TAMPERE UNIVERSITY
OF APPLIED SCIENCES

ENTERING THE FINNISH GROCERY STORE MARKET

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ABSTRACT

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Finland possesses one of the most highly oligopolistic grocery store markets in the world with only two chains having more than 80 % of the whole market share. Against all odds, the German chain Lidl managed to penetrate the market in 2002 and during 15 years, expand their market share to around 10%.

The purpose of this bachelor’s thesis was to examine what Finland is like as a target of expansion, how consumers are expected to behave, and how the competition is likely to react if another foreign grocery store chain would enter Finland, using Lidl as an example.

The thesis can be used for retailers as well as other segments as it includes a general overview of the Finnish grocery trade markets and what kind of reactions a new entrant can expect.

Key words: grocery store business, market entry, oligopoly, duopoly, mixed duopoly

CONTENTS

1 INTRODUCTION

The purpose of this bachelor's thesis was to investigate the current grocery store markets in Finland and if it would be profitable for a foreign grocery store chain to expand to Finland. Lidl's market entry was used as an example and what can be learned from their endeavour was analysed. The aim was to gain an outlook of the current situation in Finland, understand the customer behaviour in grocery market and competition behaviour in case of a new entrant. The current policies of the competition as of 2017 were reviewed to find out how a foreign company would gain the maximum advantage if they tried to penetrate the market.

To fully understand the competition, there was first a need to look into the current situation of the Finnish grocery store market, which has been drastically changing since the recession in the 1990's. Finland is a vast but sparsely populated country with only 5.5 million people. This brought with it major logistical issues as well as issues of the cost-efficiency.

In short, an average Finnish person is most likely to do her/his shopping in stores owned by S Group, Kesko or Lidl, which together have almost 90% of the market share of which less than 10% is assigned for Lidl. Other monopolies and existing infrastructures further hurt Lidl's aims to gain more market share, for example not until 2015 the Finnish monopoly for strong alcoholic beverages Alko started to move more stores to the same business space with Lidl. (Rantala 2015)

What makes the Finnish situation a little different from a two profit-maximizing duopoly, is that S Group is a cooperative and instead of shareholders, has close to two million member-owners. Kesko is a profit-maximizing firm listed on the Helsinki stock exchange. These two create a mixed duopoly which has not been extensively researched.

2 FINLAND AS A TARGET OF EXPANSION

Finland is a sovereign state with a free market economy located in Northern Europe. Finland declared its independence in 1917 with a history of being part of Sweden and Russia before that. Having been a part of Sweden, Finland has a Swedish speaking minority of 5,3 % of the total 5,5 million people population. 88,3 % of the population speaks Finnish. Despite being the eighth largest country in Europe, it is not densely populated. More than 1,4 million people live in the southern part of Finland, the Greater Helsinki metropolitan area. (Statistics Finland 2017)

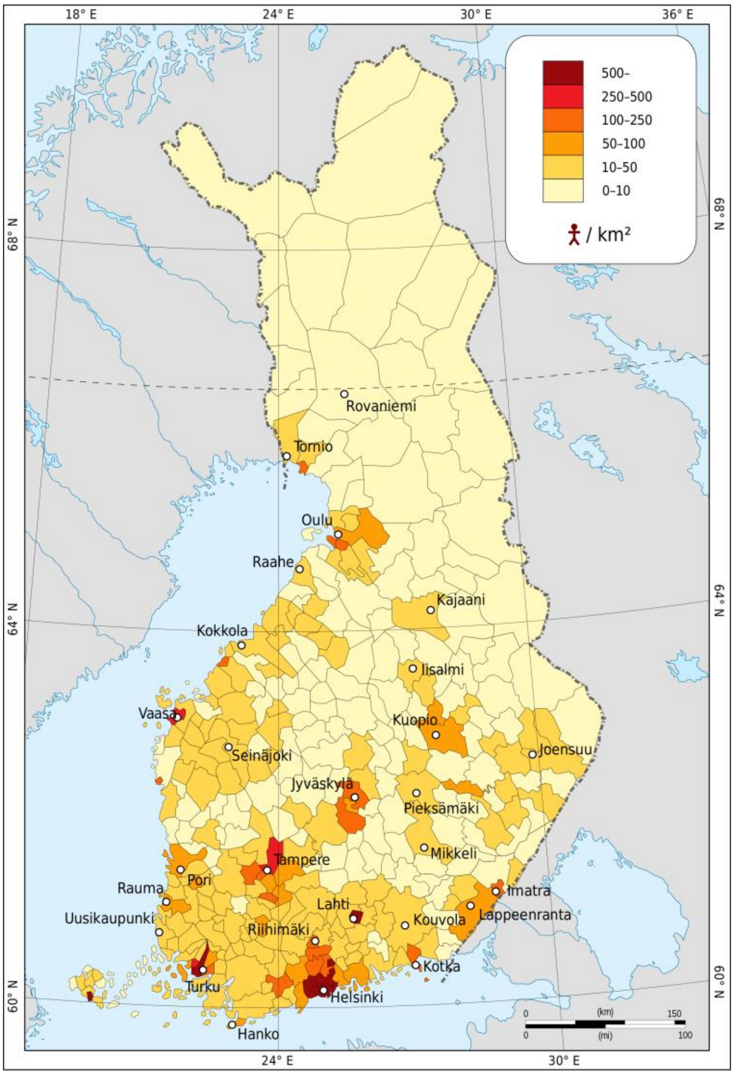

FIGURE 1. Population density in Finland, inhabitants per square kilometre in 2010 (Räisänen 2017)

Name	Republic of Finland
Capital	Helsinki
Population	5,503,000 (December 2016 est.)
Total area	338,145 sq. km
Urbanization	85 % of population (2010)
Official Languages	Finnish 91,2 %, Swedish 5,5 %
Major religion	Lutheran Church 72,0 %, Orthodox 1,1 %, other Christian 1,6 %, none or unknown 25,3 %
Life expectancy	Men 78 years, Women 83 years
Monetary unit	Euro (EUR)
Main exports	Machinery, electronics, chemicals, paper and paper products
Unemployment rate	8 % (September 2017 est.)
Inflation rate	0,8 % (September 2017 est.)
GDP per capita	USD 43 090 (2016 est.)
GDP real growth rate	1,4 % (2016 est.)
External debt	USD 544.7 billion (31 March 2016 est.)
Labour force (15-74 yrs.)	2,448 million (2016 est.)
Exports	EUR 51,878 billion (2016)
Imports	EUR 55,003 billion (2016)

TABLE 1. Information about Finland. (Statistics Finland 2017)

2.1 PEST-analysis

PEST-analysis can be conducted in order to create an understanding of the country's macro-economic situation through its current political, economic, social and technological state. These factors have an effect on the processes a business should take into account when looking into expanding to a new country. (Newton 2014.)

2.1.1 Political

Finland joined the EU in 1995 and the currency was changed to euro in 1999. The civil law system is adopted and slightly altered from the Swedish model. Worth noting is that the president may request the Supreme Court to review laws. The Finnish economy is largely driven by technological innovations thanks to the Finnish advancements in many technological areas, including software, hardware and networks. The markets are boosted by efficiency in legal and regulatory aspects allowing innovation. The political and governmental situation is reliably stable due to the lowest corruption levels in the world and Finland is also one of the top countries when it comes to business freedom and property rights (Transparency International 2017). The biggest political parties in Finland, the Center Party of Finland (Keskusta), Social Democratic Party of Finland (SDP), National Coalition Party (Kokoomus) and the Finns Party (Perussuomalaiset), all share the same goal which is trying to get Finland to pioneer creativity and competence.

In corporate taxation, the Finnish companies are taxed according to their global income whereas non-resident companies are not. Non-resident companies are taxed on income sourced in Finland. The tax rate on the corporate income tax is 20 % and was reduced from its original 24,5 % in the beginning of 2014. Overall, Finland has high level of taxation. 30,5 % for the income tax rate and 24 % for the standard VAT, some products and services are taxed differently. (Verohallinto 2017.)

2.1.2 Economic

As Finland is an EU country and the currency used is euro, the inflation risk is not high due to the stability of the euro. However, the stability might be influenced by events in the Euro-zone, one of the examples being the UK leaving the European Union. The final form of ‘Brexit’ and the influence it will have is yet to be seen, as of November 2017. Foreigners investing in Finland find the trade freedom obtainable and attractive, but also see the costs of labour being high, especially compared to many Asian countries. For many SMEs, transferring the production to Finland is not desirable. It should be remembered though, that high costs in labour directly influence the buying power of the Finnish consumers thus creating a good platform for technology firms and premium products. It should be noted that some industries might need licensing.

In grocery retail, Finland has had a revitalizing decade since the 2008 recession, which turned budget surpluses into deficits due to difficulties in government finances and the debt ratio. The sales volume in grocery trade increases slowly, but the number of stores has been on a down trend. (Finnish Grocery Trade Association 2016.)

TABLE 2. Household expenditures in Finland. (Statistics Finland 2017)

	%				
Household expenditures	**1980**	**1990**	**2000**	**2010**	**2015**
Living costs and energy	18,6	18,2	24,6	26,2	28,2
Groceries and non-alcoholic drinks	21,3	16,3	12,6	12,1	12,4
Transportation	14,4	14,5	13,3	12,3	11,8
Culture and free time	10,2	11,2	11,3	11,8	10,5
Hotels, cafes and restaurants	6,4	7,7	6,4	6,3	6,3
Home appliances	6,1	5,4	4,9	5,3	5,0
Health	2,1	2,9	3,8	4,4	4,6
Alcohol and cigarettes	6,3	6,6	5,8	5,0	4,5
Clothing and shoes	6,1	5,6	4,6	4,7	4,3
Telecommunications	1,1	1,4	3,1	2,5	2,3
Education	0,2	0,3	0,5	0,4	0,4
Other goods and services	7,2	9,8	9,2	8,9	9,7
Total expenditure	**100**	**100**	**100**	**100**	**100**

The amount spent in groceries and non-alcoholic drinks was in decline during the depression in the 90's but has found support in 12% of the total expenditure. One reason to the slow rise has been competition and taxation adjustments in the sector, but the stability is compensated by rising living costs partly because urbanization.

2.1.3 Social

TABLE 3. The population structure of Finland (Statistics Finland 2017)

		Year					
Population	**Unit**	**1900**	**1950**	**1990**	**2000**	**2010**	**2016**
Total	**1 000**	**2 656**	**4 030**	**4 998**	**5 181**	**5 375**	**5 503**
Men	1 000	1 311	1 926	2 426	2 529	2 638	2 712
Women	1 000	1 345	2 104	2 572	2 652	2 737	2 791
Age							
0–14	%	35,0	30,0	19,3	18,1	16,5	16,2
15–64	%	59,6	63,3	67,2	66,9	66,0	62,9
65-	%	5,4	6,7	13,5	15,0	17,5	20,9
Language							
Finnish	%	86,8	91,1	93,5	92,4	90,4	88,3
Swedish	%	12,9	8,6	5,9	5,6	5,4	5,3
Sami	%	0,1	0,1	0,0	0,0	0,0	0,0
Russian	%	0,3	0,1	0,1	0,5	1,0	1,4
Other	%	0,0	0,1	0,4	1,4	3,2	5,1

Out of the around 5.5 million people over 20 % live around the capital Helsinki as seen in figure 1 and the moving trend is towards major cities which results in a high urbanization rate (table 1). Thanks to the health care system, low birth rate and high living standards, Finland is looking at an aging population. This will in turn mean that Finland will be fighting against a work force gap during the coming decades and projections by Statistics Finland state that over a quarter of the population will be over the current retirement age by 2030. (Statistics Finland 2017.)

Finland is widely known for its education standards. Among the countries included in The Organisation for Economic Co-operation and Development, or OECD for short, Finland was the highest ranked country with 84% of the 25-64-year-old population having at least upper-secondary education with the OECD average being 75% (OECD 2014). Highly educated population also creates a shortage in workforce in lower lever occupations such as plumbers and construction workers. High education also brings good language skills. Every Finn learns at least two other languages than Finnish, these being English and Swedish, and often students will pick a third one as optional studies. This prepares the Finnish workforce to be ready for the globalizing work environment.

2.1.4 Technological

The Finnish government highlights the importance of investments in the research and development sector, but during the last few years, Finland has been cutting from the sector. Even with the cuts, the state aims to back innovation and businesses by supporting and sponsoring networking events and start-up accelerators. Overall, the GDP share allocated for R&D during 2015 was 2,9% whereas in 2009 the share was 3,8% of the total GDP. (Statistics Finland 2016.)

Despite the labour costs, Finland is highly industrialized and technologically advanced in manufacturing even though it is dependent on importing raw materials. The technology industry itself is currently the most important exporting industry. (Technology Industries 2017.) Finland is widely connected with current technology. According to a study conducted by Statistics Finland, 88% of the population used the Internet in 2016 with 72% going online in some way multiple times a day with the percentage going up to 96% for those under 45 years old. The Finns go online to do everything from banking to looking up information and media consumption. This creates a perfect turf for technology companies to create and test their products. (Statistics Finland 2016.)

2.2 Grocery store business in Finland

The grocery store segment in Finland is controlled by two groups, S Group and Kesko. These syndicates have a 83 % combined market share and Lidl is currently at the third place with its 10 % market share. (Finnish Grocery Trade Association 2017.) S Group and Kesko both have store sizes ranging from small markets to supermarkets while Lidl only has medium sized stores. This being said, Lidl has been looking into upscaling their store sizes in Finland, though the larger stores are still smaller than the most of the competitors' stores (IGD Retail Analysis 2015). Other private grocery stores include Suomen Lähikauppa Oy 1,5 %, Tokmanni-concern 1,7 %, Stockmann 1,0 %, M-chain 0,6 %, Minimani 0,6 % and other private stores 1,9 %.

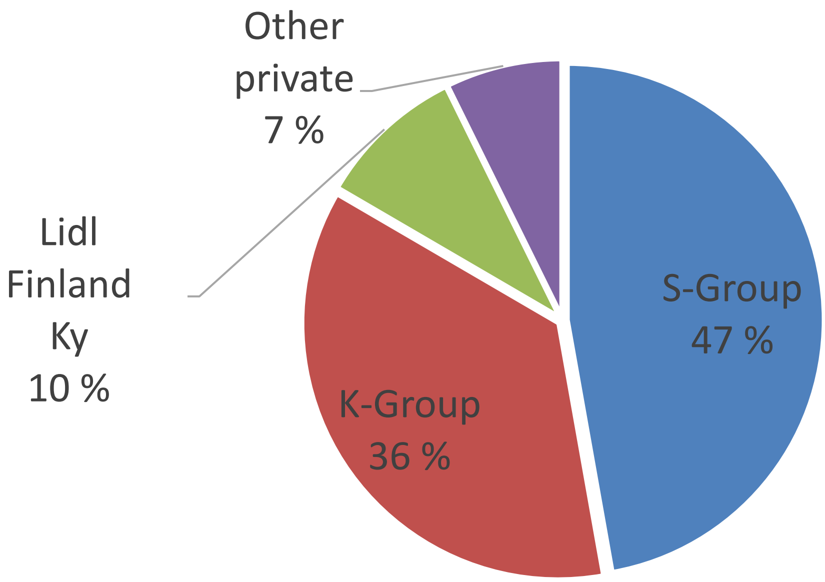

FIGURE 2. Market shares of the Finnish grocery store markets

2.2.1 S Group

With its 47% market share, the S Group is without a doubt the biggest grocery trade chain in Finland. It has operation all through Finland and has spread around the Baltic region and Russia. The structure of the S Group spreads to supermarkets, department and specialty stores, restaurants, travel industry, agriculture, petrol and products (table 4). It also has its own bank, the S Bank, which is available to its co-op members. There are 20 regional cooperatives, which are independent. They, with SOK Corporation, are owned by the co-op members (SOK 2017). Anyone can be a co-op member and out of the 5,5 million people in Finland, 2,2 million people are member owners of the S Group. Being a member allows the customer up to 5% purchase reward in money, depending on how active the customer is with preferring the S Groups' services. The customers can also receive payment-method bonus if they use the group's own S Bank card to pay. During 2016, S Group paid 353 million euros in bonuses back to its co-op members. It is also among the biggest employers in Finland with almost 38 thousand employees. Retail sales totalled 11 billion euros in 2016. (SOK 2017.)

TABLE 4. S Group's retail sales by business area in 2016 (SOK 2017)

S Group's retail excluding taxes	
Business area	**Million EUR**
Prisma	3 451
S-market	3 322
Sale and Alepa	978
Other supermarket trade	5
Supermarket trade total	7 755
Hardware trade	197
Service station store and fuel sales	1 543
Department store and specialty store trade	300
Travel industry and hospitality business	793
Automotive trade and accessories	339
Agricultural trade	76
Other	15
S Group total	11 020

In total, the S Group owns supermarket trade through five different chains, in over 900 locations which also creates an extensive logistics network. Department and speciality store trade is conducted through in more than 70 locations. There are also 25 renovation, decoration and building related hardware stores. Almost 440 fuel stations keep the Finnish cars on the road and lastly the travel industry and hospitality business side of the S Group offers more than 60 hotels and over 750 restaurants. (SOK 2017.) Having extended its market to other places aside from just groceries and having its roots all the way to banking, the S Group is a conglomerate hard to beat. The S Group also has its own product lines called Rainbow, Kotimaista and X-tra.

2.2.2 K-Group

K-Group consists of Kesko and K-retailers. K-Group has the second largest market share of grocery store segment with 36 %. Altogether, it has close to 2000 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus and Poland. Multinational operations brought in 13,2 billion euros (VAT 0%) in total retail sales during 2016, with a total of around 45 000 employees. Unlike the S Group, Kesko is listed on Nasdaq Helsinki.

TABLE 5. K-Groups retail sales by business area in 2016 (Kesko 2017)

K-Group's retail excluding taxes

Business area	**Million EUR**
K-Citymarket	2078
K-Supermarket	1764
K-Market	1208
Other supermarket trade	728
Supermarket trade total*	5778
Hardware trade**	2901
Service station store and fuel sales	112
Department store and specialty store trade	468
Automotive trade and accessories	868
Agricultural trade	568
Other	2505
K-Group total	13200

* Not including K-Market Russia and Kespro
** Including other Nordic countries

In 2016 Kesko acquired Suomen Lähikauppa’s stores to expand its reach on smaller store sizes. The acquisition was completed with a condition by FCAA (Finnish Competition and Consumer Authority) that stated that at least 60 of Kesko’s stores must be sold to competitors. As of 2017, all of Suomen Lähikauppa’s Siwa and Valintatalo stores are working under Kesko’s K-Market name. Kesko significantly improved especially its foothold in city areas and smaller rural towns which do not usually have larger stores nearby. (Kesko 2017.)

Just like the S Group, Kesko also has its own customer loyalty programme, but it is not ownership related. It has 3,8 million people or 2,2 million households included in its bonus system. Like in S Group's alternative, the bonuses are paid back in money and being a member gives the customer access to discounts in the partner companies. Kesko is also in partnership with one of the biggest banks in Finland called OP which has allowed its bonus card to be integrated to the bank's own cards eliminating the need for two separate cards. The K-Group also has its own product line called Pirkka.

As can be seen, from the customer point of view, it makes sense to own both membership cards since they are most of the time the only ones the customers need when shopping groceries in Finland. The smaller grocery store chains have tried and failed as it seems like the bonus card system would become overly saturated in the minds of the Finnish consumers if more companies try to enter that business model.

2.2.3 Lidl

Lidl is a more multinational company differentiating from its competition in Finland as it has stores across Europe and even in the United States. In this section, the author concentrates on Lidl Finland Ky's actions and current state leaving out the multinational aspect of business. This is to gain understanding of the current competition if a new company was to set foot in Finland.

Unlike the competition, Lidl focuses only on the grocery side of the market. Through Finland, Lidl has over 160 stores including smaller towns in which larger Prisma or K-Citymarket stores do not see enough customers. All combined, Lidl has around 5200 employees and has a very polished system of career opportunities, including work abroad. Lidl Finland Ky is an independent subsidiary of the Lidl concern. It opened its first 10 stores in 2002 with one distribution centre in Janakkala and employed a total of 380 employees. Nowadays there is another distribution centre in Laukaa and a third is being planned for 2018. As with the competition, a fluently working logistics network is important because of the shape of Finland. (Lidl 2017.)

From the very beginning, Lidl's goal was to endure the competition in food pricing. Its policy includes universal pricing throughout the country, which is different from the competition. The cheapest prices can be found in Lidl's own product lines which include Dulano, FreeWay, Kania, Kartanon, Milbona, Vitafit and Solevita. One of the most popular seasonal lines is Grillimaisteri, which offers affordable BBQ-products during summertime. Most of the products offered are originally from Germany but as pressure grew to offer also domestic products, Lidl now offers also Finnish food produce. The advertising is shown in media, free newspapers that are distributed to homes around the area and other advertisements that usually mention the quality/price ratio. Unlike its competition, Lidl does not provide any kind of bonus system. Store sizes vary from 400 m^2 to 2500 m^2 and are mostly located to be easily accessed with a personal vehicle making it rare to find a store in the city centre.

TABLE 6. Lidl information (Asiakastieto 2017)

	2013	**2014**	**2015**	**2016**	**2017**
Turnover (Million EUR)	959	1191	1358	1405	1449
Profit (Million EUR)	56	79	78	70	68
Staff	3 554	4 236	4 659	4 900	4 884
Equity ratio	38,40 %	45,30 %	43,80 %	42,00 %	40,30 %

2.2.4 Others

Together S Group, K Group and Lidl make up over 90 % of the market share in Finland. The rest include Suomen Lähikauppa Oy 1,5 %, Tokmanni-concern 1,7 %, Stockmann 1,0 %, M-chain 0,6 %, Minimani 0,6 % and other private stores 1,9 %. Suomen Lähikauppa Oy’s market share dropped from almost 7% in Kesko’s acquisition of the Siwa and Valintatalo stores. (Finnish Grocery Store Association 2017.)

3 THEORETICAL FRAMEWORK

3.1 Market entry modes

The degree of the concentration in the grocery trade segment in Finland is high. Three of the biggest chains cover over 90% of the market. Lidl paved way to show that an entry of a foreign competition was possible, this was not thought as a real threat before that. A lot of research has been made about a new company's entrance to a market. Kuester et al. (1999) suggest that the more concentrated a market is, the less competitive it is, but with only few competitors the moves are followed closely (Schumpeter 2013) and companies not willing to give up their position are usually the most aggressive to compete. The correct selection of the strategic entry mode is very important. In case of a new competition, the concentration decreases causing then the competitiveness to rise (Shankar 1999).

Gatignon et al. (1989) found that in oligopolistic markets, the reactions can be predicted by following the elasticity of the marketing mix instruments used by the competition. Gatignon et al. (1997) also states that using several marketing mix instruments are usually not as effective as using the most elastic instrument i.e. the price.

The entry to a new market can be divided into four stages as Porter (1980) has differentiated. In the first stage, the entrant familiarises itself with the new market. In the second, it enters the market and aims to build an initial position. Third stage is for implementing a long-term strategy and permanent settlement. The fourth and final stage is for expanding, maintaining and defending the position. (Porter 1980.)

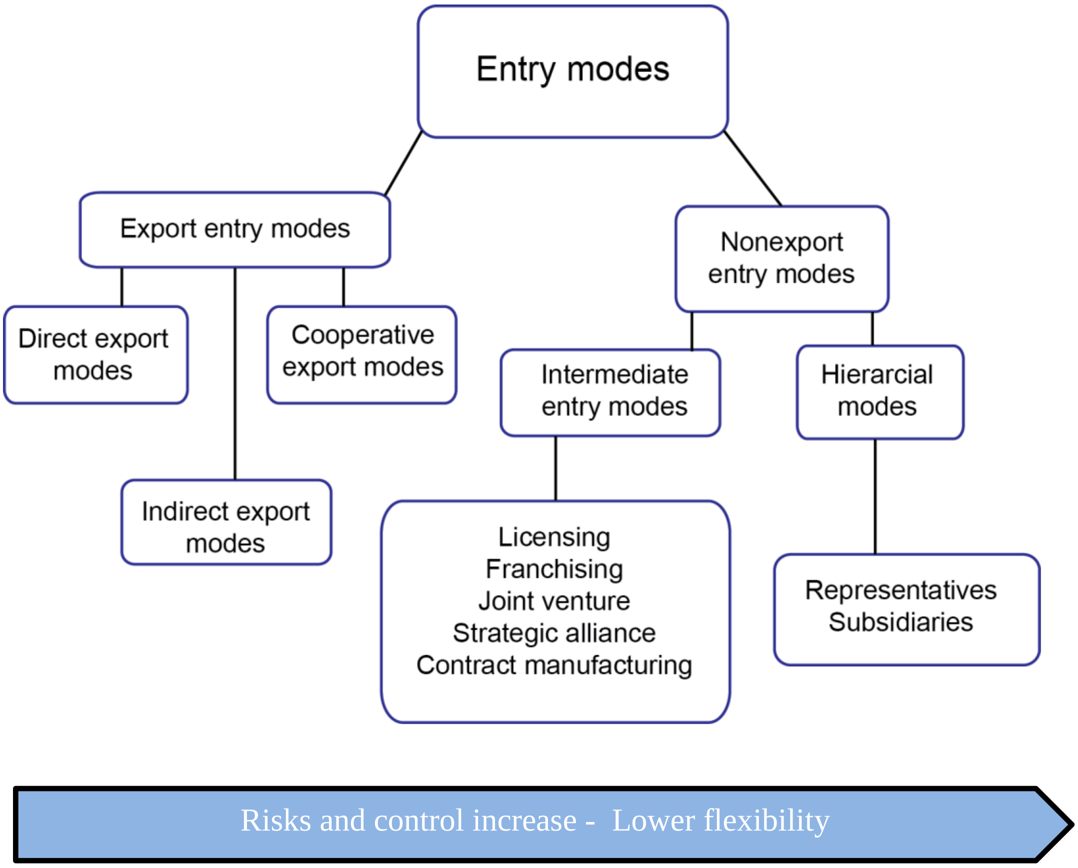

FIGURE 3. Entry modes (modified from Albaum & Duerr 2008, 305-391; Hollensen 2004, 291-350)

Figure 3 shows the different entry modes that a company can follow when entering a new market. Through export entry modes, firms have the highest flexibility and lowest risks but also sacrifice a lot of control. The export entry modes can be divided into direct export, cooperative export modes and indirect export. Non-export entry modes include intermediate entry, which covers licensing, franchising, joint ventures, strategic alliances and contract manufacturing, and hierarchical modes. If a company decides to follow intermediate modes the decision making and risks are often split. The least flexibility and highest risk is in hierarchical modes but these also bring the highest amount of control over the business.

As a company moves its business to a new location, it is essential to choose an entry mode. All aspects of the business, from human to financial capital, need to be carefully planned, especially when the target market is in a different country. Each of the entry modes have its strengths and weaknesses.

3.1.1 Export entry modes

Hollensen (2004, 291) wrote that export entry mode is when the companies have manufacturing in another country than the country of expansion, whether the company´s home country or a third country was chosen to do manufacturing in. Export entry mode is a good option when experience in international expansion is lacking as it keeps risks low and costs less than many other options. The exporting company will, however, needs to give up control. As figure 3 shows, export entry modes can be divided into direct, indirect and cooperative export modes.

In direct export mode, the company is in contact and sells directly to foreign companies which import or buy the products into their country. The logistics can be done through a third party. In this scenario, the exporting company has full control on who it is selling its products to. If the buyers aim to distribute the products in their country, they are in control of their process of selling. The indirect export mode means that the company aiming to export its products finds another domestic company with capital and experience to do it for them. The company itself will have no control over what happens in the new market and therefore can collect very little data. This method is cheap and a good way to test the markets. Indirect exporting therefore differs from direct exporting in what point of the process the control moves to the company in the target country. (Hollensen 2004, 298-301.)

Cooperative export mode brings the two or more companies together to work on a common goal. The company's share capital and other resources to create larger collaboration to reach new a market, which neither of the firms could do by themselves. R&D in the target market can be done in collaboration, and the risk of the venture is shared. In cooperative export, it is important to have a common goal and a long-term plan. The risk of the cooperation is in jeopardy if the relationship between the companies is disrupted. (Hollensen 2004, 303.) To sum up export entry modes, it is doing business internationally through not only through agents and distributors, but also directly with the end customer while keeping the business in domestic market.

3.1.2 Intermediate entry modes

Licensing, franchising, joint ventures, strategic alliances and contract manufacturing all belong under the intermediate entry modes. They create a medium though which companies and cooperation companies share their risks while still keeping better control versus the exporting option. Flexibility is compromised through longer lasting contract and the companies risk the other party potentially becoming a rival.

In **licensing,** the company grants access to use some part of the business, like technology, expertise, label, classified information or a single product to another company or an individual. A contract is created for the licensee to pay the licensor through different kind of options, to mention initial payments, yearly minimums or percentages as examples among other options. In licensing, the biggest risk is carried by the licensee but licensing also opens doors for it becoming a rival to the original licensor, since information needs to be passed in the process. Therefore, a comprehensive contract needs to be created to keep the company buying the license controllable. The contract times are usually longer. This gives to the company looking for expansion a rather low-risk entry tactic though the profits may stay moderate. (Albaum & Duerr 2008.)

Franchising covers a lot wider amount of information and resources given to the franchisee. If, for example an entrepreneur in Finland would like to establish a new Subway restaurant, he/she would have to try to convince Subway to make a franchising deal with her/him, which would allow the franchisee to buy into the Subways system and allow the use of their designs, patents, suppliers etc. to make it part of Subway's chain of restaurants. Using the practices given by the franchisor, the franchisee would open the restaurant and have a limited control over it. For the franchisor, in this example Subway, it might be challenging to oversee the quality of the service or product. (Hollensen 2004.)

Joint venture is a cooperation between two companies, often from different countries, that bring a product or a service to a new market. In an international joint venture, the other partner is often from the country of expansion and therefore has the knowledge of the culture and market. The companies often share a percentage of the ownership or assets, but this is not necessary. A joint venture reduces the risk of entering an unknown market, but also introduces losing control in some level and as always, the partnership might suffer from difficulties in cultural differences or from some other conflicts. (Albaum & Duerr 2008.)

Contract manufacturing places the process of manufacturing a product often close to the end user. While it brings risks of the contracted company to learn the product or carry out subpar products, it also saves money in logistics. Most of the control stays with the original company. One of the most famous contract manufacturer is Samsung manufacturing the displays of Apple products. (Bach 2017.) Contracts in manufacturing can be short, for example just one product line or a part of a product. Dividing the process to different manufactures reduces the risk of a single production facility to get too much information on the end product but might introduce other risks. Trust between the parent company and the manufacturer is crucial.

Strategic alliance differs from the joint venture in terms of capital and other resources shared with other companies. In a strategic alliance, there may be multiple companies and as an example Hollensen (2004, 318) mentions the famous McDonald´s, Disney and Coca-Cola alliances. The companies stay independent but aim towards a mutual benefit by sharing resources. The contracts can be short or long term depending on the goal, but more risks are involved the longer the cooperation is, and companies might risk coming dependent on the other companies.

3.1.3 Hierarchical entry modes

Hierarchical entry modes pose the most risks and capital needs for the company planning expansion outside its home country but they also give the most control. Hierarchical entry modes include expatriates, subsidiaries, acquisitions and Greenfield investment strategies. (Hollensen 2004.)

Expatriates are people who get sent from their home country to another country in order to kick start, supervise and lead the new company branch. This way not as much information needs to be passed to other parties since some level of management comes from inside the company. Expatriate work is very demanding and can easily become costly since sending representatives abroad might include also their families and covering the costs of living to the same standard as in home country. Justifying the costs is often hard and there is no guarantee how efficiently the expatriates can handle their personal life and how they will get adjusted to the culture.

If a company creates a subsidiary in another country, it is usually because of a local demand or better access to a resource, tangible or intangible. The product created or the service offered does not necessarily need to be the same as the parent company offers. The reasons to create subsidiaries can include further tax or risk control for example. Subsidiaries are often owned by the parent company with more than 50% of the ownership whereas in a wholly owned subsidiary, the parent company owns 100% of the subsidiary. (Hollensen 2004.)

To fully transfer the operations to another country and start from ground up, a company can choose a Green Field investment, which means moving to a different country and starting from the beginning. Possible factories need to be built and market research needs to be conducted before starting to operate, so the time and capital investments can get high. Brown field investment on the opposite would mean leasing the infrastructure for example instead of building from the beginning. Green field is a risky and a long-term investment but keeps the control fully in the company's hands.

Acquisitions happen when a company buys over 50% of another company gaining the deciding number of shares. This often happens so that the personnel, brand and other assets stay as they were. It is a quick way to enter the market and expand the company but can also lead to conflicts with original management or staff, if new business models are introduced. Acquisitions can be used to reduce costs, for example a phone company acquiring a manufacturing plant and therefore eliminating the costs of doing it via contract. Backward integration means acquiring companies towards the supplier whereas forward integration is moving towards the end user, together the integrations are called vertical mergers. (Hollensen 2004.)

3.2 Choosing the location

In a sparsely populated country like Finland, the location of the stores plays a significant role. Location selection is a strategic decision which has to be carefully planned as it can be the determining factor on whether the store will succeed or not. (Weitz 2004.) To analyse the attractiveness and suitability of a retail business location, the following factors should be taken into account when planning the location:

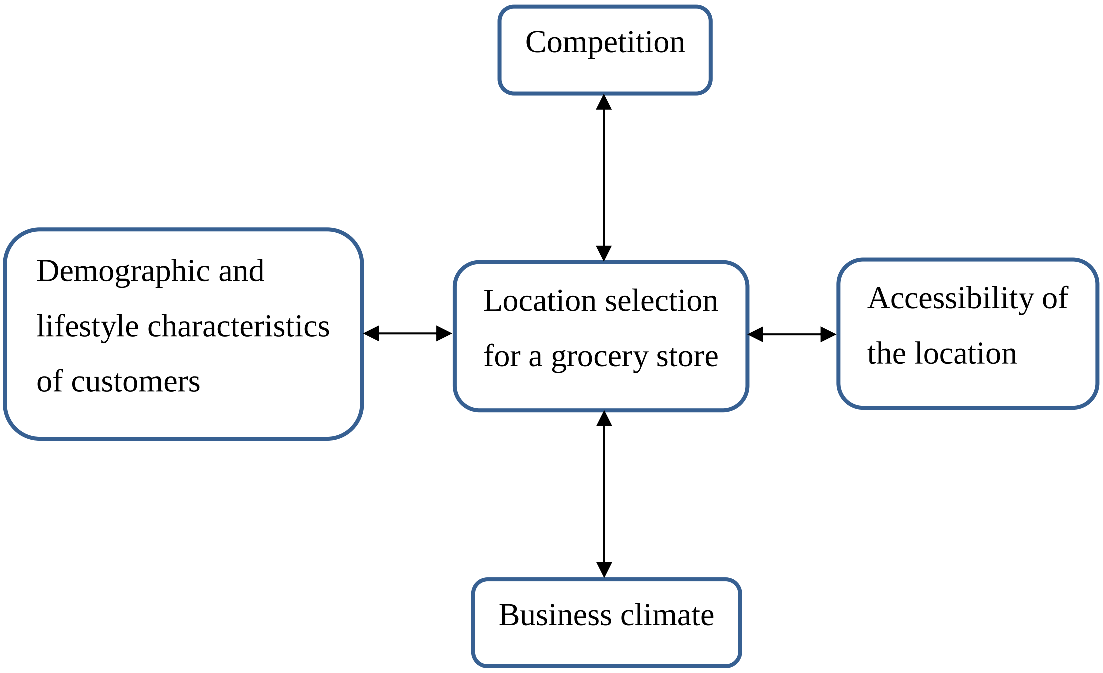

FIGURE 4. Factors affecting the site selection. (Weitz 2004, 242-248, modified)

3.2.1 Competition

The competitive environment in the selected area of entry or expansion has a major influence on how the business will succeed as it has a straight correlation on the demand. Weitz (2004, 242-248) defines three different scenarios that can be used to describe the competitiveness of an area. The area might be well balanced, in which case the area has the demand by the customers which is then fulfilled by companies and their supply. In an under stored area, the demand exceeds the provided supply. These areas generally have the most potential for profits and are a quick route to gain market share in the area. Lastly, the area can be overstored. In this scenario, there are too many stores providing the same product or service and the customers are divided between them. Competition for customers in these areas is more intense and many entrants will fail. Entering will be easier if the product or service has a clear advantage over the competition.

3.2.2 Accessibility of the location

Location accessibility can be analysed by macro and micro analysis. In macro analysis, the company needs to review the factors that affect the location but cannot be influenced by the company. For example, roads and other artificial barriers might steer the customer to a different location. Supermarkets are usually located outside the centres since for example parking spaces need to be provided. Natural barriers like land shapes and water areas affect the reachability as well. The micro analysis is about factors that have a direct influence on the success and can be affected. For example, higher level of visibility is not required in the case of bigger grocery stores since the people usually choose to go there for their weekly shopping, rarely it is an impulse shopping. Therefore, the stores can also be located away from the bigger store hubs in city centres for example. Parking also affects the decision on where to go shopping. If parking is too far away and/or the parking places are too full, the customer is likely to look for something different.

3.2.3 Business climate

The business climate should be diversified enough to allow room for a new entrant. If the location is for example very seasonal, it will cause fluctuation to the cash flow and the number of customers visiting. The Finnish Lapland is a prime example since there is a significant increase in customer numbers during winter time and winter holidays whereas the other seasons do not provide nearly as much attraction to domestic or international tourists. The unemployment percentage also directly affects the purchasing power of a region and it also affects the economic growth of the region.

3.2.4 Demographic and lifestyle characteristics of customers

The last factor influencing the location of the business to be set up is the lifestyle characteristics in the area. Growing area both economically and population-wise is the optimal choice. The income level and structure of families around the area affect the shopping habits alongside with the age of the population and level of education. It is worth remembering that the same products do not necessarily interest the university students as the lower level employees even when the income would be comparable.

3.3 Consumer behaviour

A lot of research has been conducted on consumers and their buying behaviour. One of the biggest aspects affecting this behaviour is price (Han et al. 2001). Slightly contradicting and adding study states that customers tend to look for the best value for their money

(Dickinson and Cooper 1992). This is emphasized in countries with high standard of living, such as Finland. People expect to get value for their money, even if the product is cheap.

The Finnish consumer behaviour can be compared to the other Northern Countries. Santander (2016) made a consumer profile of the Finnish population and how Finns behave as consumers. A lot of emphasis is put on the origin of the product and environmental aspects. This goes in line with what Ghalwash (2008, 71–87) found stating: "- using estimates of the willingness to pay for environmental goods for different European countries (Finland, France, Norway, Holland, Spain and Sweden), found that the hypothesis that environmental goods are necessary goods cannot be rejected in most cases - ". Convenience is also a growing factor especially in the food sector. High quality and healthy ready-cooked meals are trending. Finland is well-educated and the Finns can be expected to be aware of the origins and the quality of the product. (Santander 2016.)

Price knowledge

Price knowledge is being well kept up by the media and "food basket prices" are widely covered. The food basket contains the most common items bought in grocery stores. A better understanding of the food baskets' importance in price perception is explained in chapter 4.3. The most accurate price knowledge can be expected to be from the most frequently bought items and retailers should take this into account when designing their marketing mix (Aalto-Setälä and Raijas 2003) and be aware of the target market's level of price consciousness. Another study by Dickson and Sawyer (1990, 48) suggests that "The more frequent buyers of the product category did not undertake more price checking and were not more accurate in their price knowledge". Combining the studies, we can expect that more frequent buyers are accustomed to buying a certain product in an expectation that it holds the value they have initially found. Food basket products can thus be used as a marketing method as well. Since the products included in the food basket often stay the same, stores are able to influence the overall price image of themselves by lowering the prices of the most commonly used food basket products and when the results are annually released, the perception of the price level of the store sticks, even when the products outside the food basket items are more expensive.

Advertising and promotions affect the level of price knowledge of the whole segment increasing it among the customers. Mela et al. (1997) found out that while loyal customers were less sensitive to price fluctuation, their knowledge of competitors and sensitivity to price changes increased over time. This has been changing after the revolution of e-commerce. While still being true, the price knowledge of a specific product is now more easily accessible through devices connected to the internet. Especially deal hunting has increased as it has been made easy by online catalogues and stores. The younger generations tend to be less loyal due to the increased knowledge.

While advertising makes the customers more price conscious, McGoldrick (1987) states that in "leader line pricing" specific items are priced more aggressively to create an image of the price range of the whole store. For a customer, even one price of an item he/she has price knowledge of, might lead to an assumption of the store's price levels. Everyday items should thus be priced more competitively especially in hypermarkets to get customers there, even though the price of the other items would be higher.

3.4 Retailer behaviour

Sudhir (2001) states something very noticeable in the Finnish grocery store market. Co-operation and alike prices are easily achieved in a high density and stable environment and the toughest competition is around the most price-sensitive sectors. As stated before, the loyal customers are less prone to be receptive to price fluctuation, which leads to companies trying to compete for first-time buyers. How much does hypermarkets' practice to mostly hire high school students to cashier jobs affect their future perception on where to buy groceries when they live on their own, should be researched more.

Large stores are the norm in Finland and they are used both in cities and countryside. The high number of cars suggest that people can travel to the closest supermarket for grocery shopping also in the more scarcely inhabited areas. (Autoalan Tiedotuskeskus 2017.) On average, people go to the store three times a week, according to the Finnish Grocery Trade Association (2016). Alcohol policies are strict, which allows people to buy alcohol products from grocery stores only up to 4.7% of alcohol volume, which will be upscaled to 5.5% after the amendment changes taking place in the beginning of 2018. Anything higher than that needs to be bought from the government owned stores called Alko, which on its own is among other government owned monopolies. These stores are often attached to places where most people of the area do their shopping, hence boosting the bigger stores even more, but as mentioned, Alko has started connecting its stores to the side of Lidl's as well.

Both Kesko and S Group have solved the problem of geographical pricing (price differentiation between locations), with different chains. For example, Kesko has three different sizes of stores scaling from the largest K-Citymarket via K-Supermarket to K-Market respectively with prices scaling up the smaller the store gets, much like Tesco UK have their Extra, Metro and Express sizes (all in all six different types). However, as Uusitalo and Rökman (2007, 123) state: "Geographical price differentiation may be constrained by the fact that retailers have to consider the price image of the chain as a whole". As of 2016, Lidl has not made any plans to change their strategy regarding geographical pricing, though it has made some case specific price changes to compete with the local stores (Seppälä 2009). In 2016, Lidl opened its biggest store in Finland in Kuopio. This store is around 2500 square meters in size whereas the most common size for Lidl in Finland is around 1200 square meters.

Retailers expect the majority of people to easily change their shopping habits including the store, if the prices are cut. If competitors lower their prices, the natural response to that is to lower their own prices as well, especially in a highly duopolistic setting such as of Finland. Price change decisions in a duopolistic setting are also very risky, because in rare occasions one can be sure about the response of the competitor (Dickson and Urbany 1994). Rao et al. (2000) talk about price war when businesses enter a competition on prices. Company responses to avoiding a price war can include changing customers' choices with advertising to a different brand for example thus avoiding lowering prices. If a price war happens, cuts should be made to the segments customers are the most price conscious of, giving an image of overall price cuts.

Price war

The Dutch grocery store market saw a similar type market entrance in the early 2000s when the then leading supermarket chain Albert Heijn faced pricing competition from strong discounters Aldi and Lidl. This resulted the shoppers to gradually shift from Albert Heijn to these chains being unable to justify the prices in AH. A few years after declining numbers, AH cut prices from over 1000 products during a time span of just a few weeks, accompanied by a large marketing campaign. Other major competitors responded quickly including major brands both national and private. This nationwide price war resulted in 8,2 % drop in food prices across the Netherlands and inflation was the lowest in 15 years. This war also resulted in a loss of added value of around 900 million Euros in the grocery industry and more than 30,000 employees in the grocery industry lost their jobs. The literature seems to be inconclusive on how the price wars affect the market. (van Heerde 2008) Generally, price wars are believed to affect negatively the revenues, but other studies also show that the impact of a price war on a company depends on the existing price position and the role in the war. Empirical research on the topic is hard to find. A review by Heil and Helsen (2001, 96) concludes: “It is unclear, what the overall effects of price wars are. Price wars are often assumed to lead to losses for the firms involved in the battle… It is, therefore, important to research how price wars affect firms in the industry, whether these effects are uniformly distributed, and how such effects persist in the long run through lower reference prices”.

What can be learned from the case of Albert Heijn? In the case of the Dutch grocery store price war, AH wanted to improve the price image of the stores and succeeded, therefore the price war appeared to be successful even though other stores had to lower their prices as well. Smaller amount of circulating money of course also affected the competition negatively. The competitors also did not get the same price image improvement as the pioneer of the price war. In Finland, the S Group started to cheapen their products, accompanied with a marketing campaign in 2015 (Jokinen 2015) and even came up with a new word for the price reductions (“halpuuttaminen”). Not defined as a price war, but it has slowed down the market share rise of Lidl.

In a case of a totally new market entrant, a competitive entry opposes a trigger to start a price war. In some cases, this threat is too strong for the new entrants to handle and they back out. If the entry happens and the company starts to gain market share on the benefit of lower prices, the price war escalation follows a power shift paradigm explained by Organski (1968). His theory states that the market leader is likely to counterattack the entrant while it still has power. Most likely the weapon of choice will be price since it is immediate and measurable.

3.5 Synthesis

The way how competitors will react to a price change is considered when making decision about pricing. Retailers tend to look for other solutions when a price war seems possible. If competition changes their prices, retailers wait for a while to see the consumers’ response and act accordingly. Geographical pricing is used in the form of different store chains to keep market brands separated and the customers' price perception more predictable. Price perception of the whole store can be manipulated by making certain "food-basket products" more competitive. Consumer price knowledge should be considered. Loyal customers tend to withstand higher price changes, but customer loyalty is declining due to the more easily available price comparison channels.

4 CONCERNS IN ENTERING THE MARKET

A secondary research was conducted on the consumer behaviour, retailer behaviour and the case of Lidl entering the Finnish market. Primary data about the competitive moves are a well-kept secret and interviews tend to be biased or are at major risk to be leaning towards the company represented. The best way to approach the case is to see what primary data could be attained and learn from the latest entrant to the market and what matters should be considered when planning the entrance.

4.1 Case Lidl

In order to gain some kind of an understanding, what could be expected if a foreign grocery store chain entered the markets, the case of Lidl entering in 2002 can be studied, especially Porter's (1980) first two stages.

Lidl decided to enter with opening ten stores simultaneously and within a year, establish 30 more stores. This required a lot of time to find locations, taking care of permissions and infrastructure, which on the other hand gave the competition a lot of time to react. Lidl stayed quiet about its strategies which can be considered as an aggressive policy. After the entry, the competition began their marketing strategies as a counteract.

Some of the tactics used by the competition took years for Lidl to get rid of. One example being the questioning of the quality of the products and whether they were to Finnish standards, and stating that the local authorities gave "more slack" to the foreign competition. Another thing that was brought up was the origin of the products, which as mentioned earlier, is an important aspect for the Finnish consumers. This was also dropped quickly due to false accusations. Lidl used beer as a competitive instrument (leader line pricing), which also ended up with it being officially investigated, and with nothing illegal found. These affected Lidl's reputation for a long time, even though none of the accused claims were found true. (Uusitalo & Rökman 2007)

The loyalty programmes by both Kesko and S Group had been widely adopted by the population with many of the households having a membership of both. Lidl did not have a loyalty programme which might have given an impression of higher prices or lower quality products. The Finnish giants relied a lot on their strategy of having a wider product selection ranging from clothes and tools to food products.

Until Lidl’s entrance to the market it was not believed that the price of the products would have such a strong importance, and price-oriented shopping was indeed not as possible as after Lidl’s entrance. Kesko ended up announcing that they would make price cuts to some 1000 items, which happens also to be the amount of products Lidl offers on average. Of course, these cuts were advertised widely. The Finnish competitors started to heavily advertise their own product lines which were cheaper and more appealing pricewise.

4.2 S Group’s collaborations

Part of S Group’s success, is their ability to collect businesses to their larger Prisma stores. The companies operating within their spaces are most of the time required to be part of their member ownership programme. This means that if a customer has bought him/herself into the programme and is a member, the businesses within the premises are part of it as well. For example, Elisa, one of the largest phone operators in Finland, is part of this collaboration. This allows their customers to have discounts and accumulate their bonus account through S Group’s banking system.

The S Group has also started to bring foreign companies to Finland through their franchising system. In 2014, the S Group announced that they would bring Marks & Spencer to Finland and it would start to operate within their business spaces. In 2017, there are four stores opened in total, all within spaces owned by S Group. In May 2017, the S Group announced a new collaboration with the UK retail giant Tesco. Their aim was to bring the Tesco Finest and Tesco Free From lines to the Finnish consumers and have advertised it as a premium line for a lower price. Whether Tesco will start selling products from the S Group in their stores is yet to be announced as of November 2017.

It might not make sense to Tesco try to enter the Finnish markets and risking a price war, now that they have been able to enter the market with their own products through S Group. It might be a viable option for them to just keep the products on the shelves of the S Group, but they are also building up brand knowledge through this endeavour. Brand knowledge might help them to enter the market later with their own stores.

4.3 Food basket

To show regional pricing and the importance of pricing with the commonly bought products in action, primary data was collected in the form of a 'UK food basket', a common instrument in Finland for the consumers to follow the price of the food. The food basket gets reviewed by the Finnish media annually in order to compare the different prices in different stores. This makes public a lot of interesting data which can then be analysed and reviewed. When comparing the Finnish food basket to a foreign chain, it can be shown how pricing of the specific products can affect the perception of the price level of the whole store.

The food basket contains:

- Tomatoes - price/kg
- Bananas - price/kg
- Oatmeal - cheapest package/kg
- Coffee - 500g
- Minced meat - 400g
- Flavoured yoghurt - 1 litre
- Milk - 1 litre (skimmed)
- Edam cheese - cheapest pack/kg (has the word 'Edam' clearly stated)
- Margarine - 400g (fat percentage >60%)

The UK food basket was compiled from Tesco Extra in Salford, UK to achieve a rough understanding of the price differences between Tesco and the main competitors from Finland. The products were chosen to be as comparable to their Finnish counterparts as possible and price was adjusted due to different sizes of packages. VAT difference was taken into account and all the prices shown are with VAT being 0% to make the comparison easier. UK has zero rated VAT for all the items included in the food basket. The VAT in Finland for all food is 14%. No logistical expenses were considered. The euro price was converted to pounds at the rate of 0.84. The prices are not representative of the prices Tesco could have if they entered Finnish markets and are only rudimentary.

Secondary data was collected from the annual research made by the Finnish Consumer Union (Kuluttajaliitto 2016). Kesko's pricing is intended to have more discounts whereas S Group has implemented the bonus rewarding system. This might be one reason to their slight price variations and why S Group seems to be continuously cheaper, as discounts are not taken into account in the price comparisons. This is also expected to affect the price knowledge of the customers as the media publications about food baskets might be biased towards S Group. (The Finnish Consumer Union 2016.)

TABLE 7. The food basket prices between Finnish grocery stores and Tesco UK in GBP.

	Tesco	Prisma	Citymarket	Lidl
Tomatoes	£1,99	£0,94	£1,02	£1,32
Bananas	£0,79	£0,92	£1,07	£0,95
Oatmeal	£2,25	£0,55	£0,72	£0,60
Coffee	£7,70	£2,39	£2,54	£2,39
Minced meat	£1,69	£2,01	£2,20	£2,00
Yoghurt	£2,00	£0,63	£0,73	£1,02
Milk	£0,75	£0,47	£0,46	£0,48
Cheese	£2,85	£2,65	£2,94	£2,64
Margarine	£0,60	£0,35	£0,36	£0,28
Total	**£20,62**	**£10,91**	**£12,05**	**£11,69**

A straight comparison of the total food prices is misleading. A further analysis of the data explains the reason why Tesco seems to be almost double the price compared to the Finnish ones. For example, coffee which is included in the Finnish food basket, is not as an everyday item in the UK as it is in Finland, where coffee is consumed multiple times more per capita at 1.7kg per capita in UK vs. 9.6kg per capita in Finland. (The Caffeine Informer 2016.)

Another notable difference was in oatmeal. Oatmeal is among the most common Finnish breakfasts and is thus a common household product. This pricing closely follows the theory that was stated in the literature review in which the most commonly bought items are also under more pressure price-wise. If the price of especially these two items were adjusted, the difference in prices would not seem as vast anymore. The food basket as a tool is a little biased in this situation and against Tesco. It should be stated that the comparisons based on food basket should be made within a country and not between the countries. In this case, the food basket is used between countries to show the importance of loss leader pricing from the view of the consumer.

4.4 Harmonized pricing

As stated in a general review (Lidl invades Finland 2007: 9): “The supermarket retail sector was relatively simple in Finland before the entry of Lidl in 2002, with a few chain competitors and local independent competition”. Lidl swept in with their consistent pricing across all locations just as the Finnish consumers were shocked about the transfer to Euro and how it unfavourably affected the prices. A three-year-study by Uusitalo and Rökman pointed out four things which favourably boosted Lidl’s entry to the market:

- Competition
- Location
- Term
- Variety

The price of the goods was consistent during the whole study and across all stores, excluding some cases of seasonal products. The competition had varying prices depending on location and other factors, especially concerning their own brands. Buying S Group’s or Kesko’s own brands is rising and currently about 20% of the food basket bought from their stores. (Huotari and Nalbantoglu 2015.)

Vilmunen (2005) studied the frequency of price changes in Finnish hypermarkets and found out that on average the prices change on fresh products every 1.5 months and on processed food every nine months.

The review (Lidl invades Finland 2007: 10) concludes that harmonized pricing could “-give a lot of market power in a very short space of time to a new entrant, and it would be no surprise if such an effect applied to the successful expansion of UK retailer Tesco into markets such as Thailand and the Czech Republic.”

4.5 Online grocery shopping

Shopping groceries online is a natural move for the industry to move next. It is already in use in the UK and Ireland by Tesco for example, but has only just started in Finland. In Tesco's model, the customer buys the groceries through an online service, pays for them and then picks them up or chooses to have them delivered. The delivery costs for the customer can be as low as 7,5 € / month with a minimum order value of €50 with up to one order a day. (Tesco 2017.)

In Finland, Kesko is offering a limited service of online shopping. Delivery is offered in just a few stores in Helsinki and the rest of the stores listed offer a pick-up service for 4,90 € / pick-up. Kesko's online service is not widely used and is mostly in its testing phases. (Kesko 2017) The S Group has launched its online grocery shopping service in limited number of cities and with more limited delivery services focused in bigger cities. The price for the collection of the products only is 5,90 € if the customer is a member and 8,90 € if not. Adding delivery costs the total goes up to 16,90-19,90 € / delivery. The services are not widely advertised. (SOK 2017) Currently as of November 2017, there are a handful of third party services that provide a similar service but have a narrower and changing selection of groceries at discounted prices.

To get the customers to move traditional grocery shopping to online, something of value must be added that might not be feasible to achieve in a traditional store. If a moderately priced delivery is an option, the time saved by the customer could be enough to switch from spending time after work in a grocery store, to ordering the food online with just a few clicks. More research on how much more the groceries could cost more compared to the traditional on the shelf model needs to be done. E-commerce is widely considered as a cheaper option because of increased competition, because it directly affects the operational costs of a traditional service. (Turban et al. 1999) However, in Finland only the collection of the products to be ready for the customer to pick them up is reasonably priced. The grocery prices are the same as in the store and the collection price varies from 4,90 € - 6,90 € per pick-up and goes up to almost 20 € if delivery is added.

The biggest benefit for the customer from online shopping is convenience. Unlike shopping for clothes, customers do not go "window shopping" for groceries. (Broniarczyk et al. 1998) state that shopping for groceries is perceived as a chore with low involvement and greatly disliked by consumers. To increase their efficiency, customers usually prefer only few stores where they know the layout. Online shopping therefore offers a quicker and a more convenient way to get grocery shopping done. It is only the matter of price but the market is there.

5 SUMMARY

Finland as a target of expansion offers a highly developed country with high buying power. However, it also has a high cost of labour and high expectations of quality of the products consumed. The Finnish grocery store market is very hard to penetrate, but should a new entrant try to expand to Finland, learning about the culture and choosing a correct market entry mode is crucial. A lot can be learned from how Lidl managed to enter. The most important aspect of a successful entering seemed to be the price but the importance of domestic products and quality should not be compromised.

Geographical pricing in Finland is important and many foreign giants like Tesco already have a multiple-store system in place Extra, Express, Metro etc. all of which have pricing adjusted according to the area of operation. This closely mimics the two giants in Finland. The different store sizes would allow an entrant to keep the stores separate from each other in customers' minds giving more freedom with the pricing. It has been stated that pricing boosted Lidl's entry to the market so to truly challenge the competition, the entrant would need to beat the current prices. The price knowledge and shopping habits of the Finnish consumers would need to be closely studied and price the products accordingly. This is something Lidl could have done better and not to give any tools for the local competition to attack. Finnish consumers tend to be picky on certain products being Finnish, like milk, and might even choose to shop elsewhere only because the store does not offer domestic products. They also follow the food basket closely, which for an entrant might create an opportunity to a more cost-effective pricing strategy. A price war would be avoided as long as possible, but the current competitors have proven to be ready to lower their prices in order to retain their market share.

Tesco made a deal with the S Group to bring their products to Finnish stores, and it is yet to be seen, if the company is only testing the reception of their products and plans to fully expand to Finland, or is it just a strategy to more widely spread their own products. A similar tactic could be used by a new entrant to learn more about the competition and the target market. Online retailing is not yet common in Finland, but as the country is technologically advanced, it might allow a good platform for online grocery stores. In online retailing, the population density should be considered for logistical reasons.

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