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PROMOTING COMPETITION IN FINNISH GROCERY TRADE

Case: Kaufland Stiftung & Co. KG

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ABSTRACT

The Finnish grocery business is very concentrated and is dominated by two big retailers in a duopolistic manner. The purpose of this study is to give an overview of the Finnish grocery market and to compare it with the German grocery market. The terminal aim is to identify the reasons for the low fragmentation, respectively the low competition and to reveal new possibilities to promote more competition in the Finnish grocery business. Therefore it is examined if there exists any chance for the case company Kaufland Stiftung & Co. KG to enter the Finnish market.

The thesis consists of two main parts which are the theoretical framework and the empirical part including the case study.

The theoretical part of this study introduces theories and analysis methods needed for the case study. Fundamental theories about retailing in general are presented including the introduction of different distribution channels in the retailing industry. Another subchapter of the theoretical part deals with the process of site selection for retailing stores.

The macro economic situation of Germany and Finland are examined by means of a PEST-Analysis. A SWOT-Analysis is carried out to assess a possible market entry of the case company. The market entry scenario is supported by a retail market strategy, a strategic retail planning process on the case company and a possible timeframe for a market entry including a store allocation.

In the end of the study, suggestions on further research are given and a recommendation on a possible market entry.

Keywords: Kaufland Stiftung & Co. KG, grocery business, retailing, Finland, Germany, competition, market entry

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1 INTRODUCTION

1.1 Background

In the year 2002, the same time as Finland introduced the EURO currency, the German discount retailer LIDL entered the Finnish market. Only a few retail groups dominate the Finnish grocery trade, even after LIDL's market entry. (ProQuest 2007.)

The starting point for this thesis derives from the author's previous studies. During the Distribution lecture a report on Finnish Grocery Trade (Issue 2008-2009) was given to the audience as part of the course material. The report shows an extremely low fragmentation of the Finnish grocery business. This results an oligopolistic market allocation.

Compared with the latest publication of the Finnish Grocery Trade report (Issue 2010-2011) the trend of a low fragmented market continues. The market share of only the two biggest groups, S-Group and K-Group, amount to 77, 4% in 2009. When the third group, Suomen Lähikauppa, is taken into account the market share even amounts to 87, 6% (compared with 86, 8% in 2007). (FGTA 2010, 16.)

Despite the fact that LIDL decided to enter the Finnish market in 2002 it still remains of oligopolistic nature.

1.2 Main objectives, research questions and limitations

Main objectives:

The main objective of the thesis is to give an overview of the Finnish grocery market and to compare it with the German grocery market. The terminal aim of the thesis is to identify the reasons for the low fragmentation, respectively the low competition in the Finnish grocery market.

Additionally the thesis intends to provide a possible market entry solution for the case company Kaufland Stiftung & Co. KG to increase the competition.

Research questions:

What is the reason for the low fragmentation in the Finnish grocery trade?

What can be done to increase the competition in the Finnish market?

Is there any chance for the case company to enter the Finnish grocery market?

Limitations:

The thesis has several limitations. First of all, the thesis focuses on two countries. Finland, respectively the Finnish grocery business is compared with Germany and its grocery business. Although both countries are able to provide reliable data, some obstacles might occur when it comes to data collection. Some data might not be available for a certain year for example.

Another limitation arises when it comes to the analysis of the case company and possible entry modes. Internal forces of the case company, such as management and manpower are not taken into consideration. This study focuses on external factors. External factors include micro economic factors such as customers and competitors and macro-economic factors such as political, socio-cultural and technological.

1.3 Research Methods and Data Collection

A methodological overview of the following study is presented in the figure below:



FIGURE 1 Research Methodology

Research Approach:

In this study, the research approach will be deductive. “Deducere” (lat.) means “to derive from” or “to deduce from”. Deduction is a method which allows the researcher to derive deeper findings and understandings from existing data to gain more specific insights. (Saunders 2009, 124-127.)

The deductive research approach is illustrated in the following figure:

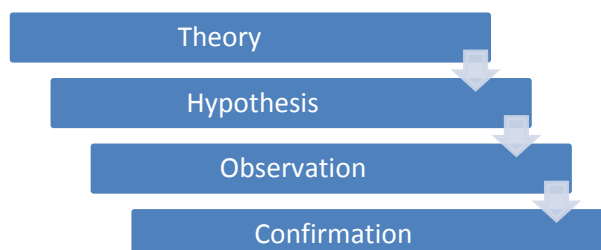


FIGURE 2 Deductive Approach Model (Rantapuska 2011)

Research Method:

The following study will include a case study (case company) which will be mainly analyzed and assessed by the means of qualitative research methods. To some extent also quantitative methods are used. Qualitative research includes mainly non-numerical data like interviews, documents, videos, brochures or memos. The data is mostly text and has a strong connection to real life experiences. That is why the qualitative method is used for practice-oriented social research. Quantitative research methods are based on numerical analysis like in statistics or graphs. (Rantapuska 2011, Saunders 2009, 124-127.)

Robson (2002, 178) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”. (Saunders 2009, 124-127.)

As this study will analyze the case company and will assess a possible market entry to Finland it is the most suitable method because of its real life approach. (Saunders 2009, 124-127)

Data collection:

The data collection for this study is clearly based on secondary data like for example books, journals, reports and websites. The secondary data will be evaluated and assessed to the best of the author’s knowledge and beliefs to find out how helpful and reliable the data is.

As the study wants to portray the present situation and give recommendations for possible future plans, the main focus will be on collecting the latest data possible. The authors own academic perceptions and scientific knowledge will complement the picture.

As the author wants the result of the researched topic to be as accurate as possible, the author uses different sources to create a data set.

1.4 Structure of the study

The thesis consists of two main parts which are subdivided into seven chapters. The first part provides the reader with the theoretical framework (Chapter two and three) followed by the empirical part in chapters four and five.

The very first chapter is the introduction which outlines the background, main objectives, research questions and limitations as well as the applied methodology and data collection process concluded by an illustration of the theoretical framework.

While Chapter two deals with the retailing business in general the third chapter focuses on retailing business in the food sector and outlines different concepts. In chapter four the empirical part of the study starts. This chapter focuses on the grocery business in Finland and compares it with the German grocery business. For both countries the author will conduct a country analysis by the mean of a PEST-analysis. This chapter also includes a current overview of the Finnish and German grocery business by presenting the main corporations in those markets.

The fifth chapter portrays the German case company “Kaufland” and assesses a possible market entry into Finland. This assessment is supported by a retail market strategy and a strategic retail planning process on the case company.

Chapter six consists of the conclusion and recommendation where the main research questions are discussed. Further research suggestions are given.

The final chapter sums up the key findings of this thesis.

The following figure illustrates the structure of the study:



FIGURE 3 Structure of study

2 RETAILING

In this chapter the author will give some theoretical background information on retailing in general and food retailing in particular. Afterwards the different alternatives of distribution channels in the retail sector are discussed. Last but not least, the factors affecting a site selection for a retail business are examined.

2.1 What is retailing?

Retailing involves any kind of business operation that aims to satisfy the final customers' needs for their personal, non-business usage in small quantities. Retailers usually assort their product range from different suppliers and offer that assorted range of goods to the end consumer (Kotler 2012, 398-399, Ogden 2005, 6-7).

Originally retailing business was conducted through different stores. In the last decades also non-store retailing like TV-Shopping, door-to-door sales, or vending machines, has taken an important role. Although store retailing is still the main sales channel, especially for grocery retail, the most recent trend is E-Retailing via the internet. (Cant 2005, 3-4.)

2.2 Food retailing / Grocery business

Generally speaking, a grocery store is a business that retails food. The definition of what belongs to the food retailing greatly depends on the country or sales area that is reviewed.

While the Finnish grocery business is mainly based only on the retail sales of groceries, the EU likewise implies for example the sales of daily meal services to public institutions as well as restaurant and café sales (FGTA 2010, 5).

Due to governmental regulations it is not possible to give the very exact and same definitions of food retailing in Germany and Finland.

The type of provided goods does not necessarily differ in those both countries but the range is wider in Germany. As for instance alcoholic beverages and non-prescription medicine are provided in the German grocery sector, whereas in Finland those products are not yet declassified for grocery sales. (FGTA 2010, 3.)

Nevertheless, those issues can be ignored for the following study as the aim to promote more competition does not depend on the mentioned distinctions, but on the ability of a new market player to assert in an existing market environment.

2.3 Different alternatives of distribution channels

The way of distributing goods from an initial manufacturer to the final customer can be arranged in many different ways. The participating stakeholders in those distribution channels play an important role between the producers and the consumers.

This chain between producer and consumer aims to create customer value. It is rather unusual that goods are being sold directly from the manufacturer to the consumer. Usually intermediaries act in between and form a distribution channel. (Kotler 2009, 88-97.)

This subchapter will deal with the different channel levels and alternatives in a distribution channel. On the basis of the following illustration, the author will explain the different so called consumer-goods distribution channels. Each of the channels has a different length with a different amount of intermediaries.

Different Distribution Channels:

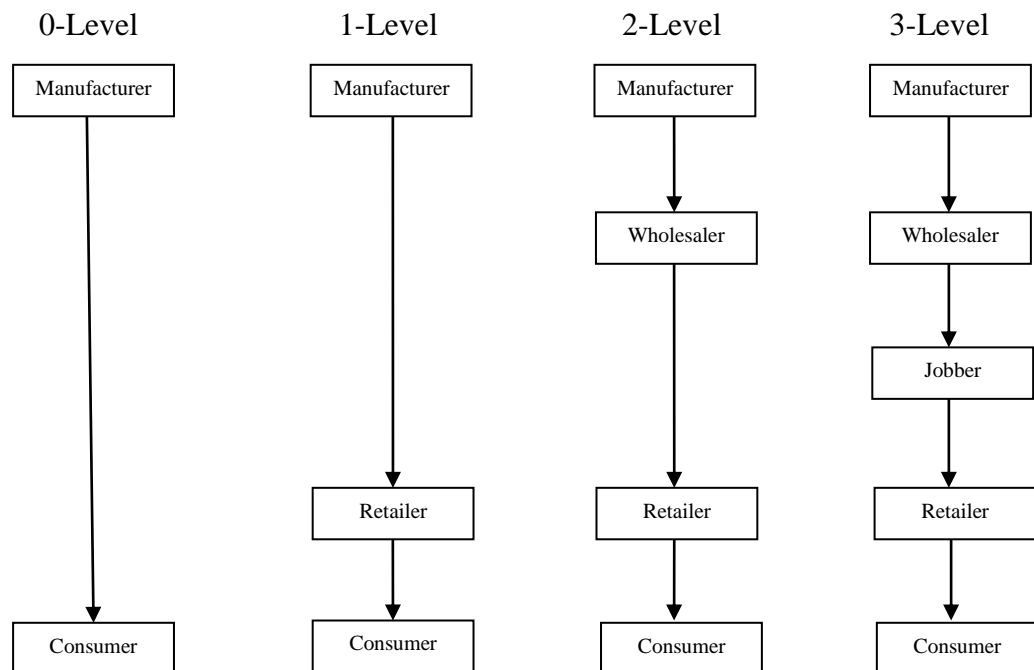


FIGURE 4 Different Distribution Channels (Kotler 2009, 456)

The figure above consists of four different distribution channels. As the channels are displayed from the so called downstream point of view, every channel has the manufacturer or producer as the starting point and ends with the final consumer.

The first distribution channel illustrated above is the **zero-level channel**. It is also called a direct distribution channel. The zero-level channel has no intermediaries and consists only of the manufacturer and the consumer. The main examples for that kind of distribution channels are door-to-door sales, mail order, TV selling, Internet selling and manufacturer-owned stores.

The second distribution channel is the so called **one-level channel**, which includes one intermediary like a retailer for example. The third distribution channel is the **two-level channel**. This channel includes two intermediaries which are usually a wholesaler and a retailer.

The fourth distribution channel is the **three-level channel**, which includes three stakeholders. Next to the retailer and the wholesaler there exists also the so called jobber who takes its position between the wholesaler and the retailer. (Kotler 2009, 456-457).

2.4 Site selection

“Location, location, location” by William T. Dillard (1914-2002)

The above mentioned quote indicates already how important it is for a retail sales premise to find the best possible location. This very strategic decision has to be considered very carefully as this decision has a strong influence on the success or the failure of a store. (Weitz 2004, 242-248.)

For assessing the attractiveness and suitability of a site for a retail business, several determining factors have to be taken into consideration as shown in the figure below:



FIGURE 5 Factors affecting the site selection modified from (Weitz 2004, 242-248)

Demographic and Lifestyle Characteristics of Customers

One factor that influences the decision making of where to establish a retail business is the demographic factor of a region which includes also the lifestyle characteristics of the customers in that area. (Weitz 2004, 242-248.)

Population-based it should be preferential to choose areas with a growing population rather than a declining one. Also a possible development of the surrounding area of shopping centres for examples could be taken into consideration. (Weitz 2004, 242-248.)

Nevertheless, growth of population is not the sole issue to assess. Also the structure of the population has an important significance. The size and composition of households, the maturity of households and their income level give indications if an investment is worthwhile or not. (Weitz 2004, 242-248.)

Last but not least, lifestyle characteristics should be taken into consideration, as the way people spend their money has a huge influence on the matching of sought after demand and the provided supply. College students are most likely to spend their money on different goods and services than an untrained blue-collar worker although they might be in the same financial situation of a low income. (Weitz 2004, 242-248.)

Business Climate

For the site selection of a retail business, the general business climate in a particular region has to be examined. To ensure a well operating retail business, the retailer can for example analyze the employment situation in the intended trade area. The higher the employment rate is the higher is also the probability to have a high purchasing power in the given region.

Another point which gives some indication if a region might be a suitable place to invest is to find out which area in a certain region grows quickly and why? (Weitz 2004, 242-248.)

To assess the business climate in the chosen region properly it is also important to examine the surrounding businesses and industries and to draw a connection to the retail business. It is said, that the environment should be diverse to ensure a steady growth and stable business climate. Without a diverse and balanced business environment, the retail business might be affected for example by unnecessary seasonal fluctuation. (Weitz 2004, 242-248.)

Competition

Another factor which has a crucial influence on the site selection for a retail premise is the competition in a particular region. The competitive environment in a certain trade area affects the demand for a retailer's goods and services. There exist three different definitions that describe the competitive situation in a trade area. (Weitz 2004, 242-248.)

A **saturated trade area** can be regarded as a well balanced situation between demand and supply. They offer a good selection of goods and services to the customers and allow the competing retailers to make decent profits. (Weitz 2004, 242-248.)

Another competitive situation is an **understored trade area**. In such an area there are not enough stores selling certain goods or services. In such areas, the chance of gaining market shares and to generate good profits is very good. (Weitz 2004, 242-248.)

The third competitive situation is given in an **overstored trade area**. In such a region there are too many stores providing the same or similar goods and services. As a consequence, some retailers will fail with their business. In such areas it is only recommendable to enter them when the product or service has clear and obvious advantages. (Weitz 2004, 242-248.)

Accessibility of a site

The fourth major factor affecting the site selection for a retail business is the accessibility of a site. The accessibility of a site is analyzed by a macro analysis and by a micro analysis. (Weitz 2004, 242-248.)

In the macro analysis the retailer evaluates several determinants which usually cannot be influenced by the retailer. Those determinants include the road pattern, road condition and barriers. The road pattern gives information about the general road structure in a certain area like existing motorways and traffic hubs. The road condition is assessed based on age, number of lanes, number of stoplights and traffic congestions. (Weitz 2004, 242-248.)

The barriers are distinguished between natural barriers and artificial barriers. Natural barriers are for example rivers or mountains, whereas artificial barriers are manmade like railroad tracks, highways or parks. They can have a crucial effect on the accessibility of an area. (Weitz 2004, 242-248.)

The micro analysis on the other hand evaluates factors that have a direct influence in the immediate location such as visibility, traffic flow or parking.

Visibility is a factor of which the importance substantially depends on the customer network and their loyalty. If the business generates its profit mainly with walk-in customer, then a high level of visibility is required. Another micro factor is the traffic flow which needs to be balanced out in order to assure customers a continuous access to the retail premise. (Weitz 2004, 242-248.)

Finally the parking situation has a decisive impact on the customers' willingness to enter a parking lot and the store. If a parking lot is located too far from the sales premises or is overcrowded, the potential customers might easily get discouraged. On the other hand, if a parking area has too many vacant lots the retail shops might give an impression of low popularity. Therefore it is important to thoroughly observe the parking situation. (Weitz 2004, 242-248)

3 FOOD RETAILERS AND CONCEPTS

The following part will focus on the different store types existing in Finland. As the author will later on focus on a possible market entry strategy for the German competitor Kaufland into the Finnish market, the categorization of the entering case company will be conducted based on the Finnish store type definitions ratified in 2001. The information for the following store type definitions is extracted from Finnish Grocery Trade Associations' annual publication 2010-2011.

The definitions will be rounded up by the author's working experience in department stores, supermarkets and hypermarkets.

3.1 Department store

In a department store the range of goods is usually very various and different categories of goods can be found. The minimum sales area of a department store is 2,500 square meters. In department stores not a single category of goods is appointed to have more than 50% of the sales area in a store.

Generally, a department store has several floors with different departments. Each department offers a certain selection of goods. Also the level of service in a department store is regarded as high with cashiers and trained service personnel for each department. Their main location is in city centres.

3.2 Hypermarket

Hypermarkets are retail stores, which are mainly operating on a self-service basis. Although the personnel is usually trained, their main function is to keep the day-to-day business running, instead of advising and servicing the customer. The sales area in hypermarkets has a minimum of 2,500 square meters and food accounts for less than half of that area.

Nevertheless, the main focus of hypermarkets is to serve their customers with groceries. That kind of retail business is usually located near city centres or in shopping centres. The recent trends have shown that new hypermarkets are built more and more outside of the city centres because of the cheaper sites. Still one of their main competitive edges remains their easy accessibility with a car or public transportation.

3.3 Supermarket

Like the hypermarkets, the supermarket is also a self-service based retail business. A supermarket's main operation focuses on food sales. Its minimum sales area accounts to at least 400 square meters and food sales amounts to more than half of the assortment.

A subdivision based on the market size is also made in the supermarket section. Sales premises with a size of 400 - 1,000 square meters are regarded as small supermarkets and stores with an excess of 1,000 square meters are regarded as large supermarkets.

3.4 Corner Shops

A corner shop's focus is clearly on food. They are also called neighbourhood stores, as their competitive edge is to be located in a residential zone. They are very easily accessible for the surrounding residents by foot.

Corner shops have a sales area of maximum 400 square meters but are usually even smaller. Like the supermarket, also the corner shops are subdivided by size. If a corner shop has a size of 200-399 square meters, they are regarded as large stores and if their sales area is below 200 they are regarded as small ones.

3.5 Discounters

For a discounter store the pricing is the main competitive edge with a strict focus on self-service. Their sales premises do not focus on convenience or fancy product presentations.

They generally offer a narrow and flat product assortment with a simple and straightforward product presentation in their sales premises. Discounter stores are usually located along frequent traffic connections with a high traffic density.

3.6 Small stores and Kiosks

Small stores and kiosks are sales premises with less than 100 square meters. They provide basic groceries and snacks as well as press products and basic ITC products. The permitted size of the sales area for such stores is limited by government regulations.

3.7 Convenience stores and service stations

Convenience stores and service stations are located in or around petrol stations. Nowadays, grocery business, restaurant services, petrol sales, car service stations and other services can be found in and around those service stations. Different service providers are linked beneath the same roof.

3.8 Product-specific specialty shops

Product-specific speciality shops, indoor markets, direct sales, outdoor markets, as well as shops on wheels or in boats have been losing their share of the total market in recent years

4 GROCERY BUSINESS

This chapter focuses on the grocery business itself. Firstly, Finland and Germany are analyzed from a macro economical perspective by the mean of the PEST-analysis. This gives an overview of both countries and helps to evaluate the country's political, economical, social and technological situation.

Secondly, both countries are examined on a micro economical level, by focussing on the largest grocery store chains of each country.

4.1 Country Analysis Finland (macroeconomic environment)



FIGURE 6 Map of Finland (greenwichmeantime 2011)

Finland used to be part of Sweden for about seven centuries from the 12th century to 1809, which is the main reason that about 5, 5 % of the population is Swedish speaking. In the year 1917 Finland declared its independence from Russia and became a Republic.

Nowadays, Finland is a free market economy that is highly dependent on international trade. Finland has a highly competitive economy and is a modern society. The country's main commodities are machinery, electronics (ICT), chemicals, paper and paper products. (europa 2011.)

Finland is situated in the North Eastern part of Europe and adjoins to Sweden, Norway and Russia. Nowadays, Finland's per capita income is among the highest in Western Europe. (cia factbook 2011d.)

In 1955 Finland joined the United Nations Organization (UNO) and in 1995 the European Union (EU). (strasbourg-europe.eu, 2011.)

TABLE 1 Facts about Finland (cia factbook 2011a)

Name	Republic of Finland
Capital	Helsinki
Population	5,259,250 (July 2011 est.)
Total area	338,145 sq km
Urbanization	85 % of population (2010)
Official Languages	Finnish 91,2 %, Swedish 5,5 %
Major religion	Lutheran Church 82,5 %, Orthodox 1,1 %, other Christian 1,1 %, none 15,1 %
Life expectancy	male 75,79 years, female 82,89 years
Monetary unit	Euro (EUR)
Main exports	Machinery, electronics, chemicals, paper and paper products
Unemployment rate	8, 4 % (2010 est.)
Inflation rate	1, 2 % (2010 est.)
GDP per capita	USD 35,400 (2010 est.)
GDP real growth rate	3, 1 % (2010 est.)
External debt	USD 370,8 billion (30 June 2010)
Labour force	2, 68 million (2010 est.)
Exports	USD 73, 53 billion (2010 est.)
Imports	USD 69, 11 billion (2011 est.)

4.1.1 PEST-Analysis

The PEST-Analysis is used to analyze and evaluate a country's macro economical environment from the point of its political, economical, social and technological situation. This macro economical evaluation enables to assess the influence of those factors on a company and its business processes. (Onpulson 2011.)

4.1.1.1 Political Factors

The Republic of Finland joined the European Union in 1995 and adopted the euro as its currency in 1999. The country is subdivided into 19 administrative regions and applies a civil law system which is based on the Swedish model (cia factbook 2011c.)

The modern and competitive Finnish economy benefits from high levels of economic freedom. Its economy remains world leading in terms of business freedom, property rights and has one of the lowest corruption levels worldwide.

Private firms continue to flourish and are able to promote their innovations in an efficient regulatory and legal environment. With sound banking practices, the financial sector has withstood the global financial crisis relatively well. The overall high level of economic freedom is restrained by high governmental spending and a rigid labor market. (Gwosdz 2006.)

4.1.1.2 Economical Factors

Finland is a highly developed nation with a GDP per capita of USD 35,400 (est. 2010) slightly above the EU-average. The service sector has the biggest share with 68, 2 % (est.2010) of the GDP composition. (cia factbook 2011c.)

Traditionally, Finland's' economy focuses on forestry. Nowadays, also machinery, electronics (ICT) and chemicals play an important role in the country's econ-

omy. Finland's timber is still regarded as the main resource, although machinery and high-tech communication technology are the leading industry branches. (Gwosdz 2006.)

Finland is the only country in Europe, which exports more information communication technology than it imports. The density of mobile phones per capita is among the highest in the world with 84, 5 mobile phones per 100 capita (nation-master 2011).

Finland is a modern and competitive industrial nation. Political and economical risks are low. (ducroire, 2011.) The level of education is among the highest worldwide. The infrastructural network is dense and because of the usage of the latest information and communication technology very efficient. (Gwosdz 2006.)

The high level of competitiveness allows the country to secure a high standard of living, decent growth rates and a comprehensive social security system. (Gwosdz 2006.)

4.1.1.3 Social Factors

Finland is sparsely populated with a population of roughly 5, 3 million people. The Urbanization rate is among the highest in Europe with 85 %, meaning that most of the population lives in cities (cia factbook 2011a).

Due to its historical background the country has two official languages, which are Finnish (spoken by 91, 2 %) and Swedish (spoken by 5, 5%) (cia factbook 2011a).

The Lutheran church forms the biggest religious group (82, 5 %), whereas 15, 1 % of the population are undenominational (cia factbook 2011a).

4.1.1.4 Technological Factors

Finland is among the countries with the highest research intensity worldwide. In many research fields, such as forestry, environment and information communication technology, the country takes a leading position. Since years, Finland belongs to the leading nations in terms of innovation, research and development, technology and competitiveness. (researchinformation 2011.)

In terms of higher education, which is regarded as an indicator for high competitiveness in the research and development sector, Finland ranks third place in 2009-2010 and second place in 2010-2011 in the Global Competitiveness Report published by the World Economic Forum. (Xavier Sla-i-Martin 2010-2011, 156-157.)

Finland has together with Sweden within the EU and the OECD the highest expenditure rate in research and development. The Finnish government emphasizes that investments in the research and development sector are one of the most important goals. The average spending for research and development amounted to 3, 5 % of the GDP. Until 2012 the government plans to increase the figure to 4, 0 %. (researchinformation 2011, Gwosdz 2006.)

Another indicator that underlines the appreciation and reputation of the Finnish research and development policy is that Finland was among the countries which were chosen to be studied by the German Ministry of Education and Research. This study focussed on comparing how scientific research is organized and conducted in different countries. (Hesse 2010.)

4.2 Grocery Business in Finland

The Finnish grocery business is dominated by a few central wholesalers (S-Group, K-Group and Suomen Lähikauppa) with an overall market share of 87, 6 % (FGTA 2010, 16).

The three mentioned chains have closely conjoined wholesale and retail stipulations incorporating a compact and efficient goods delivery system and a country-wide network of retail shops, department stores and supermarkets.

Additionally those chains run hotels, restaurants and catering services. Their centralized and vertically integrated systems make the distribution efficient and allow procurement from abroad in viable quantities considering the comparatively small size of the Finnish market. (FGTA 2010, 18-19.)

The past years have been characterized by an increasing competition in the Finnish food retail market. The Finnish retailers have reacted to the competition from abroad (LIDL) by lowering prices of their private label brands and by offering additional services such as bakeries, cafeterias, fresh meat and fish service points that are not offered by discounters such as LIDL. (FGTA 2010, 5-6.)

Despite the competition from abroad, the Finnish food retail market is still regarded as very concentrated (OECD 2004, 94-96).

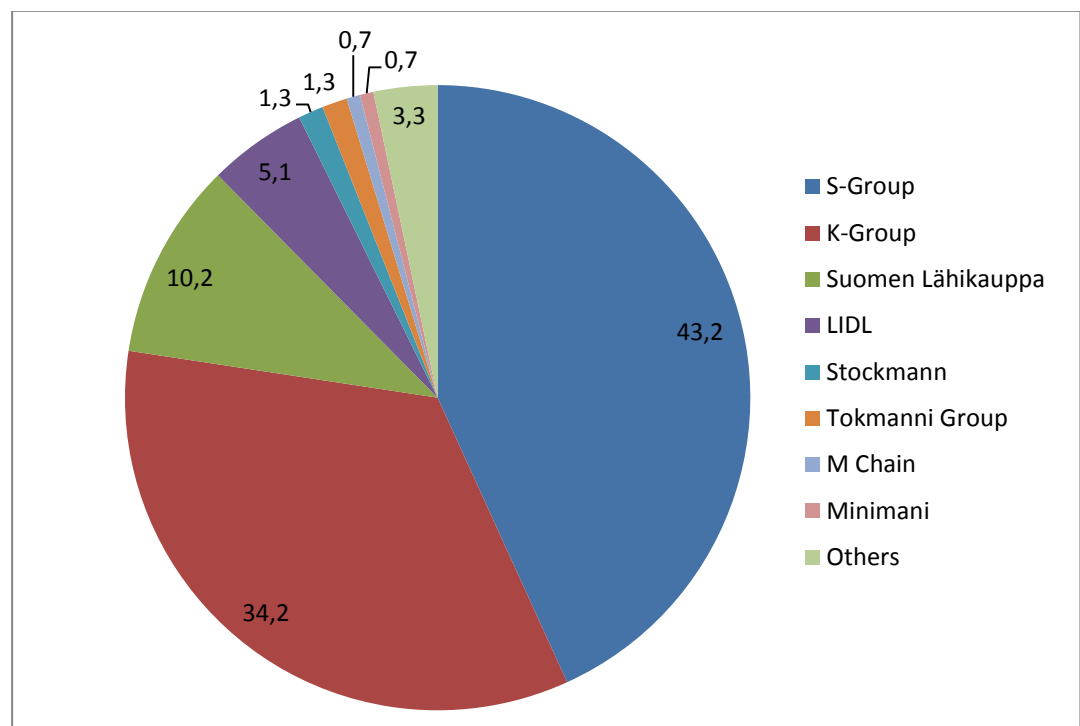


FIGURE 7 Market shares of the Finnish Grocery Trade Groups in 2009 (FGTA 2010, 16)

4.2.1 S-Group

The S-Group is the biggest grocery retail chain in the Finnish market with a market share of 44, 1 % in 2010 (SOK-yhtymä 2010, 9) and more than 1,600 operating points throughout Finland, the Baltic region and Russia (S-yhtymä, 2011). Established in 1904 its business nowadays provides supermarkets, department stores, specialty stores, hotels and restaurants, agricultural trade, car accessory trade services and petrol sales services. In 2010, S-Group employed nearly 40,000 people and had an overall consumer goods sale of EUR 6,283 million. (SOK-yhtymä 2010, 38.)

The biggest chains within the S-Group are S-Market with a share of 52, 9 % and Prisma with a share of 30, 3 % of the overall consumer goods sales.

Other chain brands are for example Sale, Alepa, Kodin Terra, ABC, Sokos, Rosso, Amarillo, Public Corner and many more. (FGTA 2010, 16-19.)

4.2.2 K-Group

The second biggest grocery retail group in the Finnish market is the K-Group with a market share of 34, 2 % in 2009 and 22,200 people employed. The K-Group incorporates about 2,000 stores in the Finland, Russia, Belarus and the Baltic countries. (FGTA 2010, 18.)

K-Group was founded in 1940 and comprises different sizes of grocery stores throughout the country. The biggest chains within the K-Group are K-Supermarket with a share of 28, 7 %, K-Market with a share of 33, 1 % and K-Citymarket with a share of 31, 9 % of the overall grocery sales. The aggregated grocery sales of K-Group amounted in 2009 EUR 4,973 million. (FGTA 2010, 18.)

4.2.3 Suomen-Lähikauppa

Suomen Lähikauppa Oy is Finland's third biggest grocery retail group with a market share of 10, 2 % in 2009, about 5,600 employees and an aggregated grocery sale of EUR 1,482 million. Suomen Lähikauppa consists of three grocery retail chains amounting around 730 stores throughout Finland called SIWA, Valintatalo and Euromarket. (FGTA 2010, 18.)

In 2009 SIWA's share on the grocery sales amounted 47, 6 %, the share of Valintatalo amounted 33, 9 % and Euromarket's contribution amounted 18, 5 %. (FGTA 2010, 18.)

4.2.4 LIDL Finland

LIDL is an international operating German discount grocery chain founded in the 1930's and belongs to the German Schwarz-Group. (LIDL, 2011) Currently, LIDL is operating in almost every European country and has a network of more than 9,000 stores, 136 central warehouses and employs more than 170.000 employees. LIDL's aggregated grocery sales amounted in 2010 EUR 42.000 million. (Stimme 2011.)

In 2002, LIDL entered the Finnish market (ProQuest, 2007.) and has since then opened 133 stores. In Finland LIDL employs around 2.500 people. (Nukari, 2010.) LIDL's market share in the Finnish grocery sales amounted to 5, 1 % in 2009. (FGTA 2010, 16.)

4.3 Country-Analysis Germany (macro economical environment)



FIGURE 8 Map of Germany (greenwichtimne 2011)

Germany is a Federal Republic and is with almost 82 million inhabitants the most populous country of the European Union. It shares its borders with Denmark, Poland, Czech Republic, Austria, Switzerland, France, Luxembourg, Belgium and The Netherlands. (Europa 2011.)

After the Second World War, Germany was divided into a democratic western part (Federal Republic of Germany) and into a communist eastern part (German Democratic Republic). Germany is part of the European Union and introduced the euro in 1999 as a common currency with 10 other EU member states. (CIA Factbook 2011e.)

Germany is the fifth biggest economy in the world. Its main commodities are automobiles, information communication technology, machinery, chemicals and pharmaceuticals. (Economywatch 2011.)

TABLE 3 Facts about Germany (CIA Factbook 2011a)

Name	Federal Republic of Germany
Capital	Berlin
Population	81,471,834 (July 2011 est.)
Total area	357,022 sq km
Urbanization	74 % of population (2010)
Official Languages	German
Major religion	Protestant 34 %, Roman Catholic 34 %, Muslims 3,7 %, unaffiliated or other 28,3 %
Life expectancy	male 77,82 years, female 82,44 years
Monetary unit	Euro (EUR)
Main exports	Machinery, vehicles, chemicals, metals and manufactures, foodstuffs and textiles
Unemployment rate	7,4 % (2010 est.)
Inflation rate	1,1 % (2010 est.)
GDP per capita	USD 35,700 (2010 est.)
GDP real growth rate	3,5 % (2010 est.)
External debt	USD 4,713 trillion (30 June 2010)
Labor force	43,35 million (2010 est.)
Exports	USD 1,337 trillion (2010 est.)
Imports	USD 1,12 trillion (2010 est.)

4.3.1 PEST-Analysis

The following part covers the PEST-Analysis for Germany. In this part, Germany's political, economical, social and technological factors are evaluated.

4.3.1.1 Political Factors

Germany is a country with high political stability. Political risks are nearly nonexistent. As part of the European Union, Germany's legislations align with European law. This assures that enterprises can expect similar legislations in most of the European countries. (Dahmer, 2007.)

The level of corruption is not regarded as a concern in Germany, as reflected in Germany's good rank in Transparency International's Corruption Perception Index. (Transparency 2010)

4.3.1.2 Economic Factors

Germany's economy is highly open, with exports accounting for 40, 8 % of the aggregate GDP in 2009. (google.publicdata, 2011) Germany encourages foreign investments, and German foreign investment law provides equal treatment to both foreign and domestic investors.

The GDP per capita amounts to USD 35,700 (est. 2010) and is slightly above Finland's GDP per capita in 2010. The service sector has the biggest share with 71, 3 % (est.2010) of the GDP composition which is similar to the Finnish GDP composition. (CIA Factbook 2011c.)

With Germany having strong legal traditions, property rights, including intellectual property rights, are secure. The same applies for contractual agreements. (Dahmer 2007, 6-8.)

German companies are highly competitive on the global market and have a high reputation in terms of quality and cost-benefit-ratio.

4.3.1.3 Social Factors

Germany has a population of roughly 82 million people and an urbanization rate of 74 %. German is the official language and the biggest religious groups are Protestants and Roman Catholics with each amounting to 34 %. (CIA Factbook 2011c.)

Like in many other Western countries German society is becoming older. The birth rate is low with only 1, 41 children born per woman. The average life expectancy for women is 82, 44 years and for men 77, 82 years. (CIA Factbook 2011c.)

4.3.1.4 Technological Factors

The internet penetration in Germany is with more than 65 million users very high. Germany has a very strong logistical infrastructure. Motorways can be found nation-wide and have good connections to airports, harbors and railroads. The density of motorways in Germany is almost 30 times bigger than in Finland. (IWKöln 2012.)

As Germany is situated in central Europe, distribution can be regarded as relatively easy and fast. Germany is among the world's largest and most technologically advanced producers of iron, steel, coal, cement, chemicals, machinery, vehicles, machine tools, electronics, food and beverages, shipbuilding and textiles. (CIA Factbook 2012.)

4.4 Grocery Business in Germany

After several difficult years for the grocery retailers in Germany the grocery sales finally started to increase again in 2010. The two major problems the grocery retailers had to face were on the one hand a stagnating retail turnover while on the other hand the sales area increased continuously. The only grocery retailers that have been able to increase their sales numbers were the discounters. Their market share of the German grocery sales is about 40 %. (KPMG 2006, 19-25, Kersch 2011.)

In 2011 the overall turnover in the German grocery business amounted to EUR 223, 8 billion which is an increase from 2010 of 2, 3 %. The increased turnover was a result mainly of the fact of increased sales prices and not because of the increased sales itself. (Kersch 2011.)

Most of the aggregated turnover (98%) was generated by 30 different grocery retailers. (Kersch 2011.) It is very difficult to determine a ranking in such a diverse market situation as the ranking changes as soon as one redefines the decisive parameters like choosing either national or international sales figures, number of employees, store area or whole organizations including or excluding their subsidiaries.

The first two grocery retailers are ranked by their international sales numbers and the third retailer was chosen because of its importance for the case study. As in the Finnish grocery sector, also in Germany the concentration continues to accumulate. (Kurtz 2009, 110-111.)

4.4.1 EDEKA-Group

The EDEKA-Group was founded in 1898 and has its headquarter in Hamburg. EDEKA is the biggest supermarket corporation in Germany and has more than 12000 retail premises and 300000 employees. In 2010, EDEKA had an overall consumer goods sale of EUR 43, 5 billion.

Other stores belonging to the EDEKA-Group are SPAR, aktiv discount, Netto, Plus and hypermarkets called Marktkauf. (Edeka 2012.)

4.4.2 REWE-Group

The REWE-Group was founded in 1953 and is the second biggest grocery trade business in Germany with about 224.000 employees and more than 3600 stores.

REWE is an internationally operating retail corporation and has its headquarter in Cologne Germany. REWE's overall sales in 2010 amounted to EUR 36, 45 billion. If REWE's international operations are taken into account, the overall sales

amounted to EUR 53, 04 billion and the number of employee's increases to almost 336000. (Rewe 2010.)

REWE is continuously extending its store network in Central and Eastern European countries like Austria, Switzerland, Romania, and Czech Republic, Poland, Hungary, Slovakia, Bulgaria, Croatia and others.

Super- and Hypermarket chains belonging to REWE are for example: REWE, BILLA, extra, Penny Market, toom, nahkauf, ProMarkt and Kaufpark.

Additionally, REWE is conducting business in the tourism sector with companies like ITS, Jahn Reisen, Tjaereborg, Dertour, Meier's Reisen and ADAC Reisen. (Rewe 2012.)

4.4.3 Schwarz-Group (LIDL Germany)

Established in 1968, the Schwarz-Group is today the third biggest grocery retailer in Germany with its supermarket chains LIDL and Kaufland. LIDL has been established already in the 1930s and Kaufland in 1977. In 2010 LIDL has had a network of 9317 sales premises all over Europe of which 3243 were situated in Germany. (LIDL 2011.)

The hypermarket chain Kaufland has had 1002 stores across Europe of which 598 were situated in Germany. Both chains, LIDL and Kaufland, have had an overall sales of EUR 26, 17 billion in 2010 in Germany. (Handelsdaten 2012.)

The Schwarz-Group has more than 300000 employees and is currently operating in more than 20 countries.(dpa 2012.)

5 CASE COMPANY: KAUFLAND STIFTUNG & CO. KG

Kaufland is a German grocery retailer, is headquartered in Neckarsulm Germany and belongs to the very complex Schwarz-Group. Founded by Dieter Schwarz, the entire group nowadays consists of numerous different companies and foundations and is owned to 99,9 % by Dieter Schwarz. Within the Schwarz-Group, LIDL consists of more than 300 different sole proprietorships plus different companies belonging to and forming Kaufland. (Hirn 2007.)

The main reason for this fragmentation is to avoid a consistent corporation. If the entire group would perform as a single corporation, then the group would fall under the laws on co-determination and would become declarable. (Hirn 2007.)

The first Kaufland hypermarket was opened in 1972. After the reunification of Germany in 1990, Kaufland first started to expand to East Germany. In 1998, Kaufland opened its first hypermarket in the Czech Republic. At the moment Kaufland has about 1000 markets in Germany, the Czech Republic, Poland, Croatia, Slovakia, Bulgaria and Romania. The size of the hypermarkets is between 2,200 and 15,000 square meter. (Kaufland 2012.)

Kaufland has six logistics centres for food products and one logistics centre for non-food products in Germany. Additionally, Kaufland is maintaining three own meat markets for their home brand "Purland" and is planning to open a fourth one in 2013. (Kaufland 2012.)

The following figure illustrates the Schwarz-Group:

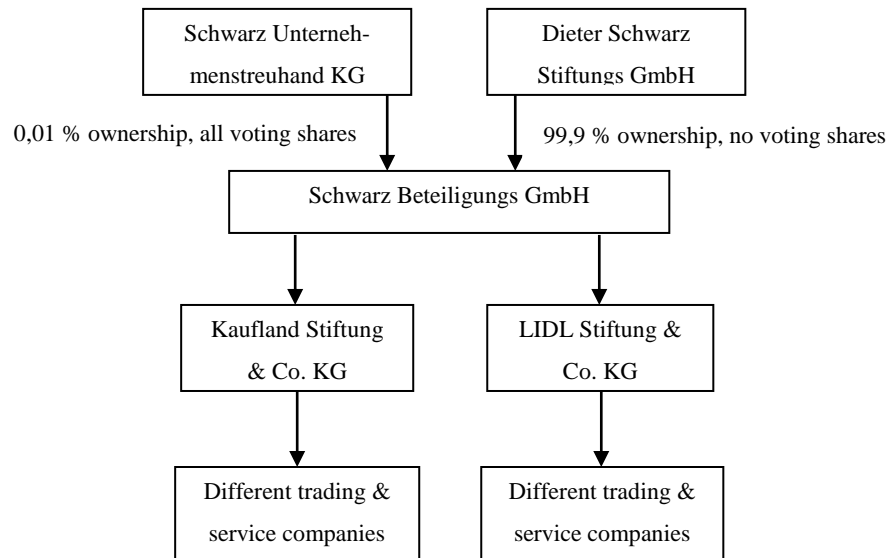


FIGURE 9 Schwarz-Group (Hirn, 2007.)

5.1 How to enter Finland

In this subchapter, the author will portray two important approaches which are conducted for a possible market entry of Kaufland into the Finnish retail market. First of all **Retail Market Strategy** is introduced and discussed. Afterwards the author is introducing the so called **Strategic Retail Planning Process** and applying its first two parts, which are defining the Business Mission and a SWOT-analysis.

5.1.1 Retail Market Strategy

As the core purpose of this study is to evaluate the market entry of Kaufland into the Finnish market and make suggestions for a course of action, it is initially important to build a retail market strategy. In this chapter the case company will be continuously compared with the two leading hypermarkets in Finland as they have

a similar retail strategy. The two leading hypermarkets chains in Finland are K-Groups' Citymarket and S-Groups' Prisma.

A retail market strategy usually consists of three major steps which are the identification of the **target market**, the definition of the **retail format** and building a so called **sustainable competitive advantage**. As those three parts of a retail market strategy are closely linked to each other, they will be treated in one body in the following explanations. (Weitz 2004, 148-153.)

A target market in general can be defined as a group of customers at which a certain business is aiming its marketing efforts and eventually its sales at. The retail format is also called the retailer's mix. In other words, as for example mentioned in previous chapters, the type of sales premise, but also the pricing policy, types of services offered, site selection or the promotional approaches. (Weitz 2004, 148-153.)

As Kaufland has a similar retail format as the two competing companies Prisma and K-Citymarket and also a very similar target market it is important for Kaufland to put its main emphasis on the so called sustainable competitive advantage.

Despite the similarities in the target market and the retail format, there is still space for small adjustments to gain also in those fields competitive distinctions. The target market of Kaufland has its biggest distinction to the other competing chains when it comes to the type of customers. Kauflands' target market (target customer) is a price conscious customer base that wants an extensive product range including home brands but also classical branded products at slightly lower prices than in Prisma and K-Citymarket.

The following figure gives an impression of Kauflands' positioning in the Finnish Grocery sector when assessing and comparing the size of product range and the pricing levels:

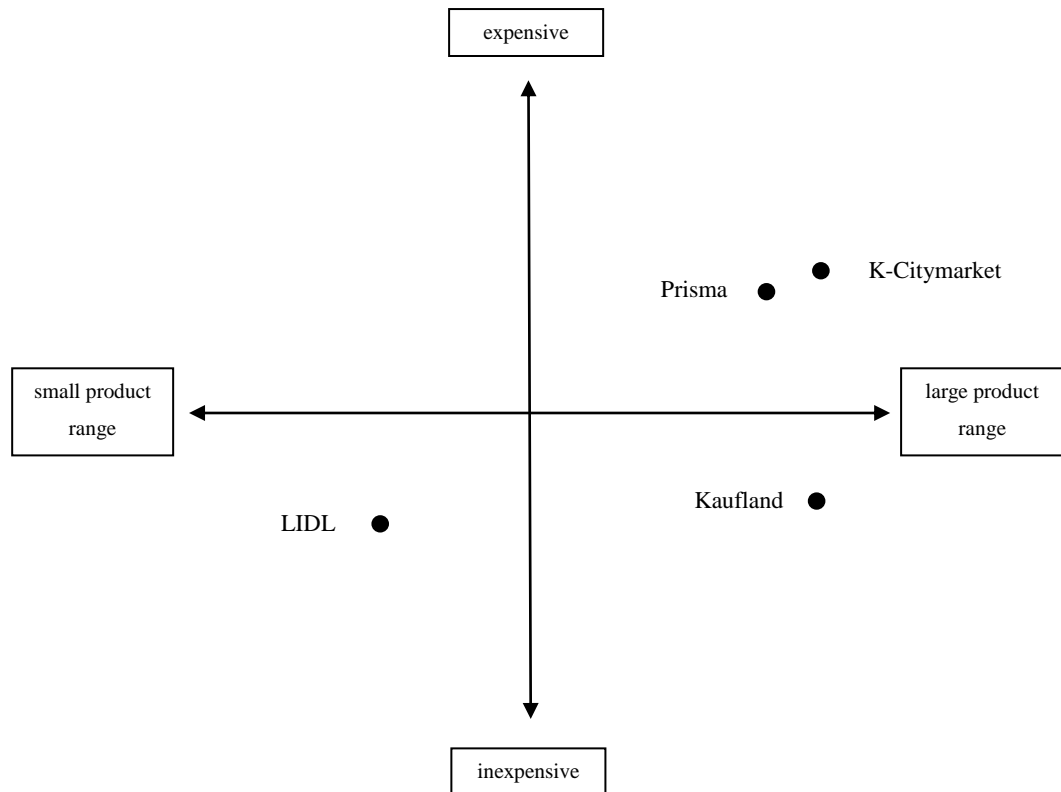


FIGURE 10 Kaufland Positioning

This rather little competitive advantage has to be accompanied by other factors to assure positive long-term outcomes. To be successful on a long-term run, Kaufland has to put emphasis on its so called sustainable competitive advantages. As the term already reveals, the advantage that has to be built is sustainable, which means that the competitive advantage is responsible to ensure advantages on a long-term run, hence they cannot be duplicated immediately by competitors.

According to Weitz and Levy (148-153) there exist seven important opportunities for retailers to create sustainable competitive advantages which are: customer loyalty, location, human resources management, distribution and information systems, unique merchandise, vendor relations and customer service.

It is most likely not possible to gain sustainable competitive advantages in every single field but the author will deal with the most promising opportunities in depth. The three most promising fields, where Kaufland could be able to build sustainable competitive advantages are distribution and information systems, ven-

dor relations and customer service. This does not mean that the other four fields should be neglected but as competitive advantages should be worked out, the most promising fields should receive most attention.

As Kaufland belongs to the same group as LIDL it is a clear fact to aim at synergy effects when it comes to distribution and information systems and to the vendor relations. As the Schwarz-Group has business operations throughout Europe and is maintaining a European wide distribution and information network it is obvious, that this infrastructure has to be taken advantage of.

Especially because the Schwarz-Group has already ten years of experience with LIDL in the Finnish grocery sector it is easy for Kaufland to access important insider information and to take advantage of an existing distribution infrastructure.

Additionally Kaufland and LIDL could arrange their procurement together and gain more pressure against vendors and their conditions of procurement.

Last but not least, Kaufland should focus on its customer service. Although Kauflands' target customers are price conscious that does not mean that they perceive good customer service as irrelevant. Especially as Finnish customers can be regarded as relatively spoiled it is important to focus on that point.

To underline the authors' argument is the fact that LIDL used to have no gathering places behind the cashiers to collect the goods. Instead they were supposed to drop immediately after scanning them into the shopping cart to increase the turnover rate. Soon LIDL realised that this European wide used method evoked dissatisfaction among Finnish customers. Eventually, LIDL had built those gathering places like in every other grocery store available.

To increase the customer satisfaction and to provide a better customer service than the competition, Kaufland uses different service methods which are applied in other European countries.

Those services include for example additional checkout counters for customers with only up to five or up to ten items. This assures that those customers get served faster. Also Kaufland gives a guarantee to its customers that if all checkout counters are occupied and it takes the customer to wait longer than 5 minutes in the queue the customer receives a voucher over EUR 2, 50. The same goes for products that have expired. If a customer finds a product in the shop which expired, the customer receives a voucher of EUR 2, 50 as well. (Kaufland 2012.)

Another additional service is that Kaufland offers a three year guarantee on all its electronic devices instead of the common two years guarantee. When a customer is at the checkout desk, the cashiers ask the customers if they also want to withdraw money while paying their bill. Also the customers are being asked if their shopping experience was satisfying or if a certain product was missing. If the customer mentions an item which has not been available in the shop, the cashier notes the item and forwards the missing product to the responsible department. (Kaufland 2012.)

Other services that should be taken into consideration are for example a welcoming desk at the entrance gate. This gives the whole shop a more familiar and personal touch. Man is a creature of habits so they immediately feel comfortable when always the same person is welcoming for example a family on their regular Saturday shopping tour. Also the return of deposit is carried out by staff in Kaufland and not by machines. Again this gives the whole experience a more personal touch.

Another promise they give to their customers is that in every Kaufland there are at least 2000 items which cannot be found cheaper in any other store. If by accident this case should ever happen, the customer receives a gift. There are many other services and customer promises Kaufland is providing to its customers. Those services of course need to be evaluated and assessed to assure their suitability for the Finnish market. (Kaufland 2012.)

5.1.2 Strategic Retail Planning Process

As the retail strategy can be defined as a framework that provides decision makers with the course of actions to implement current and future objectives of a business, the strategic retail planning process is a set of steps a retailer has to go through in order to establish that framework. (Weitz 2004, 242-248.)

The planning process can be applied for a whole company, but can also be utilized at different levels within a retail company. The strategic retail planning process consists of seven steps. The following figure illustrates the seven steps of the strategic retail planning process. In this chapter the author will introduce each single step and will employ the first two steps on the case company. (Ogden 2005, 6-7.)

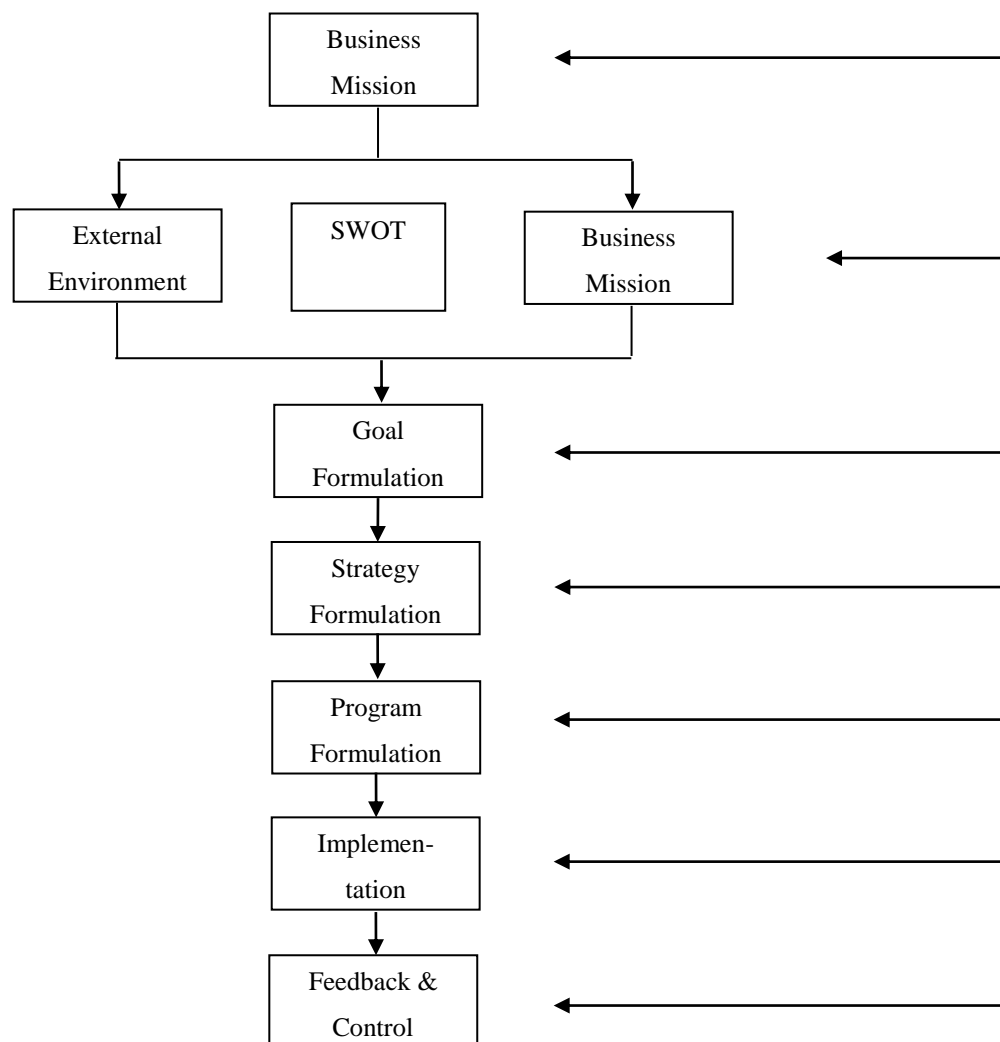


FIGURE 11 Strategic Retail Planning Process (Kotler 2009, 88-97.)

Step 1: Business Mission

In a retail planning process it is first of all important to define the business mission. The business mission is a statement, which outlines the objectives of a retailer. A mission statement highlights the core purpose of a company and should answer the following five questions:

1. What business the company is in?
2. How should the business look like in the future?
3. Who are the businesses customers?
4. What are the businesses capabilities?
5. What does the company to accomplish?

The business mission of Kaufland is to enter the Finnish market in selected metropolitan areas with its hypermarket concept at lower prices with better services. Kaufland's target group is a price conscious customer with the desire to have access to a wide range of products with the best possible quality. The long-term goal of Kaufland is to solidify its position in the Finnish market and to take best possible advantages of synergy effects between LIDL and Kaufland. (Weitz 2004, 242-248.)

Step 2: SWOT-Analysis (Internal & External Environment)

The SWOT-analysis is a very important tool for strategic planning. SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. Strengths and weaknesses are internal factors of a company, hence factors that the company can control. On the other hand there are opportunities and threads which are external factors. The external factors cannot be controlled by the company but it can have impact on them. The reason for utilizing the SWOT analysis for KAUF LAND is to create a list of ideas from the gathered and evaluated data and to use the ideas to set strategic goals. (Kotler 2009, 88-92). In this subchapter the author is going to conduct a SWOT-analysis for KAUF LAND.

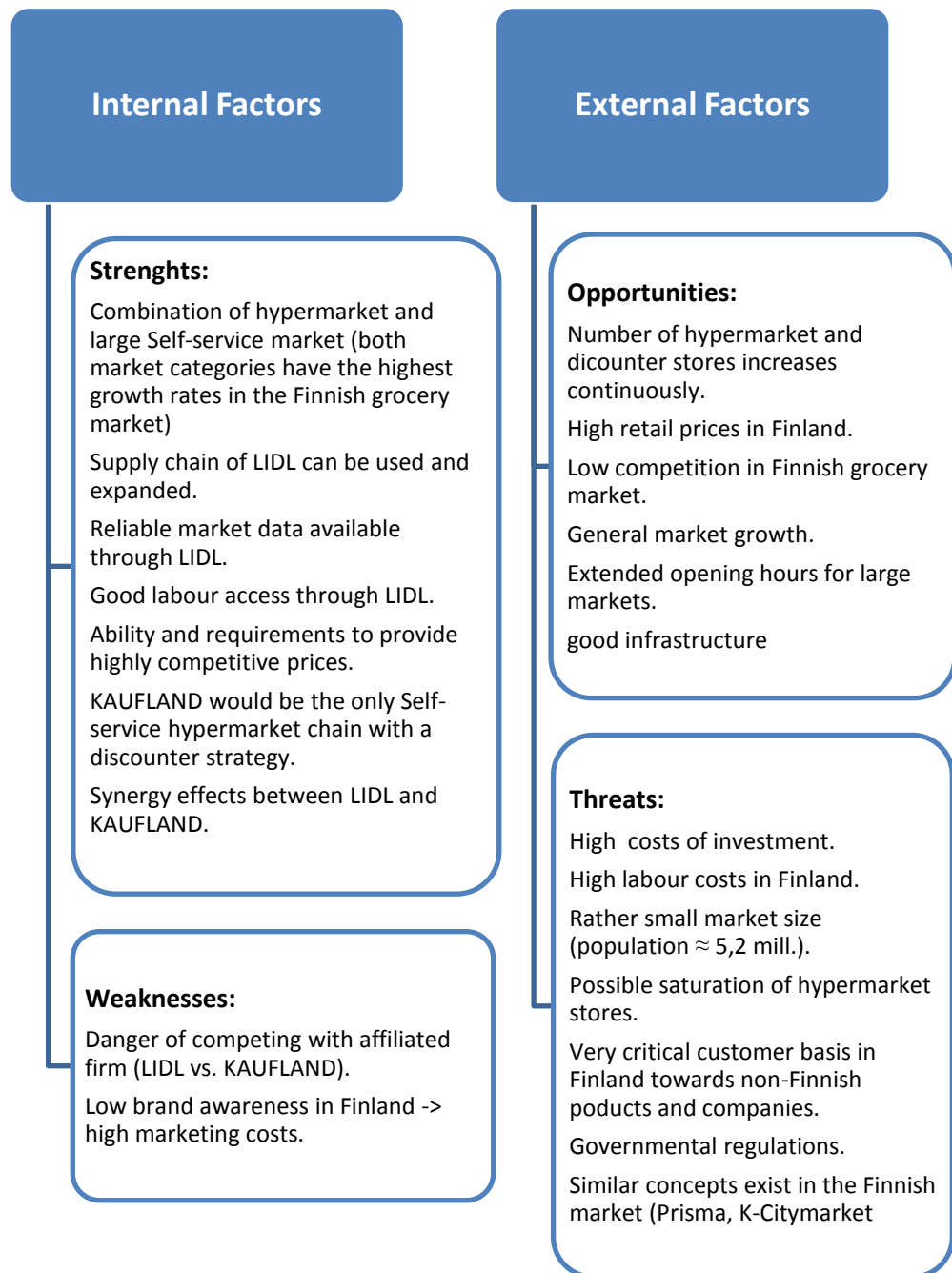
SWOT-Analysis:

FIGURE 12 SWOT-Analysis

Step 3: Goal Formulation or Identification of Strategic Opportunities

After having performed a SWOT-analysis, the third step is to identify the possible strategic opportunities. In this planning process the goals are objectives and they need to be specified according to their magnitude and time. Usually those objectives are a mixture of different nature and with different levels of importance for the overall goal which is in this case the successful entry of Kaufland into the Finnish market.

Step 4: Strategy Formulation or Evaluation of Strategic Opportunities

The fourth step can also be named as evaluation of strategic opportunities and objectives. The opportunities and objectives that have been identified need to be evaluated for example concerning their long term potential on growth, profit or other predetermined objectives like their sustainable competitive advantage.

Step 5: Program Formulation or Establishment of Specific Objectives

After having evaluated the strategic opportunities, the fifth step is to compile precisely matching objectives for every opportunity. Every single subordinate objective for itself should be measurable against the overall objective. The subordinate objectives commonly consist of three elements.

Firstly, the objective is quantitatively measurable to assess the progress. Secondly, it states a time frame within which the objective is planned to be realized and thirdly, it shows the level of investment that is necessary to accomplish the objective.

Step 6: Implementation

The sixth step is the implementation. In this step the established objectives are realized.

Step 7: Feedback & Control or Evaluation and Adjustment of Performance

The last step of the strategic retail planning process deals with the evaluation of the implemented objectives and possible adjustments. If the objectives are achieved, the implemented strategy is successful and needs no adjustments. If the set objectives are not achieved, then the strategy needs to be examined again and adjustments need to be made. (Weitz 2004, 242-248.)

5.2 Allocation of Kaufland stores in new markets

The following subchapter will portray the possible allocation of Kaufland stores in the Finnish market based on the ratio of number of stores to population in other European countries. Therefore the author has analyzed the mentioned ratio in the German market as a whole as well as three big cities in Germany. As Germany is Kauflands' country of origin, the author decided to choose Germany as the benchmark for other countries.

Also because Germany is in terms of retail business a very advanced and sophisticated nation, the author decided to choose Germany. If there should be any country within the European Union in which Kaufland might have reached a saturated market situation, then it is most likely Germany. To strengthen the argument that Germany has the highest store to population ratio, the author made a comparison to the Polish and the Romanian market. The following mathematically derived deliberations will start with the portrayal of the German store allocation, move on to the Polish and the Romanian store allocation and eventually give suggestions for the store allocation in the Finnish market. The following numbers for the population are rounded up.

In the German market as an entity, there are around 7,7 Kaufland stores per million inhabitants or up to around 8,6 stores in some cities: (Kaufland 2012.)

Germany: 628 stores / 81,5 million inhabitants \approx 7,7 stores / million inhabitants

If this number is now compared with the German capital Berlin for example, it can be checked if the figures are matching:

Berlin: 3, 5 million inhabitants * 7, 7 stores \approx 27 stores

As Kaufland operates 27 stores in Berlin, the numbers seem to be reliable. Of course there are cities in Germany that do not match the mentioned numbers. There might be several reasons, which also have been stated by the author in the theoretical part of that study. One of the reasons might be for example the demographics and the lifestyle characteristics of the customers.

In certain cities like Munich for example the author has realized that the store density is much lower. An assumption might be that the income level of the people living in Munich is higher than in other German cities and the lifestyle is at least stereotypically regarded as rather wealthy. Kaufland is a hypermarket concept with a low pricing policy and people from Munich might prefer to shop rather in a department store where at least the perception of the quality is regarded as better.

Before applying the figures from the German market on the Finnish, the author reviews two other European countries to see how the store density is there.

First of all the store density in the Polish market is examined:

Poland: 150 stores / 38 million inhabitants \approx 4 stores / million inhabitants

Afterwards the store density in the Romanian market is examined:

Romania: 70 stores / 19 million inhabitants \approx 3, 7 stores / million inhabitants

The above shown examples of Poland and Romania underline, that Germany has the highest store density within the operating countries. (kaufland 2012.) (Monycycenter 2012.)

If the numbers are applied to the Finnish market, the scenario could look like following:

$$628 \text{ stores in GER} / 81,5 \text{ million} = X \text{ stores in FIN} / 5,2 \text{ million}$$

$$\text{-----> } X = 5,2 * 628 / 81,5 \approx \underline{40 \text{ stores for whole Finland}}$$

$$\underline{\text{Crosscheck: } 7,7 \text{ stores per million} * 5,2 \text{ million inhabitants} \approx \underline{40 \text{ stores}}}$$

As Finland has an urbanization rate of about 85 % (CIA Factbook 2011a), most of the population lives in cities. The biggest area of urbanization in Finland is the so called Helsinki Metropolitan Area with 1,060 million people. The Helsinki Metropolitan Area (HMA) mainly consists of three cities which are Helsinki, Espoo and Vantaa. Except some other cities like Turku, Lahti, Tampere, etc. the Helsinki Metropolitan Area (HMA) is the region to concentrate on in the beginning as the other cities are spread all over the country and as the more north one goes the lower is the density of population in Finland.

40 stores for 5,2 million inhabitants results about 8 stores for 1,060 million inhabitants.

When now applying the benchmarking figures to the Helsinki Metropolitan Area (HMA) the allocation looks like following:

TABLE 3 Store allocation for Helsinki Metropolitan Area (HMA)

City	Inhabitants		
Helsinki	≈ 0,600 million	≈ 60 %	≈ 4-5 stores
Espoo	≈ 0,250 million	≈ 20 %	≈ 2 stores
Vantaa	≈ 0,210 million	≈ 20 %	≈ 2 stores
HMA	≈ 1,060 million	≈ 100 %	≈ 8-9 stores

5.3 Possible timeframe scenario for new market entries

This subchapter will deal with the possible timeframe for a market entry of Kaufland into the Finnish, Baltic, the Scandinavian or even the Russian market. The following timeline illustrates possible market entries for a time span of 10 years. After having assessed the market and after having made a decision to take affirmative action for new market expansions, it takes about one year to open the first markets.

During the first three years it is recommended to Kaufland to focus on the Helsinki Metropolitan Area (HMA). As derived from the previous calculations, there should be a demand for operating about 8-9 stores in that region. After one year of preparation, Kaufland should be able to open its three very first stores in the three cities of Helsinki, Espoo and Vantaa. In the second year, it is recommended to open three additional stores and during the third year, it is recommended to open 2-3 new stores.

These actions should of course only be taken when the management can see a positive development in the Finnish market. Of course there will not be profit generated during the first years, as the investment needs to redeem, but the management can already make an assessment based on the business figures to which direction the business leads to.

When the outlook for further development in the Finnish market is positive, then Kaufland should consider its expansion to other Finnish cities and other cities in nearby countries like Estonia or even Russia during the fourth year. Tallinn, the capital of Estonia with a population of roughly 420,000 people is only a couple of hours with the ferry away and Saint Petersburg in Russia with about 4,8 million inhabitants is less than 400 Km from Helsinki away and is accessible by road, rail and by sea.

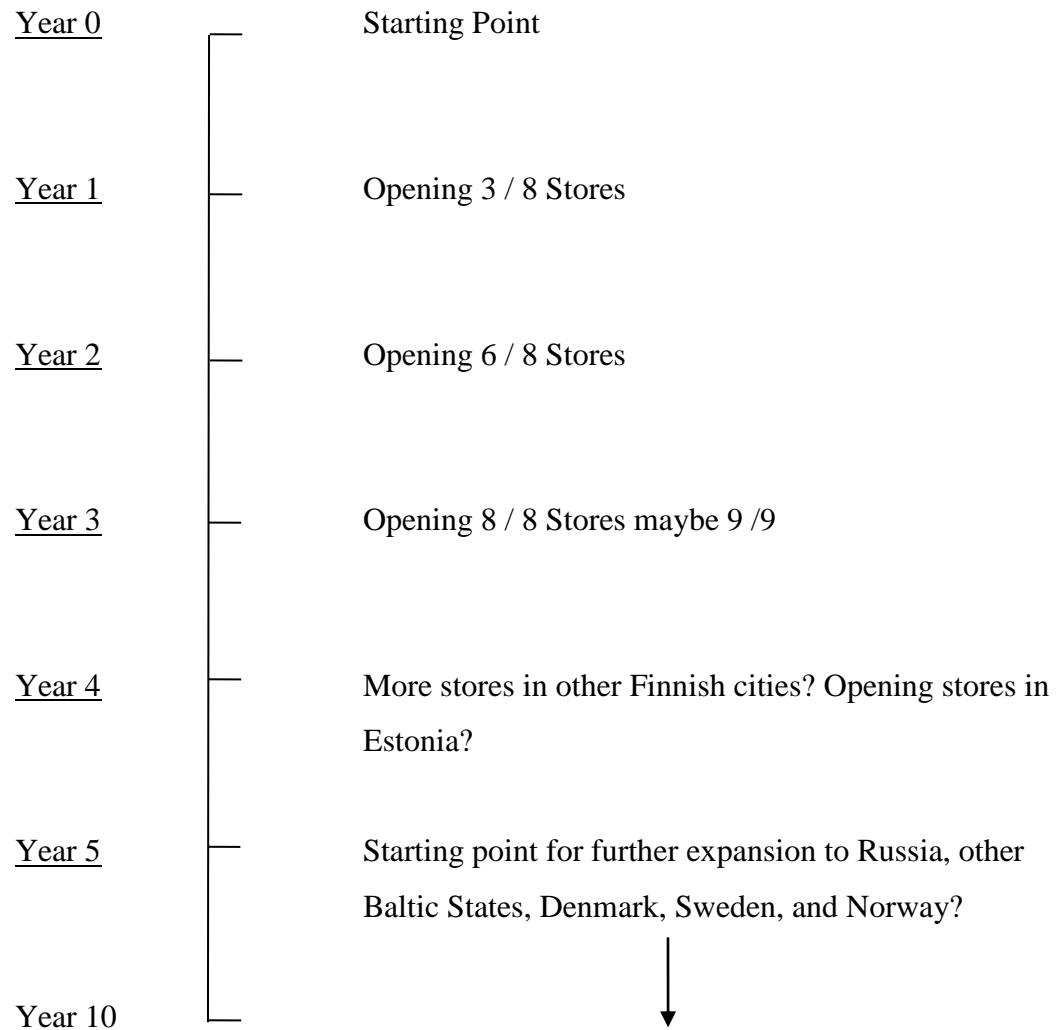


FIGURE 13 Timeline for market entries

In case that the business operations of Kaufland have been successful during the first five years of its expansion course, it should be seriously taken into consideration to continue the prior expansion plan and extend it to other regions.

The long term expansion objective could be for example to establish further stores in Russia and Estonia, but also to put emphasis on the other Baltic States Latvia and Lithuania. Also other Nordic countries like Denmark, Sweden, and Norway could be an option.

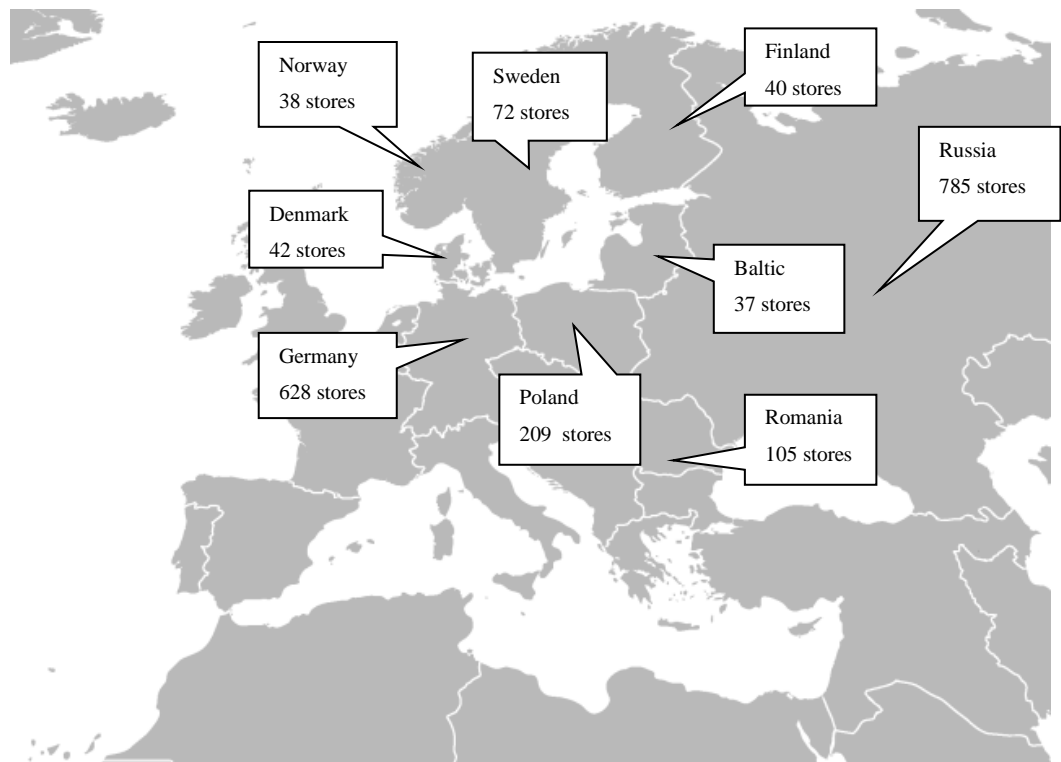


FIGURE 14 Market saturation scenario

The above illustrated map shows the ratio of stores to population in Germany applied on the other before mentioned market areas. It illustrates based on the ratio how many stores could be opened in the stated countries. This ratio is of course only one parameter to assess possible demand in a certain area.

6 CONCLUSION AND RECOMMENDATIONS

The next chapter will draw conclusions and answer the research questions. Also recommendations will be given for further research in the future and based on the evaluation of the case company a recommendation on a possible market entry will be given.

Research questions:

What is the reason for the low fragmentation in the Finnish Grocery Trade?

The low fragmentation in the Finnish market seems to be due to the fact that the population is very low and the population is spread all over the country. Although most of the population lives in cities (urbanization rate about 85 %) the distances are long and the more north one goes the lower is the population density. Both factors combined give only the chance for a certain number of firms to conduct their business in Finland.

Also the fact that there are already two very strong competitors in the Finnish market (S-Group and K-Group) makes it even harder for new market entries. The German discount grocery retailer LIDL has entered many different markets in Europe and also had to realize, that some of the markets are not profitable. This might be due to the fact those trade areas are already saturated, thus are only profitable for vertically perfectly organized business operations.

The following graph illustrates how many LIDL retail premises exist in the different European countries. The blue accentuated ones show profitable regions and the yellow accentuated ones show regions where the break-even-point is in sight. The red accentuated regions are unprofitable. The white regions illustrate where LIDL is planning to expand next.



FIGURE 15 LIDL Expansion in Europe (Hirn 2007)

As shown in the Figure above, all the Nordic countries where LIDL is operating stores show losses. Of course there will be certain areas where the stores are profitable like for example in the Kamppi bus station in Helsinki, but the overall results of LIDL's business operations seem to be negative.

What can be done to increase the competition in the Finnish market?

The Finnish grocery business market is clearly of an oligopolistic nature. It can be almost said the Finnish market can be regarded as duopolistic. The two main competitors in the Finnish market (S-Group and K-Group) have only two very small competitors which are Suomen Lähikauppa (market share 9,0 %) and LIDL (market share 5,0 %) plus some very small and negligible companies with market shares of around 1 %. (FGTA 2010, 16)

As already mentioned in the answer of the previous research question the Finnish market is very small and not profitable if there are too many competitors. Especially for new market entrants it might be very hard to establish new business operations.

Nevertheless, establishing a new chain with a different store concept is the only possibility to increase true and veritable competition in Finland. Kaufland could take advantage of LIDLs distribution network and its market intelligence to create a promising market entry strategy.

Is there any chance for the case company to enter the Finnish grocery market?

The Finnish grocery retail market shows a very high concentration. The Finnish market is clearly dominated by the S-Group and by the K-Group. Both S- and K-Group have positioned themselves in the Finnish market very well. The latest developments show that their market share continues to grow. In 2010 S-Group had an overall market share in Finland of 44, 1 % and K-Group had an overall market share of 35, 0 %. Suomen Lähikauppa and LIDL in comparison lost some market share. It has to be observed if this trend is going to continue in the future. Concerning the research question, whether Kaufland has a chance to enter the Finnish market it seems to be too early to give reliable advice. (FGTA 2010, 16.)

The table below shows a steady growth of the three store types that match the concept of a Kaufland's stores the best. Kaufland depends on the size of the sales premise, a large supermarket or a hypermarket. Additionally Kaufland's concept is a self-service market. All the three store types have had positive growth rates over the past 10 years.

TABLE 4 Growth of stores by years (FGTA 2010, 29)

Store type	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Hypermarkets	2338	2534	2618	2692	2772	2984	3150	3460	3706	3802
Supermarkets, large	3118	3275	3458	3718	3789	3984	4347	4704	4827	4913
Self-service markets, large	1693	1879	1921	1986	1916	1950	2102	2301	2295	2306

So what kind of conclusion to draw from this table? Although Finland is a very concentrated market in term of grocery business with two big and strong market dominators and although the country's population is very small there might be chances to establish some new Kaufland stores in Finland.

Suggestions for future research:

This study can be regarded as the foundation for further studies. It is supposed to be food for further developing thoughts in the future. It is obvious that there is only very concentrated competition in the Finnish market. Future research has to examine whether new competitors have a chance to face the very firmly established grocery chains in Finland.

Therefore the author suggests to first of all putting emphasis on analyzing the Finnish customers. As they are the key factor for succeeding in the Finnish market, it is a necessity to have reliable data on that very important factor.

Also aspects of the previously mentioned service concept (subchapter 5.1.1 Retail market strategy) that Kaufland is offering in other countries to their customers needs to be examined thoroughly. The author thinks that the customer, especially in the Finnish market, is a key factor for success. Maybe a market entry of Kaufland might be not successful to Kaufland, viewed as a solitary company but maybe the market entry has a positive influence on its sister company LIDL.

Another positive effect could be that some important determinants for doing business European wide only exist in Finland or have a better quality. When having a look at the whole picture, and therefore it is important to know the whole corporation's (Schwarz-Group) long term goal, maybe then one can regard a market entry of Kaufland as justified. When applying a so called mixed calculation and regarding Finland only as one small part of an overall strategic plan, then it might even be no shame to have losses with Kaufland in Finland when the results in other countries for example compensate those losses.

Recommendation on market entry:

Generally speaking it is possible to succeed in any kind of market. Also it needs to be defined what succeeding in a certain market means. Does it only mean to have positive sales and profit figures or are there other determinants that express success? As mentioned in the future research suggestions it needs to be defined what is the overall long term objective of Kaufland.

Kaufland already successfully established stores in Bulgaria, Romania, Croatia, Slovakia, the Czech Republic and Poland. This indicates that Kaufland seems to have big interests in expanding its store network direction east. Other countries in Eastern Europe that might be of interest for Kaufland could be the Baltic States with Estonia, Latvia and Lithuania and eventually the Russian Federation.

Also because Kaufland has not extended its store network to other Western European countries so far underlines the assumption that the company's expansion plans aim at Eastern Europe.

There seem to be two different objectives why Kaufland could consider entering the Finnish market. First of all, Kaufland has no long term goal to enter the Russian or Baltic States and solely has an interest to enter Finland. In this case, Kaufland needs to conduct further research as mentioned above, especially on the Finnish customer.

The other case would be that Kaufland intends to enter further Eastern European countries like the Baltic States and Russia. In this case two ways need to be followed to get a proper assessment of the chances. First of all the countries themselves need to be assessed and another important factor that needs to be assessed is from which country it makes most sense to enter those new markets. As Kaufland is already present in Poland, and as Poland shares a boarder with Russia, it might be the better option in continuing Kaufland's course of expansion.

7 SUMMARY

The main goal of this thesis is to provide the case company with new insights in the possibilities to expand its business operations to Finland.

The thesis consists of two main parts which are subdivided into seven chapters. The first part provides the reader with the theoretical framework in chapter two and three followed by the empirical part in chapters four and five. Although chapter four and five belong to the empirical part, they also include some accompanying theory.

The theoretical part of this study introduces theories and analysis method needed for the case study. First of all, some fundamental theories about retailing in general are presented including the introduction of different distribution channels in the retailing industry. Another subchapter of the theoretical part includes the process of site selection for retailing stores.

While chapter three introduces the different store concepts existing in the Finnish market chapter four and five include a PEST-Analysis of Germany and Finland as well as a SWOT-Analysis of the case company Kaufland Stiftung & Co. KG.

The fifth chapter portrays the German case company Kaufland and deals with a possible market entry into Finland. It is supported by a retail market strategy, a strategic retail planning process on the case company and a possible timeframe for a market entry including a store allocation.

Chapter six consists of the conclusion and recommendation where the main research questions are discussed. Further research suggestions are given including a recommendation on the market entry.

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