BOSTON CONSULTING GROUP

DISRUPTION **AT OUR DOORSTEP**

Amazon's arrival in Sweden and the Nordics

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Amazon's arrival in Sweden and the Nordics

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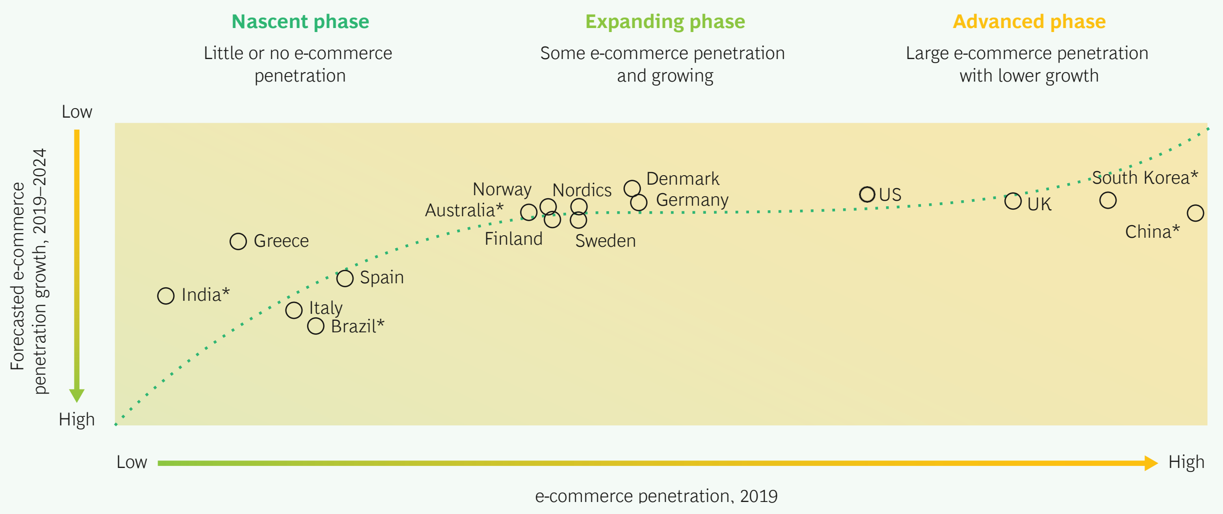
Nordic e-commerce is in an expanding phase – COVID further accelerating online shift

The Nordic B2C e-commerce market is sizeable and growing at a fast pace, reaching roughly €24 billion in 2019 (excluding services). Consumers have increasingly embraced online shopping, largely driven by price, convenience and availability. The market has matured significantly over the past years. E-commerce has now become a critical channel for consumer goods companies and retailers alike and many players have stepped up their online capabilities and proposition. COVID has further fueled the online migration in the short term but has also left structural changes in consumer behavior. COVID's acceleration of e-commerce has been significant – up to 5 years in the US, providing an indication also for the Nordics.

EXHIBIT 1 | Nordic e-commerce markets in expanding phase



* eCommerce penetration and growth calculated for 2018-23 due to lack of 2019 actuals
Sources: Forrester; BCG analysis.

Nordic e-commerce is still in the expanding phase lagging behind front runners such as US and UK (see Exhibit 1). This despite the fact that the Nordics is the most connected region in the world. Lack of strong historical push by retailers from physical to online channels, no large international pureplay marketplaces and geographically challenging last mile delivery (except Denmark) are some limiting factors leaving the region in the expanding phase. However, this now appears to be changing.

Enters Amazon – tech giant officially open in Sweden

Amazon is the world's largest online retailer. But it is much more than that – it is a conglomerate and tech giant. The company plays across a wide range of business areas including e-commerce, groceries, cloud computing, music & TV streaming, electronic devices, marketing, etc.

Amazon is not new to many Nordic consumers; it enjoyed ~2% market share 2019 through cross-border trading. The ~2% share is achieved without any local targeting of the Nordic consumer; i.e. no physical presence, no marketing efforts nor launch of the loyalty program Amazon Prime.

Not until 28th October 2020. Amazon opening in Sweden has been long awaited and marks a key milestone in the market's e-commerce evolution.

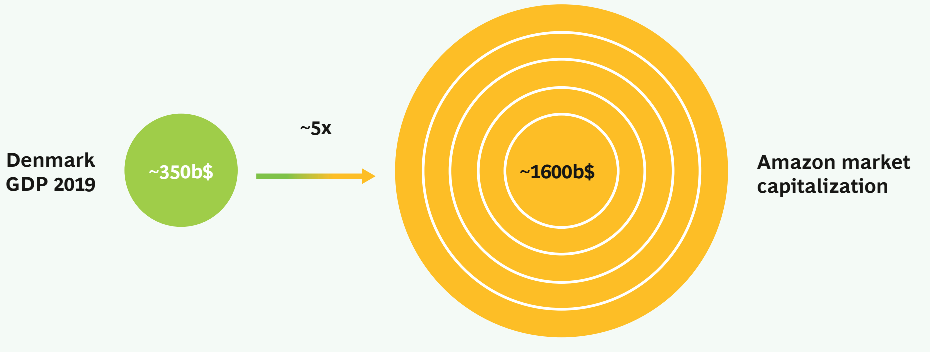
Amazon has demonstrated unparallel global growth. It currently has a market capitalization close to 1,600 billion USD, almost 5X the GDP of Denmark (see Exhibit 2). The company's growth is driven by a unique strategic foundation based on long-term orientation, customer obsession and operational excellence. What makes Amazon unique is its combination of wide assortment (+500 million products in the US), competitive prices and fast delivery.

Amazon's ability to create loyalty through the membership subscription service Prime has further contributed to the long-term growth. The service gives members access to unlimited free and fast delivery and streaming service like Prime Video and Amazon Music. The member base is growing rapidly reaching 150 million beginning of year, and COVID has likely accelerated the trend in 2020.

Amazon likely to broaden its offering in Sweden and expand to the rest of the Nordics

Amazon's entry in Sweden was since long expected and speculation has been extensive among consumers, businesses and media. What they now launched is largely in line with expectations: an e-commerce platform built on its German

EXHIBIT 2 | Amazon market capitalization almost 5X Denmark GDP



Sources: World bank; NASDAQ

website, broad offering of +150 million products covering twelve of the company's thirteen first wave categories (only pantry missing) and relatively competitive prices. However, add-on offerings such as Prime, fast delivery, Amazon Hub, Amazon Fresh and Amazon Flex are currently not available to the Swedish consumer. Further, its physical presence is still limited to one fulfillment center in Eskilstuna, outside of Stockholm.

What can the Nordics expect going forward? Firstly, Amazon will likely broaden its offering in Sweden and thereafter expand to the rest of the Nordic markets. Recent Amazon launches in similar markets can provide an indication of what to expect in the Nordics. In Australia, within one first year from official launch, Australians could take part of the subscription service Amazon Prime as well as Amazon Pantry. Within two years, the company launched Subscribe & Save, Amazon Hub delivery stations and announced a new West Coast Fulfillment Centre. The Australian expansion journey continues and during 2020 Amazon launched the delivery service Amazon Flex, announced a robotic Sydney warehouse and filed trademark for 'Amazon Pharmacy'.

The company has continuously applied and refined its market entry 'Playbook' and compressed its timeline. Similar developments are therefore not unlikely to be seen in the Nordics, not the least for its prestige service Amazon Prime. As Amazon offered Prime already six months after website launch in Australia, Swedes can likely enjoy the service in a not too distant future.

Amazon could become the largest e-commerce player in the Nordics and capture 5-10% share of the e-commerce market

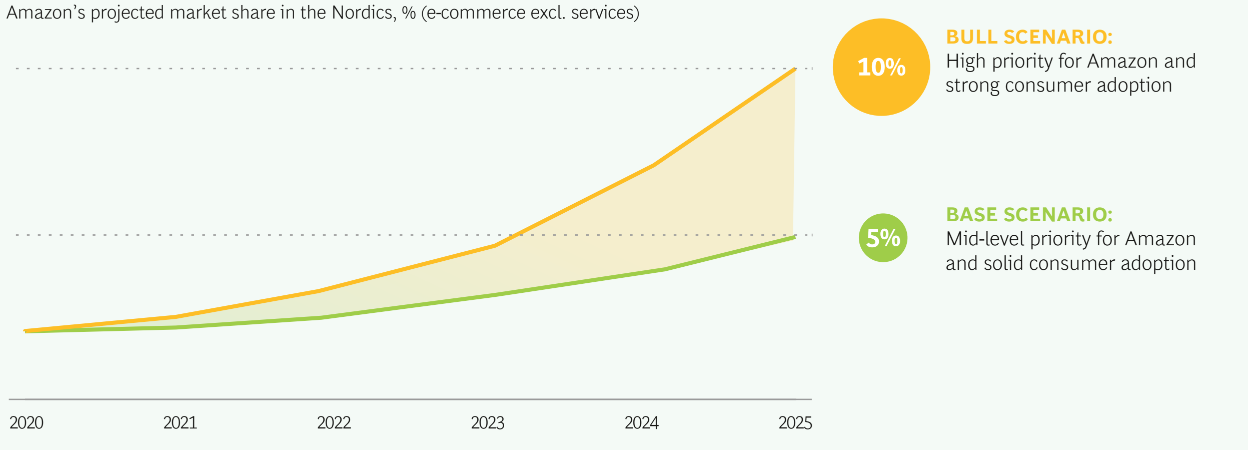
Based on previous entries, Amazon disrupts the markets it enters and drive consolidation. The giant has achieved strong #1 or #2 position in markets they entered early (pre- 2010) or where e-commerce penetration is lower. In more mature e-commerce markets, where table stakes are higher and competition fiercer, it naturally takes Amazon longer to gain a top position.

Our estimations indicate Amazon could capture 5-10% of the Nordic e-commerce market within 5 years of entry and thus become the largest Nordic e-commerce pure player (see Exhibit 3). Furthermore, they would become one of the only truly cross-vertical players. There are currently several strong vertical e-commerce players in the Nordics. However, Amazon would take a unique position as a marketplace with a multi-category proposition.

The 5-10% share is lower than our previous estimate from mid-2018 of 8-20%. One key driver of the lowered projection is the now a further matured Nordic e-commerce market. Incumbent players have built a stronger online position and last mile delivery options have evolved with last mile delivery options expanding with e.g. delivery boxes and logistics services such as Mover. COVID has also further forced retailers to accelerate their e-commerce capabilities. Furthermore, Amazon's recent entries in similarly mature markets such as Australia and the Netherlands have not resulted as extensive market share gains, but should also be seen in light of existing e-commerce marketplaces (e.g. eBay and bol.com).

One determining factor for Amazon's market share capture will be the company's priority and focus on the Nordics. Its willingness to invest in pricing, marketing and physical presence in Sweden and other Nordic markets will be key factors impacting the growth rate. Either way, the company is here for the long run and with a market share of 5-10% incumbent players will face significant challenges. As the company typically invests heavily to drive volume and scale, many Nordic e-commerce pure players will be pressured as they already operate with slim margins.

Exhibit 3 | Amazon could capture 5-10% of the Nordic e-commerce market within 5 years (excl. services)



Note: "non-leading players" defined as everyone except top 9 players, representing 70, 50, 78 and 70 percent of the market in SE, NO, DK and FI respectively;
Sources: Interviews with experts, BCG analysis.

Looking ahead – incumbent players to join or fight?

Incumbent players are left with a strategic dilemma – should they join with Amazon or should they fight back? (See Exhibit 4.) Joining with Amazon can be a great opportunity for brands and for some (mainly small) retailers. This will provide access to Amazon's growing customer base, easy-to-manage platform and logistics network. However, potential channel conflict, dependency on Amazon and losing data ownership poses challenges.

If deciding to fight back, Nordic companies should consider what battlegrounds to pick. Incumbents might want to refrain from fighting Amazon solely on its key strengths such as assortment, pricing and delivery. They could rather focus on the giant's vulnerabilities including limited physical store network, limited personalization in browsing, and lack of local understanding. For these weaker spots, there are opportunities for Nordic retailers to invest and stay ahead.

Superior in-store experience, unique brands, extreme assortment localization, building strong community feel and super-attractive loyalty programs present some opportunities for companies to defend their positions.

Whether incumbent players decide to join or fight back, they have one thing in common: they need to make sure “their houses are in order”. Specifically, they should consider optimizing their value proposition, channels, and operations – and time is of the essence. It is imperative that businesses prepare for what could be a bumpy ride when Amazon is now officially here.

Exhibit 4 | The choice of incumbent players is whether to join with or fight Amazon

	OPTION 1: JOIN Join with Amazon, playing with a full or selected proposition and assortment, while pushing your own e-tailing and other channels	OPTION 2: FIGHT Exclude Amazon as a channel and instead leverage alternative channels or build your own capabilities to become a successful e-tailer
Pros and Cons to consider (not exhaustive)	+ Access larger customer base, traffic, and broader geographic scope Leverage fast and efficient logistic network + Use easy-to-manage platform + Take advantage of swift scale benefits (especially for small retailers) − Price transparency leading to price erosion and channel conflicts − Dependency on Amazon or possibly being bypassed − Data is owned by Amazon, and pulling back on the decision can be costly	+ No dependency on Amazon; full control of your own platform + Potential to drive deeper customer relations and personalization + No referral rates to pay; all profits go to you − Missing out on the revenue potential from Amazon’s traffic − Impossible to match Amazon’s scale and operational efficiency − Risk of losing brand control if wholesalers sell on Amazon
Key actions	A Choose the right partner model with Amazon B Adapt your supply chain to serve Amazon’s channel C Decide how to optimize play with Amazon, such as segment assortment to ensure uniqueness and manage channel conflicts D Set up strong internal management of key accounts with Amazon	A Build an ecosystem around your brand with strong customer loyalty B Focus on your value proposition with proactive personalized customer relationships C Integrate e-commerce strategy with your physical store network D Drive operational efficiency, reduce costs, and preserve margins
	Predominant strategy for brands but also pursued by smaller retailers	Predominant strategy for retailers but also pursued by some brands (rarely for the long term)

Source: BCG Analysis

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