



Required Report - public distribution

Date: 11/20/2000

GAIN Report #FI0004

Finland

Retail Food Sector Report for Finland and Sweden

2000

Approved by:

Lana Bennett

U.S. Embassy, Stockholm

Prepared by:

Bettina Dahlbacka

Report Highlights:

Strong economic growth in both Sweden and Finland has strengthened domestic demand for high-value consumer-ready products. The food retail sector in these markets is largely integrated and a few major import/wholesale groups cover over 70% of the markets. A strong Nordic concentration and integration is occurring along with a comprehensive process of consolidation and cross-border acquisitions among the European retailers. Products with the best prospects include wine, dried fruits and nuts, snack foods, rice, organic food, fruit juices, fresh fruits, sauces/seasonings, frozen food, seafood and petfood.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Stockholm [SW1], FI

TABLE OF CONTENTS

SECTION I. MARKET SUMMARY	Page 2 of 12
Sweden and Finland	Page 2 of 12
SECTION II. ROAD MAP FOR MARKET ENTRY	Page 3 of 12
A. Supermarkets, hyper markets or super centers	Page 3 of 12
Entry Strategy	Page 3 of 12
Market Structure	Page 4 of 12
Company Profiles	Page 4 of 12
Sweden	Page 4 of 12
Finland	Page 6 of 12
B. Convenience Stores, Gas Marts, Kiosks	Page 7 of 12
Entry Strategy	Page 7 of 12
Market Structure	Page 8 of 12
Company Profiles	Page 8 of 12
C. Traditional Markets - Small Independent Grocery Stores	Page 10 of 12
SECTION III. COMPETITION	Page 10 of 12
A. Sweden's Imports of Consumer -Oriented Ag Products	Page 10 of 12
B. Finland's Imports of Consumer -Oriented Ag Products	Page 11 of 12
SECTION IV. BEST PRODUCT PROSPECTS	Page 11 of 12
A. Products Present in the Markets	Page 11 of 12
B. Products Not Present in Significant Quantities	Page 12 of 12
C. Products Not Present Because they Face Significant Barriers ..	Page 12 of 12
SECTION V. POST CONTACT AND FURTHER INFORMATION ...	Page 12 of 12

SECTION I. MARKET SUMMARY

SWEDEN AND FINLAND

Strong economic growth in both Sweden and Finland has strengthened domestic demand for high-value consumer-ready products. The inflation rate is low and stable, with projections for continued low levels over the next 2-3 years. Private consumption has remained strong for a few years now and surveys predict that private consumption will continue to grow at a rapid pace.

The food retail sector in these markets are largely integrated and concentrated. The three largest import/wholesale groups cover over 70% of the markets both in Sweden and Finland.

Significant changes are affecting the retail food market in Sweden and Finland. A Nordic concentration and integration can clearly be seen as new mergers between the Nordic retailers are being implemented. At the same time a comprehensive process of consolidation and cross-border acquisitions is taking place among the European retailers. The Nordic countries are increasingly becoming part of the European retail market. Foreign companies and chains are expressing an increased interest in the Nordic market as globalization is accelerating. Estimates show that five large chains will command a 40% share of the European market by the year 2005.

The trend throughout Europe is towards fewer but larger players. In 1999, 73% of Swedish retail food sales of USD 21 billion went through large supermarkets and hypermarkets. In Finland, the four hundred largest stores account for half of total retail food sales of USD 11 billion. There were 6,400 food retail outlets in Sweden in 1999 compared to 13,000 in 1970. In Finland, there were 4,511 outlets in 1999, which was 167 fewer than a year earlier.

Swedish and Finnish consumption patterns are moving away from their culinary traditions, embracing value-added products, convenience foods and paying more attention to health and nutrition. In-store eating and take-away are growing. The ready meals area is demonstrating the highest consistent percentage growth for decades. The new generation of consumers is highly unlikely to return to food that requires much preparation, particularly as cookery skills are becoming less prevalent. Time is increasingly becoming a commodity that is in short supply, and this affects food retailing to a high degree.

Changes in lifestyle are also having a significant effect on the catering sector of the market. Both in Sweden and Finland about 20 percent of meals are currently eaten out of home. Fast food is the area benefitting most from these trends, and it is now becoming part of the traditional restaurant sector.

The growing demand for "natural" (organic) and "healthy" food and drink products is a very important factor. The environmental or "green" philosophy that is a considerable factor in these markets, plays itself out in the food and beverage market with significant consumer awareness in the area of food safety and healthy eating habits. Consumers are willing and able to pay higher prices for food and drink products that fall into these categories. Also, functional foods continue to be popular in these markets. These are products that may not be advertised to cure any illnesses, but they can be said to maintain a good health. There are many functional food

products either on the shelves or under development, especially in Finland, which has the potential of becoming the "silicon valley" of the functional foods industry.

Even though internet sales of retail food products so far has had limited proportions, big changes are foreseen in the near future, given the documented widespread acceptance of internet grocery buying. Remarkably many consumers are attracted by the thought of doing their food purchases from a computer and, according to a market research in Sweden, 30% see themselves as future internet customers within a five year period of time. The Nordic countries have a leading position when it comes to computers per capita.

Advantages and Challenges Facing U.S. Products in Indonesia

Advantages	Challenges
Sophisticated markets. High acceptance of new products and concepts. U.S. products are considered high quality and trendy.	U.S. products at a price disadvantage compared to competitors based in the European Union.
Growing consumer demands of value-added products, convenience foods and functional foods. Proliferation of "healthy" and "greener" foods.	High distribution and shipping costs.
Favorable location gives access to a Nordic market comprising 25 million consumers spending about SEK 450 billion annually on food, beverages and meals out. With the Baltic countries included, consumers total some 100 million.	Strong hesitation with respect to genetically modified products and hormone treated beef from the U.S.
High standard of living, well educated workforce, growing incomes.	High consumer awareness of food safety including production conditions, animal welfare, use of fertilizers and pesticides in plants.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Supermarkets, hyper markets or super centers, club and warehouse outlets

Entry Strategy

To enter these markets successfully, long-term planning should be undertaken by the exporter. This includes learning the business cultures and commercial practices. Suppliers wanting to remain in the market must give high priority to increased market orientation in their activities.

Typically, to enter the Swedish or Finnish market the exporter contacts the importers/wholesalers directly. It is most important that the U.S. exporter work closely with the importer to make sure that the products destined for these markets are in full conformity with the country's food safety, quality and labeling rules and regulations. As stated above, these markets are dominated by a few import/wholesale/retail groups, and therefore, U.S. exporters have a relatively easy job of locating potential buyers. However, for the same reason, it may be difficult to get in the door.

Swedish and Finnish importers receive a large number of business offers from around the world. Therefore, it is important to include all pertinent information in the first letter/fax. Importers do not usually bother to request additional information. It should be emphasized that Swedish and Finnish buyers want to know the price, terms and minimum quantities at an early stage in business negotiations. The buyer usually expects high quality, good packaging and, above all, reliable delivery. A Swedish or Finnish buyer will expect total commitment to prompt deliveries, exact number of items and 100% quality for all kind of products. Being punctual is not only regarded as a sign of respect but also efficiency. Swedish and Finnish businessmen will have little understanding for cultural variations on these courtesies.

Good information about market requirements, standards and general potential can be obtained by paying a company visit in connection with a relevant trade fair. Participating in a food fair can be a very efficient way to get to know the market. The major food shows are GastroNord in Sweden and Gastro in Finland.

Market Structure

The general trend remains unchanged in Sweden and Finland, with discount stores, hypermarkets (sales area exceeding 2,500 square meters) and large supermarkets increasing in volume, while small and medium-sized stores lag behind. Sweden and Finland are following trends in other European countries by producing quality, yet lower-priced, in-house labels.

The big winners in the 90's are the "discount stores". In 1999, there were 328 discount stores in Sweden. The stores are usually large and located outside the city, have a low price profile, plain interior, limited service and firm low prices. In 1999, discount stores accounted for 11% of total sales in Sweden, compared to 3% in 1990.

In Finland, the highest sales growth has occurred in large supermarkets (6.9%) and hypermarkets (6.3%); whereas small shops of less than 100 square meters saw the largest drop in sales (-10.4%).

Company Profiles

SWEDEN

The wholesale and retail food market in Sweden is dominated by three groups, ICA, KF and Axfood AB, accounting for over 70 percent of the everyday commodity retail market. While the

linkages between the three groups differ slightly, there are both horizontal and vertical connections.

ICA is the Nordic region's largest grocery retail group with 4,600 stores in Sweden, Norway and the Baltic countries. Each store is privately owned but they buy over half of their products from the regional ICA wholesale companies. In December 1999, the Netherlands's retail food giant Ahold announced its plans to acquire a 50-percent stake in ICA. A merger between ICA and the Norwegian Hakon Group had been implemented earlier in 1999. ICA stores account for 35% of Sweden's retail food sales. ICA is present in all three Baltic states with about 30 supermarkets and intends to grow through more and varied supermarket formats.

KF is Sweden's co-operative union and wholesale society. KF is a fully integrated producer, importer, wholesaler and retailer of food and non-food items. Cooperative societies are the backbone of KF operations. These societies operate 1,045 retail food outlets and have about a 20% share of the market for food items. A merger between all the Nordic cooperatives is on the way and will include cooperatives in Sweden, Norway and Denmark. The Finnish co-ops SOK and Tradeka will stay out of the merger. The formation of "Coop Norden" is deemed necessary in order for the cooperatives to be able to compete as they have felt the heat from other players' rapid consolidation and expansion in the Nordic and Baltic regions. The "Coop Norden" will be a Nordic food retail giant with 3,000 outlets and a market share of nearly 30%.

Axfood AB was formed in November 1999 through the merger of Hemkop, D&D Dagligvaror, Spar Sverige, SparInn Snabbgross and Spar Finland. The new organization became one of the largest food retail operations in the Nordic countries. It has 1,000 stores in Sweden and 330 stores in Finland and a market share of about 20 and 10 percent respectively. Axfood's associated company Inventor Trading has 54 stores in Estonia, Latvia and Lithuania. Axfood intends to participate in the food industry's growth and to expand its present food wholesale and retail operations

Retailer/Type of Outlet	Ownership	Sales CY99 (SEK Million)	No. of Outlets	Location	Market Share
ICA-Handlarna -food retail/discount stores/gas marts/conv. -hypermarkets	Swedish/ Norwegian/ Dutch	60,754	2,040	Sweden Norway Baltics	35.2
Konsum (KF) -food retail/discount stores/gas marts/conv. -hypermarkets -department stores	Swedish	32,440	1,045	Nationwide	18.7

Axfood -food retail/convenience -discount stores	Swedish/ Finnish	32,324	1,000	Sweden Finland Norway Denmark Baltics	18.7
Bergendahls -food retail/discount stores -supermarkets	Swedish	3,521	79	Southern Sweden	2.0

FINLAND

A few central wholesale organizations, (K-Group, S-Group, Tradeka/Elanto, Spar Group, Wihuri and Stockmann/Sesto) together dominate the food industry with an aggregate market share of nearly 95% of the market. They also handle non-food products and specialities trading. Almost one third of the total wholesale trade in Finland goes through these wholesale organizations.

These chains have closely knit wholesale and retail arrangements comprising a compact and efficient goods delivery system and a nationwide network of retail shops as well as department stores and supermarkets. They also have hotel and restaurant chains and catering services. The centralized system makes distribution economical and purchases from abroad can be made in feasible quantities considering the relatively small size of the market.

KESKO is the leading wholesale/retail company in Finland. It consists of the parent company Kesko Ltd. and its subsidiaries. Its members are private retail merchants who buy most of their products from the Kesko wholesale organization. The total sales of the Kesko-affiliated retailers accounted for 37.8% of retail food sales in Finland in 1999. The K-Group operates about 1,272 outlets (Citymarkets, K-markets, Rimi chains). Kesko has been operating in the Estonian market since 1994 and is now also entering the Latvian grocery market. Kesko is aiming at a 25% market share in the Baltic countries.

S-GROUP

The S-Group and Tradeka/Elanto Group represents the cooperative movement in Finland. The S-Group consists of the cooperative societies and SOK with their subsidiaries. The Group operates Citysokos department stores, S-Market supermarkets, Prisma hypermarkets, Sale and Alepa grocery stores, hotels and restaurants, service stations, hardware and agricultural stores as well as several specialty stores. The S-Group's grocery store chains, Prisma, S-market and Sale/Alepa have during the last years been extremely successful which has resulted in a market share increase from 15.9% in 1990 to 27.8% in 1999. Through its subsidiaries and associated companies, the S-Group conducts food trade also in the Baltic countries.

The other groups are considerably smaller, Tradeka/Elanto ranks third with a market share of 12.3%, Spar Group 9.8%, Wihuri 4.4% and Stockmann/Sesto 2.9%.

Retailer/Type of Outlet	Ownership	Sales CY99 FIM Million	No. of Outlets	Location	Market Share	Purchasing / Agent Type
Kesko (K-Group) - hypermarkets - department stores - supermarkets - self-service - small shops	Finnish	21,578	1,272 43 31 395 610 193	Finland Sweden (hardware) Baltics	37.8	Direct/ importer/ wholesaler
S-Group - hypermarkets - department stores - supermarkets - self-service - small shops	Finnish	15,871	603 37 22 267 250 27	Finland Baltics	27.8	Importer/ wholesaler
Tradeka/Elanto - hypermarkets - department stores - supermarkets - self-service - small shops	Finnish	7,012	601 14 10 98 432 47	Nationwide	12.3	Importer/ wholesaler
Spar Group - department stores - supermarkets - self-service - small shops	Swedish Finnish	5,609	350 2 210 129 9	Finland Sweden	9.8	Importer/ wholesaler
Wihuri - supermarkets - self-service - small shops	Finnish	2,518	610 72 283 255	Nationwide	4.4	Importer/ wholesaler
Stockmann/Sesto - department stores - supermarkets - self-service	Finnish	1,643	24 5 16 3	Larger cities in Finland Estonia	2.9	Importer/ wholesaler

B. Convenience Stores, Gas Marts, Kiosks

Entry Strategy

The convenience sector offers more limited opportunities for the U.S. exporter. However, most of the convenience stores belong to established retail chains and the same large wholesalers/retailers are suppliers to the convenience sector.

Gas marts are often affiliated with gasoline companies or with the large distribution groups. They operate like convenience stores: central buying offices reference their products which are then distributed through warehouse and distribution centers.

For new to market exporter this sector should be targeted following the same pattern as described above regarding supermarkets.

Market Structure

As in the retail food sector, a Nordic concentration and integration can be seen in the convenience sector. In 1999, ICA and Statoil formed a joint-venture company to operate Statoil's service stations in Scandinavia. Small Shops Sweden, the largest player in the convenience store sector in Sweden, (includes chains such as 7-Eleven and Pressbyran) was bought by the Norwegian company Narvesen in 1999. This as well as Narvesen's engagement in the Baltics can be seen as a step towards a North European integration. The cooperation could include consolidated purchases, marketing and IT solutions.

In Sweden, sales of grocery products in convenience stores, gas marts and kiosks increased from USD 4.4 billion in 1998 to 5.3 billion in 1999, an increase of 20.6%. In Finland, sales of grocery products in this sector reached USD 2.2 billion in 1999.

The small convenience stores have been declining in recent years. In Sweden, total sales of grocery products in convenience stores were USD 533 million 1999, a decrease of almost 10%. Where they once gained popularity and sales by flexible opening hours, this is slowly decreasing as more and more of the major supermarkets operate long hours.

Another explanation is the tough competition from gasoline station markets (gas marts) with convenient locations for car owners who do quick shopping while stopping for gas. Gas marts are, in some aspects, replacing the neighborhood grocery stores. During 1992-1996 sales in gas marts in Finland increased by 45%, while at the same time sales in small grocery stores decreased by 27%. In 1999, total sales of grocery products in gas marts in Finland reached USD 415 million. In Sweden, total sales of retail food products in gas marts were USD 1.3 billion in 1999, an increase of 5%.

Kiosks offer limited items such as snacks, sweets, cigarettes and magazines. The R-Kiosk is the leading kiosk chain in Finland. The chain comprises a total of 730 R-kiosks in Finland and 200 in Estonia.

Company Profiles

Retailer Name/ Outlet Type	Ownership	1999 Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
Statoil, gas mart	Norwegian/ Swedish	486	505	Nationwide	Wholesaler/ importer
Shell, gas mart	Swedish	329	375	Nationwide	Wholesaler/ importer
OK/Q8, gas mart	Swedish/Kuwait	302	497	Nationwide	Wholesaler/ importer

Preem, gas mart	Saudi/Swedish	115	164	Nationwide	Wholesaler/ importer
Pressbyran, convenience	Norwegian	223	320	Nationwide	Wholesaler/ importer
Ica Serv.butik, convenience	Swedish	81	98	Nationwide	Wholesaler/ importer
Handlar'n, convenience	Swedish	66	102	Nationwide	Wholesaler/ importer
Jour Livs, convenience	Swedish	47	102	Nationwide	Wholesaler/ importer
Matbutiken, convenience	Swedish	20	30	Nationwide	Wholesaler/ importer
7-Eleven, convenience	Norwegian	52	48	Stockholm/ Gothenburg	Wholesaler/ importer

In Finland, the three largest gas marts (Neste, Esso and Shell) accounted for over 80% of total sales of grocery products in 1999. These companies operate their shops under certain names which are Quick Shop for Neste, Snack & Shop for Esso and Select for Shell.

Table - Number of Gas Marts and their Market Shares in Finland

Gas Marts 1999	No. of Outlets 1999	Grocery Sales (FIM Million) 1999	Market Share %
Neste	410	724	31.2
Shell	299	604	26.0
Esso	231	576	24.8
Teboil	206	243	10.5
Seo	70	56	2.4
Station 1	50	47	2.0
Supa	18	10	0.4
ABC	15	50	2.2
Other	22	9	0.4
Total	1,321	2,319	100

C. Traditional Markets - Small Independent Grocery Stores

The small "corner" grocery stores are in permanent decline and offer limited possibilities for the U.S. exporters. Small "gourmet food" stores located in larger cities sometimes carry a wide range of imported products, but they tend to buy in very small quantities.

SECTION III. COMPETITION

The EU is the main competitor to U.S. consumer oriented food imports. EU origin products have a natural advantage in many product areas simply because they enter Sweden and Finland duty free, while American exporters have to face the EU's external duty/tariff structure.

A. Sweden's Imports of Consumer -Oriented Ag Products in 1999

Country	Import 1999 (\$1,000)	Market Share
Netherlands	642,090	20%
Denmark	563,227	17%
Germany	336,923	10%
Spain	217,326	7%
France	194,756	6%
Italy	181,485	6%
United Kingdom	122,459	4%
Finland	111,844	3%
Ireland	111,329	3%
Belgium	102,318	3%
United States	101,648	3%
Norway	65,279	2%
Costa Rica	59,970	2%
Panama	51,301	2%
Austria	38,438	1%
Other	372,712	11%
World	3,273,161	100%

B. Finland's Imports of Consumer -Oriented Ag Products in 1999

Country	Import 1999 (\$1,000)	Market Share
Sweden	233,410	17%
Netherlands	150,141	11%
France	132,221	10%
Denmark	130,783	9%
Germany	118,123	8%
Spain	109,324	8%
United Kingdom	55,926	4%
Italy	54,018	4%
Belgium	48,840	4%
United States	44,250	3%
Brazil	35,307	3%
Costa Rica	30,064	2%
Panama	18,505	1%
Israel	17,824	1%
Ireland	17,474	1%
Other	193,901	14%
World	1,390,153	100%

SECTION IV. BEST PRODUCT PROSPECTS

A. Products Present in the Markets Which Have Good Sales Potential

- Wine
- Tree Nuts
- Dried Fruits
- Rice
- Snack Foods
- Fruit Juices
- Sauces/Seasonings
- Pet Food

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Fresh Fruits and Vegetables
- Organic Food
- Seafood Products
- Niche market; Specialty Food Products
- Frozen food

C. Products Not Present Because they Face Significant Barriers

- Meat (hormone ban)
- Poultry (phytosanitary restrictions)

SECTION V. POST CONTACT AND FURTHER INFORMATION

Foreign Agricultural Service
American Embassy
Dag Hammarskjolds Vag 31
S-115 89 STOCKHOLM, Sweden
Tel: (46-8) 783 5390
Fax: (46-8) 662 8495
Email: agstockholm@fas.usda.gov

For further information on exporting U.S. agricultural products to Sweden, please visit the FAS/Stockholm home page at: <http://www.usemb.se/Agriculture>.

Average exchange rate in 1999 in Sweden: US\$ 1 = SEK 8.26
Average exchange rate in 1999 in Finland: US\$ 1 = FIM 5.5787

Current exchange rate in Sweden 11/14/00: US\$ = SEK 10.032
Current exchange rate in Finland 11/14/00: US\$ = FIM 6.900