Norwegian School of Economics
Bergen, Spring 2022

Seeing Grocery in a New Light

Investigating Oda Norway's firm specific advantages in the Finnish grocery market.

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Acknowledgements

This master thesis has been made as a part of the Business Analysis and Performance Management specialization at Norwegian School of Economics (NHH). The thesis was started in the spring of 2022, and is responsible for 30 ECTs of our specialization.

The choice of topic was discovered through a wish of investigating new technology-driven ideas in the current environment, whilst still adhering to the aquired skills from our specialization.

The paper is a combination of work and feedback from several people, whose contributions have been invaluable. A special thanks goes to Henning Bakken and Øistein Moen for quick feedback and proofreading. Saara Elisa Halonen deserves a thanks for avid translation and insight into the Finnish culture.

Closing off we would like to reach out a heartfelt thanks to our supervisor Kirsten Foss, whose constructive feedback and ready availability has helped us greatly in the finishing of our thesis.

Norwegian School of Economics

Bergen, June 2022

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Abstract

With Oda having experienced a rapid growth ever since its debut in 2013, the increased online interest following the pandemic further accelerated the company's upwards trajectory. With its 70 percent market share of the online grocery segment in Norway and a unicorn title in 2021, the company attracted powerful investors. This led to the possibility of expanding, where the choice fell on the international scene rather than solely focusing on domestic growth. We investigate Oda's firm specific advantages (FSAs) and the extent to which these are transferable to the Finnish grocery market. To answer this question, we have mainly utilized secondary sources of information, including financial statements, reports, press releases, news articles, and podcasts. The information has been analyzed through literature frameworks such as, the business model canvas, Porter's competitive advantage, competition analysis, international business, and behavioral economics.

We applied the VRIO framework from the resource-based view, Porter's ten cost drivers from the activity-based theory, and the complementarity framework by Porter and Siggelkow to identify Oda's FSAs. The company's FSAs in its home country are found to be the business model in its entirety. This is substantiated by the many complementary activities and valuable resources found when analyzing the company's business model. The most important are the interplay between, the logistics competency and self-made logistics system specialized for grocery, the pickers in production and the logistics system, and the integrated delivery service coupled with the order processing system. In addition, the valuable resource found in the company's centralized warehouse is crucial for Oda's success. The Lien et al. framework was used to explain the FSAs in the context of the Norwegian grocery market and the associated competition. A comparison between the Norwegian and Finnish grocery market was made to identify differences in the two markets. These were included with the literature of liability of foreignness (LOF) to explain the potential challenges one might face as a foreign company. Oda's most evident sources of LOF are challenges related to securing supplier deals, the Finnish consumers slightly differing preference, and potential market responses from the established competition. These findings require awareness from Oda, however, the business model in itself is found to be replicable in the Finnish market while still contributing to a FSA. This is especially true as no business model in the Finnish market was of similar nature to Oda's model.

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1. Introduction

1.1 What is Oda?

Oda, formerly known as Kolonial, was created in 2013 by ten founders looking to enter what they considered a gap in the grocery market. This gap was based on the limited online competition and the potential of capturing customers through challenging the established business models, and with that changing how consumers view grocery shopping. Oda aims at becoming the world's most effective retail system, thereby creating a society where people have more space for life (*Oda Careers and Roles*, 2022). With a background in technology and logistics, they created a model streamlined exclusively for e-grocery, cutting several steps out of the traditional value chain (Hopland, 2021). Oda gained distribution access to the more densely populated Eastern part of Norway by building its first warehouse at Lørenskog. The company has since developed and scaled its activity to employ over 800 people (Williams, 2021), becoming the fifth-largest online retail company (Eden et al. 2021a), and the leading provider of e-grocery. By positioning itself in the low-price market segment (*Oda - lave priser, levert på døra,* 2021), Oda has managed to capture over 70 percent of total online grocery orders in Norway (Williams, 2021).

Oda's main source of revenue is selling groceries online. In addition to providing this service, Oda has expanded its range to include other retail products. The company is now offering a product mix tailored for families with children, having included products from Clas Ohlson, Barnas hus, Sprell, ARK, and more. CEO Karl Munthe Kaas has in an interview (Seres, 2022a, 23:33) suggested that a natural way of starting up a fully-fledged e-commerce company is by beginning with the grocery market. The evidence thus points towards Oda developing a model similar to that of Amazon, though with a key distinction being its initial focus on e-grocery.

Oda considers itself first and foremost a tech company with a technology stated to be a "Silver bullet in the market" (Jacobsen, 2021). A Silver bullet implies the innovation of a simple solution to a complex problem, which is reflected in Oda's simplified business model. It is perhaps this innovation that has helped the company skyrocket growth-wise, though its financial results are still in the negative as of 2020. Despite the negative bottom line, an analysis of the years 2015 to 2020 showcases an increase in revenue every subsequent year, growing from 74.5 million NOK to 1.98 billion NOK (*Oda Norway AS*, 2022). Following this rapid growth and a new round of funding in 2021, the company reached the honorable unicorn title

after a subsequent valuation of over 1 billion USD (Williams, 2021), thus being in the spotlight with 907 other companies in the world, with the likes of SpaceX, Airbnb, and Uber being the most notable.

The Japanese investor Softbank, which recently invested in Kahoot and Autostore, and the Dutch Prosus which specializes in investing in online stores were two of the main investors of the latest funding round (Mullis & Lorvik, 2021). Having these two giant investors believe in Oda's business model led the company to take its concept to the international scene in hopes of continuing its growth streak. This decision led to the rebranding from Kolonial to Oda in 2021 (*Vi bytter navn!*, n.d.). Further, Oda identified Finland and Germany as the most attractive markets for its expansion and chose to enter the Finnish market already in December 2021. Germany is scheduled for 2022 (Vist, 2021). The international expansion is said to be in addition to expanding in its current Norwegian market (Mullis & Lorvik, 2021), indicating that Oda has serious plans to continue its growth.

1.2 Purpose

Having determined Oda's goal of growth, the question remains how and why the company will succeed in its recent choice of international expansion. Entering a new market with existing competition requires transferable competitive advantages in form of resources, choice of model or choice of staff. The purpose of this paper is thus to investigate Oda's firm-specific advantages and to analyze whether these are considered advantages in a foreign market. We will identify Oda's market potential by analyzing its business model and firm specific advantages in the context of the Norwegian grocery market. Then, we will look at Oda's plan to enter the Finnish market and identify differences which might present themselves as pitfalls and opportunities, and identify which sources of liabilities of foreignness (LOF) Oda will be met with in the Finnish market. Ending with a discussion of whether Oda's choice of internationalization was too soon or indeed appropriate.

1.3 Research question

Our research question is the following:

What are Oda's sources of firm-specific advantages and how can these be exploited in the Finnish market?

In order to fully answer our research question, we need to understand all parts of it. The research question in itself can thus be divided into sub-questions that we will attempt to answer throughout the paper. The first question of which is:

1. *What are Oda's firm-specific advantages?*

To answer this, we will first need to identify Oda's business model and analyze how Oda creates firm specific advantages (FSAs). These FSAs must be viewed in light of the market in which it operates to understand to what extent Oda's FSAs are country-specific. Therefore, a natural next sub-question is:

2. *How does Oda fare in the Norwegian market?*

This is a quite extensive question as it first requires us to define the Norwegian market and competition, to finally analyze Oda's position and its FSAs towards said competition. This lays the groundwork for analyzing to what extent these FSAs are transferable to foreign markets in order to overcome potential liability of foreignness (LOF). Our analysis of the Finnish market is thus guided by the following sub-questions:

3. *What are potential issues in terms of liability of foreignness that Oda might face in Finland?* and
4. *Can Oda's FSAs be considered the same in the Finnish market?*

Answering this set of sub-questions will likely provide us with insight, enabling us to say something about our research question.

2. Methodology

This chapter concerns the description of the methods used to answer the research questions. We will first explain the general research design, after which the research method and strategy will be described.

2.1 Research design

A research design is, as stated by Saunders, Lewis, & Thornhill (2016), the overarching plan in which to follow to answer the research question in question. The design will depend on the purpose as well as the already existing material of the topic of study.

Given the limited research on the subject, there is a need to introduce a format different from traditional deductive research. We have identified a topic aimed at explaining a unique business model's effect in the Norwegian and Finnish market. There is therefore a need to gather data from a multitude of angles, such as information regarding the company Oda, the competition facing Oda, and on market information as a whole. Each sub-question is thus followed by a need for new data and theories in order for us to answer. We have therefore adopted a logic-based abductive reasoning process.

2.2 Research method

Our research method comes as a result of the chosen research question. In order to answer all sub-questions, we have gathered a combination of qualitative and quantitative data through the use of primary and secondary sources.

The quantitative data used is centered around numerical data on business performance and market numbers, along with numbers related to general demographics and consumer preferences where such information is necessary.

Most analyses are qualitative. While we place an emphasis on both numerical and non-numerical data, the primary findings are more often than not discussed in a non-numerical context which bases itself on descriptive data related to reports on business models, market

reports, and other relevant textual data. This qualitative method gives room for flexibility and nuance, and is as such better fit for studies which seek to understand a specific phenomenon.

The main primary source of data is related to the gathering of descriptive quantitative data from financial reports. This strategy is mainly attributed to the manual collection of financial data from leading retailers and suppliers in the market. However, our thesis mainly consists of secondary data, due to the secretive nature of the grocery sector and limited prior research on the specific subject in question. The complex nature of our research question furthermore necessitates ease of access. Secondary sources are thus used to feasibly deliver a complete product.

One limitation of a qualitative research method lies in the difficulty of generalization. Considering that our study is limited to the specific case of Oda in a grocery market setting, such generalization is less of an issue. The general findings of this study are not intended to generalize effects and implications of internationalization, but rather to shed light on possible implications a move to the Finnish grocery market might have for Oda.

2.3 Research strategy

Our study features a complexity which renders more traditional deductive approaches less desirable. An abductive approach has therefore been adopted to verify observations from facts and gathered understandings.

Our approach was based on an emergent strategy, and based itself on several components which were designed to be combined into a final concluding chapter, of which our interpretation is presented. It is therefore fitting to implement a case study approach, which aims towards answering the “what” and “how” in our research question (Saunders et al. 2016), though with an element garnered from the action study approach.

A case study strategy is thus suitable for research focused on a particular phenomenon. In our research subject, the specific case encompasses the analysis of a business’ strategic firm specific advantage, and the subsequent transferability of said advantages into a specific foreign market.

2.4 Data validity

Our collection of primary data came from the procurement of ratio data and consisted mainly of numbers gathered from financial reports. These reports were manually attained and compared in the case of competitors and suppliers in the Finnish market. However, the financial reports of all leading Norwegian market actors were gathered by use of Proff Forvalt. The secondary source was used out of convenience and time consideration, as the service provides a standardized set-up of all financial reports in question, thus providing a more efficient gathering of data.

Further secondary sources have been gathered by the use of various online databases, libraries and search engines. Some notable examples include Emerald Insights, Statista, and the aforementioned Proff Forvalt, all of which are databases accessed by our scholarship at the Norwegian School of Economics (NHH). The articles, writings and data provided by these various sources all differ in validity and credibility, and so must be critically judged before being applied to the thesis itself. In the need for extensive data on the Norwegian and Finnish markets, many perspectives are still not readily represented, even in the notably large databases provided by NHH. The gaps in knowledge thus necessitate the use of Google's substantial database of journals, articles and reports. Special care must be taken in such cases, by cross-referencing where possible and analyzing the mood and findings of said data. The age of sources is also something which must be emphasized. We are analyzing a continuously changing environment in the form of markets and companies. As such, the date at which the sources are produced might impact its relevance. In certain areas there will still exist limited previous research, thus necessitating the use of sources whose validity might be sub-optimal.

In this report we have to the best of our abilities attempted to discard data whose credibility seems questionable. The overall validity is still dependent on the procurement of conclusions and data from secondary sources, as well as the validity of our own abductive reasoning. It must therefore be stated that certain conclusions in this thesis might be contradicted in future studies or wrong altogether, though we deem the conclusions holding true as probable.

3. How does Oda create firm-specific advantages?

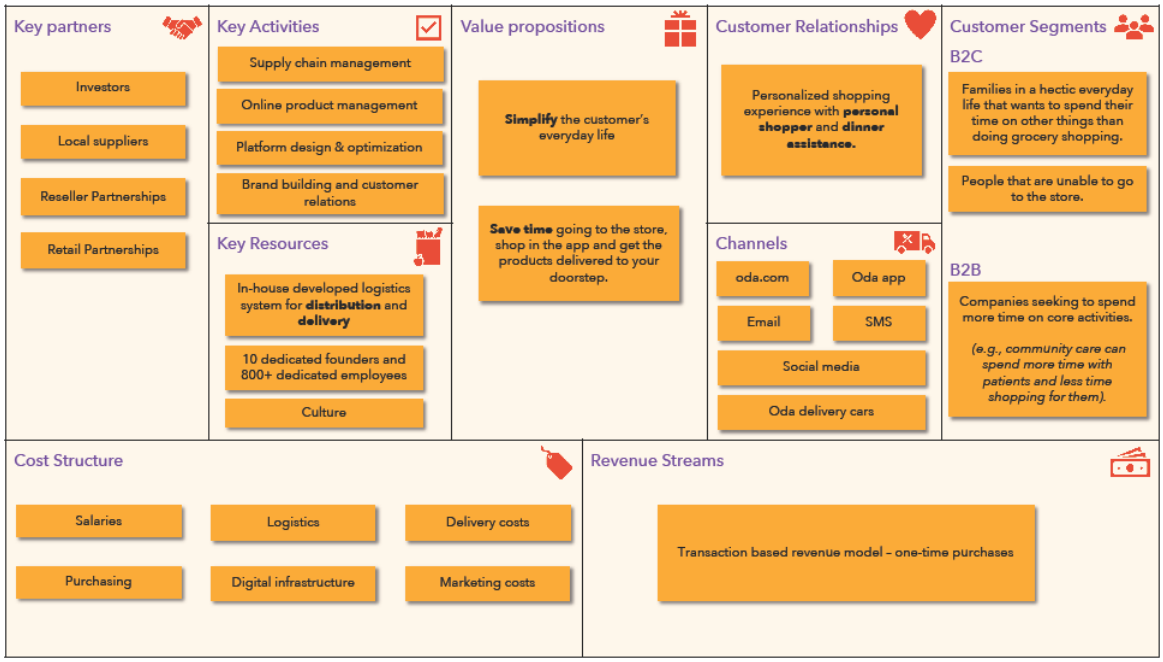
Identifying Oda's firm specific advantages (FSAs) is the first part of answering our research question. For us to properly identify these, we need to first understand Oda's business model. Understanding the business model makes it easier to identify whether the model as a whole is considered the company's FSA or if the company's FSAs are delimited to certain parts of the business model. When identifying the business model, we will use the business model canvas proposed by Osterwalder and Pigneur (2010), which is designed to align a company's activities to identify potential trade-offs. The canvas describes a company's value proposition, infrastructure, market, and finances. Applying this framework helps structurally identify Oda's business model, as it allows for easy explanation using few words whilst simultaneously keeping it structurally and logically sound. We will further include the resource-based view and activity-based theory to better address the company's FSAs.

Gooderham et al. (2019) described utilizing strategy theory to better address what internationally competitive FSAs comprise of. A key component of strategy theory is the resource-based view. It investigates a company's resources and capabilities to determine whether these factors provide the company with a sustained competitive advantage regardless of national context. These resources are mapped according to the VRIO framework, which indicates whether resources are valuable, rare, inimitable, and/or organized. This framework helps us determine what sets a consistently more successful company apart from its competitors. By understanding the core of the firm's competitive advantages one can more easily identify what constitutes the FSAs that enable a firm to indulge in international competition. In addition, a company's activities and interdependencies are investigated to better determine FSAs. When analyzing the company's activities and interdependencies we apply the activity-based theory from the international business literature. The idea of FSA helps analyze the possibilities of success in other markets. If a company has competitive advantages in its national market, it is highly likely that there will exist some FSAs in the international market, assuming these advantages can be replicated in the international scene. The FSAs are thus identified for the purpose of overcoming liability of foreignness in new markets. Finally, by applying both the resource-based- and activity-based theory, we are provided with a more thorough picture of Oda's strengths and weaknesses when analyzing its business model.

3.1 Understanding the business model

Figure 1 below illustrates Oda's business model in a business model canvas. It is divided into 9 blocks that together make up the business model. Below the figure, we will explain each section in more detail, including the resource-based view when identifying key resources, and the activity-based theory when identifying cost structures. Finally, Porter and Siggelkow's (2008) findings on complementarities will aid us in identifying interdependencies among the FSAs found in our analysis.

Figure 1: Business Model Canvas



3.1.1 Customer segment and Value proposition

Oda's value proposition is to simplify the customer's hectic everyday life, catering especially to families with children. In addition, the model simplifies shopping for people with special needs, an example of which being blind people (*Kolonial.no inngår samarbeid med Norges Blindeforbund*, 2017). A third customer segment Oda caters to is firms and organizations (Smith-Meyer, 2021). To meet its value proposition, the company delivers an online shopping service with a focus on groceries, including delivery to the customer's doorstep. Timesaving is thus a big part of Oda's value proposition.

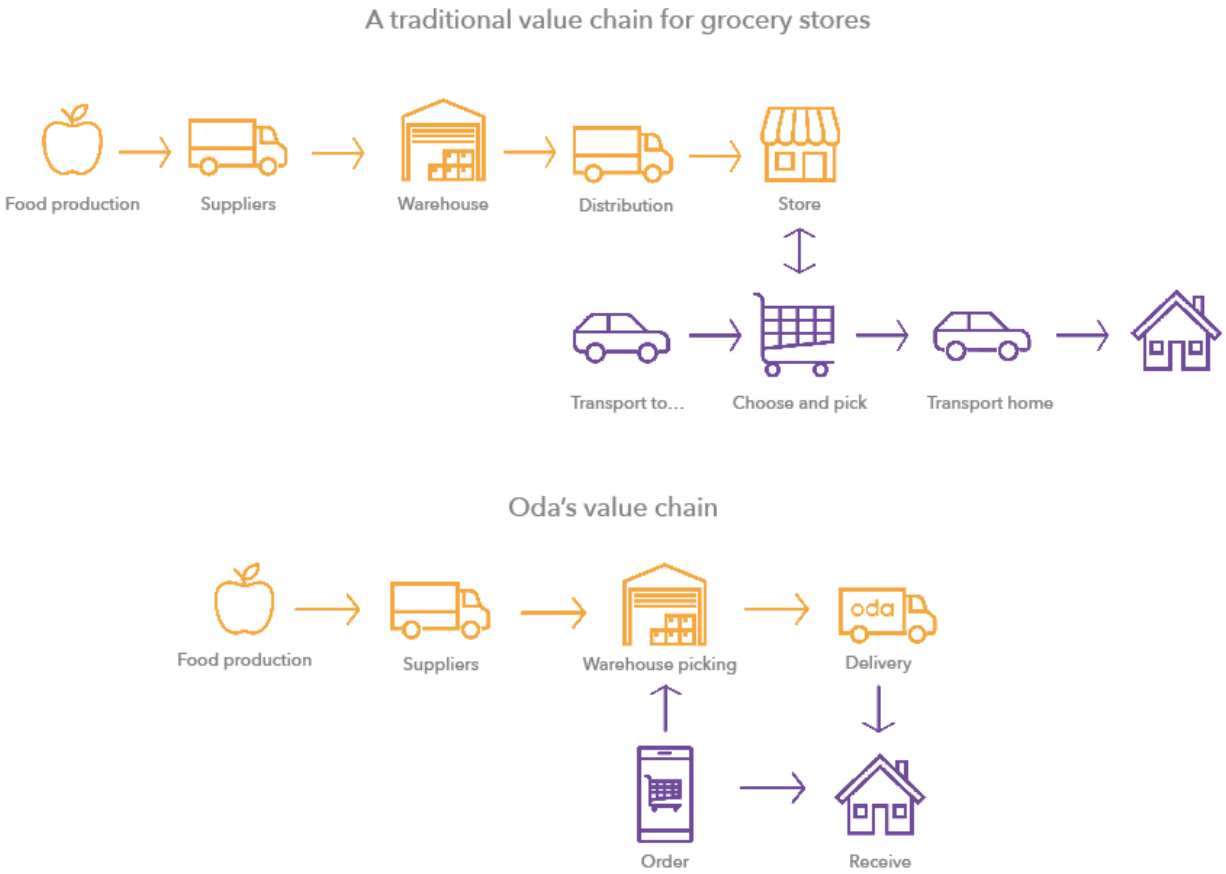
How does it work?

The customer orders groceries through the app which has an intuitive interface including functionality aimed at taking the customer through an efficient and convenient shopping process. Some of the features created to aid the customer's shopping are the dinner assistant, saved grocery lists, and its universal design (*Teknologi*, 2022). When the order is placed the customer receives its delivery at its doorstep at an agreed time. Depending on whether the service has matched expectations, contact between customers and customer support might also be necessary.

Oda's model

Oda's business model is based on having few warehouses where suppliers deliver to one warehouse instead of having to distribute to multiple stores. This has the potential of reducing costs substantially, as costs related to the operation of stores and regional warehouses are eliminated. These costs are weighted against the costs related to home delivery. Oda has developed a logistics solution tailored for digital grocery shopping which has averaged the company's grocery item picking rate at 212 units per hour (UPH). This is highly competitive as the closest rival, the British company Ocado, has 170 UPH, not to mention physical picking averaging around 70 UPH (Lunden, 2021). UPH is used as a key metric for profitability and efficiency in grocery picking (Ocado Group, 2021). Furthermore, to be in control of the efficiency of deliveries, Oda vertically integrated the last step of its value chain and developed a tailor-made logistics system with algorithmic route planning to streamline deliveries (*Teknologi*, 2022). This type of value chain thus eliminates several steps one would find in a traditional value chain, as illustrated by Figure 2

Figure 2: Traditional vs Oda's value chain



Additional services that Oda provides to create value for the customer include freshly baked goods (from its bakery), fresh fruit and vegetable satisfaction guarantee, a personalized shopping experience, and great customer service (*Slik fungerer Oda,* 2022).

As this service is completely online, the customer saves time going to and from the store, as well as in the store itself. Oda offers same or next-day delivery, which is free if one refrains from choosing the busiest drop-off hours. Oda has developed a functionality that helps the customer with dinner ideas, shopping lists, and suggests products to the cart, aimed at simplifying shopping. The products are highly competitive in price, as they are matched with the prices of REMA 1000 (*Oda - Lave Priser, Levert På Døra*, 2021).

3.1.2 Customer Relationships and Channels

The mentioned functionality helps build Oda's customer relations. The dinner assistant enables customers to browse through dinner suggestions, where the customer can choose a predefined option suited for the family. This includes the possibility to adjust the number of people in the family, preferred cooking time, add allergies, and exclude ingredients the customer does not

want. When this is defined, all the necessary ingredients, with appropriate amounts, are automatically added to the shopping list. Oda also offers a personal shopper that, through data collection on regularly purchased products and typical items purchased at certain intervals, suggests products to the cart. The functionality then reminds the customer of products they might need, or are about to run out of. In addition, the app's universal design helps blind and visually impaired people shop groceries themselves using voice activation. They can tell their phone which items to put in their cart, and the phone answers with vibration and speech. This functionality led Oda to enter into a collaboration with the Norwegian Blind Association (*Kolonial.no inngår samarbeid med Norges Blindeforbund*, 2017), and in 2017 Oda won the Norwegian innovation prize for universal design (*Odas Årsrapport 2017*, 2018).

Oda puts the customer in focus and values feedback to improve its product offering to make the customer experience even better. Oda had Norway's most satisfied customers in the grocery business in 2021 (*Norsk*, 2021). According to Norsk Kundebarometer (2021), Oda scores the highest on customer satisfaction. However, the company is in the bottom 5 in terms of customer loyalty. Trustpilot rated Oda's app 4,0 out of 5 stars based on 210 reviews, where 70 percent of customers gave it 5 stars (Trustpilot, 2022). In addition, the App store rated Oda 4.9 out of 5 stars based on 15,900 reviews (Oda Norway AS, 2022), and Google Play store rated it 4.8 out of 5, based on 6,463 reviews (Oda, 2022). These findings seems to support the high customer satisfaction suggested by Norsk Kundebarometer.

Oda actively works with finding ways to improve, working in a Lean fashion, particularly with Agile and Lean Startup methodology (Os, n.d.). This is driven by Oda's core focus to make the customer experience effortless and convenient. The company targets its customers through its tailor-made system for personalized communication and campaigns in all channels. Some notable ones include mail and newsletters, push notifications, text messages, and customer feedback (e.gcontactthey., after delivery) (*Teknologi*, 2022)

3.1.3 Revenue streams

The revenue stream is based on a traditional transaction-based revenue model where one-time purchases account for the revenues. The revenue comes from selling products at the online store, and the profit comes from product mark-ups. In addition, the customer might end up paying a delivery fee in popular delivery windows, which is the second source of revenue. This revenue is rather small as delivery costs are aimed at distributing demand over a larger time interval.

Oda's accounts display a rapid growth in revenue over the years (Figure 3). Indications that the company is doing well is further reflected in Oda's positive gross margin, which is what one is left with after subtracting the cost of goods sold (COGS). However, it is not reflected in the company's profit as there has been more costs related to growth and expansion compared to cash into the company. It is typical behavior for a young growth-company to display a positive gross margin but a negative bottom line, and is not necessarily a sign that the company is in distress.

Figure 3: Revenue - Oda

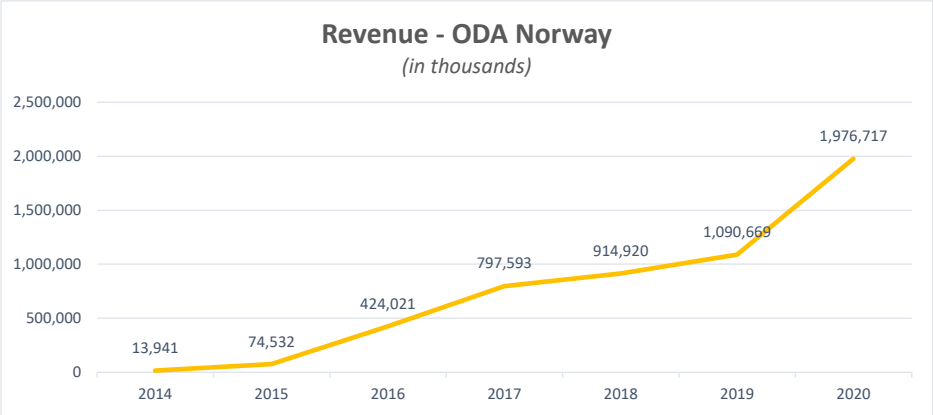
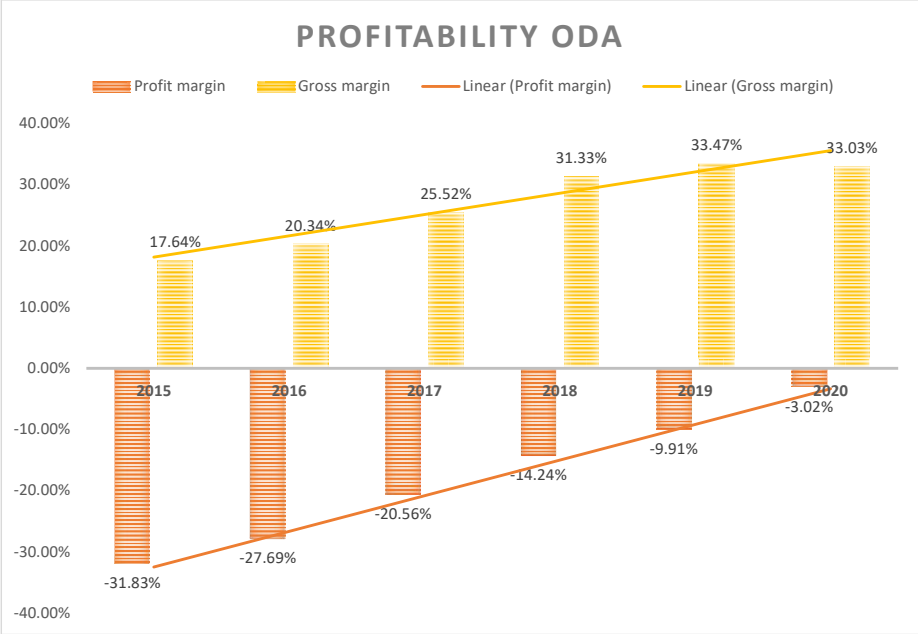


Figure 4: Gross- and profit margin - Oda



By further comparing the gross margin with the profit margin it looks as though the former has increased faster than the latter, as depicted by Figure 4. This is likely caused by the increased sales volume which has raised the gross profit in absolute terms. Even though its margin has improved slowly, the increased revenue as a result of the increased sales volume

has led to a higher amount of money left after subtracting COGS. This leaves more money to pay the overhead costs, which increases the profit margin more relative to the gross margin.

Table 1: Profitability analysis

PROFITABILITY ANALYSIS	2015	2016	2017	2018	2019	2020
ROIC	-102.59%	-102.67%	-56.81%	-30.88%	-22.23%	-9.45%
Gross margin	17.64%	20.34%	25.52%	31.33%	33.47%	33.03%
Profit margin (PM)	-31.83%	-27.69%	-20.56%	-14.24%	-9.91%	-3.02%
Asset turnover (ATO)	3.22	3.71	2.76	2.17	2.24	3.13
PM x ATO = ROIC	-102.59%	-102.67%	-56.81%	-30.88%	-22.23%	-9.45%
ROE	-244.12%	-189.46%	-184.72%	-173.06%	-336.04%	132.05%

Though the positive increase in sales volume clearly reflects a demand for Oda's services it is not desirable to go too many years with a net loss, as this results in a negative return on invested capital (ROIC), a sign that the company is destroying its own capital. ROIC is a measure used to analyze the profitability of a company's operations. As Table 1 suggests, Oda has had a negative ROIC since 2015, although it has increased substantially to -9.45 percent in 2020, up from -102.59 percent in 2015. These seem like extreme numbers, but knowing that ROIC is made up of the profit margin and the asset turnover (ATO) might clarify the numbers. Having established that Oda's profit margin is negative explains the negative ROIC. Further, this number is driven up by the asset turnover, which is a measure of whether or not Oda utilizes its invested capital appropriately. The asset turnover should be evaluated in relation to the industry in which the company operates. In 2020 the average asset turnover was approximately 2.4, using REMA1000, Coop, Norgesgruppen and Oda for the industry average estimation. Oda's ATO was approximately 3.1 finding itself above the industry average, which is a sign of higher efficiency relative to its industry.

Overall, in terms of profitability, Oda is currently struggling, though we see a positive trend. It would be interesting to evaluate the company with access to the 2021 year, which is projected to give positive returns for the first time.

Oda's consistently negative bottom line further affects the company's return on equity (ROE), which follows the same trend. ROE measures the profitability in terms of shareholder's equity that the company creates. The ratios obtained from the company's accounts reflect a company struggling to make money for its shareholders. The table indicates a positive ROE in 2020, but this is not representative as both the net income and the company's equity is negative, turning it into a positive number simply due to mathematical rules. Oda's negative equity is mostly affected by its uncovered losses, turning its retained earnings negative. Negative retained

earnings is often a result of losses over several years, which is a representative description of Oda's performance so far.

Another important analysis of the company is to calculate the firm's Free Cash Flow to the Firm and Equity. As indicated by the Free Cash Flow statement, all the years analyzed have negative free cash flow to the firm. Free cash flow to the Firm (FCFF) is the available cash for distribution from operations after accounting for depreciation, tax, working capital and investments. The negative number indicates that Oda has not generated enough revenue to cover its costs and investment activities.

Free cash flow to Equity (FCFE) is often used to determine the value of a company and is an alternative to using the dividend discount model. It is particularly useful when a company does not pay out dividends, like Oda. It is composed of net income, capital expenditure, working capital and debt. Negative free cash flow to Equity is an indicator that the firm needs to raise additional funding to survive. As Table 2 Oda had negative FCFE from 2015 to 2019 but turned around in 2020 with a positive FCFE. This looks as though it is mostly due to an improved net operating profit after tax (NOPAT) along with an increase in net working capital (NWC).

Table 2: Free Cash Flow

	FREE CASH FLOW STATEMENT					
RESULT *(in thousands)*	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Consolidated statement	No	No	Yes	Yes	Yes	Yes
Start date	1/1/15	1/1/16	1/1/17	1/1/18	1/1/19	1/1/20
End date	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
Currency	NOK	NOK	NOK	NOK	NOK	NOK
NOPAT	**-23,724**	**-117,415**	**-163,991**	**-130,303**	**-108,129**	**-59,611**
+ Depreciation	1,923	6,187	12,503	17,992	24,291	28,231
-/+ Change in NWC	-194	33,377	22,815	4,602	-2,118	69,517
-/+ Change in NONCA inc. Depr	-11,320	-32,195	-125,805	-105,151	-84,898	-129,902
FCF to Firm	**-33,315**	**-110,046**	**-254,478**	**-212,860**	**-170,854**	**-91,765**
+/- Change in NIBD excl. Cash	4,783	6,197	185,312	18,205	159,363	179,149
Net financial expenses after tax	-933	-1,403	-1,283	-15,506	-24,495	-37,337
+/- Tax shield from NFE	0	0	-469	-3,313	-5,318	-7,411
FCF to Equity	**-29,465**	**-105,252**	**-70,918**	**-213,474**	**-41,304**	**42,636**
Investments/Dividends	44,550	204,152	134,432	173,322	23,500	-21,364
Cash surplus	**15,085**	**98,900**	**63,514**	**-40,152**	**-17,804**	**21,272**
Cash at beginning of period	1,030	16,116	115,017	178,530	138,378	120,576
Cash surplus	15,085	98,900	63,514	-40,152	-17,804	21,272
Cash at the end of the period	**16,115**	**115,016**	**178,531**	**138,378**	**120,574**	**141,848**

The state of Oda's accounts displays a company growing but not yet benefiting from economies of scale. It is clear that investors have had to spit in money to keep the company alive. The most

probable reason for investors to do so, is because they believe in future gains. Had the company not received funding in 2021, it might have had to bring its expansion plans to a halt and let the company make some money to build up its capital. Though the accounting numbers look bad it might be worth mentioning that this is not a rare situation. Amazon, which was founded in 1994, first made a positive result in 2003, with a net revenue of 5,26 billion USD and an associated net profit of 35 million USD (Perez, 2004). Compared to Amazon, Oda seems to follow the same growth pattern. Whether Oda's business model is worth investing in is yet to be determined. However, acknowledging the big names that decided to support Oda in 2021 is an aspect worth considering, as these investors have track records that speak for themselves. We will further discuss the investors in the partner section of this paper.

Despite the negative results, we would like to investigate why investors are considering Oda a promising business opportunity. A step in explaining investor interest is by investigating the company's resources.

3.1.4 Key resources

When investigating Oda's firm-specific advantages (FSAs) we have chosen to apply the VRIO framework from the resource-based view, aimed at identifying the firm's resources' value, rarity, inimitability, and organizational support (Gooderham et al., 2019). We found Oda's key resources to be the company's *centralized distribution system,* its *logistics and tech competence,* the company's *culture,* the way Oda handles *data,* the opportunities identified to *vertically integrate*, and the *capital* from the last round of funding.

A *centralized distribution system* is valuable as it eliminates the costs of having to distribute goods to local stores. This saves time, costs, and it increases the lifetime of the products for customers. Operating this type of warehouse in the grocery industry is rare as most competitors with an online platform started with physical stores and therefore pick groceries from those or dark stores (A dark store is a local distribution center with no actual customers, and are often reported to be more efficient than physical stores. (Retail, 2021)). It is therefore difficult to imitate if one considers established competitors with systems designed for physical stores. Building a large warehouse for centralized distribution solely for the e-grocery segment, when the company originally has a traditional value chain, might be considered too costly given the low market share e-grocery has. This type of distribution center is therefore considered a *sustained competitive advantage*.

The centralized distribution system would not be efficient without its in-house developed *logistics system.* This system manages goods receipts, picking, and inventory tailored for e-grocery shopping. Having built this system from the ground up revealed opportunities that traditional Legacy logistics systems could not match. This led to Oda's high picking rate of 212 UPH, which is in a league of itself when compared to competitors (ref. value proposition). The exact details of how the system works are unclear, but as suggested in an interview with the company CEO Munthe-Kaas, it is an interplay between pickers (employees), automation (machine learning), and robots (Seres, 2022a, 06:57). This information is a well-kept secret within the walls of Oda, as its logistics solution is considered (at least internally) to be one of the company's key competitive advantages. We thus categorize it as a *sustained competitive advantage*.

As mentioned, the logistics system was developed in-house by Oda's own team. Starting with 10 dedicated founders, and now consisting of over 800 dedicated employees, the company has created a *culture* of working together to innovate and continuously improve operations. Oda values its creative employees and considers them the key to the success of the company (Sundve, 2018). The employees are part of building a leading product and tech organization.

Having a dedicated workforce is not uncommon, however, Oda's business model allows for easier collaboration across divisions than traditional business models as the organization is concentrated around two large warehouses. As a result, the company avoids having to control the many parts that come with operating a traditional value chain. Having a transparent and collaborative culture in the organization might be hard to imitate as it is intangible and difficult to reverse engineer from the outputs it produces. Oda's culture is thus categorized as a *sustained competitive advantage*.

This culture has led to the development of a data gathering system for *machine learning* and *customer personalization*. Data gathering can be used to gain powerful insights into customer preferences, markets, and consumer trends. By controlling data at all levels Oda has the prerequisites for predicting sales volume and delivery needs. Moreover, it can ensure close to perfect capacity in product picking and distribution.

Insightful market data is acquired by most competitors. The question is thus whether Oda's platform caters to a more efficient and/or less costly data gathering process than its competitors. This would remain speculative as we don't have insight into the competition's approach to data gathering. While the data itself is not not inimitable, implementing the data in a machine

learning perspective requires some competence. However, with Oda ‘s operations being solely online, it has an advantage over physical stores when it comes to the agility and adaptability of the model itself. Oda’s data gathering process is thus considered a *competitive parity.*

Data has helped create *customer solutions* like the dinner assistant, personal shopper, and its universal design, which all contribute to giving the customer the best possible shopping experience. This functionality is considered valuable to the customer. Competitors have similar options like the dinner assistant and personal shopper, but it is unclear how sophisticated these features are. Furthermore, we have yet to identify a competitor with a universal design. What we do know is that Oda works on optimizing these features to fit individual needs through machine learning and algorithms. Each feature alone creates some value, but they are arguably most valuable in combination. Considering the solutions displayed by competitors we might be conservative when we consider Oda's overall customer solution a *competitive parity.*

Creating a *scalable data platform* and infrastructure has been a result of a good DevOps culture and the pragmatic approach to on-premises vs. cloud (Google Cloud Platform and BigQuery). Oda works towards 100 percent infrastructure as code, in addition to the automation of everything that can be automated throughout the value chain. Technology and logistics are the very base of Oda’s founding and its tailored technical infrastructure for e-grocery is considered a *sustained competitive advantage.*

Considering the company’s competence and culture, Oda identified the opportunity to *vertically integrate* delivery as part of the value chain, along with integrating a bakery into its warehouse. The delivery service is developed based on a tailor-made logistics system with algorithmic route planning that identifies an overview of a large number of cars and thousands of customers (*Teknologi,* 2022). Delivery is the last step before the customer receives its order. It is therefore of value to the customer to receive Oda boxes of the best possible quality at the agreed-upon time. Since most groceries are traditionally labeled experience goods, it is more important to handle the delivery with care as opposed to e.g., clothes bought online. Having complete control of the delivery service is therefore valuable. It is also rare considering the cost of acquiring a delivery fleet for already established physical competitors doing e-grocery as a small part of operations. It is, however, debatable how hard this is to imitate as this depends on the sophistication of the route optimization service. Acquiring a car fleet is not considered hard to imitate and might be something competitors choose to do if they view e-grocery as a growing market potential. The delivery service is therefore considered a *temporary advantage.*

Having integrated a bakery into operations has proven to be cost-effective as the bakery is completely demand-driven. The bakery follows the Lean pull principle (Womack & Jones, 2003, p. 15 and p. 67) of eliminating waste throughout its value chain. Where a pull-based operation means the customer starts the process of moving the product through the value chain. Only baking on customer orders enables Oda to reduce food waste as the bakery only bakes what is needed, and can thus charge a lower price whilst avoiding overproduction of baked goods (*Ferskvarer fra øverste hylle*, 2022). The centralized distribution center makes this possible as it eliminates the need to display the goods. The bakery enables Oda to purchase less baked goods from suppliers which again saves costs. It is also beneficial from a customer perspective since they prefer their baked goods to be as fresh as possible. Moreover, as reducing food waste is a hot topic among consumers these days, Oda can reveal that it is only responsible for 0.3 percent food waste (Seres, 2022a, 11:40). This can be compared to physical grocery stores reporting food waste of around 2 percent and struggling to lower it further (Stensgård et al., 2020, p. 38). This places Oda in a unique position, as they then have an advantage in both costs and more importantly sustainability, the latter of which being heavily marketable and desirable. We, therefore, consider the bakery a *sustained competitive advantage*.

Finally, the recent *funding* from Softbank and Prosus is key to scale operations. This type of business model is capital intensive in its early stages. It requires large amounts of fixed costs for building warehouses, installing the technology, finding local suppliers, purchasing a car fleet, not to mention marketing. This is reflected in Oda's performance in Norway so far, as the company has reported negative results year after year despite its rapid growth. After its start-up in 2013, Oda is finally poised to deliver a positive result in Norway for 2022, which emphasizes that this model thrives when capturing market share and taking advantage of economies of scale. Oda would thus not make it without having investors believe in its business model and strategy.

The importance of Oda's business model is to realize the links between its FSAs. Many of the resources mentioned would not work without the other, implying dependence on one another. Perhaps it is not the resources alone that create the competitive advantage but rather the interdependencies among these activities. This is something we will discuss closer when identifying cost drivers and complementary activities.

3.1.5 Key activities

The main activities required to make Oda's business model work includes supply chain management (purchasing, logistics, and delivery), online product management (listing products and stock online), platform design and optimization (creating a smooth customer interface), and brand building and customer relations (marketing activities, collaboration with trusted established companies, customer interactions and acting on customer feedback). However, the first point is the activity in which we have gathered the most information. We will thus place more emphasis on supply chain management, as limited data exist on Oda's online product management and platform design, and as the general customer relations have been described earlier.

Supply chain management involves, amongst other things, the optimization of the synergies between the use of robots and pickers (employees). Oda uses robots mainly to load and unload pallets and place boxes. The employees make the final pick of each item for each order (Seres, 2022a, 06:57). Oda is therefore continuously working to make this handover as efficient as possible. The supply chain also includes distributing Oda boxes through its delivery service. Oda has approximately 10 000 deliveries daily. The routes are optimized such that there are less than 3 minutes of average drive time between customers. In fact, 70 percent of the delivery time comes from parking and delivering the boxes, not the drive (Seres, 2022a, 10:17). Oda is currently working on how to streamline the rest of the delivery process to become more efficient.

3.1.6 Key partnerships

Investors

Kinnevik

Kinnevik invests in digital companies with the goal of "investing for a reimagined every day" (Kinnevik, 2022). Its ambition is to become the leading listed growth investor in Europe. They have invested in more than 30 companies so far and consider themselves a long-term investor. Based on this classification, Kinnevik believes that companies with a sustainable business model and a diverse team will generate positive returns for its shareholders. They invest in European companies mostly from the Nordics but also in U.S companies. As of today, they value their assets at 72.4 billion SEK with 5.4 billion SEK in cash (*About us*, 2021). Kinnevik was the first foreign investor to invest in Oda in 2018 (Kinnevik, 2018).

Prosus

Being a Dutch multinational conglomerate company, and the largest consumer internet group in Europe, Prosus serves as the international internet assets division of Naspers (*Prosus,* 2022). The company states to place a focus on long-term growth markets, hoping to build "[...] consumer internet companies that empower people and enrich communities" (Prosus 2022). Its current strategy revolves around scouting for opportunities to address big societal needs in markets with the greatest growth potential.

SoftBank

Hailing from Japan's busy capital Tokyo and the business hub in Minato, Softbank has become the world's largest technology-focused venture capital fund (*Softbank Group*, 2021). The company showcases a heavy focus on the investment management-, energy- and finance sector, striving to complete its vision of becoming the most needed corporate group on a world basis. This drive is centered around the customer. The company is aiming to contribute in the making of a sustainable society, and in the well-being of people using the information revolution, eventually culminating in the ideal society where anyone can live comfortably by the grace of digitalization.

Its involvement in Oda is through financing and active participation via their vision fund partner Munish Varma. Varma, having led various large cross-border teams to profitability across multiple asset classes and product areas, is now an active partner in Oda's attempt at entering the Finnish and German markets (*Munish Varma,* 2022). In addition, having the largest investment business on board is sure to garner some feelings of security and acknowledgment, something which should allow for full attention to their strategy.

Reitan-group

The Reitan Group owns about 23.5 percent of the total grocery market in Norway (Bach, 2021). In 2016 it decided to invest in Oda, capturing a 10 percent share in the company. Reitan owns REMA 1000, which Oda established a partnership with in 2014 no more than one year after its start-up (*Rema*, 2016). This collaboration gave Oda access to REMA 1000s own quality brands at low costs. The two companies established a price match system which enabled Oda to compete with the lowest prices in the grocery market.

Local suppliers

Oda's partnership with REMA 1000 does not prevent selling products from local suppliers such as Brødverket (delivers ecological baked goods), Fiskcentralen (delivers fresh fish and seafood of the best quality), and Strøm-Larsen (delivers oxtails) (*Norges,* n.d.). These local suppliers are important for Oda to deliver a wide product range to its customers.

Partnerships

Oda has entered reseller partnerships with Clas Ohlson, Barnas Hus, Sprell, and several restaurants to sell their products on Oda's websites. These collaborations enable Oda to sell more than groceries. Together the stores cater to the whole family. It builds on the vision of making the customer's everyday life more convenient (*Kolonial.no,* 2019). This means that the customer can order children's clothes, toys, and practical objects such as tools, together with the regular grocery shopping when choosing Oda.

3.1.7 Cost structure

Cost drivers

Cost drivers are an effective tool for analyzing which factors impact a company on a regular basis, and what the implications of these factors are. One of the widely used tools for identifying these drivers is Porter's ten cost drivers which are designed to analyze a company's activities in its value chain. The framework presented by Porter (1985) serves as a foundation when attempting to answer what drives Oda's competitive advantage and is used to diagnose and enhance these FSAs.

Economies of Scale

Porter (1985) describes *Economies of scale* as the ability to execute activities differently and more efficiently in larger volumes. Increased scales thus increase the absolute differences between revenues and fixed costs such as wages, administration and rent (overheads). In the grocery market, the cost of goods sold (COGS) is the largest cost for retailers. This implies that there exists a limited gross margin to pay for other overhead costs. In a low margin business such as the grocery segment, it is therefore crucial to scale quickly, as the only way of ensuring profit is by having a larger gross profit than overhead costs. The end result of economies of scale may however be more pressing, as it builds higher leverage and associated market power.

One such market power example is how larger companies have more influence over their suppliers and customers, enabling better trade agreements, which in turn reduces the costs of purchase. In Oda's case, this remains an important note when considering its position in the Norwegian market. As previously mentioned, Oda has been able to become the leading provider of e-grocery, gaining enough popularity to be a valid actor in the grocery market. As such, the company has some punch when attempting to negotiate deals in what can be described as an efficient market with few actors and large economies of scale. A report by Menon Economics (Skogli et al., 2020) suggests the market power of the actors has increased in the last ten years, owing to the integration of their own suppliers, thus reducing the need for external contribution in most areas. As such, Oda is dependent on maintaining good relations with its cooperative partner REMA 1000, to ensure the supply of low-cost goods from REMA 1000's own integrated supply. The fact that Oda managed to secure the deal in the first place might also be down to its rapid growth and now leading market position in e-grocery. Its service might also be sufficiently dissimilar to allow for cooperation with what our study determines as competitors. Still, the situation seems to conclude that Oda is at REMA 1000's mercy, with cooperation likely owing to the fact that Oda's potential remains an enticing prospect, not to mention it being partly owned by REMA 1000 itself. In contrast, if Oda had not had a partnership agreement with REMA 1000, it is highly likely that the company would have had to work much harder at obtaining good supplier deals, and it would take longer to benefit from economies of scale.

Increased economies of scale might also bring the ire of the larger competitors if Oda is considered a direct and dangerous competitor. There exist many examples of aggressive market responses to new actors. Aggressive responses imply that established actors in the market react in a hostile manner toward new actors entering the market, to pressure them out of gaining a foothold. Common examples of such responses are price wars, intensified marketing, more frequent launching of products, capacity wars, and attempts to block access to distribution channels. One Norwegian example is described in the context of strategic interactions (Lien et al., 2016). The newly established Color Air was suffocated out of the market by leading market actors SAS and Braathens following a war on price and capacity in the domestic flight market in early 2000. As the new actor did not have similar capital and cash reserves, established actors succeeded by outlasting the new entrant. While Oda still attains a healthy relationship with REMA 1000, an aggressive response remains unlikely. Coop and Norgesgruppen could theoretically attempt a price war to squeeze out Oda, but it would be costly. Oda has also

managed to scale enough to be able to compete with the low-cost stores on price, which would make price-wars less desirable. In addition to Oda's differentiated model, which gives them a higher likelihood of retaining customers in price wars, the company's low COGS further cements the fact that price wars would be ineffective.

Capacity utilization

The pattern of *capacity utilization* is related to costs that remain unaffected by production volume, and by extension the relationship between fixed and variable costs. An important distinction from economies of scale is the fact that increased capacity utilization concerns utilizing already existing capacity to its fullest, whereas economies of scale concerns the increase of volumes and revenue regardless of capacity (an increase in capacity therefore concerns economies of scale). Oda's machine learning algorithms and behavioral understanding might mitigate the lower capacity utilization that is attributed to seasonal variance found in more traditional value chains. Continuing to collect data to better understand demand patterns is therefore essential to optimizing Oda's capacity utilization. Moreover, Oda reduces the risk of over-capacity with its choice of business model. Having few large warehouses to concentrate on makes it easier to be in control of how much storage and equipment is needed to deliver the desired demand. Including the algorithms in place in the warehouse helps to prevent the overestimation of demand. The innovative business model, therefore, seems to aid in managing Oda's capacity utilization. However, at the beginning of the warehouse's life, the company is likely to experience some excess equipment and storage when increasing its capacity. When the number of customers increases, the warehouse can then utilize more of its new capacity. Since each warehouse is very capital intensive it is important to make close assessments before building new ones, avoiding an over-optimistic expansion. On the other hand, there exist incentives to grow rapidly, precisely because capacity utilization remains lower at lower volumes. One strategy for entering the market is therefore to grow as rapidly as possible towards the capacity limit, seeing as efficiency remains lower if capacity is not utilized. This is closely linked to the burn rate of start-ups, as volume increases tend to be a way of coping with the established market price. This is especially important in low-margin businesses like the one Oda operates in.

Learning and spillovers

Learning and spillovers can help reduce costs and streamline activities, and is often a result of a range of minor improvements over time rather than large breakthroughs. Collective learning remains in the company and is desirable over individual learning where the acquired knowledge remains with the worker.

Oda has developed a common way to work for all development efforts such as logistics, data, growth, insights, and infrastructure. The system is called “Flow” which incorporates a focus and a flex period (Sundve, 2021). The focus periods are 6-week intervals working towards the company’s strategic goals, or “objectives and key results” (OKRs) as Oda uses, followed by a 2 to 3-week flex period to work on everything else. Oda established this standard to allow for collaboration across the whole organization. Each “Flow” team has regular meetings with key people outside the team to inform and discuss the team's work. Additionally, each team posts bi-weekly updates to keep everyone at Oda in the loop. If they reach an OKR they are encouraged to share their work and, in some cases, present it to the rest of the organization to secure learning in the company. This method of working has been developed in Oda over years, and its scalability has been tested by the rapid growth of employees in recent years. The company is continuously improving to create an efficient workplace cultivating collaboration and transparency. This interplay between workers encourages collective learning rather than individual, which better ensures that knowledge is retained within the company.

Another important source of learning comes from gathering data. Oda has large amounts of quantitative and qualitative data that is used for machine learning in areas such as product functionality, personalization, recommendations, user segmentation, picking optimization, route planning, and more (*Teknologi*, 2022). In other words, the data is used throughout the value chain to optimize every activity. Applying data optimization in the value chain can more easily help identify waste and unprofitable activities. Having data on user preferences might for example discover general trends in the market, allowing Oda to adjust their product mix to increase sales and eliminate undesired products. Though this is used as a tool to reduce costs throughout the value chain there is an associated cost of handling and processing the data collected. Moreover, Oda will eventually converge to a point with diminishing marginal reduction of costs, the more streamlined it becomes. That being said, the costs of analyzing the data are assumed to be less compared to what is saved from optimizing the value chain. The decision will have to be determined through a cost/benefit analysis.

Vertical integration

Vertical integration describes the choice of incorporating activities into a value chain of a company, or deciding to outsource the activities to different actors. The vertical integration can help reduce costs through reduced contact with suppliers having large bargaining power, but it could also increase the costs if the activity could have been performed at a lower cost by others. The conclusion remains integrated into a cost/utility evaluation.

Oda has integrated a bakery into its value chain. The bakery is inspired by the Lean methodology and operates with a pull workflow, which means, baking when there is a demand for it, not making baked goods based on forecasts. This means that Oda bakes bread and other goods on demand, so the customer receives fresh products (*Ferskvarer fra øverste hylle*, 2022). As a result, Oda does not have to depend on purchasing baked goods from suppliers. This is positive from a waste perspective as Oda does not have to order a fixed amount of e.g., bread, and end up throwing away what is not sold afterward. Oda also bypasses a potential delivery fee as the company makes the goods in the bakery which is integrated into the centralized warehouse. These cost savings must be compared with the costs of integrating a bakery in the first place, some of which might be, equipment, sanitation, competence, workforce, ingredients, packaging, etc.

In addition, having vertically integrated its delivery service, Oda avoids having to negotiate contracts with other delivery services that might have a lot of bargaining power. In Norway, there are a few actors who control domestic deliveries. These are Posten/Bring, Postnord, and Helt Hjem. Food box companies like Adams matkasse and Godt levert are using local delivery services (e.g., Rea transport in Trondheim) for their home deliveries (*Rea Transport*, 2020). This implies many contracts with different delivery services across the nation, which leaves room for errors in delivery precision. Being in control of deliveries makes it easier to custom the car in terms of ideal temperatures and exploiting capacity. Oda can optimize its route planning system through data collection, and thus improve efficiency. The incentive of deliveries is aligned with Oda's overall goal as opposed to outsourcing deliveries to a company with a different purpose. This must be weighed against the time and money it takes to build its own delivery service. Firstly, there is a high fixed cost outlay for the cars, then later a regular cost, which includes services, fueling, and wages for manual labor to operate the cars. It is not easy to say whether integrating the delivery service has been a deciding factor in giving Oda a competitive advantage. However, as deliveries are the only point of physical contact between

the firm and the customer, Oda wants control of this process to ensure the best customer experience. Being a company with excellent competence in logistics and technology allows them to utilize this competence in deliveries, and at the same time be in control of the entire value chain. This is thus not a part of the value chain that requires acquiring new and complex knowledge.

Timing

Timing refers to how costs for activities differ across the time in which they are executed. Key points to make here are first move-advantages and -disadvantages. Benefits of being first may include a large initial market position, stronger branding, learning, or other advantages of having a head start. In other cases, one might be better off holding off launch until the products in a market have been thoroughly tested.

Oda, a first-mover?

When Oda started in 2013 there were no big competitors in the online grocery market. The closest competitors were considered the big three physical grocery chains, Norgesgruppen, Reitan, and Coop which still dominate the grocery market. Other competitors operating online were dinner-box companies like Godt levert and Adams matkasse. This means that Oda had to pave its own way as there were no previous entrants to learn from. Being first let Oda dictate the industry standard and create a name for itself. This is very valuable as it often leads to brand recognition and brand loyalty.

Being a first-mover is first and foremost about capturing market share. Increased market share might also result in benefiting from economies of scale. If the company manages to lower costs per product to a sufficient degree as a result of scale advantages, it might make market entry difficult for new competitors. That being said, the costs of going online depend on whether the company is already established with physical grocery stores, or if it is a company starting from no existing foundation. Oda has different types of advantages against these two different scenarios.

In the first scenario, the costs associated with offering goods online are not that significant, as competitors can pick groceries from their physical stores, and make these stores pick-up points for the online customers. This makes it fairly easy to start an online store as an already established market actor. The advantage for Oda, in this case, is that all its operations are online,

suggesting a 100 percent focus on optimizing the process of online grocery shopping. Whereas for physical grocery stores, going online is only a part of their operations indicating less capacity to work on staying competitive.

In the last scenario, Oda has a cost advantage as suggested previously in our analysis, much due to economies of scale. This cost advantage makes it harder for new entrants to manage their costs as efficiently as the first-mover. This might be due to a lack of technology and logistics competencies, lack of good partnerships with suppliers, or no good locations to build large warehouses, which makes it hard to compete in such a low-margin business. Being first gave Oda a cost advantage as it entered into a lucrative agreement with REMA 1000 to match the prices of their products. This means the company could offer products at the same price level as low-cost stores and become competitive in terms of price. Oda was able to operate with such low margins due to its technology within logistics, cutting out steps in a traditional value chain and customizing all parts of operations around being online. Not to mention thanks to investors that saw an opportunity to challenge the traditional grocery business model by investing in the first-mover, Oda.

Potential disadvantages

Bringing grocery shopping online also has some first-mover disadvantages. Knowing the exact market potential can be difficult to anticipate. Even though the company believes there is a need for its concept, it does not necessarily mean that the market agrees. One of the disadvantages that might follow a first mover is thus the additional cost associated with persuading customers to test their differentiated service. The fear of the unknown might cause potential customers to be hesitant towards the new service introduced in the market, which might prolong the necessary marketing campaign, leading to increased costs. Once the barrier of uncertainty is broken, and the realization that purchasing groceries online works as well as going to the physical store, the pool of potential customers is likely to increase. New entrants can thus take advantage of the job the first-mover did convincing potential customers to test a new service, as they are probably more susceptible to buying groceries online.

On the other hand, there will inevitably be a marketing cost regardless of being a first-mover or not. It is therefore difficult to assume that the cost of marketing will be higher or lower if performed as the first in the market or later on. As a company establishes itself in a market, costs are tied to branding and marketing and the idea of getting attention. This holds true in

either situation. The factors which determine the costs of marketing are inevitably tied to how many mediums one decides to fill with marketing. The total costs are higher for start-ups since they rely heavily on getting attention to start earning money. These costs might not garner the same results for each company, owing to many factors including ad success and product attractivity. These factors remain the same in both first-mover and late-mover situations, as the only controllable costs are linked to marketing.

Organizational policies

Organization policies/discretionary policies refer to the strategic choices made by the company and involve the balancing of costs and differentiation. These choices can for instance be related to the product design and/or function, quality and/or scope of service. Oda attempts to follow both cost leadership and a differentiation strategy. We argue for both because the company attempts to compete with low-price stores whilst simultaneously increasing their range of products beyond the grocery sector.

In terms of cost leadership, Oda's agreement with REMA 1000 has enabled it to compete with the three low-cost competitors. The company furthermore saves supplier costs by operating its own bakery. Oda's financial report underlines this effectiveness when it comes to the cost of goods sold (COGS). Our common size analysis of the Norwegian market suggests that a considerably lower proportion of costs are attributed to COGS in Oda, than in their largest competitors. The analysis reveals that around 67 percent of total revenue is attributed to COGS, while two of their largest competitors in REMA 1000 and Coop only manage around 82 percent and 83 percent respectively. This seems to suggest that Oda's optimization of activities has resulted in lower costs in some places. Total costs are still higher relative to the company's sales revenue, showcasing around 10 percent lower operating profit margin than competitors.

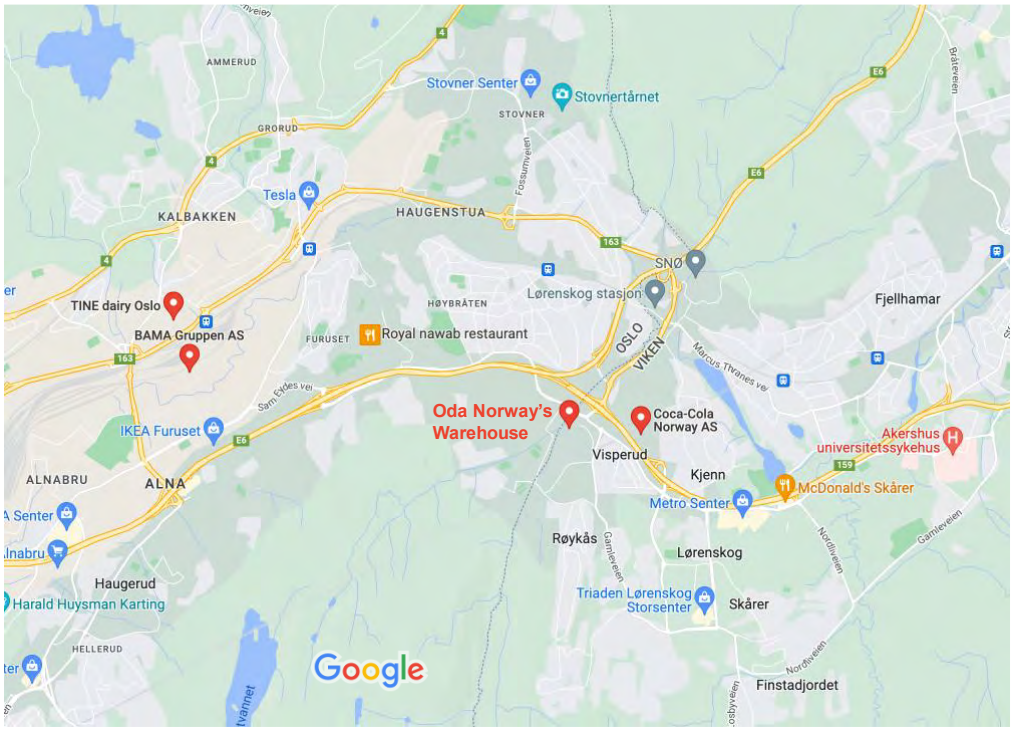
At the same time, Oda attempts to differentiate itself by delivering a service quite different from that of the physical stores. Since the company operates solely online, it invests heavily in offering highly personalized features. Furthermore, Oda's service stretches beyond delivering groceries, as it continues to enter partnerships with other stores to sell their products along with Oda's own. This is one of the main points of differentiation from the competition. These partnerships help cater to Oda's vision of becoming a general retail system rather than a pure grocery system. By offering products from Clas Ohlson, Sprell, Barnas hus, ARK, and restaurants, Oda is expanding their product mix and becoming more similar to companies like Amazon.

Arguably the most important strategic choice Oda made was building its logistics system from the bottom up. While registering similar companies in other countries, like Sweden and Denmark, purchasing third-party logistics systems and more quickly gaining a foothold in their respective markets, Oda chose to spend more time building its own. This choice was based on wanting to have control over all the input factors in the production, something one does not have when choosing a third-party system. With a third-party system, the system itself cannot change when working with continuous improvement, one must optimize other parts of the production such as how to organize the warehouse (Seres, 2022a, 03:07). In Oda's situation, the company can change the system itself if they identify room for improvement, in addition to changing everything else in the process that does not involve the logistics system. Efficiency in the grocery market is measured by the UPH number that is determined by these factors, and especially by the logistics system in place. The input factors that typically determine the UPH number are how to use robots, streamline, determine the flow of goods (like which boxes to pick in what order and how these boxes move through the warehouse), not to mention the digital aspect, which are all factors that are decided by the logistics system. Therefore, customizing this system to fit grocery picking has proven, through a high UPH number (212), to give Oda an advantage in the market.

Location

Locations can affect the price of labor, factor costs, and costs of logistics. Moving locations can lead to advantages in the form of decreasing these costs, at the expense of increasing costs in other areas. Oda built its first warehouse at Lørenskog right outside Oslo. It is strategically placed to easily access the main roads, namely E6, highway 163, and highway 159. The warehouse covers the most densely populated areas in Norway, including Lillehammer in the north and Skien in the west. It is located close to some of the most dominant suppliers such as Coca-Cola Norway AS, Tine Dairy, and Bama group, all found within a 10-minute drive, as depicted by Figure 5. This puts Oda in a great position to save money on delivery costs from suppliers. With large suppliers comes bargaining power, and being closer to those suppliers makes it easier to engage in cost-effective deals, seeing as mileage costs are reduced. This would result in reduced factor costs overall, giving a potential competitive advantage.

Figure 5: Oda and suppliers



In 2020 Oda decided to speed up plans of building a new warehouse, this time on the west side of Oslo in Lier, close to Drammen. This new warehouse costs about half a billion NOK to build, which is a large expense for Oda. The company does, however, estimate that this will double its capacity and make it reach Kristiansand in the south by 2022 (Hopland, 2020). The addition of the new warehouse will enable Oda to reach a turnover close to 6 billion NOK. Though the likelihood of reaching 6 billion in turnover is more questionable, particularly in the short run. Reaching the new capacity limit would imply an increase roughly amounting to three times the current revenue. In a grocery sector already affected by low profitability, as evident by Oda's negative results and lack of online competitors, larger revenues would necessitate a larger capture of customers/revenue from the physical grocery competition. As the market progresses this might also be the case, but from what has happened up until now, a new sudden jump in revenue seems unlikely to happen right away. The increase in capacity is however a necessary one, seeing as Oda has steadily moved closer to its capacity limit. Further growth is therefore dependent on the addition of a new warehouse. The new warehouse placement will likely not increase the geographical area of operations that much, seeing as it is still placed close to their first warehouse. An analysis of whether it is beneficial to add another eastern storage over other geographical locations remains rather speculative and depends on whether the potential for new customers is higher around Oslo or elsewhere. Still, the increase in capacity will allow for larger

economies of scale in the eastern market, though the capacity utilization might be less optimal in the subsequent years.

Institutional factors

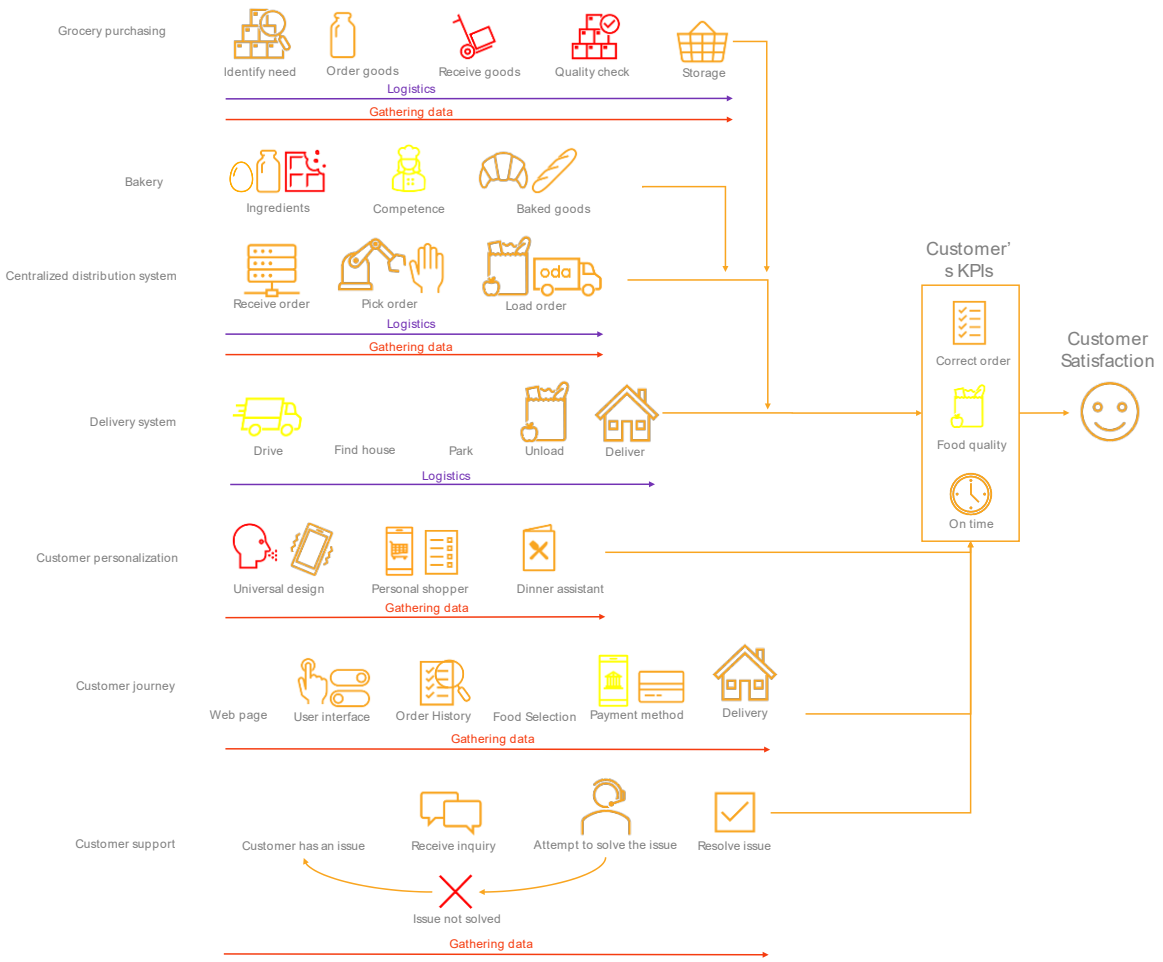
In Norway, there are rules and regulations in place for the grocery industry to ensure a well-functioning industry and healthy competition. The industry is regulated by the Norwegian Competition Agency (Konkurransetilsynet, 2009) and the Norwegian Food and Safety Authority (*Lover og regler*, 2021). Oda, like the rest of the market actors, must comply with these regulations.

A difference that separates the online competitors from the physical is how affected by municipal plans and policies they are. Of course, policies regarding rural and industrial areas are of greater concern for Oda than city plans, as access to the right property for its warehouses is important. Preferably, these properties are in close proximity to free-ways, suppliers, and densely populated cities. Considering that Oda has been operating from one warehouse from 2013 to 2022 implies that municipal policies and plans do not affect Oda in the same way as competitors with physical stores. Traditional business models are much more concerned with such policies as they are dependent on prime locations in the city centers (*Regjeringen vil hindre dominans i dagligvaremarkedet*, 2020). In contrast to online competitors, physical market players have many stores all over the country, and need to pay closer attention to each and every municipality's decision. These prime locations are often costly to rent, a cost Oda saves by operating solely from a large warehouse.

Linkages

Linkages are the connection between activities (Porter, 1985). It describes how the interplay between activities affects the cost of each activity. One must therefore look at the activities in a collective way to truly understand the cost picture. Reduced costs can be achieved through better coordination and optimization across the different activities of Oda. These interplays make the idea of copying advantageous linkages difficult for competitors and could therefore also lead to competitive advantages. Figure 6 illustrates all the key processes in the company and how they are connected to the customers key performance indicators (KPIs).

Figure 6: Linkages



CEO Karl Munthe Kaas claims that the grocery business today has a relatively efficient value chain, assuming that there is a need to physically meet the customer. With that as a requirement for being successful, a physical store working as a combined stock and showroom is needed. This requirement becomes the basis for developing the business model. Now, considering new technology, Oda can challenge this assumption (Seres, 2022b, 07:33). Due to more stable and accessible internet and data gathering tools (IT advances), there is no need to physically meet the customer anymore. The company can create a digital showroom for customers, where it simultaneously captures each customer's preferences. With this information one can create a new value chain. This is exactly what Oda did by replacing the traditional distribution warehouse with a large picking warehouse, completely cutting the need for physical stores. As a result, Oda cut costs related to distributing groceries to regional warehouses, physical stores, the costs related to renting shop premises, costs of stock in stores, and employment costs. Of course, Oda incurred new types of costs like development costs related to the online platform, maintenance costs related to keeping it updated, and all the costs related to having a delivery

service. However, Oda spends approximately 150 million NOK to make each warehouse efficient, which is considerably less than its competitors' spending on average 1 billion NOK to streamline warehouses (Seres, 2022a, 08:06). This cost efficiency, according to CEO Karl Munthe-Kaas, saves Oda enough money in upstream logistics and in warehouse efficiency to finance the delivery of groceries to the customer's doorstep. We are careful not to put too much weight on arguments from the CEO of Oda as they naturally will have some level of bias. It does, however, explain the cost savings that come with linking the warehouse directly to the customer.

Oda links the preferences gathered from the online showroom (app or website) to the warehouse where the picking process executes the order. Investing in making a good online platform that accurately captures what the customer wants to purchase reduces the probability of errors in the picking process. This is a digital process requiring IT and programming knowledge, and good communication between the developers and the warehouse pickers. Considering the way Oda works, as explained in the cost driver learning and spillovers, it seems that the company is very focused on transparency and encourages collaboration across divisions. Moreover, Oda can directly link the costs associated with the creation of a user-friendly online platform to the number of inquiries in customer service, as creating a system with less room for errors in picking most likely reduces the inquiries in customer service. This is directly linked to cost savings because of the one-time cost related to creating a user-friendly online platform as opposed to customer support costs that will increase exponentially with customers having the same inquiry. It can also be directly linked to reduced costs associated with rework, as a well-functioning online platform together with a well-functioning order processing system is likely to reduce errors in picking.

Having data in all parts of the value chain enables Oda to keep a demand-driven inventory by utilizing an availability algorithm matching demand with supply (Sundve, 2021). This means that certain items the customer orders might not even be at the warehouse when the order is placed. This refrains the company from having to stock up unnecessarily on what it believes the customer wants, and potentially ending up with a warehouse full of excess products that will only continue to approach their expiration date (*Fremtidens Matbutikk Skal Selvfølgelig Være Klimavennlig!*, n.d.). For this kind of inventory to work, Oda needs the logistics between the availability algorithm and purchasing to be highly efficient and precise. In addition, it requires good relationships with suppliers that can ensure flexible deliveries. Competitors can follow

the same optimization strategy, but their value chains are longer, meaning an increased time gap between the items arriving in stock and ultimately being sold. Their longer value chains render the most effective solution still less effective than what Oda's value chain is capable of, simply due to their difference in length.

These differences in value chains, and subsequent difference in efficiency, can be observed if we compare Oda's inventory turnover to the competitors. Inventory turnover measures how fast a company sells inventory over a year. A high ratio can indicate strong sales for the company or efficient operations. It can, however, also indicate insufficient inventory. Though this seems unlikely under regular market conditions, it can become challenging during unforeseen events such as the pandemic. Retailers use this measure to see whether or not they can outperform competitors, where a high inventory turnover is preferred and low inventory turnover suggests higher holding costs which is unbeneficial for the grocery business in terms of product quality (Fernando, 2022). The grocery industry's average inventory turnover is about 23, using the retailers REMA 1000, Norgesgruppen, Coop, and Oda in the comparison Table 3. This implies that the industry on average sells out its inventory 23 times in a year. The number is driven up by Oda's high inventory turnover averaging 39. With a turnover of 50 in 2020, Oda seems way ahead of its competition. We believe this difference is mostly caused by the difference in business models.

Table 3: Inventory turnover

INVENTORY TURNOVER	2017	2018	2019	2020	AVERAGE
REMA 1000 *	19.62	20.24	19.02	19.63	19.63
Norgesgruppen ASA	10.25	10.73	10.95	11.35	10.82
Coop Norway SA	22.26	22.21	22.07	24.35	22.72
Oda	**32.72**	**34.41**	**40.75**	**50.93**	**39.70**

*) REMA 1000's numbers uses the consolidated financial statement which includes the Norwegian and Danish area of operations. This may skew the results from REMA 1000.

By further investigating the table, all the physical stores have stable inventory turnovers over the four years measured, while Oda has increased each year. This, of course, can be somewhat attributed to the growth of the young company compared to the established market actors. The rate, however, which in 2020 was more than twice as high as all the competitors might be attributed to the business model. Oda, unlike its competitors, does not need to purchase goods to fill an entire store for display reasons. It can merely purchase goods to fill the required orders coming in from the online platform. This is a business model that naturally increases the rate at which inventory passes through the company. As a result, this will have a positive impact on

the freshness of the goods Oda delivers. While that might be so, the company leaves itself prone to unforeseen events, where the competition might benefit from having a larger stock. Nevertheless, Oda was tested during the pandemic and managed to find creative solutions to keep itself afloat and continue to increase sales (Sundve, 2021).

One should also consider that physical grocery competitors as large as these have significantly larger warehouses than Oda, and a subsequent larger turnover in absolute terms. Furthermore, larger warehouses make it more difficult to keep a high inventory turnover, due to increased costs of handling and distributing additional volumes. Still, the notable difference in inventory turnover is a definitive sign of relative efficiency.

Interrelationship

Another cost driver explains the cooperation between different sections of the company, so-called *interrelationships.* This cost driver can help create synergies between different activities, resulting in a better cost position. Take, for example, the knowledge in logistics, used to automate the warehouse, which Oda transferred to optimizing the delivery process. This knowledge, that already existed in the company, was used to create the logistics system with algorithmic route planning to increase efficiency in deliveries. This is directly linked to how open and transparent the company is with knowledge-sharing, as well as identifying parts in the process that can benefit from it.

Several parts of the value chain have benefited from these interrelationships. Consider the data gathering of customer preferences, which is not only used to optimize inventory and warehouse operations, but shared with the platform developers and marketing team. Said data can help identify e.g., “suggested items” when adding a product to the cart, or help create targeted marketing campaigns towards the desired pool of customers. This further supports the notion of having an online platform as all information is directly gathered from it and processed in-house. Oda thus operates rather cost-efficiently as the company does not need to spend large amounts on customer surveys or purchasing consumer data. This showcases how one activity can affect many others in Oda’s operation, and how well Oda is equipped to take advantage of these interrelationships.

3.2 Complementarity and strategic advantage

Michael Porter and Nicolaj Sigglekow studied the creation of sustained competitive advantage through interactions among activities. Inspired by the complementarity framework by Milgrom and Roberts (1990) and the NK model by Kauffman (1993) (see Porter and Siggelkow, 2008) Porter and Sigglekow added a contextual perspective to these ideas. We will look at these findings and analyze the interaction of Oda's activities and whether we can identify competitive advantages. We will also discuss competitors' potential for replicating Oda's FSAs.

Porter and Siggelkow's (2008) findings suggest that the success of a set of activities are context dependent. Activities are therefore implied not to ensure competitive advantage on their own, but rather when seen in context of the firm-created system in which they operate. Transferring this way of thinking to Oda's business model, we can identify certain activities that, in the presence of Oda's established activity-system, might ensure sustained competitive advantages. Applying the findings from key resources and cost drivers we begin to identify complementarities in Oda's value chain, turning our eyes to the bottom of the chain and working ourselves upwards.

When identifying interdependencies between activities in Oda, we begin with how the company manages to keep a demand driven inventory. This is possible through the data collected on customer preferences in which the availability algorithm is based on, together with the logistics system in place at the warehouse. These enable a high inventory turnover, which is a common measure of warehouse efficiency. Being able to order goods from suppliers on demand prevents the food from being stored for a long time. This requires good communication with suppliers. Moreover, removing the need to display the food also helps with keeping it fresh, and it avoids customers touching and squeezing it for personal quality checks. These activities together contribute to better food quality at Oda, which is important as customers have to trust the pickers to choose food of sufficient quality for them. Answering this need for trust, Oda operates with a satisfaction guarantee, which means unsatisfied customers are fully reimbursed. Delivering the best possible goods to the customer is dependent on Oda's communication with suppliers, along with its systems enabling a high inventory turnover and thus avoiding unnecessary storage. These two activities are therefore in this context considered complements.

The centralized distribution center as a whole is reliant on the logistics system. The fact that Oda has built this logistics system itself has enabled the company to tailor it to fit its value proposition. This also means that the developers at Oda can easily make changes and continuously update the system, staying competitive. Therefore, we argue that it is the competency of the workers and the logistics system together that creates a competitive advantage. If Oda only had in-house logistics competencies without its own logistics system, the company would likely not benefit as much as with its own developed system.

We find clear connections to several activities that together with the logistics system work efficiently. More specifically, CEO Karl Munthe-Kaas argues that the interplay between the logistics solution and the people picking goods is what makes Oda so competitive (Seres, 2022a, 06:14). Having little information on the specifics of the logistics solution or the organization of the pickers, due to its value, this remains speculative. That said, their high UPH number verifies that their current solution is efficient. Assuming Munthe-Kaas's statement holds water, adopting the logistics technology alone would not create a competitive advantage. The organization of the pickers and the application of the logistics technology are thus complements and together create a competitive advantage.

The high UPH number is the main part of the order processing system. The efficiency of this system is only complementary to Oda since the company has the structures in place to deliver orders with a frequency aligned with that of processing them. If Oda had not aligned these two activities a bottleneck would occur in deliveries. Therefore, the investment in efficient processing of orders increases the marginal benefit of investing in streamlining deliveries. This notion verifies the advantage of being in control of the delivery service. By owning this part of the value chain Oda can apply its logistics and technology skills to optimize the delivery process in line with the optimization of orders. This means that these activities are highly dependent on what activity system they operate in (Porter & Sigglekow, 2008). In this case, these activities are tailored to Oda's business model. In-sourcing the delivery system would therefore not necessarily be as efficient for other firms with different activity systems and business models. The complementary activities are thus not context-free.

Another part of the business model that is highly dependent on several activities is customer satisfaction. For the customer experience to be optimal, Oda has created a user interface aimed at making it easy and smooth to shop online. The customer personalization functionality is

developed based on consumer data gathered from the online platform. The more intuitive user interface Oda creates, the fewer inquiries to customer service the company receives. This means that an intuitive platform is a substitute for customer service inquiries. The same applies to a good process of handling orders and deliveries, such that Oda lowers the number of damaged groceries, faulty boxes, and late deliveries, which in turn also reduces the amount of customer service inquiries. This provides the customer service department with the time and capacity to quickly resolve other problems customers might have. Customer service is very important for online grocery stores, as this is one of only two points of contact between the customer and Oda. Therefore, reducing unnecessary inquiries is extra important to keep customers happy. This is a situation where several of Oda's activities are linked to the same activity, and identifying these interrelationships can help strategically reduce costs and increase customer satisfaction.

3.3 Oda's FSAs

Having analyzed Oda's competitive advantages through the business model and supplementary theory, we are finally equipped to answer the question:

1.1 What are Oda's firm specific advantages?

Our analysis leads us to conclude that the online e-grocer Oda's FSAs are found in complementary activities such as supplier deals combined with an efficient inventory, and the skilled developers combined with the self-made logistics system. Additional complementarities are found between the pickers and the logistics system, where we believe Oda's CEO has some grounds for stating that the interplay between the grocery pickers and the logistics system are one part of what makes the company efficient. We base this on the fact that it would be easier to outsource the logistics solution itself. However, the management clearly sees an opportunity to replicate the entire business model in foreign markets. Management decisions are very important to factor into the equation, as they have access to information beyond what we are able to get our hands on. As mentioned, we are unclear about the details of the interplay between Oda's logistics system and their storage workers, as it is a well-kept secret within the company. However, the secrecy indicates a corresponding level of importance, leading us to believe said interplay is a key competitive advantage in Oda's own eyes.

Furthermore, connecting the efficiency of the ordering system to the delivery system, through vertical integration, has proven necessary to continue this efficiency throughout the value chain. This complementarity is highly important for the business model to succeed, since it facilitates the full effect of the complementarity between the pickers and the logistics system (part of what creates the UPH number). This showcases the complexity of the business model as one set of complementary activities are dependent on another set of complementary activities. This further explains the need for a collaborative and creative work culture, which is considered one of Oda's key resources. The final FSA caused by complementarities are all the different activities that interplay with the customer service department. As mentioned, having fast responding and helpful customer service is crucial when operating online.

All the aforementioned interdependencies are further supported by valuable resources such as the centralized distribution center, the logistics system itself, the integrated bakery- and delivery service, and the high scalability. The identified FSAs further suggest that the business model as a whole seems to be what makes Oda so successful. This is supported by the comparison between Oda's model and the traditional grocery model, which throughout our analysis has proven more efficient and less costly. One such finding is the shorter value chain, which is caused by operating straight out of warehouses, as opposed to having a long distribution line. This difference not only enables a potential efficiency beyond the traditional model, it also reduces the total distribution costs. Few warehouses also increase the control of storage and equipment, which reduces the probability of over estimating demand, ensuring better capacity utilization. Moreover, Oda has close to no costs related to prime locations, which is a big concern for physical stores. In addition, operating solely online caters to easier collaboration across divisions, as opposed to the traditional model with many branches operating in slightly different ways, as they are reliant on a certain level of autonomy. Furthermore, an online model allows for better exploitation of the data gathering in its operations. This is data that facilitates a higher inventory turnover, which increases the freshness of goods and reduces the need for excess products. The aforementioned evidence might explain why Oda is able to survive in the demanding Norwegian grocery market.

When a company is part of a complementarity system it might be harder to replicate these advantages in a different market, as there exist many interdependencies among the company's activities. This is worth keeping in mind when analyzing Oda's potential FSAs in foreign markets. FSAs can be categorized as transferable- and non-transferrable. Complementarities

caused by activities that are market-specific, such as beneficial supplier deals, will be difficult to replicate as a new actor in a foreign market. In contrast, complementarities that are in-house and/or non-market-specific are very valuable, as these often replicate more easily in new markets. An example is the logistics-specific competency, which already exists in the company, and can be combined with the company's self-made logistics system anywhere there is a warehouse. Furthermore, vertical integration has led to the identification of additional interdependencies as it has expanded Oda's business model. This increases the difficulty of replicating FSAs in other markets, as it increases the number of complementarities.

Though Oda might face some obstacles when trying to replicate its model, so do competitors trying to imitate the company's success. If competitors attempt to replicate only parts of the activity system Oda has, the likelihood of not generating the desired results is high, and competitors might even end up creating negative results. This is suggested by the convexity of the imitation-benefit relationship suggested by Porter and Sigglekow (2008), which explains why the interplay between activities in its established system makes the company competitive.

Moreover, it is important to remember that firms evolve and change as the industry changes. This means that a competitor's activities that previously were substitutes can become complements in the changing process. This violates one of the assumptions from Milgrom and Roberts (1990) complementarity framework. However, it is supported by Porter and Siggelkow (2008), as they emphasize the contextuality of activities. How much these interdependencies are likely to change depends on the stability of the market. Some industries are fast changing while others have stayed the same over several years with minor changes. The Norwegian grocery market is characterized as a stable industry which is tightly regulated by government institutions, as mentioned in the cost driver "institutional factors". Though advances have been made in terms of technology and wholesale integration, these changes have evolved over time and are not something we characterize as rapid changes. An example of an industry that has gone through tremendous change is the music industry. Imagine the change from vinyl, to cassettes, to CDs, to MP3s, and now, streaming. Moreover, consider the ownership that changed from owning a CD to owning the right to listen to music. The same applies to the revenue model which went from one-time purchases to subscribing to a streaming service. Comparing this to the grocery industry, nothing has changed that much. The purchasing model is the same, the products are the same, the changes made to the industry have had little effect on the end

consumer. Therefore, it is reasonable to assume that the FSAs identified will not change in the nearest future, and we can use these as grounds for comparison further in our analysis.

4. How does Oda fare in the Norwegian market?

It is important to understand the company in the market it operates. We have identified Oda's FSAs in the Norwegian grocery market and we will continue to answer the second sub-question:

1.2 How does Oda fare in the Norwegian market?

This question enables us to define the Norwegian market, to better understand to which extent these FSAs are country-specific. This will also work as grounds for comparison further in our thesis, when taking on the Finnish market.

4.1 Defining the grocery shopping market

To help paint a picture of what exactly defines a market, we turn our eyes toward the literature of Lasse B. Lien et al. (2016). Competitive advantages are according to their view defined as returns above the market average. Without a clear definition of what the market is, an essential piece of the puzzle would be left out, making any form of analysis pointless to initiate. We will therefore begin to look at the Norwegian market as a groundwork for competitive analysis, with the aim of distinctly defining what product or service is included in the grocery-market.

When deciding on a market, an important part of the process is defining what exactly is attributed to the market and what is not. To first define what the product/service is, one must look at what defines grocery shopping. One could define it as a physical product, but key activities would be left out doing so, such as the service of filling the store with a wide assortment of goods, treating customers with respect, and resolving any issues or questions customers may have. The service itself is too complex to simply define as a physical product, and does not function as what a perfect good-specific market would have it to be. We instead mean to look upon the whole act of buying groceries as the real product, meaning the service provided by stores from the moment the customer decides to buy until the goods are in the person's hands. Going by this standard it is possible to compare the entire grocery market, owing the difference in service to horizontal differentiation, much akin to how the car industry tailors

its products to different customers. In another similar case, we might also consider online stores of electronics as direct competitors to physical stores, much like how Komplett, Power, and Elkjøp are dominating the Norwegian electronics market. Only the former of these competitors is exclusively focused on e-retail, but they all compete for the same customers. Likewise, different store types adhere to different customers to maximize revenue, in an attempt to differentiate themselves from the competition. Low-cost stores operate in places with higher population density and focus on price sensitivity. Local corner-shops aim at providing the service of groceries across the countryside and in pockets of customers with the benefit of being close, whilst e-grocery tends to adhere to the ones with a focus on time saving. Not to mention the luxury of having goods delivered to their doorstep.

Regardless of how one attains these groceries, they all have one definition in common: All attempt to service the customer with a basket of groceries. The question is whether some of these services offer a cross/price-elasticity too low to resemble competitive market goods. The divide between rivals and substitutes is in the Lien et al. framework (2016) measured by the cross-price elasticity formula:

$$E = \frac{\%\ change\ in\ volume\ of\ e{-}grocery}{\%\ change\ in\ price\ of\ supermarket\ grocery}.$$

The formula explains how many percent the quantity of e-grocery will change per 1 percent change in the price of the supermarket grocery option. Higher substitutability will be signified by higher cross-price elasticity, while negative elasticity would imply complementarities.

The price change of market goods is rather well documented, as many independent price tests are conducted at regular intervals, with VG's matbørs (Steiro, 2022) being one of them. Their reports, which include the Norwegian low-cost stores REMA 1000, Kiwi, Extra, and in recent years Kolonial/Oda, have shown very similar price fluctuations for most goods, as well as the average basket. The price for vegetables did, for instance, drop on average by 26 NOK from the 23rd of March 2021 to March 30th in 2022, with Oda showing the largest drop from 236 to 194.6 NOK. This seems to imply, possibly owing to the fear of losing volumes, that all of the mentioned actors compete for price, which in turn suggests them to be operating in the same market. These joint price fluctuations are also likely due to similar input factors. An issue with the price tests is that it does not capture the general evolution of prices during a year. Prices fluctuate monthly, and sometimes even weekly at certain times of the year when price wars are

likely. As such, it is less desirable to conclude a certain day's prices to be the standard for that particular period, and therefore harder to compare price changes to volumes. Still, it provides some indication of companies operating in the same market based on the quick price adaptation done by competitors when someone decides to change price.

Less documented still is the general rise and fall in volumes during certain periods. Data on the subject is limited to revenue numbers, though said numbers give an indication of the general volume if adjusted for price differences during the period. Prices have already been shown to fluctuate collectively across competitors. Data gathered from Statistics Norway (*Omsetningsutvikling i varehandel etter næring,* 2021) further show no significant change in revenue going from 2020 to 2021, indicating a similar volume to the year before. While the market has shown little improvement in revenues, the general prices seem to have dropped when comparing VG's price list from September 2020 to September 2021. As previously mentioned, these fluctuations in price might be the result of general variance in prices during a year, rendering this evidence inconclusive. The data gathered are therefore not suitable for estimating elasticities in the market, particularly as correlations between price changes and volume increases remain hard to critically analyze with the current data.

Though we always like to define concepts based on quantitative data, this falls short in our situation. Therefore, we will attempt to define the market with more certainty using a qualitative approach of cross-price elasticity. This entails investigating the factors attributed to whether the services have the same *performance criteria* when *used in similar situations*, and if *found within the same geographical area*. Another special remark can be put on the *general internet penetration of the population*, as high degrees of internet usage is a necessary component for ensuring the availability of both alternatives in the same market.

In a grocery market, the *performance criteria* which should be investigated are attributes linked to customer preferences such as *price, selection of goods, availability, customer service,* and *perceived quality of goods*. The prices between e-grocery and physical grocery have already been discussed and suggest the two to be in the same market.

When comparing the e-grocery business to the physical grocery business, the *selection of goods* remains similar. Though there are actors who display a larger selection of goods, such as Oda, which claims to have a selection of goods twice as high as other low-cost competitors (*Hjemlevering fra Norges største matbutikk,* 2022), it does not necessarily signify that the e-

grocery and traditional grocery have significantly different types of goods. Other grocery stores such as hypermarkets and supermarkets also use selection of goods as a selling point, yet are still regarded in the same grocery-market. Moreover, all stores still provide the necessary goods to provide an average grocery basket, which is part of what the market product is defined as. We can thus reach a conclusion that the differences in the selection of goods are not significant enough to garner e-grocery and physical grocery in different markets.

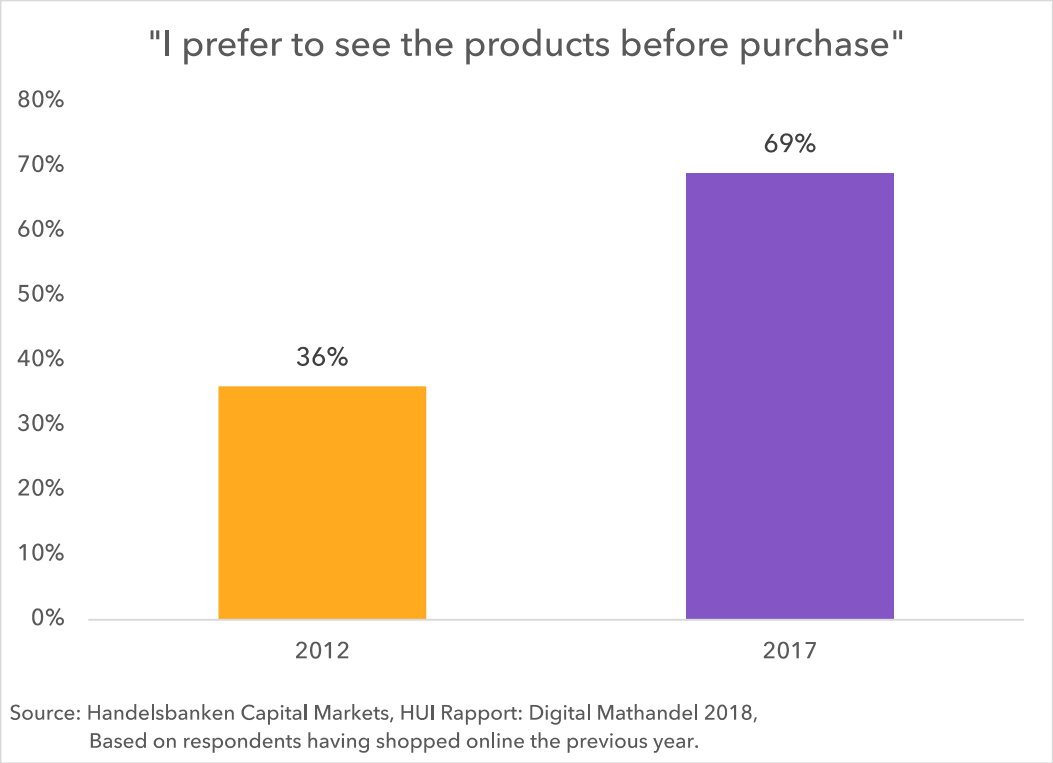
Considering the *availability* of the services, e-grocery is available 24/7, though one does not receive the basket of goods right away. However, the wait is reduced to the following day. This is not the case for physical grocery stores which normally are open from 07:00-23:00, and when purchasing goods, one can immediately take them home. When considering people's purchasing habits, they tend to grocery shop within the window set by the physical stores. Therefore, we would argue that the difference in their availability window does not pose a big differentiator. What is more important to consider is the difference in time from when the goods are ordered to when they are in the customer's hands. Moving from an immediate action to a delay might stimulate people's impatience as suggested by the theory of present bias (Read, 2007). Present bias separates the immediate utility one receives from getting the goods right away (physical stores) and the total utility one might receive from saving the total time spent on grocery shopping (e-grocery). A person displaying present bias puts too much emphasis on immediate utility and thus displays impatience. In attempts to mitigate this issue the e-grocery business has recently diminished the gap between orders and deliveries. Oda, the leading provider of online grocery, has for instance pushed its deadline of next day-delivery to 23:59 (*Hjemlevering fra Norges største matbutikk*, 2022). Coupled with their earliest delivery at 04:00, the minimal delivery time would be only four hours. These improvements might still not be enough to persuade impulsive customers, though the risk of losing large parts of the customer base remains low. This is especially true when considering the pool of people buying groceries every day only amounts to 7 percent, as reported by Forbrukerrådet (2016). Moreover, the same report indicates that 20 percent of people always use a shopping list, while 38 percent often do. These findings support the claim that the majority of consumers plan ahead. The issue concerning a gap between order and delivery is therefore not considered a deciding factor when defining the market, though there still is a difference which might affect some portion of the consumers.

The customer service in this comparison is very different, as e-grocery shoppers have to utilize the customer service in terms of chat, email, or phone. In the physical grocery segment, it is

most common to approach store clerks when addressing an issue. Normally, people wonder where certain items are in the store and therefore ask the clerks, while this issue is resolved through the online store's search function. Another frequent question is the stock of the product, and whether there are more items of the product in storage. Again, the store clerks are approached in the physical stores, while the online stores indicate product availability when browsing the product selection. Though these are clearly different approaches, they share the same result.

The perceived quality of goods is highly dependent on customer reviews in the e-grocery sector, whilst the consumers physically and visually check for errors in a traditional store, and therefore place less emphasis on reviews. This showcases how the different services depend on trust. Consumers have to trust that they will receive the expected quality of the goods ordered to a larger degree when ordering online, as opposed to trusting themselves to make the right call in physical stores. In order to level out this potential problem, e-grocers have put in place initiatives such as satisfaction guarantees (*Ferskvarer fra øverste hylle*, 2022). These initiatives might have contributed to the decreased need of having to look at groceries before shopping. A Swedish survey by Svensson (2018) shows a considerable decrease in people preferring to look at goods before buying them, suggesting a general shift in preferences when it comes to e-grocery, as depicted by Figure 7. This survey was conducted in the Swedish market, implying possible changes in perceptions by the Norwegian population. That being said, the two markets are fairly similar.

Figure 7: Change in preference from 2012-2017



While there exist many advantages of trust, these all amount to nothing if trust is nowhere to be found in the population. Fortunately, the Norwegian population has been reported by Our World in Data to be one of the most trusting people in 2014, with as much as 74 percent admitting that "most people can be trusted" (Ortiz-Ospina & Roser, 2016). Summarized, the general trend of people trusting each other in Norway, coupled with the decreased need of visual confirmation of goods, suggests that the perceived quality of goods differ very minimally. This supports the assumption that e-grocery and physical grocery can be viewed in the same market, which in turn concludes our analysis on the performance criteria of e-grocery and grocery.

The second criteria of whether the services are *used in similar situations* might depend on how consumers utilize the market service. If one considers the 17 percent of the Norwegian population that, according to Forbrukerrådet's (2016), purchase groceries once a week, and the 75 percent of people that shop several times a week, both services may be considered equally attractive. For the 7 percent that say they go shopping every day, the online alternative might not cater to their consumer needs, as occasional and immediate desire for products seem to trump the convenience of ordering goods from home. The products that the customer receives, regardless of which service they choose, are considered interchangeable. This means that it is

only the purchasing and delivery process that differ, and the product selection is virtually the same.

The services are found within the same geographical area. The e-grocery and grocery service are available throughout Norway, and one can easily choose between the two, much due to physical stores offering an e-grocery option. However, it is important to note that the largest e-grocery actor, Oda, only operates in the eastern part of the country, restricting its availability.

The final factor which should be addressed in our market delimitation is the *usage of online services* and user trends in the Norwegian population. The Norwegian consumer base is in the top range of countries buying online, with as much as 85 percent eCommerce penetration (Eden et al., 2021a). With an estimated 92 percent of the population using the internet, the study also suggests that around 5 million eCommerce users exist in the Norwegian market as of 2021. This makes the Norwegian population the second most online-focused population in the world, only beaten by the UK. These findings suggest that searching for an online alternative is becoming a part of the buying process. However, these numbers do include other retail markets such as consumer electronics and clothing, markets which have evolved faster than the e-grocery market. Still, the e-grocery-specific Oda showed the fifth highest net sales numbers among Norwegian online retailers in the same year, beating known brands such as HM and Amazon. Online grocery is finding its way into the Norwegian market by being an alternative to the traditional grocery service.

An argument for including e-grocery in the market is based on the general evolution of the market, which seems to make online grocery more commonplace over time. This is much attributed to the technological development of the 21st century, which made the internet available and efficient for everyone in developed countries. This increased the efficiency of setting up retail online, thus making an online focus worth the investment. A study by Eden et al. (2021a, November) suggests that online shopping has become a common way of ordering goods. The study also shows that during the pandemic the top interest of online shoppers was food & drinks, suggesting a sizable curiosity in the matter. However, the numbers drop when looking at what is actually bought, with only 21 percent of regular online shoppers reporting that they have bought food and non-alcoholic beverages online in the last 12 months. Nevertheless, there seems to be increasing normality of online ordering. If we turn to our established definition of the market product, being the service of providing an arena for shopping groceries, online shops like Oda still comply with this definition. Like how Komplett

has become a direct market competitor in consumer electronics despite only existing online, we propose the idea of presenting Oda in a similar light.

Opting for a market delimitation exclusively focusing on e-grocery is however also possible, with the main argument being that the experienced service remains more similar regardless of which competitor is in question. One key issue when going by an exclusively e-based market is the lacking market size and competition. The leading e-grocery retailer Oda is so far only challenged by Meny.no and Coop Home Delivery. In addition, one should consider the low market share the two competitors collectively capture compared to Oda. Though we get a better uniformity of service, the comparison becomes less relevant if the rivals are smaller stores without a chance of competing. These e-grocery markets may be subject to more competition in other countries, along with differences in general preferences of the population. The latter would imply a smaller elasticity between e-grocery and the traditional variant. Combined, they might therefore make the distinction between online and physically-based grocery more similar to substitutes. However, as of now, the more exciting prospect is the inclusion of e-grocery as a different approach in a traditional market, functioning as a differentiation strategy rather than an outright invention of a new market.

It is, therefore, in our own understanding of the market, possible and desirable to look upon grocery shopping as one market containing most aspects of delivering groceries, including online retail. This is in line with our definition of the market service, which has been stated to be the service of providing groceries from the moment the need of goods arises until they are in customer hands. It will make comparisons of competition more focused around the market, and less focused on substitutes, making for a more intuitive analysis and comparison. We propose that the cross-price elasticity of regular grocery and e-grocery allows for a competitive rivalry between online and physical retailers, though definitive numbers have not been discovered. The reason being that people, in light of the pandemic and otherwise, seem to consider e-retail more often than not when buying goods. This trend has been defining the consumer electronics- and clothing market in Norway, and the same trends are now starting to appear in the grocery sector. Price comparisons are now including e-grocer Oda as a viable alternative, further underlining our general understanding of a higher emphasis on the online versions. The general definition of the market service allows for a plethora of variance in conduct, ranging from street sales to online shopping. Still, the Norwegian market is focused on traditional supermarkets much like what has been present in Europe over the last ten years,

with few and large retail chains dominating the market (Skogli et al., 2020). The emphasis on larger companies and market power holds true not only in Norway, but in Finland as well. We will therefore use this delimitation as a foundation when analyzing the mentioned markets, only specifying the differences when need be and comparing their effects.

4.2 Competition in the Norwegian market

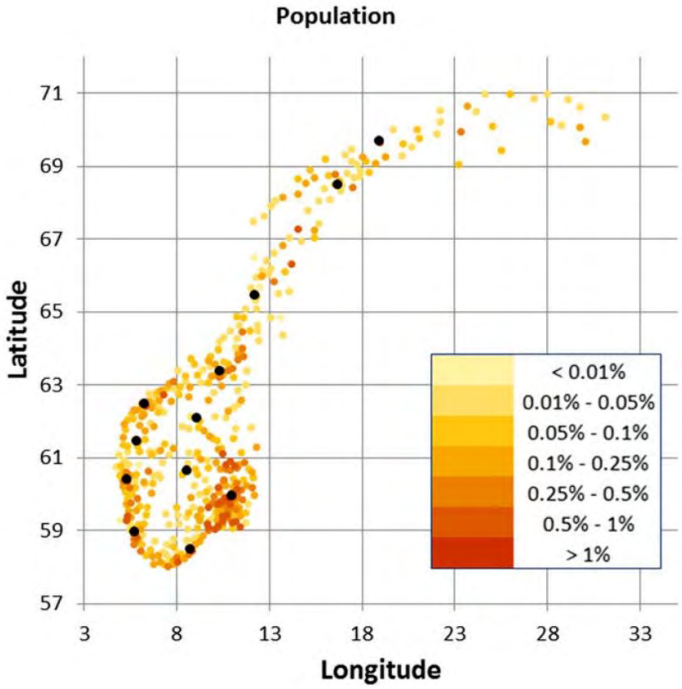
Following the concluded market delimitation, we will now use the acquired grocery market definition in our analysis of the competitive situation in Norway, to better understand the context in which Oda has succeeded. The context of said analysis is on the definition of competitive analysis according to Lien et al. (2016), where markets are characterized by the *value created* and *value captured* by all suppliers, actors and consumers in the respective market. Following the framework on competition analysis, We begin with analyzing the value creation of the market, with emphasis on the changes in *value creation per unit* and the *total units* present in the market.

4.2.1 What is the market scope?

Value creation is heavily linked with population and inflation, given that the price of an average basket is used to measure general changes in consumer prices, and that everyone needs grocery products. By this definition of value creation, the Norwegian market remains relatively small by international standards, given Norway's small population. The population is still growing, but according to reports from Statista (*Demographics of Norway,* 2021), the yearly growth has seen a decline from 1.25 percent in 2010 to 0.59 percent in 2020, with the total population amounting to 5.42 million in 2020. This implies that the expected growth in grocery demand also will drop given that other factors remain constant.

Another important point when analyzing the general market is the distribution of a country's population. The population densities might indicate potential costs of distribution and regional competition. Figure 8 shows the general distribution of the population as of 2018 (Røislien et al., 2018).

Figure 8: Population density map - Norway



Source: (Røislien et al., 2018)

It further shows that the Norwegian population is characterized by a tendency to inhabit coastal regions, though with a higher concentration around the Oslo fjord. Still, much of the population also inhabit the western part of Norway, an area which is not easily traversed given Norway's centrally located mountains and numerous fjords. This poses a logistical challenge for the actors in the Norwegian grocery market, as the most common area for warehouses is around Oslo. The distribution of the population along Norway's lengthy coastline limits the potential of centralizing operations, as the distances would necessitate regional storages. The demographic situation of the country therefore puts some constraints on market actors attempting to capture all areas of the market, something which also limits the potential revenue in the market. The general trend of centralization among the population is a factor which opposes these differences, as it simplifies the prospect of being available to a larger degree of the population.

Another factor which determines the market value is how general prices change in the coming years and how the general wealth of the population is predicted to change. General prices in Norway are higher than most other countries, with an average monthly basket of goods being equivalent to 3.3 percent of their monthly earnings (Andrews, 2022). This makes the Norwegian grocery market one of the most expensive worldwide, placing the country 9th on the list composed by Money.co.uk. The average price per basket of goods can also be used as an

estimation of the market price. Data from Statistics Norway, gathered by the team at Statista (Ridder, 2022 February 7), shows an increase of 16.6 percent from 2010 to 2021 in prices of food and non-alcoholic beverages in Norway. Of those increases in price, we find one explanation owing to generally low and only slightly fluctuating inflation between one and four percent. The issue of determining the overall market value comes down to comparing a general increase in population size and wealth, with the general inflation and average price.

The consumption per person and general willingness to pay also affects the overall market value. One way to get an indication of the consumption is by looking at the total revenue in the market, apart from what can be explained by the general growth of the population. When comparing the market from 2013 to 2020 (Dagligvarehandelen, 2021;2017), yearly net profits have had an increase from 154 to 209 billion NOK, which amounts to a 36 percent increase. The general outlier of these numbers is the last observation from 2020 of 209 billion NOK, where the market before had seemed to decrease in general growth to around 180 billion. The increase is likely attributed to the pandemic and subsequent lockdowns of the country, which prohibited trips to Sweden and subsequent purchasing of cheap goods abroad. Some evidence for this is the 25 percent increase in revenues from 2019 to 2020 in the eastern part of Norway, the area with the largest population and with borders to Sweden. The growth is also beyond what is to be expected when compared to other sectors, further signifying an external shock that may be liable to go away with time. If eliminating this outlier, the growth is set at 16.2 percent from 2013 to 2019, a considerably lower number and more in accordance with the general increase in prices of food and non-alcoholic beverages. Still, Statista's overview of the grocery sector also shows a considerable increase in expenditure per household on food and non-alcoholic beverages. It therefore seems the general increase in value creation is due to the general inflation and the recent covid-19 pandemic with subsequent lockdowns. Only time will tell if the increase attributed to the pandemic will be continued onwards, and will be dependent on whether the Norwegian population has changed behavior as a result of adaptations to lockdowns.

Another important factor in the coming years is the impact of the recent war between Ukraine and Russia. Ukraine is one of the biggest distributors of fertilizer in Europe, and a shortage would likely impact the prices of most edible products in the grocery market worldwide. Other ingredients such as wheat will also likely be impacted by the ongoing war between the two countries. These effects will likely hit the entire grocery market, and may change the general

consumption per person and the average price of goods. When summarizing the general trends in population volume and preferences, along with the external shock of the covid-19 pandemic, the grocery sector is due to experience a sudden drop when the effects of the market shocks are gone. However, there is evidence to suggest that the steady increase in market size pre-covid will continue. This means the market size is following the general demographic changes of the Norwegian population.

4.2.2 The rivalry and entry barriers of the Norwegian grocery market

The second part of Lien et al.'s (2016) framework is understanding the *value capture* situation in the Norwegian grocery market. *Value capture* describes the relative leverage between suppliers, companies, and consumers by looking at the interplay between *rivalry* and *entry barriers* in both the product and factor markets. Starting with the rivalry situation, we attempt to include all significant factors which may contribute to market competition in the Norwegian grocery market.

Though only operating with three main umbrella companies in the grocery sector, Menon-economics representatives Wifstad et al. (2018) found evidence for high competition in a range of areas, including profitability, price development, and store density. The market is dominated by the Reitan group, Coop, and Norgesgruppen, all of which have reached a point of large economies of scale and integrated wholesale. Though these factors increase the risk of silent collaboration and coalitions, the high frequency of price competition and product diversity seems to suggest that cooperation between chains still remains challenging. Wifstad et al. (2018) also point out that buying power from a select few actors may counteract the consequences of weak competition further up the value chain. Larger volumes as a competitor lay the foundation of better purchasing conditions for suppliers, which in turn generates strong incentives for capturing larger market shares. The report made by Menon economics thus concluded that one of the main drivers for the competition is the economies of scale in negotiations with the suppliers and wholesale segment. The market power of the leading suppliers seems to incentivise the umbrella chains to compete in order to secure better leverage in the factor market.

Rivalry

These findings suggest a relatively low degree of rivalry in the factor market, as suppliers seem to be in a comfortable situation for the time being. Wiftstad et al. (2018) reported the average operating margin in the period 2007 to 2016 to be higher for suppliers than in the distribution and retail segments, with the average being 1.9, 2.2-2.9, and 3.6 percent for the retailers, distributors, and suppliers respectively. These numbers indicate a certain advantage for suppliers in the period, though an important aspect remains the general volumes sold for each segment. The reason for this being that profitability is determined by profit margin and inventory turnover. In a low-margin market, inventory turnover thus becomes all the more important. Still, when comparing the operational profit of one of the biggest suppliers Orkla to the best profit of the umbrella chains in Norgesgruppen ASA, there is a significant difference. With a 17.1 (*Orkla Foods Norge AS, 2021)* and 5.4 percent profit between Orkla and Norgesgruppen in 2020 respectively, there is evidence to suggest that the competition is rather skewed. The margins suggest that the competition is lower in the supply-segment than elsewhere in the value chain. A central explanation for these margins likely lies in the concentration of actors in the supply segment.

Unlike many other supplier markets, agricultural goods and production are in the Norwegian market subjected to protective governmental policies in the aims of preserving Norwegian farmers and producers, and manifests itself as import protections. As a result, competitors from other countries are faced with import taxes and tariffs, which increase the product price, thus limiting competition in key product segments. The result of these restrictions are lowered competition and higher concentration of suppliers, with subsequently high shares of specific product markets. The report of Wiftstad et al. (2018) referenced the findings of Markedsutvalget's study of market groups in 2011, which revealed that the majority of the 18 market groups analyzed contained a supplier with above 50 percent market share. These shares were not limited to product groups protected from imports, though the tendencies were higher in product groups related to agriculture. A recent business review made by Ivar Gaasland (2020) further discussed the findings of concentration in markets not protected by taxation, and importantly much higher prices on goods compared to other countries. The difference was especially high in markets with import protection. Consumer prices were 61 percent higher than the average European Union nation, and 36 percent higher than in Sweden and Finland. However, the differences were more or less non-existent in markets without import protection such as furniture, clothes and consumer electronics. These findings suggest the protection of

Norwegian goods to be a leading driver of increased prices compared to other countries. Coupled with the previously mentioned similar retail margins between country-specific grocery markets, the prices are further emphasized to be the result of increased factor costs. Menon economics' report on product selection (Skogli & Bull Jenssen, 2016) also revealed a higher concentration of suppliers than the neighboring country Sweden, with 57 percent fewer suppliers on average. The concentration of suppliers in multiple product groups gives higher degrees of market power, and helps explain why much of the market surplus is captured by the suppliers. With that being the case, the suppliers have in the last decade lost one key component in their operations, as the umbrella chains have taken over as wholesalers and distributors.

The recent decades have seen increased streamlining in wholesale and distribution (Skogli et al., 2020; Wifstad et al., 2018). The changes include notable reorganization and consolidation. The integration of retail and wholesale has, according to the report of Skogli et al. (2020), contributed to higher efficiency, particularly in the flow of goods. One of the results has been increased surplus by means of economies of scale, which has contributed to notable gains in productivity. The report further states that the surplus from streamlining is to the benefit of consumers. In order to link efficiency to consumer surplus, one must first suggest that the market competition remains high enough for consumers to benefit from streamlining. If not, the surplus would have been captured by either the companies or the suppliers, or distributed among them. The three main umbrella chains now dominate the market for wholesale and distribution. If put in contrast with the supplier market power previously discussed, the retail chains seem to have captured the profit from distribution and wholesale, possibly resulting in a more even distribution of operating profits (remembering the profit split of 1.9, 2.2-2.9, and 3.6 to retail, distribution and supply respectively). This has contributed to increased pressure on the main suppliers from the leading competitors in the grocery market, though the relative power still remains balanced enough for the Menon-reports to find evidence for healthy competition in the product market.

The pressure is also largely due to the umbrella chains' focus on implementing their own production and supply in certain areas, thus forcing increased competition in the factor market. Alfnes & Dulsrud (2016) measured in their report on selection of private label goods (PLGs) an increase from 9.2 to 16.8 percent, between 2010 to 2015. This development has also continued, though at a lesser pace. Multiple articles reporting on numbers from NielsenIQ reveal a 17.4 percent share of total revenues for PLGs in 2020 (Kongsnes, 2020; NTB, 2022),

and an increase of 0.2 percent in 2021 to 17.6 percent (NTB, 2022). There has been heavy political discussions surrounding the self made products of the umbrella chains, with many politicians calling for a ban in hopes of healthier competition. Theoretically speaking however, higher degree of rivalry in the factor market should also incentivize higher competition, assuming that the competition is competing for a uniform good. To give a definitive answer, people's preferences would have to be examined. Still, the percentage of PLGs is lower when compared with most large markets in Europe, according to data gathered by the research team at Statista (Statista Research Department, 2022a). Their report revealed that most of Europe lies between 20 and 50 percent, with the UK basing over 51 percent of its revenue from PLGs. The Norwegian market is thus far from being the most representative of PLGs in a European setting. The situation changes if looking at volume percentages, however. Another report from the same team revealed a change when comparing volumes, with Norway having 34.3 percent of its volume presented as PLGs (Statista Research Department, 2022b). The biggest numbers still sit around 50 percent, but there are notably lesser differences between Norway and its European counterparts. This then suggests a Norwegian market where much of the volume and little of revenue is attributed to PLGs, suggesting them to be used in a low-price and high-volume setting. This emphasizes the desired use of these products, as they aim at pushing down prices and competing against brands. If compared to the evolution of foreign markets, and their subsequent lower prices, a continued trend of increased PLGs should still have an overall positive effect on the competition in the market, especially if used to challenge suppliers on price.

The increased pressure on suppliers also seems to be the case. A report on the profitability of the grocery sector by Emendor Advisors (*Dagligvarebransjens lønnsomhetsrapport 2019,* 2020) showed the general trends in operating profit margins among retailers and suppliers in a period from 2015 to 2019. Their report showed stable profitability between 4.9 and 4.5 percent amongst retailers from 2016 to 2019. Suppliers have had a drop from 6.3 to 5.6 percent profit margins in the same period, though a larger growth in revenues. The findings seem to support the notion of lowered supplier power in the market. There thus seems to be notable competition amongst retailers and suppliers themselves, as well as between the two.

Entry barriers

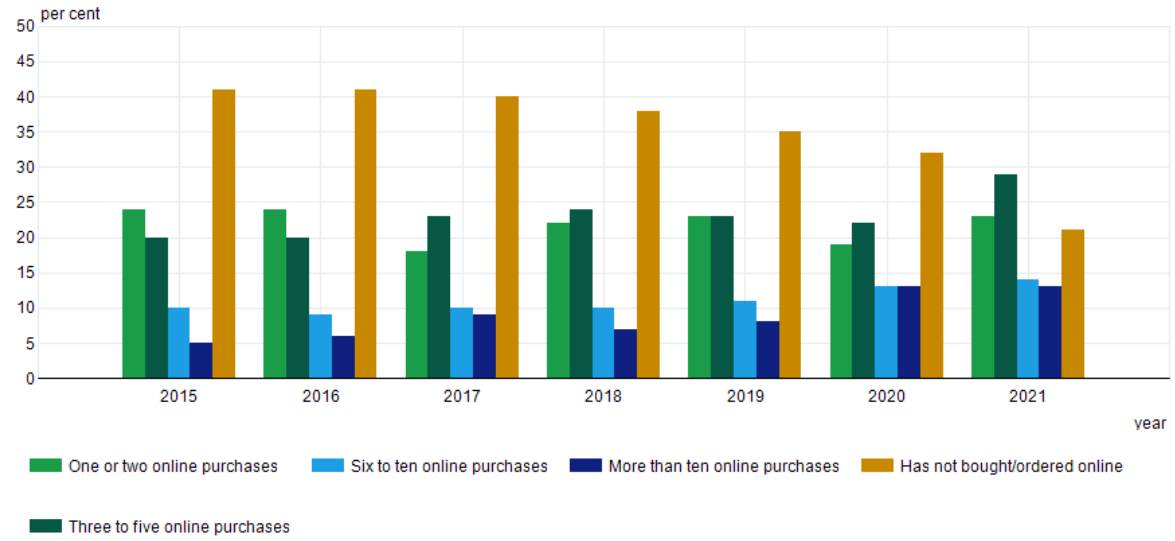
The high competition regardless of the low number of competitors, in addition to the large economies of scale, also signifies some notable barriers of entry. This holds true in both the factor- and product markets. In a low-margin market such as the Norwegian grocery market, there is a need to reach a certain volume to pay for the fixed costs associated with starting up a grocery chain. In addition, beneficial supplier contracts and familiar products are essential for ensuring that customers get the price and product they want. With supplier power having remained high in the last decades, the incentives to enter the market have been relatively low. The competitors that have attempted to enter the Norwegian market have been met with tough competition, with some of the recent chains being the Swedish ICA and German Lidl. Both of these actors gave up the endeavor, with ICA merging with the Norwegian chain Coop, and Lidl closing down and selling its stores to the Reitan Group. These entry barriers can be viewed as an important indicator of future profitability, because low barriers over time would lead more actors to the market, thus increasing competition and barriers of entry. With the number of competitors having decreased in the last decades, one would assume the market barriers to decrease. This is however not necessarily the case, as the reports from Menon-economics show. The decreased number of competitors has been a result of increased streamlining and efficiency and has led to increased economies of scale. The market shares necessary for gaining such an advantage in scale are not easily captured, and so counteracts the effects of a drop in competitors.

Following a traditional model of physical stores also necessitates a high level of irreversible investments, as stores, warehouses, and distribution would need to be implemented. Going for an online model does eliminate some of these needs, as some parts of the value chain can be cut down. However, the big deciding factor in the market is economies of scale. Our analysis of the financial statements from the three main umbrella chains reveals that the average gross margin sits at around 17 to 26 percent. These margins would then need to pay for wages, fixed costs, and other operational costs. Following this margin, the established competitors display an operating profit of around 4 percent, margins of which display how essential scaling quickly is in the market.

New segments

Another factor scaling recently is the share of individuals who buy products online, as depicted by Figure 9. The Statistics Norway (2021) bar chart shows online purchases in the last three months in percent. The share of people not ordering online has decreased approximately 20 percent from 2015 to 2021, whilst all the other categories have increased. This suggests an overall increase in e-commerce.

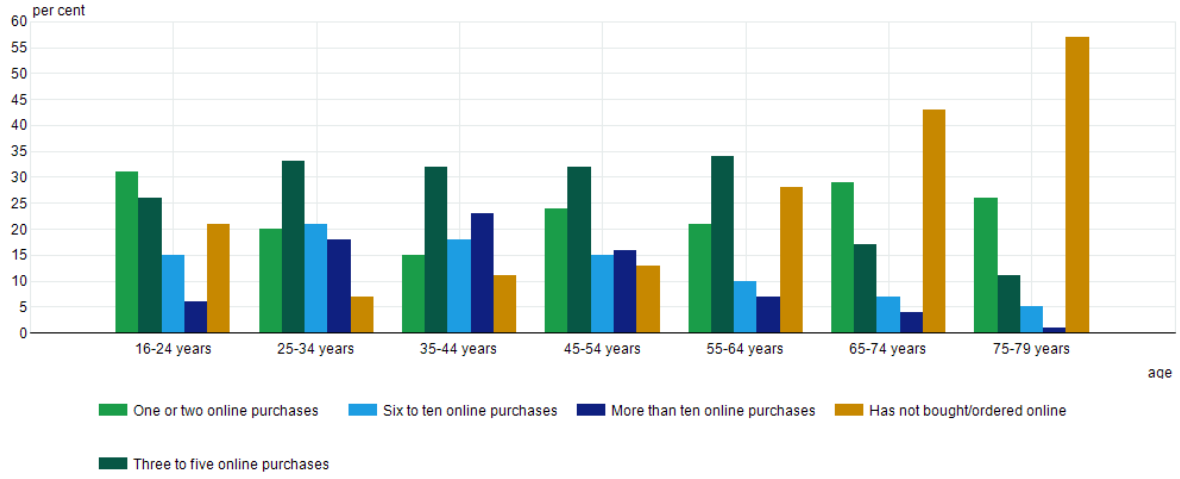
Figure 9: Number of online purchases the last three months (percent), by contents and year. 2021



Source: Statistics Norway

Furthermore, a recent report by Boston Consulting Group (BCG) (Prösch & Ziesler, 2021) investigated peoples purchasing frequency and found that as much as 1 out of 5 consumers shop online at least once a week. These numbers are consistent across demographics such as age, gender, and geography. The findings emphasize the importance of e-commerce across all markets, and is further supported by statistics from Statistics Norway, as shown in Figure 10.

Figure 10: Number of online purchases the last three months (percent), by contents and age. 2021



Source: Statistics Norway

The figures provide some evidence to suggest a growing diversity of operations in the Norwegian grocery market, along with changing consumer preferences. These trends are also in accordance with other reports and findings, some of which have been discussed in the general market delimitation of this thesis. The main takeaway is the entry of e-grocery and the subsequent new segment available in the market. The growing number of segments and actors would suggest a higher horizontal differentiation, with the result being higher customer loyalty. These developments are however at an early stage. Still, considering the fact that the similarly developed UK reached a share of above 12 percent buying groceries regularly online during the pandemic, the value and importance of this new segment is due to increase in the coming years. Indeed, the market-leading e-grocer Oda has stated their goal of 10 percent market share is within reach, following yet another year of growth in 2021 (Sletjøe, 2021). With Norway being the most online-oriented population second only to the UK, one would therefore expect the development to be similar. If this is the case, another way of competing in the grocery market is emerging, a way with less capital requirements.

Concluding remarks on rivalry and entry barriers

In conclusion, the recent decade has seen notable improvements in efficiency, along with higher degrees of competitiveness in wholesale. The results have been increased leverage towards concentrated suppliers, though margins amongst retailers remain steady. High incentives for capturing market shares through economies of scale, and further supplier leverage, seem to keep margins at a minimum. Still, following very noticeable external shocks in the form of the Covid-19 pandemic and subsequent governmental actions, volumes have remained high enough for

the umbrella chains to thrive in the recent years. With the entry of e-grocers, the market seems to have another strong alternative. Therefore, there also exists a potential of creating more horizontal differentiation and thus lower competition. Luckily for the customer, the products offered by the leading e-grocers are similar enough to the leading low-cost grocery segment to allow for direct competition. The market is thus moving towards increased competition in the product market, as well as in the supply market, with the only remaining part of low-concentration being the streamlined distribution and wholesale area of operations.

4.2.3 The status of grocery in Norway

The general state of the Norwegian grocery market is thus marked with changing arenas, increased streamlining and heightened efficiency. While a drop in demand can be expected in the years after the pandemic, the general competition will likely remain similar. As the suppliers are challenged by a recently concentrated and merged retail and distribution, so too is operational margins gradually shifted from suppliers. PLGs have also been developing in share, though the share still remains small when compared to the largest markets in Europe. The introduction of PLGs further increases the pressure towards suppliers, as retailers are presented with an option to market leading supplier-products. At the same time, the margins are remaining stable for retailers, thus suggesting that the competition benefits the consumer. Still, as import protection policies aim to protect Norwegian agriculture, the input factors of these markets remain costly. As such there is only so much that can be done with prices of certain products. The question then remains whether the newly introduced and rapidly developing e-grocery-segment might end up shaking up the balance of the established market, either by being more efficient and subsequently decreasing needed prices, or by introducing competition which drives profitability down through lower concentration and higher competition in the product market.

5. How does Oda compare with the competition?

When comparing Oda against the Norwegian competition, one must maintain a focus on the key components of the market and the relative differences between Oda and its competitors. This helps us answer whether Oda has a competitive advantage in Norway, and to what extent it can be attributed to its FSAs. Having discussed Oda's model in general terms and discussed the competition in the market, we will now explain what factors we view as the key performance indicators (KPIs) of Oda's model and strategy when compared to the competition. Given the development of the market, we will also discuss specific potential hindrances of Oda's model and strategy.

5.1 Oda and the pandemic

The pandemic cannot be left out of this analysis as this external shock hit at a very convenient time for Oda. It boosted sales and awareness in the young company at a point in time where the slope of its growth seems to diminish compared to its early growth-years. The year 2020 came rife with many external factors such as country lockdowns, isolation requirements, and general suggestions to remain inside. The following graphs, Figure 11 and Figure 12, are from Oda's internal reports, and it depicts the marked reaction in March 2020, when the government decided to lock down society due to the pandemic (Sundve, 2021).

Figure 11: Oda's web traffic

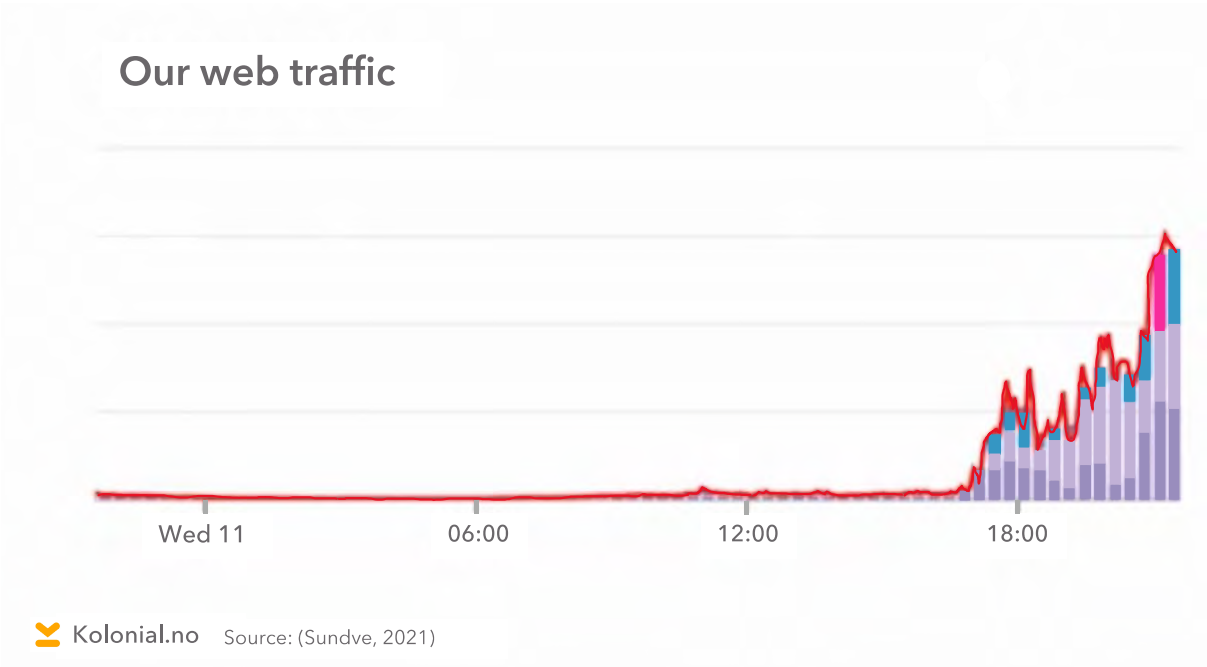
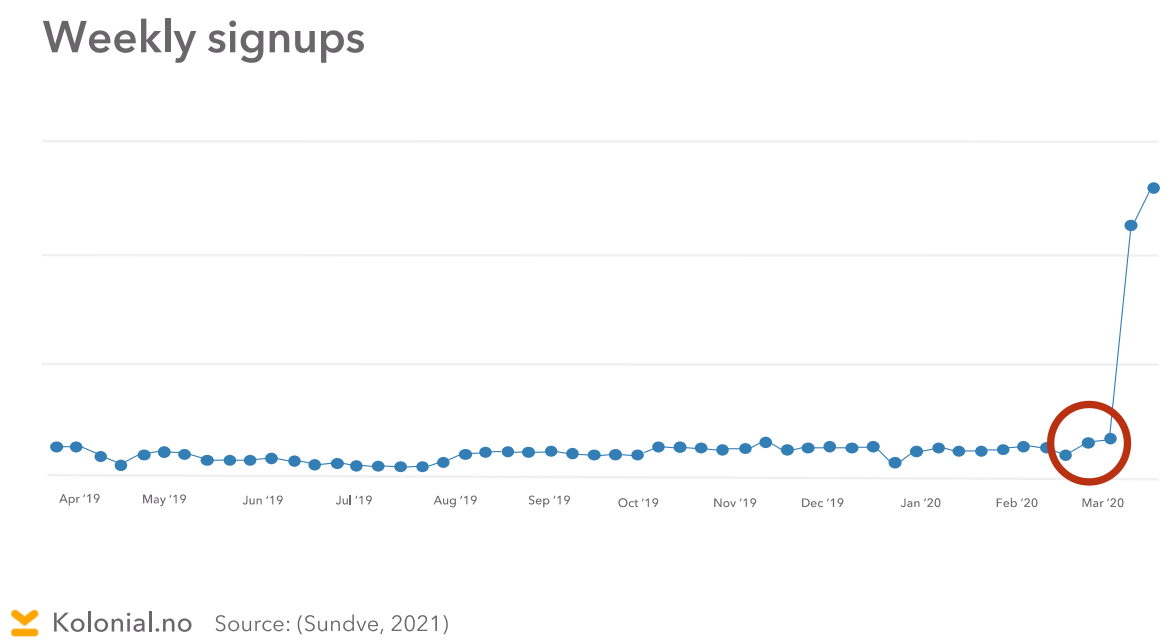


Figure 12: Weekly sign-ups at Oda



According to Hilde Johannessen, user experience (UX) lead at Oda, the three weeks prior to the lockdown (red circle in Figure 12) were considered very good growth weeks. This illustrates the significance the pandemic had on the company. The graph representing weekly signups suggests a massive increase in the first quarter of 2020. The increased traffic following the pandemic triggered Oda to scale much faster than anticipated as the company reached its yearly growth target overnight (Sundve, 2021). The timing of the pandemic suggests an enormous boost in terms of online traffic and sign-ups, but the question remains whether the company managed to convert them into customers. We can get some indication of whether or not Oda managed this by looking closer at the sales revenue in 2020 and comparing it to the previous year.

Figure 13: Revenue - Oda

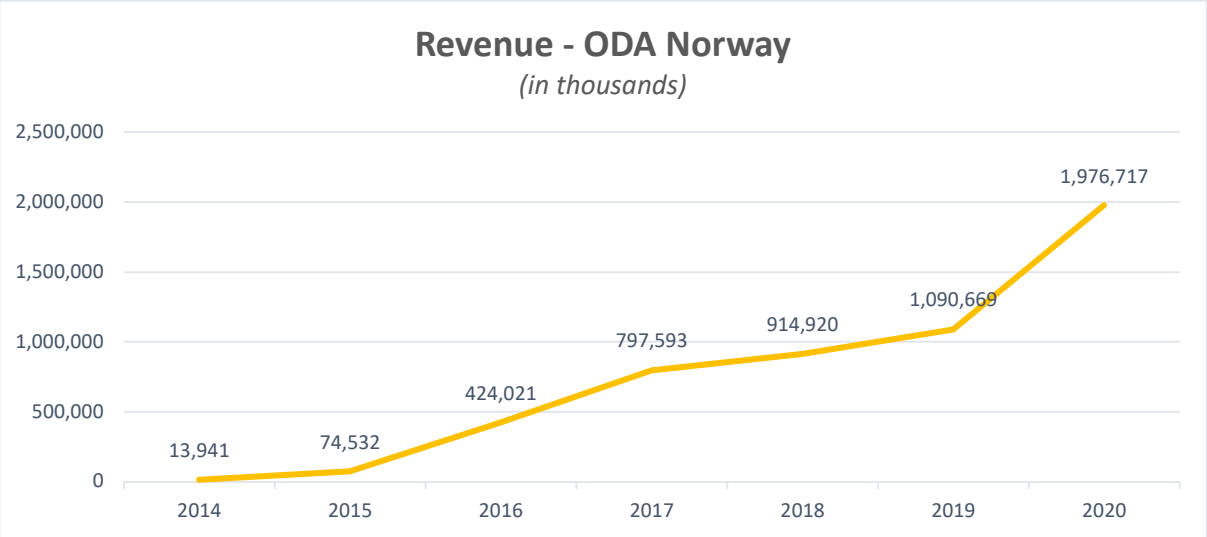


Figure 3 indicates a potential trend from 2017 to 2019 that seems to depict a steady growth. In contrast, the increase in turnover from 2019 to 2020 is considerably higher than expected, compared to the trend started in 2017, nearly doubling over the year. The Covid-19 pandemic is therefore a highly likely contributor to Oda's boost in 2020. The spontaneous growth in customers and web traffic seems to substantiate this fact. Oda's focus on having a scalable platform, as mentioned when describing the company's business model, has turned out to be beneficial in managing the growth resulting from the pandemic. We argue that this shock has played a big part in accelerating Oda's market position as a leading e-grocer.

The pandemic affected people's purchasing behavior, and the percentage of people shopping online increased. The question remains whether this online purchasing trend permanently changed consumer behavior, or if it can be considered a temporary high, where customers eventually return to old habits. Boston Consulting Group (BCG) found in its analysis of Norwegian Consumer Sentiment 2021 (Prösch & Ziesler, 2021) that more people will continue to work from home after the pandemic. They further found that of the remote workers, 60 percent have increased their spending on online grocery and prefer to have goods delivered to their doorstep. The findings suggest that people are more likely to choose the grocery option which is more easily available, and that more remote work likely leads to higher e-grocery expenditure. Though they deem it too early to conclude permanently changed behavior, their analysis suggests that e-grocery is expected to grow in the future, and that there are no signs suggesting a fall in the online traffic for both high- and low-income consumers. Another interesting finding by BCG refers to the consumer expectation of doorstep delivery, where 42

percent prefer delivery to the doorstep despite high delivery fees. Furthermore, provided that the delivery option costs the same as any other option, more than 60 percent of consumers expressed a clear preference for delivery at the doorstep. This reflects a change in consumer preferences as many view doorstep delivery as the only option, stating that click and collect or pick-up points are no longer satisfactory. These findings speak in favor of Oda's business model, and suggest a competitive advantage, as they exclusively offer home delivery at affordable prices compared to competitors.

The pandemic acted as a positive shock on the company. A shock that boosted sales and likely contributed to the company growing to the point in which enabled Oda to compete in terms of price. This unlocked the possibility for Oda to position itself along with other low-cost stores, becoming available to 68 percent of consumers in the market.

5.2 Oda and its low-cost competitors

As Oda has targeted itself towards the low-cost segment, relative comparisons between the actors competing for price is highly relevant. One needs economies of scale to finance the reduced product margins in order to match the low-cost prices effectively. Data gathered from NielsenIQ's yearly reports on the Norwegian grocery sector (Dagligvarehandelen, 2017, 2018, 2019, 2020, 2021), combined with Oda's own financial reports, give an indication of the relative growth between low-cost physical stores and low-cost e-grocery.

Figure 14: Revenue growth of the low-cost stores

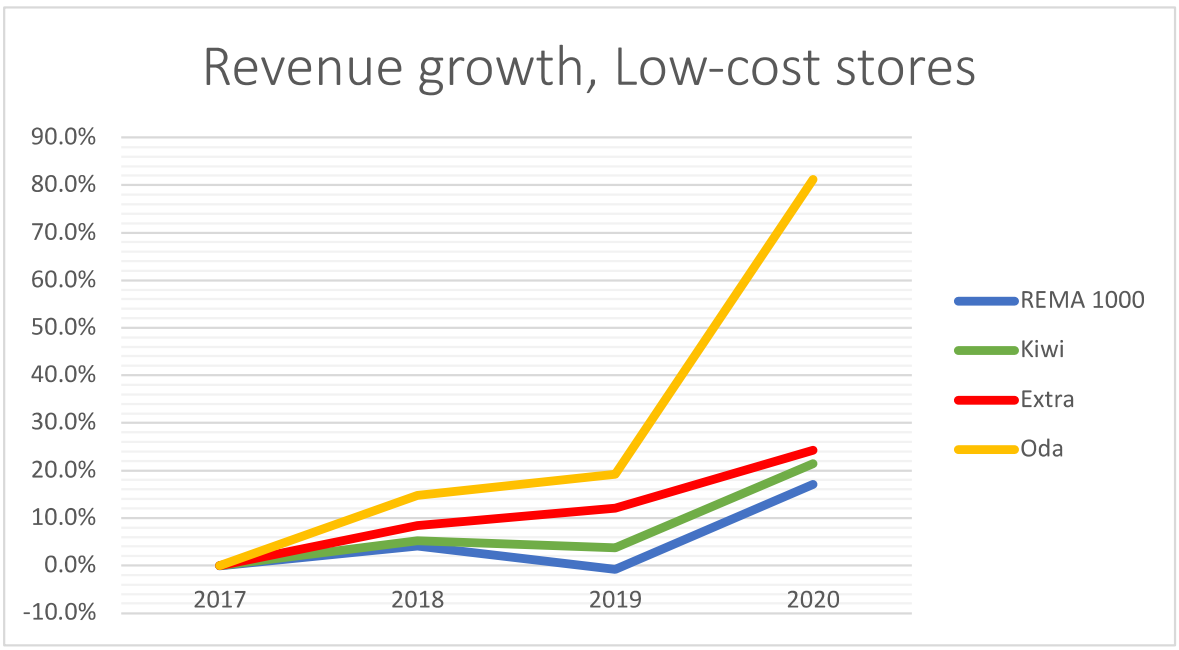
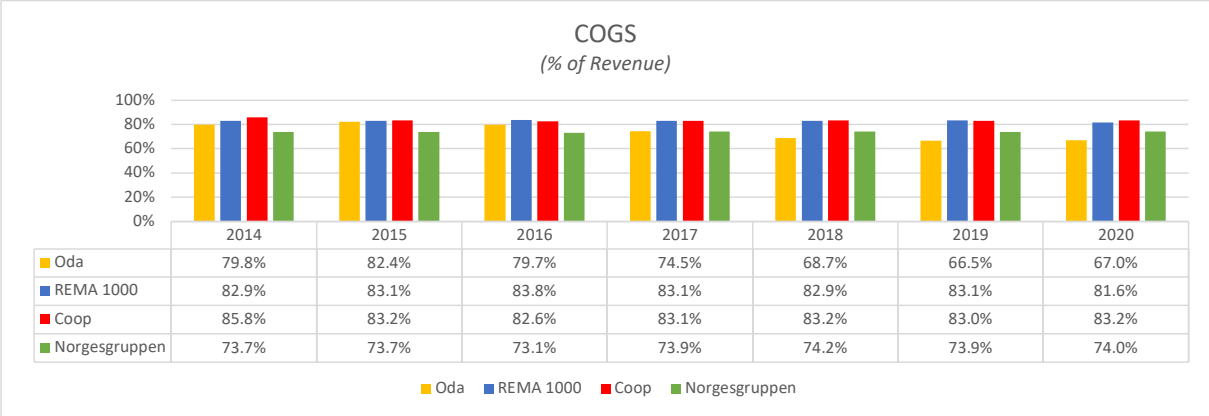


Figure 14 shows a very large increase in revenues from 2019 to 2020 for e-grocery representative Oda, growing with 81.2 percent in the period, while the main competitors reached an average growth of 20.9 percent. As Oda features much of the same goods as REMA 1000, it is natural to adhere their growth in revenue to market capture and increased numbers of customers, rather than to increased prices, particularly seeing as the company has shifted its focus to the low-cost market segment. Of all actors in the market, Oda has captured the largest share relative to its size. With Oda being the leading e-grocer and holding 70 percent of the total revenue in the segment (Williams, 2021), these findings could be further evidence of increased tendencies to buy online. In light of these numbers, one must not forget the effect covid-19 has had, though the increased revenue suggests a service which is able to compete and grow in the competition of low-cost stores.

Another impressive comparison between the competitors and Oda is the comparison of cost of goods sold (COGS), shown in Figure 15. Oda has from 2014 to 2020 decreased its COGS with around 13 percent relative to its revenue.

Figure 15: Cost of goods sold in percentage of revenue

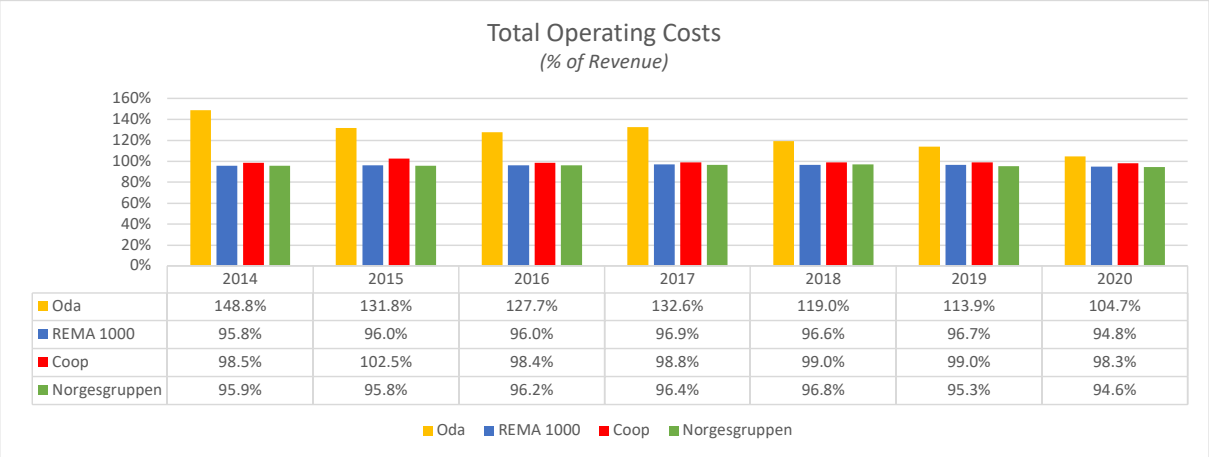


	2014	2015	2016	2017	2018	2019	2020
Oda	79.8%	82.4%	79.7%	74.5%	68.7%	66.5%	67.0%
REMA 1000	82.9%	83.1%	83.8%	83.1%	82.9%	83.1%	81.6%
Coop	85.8%	83.2%	82.6%	83.1%	83.2%	83.0%	83.2%
Norgesgruppen	73.7%	73.7%	73.1%	73.9%	74.2%	73.9%	74.0%

The numbers suggest that Oda has managed to decrease the main cost component down beyond what the key umbrella chains have, in a much shorter span of operation. The decreased costs therefore suggest Oda's model to be more cost efficient than its competitors, though these numbers do not include Oda's cost of delivery. Cost of distribution is included in the COGS of its competitors, thereby enlarging the overall size. A better comparison would therefore have been done by including Oda's delivery costs. However, the financial report of the company does not reveal these numbers, instead opting to include them in other operating costs.

If one considers the total cost picture displayed in Figure 16, the situation becomes rather reversed. Though Oda has managed to decrease its costs remarkably, it still comes out at least 6 percent higher than its nearest competitor Coop. Being a much younger company, and in rapid expansion, these numbers are however expected to be higher. The question remains if the trend shown will continue below a percentage of 100, thus finally signifying a year with positive operating profits. A company can at least not remain above 100 percent indefinitely.

Figure 16: Total operating costs in percentage of revenue



	2014	2015	2016	2017	2018	2019	2020
Oda	148.8%	131.8%	127.7%	132.6%	119.0%	113.9%	104.7%
REMA 1000	95.8%	96.0%	96.0%	96.9%	96.6%	96.7%	94.8%
Coop	98.5%	102.5%	98.4%	98.8%	99.0%	99.0%	98.3%
Norgesgruppen	95.9%	95.8%	96.2%	96.4%	96.8%	95.3%	94.6%

The high costs has been stated as a worry by Oda CEO Karl Munthe Kaas on multiple occasions, and is pointed towards certain suppliers providing noticeably different prices from competitor to competitor (Jordheim, 2022; Tjeldflaat & Ekeberg, 2019). Some suppliers have been revealed to give 15 percent lower prices to Norgesgruppen (Jordheim, 2022), thus also providing one of the competitors with a substantial competitive advantage. Whether these differences have come as a result of supplier power or purchase power has been up for discussion, with either side claiming the other side to be responsible. Still, a 15 percent drop in costs would have placed Oda above the red, and would provide noticeably higher margins amongst the other retailers.

Another point to remember is the discrepancy in size between Oda and its competitors, and the difference between e-grocery and grocery in general. REMA 1000 increased its revenues from 41 to 48 billion NOK, which amounts to 17 percent growth. In absolute terms the company still gained about 7 billion, amounting to more than seven times the growth Oda experienced in the same period. In more general terms, the low-cost chains were reported by NielsenIQ to hold over 68 percent of the total grocery market, amounting to over 140 billion NOK

(Dagligvarehandelen, 2021). Oda's 70 percent share of the e-grocery competition amounts to only around 2 billion NOK. The recent development, therefore, shows that an absolute increase in growth still favors physical stores, though the relative size between grocery and e-grocery may have shrunk during the last few years (Dagligvarehandelen, 2017, 2018, 2019, 2020, 2021). As discussed previously, the pandemic is likely an important factor when considering the relative growth, though both segments have found significantly increased revenue from the shock. Still, there seem to be signs of increased online activity among Norwegian consumers.

One possible explanation for this increasing trend of online activity might be found in previously discovered empirical trends. Guillermo Marshall and Tiago Pires (2018) revealed in an empirical study on the impact of travel costs on grocery shopping, that convenience and cost of travel play an important part in consumer decision making. The study showed that higher travel costs lead to higher tolerance towards higher prices and a lower variety of goods. The convenience of stores is depicted to be the driving force behind store choice rather than prices. This can in Oda's case be a large potential competitive advantage, as online groceries offer some of the most convenient travel costs possible. Delivering goods to each customer's doorstep means that one of the main deciders of store choice is largely taken care of, suggesting that Oda has large market potential in areas where the presence of low-cost alternatives is somewhat limited. This might be in areas with low population density, or it might be in tightly packed areas where parking and other services necessary for shopping remain limited.

These findings have also been confirmed by another study made by Reimers & Chao (2012), which studied the role of convenience in a recreational shopping trip. This quantitative study was carried out in Melbourne, Australia, and focused on shopping trips to a shopping strip (Main Street). While the context of shopping remains dissimilar, the idea of convenience once again being a central component seems to underline people's preference for leisure and simplicity. The report from Wifstad et al. (2018) also showcased a development in preference of shopping more often and from shops within a closer vicinity. The unquestionable main factor influencing the choice of store was also in this case convenience, with access to desired goods, neat store-arrangement, low prices, and parking availability being the remaining factors which determined consumer choice of stores. As 4 out of 5 Norwegian consumers also reported traveling to the store multiple times a week or daily (*Dagligvareundersøkelsen,* 2013), the report also pointed out that travel costs associated with these activities would become larger, and serve a higher importance when deciding which store to buy from.

These preferences can also be reflected in the opportunity cost of time when ordering online. By utilizing an e-grocer the consumers are able to complete their shopping list faster, as they avoid having to travel to and from the store as well as spending time picking groceries, the time which can be spent on other activities. Though there is an associated wait for the goods to be placed at the doorstep, the time saved going to the store is in our opinion one of the grocer's main selling points. The convenience of not having to spend time physically traveling to a supermarket and carrying goods back home is highly likely to appease the same preferences shown in the two previously mentioned studies. In contrast, e-grocers are not competitive when considering fulfilling impulsive consumer behavior, which is where the physical stores are advantageous.

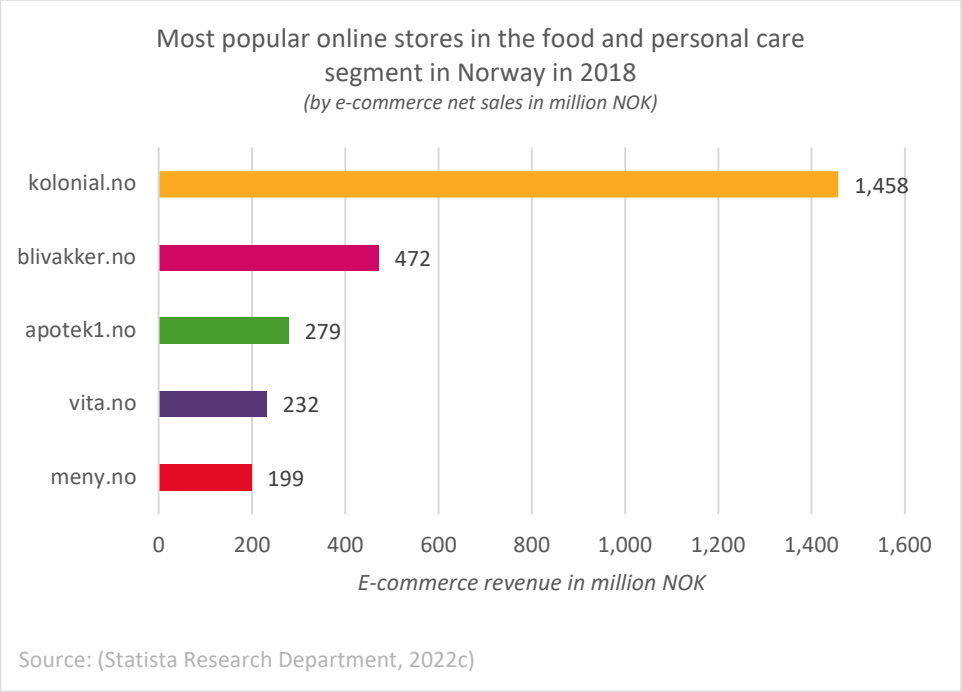
The need for spontaneous buying is a key preference that e-grocery cannot serve at present. Common situations of spontaneous behavior are often reflected in consumers caught up in hectic everyday lives. Consumers might not have time to plan shopping trips, or they might forget items which they need. If the immediate need when forgetting something is strong enough, waiting a whole day to receive the item might not be considered an option, and going to a physical store is the only solution. Oda's personalized features aim at mitigating this issue through several solutions. One of them being the dinner assistant where the customer can add dinners with all the appropriate quantities to the cart, removing the stress of having to remember all the ingredients. These features might help remove the need for some spontaneous buying behavior, but it will never remove all of it, nor is the business model designed for it.

Taking the tendency of Norwegians to buy often and place emphasis on convenience, Oda is faced with notable advantages and disadvantages. With the numerous reports on preferences revealing convenience and travel costs to be the clear contributing factor to choice of stores, the frequent rate of shopping trips among the population signifies a real potential of decreasing travel costs and increasing convenience. E-grocery and their unmatched convenience and travel costs may then serve as a considerable potential competitive advantage. With Oda being the leading provider of e-grocery, in addition to competing for price, the remaining issue is convincing the general population of the same benefits. Ironically, the same convenience provided by the service might be opposed by the inconvenience of adapting to a new way of buying groceries. Still, the revenue numbers of Oda show promising signs. The elimination of one of the more important consumer costs might thus suggest an online grocery market expansion in the following years, and with Oda as a leading actor.

5.3 Oda and its online competitors

In 2018, the closest competitor delivering groceries online was Meny with 199 million NOK of net sales, compared to Oda's 1,458 million NOK. Numbers are taken from a study of the most popular online stores in the food and personal care segment in Norway in 2018, by e-commerce net sales (in million USD, converted into NOK), depicted in Figure 17 (Statista Research Department, 2022c). The difference in sales revenue tells us something about the leading position Oda has in online grocery, as it amounts to 70 percent of the market share. It further indicates the difficulty of surviving in the market despite the low number of competitors. The same year several actors had to shut down operations, as they were not profitable, one of them being Stein Erik Hagen's Marked.no (Høgseth & Lorch-Falch, 2018).

Figure 17: Top 5 online stores in the food and personal care segment in Norway in 2018



Meny.no is the online store of the physical Meny stores owned by the market leader Norgesgruppen. It does not operate from a large warehouse, as it instead picks groceries from its physical stores. This enables Meny.no to deliver to all of Norway, something the online leader Oda does not offer. In 2020, Coop followed Meny's business model offering home delivery from its physical stores, also opening up for delivery across the country. Oda has restricted its deliveries to the eastern part of Norway, as previously mentioned when describing Oda's model, focusing on the most densely populated and most easily accessible geographical

areas. Considering that the grocery industry is primarily measured by the UPH number, it is worth re-mentioning that grocery picking from physical stores is significantly less efficient than Oda's picking system (212 UPH compared to 70 UPH). This means that Meny.no and Coop are sacrificing efficiency for a broader geographical customer base, while Oda is focusing on cost effectiveness and efficiency.

Meny.no operates with a similar ordering process as Oda. Based on information from its web page, we found a higher associated delivery fee and an additional picking fee when the cart is under 1 000 NOK (similar to the fee Oda has when the cart is under 600 NOK). Coops set-up for home delivery requires the customer to purchase goods for at least 800 NOK, in addition to a weight fee and delivery fee. In general, the goods from Meny and Coop tend to be more expensive than at Oda, found by a price comparison made in February 2021 (Pedersen, 2021), further depicted in Table 4 and Table 5.

Table 4: Price comparison

Store	Amount	Difference
REMA 1000	1,682 NOK	0.0%
Oda	1,714 NOK	1.9%
Meny.no	1,793 NOK	6.6%
Coop Home Delivery	1,967 NOK	16.9%

Source: (Pedersen, 2021)

Table 5: Delivery fees of the online actors

Store	Delivery fee	Delivery area
Oda	Ranges from 59 NOK – 0 NOK.	Large parts of Eastern Norway
Meny.no	It costs 59 NOK for delivery if you shop for over 1,000 NOK. If you shop for less the price is 89 NOK.	All of Norway
Coop Home Delivery	It costs 59 NOK for delivery if you shop for over 800 NOK. If you shop for less, you cannot use the service.	All of Norway

Source: (Pedersen, 2021)

Furthermore, a price comparison made by Nettavisen reveals similar discrepancies in price between the three online actors (Kalle, 2021). Again, Oda proved difficult to compete with in terms of price, being 148 NOK and 245 NOK cheaper than Meny and Coop respectively, comparing a basket of 37 products. This further substantiates that Oda is a competitor in the low-cost grocery segment, whilst the other two online actors are more competitive in the supermarket segment when only considering price.

The supermarket chains are characterized by a wider selection of goods, including fresh food counters in the form of fish, meat, and baked goods. These stores are often priced above the low-cost competitors. However, Oda's low prices have not been set at the expense of the selection it offers, as it showcases a variety of goods approximately twice the size of its low-cost competitors. The company's selection stretches beyond grocery products, aiming at serving as a one-stop-shop, becoming more similar to a hypermarket than anything else.

The expansion of service offerings is one of the company's main differentiators. As described in the business model, Oda continues to enter into partnerships with other stores selling their products along with Oda's own. Since we started writing our thesis till now, the company has added yet another option to its platform, which is the possibility of adding products from the bookstore ARK to the cart. Such partnerships cater to Oda's vision of becoming *the world's most effective retail system,* creating a time-saving and convenient shopping experience for the customer. Oda has, as of 1. June 2022, partnerships with Clas Ohlson, Sprell, Barnas hus, several restaurants, and ARK. This further illustrates the continuous evolution of Oda, which is creating an agile business that can deliver anything the customer might want in one delivery. This part of Oda's business model is highly difficult for the physical low-cost competitors to replicate, as well as the identified online competition, considering these are branches of physical stores.

5.4 Potential challenges with Oda's business model

The cost of additional customers

One key gripe with Oda's model is its focus on delivering groceries all the way home to each customer. From a cost perspective, this could lead to some problems with increased volumes. While traditional grocery models ship their goods to fixed points, and therefore suffer little extra costs per customer, Oda's model increases the cost per customer. This increase is due to the need of delivering products to each customer, necessitating revised routes, increased drive times, and drive lengths. If we use this logic to increase the number of customers by 10 percent, the increase in costs would be higher in Oda's model than in traditional stores. These additional costs work as step costs, which means that the costs increase for every additional vehicle Oda adds to its delivery fleet, or with an increase in frequency to and from its warehouse. If the customer growth increases beyond what the company projects, it might have to rethink the size of its vehicles or reorganize its routes. However, until Oda reaches its capacity limit, it will be beneficial to increase the number of customers. It is important to bear in mind that these step costs occur at a significantly higher frequency than for physical stores, which might spend years before needing to expand in attractive markets.

Another point to be aware of is that the additional customer's geographical location might not be indifferent. If one considers adding a customer to the least profitable route, it might increase the route's efficiency, and thus also profitability, because it brings the car closer to its capacity limit. In contrast, adding a customer in areas where the routes are normally full might bring the efficiency down, as it may lead to more frequent returns to fill the car with goods, or the need to add an additional car to that area. This is very unproductive if cars are not operating at their ideal capacity, and it further underlines the importance of the geographical location of each customer in order to calculate the most efficient routes. Still, a customer close to the warehouse should be more profitable than another far away, if looked at in isolation, due to the decreased cost of delivery associated with closeness. Densely populated areas are therefore considerably more attractive for Oda's business model.

6. Concluding remarks on Oda in the Norwegian market

After extensive analyses of the Norwegian grocery market and the associated competition, we are more inclined to answer our second sub-question:

1.2. How does Oda fare in the Norwegian market?

The answers below are related to the market, the pandemic, and the competition, whose effect on the identified FSAs have been analyzed to determine whether they are considered country-specific.

Market

The market of Norway is experiencing streamlining and concentration of wholesale, distribution, and retail similar to the general trends in Europe. A key distinction from other markets is the noticeable supplier power among certain large providers of goods. The supplier power is aided by governmental policies aimed at protecting the local agricultural market. However, the general power balance is turning more in favor of the grocery chains, with integration of distribution and wholesale as one key balancing factor. Still, margins remain low for most retailers, and high for a select few market dominating suppliers. Even in hard competition, the emergence of e-grocery is continuing, with retailer Oda leading the way.

Pandemic

The pandemic acted as a positive shock on the company as it boosted sales beyond its projected trend. It tested how well and quickly Oda was able to scale operations, as the web traffic exploded, leading the company to reach its yearly growth target overnight. Knowing whether the pandemic permanently changed consumer preferences is hard to say at this early stage. However, the report from BCG suggests that the grocery category will continue to increase in future years for both high- and low-income consumers.

Low-cost competitors

Oda has begun its competition on price with low-cost competitors, though their operational costs still remain around 10 percent higher than their closest competitor. Still, COGS are noticeably lower, which suggests a competitive model, if other costs can be trimmed down. Another key point is presented in studies on people's preferences, which indicate convenience

to be the deciding factor when deciding where to buy groceries. These discoveries are good news for the model Oda has chosen, as it eliminates inconveniences such as travel costs, opportunity cost of time spent traveling, and having to carry groceries back home. With newly released price comparisons revealing Oda to be ahead on price compared to its competitors, the future looks promising and is only limited by the inconvenience of changing habits.

Online

The competition in the online market is fairly low considering Oda's 70 percent market share. One would think that the online competitors operate with a similar business model as Oda, however, that is not the case. The competitors Meny and Coop Home Delivery also differ from Oda's business model, as they are both branches of already established physical grocery stores. This categorizes Oda as having a unique model in the market in which it operates. Being solely online also enables Oda to offer a wide selection of goods beyond what the low-cost competitors can. In addition to differentiating by offering other types of products from other stores, becoming more similar to the typical hypermarket.

Are the FSAs country-specific?

As identified when analyzing Oda's business model, it seems as though it is the interplay between complementary activities combined with key resources that makes the company unique. Some of the most important being the supplier relationships combined with the technology used to keep an efficient inventory, the combination of the inhouse developed logistics system and picking, and the frequency alignment of the ordering and delivery service. Combining these activities with resources such as the warehouse, the logistics system inside the warehouse, and the integrated delivery service, is essential for the company's success. Finally, with Oda having developed a way to more easily scale this model, through process understanding, technology, and digitization, we are inclined to determine the strongest FSA of the company to be the business model as a whole. Furthermore, most of the analyzed FSAs seem to be transferable to other markets, due to their non-region-specific composition. Still, there are some FSAs which might render themselves less favorable to transferal. The most evident country-specific FSA is related to the company's partnership with REMA 1000, which has enabled the possibility to compete in terms of price. In addition, the non-existing online presence provided Oda with an opportunity to capture large market shares. This is indeed country-specific as other markets might have an existing presence in the online grocery segment. However, the model as a whole is likely transferrable to other markets, as most of the

essential FSAs are transferable. This is why we believe it is beneficial to replicate the model in other markets instead of outsourcing its logistics service alone. Whether one of these markets includes Finland remains to be seen.

7. Why seek market share in another country?

We need to understand why Oda seeks to internationalize in the first place. Drawing on some of the external factors mentioned in our paper, we can likely identify some deciding factors. The recent growth in e-grocery, due to the global pandemic, opens up for capturing market share in other countries that have low to moderate competition. This is likely one of the triggers why Oda seeks to internationalize precisely at this time, to avoid missing a promising opportunity of market entry. Another factor to consider is Oda's focus on the most densely populated area in Norway. Pairing that with easy access to main roads enabling the company to cover a large geographical area, indicates Oda's operational preferences. Other parts of the country that are geographically easily accessible do not have highly populated areas, relative to the east. Moreover, the parts that are densely populated, like for instance Bergen, have potential infrastructural issues with narrow roads and ferries. In addition, as suppliers operate from warehouses in the Oslo region, Oda would have to distribute goods from Oslo to other regions themselves, thus noticeably increasing costs. These are indicators for why Oda seeks to internationalize instead of investing heavily in domestic expansion. If we look at the market Oda has identified as attractive, the Finnish market is similar to the Norwegian in terms of geography as well as population size and culture. Finland has its most densely populated area in the south close to its capital Helsinki, again similar to Norway. We will investigate these perceived similarities further in our analysis and identify potential differences.

8. Is it beneficial to replicate the business model in Finland?

Having identified Oda's FSAs, in what market the company operates, and the competition it faces, gives us a thorough baseline for saying something about how this model will work in other markets. This leads us to the last part of our research question which is twofold:

1. *What are potential issues in terms of Liability of Foreignness that Oda might face in Finland?* and
2. *Can Oda's FSAs be considered the same in the Finnish market?*

In order to answer these questions, we need an understanding of the potential pitfalls and opportunities companies face when expanding to the international scene. We investigate this by applying the concept of liability of foreignness (LOF) and fitting it to Oda's situation.

There are several interpretations of how to identify liability of foreignness (LOF). The common perception is the importance of becoming aware of potential challenges one might face as an international enterprise. An article by Zhou and Guillen (2016) categorizes LOF in terms of what type of foreign direct investment the company is seeking. Companies are likely to face different types of LOF depending on their type of investment. By following their categorization Oda falls under market seeking foreign direct investment, as we have identified capturing market share as the reason for the company's expansion. As the company seeks to benefit from its FSAs it is important to identify any differences between the domestic and foreign market that might eliminate or potentially dampen these competitive advantages. Often the most critical factor is differences in product demands. Such differences create product adaptation costs, which is a measure of cultural, economic and demographic distance. The cultural aspect seeks to identify differences in norms and cultural values that affect consumer preferences. The economic perspective describes differences in purchasing power between the two markets, and the demographic perspective includes differences in population size, age and growth. As supported by the results of Zhou and Guillen's hypothesis, the greater these distances are the greater the adaptation costs for the company seeking to internationalize. These costs are likely to affect the performance in the new market and thus needs addressing. By turning to our market analysis, we can identify differences between the Norwegian and Finnish market, which is what will be discussed in this next section.

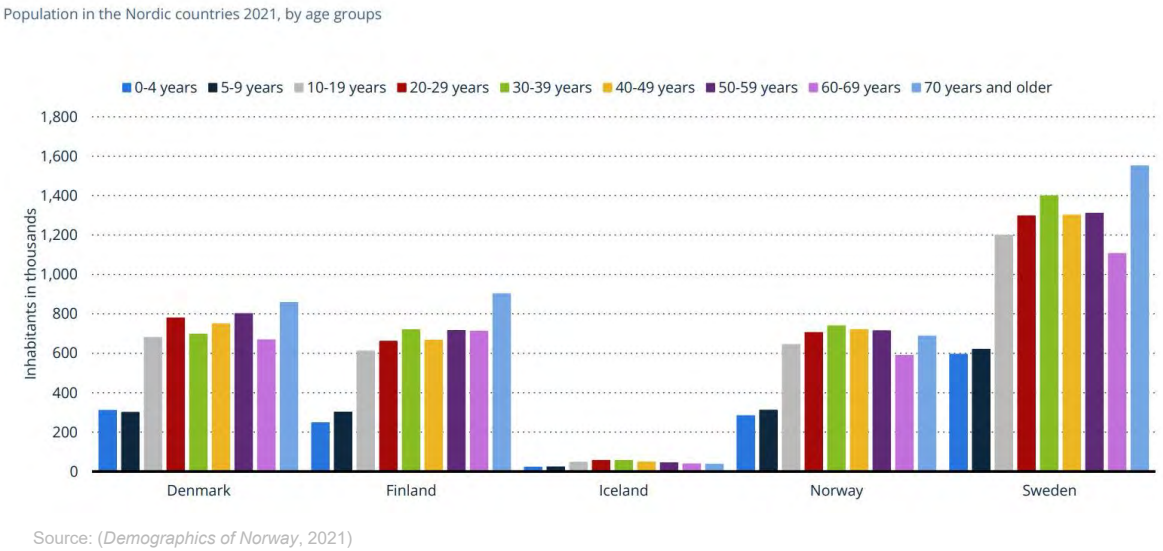
8.1 The Finnish market

The analysis of the Finnish market in the Lien et al. (2016) framework, will be focused on the differences between the two markets. The findings will aid us in deciding the level of LOF from an economic and demographic perspective. The analysis of the market will therefore primarily focus on the factors which have differing impacts, and attempt to conclude how these factors might affect Oda's FSA's in the Finnish market. The first discussion will be related to the general scope of the market.

8.1.1 Finland vs. Norway | Demographic and Economic differences

The general demographics in Finland remain similar to the Norwegian market, with some key differences. Both countries contain a similar population size 5.5 (O'Neil, 2021) and 5.3 million (*Demographics of Norway*, 2021) in 2020 for Finland and Norway respectively, though there are some key differences in age distribution, as depicted in Figure 18 below. Finland has a larger share of people 60 years and older, and lower amounts of children aged 0-9 (*Demographics of the Nordic countries*, 2022), thus meaning a higher average population age. With family households being the segment of largest potential expenditure, a decrease in the share of families relative to the population might thus negatively affect the total revenue of the market. Similarly, an older population limits the total size of the market by nature of lower consumption. The slight size discrepancy between the Finnish and Norwegian market might thus be countered by the general age distribution.

Figure 18: Population in the Nordic countries 2021, by age group

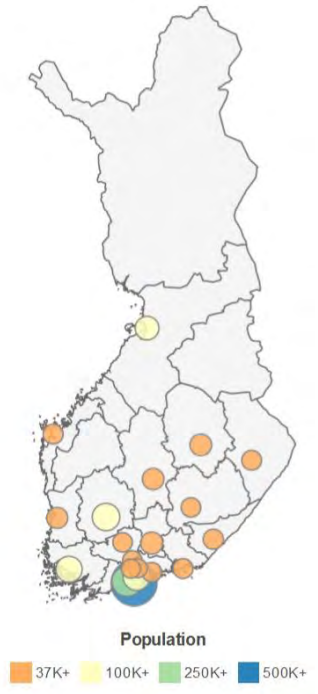


Source: (*Demographics of Norway*, 2021)

The demographic change has, according to a report by J. Clausnitzer (2021a), been rapid in the recent decades. Stating Finland to have one of the world's fastest aging populations, much due to the general increase in life expectancy and decrease in birth rates. Combined these factors suggest a gradually stagnating population, and might have implications for the general grocery preferences of consumers, particularly in the future.

Another distinction from the Norwegian market is the generally more convenient topography of the country, and the higher population density in select areas. Figure 19 shows that the majority of the Finnish population is located in a relatively close vicinity to the capital Helsinki, thus simplifying logistics and distribution to the majority of the population.

Figure 19: Population density map - Finland

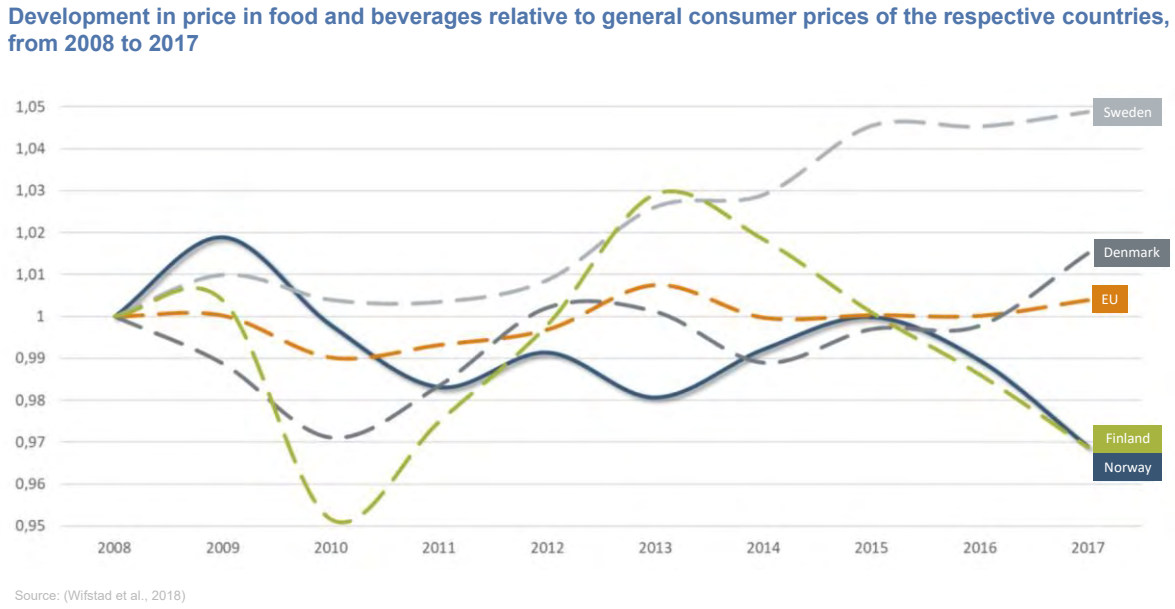


Source: (Finland population, 2022)

The absolute value of the market may therefore be considered slightly higher than a similarly sized country with less beneficial geography. Companies and suppliers are subsequently faced with less costs related to distribution and higher concentration of consumers at focused points of the country. The concentration of consumers might therefore have some noticeable implications on the market as a whole.

What has had less implications on the general market development, is the average shopping basket value, which has been changing steadily from 1996 to 2018, (PTY, 2021), changes that can likely be attributed to general inflation. When adjusting for inflation, the report on Norwegian grocery by Menon Economics (Wifstad et al. 2018) showcased a similar development in price between the Norwegian and Finnish market from 2015 to 2017. These findings are represented in Figure 20.

Figure 20: Development in price in food and beverages from 2008-2017



It is also worth noting that both Finland and Norway have had a negative development in prices relative to general consumer prices, as opposed to the positive development of Sweden and Denmark. Still, while relative prices might remain similar, the absolute prices could differ between the countries, as well as the prices relative to income. Data gathered from Numbeo (*Cost of Living Comparison Between Finland and Norway,* 2022) revealed that grocery prices are 44 percent higher in Norway than in Finland, coupled with 29 percent higher wages. A larger percent gap in price than wages suggest a larger share of the Norwegian income to be spent on buying groceries. These findings can be substantiated by Norway's 9th placement of the most expensive shopping baskets worldwide (Andrews, 2022), where Finland placed 19th. The Norwegian monthly basket price was discovered to be 3.28 percent of a monthly salary, compared with 2.61 percent in Finland.

More similar is the general size of the markets, though the Norwegian market remained slightly larger in terms of revenue as of 2020. Recent MarketLine analyses (2021a; 2021b) show an average size discrepancy of 8.9 percent from 2016 to 2019, numbers of which have been deducted from Figure 21 and Figure 22. The difference in revenue is likely attributed to the difference in price levels and expenditure, but should be somewhat mitigated by the slightly larger population in Finland.

Figure 21: Norway food and grocery retail market value (million EUR), 2016-2020(e)

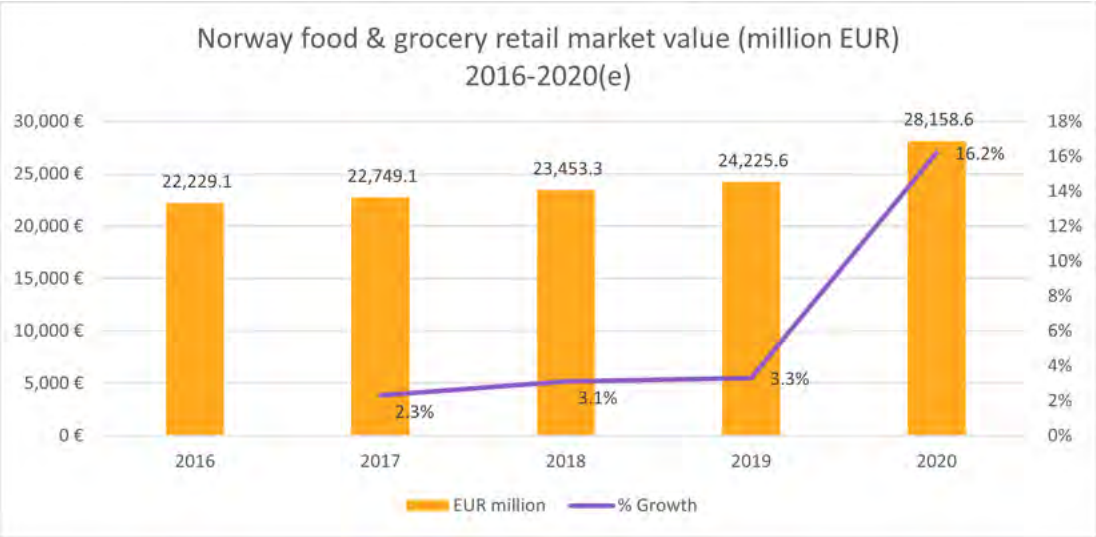
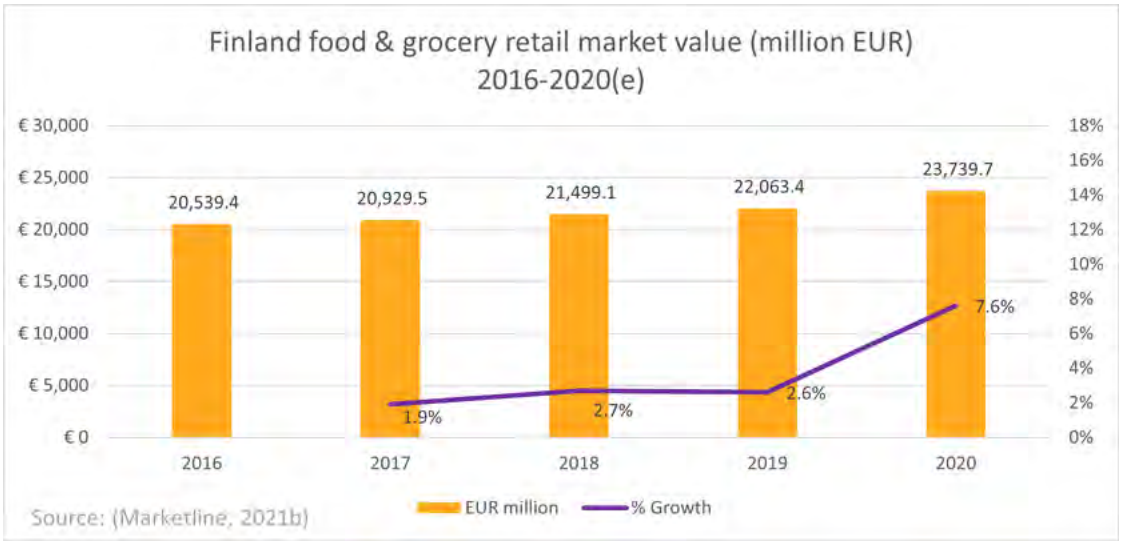


Figure 22: Finland food and grocery retail market value (million EUR), 2016-2020(e)



Still, the revenue numbers say something about the overall market-development. One thing which becomes apparent is the considerable difference in 2020, which as discussed in the Norwegian market likely stems from the effect of the Covid-19 pandemic. In the years before

Covid-19, the differences remained stable with an average of 8.9 percent. The relatively small 8.9 percent difference in average market revenue is smaller than what the price levels would indicate, thus suggesting a different volumetric expenditure between the two countries. The rest of the changes may thus be explained by general purchase patterns and volumes. Finland's slightly larger population plays a part in shortening the gap between the two markets, though it is difficult to conclude it being the only reason. The rest of the changes might then be due to higher purchase volumes per person.

8.1.2 Finland vs. Norway | Rivalry and entry barriers

The Finnish grocery market is structured similarly to the Norwegian market, with three actors competing for the majority of the market. Still, according to the data presented by Statista (Clausnitzer, 2021, September 16.), only the S-group (46 percent) and K-group (36.9 percent) have a market share above 10 percent, with Lidl trailing behind at 9.5 percent. The concentration of actors is thus slightly higher than in Norway, though there exists a larger range of smaller actors. Even if the general inflation, as revealed in the discussion on market scope, has contributed to increased prices, the prices of food and non-alcoholic products have since 2014 become increasingly smaller compared to the income level index (PTY, 2021). The findings suggest that the competition is sufficient to drive down prices despite high concentrations of market actors. The Finnish Trade Association characterizes the Finnish grocery market development as similar to other Nordic countries, with chains forming and logistics being streamlined. Having seen gains in customer surplus in Norway, the question then remains whether this streamlining has had the same effect on the Finnish grocery market.

Product differentiation is a central topic when discussing *rivalry*, as the Lien et al. (2016) framework suggests lower rivalry in markets with differentiated goods. By our definition of the market product, anything which alters the service of providing groceries can be counted as differentiations, either vertically or horizontally. One key distinction is therefore the number of types of shops, and the general number of shops of each type. The Finnish Trade Association revealed a total of 4,461 shops, including e-grocery and other specialist shops, in 2020 (PTY, 2021). The same period had a reported 3,852 stores in Norway. Following these numbers, the largest shares of revenue stem from Hypermarkets, Supermarkets, and large markets. The revenue of each respective branch is represented below in Table 6, with the definition of store types based on the sales area.

Table 6: Sales of consumer goods, by shop type (in million EUR)

Sales of consumer goods, by shop type *(in million EUR)*	Revenue	Sales area
Hypermarkets	5,928	Citymarket, Prisma and minimani
Department stores	396	>=1,000 m^2 (less than 2/3 share of revenue in consumer goods)
Supermarkets, large	7,715	>=1,000 m^2 (more than 2/3 share of revenue in consumer goods)
Supermarkets, small	2,437	400-999 m^2
Markets, large	2,204	200-399 m^2
Markets, small	384	100-199 m^2
Small shops	169	< 100 m^2
Specialist shops / Market halls / Online grocery retailers	267	
Low-cost shops	474	
Service station shops	155	
Total	**20,129**	
Source: (PTY, 2021)		

The numbers reveal a total of 67.8 percent of revenues are accounted for in hypermarkets and large supermarkets. Compared to the 68.3 percent share of low-cost stores in the Norwegian market (Dagligvarehandelen, 2021), these numbers seem to suggest a dissimilar structure in the market. An important distinction between the two countries is the tendency to shop in hypermarkets. While only 5 percent of the Norwegian revenue of 2020 were attributed to hypermarkets, the Finnish market shows a considerably larger share of 29 percent. This indicates a market where large stores dominate to a larger degree than in the Norwegian market, and suggests Finnish market preferences towards larger store-types, though the total number of store-types remain similar between the two national markets.

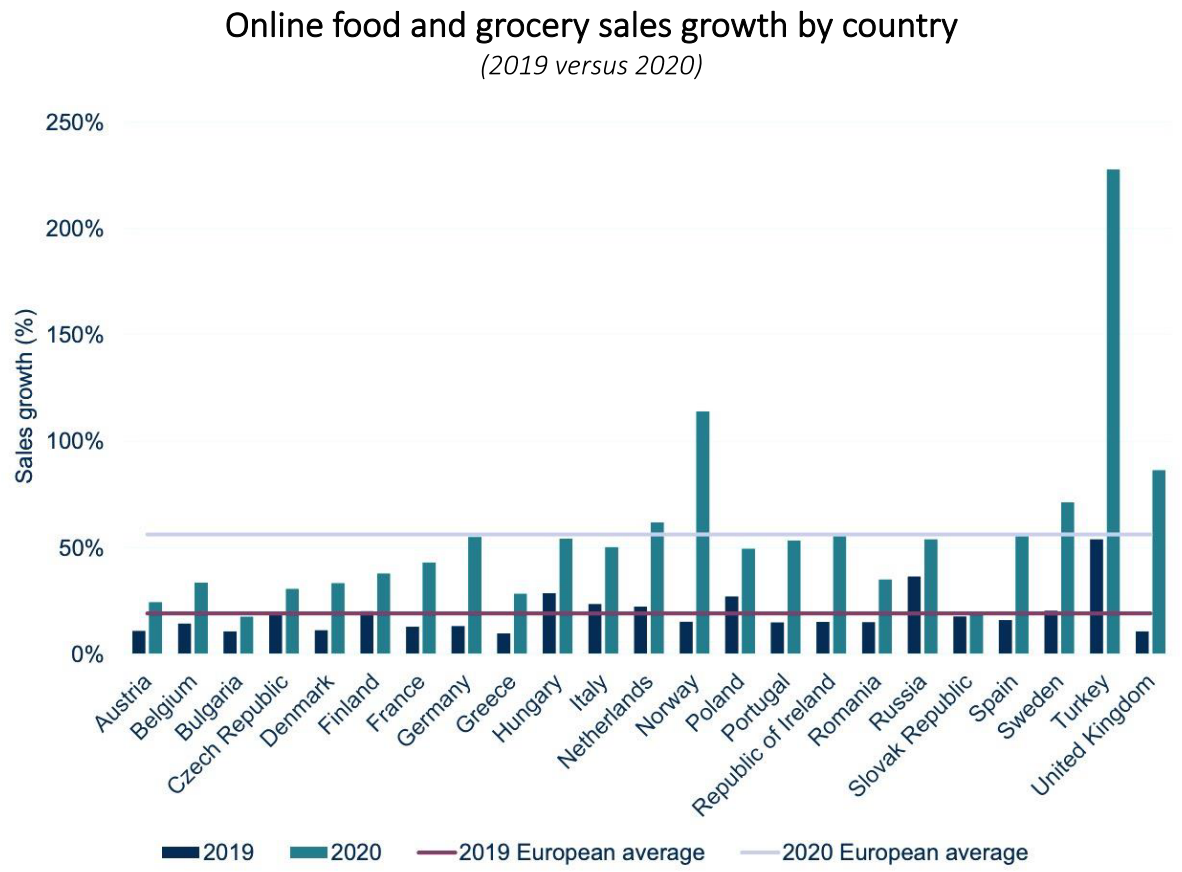
The more substantial use of hypermarkets might also be attributed to larger incentives for economies of scale, incentives of which are present in most low margin markets. These incentives are known to promote higher degrees of rivalry and higher entry barriers. Advantages in scale necessitates the capture of market shares, which indubitably also increases the competition amongst rivals. A way of promoting economies of scale might thus be through the use of large hypermarkets with larger selections of goods and lower prices than traditional supermarkets. Alternatively, higher shares of revenue attributed to hypermarkets can simply be the result of consumer preferences, due to the reported larger selection of goods (Mikkonen, 2022).

Another distinction is the use of supermarkets rather than low-cost stores. 38 percent of revenue from large supermarkets along with 12 percent from small supermarkets, together make up half of the total Finnish market, a number which trumps the 21 percent share in the Norwegian market. However, the significance of the differing shares and the low influence of low-cost stores are dependent on the terms meaning the same thing in both countries. The term low-cost

seems to be more common in Norway than elsewhere, with Finland being no different from the rest in preferring the term supermarkets. As the two countries have been analyzed by NielsenIQ, the two definitions are likely to be somewhat different. A low-cost store in Norway operates very similarly to a supermarket, and so low-cost may be a sub-segment of the supermarket-segment. This would likely explain the large shares of revenues and would thereby portray the two markets as relatively similar, barring the mentioned discrepancy in hypermarket-revenue. Another point is the general differences in price between low-cost stores and supermarkets, which are less apparent in Norway than in other countries. The Menon-report of the Norwegian grocery market (Wifstad et. al. 2018) gave a general description of Norwegian low-cost stores to be soft-discount, where the selection of goods is larger and prices are higher than "hard-discount" actors such as Lidl. By this definition it is therefore possible to look at Norwegian low-cost stores as similar to supermarkets in an international setting.

E-retail is another aspect of the market which has been developing, and may affect the diversity of services in the future. Figure 23 shows the relative change in the sales-growth of online grocery. While Norway has had some significant growth during the pandemic, likely owing to the rapid emergence of e-grocer Oda, Finland has been subject to a more moderate growth. The findings could indicate either that the market is not as expanded as it could be, or that the general interest in e-grocery remains low. It could also indicate that the absolute numbers are larger in Finland as opposed to Norway, thus making growth lesser in percentages, but larger in absolute values.

Figure 23: Online food and grocery sales growth by country (2019 vs. 2020)



Source: European Commission Directorate-General for Economic and Financial Affairs

A report on Finnish e-grocery pre-covid (paytrail, 2018) outlined remarkable growth in e-commerce, with e-grocery following the same trend. The report found evidence for an increased percentage of people buying online, increasing from 6 to 16 percent in 2018, reaching a total value of 590 million EUR. The Norwegian e-grocery segment is thus less than half the size of the Finnish one, as Norwegian market leader Oda's 70 percent market share roughly amounts to 200 million EUR. The Finnish numbers are furthermore reported before the pandemic, and is likely higher based on the sales growth presented by the ECDG in Figure 23. The numbers thus reveal a noticeably higher use of e-grocery in Finland than what is reported in Norway.

Another important distinction to investigate is the relative market power between suppliers and retailers. A way to determine relative power is by comparing the average margins along the food chain, rather than relative to the largest suppliers. A report by A. Peltoniemi & J. Niemi (2016) showcased the relative gross margins in each part of the chain, from primary production to retailing. The margins of the retailing chains were reported to vary between 20.9 and 33.5

percent in 2012, in the dairy, meat and cereal product category. Such margins are much larger than what has been observed in the Norwegian market, where average gross margins of the three main actors lie between 17 and 25 percent. Still, the numbers gained from the two largest actors' financial reports suggest that the margins previously revealed by Peltoniemei and Niemi are much higher than what is the case in the market as a whole. Gross margins were reported to be 9.5 (Krook et al. 2022), and 14.2 percent (Kiiskinen et al., 2022) for the S-group and K-group respectively in 2021. The key trade figures deducted by the annual report of Kesko further showed an operating profit margin (EBITDA margin) of 6.5 and 7,7 percent in 2020 and 2021, specifically targeted towards the Finnish grocery market. These margins are around a percent higher than the Norwegian market-leading actor Norgesgruppen, and 5 percent higher than the second largest actor Coop. Adding to the apparent market power of the leading actors in Finland is a similar development of chains, and subsequent centralization of procurement and logistics, as has been the case in other Nordic countries (PTY, 2019). Larger grocery chains lead to larger advantages of scale, and serve as a significant entry barrier for traditional stores looking to compete in the physical segment. Still, Kesko's revenue numbers seem to be larger than the average. S-group is for instance only noted at having 2.3 and 2.6 percent operating margins in 2020 and 2021 respectively, margins which reflect the Norwegian market to a larger extent. It thus looks like the limited number of actors still leads to significant competition, possibly due to the constant local competition across the different geographical areas. As regions are presented with stores, the only way of securing revenue is making sure locals use a company's own store over the competition, thus incentivizing competition in nearly all regions. Another key motivation is in economies of scale, which entails larger volumes, market shares and subsequent market power which can be used to bargain with suppliers.

There is in any case little evidence to suggest the scale-incentives stem from larger supplier power in Finland as opposed to the Norwegian market. Finland's EU-membership ensures free access to goods and services from other EU-countries, thus making for a less protective environment for certain suppliers. Without the import-protection of agricultural goods, the factor market is less restricted and concentrated, and might then also be subject to harder rivalry amongst suppliers. It seems the relative power between the retailers and medium size suppliers is in the favor of the retailers, at least when judging suppliers who are responsible for private label goods (Liu & Niemi, 2014). The study of Liu & Niemi interviewed A- and B-Brand suppliers (A being the most stored brands, and B signifying local products), and found that all interviewees reported feeling that they had no other option than to adhere to the retailer's

demands. This was especially the case in negotiations on price, where retailers had absolute power. The findings suggest that supplier power is low amongst B-brands suppliers, especially towards the leading actors. It might further indicate that competition is high, seeing as retailers have the last decision on deals. Higher competition in the supply market should imply lower prices for companies, which would be to the benefit of either the customer or the retailer depending on the powerplay between the two. Still, there are brands of sufficient power to influence the market, with Coca-Cola being an example of international brands of high importance. Strong brands and corporations are also the case with certain supply segments in Finland.

The Finnish market is therefore not without its large suppliers. Three suppliers stand out as considerably larger than the rest. HKScan, Raisio, and Apetit, all produce and supply food-products, and of whom the former has reached a turnover of 1,815 million EUR in 2021 (Kiskola et al. 2022). The margins of these actors are comparable to the retailers, though with Raisio reaching a considerable 13.1 percent operating profit in 2021 on its Finnish operations, and 15 percent the year before (Tiitinen et al. 2022). HKScan and Apetit had operating margins of 4.8 (Kiskola et al. 2022) and 3.2 (Aho et al. 2022) in 2021. While the largest suppliers likely can afford to set higher prices than the average supplier or provide more leverage in negotiations, the numbers still provide some indication on the relative power between suppliers and retailers. The margins suggest an even distribution of market surplus, as the retailers seem to undergo ever present price wars. Though there still exist some suppliers and retailers who perform noticeably better than their competitors, the majority of retailers and suppliers seem to be balancing their margins marginally.

Another factor which might also affect the balance between suppliers and retailers is the share of private label goods (PLG). While Norway has a generally low concentration of PLGs compared to Europe, at least in terms of revenue, the Finnish market numbers edge closer to the European values. With a 23-25 percent share from 2018 to 2021 (PTY, 2021), PLGs are around 43 percent higher than the Norwegian reported number of 17.4 percent of revenue (NTB, 2022). The combination of higher pressure on suppliers through low regulation and larger shares of private labels suggest lower entry barriers than what can be attributed to the Norwegian market, a suspicion which is further emphasized by the differing margins. These margins are likely also the result of incorporated distribution and wholesale.

Finally, there have been previous reports of the Finnish and Norwegian grocery industry indicating similar findings. Two reports made by MarketLine (2021a; 2021b) on the countries concluded with a strikingly similar five-forces analysis, which point towards an identical degree of rivalry, buyer power, supplier power and substitutes. The results must be considered with somewhat caution, as both analyses feature the same argumentation, possibly owing to the reports being computer generated. Nuances in market development might thus not be captured by the analysis. They do however, underline the similarities between the markets which, barring some absolute numbers, indicate a certain balance between retailers and suppliers. The average margins in Finland are somewhat larger than the Norwegian counterpart, but this might be expected by the higher concentration of retailers and generally larger market power.

8.1.3 Finland vs. Norway | Cultural differences

The next step in understanding the differences between the Norwegian and Finnish grocery market is determining the differences in culture, and by extension behavior. Cultural differences increase adaptation costs, as suggested by the Liability of Foreignness- framework previously introduced. The more dissimilar a culture is, the larger the cost of adapting. As both Finland and Norway are Nordic countries, along with being in the top on happiness and wellbeing globally, many key aspects such as monetary situation, happiness, and government support remain similar. There are however some distinctions in consumer preferences, likely stemming from the differences in demographic and cultural composition.

The first difference to be discussed is concerning one of the key Norwegian behavioral trademarks. The general trust of the people is somewhat less indicative than what is the case in Norway. With around 58 percent of the population agreeing that most people can be trusted (Ortiz-Ospina et al. 2016), the Finnish population can be defined as a trusting population. Still, the numbers of Finland are less pronounced than the Norwegian share of roughly 74 percent. While the implications of this difference is difficult to observe, it could have implications on the general willingness to try new products, especially products whose model differs from the already established.

Conversely, one aspect which makes Finland stand out is the internet usage of its people, even compared against the relatively online-oriented Norwegian population. In a summary of Finnish internet usage, J. Clausnitzer (2021b) stated the Finnish people to be one of the world's most connected countries. With 96 percent of the population having access to broadband internet, as well as the access being considered a legal right of all citizens and businesses as of 2010,

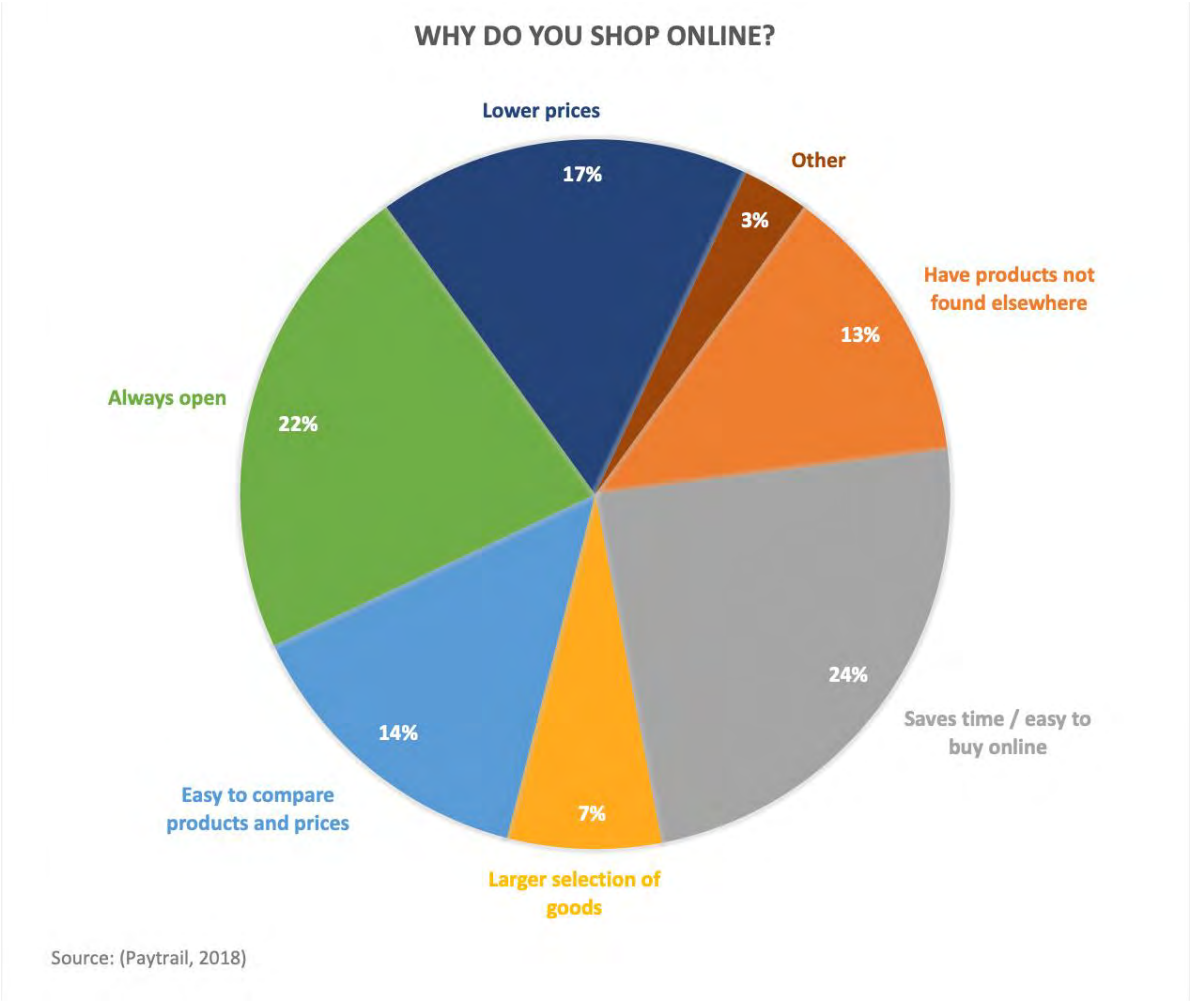
virtually everyone that wants to can access the internet in Finland. Where the Finnish outperform their other nearby countries is in terms of mobile data usage, being ranked first worldwide. In fact, a collaboration between the Nordic and Baltic countries (Traficom et al. 2019) has shown the Finnish people to transfer 30.7 gigabytes (GB) over a month's time, and in essence dwarfing the Norwegian number of 4.3 GB. Mobile data is unrestricted in Finland, and as such the competition between mobile operators centers around providing the best connection speed. As a result, nearly half of all mobile data subscriptions offered a connection speed between 100 and 299 megabytes per second (MBps), which effectively eliminates the need for broadband. These advancements in mobile-services lead smartphones to be the most commonly used internet-accessing device in 2020 (Clausnitzer, 2021b). The Finnish population thus seem to trust their phone as the main source to the internet, something which presents itself as a possibility in the market.

Preferences in the food market have also been compared between the two countries in question. Two identical consumer surveys were carried out by Statista in the Norwegian and Finnish market. The survey was brought about to shed light on which criteria the purchase of food-products were based upon. The responses suggest that the four most important factors in Finland were good taste, low price, freshness, and availability in supermarkets (*Purchase criteria for Food / Finland,* 2022). These factors were important to 76, 64, 62 and 57 percent, respectively. While the taste, low price, and freshness were also important to the Norwegian consumers, quality was reported by a larger percentage than availability in the supermarket (*Purchase criteria for Food / Norway*, 2022). The main differences between the two countries are therefore mainly down to the criteria of availability in supermarkets. The Finnish population seems to value this factor to a larger extent, possibly also revealing a general preference for buying products in supermarkets rather than niche stores.

There is also a discussion whether high quality and freshness are interchangeable. While the survey suggests a slight difference in the preferences between the two, the criteria of freshness and quality overlap somewhat. The differing answers might therefore be due to a different wording on the same issue. The percentages of respondents were similar when it came to taste (76 vs 74 percent), and reasonably similar in terms of price (64 vs 56 percent). While the similarities suggest a like minded focus on goods, the survey only covers a part of the grocery service, that being food products themselves. In order to fully understand the differences in consumer behavior one thus needs to expand the view towards criteria for store choice.

In a similar survey by Statista aimed at discovering the Finnish people's regularly chosen store types, supermarkets, convenience stores and hypermarkets were the options chosen most frequently (*Grocery shopping by type / Finland*, 2022). 77 percent regularly used supermarkets, 50 percent used convenience stores / kiosks, and 43 percent used hypermarkets. The high usage of convenience stores are of special interest, as it underlines the role of convenience in store choice. Convenience stores and kiosks are in most cases more expensive and have less product diversity, but crucially they are close by and easily accessible. Previous studies on consumer behavior have been discussed earlier in this thesis, and all of them point towards the same importance of convenience. People tend to forgo lower prices and larger selection in favor of being able to shop quickly and efficiently. These findings are also supported by Paytrail's (2018) analysis of Finnish online consumers. In their survey on people's online shopping motivation, the four main reasons were time-savings, ease of comparison, 24/7 availability, and lower prices. The detailed results are presented in Figure 24.

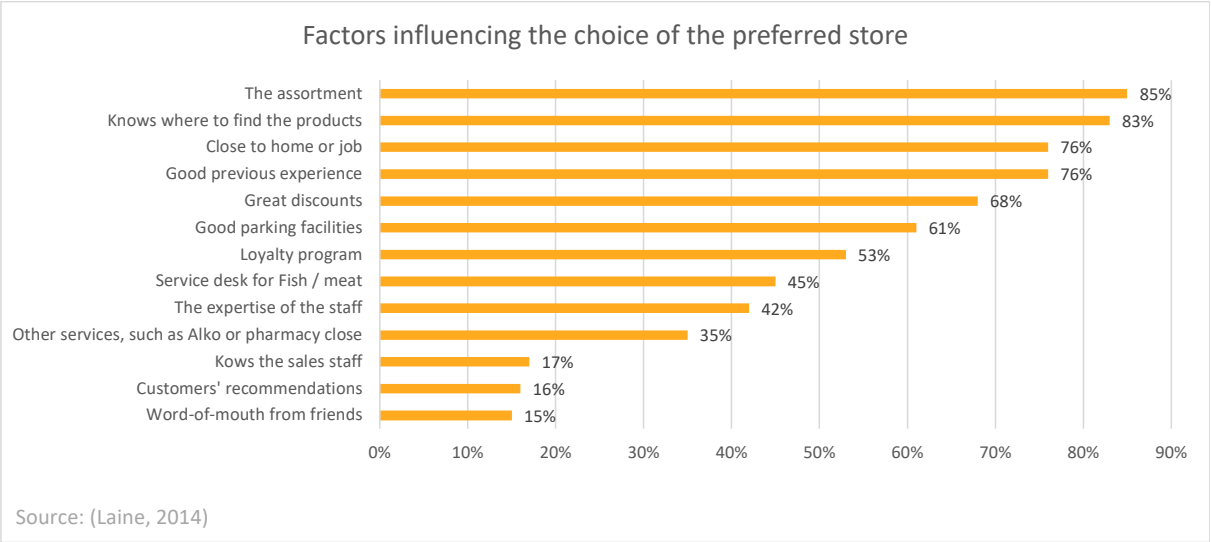
Figure 24: Reasons for shopping online (in percent)



Out of all reasons given in the survey, three of them can be considered a part of general convenience. Saving time, better opening hours, and the ease of price comparison all speak in favor of increased convenience, by making up 60 percent of the answers. It thus seems the general importance of convenience holds true, at least for the Finnish online consumers. The report of paytrail (2018) also features DIBS' e-commerce expert Patrik Müller, and his view on what drives consumer choice online. Müller described the general consumer as fixed on convenience, and with high expectations regarding how fast and simple ordering should be. One key point is the tendency to abandon transactions if met with too many obstacles during the process of purchase. The convenience of online ordering might therefore be somewhat counteracted by the inconvenience of assuring the payment. It is important to state the possibility that preferences might be different for the majority who exclusively buy groceries in physical stores, as opposed to the online shoppers of the Paytrail report.

A master study, by Kirsi Laine (2014) of Metropolia University of Applied Sciences, investigated the factors influencing choice of grocery store in the Finnish market. One of these factors discovered was the preference for grocery shopping two to three times a week. This is lower than the reported average of 3.4 visits a week in Norway in 2016 (*Country report: Norway*, 2019), and might indicate the average Finnish consumer to be more inclined to plan their meals ahead. Laine (2014) also provided results from a survey on the reasons for choosing each respondent's most visited grocery store, which is represented in Figure 25.

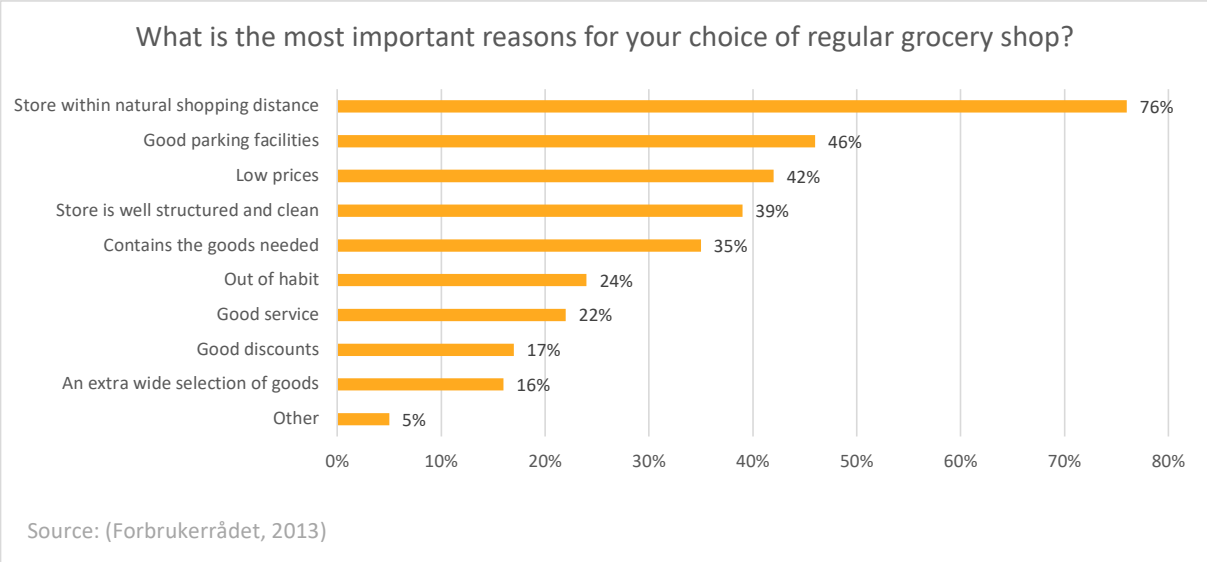
Figure 25: Factors influencing the choice of the preferred store



The results show selection of goods to be the main driver for store choice, closely followed by two factors based on familiarity of experience, preceding the convenience of store placement.

The survey indicates that three out of four people value the close proximity of their most used store, as well as basing their store selection on previous experiences. Further, more than four out of five base their choice on store assortment and the knowledge of where to find the products they are after. The survey indicates the Finnish people to be driven by selection of goods and convenience, and shed light on the importance of continuity and familiarity. A similar survey on Norwegian consumers in 2013 (*Dagligvareundersøkelsen,* 2013), presented in Figure 26, shows that the average Norwegian consumer values convenience to a much larger degree than other factors.

Figure 26: The most important reasons for choosing grocery stores



The second and biggest difference is the limited focus on product selection, a factor which was the most popular criteria in Finland. Prices were reported to be a factor for both consumer groups, though to a larger degree in Finland when it comes to store selection. In the case of specific products, both countries value price reasonably similarly. The Finnish population thus seems more invested in product selection and partly in price than the Norwegian population. On the other hand, Norwegians value convenience to a larger degree than other factors, though this criteria is present as just as important in both populations.

An important remark is the age of the two latter surveys. Customer preferences may have changed in the nine years since they were created, and so the current market might not have the same sentiment about store criteria. Nevertheless, the findings are the most contextual surveys we managed to discover during the writing of this thesis.

8.1.4 Finland vs. Norway | Demographic, economic and cultural differences

The Finnish and Norwegian market has been compared in terms of their demographic, economic and cultural composition, all of which are summarized in this section of the thesis. The Finnish and Norwegian market feature a similarly sized population, with similar rivalry and entry barriers. With these similarities being noted, there still exists some differences which may affect any potential entrant. The demographic composition of Finland is generally more heavily aged, with a larger share of the population being 60 years and older. In addition, the general topographic layout of the country simplifies distribution and procurement, and enables a high percentage of the population to be reached. As a result, less value is lost during procurement and distribution. Another key difference is the pattern of Finns utilizing mobile phones as their preferred way of online usage, much enabled by the country's well developed mobile infrastructure. Another point confirming this difference is the sheer volume of data consumed through mobile devices.

The general price level is also significantly lower in Finland, indeed lower than what the general differences in average wealth would imply. These findings might indicate a higher reservation price for the consumers, which will impact the general size of the market. The lower prices also imply that more of the market surplus is attributed to the consumer than to the companies and suppliers. Combined with similar if only slightly higher operating margins for Finnish retailers compared to Norway, suppliers seem to be the ones with the least market power, though the margins of the leading suppliers seem to contradict this logic somewhat. The main perpetrator may thus be lower base costs and manufacturing costs related to food production, such as to make both retail and supply profitable at the current price level. Still, surveys on suppliers creating private label goods suggest there to be a large disproportionate power-balance between the medium size suppliers and the dominating retailers.

The cultural aspects which might impact the grocery market are also noticeably different in some ways. While many aspects remain similar, such as preferences related to the products themselves, the criteria affecting store choice is different enough to warrant differing strategies. The average Norwegian consumer is characterized by a heavy focus on convenience, and in many ways forgoing other priorities such as variety of goods and price. The Finns are in this regard more balanced in their criteria, with just as high focus on product selection as to being familiar with the product's location in the store. Finns thus seem more influenced by their

previous experiences, and somewhat more influenced by price, along with a similar emphasis on location convenience as the Norwegian consumers. These changes are somewhat surprising, though not wholly unexpected. Previous analyses of consumer preferences have placed a larger emphasis on convenience than what the survey of Laine suggests is the case in Finland, but they still list selection of goods and price as influencing factors. The question then remains whether these differences in demography, economy and culture could limit potential foreign entrants.

8.2 Liability of foreignness

Connecting all sources of LOF

The identified differences between the domestic and foreign market have revealed some opportunities, as well as potential sources of LOF for Oda. In addition to these differences, Eden and Miller (2004) propose three hazards from the LOF literature that affect foreign firms such as Oda. These are, unfamiliarity-, discrimination- and relational hazards. We will supplement our findings with elements from these, in order to capture the most probable causes of LOF.

Demographic opportunities, with a touch of technology

The older population identified coupled with the low birth rates suggest that the population is projected to sink. A sinking population affects all the actors of the Finnish grocery market. However, the fact that the population is older might cause potential issues for Oda's business model, as the shopping process is completely digital. That being said, having found that 96 percent of Finns have internet access, and that the most common internet-accessing device in 2020 is the smartphone, mitigates this threat somewhat. Especially considering the country being ranked first worldwide in terms of data usage, the Finns are suggested to have a close relationship with their phones. This in fact, might favor Oda’s strategy of only being accessible in Finland through its app.

Another point which might favor Oda's model is the country’s demographic composition which is changed by the differing topography compared to Norway. One of Oda’s most valuable resources, found when identifying the company's FSAs, namely its centralized warehouse, can be exploited in this demographic situation. Having built a warehouse right outside Helsinki, the company is provided with access to the most densely populated area in the country. It further facilitates efficient distribution, as the infrastructure is built such that large geographical areas

are easily accessed. It sounds similar to what we identified in Norway. However, the geographical accessible range has increased, along with the potential number of consumers reached, as the population density is much more concentrated in the accessible area identified. Finland's topography has thus led to a demographic composition more suitable for Oda's model.

How are the margins?

The identified lower price level in Finland might be a potential threat for the Norwegian company. Becoming competitive in terms of price takes time, as the necessary volumes needed to benefit economics of scale rely on changing consumer behavior and subsequently capturing market shares. The operating profit margins in relation to gross profit in Finland indicate a country where revenue has become high enough to render overhead costs per unit minuscule. The mentioned 9.5 and 14.2 percent gross profit of the two largest retail-chains account for all operational costs before depreciation and amortization, and still equates to a 2.6 and 7.7 percent operational profit margin. Compared to the Norwegian leader Norgesgruppen, who achieved a gross margin of 26 percent and 5.4 percent operating profit in 2020, the efficiency seems much higher in Finland. Oda might thus end up in a situation where the company remains unprofitable for an extended duration, and in the worst case long enough to expend all cash reserves. In order to avoid a burnout, Oda will need to ensure its model is somewhat sustainable even at lower volumes, or hope to have sufficient reserves to finance growth in the first years entering the market. The company would then be set to increase volumes and its own economies of scale to an extent which justifies a competitive price. Gaining economies of scale is all about making costs more efficient in relation to revenue, which makes low COGS desirable. One of the ways these costs can be lowered is by ensuring beneficial supplier deals.

Deal or no deal?

As suppliers seem to have slightly less power in the Finnish market, Oda might face lower supplier costs relative to overhead costs if compared to the Norwegian market. Lower supplier costs will enable Oda to lower prices, though a price drop down to competitive levels will depend on both Oda's volume and competitors' efficiency. However, entering into supplier partnerships might pose more difficulties for Oda as a foreigner. These difficulties stem from discriminatory hazards such as social embeddedness. Social embeddedness of local firms describes relationships built by organizations in the host country (Eden & Miller, 2004). This applies especially to supplier deals which, in the grocery industry, often are long term contracts

between companies that have existed for many years. Local suppliers might not have the capacity nor the will to take on another retailer. A report by Uusitalo and Rökman (2007), on pricing responses to new grocery market entrants in Finland, found that at the beginning of Lidl's settling in the Finnish market, it could only procure a limited number of suppliers. This demonstrates the social embeddedness imposed on Lidl as a new entrant. With Lidl's product range mainly consisting of its own labeled goods, the company was not affected to a large degree by the low supplier potential. However, mitigating this potential threat is particularly critical for Oda, as it does not carry its own label of goods. Oda is therefore dependent on local supplier contracts in order to offer a reasonable selection. As the Finnish market does not have import-protection on agricultural goods, and is a member of the EU, the probability of a larger supplier pool and increased supplier competition is high. There might therefore be possibilities of procuring products from other countries in the EU if local products become unavailable. That being said, this seems to be the company's most challenging obstacle.

Changing people's behavior

The customer base itself can be a potential source of LOF for Oda, as changing consumer behavior is challenging. The Finnish consumers have had to evaluate their consumer behavior several times throughout the years. First, at the entrance of Lidl, then later at the introduction of online grocery stores. These events indicate that the consumers are not unfamiliar with having to make a decision regarding their purchasing habits. However, by looking at historical numbers, most people have not changed their behavior. Lidl has captured 9.5 percent share of the total grocery market, though over a period of 9 years. The online segment of grocery is attributed 3 to 4 percent of the total market, where the dominant actors, like in the physical market segment, are S- and K-group. These findings suggest that changing people's fundamental behavior is a challenge, though not impossible.

The challenging part for Oda as a foreigner is undoubtedly the unfamiliarity associated with the Finnish customer base. The established market actors are more knowledgeable in terms of the Finnish people's consumer preferences. Oda is, in contrast, naturally more familiar with Norwegian consumer preferences. The ideal situation would therefore be that both cultures' consumer preferences are the same. However, as we have found, that is not the case. Although we identified many similarities, there were certain differences. The Finnish consumer preferences were more focused on price and selection of goods than the Norwegian consumers. Oda's main selling point is the convenience of its service, which was the only factor reported

equally important in both cultures. However, seeing as the Finns weigh other factors higher, Oda might have to adjust its focus slightly, and prioritize becoming competitive in terms of price at a faster pace than in Norway. Catering to the consumer preferences is a step towards gaining market share.

However, there are also other factors Oda should be aware of, such as trust. Entering a market with a service that requires large amounts of trust, relative to the act of going to the store yourself, can be a challenge. The company is dependent on a high level of trust in the market it enters, in addition to the company itself being perceived as trustworthy by the host country. A factor which might affect the trust of a foreign entrant is Eden and Miller's (2004) concept of consumer ethnocentrism. It describes an unfavorable view of outsiders and a favorable perception of insiders. Higher degrees of ethnocentrism might thus counteract entry of foreign competitors such as Oda. In terms of mitigating these issues Oda has chosen to enter a culture similar to itself in many ways, as it is likely to have lower consumer ethnocentrism. In the survey on how trusting people are, where Norway placed first, Finland was ranked very high, indicating similarities between the two nations. Having established a trusting market, likely with low consumer ethnocentrism, one must investigate the trustworthiness of the entrant. As Oda has captured a large online market position in Norway, coupled with good press associated with receiving the unicorn award in 2021, the company has gained a good reputation. These findings are likely to lower the discriminatory factors new entrants face. Furthermore, the already established online market segment in Finland might decrease the needed level of trust to try out such a service. As this type of service is familiar to the Finns, the barrier for testing Oda is lower. In addition, as the company aims at offering familiar domestic products, the unfamiliarity barrier related to trying out a new service is likely lowered further. That being said, changing people's behavior is difficult and can take time. Theory from behavioral economics suggests that people can be subject to status quo bias (Geng, 2016). That is, the preference for keeping things as they are. We can transfer this theory to the deep-rooted action of going to the physical store. That is how the transaction has worked for decades, and people tend to do it out of habit. However, the general online traffic has increased over the years, and become more normalized, especially in terms of the clothing and consumer electronics segment (Eden et al., 2021b). The online grocery segment, which gained momentum during the pandemic, has received increased interest as well. Nevertheless, the more time it takes to change the Finnish consumers behavior, the more time it takes for Oda to benefit from scale advantages. Having established grocery as a low margin business, that might be time Oda does not have.

How will the existing competition respond?

The existing competition in the market is an additional source of LOF. Competitors' chosen response to the new market entrant may severely affect the new entrant's foothold in the market. An aggressive response is, in the Lien et al. (2016) framework, defined as hostile reactions from the established market actors, in an attempt to pressure the new entrant out of the market. The question then remains whether the existing competition is equipped to meet Oda with such a response. When Lidl entered the Finnish market, the existing competition was not expecting a loss of market share. However, as Lidl gained popularity the competitors decided to respond with an altered pricing practice (Uusitalo & Rökman, 2007). The response did not push Lidl out of the market, but served as an attempt to retain its current customer base. Considering that Oda's business model is very different from Lidl's, it is difficult to say which response the existing competition will attempt.

One potential and highly damaging aggressive response the leading actors in Finland might attempt is a price war on e-grocery. Both Prisma and K-Citymarket have lower product prices compared to Oda and are therefore out of scope as competitors for the moment. However, their e-grocery option presents a much higher cost of delivery to consumers, which in turn evens out the current prices. If the leading actors see Oda as a serious and dangerous competitor, they might end up subsidizing their e-grocery delivery and thus outperforming Oda in price. With Prisma and K-Citymarket also offering a larger product diversity, it would then be nearly impossible for Oda to compete. Such a price war is a costly endeavor, but given the relative size between the two market leaders and Oda, the relative impact would likely be larger in Oda's case. Still, a price war is one possibility of many in response to Oda's entry. Other actions which pose a probable threat to Oda is the hindrance of supplier access, quality wars and intensified marketing. As an entrant without its own private label goods, cutting out suppliers might substantially hinder a successful launch in Finland. Still, aggressive responses always come with high costs for the aggressor. If not, the measures in question would already have been made. An aggressive response is therefore only likely if the established actors are similarly likely to take significant damage from the new entrant, and if the probability of preventing the entrant from gaining a foothold is large.

Which are the most important sources of LOF?

Building on the connections made in the previous part we can summarize what we believe to be Oda's most important sources of LOF, which helps us answer the next part of our research question:

2.1 What are potential issues in terms of Liability of Foreignness that Oda might face in Finland?

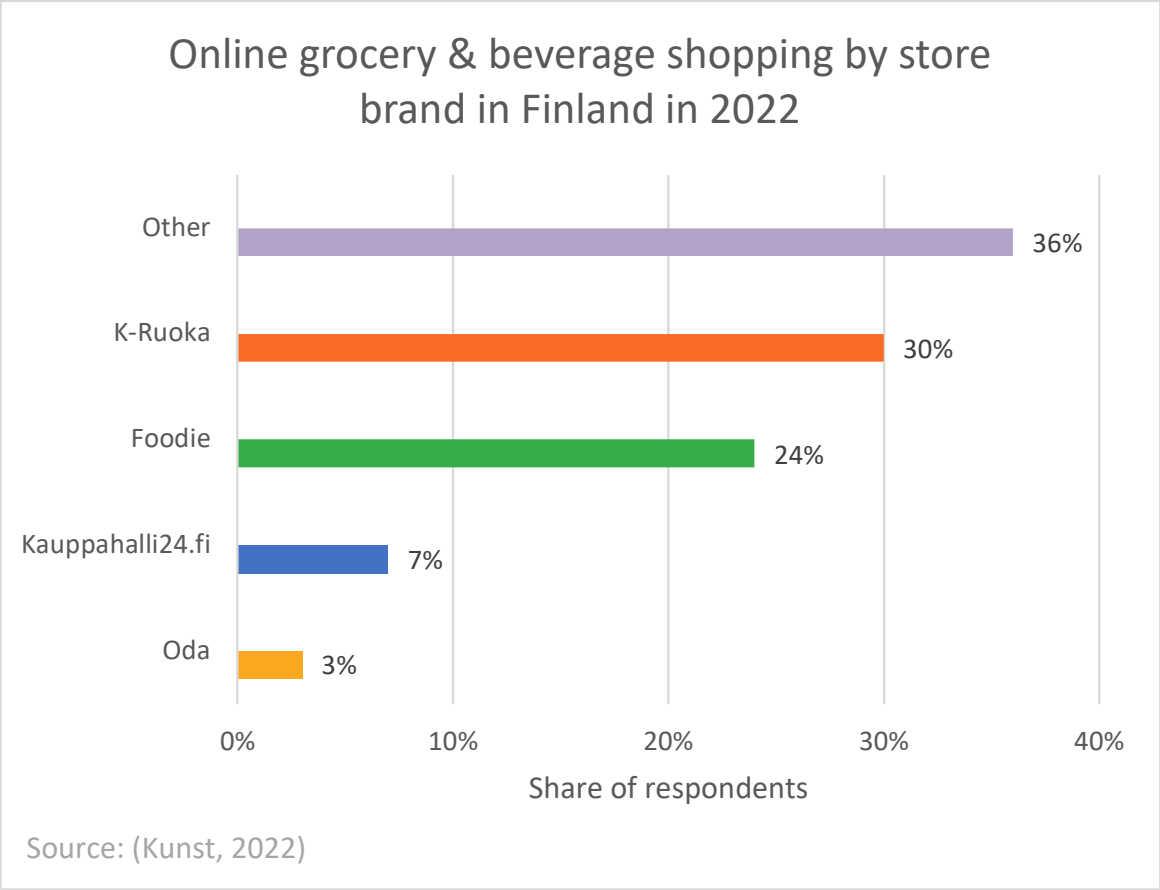
Having found that much of Oda's potential success boils down to negotiating good supplier contracts, the company should consider this to be its biggest threat. These contracts are necessary to deliver the desired product variety, and to offer prices comparable to competitors, which both are consumer preferences valued higher in Finland than in Norway. The LOF linked to different consumer preferences is therefore also valued highly, as there has to exist a market demand for Oda's service for the company to succeed. Catering to consumer preferences is one thing, however, changing people's behavior is a whole different story. The status quo bias should thus be taken seriously, as there exists an associated inconvenience to changing fundamental behavior, even if the change is to a more convenient option. Furthermore, the market response from the existing competition poses high LOF for Oda. In Finland there are market actors with large market shares, and associated market power that can attempt to push Oda out of the market. The most likely strategy Oda might be faced with is a price war. As is still the case in Norway, Oda is likely prepared for negative results in Finland in the coming years. However, a price war might be enough to push the company out of the market. Moreover, if the big market players attempt to hinder supplier access Oda might end up without access to the most popular market products, severely hampering their competitiveness in the market. Though, the latter is unlikely as it requires the large actors to renegotiate the terms of their own contracts.

8.3 Oda and the Finnish competition

To answer our final sub-question we need to understand how the competition in the Finnish market differs from the Norwegian. These differences might affect Oda's potential to exploit its FSAs. As mentioned, the Finnish grocery market is dominated by two actors, namely the S- and K-group. The German company Lidl is the third largest actor with a market share of 9.5 percent. Both of the two largest actors offer online grocery shopping, and before the entry of Oda in February, the only other online store was Kauppahalli24. These market actors are mainly low-cost stores focused on price and selection of goods. A key difference from the Norwegian market is the clear activity online among Oda's closest rivals, namely the hypermarkets Prisma and K-Citymarket from the S-group and K-group, respectively. The Norwegian market had its closest competitors be physical stores based on the general likeness of products and services, even if they were not operating online. Finland has a different situation where the closest competitors also compete online. Thus we propose Oda's closest Finnish competition to be online stores, with Lidl being the only exception.

The online grocery segment in Finland can be attributed a larger market share than in Norway, namely 3 to 4 percent of all Finnish grocery trade, as reported by the largest subscription newspaper in the Nordic countries, Helsingin Sanomat (HS) (Mikkonen, 2022). Capturing most of these shares are the online stores of the two grocery giants S- and K-group. During the pandemic, 2019 to 2021, the two online stores grew 460 and 448 percent, respectively. According to Mikkonen's comparison of e-grocery, the online market segment is projected to have a lot of growth potential, especially coming from families with children seeking relief from a hectic everyday life. The e-grocery segment consists of Prisma, K-Citymarket, Kauppahalli24, and the newly entered Oda. A recent survey by Statista (Kunst, 2022) aimed at discovering which online stores were being used in the last 12 months, found that the S- and K-group dominate the online grocery market. As depicted by Figure 27, the most popular alternative at 30 percent is K-group's online store, closely followed by the S-group (Foodie) at 24 percent. The least popular alternative as of May 2022 is Oda at 3 percent, though only 4 percent less popular than Kauppahalli24. Considering that Oda only entered the market in February, not existing over the entire period the survey refers to might be a contributing factor to Oda's low popularity, as it takes time to capture market share.

Figure 27: Online grocery and beverage shopping by store brand in Finland in 2022



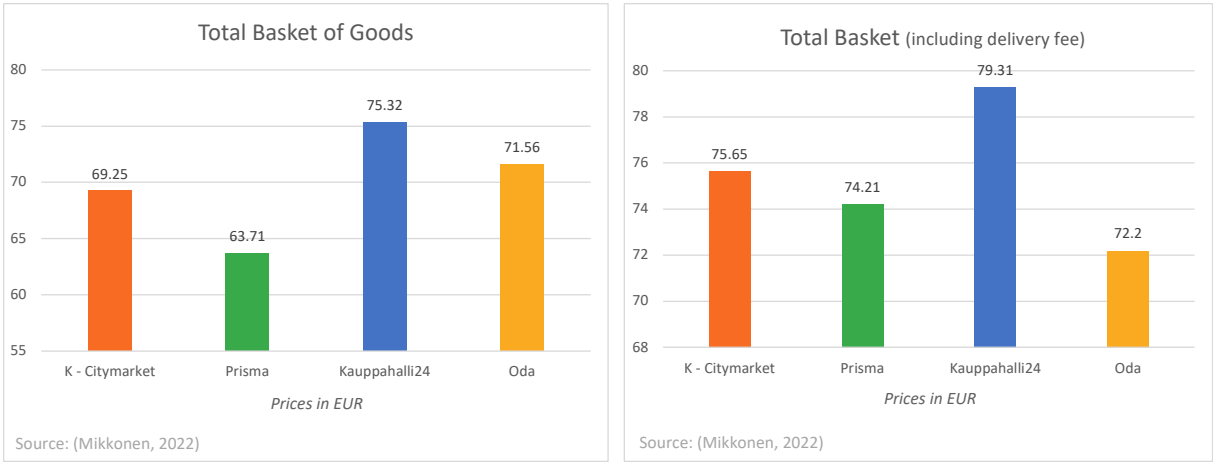
Mikkonen's (2022) comparison of online groceries investigated the four aforementioned online players. It looked at factors such as price, user friendliness, delivery times and selection. The comparison excluded online actors such as dinner box companies, delivery services such as Wolt and Foodra, and stores only offering room-temperate goods.

8.3.1 Prices and delivery fees

Mikkonen found that Oda beats Prisma on price thanks to its free delivery, as depicted by Figure 28. However, Oda only offers free delivery for the first three months. Following this period, customers may choose free delivery in a free time slot, or choose to pay a small fee for the popular delivery windows. The maximum fee the customer could be subject to pay is 4.90 EUR. Oda is thus applying the same strategy used in Norway to even out congestion peaks. By including Oda's most expensive delivery fee the company places third behind Prisma and K-Citymarket. It is worth mentioning that the three other companies' delivery fees were more expensive at the time of comparison, but were adjusted down to their lowest possible fees to even out the price differences. This suggests that Oda's most expensive delivery fee is still fairly

small compared to what competitors charge. Small delivery fees might facilitate more frequent purchases, which in turn increases the interaction between the company and the customer, thus increasing the likelihood of retaining the customer. However, both Prisma and K-Citymarket make up for this by offering cheaper baskets of goods, indicating a generally higher price level on Oda's goods as opposed to the market leaders.

Figure 28: Total basket of goods excluding and including delivery fee, Mikkonen



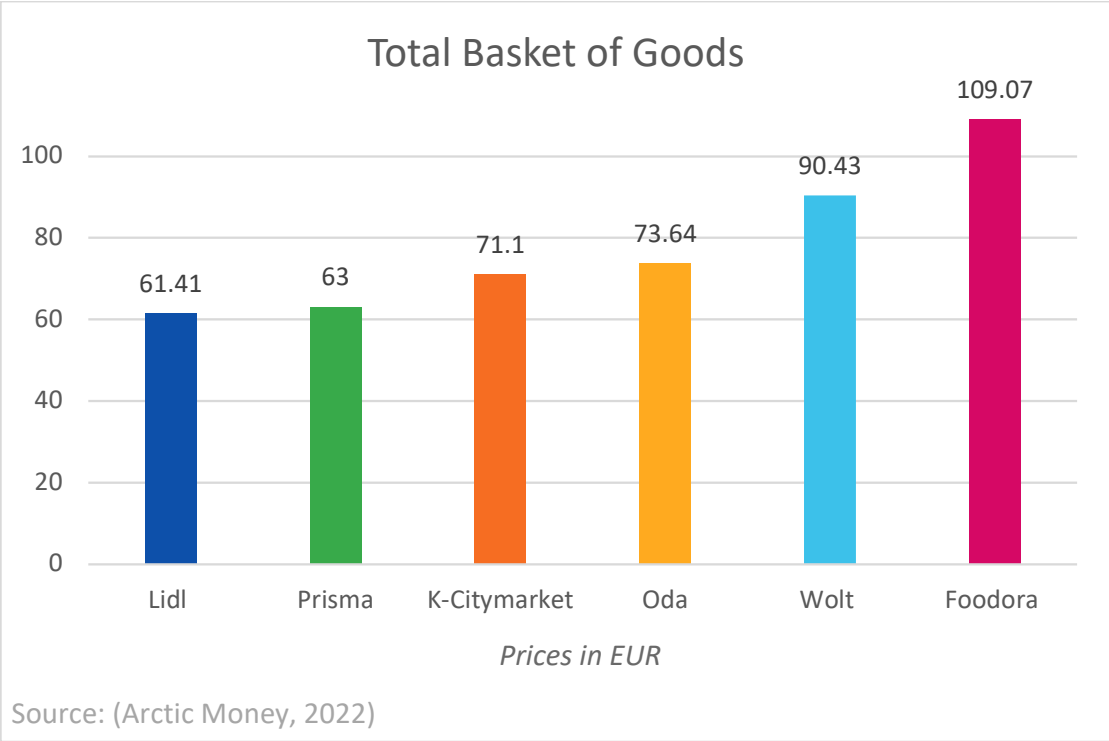
Prisma and K-Citymarket operate from physical- and dark stores. As mentioned, a dark store is a local distribution center with no actual customers (Retail, 2021). These dark stores are reported to be more efficient than a physical store, but the degree of improvement remains uncertain. They also offer a self pick-up option as a result of their physical stores. If the customer chooses self pick-up, the delivery fee is cheaper than for home delivery, though not free. Moreover, the online stores' selection, delivery fees and delivery times vary depending on which physical store is chosen. These differences bring about inconsistencies in how the online store operates. Inconsistencies might be challenging for the efficiency of the company's online platform, as it has to create some sort of product selection-, delivery time-, and delivery fee filter depending on which store is chosen. The customer is likely not affected by the differences in these factors, as one tends to grocery shop from stores in the nearby area, implying familiarity with the selection, delivery times and fees. That being said, we believe Oda's model presents a better option in terms of scalability, partly due to the standardization of selection of goods, delivery times, and fees.

8.3.2 Price level of a basket of goods

As suggested by Mikkonen's comparison, Oda's general price level tends to be higher than the two leading market actors. Oda's basket of goods was 12 and 3 percent more expensive than Prisma and K-Citymarket, respectively. Assuming that Prisma and K-Citymarket offer similar price levels across physical and online stores, Oda is unable to compete with the physical stores in the market as of now. Lidl is therefore also out of reach in terms of price competitiveness, as it tends to be cheaper than Prisma and K-Citymarket in grocery basket comparisons, like the company was in 2020 according to Pajunen (2020). A second price comparison deducted by Arctic Money (2022) found similar results as depicted by Figure 29. The comparison was based on a basket of 33 products from Oda's store, where appropriate adjustments were made for missing items or differing package sizes at the other stores. In this comparison Prisma's and K-Citymarket's delivery fees were deemed too high, therefore, they were treated as if one had to physically go to the store. In addition, the three companies treated as physical stores were added a cost of time and transportation penalty, amounting to 6.28 EUR. The cost of time is based on average hourly earnings of a typical Finnish male between ages 30-39. This number represents how much one hour of the person's full 24 hours is worth, when falling into this particular demographic. The cost amounted to 3.48 EUR. Subsequently, the cost of transportation was 2.8 EUR, which is the equivalent of a bus ticket in Helsinki.

As illustrated by the graph, Oda placed fourth, unable to compete with both Lidl and Prisma. Though the company finishes last in terms of what the company itself classifies as its competition, Oda is only 3.6 percent more expensive than K-Citymarket. These findings support our initial suspicion that Oda is unable to compete against the physical stores at the present moment.

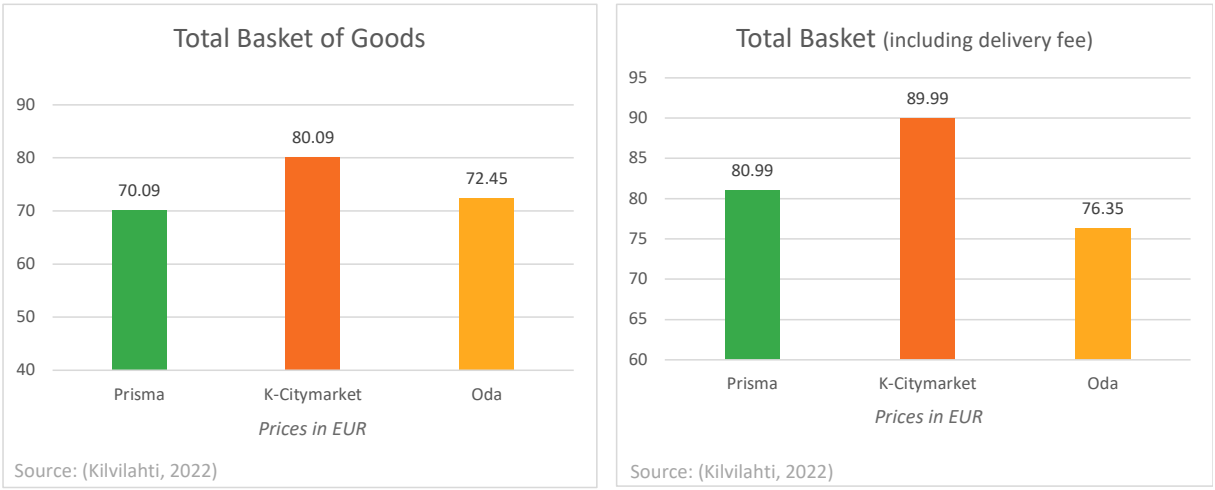
Figure 29: Price comparison: Total basket of goods including delivery fee



Source: (Arctic Money, 2022)

However, a third price comparison of three of the four online stores, by Kilvilahti (2022), found that Oda's basket of goods placed second before factoring in delivery costs. The new entrant displayed a price level 3.4 percent higher than Prisma, and 10.5 percent lower than K-Citymarket, as depicted by the left graph in Figure 30. When including delivery fees, Oda came out victorious once again, illustrated by the right graph in Figure 30. This time Oda was charged with the highest possible delivery fee available that day, namely 3.90 EUR. The two other competitors were allocated the lowest possible fee of 9.90 EUR and 10.90 EUR. These findings further substantiate the small fees that follow an order from Oda. However, the comparison does deserve some criticism as it tested one store each week for three weeks. In a three-week period, prices may fluctuate and skew the end result. That being said, if Oda's price level were to increase by 10 percent it would still place second, indicating a competitive rivalry between the actors in terms of price.

Figure 30: Total basket of goods excluding and including delivery fee, Kilvilahti



The different findings of the three comparisons indicate the varying price level to be dependent on the products included, and the timing of which they are chosen. This is to be expected by a market which continuously competes for price and market shares. Based on the findings it is difficult to determine whether the company is applying the same strategy as in Norway, where prices were gradually lowered as volumes increased, or if the company has sufficient funding to compete at the same price level from the time of entry. As we have mentioned, the grocery business is a low margin business. Without sufficient sales volumes it is almost impossible to compete at the same price level. New entrants thus have to place themselves higher, unless investors fund the company's deliberate decision of going in the red to compete in terms of price.

8.3.3 Selection of goods

There are large discrepancies in the selection of goods, where both Prisma and K-Citymarket have a variety amounting to 20,000 and 40,000 different products, respectively (Mikkonen, 2022). This stands in stark contrast to Oda and Kauppahalli24's variety of 5,000 and 6,000 products, respectively. Anne Terimo, Oda's commercial director, expressed doubts about the importance of such a wide selection of goods for Oda's customers, stating that "Many customers have said it is easier for them to shop when Oda makes product selection decisions on behalf of the consumer." (Mikkonen, 2022). In contrast, K-Citymarket's representative Ari Akseli argues that a wide selection enables the customer to get exactly what it wants. The previously mentioned share of hypermarkets relative to revenue in the Finnish market, might indicate the Finnish consumers to be more focused on selection of goods than what can be said of the

Norwegian people. The Norwegian low-cost stores dominating the market have a product variety approximately half of Oda Norway's 7,000 products (*Hjemlevering fra Norges største matbutikk,* 2022). Keeping all other factors constant, Oda might reach higher market shares in Finland if the company expands its variety beyond what has been previously done in Norway. One point which might substantiate this deduction is Kauppahalli24's market share in relation to its product diversity. While being in the market for 10 years (*Kauppahalli24 manifesti*, 2022), with a selection of approximately 6,000 products, the company is still only used by 7 percent of the e-grocery consumers in Finland.

However, bringing a wide selection to an online platform first and foremost requires a precise search function. In Mikkonen's comparison, the K-Citymarket application's first search result for the keyword "basil" was organic basil, however, ordinary fresh basil was 26th in the search results. In between, there were less relevant products such as olive oils and tomato sauces. This can cause a potential loss of customers if using another company's app is more convenient and precise. Moreover, the perceived size of each store's selection is likely harder to distinguish than in a physical store. This is mostly caused by the small phone screens which only fit 1 to 3 items per row. Scrolling through the assortment might therefore deem it harder to determine which store has the widest selection. Though the digital shelf space might be endless, customers are reported by Boston Consulting Group (BCG) to be lazy (Black et al., 2016). They found that in an average Google search, two thirds of people click on the top five alternatives, and 94 percent of people do not move past the first page. This suggests that the customer is most likely to choose the products appearing on the first page in the app, which, as mentioned, is a limited number of products due to the phone's size. These findings argue against the need to have a broad selection of goods. The more important prospect might therefore be ensuring that the company has the right selection of goods, rather than an extensive one.

8.3.4 Convenience of the app

In terms of user friendliness Mikkonen's comparison determined Oda as the most convenient app to use. Prisma's app was also considered good, whereas the K-Citymarket app was slightly more complicated for first-time users. Kauppahalli24 does not have an app, but operates through a web page. As convenience has been reported by many studies to be a driving factor of choice, these results show promise for Oda. That being said, these statements are largely based on the author's subjective opinion. Still, by reviewing the general feedback in the digital stores where each respective app is downloaded, a general consensus might be found. Table 7

suggests that consumers are significantly more satisfied with Oda's app compared to competitors. However, one should be slightly critical to these findings as the number of people having left reviews remain relatively small, in addition to differing numbers of downloads, which were only disclosed in the Google Play Store. Furthermore, the ratings from Oda's app in the Google Play Store is highly affected by reviews made in Norway, as the same app is used for both countries, as opposed to offering separate apps for each market in the App Store. Still, the average rating in the App Store is similar to the rating in Google Play Store, and thus suggests a generally high satisfaction with the app. This might also be an indicator of good customer service, and which is further suggested in our business model analysis.

Table 7: Customer reviews and ratings from the App Store and Google Play Store

Store	App Store Rating	Number of Reviews	Google Play Store	Rating (out of 5)
Oda	4,7 / 5	1100	100K + Downloads	4.6★ 6.38K reviews
Prisma	1,7 / 5	391	*No app currently available*	None
K-Citymarket	2,4 / 5	31	500K + Downloads	None

Source: (Oda Norway AS, 2022), (Finnish SOK, 2022), (Kesko, 2022), (Oda, 2022), (Kesko Oyj, 2022)

8.3.5 Delivery

When comparing delivery, Mikkonen (2022) found that Oda and selected stores of the market leaders (depending on which physical store chosen) are able to provide same day delivery. Kauppahalli24's delivery takes at least two days, owing to its strategy of ordering on demand rather than keeping its own inventory of goods. The delivery intervals can be linked to consumers' preference of convenience. Having a larger delivery interval provides the customer with more choices as to what time of day it would like its delivery to be made. The delivery interval has to be combined with the expected delivery window of the customer's delivery. The shorter this window is, the more predictability the customer has in terms of knowing the exact time of delivery. By looking at Table 8 we see that Oda operates with the largest delivery intervals and shortest delivery window compared to competitors (Mikkonen, 2022). The table showcases large similarities between the leading market actors. It also suggests that the general norm in the market, before the arrival of Oda, were no deliveries on Sundays and a delivery window of three hours. By including delivery every day of the week, at larger time intervals,

and shorter delivery windows, the availability of Oda's products increases. How much more people value the increased delivery possibilities is subjective. However, the growing online grocery focus from families with children, as reported by Mikkonen (2022), might favor the increased intervals, as it enables early morning deliveries. This seems especially convenient in a family with children and two working parents. Having found that the Finnish people seem to value convenience highly, might speak in favor of Oda introducing a broader delivery service to the market.

Table 8: Delivery intervals and windows of Oda and the Finnish competitors

Store	Delivery interval		Exact delivery window
Oda	6:00 –22:00 9:00 –16:00	Weekdays Weekends	Two hours
Prisma	9:00 –21:00 9:00 –16:00	Weekdays Saturdays	Three hours
K-Citymarket	9:00 –21:00 10:00 –17:00	Weekdays Saturdays	Three hours
Kauppahalli24	15:00 –21:00 10:00 –21:00 12:00 –19:00	Monday Tuesday - Friday Saturday	Three hours

Source: (Mikkonen, 2022)

Mikkonen further found that K-Citymarket, Oda and Kauppahalli24 delivered boxes matching the order placed. Prisma, however, did not, as one item was missing and non-ordered items were included in the delivery. The customer service department at the S-group resolved the issue within a couple of days, refunding the missing item. Stating anything about the probability of receiving a correct order is, however, difficult to extract from this comparison, as the services were only tested once.

8.3.6 Revising the proposed competition

Oda's closest competition in the Finnish market, as suggested by the three comparisons, is Prisma, K-Citymarket, Kauppahalli24, and potentially Lidl. The latter competes in a way which is similar to the stores in Norway, with lower selection of goods and low prices compared to

the other chains in the market (*The price is surprising,* n.d.). The only other competitor able to match the price level of Lidl is Prisma, with Oda being as much as 12 percent more expensive in one of the studies. As of now, the physical low-cost segment of the Finnish market therefore seems out of reach. Oda's is thus mainly competitive towards the online segment rather than its physical rivals. In addition, none of the above companies have similar business models as Oda. The online stores operate from physical stores similar to the set up in Norway, with the exception of Kauppahalli24 whose model is solely online. Even though the business model exclusively exists online like Oda's, Kauppahalli24 still operates with a different strategy. This model focuses on strictly demand driven orders, refraining from having a warehouse explicitly for storing inventory. The company has a targeted focus towards food waste as opposed to Oda's convenience approach. These different strategies cause discrepancies in price levels and delivery opportunities, which is why Oda to a larger degree competes against Prisma and K-Citymarket.

8.3.7 Not a direct copy paste

The move to the Finnish market has slightly altered Oda's business model. The integrated bakery from their original model is now outsourced to MBakery. There might be several reasons for why Oda refrained from integrating its own bakery in the Finnish market, one of which might be that the company found it less profitable. Having found generally higher retailer power in the market, there might also be lower bargaining power between suppliers. Lowered leverage for suppliers might then potentially drive prices down, enabling suppliers to offer goods cheaper than an integrated bakery can in the Finnish market.

8.4 Are Oda's FSAs the same in Finland?

Having identified the sources of LOF Oda is likely to face when entering the Finnish market, in addition to having analyzed the closest competition in Finland, we are more equipped to answering the final part of our research question:

2.2 Can Oda's FSAs be considered the same in the Finnish market?

In order to answer this question, we have to analyze to what degree the identified LOF, coupled with findings from the market competition, affect Oda's FSAs identified in the Norwegian market. These factors will provide us with a more precise picture of how Oda might fare in the Finnish market.

8.4.1 Suppliers and selection

The identified local supplier contracts is an important source of LOF for Oda. Though this is an element of operations which is found outside of the business model itself, which we determined to be Oda's most prominent FSA, it has an important impact on how well Oda can replicate its model in the Finnish market. How much a business relies on local suppliers is relative. It depends on the amount of private label goods the company includes in its product assortment, in addition to the volume of local vs foreign products the company would like to offer. Oda relies heavily on local suppliers as the company does not offer any private labeled goods of its own. The company further prides itself in offering products from local vendors and uses this in its marketing strategy to appeal to the notion of supporting the surrounding area. A key tactic in Norway was the introduction of REMA 1000's products, which helped appeal to the Norwegian consumer's sense of familiarity. We argue that this move lowered the barriers for trying out the service. Entering into a similar partnership in Finland seems unlikely, especially a partnership with one of the leading market actors, as they have online stores of their own, something REMA 1000 did not. This is a further argument for why local supplier deals are especially important for Oda, in order to run operations. We believe the company will face more difficulties finding enough suppliers to offer a wide selection of goods. Even though Oda might find local suppliers that would like a cooperation, the costs of these contracts are highly relevant, as Oda needs to be competitive in terms of price. The competition analysis revealed that Oda is currently offering an assortment amounting to 5,000 products. 80 percent of these products are domestic (*Oda - Selection,* 2022). This indicates that Oda has managed to attain some supplier deals. This might be attributed to the slightly higher bargaining power retailers seem to be having in Finland, as have been discussed previously. Nevertheless, Oda has a long way to go if it wants to match the selection of the Prisma and K-Citymarket. However, that might not be Oda's goal either.

8.4.2 Consumer preferences

A source of LOF affecting Oda's business model is the Finnish consumer preferences. Finns prioritize selection above all, with familiarity placing second, and convenience placing third. The latter places first in Norway. Additionally, price is revealed to be more important than what is the case in the Norwegian market. Differing consumer preferences will likely affect the business model in terms of why Oda might be chosen. Being a convenient option is not enough, the company also has to offer a wide selection at competitive prices. How much do these

additional preferences change how the company operates in Norway today? Over the years we have witnessed Oda become competitive towards the low-cost segment in Norway price wise, in addition to offering a selection twice the size of said competitors. These findings indicate an existing focus on price and selection, even though they are not reported as the most deciding factors when choosing a store by the Norwegian people. However, it is likely that Oda would not have been able to meet these preferences had it not been for its partnership with REMA 1000. This partnership enabled the company to sell REMA 1000's cheap private label products, in addition to accessing the partner's full selection of goods. Having these products as a base assortment made it easier to offer a wider selection, as it could supplement its assortment by acquiring a few additional vendors. Replicating this type of partnership as mentioned earlier seems difficult.

8.4.3 Reasons for choosing Oda

The price comparisons in the Finnish market revealed Oda to be competitive when compared to the large actors' online stores. However, when comparing the baskets of goods Oda seems to operate at a slightly higher price level, although not all comparisons revealed this. Furthermore, the company offered the smallest selection of goods. In Norway the company is able to compete against the cheapest physical stores. According to Arctic Money's (2022) comparison, this is not the case in Finland, as going to the physical store of the large chains is cheaper. In Norway, the argument of convenience that follows using Oda, can be supported by equally low prices and a wide selection with familiar products. The argument of convenience currently stands alone in Finland, as it is cheaper to physically go to the store, and the customer can access a larger assortment by doing so. These findings do weaken the value of Oda's FSAs somewhat.

8.4.4 To efficient for its own good

The final important source of LOF is the response of the established market actors to Oda's entry into the Finnish market. Oda's model has as a whole been identified as the company's most important FSA, with one of the arguments supporting this being the model's operational efficiency. The company's operational efficiency can be attributed to its logistics solution and warehouse-based set-up. It is followed through by the vertically integrated delivery service of the company. However, if market actors enter into a price war against Oda, the company might struggle. Having established that the company is already optimizing its efficiency, which

entails, among other things, cutting costs, the company might not have margins left to cut. This leaves them prone to attacks in the form of price reductions. The findings from the price comparisons do not suggest large price cuts coming from the S- and K-group. A way to identify this is by looking at the market actors in relation to Lidl, which do not operate an online store. Had the S- and K-group responded by cutting prices they would likely be found cheaper (S-group) or similar (K-group) to Lidl's prices. However, Lidl is still considered the cheapest alternative, though only marginally, as the findings from Arctic Money's comparison suggests. Another scenario could be that the S- and K-group already have lower prices, and Lidl followed suit, knowing price changes often happen instantly. However, it is likely that the competitors are interested to see where Oda positions itself before initiating a response. This does not exclude a price war in the future, as historically speaking, the market actors decided to take action after having observed consumers growing interest in Lidl. This awaiting strategy might be due to the loss competitors incur themselves when responding aggressively to a new entrant, something they likely want to refrain from.

8.4.5 Is Oda's unique business model unique in Finland?

The effects of the identified sources of LOF should be considered seriously when making the choice to internationalize. However, in Oda's situation the company's FSAs are to a large degree the same in the Finnish market. If Oda raises awareness towards the identified sources of LOF, we believe the company has the potential to succeed in the Finnish market. Especially since the Finnish competition analysis found no competitor in the market with a similar business model. This means that the company can utilize its efficiency skills to optimize the online grocery segment in Finland. Though there are certainly some obstacles when entering the new market, Oda has strategically made a choice to enter a culture very similar to the Norwegian. We would therefore argue that Oda's competitive advantage is indeed transferrable to the Finnish market.

9. Conclusion

Having analyzed and answered all existing sub-questions of our thesis, the next logical step is thus to provide a conclusive answer to our initial research question. We will answer which sources of firm-specific advantages Oda has and how they can be exploited in the Finnish market.

What are Oda's sources of firm-specific advantages and how can these be exploited in the Finnish market?

Oda's FSAs are represented in the company's business model as a whole. This decision is made on the basis of the many complementarities between crucial tasks within the business itself. The skill of the developers combined with the self-made logistics system adds more value if combined, as high expertise allows for fast adaptation of the system, fast repair and faster troubleshooting. A similar sentiment comes in the cooperation between pickers and the logistics system. Going further up the value chain, Oda's vertical integration of delivery and procurement is also one part of the model which benefits from the logistics expertise of the company. Integrated delivery can combine with its own logistics system and expertise in the same area, thus enabling full control of operations and simplifying adaptation in response to changing environments. These findings serve as logical proof as to why Oda decided to replicate its entire model and refrained from outsourcing its logistics system.

Oda's model additionally offers substantial improvements in cost of goods sold (COGS). As competitors need to distribute its goods to all stores and markets, these distributions come with an inherent cost often represented in COGS. As a result, gross margins are often placed between 15 to 25 percent, as is the case in the Norwegian market. Oda has in the same market managed a 33 percent gross margin in 2020, simply due to the efficiency of its model. The Finnish market seems to have lower gross margins than the Norwegian average, but are still competitive in operating profit margins. These findings suggest larger economies of scale in the Finnish market, as operational costs outside of COGS such as wages remain very low compared to revenues. The high efficiency likely stems from the noticeably higher usage of hypermarkets in Finland, and less use of small-range stores. As a result, Oda will be harder pressed to reach the standard market efficiency. Still, its model has shown capability of reaching lower COGS, as its gross margin has been shown to increase faster than the competitors' as volume increases.

With that in mind, other costs have been much higher than its competitors, owing to their small relative size. Seeing as the gross margin is smaller in Finland, more efficient COGS might thus be considered a clear competitive advantage, and a crucial step in ensuring a competitive product.

Furthermore, Oda's efficiency is reflected in the company's UPH number averaging 212. The fiercest online rivals in Finland, namely the online stores of the S- and K-Group, operate from physical stores. This suggests that they have an efficiency averaging approximately 70 UPH. However, since the companies also utilize dark stores, the number likely increases somewhat. The discrepancies are nevertheless still large in terms of efficiency. Having found that the business model is virtually transferrable to the Finnish market, it is highly likely that Oda will achieve a similar UPH in Finland. Unless the competitors change their business model in an e-grocery setting, Oda is likely to attain a noticeable competitive advantage.

The design of the model leaves the company less prone to external factors than a typical traditional one. This was discovered when analyzing the business model, which revealed Oda relying solely on a centralized warehouse. In addition, the company's decision to integrate its delivery service effectively removed the issue of having to enter into distribution partnerships in new markets. Oda's model is, in the Finnish market, unique in this regard. This means that Oda's most evident source of liability in terms of operations is its supplier contracts.

From the consumer perspective, a key part of Oda's model is the service provided. Convenience has been confirmed to be a driving factor in multiple studies (Wifstad et al. 2018; Paytrail, 2018; Marshall & Pires, 2017; Reimers & Chao, 2012), and is a key criteria among the Finnish population. Oda is in a strategic position to gain an advantage on its competitors simply due to the ease of use of its model. While physical stores necessitates the travel to and fro, users of Oda are able to order anytime from anywhere with the added benefit of the goods being brought to the customer's doorstep. Oda's model thus bypasses one of the key grievances when choosing which store to buy from, though new issues appear as a result.

The Finnish consumers for instance place a heavier emphasis on assortment and on previous experiences than what has been reported in the Norwegian market. As such, Oda needs to adapt to the differing criteria to stay competitive. Assortment is however a difficult aspect to compete with following the heavy focus on hypermarkets from Oda's two largest competitors, S-group

and K-group. The reported assortment of 20,000 products and above is much larger than the 5,000 products Oda is reported to sell. Based on Oda's model, such an investment in assortment would likely also necessitate some substantial investments in warehouses, simply due to the share number of products. Oda will need to combine its convenience with another selling point in order to differentiate itself, as both the S-group and K-group offer a service of home delivery with their full product range.

Still, there is evidence to suggest such large assortment might not be necessary for a store. Assortment has been proven less crucial for online stores, as people are less inclined to go past the first page of available products. The perceived size of selection is furthermore harder to distinguish than in a physical store. Additionally, the physical store Lidl competes with lower selection of goods and low prices compared to other chains in the market. This niche did not exist in the Finnish market prior to Lidl setting up, and so it served as a way of capturing the share of the market most motivated by price. Price is thus another factor which Oda may aim to differentiate itself on, particularly in combination with the convenient strategy of online grocery delivery. Oda does not seem to be competitive in terms of price towards the physical stores' low-cost options, which we found to be the case in Norway. Nevertheless, Oda presents itself as the cheapest option when only comparing online competition, a feat enabled by the substantially higher efficiency and subsequently smaller delivery fees. Oda might then hope to achieve the same result as its German competitor Lidl, and successfully carve out its own niche in the context of convenience at a reasonable price. By adhering to its own core concept, Oda might thus also gain a foothold in the market. Once established, Oda could then start competing with the physical stores of the two giants in terms of selection and price. Its business model therefore looks to serve as a competitive advantage given a strategy similar to the one in the Norwegian market.

We believe it is strategic to start the international expansion with entering the Finnish market. Though not the largest market, it can serve as a steppingstone into new, more difficult territory. Our findings suggest that the model is likely replicable in other markets, especially if the company continues to target countries with similar cultures, economic situations, and demographics. However, Oda's success in the market is dependent on people's perception and willingness to try a new product. In that regard, convenience is key. The model is designed such that the product offering consists of local products already familiar to the targeted customer base. This is a big contributor to lowering the unfamiliarity barrier associated with trying out a

new service. However, changing behavior breaks with habits and our own status quo bias. In spite of this, Oda's model offers a remarkable service which might change people's perception of e-grocery. The question remains if Oda's convenient model can overcome the inconvenience of changing people's behavior.

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