THE SWEDISH TRADE & INVEST COUNCIL

BUSINESS SWEDEN

AMAZON UNCOVERED

A GUIDE TO WORKING WITH AMAZON IN THE U.S.

BUSINESS SWEDEN 2018

Welcome to Business Sweden's guide to working with Amazon in the U.S. Over the years we have had many requests for support with Amazon – given its many recent successes, it's no surprise! On the following pages, you will find:

- An overview of Amazon's service offering – How does Selling on Amazon fit into your strategy? Is Fulfilled by Amazon right for you?
- A history of Amazon's growth, and its likely path forward – How will this affect your decision to work with Amazon? How will it affect your success in the U.S.?
- Common reasons not to use Amazon – What brand considerations should you weigh as you decide on an Amazon partnership? What competitive issues exist on and around the platform?
- Some friendly recommendations from Business Sweden – We're here in the market to support you, so we've pulled together our thoughts to help. you organize your strategy

Who Is This Guide For?

This guide is for you! We imagine that the folks who will get the most benefit from this are owners of small-to-medium retail operations selling primarily their own goods. Likely you have a webshop operating within Sweden, perhaps even into the other Scandinavian countries or throughout the EU. Although you may have a brick and mortar space, the majority of your sales (and your future growth) are driven by web traffic.

Most of our recommendations will be tailored to those of you who fit into this category. But please continue reading even if you don't! We believe that understanding Amazon's American grasp is useful for retailers of all sizes, as well as 3rd-party providers like inventory management providers, repricing software developers, logistics advisors, advertising experts, and everything in between.

MAYRA MATEOS
Office Manager San Fransisco

+1 415 835 3001

mayra.mateos@business-sweden.se

AMAZON UNCOVERED

THE CURRENT REALITY OF AMAZON

Amazon is a company that needs no introduction. Its global reaches has become increasingly impressive over the past few years, but in this guide, we'll focus on its American domination.

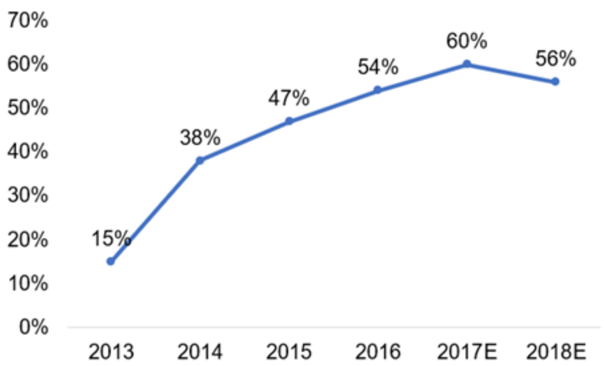
Across all segments, the company earned 178 BUSD in revenue in 2017 . As a point of comparison, this figure is about as much as New Zealand's entire GDP, or right around 1/3 of Sweden's GDP.

Focusing specifically on online retail, Amazon's platform accounted for about 165 BUSD in 2017 – that's 45% of all online dollars spent in the U.S. Breaking down Amazon's platform sales, 2/3 was earned by 3rd-party retailers, while Amazon's 1st-party sales accounted for the remaining 55 BUSD.

Amazon has enjoyed a 5-year average growth rate of 23.9%. In fact, Amazon's platform is responsible for 50% of the total online retail growth since 2013 .

Retail sales of this magnitude are feasible because of one obvious, but important, reason – access to potential shoppers. Amazon's reach is formidable: the .com site averaged 197 million unique monthly visitors in 2017, 1.5x the second-place domain (Walmart) .

Amazon % Contribution To U.S. Ecommerce Growth



Potential shoppers love spending time on Amazon's site, thanks in large part to the breadth of products available and relatively user-friendly interface. As a result, browsers spent 22.6 billion minutes on Amazon's desktop and mobile shops, more than the remaining top 10 brands combined .

Many of these users are enticed by Amazon's not-so-secret weapon: Prime. 51% of U.S. households have a Prime membership, with around 90 million individual subscribers . Prime members are avid shoppers – 46% make a weekly purchase on Amazon, as compared to 13% of non-Prime shoppers.

Prime shoppers take advantage of one of Amazon's most powerful selling points – low cost, rapid delivery. By providing Prime members with access to free two-day shipping for all Prime eligible goods, Amazon has created a market expectation of instantaneous gratification

– 54% of a sample of online shoppers indicated that free shipping is the most important component of their online shopping experience . As a result, other retailers are having to follow suit. An average of 64% of all online retail sales were accompanied by free shipping in 2017.

None of this would be possible without a robust logistics infrastructure. Amazon has made a concerted effort to increase their expertise in this area over the years, including a substantial investment in road transport vehicles, leasing of air transport, purchasing of a centrally located air hub, and development of in-house freight management technology. The company increased the total amount of leased distribution center space by 90 million square feet (8.4 million m2) in 2016 alone, and doubled the amount owned outright to 14 million square feet (1.3 million m2) in 2017 .

*What Does This Mean for You***?**
Frankly, you can't compete with Amazon. Their existing reach, capability for continued scaling, and firm grasp on consumers' shopping patterns makes them essentially impossible to topple. Strategies for the U.S. therefore require consideration of how to succeed alongside or in partnership with Amazon – two fully viable options.

HOW DID AMAZON GET HERE?

Amazon has such a pervasive presence across many industries, it's shocking to remember that the company started their trajectory as a relatively straightforward online bookstore. Their path from words to, well, everything can be characterized by three generations of offerings

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THE FIRST GENERATION

In the first generation, Amazon's focus was on building a large user base. By opening its product offering to non-book goods and increasing the base of 3rd-party suppliers, Amazon greatly expanded its selection. In doing so, it created avenues for increasing user retention.

For one, Amazon became a go-to destination for price comparisons, an activity that encourages users to spend time embedded in Amazon's platform, looking for the best deal. In addition, Amazon developed a widely used and trusted review network. By creating a (relatively) impartial platform for the exchange of ideas, Amazon gained the trust of its users.

*What Does This Mean for You***?**
Shoppers in the U.S. are accustomed to using Amazon's platform as their one-stop shopping destination. Even when sales are not closed on Amazon directly, it is still used as a mechanism to determine best prices and understand products' user ratings. If you want to earn trust and be seen by shoppers, Amazon is often the best place to start.

THE SECOND GENERATION

The second generation of growth was built on three pillars. First, it enticed users with new features. A major component of this was the introduction of Prime membership. Users gained the ability to take advantage of unheard of shipping times, specialized recommendations, and discounts.

Building on its newly developed logistics network, Amazon began offering free returns, accepting losses on these returns in exchange for consumer goodwill. Finally, Amazon began reducing friction points in the shopping experience, introducing 1-click payments.

The second pillar expanded Amazon's reach away from the computer. The Kindle and Fire hardware options allowed users to take the Amazon experience on the go. An app store built around these hardware experiences allowed for an even broader range of activities to be linked back to the Amazon brand. Finally, Amazon created new first-party platforms built around new content: Prime Video, Amazon Music, and gaming (through its acquisition of game-streaming platform Twitch).

In conjunction with these user-facing offerings, Amazon also began to branch out with its B2B offering. In particular, the creation of Amazon Web Services (AWS) has been one of Amazon's most substantial bases supporting its overall success. AWS is one of the few portfolio components that is clearly profitable, which

Amazon uses to its advantage. Profits from AWS subsidize other business units, allowing Amazon to have razor-thin (or non-existent) margins. This makes it very difficult for competitors to keep pace.

The third pillar focused on ensuring long-time users felt rewarded. With special private label offerings and exclusive sales now available, existing users increased their loyalty to Amazon, and shoppers who had stayed away from Amazon began to see what they were missing.

*What Does This Mean for You***?**
Becoming integrated into the Prime community can have a massive impact on your Amazon-based sales. Shoppers are likely to pass you by if they can't take advantage of Prime's benefits when purchasing your products. We highly recommend taking the steps to ensure your company is included within Prime.

Alternatively, if you choose not to utilize Amazon's services, understand that shoppers now have a built-in expectation of fast, frictionless, cheap shopping. If you can't match Amazon's speediness and user friendliness, you are likely to lose potential sales.

THE THIRD GENERATION (THE PRESENT)
That brings us to the present, where we are in the midst of the third generation of Amazon's growth strategy. We have experienced an increased commitment to the reduction of friction through hardware (the Echo), software (Alexa), and features (dash buttons).

In addition, there has been a doubling down of the immediacy that 2-day shipping initially satisfied. With Prime Now and other last-mile services, Amazon is aiming to get products to the consumer almost instantaneously.

We have also seen a step back into the past, with a newfound commitment to brick and mortar retailing. Not only has Amazon acquired Whole Foods and its nationwide physical assets, Amazon has begun experimenting with a truly frictionless store experience, eliminating the need for cashiers and physical transactions.

*What Does This Mean for You***?**
Differentiating through a physical presence may no longer be a viable strategy. Amazon will continue to solidify its existing expertise while continuing to address consumers' demand for physical experiences.

In order to compete, focus on ensuring your brand experiences are unique, a clear alternative to the somewhat generic nature of the Amazon experience. A continued investment into logistics and speed will be absolutely crucial.

THE FUTURE
What does the future hold for Amazon? Although it is difficult to predict the company's movements with much accuracy, there are some indicators of potential new directions. It is highly likely that Amazon will continue to push its video service globally – it is the largest growth driver for the company in major international markets like the UK, Germany, and Japan.

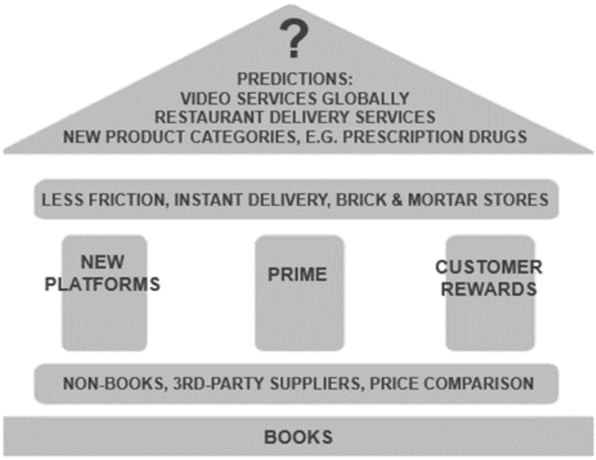
In addition, the company is likely to continue pushing its investments into the food space, including the potential for restaurant delivery services similar to Seamless or Uber Eats. Amazon has also hinted strongly at their desire to introduce new, futuristic last-mile services, such as drone delivery.

In terms of new product category introductions, there are certain areas that Amazon has historically shied away from that may now be feasible to incorporate into its structure. Look for a further introduction of industrial supply and advertising services (both of which are available now in an early offering), as well as a move into motor vehicles and prescription drug sales.

*What Does This Mean for You***?**
If you were hoping to exist quietly to the side of Amazon, carefully avoiding its powerful grasp, you may want to adjust your strategy. Product differentiators that may have allowed you to avoid competition with the giant are likely to disappear over time.

In particular, Amazon's previous focus on consumer goods will now branch out into previously protected industries like media and food. Forward-thinking retailers will already be reflecting on how an Amazon intrusion into their market will force them to adjust their practices.

Amazon's Offerings



AMAZON AND YOU

WAYS TO USE AMAZON

Although the basic approach to using Amazon as a retailer may seem fairly straightforward, there are three specific strategies that we have identified that require a brief explanation.

1. *Branded Sales*

This is the approach that most folks probably think of when considering selling on Amazon. You can think of this as "your webshop, but on Amazon." This approach is appropriate if you primarily or exclusively sell products manufactured specifically for you, and which are sold under your retail brand name.

Examples: Samsung; Apple

2. *Private-Label Seller*

Within this approach, retailers contract existing manufacturing lines to create products on their behalf. The retailer then applies private label branding to the products and sells them as their own on Amazon's platform. Although there are many retailers taking this approach, it's worth highlighting that this category is dominated by Amazon-owned private labels.

Examples: Amazon Basics; Amazon Elements

3. *Reseller*

Because Amazon truly is an open marketplace, there are many lesser known retailers that have taken advantage of the platform to great success. The basic strategy here is to buy a curated selection of products at wholesale prices, either directly from the warehouse or from any number of wholesalers operating globally. From here, the reseller will list the products on Amazon at a markup.

It's worth noting that resellers can frequently be at odds with branded retailers. If your aim is to maintain tight control over your brand, it's quite likely that you will need to fight against resellers who are hoping to leverage your brand's reputation for a quick buck.

Examples: Avalanche Brands; Pharmapacks

SERVICES OVERVIEW

Although Amazon has a number of services it provides for retailers, there are two offerings we will focus on within this guide: Selling on Amazon and Fulfilled by Amazon. These services form the core of what most Swedish retailers can expect to take advantage of if they choose to work with Amazon.

As a quick note, some of the other services include:

- *Advertise on Amazon* – boost your exposure through sponsored product features, traditional advertisements, or a branded storefront
- *Amazon Pay* – take advantage of Amazon's well-respected payment infrastructure, whether or not you are selling through Amazon
- *B2B Sales* – connect with other Amazon brands to create business to business transaction opportunities
- *Amazon Exclusives* – work directly with Amazon's internal team to maximize your brand's integration into the platform.

SELLING ON AMAZON

This service is exactly what it sounds like. Gain access to Amazon's massive, committed shopping userbase on the U.S.' most trafficked retail site.

Seller accounts are separated into Professional and Individual varieties, with the former designated for retailers expecting to sell 40 or more products per month. Professional accounts come with additional bells and whistles, including coverage throughout North America, gift wrapping, and most importantly, eligibility for top placement on product detail pages. This comes at a cost, of course – Professional accounts (at the time of writing) cost $39.99 per month + fees, as compared to the $0.99 per sale cost for an Individual account.

*What Does This Mean for You***?**
If you expect to have any sort of volume of sales within the U.S., we highly recommend setting up a Professional account. The eligibility for top placement alone justifies the monthly fee in terms of exposure for your brand.

Signing up for an account is a breeze. After confirming your account type and the product categories you'd like to compete in, the registration process is quick and easy. From here, you are now ready to begin listing products and start selling.

If you so choose, you can take advantage of Amazon's Fulfilled by Amazon (FBA) service as part of you Seller account. However, if you have existing logistics in place, you can take a Fulfilled by Merchant approach and handle that yourself. More information on FBA can be found in the following section.

Considerations for Selling on Amazon

- Know the Rules

Although the basics of Selling on Amazon are straightforward, the small print of your agreement with Amazon deserves a closer look. Both the Professional and Individual seller accounts have additional fees not included in the list price. Beyond the fees required by FBA services, both accounts carry referral fee and variable closing fee requirements. These costs vary by product category, so make sure to include them in your breakeven calculations.

Another easily overlooked rule stems from Amazon's perception of whose customer the purchasing individual actually is. Naturally, Amazon likes to think that shoppers are Amazon customers, which can create some tension. One example of this can be seen in Amazon's re-marketing rules – retailers are not allowed to re-market post-sale, a potentially major challenge for post-conversion customer relationship management.

Another tension point is the customer interaction policy, which is handled internally by Amazon on behalf of all sellers (when concerning service issues). If you are a brand that provides itself on its interaction with customers, you may want to think twice about how this strategy can be upheld in Amazon's closely controlled interface.

- Understand What is Expected of You

Even if your local logistics infrastructure is very strong, Amazon's preference is always that you take advantage of its FBA services. If you choose not to, it's extremely important to understand the standard to which you will be held. Beyond needing to meet extremely tight shipping times, you will also need to be on top of confirmation email structure, cancellation rate standards, and a maximum 24-hour window for answering all product-related customer inquiries.

In addition, Amazon does not provide support in policing copycats, knockoffs, or unauthorized resellers. Although the company does provide some assistance in brand protection, sellers need to ensure they have a registered trademark, GS1-sourced UPC codes, and branding on the product and packaging. This creates a need for constant vigilance in ensuring your reputation is upheld.

Are you up to the challenge?

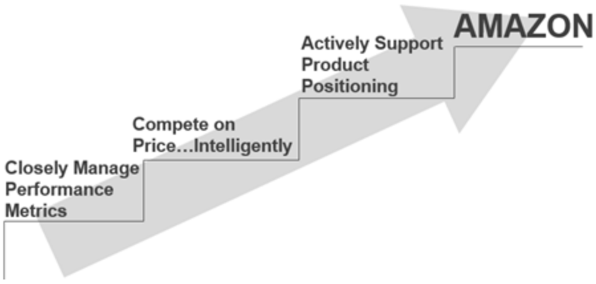
- Be Ready to Compete on Price

There are a number of factors that drive price competition on Amazon. For one, many users utilize the platform as a price comparison tool. As a result, retailers have been forced to adjust strategy, appealing to the price-conscious consumers that form the platform's core.

In addition, the algorithm that determines a product's placement on the results page gives preference to lower-priced and higher-rated items. As a result, there is a constant battle to maintain strong review scores and low cancellation rates, all while operating with as small a margin as possible.

Finally, although Amazon has begun to expand into higher-cost luxury items, the platform is traditionally known as a commodities marketplace. By nature, undifferentiated products have little choice but to compete on price, and so this approach remains prevalent.

Strategies for Success



- Closely Manage Performance Metrics

Amazon, as well as the algorithms that will determine your products' placement in search results, place a disproportionate amount of weight on customer performance metrics. Elements such as negative feedback rate, cancellation rates, and late shipment rates can be the difference between a first page placement and product obscurity on any other page.

An obvious solution, of course, is to hand off these tasks to Amazon via FBA. But if you choose to handle your own logistics, it is imperative that you have strong processes in place before selling on Amazon. It is too dangerous to risk receiving negative feedback, dooming your place in the pecking order.

On the flipside, you should actively seek out positive reviews from your customer base. Amazon's terms of service allow providing free/discounted products to consumers in exchange for unbiased reviews. Because a solid base of positive reviews is important not only for customers' perception but also for Amazon's ranking algorithm, we recommend participating in this practice to the extent that you are comfortable.

Finally, if you do receive negative reviews, don't fret! It's natural that some customers will have a frustrating experience, oftentimes for reasons beyond your control. Keeping a close eye on your reviews and responding to negative ones quickly, patiently, and open-mindedly can go a long way toward ameliorating potentially damaging situations

- Compete on Price…Intelligently

Jumping into the Amazon marketplace without first having a clear understanding of your breakeven pricing (don't forget about Amazon fees!), competitors' price points, and price trends over time is a recipe for failure. Luckily, there are a number of third-party tools that can assist you with this task. Rather than recommend one particular tool over another, we recommend searching for yourself, playing around with the tools until you find one that best suits your needs.

You'll want to search for price trackers, which will allow you to monitor historic and ongoing price changes for your products, as well as repricing tools, which will automatically manage your products' prices based on up-to-the-minute market data.

- Actively Support Product Positioning

Just as it's important to manage your rank positioning on search engines like Google, it is also imperative to actively position yourself within Amazon's search and rank functions. There are a number of search engine optimization (SEO) tools available online that can help you track frequently searched terms related to your product lines. It is a relatively common practice to have a full-time SEO expert in-house, but if you don't have the resources to support this, it's a task you can likely manage on your own.

FULFILLED BY AMAZON

Taking advantage of Fulfilled by Amazon minimizes one of the biggest struggles for retailers new to the U.S.: finding a reliable logistics provider that can help you manage the massive physical size of the American market. Signing up for FBA is very straightforward. If you already have a Selling on Amazon account, all you'll need to do is add FBA to your account. Even if you don't have an Amazon Seller account, you can still take advantage of FBA's offering, since it supports multi-channel strategies.

Once your account is set up, FBA allows you to store inventory in Amazon warehouses for a fee. Before shipping products over, it's important to know that they need to be "e-commerce ready," a descriptor that Amazon categorizes in detail for sellers on its website. These requirements differ by product category, but include elements like scannable barcodes on exterior packaging, unique SKUs on the product level (not the assortment level), and clear plastic wrapping for most individual products, including clothing.

Essentially, you will still need to do some prep before sending inventory over, but will not need to worry about any of the logistics from that point onward.

Amazon's warehouse staff will take care of all final packing and shipping once a customer places an order, including Prime benefits like free two-day shipping.

What Does This Mean for You?
Although Amazon is not the only logistics provider within the U.S., it has positioned itself as one of the most efficient and effective options available to retailers. We typically recommend using FBA as the baseline comparator for any potential other providers. Perform a feature-matching comparison, keeping in mind prices, to determine if another 3PL organization can meet your needs in a cost-effective manner.

Advantages of FBA

- Prime Eligibility

This probably can't be overstated enough – Prime is one of the biggest drivers of commerce in the U.S. Not only do Prime members spend considerably more time shopping per visit, they also shop more frequently than non-members and spend about twice as much annually as non-members. Tapping into this market can make or break your success within the U.S.

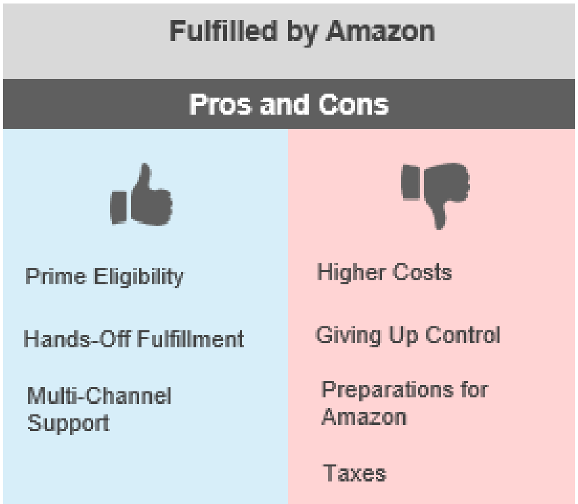
As such, the possibility to become Prime eligible through FBA should be one of your top considerations. Prime members are much more likely to purchase items that allow them to take advantage of their subscription. In addition, Prime eligible goods are more likely to appear at the top of search rankings, improving your chances of being picked up by Prime members and non-members alike.

- Hands-Off Fulfillment

Although it may seem obvious, one of the biggest perks of having Amazon take care of your fulfillment is that you don't have to do it yourself. We have worked with many retailers over the years, and we constantly receive requests to help find a good logistics/warehousing partner. Because the U.S. is such a large country, trying to ensure timely delivery to all corners poses a massive challenge to all but the most robust providers. By working with Amazon, you are ensuring that you are working with one of the best logistics providers in the country, if not the best.

- Multi-Channel Support

One of the most appealing aspects of FBA is its standalone nature. Even if your sales do not originate from Amazon's platform, you can take advantage of Amazon's excellent shipping infrastructure. Naturally, this allows for a number of strategic approaches. You might adopt a multi-channel approach that includes Amazon, your webshop, and other marketplaces, hitting customers in all viable channels. Or you may take the exclusive approach, limiting sales to your branded webshop, but taking advantage of Amazon as your 3PL provider. Whatever your decision, FBA can likely work for your logistics needs.



Considerations for Using FBA

- Costs

Unsurprisingly, given the high quality of Amazon's logistics services, taking advantage of FBA is not cheap. You'll end up paying for fulfillment, which can range from as little as $2.41 per item for small, light items, all the way up to $137.32+ for oversized and heavy items. In addition, there are inventory costs starting at $0.48 per cubic foot, as well as long-term storage penalties if you are unable to move stock in a timely manner.

If you do choose to use FBA for your multi-channel fulfillment needs, there are additional costs to consider. Small item costs jump to $5.85 for 3-5 business day shipping and $7.90 for the new baseline 2-day shipping. Other costs increase accordingly.

In the end, you get what you pay for, but it's important to consider these costs when determining your pricing strategy and overall financial viability in the market.

- Giving Up Control

Much of Amazon's success with its logistics business has developed because of the company's ability to internalize procedures, equipment, and processes. Because the service is so prominently tied to the company's brand, failures and successes get attributed directly to Amazon. As a result, Amazon maintains strict control over FBA.

The side effect of this, of course, is that you will have very little leverage in your relationship with Amazon, and you will be forced to cede control over your processes, customer support, and inventory once it enters an Amazon facility. This trade off is typically worthwhile for participants in FBA, but we recommend considering what this means for how you like to run your business.

- Preparation for Amazon

Even though Amazon takes full control once stock reaches its fulfillment centers, you are not completely off the hook. Amazon has very particular requirements for the stock it receives, which can be summarized by the phrase "e-commerce readiness." Essentially, you will still need to manage your inventory flow as it passes to Amazon, ensuring that the packages meet Amazon's standards. This is something you can likely arrange with your manufacturing partner, but it may end up being something you need to do in house. Consider carefully the time and costs that this requires.

- Tax

Historically, using FBA would have presented a unique challenge for retailers compared to those forgoing U.S. warehousing. Until very recently, U.S. tax law dictated that retailers were only responsible for collecting sales tax for the states in which they had "physical nexus" – substantial physical presence. Because of this, retailers using FBA were liable to collect sales tax in states in which their inventory was warehoused.

A recent Supreme Court decision, however, has amended the law so that states may collect sales tax even if a retailer does not have physical nexus. This obviously greatly affects online retailers of all kinds, but is now less connected to your decision to use FBA. Laws differ state to state, so we recommend looking into individual legislation to determine what precautions you should take.

Strategies for Success

- Carefully Manage Inventory Levels

As mentioned above, FBA's costs require careful consideration and monitoring. Without careful calculations of your inventory flows and marginal costs, it can be easy to overspend on FBA services, ultimately making the decision an unprofitable one.

At the very least, you should calculate new breakeven points for your product portfolio based on Amazon's costs before registering on the site. Due diligence will be your best friend.

In addition, we recommend having some degree of inventory planning available in house, particularly for objects that will need to be warehoused in bulk. If those goods end up sitting, not only will you be paying Amazon unnecessary long-term storage costs, your "inventory flow rating" will suffer, which can restrict the types of services (and leeway) Amazon offers you within its warehouse.

- Consider FBA Alone

As Amazon has continued to develop its logistics infrastructure, the attraction of FBA as a standalone product has increased.

This is particularly true in a few cases. For one, if you operate a business that offers luxury products, selling through Amazon's store may make little sense. The potential for brand damage, in addition to the cost-conscious nature of many Amazon shoppers, makes utilizing the marketplace less appealing.

Another case in which selling on Amazon may not be the best fit is for retailers who are unable to compete on price. We understand that the costs inherent to operating a business in Sweden for consumption in the U.S. are already higher than in many other markets providing goods to the U.S. Trying to make a low-cost strategy quite simply won't work for many Swedish companies.

Broadly, we recommend carefully considering how your product portfolio and brand fit within the Amazon space. In many cases, it may make sense to maintain your own branded webshop and leave the logistics to Amazon.

IS AMAZON FOR EVERYONE?

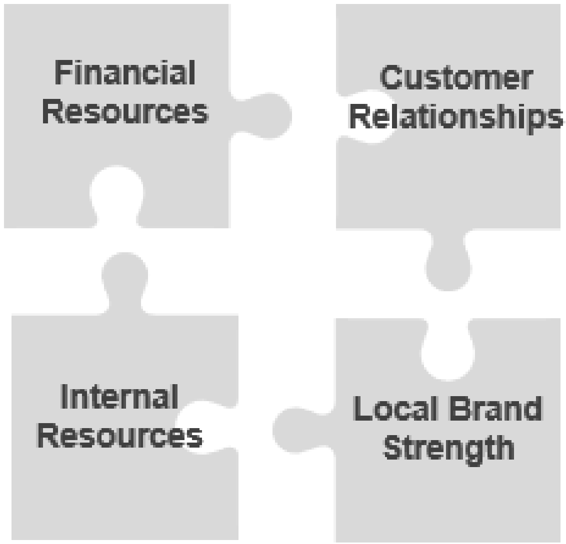
In short, no!

Although Amazon can be a powerful tool for many companies, there are operational realities that may preclude a number of retailers from achieving success on the platform. We have profiled some decision points to consider below, which will hopefully help you make an informed decision about your ideal partnership strategy.

TIMING IN YOUR JOURNEY

As a testament to the power of Amazon in today's market, retailers of all sizes are integrating themselves into the marketplace – from the individual craftswoman selling her homemade goods all the way to global brands like Apple and Nike. Although it is possible to have success whether you are big, small, or somewhere in between, where you are at in your journey (especially your journey into the U.S.) can play a large role in determining your eventual success.

We recommend reviewing the four following factors as a way of benchmarking your ability to meet the market demands of the Amazon marketplace.



- Financial Resources

Regardless of whether or not you choose to utilize Amazon's services, the reality is that making an entrance into the U.S. requires a significant amount of financial support. On top of the obvious costs like warehousing and shipping, there are a number of other costs that can go overlooked, including insurance (Americans love a lawsuit), bookkeeping (American tax law is relatively complex), import duties (depending on the volume of your shipments), marketing (Americans require a substantially different approach to selling) and registration to do business (in case you want to establish an American entity).

We get requests from many companies hoping to make their way into the U.S. that don't fully understand just how capital intensive the process is. Although using Amazon as an initial entry pathway can ease the burden of transition, it comes at an additional cost. Ensuring you are on solid financial ground should be a baseline task for any company considering a move over.

If you already have a U.S. presence, many of these costs will already be taken care of. In this case, your primary focus can be on ensuring the cost structure of Amazon matches the existing marginal costs of your products.

Overall Suggestion –

We recommend having significant and sustainable income from local sales before considering the move into the U.S., irrespective of your decision to use Amazon. Unfortunately, there *is not a fixed revenue amount at which we can definitely recommend entering.*

- Internal Resources

There are two general considerations when examining internal resources.

First – do you have the resources at your disposal to function without Amazon's help? Although not an exhaustive list, you will need to have a strong webshop or access to a 3rd-party webshop, logistics capabilities and/or a logistics manager, as well as packaging and shipping capabilities and/or a team dedicated to these tasks. If, because of your growth in local markets, some/all of these resources are already in place, it may well be that you can function quite well without Amazon's help.

However, we caution that competence within the Nordics in these areas does not always translate to success within the U.S. Distribution in particular is a (literally) bigger challenge, given the size of the U.S. and challenging expectations of the American consumer.

Next – do you have the minimum internal resources to be successful within Amazon's platform? At the very least, you will require capabilities for making shipments "e-commerce ready," in addition to providing transportation to Amazon's warehouses. We also strongly recommend having pricing, SEO, and demand planning capabilities in place internally, ready to scale to the demands of the U.S. market. If you are choosing the Fulfilled by Merchant route, you'll also need to add logistics & shipping capabilities that meet Amazon's minimum standards.

That sounds like a lot! And indeed it is. But it's important to remember that many retailers find success within Amazon's platform, so this is not an impossible task.

Overall Suggestion –

If you're new to the market but have internal logistics capabilities in place, Amazon may not be the right choice for you, especially if your product portfolio and pricing strategy don't align with Amazon's. Consider going it alone – you can always transition to Amazon at a later date.

If you're new to the market and are missing the logistics to go it alone, Amazon's FBA service is likely the right route for you. Decisions about whether or not to use the marketplace will come down more to your product portfolio and pricing strategy.

If you're already present in the market, we recommend comparing your existing logistics network to Amazon's service, at the very least. Chances are what Amazon is offering may offer benefits beyond what you're currently receiving.

- Customer Relationships

How strong are your existing customer relationships within the U.S.? If they are non-existent, Amazon's marketplace may be the perfect match. In terms of exposure potential, there are few avenues that can get you in front of potential customers' eyes in a more efficient manner. Keep in mind that Amazon's marketplace is still crowded, so you'll need to be clever about your keyword matching and general SEO. But as a means of generating initial traction within the U.S., there may not be a better platform out there.

If you have an existent but small U.S. customer base, the decision becomes a bit more difficult. Would you prefer to dedicate resources to improving your existing web platform, hoping that you can gain organic growth? Or should those resources be utilized to enter the Amazon jungle and carve out your space there?

In terms of sheer growth potential, we believe that using Amazon's platform will likely be more efficient than trying to grind your growth internally. In this case, it likely makes sense to take a multi-channel approach: maintain your existing presence to the extent possible while channeling resources to your new Amazon presence. Over time, as your userbase grows, it will be possible to reconsider the balance between these two channels.

Finally, if you already have a large U.S. customer base, chances are Amazon's marketplace is not a great match for you. Your customers have formed a relationship with you based on your existing sales portal, which may, but likely doesn't, align well with Amazon's approach. In general, we recommend avoiding Amazon's generic store. However, we also recommend examining the potential for creating a branded storefront within Amazon – more on this in the next bullet.

Overall Suggestion – Amazon is a good resource for building a U.S. customer base for new entrants, but can be redundant for incumbents.

- Local Brand Strength

The last consideration we recommend evaluating is the strength and importance of your brand positioning within the U.S. The potential for brand dilution on Amazon's marketplace is relatively high, so it is important to ensure you are taking steps to protect your positioning if you do jump into Amazon's services.

For companies new to the U.S., consider the relative importance of your brand for your existing sales. Do your current customers seek you out for the specific branded experience you provide, either in person or via your webshop? If so, we don't recommend using Amazon's generic marketplace. Instead, consider using Amazon's branded storefront tool – although more expensive, it will help maintain your branded experience while still providing access to Amazon's large userbase.

If a branded experience is not a core component of your consumer experience, you can worry less about the brand dilution somewhat inherent to Amazon's platform. In this case, it likely makes sense to focus on maximizing the customer acquisition capabilities within the Amazon marketplace.

For companies with existing U.S. brand presence, the recommendations are essentially the same. Be cautious of the potentially dilutive effect that being on Amazon can have for your brand, but don't count them out completely. A well-managed branded storefront can be a nice addition to your existing U.S. infrastructure.

Overall Suggestion – if a branded experience is key to your success, you will likely be frustrated with the lack of control on Amazon's platform. Stay independent and look to capitalize on your brand strengths to build your local audience. For cases where brand perception is less central to the consumer experience, investigate Amazon's options.

STRATEGIES BASED ON RETAIL STRUCTURE

In addition to examining your current progression along the U.S. entry continuum, we also recommend reflecting on the type of offering you provide. Based on historical trends and likely strategic decisions by Amazon[i], it is possible to understand the types of retailers that have a generally positive outlook working alongside Amazon, and those that should be wary of competing on the giant's home field.

BEST OUTLOOK	Branded, Value-Based Wholesalers
NEUTRAL OUTLOOK	Retailers with Differentiated Value Proposition
MIXED OUTLOOK	Wholesalers with Premium Positioning
NEGATIVE OUTLOOK	Retailers with Undifferentiated Assortment

- Best Outlook – Branded, Value-Based Wholesalers

What you do: Sell your lower-cost, popularly branded goods primarily at the wholesale level to 3rd-party retailers

Strategy: Take full advantage of Amazon's marketplace! You are already used to competing on price, so your strategy will align well with that required of most Amazon merchants. You are also used to using 3rd-party retailers, so the supply process to Amazon should be old news. Leverage the brand-name recognition of your company (to the extent possible given the new/foreign market). Make a concerted effort to seek out appropriate keyword searches and SEO tactics to compete effectively with incumbent brands.

Watch out for: Competition from other wholesalers that already carry your products as well as unlicensed resellers

- Neutral Outlook – Retailers with Differentiated Value Proposition

What you do: Utilize the strong positioning of your retail brand to sell your own differentiated, unique, or sought after products, primarily through your own webshop or physical store

Strategy: Congratulations – you are relatively well-protected from direct competition with Amazon, and you have a platform to avoid paying for their services. Use your webshop as your home base within the U.S. Update your shop to account for specific U.S. needs and preferences. Focus expansion capital on marketing spend to drive traffic to your shop. Find a good 3pl partner within the U.S. (or perhaps, take advantage of FBA – but make sure to price compare first).

Watch out for: Forays by Amazon's private label brand into your product vertical, which will force direct competition

- Mixed Outlook – Wholesalers with Premium Positioning

What you do: Sell your premium-branded goods primarily at the wholesale level to 3rd-party retailers

Strategy: Multichannel will be your ticket to success, but it will require some internal segmentation. First, determine the product lines that need to remain branded as premium, as well as those that can survive more commoditized branding. Seek out higher-end wholesalers to carry your premium line. If you have the capability, consider adopting a direct-to-consumer approach for these premium products (e.g. using a branded webshop). For the more commoditized products, create a branded storefront on Amazon. Use this channel to drive brand recognition and user acquisition without damaging the premium status of your other products. Tap into consumers' desire to "trade up" by driving traffic to your higher-end partners or own webshop.

Watch out for: Insufficient buffering between your premium brand and your general public brand

- Negative Outlook – Retailers with Undifferentiated Assortment

What you do: Utilize your brand position as a cost-conscious retailer to sell your own undifferentiated products, primarily through your own webshop or physical store

Strategy: Unfortunately, the American market may not be well-suited for you. Not only is the broader market relatively saturated, it will be very difficult to compete with Amazon's private label business, which utilizes the same strategy as you. We recommend seeking out other markets.

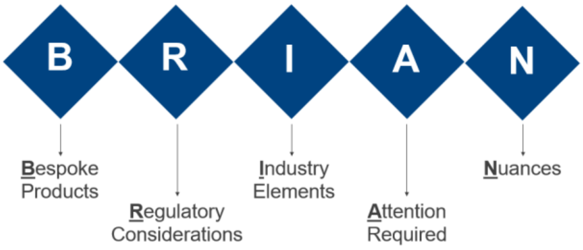
Watch out for: Basically everything.

CAN YOU SURVIVE BY AVOIDING AMAZON?

Despite Amazon's great appeal, we also recognize that many retailers would prefer to avoid utilizing its services, for any number of reasons. Morgan Stanley identified two frameworks to help identify industries that are "protected" from Amazon's might. These industries are either unsusceptible to direct competition from Amazon, better suited for other marketplaces/distribution strategies, or a combination of the two.

- Framework One – BRIAN

BRIAN is an acronym that summarizes five protective elements. For each of these elements, the higher you score, the more protected you are.



B – Bespoke Products

Are you providing custom-made products for your customers? Do you specifically tailor elements of your shipments to the needs of the buyer? Are each of your products unique in some way?

If so, you likely score highly on the Bespoke component of this framework. Amazon is unlikely to compete directly against retailers like this, due to the challenges related to scaling and speed of delivery. Although Amazon's distribution network (FBA) may still be of interest to you, its marketplace is not the right location for your special products.

R – Regulatory Considerations

Do your products require approval from state- or federal-level regulatory agencies? Are you engaging in expensive R&D trials? Is your industry thick with legal red tape?

If so, you likely score highly on the Regulatory component of this framework. Amazon has historically shied away from industries burdened by regulatory hurdles, both in its private sales and in what it allows on the marketplace. Traditional distribution models tied to your industry will likely be your best bet for the near future. However, note that Amazon has been rumored to be investigating entry into the pharmaceutical and banking businesses, two industries notorious for regulatory burden.

I – Industry Elements

Are you providing components for mining, automotive, oil & gas, or any other industrial vertical?

If so – you guessed it – you score highly on Industry. Because of these industries' low order frequency, high diversity requirements, and robust non-retail based outlets for distribution, Amazon has shied away. Although Amazon's platform does have a B2B offering, the selection and industry participation is low. Seek out traditional distribution networks for your offering.

A – Attention Required

Does your company value its highly engaged sales force? Are you providing value-added services on top of your base products? Do your products require specialized installation?

If so, you likely score highly on Attention. Amazon's model actively discourages this sort of relationship, since the transaction is occurring through the platform, rather than between you and your customer. Amazon is also unlikely to invest in these time-intensive, difficult to scale activities. Channel your resources into transferring your salesforce or building a new one, and do what you do best – personable retail.

N – Nuances

Do your products frequently get purchased through financing agreements? Are there complicated contractual relationships that exist between you and your customer?

Congrats, you score highly on Nuance. Amazon's platform makes sales built on customer interaction very difficult. In addition, there are no systems in place for contractual negotiations or similar agreements. For the time being, Amazon will likely steer clear of these types of sales – you should also steer clear of Amazon's marketplace.

Framework Two – The High-High Scale

The second framework is much more straightforward than the previous one, but touches on some of the same elements. Essentially, the higher your retail business scores on Exclusivity and/or Levels of Service, the more distance you should seek from Amazon's platform. Low scoring companies are likely to be well-protected from potential competition directly from Amazon.

Morgan Stanley suggests five tiers within the High-High scale, which can be identified through some common product types:

Tier	***Typical Products***	***Potential Success on Amazon's Marketplace***	***Risk of Direct Amazon Competition***
One	Office Supply, Consumer Electronics	High	High
Two	Sporting Goods, Home Furnishings	High	High
Three	Arts & Crafts, Vitamins & Supplements	Med	Med
Four	Home Improvement	Low	Low
Five	Farm Supply, Auto Supply	Low	Low

As you may have guessed, we suggest thinking carefully about your long-term viability when competing in tiers one through three on Amazon's marketplace. Although the initial entry may be easy, given the fit with your product lines, you may end up competing directly with Amazon. For tiers four and five, it's quite likely that Amazon is simply not a good fit at all – we recommend seeking out other distribution networks, such as product-specific marketplaces.

FINAL STRATEGIC RECOMMENDATIONS

As you may have noticed by this point, there is not a one-size-fits-all approach to utilizing Amazon's services. The platform has the potential to rapidly accelerate your entry into the market, providing you direct access to eager buyers and nearly effortless supply. However, there is also a risk that Amazon will be a primary competitor of yours on its own platform, and the costs required to take advantage of its services may be too rich for small but eager retailers.

With that said, we have tried to pull together some overarching reflections we have after examining the ecosystem in such detail. Although these may not directly apply to you, we think that the takeaways can be applied to retailers of all kinds.

- Form an Integrated Online Strategy

Your online brand is only as strong as its weakest link. As you make decisions about what channels to utilize here in the U.S., keep this in mind. If your success is less dependent on brand strength than it is on volume, your strategy is straightforward – go to the volume! (That's Amazon, by the way). But if you hope to protect your brand strength as you move, increased weight needs to be placed on the type and timing of newly introduced channels.

In an ideal situation, your brand presence across all channels will be consistent in value proposition, placement on the premium continuum, and messaging to consumers. In a less ideal but still positive situation, your proposition may shift slightly from channel to channel, but the *logic* will be consistent – for example, less specialized products on Amazon, with your branded webshop remaining a place for unique buys.

Start small. Consider using a single channel only to start – whether that's your store, Amazon, or another channel – and ensuring you have that channel in excellent shape before onboarding new channels. If you aren't providing top-quality delivery, customer service, and brand representation on this first channel, it's probably not time to think about new channels just yet.

As you begin to master the first channels, a structured introduction of new channels, with an aim for consistency in vision across all, will do wonders for maximizing your consumer perception in this fickle market.

- Consider Omnichannel

Ultimately, a single channel approach is likely insufficient to fully tackle the massive U.S. market. Keeping in mind the advice from just above, your ultimate aim should be to have as pervasive a presence as possible *without damaging your brand perception*.

Amazon may be a great fit for you or it may not. But if it is a great fit, you should absolutely structure your processes to ensure you're on there. If it isn't, think creatively about the other channels you can use to reach your target audience.

When we say omnichannel, we truly do mean "every" as omni suggests, but with the caveat that it needs to make sense for your business and be built using a gradual introduction process. Beyond Amazon and/or your own store, other channels include Ebay, WalMart, NewEgg, other brick and mortar 3rd-party retailers, showrooms, pop up stores, Instagram, Facebook, and many many more. Think about how they align with your brand identity and sales needs, incorporating or discarding them as appropriate.

As you integrate new channels, keep in mind that you need the internal resources and infrastructure to manage all of these public-facing outlets. Don't bite off more than you can chew – reputational damage from poorly managed channels is arguably worse than underperforming sales from limited channel presence.

- Take Advantage of Partnership Opportunities

Finally, to wrap this guide up, we want to remind you that you don't need to make this journey alone. Indeed, in some ways working with Amazon is a partnership in and of itself. But there are also numerous support mechanisms you can take advantage of.

A solid understanding of the American market should form the base of your expansion. If you can handle this internally, great! But consider taking on additional support through marketing partners, legal counsel, administrative support, strategy development, and anything else you might need. If you enjoyed reading this guide and wished you could have more from us, wish no longer! Business Sweden is here to support all Swedish companies as they maximize their revenue in the U.S. Don't hesitate to reach out to see how we can work together as you conquer Amazon and the American retail landscape.

BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden World Trade Center, Klarabergsviadukten 70
T +46 8 588 660 00 F +46 8 588 661 90
info@business-sweden.se www.business-sweden.se

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