



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 11/15/2001

GAIN Report #FI1006

Finland

Retail Food Sector Report for Finland and Sweden 2001

Approved by:

Lana Bennett

U.S. Embassy, Stockholm

Prepared by:

Bettina Dahlbacka

Report Highlights:

A strong Nordic concentration and integration is occurring along with a comprehensive process of consolidation and cross-border acquisitions among the European retailers. The Nordic countries are increasingly becoming part of the European retail market as globalization is accelerating and foreign chains are expressing and increased interest in the Nordic market. Recent mergers and restructuring of the Nordic food retail sector offers new interesting opportunities in terms of large volumes and diversity of products being demanded. There is a great demand for organic and convenience food and food and beverages which appeal to the health conscious.

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

TABLE OF CONTENTS

| | |
|--|---------------|
| SECTION I. MARKET SUMMARY | Page 2 of 14 |
| Sweden and Finland | Page 2 of 14 |
| SECTION II. ROAD MAP FOR MARKET ENTRY | Page 3 of 14 |
| A. Supermarkets, hyper-markets or super centers | Page 3 of 14 |
| Entry Strategy | Page 3 of 14 |
| Market Structure | Page 4 of 14 |
| Company Profiles | Page 5 of 14 |
| Sweden | Page 5 of 14 |
| Finland | Page 7 of 14 |
| B. Convenience Stores, Gas Marts, Kiosks | Page 9 of 14 |
| Entry Strategy | Page 9 of 14 |
| Market Structure | Page 9 of 14 |
| Company Profiles | Page 10 of 14 |
| Sweden | Page 10 of 14 |
| Finland | Page 11 of 14 |
| C. Traditional Markets - Small Independent Grocery Stores | Page 11 of 14 |
| SECTION III. COMPETITION | Page 12 of 14 |
| A. Sweden's Imports of Consumer-Oriented Ag. Products in 2000 | Page 12 of 14 |
| B. Finland's Imports of Consumer-Oriented Ag. Products in 2000 | Page 13 of 14 |
| SECTION IV. BEST PRODUCT PROSPECTS | Page 13 of 14 |
| A. Products Present in the Markets | Page 13 of 14 |
| B. Products Not Present in Significant Quantities | Page 14 of 14 |
| C. Products Not Present Because they Face Significant Barriers | Page 14 of 14 |
| SECTION V. POST CONTACT AND FURTHER INFORMATION | Page 14 of 14 |

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. However, the recent slow down in both world and local economies inserts some caution concerning future consumer spending habits. Thus far, however, retail food sales have remained high and further growth is expected.

The food retail sector in these markets are largely integrated and concentrated. In both Sweden and Finland, the three largest import/wholesale groups in each country cover over 70% of their markets. Significant changes are affecting the retail food markets 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 are 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 2000, 78% of Swedish retail food sales of approximately USD 13 billion went through large supermarkets and hypermarkets. In Finland, the 360 largest stores accounted for half of total retail food sales of USD 8.8 billion in 2000. There were 6,300 food retail outlets in Sweden in 2000 compared to 13,000 in 1970. In Finland, there were 4,283 outlets in 2000, which was 228 fewer than the previous year.

Swedish and Finnish consumption patterns are moving away from their culinary traditions, embracing value-added products and convenience foods and paying more attention to health and nutrition. Eating out is growing faster than traditional retail sales, with the resulting tendency for grocery retailers to shift their product ranges towards an increasing share of ready-to-eat foods. Time is increasingly becoming a commodity that is in short supply for consumers, and this affects food retailing to a high degree. 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 a fast-growing part of the traditional restaurant sector.

There is a growing demand for "natural" (organic) and "healthy" food and drink products. 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. These are products that are claimed to maintain 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 have thus far been limited, retailers are preparing for a significant change in the near future. Many consumers are attracted by the thought of doing their food purchases from a computer and, according to market research in

Sweden, 30% see themselves as future internet customers within a five-year period of time. The Nordic countries maintain a leading position when it comes to computers per capita.

Advantages and Challenges Facing U.S. Products in Sweden and Finland

| 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 demand for value-added products, convenience foods, international/ethnic cuisine, "functional" and organic foods. | High distribution and shipping costs. |
| Location gives access to a Nordic/Baltic market comprising 25 million consumers spending about USD 45 billion annually on food, beverages and meals out. | 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. English is widely spoken. | Strong dollar is currently negatively affecting U.S. sales. |

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 these markets must design promotion activities which fit them.

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. Selling to a distributor that supplies the large retailers with U.S. food products is another good alternative. This is especially true for small to medium-size exporters.

Swedish and Finnish firms do not change suppliers readily, and many commercial relationships

have been built up and maintained over decades. While this is beneficial to exporters who have a partner, newcomers must be willing to invest effort in developing an entry and securing the confidence of buyers. A Swedish or Finnish buyer will expect total commitment to prompt deliveries, precision in filling of orders and high quality for all kinds of products. Being punctual is not only regarded as a sign of respect, but also efficiency. Swedish or Finnish businessmen will have little understanding for cultural variation in punctuality.

Good information about market requirements, standards and general potential can be obtained by paying a company visit in connection with a local 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, where FAS/Stockholm is arranging U.S. pavilions. The next such event is Gastro Helsinki March 20-22, 2002. This is an excellent opportunity for U.S. exporters to meet with the trade from Finland and Sweden as well as other Nordic and Baltic countries.

Market Structure

The Swedish and Finnish retail food industry has long been characterized by stable structures and low degree of internationalization. However, this picture began to change in 1999 when the Netherlands' retail food giant Ahold took over a 50 percent interest in Sweden's leading retailer ICA. Subsequently, there has been a wave of consolidations among the Nordic retailers and companies are becoming more Nordic than domestic in their perspectives. The consolidation and mergers among Nordic chains is to a large degree being stimulated by their need to remain competitive vis-a-vis other large European retail chains which are now eyeing this region. The German hard discounter Lidl has already announced its intention to establish operations in Finland and Sweden.

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

The "discount stores" continue to gain market shares in Sweden. In 2000, there were 343 discount stores in Sweden which accounted for 12% of total sales, compared to 3% in 1990. The stores are usually large and located outside the city, have a low-price profile, plain interior, limited service and low standard prices.

In Finland, the highest sales growth in 2000 has occurred in large supermarkets (10.2% share of total grocery sales) and hyper-markets (6.3% share), but corner (convenience) groceries, mostly owned by the same conglomerates that own and operate the supermarkets, remain popular with consumers. Discount stores have not been developed as extensively in Finland as in Sweden. However, this scenario may change with the planned market entry of German hard discounter Lidl. Lidl is planning to open up as many as 200 stores in Finland, beginning in 2002.

Company Profiles

SWEDEN

The Swedish wholesale and retail food market is dominated by three groups, ICA, Coop and Axfood, accounting for 72 percent of the everyday commodity retail market.

ICA AHOLD

ICA is the Nordic region's largest grocery retail group with 4,600 stores primarily in Sweden and Norway, but also in Denmark and the Baltic countries. In December 1999, the Netherlands' 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. The latest step is a joint venture between ICA Ahold and the leading Danish retailer Dansk Supermarked. The 50-50 venture will operate discount stores and hyper-markets in Sweden and Norway. ICA is present in all three Baltic states with about 50 supermarkets and intends to grow in the Baltics through more and varied supermarket formats. ICA stores account for 35.6% of Sweden's retail food sales.

COOP

Coop is the result of the recent merger of three Scandinavian cooperatives; Swedish Kooperativa Forbundet (KF), Danish Faellesforeningen for Danmarks Brugsforeninger (FDB) and Coop Norway. Coop Norden is estimated to have a turnover of USD 8 billion, a 29% market share and 26,000 employees. Coop Norden's headquarters will be located in Gothenburg, Sweden and the company launch is scheduled for January 1, 2002. What prompted the merger was the recent increase in competition from large international chains and the pace of changes in the industry. Through the merger, the three cooperatives believe they can face these challenges by benefitting from larger buying volumes, efficiencies in distribution, a common business development strategy and lowering of costs for information technology.

AXFOOD AB

Axfood AB was formed in November 1999 through the merger of Hemkop and D&D Dagligvaror and the subsequent acquisitions of Spar Sverige, SparInn Snabbgross and 40% of the share capital in 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 325 stores in Finland, and a market share of about 20 and 9 percent in these countries, respectively.

SWEDEN - MAJOR RETAIL PROFILE

| Retailer/Type of Outlet | Ownership | Sales CY00 (\$ Million) | No. of Outlets | Location | Market Share | Purchasing/ Agent Type |
|---|---------------------------------|------------------------------------|---------------------------|---|-------------------------|------------------------------------|
| ICA Ahold -food retail -discount stores -gas marts/convenience -supermarkets -hyper-markets | Swedish/ Norwegian/ Dutch | 6,294 | 1,987 | Sweden Norway Denmark Estonia Latvia Lithuania | 35.6 | Direct/ importer/ wholesaler |
| Coop -food retail -discount stores -gas marts/convenience -supermarkets -hyper-markets -department stores | Swedish Norwegian Danish | 3,280 | 1,005 | Sweden Norway Denmark | 18.5 | Direct/ importer/ wholesaler |
| Axfood -food retail -convenience -discount stores -supermarkets | Swedish/ Finnish | 3,230 | 973 | Sweden Finland Norway Denmark | 18.2 | Direct/ importer/ wholesaler |
| Bergendahls -food retail -discount stores -supermarkets | Swedish | 303 | 39 | Southern Sweden | 1.7 | Direct/ importer/ wholesaler |

Company Profiles

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%. 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. Almost one-third of the total wholesale trade in Finland goes through these wholesale organizations.

KESKO

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 37.6% of retail food sales in Finland in 2000. The K-Group operates about 1,272 outlets (Citymarkets, K-markets, Rimi chains). Kesko has been operating in the Estonian market since 1994 and has recently entered 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 represent 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 recent years, been extremely successful. This success can be measured by a market share increase from 15.9% in 1990 to 28.9% in 2000. Through its subsidiaries and associated companies, the S-Group also conducts food trade in the Baltic countries.

The other groups are considerably smaller. Tradeka/Elanto ranks third with a market share of 12.4%. Spar Group has a 9.1% share and Wihuri 5.6%.

INEX

Inex Partners OY is a joint venture owned on a fifty-fifty basis by the S-Group and Tradeka/Elanto. Inex Partners OY specializes in the sourcing of groceries and the provision of logistic services for the retail chains operated by the S-Group, Tradeka and Elanto.

FINLAND - MAJOR RETAIL PROFILE

| Retailer/Type of Outlet | Ownership | Sales CY00 (\$ Million) | No. of Outlets | Location | Market Share | Purchasing / Agent Type |
|--|--------------------|------------------------------------|---|---|-------------------------|--|
| Kesko (K-Group) - hyper-markets - department stores - supermarkets - self-service - small shops | Finnish | 3,290 | 1,198 44 28 398 567 161 | Finland Sweden (hardware) Estonia Latvia Lithuania | 37.6 | Direct/ importer/ wholesaler |
| S-Group - hyper-markets - department stores - supermarkets - self-service - small shops | Finnish | 2,534 | 604 38 19 277 245 25 | Finland Estonia Latvia Lithuania | 28.9 | Importer/ wholesaler (Inex) |
| Tradeka/Elanto - hyper-markets - department stores - supermarkets - self-service - small shops | Finnish | 1,086 | 580 14 9 86 430 41 | Finland Estonia Latvia Lithuania | 12.4 | Importer/ wholesaler (Inex) |
| Spar Group - department stores - supermarkets - self-service - small shops | Swedish Finnish | 801 | 324 1 191 129 3 | Finland Sweden | 9.1 | 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 either affiliated with gasoline companies or with the large retail food distribution groups. New-to-market exporters should target this sector in the same way as described under the entry strategy section for supermarkets.

Market Structure

As in the retail food sector, a Nordic concentration and integration is evident 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 declined to USD 442 million in 2000, and are inching down steadily. Where they once gained popularity and sales by offering flexible opening hours, more and more of the major supermarkets are taking back this business by operating longer hours. Another explanation for the declining sales in convenience stores is the tough competition from gas marts which provide car owners the opportunity to do quick shopping while stopping for gas. Gas marts are, in some respects, replacing the neighborhood grocery stores. During 1992-1996, grocery sales in gas marts in Finland increased by 45%, while at the same time sales in small grocery stores decreased by 27%. In 2000, total sales of grocery products in gas marts in Finland reached USD 347 million. In Sweden, total sales of retail food products in gas marts amounted to USD 1.2 billion in 2000.

Kiosks offer limited items such as snacks, sweets, cigarettes and magazines. The R-Kiosk is the leading kiosk chain in Finland, where kiosks still have 3.6% of total grocery sales. The chain comprises a total of 723 R-kiosks in Finland and 200 in Estonia.

Company Profiles**SWEDEN - MAJOR GAS MARTS AND CONVENIENCE STORES**

| Retailer Name/ Outlet Type | Ownership | 2000 Sales (US\$ million) | No. of Outlets | Location | Purchasing Agent Type |
|---------------------------------------|-----------------------|--------------------------------------|-----------------------|-----------------------------|----------------------------------|
| Statoil, gas mart | Norwegian/ Swedish | 476 | 550 | Sweden Norway Denmark | Wholesaler/ importer |
| Shell, gas mart | Swedish | 266 | 350 | Nationwide | Wholesaler/ importer |
| OK/Q8, gas mart | Swedish/Kuwait | 302 | 497 | Nationwide | Wholesaler/ importer |
| Preem, gas mart | Saudi/Swedish | 95 | 168 | Nationwide | Wholesaler/ importer |
| Pressbyran, convenience | Norwegian | 191 | 315 | Nationwide | Wholesaler/ importer |
| Ica Serv.butik, convenience | Swedish | 73 | 3 | Nationwide | Wholesaler/ importer |
| Handlar'n, convenience | Swedish | 56 | 110 | Nationwide | Wholesaler/ importer |
| Jour Livs, convenience | Swedish | 29 | 78 | Nationwide | Wholesaler/ importer |
| Matbutiken, convenience | Swedish | 7 | 15 | Nationwide | Wholesaler/ importer |
| 7-Eleven, convenience | Norwegian | 48 | 49 | Stockholm/ Gothenburg | Wholesaler/ importer |

Company Profiles**FINLAND - MAJOR GAS MARTS AND THEIR MARKET SHARES**

| Gas Marts Finland | No. of Outlets in 2000 | Grocery Sales (US\$ Million) 2000 | Market Share % |
|------------------------------|---------------------------------------|--|-------------------------------|
| Neste | 410 | 108 | 31.2 |
| Shell | 299 | 90 | 26.0 |
| Esso | 231 | 86 | 24.8 |
| Teboil | 206 | 36 | 10.5 |
| Seo | 70 | 8 | 2.4 |
| Station 1 | 50 | 7 | 2.0 |
| Supa | 18 | 1 | 0.4 |
| ABC | 15 | 7 | 2.2 |
| Other | 22 | 1 | 0.4 |
| Total | 1,321 | 347 | 100 |

In Finland, the three largest gas marts (Neste, Esso and Shell) accounted for 82% of total sales of grocery products in 2000. These companies operate their shops under certain names which are Quick Shop for Neste, Snack & Shop for Esso and Select for Shell.

C. Traditional Markets - Small Independent Grocery Stores

The small "corner" grocery stores are in permanent decline and offer limited possibilities for 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 Agricultural Products in 2000

| Country Sweden | Import 2000 (\$1,000) | Market Share |
|---------------------------|--------------------------------------|-------------------------|
| Netherlands | 551,241 | 19% |
| Denmark | 524,700 | 18% |
| Germany | 321,934 | 11% |
| Spain | 171,585 | 6% |
| France | 177,246 | 6% |
| Italy | 172,784 | 6% |
| United Kingdom | 116,260 | 4% |
| Finland | 96,625 | 3% |
| Ireland | 110,312 | 4% |
| Belgium | 99,370 | 3% |
| United States | 86,455 | 3% |
| Norway | 60,668 | 2% |
| Costa Rica | 43,871 | 1% |
| Panama | 43,373 | 1% |
| Austria | 32,690 | 1% |
| Other | 359,657 | 12% |
| World | 2,968,811 | 100% |

B. Finland's Imports of Consumer-Oriented Agricultural Products in 2000

| Country Finland | Import 2000 (\$1,000) | Market Share |
|----------------------------|--------------------------------------|-------------------------|
| Sweden | 209,730 | 16% |
| Netherlands | 140,046 | 11% |
| France | 115,476 | 9% |
| Denmark | 111,091 | 9% |
| Germany | 116,703 | 9% |
| Spain | 106,829 | 8% |
| United Kingdom | 49,658 | 4% |
| Italy | 47,996 | 4% |
| Belgium | 57,081 | 4% |
| United States | 30,740 | 2% |
| Brazil | 29,586 | 2% |
| Costa Rica | 21,106 | 2% |
| Panama | 17,072 | 1% |
| Ireland | 38,809 | 3% |
| Chile | 12,738 | 1% |
| Other | 180,392 | 14% |
| World | 1,285,136 | 100% |

SECTION IV. BEST PRODUCT PROSPECTS**A. Products Present in the Markets Which Have Good Sales Potential**

- Wines
- Dried Fruits and nuts
- Snack Foods
- Fruit Juices
- Processed fruits & vegetables
- Sauces/Seasonings
- Pet Food
- Rice (most U.S. rice currently packaged in other European countries)

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

- Fresh Fruits and Vegetables
- Organic Food
- Ethnic Food
- Seafood Products
- Niche market; Specialty Food Products
- Frozen Food
- Rice mixes
- Vegetarian Food
- Ready-made convenience meals

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 Sept 00 - Sept 01 in Sweden: US\$ 1 = SEK 10.08

Average exchange rate Sept 00 - Sept 01 in Finland: US\$ 1 = FIM 6.69