NEW REPORT

Amazon 2014

Selling online is relatively easy,
logistics is what matters
& the AmazonFresh future

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March 2014

INTRODUCTION

Selling online is relatively easy, logistics is what matters & the AmazonFresh future

Solving logistics, the back end set-up, is becoming increasingly more important in e-commerce, and the pressure is intensifying every day. In e-commerce companies make or lose money on the last mile, the final stage of the journey, which is the biggest cost driver and most difficult step to make more efficient.

This is why Amazon is investing so heavily in the fulfilment centre rollout to get closer to customers and reduce their own shipping costs.

While spending so much money on the back end is a calculated risk, the physical infrastructure build out will in time become a huge competitive advantage over other marketplace operators without such a physical footprint (eBay for example).

Coupled with this huge investment push comes the roll out of AmazonFresh. We believe that the argument about Fresh being introduced solely as a driver of cross shopping behaviour across categories gets it slightly wrong. Sure, in time, the economics of a mix calculation will stack up and increased cross shopping will occur, however, right now, the real driver behind the introduction of Fresh is actually slightly different.

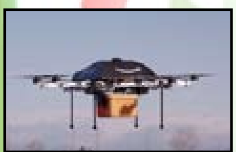
Looking ahead, we believe that Amazon will add $13bn annually to its turnover for the next two years and as a result become a $100.0bn retailer by 2015. This means Amazon will challenge the likes of Tesco, Costco, Carrefour and Kroger for a top 5 position in the rankings of the biggest retailers in the world by 2015 - trailing only Walmart by a significant margin.

As over the last years, Amazon's sales growth of 21.9% in 2013 once again outpaced its active customer accounts growth of 18.7%, demonstrating that the average basket per customer keeps growing. This also shows how once customers buy into the ecosystem, they start to progressively spend more money with Amazon. The best driver of this behaviour is of course prime, which is due an update in terms of pricing strategy this year.

KEY QUESTIONS ANSWERED

AmazonFresh:

- What is Amazon doing with AmazonFresh? What is likely to happen next? How will AmazonFresh develop and work in the future? Is AmazonFresh the attack on Walmart?
- What will be the impact on the industry? Who stands to feel the heat the most?
- And what should FMCG manufacturers and other retailers do now?
- Currently, in many non food categories, Amazon is already being used as a channel to introduce NPDs into bricks & mortar, will the same happen with FMCG products, once Fresh is more established?
- What will be the impact of Fresh on Amazon itself, pantry and the .com business?
- Why - from Amazon's perspective - does Fresh simply have to work?
- How much more do AmazonFresh shoppers shop on average per week than Amazon.com shoppers, how much more annually? How much more do they spend online than the average internet user?
- Which will be the killer category for Amazon going forward? What will be the biggest growth driver for the marketplace platform? Will both be found in Fresh?



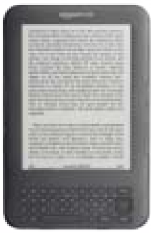
Logistics strategy:

- What is the strategy behind Amazon's Fulfillment centre build out?
- What are Amazon's internal processes in the DCs?
- How are vendor flex, kiva, the FC build out, proprietary logistics, same day delivery and FBA hanging together?
- What is the strategy behind operating Amazon Logistics?
- What impact will the move to same day delivery have? What synergies will Amazon be able to raise by linking up fulfillment centres much better around OSA, inventory turn and efficiency?
- What impact will the strategy of enabling much improved 3P access have? Will shipping, currently a cost driver become a profit driver in future?

KEY QUESTIONS ANSWERED

KPIs:

- How big are Amazon's net sales per country? How many active customer accounts does Amazon have per country website? What are the growth rates? How many of Amazon's active buyers, those who bought something in the last 12 months, are prime subscribers?
- How many prime subscriptions are there per country website? How many more prime subscribers are there in the USA compared to France? How fast is the rate of subscriptions growing? What are the 7 key benefits prime brings to Amazon? And what is the future of the loyalty scheme?
- What will happen with prime after the price rise? What will be the impact?
- What are the average prices of Amazon best sellers? Which country has the highest, which the lowest AOV?
- How often do Amazon customers buy from 1P on average? Every other month, every month, every two weeks? Are there significant differences between countries? Who is buying most often?



Mobile:

- How powerful is Amazon's showrooming conversion in reality? How often do shoppers actually buy from the app, once they have checked prices in store?
- What is the future strategy for mobile? Will Amazon launch a Kindle phone?
- What are the other big areas for Amazon to tackle next in creating an all encompassing ecosystem?

Other:

- Did you know that Amazon has already launched a grocery private label line in Germany?
- What will be the implications of Amazon having to drop its price parity clause for 3P sellers in Europe (but not in the USA)? Where will Amazon's pricing go in future? Will MAPS become less relevant?

FEATURES & BENEFITS

FEATURES

- Includes data points on Amazon Fresh basket sizes, spend, number of items ordered, which are not accessible anywhere else
- Exclusive data about Amazon's grocery business, on US operation, AmazonFresh and Amazon.com
- Average order values from Amazon 1P in its major geographies in 2013
- 1P Sales by geography in $m, average price, total units, customers, frequency
- Includes data insights mined from our Amazon best seller tracker series, benchmarking Amazon best sellers across geographies and months
- Detailed statistics about net sales, active customer accounts and prime subscriptions per country
- Includes shopper insight, proprietary customer survey data
- Evaluation of business principles around international expansion, logistics roll out, inventory turn and tighter integration of key strategic principles into every business unit.
- Heavy recommendation focus, recommendations to FMCG and retailers over a ten year horizon

Methodology
The report is brought to you by Europe's premier experts on Amazon, featuring anonymised quotes of current and former Amazonians. Our sources for the study include unprecedented access to the company, a proprietary Amazon customer panel, our Amazon Best seller tracker tool, expert opinion and consumer surveys.

FEATURES & BENEFITS

BENEFITS

- Understand how AmazonFresh will perform, what will change and why Fresh is so vital for Amazon
- Learn about and copy the logistics strategy
- Leverage key insights for your own growth strategy by copying successful innovations and the Amazon way of doing things
- Understand how to copy winning strategies such as ecosystem development, loyalty driver creation, the use of algorithms, advertising and prime
- Prepare for the future of retail, where Amazon will sit at the heart of a massive ecosystem, creating a multitude of new winners and losers
- Grasp which manufacturers and retailers have to fear a new competitor and identify the opportunity for those who want to join the ecosystem
- Understand the threat and opportunity that is Amazon from a strategy standpoint and a numbers perspective, find out how big Amazon will become over the next decade
- Find out about growth opportunities for and with Amazon and identify key threats to Amazon, Amazon white spaces and weaknesses and the risks associated with working with the pureplay
- Benchmark your performance against the best in class, find out how to be future proof your business

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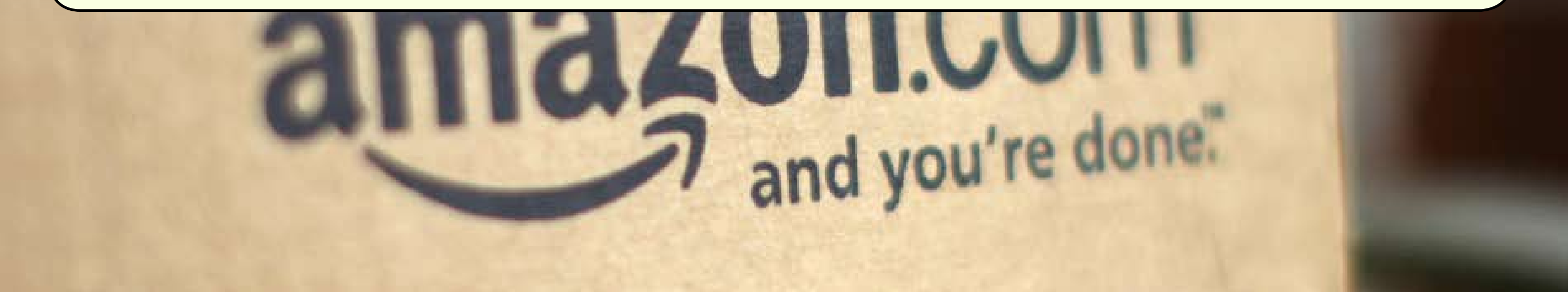

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TABLES AND CHARTS

TESTIMONIALS AND CLIENTS

«For us the ResearchFarm reports are so useful. The information provided give us the opportunity to increase our knowledge about the retail industry and its key trends.» Rafael Florez CEO GS1 Columbia

"The discounters reports were and still are very helpful as we got lots of detailed information and figures we haven't found anywhere else . This has helped us to progress with our plans of expansion in the US and convince people internally of the market potential » Marketing Manager - Bonifaz-kohler

Research Farm publishes great reports every year, and each report brings a unique perspective compared to any other information available elsewhere: the analyses go deep, they are supported with data, but what I most value is that each report is built around a 'clear story', contains proprietary insights and even sometimes innovative projections into the future which help us to think out of the box.
Global Channel Category sales - Nestle waters

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.» Dagligvareleverandørerne – Danish Association of Fast Moving Consumer Goods Manufacturers

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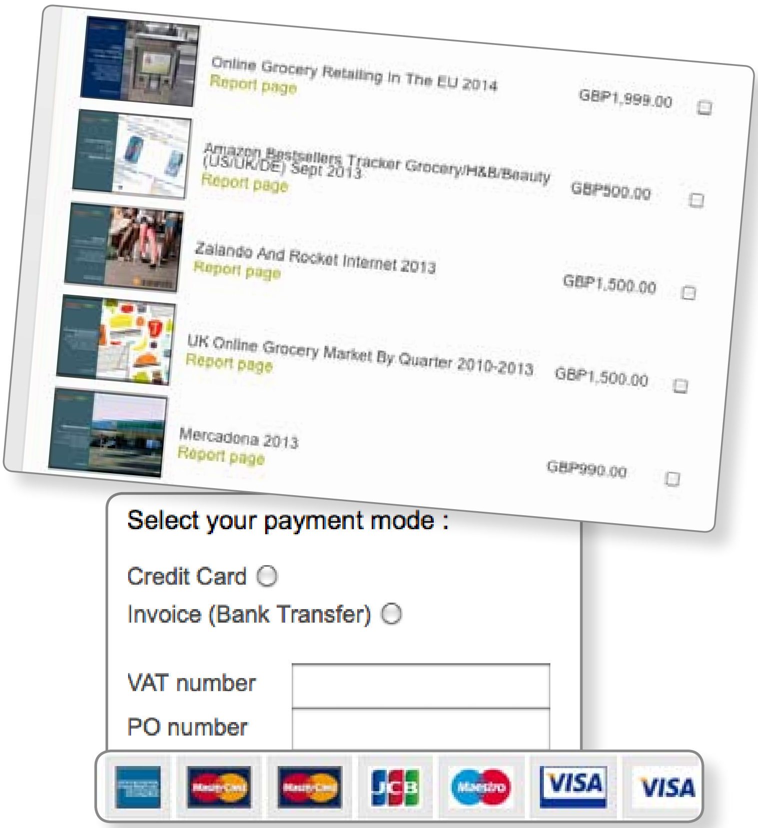

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