

METROPOLIA UNIVERSITY OF APPLIED SCIENCES
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THE EFFECTS OF RECESSION ON FINNISH ALCOHOL CONSUMPTION
Concentration on the brewery industry in comparison to the recession in Finland during
1990 - 1993

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European Business
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ABSTRACT

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The purpose of this study was to find and answer to a question: How will the economic slowdown affect the Finnish brewery industry and can the results of the recession in the beginning of the 90's apply today? Finland faced a deep recession in the beginning of the 90's and as a result the consumption of medium beers and wines increased, even though the total consumption of 100% alcohol by volume decreased.

Both qualitative and quantitative research methodology was utilised in this study. The qualitative research data consisted of two in-depth interviews; Katri Tuulensuu from the The Federation of the Brewing and Soft Drinks Industry and Irmeli Mustonen from the The Finnish Food and Drink Industries' Federation (ETL). Quantitative research was conducted by studying alcohol sale and consumption statistics both from the 90's and today.

It was discovered that even though the consumer behaviour in terms of income spending has not significantly changed, there are several other factors that have a strong influence on the industry. Therefore it seems that the alcohol industry and more specifically breweries in Finland will not gain any profit during the current economic slowdown. The importance of taxation has dramatically increased after Estonia joined the EU and the borders opened for unlimited personal imports. Due to the low alcohol prices in Estonia, the price of the products becomes more important in Finland. Finland's alcohol taxation is among the highest with-in the EU. The total consumption of alcohol is unlikely to vary too much, but consumers might start to purchase alcohol outside Finland's borders.

Even though the government's main purpose is to reduce the total consumption of alcohol, the tax revenue is also important. The result of increasing alcohol taxes can actually decrease the sales and therefore cause decreased tax revenues for the state, and eventually also decrease the production in the Finnish brewery industry. Interestingly however it seems that small breweries in Finland are very confident about the future. Few small breweries are making heavy investments despite the economical situation.

Keywords: consumption, taxation, personal imports

EXPLANATION OF TERMS

ALCOHOL	According to the Finnish Law a product is considered alcohol when it contains more than 2,8 % ethyl alcohol by volume. In EU a product is considered alcohol when it contains more than 1,5% ethyl alcohol by volume
ALKO	The Finnish State Alcohol Company They have a monopoly on selling alcohol products that contain more than 4,7% ethyl alcohol by volume
BABY BOOMERS	The people born during the post-war baby boom in 1946-1964 ¹
CURRENCIES	All the statistics from the 90's are based on Finnish Marks (FIM). Finland started to use euros in 2002. To give the reader a better understanding on the amounts, all the amounts have been converted into euros. One euro is equivalent to 5.94573 Finnish Marks.
ETLA	The Research Institute of the Finnish Economy
GDP	Gross domestic product
LIGHT WINES	Contains over 8 – 14% ethyl alcohol by volume
MEDIUM BEER	Contains 3.7 – 4.7% ethyl alcohol by volume
TAX CLASS III	This category in most cases also includes ciders and long drinks. These products can be sold also in normal retail stores, as long as they are produced by fermentation and no actual alcohol is added. All products where alcohol has been added to the core product are sold in ALKO.

¹ Kotler, Armstong ”Principles of Marketing” (2005) p. 70

SPIRITS/ STRONG LIQUOURS	According to the Finnish Law these are product that contains more than 22% ethyl alcohol by volume. In EU the amount is 15% ethyl alcohol by volume. <i>Eau – De –Vie</i> and other products are included (for example: brandy, cognac, strong wines). In the dissertation, this category is also referred more generally as “strong alcoholic products” or just “strong alcohol”.
STAKES	National Research and Development Centre for Welfare and Health. In January 2009 Stakes merged with national Public Health Institute (KTL), and they now operate together as The National Institute for Health and Welfare
STTV	The National Product Control Agency for Welfare and Health (STTV). In January 2009 STTV and National Authority for Medicolegal Affairs (TEO) merged. They now form the administrative sector of the Ministry of Social Affairs and Health known as the National Supervisory Authority for Welfare and Health (Valvira).
STRONG BEER TAX CLASS IV	Minimum 4,7% ethyl alcohol by volume
VALVIRA	National Supervisory Authority of Welfare and Health

1 INTRODUCTION

Globalization has created a global economy, what happens in one end of the world immediately effects on the other end as well. The global economical slowdown that started from the US during the fall of 2008, has spread around the world, effecting also Finland. When thinking about the current recession I came up with a hypothesis: *During economic slowdown unemployment rate will increase, and in Finnish culture alcohol is very often used as a way to escape from reality. People drink to get drunk. As a result the consumption of alcohol will increase and the beneficiary is the alcohol industry.* This hypothesis sounded very interesting to me and encouraged me to continue looking the matter in more detailed.

This is not the first time Finland faces downturns in economy. After a decade of boom in the 1980's, Finland faced a deep recession in the beginning of the 90's. GDP dropped after a long prosperous time. The global economy started to suffer, but it hit Finland harder then many other western countries. It was interesting to find out that even though the total amount of alcohol consumed decreased during the recession, the consumption of medium beer increased. Today the global economic slowdown will hit Finland along other countries, but for how long or how hard is difficult to estimate. It is very interesting to look at the current situation and compare whether it has similarities with the last recession and most of all would the effects towards the alcohol and brewery industry be similar now as they were almost two decades ago.

The main objective is to find an answer to a question: **How will the economic slowdown effect the Finnish brewery industry and can the results of the recession in the beginning of the 90's apply today?** The goal is to find out whether or not the current economic slowdown, will have any effects on the alcohol industry and more specifically the breweries in Finland. The need for this is to see whether alcohol industry would be a good investment target, or possibly a potential employer in case their sales increase. In the economic situation in the world today, it is my personal interest to find if an industry can actually make well on a time like this. The main objective is to see whether the breweries in Finland gain from the economic slowdown. One goal is to find a possible scenario for the future, the dissertation reflects to statistics in the last recession that Finland faced in the beginning of 90's.

The report will study both the last and the current recessions to see if any big similarities or differences can be emphasized. By looking at the major players in the Finnish alcohol industry a general understanding of its functions are generated. This will be followed by a study of the statistics between 1990 – 1993 in the alcohol consumption of Finland, and the possible reasons that might have lead to the found results.

After finding the results of the 90's statistics, the report will look at the current situation in the alcohol market in Finland. This will then be followed by studying the Finnish consumer behaviour, when purchasing alcohol. The possible changes in the consumer's behaviour are compared to the changes in the economy. Different general and professional views will be brought as an example.

After the consumer behaviour we can look in more detail on the factors that have changed between 90's and today. The report goes through the effects of taxation, distribution, pricing and in the end importing of alcohol beverages for personal consumption. Finally conclusions are drawn and recommendations given for future studies.

2 REASONS FOR RECESSIONS NOW AND IN THE 90's

Recession is usually defined as a decline of a GDP for a certain period of time. According to Sloman recession is a period where national output falls for six months or more.² Economy researcher Heikki Koskenkylä however claims that all definitions generally used by economists vary a lot.³ He says that numbers are just numbers, and GDP fall of for example 4,5% does not yet prove a thing. Recession is usually associated with low consumer spending; this results in a decreasing consumption and a declining production. Many believed that the recession of the 90's was a result of bad politics and wrong decisions in the banking sector, others believe that a recession will come sooner or later and that it is inevitable. Many studies regarding the subjects have been conducted as well. In the most radical studies even the existence of welfare state was questioned. In the end a recession is most likely a combination of both.

Finland had a strong economical boom in the 1980's, which however ended up into a deep recession in the beginning of 90's. Finland's real GDP dropped with approximately 14% between 1990 and 1993.⁴ As a result a significant number of businesses went bankrupt and the banking industry was in crisis. The government had to take the control. Unemployment had increased to 16% by 1994 from 3% in the beginning of 1990.⁵ The unemployment increase however depends on a source, one study even referred to an increase of 18,9%.⁶ Even though the economy started to grow again and officially the recession was over, the unemployment rates stayed quite high for relatively long time and many families faced personal bankruptcies after they had lost the ability to pay back their loans.

Before the beginning of 1980's banking regulations, currencies and interest rates were quite stable. Those regulations and norms were controlled by the banks and the state together. Getting a loan required a lot of work and usually saving before hand, and most importantly not everyone who wanted a loan got one. By 1986 the interest rate and loan amount limitations were removed completely. After this the banks got to decide more freely about the interest rates according to the market fluctuations. Banks were then also

² Sloman John "Economics" (2003) p. 6

³ Korhonen Petri, "Ei lama ole tämän näköinen", Kauppalehti 18.3.2009

⁴ Centre for Economic Policy Research, "Finland: How bad policies turned bad luck into a recession"

⁵ Melander Tommi, Repo Eljas "Finland, a thriving economy toughened by recession"

⁶ Holm, Lilja, Pehkonen "Työmarkkinoiden toimintamuutosten analysointi yksilö- ja yrityspaneelien avulla"

able to decide the amounts of the loans. In 1982 foreign banks were allowed to enter the market and getting a loan become easier. Rapidly companies and private persons were in deep depths. Companies and private persons were not able to pay back their loans and from the beginning of 1990 banks faced significant credit losses.⁷

What has been said to be the major reason for the quick drop in the economy was the collapse of the Soviet Union in 1991. The Soviet Union was Finland's main trading partner, and after its collapse Finland's exports to Soviet Union dropped by 70%⁸. The situation was already bad in the economy and this further boosted the decline of production. The hard policy with the Finnish markka (currency in Finland for the being time) did not help the situation; Markka had a fixed exchange rate until November 1991 when it was finally devaluated. At this time the state also tightened the bank supervision and lending policy.⁹ Honkapohja and Koskela say that international illiquidity, real exchange appreciation and lending boom are considered as central factors in many financial crises. Eventually Finland recovered and started its growth with a boost from technology with Nokia in the lead.

Still the extremely high unemployment rates from the recession affected the country for several years. Finland survived from the recession with a tremendous amount of government support. However this meant that the government had to increase its national debt by lending money abroad. Paying back this money takes years and therefore the effects of recession are shown in a society for a long time.

The main reason for the economic recession today was the irresponsible money lending by the US banks, which eventually lead to a credit crisis. In September 2008 the first major banks in the US faced bankruptcy. Soon it passed over to the UK as well. After banks and insurance companies, the automotive industry is suffering their loss. By this time the effects are strong all over Europe already. Several governments in Europe and in the US have announced sever financial help packages in hope to save the economy.¹⁰

The effects of the global economy are clearly visible in Finland as well. Finland has gained a lot from globalization and while being a strong exporter, the Finnish economy will suffer

⁷ Taloustieto Oy "Rahoitusmarkkinoiden muutos"

⁸ Centre for Economic Policy Research, "Finland: How bad policies turned bad luck into a recession"

⁹ Melander Tommi, Repo Eljas "Finland, a thriving economy toughened by recession" 07.07.2006

¹⁰ BBC News "Timeline: credit crunch to downturn" 3.4.2009

from the global economical slowdown. ETLA's Fluctuation report 2009/1 estimates that the global economy will continue decreasing in 2009 and will slowly start to recover in 2010. Exports have already decreased in Finland and they will continue falling with about one fifth compared to 2008. This will result in job losses and the unemployment rate is estimated to increase up to 10%. Also consumer expenditure is expected to fall due to the worsening employment situation. The GDP in Finland will drop with about 6,5% in 2009.¹¹ Due to the increasing national debt the consequences of the recession can however reach far.

A long-term influencer to the Finnish politics and economics Christoffer Taxell stated already in December 2008 that the current recession is much heavier to Finland than the recession in the 90's.¹² Taxell further emphasizes the fact that Finland is an exporter and the fact that this recession is global influences Finland deeply. Also Finland's Minister of Finance Jyrki Katainen has stated that this recession will be deeper than the one that Finland faced in the beginning of 90's.¹³ Koskenkylä's criticism can be applied here as well; all economists have different points of view. The only certainty is that the deepness of the recession is not clear until it is over, and even then it can be disputed.

3 THE FINNISH ALCOHOL INDUSTRY

Since 1886 factories have had the permission to produce alcohol products in Finland. However at the beginning of the First World War, the state prohibited the sale of alcohol. Only first class restaurants had the permission to sell alcohol. As a result in 1919 the government announced a prohibitory law, which prohibited the production, transportation, selling and storing of alcohol. At the same time a state owned Alcohol Company was established to take care of alcohol sales for medical, technological and scientific purposes only. In 1932 as a result of a referendum the Finnish parliament revoked the prohibitory law, but on a condition that the government owned company would have control over the import, export, production and selling of alcohol beverages. After few name changes the company is now known by the name The Finnish State Alcohol Company (ALKO).¹⁴

¹¹ ETLA "Suhdanne 2009/1" 25.3.2009

¹² Taloussanommat "Taxell: Tilanne on pahempi kuin 90-luvun lamssa" 13.12.2008

¹³ Etelä-Karjaln Radio "Kuinka syvään lamaan Suomi Sukeltaa" 18.12.2008

¹⁴ ALKO "75 years of Finish alcohol policy"

ALKO acts as an independent company but is entirely owned by the state. It has a monopoly on selling alcohol products that contain more than 4,7% ethyl alcohol by volume. They work as any other company trying to achieve profit, provide good customer service and meet the expectations of the stakeholders, however they are controlled and they work under the regulation of the Ministry of Social Affairs and Health. In this way the state tries to minimize the harmful effects of alcohol within the country. They have a strong corporate responsibility from all economical, social and ecological points of views.¹⁵ They arrange campaigns in Finland on the harmful effects of alcohol consumption. In the beginning of the 90's ALKO also gave all the permissions for licensed serving of alcohol. After that for a while it was on the responsibility of the National Supervisory Authority of Welfare and Health. In 2005 the council of state decided that the responsibility would be moved to each provincial government.¹⁶

ALTIA is also completely owned by the Finnish state, they are wine and spirits service and production company. They are the number one in Finland and Altia Corporation also operates in all the Nordic countries, Estonia and Latvia. They produce, distribute, market and sell both their own and suppliers brands.¹⁷

The National Supervisory Authority of Welfare and Health (VALVIRA) has control over the implementation of the Alcohol Act, on both regional and local level.¹⁸ They supervise the acts of ALKO and they also need to make sure that ALKO as a monopoly treats different suppliers and producers equally.

The Federation of the Brewing and Soft Drinks Industry promotes the interests of producers of beer, cider, long drinks, soft drinks and mineral waters in Finland. Its members are Oy Hartwall Ab, Nokian Panimo Oy, Olvi Oyj and Oy Sinebrychoff Ab. The Federation of the Brewing and Soft Drinks Industry operates in connection with the Finnish Food and Drink Industries Federation and represents one of the oldest branches of the industry in Finland.¹⁹ Hartwall, Olvi and Sinebrychoff are the three biggest and most known breweries in Finland. Even though they are all members of the same union they are also the three biggest competitors in the market. By being the market leaders, they have the highest financial resources; and as a result they are also able to play the most in the market.

¹⁵ ALKO, "Perustietoa Alkosta"

¹⁶ Tuominen Ismo, Government Counciler Annoucement 371/2002

¹⁷ ALTIA "Multi-beverage company"

¹⁸ VALVIRA "Supervision of Alcohol"

¹⁹ Federation of the Brewing and Soft Drinks Industry

Therefore usually the products that have the best offers in retail stores are from one of these producers.

Besides the Federation of the Brewing and Soft Drinks Industry there is also a Small Brewery Union in Finland. They are all together twenty small breweries.²⁰ Some of them practise only in connection with a restaurant or a restaurant school and some of them are well known in retail stores as well.

In addition to Finland's own producers there are few foreign competitors as well. Kopparberg is a Swedish company but they have started their own daughter company in Finland, and their ciders are quite popular and visible in the market. International brands as Carlsberg and Heineken for example are distributed through Finnish companies; Carlsberg by Sinebrychoff and Heineken by Hartwall.

1.1 THE BEGINNING OF THE 90'S

During the deep recession in the beginning of 90's a significant number of industries were affected. The alcohol industry and ALKO also suffered a loss. However it is also interesting to notice how the money transferred from one product to another within the alcohol industry.

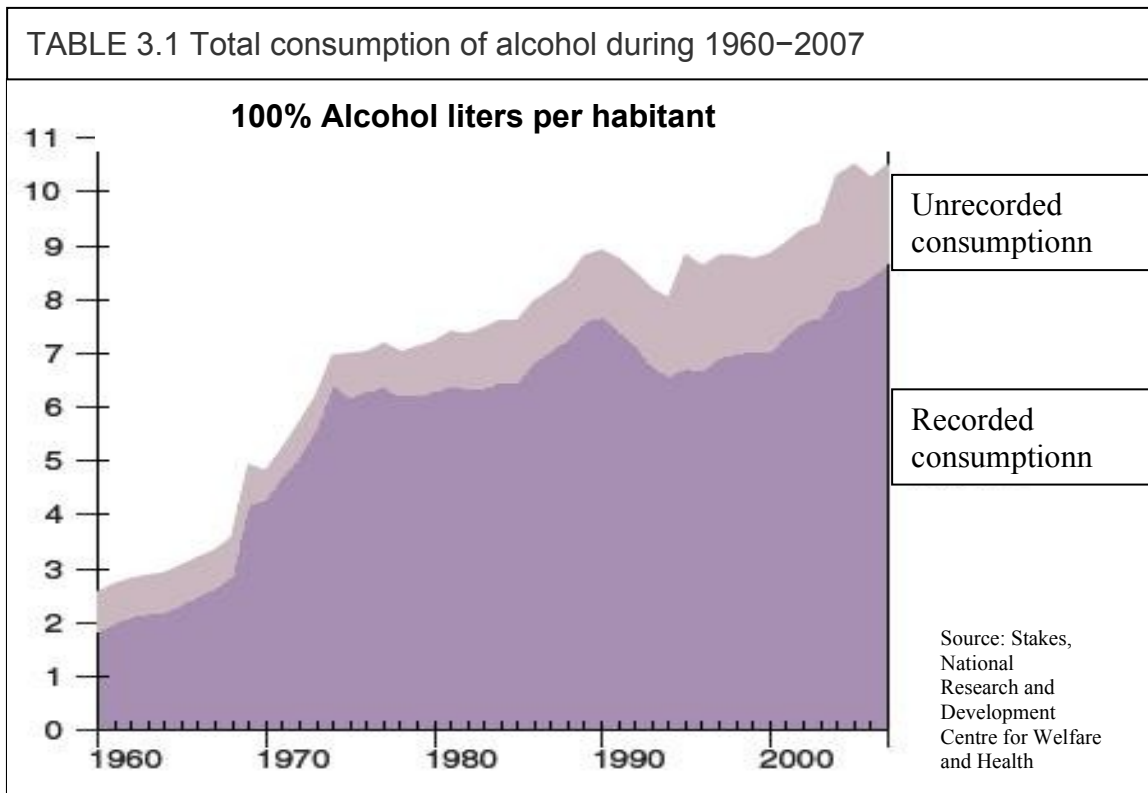
By comparing Table 3.1 (Total Consumption of 100% Alcohol during 1960 – 2007) and Table 3.5 (Unemployment according to sex during 1991 – 2007) it looks very clear, that from 1991 to 1993 when the unemployment increased, the alcohol consumption decreased. However in Table 3.1 we are dealing with statistics that only compare all types of alcohol together,

meaning total consumption of 100% alcohol. Therefore Table 3.3 (Consumption of Alcoholic Beverages, 100% alcohol, in 1991 – 1993) gives a much more realistic image of what really happened. Even though the consumption of strong liqueurs and strong beers decreased, the consumption of medium beers and wine increased. The increase of unemployment and reduced disposable income moved to the usage from stronger alcohol to cheaper options.²¹ This further proves the theory that during economic slowdown

²⁰ Pienapnimoliitto "Yhteystiedot"

²¹ Salomaa Jukka, Hein Ritva, "Elpyvä Suomi ja alkoholijuomien kulutus" 1999

people think more what they buy. This concludes to that during the last recession the consumption of medium beers and light wines increased.



After finding more detailed statistics on alcohol consumption between 1991 and 1993 it can be shown that even though total alcohol consumption as 100%- vol. alcohol dropped from 37 193 litres 1991 to 34 299 litres in 1993²², the amount of litres consumed in medium beers and wines increased in retail stores and medium beer consumption also increased in restaurants. (See Table 4.2.) The most probable reason why the light alcohols are more popular during recession is because they are cheaper than strong liquors, and in the end they will have the same effect. Measured in money ALKO sold less in 1992 (1.59 Million €²³) and 1993 (1.40 Million €²⁴) then in 1991 (1.81 Million €²⁵). These figures indicate that the sales went down and no profit was gained. However these sales only cover the sales directly from ALKO's retail stores, including all different types of alcohol; therefore they do not cover normal grocery stores and restaurants, or specify the amount of medium beers sold. However Table 3.4 indicates that the total sales of medium beers and

²² ALKO, Alcohol Statistical Yearbook 1993 "Consumption of alcoholic beverages, 100% alcohol, in 1984 – 1993", (Table 3)

²³ "Kuntakohtaiset Tilastot 1992" Alkoholipoliittinen Suunnitelu ja Tiedotus, Helsinki Huhtikuu 1993 "Konaismyynti Alkon Myymälöistä" (9 464 806mk)

²⁴ "Kuntakohtaiset Tilastot 1993" Alkoholipoliittinen Suunnitelu ja Tiedotus, Helsinki Maaliskuu 1994 "Konaismyynti Alkon Myymälöistä" (8 296 035mk)

²⁵ "Kuntakohtaiset Tilastot 1991" Alkoholipoliittinen Suunnitelu ja Tiedotus, Helsinki Maaliskuu 1992 "Konaismyynti Alkon Myymälöistä" (10 771 359mk)

wines in both retail stores and restaurants went up with a 40,30% from 1991 to 1993. This is a significant increase in the markets where recession was basically affecting every single industry.

The sales of tax class-III beer increased, however at the same time the sales of stronger alcohol products decreased. In 1993 ALKO's sales to licensed premises decreased by a total of 8%.²⁶, compared to 1992. The same statistics indicate that the sales of medium beer increased by 26%, while the sales of everything else decreased by 26%. The sales to cafes licensed to serve medium beer increased by 10% also. The sales of low alcohol wines also increased in 1993, this is most likely because ALKO added a big selection of relatively cheap, but "good quality" wines to its selection that year. A major contributor again is pricing; ALKO's pricing policy was favourable towards the low percentage alcohol wines.²⁷ The pricing was, and still is determined by the ALKO Board of Administration, and they claim that their objective is to regulate the consumption of overall levels of alcohol, towards the least detrimental trend.²⁸ Some might say that the goal will naturally be achieved if the alcohol percentages in the volumes of the beverages are lowered, but are the effects any better if the consumption of those light alcohols then dramatically increases?

Even though the total sales of all kinds of alcohol dropped, at least some of the money transferred from strong liquors to medium beers and wines. Even though the total amount of money used was less than before, it does not directly mean that people would spend less of their total income on alcohol beverages. The statistics of ALKO also provide this information and the percentage of consumer expenditure on alcohol compared to the total private consumer expenditure has not changed significantly during the recession years. Between 1990 and 1993 the number changed from 6,9% to 6,7%. (Table 3.7) The biggest reason why an economic slowdown affects consumer behaviour is the decrease of personal disposable income; still the numbers indicate that people use the same percentage of their income on alcohol products. This in a way would indicate that alcohol consumption is "in the blood of Finns" and no matter how bad the situation is, alcohol will one way or another be a part of daily life. Since the money moves from high percentage by volume products to lighter products it can be assumed that the breweries are the ones to gain from the situation.

²⁶ ALKO "Alcohol Statistical Yearbook 1993" Consumption trends and structure in Finland

²⁷ ALKO "Alcohol Statistical Yearbook 1993" Consumption trends and structure in Finland

²⁸ ALKO "Alcohol Statistical Yearbook 1993" Prices of alcoholic beverages

1.2 THE ALCOHOL INDUSTRY TODAY

During the past 15 years the industry and trends have changed. Even though the consumption of alcohol in Finnish culture seems to be the same a slight change can be sensed. At least the effects of the global economy are stronger than it used be.

In 2008 the total consumption of 100% alcohol by volume (measured in litres) dropped in licensed premises 5,7% compared to 2007, in retail stores the drop was only 0,5% which gives a total drop of 1,3%.²⁹ This gives a small indication on the economic slowdown and that perhaps eating and drinking out has decreased. Where-as the decrease in the retail stores can be considered as just a small fluctuation. Compared to 2007, in 2008 the consumption of beer in licensed premises however dropped a significant 7,5% and in retail stores it increased by 0,3%.³⁰ From a restaurant business point of view these latest statistics are quite alarming. This can be the result of increased price awareness and more conscious consumption behaviour due to the economic slowdown. Still if the decrease is that high and it does not even compensate in the retail market the Finnish breweries will not gain, but lose. Based on the above figures the significant increase in sales of medium beer that happened in the 90's will not happen now.

In the beginning of 2009 there have been several articles published that point out the decrease in consumption of alcohol and alcoholic beverages. The state owned ALKO's sales have dropped³¹. Even though ALKO's total sales (including taxes) increased by 6,2%³² in 2008 compared to 2007, the sales in litres decreased. The Federation of the Brewing and Soft Drinks Industry announced that the sales of alcoholic beverages of their member companies have decreased³³ and even the world's leading beer producer Belgian Anheuser-Busch InBev informed that the beer sales started to fall by the end of the year 2008.³⁴ ALKO points in its annual report that the sales by volume went down due to the increase in tax and the economic slowdown.³⁵ Perhaps it is just a trend at the moment or a cruel reality, but it seems that no matter what happens in any market, it is all because of the

²⁹ STTV, ”Alkoholien kulutus 100% litraa vuonna 2008 alueittain”

³⁰ STTV, ”Alkoholijuomien myynti Tammi – Joulukuussa 2008”

³¹ STTV, ”Alkoholijuomien myynti Tammi – Joulukuussa 2008”

³² Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008

³³ Iltasanomat, ”Olut ei käy kaupaksi – lonkero yhä suosittumpaa” 26.02.2009

³⁴ Helsingin Sanomat ”Laman dramaattinen seuraus: olutkaan ei enäämaistu” 5.3.2009

³⁵ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008

economic slowdown. This is something that ALKO should be very happy about, in a way, since even though they are trying to make profit to the state, they also want to decrease the consumption of 100% alcohol in order to decrease the amount of harmful effects of alcohol. This has been their target through out their existence. Still it is quite amusing when ALKO's service manager Kari Pennanen replies in the news interview that the decrease in sales is good from only a specific point of view.³⁶ Between the lines one can still get the image that the financial point of view is important aspect as well and that the sales would be better up.

The trend of increasing wine consumption of the 90's can be seen again. In the beginning of 2009 sales (in litres) decreased on every other product category except wines. The sales of wines increased by 3,2 %.³⁷ In the same news flash where the 3,2% figure was introduced ALKO's service manager Kari Pennanen stated that the drop in sales is a result of the increase of the alcohol tax through economical crisis which then immediately reflects to the consumer prices and the consumers buying decisions. The increase of the wine consumption would support more of the pattern in the 90's, when the consumption of light wines increased. The Confusing part is that in the 90's the increase happened with the cheap wines. Comparing the wine sales by price category in 2007 and 2008 it seems that people have bought little bit more expensive wines in 2008 than in 2007.³⁸ This trend would indicate not the effects of economic slowdown, and decreased disposable income, but demand for increased value and quality.

After the alcohol tax rise in January 2009 only few people seem to believe that the price will effect their consumption, at least according to a discussion forum in Iltalehti.³⁹ This of course is only a discussion between few people and can not give a very realistic picture on what will really happen, but it does give a hint about the way Finnish consumers think. A researcher Esa Österberg from Stakes seems to believe that the consumption of hard liquors will decrease, but the consumption of wine and beer will stay approximately the same. A warm summer can even increase the consumption of beer.⁴⁰ Katri Tuulensuu (Appenix 1) stated that the consumption of beer during summer does not usually face any massive downfalls even if the weather would be more rainy then usual. This seems a bit

³⁶ Pekka Ylönen, "Viinan myynti laskussa Alkossa" 12.3.2009 at 19.00

³⁷ Pekka Ylönen, "Viinan myynti laskussa Alkossa" 12.3.2009 at 19.00

³⁸ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008

Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2007

³⁹ Iltalehti, "Viina kallistuu jälleen!" 18.11.2008

⁴⁰ Juutilainen Ville, "Alkoholiverotuksen korotus vähentää etenkin väkevien kulutusta" 2.1.2008

optimistic considering that Olvi Oyj states in their balance sheet announcement of 2008 that the rainy summer affected their sales negatively.⁴¹ However she points out that the biggest sufferers are the more expensive products, meaning the producers of speciality beers (usually small breweries), champagnes and expensive wines.

Katri Tuulensuu believed that the small breweries in Finland would suffer the most, however the union of the small breweries in Finland seems to think otherwise. The CEO Anssi Pyysing from the relatively small family owned Teerenpeli Brewery believes that we are now in a situation where consumers are willing to accept small brewery products. Most likely this does not mean that small breweries were not liked before, but people's wants have changed over the years and speciality products from small producers are getting a bigger role in consumers' everyday life. Teerenpeli brewery and few others of the about twenty small breweries in Finland have made some significant investments this year to their production facilities.⁴² Investments for this year already amount to a few million euros and new staff is constantly hired to the industry of small breweries. The chairman Pekka Kääriäinen from the Small Brewery Union⁴³ states that the government however is lowering the speed down. Compared to vineyards, the breweries are not allowed to sell products over 4,7%-vol. directly to customers, even though tourism is a part of their business as well. The Small Brewery Union considers this as unfair towards their companies. However it is good to keep in mind that the government gives small breweries reduction in alcohol taxes that neither the wine producers nor the big breweries get.⁴⁴

In the long run if this recession becomes very deep, the local breweries might have to cut down as well. This can mean that about 2400⁴⁵ people that are directly working in brewing in Finland would be under the threat to lose their jobs, but also possible job losses to the 30 000⁴⁶ people who are involved to the industry indirectly, such as logistics and transportation. Even though Katri Tuulensuu advised that for years now the bigger breweries have simplified and standardized their production lines, meaning that the number of employees is optimal, the risk still exists. For now the first and the only news in Finland regarding a closure of production facility within the alcohol industry has been announced

⁴¹ Olvi Oyj, "Tilinpäätöstiedote 26.2.2009"

⁴² Ville Kolari "Kotimaisten pienpanimo – oluiden suosio kasvaa" 19.4.2009

⁴³ YLE 1, News 19.4.2009 17.00

⁴⁴ Finnish Alcohol Act" Laki alkoholi – ja alkoholijuoma verosta" Erinäiset säännökset 9 § (19.6.1997/571)

⁴⁵ Federation of the brewing and Soft Drink Industry , "People Employed in 2007"

⁴⁶ Federation of the brewing and Soft Drink Industry , "People Employed in 2007"

by Sinebrychoff. They will close their smaller production facility in Pori, Finland.⁴⁷ As one of the reasons for difficulties in the industry they mentioned the increased private imports, explaining that there is no need to keep two production facilities when it can all be done at one place.

1.3 CONSUMER BEHAVIOUR

During a recession people tend to consider more carefully where they put their money. Already in Christmas 2008, people looked more carefully on how much money they will use to buy Christmas presents and what kind of presents they will buy. In a study conducted by Nordea Bank, Finnish consumer will use approximately 20%⁴⁸ less for Christmas presents in 2008 than they did a year ago. The gifts will most likely be more reasonable and practical than the year before. If not all then at least most of the marketing books and consumer behaviour books, emphasize the importance of studying the economical situation of an environment and most of all the income of the consumers when conducting a marketing plan. It seems that the key which was pointed out by Solomon's "Consumer behaviour" is to find out that it is not always how much money is spent, but how the money is spent.⁴⁹ During an economic slowdown, people do not necessarily only save money, but also think more carefully about where they spent their money. If the income of a family or consumer in general decreases by a relatively large amount, it all comes down to the basic needs again. What is needed the least will be left in the shelves of the store.

Maslow's hierarchy of needs (Table 3.6) illustrates the human needs quite effectively. Maslow's theory tries to explain why people consume and act in different ways on different times and environments.⁵⁰ He believes that as soon as one important need is satisfied the consumer can proceed to the next important level. The basic need is physiological need which includes hunger and thirst. Alcohol is more of a want, so it is quite hard to determine where it would fit in the pyramid and more importantly how quickly people would give up their want of having alcohol when the decrease of personal economy hits. Alcohol however is not a need by its nature; it does not particularly satisfy thirst or give the feeling of protection. Most probably alcohol would be part of social or

⁴⁷ Sinebrychoff, "Sinebrychoff is planning to close down Pori brewery - employee consultation negotiations will be commenced" 18.03.2009

⁴⁸ Taloussanomat "Nordea: Joululahjat ostetaan veronpalautuksilla ja säästöillä" 28.11.2008

⁴⁹ Solomon, Bamossy, Askegaard "Consumer Behaviour A European Perspective" (2002)

⁵⁰ Kotler, Armstrong "Principles of Marketing" (2005) p.149

esteem needs. During recession, depending on the consumer, one might forget social gatherings in bars immediately, where as for others it might be the only social belonging that they get. During economic slowdown people tend to become more price aware and therefore different purchasing options are considered more carefully. Irmeli Mustonen (Appendix 2) believes that people buy products according to their tastes, but as a difference they will buy cheaper products to them selves and more expensive products if they buy the bottle as a gift. Therefore Maslow's hierarchy of needs seems to apply also to the buying decision when it comes to alcohol. When the economical situation changes, the need for certain product changes as well.

ALKO's product communication manager Taina Vilkuna mentioned⁵¹ that the latest statistics point that alcohol consumed or imported abroad have increased. She points out that perhaps the economic situation does make consumers more price aware. A researcher Peter Eriksson from The National Institute for Health and Welfare thinks that even though the Finnish people drink for their sorrows as well, money is more important to them. Since the total consumption of alcohol in the beginning of the 90's decreased, the same will happen in the tight economic situation we are facing now.⁵² If Peter Eriksson is right then this would mean that also the sales of medium beer and light wine will increase. However there are several factors which had an effect in the 90's but do not effect now, and vice versa.

For decades Finns have had the reputation that they only drink to get drunk. Where as French for example seem to have a reputation of "civilized" drinking. Irmeli Mustonen does not believe that Finns are the only culture where drinking is used to get drunk. However in Finland people are more likely to brag about it, where in other cultures being drunk is more a matter of shame. Katri Tuulensuu believes that this "being drunk" – trend is slightly disappearing from Finland, the younger generations are not that willing to take care of their drunken friends anymore and alcohol is used more as a social drink, than to get drunk. Professor Jussi Kauhanen from the University of Kuopio, states exactly the same in the Savon Sanomat.⁵³ His conclusion is based on statistics on over 40 years from different European countries. Some might not believe this straight away, since only by looking the streets in Helsinki on Friday and Saturday evenings, it seems that there are only drunken youths around. But perhaps that is only a surface and the radical exceptions.

⁵¹ Ylönen Pekka, "Viinan myynti laskussa Alkossa"

⁵² Ylönen Pekka, "Viinan myynti laskussa Alkossa"

⁵³ Lappalainen Tiia "Alkoholien kulutus tasaantumassa viimein" 24.11.2008

Still also ALKO's Annual report 2008 announces that since 2006 the Finnish consumers have moved to milder drinks and that the consumption of spirits has fallen, where as wine sales have increased.⁵⁴ This would indeed indicate that perhaps the Finns are becoming more European in their drinking habits. This in general could be a result of increased education and availability of the products and also perhaps change in taste, but it would have nothing to do with the on going economic slowdown.

Social belonging is relatively important to everyone, and if due to the economic slowdown a person has for example lost his/her job, a bar might be the only place where they can find social contact. This also happened during the 90's recession when a number of people after job losses were not able to get back to the working life. There are certain places in the capital area where a lot of these people can be found and quite surely they are able to give full stories on how economic slowdown effected their alcohol consumption. This leads to abuse of alcohol, which the society and government are afraid of. When a person becomes an alcoholic and loses track of everyday life, he becomes a burden to the society as a whole, and this increases various costs. The costs that ALKO for example is constantly talking about, and the costs that the government wants to minimize. Doctor Juhani Seppänen states that alcohol has become problem number one in relation to deaths in Finland.⁵⁵ These kinds of strong statements should be considered very sceptically, since the results always depend on the interpretation of the statistics. He however brings out the fact that alcohol related illnesses is the biggest reason for deaths in Finland, not only direct illnesses, but it also affects indirectly in traffic accidents for example. He believes that ethanol in itself is addictive and the problem is not only with the person who is consuming it. The article also mentions that associate professor for internal medicine Martti Färkkilä would therefore increase the alcohol tax. He believes that restriction of the availability and increase of the price of alcohol are still the best ways to tackle the consumption. Färkkilä does however also mention that an effective way would be to find the people that belong to the risk group from healthcare and try to effect their consumption. Some might still doubt the fairness in using a lot of tax payers' money on taking care of those, who did not stay on track, and consumed alcohol responsibly. It has been indicated that alcohol tax and alcohol deaths are statistically directly comparable in Finland.⁵⁶ According to the article the alcohol tax raise in Finland in the beginning of 2009 will save a hundred lives during a year. Generally some believe that no matter what the government does there will always be

⁵⁴ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008, p. 10

⁵⁵ Iltalehti " Alkoholi tappaa suomalaisia" 14.2.2008

⁵⁶Seppinen Leena "Viinaveron nousu säästää sata ihmistä vuodessa" 2.3.2009

people who do not know their limits, and will abuse alcohol. They will get the alcohol no matter how much it costs or how long ALKO is open. It might sound even a little harsh, but it raises a question if hundred people, who in most cases are abusing alcohol anyway, are worth saving, if the rest of the economy and even a whole industry will suffer?

Health issues are a factor that can not be emphasised too much. Even though the dangers of alcohol have been known to the public in Finland since the prohibitory law in 1919 – 1932⁵⁷, most probably also the trend of drinking only to get drunk grew after the law was removed, because drinking became legal. As Irmeli Mustonen points out in her interview that today, people in general are getting more aware of obesity, diabetes and other national and international health problems, and they therefore also put more effort on controlling what they eat and drink. This in general could reduce the consumption of alcohol in the future, but for the near future we have the ageing baby boomers. As discussed with Katri Tuulensuu it might even be possible that when the baby boomers start to retire in Finland the consumption of alcohol might slightly increase, since these people do not have to go to work anymore and could therefore relax a little more, and as a result consume more alcohol and brewery products.

The economical situation always effects consumer behaviour. During the time of recession marketers tend to promote value⁵⁸. However during recession marketing and advertising are usually one of the first things where at least smaller companies, will cut back. Blackwell states in his book that older families are experienced in shopping and are therefore able to wait until they find good value⁵⁹. This could be the reason why the smaller breweries could have better futures than the big ones. As Anssi Pyysing stated, the industry is now in a situation where consumers are willing to accept small brewery products. Perhaps people have not been aware of the smaller breweries before, or the products have just been too expensive and therefore the value has not been understood. Katri Tuulensuu explained how their federation has already for a few years tried to increase the awareness of speciality products. Blackwell's theory on the matter seems correct that when older people have money to spend, but less need to spend they will spend it on value. The trend seems to be that small breweries are able to offer more value with their products, with their uniqueness and with even perhaps the feeling of luxury and speciality. For the future this

⁵⁷ WeeGee, Verkkonäytelyt, "Kirkasta kuppiin ja nuppiin"

⁵⁸ Blackwell, Miniard, Engeli (2006) "Consumer Behaviour" p.260

⁵⁹ Blackwell, Miniard, Engeli (2006) "Consumer Behaviour" p.250

could mean that when the baby boomers retire the sales of the small brewery products will increase.

1.4 TAXATION

Finland faced the biggest change in its alcohol taxation in 1994, when major changes were done. Before the tax was calculated from the value of the alcohol beverage, where as now it is calculated based on the content and volume.⁶⁰ This change was made, because of EU regulations. Finland became a member of the EU in 1995.

At the moment Finland's alcohol tax is one of the highest among the EU countries, despite the fact that Estonia increased their tax twice in 2008, first by 10% in January and then by 20% in July for all taxation categories.⁶¹ The difference is best shown by comparing the beer tax; tax in Finland is still about five times higher than in Estonia.⁶² During the recession in the beginning of 90's alcohol taxation wasn't in such a big role as it is today, since before the import for personal consumption did not have such a big effect.

In 2004 Estonia joined the EU and that meant no limitations for personal alcohol imports. The Finnish government understood the situation and was afraid that there would be a massive run to Estonia and the local companies as well as the government would lose a lot of income. As a result in 2004 the government lowered the alcohol tax by on average 33%.⁶³ Beer tax in 2004 was lowered with about 32%⁶⁴. However the biggest decrease was made to spirits where the biggest price difference between Estonia and Finland was.

In January 2008 the Finnish government decided to raise the alcohol tax on alcohol beverages by 10%⁶⁵ and one more time by 10% in the beginning of 2009. In 2008 the reason to raise taxes was the increasing health problems. In January 2009 the reason was to increase tax revenue, simply because the government needs more income as a result of the economic slowdown. The government's goal in 2004 was to lower the tax in order to get the price levels in Finland closer to the price levels in other EU countries. This situation has now turned completely upside down. Finland has the highest tax in beer compared to

⁶⁰ ALKO "75 years of Finish alcohol policy"

⁶¹ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008 p. 10

⁶² Federation of the Brewing and Soft Drinks Industry, "Alkoholivero"

⁶³ Ministry of Finance (Valtiovarainministeriö) "Alkoholiveron alentaminen ja matkustajatuontimäärien muuttamisen vaikutuksia"

⁶⁴ Federation of the Brewing and Soft Drinks Industry, "Beer taxation"

⁶⁵ Federation of the Brewing and Soft Drinks Industry, "Beer taxation"

any other EU country in January 2009.⁶⁶ This leaves the breweries in Finland in a very difficult position. Even though the taxes have risen the actual selling price of the products has not really changed. Because the competition is quite hard between the biggest breweries, and often consumers buy the “basic beer” depending on the price or offer, the breweries can not afford to reduce the prices. Katri Tuulensuu states that the price competition in normal grocery stores is quite hard, and therefore the increasing costs on production level can not be automatically moved to the selling prices. In this situation the consumer wins, but the wholesalers and producers will suffer the loss. For a while the companies can take it, but sooner or later somebody has to increase the prices, because without a profit companies can not survive for long.

The Finnish government’s decisions to increasing the alcohol tax for the second year in a row (January 2008 and January 2009) can also radically effect the consumption. The Finnish government has also decided that alcohol tax will again be raised in Autumn 2009. What might be the governments plan to raise more money on the alcohol tax in order to fight the recession, can actually turn against it quite quickly. People again start travelling more to Estonia to buy alcohol. This would mean that the government will not gain, but perhaps even lose. Even the CEO Antti Pankakoski of the Altia Corporation doubts that the tax raises would increase the state’s income, since already during February 2009 the amount of alcohol sold (in litres) dropped by almost 10% compared to February 2008.⁶⁷ Even though the governments’ sole purpose is to reduce the amount of alcohol consumed in order to avoid health and other problems, the tax income gained is relatively important. Despite the fact that the import of alcohol for personal consumption is now legal even in large amounts, also the amount of black market and smuggling can rapidly start to boom from too much tax increase. A good example can be found in Sweden, where the tobacco taxes were dramatically raised in 1997, and at the same time the black market started to boom. In 1998 Sweden had to lower the tobacco tax again but unfortunately the black market stayed.⁶⁸ Of course we can not take a direct comparison between Finland and Sweden and between tobacco and alcohol, but it gives a hint on how closely also the black market and smuggling follows the demand.

⁶⁶ Federation of the Brewing and Soft Drinks Industry, ” Beer tax in EU countries January 2009 € / litre 5% abv beer”

⁶⁷ Italehti ”Altianjohtaja epäilee alkoholiveron tuottoja” 25.3.2009

⁶⁸ Ministry of Finance (Valtiovarainministeriö) ”*Alkoholiveron alentaminen ja matkustajatuontimäärien muuttamisen vaikutuksia*”

When people's confidence in the economical situation and development decreases, they start saving. Katri Tuulensuu stated that restaurants will most likely suffer the most during the recession. As a positive factor we can see that EU made a decision allowing the member countries to decrease the VAT on restaurant food⁶⁹ in order to increase employment and economic growth. For Finland this would mean a drop from 22% to 12%.⁷⁰ The problem however is that it has not yet been decided when the member countries could implement the new legislation, estimates are for 2011⁷¹. Comparing the government's decision to increase the alcohol tax in order to receive more tax revenues, it is very unlikely that the Finnish government would decrease the VAT on restaurant food quickly. For this recession it would then probably be too late. Even though the law would be implemented early for example in fall 2009 it does not guarantee that the prices change in the menus of the restaurants. This tax deduction will not help the alcohol sales or prices directly, but what it can do is to increase the amount or how often people go to restaurants and this can then indirectly affect also the alcohol sales. The more often people go out the more likely they are to buy a beer or wine with their dinner.

1.5 DISTRIBUTION

In the beginning of 90's number of people lost their jobs, the government encouraged people to become entrepreneurs. As a result of this a lot of new bars and cafés with licenses to sell medium beer were opened. Between 1990 and 1993 the amount of licensed premises for medium beer, licensed restaurants and even ALKO's retail outlets increased, only the amount of retail outlets for medium beer decreased.⁷² From 1992 to 1993 the amount of licensed restaurants increased with 124 restaurants and licensed cafés for selling medium beer increased with a significant number of 760.⁷³ By the end of the year 1993 there was total of 3117 valid licenses to serve medium beer, out of which 2856 also had license to serve strong alcohol products. In 1990 there were total of 2560 valid licenses, this means a total increase of 21.76%.⁷⁴ It can be assumed that increased availability also means increased consumption. By looking at tables 6.2 and 6.4, both the medium beer

⁶⁹ Arno Ahošniemi ” Suomi saa laskea ravintola-alv:n 12 prosenttiin” 11.03.2009

⁷⁰ Arno Ahošniemi ” Suomi saa laskea ravintola-alv:n 12 prosenttiin” 11.03.2009

⁷¹ Arno Ahošniemi ” Suomi saa laskea ravintola-alv:n 12 prosenttiin” 11.03.2009

⁷² ALKO, “Alcohol Statistical Yearbook 1993” Figure 16 “Network for the distribution of alcoholic beverages” p. 33

⁷³ ALKO, “Alcohol Statistical Yearbook 1993” “The Alcohol sales network” p. 42

⁷⁴ ALKO, “Alcohol Statistical Yearbook 1993” Table 39 “Valid licenses, number of seats for consumers in licensed premises and premises licensed to sell medium beer”

consumption in litres and in value increased between 1991 and 1993. The value almost doubled during the three years.

In the current economic slowdown there has been no trends indicating that a same kind of entrepreneurial boom would hit as in the 90's. Therefore it is also very unlikely that the number of licensed premises would dramatically increase and therefore increase the consumption of alcohol beverages. The number of licensed restaurants (allowed to sell any alcohol) was significantly higher (5694⁷⁵) than in the 90's. Also the number of licensed cafés allowed to sell alcohol up to 22%-vol or just medium beer has increased to 2628⁷⁶. This is more than double the amount than in 1993. Compared to 2007 the restaurants serving food (and have license to serve alcohol) increased, but the small cafés that have licenses to serve only medium beer mainly continued to decrease.⁷⁷ This is the opposite of what happened in the 90's. This further proves that most likely the sales will not increase, as they have already decreased in 2008. As it has been discussed the restaurants would suffer the most, and then, despite the increase of food restaurants, it can be assumed that if the recession is going to be long, some of them will most likely have to close their doors, regardless of the implementation schedule of the new VAT law. It is still an economic slowdown and if the unemployment continues increasing in Finland even less people can afford to go out for dinner.

In 1993 ALKO had 248 shops and 158 service shops⁷⁸, to where one can order ALKO products from the nearest actual retail shop. By the end of 2008 ALKO had increased the number of shops to 344 and service shops have dropped to 124.⁷⁹ Also the locations of ALKO stores have changed. Today their retail shops are mainly located together with big super markets and shopping centres where the majority of the people visit on regular basis. This would indicate that the availability of alcohol has been made easier, which would increase the consumption. Then again one of ALKO's major goals is to increase customer service, so by adding shops in the middle of the stream of people, they perhaps just want to increase their service level. This is something that is a little controversial for ALKO if their goal is also to reduce the consumption of 100% alcohol. One effective way of achieving

⁷⁵ STTV, "Luvat 31.12.2008"

⁷⁶ STTV, "Luvat 31.12.2008"

⁷⁷ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008 p. 9

⁷⁸ ALKO, "Alcohol Statistical Yearbook 1993", "The Alcohols sales network" p. 42

⁷⁹ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008 p. 9

reduction in alcohol consumption as announced by the associate professor for internal medicine Martti Färkkilä⁸⁰ is to reduce the availability.

1.6 PRICING

What has become clear by now is that the price of the product makes the difference. During the recession in the beginning of the 90's there were no big changes in the prices. In 1993 compared to 1992 the nominal prices of all alcohol beverages increased with about 1,0 % and real prices decreased about 1,1%.⁸¹ According to the same study also the prices in restaurants stayed on the same level on average, only the prices in the cafés serving medium beer rose with about 5%. These changes were calculated considering the devaluation of the Finnish mark and the increases in brewery compensation.⁸² In general from 1990 until 1993 there has been very small increase in the alcohol beverage prices.⁸³

In 2008 the retail prices in the ALKO retail stores increased approximately with 9%⁸⁴ compared to the previous year and ALKO's nominal prices for alcoholic beverages increased with about 6%⁸⁵. This increase was mainly because of the alcohol tax increases and some pricing regulations changes that ALKO conducted themselves. Also changes in the purchase prices and supplier changes brought their effect to the final price. It is very clear to state that due to tax increases in 2009 the prices will continue rising in the future as well. At ALKO the tax increases affect the consumer prices directly. Where-as in supermarkets and in harsh competition between the medium beers, the producers might have to suffer the tax increase themselves.

When comparing the pricing situations in the 90's and now, it seems impossible that history could repeat itself. The prices have increased much more now than what they did in the 90's, therefore it is logical to estimate that neither the hard liquors nor brewery products will increase their consumption or sales. At least it seems that the Finnish government will not gain any tax profit, and it is very unlikely that the big breweries will

⁸⁰ Iltalehti ” Alkoholi tappaa suomalaisia” 14.2.2008

⁸¹ ALKO, “Alcohol Statistical Yearbook 1993” Figure 15, TABLE H “Change in the prices of consumption in 1993” p. 32

⁸² ALKO, “Alcohol Statistical Yearbook 1993” Figure 15, TABLE H “Change in the prices of consumption in 1993” p. 32

⁸³ ALKO, “Alcohol Statistical Yearbook 1993” TABLE 36 “Price indices for sales of alcoholic beverages, by date prices' validity, in 1980 - 1993 ” p. 87

⁸⁴ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008 p. 44

⁸⁵ Alko Inc.'s Annual Report and Corporate Social Responsibility Report 2008 p. 10

gain either. Still the consumer will not stop consuming; they most probably will find other ways to get their drinks.

1.7 IMPORTING ALCOHOL BEVERAGES FOR PERSONAL CONSUMPTION

Increased consumption of alcohol and brewery products does not necessarily mean that the industry in Finland gains any profits. More and more tourists go from Finland to Estonia just to do shopping due to the lower prices and in most cases this mainly means buying alcohol. For now the value of Estonian crown has stayed the same⁸⁶ and no big changes have happened, but in case the economy keeps going down, so would the value of the currency and this would make shopping in Estonia cheaper than ever. This would further increase the attractiveness of shopping in Estonia, not only alcohol, but a lot of other products and services as well. This is a positive thing for Estonia, and even though in many cases the Finnish consumer most likely buys the Finnish beer the Finnish government will lose the tax revenues. Almost all the biggest Finnish beer and cider brands can be found from the supermarkets of Tallinn. Even though the products are produced by the Finnish producer the price to the consumer is cheaper due to the taxation and generally lower price level in Estonia. This in many cases also means that the profits the Finnish producer gains from these sales are lower. One of the four members of Federation of the Brewing and Soft Drinks Industry, and also one of the biggest breweries in Finland Olvi Oyj has even started alcohol beverage production in Estonia.⁸⁷ Labour costs and taxation costs are significantly lower in Estonia compared to Finland. In case companies have to leave Finland in order to stay competitive in the market, Finland will lose both tax income and jobs. Olvi Oyj also has production in Finland and producing in Estonia is only part of their growth plan, but how long does it take until the rest of the companies will follow?

The Finnish government has a monopoly on selling +4,7% volume alcohol, and in the 90's the customs restrictions on importing alcohol into Finland as a tourist were very strict. Therefore statistics on the amounts of alcohol should be quite accurate from the beginning of 90's. Whereas now there are no limitations on alcohol movement inside the European Union (EU), the only limitations is that the brought alcohol must be for personal consumption only. This means that one can not buy any alcohol on friends' behalf and import it to Finland. It is known that this happens quite a lot and people do not even consider buying a case of beer from a friend as a crime. This is something that Katri

⁸⁶ Kauppalehti, "Valuutta: Viro kruunu"

⁸⁷ Olvi Oyj "Olvi- Konserni"

Tuulensuu mentioned to be a problem as well, people do not even think about it. This makes it more difficult to get accurate figures on today's alcohol imports. All the statistics on importing alcohol for personal consumption are made based on phone interviews. (Appendix I) Then again it is also very difficult for the customs to determine, how much is too much for personal consumption. The only way how it can be proven to be illegal is if one gets caught of selling the personally imported alcohol to the next person.

There is definitely organised crime in alcohol and cigarette smuggling even between EU countries. In November 2008 The Southern Customs authorities in Finland announced that they have revealed an organisation of more than 30 persons who have illegally brought mainly beer, ciders and long drink to Finland and sold it double in price compared to Estonia. The customs authorities had been following the syndicate's actions since 2006.⁸⁸ At the moment a person can import for personal consumption only 200 cigarettes (1 carton). In the same interview it was however announced that by the end of 2009 this limitation will most likely be removed. This will happen if Estonia's tobacco tax reaches the EU's minimum level. Considering the economical situation of today, it however is not guaranteed that borders for tobacco products would open this year. But sooner or later it will and when it does Finland will most likely do everything to get some kind of special regulation that would still allow some kind of limitations. The crime defence officer Jarmo Orola from the Southern Customs District however believes that border opening for tobacco will have no big effect on the amount of smuggling. Most likely illegal cigarettes will then be transported from Russia to Finland via Estonia, when now there is direct smuggling from Russia to Finland. Katri Tuulensuu believed that this can also attract more tourists to Estonia, and as a result also increase the amount of imported brewery and other alcohol products. Interestingly Finns travelling to Estonia reached an all time high in 2008.⁸⁹

One can only buy beverages containing maximum of 4,7% - vol. alcohol from retail supermarkets in Finland. Such restrictions do not exist in Estonia and therefore in many cases the beers and ciders that are imported contain more alcohol than the ones sold in Finland. There is nothing wrong with it, except that this further increased the amount of total 100% alcohol consumed. Katri Tuulensuu pointed that this is out of line with the governments and ALKO's goals to reduce the total consumption of alcohol. In the worst

⁸⁸ Karhuvaara Lauri, "Alkoholija Tupakkaa virtaa Suomeen Virosta" 26.11.2008

⁸⁹ Federation of the Brewing and Soft Drinks Industry, "Beer taxation"

case scenario it can lead into a situation, where the Finnish government has lost a significant amount of tax revenue, but has even more health issues to deal with.

There are still restrictions on bringing alcohol from outside the EU. Those restrictions are still the same as they were in the beginning of 90's. Alcohol is generally much cheaper in Finland's neighbouring country Russia, and therefore it becomes a very attractive option, despite the existing restrictions. It is definitely known that illegal alcohol usually together with cigarettes is brought from Russia and then sold on the black market, however the only exact figures that we know are from the ones that get caught. During the past years, less and less illegal alcohol gets caught at the borders.⁹⁰ It is just then for us to guess whether the smuggling has really decreased or the smugglers methods have improved.

In 1993 Esa Österberg conducted a study which stated that in total about one fifth of all consumed alcohol in Finland is illegal; either home-made or smuggled from abroad.⁹¹ This however includes again total consumption of all different kinds of alcohols and therefore a clear difference between medium beer and spirit consumption can't be made.

In 2008 approximately 20,7⁹² Million litres of beer were imported privately to Finland. This is 4,64% of the total 446.6 Million litres of consumed beer in 2008. When calculated the total consumption of alcohol in 2008 645.2 Million litres with the total amount of imported 51.7 Million litres the percentage is already 8,01.(Appendix 3) Naturally consumers are willing to travel to Estonia for the cheaper prices and when the actual cost for transportation is relatively low as well, then why not? The consumer gains for a moment and the biggest losers in the situation are the Finnish companies and the state. In the long term however if the companies continue losing, eventually so will the consumers when they run out of jobs.

⁹⁰ CUSTOMS - "Tullirikostorjunnan vuosikirja 2007"

⁹¹ "Alcohol Statistical Yearbook 1993" The Finnish State Alcohol Company

⁹² Federation of the Brewing Industry, National Supervisory Authority for welfare and Health (VALVIRA) and TNS Gallup "Finland: Official consumption vs private importing in 2008"

4 CONCLUSION

During the severe economic recession in the 90's Finland's total consumption of alcohol decreased and no profit in total was earned. However some of the money moved from hard liquors to medium beers and wines. This indicates that during recession consumers do not want give up on alcohol completely, but rather move to cheaper options.

Most likely the consumption of medium beer and wines will not give any extra profit to the brewery industry, restaurants or ALKO during the coming slowdown. Even though it is more likely that people will purchase cheaper products now than before the economical crisis. Unfortunately in many cases lower prices also mean lower profits. Even increased sales in this product category can mean lower profits in total, if the sales in expensive product categories decrease. Still there are several factors that have changed significantly over the past 15 years, which will crucially affect the consumption and most of all purchase of the product.

For the past few years Finland's total alcohol consumption level has been quite stable. Therefore it is quite hard to believe that any significant change would happen in the near future. In the long term the trend however seems to be more health orientated and younger generations seem to consume alcohol in more reasonable amounts and this can result in a slight decrease in total alcohol consumption. Also consumer behaviour and buying decisions differ during an economic slowdown. In case the confidence into the future is weak, consumers will most likely start to save. More importantly if personal income decreased and there is less disposable income, people will think more carefully on what they spend their money. As theory is just as important as practise the author could have looked more closely to the possible theories of consumer behaviour and purchasing power.

Alcohol taxation has had a major influence since the beginning of the 90's. During the past couple of years the alcohol tax has increased significantly and thus increasing the prices of beer and other alcohol, now reaching a level where the relationship between income and cost are not in the same line as they were on the 90's. In 2004 the government lowered the alcohol tax significantly, but since then it has been increased several times. This does not help the industry at all since none of the companies are able to make long term plans and

through that increase their productivity. The government should decide a secure path where they want to stand and what they want to achieve.

The number of different distribution channels of alcohol has increased remarkably from the 90's, both retail stores and restaurants. But the difference is that food restaurants have increased and small cafés licensed to serve beer, which increased in the 90's, have decreased. Today a restaurant or a café can doubtfully survive by just serving beer; consumers demand more as was seen from the wine consumption patterns. Restaurants in general will probably be the biggest losers during an economic slowdown, despite EU's new law that allows lowering the VAT applied to restaurant food. First of all there is no precise schedule of the implementation and secondly whether the price reduction comes all the way to the consumers is not guaranteed.

The biggest threat to the industry seems to be personal imports from abroad. As the prices continue to increase in Finland consumers will start searching other options to purchase alcohol. The strongest candidate is the EU and more specifically Estonia. Since the price level in general is much lower in Estonia than in Finland and alcohol prices are about half compared to Finland, travelling becomes an attractive option from consumers' point of view, especially as travelling there is relatively cheap and easy. As the economy keeps declining, travelling to Estonia will increase and personal importing of alcohol among with other products will increase in line with it. This will decrease the gained tax revenue from Finland and the price to pay for the economic slowdown increases.

The most surprising finding during the study was the confidence of the small breweries towards the market and the economic situation. They might even be the only ones who increase their sales. Still that will most probably not happen in the following few years. It could be estimated that the investments that they are doing now, will start paying themselves back in few years time, after more of the baby boomers have retired and hopefully the economy has started to recover and increase again. The small breweries would be an excellent study for the future, and what are the reasons for their confidence. This information could have given a more in depth view to this research as well. Despite the author's effort to get an interview with the chairman of the Small Brewery Union, unfortunately it did not succeed. Most probably the author should have put more effort, consistency and commitment into it. Despite the fact that the existing interviews have given a significant point of view with a lot of information, the author could have also tried

to contact some of the bigger breweries and get a direct point of views from the key players.

The current economic slowdown will not increase the sales of the Finnish brewery industry. The consumption of alcohol will stay approximately the same as for the last few years. Several patterns are same in the statistics now and in the 90's, and as result it is probable that the consumption will move from strong alcohol products to cheaper options. Still the purchasing methods have changed from small cafés towards retail outlets and more importantly due to the constant tax increases to personal imports from Estonia. The circumstances between 90's and today have changed so much, that similar results are unlikely to happen.

In May 2009 National Institute for Health and Welfare published a study "The Alcohol Situation in Finland in the early 2000s). This study might provide significant information regarding further studies on the subject. The study was not used in this dissertation due to the study's late publication date. Also in May further announcements for collaboration negotiations were given from the industry that are not considered in this dissertation. For the future, the consumer behaviour of baby boomers, regarding alcohol could be studied more. Since they form a relatively big target group, speciality beers and other similar products could perhaps gain from the baby boomers. Also the real effect of the alcohol tax increase should be studied more carefully. For the moment it seems that the Finnish government is trying to get short term profits, but as a result, due to the increasing private importing the government will more likely lose than gain. In the long term constant tax fluctuations can severely damage the Finnish alcohol industry or encourage the companies to move abroad.

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6 APPENDICES

- I Interview with Communications Manager Katri Tuulensuu from Federation of the Brewing and Soft Drinks Industry 4.3.2009
- II Written reply from Branch Manager Irmeli Mustonen from Finnish Food and Drink Industries' Federation, Alcoholic Beverages Industries' Associations on 12.3.2009
- III TABLES

1.8 APPENDIX I: INTERVIEW WITH KATRI TUULENSUU

The Federation of the Brewing and Soft Drinks Industry promotes the interests of producers of beer, cider, long drinks, soft drinks and mineral waters in Finland. Its members are Oy Hartwall Ab, Nokian Panimo Oy, Olvi Oyj and Oy Sinebrychoff Ab.

The Federation of the Brewing and Soft Drinks Industry operates in connection with the Finnish Food and Drink Industries Federation and represents one of the oldest branches of industry in Finland.⁹³

Their statistics cover only the sales of the four member companies. Smaller breweries and products that have been imported by others are not included. They still estimate that for beer their statistic represent about 93% of the industry. In statistics for ciders and long drinks they represent about 80% of the industry.

1. What factors effect the buying decision when the product is alcohol? How big is the effect of pricing?

Money has an effect on the alcohol consumption. What is noticeable is that people give up the more expensive products. Speciality beers, champagnes and expensive wines suffer the loss. People also become more aware of the price and imports for personal consumption from other EU countries (especially from Estonia) increase.

2. Has the alcohol consumption/ behaviour changed since the beginning of 90's? Perhaps awareness of health effects has increased? Or is using alcohol in our nature?

Younger generation today knows what reasonable consumption is. During prohibition when alcohol was completely forbidden and after alcohol was released to consume, people started drank only to become drunk. Today that has started to change; drunken behaviour is not tolerated in the social environment as much as before. However, the old and big age groups are still living in the "old" way, and most likely it takes a generation or two before it shows any effect. During the years 2000-2008 alcohol consumption has stayed quite the same. Beer has quite long traditions in the Finnish history and people are still drinking it,

⁹³ Federation of the Brewing and Soft Drinks Industry

no matter whether the summer is good or bad. Of course the sales can be better if there are a lot of warm days in the beginning of summer, but in July (which is the most popular summer vacation month in Finland) the consumption is quite the same.

3. How are the statistics on import for personal consumption calculated?

It is always done based on phone interviews, which are operated by a separate company TNS Gallup. Previously the interviews were done four times a year, where people were asked; Have they been travelling, where, what kind of alcohol did they buy and how much. Today the questions are still the same, but the interviews are done every week for 500 persons. This way people remember better and the answers are more correct. Still, most likely the number imported is much higher than what the people tell. People usually say a little smaller number than what actually is the reality. It is not only that people would be ashamed of the amount that they buy/consume, but people actually think that they don't even consume as much as they've bought.

4. How much is the “black market” involved? Has it changed since the last recession in the beginning of 90's? (Estonia, Russia)

The EU allows a consumer to import alcohol for their own consumption, without quantity restrictions, but often travellers bring something for their friends and family as well. Not many consider it illegal even though, officially it is. Small bars and pubs, are selling alcohol “under the table”, but perhaps not as much as before. Most likely that has reduced a lot after 2004 when the borders between EU countries were opened. The Finnish customs still however is calculating and controlling illegal import.

5. What are the strongest positive/negative factors on Estonia joining the EU and that the borders were opened to “free flow”.

Finland was very afraid of the “booze rally” to start in 2004 when the import limitations from EU countries were removed. So there was a severe alcohol tax reduction applied in Finland. That did lower the import. However now in the beginning of 2009 the imports for personal consumption are increasing again, after the government has raised the alcohol tax 10% in the beginning of 2008 and 2009. Most likely the economical situation is a factor as well. Travelling to Estonia is fast and relatively cheap, and the benefits are higher,

especially, when people can buy all other less expensive goods as well. It has also been discussed that soon (by the end of 2009) the limitations for cigarette importing will be removed, which again increases the attractiveness of travelling. In case Estonian crown will continue losing value and perhaps be even devaluated, due to the economical crisis, it is cheaper then ever for Finns to do their shopping in Estonia.

6. How should the Finnish government react in order to avoid damages to the Finnish companies?

There should be no more tax increases, more the opposite. It is possible that the government will add an other 10% during 2009. This is not interest to the Finnish producers. Even though the tax for beer has been increasing, the final price in the store has barely changed. This means that the producers and whole-sellers earn less due to hard competition. So how low can the companies really go? At the moment most Finnish people buy the beer and ciders of the Finnish producer when they go to Estonia, but this way the government does not get the tax revenues. Also one of the four biggest breweries in Finland, Olvi, has started their production in Estonia as, thus taking money and jobs from Finland.

The tax increases are mainly justified with health reasons, and with the fact that human lives are saved. In most cases the lives of people who already consume too much alcohol. Finland needs to reduce consumption measured in 100% alcohol.. However, the imported beer and other drinks are in many cases much stronger then the ones sold in Finland. This means that when the importing increases the total consumption increases as well, and no health benefit is achieved even though the sales in Finland have decreased. Even though it might seem as a harsh point of view, but it is questionable whether few human lives a year are worth saving to sacrifice the whole industry. As an end result, Finland would suffer the health problems, but the companies would lose the benefits as well.

The consumption behaviour should be changed from the attitudes towards alcohol, so that over using and drunken behaviour would not be tolerated in the social environment. This is the case in other European countries, where cultural and social norms help to keep the amounts consumed at one time on a lower level, and risk drinking decreases. The trend is noticeable among younger people, where reasonable consumption is already understood, and the old ways of consuming alcohol “only to get drunk” are not appreciated as much. It

is still possible that when the big generations in Finland retire, and they do not have to work anymore, alcohol consumption might slightly increase.

7. How has the economical recession affected the industry so far and what can be the consequences?

There are few small breweries in Finland and the Federation of brewing has tried for years to increase the sales of special beers. While the economy was going up, also the smaller breweries did better. However, now that the economy is going down, people rather buy the standard and cheaper products. And for small breweries this can mean closing the business. Buying the cheapest options also means the least profits for the breweries, so even though the quantity of a particular beer brand might increase, the sales profit in total isn't necessarily better, most likely the opposite.

For bigger companies there has been a trend for a longer period now to standardize the production process, so that as little labour as possible would be needed. The four members of the Federation of brewing employ approximately 2400 people directly, but since this is already a minimum level, layoffs are not likely to happen in the industry. However decreasing sales can affect the indirect jobs, such as transportation and logistics and restaurants.

Restaurants will most likely suffer the most, even though the EU has just decided to lower the VAT in restaurants the alcohol prices won't be affected. The only hope is that as a result of the lower food price, people would eat out more and this also perhaps have a drink or two. But during economic slowdown and instability people tend to save and reduce on everyday luxuries.

1.9 APPENDIX II: INTERVIEW WITH IRMELI MUSTONEN

The Finnish Food and Drink Industries' Federation (ETL) represents and promotes the interests of Finnish food and drink industries. The ETL has about 300 member companies. The ETL is a member of the Confederation of Finnish Industries (EK) and the Confederation of the Food and Drink Industries of the EU (CIAA).

The ETL interacts with authorities, trade and producers. They also monitor and influence the legislation affecting the food industry. They conclude collective agreements for the industry, offer companies guidance in matters relating to labour legislation, assist and support companies in labour disputes. They analyze the industry's economical trends and prepare statistics.⁹⁴

1. What factors affect the buying decision when we talk about alcohol? How much does the price effect? Can alcohol be an impulse buy?

- No matter what alcohol we are talking about, a lot of factors effect. For example culture – whether you are a “friend” of beer/wine/ strong liquor. That is where it starts and then of course to which purpose the drink is purchased – for yourself, guests, friends and also the occasion.

- All the above affect on the result from which kind of product (category of price) is bought. When buying for yourself, one might buy a slightly cheaper product and a more expensive one for guests. But still it is good to remember that one person likes white and other likes red wine, one likes dark beer and one likes medium beer.

- And then there is the group of people who don't consume alcohol in reasonable amounts, but abuse alcohol and then the value (price – quantity) becomes important. Leading to the result that product that has the highest percentage compared to price will be bought. *This is something that the industry does not support, but always encourages consumers to reasonable consumption*

- Always remember the saying “Viina on viisasten juoma”. “Liquor is the drink of wise”.

- Possibly it can be an impulse buy, for example if one has been sweating/ walking home through snow banks, one cold beer comes quickly into mind. Or after a hard day

⁹⁴ Finnish Food and Drink Industries' Federation

a glass of wine – and then naturally the consumer has to go and buy unless there is some at home.

2. Has the alcohol consumption/ behavioural changed since the beginning of 90's? Perhaps awareness of health effects has increased? Or is using alcohol in our nature?

- The consumption of alcohol has changed relatively little in Finland (Based on Alcohol and Drug statistics from the National Research and Development Centre for Welfare and Health)

- Awareness of health issues has increased – but this has to do with other things than alcohol alone. When in Finland – and globally as well – there is a lot of discussion on obesity, different “well being diseases” (high blood pressure/ cholesterol), more people are thinking what they put into their mouths – whether it is food or drink. That also means increasing exercising and generally people know that exercise and alcohol together can be very fatal (even on the day after).

- Researchers seem to believe that Finns have it in their genes that we only drink to get drunk, however I would not limit it only to Finns – the same thing happens in a lot of countries. But in Finland we concentrate on Finns and the situation in other countries isn't always brought up. In Finland the “drunkenness” shows and people tend to brag about it, where in other cultures people hide and are more a shamed of being drunk.

3. Why do you believe that the sales of beer and wine increased during last recession and the sales of strong liquor decreased?

*First you have to see whether it increased or decreased, meaning that is your assumption right, Finland has really good statistics, so if they are

a) Beer and Wine are cheaper, so if one does not have a lot of money, so naturally all of us try to save on both alcohol drinks and food, but also other groceries and choose cheaper options, still keeping some kind of standard in the quality of life and some gratification

b) Strong liquors are more expensive and sometimes somebody can leave alcohol completely out, if there isn't enough money for basic necessities

4. How much is “black market” involved? Has it changed since the last recession in the beginning of 90’s? (Estonia, Russia)

- I must say that I do not have the statistics on my hand, but the authorities have followed smuggling and illegal import and there is information available elsewhere
- But there was – I just saw the movie “Rööperi” (a Finnish movie) and if its message is true, trafficking was blossoming and bootleggers were fighting on their positions heavily
- It is also said that taxi drivers knew very well where one could get the bottle on a late hour – at least one half of this is true

5. What are the strongest positive/negative impacts of Estonia joining the EU and that the borders were opened to “free flow”.

- As a positive impact, the easiness of the travelling and low costs – and also the possibilities to use services (spas, dentists, hair dressers and so on), also all kinds of shopping – food and drinks that are about half the price compared to Finland
- As negative aspect tax revenues can be mentioned (VAT and excise duties), go to Estonia instead of Finland. But it also effects employment, if Finnish people use the services in Estonia instead of Finland

6. How should the Finnish government react in order to avoid damages to the Finnish companies?

- Support local companies and entrepreneurship in every way, in stead of adding obstacles
- If we talk about alcohol, tax levels should be much closer to neighbouring countries (Estonia) - meaning lower, so that now during recession the tax revenues would come to Finland and employ people here

7. How do you believe the industry will cope with the current recession?

- This is just a matter of belief – there is no way it can be predicted – But I believe that the industry will make it on satisfactory level

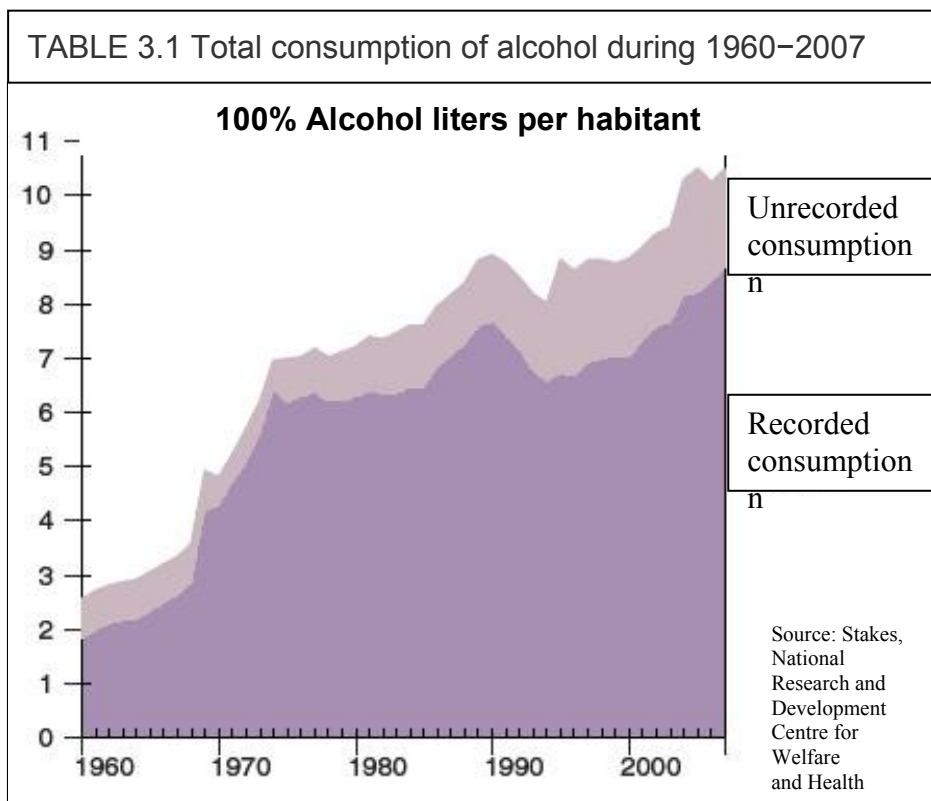
8. How strongly does the situation threaten jobs (also indirect) within the industry? Do the effects show already?

- If the government practises this kind of “back and forth” methodology for example with alcohol tax, there is no way that companies can make long term plans and therefore jobs will be lost and more purchasing will be done in for example Estonia.
- The effect is already shown as a decrease of sales, for now I haven’t heard of layoffs in the industry – but it does not mean that it has not happened.

1.10 APPENDIX III: TABLES

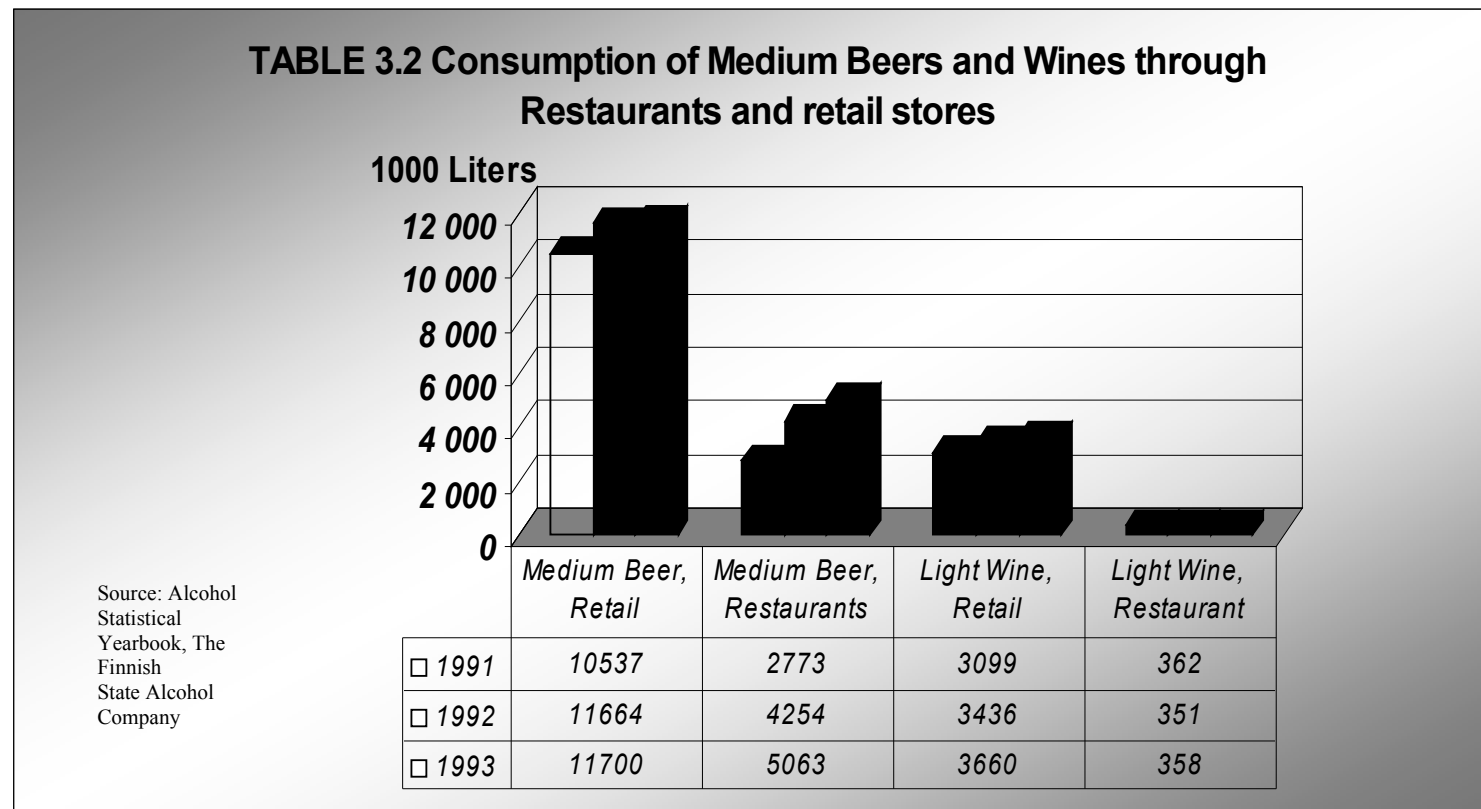
TABLES

TABLE 3.1⁹⁵ Total Consumption of 100% Alcohol during 1960 - 2007



⁹⁵ Stakes, “Taskumatti”

TABLE 3.2⁹⁶ Consumption of Medium Beers and Wines through Restaurants and retail Stores

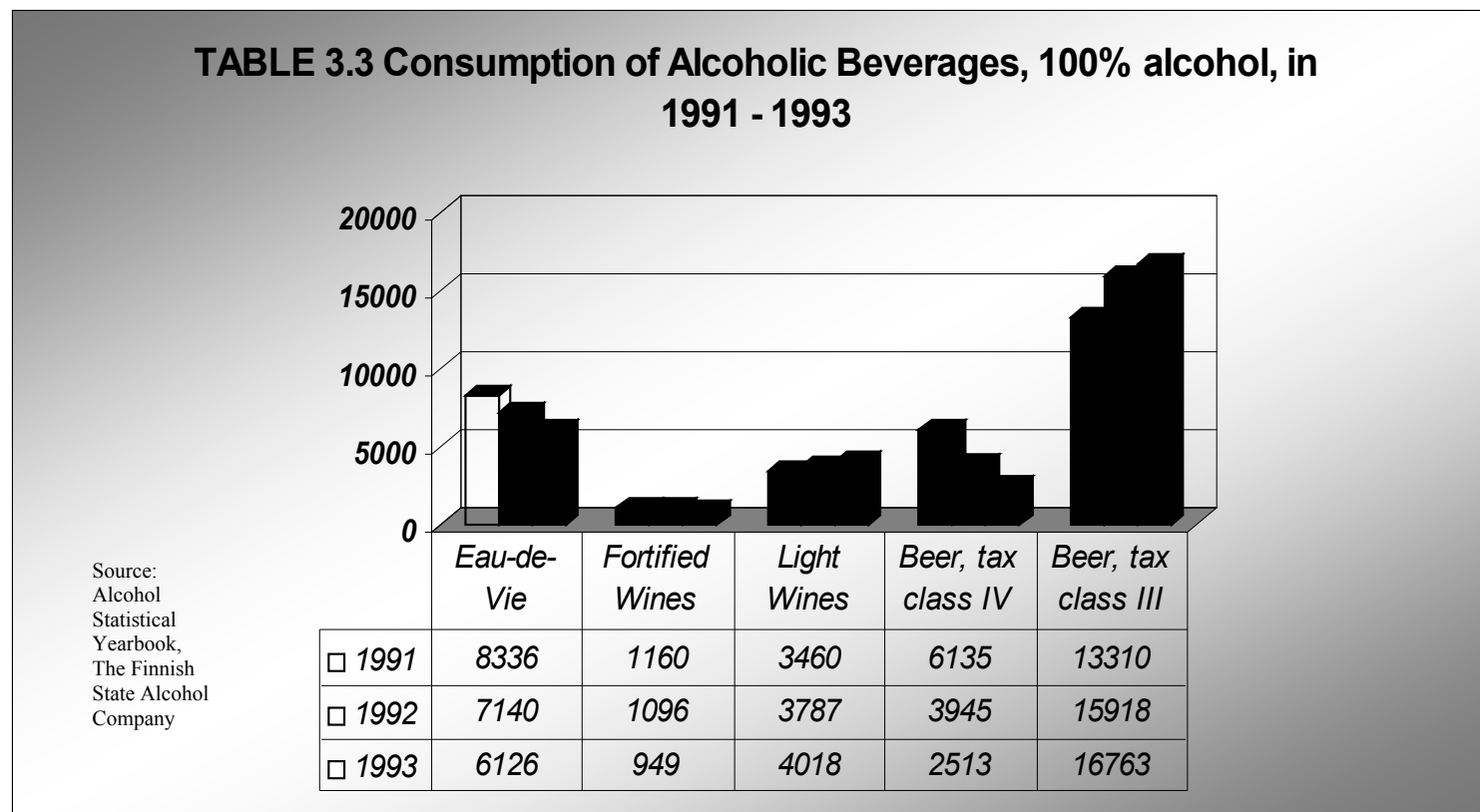


⁹⁶ ALKO, Alcohol Statistical Yearbook 1993

“Consumption of alcoholic beverages through retail outlets, 100% alcohol, in 1984 – 1993”, (Table 4),

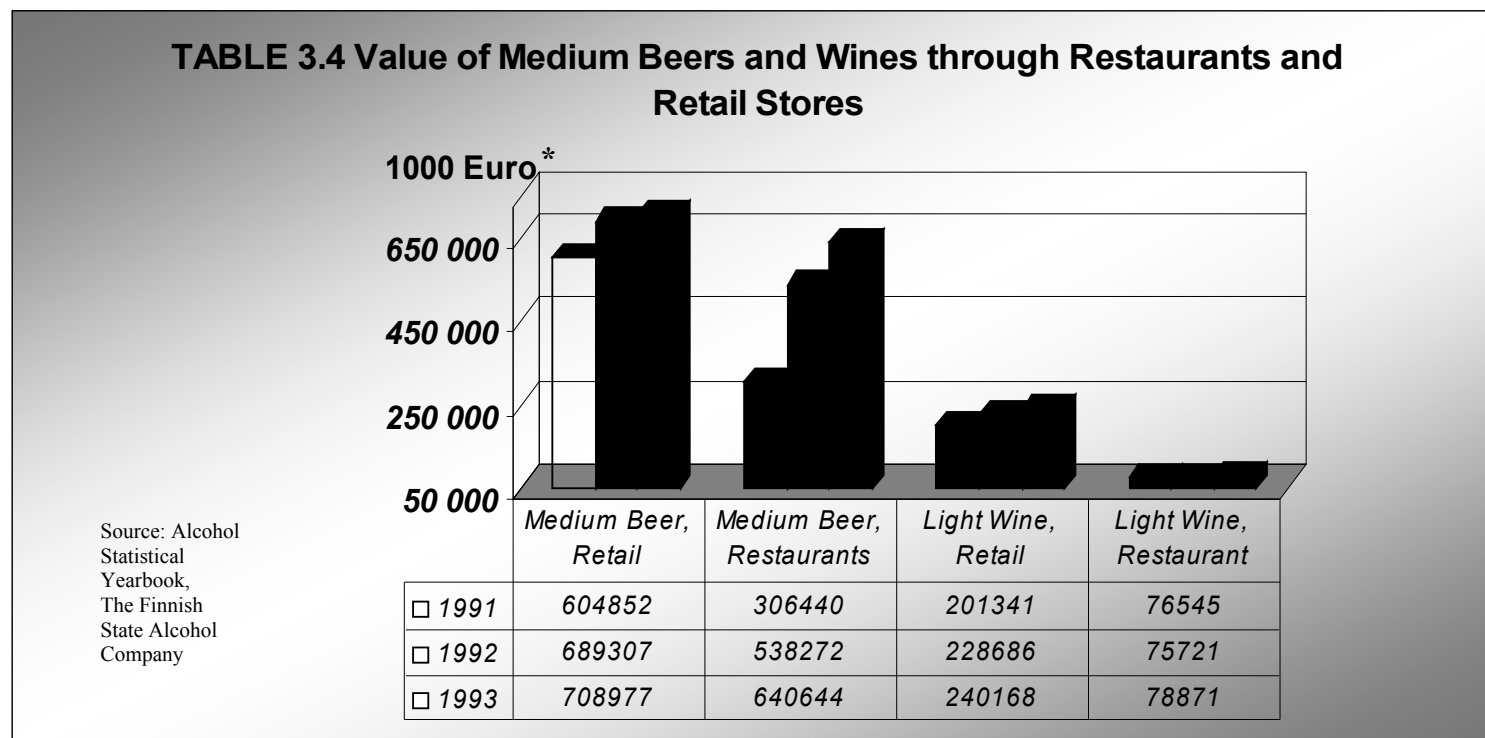
“Consumption of alcoholic beverages through retail outlets, 100% alcohol, in 1984 – 1993”, (Table 5)

TABLE 3.3⁹⁷ Consumption of Alcoholic Beverages, 100% alcohol, in 1991 – 1993



⁹⁷ ALKO, Alcohol Statistical Yearbook 1993
“Consumption of alcoholic beverages, 100% alcohol, in 1984 – 1993” (Table 3),

TABLE 3.4⁹⁸ Value of Light Beers and Wines through Restaurants and Retail Stores



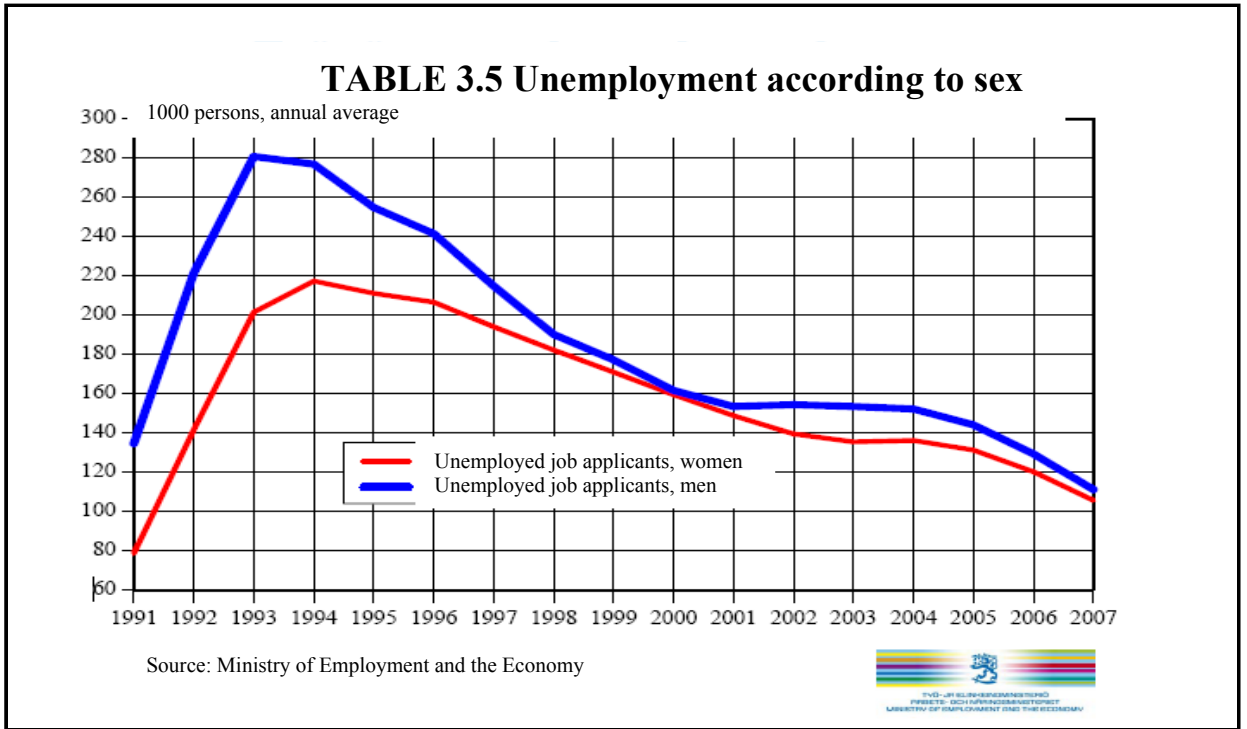
* The Original Statistics are in Finnish Marks. Finland started use euros in 1.1.2002 One euro is equivalent to 5,94573 Finnish Marks.

⁹⁸ ALKO, Alcohol Statistical Yearbook 1993

“Value of consumption of alcoholic beverages through retail outlets, in 1984 – 1993”, (Table 7),

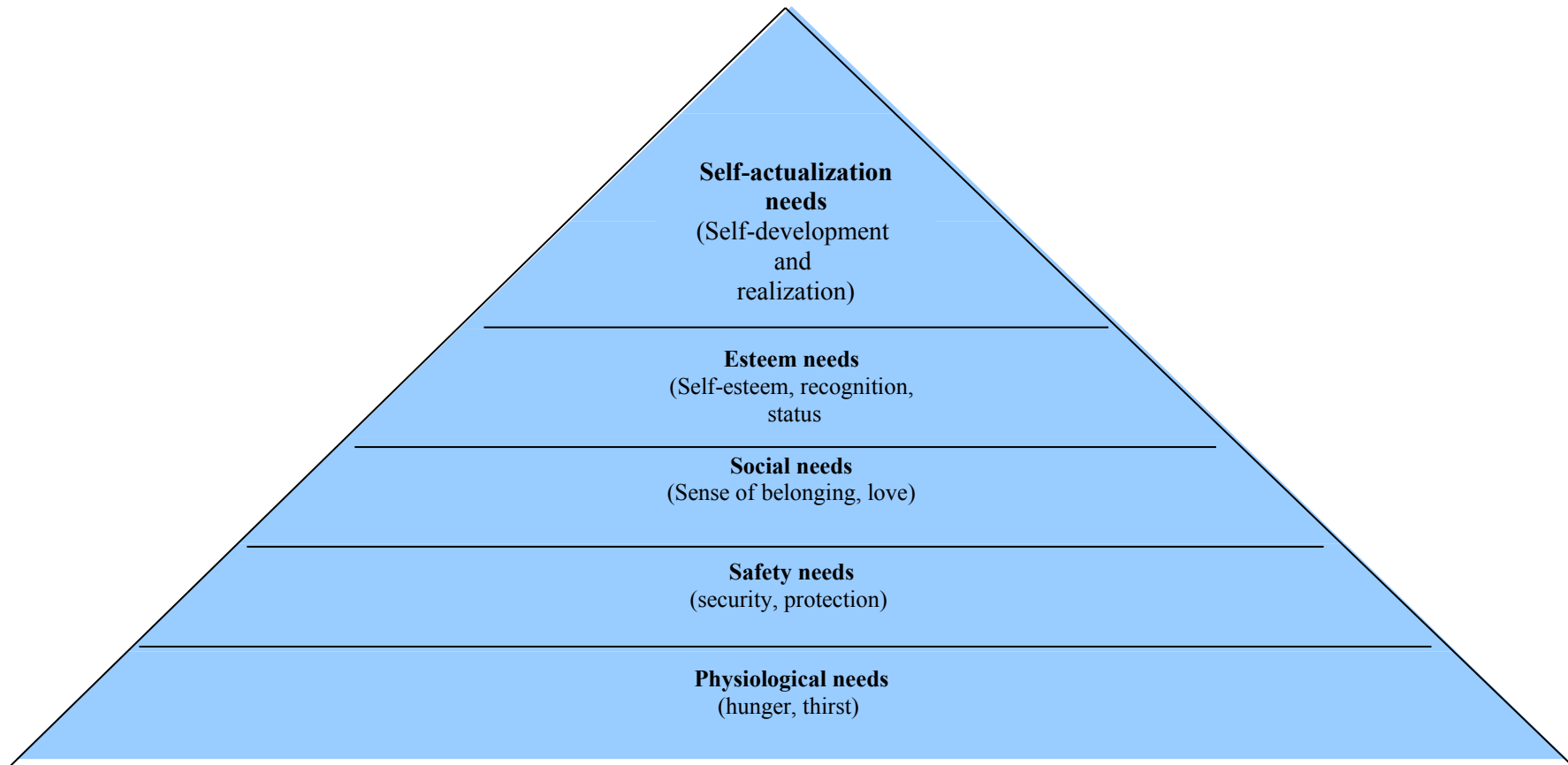
“Value of consumption of alcoholic beverages through licensed serving, in 1984 – 1993”, (Table 8),

TABLE 3.5⁹⁹ Unemployment according to sex during 1991 - 2007



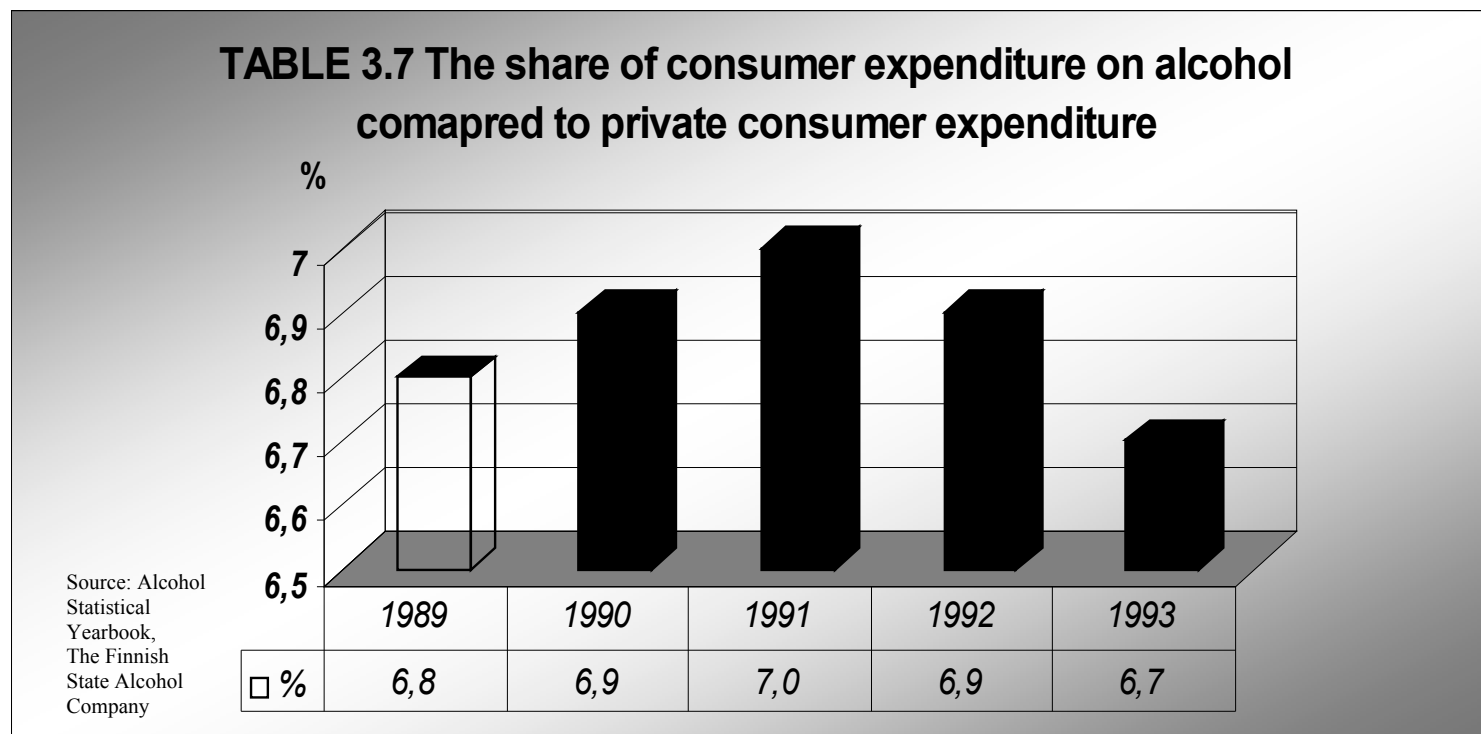
⁹⁹ Ministry of Employment and the Economy, "Työttömyys sukupuolen mukaan"

TABLE 3.6¹⁰⁰ Maslow's hierarchy of needs



¹⁰⁰ Kotler, Armstrong "Principles of Marketing" (2005) p. 151

TABLE 3.7 Consumer expenditure on alcohol and its share of private consumer expenditure 1989 - 1993¹⁰¹

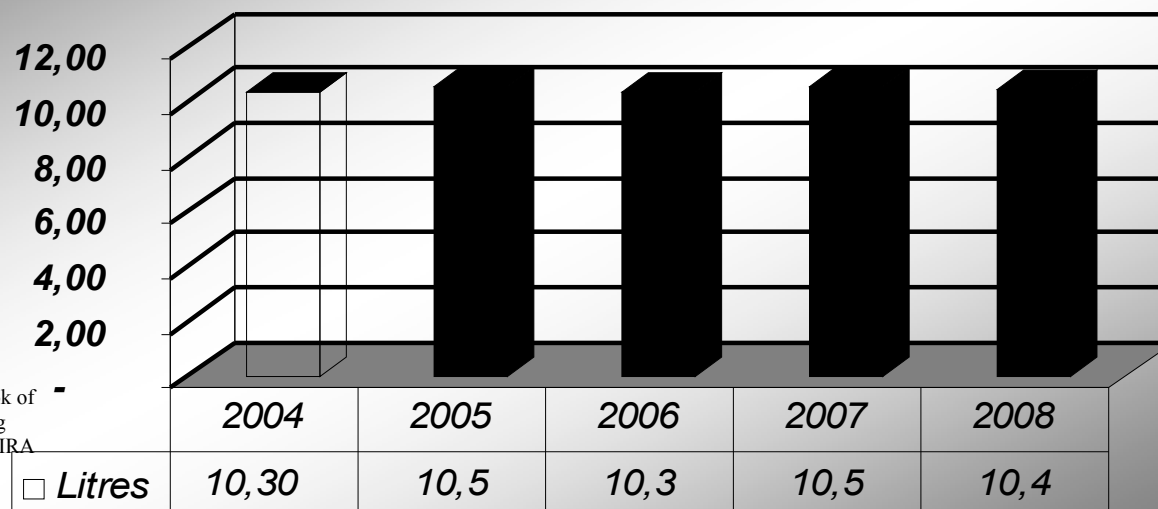


¹⁰¹ ALKO, Alcohol Statistical Yearbook 1993

“Consumer expenditure on alcohol by distribution channel and its share of private consumer expenditure 1984 – 1993” (TABLE 43)

TABLE 3.8 Total consumption of alcohol 100%alc, litres per capita¹⁰²

**TABLE 3.8 Total consumption of alcohol 100% alc,
litres per capita**



Source: Year book of Alcohol and Drug Statistics, VALVIRA

¹⁰² VALVIRA "Year book of Alcohol and Drug Statistics" Table 1