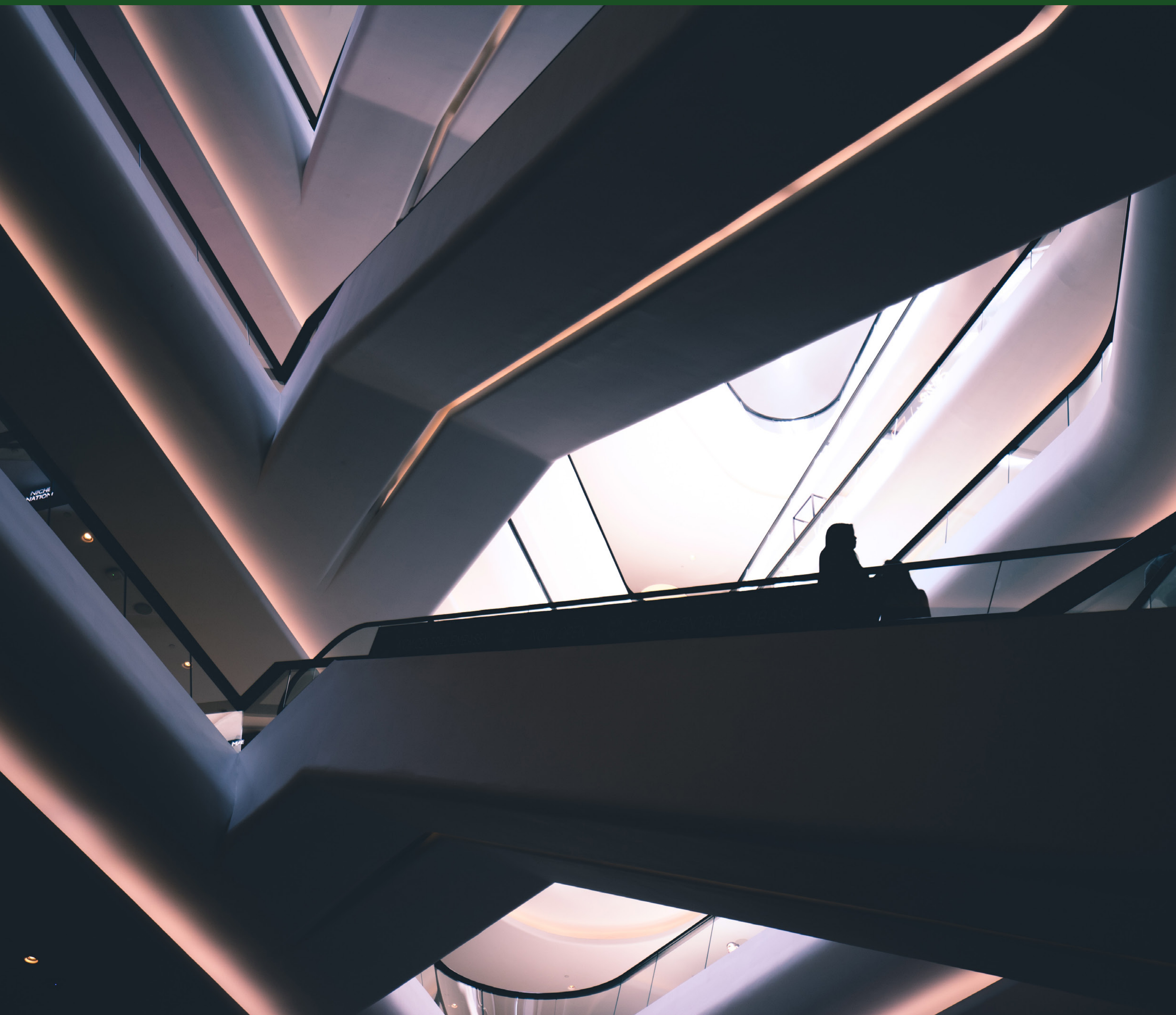
decision technology

Primed for domination:

The threat of Amazon as a challenger brand



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Introduction

Amazon is a behemoth. Since its foundation in 1994, Amazon's relentless focus on marginal costs and expansion has caused mass disruption across the retail world. Its impact is most obvious in the home electronics, toys and games, and books markets, where household names like Toys R Us and BHS have been forced into extinction.

More recently, its strength in the cloud computing market and growing influence in online marketing and advertising sees it well placed to compete with the biggest of modern beasts, including Microsoft and Google.

Cloud computing and online advertising form a key part of Amazon's strategy – and contribute heavily to its rapid, awe-inspiring growth. In 2017, approximately 10%, or $17.46 billion, of the company's revenue came from Amazon Web Services.[1] Similarly, the revenue from Amazon Advertising grew 132% year on year to reach $2 billion in the first quarter of 2018.[2]

Even the lightest posturing by Amazon puts other industries on their guard. The pharmaceutical[3] and insurance[4] sectors have seen seismic stock market disruption over the last year after reports of Amazon's intent to enter surfaced, while the company's purchase of Whole Foods in 2017 caused a collapse in rivals' share prices. Undoubtedly, one of the reasons competitors are alarmed is because of Amazon's ability to meet demand. Its fulfilment centres, which grew at a rate of 30% in 2016 and 2017[5], are expediting customer deliveries with unrivalled efficiency.

Much of Amazon's aggressive expansion is geared towards its primary goal: boosting Amazon Prime membership[6]. According to Amazon, the average US customer spends $700 a year on the platform, compared to the $1,300 spent by Prime customers[7]. The logic for Amazon is simple. The more efficiently customers can get products with Prime's next day delivery, the more they will buy. The more they do that, the more Amazon becomes the default choice for everything they want.

> *"Much of Amazon's aggressive expansion is geared towards its primary goal: boosting Amazon Prime membership"*

To find out just how far Amazon's domination can go, we designed a behavioural survey and randomised control trials. The survey ascertains the power of Amazon's brand within six of its current markets, looking to determine how Amazon got to this point: why it performs so well in some markets but not in others. The randomised control trials focus on new markets, gauging consumer expectations of Amazon in seven markets. These results show the level of threat that Amazon poses in different markets, while also revealing customer expectations.

Ultimately, these tests provide evidence to show how disruptive Amazon could be in new areas and where it threatens to kill off well-known incumbents. But the research also shows where the Amazon brand is limited, showing how and where the competition can fight back.

Executive summary

Amazon's sheer size and scale sees it dominate some markets and poised to expand into new ones. But why does it succeed so consummately in some sectors, yet fail to make a significant impact in others? How powerful is Amazon's brand, and how much of a threat does it pose to new markets? We conducted a behavioural survey and randomised control trials (RCTs) to find out.

Current markets

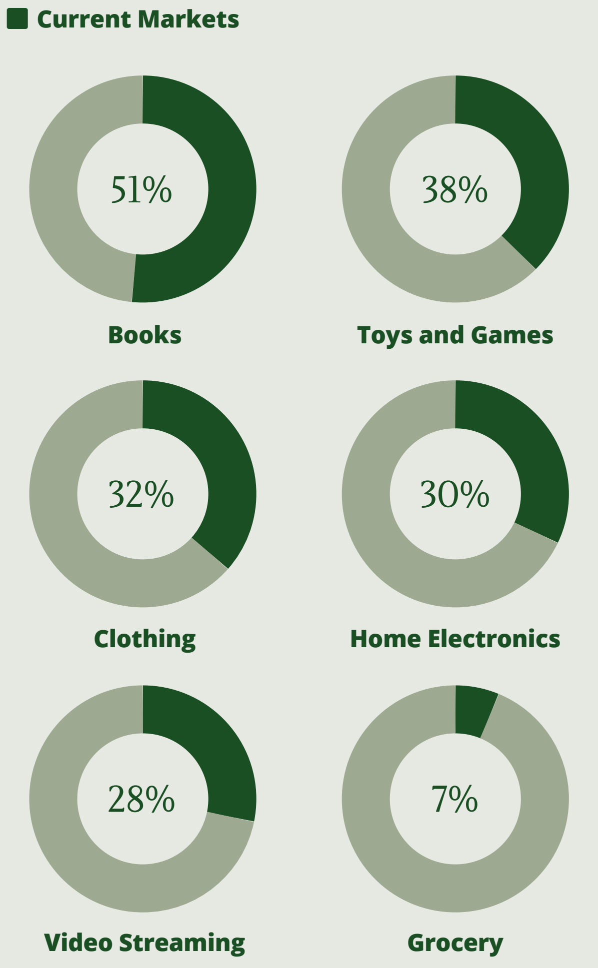
Our market landscape behavioural survey shows that the perception that Amazon offers the most competitive pricing, as well as the sheer ease and convenience of buying from it, are vital to its success. And, while the brand scores low on likeability, this feature doesn't have a significant impact on consumers' purchasing decisions. The relatively low scores for Amazon as a liked brand across the six sectors it currently operates in illustrate this point – particularly in books where it enjoys great commercial success.

> *"Our findings show up the UK groceries market as one where Amazon more closely resembles Goliath than David"*

Poor price perceptions and a lack of trust help to explain why Amazon is yet to succeed in groceries. There has been a great deal of speculation about the threat Amazon poses in the wake of its US purchase of Whole Foods. But our findings show up the UK groceries market as one where Amazon more closely resembles Goliath than David.

Amazon's brand performs respectably with customers in this sector, but it trails household names such as ASDA, Morrisons and Tesco thanks to pronounced customer scepticism that Amazon offers good prices and expertise in this market. That said, our research finds that one of Amazon's UK partners, Morrisons, performs well in these areas – and so Amazon couldn't be ruled out as a formidable challenger in the market if it considered acquisition.

Figure 1. Proportion purchasing from Amazon in current markets



Potential new markets

In the second part of our research we looked at the new sectors that Amazon might enter, based on rumour and our sense of which markets are most at risk. The most striking finding from our RCTs is that Amazon could become a market leader if it entered the mobile network market offering Amazon Prime as a free perk. Its potential dominance would be equivalent to the position it currently enjoys in toys and games – all else being equal, 25% of consumers would choose Amazon amongst seven other network providers. This level of potential superiority is only surpassed by the position it holds in the home electronics market, where 27% of consumers would choose Amazon. Remarkably, Amazon would still be a bigger player than Three and Vodafone even if it entered the mobile network market without offering a perk.

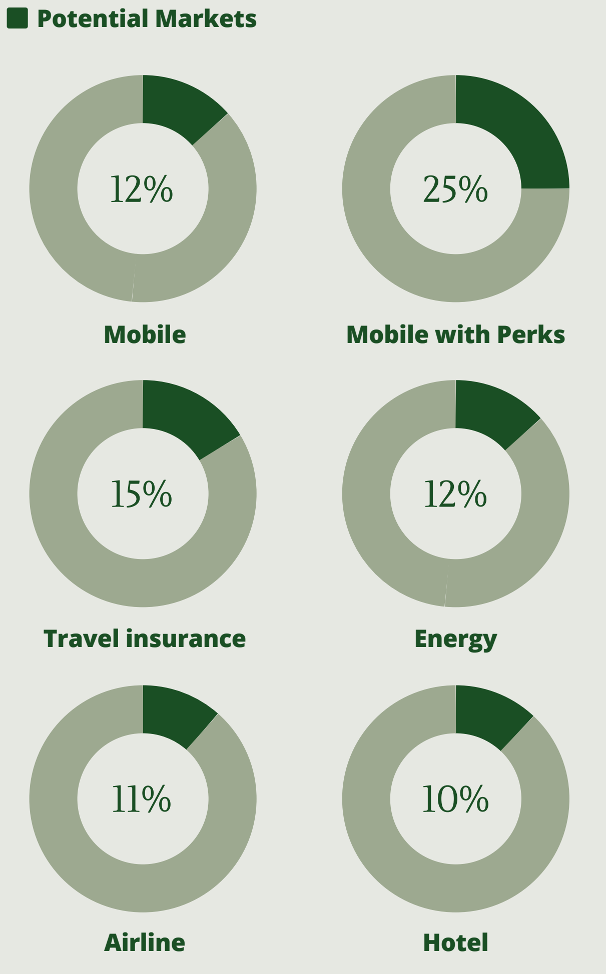
> *"Amazon could become a market leader if it entered the mobile phone network market offering Amazon Prime as a free perk"*

Our research also finds that Amazon is well placed to enter markets where there is a greater concern over price than brand loyalty, such as the travel insurance market. While consumers have long associated market-leading prices with Amazon, it also stands to benefit from a competitive sector that our data indicates lacks a clear leader.

However, Amazon fares less well in markets where there is more of a focus on irregular, experiential (and therefore more emotional) customer uses, such as airlines and hotels. These two sectors are where we found Amazon among the bottom for consumers as a prospective challenger. It is possible that consumers cannot place Amazon in a crowded market, especially as it wouldn't be clear what its point of difference would be. Additionally, doubts around Amazon's expertise and quality could be a factor here. So, Amazon's brand has its limits.

Similarly, consumers are also sceptical of Amazon entering markets where expertise may be more at a premium, such as energy. Only 12% of customers chose it amongst seven other brands, less than half the proportion that chose British Gas. While Amazon can take comfort from outperforming some Big Six names such as Npower and E.ON, our research reveals that brand power and a reputation for offering the best prices can only take a firm so far.

Figure 2. Amazon's forecasted market share in potential new markets



Recommendations

Based on our findings, we make five recommendations to competitors in markets where Amazon could enter as a challenger:

- **If you can beat Amazon on price – make sure customers know**

  Many consumers associate Amazon with offering the best prices on the market, but not all customers check whether this is the case for the product they are interested in. Should your prices rival Amazon's, you must ensure that customers know this. In-store and on-site price comparison tools are convenient, customer-friendly ways to remain competitive.

- **Recognise convenience is key – make purchases seamless for customers**

  Customers who have entered your showroom should have as seamless a journey as possible to purchase. From browsing to trying to buying, customers want the enhanced shopping experience of being in store but the same convenience of buying online. By integrating your offline and online offer, customers will get the best of both worlds.

- **Curate your purchase experience – take a customer-centric approach**

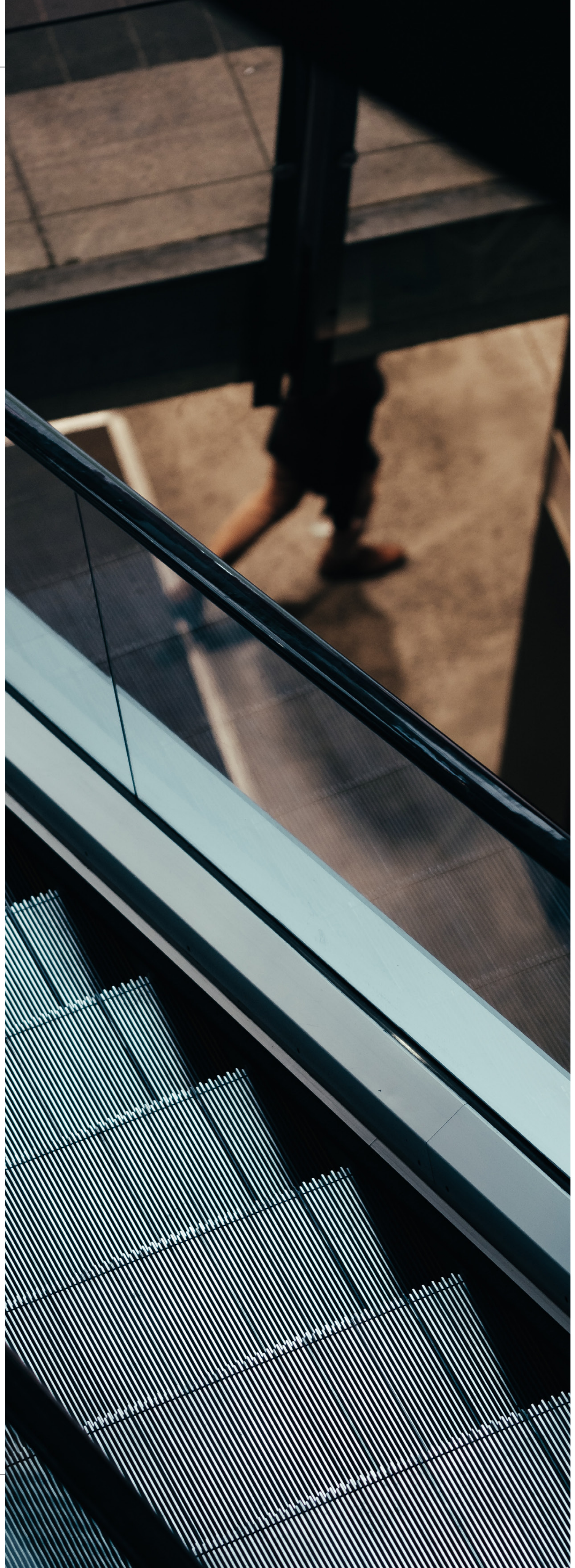
  A poor purchasing experience often prevents customers from completing their purchase, let alone returning in the future. While consumers perceive Amazon's purchasing experience favourably, they regard it poorly for knowledge and expertise. Delivering a unique, customer-centric purchase experience can improve sales; you should leverage your expertise to offer a point of differentiation.

- **Differentiate your offering – give customers another reason to come**

  To create clear water between you and Amazon, do something it can't. By offering more unique products and services, you are more likely to be successful for two reasons: first, you avoid the race to the bottom associated with selling branded products; second, you stand a better chance of persuading customers to shop with you rather than competitors.

- **Rethink your physical footprint – make it easy for customers to see for themselves**

  Amazon is weaker in markets that prioritise quality. Where consumers are sceptical, they want to try before they buy. This is where bricks and mortar real estate is important. But uniform physical stores will not attract more customers – pop-up showrooms and experimental designs that prize customer convenience will engender greater footfall.



Amazon's current market landscape

First, to gauge the power of Amazon's brand, we decided to look at its strength in markets it *already* competes in.

We looked at six markets for this part of the experiment: four where Amazon is already well established as a dominant market player (home electronics, toys and games, books, and clothing), and two where it is a more recent entrant (video streaming and groceries).

For this we used a behavioural survey. We asked those we researched if they:

- were aware of a brand for a given sector;
- whether they would consider purchasing from them;
  - of those who said they would consider purchasing from a brand, whether they had made their most recent purchase with them;
- and how aware respondents rated Amazon and competitor firms across an array of brand perceptions.

What did we find?

Table 1 Rank importance of brand perceptions in driving purchase in each market

Product Category	Price	Quick and Easy	Trust	Brand Liking	Range	Customer Service	Reliable	Expertise
Books	1st	4th	7th	6th	3rd	5th	2nd	8th
Toys and Games	1st	2nd	5th	6th	4th	7th	3rd	8th
Video Streaming	1st	4th	5th	2nd	3rd	6th	8th	7th
Clothing	1st	2nd	3rd	5th	7th	4th	6th	8th
Home Electronics	1st	5th	2nd	4th	7th	3rd	8th	6th
Grocery	1st	7th	2nd	4th	5th	6th	8th	3rd

Note: Rankings are 1-8 with 1st denoting the highest rank and 8th denoting the lowest rank.

Table 2 Amazon customer conversation rates and brand perception

Sector	Aware	Consider	Purchase	Price	Quick and Easy	Trust	Brand Liking	Range	Customer Service	Reliable	Expertise
Books	91% (66%)	79% (37%)	71% (36%)	57 (48)	55 (48)	51 (57)	44 (49)	57 (51)	48 (51)	57 (47)	41 (52)
Toys and Games	90% (69%)	78% (48%)	54% (30%)	56 (51)	56 (51)	47 (51)	48 (51)	55 (50)	51 (51)	56 (50)	38 (48)
Video Streaming	79% (59%)	70% (50%)	51% (40%)	51 (52)	51 (51)	53 (52)	53 (52)	48 (48)	48 (43)	48 (49)	55 (57)
Clothing	93% (75%)	62% (32%)	56% (35%)	51 (49)	60 (52)	45 (45)	45 (45)	54 (49)	54 (51)	52 (48)	34 (50)
Home Electronics	89% (80%)	67% (47%)	50% (33%)	57 (51)	54 (50)	47 (51)	47 (51)	56 (52)	48 (49)	57 (54)	35 (44)
Grocery	76% (76%)	20% (36%)	48% (51%)	49 (50)	55 (50)	47 (48)	47 (48)	50 (50)	53 (52)	52 (49)	41 (54)

Figures in the first three columns show the proportion of customers who are aware of Amazon and their conversion to consideration and purchase. Columns 4-11 show the average rating of Amazon on each perception dimension on a scale from 0 to 100. The smaller numbers in brackets show the industry average.

1. **Amazon's prices are crucial in the sectors where it is well established**

   Price is the most important factor driving purchase decisions in every single market we tested for this part of the research. And it's little coincidence that across the four sectors where it leads the market, Amazon punches far above the competitor average for being perceived to offer good prices. Awareness of Amazon's brand is almost uniformly sector-leading in these industries, with around 90% of customers being aware of their offer in these sectors. It also strongly outcompetes rivals on conversion rates for the proportion of customers who'd consider them, and the proportion who would purchase from them in these sectors – with the possible exception of home electronics (where Argos is a strong, nearly-equivalent rival).

   The importance of price proves to be the case even in the 'vanguard' sectors where Amazon is a more recent entrant and doesn't lead (video streaming and groceries). While there are other factors that Amazon underperforms on that are strong decision drivers in these sectors, it stands out that Amazon falls behind the market average on brand perception for offering the best prices in both (-1 compared with the market average) – and that these are the two sectors where it has its weakest conversion rates.

2. **Brands don't really need to be liked to get customers – so negative brand associations aren't much of an obstacle for Amazon**

   While Amazon is one of the most used retailers, it is hard to ignore the ongoing background hum of bad press it gets on labour practices, tax and privacy concerns. One of our hypotheses was that customers may be happy to buy from Amazon, but might be a little squeamish about them as a company – offering more well-liked competitor brands a potential edge.

   Unfortunately for those competitors, how much customers like a brand isn't a top purchase driver across most of the sectors we tested, on average being ranked as the 4th or 5th most important factor (out of 8). Indeed, Amazon is surprisingly well-liked in a couple, being perceived as at or above the market average in the three sectors where brand liking ranks in the top 4 decision drivers (video streaming (53 vs. 52), groceries (52 vs. 49) and home electronics (52 vs. 50)). But the (un)importance of being liked as a purchase driver is given away by Amazon not doing particularly well in these sectors anyway – and scoring far below the market average in sectors such as books, where Amazon is utterly dominant regardless of the resentment towards their impact on bookselling.

3. **Quick and easy keeps you competitive**

   Beyond price, this is the second most important purchase driver across the sectors we analysed – and it's one where Amazon pulverises the competition. Its capacity for next-day fulfilment all across the UK make it almost unbeatable in sectors involving delivery. Only Argos and Tesco are competitive with Amazon in this regard (in home electronics and groceries respectively, and toys and games for both).

   Amazon's edge here is a key pillar of its dominance across the board in toys and games, and the main reason it leads the sector in clothes. While being able to compete on delivery with a firm that has 17 fulfilment centres across the UK might not be realistic for all competitors, Amazon's performance in clothing shows the importance of at least staying in a similar ballpark to Amazon's offer. It only performs moderately better than competitors on Price (51 vs. 49) and runs par on Trust (45 vs. 45), the other two key purchase drivers. But it leads the market thanks to being rated overwhelmingly better than the competitor average for being Quick and Easy (60 vs. 52).

4. **Beyond price, trust is informative to where Amazon breaks through**

   Trust is the third most important purchase driver across the board and looks to be key to Amazon's weaker performance in two sectors: home electronics, where it leads the market but is in close competition with Argos, and groceries, one of its 'vanguard' sectors and where it performs very poorly. Home electronics is one where Amazon's lead is not as resounding as may be expected given how well it performs on price compared to competitors (57 vs. 51). In large part, this is because it does worse than the market average on trust (47 vs. 51). Consumers buying expensive home electronics want to know that they aren't going to get something shoddy with a poor warranty for the price they often have to pay, so Amazon's poor performance here drags it down to a point where Argos is competing for market leadership.

   While groceries aren't quite the same product, consumers nonetheless want to know that the brand they buy from cares and knows about the product they're eating and that it's high quality. Amazon's reputation for selling anything and everything efficiently, regardless of what it is, doesn't always translate, and this is reflected in Amazon's poor score on Expertise. Both of these combine to make groceries the weakest sector tested for Amazon in this part of the experiment.

Amazon's potential challenger markets: an overview

Having established a base of consumer perceptions regarding Amazon's strengths and weaknesses, we explored markets that it hasn't yet entered. Our tests sought to find out how much of a threat Amazon could pose to sector rivals, based purely on its brand power.

We looked at a number of sectors for this part: the mobile phone network provider market, travel insurance, energy, airlines and hotels. To provide a baseline connecting these findings to the first part of our research, we also tested brands in the home electronics and groceries markets.

We gave participants a realistic simulation of buying a product through a price comparison website. Each participant made a purchase for a product selected at random from the seven sectors explored: mobile, travel insurance, home electronics, energy, hotel, airline, and groceries.

All participants were shown the same list of brands (chosen from those most established in each industry) and the same range of offers in each product area. The offers given replicated real-life deals. The propositions were always ordered from lowest price to highest price (as is typical of a price comparison website), but the order in which brands were presented to a participant varied, so that each brand was randomly assigned to an offer.

Rank	Brand	Data Allowance	Minutes	Texts	Contract Length	Monthly Cost	Buy Now
1	giffgaff	1GB	250	Unlimited	1 month	£8	
2	EE	2GB	500	500	12 month	£8	
3	TESCO mobile	2GB	500	5000	12 month	£9	
4		1GB	500	500	1 month	£10	
5	BT	3GB	Unlimited	Unlimited	12 month	£10	
6	amazon	4GB	1000	5000	1 month	£11	
7	3	3GB	Unlimited	Unlimited	12 month	£11	
8	O_2	4GB	Unlimited	Unlimited	1 month	£12	

Figure 3: Example screenshot from the RCT

Table 3 Summary of Amazon's performance across different industries

Sector	Amazon market status	Amazon forecast market rank	Amazon forecast market share	Difference from top competitor
Home Electronics	Established	1st	27%	+11%
Mobile	Opportunity to enter	5th	12%	-7%
Mobile with Perks	Opportunity to enter	1st	25%	+9%
Travel Insurance	Opportunity to enter	1st	15%	+0%
Grocery	New entrant	4th	13%	-4%
Energy	Opportunity to enter	3rd	12%	-6%
Airlines	Opportunity to enter	5th	11%	-15%
Hotels	Opportunity to enter	7th	10%	-5%

Note: Amazon was tested against seven leading brands in each market, hence Amazon's forecasted market rank and market share is compared within the eight brands tested in a particular sector. For any market, Amazon's expected market share is 12.5%.

Results

The most striking finding is that Amazon has a great deal of potential power as a challenger competitor *across most* sectors.

Out of a field of eight competitors in each sector, Amazon is chosen 16% of the time – higher than the 12.5% market share that would be expected were every brand equally strong.

> *"Amazon has a great deal of potential power as a challenger competitor across most sectors."*

To provide a benchmark illustration for what constitutes a strong performance, Amazon is chosen by 27% of customers in the Home Electronics market – some way ahead of Argos, its closest competitor in the sector, which is chosen 14% of the time. In our research, Amazon's 27% in Home Electronics is only rivalled as an example of market dominance by British Airways in the airlines sector (which was chosen 25% of the time, with its closest rivals on 15% market share). As such, **the average 16% share for Amazon across all the sectors tested is roughly equivalent to it entering each new market as a strong top three competitor.**

Across the sectors tested, there are only three where Amazon comes towards the bottom among consumers as a prospective challenger – hotels, airlines, and energy. Even in energy, Amazon's middling performance is among a crowded field of competitors, and it outperforms some established brand names.

Where Amazon is strongest

Table 4: Results in mobile network market and mobile with perks market

	% Purchasing	
Brand	Mobile Only	Mobile with Perks
O2	19%	17%
giffgaff	15%	11%
Tesco Mobile	15%	13%
EE	14%	9%
Amazon	**12%**	**25%**
BT Mobile	10%	5%
Three	8%	9%
Vodafone	7%	10%

Table 5: Results in Travel Insurance market

Brand	% Purchasing
Amazon	**15%**
Admiral	15%
Aviva	13%
More Than	13%
Lloyds Bank	13%
AXA	11%
Virgin Money	11%
Zurich	8%

The most notable finding is that Amazon could be a formidable challenger as a mobile network provider. Our research shows that if Amazon entered the market on just the power of its brand alone, it could outcompete two of the Big Four – Three and Vodafone (12% vs. 8% and 7%).

However, when we amend the experiment to test the mobile network provider market and add prospective perks (offering Amazon with free Amazon Prime membership), Amazon becomes the overwhelming market leader.

It would potentially stand to capture a quarter (25%) of the market, some way ahead of the current comfortable market leader, O2 (14%). This would be a level of **dominance on par with Amazon's in Home Electronics and British Airways' among airlines.** Some of this performance will reflect that some perks offer better value than others at the prices tested. But the enthusiasm for Prime as a perk bodes well for Amazon – particularly as it hasn't been averse to using initial loss-leader strategies to land-grab in other sectors.

Furthermore, Amazon's reputation as a strong competitor on price makes it a good fit for some of the other markets we tested, such as travel insurance. **We found that Amazon could be a potential market leader**, tying with Admiral for market share (15%). While this success is among a much more crowded field that lacks a clear market leader, this may have worked to Amazon's favour.

> *"It may also be no coincidence that Amazon does well in sectors which already have a strong online market and where online-only brands already operate."*

Markets where there isn't as much brand loyalty and customers are mostly looking for a simple product at the best price are much more promising for Amazon as a challenger, as its brand values align well with these products. It may also be no coincidence that Amazon does well in sectors which already have a strong online market and where online-only brands already operate.

Amazon's challenges as a challenger

Table 6: Results in Groceries market

Groceries	% Purchasing
ASDA	17%
Morrisons	16%
Tesco	16%
Amazon	**13%**
Hello Fresh	13%
Sainsbury's	10%
Farmdrop	9%
Ocado	7%

Table 7: Results in Energy market

Energy	% Purchasing
British Gas	18%
EDF	13%
SSE Southern Electric	13%
Amazon	**12%**
E.On	12%
Npower	11%
Scottish Power	11%
First Utility	10%

One sector where Amazon would potentially have more difficulty is as a full entrant to the grocery sector (13%). Our research shows that Amazon would represent a substantial challenge to existing competitors – though in keeping with the first part of our research, has a great deal of work to do to be a market leader. As before, it suffers in that it doesn't have the price advantage here that it does in other sectors, and is behind competitors on trust and expertise.

Our research suggests that Amazon's reputation for offering the lowest prices attracts some customers in this sector (no small danger in one as price-driven as groceries, as the likes of Aldi and Lidl have demonstrated), showing it could have an opening as a competitor on a pure budget proposition. However, as seen in our behavioural survey results, its brand currently trails competitors on trust and expertise, which are important factors in this market.

The energy sector has one established market leader – British Gas (18%). All remaining competitors are clustered some way behind, with Amazon in the middle of the pack (12%). It can take some heart at least from the fact it outperforms established Big Six brands such as Npower and E.ON.

The price of deals offered appears to be a particularly strong driver of brand choice in this sector, exclusive of customers' perceptions of whether the brand they buy from typically offers good prices. Nearly two-thirds of customers in the energy experiment choose the lowest two cost options, regardless of anything else – notably higher than in other sectors. However, our research suggests that Amazon is damaged in this sector by a perceived lack of expertise. **Amazon's brand as a logistical powerhouse has its limits.**

A challenge too far

Table 8: Results in Airlines market

Airlines	% Purchasing
British Airways	25%
easyJet	15%
Jet2	15%
TUI	14%
Amazon	**11%**
Ryanair	10%
Norwegian Air	8%
Primera Airlines	3%

Table 9: Results in Hotels market

Hotels	% Purchasing
Premier Inn	15%
Holiday Inn	14%
Hilton	14%
Travelodge	14%
Radisson Blu	13%
Ibis	12%
Amazon	**10%**
Z Hotels	8%

Amazon does not do particularly well as a challenger in Airlines (11%) or Hotels (10%) when tested. In part, this might be because there is already a wide variety of brands within these two sectors that cater for the budget and higher end markets. It is less obvious what the gap in the market would be for Amazon.

In addition, Amazon could face questions in these markets around expertise and quality as a challenger. **Customers know what they're getting with existing brands that provide a budget offer. They may be less willing to take a gamble on an unproven new brand for** less frequent and

more 'experiential' purchases like flights or hotel stays, where the customer interaction is likely to have more emotional effect. Just as Amazon does well in sectors where online brands can prevail, it seems to do worse in those that depend on the offline experience.

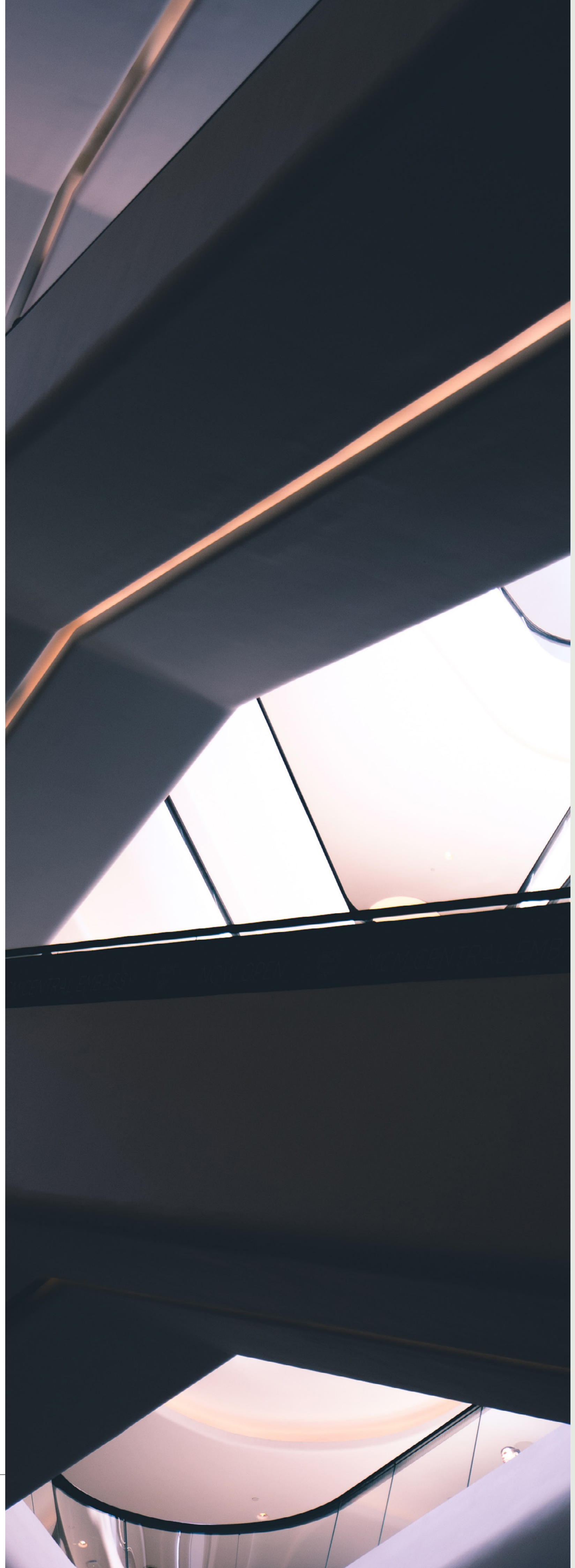
This is less of an issue in the sectors where Amazon tests well. The quality of the base product is more of a given for mobile network and travel insurance deals (how much data / coverage you have), and competition is more based on price and other factors. The same doesn't apply for a hotel room or a flight, where most customers would attest that quality can vary dramatically.

Research takeaways

The overall message mirrors our findings from the first part of the research: more price-sensitive sectors, where expertise and quality of product are less of a concern to customers, are the ones where Amazon poses the biggest threat as a competitor. Amazon's reputation for having the best prices, being quick and easy to use, and always having what customers want available carries across well.

A lack of expertise isn't a barrier to Amazon in sectors such as mobile network, travel insurance or home electronics – but it is perceived that Amazon would have an appealing offer, as reliability and good service (which aren't so dependent on expertise) are more important. But Amazon generally does worse in sectors (hotels, airlines and groceries) where expertise is likely considered more crucial. Here, our research suggests customers think Amazon has poor expertise and quite possibly as a result think it would offer a lower quality product.

The lesson of our findings as a whole is that price and convenience is the best failsafe for staying competitive with Amazon. Admittedly, this may provide little reassurance to competitors, given Amazon's reputation as a disruptor on these fronts. But for competitors in more expertise-based sectors, there is another defence. Should Amazon enter, pursuing measures that emphasise your brand's longevity, quality and expert knowledge – such as incorporating them into unique purchase experience opportunities, like Apple's Genius Bars and O2's Gurus – could stand you in good stead against their weaknesses.



Market Spotlight

Mobile

The mobile network provider market continues to be hotly contested. Firms compete not just on core contract offers, but also with perks like O2 Priority that have helped improve brand awareness and market share.

Given the saturation of extras in today's mobile network landscape, we had a unique opportunity to test two things: first, Amazon's brand pull as a potential provider; second, consumer appetite for Amazon as a network provider if it entered the market with a free Amazon Prime membership offer. The second test was set up to realistically reflect Amazon's potential entry strategy, given its goal of boosting Prime customers.

With a few notable exceptions, our findings from testing brand pull largely mirror the current market share, and also offer positive signs for Amazon. However, O2 leads the market in terms of consumer appetite and added-value, revealing how highly consumers value O2 compared to its competition.

EE, giffgaff, and Tesco Mobile also scored well. For giffgaff and Tesco Mobile, their high ranking does not just reflect their reputations as value brands, but their customer service and strong social media presence, especially in the case of Tesco Mobile.

Amazon ranked in the lower half of mobile network brands if it entered the market on brand-pull alone, with just over one in ten consumers opting for the brand. **However, that still places Amazon considerably ahead of two established providers in Three and Vodafone.**

In practice, competition in the mobile network provider market goes beyond just brand and price factors. Increasingly, the perks that providers offer alongside deals play a big role in attracting customers, with the likes of O2's 'O2 Priority' live performance presale offers and Orange Wednesdays' 2-for-1 cinema tickets being key to establishing both brands as major competitors.

As such, this was one sector where we could relatively realistically test the market, while also factoring in one of Amazon's main current strategies for growth: expanding Amazon Prime membership.

Remarkably, **when testing with perks we found that Amazon could potentially be the leading mobile network provider if it entered the market tomorrow.** Should Amazon step into the mobile network market and include free Amazon Prime membership as part of its offer, there is significant consumer appetite.

This unique offer sees **Amazon's market share double to capture a quarter of all customers.** This level of market dominance is only matched in our research by British Airways among airlines, and surpassed by Amazon's own supremacy in home electronics.

Although Amazon might not offer free Prime at the price points tested, the signature perks of other brands were also tested at prices they might not roll out to the market. Importantly, Amazon has absorbed losses in order to grow its market share. Furthermore, Amazon's superiority in this test is particularly notable when many British customers are already members. Research in 2017 estimated that there were 8 million UK Prime members, a 33% market penetration among UK households.[8]

Our findings also reveal that brands offering more unique perks are able to attract more consumers. For example, Three's offer of priority boarding and travel upgrades with easyJet significantly improves its brand perception compared to the Mobile Only test. On the other hand, BT Mobile ranks even worse in the Mobile with Perk test compared to Mobile Only. This could be because those who are interested in BT Sport already have the app: if someone is interested in the sports BT Sport provides exclusive coverage for, they will be more reliant on having it in the first place. On the other hand, while Amazon Prime or travel upgrades on easyJet are easily purchasable, many customers may consider them a 'nice to have' extra that they wouldn't be able to justify otherwise.

Travel insurance

Rumours that Amazon is considering a foray into the travel insurance market are continuing to rumble. Reports earlier this year indicated that Amazon was considering entering the UK market with a price comparison website. However, our research suggests that Amazon might be more successful as a provider in the travel insurance market, entering on level terms with Admiral.

We found that there is great competition in the travel insurance market at present, with no clear leader. With a small difference of just four percentage points between the most chosen brands and the second-last firm, **Amazon has an opportunity to stake a claim in the market**.

Indeed, our research suggests that there is little brand loyalty in the travel insurance market. While Admiral is the joint market leader in our research, our findings suggest that this isn't due to customers' views of it as a brand, where it falls behind others. Instead, it seems there may be other factors at play in the travel insurance market.

Indeed, our research indicates that **the price of the deal offered is more important than brand allegiance.** A near-majority of customers opt for the brand that offers a deal at the two lowest price points. This goes a long way to explaining why Amazon enters as such a strong challenger in this sector.

As such, competitors would do well to focus on their up-front offer in this market, rather than trying to leverage brand loyalty. More than anything else, consumers appear concerned with getting a good price and avoiding a frustrating claims process.

Groceries

The sands of the groceries landscape are shifting. Aldi and Lidl are now serious challengers to the dominant market players, and the future of bricks and mortar stores remains in question. Amazon's purchase of Whole Foods and attempts to establish Amazon Fresh show that the brand is serious about the groceries sector.

The sector has been further shaken up by Sainsbury's purchase of Argos and prospective merger with ASDA. Such large-scale moves are not only being made as a result of competition, but also the threat posed by the entry of a firm with Amazon's logistical expertise and network.

However, our findings show that Amazon has a lot of work to do before it can seriously challenge the market. **Groceries represents one market where Amazon may be more Goliath than David.**We found that **price, trust and expertise are vital to this market.** This has ramifications for Amazon. It is a positive for Amazon that it ranks in the middle as a prospective competitor in the grocery market, ahead of Sainsbury's and Ocado.

However, in a market with an onus on price, Amazon cannot leverage its brand reputation for having good prices elsewhere into being a potential market-leader, because of its weaknesses on trust and expertise. **Grocery shoppers want to be confident that they know the quality of product they are buying.**

However, there are two notes of caution for competitors. First, future disruption in the retail sector could benefit Amazon. An increasingly digitised shopping experience, where more and more stores will forego checkouts for example, will likely see the grocery market reshaped by those companies that best adapt.

Second, Morrisons' results may be particularly instructive for this market, given its current limited partnership with Amazon (allowing its products to be delivered through Prime). In the wake of Amazon's US acquisition of Whole Foods, there has been speculation that Amazon may do the same for Morrisons in the UK market.

Certainly, customers' positive views of Morrisons for key purchase-driving factors in this sector would offer Amazon some hope of success if it goes down this road. **If it retained and replicated Morrison's strong brand values** in price, expertise and trust, **Amazon could be a potential market leader in the grocery market.**

Recommendations

While our research focused on specific sectors, our findings offer a few general lessons for companies across sectors that could face the spectre of Amazon as a challenger. We offer five recommendations on how to stay competitive:

- **If you can beat Amazon on price – make sure customers know**

  If one thing stands out from both elements of our research, it's that price is usually key. While it may be hard to compete with Amazon if they enter your market at the most competitive price possible, there are plenty of examples of sectors where it doesn't (at least to begin with).

  However, customers have strong brand associations with Amazon as a firm that offers products at the best possible price – and not all of them will do the research to verify that they are. Therefore, if your prices are competitive with Amazon, make sure customers know! Price-searching is a burden for customers. Innovating through measures that make sure they're aware of your advantage – such as instore and onsite price comparison tools – will be important.

- **Recognise convenience is key – make purchases seamless for customers**

  If you're going to offer customers a showroom, make it as easy as Amazon would for them to buy what they see: ease and convenience is a common purchase driver in our research. For firms with existing bricks and mortar portfolios in sectors that rely on consumer trust and quality assurance, improve and integrate your online channels to make the purchasing and delivery experience as seamless and convenient as possible.

  While even the most streamlined supply chain will struggle to compete with the efficiency of a logistical behemoth like Amazon, at least staying in a similar ballpark will allow you to leverage your other strengths against them. After all, the more the market comes closer to providing what a new challenger would enter with, the less threat that new challenger will be able to pose.

- **Curate your purchase experience – take a customer-centric approach**

  One of Amazon's strengths across the board in our experiments is the robust expectation customers have of a positive purchase experience with them. This isn't always something that drives purchase decisions, but it's a hygiene factor that can shift them at the margins. But while you might not be able to match Amazon's efficiency, using stores as more than just a point of sale can help you deliver a more unique, customer-curated in-store purchasing experience.

  The Apple Genius Bar and O2's Gurus make the most of the opportunity for face-to-face contact with consumers.

  Experiences like these take advantage of a common weakness for Amazon exposed in our research: its lack of expertise and ability to offer advice and information. Furthermore, Amazon's global footprint means that it often lacks a strong local presence. Regulatory issues such as GDPR often vary across geographies, and Tesco's struggles in China[9] show that local knowledge of your market is important and should be utilised to your advantage. Linking your strengths on expertise and knowledge to help improve your purchase experience can give you a real point of differentiation from competitors.

- **Differentiate your offering – give customers another reason to come**

  Firms that offer something Amazon can't are typically in a better position. This could even involve out-Amazoning Amazon: through technological disruption or simpler tactical interventions that catch other firms unawares.

  But the most obvious way of doing so is through product. Selling branded products inevitably opens up a race to the bottom. Providing more unique products and services – such as own-brand or exclusive lines, or deals offering consumers extras of the kind they may not buy otherwise – gives customers more of a reason to choose you over other competitors.

- **Rethink your physical footprint – make it easy for customers to see for themselves**

  One way Amazon competes is through sheer convenience. But it starts off weaker in sectors where quality is a priority. That's why Amazon, which has made a point of keeping its property overheads low through warehousing, is exploring bricks and mortar stores as 'showrooms'. It knows in sectors such as groceries, home electronics and clothing, consumers prefer to judge quality before they buy.

  But while many bricks and mortar retailers have an array of showrooms ready to go, changing trends in shopping habits mean they may still be behind the curve. Retailers such as IKEA are experimenting with more convenient smaller inner-city locations, accounting for the decline in footfall in out-of-town shopping centres and that a one-size-fits-all approach to physical stores no longer works. Commercial pressures have forced firms to reduce their physical footprint: for many, the next challenge will be ensuring the stores they have are in the right places.

Detailed methodology

Sampling

The primary research undertaken for this report was conducted online from 18th October 2018 to 22nd October 2018 with a nationally representative sample of 1,585 UK consumers aged 18 and over and who had purchased at least two of the seven required products or services within the last six months.

Paradigm

The research involved taking participants through a realistic simulation of purchasing a product through a price comparison website. Each participant was required to make two purchases for two different products selected at random from the following seven sectors explored: mobile, insurance, home electronics, energy, hotel, airline, and grocery. Two baselines were used; home electronics and grocery. The former a sector Amazon operates in successfully and the latter a sector Amazon is newly operating in and not yet a leading brand. The experimental product areas covered a range of industries that Amazon do not currently operate in.

All participants were shown the same list of offerings and the same brands within each product area, with the propositions replicating real life offers and the brands chosen represented the most established in that industry (see example in Figure 1). In addition, Amazon was always tested as one of the brands. The propositions were always ordered from lowest price to highest price as is typical of a price comparison website, but the order in which brands were presented to a participant varied between-subject, so that each brand was randomly assigned to a proposition. Two versions of the mobile propositions were tested, one which displayed the key details of the propositions as per the other product areas and one version which additionally identified free perks included with each brand's offer (e.g. free Amazon Prime). These perks were fixed to the brand.

By keeping the propositions consistent between participants, the impact of brand desirability was isolated ensuring a clean test of each brand's relative power. The key outcome measure was brand choice, and this was statistically modelled.

Figure 1. Example PCW paradigm for mobile

Rank	Brand	Data Allowance	Minutes	Texts	Contract Length	Monthly Cost	Buy Now
1	giffgaff	1GB	250	Unlimited	1 month	£8	
2	EE	2GB	500	500	12 month	£8	
3	TESCO mobile	2GB	500	5000	12 month	£9	
4		1GB	500	500	1 month	£10	
5	BT	3GB	Unlimited	Unlimited	12 month	£10	
6	amazon	4GB	1000	5000	1 month	£11	
7	3	3GB	Unlimited	Unlimited	12 month	£11	
8	O2	4GB	Unlimited	Unlimited	1 month	£12	

Modelling

A binary logistic regression was used to model perceptions on real world consumer purchase destinations for survey questions on existing product categories Amazon operate in to understand what the most important decision drivers are. For the experimental task a multinomial logistic regression was used to model consumer brand choice. Brand choice was modelled across industry as well as separate models being created for each individual product category.

The purpose of modelling is to determine the impact of other information (such as consumers' age) and control for these factors, thereby allowing us to isolate and estimate the impact of brand power net of these extraneous factors. The set of controlling factors were:

- Financial personality
- Financial literacy
- Age
- Gender
- Employment status
- Personal income
- Education
- Relationship status
- Number of children
- UK region

Results

Mobile

Figure 2. Mobile condition table

Rank	Brand	Data	Minutes	Texts	Contract	Monthly Cost	Buy
1	Selected at random	1GB	250	Unlimited	1 month	£8	O
2	Selected at random	2GB	500	500	12 month	£8	O
3	Selected at random	2GB	500	5000	12 month	£9	O
4	Selected at random	1GB	500	500	1 month	£10	O
5	Selected at random	3GB	Unlimited	Unlimited	12 month	£10	O
6	Selected at random	4GB	1000	5000	1 month	£11	O
7	Selected at random	3GB	Unlimited	Unlimited	12 month	£11	O
8	Selected at random	4GB	Unlimited	Unlimited	1 month	£12	O

Travel Insurance

Figure 3. Travel Insurance condition table

Rank	Brand	Excess	Medical	Cancellation	Defaqto Rating	Cost	Buy
1	Selected at random	£150	£10m	£1,000	3*	£14.85	O
2	Selected at random	£100	£10m	£2,000	4*	£15.27	O
3	Selected at random	£200	£15m	£1,500	4*	£16.76	O
4	Selected at random	£150	£10m	£2,500	3*	£18.46	O
5	Selected at random	£99	£15m	£2,500	5*	£19.43	O
6	Selected at random	£75	£20m	£3,000	4*	£20.27	O
7	Selected at random	£50	£10m	£2,000	5*	£23.12	O
8	Selected at random	£50	£15m	£2,500	4*	£24.88	O

Home Electronics

Figure 4. Home electronics condition table

Rank	Retailer Brand	Brand	Capacity	Material	Delivery	Cost	Buy
1	Selected at random	Russell Hobbs	1.7 litre	Stainless Steel	4-5 days	£22.49	O
2	Selected at random	Morphy Richards	1.7 litre	Plastic	2-3 days	£22.99	O
3	Selected at random	Kenwood	1.7 litre	Plastic	4-5 days	£23.99	O
4	Selected at random	Breville	1.7 litre	Stainless Steel	2-3 days	£23.99	O
5	Selected at random	Morphy Richards	1.5 litre	Stainless Steel	Next Day	£24.99	O
6	Selected at random	Russell Hobbs	2 litre	Glass	2-3 days	£27.99	O
7	Selected at random	Bosch	1.7 litre	Plastic	1-2 days	£29.99	O
8	Selected at random	Breville	1.7 litre	Stainless Steel	Next Day	£29.99	O

Energy

Figure 5. Energy condition table

Rank	Brand	Unit Rate	Standing Charge	Contract	Early Exit Fee	Annual Cost	Buy
1	Selected at random	3.8p	19.2p	15 month fixed	£30	£600	O
2	Selected at random	4.0p	23.6p	36 month fixed	£0	£636	O
3	Selected at random	4.0p	23.8p	12 month fixed	£25	£648	O
4	Selected at random	4.3p	15.9p	12 month fixed	£25	£660	O
5	Selected at random	4.0p	30.1p	36 month fixed	£30	£660	O
6	Selected at random	4.3p	15.9p	24 month fixed	£0	£660	O
7	Selected at random	4.4p	15.1p	24 month fixed	£0	£672	O
8	Selected at random	4.6p	8.2p	15 month fixed	£30	£684	O

Hotels

Figure 6. Hotel condition table

Rank	Brand	Star Rating	Bed Size	Distance	Breakfast?	Cost	Buy
1	Selected at random	3*	Double	2.8 miles	No	£106	O
2	Selected at random	3*	Double	0.6 miles	No	£121	O
3	Selected at random	3*	Double	0.7 miles	Yes	£128	O
4	Selected at random	4*	Double	0.9 miles	Yes	£135	O
5	Selected at random	3*	Double	0.4 miles	No	£140	O
6	Selected at random	3*	Double	0.3 miles	No	£143	O
7	Selected at random	4*	King size	0.6 miles	Yes	£151	O
8	Selected at random	4*	King size	0.4 miles	No	£169	O

Airlines

Figure 7. Airline condition table

Rank	Brand	Departure Airport	Departure Flight Times	Return Flight Times	Baggage Allowance	Cost	Buy
1	Selected at random	London Stansted	17:25 - 21:20 (2h 55m)	21:55 - 23:59 (3h 4m)	Hand Luggage	£67	O
2	Selected at random	London Southend	16:45 - 20:40 (2h 55m)	23:45 - 01:30 (2h 45m)	Hand Luggage	£75	O
3	Selected at random	London Stansted	06:05 - 10:00 (2h 55m)	23:50 - 01:35 (2h 45m)	Hand Luggage + 1 Small Bag	£78	O
4	Selected at random	London Stansted	17:05 - 21:05 (3h 0m)	14:45 - 16:40 (2h 55m)	Hand Luggage + 1 Small Bag	£82	O
5	Selected at random	London Gatwick	05:45 - 09:45 (3h 0m)	21:45 - 23:25 (2h 40m)	Hand Luggage + 1 Small Bag	£85	O
6	Selected at random	London Gatwick	09:35 - 13:35 (3h 0m)	14:25 - 16:20 (2h 55m)	Hand Luggage + 1 Small Bag	£88	O
7	Selected at random	London Stansted	07:15 - 11:10 (2h 55m)	20:10 - 22:00 (2h 50m)	Hand Luggage	£92	O
8	Selected at random	London Luton	06:40 - 10:30 (2h 50m)	11:40 - 13:30 (2h 50m)	Hand Luggage + 1 Small Bag	£95	O

Grocery

Figure 8. Grocery condition table

Rank	Brand	Veg varieties	Box Weight	Organic	UK Sourced	Cost	Buy
1	Selected at random	8-10	4kg	No	No	£21.50	O
2	Selected at random	6-8	5kg	No	Yes	£23.45	O
3	Selected at random	6-7	3.5kg	Yes	No	£23.55	O
4	Selected at random	8	4kg	No	No	£24.99	O
5	Selected at random	9	4kg	Yes	No	£25.00	O
6	Selected at random	8-10	5kg	Yes	Yes	£26.50	O
7	Selected at random	12	5kg	No	Yes	£27.20	O
8	Selected at random	7 - 10	4.5kg	Yes	Yes	£32.50	O

Mobile

Figure 9. Mobile brands and results

Brand	Logo	Perk	Mobile Market Share	Mobile with Perks Market Share
Amazon		Amazon Prime	12%	25%
EE		6 months free Apple Music	14%	9%
O2		Priority access to gig tickets	19%	17%
Vodafone		Free NOW TV	7%	10%
Three		Travel upgrades and priority boarding with easyJet	8%	9%
BT Mobile		Free BT Sport app	10%	5%
Tesco Mobile		200 free Clubcard points every month	15%	13%
giffgaff		Monthly data rollover	15%	11%

Travel Insurance

Figure 10. Travel Insurance brands and results

Brand	Logo	Market Share
Amazon		15%
AXA		11%
Aviva		13%
Admiral		15%
Virgin Money		11%
More Than		13%
Lloyds Bank		13%
Zurich		8%

Home Electronics

Figure 11. Home electronics brands and results

Brand	Logo	Market Share
Amazon		27%
Currys		11%
Argos		14%
eBay		7%
John Lewis		10%
AO		9%
Tesco		16%
Very		6%

Energy

Figure 12. Energy brands and results

Brand	Logo	Market Share
Amazon		12%
British Gas		18%
SSE		13%
E.On		12%
EDF		13%
Scottish Power		11%
Npower		11%
First Utility		10%

Hotels

Figure 13. Hotel brands and results

Brand	Logo	Market Share
Amazon		10%
Travelodge		14%
Premier Inn		15%
Holiday Inn		14%
Z Hotels		8%
Hilton		14%
Ibis		12%
Radisson Blu		13%

Airlines

Figure 14. Airline brands and results

Brand	Logo	Market Share
Amazon		11%
easyJet		15%
Ryanair		10%
Jet2		15%
Norwegian Air		8%
British Airways		25%
TUI		14%
Primera Airlines		3%

Grocery

Figure 15. Grocery brands and results

Brand	Logo	Market Share
Amazon		13%
Tesco		16%
Sainsbury's		10%
Morrisons		16%
ASDA		17%
Ocado		7%
Farmdrop		9%
Hello Fresh		13%

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