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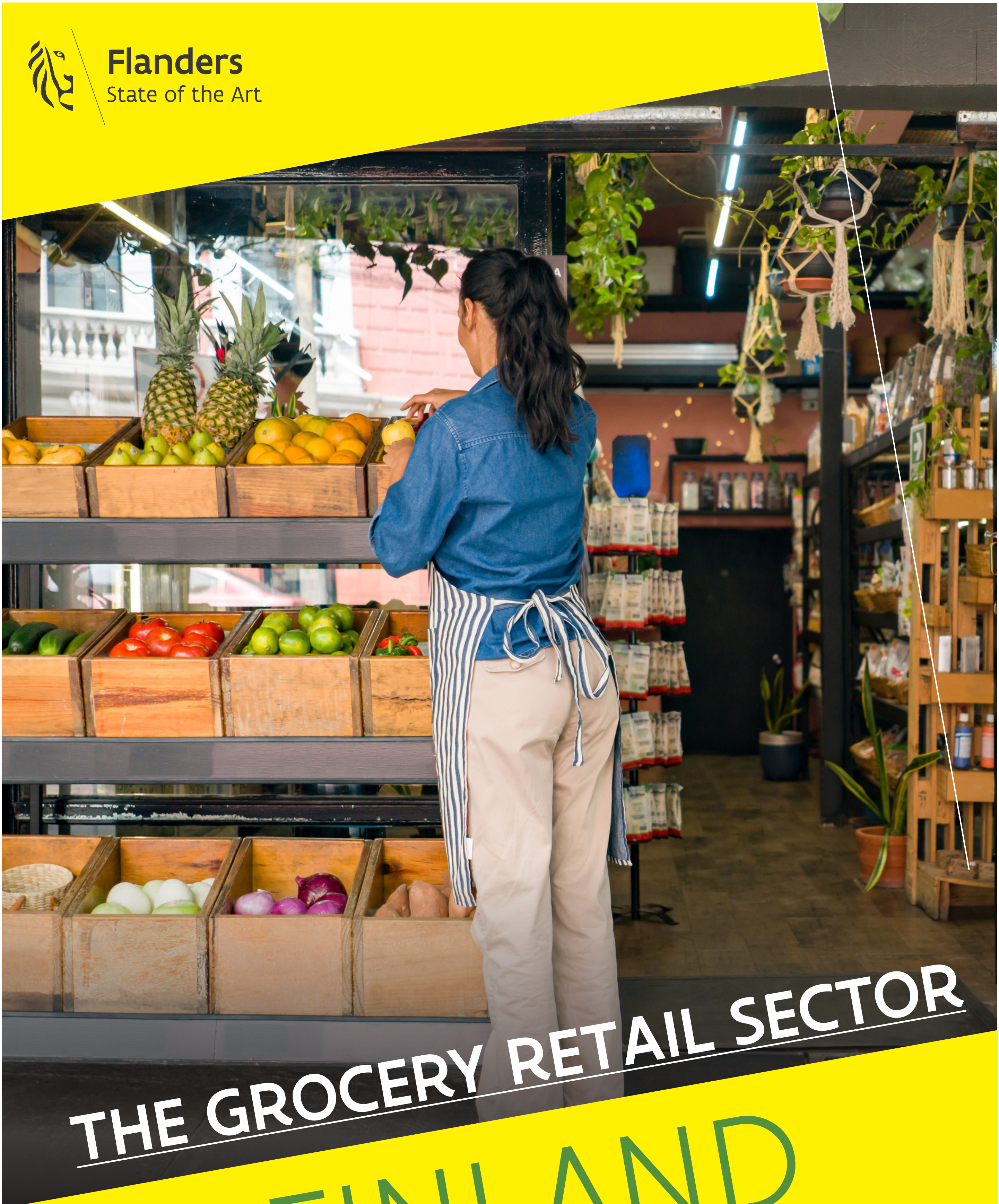

THE GROCERY RETAIL SECTOR IN FINLAND

FLANDERS INVESTMENT & TRADE MARKET SURVEY

FLANDERS INVESTMENT & TRADE

Market study

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THE GROCERY RETAIL SECTOR IN FINLAND

December 2022

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Content

1. Foreword

Finland is an interesting country for Flemish companies. The market may not be very large but the economy is stable and transparent, Finns are straightforward and reliable in doing business, and the purchasing power of Finnish consumers is among the top 10 in the EU. Of the Nordic countries, Finland is the only one using the euro.

The Finnish grocery retail sector is doing well. The sector was a clear winner during the Covid-19 pandemic. And currently, with the rising inflation and uncertain economic situation in the whole of Europe, the sector is blooming, as groceries are necessities.

The sector has seen changes in the past decade: the number of brick and mortar players has become even smaller than before, online shopping of groceries is a growing trend, and new businesses have found their place in the competitive sector of online grocery shopping.

We hope this study gives you a good overview of the grocery retail sector in Finland. Please contact Flanders Investment and Trade in Helsinki for any additional questions and product specific contact information (helsinki@flanderstrade.com).

2. The grocery retail market

In a nutshell

- 2 main players S Group and K group have a combined market share of 82.7% (2021)
- Total market value is 20.9 billion euro (2021), 80% of which is foodstuffs
- The sector employs over 80,000 persons
- The sector offers good possibilities for Flemish companies

General overview

The Finnish grocery retail sector differs from the Belgian market where small independent and specialized grocery shops such as butchers, bakeries, fish mongers, and vegetable & fruit stores are much more common. In Finland, the grocery trade is characterized by the formation of chains and the centralization of procurement and logistics. This is because Finland, as some of the other Nordic countries, is a sparsely populated country. The geographical area of the country is 11 times the size of Belgium, 25 times the size of Flanders. Without sufficient cost-efficiency and large volumes, prices would rise, selections would shrink, and customers would have a poorer service and reduced accessibility.

The grocery retail market is dominated by two large players: *S Group* and *K Group*. Both of these, especially S Group, have activities in various sectors within society. S Group is the leader with a market share of

46.1% (2021) and K Group's share is 36.6% (2021). After these two market giants comes Lidl Finland with a market share of 9.6% (2021). Seeing these figures, it is easy to understand that there aren't other significant general grocery retailers to mention, as the other chains have vanished or been bought by the two leading companies. Finnish low-cost stores sell some foodstuffs but mainly focus on other products. The low-cost stores can still be interesting partners for budget or mid-segment dry foodstuffs.

There are also other factors than company acquisitions which have changed the grocery retail market in Finland. In recent decades, a significant number of Finns have moved to cities and growth centres. At the moment, 42% of the population (which totalled 5.5 million in 2021) live in the three largest areas around the cities of Helsinki, Tampere, and Turku. These regions are also forecasted to grow between 3.1% and 4.8% in the coming five years.

This demographic development leads to fewer but larger stores. In 25 years, the number of market-sized stores has gone down from nearly 10,000 stores to fewer than 2,800 stores. Selections have tripled in that time; Finland joining the EU in 1995 played a significant role in this, and IT development has made the management of large selections possible. In 2016, regulations concerning opening hours were eased, letting the retailers decide their opening hours. Stores are thus normally open about 15 hours per day, with just a few hours less on Sundays.

General sales figures

In 2021, the total sales of the grocery trade were 20.9 billion euro, of which food and non-alcoholic beverages accounted for 14.7 billion euro. This was 3% more than the year before. The highest growth figures were seen in non-alcoholic and low-alcohol beers, ready-made meals, and mineral and spring waters. Butter, potatoes, and sugar lost the most sales.

The grocery market has become more digital for the consumer during the past decade with the launch of online platforms to buy groceries. Online sales started out very slowly in Finland, but the Covid-19 pandemic gave it a boost although sales still only cover about 2% of the market. New players within this segment are appearing, but some also disappear quickly again. The latest addition is Norwegian Oda. Swedish players Kavall already left the business in 2022 after less than a year activity. The online players are listed later in this study.

Alcohol and medicines regulations

The retail sales of alcoholic beverages is another differentiating factor when comparing Finland to Belgium. In Finland, grocery retailers may only sell alcohol up to 5.5%. For many years there has been a public discussion whether wines should be allowed in supermarkets. Currently, only the state owned monopoly stores called Alko can sell alcoholic beverages exceeding 5.5% of alcohol.

Medicines are also not sold in the Finnish retail stores. But the health boom which has been ongoing for the past decade is visible at the grocery retailers' shelfs in the form of a wide selection of health supplements. The monopoly of pharmacies for selling basic self-care drugs like pain killers is also a discussion point in Finnish society, and the Finnish Grocery Trade Association is lobbying for a renewal of the pharmacy regulations.

Most common stores types

Below we have listed the most common types of grocery stores in Finland.

Hypermarket is a retail store that sells goods in many sectors, with a sales area of more than 2,500 m^2. Groceries accounts for less than half of the total area, but the focus of sales is on groceries.

Supermarket is a grocery store with a sales area of at least 400 m^2 and where foodstuffs account for more than half of the sales area. For statistical purposes, supermarket stores are divided into large supermarkets with an area of more than 1,000 m^2 and small supermarkets with an area of 400–1,000 m^2, which are also commonly referred to as markets.

Convenience stores are situated in residential areas close to consumers and easily accessible by foot. Large convenience stores have an area of 200–399 m^2 and small ones 100–199 m^2.

Discounters are about the same size as supermarkets, and have a wide selection of products including vegetables and fruits and fresh products. Their concept is based on fast circulations and efficient operating models. Discounters are mostly found in industrial and commercial construction areas, but increasingly also in urban areas.

3. The market players

Two dominating companies

S Group

S Group is a Finnish cooperative network of companies in the retail and service sectors, with 1,900 outlets in Finland. This large player in the Finnish scale also offers services such as department stores and specialty stores, service station stores and fuel sales, travel and hospitality businesses, and hardware stores. S Group's retail sales in 2021 were 12.3 billion with an increase of 5.9% compared to 2020. S Group employs over 40,000 people. S Group is also present in Estonia with both supermarkets and hotels.

General website: https://s-ryhma.fi/en
Information for suppliers: https://s-ryhma.fi/en/for-suppliers

K Group

K Group is a trading sector company listed on the Helsinki stock market. It manages retail store chains, and produces services for retail store chains' purchasing, logistics, network development, and data management.

Kesko's operations include food, home and specialty goods, building and home improvement, and car and machinery trades. Its divisions and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko is the only one of the biggest chains in which all the shops are owned by the shopkeepers.

In 2021, the retail sales of Kesko were some 15 billion euro, and net sales in groceries grew by 3.1%. Kesko and K-retailers combined employ approximately 39,000 people and K Group employs some 45,000 people in total.

General website: www.kesko.fi/en/
Information for suppliers: www.kesko.fi/en/company/suppliers/

Other companies

Lidl Suomi Ky is an independent subsidiary of Lidl, one of the Europe's biggest grocery trade groups. Lidl has been active in Finland for 20 years, since 2002. The company started out in Finland with just 10 stores and 1,000 products, and Finns were initially sceptic about the new foreign chain. But Lidl has managed to win Finns over and has grown its store network to about 200 stores. The current selection of Lidl comprises about 2,500 products supplemented by changing seasonal products. Lidl has climbed to the third place within the players in Finland. Its turnover in 2021 was 1,863 million euro with a 4.4% growth compared to 2020, and it employs 5,600 people in Finland.

Lidl has the most private labels within the Finnish grocery retailers, and nowadays its selection consists of about half Finnish and half foreign products.

In contrast to S Group and K Group, Lidl does not publish the contacts details of its buyers, with just a general email address given.

Lidl Finland's website - www.lidl.fi/

M Chain is a chain of independent grocery stores. M Chain was founded by independent store keepers in 2006. M Chain's main supplier is Wihuri Group's Metro wholesale: www.metrotukku.fi/. In addition, the chain collaborates with about hundred different smaller suppliers. The chain currently has about 50 shops.

Website: www.m-ketju.fi/

TOKMANNI

Tokmanni is a low cost store chain with close to 200 outlets and a total turnover of 1.14 billion euro. Tokmanni is a publicly listed company. In its stores and web shop it sells dry foodstuffs, and in an increasing number of stores also fresh foodstuffs. Tokmanni can offer interesting possibilities for Flemish companies selling especially dry foodstuffs in large quantities with an economical price.

Website: https://ir.tokmanni.fi/en

minimani

Minimani is a low cost store chain with 6 outlets selling all kinds of products for the home, cars, children, pets…and also all kinds of foodstuffs, including fresh products and fruit & vegetables. Minimani can offer interesting possibilities for Flemish companies selling basic foodstuffs for an economical price.

Website: www.minimani.fi/

The new challengers: online grocery retailers

Finland is behind Sweden and Denmark in grocery e-commerce. In Finland, the market size is about 2%. Regionally in the metropolitan area it is around 5%. The market is growing and especially families with children are using grocery e-commerce.

Two of the three main Finnish grocery retailers (S Group and Kesko) also offer the possibility to buy groceries online, and they also have a delivery service.

Some operators are using only quick deliveries (Wolt, Foodora) while others deliver in 1-2 days.

Wolt Market - https://wolt.com/en (from its own dark store or from grocery shops nearby)

Foodora (Market) - www.foodora.fi/en/?r=1 (from its own dark stores)

Kauppakassi24 - www.kauppahalli24.fi/

Oda - https://oda.com/fi/ (from its own dark stores)

Kauppakassi.com - www.kauppakassi.com/?v=f0aa03aaca95 (in collaboration with the wholesaler wholesaler www.emetro.fi/fi/EUR)

Fiksuruoka.fi - www.fiksuruoka.fi/ (selling non-fresh groceries, also products that are about to expire)

Matsmart - www.matsmart.fi/ (selling non-fresh groceries, also products that are about to expire)

Market shares

Company	Market share (%)	Grocery sales, million euro
S Group	46.1	9,618
K Group	36.6	7,631
Lidl Finland	9.6	2,006
Tokmanni	3.3	683
Minimani	0.6	126.7
M chain	0.3	65.7*
Other private companies	3.5	736

* Includes also sales in utility goods

Source: NielsenIQ and The Finnish Grocery Trade Association

4. Private label in Finland

Compared to many other European countries, the share of private label products in the Finnish grocery trade is still relatively modest, about 24% (2021). But compared to the beginning of the 2000s, the range has doubled. The first private label product was introduced to the market in the late 60s by the S Group. K Group launched its first private label product in 1986.

The ongoing inflation in Europe impacts consumers' purchases, making more affordable private label products more attractive to the consumer. The sales of private label products have been modestly increasing during the past five years. It now remains to be seen if the current economic situation will create further growth in the sales of private label products or not.

All in all, Finnish consumers are positive towards private label products. More than half of consumers buy private label products on a regular basis. The main reason for choosing a private label product over a branded one is the lower price level. The quality-price ratio remains important for the Finnish consumer but the origin is less important when buying private label products. In other instances Finns prefer to buy domestic products.

In recent years, partnerships have also been signed with foreign players, such as the largest Finnish retailer S Group partnering with the French giant Carrefour for international sourcing of private label products.

Private label brands at S Group and K Group

Also in Finland, private label products have different quality and price levels. As Finns are eager to buy domestic products, also private label brands “made in Finland of Finnish foodstuffs” have entered the market some years ago.

S Group

For many years, S Group's private label brands were *Rainbow* and *Xtra*. Currently, its private label brands are **Rainbow**, **Xtra**, **Kotimaista**, **Makula, Food Market Herkku, Änglamark,** and **Amarillo.**

Kotimaista private label brand consists of Finnish products, and *Änglamark* is a COOP private label brand focusing on organic products.

In 2021, S Group signed a partnership agreement with the French retail chain Carrefour covering the international sourcing of private labels. This partnership means that S Group can participate in buying Carrefour's French, Italian, and Spanish food and non-food private labels.

K Group

Kesko's grocery retail brands in private label are: **Pirkka**, **Pirkka Parhaat** (premium range), and **K-Menu** (the cheapest, basic products). The **Pirkka** range comprises over 2,800 products, and around 100 new products are added to the range every year. In the selection process for new Pirkka products, priority is given to products sourced from Finland if they meet the quality and price criteria. Still, only around 30% of Pirkka products are made or grown in Finland, with the exception of fresh products such as meat or liquid dairy, where it's almost 100%.

There are some 300 products in both the **Pirkka Parhaat** and the **K-Menu** ranges, and products are more often of foreign origin than is the case for the **Pirkka** products.

K Group also sells **Euroshopper** (AMS Sourcing): www.ams-sourcing.com/euro-shopper/.
More information can be found here: www.kesko.fi/en/customer/own-brands/pirkka-and-k-menu/.

5. Information for Flemish companies

Current consumer grocery trends in Finland

In the second half of 2022, prices of foodstuffs have significantly risen due to the energy crisis caused by Russia's attack on Ukraine. The estimated inflation for the whole year in Finland is 7.5%, a little lower than the Eurozone average. Finns are currently looking into savings in their shopping basket. The sales of private label products have increased, especially in the cheaper range. Finns have also cut down consumption of products such as meat, fish, vegetables, and fruit.

The most significant structural change within the sales of foodstuffs in 2021 was the increase of sales in ready-made meals by more than 16%. Ready-made meals were sold for more than 1 billion euro. Correspondingly, sales of basic food ingredients decreased. This change has an impact on value creation throughout the food chain. The Covid-19 pandemic naturally has had the biggest role in this consumer trend, as many employees have worked from home and have wanted to make their daily lives easier.

The selections of ready-made meals have also grown, ranging from traditional basic ready-made meals to meals prepared by well-known restaurants, as well as various types of salads, sushi, etc. It remains to be seen how the sales will develop in the new economic climate as also the prices of ready-made meals have risen significantly. Despite the rise in inflation, consumers are looking for easy-to-prepare foodstuffs.

Despite the changes caused by the pandemic and the energy crisis, larger trends around sustainability, organic products, seasonal consumption, and waste reduction are important, for both the consumer and the companies. Finnish retailers are committed to reducing their environmental impact and want to help their clients to reduce their carbon footprint in grocery purchases.

Sourcing

The sourcing of grocery retail products is mainly done through six supply chains organisations:

S Group https://s-ryhma.fi/en

K Group www.kesko.fi/en/

Lidl Finland www.lidl.fi/

Tokmanni https://ir.tokmanni.fi/en

Wihuri www.wihuri.fi/en/

Minimani www.minimani.fi/

In addition to these, sourcing is done through international sourcing companies.

Over the past 25 years, product ranges have tripled. The selection size varies from around 2,000 products in small stores to around 30,000 products in the largest hypermarkets. Each store's overall selection consists of the chain's basic selection and store-specific, supplementary product selection. K Group's stores are shopkeeper based, giving the entrepreneur more flexibility regarding the supplementary products.

Possibilities

Private label has offered good possibilities for Flemish companies over the years. The sales of private label products have been increasing slowly but steadily during the past five years, with a notable increase recently due to the general rise of food prices. It remains to be seen how much this phase will affect the sales in the future, but the Finnish companies are eager to bring more private label products into their selections.

In theory, Finnish consumers prefer products produced in Finland. In practice, however, Finns increasingly choose foreign products even when similar products are produced also domestically. Purchasing of foreign products and food imports has increased significantly during 2022's rise in inflation as consumers are looking for cheaper options in their shopping basket.

Already before the rise in inflation, cheese was a good example of foreign products consumed; about half of the cheese consumed is of foreign origin. Also, the import of meat has been steadily increasing. The current winners in the grocery retail bring possibilities for Flemish exporters: frozen products of all kinds, but especially bakery products and ready-made meals as well as sauces and tex mex products. Consumers want easy-to-use products and also to lessen their food waste.

Contract manufacturing for the Finnish food industry companies is also a potential channel. Finnish food companies produce their products more and more abroad nowadays.

The ongoing inflation has brought the food imports to a new record: 5.4 billion euro (during Oct 2021–Sep 2022), which is an increase of 14%. The quantitative growth was 5%. About 80% of the food consumed in Finland is manufactured locally, and about 65% of the ingredients are domestic.

Good to know

It is not always easy to make introductions to the decision makers at Finnish grocery trade companies, as they get contacted by so many companies. But our office has seen good results especially with individual prospection trips. When you approach companies yourself, a simple email won't normally suffice - it is usually necessary to also reach out to the person via phone. Finns are very straightforward when it comes to business communication: positive reactions really means they are interested, and vice versa. They are also very focused on facts and numbers, so keep the emphasis in your communication on these.

It is good to keep in mind that the selections are planned well ahead, i.e. the selling process is long. With small manufacturers, the quantity of the purchases can also be an issue. Selling to the two market leaders may require the capacity to produce in large quantities.

The competition on the grocery retailers' shelves is tough, and it is challenging to keep ones products in the selections, especially when it comes to branded products. This also the case for the Finnish retailers' selections. Some products that are often offered by Flemish companies, such as pralines, are only sold seasonally in Finland. Other categories such as coffee and ice cream, which are both very popular in Finland, are very competitive and would require a marketing budget to make the brand known to Finns.

In the current economic situation, our office estimates that the possibilities for Flemish companies are better than before, mainly in private label and for mid to lower price segment grocery trade products.

6. Federations

Finnish Grocery Trade Association

The Finnish Grocery Trade Association represents companies active in grocery retail and foodservice.

Website: www.pty.fi/en/
Contacts: www.pty.fi/en/about-us/contact-info/

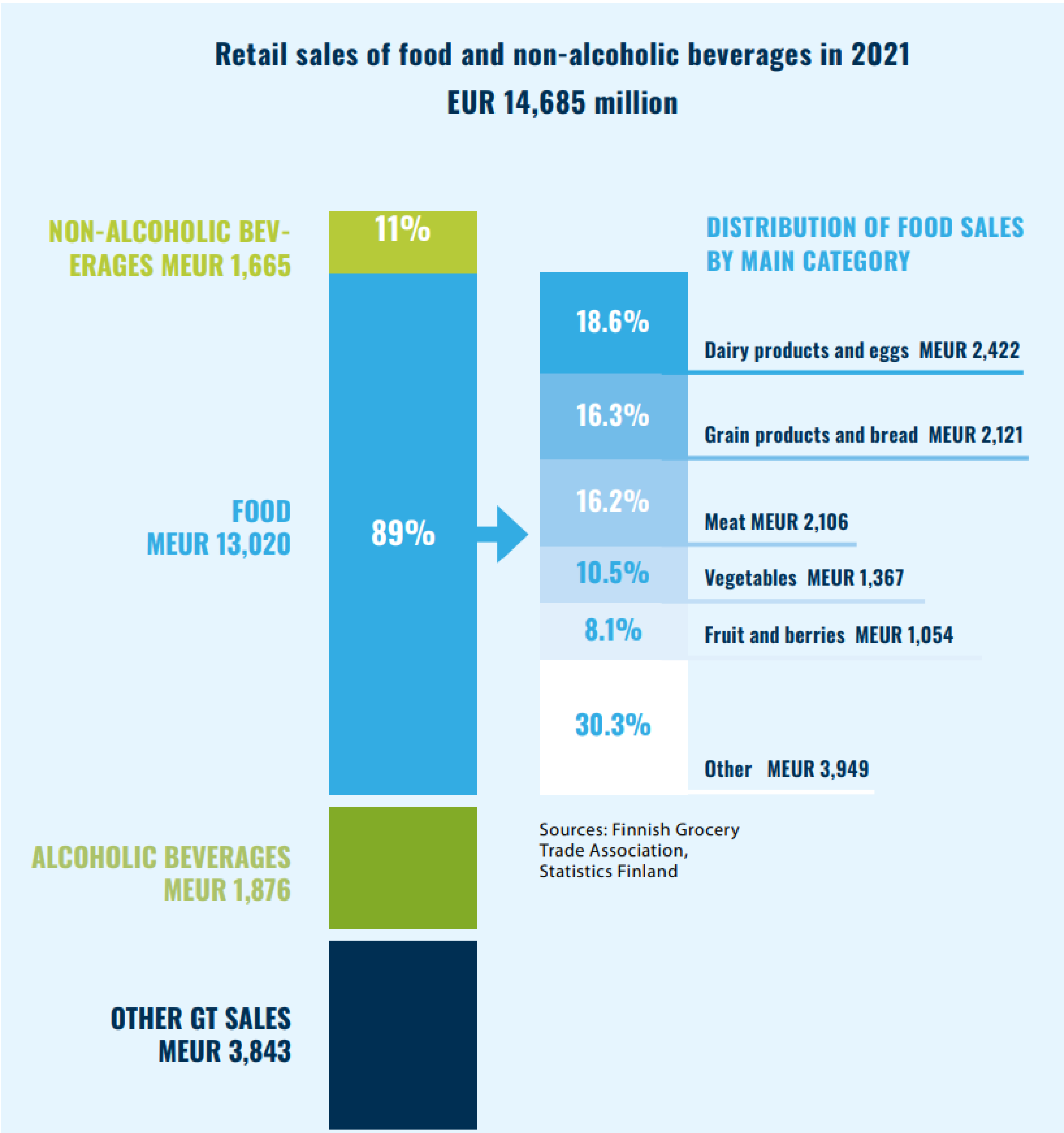
Finnish Commerce Federation

An umbrella organization for various commerce related associations including the above mentioned Finnish Grocery Trade Association.

Website: https://kauppa.fi/en/
Contacts: https://kauppa.fi/en/finnish-commerce-federation/contact-information/

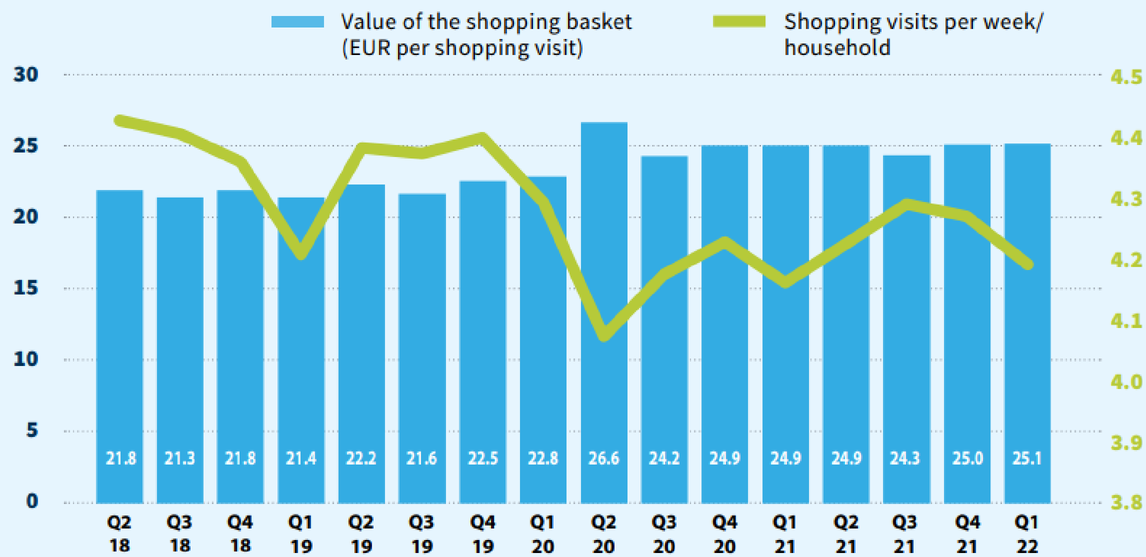
7. Statistics

The below statistics are from the annual publication of the Finnish Grocery Trade Association: www.pty.fi/wp-content/uploads/2022/08/EN_2022_vuosijulkaisu.pdf. The publication also includes other interesting graphics.



Groceries purchase costs

Value of the shopping basket (EUR) and shopping visits per week/household, quarters



Source: NielsenIQ Homescan. The weighting method of the panel was changed in 2021. The data is comparable until 2018 and therefore, the data published here should not be compared to time series published earlier.

Sales of groceries by shop type 2021, EUR million

SHOP TYPE	SALES AREA/DEFINITION	TOTAL 1 JANUARY 2022
Hypermarkets	Citymarket, Prisma and Minimani	6,222
Department stores	≥ 1,000 m² (share of groceries in all sales less than 2/3)	412
Supermarkets, large	≥ 1,000 m² (share of groceries in all sales more than 2/3)	7,901
Supermarkets, small	400–999 m²	2,569
Markets, large	200–399 m²	2,183
Markets, small	100–199 m²	381
Small shops	< 100 m²	168
Specialist shops / market halls / online grocery retailers (active in e-commerce only)		301
Discount stores, part of grocery trade		509
Service station shops, part of grocery trade		148
Total		**20,795**
Mobile shops (buses and boats)		2
Discontinued		69
Total 1 January 2022		**20,866**

Source: NielsenIQ Grocery Shop Directory

8. Sources

- Finnish Grocery Trade Association www.pty.fi/en/
- Kuosmanen, Sini (2019) Master's thesis ”Kaupan omat merkit – säästäväisen, nautiskelevan ja vastuullisen kuluttajan ruokavalintoja” - https://helda.helsinki.fi/bitstream/handle/10138/300639/Kuosmanen_Sini_Pro_gradu_2019.pdf?sequence=2&isAllowed=y
- K Group www.kesko.fi/en/customer/own-brands/pirkka-and-k-menu/
- K Group - www.kesko.fi/globalassets/03-sijoittaja/raporttikeskus/2022/q1/kesko_annual_report_2021_keskos_direction.pdf
- S Group - https://s-ryhma.fi/en/news/sok-signs-partnership-with-carrefour/ehygWudBYyKQHdgg7BYEM
- S-ryhmä - Yli puolet tinkii ruokaostoksistaan hintojen nousun takia – näiden tuotteiden myynti laskee - Talous | HS.fi
- Ruokatieto - www.ruokatieto.fi/
- Pro Luomu - https://proluomu.fi/
- Pellervon Taloustutkimus - www.ptt.fi/
- MTV Uutiset - K-ryhmä: Kaupan omat merkit ja edullisemmat tuotteet kasvattaneet suosiotaan | Makuja | MTV Uutiset
- ePressi - Lidlin tilinpäätös: 20-vuotias Lidl kasvaa ja investoi Suomessa - ePressi
- Kauppakeskusyhdistys - Retail Facts Finland 2021 (kauppakeskusyhdistys.fi)
- Finnish Food and Drinks Industries' Federation - Elintarviketeollisuusliitto ry - Elintarviketeollisuuden talouskatsaus | joulukuu 2022 (etl.fi)

9. Disclaimer

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