



The key to profitable e-commerce

A study into charging more online

NOA Consulting **NOA** Ignite **norstat**

At the North Alliance (NoA), we are specialists in customer-driven growth. This means that our entire focus is on helping businesses win more customers, customers who buy more, pay more, and stay longer. We do this through the unique way we combine data and tech with strategy and creativity, by zooming in on both the short and long term (not one or the other) – and by putting together tailored teams of best-in-class experts for the specific growth needs of each client.

Read more about NoA at www.noasverige.se

NoA Consulting

We help many of the largest companies in Scandinavia to drive growth through our three areas of expertise: profitable positioning, optimised pricing, and business innovation. Previously we operated in Sweden under the name Evidence Strategy. Our clients include Zettle, Assa Abloy and Max Burgers.

NoA Ignite

We create digital experiences that boost and build brands, conversion, and traffic, all based on the needs and behaviours of users. Our clients include Coop, Gina Tricot, Cake and Redeye.

The authors behind the report



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E-commerce is on the rise, but many e-retailers are in crisis. Despite considerable growth driven by changing consumer behaviours, technological advances, and the pandemic, digital commerce is still characterised by poor profitability. The actions of e-retailers lead to price wars and conformity. The risk for default is big.

But it doesn't have to be like this. It is definitely possible to run a profitable business online. By understanding customer needs in real depth and creating differentiation based on what customers are willing to pay more for. Those of us who have been working for a long time to create and build brands with a strategic digital presence understand this well. With the help of a unique study of 42 Swedish e-retailers, we can now demonstrate that success is possible. And we can even explain how.

The unique breadth of our study provides a general picture of the factors that lead online shoppers in Sweden to pay more.

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Primary questions

1. How successful have Swedish e-retailers been in differentiating themselves and building a price premium?
2. What emotional and functional aspects make Swedish e-commerce consumers willing to pay more to shop from a specific webshop?
3. What characterizes the e-retailers who have best succeeded in differentiating themselves and building a price premium?

1500

Interviews

- Conducted in Autumn 2021 in collaboration with Norstat.
- Norstat is one of the largest and leading data collectors for market research in Europe and has been around since 1997. Norstat has more than 650,000 panellists all over Europe.
- Participants: People aged 18–74 who have made a purchase online from the respective categories within the last 24 months.

42

E-retailers*

Boozt	Apple	Apotea
Gina Tricot	Elgiganten	Apoteket
H&M	Inet	KICKS
NA-KD	Komplett	Lyko
Nelly	MediaMarkt	Sephora
SHEIN	NetOnNet	Skincity
Zalando	Samsung	Addnature
Zara	Webhallen	Naturkompaniet
Amazon	Coop	Nike
CDON	Hemköp	Outnorth
Clas Ohlson	ICA	Revolution Race
Ellos	Mathem	Sportamore
Wish	Matsmart	Stadium
Åhléns	Willys	XXL

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Product categories



* All of the retailers were described to respondents in the survey specifically as webshops. E.g. the ICA webshop and the Lyko webshop, etc.

NoA's unique analysis tool Trax®

The key to understanding consumers' real needs



Position

What the target group thinks and feels about a brand

- Recognises
- Thinks
- Believes
- Feels

Sales premium

What the target group wants to do

- Willing to choose (volume premium)
- Willing to pay a bit extra (price premium)

Profitable growth

What the company gains

- Faster, greater and more sustained growth of base sales
- Increased profitability

The study does not rely on answers to direct questions about what consumers say is important. The answers to such questions are not reliable. The research on this is clear. People often "lie" about their true needs and motives.

Instead we've analysed the answers using NoA's unique analysis tool Trax®, which is based on academic research published by NoA Consulting's Dr. Niklas Bondesson. The tool reveals what factors really drive consumers to choose a certain brand and to be willing to pay more for it. Trax® is based on the statistical analysis of survey responses. In this study, we asked approximately 50 questions about how consumers perceive various webshops in relation to each other.

In order to further validate the strength of the model used in this study, we analysed the link between the price premium of the online-only e-retailers in the study (willingness to pay among customers) and the actual profitability of the businesses. This validation confirms the link: the online-only e-retailers with the highest price premium in our study are also the most profitable retailers – while the three with the weakest price premiums are running a loss (according to the most relevant publicly available figures at the time the study was carried out).

Six conclusions from the study
and six tips for Swedish e-retailers

Six important conclusions from the study

1. Few Swedish e-retailers have managed to differentiate themselves to allow them to charge more

Only two out of 42 webshops have succeeded in differentiating themselves, meaning that consumers are willing to pay more to shop from them compared to alternative options.

Most webshops are not considered worth paying more to shop from and thus have no choice but to keep prices down.

4. There are important yet subtle differences in what makes customers willing to pay more in different categories

Even if the overall trends are clear, there are also important differences between the six categories in the study. Within health and beauty products, it's more important to have a sustainable product range in order to charge more, while for the home electronics category what matters more is that the company as a whole is perceived as being sustainable.

2. Convenience and range are not enough to command higher prices

These are factors that e-retailers historically have invested heavily in. And for good reason too, as they are crucial to remaining competitive. And they remain important in attracting more customers and boosting volumes. However, our study clearly shows that they're not sufficient to build a price premium – i.e. a willingness to pay more.

5. Even within e-commerce, consumers "lie" to a certain extent about what they consider most important

Consumers say that they want value for money, fast deliveries, and simple payments, but this is not the whole truth. That is why it's necessary to use the right analysis tool to uncover "hidden" needs as well. Needs such as inspiration and social belonging – factors that virtually no consumers admit to being important but that in reality influence their willingness to pay.

3. Building a price premium requires added value associated with inspiration, sustainability and social belonging

Inspiration is the single most important factor when it comes to charging more and represents a sense that it's fun and enjoyable to spend time on the webshop. Lyko is perceived to be the best at this. Sustainability relates both to the company, their range and benefits to the consumer – Matsmart comes out at the top in this area. Social belonging is about building community and status around a brand. Skincity is perceived as best at this.

6. Emotions matter: e-retailers who evoke stronger emotions can charge more

Just as in many other markets, the strongest brands with the highest price premium are those that not only offer functional benefits but added emotional value. Despite the fact that there are few strong brands in this study, we can see a clear tendency for brands that evoke stronger emotions – such as joy, relaxation and anticipation – to also have a higher price premium.

Six important tips for Swedish e-retailers

1. Shops online are just like shops offline

E-commerce is retail, and retail is a trade where the details matter. Just as it's important to be better than the rest in the physical sphere, so too is it important to be better than the rest when it comes to e-commerce. In other words, it's not enough to do the same as everybody else online. Those days are behind us now. Avoid conformity – our conclusions clearly show that differentiation is just as important online as it is offline.

4. Put your customers first – not the technology

Don't let technology dictate the customer experience. Identify what needs your customers have and what aspects are important for you to deliver from a brand perspective, and then choose the technology that supports this. Technology develops quickly and this makes it possible to create experiences that exceed customer expectations. But these should serve your customers, not the tech itself.

2. Don't confuse strategy for tactics

Take a strategic approach to e-commerce and show your customers the respect they deserve. Allow your brand to be present across the entire purchase flow and take a strategic approach towards engaging content and new functions to remain relevant and interesting in the long term. And be sure to support this with resources and organisation.

5. Measure, follow up, and iterate

There are many ways to measure digital commerce, and with a great wealth of detail. Be sure to utilise this to follow up on the strategic effects you want to achieve through your e-commerce offering. Measure both short-term and long-term objectives and follow up on both hard and soft variables on a continuous basis. Be innovative in your choice of methods and tools and make the most of your opportunities to experiment and iterate. Smart measurement will give you a competitive edge.

3. Don't forget the emotions

Our report shows that emotions can drive price premium and profitability in e-commerce. Have the confidence to work with this. There are many innovative ways to inspire and to create a sense of social belonging that can evoke emotions that spillover onto the e-commerce experience and your brand.

6. Define a profitable position and let this guide the entire customer experience

To attain profitable and long-term growth, identify the most profitable position in your specific category and competitive situation. In other words, identify what you want your webshop to be known for – in order to attract as many customers as possible who are willing to pay as much as possible. Based on the actual needs of your consumers – not simply the things they say are important. Allow this position to play a governing role in all components of the customer experience.

Key findings from the study

There are two basic strategies for building a profitable e-commerce business. Through lower costs or through differentiation that builds price premium. For most – the route to profitability is through differentiation.

Profitability through lower costs is not synonymous with low prices, but rather makes it possible to maintain profitability despite low prices. Research indicates that very few operators in a market can attain profitability in this way. Only the biggest players.

Profitability through differentiation means being perceived as better at something that's important to your customers. It means offering added value that's functional or emotional. Something that creates a price premium and makes consumers willing to pay a little more for a product even if they can find something similar for the same price elsewhere. For most Swedish e-retailers, this is the path to profitability.

Today many e-retailers are stuck somewhere in the middle.

They're neither big enough to bring their prices down considerably nor sufficiently differentiated to charge more.

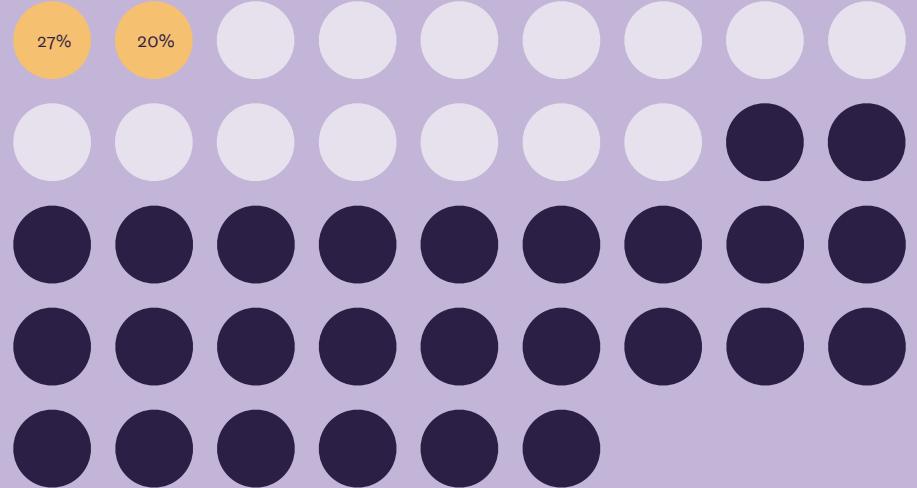
Only two out of 42 webshops have succeeded in differentiating themselves in a way that commands a price premium. Most shops are not considered worth paying more for.

Each of the dots to the right represent a webshop and the colours represent the proportion of consumers who have made a purchase in this category (in the last 24 months) and who think it would be worth paying a price premium to shop from that particular store.

Only two retailers – ICA and Apotea – were able to differentiate themselves on something that customers value and can thus charge more – at least in the view of more than 20% of customers.

Overall the results are weak for the vast majority of e-retailers in the study. Despite being heavyweights in their categories, they have barely managed to create any price premium at all.

In general, it seems that the Swedish e-commerce landscape is overly standardised and lacks differentiation, and this may explain the widespread issue with profitability.

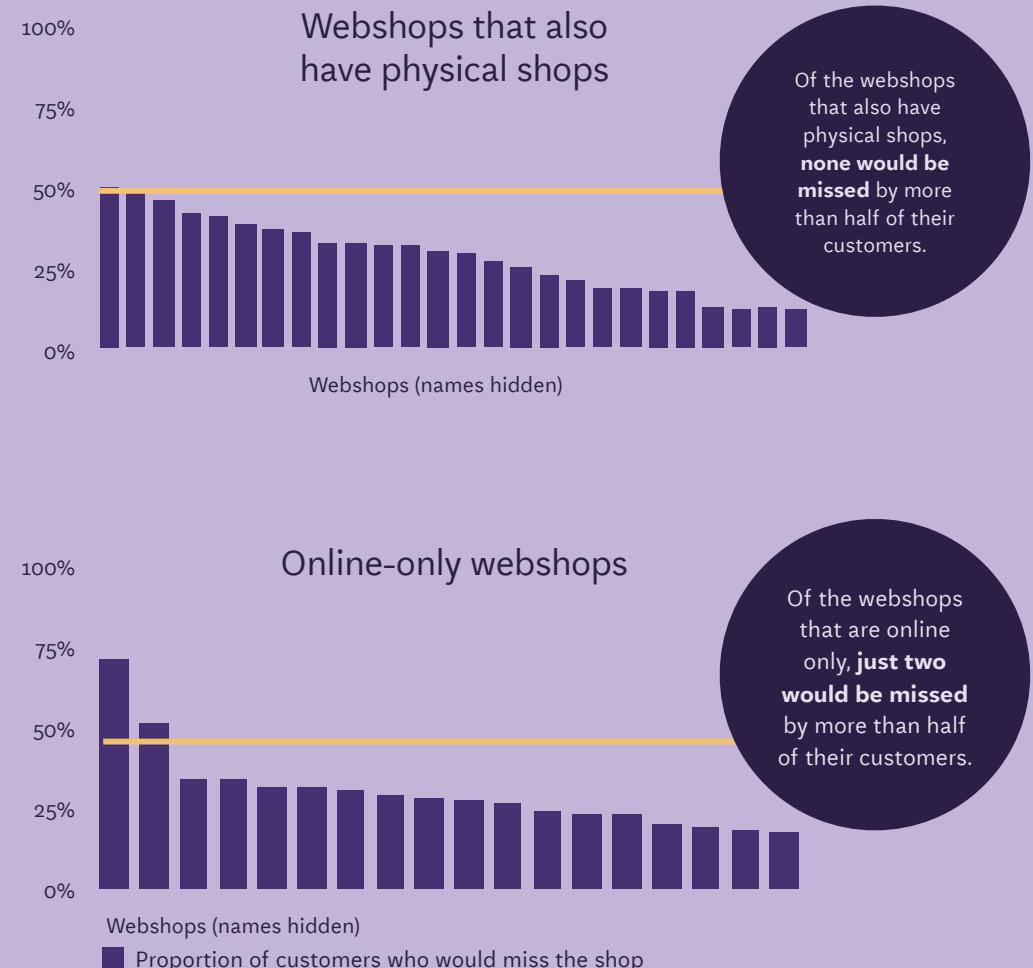


Share of consumers who think it's worth paying more to shop from this store:

- Over 20%
- 10 – 19%
- Less than 10%

Few webshops would even be missed by their own customers if they disappeared – yet another sign of weak differentiation.

The diagram shows the proportion of each shop's customers who respond that they "would miss this webshop if it disappeared".



Among those who have succeeded better than their competitors in building a price premium online are both online-only webshops, and webshops that also have physical shops.

The diagram shows the **proportion of each shop's customers that is prepared to pay a higher price** to shop from that particular webshop. Only the results for the three retailers with the highest price premium within each category are provided here. We want to highlight those retailers that are doing well and that others can learn from rather than point the finger at those who are failing.

Clothes, shoes and accessories		Sports and leisure		Home electronics		Food and groceries		Health and beauty		Online department stores	
Webshop	Price premium	Webshop	Price premium	Webshop	Price premium	Webshop	Price premium	Webshop	Price premium	Webshop	Price premium
Zalando	15%	Naturkompaniet	15%	Elgiganten	15%	ICA	27%	Apotea	20%	Clas Ohlson	14%
H&M	10%	Nike	13%	NetOnNet	15%	Willys	16%	Apoteket	12%	Åhléns	12%
Boozt	6 %	Stadium	12%	Apple	9%	Coop	12%	Lyko	11%	CDON	9%
Others in the category (listed in no particular order): Gina Tricot, NA-KD, Nelly, SHEIN and Zara.		Others in the category (listed in no particular order): Addnature, Outnorth, Revolution Race, Sportamore and XXL.		Others in the category (listed in no particular order): Inet, Komplett, MediaMarkt, Samsung, Webhallen.		Others in the category (listed in no particular order): Hemköp, Matthem and Matsmart.		Others in the category (listed in no particular order): KICKS, Sephora and Skincity.		Others in the category (listed in no particular order): Amazon, Ellos and Wish.	

The key to creating profitable differentiation is customer focus. Above all, understanding **what** consumers really value and **why** they're willing to pay a price premium. Only then does differentiation become profitable.

Building a price premium demands inspiration, sustainability and social belonging.

Convenience and range are not enough to mandate higher prices. However they are important in attracting more customers, i.e. driving volume.

Most important in order
to attract more
customers
(drives volume premium)

Convenience

Product assortment

Price

Security

Inspiration

Sustainability

Social belonging

Most important in order
to get customers to pay
more
(drives price premium)

Inspiration

Sustainability

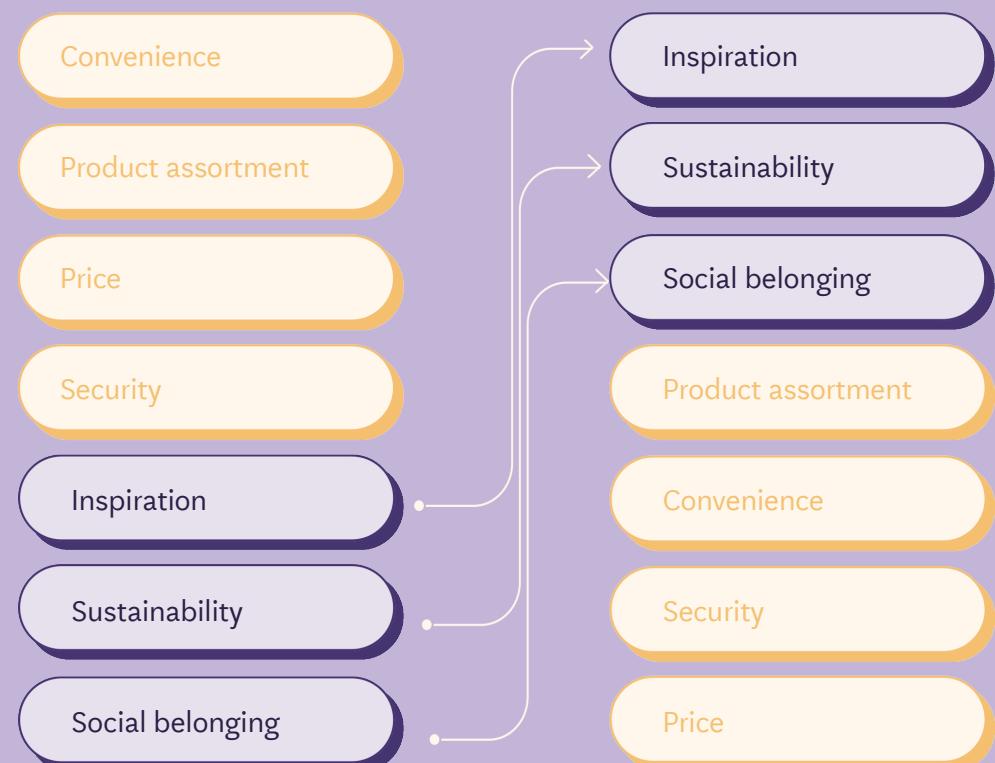
Social belonging

Product assortment

Convenience

Security

Price



Inspiration, sustainability and social belonging are the three most important aspects when it comes to charging more.

Inspiration

Inspiration is largely about emotional components. Webshops that inspire generate a feeling of anticipation and leave consumers looking forward to their next visit. There is always something new and exciting to discover. Browsing the webshop is a fun and relaxing experience, even if it doesn't lead to a purchase. It is quite simply enjoyable to spend time on the webshop.

Sustainability

At its core, sustainability is about whether the company behind the webshop is perceived as acting sustainably in all aspects of their business. And that they offer a good range of sustainable and climate-friendly products. Most important of all, however, is that the webshop makes it as easy as possible for consumers to make sustainable choices by focusing on the benefits to the consumer of choosing sustainable options.

Social belonging

Social belonging is about the type of person who goes on a particular webshop rather than what they actually buy. It's partly about the social group the consumer identifies with and wants to belong to, and partly how the consumer feels that their own social status will be impacted by shopping at a particular place. "Do I want to be the type of person who shops here?" is the question that consumers ask themselves.

Despite clear trends – there are some important yet subtle differences between the categories in relation to what drives price premium.

The figures below show how unique each category is when it comes to the specific kinds of added value that make customers willing to pay more. The higher the number, the more this category deviates from the general trend as seen across all categories. Food and groceries is the category that stands apart the most from the rest. For each category, examples of customer perceptions that are particularly defining for the category are provided.

The results show **the importance of analysing and understanding your own category in depth to understand subtle differences**. For example, in terms of what aspects within sustainability matter most, which emotions trigger a willingness to pay more, or how important customer support is for willingness to pay.



Even within e-commerce, consumers “lie” to an extent about what they consider important. The right analysis tool is needed in order to uncover all “true” needs.

What consumers **say** is important when they shop online and choose between different webshops

1. Value for money

2. Fast deliveries

3. Simple payments

What makes consumers willing to pay more to shop from a certain webshop when shopping online
(Trax® methodology)

1. Inspiration

2. Sustainability

3. Social belonging

VS

Emotions build price premium. Webshops that evoke strong, positive emotions can charge more for their products.

The columns indicate the proportion of each shop's customers who feel the shop evokes a certain emotion. The percentage in the black columns indicates the difference between webshops with a high price premium and webshops with a low price premium*. All differences are statistically reliable.

Together with the **statistical correlation analyses** that were performed, the results show that webshops that evoke strong, positive emotions can charge more.

* High price premium = over the median for all 42 shops

* Low price premium = under median for all 42 shops



Few e-retailers have succeeded in differentiating themselves and building a price premium – but there are exceptions. A few e-retailers stand out positively and are perceived as being good at things consumers will pay extra for.

We should learn from them.

The best at inspiring is Lyko.

Proportion of customers who feel
that the webshop is inspiring

45% 19%

Lyko

Average for all
42 shops in the study

The Lyko webshop is perceived by its customers as an inspiring and enjoyable website to spend time on. It evokes emotions primarily associated with **anticipation and joy** – there's always something new and exciting to discover. Moreover, Lyko's customers think that the store has a nice look and feels modern.

Only eight out of 42
webshops manage to inspire.

The best at helping customers make sustainable choices is Matsmart.

Proportion of customers who consider the webshop to be sustainable

54% 23%

Matsmart

Average for all
42 shops in the study

Matsmart is perceived by its customers as being a genuinely sustainable and caring company. A company that not only talks about sustainability but takes a sustainable approach in all aspects of its business. Customers enjoy the selection of climate-friendly products and think that Matsmart makes it easier to make sustainable choices.

Only five out of 42 webshops are perceived as being good at sustainability

The best at creating social belonging is Skincity.

Proportion of customers who associate the webshop with social belonging and status

40% 19%

Skincity

Average for all
42 shops in the study

Skincity's customers happily tell others that they shop from Skincity. Shopping at Skincity is perceived to say something positive of who you are as a person and to **boost your social status**. For customers, Skincity is not just a shop – it's a community that people want to be a part of.

Only three out of 42 webshops are perceived as being good at social belonging

The future

This is only the beginning. We know that many already thought what we have now clearly shown. Now we all know. We now look forward to working together to create better online experiences and profitable, long-term business.

Want to hear more? Get in touch!

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