



# DISRUPTION AT OUR DOORSTEP

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Amazon's arrival in Sweden and the Nordics

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January 2021

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### At a Glance

October 28<sup>th</sup>, 2020, Amazon launched its e-commerce platform in Sweden, marking a key milestone for Nordic e-commerce. The conglomerate and tech giant could become the leading Nordic e-commerce player and capture 5-10% of the e-commerce market within 5 years.

Incumbent players are left with a strategic dilemma – should they join with Amazon or should they fight back? Either way, they need to make sure their houses are in order and prepare for what could be a bumpy ride.

This material covers our perspective on Amazon's entry in the Nordics, including one main article as well as deep-dive perspectives on three core elements of Amazon's success; Assortment, Pricing and Loyalty (including delivery).

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# Main article

## 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.

## 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.

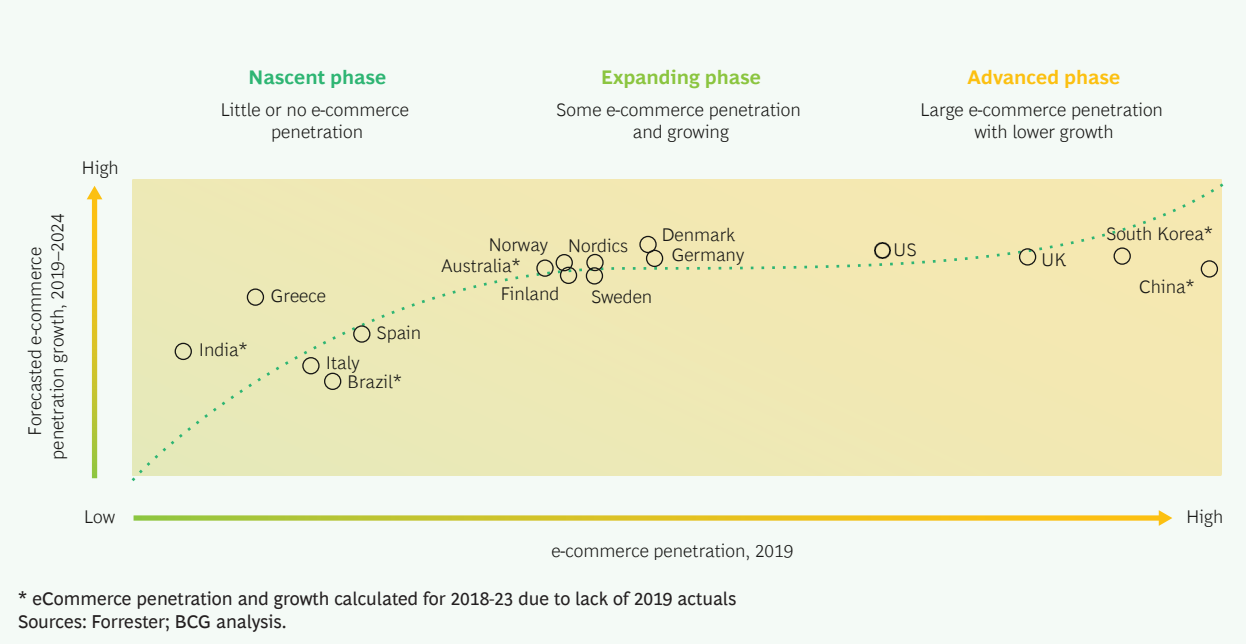
Not until 28th October 2020. Amazon opening in Sweden has been long awaited and marks a key milestone in the market's e-commerce evolution.

Amazon has demonstrated unparalleled global growth. It currently has a market capitalization close to 1,600 billion USD, ~3X the GDP of Sweden (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

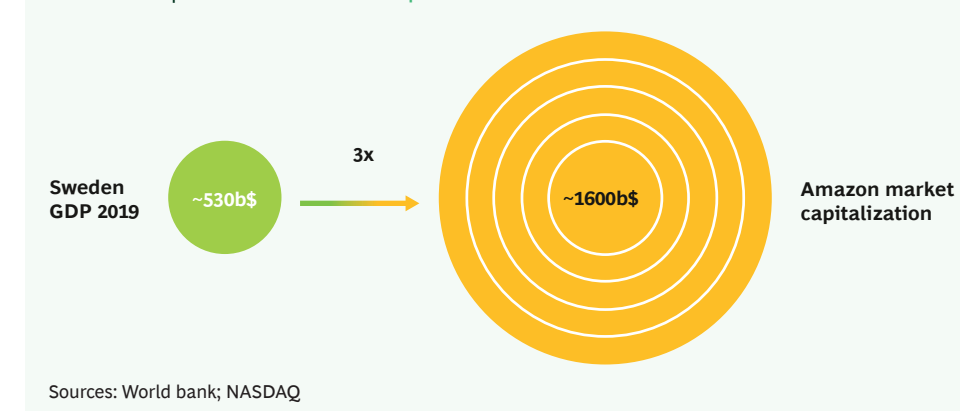
Amazon's entry in Sweden was since long expected and speculation has been extensive among consumers, businesses and media. What they now launched is largely in line with expectations: an e-commerce platform built on its German website, broad offering of +150 million products covering twelve of the company's

EXHIBIT 1 | Nordic e-commerce markets in expanding phase



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.

EXHIBIT 2 | Amazon market capitalization ~3X Sweden GDP



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

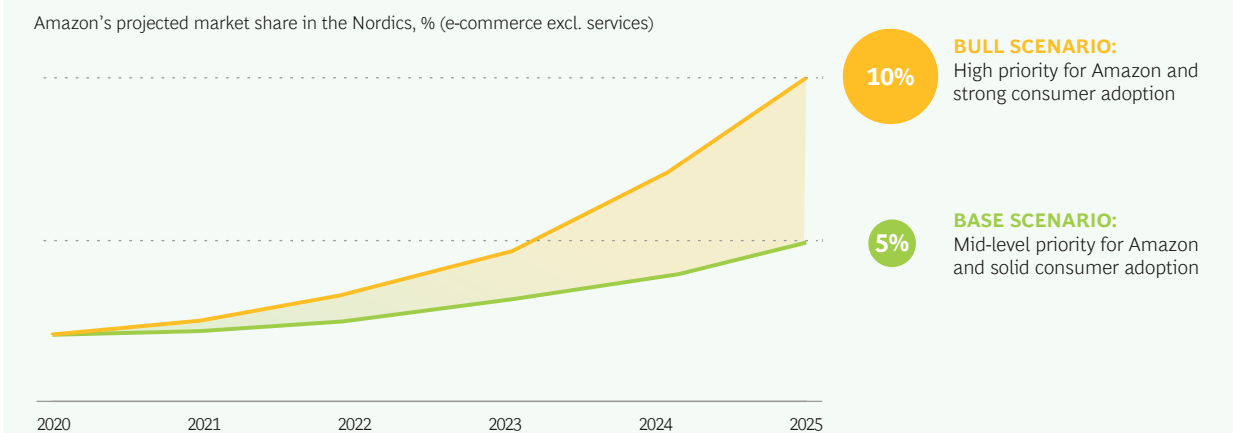
Based on previous entries, Amazon disrupts the markets it enters and drive consolidation. The giant has achieved strong #1 or #2 position in markets they entered early (pre-2010) or where e-commerce penetration is lower. In more mature e-commerce markets, where table stakes are higher and competition 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 Log-tech players such as Budbee, Airmee and Instabox expanding. 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**

	<b>OPTION 1: JOIN</b> Join with Amazon, playing with a full or selected proposition and assortment, while pushing your own e-tailing and other channels	<b>OPTION 2: FIGHT</b> 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)	<ul style="list-style-type: none"> <li>+ Access larger customer base, traffic, and broader geographic scope Leverage fast and efficient logistic network</li> <li>+ Use easy-to-manage platform</li> <li>+ Take advantage of swift scale benefits (especially for small retailers)</li> <li>- Price transparency leading to price erosion and channel conflicts</li> <li>- Dependency on Amazon or possibly being bypassed</li> <li>- Data is owned by Amazon, and pulling back on the decision can be costly</li> </ul>	<ul style="list-style-type: none"> <li>+ No dependency on Amazon; full control of your own platform</li> <li>+ Potential to drive deeper customer relations and personalization</li> <li>+ No referral rates to pay; all profits go to you</li> <li>- Missing out on the revenue potential from Amazon's traffic</li> <li>- Impossible to match Amazon's scale and operational efficiency</li> <li>- Risk of losing brand control if wholesalers sell on Amazon</li> </ul>
Key actions	<ul style="list-style-type: none"> <li>A Choose the right partner model with Amazon</li> <li>B Adapt your supply chain to serve Amazon's channel</li> <li>C Decide how to optimize play with Amazon, such as segment assortment to ensure uniqueness and manage channel conflicts</li> <li>D Set up strong internal management of key accounts with Amazon</li> </ul>	<ul style="list-style-type: none"> <li>A Build an ecosystem around your brand with strong customer loyalty</li> <li>B Focus on your value proposition with proactive personalized customer relationships</li> <li>C Integrate e-commerce strategy with your physical store network</li> <li>D Drive operational efficiency, reduce costs, and preserve margins</li> </ul>
	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

# Assortment

World's broadest product offering arrives to the Nordics

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## Amazon with +500 million products in the US – +150 million already offered in Sweden

One core element of Amazon’s success is its broad and deep product offering. The company offers the broadest selection in the market with +500 million products in the US. Consumers across continents are today able to enjoy the multi-category one-stop-shop that Amazon is. The company offers products in a wide range of categories including its 13 wave-one categories that are typically introduced first after a market entry – Books, Electronics, Sports & outdoor, Home & garden, Baby, Toys, Shoes, Tools hardware, Pet, Health & beauty, Apparel, Auto and Pantry.

In Sweden, +150 million products from European and local vendors are already available on amazon.se across all wave-one categories, except pantry. Amazon’s entry also marks the arrival of one of the first truly cross-vertical players. There are already several strong vertical e-commerce players in the Nordics, but Amazon as a marketplace takes a unique position with its multi-category proposition with unparalleled assortment depth. The company offers significantly broader assortment compared to peers across categories. Comparing assortment in selected sub-categories between Amazon and relevant peers, indicates the conglomerate often has multiple times the number of products compared to incumbents (see Exhibit 1).

Amazon has also been expanding its private label offering since it introduced its first in-house brand AmazonBasics in 2009. Today the company has over 120 brands across multiple categories including food & beverage, clothing, and electronics, and even though it currently represents only 1% of sales, it is growing rapidly. Some of its brands are widely recognized by consumers, e.g. Echo and Kindle, but many are not as closely connected to the company. While the attractively priced private label brands are great news for consumers, it has made Amazon subject to concerns by some third-party sellers.

## Assortment breadth enabled by multiple engagement models with suppliers

One key to Amazon’s assortment breadth is how it engages with its suppliers, offering them many options for how to sell and fulfill orders. Firstly, suppliers can choose whether to sell via either Amazon’s Retail- or Marketplace model. With the retail model, suppliers act as vendors, selling to Amazon at negotiated wholesale price. Vendors using this model range from small manufacturers to multi-national corporations.

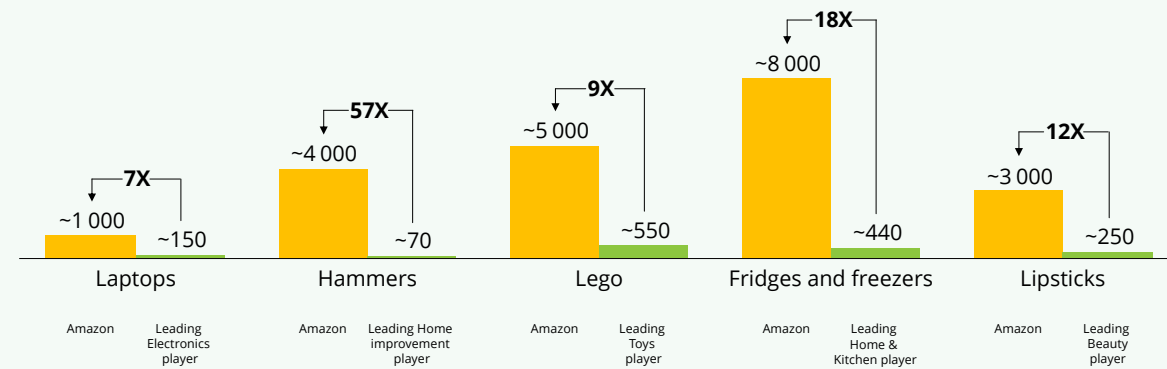
In the marketplace model on the other hand, suppliers act as merchants, listing goods and setting retail prices on Amazon marketplace. This can be done either directly or indirectly through third party retailers. Merchants are most commonly individuals or small businesses and Amazon charge them both a seller fee as well as a referral fee. In Sweden, the seller fee is either 410 SEK per month or 10 SEK per article sold depending on the selected seller plan. The referral fee is 7-20% of an item’s selling price depending on category. Over the past years, Amazon has been growing the share of its marketplace business, which now represents ~60% of total revenues and an absolute majority of the assortment (+95% excluding Books, Media, Wine and Services).

In the marketplace model, merchants can also decide to let Amazon handle fulfillment through the FBA service (Fulfillment by Amazon). In this case, merchants supply their products to Amazon in advance. When a customer places an order, Amazon picks, packs, ships and tracks the order for the merchant as well as handle returns and refunds. However, this does come at a cost. Amazon charges both storage fees and fulfillment fees, impacting merchant margins.

To further ensure a broad product offering in Sweden, Amazon offers its existing EU suppliers to enter the market without additional fees. Vendors can either do fulfillment from existing EU warehouses or redistribute stock between warehouses across markets. The low barriers for existing sellers to enter Sweden in combination with continuously welcoming new local vendors enables Amazon to continue to grow its product selection as well as adding more categories.

EXHIBIT 1 | Amazon significantly broader product offering compared to peers across categories

# products in selected sub-categories, amazon.se compared to selected peers



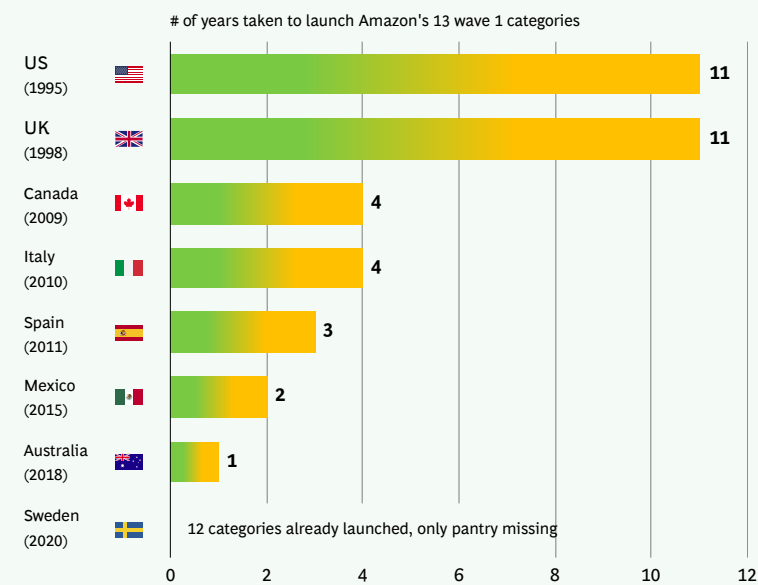
Source: Website of one of the leading Swedish players within each category, Nov 2020

### Amazon's next steps for Nordic offering – further category expansion, possibly including food

Amazon showed strong consumer adoption already during the first weeks after Swedish launch on October 28<sup>th</sup>. During the first full month of operations in November 2020, the website ranked #30 on traffic in Sweden with +11 million site visits. This positions them as the second most visited e-commerce site, behind the leading player at rank #29.

How Amazon will continue to develop its offerings in Sweden and broader Nordics is not yet confirmed. However, a lot can be learned from rollouts in similar markets. In the recent Australian launch, Amazon rolled out categories at record speed. All 13 of its wave-one categories were launched within less than a year, including pantry (see Exhibit 2). In 2020 the company also filed trademark for 'Amazon Pharmacy' in Australia, providing an indication of the ambition for offering breadth. As Amazon has continuously used and refined its market entry 'Playbook' and compressed its timeline, Sweden and the rest of the Nordics can likely expect similar developments.

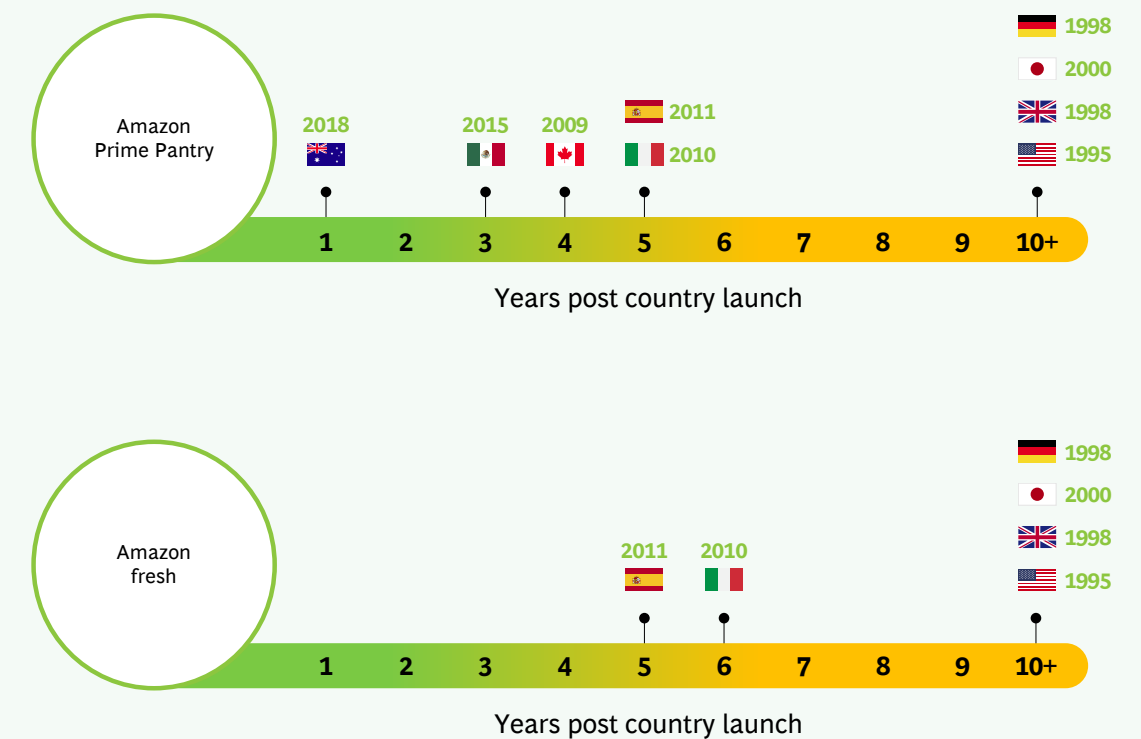
EXHIBIT 2 | 13 Amazon wave-one categories launched within one year in Australia – 12 already available in Sweden



Note: non-exhaustive. Source: Press releases

With pantry- and grocery-related offerings being one main blank spot in the current Swedish assortment, it is a category to monitor. Amazon Pantry, offering bulk-sized pantry staples, was introduced already 10 months after the Australian launch. Amazon Fresh on the other hand, its full assortment grocery offering, has only been launched in selected countries, including Spain, Italy, UK and Germany (see Exhibit 3). Amazon keeps optimizing across its portfolio of offerings and recently closed Pantry in UK to move more volume to Fresh and Prime Now. Even though an accelerated roll-out has been observed also for Amazon Fresh, the service should likely not be expected in Sweden in the near future. If launching Fresh in the Nordics, Amazon will face both additional logistical challenges related to cold chain and perishables as well as competition from the increasingly maturing online grocery market. Pure players and major traditional grocery retailers are ramping up their online efforts and the category has been the one experiencing the fastest online acceleration by Covid-19 in Sweden.

EXHIBIT 3 | Pantry launched after 10 months in Australia, while Amazon fresh is only offered in selected markets



XXXX Year of entry

Note: non-exhaustive  
Source: Press releases



### Incumbents to understand product overlap and consider relying more on unique value propositions

The overall 'fight vs. join Amazon' dilemma that Nordic companies are facing becomes further granular related to product offering. The fight or join decision could be applied on a category and even product level. If deciding to join with the tech giant, local companies need to review what specific products to offer through Amazon and what not, in order to avoid channel conflict and optimize revenue and profit. The dilemma can be important not the least for brands. If offering brands on Amazon, companies should consider how to keep building direct customer relationships as well as how to make brands stand out among +150 million products. A key element related to this is optimization of marketing spend, including on amazon.se.

If going for the fight option, a starting point for Nordic retailers is to understand overlap in product categories and products as well as price position relative to Amazon. Incumbents should consider if and where to extend assortment breadth and depth to ensure relevance and build strongholds. E-commerce players could also expect that brands winning at Amazon are not necessarily the ones currently winning in their assortment. The re-enforcing loop of popular products getting high ratings, and thereby further driving sales has previously been observed for products at Amazon.

Going forward retailers should consider relying even more on unique customer value propositions to co-exist with Amazon. Companies could focus on some of Amazon's vulnerabilities related to product offering. One example is Amazon's limited physical store network, which makes it less strong on inspirational browsing as well as unable to offer instore experience and services. Furthermore, the giant is known as the Everything Store, with offering not curated to individuals' needs.

Brands as well as private label can also play a part in strengthening incumbents' value propositions. Companies can increase focus on unique own brands as well as securing exclusivity of third-party brands. As for Private Label, companies can leverage this to improve price perception, build retailer loyalty and do extreme tailoring and localization. Either way, Nordic companies should review their strategy for product offering when the world's broadest assortment has now arrived.

## Pricing

The conglomerate's competitive pricing can pressure Nordic e-commerce players

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### Pricing is one of Amazon's core strengths – data driven pricing capabilities allowing giant to adjust prices almost instantly

Three of the main reasons for consumers to buy online are price, assortment availability, and delivery speed and convenience – areas where Amazon has invested heavily and holds a strong position. As for price, two kinds of pricing mechanisms are at play on Amazon's platform – pricing of products from third party vendors on Amazon Marketplace, and pricing of Amazon's own products.

An important element of the third-party pricing is the combination of vendors setting their own prices and multiple vendors offering the same product. This creates price competition and drives down prices. As for Amazon's own prices, their overall strategy is built on investing in competitive pricing to drive volume and scale. The company has demonstrated a willingness to operate at breakeven or very low margin and has historically cross subsidized its retail business from e.g. Amazon Web Service. Its retail business is today overall profitable, even though its international part historically was operating at a loss.

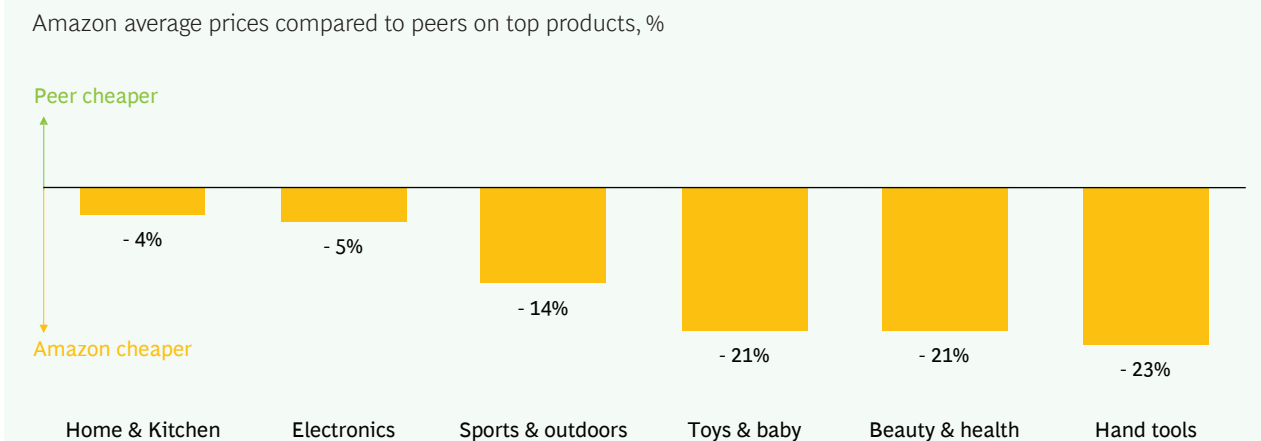
Amazon takes an extensive price follower strategy and seldomly drives a price leading position. The company thinks holistically about pricing and profitability, prioritizing gross margin by household and even lifetime value over product and basket profit. Amazon applies a highly granular approach and selectively prices Key Value Items (KVIs), products disproportionately driving price perception, below competitors to gain market share. Furthermore, Amazon leverages its capability to take data-driven pricing decisions. The company monitors competitor's prices carefully and has capability to dynamically change prices at a high frequency.

### Amazon.se prices competitive – but appears not yet adjusted to the Swedish market

Judging from the prices on amazon.se, the pricing strategy is not yet fully adjusted to Sweden. Prices are odd and often directly converted to SEK from Amazon's German EUR prices. The company has not adjusted prices to local market levels, except for very competitive products. This causes large price variations across both products and categories, with both significantly lower and higher prices compared to price leading peers.

Shortly after launch, Amazon is offering competitive prices on overall level. Examining prices on selected top products in six key categories for Amazon vs. well-known Swedish retailers, provides a first indication of Amazon's price position. The conglomerate offers lower prices than peer average in all studied categories, but there is significant variation. Amazon's Home & kitchen as well as Electronics prices are most in line with peers, 4% and 5% lower than peer average respectively. Looking deeper into Electronics, Amazon offers slightly more attractive prices on Cameras, Speakers and Smart watches, while pricing higher on TVs compared to peers. For Sports & outdoors, Toys & baby, Beauty & health and Hand tools Amazon offers significantly lower prices, 14-23% below peer average depending on category (see Exhibit 1).

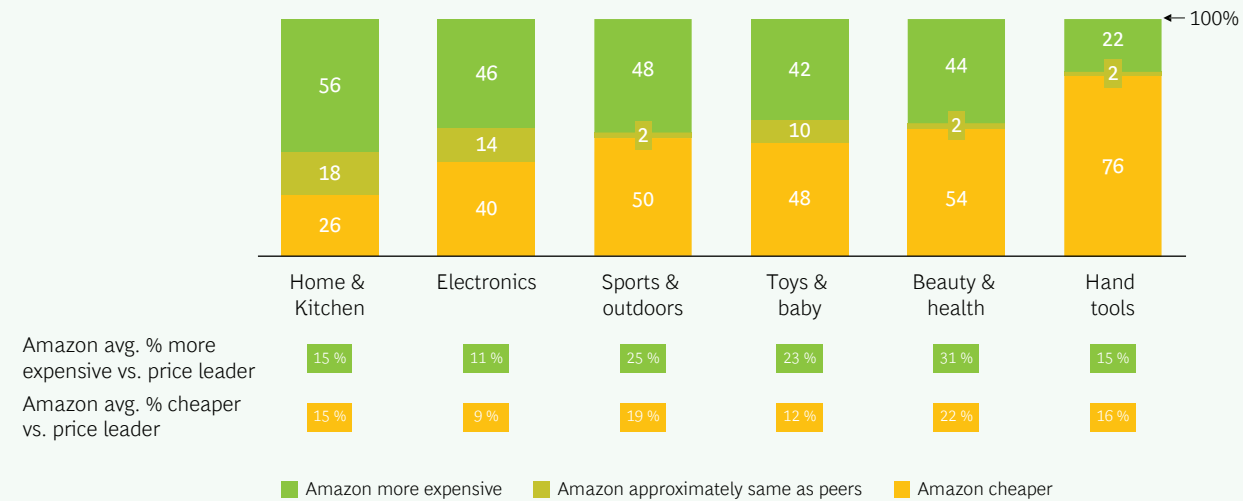
**EXHIBIT 1 | Amazon overall competitive prices on top 50 products in each category – significant variation across categories**



Note: Top products selected based on 1) being tagged as 'popular' on price comparison websites (Prisjakt, Pricerunner) and/or tagged as 'favorites' on Amazon and 2) being available in Amazon's assortment; Categories and sub-categories selected based on availability of comparable products; Sources: Company websites Nov 2020; BCG analysis

**EXHIBIT 2 | Amazon not always cheapest – offers lowest price on 26-76% of top 50 products per category compared to price leading peer**

Share of top products where Amazon is cheaper than cheapest peers (%)



Note: Top products selected based on 1) being tagged as 'popular' on price comparison websites (Prisjakt, Pricerunner) and/or tagged as 'favorites' on Amazon and 2) being available in Amazon's assortment; Categories and sub-categories selected based on availability of comparable products; Sources: Company websites Nov 2020; BCG analysis

Average prices do, however, not show the full picture. Deaveraging illustrates what has been seen in many other markets: even though Amazon's prices are overall competitive, they are not always so on a product level. Out of the top products examined, Amazon offered lower prices on 26-76% of the products depending on category, the rest being priced at par or above cheapest peer (see Exhibit 2).

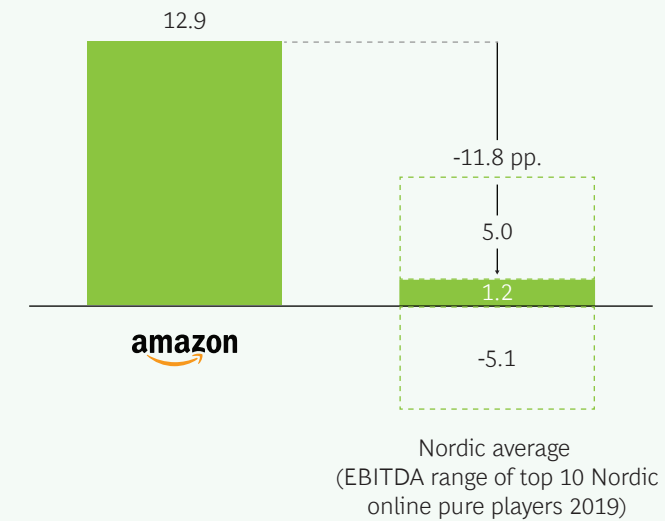
**Nordic players to consider how to respond to Amazon's pricing behavior to defend slim margins**

Amazon's initially odd prices and large price variations will present noise to the Swedish market in the short term. However, the company will likely continuously mature its price setting and further tailor it to the local market. Swedish retailers should consider how to respond to Amazon's pricing behavior. Not the least with pricing being one of the main reasons for consumers buying online and the increasing price transparency that comes with e-commerce.

In Amazon's recent launch in the Netherlands, the company stabilized its prices at 6-8% below peer average during the first three months after opening. The tech giant's pricing will most likely put pressure on many incumbent Nordic e-commerce players, especially pure players, currently operating at slim or even negative margins (see Exhibit 3).

**EXHIBIT 3 | Amazon likely to pressure e-commerce pure players, already operating at slim margins**

EBITDA margin 2019 (%)



Sources: Orbis, Euromonitor, Valuescience center, Amazon, BCG analysis

Going forward, retailers and e-tailers should consider fostering an even more unique value proposition to coexist with Amazon. With data-driven pricing being one of Amazon's key strengths, incumbents should also consider accelerating pricing capabilities to take data driven pricing decisions. There can be significant opportunities in optimizing across promotions, black prices and mark-downs, leveraging Advanced Analytics and Artificial Intelligence. Many incumbents could optimize prices more dynamically and on a more granular level, requiring capabilities beyond what humans alone can do. Private label can also play a role in improving price perception, as well as exclusive brands and / or SKUs.

Independently of what levers Nordic companies decide to focus on, they should consider reviewing and stepping up their pricing strategy to compete with the world's largest e-commerce player that has now arrived.

# Loyalty

Prime – A successful subscription membership likely to gain ground in the Nordics

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January 2021

## Customer loyalty is key to Amazon's success – Prime membership service at core

Loyalty is a key factor of Amazon's success, with its signature offering 'Prime' being a central component. Prime is a subscription service where customers can opt in as members to enjoy several benefits by paying an annual fee of 119 USD in the US.

Amazon has built an entire ecosystem of Prime benefits including free and fast delivery, early access to promotions, Prime Video, Amazon Music and e-books. In addition, all Amazon customers can leverage synergies with Amazon smart devices, such as being able to place orders through its home assistant Alexa, and its smart doorbell system Ring letting users accept in-home delivery while not at home.

Furthermore, with the increased Prime membership base and the massive consumer adaptation of the platform, Amazon owns the product search in the US. This means that the majority of customer journeys and product searches starts at Amazon - not on Google, as we know it from in Nordics.

## Fast delivery central in Amazon's and Prime's value proposition

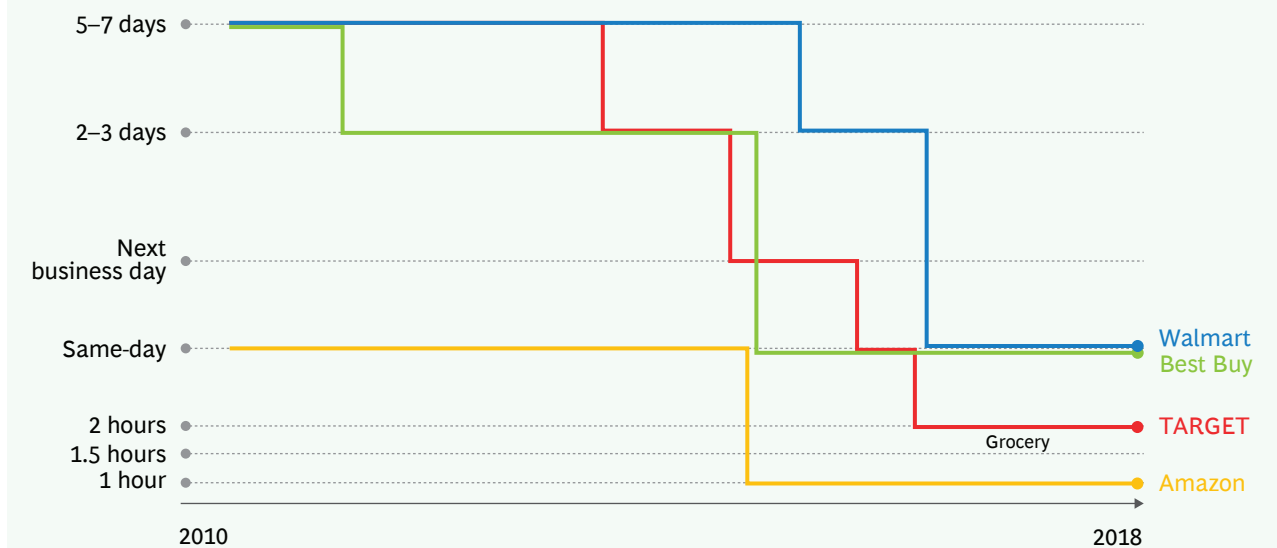
The primary membership benefit of Prime is unlimited free and fast delivery, which is also a cornerstone of Amazon's offering. A core objective of Prime is to prompt customers to shop more at Amazon, by removing the shipping fee barrier. Customers are incentivized to move all their shopping to Amazon rather than other retailers, since they have in effect already paid for delivery, through their Prime membership.

Prime members can enjoy free same-day shipping on orders above \$35 on eligible items, and free shipping, with fastest shipping option available, for all other orders. Amazon's fastest delivery service, Prime Now, is one of the key membership services and is available in selected markets including US, UK and Germany. In the US, Prime Now offers members free 2-hour delivery on orders above \$35 and is available for ~35-40k SKUs in 38 US cities.

Prime membership will typically reduce the margin on a customer, given that the customer will now fragment their purchases rather than pooling them in a single delivery, as they do not pay delivery charges. However, with the sticky membership, customers will move more of their total share of wallet to the platform. This increases the total gross profit to Amazon as they become more loyal – giving Amazon the tailwind of scale effect. In short, Amazon focuses on total customer lifetime value instead of the profitability of the single basket.

Amazon has been investing heavily in logistics capabilities and infrastructure to drive superior availability and delivery speed – as an example, they have spent 60 billion USD in the past six years to build out their fulfillment infrastructure and delivery capability, with their delivery service estimated to have a value of 230b USD by 2025. The logistics capabilities are seen as critical, with delivery being key for Amazon's sustained advantage. The company has been a key driver in the development of last mile delivery in the US and many other markets, where shipping time are often specified in hours rather than days already since ~2015. (See Exhibit 1).

EXHIBIT 1 | Amazon drives development towards faster deliveries – retailers in US are following Amazon's lead



Note: For illustrative purposes—estimated delivery speeds based on news articles and company reports,  
 Note: Delivery services not available in all markets or full product range  
 Sources: Company websites; BCG analysis

Across Europe, Amazon is increasing their warehouses density and can use the inventory from one country to supply customers in others. This provides a real scale advantage and is the unlock to offer the customers the world's largest assortments

When entering new markets, Amazon's delivery model is typically expanded gradually. Initially, a new market is served through a single fulfillment center, followed by opening of local last mile delivery stations as well as additional fulfillment centers.

To support its in-house logistics infrastructure, Amazon complements its delivery network with external elements. Amazon Hubs are parcel pick-up sites near customers, either as secure lockers or in convenience stores such as 7-Eleven. Amazon Flex, a ride-sharing last mile delivery service, further supports increased delivery speed. Furthermore, Amazon is experimenting and developing technology-based delivery methods, including autonomous delivery robots and drone delivery.

Companies choosing to sell through Amazon could gain access to its fulfillment network by using FBA – 'Fulfillment By Amazon'. With this service, Amazon picks, packs, ships and tracks the order for the supplier as well as handle returns and refunds. However, this does come at a price. While FBA pricing varies, it consists of two main fees: a shipping fee of 25-150 SEK per parcel, depending on size, destination and weight, and a monthly storage fee of 160-380 SEK per cubic meter, depending on product and season.

### Prime with solid foothold in the US – now growing globally

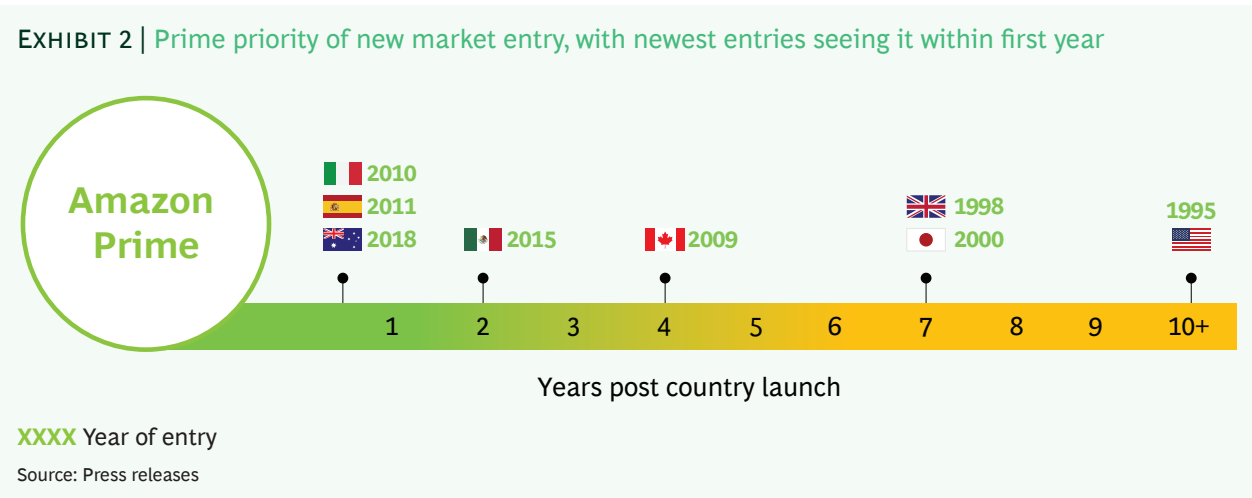
Prime members are increasing rapidly, reaching +150 million members globally as of January 2020. With e-commerce accelerating in many markets during the Covid-19 pandemic, this trend has likely increased even further. In the US alone, there are +100 million Prime members, representing +50% of all households and more than the number of households owning a landline. With its solid US base, Amazon now looks to grow the service internationally.

While Prime is not yet available in Sweden, the company is regularly expanding additional offerings and services in non-US markets. Brazil, where Prime was launched in September 2019, has seen the fastest member growth in Amazon's history, with members in 95% of municipalities after just one year. To achieve this, Amazon has been applying a 'test and learn' approach, where they iteratively try multiple offers and invest in services, learning as they expand further into new markets.

### Prime likely launched in Sweden in the near future – increasing competition

Amazon keeps compressing the timeline for Prime to be available after a market launch. For some of Amazon's previous market entries such as Australia, Italy and Spain, the subscription service was available within less than a year after launch (see Exhibit 2). In Australia, Amazon launched Prime already six months after country launch, indicating that Swedes could likely enjoy the service in a not too distant future.

As for loyalty programs of incumbent Nordic e-commerce players, there is large variation in maturity and many leading players show potential to improve. Most major retailers do have loyalty programs in place, with most common benefits including discounted rates, points and personalized offers, as well as newsletter subscriptions. More advanced services included in Prime such as discounted delivery, in-home delivery and digital services such as music and video streaming are, however, very limited among incumbents.

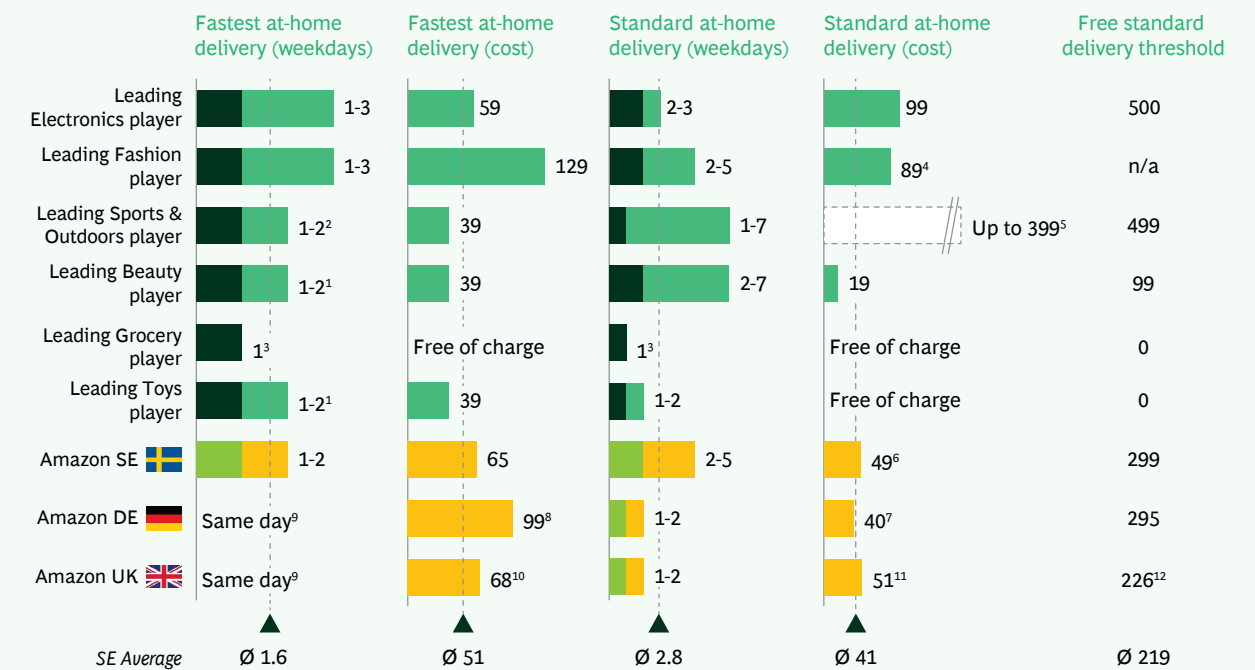


Amazon with their positioning as one of the first truly cross-vertical e-commerce players with +150 million SKUs is further increasing the attractiveness of the loyalty program. This broad offering allows consumers to maintain only one loyalty program membership across product categories, rather than one for each retailer. On the other hand, the cross-vertical nature of Amazon also means that it can be more challenging to provide the same niche benefits and experience as specialized Nordic players.

### Amazon faces maturing Nordic delivery and currently at par with peers - still less advanced than other markets

A driver for Amazon's success in previous market entries has been its superior delivery model. However, the Nordic market poses additional challenges with regards to delivery, and has also significantly matured over the past years. As a result the delivery offering that Amazon now enters with is generally in line with peer average, both when it comes to delivery time, delivery cost and threshold for free shipping. Even so, Amazon has shown that it is capable of creating more attractive delivery offerings in other, more mature markets such as US, UK and Germany (see Exhibit 3).

**EXHIBIT 3 | Amazon Swedish delivery in line with leading peers - still behind more mature markets**



1. Delivery orders placed before 8 am can arrive the same evening, depending on delivery method 2. Does not include long distance or 20+ kg/200+ cm packages, in these cases cost is higher, delivery time often 5-15 day delivery & offers only one delivery slot (08-16.00)  
3. Offer same day delivery given available time slots for delivery, high demand may limit availability 4. If value exceeds 299, home delivery is half price & postal agent delivery free 5. From 0 to 399 depending on location and product ordered. Not included in average 6. Books 39 SEK  
7. Media and clothes 29 SEK, free for Prime 8. Half price for Prime, or free if order above 204 SEK. 9. For eligible items and cities 10. Free for Prime members 11. 34 SEK for media. Free for prime members 12. Delivery time of 3-5 days if free, threshold of 113 SEK for books  
Note: Averages for incumbents, not including Amazon  
Sources: Company websites Nov 2020; BCG analysis

Like the rest of the Nordic players, Amazon also faces geographical and labor cost challenges. The geographical challenges are related to the urban versus rural distributions, due to the market's geographical distances and low population density (except for Denmark). Labor costs on the other hand, are connected to the region's high minimum wages, challenging the objective of keeping the labor-intensive delivery cost low.

Sweden and the Nordics have seen several steps towards more advanced last mile delivery over the past years. One element is LogTech companies and third-party logistics integrators, which today have come to play an important role. As an example, Budbee, serving most major retailers, offers free premium delivery through a membership program priced at 49 SEK/month. This allows users to pick one-hour time slots at day of delivery, as well as track their package in real time. Many players have also stepped up their delivery speed. For example, 7-Eleven in Denmark, will start offering 1-hour delivery on selected assortment in key areas. Further, as seen in Sweden, partnerships between retailers in different product categories can offer consumers a more cross-vertical offering by allowing joint online shopping and delivery of selected assortment.

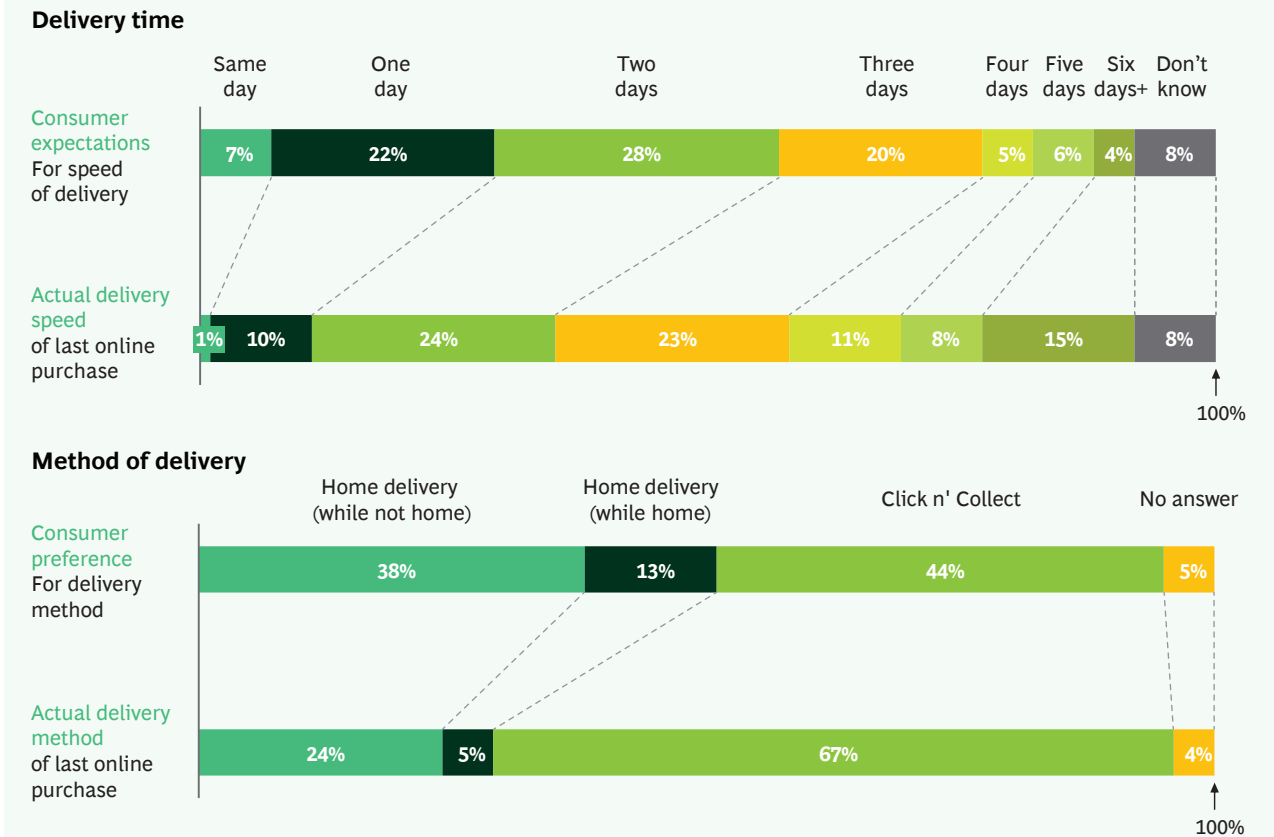
Even if last mile delivery has matured in the Nordics, the region is still less advanced than many other markets Amazon has recently entered such as Australia and the Netherlands. Here, there are players offering 2-hour delivery on select categories, while most Swedish players offer 1-2 day delivery as fastest option. Furthermore, Nordic e-commerce players are not meeting customer expectations when it comes to last mile delivery. There is a clear gap between preferences and delivery services provided, both when it comes to delivery time as well as delivery method (see Exhibit 4). This, combined with the trend towards faster delivery seen in other markets, could substantially lower delivery times.

### Incumbent players should consider stepping up both their loyalty and delivery game

If joining with Amazon, companies can enjoy Amazon's capabilities related to both loyalty as well as delivery. However, in doing so incumbents will also lose the direct selling relationship with consumers and there will be a need for strengthening this in parallel. If fighting Amazon on the other hand, they should consider reviewing both their loyalty and delivery strategy to keep up - especially if or when Prime is launched.

To compete on loyalty, incumbents can leverage and improve their customer insight and relationships as well as develop super-attractive loyalty programs. Optimized use of customer data, Advanced Analytics and AI can also be levers to better understand and react to customer needs and personalize offerings. Data-driven personalization and precision marketing is particularly important in e-commerce. Where a customer can view up to 90 SKUs at the same time in-store, a mobile phone or computer screen offers only 3-7, respectively. As such, personalization can ensure relevance of displayed products and further drive conversion.

### EXHIBIT 4 | Nordic consumers offered longer waiting times and less convenient delivery methods than expected



Note: Due to rounding, might not add up to 100%  
Sources: PostNord E-barometer Q2 2019; PostNord E-commerce in the Nordics 2018

Nordic companies can also build on their deeper local understanding compared to the tech giant, as well as their more specialized position rather than the 'Everything store' that Amazon is known as. An example of doing this, is by forming a community around the products sold, e.g. by providing reviews and product tests to expand offering from only competing on price and convenience.

For delivery, both Amazon and incumbent players could benefit from addressing the gap between current services and consumer expectations. While Amazon is currently in line with competitors, a further ramp-up of its delivery capabilities as seen in other markets could change this dramatically. Furthermore, launching Prime would make premium delivery free for members, effectively reducing delivery time to 1-2 days as a standard for these members.

As the market moves towards frictionless delivery, fast and convenient delivery is expected to become even more of a hygiene-factor, effectively widening the gap for companies not keeping up. Incumbents should consider strengthening delivery capabilities to shorten lead times, working with last mile delivery integrators and building innovative solutions such as partnerships with other retailers. Here, they can also leverage their existing stores to provide click-and-collect, an option not available for Amazon due to their lack of physical stores. In doing all of this, costs should be kept low for the consumer, with high freight prices being the most cited reason for exiting check-out.

Through all of this, a key value driver can be shifting from a profit per transaction view, to a more long-term consumer lifetime view. This will require seeing delivery not only as a service that consumers should pay for, but as a lever to smoothen the conversion funnel and build consumer loyalty. Retailers could at times benefit from accepting negative margins on individual transactions due to shipping, and rather focus on building a long-lasting, personal relationship with the consumer.

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