E-barometern

PostNord in association with HUI Research

Q2

2023

postnord

About E-barometern

PostNord monitors the Swedish retail sector's e-commerce development in collaboration with HUI Research. E-barometern is published once a quarter and is based on four consumer surveys and a survey of companies. E-commerce is defined in E-barometern as being the online sale of goods, with subsequent delivery to the home or a distribution point, or collection by the consumer at a store, warehouse or distribution center. The following are therefore not considered to be e-commerce in E-barometern:

- In-store purchases that were initially arranged via the internet
- The online sale of services (for example, travel, hotel accommodation and concert tickets)
- Downloading of, for example, music files, movies and applications
- Business-to-business online sales
- Online sales between private consumers

E-barometern Q2 2023 is based on information collected from retail companies in August 2023. A total of 154 companies took part in the survey. Five consumer surveys have been carried out using KANTAR's web panel. All the surveys are conducted with a representative sample of Sweden's population between the ages of 18–79.

The first survey was conducted in May 2023, the second in June 2023 and the third in July 2023, with around 2,000 respondents per survey.

The fourth and fifth surveys were conducted in July 2023, with around 3,000 respondents each. The online surveys are representative of the 98 percent of Sweden's population that has internet access. PostNord can be contacted for detailed information about each survey.

Foreword

When asked to write the foreword to E-barometern, I didn't hesitate, just as I didn't six months ago when I was appointed Business Area Manager for Parcels at PostNord Sweden. I've worked 21 years in retail, and E-barometern has been a key source of knowledge regarding e-commerce. In my previous job at pharmacy chain Apoteket AB as Business Area Manager for Stores, E-barometern's insights were a crucial tool in our work in the fast-moving consumer sector – where retail and e-commerce are closely linked.

We are all aware of our current situation and the world around us. Factors such as inflation, the falling Swedish krona, interest rate hikes, rent increases and geopolitical developments mean that confidence in the sector is less positive than before. So it is with faith in the future that I read in the report that three e-commerce sectors increased their sales in the second quarter. However, the overall e-commerce trend shows a decline of four percent compared to the same quarter in 2022.

The pharmacy sector continues to do well, with many positive factors interacting to make it grow by a full 21 percent compared to the same period last year. This is also the case for sports and leisure, with the segment growing by one percent despite a decline in the sector as a whole. The third sector that continues to grow is clothing and footwear.

The report focuses on food purchased online. We meet two market participants and find out how Matsmart is working to improve profitability by developing its automated warehouses, and how ICA is improving customer friendliness in orders for meal kits and the weekly shopping list.

In addition to reporting on e-commerce trends, the report focuses on deliveries, payments and returns, along with the second-hand market.

In the 2022 Annual Barometer, PostNord and HUI Research came up with three possible scenarios to describe e-commerce growth from 2023–2025.

- The wind is changing
- Break years 2023–2024
- A deeper crisis

We are now taking a look back and have updated them to reflect the current economic situation in e-commerce and society. All three scenarios have been adjusted downwards, given the outcome in the first half of the year, and it will take some time to get back to the 2022 level.

Marie Rudolfsson
Business Area Manager Parcels, PostNord Sweden

Contents

How the business cycle may affect Swedish e-commerce

E-commerce still faces an uncertain future, with geopolitical concerns, price increases, interest rate hikes and a recession that continues to take erratic turns. In E-barometern's 2022 Annual Report, three scenarios for e-commerce development were published, and in this report they are now being revised based on the current situation in society and retail. The scenarios illustrate three different outcomes, with a gradual escalation of the impact of the recession.

A weak exchange rate, an economic downturn that does not seem to be reversing in the near future and a potential electricity shortage on the horizon mean that the future does not seem too bright. All scenarios have been adjusted downwards and are now below the line of what could have been expected without COVID-19, war and recession. The major price increases in the retail sector somewhat mitigate the decline, but in terms of volume the trend is more negative.

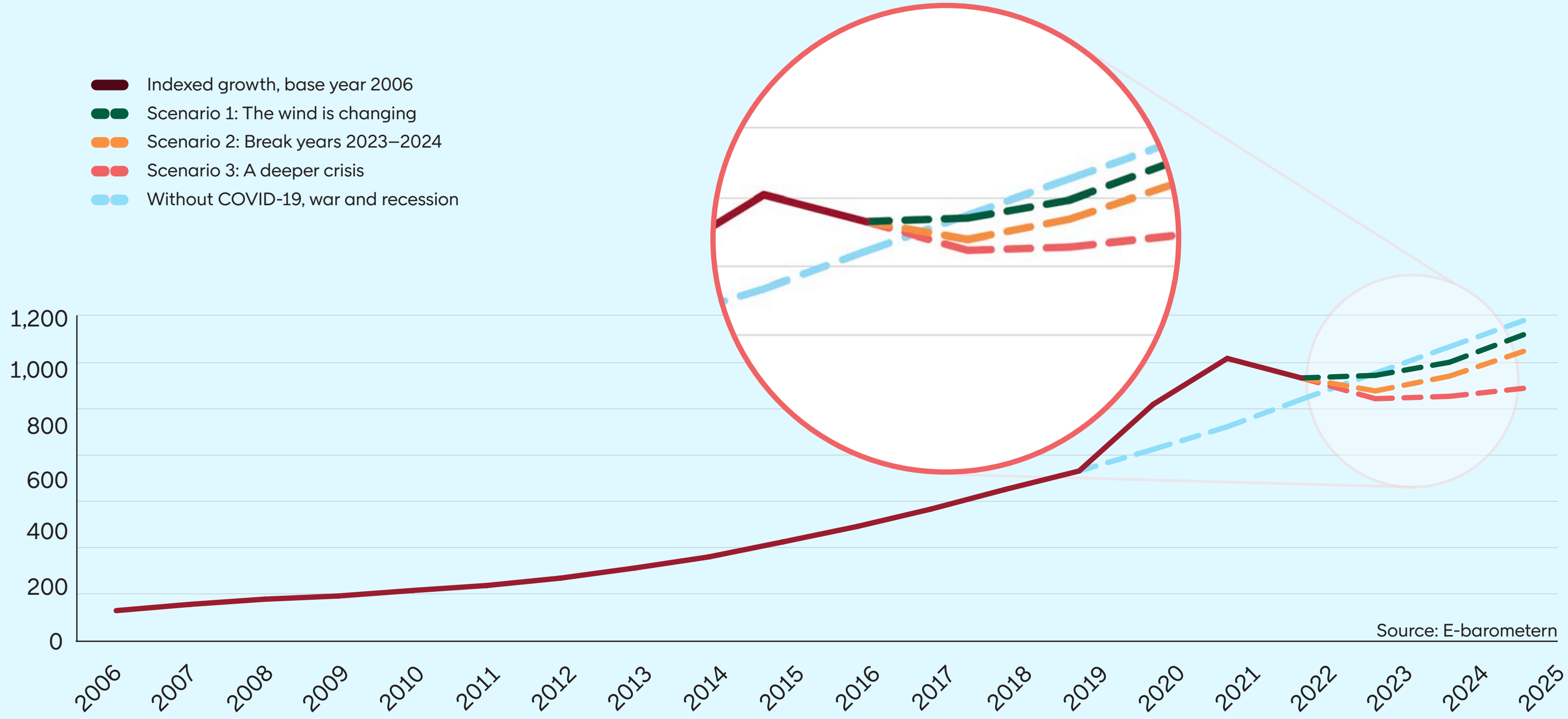
The purpose of the future scenarios is to make it easier to understand, navigate and develop business in a period of uncertainty. In comparison with each other, the first scenario is the most optimistic, while scenario two is more neutral and scenario three relatively gloomy. All scenarios are presented in detail on the following pages.

Three possible future scenarios

Scenario 1 – The wind is changing:
Describes a situation in which the downturn is over after 2023.

Scenario 2 – Break years 2023–2024:
A slightly more cautious scenario in which the recession continues and recovery occurs in 2024.

Scenario 3 – A deeper crisis:
The most pessimistic scenario, with a prolonged economic downturn.



Jan Jakobsson, PostNord:

"We received positive feedback on the scenarios we developed with HUI for the Annual Report, so we have come back with an updated version. The idea of the scenarios is to provide support in planning and forecasting the future."

Emma Hernell, HUI Research:

"The economic situation has deteriorated. The starting point for scenario analysis is now more gloomy, and all scenarios have a less optimistic tone. The cost of living for consumers has risen sharply, and declining consumption is evident in all sectors – particularly in e-commerce."

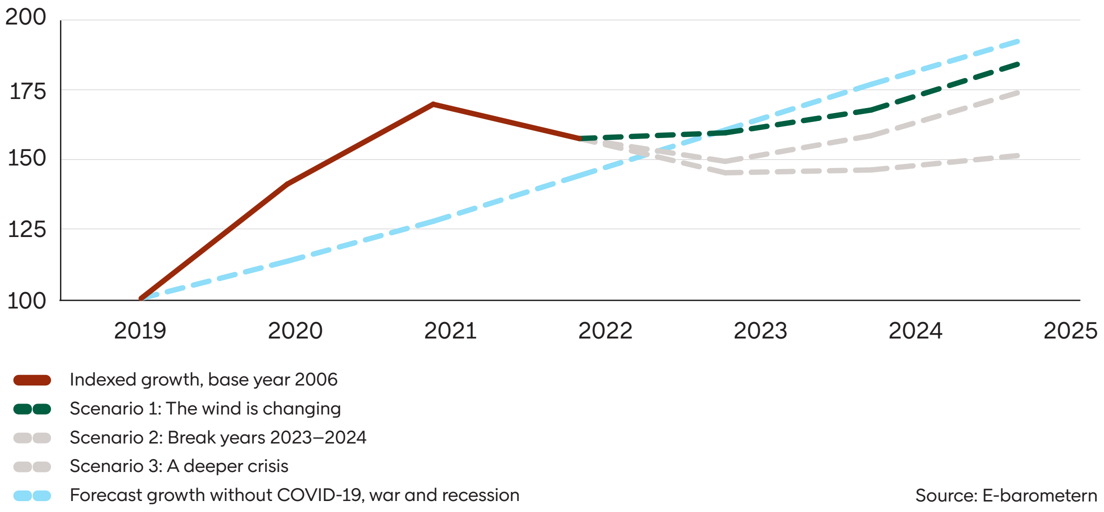
Scenario 1:
The wind is changing

In this scenario, the biggest loss has already occurred. This means that we are now at the bottom of the slump, but household finances are still strained. Consumers remain restrained, especially when it comes to capital-intensive purchases. Despite the slowdown in inflation, net sales for 2023 end up just above the 2022 level in terms of indexed sales growth.

However, there is no escaping the fact that the economic situation is very tough. A significant change in the situation is required in the near future if an outcome based on this scenario is to be possible. Inflation must continue to decline in the final months of the year, the Riksbank must refrain from further interest rate increases and energy prices must be kept low.

A further prerequisite is that the export industry, thanks to the weak Swedish krona, is able to generate growth in the economy and provide new jobs, which in turn would boost private consumption.

Indexed growth going forward is projected to be higher than last year, but growth in 2023 and 2024 is mainly price-driven. Consumers will have to reprioritize to some extent, as their purchasing power is still weakened by the tough economic period that continues to prevail. As their wallets shrink, consumers are foregoing more expensive purchases such as furniture and home electronics. At the same time, there are indications that a record number of trips abroad were booked in summer 2023, which did not turn out to be as hot as promised. [1]



Source: E-barometern

Jan Jakobsson

"In this scenario, inflation soon reaches a plateau. The Swedish krona begins to rally after September's interest rate hike, and weak e-commerce growth begins to emerge again in Q4 due to good deals in Black Week and Christmas shopping. An upturn in consumer confidence begins in 2024."

Emma Hernell

"Optimism returns and consumption may eventually return to normal. In this scenario, the efforts of politicians to boost consumption have paid off. The in-work tax reduction, the expansion of the tax deduction for renovation work and lower fuel prices have helped to boost consumption. Capital-intensive sectors such as construction, home electronics and furniture may once again see some improvement after months of decline."

[1] Sydsvenskan, August 2023

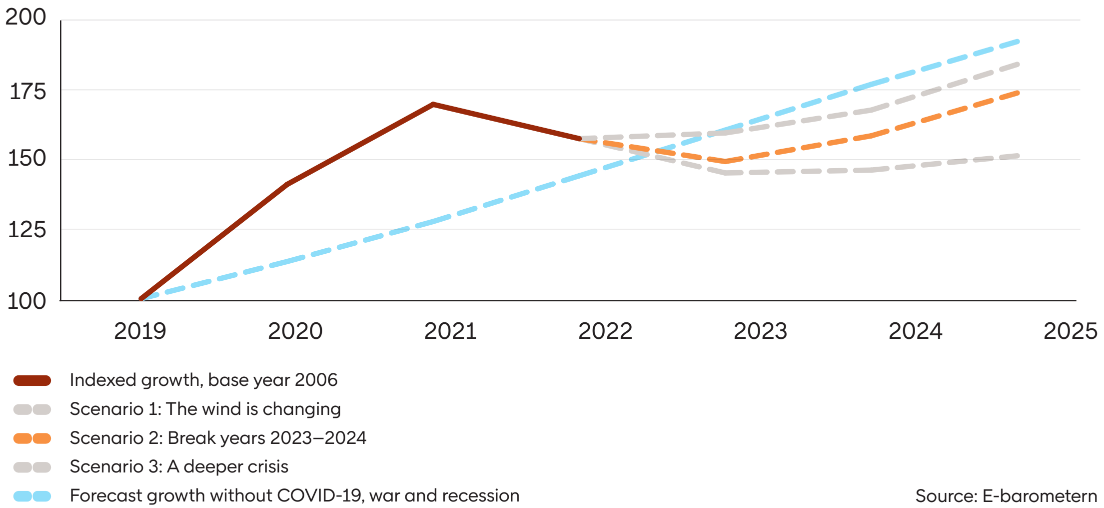
Scenario 2: Break years 2023–2024

In this scenario, the boost to e-commerce arising from the pandemic is officially over, and the recession limits growth in both 2023 and 2024. Interest rate hikes and food prices have an impact on households, making them more restrictive with both large and medium-sized purchases such as furniture, home furnishings and sports items.

Although their confidence in the future is better than it was a few months ago, households remain pessimistic.[1] This can be explained by the fact that there is still considerable uncertainty about future trends in interest rates and inflation.

The expectation in this scenario is that the economic turmoil will cause further restraint and that the recession will be more protracted than forecast in E-barometern's Annual Report, with growth now falling below that forecast without the impact of COVID-19, war and recession.

The scenario assumes that interest rates stabilize in 2024, allowing consumption to gain momentum again in the second half of the year. While households are expected to continue to exercise some restraint, they will make more capital-intensive purchases that they had previously postponed. For example, home electronics purchased at the beginning of the pandemic are now being replaced. Thus, 2024 will be the year when e-commerce recovers, and the indexed growth will once again reach the pandemic peak from 2021 in the following year.



Source: E-barometern

Jan Jakobsson

"2023 was a weak year, but in 2024 things will start to pick up due to pent-up consumer demand for upgrading products such as home electronics (mobile phones, computers, TVs), furniture and home furnishings."

Emma Hernell

"In the second scenario, the recession takes place. This means more consolidation where the retail sector is concerned. Retailers will also have to make redundancies, and some companies may have to leave the market. The winners in this scenario can be found in the fashion and beauty sectors, with consumers still able to afford to bring a bit of everyday luxury to their lives."

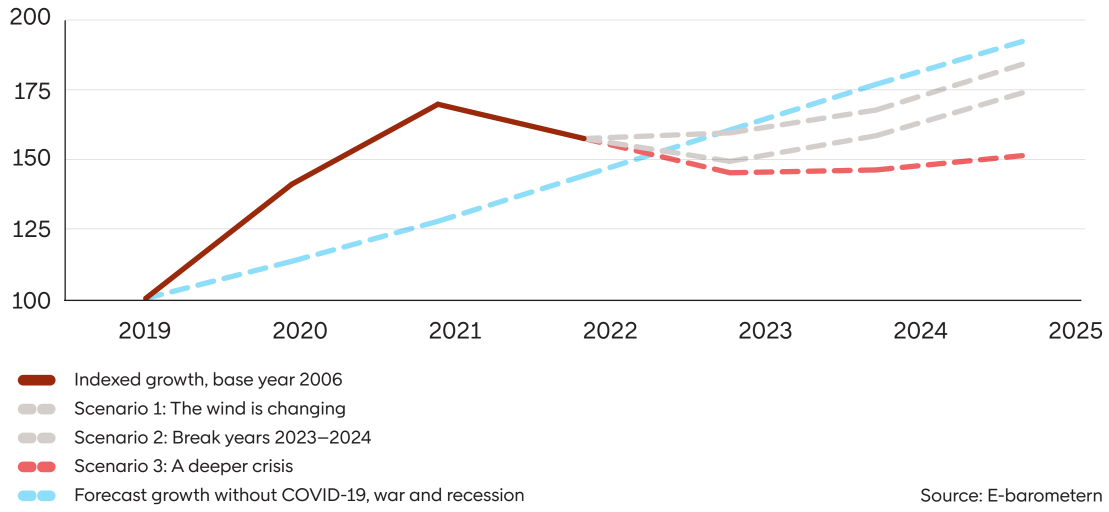
[1] National Institute of Economic Research

Scenario 3: A deeper crisis

In this scenario, the recession is prolonged due to high food prices, rising interest rates and geopolitical uncertainty. In addition to restraint where large and medium-sized purchases are concerned, high interest rates and economic uncertainty also result in a lower proportion of leveraged consumption.[1] This situation also forces companies to shift their focus from sales growth to profitability. The inflated e-commerce market brought about by the pandemic has been punctured by the recession, also resulting in fierce competition and a higher share of redundancies and bankruptcies.

Households experience a clear erosion of their purchasing power, which is also reflected in their consumption. Affordability is already a clear catchword and, going forward, consumers become increasingly price-sensitive, which means they more frequently turn to the low-price segment. In addition, consumption is heavily driven by promotions and sales, challenging retailers' inventories and margins. The economic downturn means that online second-hand sales are growing and taking market share from new items. As a result of second-hand sales, sales in certain sectors, such as fashion, children's items and toys, are able to grow despite the overall decline in e-commerce.

The persistence of the recession hits the sector hard, with negative growth in 2023. Household finances will remain under pressure in 2024, but rising prices and low comparative figures mean that slightly positive growth is expected in the longer term. However, e-commerce will not return to the historical peak of the pandemic within the three years covered by the forecast.



Source: E-barometern

Jan Jakobsson

"The turmoil continues into 2024, with inflation becoming entrenched and interest rates rising further, increasing the number of bankruptcies. Consumers must continue to prioritize household essentials and look for deals and low-price items. In 2025, e-commerce growth starts to pick up again."

Emma Hernell

"The third scenario entails stagnation for our sector. Consolidations, bankruptcies and redundancies become commonplace. As the retail sector makes up such a large part of the overall economy, it further fuels the recession. In the third scenario, we can also expect consumers to increasingly turn abroad to find cheaper alternatives, creating further difficulties in the Swedish market."

[1] DN, March 2023

Total	**-4%**
Pharmacy	21%
Clothing and footwear	2%
Sports and leisure	1%
Furniture and home furnishings	-3%
Groceries	-3%
Home electronics	-5%
Books and media	-7%
Building products	-19%
Children's items and toys	-*

*The children's items and toys sector does not have sufficient coverage to define trends in Q2 2023, largely due to a significant number of restructurings and other activity in the market.

Basis: Companies with e-commerce operations

Mixed performance in the sectors online

The last few years have been marked by several societal earthquakes that have affected different sectors in different ways. Where the second quarter of 2023 is concerned, development rates are more divergent than ever. The most obvious difference is between pharmacy and building products, which both generate large figures, but pharmacy is reporting positive figures while building products is reporting negative.

The current recession is also taking its toll. A stagnant housing market is impacting building products and furniture sectors that are already suffering. Other sectors, such as pharmacy, are hardly affected by fluctuations in the economy. Sectors with higher average amounts, which sell a lot of what are known as capital-intensive goods, are also negatively affected by consumers holding off on large purchases due to the economy. Sectors such as furniture, building products and home electronics are most severely affected by this. These sectors also saw major increases during the pandemic when Swedes made significant investments in their homes, investments that do not need to be made again at this stage.

Fashion sector keeping its head above water

2%
e-commerce growth Q2 2023

After being hard hit by the COVID-19 pandemic, the fashion sector has recovered somewhat in the second quarter, continuing its recovery from the first quarter. This has resulted in two percent growth for the second quarter of the year.

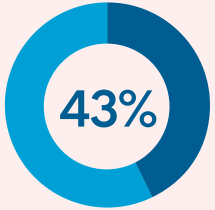
Historically, Q2 tends to be favorable for fashion retailers, as public holidays and summer vacations motivate people to upgrade their summer wardrobe. This was also the case this year. However, the sector is affected by pressure on consumers, which has led in practice to a decrease in volume during the quarter, despite an increase in sales, mainly due to price increases in the sector.[1,2] Thus, fewer garments and footwear are sold, but higher prices still result in a figure in the black for the quarter.

Swedish consumers are chasing affordable bargains more than ever. The second-hand segment continues to grow as an affordable option, but as price becomes increasingly important, fast fashion has also exploded. Chinese ultra-fast fashion brand Temu's app was the most frequently downloaded app in Sweden following its launch in July.[3]

SEK 1,296

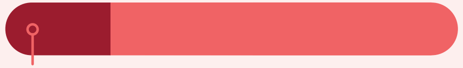
Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



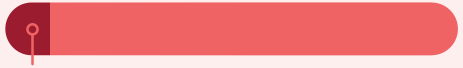
Percentage of e-commerce consumers who bought clothing and footwear

Basis: Consumer, has shopped online



19% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker

Basis: Consumer, has shopped online



10% Percentage of e-commerce consumers who had their most recent purchase delivered to their home

Basis: Consumer, has shopped online

[1] Swedish Commerce Style Index, April – June 2023 [2] Fast Fashion Index, June 2023 [3] DI, August 2023

Home electronics sector on the back burner

-5%
e-commerce growth Q2 2023

Despite low comparative figures for the home electronics sector, the trend is towards a continued decline in the second quarter of 2023. The economic situation is evident in households holding off on making major purchases. Moreover, during the pandemic, many consumers took the opportunity to update their home electronics items, which means that they do not need upgrading at the present time.

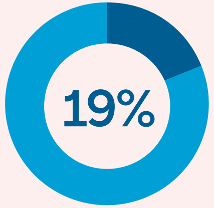
The sector is not only affected by the economic situation, but also by new legislation. One example is the increase in the chemicals tax, which entered into force on July 1, 2023. The aim is to reduce the amount of environmentally hazardous chemicals in home electronics, but it also entails a challenge for retailers in terms of keeping prices down. Research by the electronics sector suggests that items such as televisions could be up to SEK 500 more expensive.[1]

The issue of sustainability is not only being raised by legislators – it is also becoming increasingly important for consumers to be aware of the environmental impact of their home electronics products. This need is something that Swedish payment services company Klarna is trying to address. Klarna has launched an ecolabel in its own app for players in the field of electronics, with the aim of guiding consumers towards greener choices.[2]

SEK 1,844

Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



Percentage of e-commerce consumers who bought home electronics

Basis: Consumer, has shopped online

11% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker

Basis: Consumer, has shopped online

15% Percentage of e-commerce consumers who had their most recent purchase delivered to their home

Basis: Consumer, has shopped online

[1] Electronics sector, June 2023 [2] Klarna, March 2023

Complex issues being raised in book retail

-7%
e-commerce growth Q2 2023

The book sector, which has experienced both challenges and growth in recent years, is at -7 percent for the second quarter of the year. The semi-annual report of the Swedish Publishers' Association and the Swedish Booksellers' Association indicates that, to a certain extent, people are returning to physical bookstores, but the increase for such stores does not compensate for the decline in online sales in its entirety.[1] The tough financial situation of consumers is also evident in this regard.

The volume of foreign publications continues to grow, with sales of printed books rising by 9 percent in the first half of the year and digital streaming growing by a total of 22 percent in the second quarter *of the year.[1] Increasing numbers of readers are choosing foreign books, and young people's interest in reading in English is being driven by social media such as TikTok.

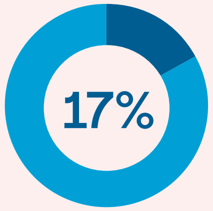
As AI and in particular ChatGPT have increasingly become a main topic of conversation during the spring, speculation has also begun regarding how AI may affect the book sector in the longer term. For example, Storytel has recently released a feature that allows the listener to choose between the original narrator and four different AI narrators. However, the AI issue is a matter of debate, with both international and Swedish authors' organizations taking a stand against allowing AI to create and translate books.[2]

The topic is new and complex – and includes the question of the impact on legislation. One example is the copyright of the material that AI generates or uses as training material. Several retail market participants are starting to take action – for example, Amazon is introducing a requirement for authors to disclose whether their work contains AI-generated material.[3]

SEK 519

Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



Percentage of e-commerce consumers who bought books and media

Basis: Consumer, has shopped online

11% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker

Basis: Consumer, has shopped online

13% Percentage of e-commerce consumers who had their most recent purchase delivered to their home

Basis: Consumer, has shopped online

[1] The Swedish Publishers' Association and Swedish Booksellers' Association, semi-annual report 2023 [2] DN.se, June 2023 [3] Västerbottenkuriren, September 2023

Slight tailwind for online sports sector

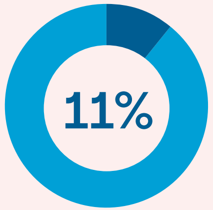
After a difficult start to the year, online sports retail has managed to recover somewhat, with growth of one percent in the second quarter. However, this only relates to sports retail online; the Q2 Sports Index shows a decline for sports retail as a whole.[1] The digital format offers greater speed and flexibility to conduct campaigns and sell off surplus stock, for example, which drives online sales.

Several major sports operators are choosing to close parts of their physical store portfolio for reasons including rent increases as a result of the challenging economic situation. France's Decathlon, for example, is closing half of its stores in Sweden.[2] Having fewer stores to compete with gives online sales a natural boost, which is evident in this quarter.

One persistent trend in the sector is that the increasing share of fashion-related items is taking up a greater proportion of Swedes' everyday wardrobes. As the lines between sport and fashion blur, newcomers are emerging in the sector, building their brands on more than just sport. These newcomers are focusing on creating communities in which well-being and style are given more weight than performance. One example is the Swedish sports brand UNNA, whose motto is "In it for the smiles, not the miles".

1%
e-commerce growth
Q2 2023

SEK 1,286
Average amount spent online over last 30 days
Basis: Refers to the last month (average April – June)



Percentage of e-commerce consumers who bought sports and leisure items
Basis: Consumer, has shopped online

10% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker
Basis: Consumer, has shopped online

11% Percentage of e-commerce consumers who had their most recent purchase delivered to their home
Basis: Consumer, has shopped online

[1] Sports Index, Q2 2023 [2] Di.se, September 2023

Construction sector still under pressure

-19%
e-commerce growth Q2 2023

Building products is the sector that has had the most challenging quarter, with a sharp drop in sales of 19 percent.

Building products often involve major investments in the home, something that households have been reluctant to make recently due to the economic downturn and higher interest rates. Not only have households' own building plans been thrown into disarray, but the construction of new homes has also declined and looks set to continue do so in both 2023 and 2024.[1] The current pessimism in the construction sector has also resulted in a slowdown in start-ups during the year.[2]

The sector has also been struggling with price increases for a long time, and there is talk of a new normal in which the prices of building materials will not fall from current levels.[3] This naturally poses a challenge for e-retailers. The fact that price levels are not returning to previous levels is not surprising in itself – but it is hitting the construction sector particularly hard, a sector that has seen extreme price increases due to factors such as a timber shortage.

However, there may be a slight improvement on the horizon. In connection with the new budget bill, the Swedish Government presented a proposal to increase the tax deduction for renovation work in an attempt to stimulate the sector.

Percentage of e-commerce consumers who bought building products

Basis: Consumer, has shopped online

[1] Swedish National Board of Housing, Building and Planning's Construction Forecast, June 2023 [2] Byggindustrin magazine, May 2023 [3] Byggindustrin magazine, June 2023

Furniture sector sees moves being put on hold

-3%
e-commerce growth
Q2 2023

Sales of furniture and home furnishings are highly dependent on mobility in the housing market. High interest rates have caused housing sales to stagnate, which in turn has led to a drastic reduction in sales of furniture and home furnishings.

In tough times, consumers look for alternative and cheaper ways to purchase capital-intensive goods such as furniture. There are two parallel trends: low-price and second hand. For example, discount furniture and home furnishings chain Jysk set a sales record in the 2022/2023 financial year.[1)]

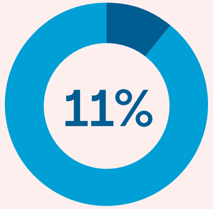
Another popular means of acquiring an item at a lower price is to buy second-hand, but in this segment, too, there are signs that the stagnant housing market is reducing demand. One trend is that increasing numbers of small physical second-hand stores selling furniture and home furnishings have started to find their place online by promoting their items on social media. One example is Fruängens Retro, which now has more than 25,000 followers on Instagram.

Another variety of second-hand retail is auction sales, which have also started to make their way online. Consumers can easily look up and compare unique items, follow particular items and bid remotely – online. Auction houses such as Bukowskis have long operated exclusively in physical stores, but have now identified a new winning concept in their online auctions.[2)]

SEK 1,855

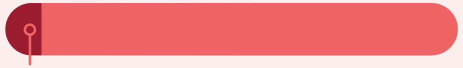
Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



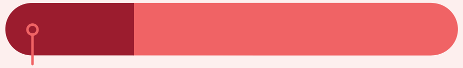
Percentage of e-commerce consumers who bought furniture and home furnishings

Basis: Consumer, has shopped online



7% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker

Basis: Consumer, has shopped online



25% Percentage of e-commerce consumers who had their most recent purchase delivered to their home

Basis: Consumer, has shopped online

1) Jysk, September 2023 2) DI, June 2023

Neither baby nor Barbie boom

–*

e-commerce growth Q2 2023

Online sales of children's items and toys are turbulent – to the extent that it is not possible to pin down a development rate. The sector's performance is affected by several factors, one of which is that Sweden's birth rate is the lowest it has been in twenty years.[1)]

In the first quarter of the year, several major market participants applied for restructuring. Babyworld's CEO Peter Bondelid believes that this process will be completed in the fall. The sector may begin to stabilize in the latter part of the year.[2)]

One brand that is a popular second-hand choice is Polarn O. Pyret, which is, for example, Tradera's best-selling children's clothing brand. The brand has responded by selling second-hand P O. P clothing itself. This makes it possible to claw back sales otherwise made in the second-hand market, but second-hand sales also serve as entry-level products for the brand at a price lower than the original.[3)]

Another children's item with a long history is Barbie. July saw the release of the "Barbie" movie, which quickly became a huge success. Mattel, the doll's manufacturer, hoped that sales would increase, even before the movie hit theaters. However, when the half-year figures were released, it was revealed that sales had fallen by 12 percent.[4)]

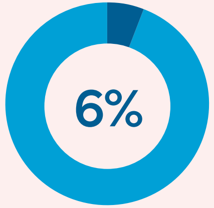
*The children's items and toys sector does not have sufficient coverage to define trends in Q2 2023, largely due to a significant number of restructurings and other activity in the market.

[1)] Statistics Sweden, August 2023 [2)] Market, August 2023 [3)] Dagens handel, August 2023 [4)] DI, August 2023

SEK 960

Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



Percentage of e-commerce consumers who bought children's items and toys

Basis: Consumer, has shopped online

11% **Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker**

Basis: Consumer, has shopped online

18% **Percentage of e-commerce consumers who had their most recent purchase delivered to their home**

Basis: Consumer, has shopped online

Consumers' priorities changing

There are a number of signs indicating that times are tough for online food retailers. According to Statistics Sweden, the operating margin of grocery retailers has generally decreased from 3.5 to 1.5 percent.[1] E-barometern has previously reported on the difficulties experienced by online food retailers in generating profitability in their offerings, and as operating margins decrease for the sector, this is getting even more difficult.

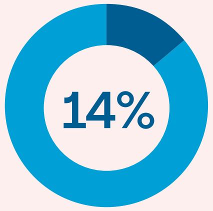
The grocery sector is an sector that has been in the spotlight as a result of the economic situation and is experiencing pressure from multiple directions: retailers are facing higher purchase prices that are pushing down their profit margins, while customers with reduced purchasing power are more price-driven than ever. In times of scarcity, consumers scale back on options that cost extra. This is a challenge for online grocery retailers, as it means that home delivery and other convenience services, which have long been an advantage of shopping online, are no longer a priority.

To meet these challenges, several grocery retailers are launching new concepts online to try to power through difficult periods. The key is to identify the needs that remain even when the customer has different priorities. The prevailing trend is for increasing numbers of online retailers to offer a feature that allows customers to fill their shopping bags with fewer clicks, with ready-made recipes. This enables more added value to be created by shopping online.

-3%
e-commerce growth
Q2 2023

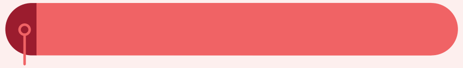
SEK 1,824
Average amount spent online over last 30 days

Basis: Refers to the last month (average April – June)



Percentage of e-commerce consumers who bought groceries

Basis: Consumer, has shopped online



6% Percentage of e-commerce consumers who had their most recent purchase delivered to a parcel locker

Basis: Consumer, has shopped online

44% Percentage of e-commerce consumers who had their most recent purchase delivered to their home

Basis: Consumer, has shopped online

[1] SCB, August 2023

Pharmacies' prescription for online success

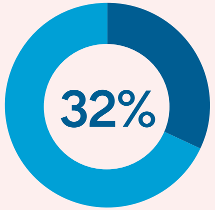
21%
e-commerce growth
Q2 2023

Among the sectors, online pharmacy, which grew by 21 percent in the second quarter, clearly stands out.

The high development rate is a consequence of several different factors. First, the sector is resistant to cyclical fluctuations due to regulated prices and stable demand.

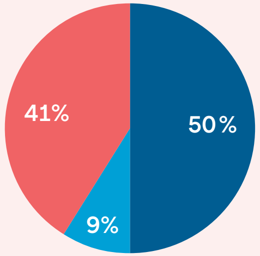
Second, consumers are increasingly buying non-pharmacy items via online pharmacies. These are items that have previously been sold in other sectors, such as beauty products. Goods for resale, i.e. items that are not medicines, account for 41 percent of online sales.

Pharmacies also have a stable e-commerce share. Those customers who have found their way to pharmacies online stay there and increasingly make purchases online instead of in stores. In addition to convenience, this is due to the significant price difference between pharmacy items sold online and in stores. Price is the consumer's main focus right now, which is an additional advantage for online pharmacy sales. The higher prices in stores are largely due to the need to balance prices with the costs for renting premises and hiring highly skilled employees.



Percentage of e-commerce consumers who bought pharmacy items

Basis: Consumer, has shopped online

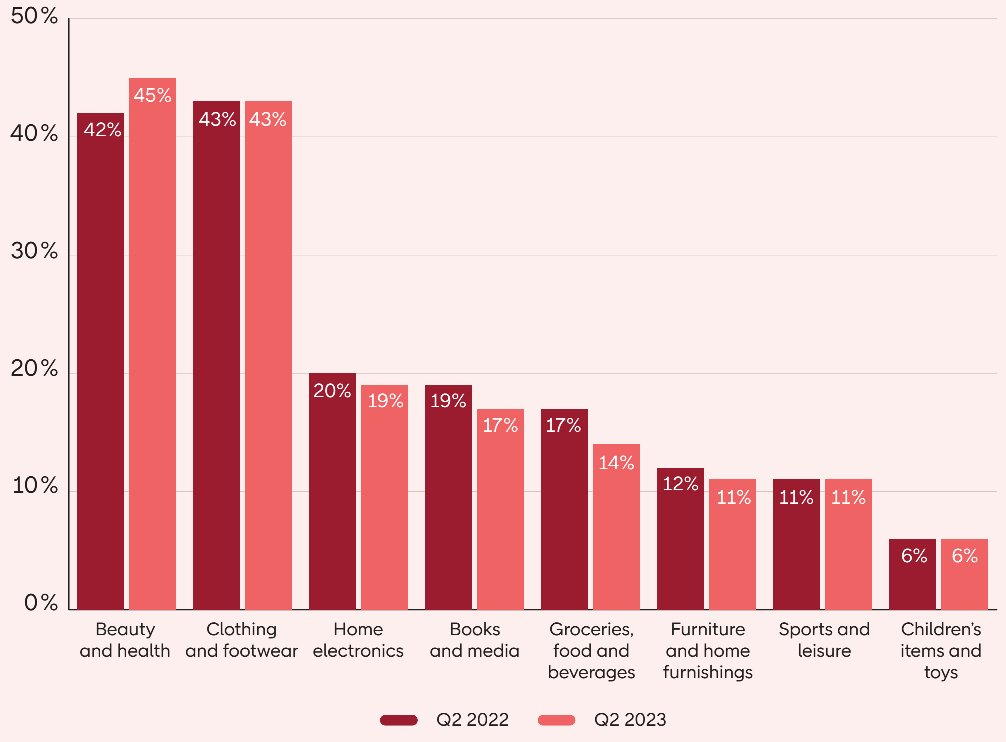


Pharmacy's online sales composition Q2 2023

- Prescribed medicines
- Over-the-counter (OTC) medicines
- Goods for resale and services

Source: Swedish Pharmacy Association.
Share of total net sales, SEK.

What types of physical items have you bought online in the past 30 days?



Basis: Consumer, has shopped online

Stunning figures for online beauty

When it comes to what consumers buy online, it is not surprising that clothing and footwear, along with beauty products, top the list. These two sectors have alternated in the top spot for many quarters in a row, but there is now a narrow lead for beauty products. There is a clear trend of consumers heading online to buy beauty products, increasing from 31 percent to 45 percent in five years.

The beauty sector is online-friendly, as products are often small and compact, making them easy to package and ship. There is also a clear sense of community in this sector, with consumers using ratings and reviews when shopping. As a result, people are increasingly heading online, where it is easy to make comparisons and evaluate and recommend items. One of the major players in the sector, Lyko, is aware of this trend. The company reports strong growth and is continuing to scale up its business in Sweden and internationally.[1)]

Almost all other sectors show a small but significant decrease, yet another sign that challenging times are causing consumers to cut back on purchases across the board, both in physical stores and online.

[1)] Market, July 2023

Distribution point still the most common form of delivery

87% were very or fairly satisfied with **the delivery of their most recent e-commerce purchase**

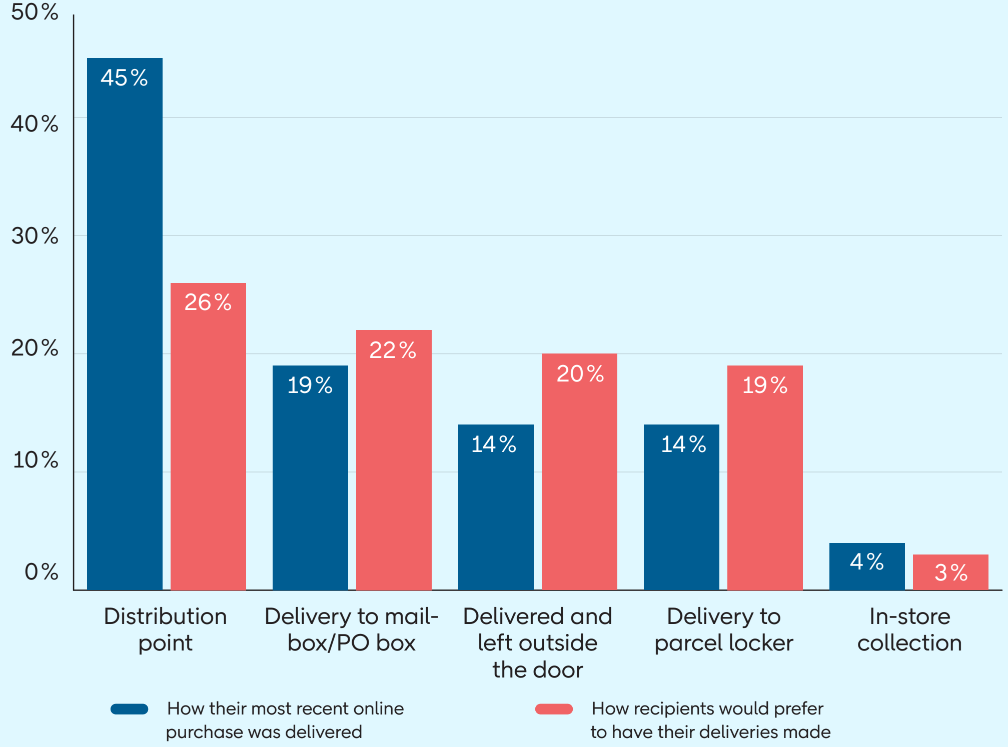
There are an increasing number of options for how consumers can have their e-commerce items delivered. Customer needs change and evolve, and e-retailers are looking for answers regarding when, where and how to deliver to best meet those needs.

Despite the wide range of choices, the most common means of delivering online purchases is still via a distribution point. As many as 45 percent said that this was how they received their most recent e-commerce parcel.

However, there is a wide variety of ways in which consumers would prefer to have their items delivered. If there is full freedom of choice, the race between distribution point, home delivery and parcel locker is relatively close. As e-commerce consumers become more accustomed to the options on offer, their needs also become more complex – the optimum delivery option varies not only from customer to customer, but also from purchase to purchase.

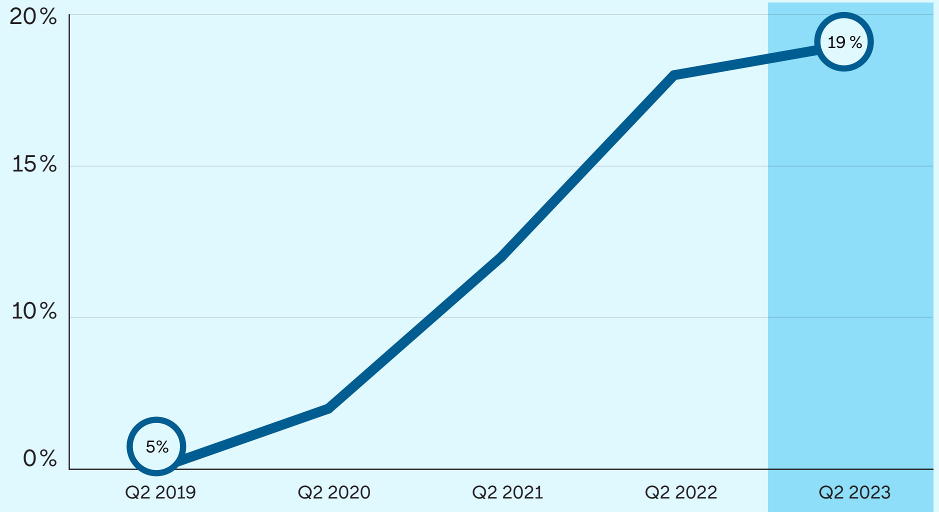
Even if some consumers do not receive their items in the way they would prefer, a full 87 percent said they were very or fairly satisfied with their most recent delivery. However, a slight trend that can be seen is that the percentage that is satisfied decreases with the age of the target group, but even among the youngest and least satisfied consumers (aged 18 to 29), the figure is very high at 80 percent. This shows that while preferences may vary, the delivery process has generally succeeded in meeting customer expectations.

Deliveries of online purchases



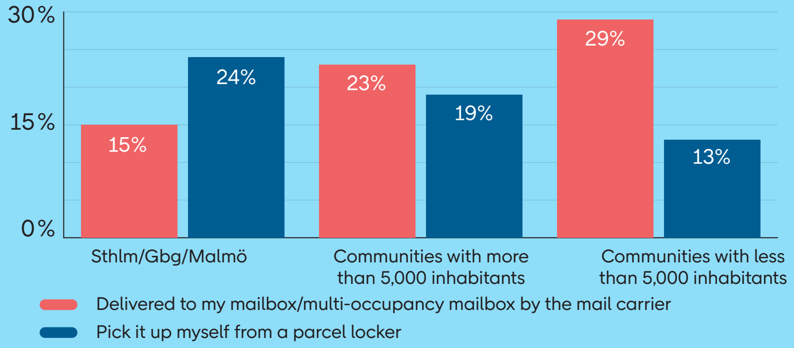
Basis: Consumers, have shopped online

Would have preferred to have had the item delivered in a parcel locker



Basis: Consumers, have shopped online

How would you have preferred to have had your item delivered?



Basis: Consumers, have shopped online

Parcel lockers now part of everyday life

In recent years, parcel lockers have become increasingly popular as a convenient delivery option. Although the strong initial growth has started to abate somewhat, the use of parcel lockers continues to grow. In 2019, only 5 percent of consumers indicated the parcel locker as their preferred delivery option, whereas today, one in five consumers prefer to use one.

In the cities of Stockholm, Gothenburg and Malmö, an even bigger proportion of consumers – a quarter – said they preferred having their items delivered via a parcel locker. This decreases when you look at smaller towns, where it is more popular to receive your items in your mailbox. A factor driving customer preferences is convenience, and what is most convenient differs between cities, large towns and smaller towns. In big cities, there is often a parcel locker around the corner or on the way home that makes this delivery option the most attractive choice.

One consequence of parcel lockers becoming an increasingly well-established delivery method is that regulations and guidelines are being developed. One example is the City of Stockholm's decision to regulate parcel lockers in the inner city, no longer permitting them to be located within a 300-meter radius of the nearest service point. To give as many people as possible in Stockholm the opportunity to receive their parcels in parcel lockers, parcel distributors are continuing to roll out parcel lockers with other market participants, such as the public housing sector.

Consumers
have on average
one app
for deliveries

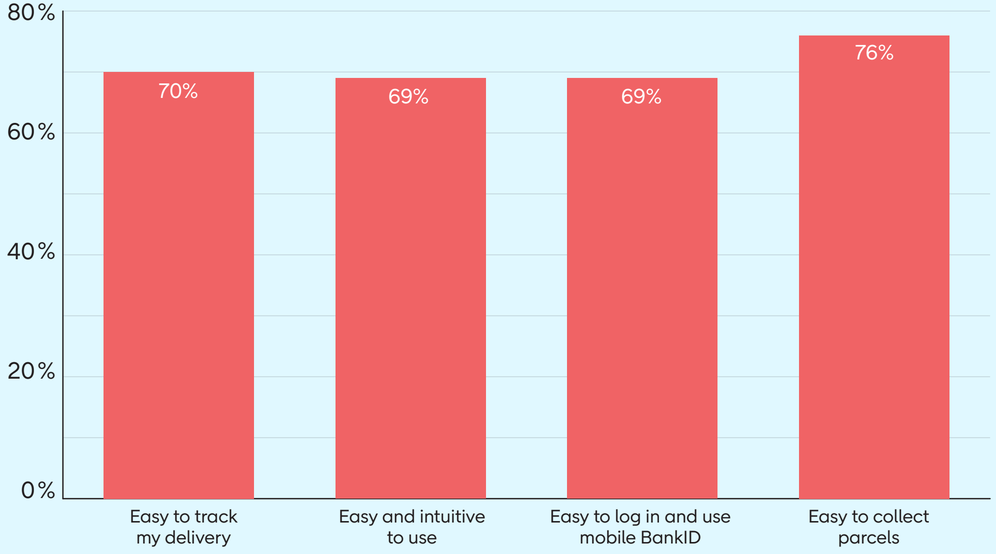
Consumers appreciate delivery apps

Phone apps have become a natural part of everyday life, used for everything from entertainment to productivity. Several delivery operators have therefore created apps that can be used to track the delivery of online purchases. Using the apps, consumers can track and make changes to their delivery, identify themselves and collect parcels.

The delivery app concept is very popular among e-commerce consumers. The apps have managed to meet the vast majority of consumer expectations in terms of factors such as simplicity, user-friendliness and convenience. They have enabled users to manage their deliveries efficiently, making them more satisfied with the delivery process as such. Simple, intuitive apps allow even the technophobes among customers to navigate smoothly. Offering delivery options linked to an app can thus be a way to ensure an especially convenient e-commerce experience for customers.

However, it is of interest to note that although most delivery apps are considered simple and intuitive, the majority of users have only one delivery app downloaded on average. This indicates that if one app makes a positive first impression and meets all the user's needs, there is no reason for them to use any other app. While this in turn is probably mainly due to people preferring to keep the number of apps down, in the long run it can build a form of loyalty that is always of value.

Percentage who agree with the following statements in relation to the delivery apps they use

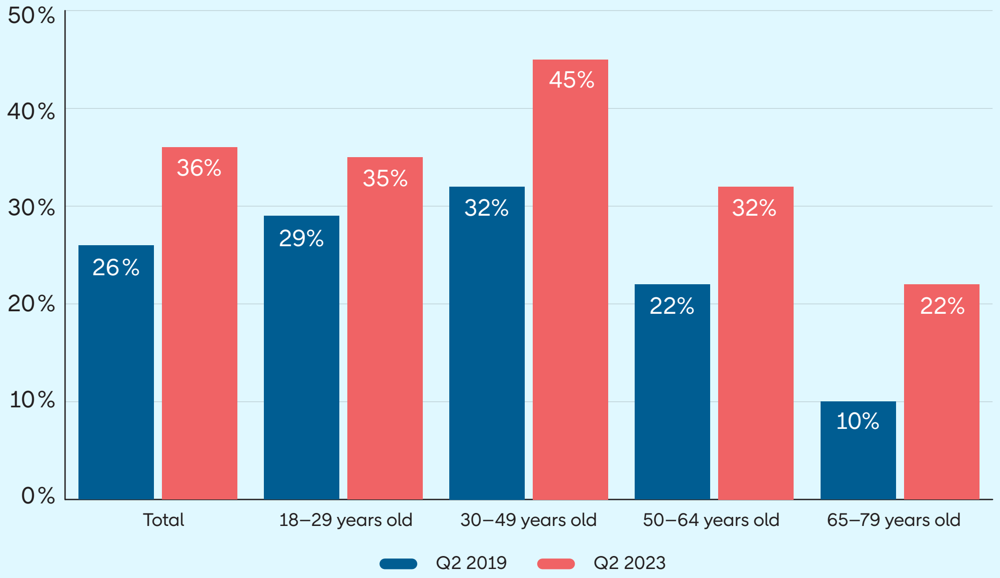


Basis: Consumers, have at least one delivery app on their phone

59%
think that one of the most important aspects of the delivery is being able to **choose how the items are delivered**

26%
think that one of the most important aspects of the delivery is to be able to **get a specified delivery date**

Percentage who have refrained from shopping online because their preferred delivery option was not offered



Basis: Consumers, have shopped online

Customers prioritize choice and specific delivery dates

As mentioned earlier in the chapter, there is a wide variety of ways in which e-commerce consumers wish to have their items delivered. The availability of a range of delivery options offered by companies has also proved to be important; when e-commerce consumers are asked to choose the most important aspects of delivery, freedom of choice comes first. 59 percent of consumers think it is most important to be able to choose for themselves how their product is delivered.

Another aspect that has proven to be important is having a specific set delivery date, with almost one in three consumers finding it among the most important aspects of an e-commerce delivery. A specific delivery date gives customers a sense of control and dependability in their shopping experience, making it easier for them to fit e-commerce into their lives – something that is become increasingly important as we shop online to a greater extent.

The right delivery method has gained in importance. The proportion of people who have refrained from buying an item at some point in the past year because they were not offered their preferred delivery option has increased by 10 percentage points since 2019, to 36 percent. This has proved particularly important for consumers aged 30 to 49, many of whom are parents with young children and have less flexible lifestyles. A significant portion of a target group with a great deal of purchasing power is lost when the choices on offer do not live up to expectations.

Thus, the key words are choice and dependability, indicating that consumers are increasingly demanding e-commerce that relieves the burden on them. It also shows the importance of offering full transparency on how and when delivery will take place.

32%
could **choose what time of day** their most recent e-commerce item would be delivered to their door

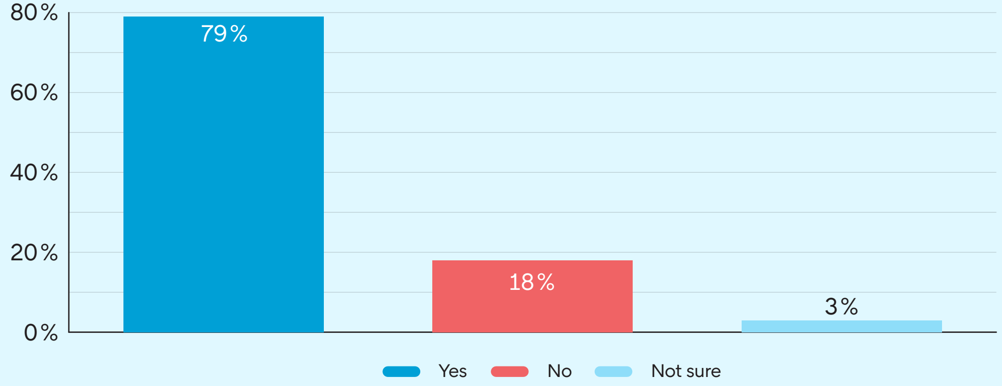
Predictability leads to customer satisfaction

When consumers are asked how soon after placing an order they would prefer to have their items delivered, the majority answer two to three working days. However, it turns out that customers are not just concerned with speeding up delivery as much as possible. One aspect that has proven to be equally important is that e-retailers offer a predictable and flexible timeframe that meets consumer expectations.

Clear communication from e-retailers gives the customer a sense of control, ensuring a secure and predictable e-commerce purchase that can be planned into their everyday life. Most e-commerce deliveries meet these expectations, with nearly 8 out of 10 consumers responding that they were satisfied with the timeframe of their chosen delivery.

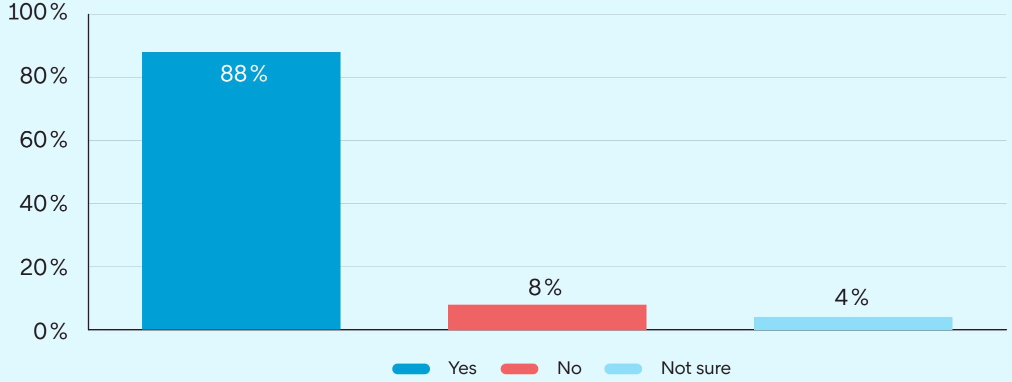
Expectations regarding a reliable timeframe are also met when it comes to home delivery, where the timeframe is often even narrower. This gives the consumer the security of avoiding their parcel being left unattended outside their door for an extended period of time, for example. Consumers can also plan their day so that they are home when their delivery is expected to arrive. A third of respondents were able to choose the time of day their most recent online purchase was delivered to their door, and almost 9 out of 10 received their item within the time allotted.

Percentage satisfied with the timeframe given for their most recent e-commerce delivery



Basis: Consumers, have shopped online

Percentage who received their most recent home delivery within the timeframe allotted



Basis: Consumers, had their item delivered to their doorstep

The future of ICAs matkasse: "100 percent personalized – unique to each family"

The market for meal kit subscriptions is not looking great at the moment. But ICAs matkasse may have the winning recipe: firstly, less choice and secondly, more flexibility.

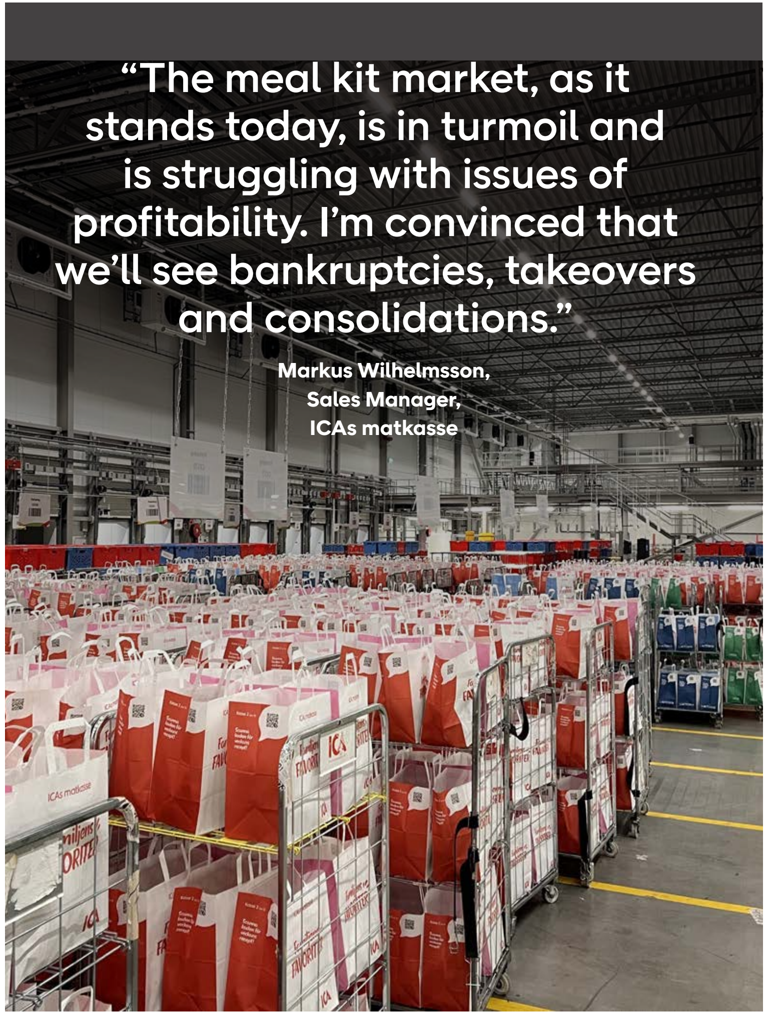
"In a year's time, you'll be able to click on one of our recipes and automatically order all the items you need for it," says Markus Wilhelmsson, Sales Manager Food & Meals at ICA's e-commerce department.

During the pandemic, online food purchases grew at a record pace, and the market for meal kit subscriptions flourished. It had already helped Swedish families answer the daily question of "What's for dinner?", but when the retail sector was included in Swedes' increased online shopping, it also had a positive impact on companies offering meal kit subscriptions.

Now that we have gone back to shopping for food more like we used to, in physical stores, there are those who argue that meal kits have lost their appeal.

In addition, some competitors have new, strong selling points – flexibility and choice – that have posed some challenges for ICA, according to Markus Wilhelmsson, Sales Manager for ICAs matkasse.

"We did the math concerning full freedom of choice in terms of recipes and delivery days and realized that



we couldn't possibly make that deal work for us. The good thing about the meal kit concept, from the producer's perspective, is the ability to scale. To be profitable, you need to identify large groups of customers with the same taste preferences. Choice is great for the customer, but not as good for the company. The more flexibility you build into the offer, the more you erode profitability."

And this is where ICAs matkasse, according to Markus Wilhelmsson, differs from several of its biggest competitors, as ICA's new solution to the problem is to initially limit customer choice.

"Yes, we have just made changes to our product portfolio to focus on the Family Favorites bag. Our target group is now exclusively families with children. We have discontinued our two-person bags and special bags such as the Bistro Bag and the Inspiration Bag, precisely because the target groups were too narrow and the volumes too small. We had two big sellers in our previous range – Family Bag and Simple Week – and they were really quite similar. So we combined them and created Family Favorites, as well as a lactose-free and a vegetarian version."

And it was the most common reaction from customers that led to the selection of Family Favorites.

"They sometimes talked about drawing the short straw, about recipes where they were forced to throw food away because the children complained. So we decided not to create any 'short straws' in the new meal kit and did so by using only recipes with a high rating on ica.se – at least 4 out of 5."

Simple, popular and profitable. However, providing customers with such a standardized product, where the content and delivery day (Monday) are fixed, is actually only a temporary solution. Further down the road, a completely different reality awaits in which new technology will give ICA shoppers exactly what they want in their meal kits.

"Yes, we'll be moving towards a much more flexible approach. Customers will be able to shop for recipes with us – instead of putting 55 items in their shopping cart, they'll put five recipes in there instead. Five clicks instead of 55."

The customer should then be able to go into their shopping cart and edit the list – perhaps removing what the family already has in their pantry – and then complete the purchase at the digital checkout.

"Another similar method is to buy a meal kit where we've helped plan the four recipes for the week. So the customer adds a pre-planned meal kit to their shopping cart with a single click," says Markus Wilhelmsson.

About ICAs matkasse

We want to make our customers' lives easier and inspire them to cook good food, every day. With ICAs matkasse, you get a well-planned week of food, with simple and tasty recipes that use delicious ingredients. We pack the ingredients for you, and all you have to do is collect the bag from your store. Some stores also offer home delivery.

ICAs matkasse is the obvious choice for families. Our chefs have taken our most popular recipes to make your life easier and more delicious at a low price. The bags are filled with familiar items, the meals are nutritious, varied and adapted to the family's taste buds.

We offer three different bags: Family Favorites, lactose-free Family Favorites and veggie Family Favorites. Subscribe or make one-off purchases, with delivery on Mondays from the store of your choice.

Source: Ica.se

So it's an order for individual items, although it's sold as a meal kit. And to this, of course, you can add other items needed in the home – toilet paper, laundry detergent and the like.

"We'll then be able to attract entirely new groups of customers who want a little more help with food and meal planning."

When will this become a reality at ICA?

"We're not quite there yet, and the launch depends a lot on system technicalities, but I definitely think we'll have some kind of initial solution on the market in a year's time. After all, we have the advantage of having technology for individual items that we can grow into with this kind of offer."

Markus Wilhelmsson is not sure whether it will actually be called a meal kit market.

"I think we'll have an online market where you sometimes buy individual items, sometimes recipes and sometimes meal kits – depending on what you are willing and able to do, can find the time for and are interested in when it comes to food planning. So in a couple of years, we probably won't be talking about the 'meal kit business'. And the next generation of food shoppers won't say they've bought a meal kit – they'll say they order recipes online. It will be 100 percent personalized, completely unique to that particular family. And the proportion of people who will then buy meal-planned individual items will be significantly larger than that currently subscribing to meal kits, I'm absolutely convinced of that."

What is your growth target?

"At a conceptual level, it's to merge the meal kit business into an individual items business, and package the pick and mix business so that customers can buy either ready-made weekly plans or recipe plans."

But for now, the traditional meal kit is still the order of the day. Deliveries are sent from the central warehouse to stores throughout Sweden, with a few geographical exceptions. These deliveries are so large in total that it is usually not possible to send them with the regular goods deliveries.

However, there is very little food waste from the centrally packed meal kits.

"We centrally pack over 10,000 bags a week, but only get one supplier's cage of waste. And we drive that out to the City Mission."

The five most popular dinner recipes on ica.se

1. Pancakes

2. Sausage stroganoff

3. Spaghetti carbonara

4. Lasagne

5. Potato and leek soup

Source: ICA, based on statistics over the last 12 months

Quick Q&A with ICAs matkasse

What is the most common way to receive your meal kit – collect it yourself or have it delivered?

"Collect it yourself, without a doubt. Over 90 percent of customers choose to pick up their meal kits in stores. And they're available from 3 pm on Mondays."

Markus Wilhelmsson

How do customers pay for their meal kits?

"You can make a one-off purchase and in that case, it's like a regular online purchase – and if you start a subscription, it's basically the same."

Via which channels do you reach your main target group of families with children?

"Social media, such as Instagram and Facebook, either centrally managed or the stores' own accounts. The most important channels are probably the stores' own channels, but SEO is also an important digital channel."

Have inflation and high food prices had an impact?

"Yes, partially, but it's important to remember that the meal kit is a very affordable option. It is recipe- and item-based, which means that there is almost no food waste – resulting in low portion prices. At ICA, it's around SEK 45 per portion, based on a recipe for four people."

What is your complaint rate?

"0.006 percent. The percentage is the ratio of the number of complaints to the total number of goods/items packed over the course of four weeks."

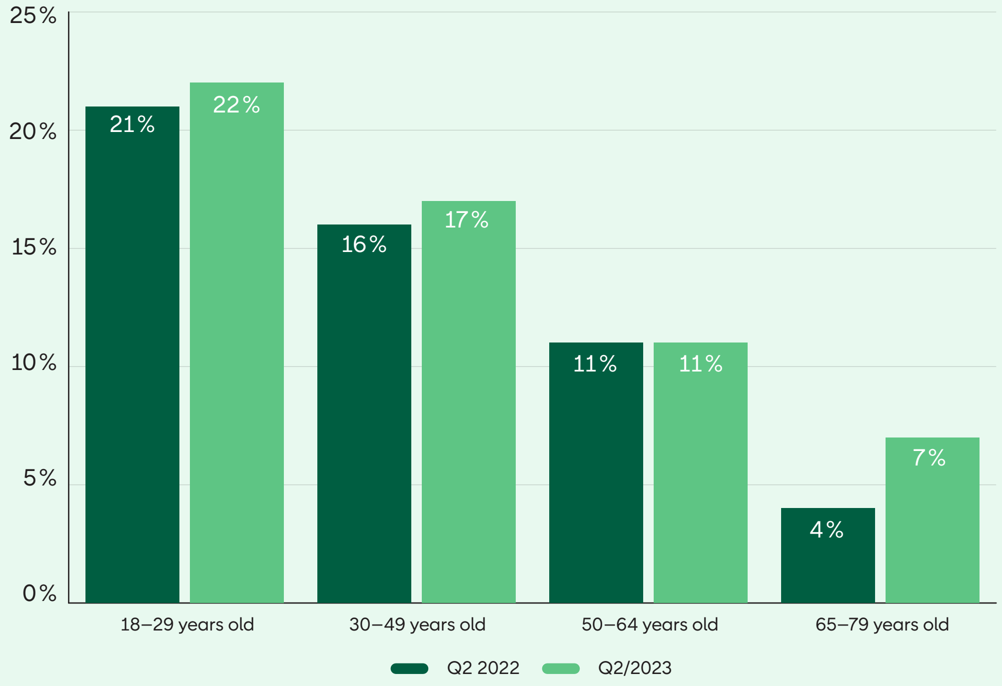
How many bags does a store need to sell to break even?

"Between seven and twelve a week, and it's not difficult to reach that number."

21%
of **women** have returned an item in the past month

9%
of **men** have returned an item in the past month

Percentage that returned an online purchase in the past month



Basis: Consumers, have shopped online

Younger consumers make the most returns

When an online purchase does not meet consumer expectations, it is natural for them to be able to return it. According to the Parcel Index[1], 12 percent of all e-commerce parcels were returned throughout 2022. This corresponds to almost 23.6 million parcels. The fashion sector has by far the highest return rate, and the sector's annual summer sales mean that the lion's share of e-commerce parcels is returned between May and July. The return rate is then around 14 percent.[1]

Younger consumers are the most frequent online shoppers, so it is not surprising that they are also the ones who return the highest percentage of parcels. This is also because younger people make a higher percentage of purchases in the fashion segment. It is also worth noting that women return items to a greater extent than men. Again, this is due to the greater interest in buying clothes and footwear online turning the home into a fitting room. Another contributing factor may be that women potentially shop for more people than themselves.

Online purchases cannot be touched or tried on before purchase, which means that many e-commerce consumers order items that they are not sure they will want to keep. Many online retailers are working to improve their shopping experience and make it easier to make the right choices from the start. E-barometern's surveys, for example, show that 9 percent of e-commerce companies have started implementing AI for product recommendations – perhaps this is a method of regulating return flows that will become increasingly popular in the future.

[1] Swedish Confederation of Transport Enterprises, Parcel Index

More and more people interested in in-store returns

The service point is by far the most common way to return items purchased online. As many as 75 percent of e-commerce consumers stated that this was how they made their most recent return. It is also the most preferred returns option, with 39 percent of consumers preferring to make their returns via a service point. The high proportion of returns via service points has not changed significantly in recent years, but the results suggest a trend of more people becoming interested in other ways to make returns – especially in-store returns.

For a significant proportion of customers, stores could play a useful role in terms of returns. For example, in-store returns allow an exchange or a replacement product to be offered on the spot.

This generates an opportunity for e-retailers to extend the customer journey by offering a different product, or even enticing customers to make a new purchase. However, despite the fact that almost one in four consumers would like to make returns in-store, only 13 percent actually returned their most recent online purchase in this way.

Currently, 44 percent of companies in the E-barometern survey offer in-store returns, but the results suggest that there is room for improvement in the intersection between e-commerce and physical stores. Almost half of the consumers who have returned an item purchased online think that it should be possible or easier to return such an item in a physical store*.

* E-barometern surveys, 48 percent agree to a fairly large or large extent with the statement "It should be possible/easier to return an item I bought online in the physical stores of the online store". Basis: Consumers, have shopped online.

Consumers' top three returns options

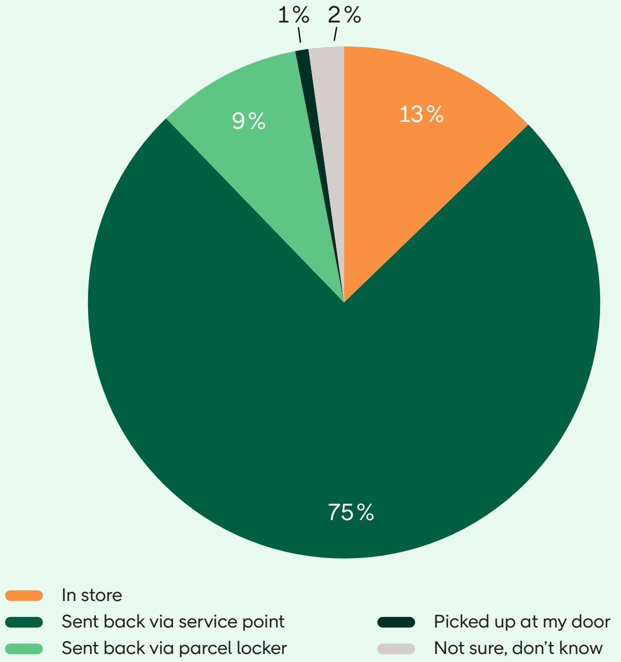
Returns via service point – 39 percent

Returns at the retailer's physical store – 23 percent

Returns via parcel lockers – 11 percent

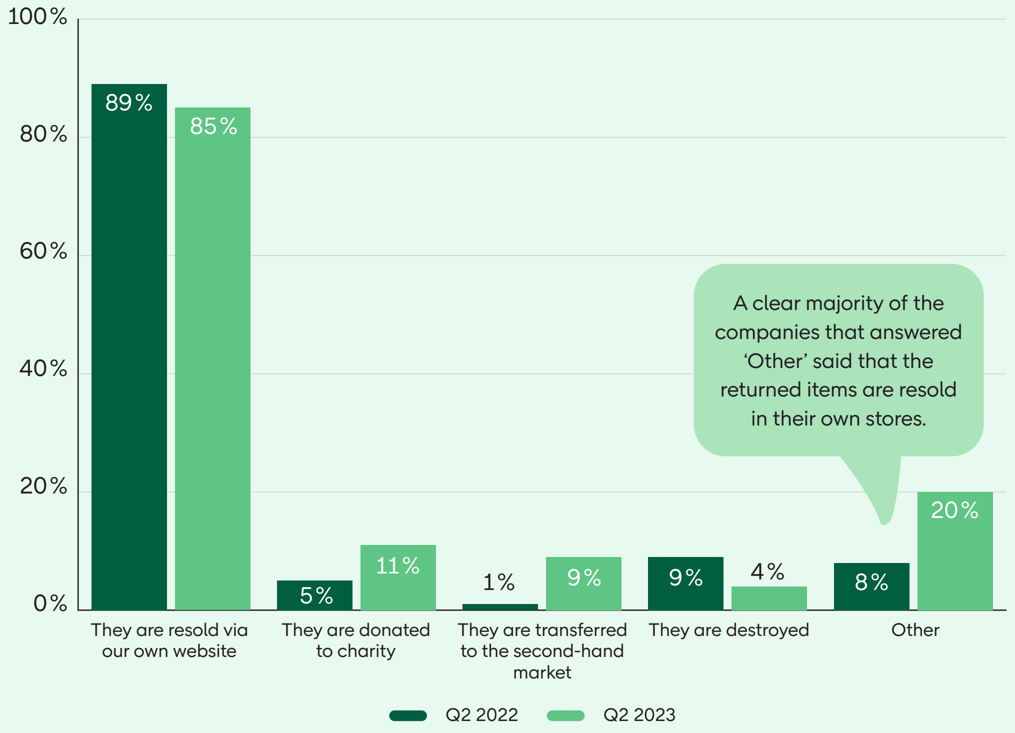
Basis: Consumers, have shopped online

How did you return your most recent online purchase?



Basis: Consumers, have returned an online purchase

What happens to returned items?



Basis: Companies with e-commerce operations

Stores a tool for e-retailers too

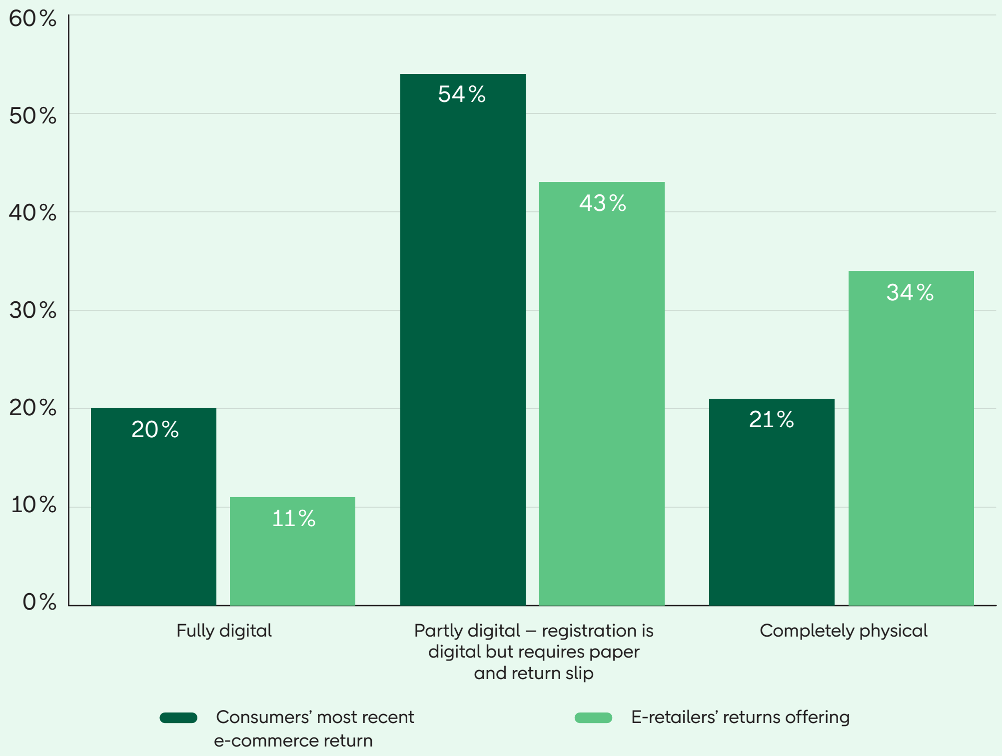
When it comes to the way e-retailers manage returns, it is clear that the vast majority of returned items are given a second life, mainly by being resold on their websites. An increasing proportion of e-retailers are also choosing to send items to charity or the second-hand market.

The European Parliament has recently voted through a new regulation on sustainable products, which could have a significant impact on how returned items are managed. One part of the regulation is the ban on destroying unsold textiles and electronics products. Product-specific legislation will be drafted, with textiles and furniture among the priorities in the initial stage.[1] Responses from business already show a certain shift in this direction. Only four percent of companies reported that the returned items are destroyed, down from nine percent last year.

In this year's survey, a significant proportion of the companies that chose the option 'Other' indicated that the returned items are resold in stores. This is significant compared to last year, when this was not a frequent response at all. In the same way that consumers once again seem to be looking at physical stores, increasing numbers of retailers are starting to see how these stores can be used to make returns management easier. However, many market participants with physical stores are grappling with large rent increases due to the economic situation, which means that the definitive role of the store in the future of e-commerce is difficult to predict.

[1] European Commission

Digital e-commerce returns



Basis: Consumers, have returned an item purchased online
Basis: Companies engaged in e-commerce, concerns the majority of returns they offered

One in five e-commerce returns is fully digital

Consumer adoption of digital solutions is evident in more than just the use of delivery apps – returns are also increasingly digital. With a digital return solution, the items are returned using, for example, a QR code or a text message link – without any paper, labels or return slips.

A fifth of e-commerce consumers indicated that their most recent return was made entirely digitally, without a single piece of paper. It is worth noting that this proportion is relatively stable across groups; even among the oldest e-commerce consumers, 17 percent have made a fully digital return. Thus, the number of people who use a digital return solution is largely influenced by what companies offer. In the long term, digital returns may become even more popular as they become more widely available, with only 11 percent of companies currently offering fully digital solutions for the majority of their returns.

The benefits of digitizing the returns flow go beyond simply offering consumers convenience. By digitizing returns management, companies can obtain a real-time overview of the number of incoming returns. This allows them to effectively match resources to demand, ensuring a smooth returns process. A digital returns process also enables valuable information to be gathered about the items being returned. This data can then be used to automate decisions at earlier stages of the process, such as when dealing with defective items or seasonal items that cannot be sold at full price.

Still a demand for clearer information

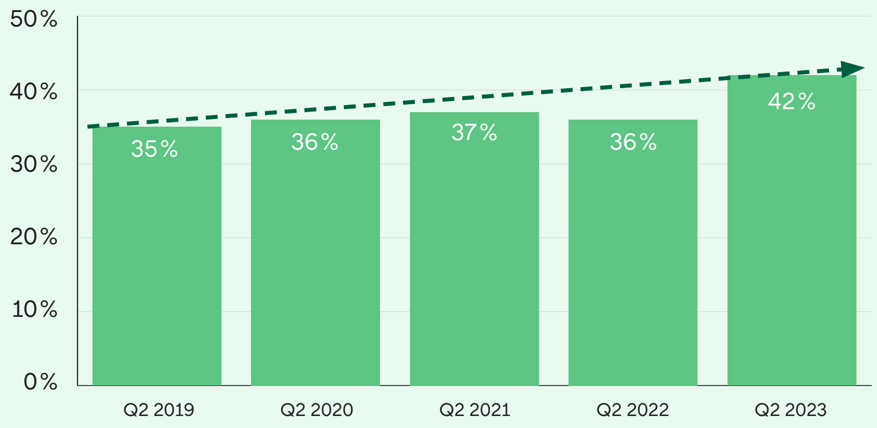
As mentioned earlier in the chapter, consumers perceive that several factors have made e-commerce returns more convenient. However, there are still some challenges. 42 percent of consumers find it difficult to locate returns information when shopping online, a figure that has also increased over time.

The lack of clear, accessible information on how to return an online purchase can lead to consumer frustration.

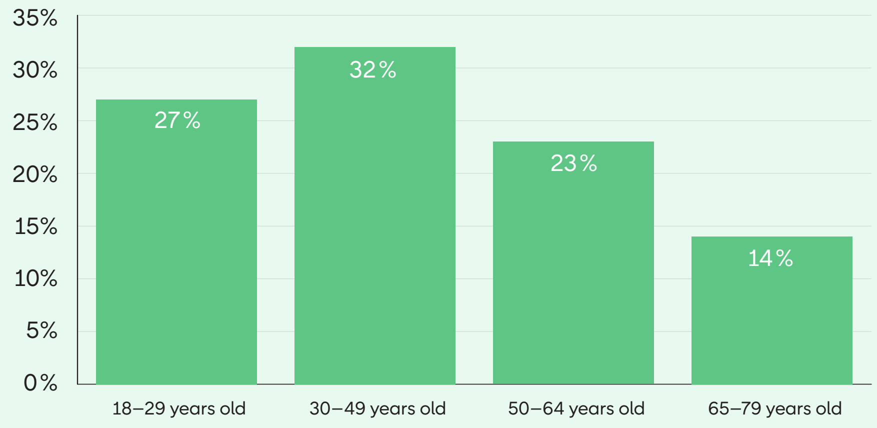
A contributing factor may be that many e-retailers adjust their returns policies over time as, for example, the returns rate increases. In addition, several e-retailers in the fashion segment have set returns limits for those customers perceived to be exploiting the system. Returns policies may also differ between e-retailers to a greater extent than they have in the past, as different market participants try out different ways to optimize their returns flows.

Having a clear and appealing returns policy influences the consumer's purchase, even before it is completed. 26 percent of consumers have refrained from buying an item due to the returns policy. The younger and most digitally savvy age groups, 18 to 29 and 30 to 49, are the most likely to review the returns policy and refrain from making a purchase if it does not suit them.

Percentage who find it difficult to find information on return policies



Percentage who have refrained from making a purchase online because they do not like the company's returns policy



Basis: Consumers, have shopped online

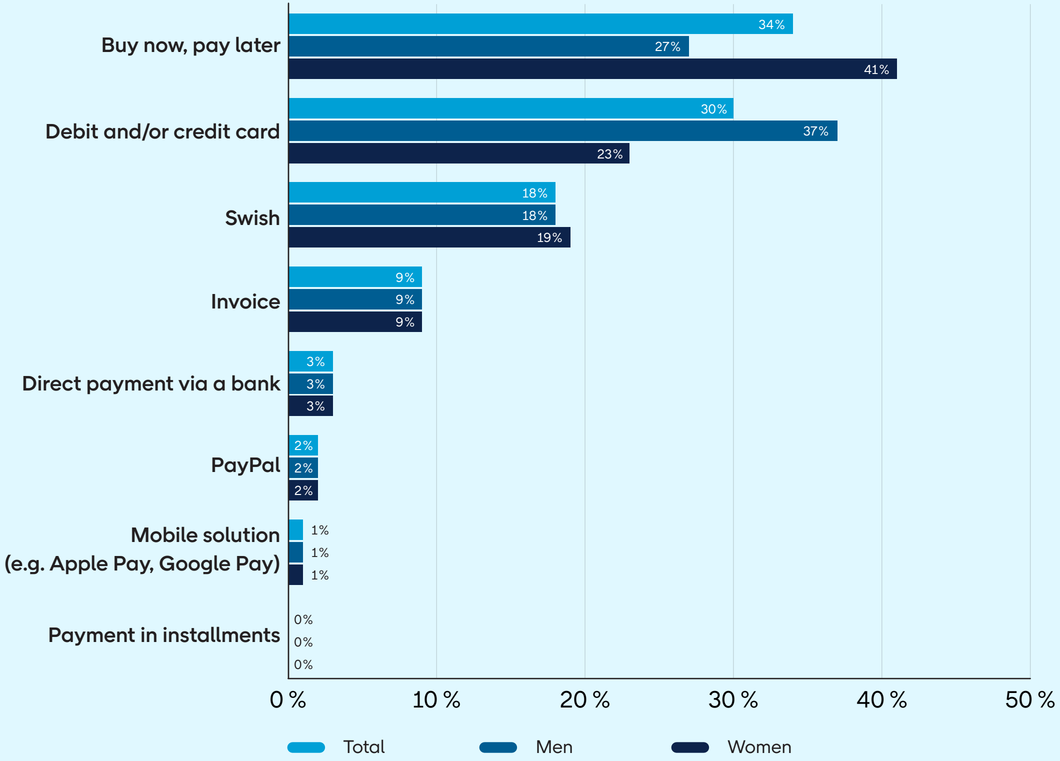
Women and men prefer different payment options

Women and men buy different types of items online, which is reflected in how they choose to pay for them. Women are more likely to buy fashion-related products, with the 'buy now, pay later' payment option being particularly suitable as it allows consumers to try on garments without having to pay immediately for products they later choose not to keep.

Men, on the other hand, are more likely to buy items such as home electronics and vehicle parts, choosing to pay for them with a debit or credit card. This payment method can provide a certain degree of security that is appealing when buying more capital-intensive products, which home electronics and vehicle parts often are, as some banks can offer security and insurance for more sizeable e-commerce purchases.

Although women are the most frequent users of the 'buy now, pay later' option, this is also the most commonly used online payment option overall. The current economic climate, with consumers being more restrictive about immediately paying for items in full, means that more flexible payment options not only appeal to women. In response to this demand, Klarna, the biggest operator in this sphere, has recently extended its payment terms from 30 to 60 days.[1] It is important to keep in mind that in times of financial difficulty, 'buy now, pay later' can entail a risk if customers start shopping with money they do not have.

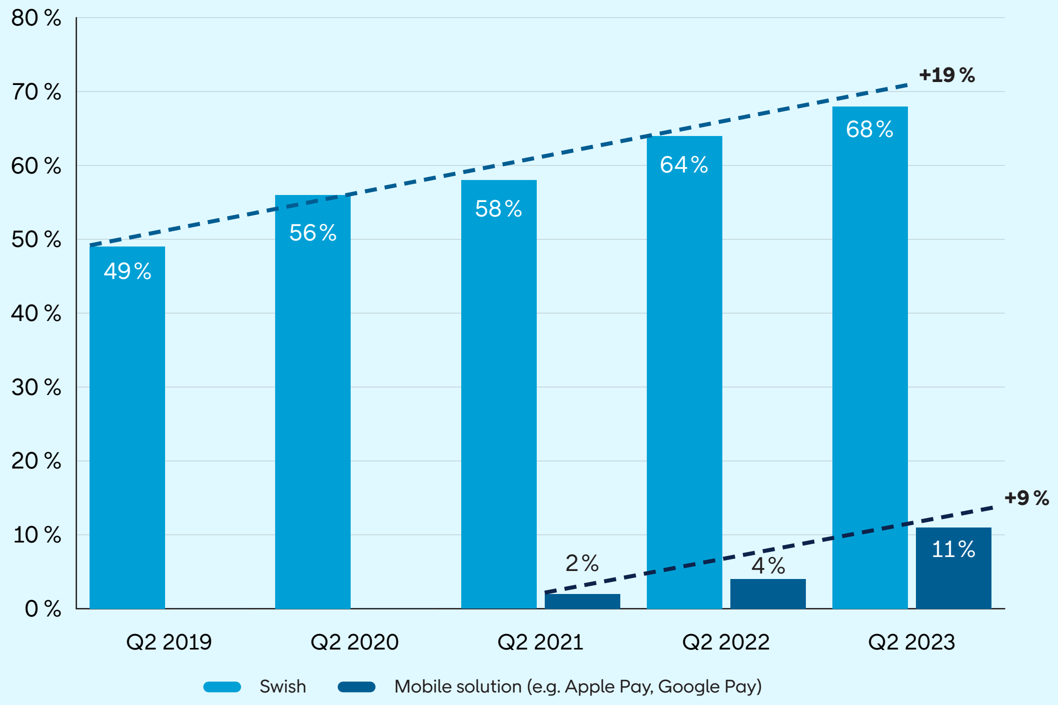
Most recently used payment options for online purchases



Basis: Consumers, have shopped online

[1] E-handel.se, July 2023

Percentage who feel that the following payment solutions are easy to use



Basis: Consumers, have shopped online. Agree to some extent

Alternative payment solutions gaining ground

Consumers spend a lot of time online. They do everything from making everyday purchases to consuming luxury items, and socialize with friends and acquaintances via their phones.[1] In addition, the proportion of 'digital natives', people who grew up with the internet and smartphones, is increasing every year. Thus, it is to be expected that the percentage of people who find it easy to use payment solutions integrated in their mobile phones has increased significantly over time, albeit from low levels.

Respondents' perception of how easy it is to use the Swish mobile payment solution online has increased by 19 percentage points since 2019, and newer 'mobile solution' payment methods, such as Apple Pay, have increased steadily since 2021. An important question to consider, however, is whether the use of these payment solutions has become easier due to purely technical improvements, or whether it is rather a matter of consumers becoming more accustomed to using these solutions and thus perceiving them as simple. It turns into a virtuous circle, with payment options offered at the checkout becoming those that consumers recognize and subsequently prefer.

It can take a long time to enter the payment market, and neither Swish nor Apple Pay are new phenomena. However, evidence suggests that once consumers cross the threshold, these options become more popular every year. It is likely that frictionless technology is crucial to keeping the consumer using the payment solution, while recognition also creates a sense of security and convenience. Given the explosive growth of these payment options in in-store commerce, the same can be expected for e-commerce.

[1] The Swedes and the Internet, 2022

Swish the easiest payment option

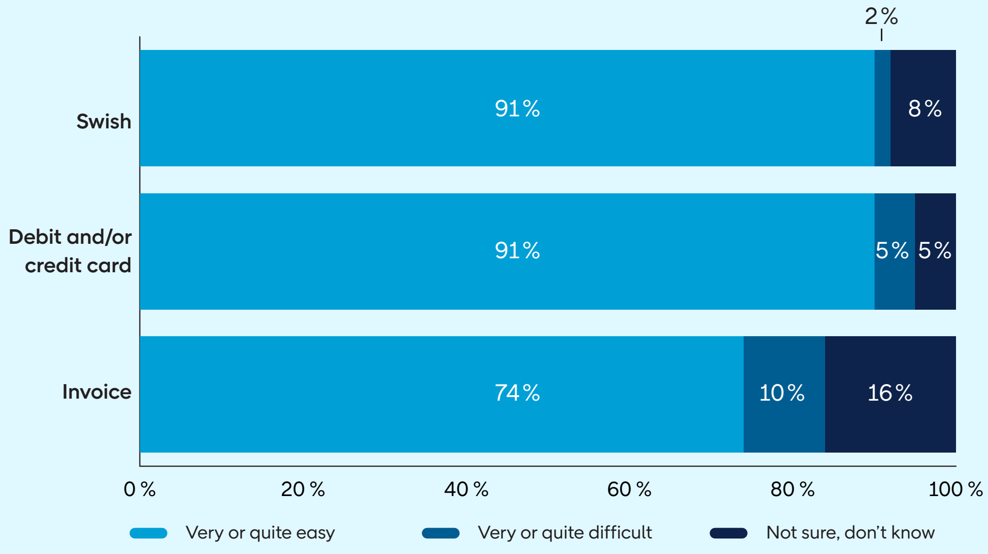
Today, consumer preferences and business offerings are in sync with each other. As many as 91 percent consider the mobile payment service Swish to be an easy payment method, and almost 70 percent of all companies offer the option at the checkout. On the other hand, only 11 percent offer mobile solutions such as Apple Pay and Google Pay at their checkout, and the payment option also ranks low on the list of consumer favorites.

A lot is happening in the checkout area, and new market participants are struggling to find their place. In addition, international market participants are increasingly setting their sights on the Swedish market. One such example is Apple's recent launch of "Apple Pay Later".[1] Although Apple Pay is not a new phenomenon, this launch is a step in a new direction. Similar to Klarna, Apple Pay Later gives customers the option of being invoiced for their items, which has proved particularly popular during more challenging periods.

The increasing number of international payment operators trying to enter the Swedish market makes it more complex, and we may see more new payment solutions in the future in Swedish e-commerce. For e-retailers who want to stay ahead of the curve, it is important to stay on top of what is happening in the payment solutions market and be able to provide consumer favorites as they emerge. For those e-retailers who do not offer the customer's preferred payment method, there is a greater risk of consumers abandoning their purchases.

[1] Apple, March 2023

The three easiest payment options according to consumers



Basis: Consumers, have shopped online

Consumers' top three most important considerations when making online payments

That I recognize the payment operators available when I make a payment	63%
That I don't have to register/ become a member	60%
That I can choose between several different payment options	58%

Basis: Consumers, have shopped online

Security crucial at checkout

E-commerce consumers are more aware than ever and have high expectations of the shopping experience. This behavior not only extends to the layout of the website, with graphic design and navigation, but also includes the checkout. It should feel secure and convenient and offer many different options, with consumers appreciating familiarity.

Security in particular is considered most important. 63 percent of e-commerce consumers think that security is among the most important aspects of the entire payment experience. Nets, interviewed later in the report, also indicates in its E-commerce Report that the main reason for using a specific payment method is that it is considered secure (49 percent). In second and third place are how easy the payment method is to use (46 percent) and how fast it is (31 percent).[1]

Despite increasing consumer demands, the top of the list remains stable. Other responses came significantly lower than the top three list, such as the consumer's preferred payment method being available (36 percent) or having pre-filled personal details (9 percent). Other responses came significantly lower than the top three list, such as the consumer's preferred payment method being available (36 percent) or having pre-filled personal details (9 percent).It is therefore clear that security, convenience and choice are the most important considerations when ensuring a user-friendly checkout. Once these requirements have been met, consumers encounter no obstacles or problems in the payment step.

[1] Nets, E-commerce Report 2022, Sweden

“Two meters can stop an online purchase”

Swedish e-commerce is becoming increasingly sophisticated. However, many consumers still cancel their online purchases at the last minute.

“Offer the payment methods that your customers want or it will affect conversion,” says Patrik Müller, e-commerce expert at Nets.

Patrik Müller works in Nets’ marketing department, where he mainly focuses on e-commerce payments. He gives lectures on the subject and when journalists call, he offers honest ‘opinionomics’, as he puts it. We took the opportunity to tap into his expertise and gain an understanding of the current state of e-commerce payment solutions and their future.

Swish is the most commonly used payment method according to Nets’ E-commerce Report for 2022. But at the same time consumers like invoices. What is your view on this?

“Regarding the responses about what they’ve used, we should remember that there are several payment methods available and several reasons for choosing them. It usually has to do with simplicity, force of habit or perceived security. Swish is incredibly strong in terms of simplicity, while the security aspect does not impact that choice at all. But for invoices, security is strongest, and for cards, habit is the main reason for choosing that payment method. Then, of course, what is available also has an impact – and this suggests that Swish will be used even more, as even more online stores will offer that payment solution.”

"When it comes to the payment method preferred by consumers, they can only choose one option. And as some people still feel a degree of uncertainty online, an invoice eliminates any doubts about the item – whether it will arrive, whether it will fit. They receive the item and can pay for it later."

Do you think there will be challengers to Swish that will perhaps even take over as time goes on?

"What are known as mobile wallets are now being developed in Europe, with the ability to 'talk' to each other. This process will take time, and there are questions regarding it. But in the Nordic region, it is already in progress. The wallets of Denmark, Finland and Norway have joined forces – I know that MobilePay and Vipps are incredibly keen to get Swish on board. But Swish is set up a bit different organizationally – a number of banks are involved, which makes it a bit more difficult. I still hope that we'll see some kind of integration so that the mobile wallets can be used, at least on a Nordic basis."

"At the same time, a lot is happening in the card networks, which have now realized that they need to make changes. And Swedish banks have started talking about Click to Pay, a service from Mastercard and Visa that saves your card number and automatically identifies you when you are about to pay. But our Nordic market is very mature – this information is already stored here. So should Nordic banks force Click to Pay on consumers because they can see better security solutions and a means of getting closer to their customers? I think so, but I doubt the banks will do this. In any case, it's an interesting issue to follow."

"Apple Pay was launched in the Nordics in 2017, and a lot of people love it. There are banks that don't have Apple Pay and they get several Facebook posts a month where customers ask 'When is it coming?' and say that otherwise, they'll change banks. We haven't seen this trend transfer to the digital environment yet, but Apple Pay will probably move up in the statistics in the coming years. It's still a form of card payment, but it makes things much easier for everyone who uses Apple products."

What trends do you see in the payment sector?

"Online stores are getting better at understanding that payment is also important. It hasn't been paid much attention for a long time, but as e-commerce matures, the spotlight is increasingly on payment. But there is a gap – just a year ago, Market magazine reported that as much as 30 percent of the biggest online stores did not offer Swish, despite the fact that it is clearly a payment method that consumers like."

Can conversion rates be increased if e-retailers focus more on payments?

"Yes, absolutely. We ask consumers why they cancel their purchases, and about 10 percent say it was because they could not pay in the way they wanted to. To take an example I often hear from people who want to shop online: "I was lying on my couch, but the website didn't take Swish, and my card was in my jacket in the hallway, so I thought 'I'll do that later'. But I never got around to it."

"We humans are so extremely lazy that those two meters stop us making a purchase. We have strong micro-moments that are absolutely necessary for the purchase to take place, but we're also very easily distracted. Something else may attract our attention, and when we return to the purchase in our mind, or when we're closing tabs in our browser and find the digital shopping cart, we're no longer in that micro-moment."

Why has it taken so long for many e-retailers to focus on the importance of payment in the consumer's shopping experience?

"Running an e-commerce business is difficult – you need to be an expert in so many things. And some of the areas are a bit more complex than others, such as payment. Spending time on it takes time from everything else, which is why many people feel they get a greater return on investment from working on keyword optimization, advertising and purchasing. You don't start an e-commerce business

"Within five years, mobile wallets will have a double-digit share where the chosen payment method of Swedish consumers is concerned."

Nets and Nexi in figures

Number 1 in card acquiring in Europe, measured by number of businesses and transaction value

2.2 million stores in Europe have relied on Nets to manage their payments

99.99 percent uptime, providing secure and stable payments

More than 1,000 banks have chosen Nets' payment services

Over SEK 3.5 billion is invested annually in IT and innovation

Nets **has 150 employees in Sweden**

Source: Nets.se

because you love payments, you do it because you love the product, the orders, the marketing ...”

What are your tips for e-retailers regarding payments?

“Try to understand what your customers want and see what your provider offers. Payment providers’ advisors know all about this – talk to your advisor! If you’re short on time, start with the low-hanging fruit.”

“Also, look at how you can expand your market. Instead of just fighting over thousandths of market share in Sweden, you can find markets abroad where your products are an even better fit and your price level is in a vacant segment. Outdoor clothing company RevolutionRace did very well in Germany for that reason – somewhere in the middle in terms of price but still perceived as high quality.”

What do you think will happen in the payment market in the future?

“Whatever happens, I’d like to see payment solutions automatically adapted to the customer, with a high level of intelligence. This includes solutions based on my location – if I’m on the move, a payment method that requires more of me would perhaps not be presented. Or lowering the threshold for me when I’m making a payment – for example, at this particular online store, I’ve chosen not to use a mobile bank ID because I shop there so often. These may seem like very low thresholds, but they have an impact on consumers’ willingness and ability to make a purchase.”

What about security issues and risks of fraud?

“There’s a high level of security in Swedish e-commerce. So for e-retailers, it’s all about meeting customer expectations, presenting things in such a way so they perceive you as genuine – perhaps highlighting logos such as Trygg e-handel, Visa and Mastercard. And offering payment solutions that the customer sees as secure, such as invoices.”

About Nets

“Nets is part of a large European group called Nexi Group, which in turn is listed on the Italian Stock Exchange in Milan. At Nets, we specialize in payments. We want to make it easy to receive payments, both online and in-store, and we work with merchants in all sectors.”

Source: Nets.se

Patrik Müller’s 3 tips for e-retailers regarding payment

1. Try to understand what your customers want and see what your provider offers.

2. Talk to your payment provider advisor – they know what they’re talking about!

3. Find out how you can expand your market. Instead of fighting over thousandths of market share in Sweden, you can find a completely vacant price segment abroad.

Younger people buy the most second-hand items online

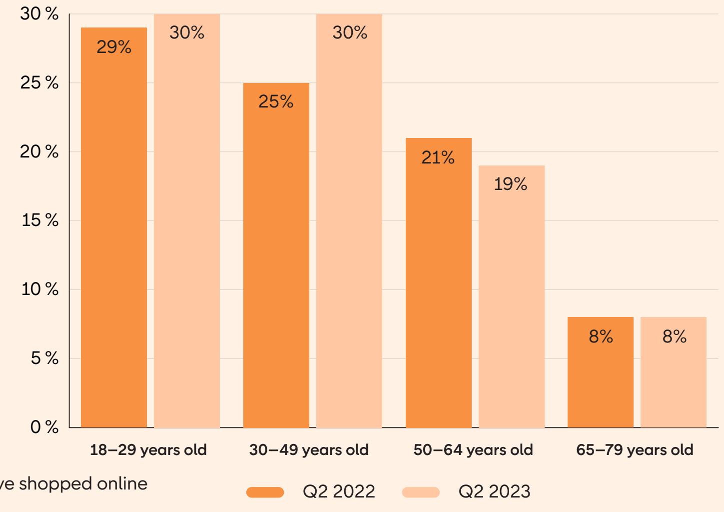
The second-hand segment grows in more challenging economic periods. Surveys around the globe show that the second-hand market as a whole is growing across all product categories.[1] The same can be seen in E-barometern surveys, in which the average amount that Swedish consumers spend on second-hand items online in a month has increased by SEK 150 since the last quarter.

The two younger generations, young adults and parents with young children, are the main drivers of second-hand commerce. In the parent target group, consumers aged 30–49, five percentage points have bought more second-hand items online compared to the previous quarter.

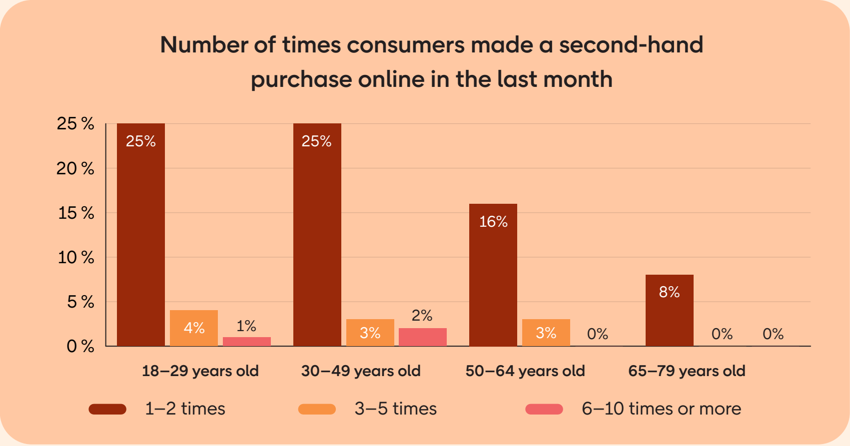
It is to be expected that families with children will turn to second-hand commerce in more difficult times, as it is a target group that is majorly affected by, for example, large mortgages[2] and the prevailing interest rate situation.[3] An increasing number of e-retailers are making a profit from second-hand sales[4] and the increasing range of platforms selling second-hand items is also something that benefits parents with young children and very little time on their hands.

It is likely that the second-hand market will continue to grow, and not just among parents with young children. As consumers tighten their wallets, people are increasingly turning to second-hand items, both in physical stores and online. The number of new companies offering circular solutions continues to grow, and this continues to broaden the range and make circular consumption more accessible.

Have bought at least one second-hand item online in the past month



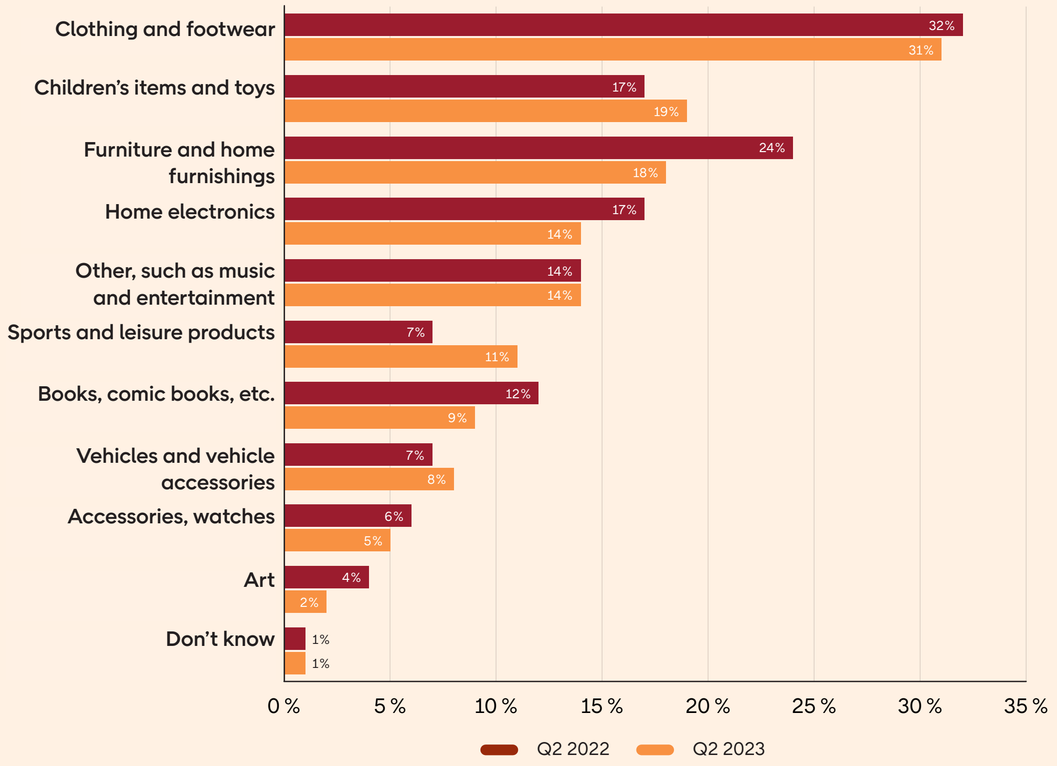
Basis: Consumers, have shopped online



Basis: Consumers, have bought at least one second-hand item online in the past month

[1] Radical Retail Report – Trendwatch 2023 [2] FI, March 2023 [3] Retail trade business cycle report Q2 2023 [4] Market.se, June 2023

What type(s) of items consumers bought second-hand online



Basis: Consumers, have bought at least one second-hand item online in the past month

Second-hand online appeals to families with young children

It is clear that families with children are finding bargains in the online second-hand market. Of all the groups, they have bought the largest number of second-hand children's items and toys. This, combined with the product category's strong presence on the second-hand market, may be one reason why this category has increased compared to last year. Since Blocket introduced free ads for private consumers, it is clear that children's items are taking their place in the second-hand market, with ads in this category growing by almost 600 percent since last year.[1)]

Previous E-barometern surveys have also shown that sports and leisure is a product category in which consumers feel they save a lot of money by buying second-hand instead of new. This may explain the increase we see in the sector in the second-hand market.

In contrast to the success of sports and leisure products, second-hand purchases of furniture and home furnishings are declining. As your wallet gets thinner, you postpone larger purchases, including second-hand items. The decrease can also be explained by the fact that both furniture and home electronics are associated with movement in the housing market, where activity is currently low.[2)] Therefore, the demand for furniture and home furnishings is lower overall, not just in the second-hand market.

[1)] Blocket, May 2023 [2)] DN.se, June 2023

Price and sustainability – a complex relationship

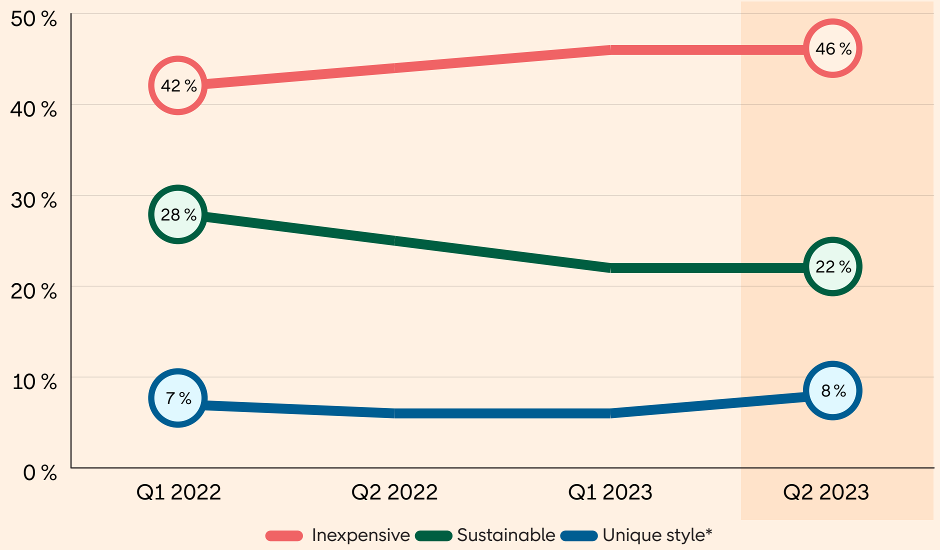
Price and sustainability have long been the two main reasons for buying second-hand items online. There is a difference between the sexes, with 30 percent of women versus 12 percent of men assigning the highest value to sustainability. However, price is the most important factor in all groups, indicating that the economic situation affects consumers' willingness to buy second-hand.

The direction of travel shows a shift between the two options, with people increasingly turning to online second-hand commerce due to the price. Increasing numbers of consumers are becoming price-driven due to the current economic climate, and previous E-barometern surveys report that many consumers are forced to make the environmental sustainability aspect of their consumption a lower priority when money is tight. Moreover, studies show that willingness among Swedish consumers to pay extra for sustainable alternatives has decreased.[1] Since second-hand goods often have a low price tag, it can serve as a middle ground for those who think along these lines.

The fact that price is being prioritized is not only evident in the second-hand market; it can even have the opposite effect from a sustainability perspective, with 'fast fashion' – cheap, mass-produced items with a short lead time – on the rise. A notable example is the Chinese online marketplace Temu, which has exploded.[2] Both second-hand and fast fashion are associated with low prices, but the choices are entirely different from a sustainability perspective. However, an increasing number of consumers are still turning to second-hand, aware of its added value, such as the ability to pay a low price for a sustainable and unique garment.

[1] DI.se, June 2023 [2] SvD.se, August 2023

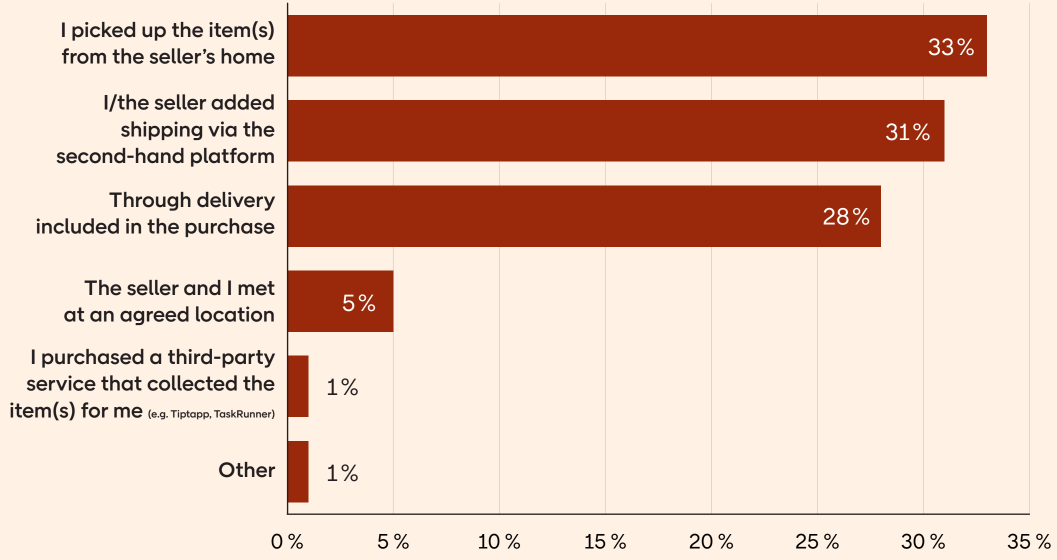
Percentage who say that inexpensive/sustainable/ unique style is the main reason for buying second-hand items online



Basis: Consumers, have bought at least one second-hand item online in the past month
*Note that the response option 'Unique style' has a low response rate.

65%
paid with Swish for their last purchase of second-hand items online

How consumers had their most recent second-hand purchase delivered



Basis: Consumers, have bought at least one second-hand item online in the past month

Delivery options growing in the second-hand sector

The majority of consumers paid for their most recent second-hand purchase online using Swish and picked up their item from the seller's home. Much of the second-hand commerce that takes place between consumers (C2C) is therefore characterized by delivery and payment being agreed between the consumers themselves. Swish is a favorite method of payment for both new and second-hand items, but the deliveries themselves differ – especially on platforms in which shipping is not yet integrated, such as Facebook Marketplace.

Although many consumers collected their most recently purchased second-hand item from the seller, it turns out that twice as many use a delivery option. It is slightly more common for the cost of shipping to be added than for it to be included in the price. The opportunity to have an item delivered, in return for payment or included in the purchase, thus differs between second-hand platforms. But when delivery options are offered, 31 percent of consumers choose to pay for shipping, and second-hand items can then be sent anywhere in Sweden.

The segment comprising families with children, with their hectic daily life, still mainly choose to pick up items directly from the seller. This is perhaps to avoid possible returns if the item does not fit or is otherwise unsuitable. A time-saving option may be to inspect the items at the seller's premises before the purchase is completed.

In contrast to families with children, the youngest consumers are more likely to have their most recently purchased second-hand item delivered using a delivery service included in the purchase. Many young people buy their second-hand items online via platforms for which delivery is the only option, such as Sellpy and Plick. It is clear that these kinds of offers are popular, for example, when H&M chose to consolidate Sellpy into the company, there was a one-off effect in the form of a profit boost of around SEK 1 billion in Q1 2023.[1)]

[1)] SvD.se, March 2023

Second-hand – from trend to lifestyle

2 of 3
consumers **take second-hand value into account** to some extent when shopping for second-hand goods online

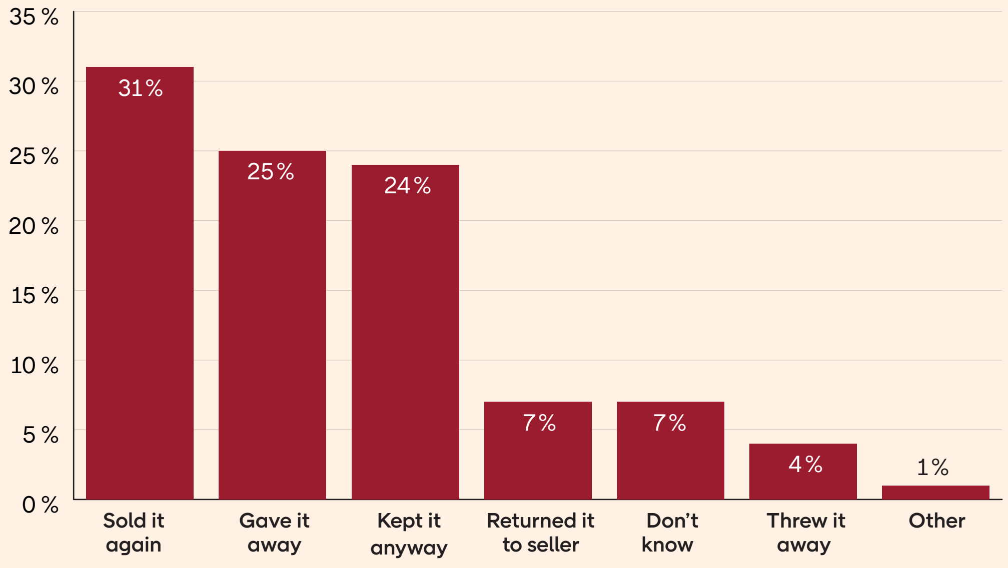
Buying second-hand is a former trend that is now gaining real momentum. It is now also becoming something of a lifestyle, especially among young people. The two younger age groups buy and sell second-hand items online the most. The last time they regretted a second-hand purchase, 27 percent and 26 percent of the groups, respectively, chose to resell the second-hand item.

In many ways, second-hand commerce resembles a kind of 'community' in which consumers not only shop but also weave the buying process and the second-hand items into their identity. This can be seen online in the fact that several apps, such as Plick, are engaging increasing numbers of young people by using social media as marketing channels.[1]

So young people are increasingly choosing to buy second-hand – and are now starting to take the next step on their circular journey. Two thirds of consumers say they consider the second-hand value of a used item. Apart from that, the two main actions when people make a second-hand purchase they regret are to sell or give away the item, which is also a way to preserve its lifespan. For an item to have resale value, it must be good quality. Companies such as Polarn O. Pyret, interviewed in the 2022 Annual Report, place great emphasis on quality – which has inspired them to adopt the motto 'at least three children wearing every garment'.[2]

Consumers are convinced that circularity is here to stay. In Klarna's own survey, a majority of consumers say they would like to see more circular retail in the future,[3] and the youngest consumers are already more likely to buy from brands that offer resale of their own products.[4]

Measures in the event of the most recent regretted purchase of a second-hand item



Basis: Consumers, have ever regretted buying a second-hand item

[1] Di.se, April 2023 [2] Market, April 2023 [3] Market.se, May 2023 [4] ThreadUP 2023 Resale Report

"Get a good deal – and do something good for the planet"

In a sustainable world in which waste needs to be kept to a minimum, Matsmart is a perfect fit. Surplus food is sold at huge discounts, the consumer gets a bargain and helps the planet at the same time.

"We want good, flawless food to be eaten, not thrown away," says Matsmart CEO Peter Beckius.

It all seems surprisingly simple.

"We buy surplus items, primarily food products. Most of the things you can buy in the grocery store can also be found here, even if we don't have a set range. We have two unique selling points – you can do something good for the planet by buying rescued food, and you can shop very cheaply," says CEO Peter Beckius when explaining Matsmart's business concept.

Bargain hunters and climate heroes are two personality types that otherwise do not often go hand in hand in Swedish e-commerce – but for Matsmart, both these groups are extremely important.

"Yes, our customers are bargain hunters – they like to get a good deal or shop sustainably," says Peter Beckius.

Often, both characteristics are found in the same person.

"And the feedback from these kinds of customers is always about how they love getting a good deal, but how it also feels so wonderful to make a positive contribution. And the fact it's sustainable is also what makes people really like Matsmart."

When it comes to customer satisfaction in particular, this is continuously measured by Matsmart using what are known as NPS – which stands for 'net promoter scores'. The shopping experience on the website, the range, prices, delivery and customer service are all measured.

"We also invite different customer groups to our office for qualitative interviews so we can get to grips with why they buy from us, or why they don't. And our hypotheses are often confirmed – for example, that we can always make our website even clearer, including where our shipping solution is concerned."

So everything is measured, some things more often than others.

"When it comes to common KPIs for e-commerce such as conversion, the commercial teams keep a close eye on them, sometimes checking them every 15 minutes."

So how does it work? Well, when you shop at Matsmart, you fill a digital Matsmart box with items. You can naturally buy just a few inexpensive items, but a big part of the e-commerce concept at Matsmart – in addition to food rescue and discounted prices – revolves around shipping. Customers in Sweden get free shipping on the first box when they pass the SEK 600 threshold.

"Online food is not fundamentally the most profitable business model, so we need to be careful not to send out orders that are too small."

Peter Beckius

After all, shipping has a cost – for Matsmart and for the climate, according to Peter Beckius.

"We need to strike a balance so we can keep the prices of the items we sell low, and from a climate perspective, more and smaller boxes are not a sustainable solution either."

Matsmart's shipping solution and the way it is communicated is constantly being optimized – because it has such a major impact on customer satisfaction and profit.

"Where e-commerce is concerned, checkout and delivery are incredibly important parts of the customer journey, often affecting customer satisfaction even more than the products themselves."

Optimizing shipping doesn't mean changing it completely – customers have a strong desire to reach the 600-krona threshold to avoid paying for it at all.

"I think more e-retailers will realize that, in the future, they will have to charge for shipping, but we see in our tests that if we change the cost of shipping, it immediately affects the conversion. And in our case, if customers don't reach the threshold, they might abandon their purchase even if there's no significant shipping cost."

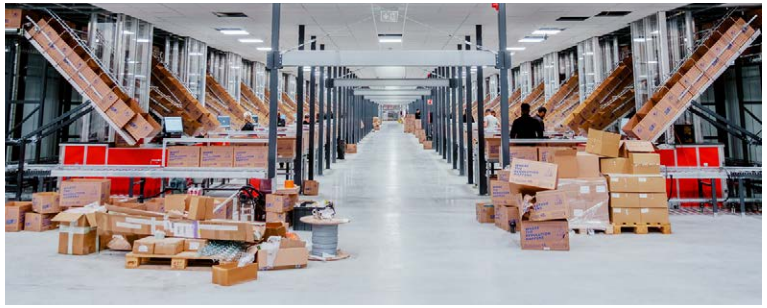
About Matsmart

Matsmart was founded in 2013 by Karl Andersson, Ulf Skagerström and Erik Södergren, who saw a lot of flawless food being thrown away unnecessarily. The trio realized that not discarding flawless food was smart AND super important for the planet – and started a very different kind of grocery store. More specifically, an e-commerce store, which quickly turned into a successful business.

Matsmart's ambition is to make everything as simple as possible. This is why we sell sustainable, save-the-planet items that would otherwise risk being thrown away due to overproduction, faulty packaging, seasonal trends and being close to or sometimes having passed their expiry dates. Simply throwing such items away would be an incredible waste of our planet's resources – so we sell them, at a huge discount.

Source: Matsmart.se

"Where e-commerce is concerned, checkout and delivery are incredibly important parts of the customer journey, often affecting customer satisfaction even more than the products themselves."



The most popular items to buy at Matsmart may vary, but what is called 'Deal of the Day', an extra heavily discounted product on that particular day, is what Peter Beckius calls a real wallet opener.

"Otherwise, we sell a lot of pantry items. Pasta, beans, various sauces and condiments, crushed tomatoes, oatmeal – the kinds of items people always need to replenish regularly. And then there are drinks, snacks, chocolate ..."

The company works in various ways to reduce emissions and work to achieve sustainable deliveries.

"For example, each box is optimized according to its contents – we actually have two basic boxes, but the number of sizes is infinite because we cut the edges to fit the contents perfectly. This saves several truckloads every week. We carefully monitor emissions data from our distributors and naturally

How Matsmart works with best-before dates

A best-before date is not about how long a food item is safe to eat, but rather how long it is expected to retain exactly the same level of quality as when it was produced. Quality includes things like taste, color, crispness, elasticity and chewiness.

The date can be seen as a guarantee of quality from the producer, but it does not mean that the product cannot be eaten after the best-before date. In fact, it can keep for weeks, months – even years after this date has passed. But unlike the best-before date, the use-by date is something you should actually pay careful attention to. And foods that can be harmful to your health are not sold at Matsmart.

Source: Matsmart.se

don't use plastic-based packaging materials unless absolutely necessary, for example if an item risks leaking in the box."

But the most important carbon savings are in the food itself, according to Peter Beckius, when food isn't wasted and no unnecessary new food needs to be produced.

"Waste and production losses in the food sector account for 10 percent of global emissions today. Less waste is crucial, plain and simple," says Peter.

"We also have our own product line, and we make sure we work with the right producers and use good-quality ingredients. We place high demands on sustainability, from a climate perspective but also from a social and ethical perspective – to ensure that the items are produced in a fair way. We simply make sure we do things in a good way, which is important given the type of company we are."

How were you affected by the pandemic and what changes have you made to your operations since then?

"We enjoyed good growth at that time, but not the explosive growth that some other e-commerce companies experienced. At the same time, we haven't experienced a decline in the aftermath. In periods of inflation and recession, like now, when people have less money in their wallets, we're in a strong position."

In 2022, Matsmart opened its automated Nordic warehouse in Örebro, which has logistics costs being reduced by almost 45 percent. Peter Beckius says that without the new warehouse, it would have been difficult to achieve profitability.

"This automation technology is very well suited to what we sell, and it has also improved ergonomics and the work environment for our employees. In fact, I've never seen such an efficient warehouse anywhere else, and we'll be making a similar investment in Germany that will go live at the end of 2024."

Matsmart's ability to purchase large volumes makes it a very popular partner for suppliers.

"We solve any problems they may have with surplus items in a convenient way. Being associated with our brand is also viewed as positive," says Peter Beckius.

Matsmart has almost 200 employees and already has a presence in several countries. The company aims to expand further in the long term.

"It's clear that this is a concept that works globally. But we won't be expanding geographically in the next few years. Instead, we'll be focusing on profitability – and on optimizing the business model and customer offering. On making it easier for the customer to fill their box, quite simply, by means of a better shopping experience, personalization and an even better range."

The latter will also affect the company's marketing, with newsletters being customized just like digital advertising.

"Our goal is to achieve Group profitability by 2026, i.e. overall if we look at all our countries. But we're actually already making a profit in Sweden."

What do you think will happen in the digital food sector in the future?

"The trend is definitely heading upwards in the long term, that feels like a given. But at the moment, many market participants are making it more expensive to shop online than in stores, and this will have to change – it has to be cheaper for customers."

Matsmart's best sellers

1. Pasta
2. Oatmeal
3. Beans
4. Chocolate
5. Beverages

The list varies somewhat depending on availability.

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About PostNord

PostNord is a leader in parcels and logistics services to, from and within the Nordics. Our business and private customers must be able to reach their recipients at the right time, reliably and efficiently – whether the task involves a global logistics solution, an advertising campaign or a birthday greeting. With around 24,000 employees, PostNord is one of the largest employers in the Nordic region and bears a considerable measure of social responsibility. PostNord aims to offer an attractive, stimulating workplace. Visit us at www.postnord.com

About HUI Research

HUI Research AB provides, via its consultancy and research activities, professional decision-making material and advice to businesses and the public sector in the areas of retail, tourism, consumption and economics. The company was founded in 1968 and is an independent subsidiary of the trade association Svensk Handel.

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