



AMAZON ENTERS SWEDEN:

What impact will this move have on the Scandinavian E-Commerce business? Gallic village or Amazon empire?

27. August 2020

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The big picture

“The next step is to bring a full retail offering to Sweden, and we are making those plans now.” - Alex Ootes, Vice President EU Expansion at Amazon (August 2020)

On the 4th of August 2020, Amazon announced the launch of a Swedish Marketplace, amazon.se.¹ Now, existing Nordic companies must decide whether they want to join forces with the e-commerce giant or continue as a stand-alone player. No matter what strategy they choose, firms must act fast since Amazon is bound to disrupt the existing market.

Input Factor Consulting wants to support Nordic companies and brands with the business transformations they must undertake in preparation and response to Amazon’s move into the market. Concretely, this means helping companies to develop an appropriate strategy to launch themselves on the new Amazon Marketplace or to optimise their current set-up to successfully compete against the market entrant.

This report aims to determine how companies can best cooperate and compete with Amazon. The report is divided into four sections, namely 1) How has Amazon changed the German retail market in the past 10 years and what can we learn from that?, 2) What key services/processes need to be offered by a Nordic company to compete against Amazon in the future?, 3) How can a co-operation with Amazon look like and what needs to be considered?, and 4) What are the key takeaways?

How has Amazon changed the German retail market and what can we learn from that?

A CASE STUDY

To understand the impact of Amazon’s launch in Sweden, this report uses Amazon’s entry into the German market as a case study. Although in terms of population, Germany is about 8 times as large as Sweden², other shared attributes make the countries suitable for comparison. The nations have similar prosperities, measured by GDP per capita and average annual wages.³ In the last 10 years, prosperity developed in a similar pattern in both countries.⁴

THE CURRENT GERMAN AND SWEDISH E-COMMERCE LANDSCAPE

Germany and Sweden also demonstrate a similar e-commerce penetration rate. To date, Germany has 62.4 million e-commerce users compared to Sweden’s 7.7 million.⁵

¹ <https://www.aboutamazon.eu/press-release/amazon-planning-to-launch-amazon-se>

² <https://www.macrotrends.net/countries/DEU/germany/population>

<https://www.macrotrends.net/countries/SWE/sweden/population>

³ <https://www.statista.com/statistics/295465/germany-gross-domestic-product-per-capita-in-current-prices/>

https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE#

<https://www.statista.com/statistics/375643/gross-domestic-product-gdp-per-capita-in-sweden/>

https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE#

⁴ <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2018&locations=SE-DE-DK-NO&start=2012>

⁵ <https://www.statista.com/outlook/243/137/ecommerce/germany>

Approximately 75.0% of the German and 76.2% of the Swedish population participates in e-commerce.⁶ In 2019, e-commerce revenues reached 73,848⁷ and 10,286⁸ million U.S. dollars in Germany and Sweden, respectively. Hence, proportionally, the current e-commerce revenues per user are also quite similar. Both the German and Swedish e-commerce markets are forecasted to grow, with a compound annual growth rate of 9% and 7% respectively until 2023.⁹ Through the COVID-19 pandemic, the market growth rate is likely to be even higher.

AMAZON IN GERMANY

amazon.de launched in Germany over 20 years ago, in 1998.¹⁰ Today, Amazon is the largest online shop in Germany, followed by Otto and Zalando.¹¹ amazon.de has 43 million active users, of which 17 million are “Amazon Prime” users.¹² The platform also hosts over 240,000 Marketplace sellers¹³, which account for about 60% of the sales on amazon.de. The remaining 40% of sales volume is achieved by Amazon’s own retail business.¹⁴ In 2019, amazon.de net sales were 13,754.5 million U.S. dollars¹⁵, giving the company an e-commerce market share of 19% in Germany.¹⁶ amazon.de achieved 54% of its revenue in the electronics and media category.¹⁷ For Amazon, Germany is the second-largest market after the U.S.¹⁸

Amazon’s presence in Germany reshaped the German retail market. Like in other markets, Amazon cannibalized existing retailers, both pure online sellers and physical outlets. Germany was not exempt from the so-called “Amazon Effect” and “Retail Apocalypse”.¹⁹ Yet, Amazon provided thousands of companies with an online platform on which they can sell and advertise their products. Amazon Germany grew its logistics network to nine fulfillment centers, to offer smooth logistic processes across the country.²⁰ Amazon’s entry into Germany also transformed consumer behaviour. With its excellent purchasing, shipping, and delivery services, the e-commerce giant raised shopper’s customer experience expectations. Furthermore, consumers now increasingly use Amazon as a search tool for products and prices.²¹

<https://www.statista.com/outlook/243/154/e-commerce/sweden>

⁶ <https://www.macrotrends.net/countries/DEU/germany/population> <https://www.macrotrends.net/countries/SWE/sweden/population>

⁷ <https://www.statista.com/outlook/243/137/e-commerce/germany>

⁸ <https://ecommercedb.com/en/markets/se/all#:~:text=In%20Sweden%20is%20the%2017th,rate%20of%2013%25%20in%202019.>

⁹ <https://ecommercedb.com/en/markets/de/all>

<https://ecommercedb.com/en/markets/se/all>

¹⁰ <https://www.aboutamazon.de/%C3%BCber-amazon/unsere-geschichte-was-aus-einer-garagen-idee-werden-kann>

¹¹ <https://de.statista.com/prognosen/646009/top-online-shops-deutschland-ecommercedb>

¹² <https://de.statista.com/infografik/4810/die-amazon-erfolgsformel/>

¹³ <https://www.statista.com/statistics/1086664/amazon-3p-seller-by-country/>

¹⁴ https://www.bundeskartellamt.de/SharedDocs/Entscheidung/EN/Fallberichte/Missbrauchsaufsicht/2019/B2-88-18.pdf?__blob=publicationFile&v=5

¹⁵ <https://ecommercedb.com/en/store/amazon.de>

¹⁶ <https://de.statista.com/statistik/daten/studie/831978/umfrage/anteil-von-amazon-am-gesamtumsatz-des-online-handels-in-deutschland/>

¹⁷ <https://ecommercedb.com/en/store/amazon.de>

¹⁸ <https://www.statista.com/statistics/672782/net-sales-of-amazon-leading-markets/>

¹⁹ <https://www.bdu.de/media/32083/manke-studie-8.pdf>

²⁰ <https://www.amazon.de/gp/help/customer/display?nodeid=201136920>

²¹ <https://www.pwc.fr/fr/assets/files/pdf/2017/03/total-retail/pwc-total-retail-2017.pdf>

AMAZON IN SWEDEN

Currently, the largest online stores in the Swedish e-commerce market are netonnet.se, elgiganten.se, and apotea.se.²² Amazon holds a market share of about 9% in Sweden, which it achieves through cross-border selling.²³ The US, UK, and German Amazon Marketplaces are particularly popular with Swedish online shoppers.²⁴ According to an estimate by the Boston Consulting Group, within 5 years of Amazon's launch of a Marketplace in the Nordics, it could capture up to 20% of the e-commerce market.²⁵

HOW WILL AMAZON.SE DISRUPT THE SWEDISH RETAIL MARKET?

Sweden and Germany are similar with regards to economic prosperity and e-commerce development, so we can expect to see similar disruption in the Swedish retail market. amazon.se is expected to grow four times as fast as amazon.de did in Germany; it is projected to capture 20% of the Nordic market by 2025. Amazon's market entry in Sweden will raise consumer's shopping experience expectations and further accelerate e-commerce adoption.

What key services/processes need to be offered by a Nordic company to compete against Amazon in the future?

To challenge Amazon in the Nordics, retailers need to offer a higher value to customers than Amazon. Amazon's value proposition focuses on rapid delivery, a broad product assortment, and attractive prices. Its customer experience offering, especially with regards to logistics and returns, is stellar. Given the e-commerce giant's resources, it will be difficult for businesses to compete with Amazon in these aspects. However, retailers can attack where Amazon is weak. Amazon offers limited personalized retail experiences and physical stores, and no online community where consumers can exchange ideas.

Europe's number one music store, Thomann, leverages these weaknesses to its advantage. Clients can contact experts by phone, email, or in-person to receive personalized advice for the purchase of their instrument. Instrument listings include an audio sample and relevant links to community resources (like an article on how to choose a beginner's guitar, for example).²⁶ In Germany, this earned Thomann a higher customer satisfaction score than Amazon.²⁷

Remaining a stand-alone player, rather than cooperating with Amazon, has several advantages. The company remains independent with full control over its platform, sales,

²² <https://ecommercedb.com/en/markets/se/all>

²³ https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/Imagine/Nordic%20Retail%20Industry_Overview_Feb%202020.pdf

²⁴ <https://ecommercenews.eu/popular-online-stores-sweden/>

²⁵ https://image-src.bcg.com/Images/BCG-Disruption-at-Our-Doorstep-May-2018_tcm9-192753.pdf

²⁶ <https://www.thomann.de/de/index.html>

²⁷ <https://www.thomann.de/blog/wp-content/uploads/2018/04/ecc.pdf>

processes, and earnings. It can also engage in more personal customer relationships. However, it misses out on Amazon's services (Fulfillment by Amazon, Counterfeit and Fraud detection, etc.) as well as Amazon's traffic and huge customer base. If wholesalers start selling a company's product on Amazon, this could also damage the brand image. Yet, as Thomann demonstrates with its niche product offering and excellent customer service, it is possible not only to compete but also to beat Amazon.

How can a co-operation with Amazon look like and what needs to be considered?

If existing market players decide to cooperate with Amazon, they should develop a clear strategy for what the partnership will look like. This means they should decide whether they want to join the platform as vendors, sellers, or with a hybrid model. Companies should have an eye on their competitors and plan their Amazon product portfolio, content, pricing, and marketing strategy. Essentially, businesses wanting to sell on amazon.se must optimize their "input factors" to maximize the benefits of the Amazon partnership.

Cooperating with Amazon can give businesses access to a large customer base, an efficient logistic network, new marketing opportunities, and the possibility to scale very quickly. Through the platform, firms can easily expand to new countries. The drawbacks include Amazon's commissions, dependency on the e-commerce giant (especially in terms of pricing), as well as high competition.

What are the key takeaways?

Undoubtedly, amazon.se will change the Nordic business landscape. Considering Amazon's disruption of the German retail market, we can anticipate similar effects in Sweden. However, amazon.se is expected to grow four times as fast as amazon.de did in Germany. It is forecasted to capture 20% of the Nordic market by 2025. Nordic businesses need to decide whether they will compete or cooperate with Amazon. No matter what option they choose, firms must optimise their set-up now, before it is too late.

Input Factor Consulting supports companies with their Amazon business. We helped multiple clients launch on new Marketplaces, regularly take part in Amazon "Round Tables" and pilot programs and combined, our experts have over 40 years of Amazon experience. Contact us for more information: info@amzn-lighthouse.com.