($900 ÷ $75) to break even. A $4,000 equipment purchase is not automatically a $4,000 EBITDA expense; depreciation and cash timing differ.

Illustrative monthly income statement	Before	After
Sales revenue	$18,000	$22,500

Direct costs / cost of services	($9,000)	($11,250)
Gross profit	$9,000	$11,250
Operating expenses excluding D&A	($6,500)	($7,400)
EBITDA	$2,500	$3,850
Depreciation and amortization	($500)	($500)
Operating profit (EBIT)	$2,000	$3,350
Interest expense	($200)	($200)
Income taxes (illustrative)	($500)	($500)
Net income	$1,300	$2,650

EBITDA before = $2,500. EBITDA after = $3,850. Change = $1,350. EBITDA is not net income or operating cash flow; it excludes interest, income taxes, depreciation and amortization.

Read the financial ratios together

Ratio	Formula	Before	After
Gross margin	Gross profit ÷ revenue	50.00%	50.00%
EBITDA margin	EBITDA ÷ revenue	13.89%	17.11%
Operating margin	EBIT ÷ revenue	11.11%	14.89%
Net profit margin	Net income ÷ revenue	7.22%	11.78%
Operating expense ratio	Operating expenses excl. D&A ÷ revenue	36.11%	32.89%

A percentage-point change is the difference between two percentages. For example, moving from 10% to 12% is a two-percentage-point improvement. Do not call it a 2% revenue increase.

Where to find the evidence in your statements

Profit and loss (P&L)

Find revenue, cost of sales, operating expenses, depreciation, interest and taxes. Confirm that added costs and savings are coded to the same categories before comparing periods.

Balance sheet

Review cash, accounts receivable (A/R), inventory, accounts payable (A/P) and any new borrowing. Higher revenue can produce higher A/R before it produces cash.

Cash flow and bank activity

Separate actual payments from noncash entries. Depreciation reduces accounting profit but is not a current-period cash payment. Payroll, inventory and software payments may happen before customers pay.

Operational reports

Use the metric closest to the strategy: defects, access exceptions, follow-up rates, invoices processed, handoff errors, product conversions, status calls, pilot orders or completed jobs.

How one decision affects the rest of the business

Deposits collected before services are performed may be liabilities; cancellations can reverse expected volume.

Sales and marketing: check whether more demand requires more leads, follow-up time or customer support. Operations: verify capacity, quality and turnaround. Accounting: track revenue recognition, direct costs, overhead and receivables. Cash: forecast the timing of supplier payments, payroll and customer collections.

How the owner should decide

Proceed only if demand, delivery capacity, working capital and cash runway are adequate. Do not confuse accounting profit with cash available for equipment.

Use a 30-day pilot when feasible. Define the expected change, measurement owner, cost ceiling, quality safeguards and stop condition before starting.

Your 30-day financial review worksheet

Question	Enter your business numbers
Monthly sales	_____
Direct costs	_____
Operating expenses excluding D&A	_____
Depreciation and amortization	_____
Interest expense	_____
Income taxes	_____
Current EBITDA	_____
Current EBITDA margin	_____
Operating metric and baseline	_____
Expected improvement	_____
Incremental direct costs	_____
Additional fixed expenses	_____
Expected EBITDA change	_____
Expected cash impact	_____
Owner and review date	_____

The lesson to take away

A corporate strategy becomes useful to a small business only when the owner can explain the problem, calculate the expected benefit, identify which other functions will be affected, and verify the result in both operational and financial records.

About this article: An Across the Table educational adaptation. Numerical business examples are illustrative unless expressly identified otherwise.

Across the Table: https://acrossthetable.biz/ | The Scaling Edge: https://acrossthetablebiz.substack.com/