

Recent developments in the Norwegian retail industry have divided opinions in the grocery trade...

In October 2014, Norwegians were facing up to the fact they could now only buy groceries from three retailers rather than four. >>

This was following the announcement by Ica, the Swedish retailer which has struggled for profitability since entering Norway in 2009, that it was selling its assets, including 553 stores, to rival Coop in a deal worth 2.5 billion kroner. A development of this nature in the retail trade always brings to the fore issues concerning competition, choice and price and these factors have been hotly debated in the weeks and months since the announcement was made. We caught up with two senior influencers from the grocery trade - Kenneth Fredriksen, Managing Director of Cloetta Norge and Jon Warset, Managing Director of Bonaventura Sales – who shared with us the different perspectives on what this means for the Norwegian industry moving forward.

For those that supply the retail industry, the sale of Ica to Coop not only means Norwegian consumers will have less choice when it comes to buying groceries, but also that there will be less competition. According to Kenneth Fredriksen, managing director of Cloetta Norge and member of the Norwegian Grocery Manufacturers Association (DLF) market committee, this is bad news; 'More competition rather than less would be the most favourable environment for businesses operating in the sector; as would more choice for consumers.'

In an ideal world, as Kenneth stated, 'The industry in general was hoping that an international investor would buy Ica; that

would have created a lot of change.' But after already failed attempts by global giants Carrefour and Lidl in recent years, as well as the apparent failure of Ica, Norway has increasingly appeared less attractive to potential investors from overseas.

One of the major issues that Ica faced was the fact it's very difficult to drive profitability as the smallest competitor in the Norwegian market, where over 60% of the grocery trade already consists of 'soft discounters.' To realistically compete, companies must be efficient on costs and have good net-prices. Ica didn't have the lowest prices in the industry and this, in the end, made it difficult for them, especially in a very challenging economy of scale.

Jon Warset, whose company Bonaventura Sales distributes non-food brands to the grocery and specialty trade in Norway, along with others in the industry, offer a different view of this recent development. As Jon explains, 'There has perhaps been too much attention paid to the fact that Norway is effectively losing a retailer when ultimately, what is actually happening, is a 're-balancing' of power in the sector.' Norway's retail trade has often been labelled unfair because it has one big retailer, NorgesGruppen, and three smaller players in Ica, Rema 100 and Coop. With the sale of Ica to Coop, some, like Jon, believe there are now three retailers of almost equal size. 'NorgesGruppen is still the largest, Rema 100 has the highest growth projections

and Coop now has the most investment power, which should also lead to growth.'

It's true that something had to change in the sector, which had been feeling the impact of Ica's poor performance long before the company's eventual sale. Both Kenneth and Jon agreed that a complete restructuring, which was the only alternative to selling the business, would have been the worst possible solution. In Kenneth's words, 'If Ica couldn't find a buyer, then it would have had to significantly reduce the number of its stores,





particularly in rural areas, which would have also resulted in a lot of redundancies and unemployment.'

Coop will certainly lose some stores, because its market share will be too high in some areas, but as Jon highlights, for the time being at least, Ica's sale will create some real stability in the market. 'It's actually been very difficult

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dealing with the fact that both Ica and Coop haven't been able to grow, so now that there is a solution to the issue, the situation is definitely better and will help suppliers'. He went on to state that a stable situation was 'not the worst thing in the world.'

As we go to press it was confirmed that NorgesGruppen have signed an agreement to take over the stores Coop will have to rescind as part of the shakeup. If Rema had acquired those stores, the competitive environment may have been more equal between the three. Commentators don't believe that any further major changes will take place during the next year, at least, as the sector adjusts.

During this imminent period of market stability, commentators will be able to take the time to assess how the sector will evolve.

Some, like Kenneth, believe that the real price battle will now begin, as Coop will be able to better compete with NorgesGruppen and Rema 100. Jon largely agreed with this, but suggested the perhaps the most notable change in the short term would be an increase in competition with regards to service; 'I think it will make life better for the consumer because each of the players will have to become better

at how they serve the customer. There may also be some new categories enter the market that will further benefit the consumer.'

Ica's inability to compete, although partly due to net-prices and cost efficiency, was also related to what many believe was the historically poor guidance passed on to franchise owners. Jon argued that there was clearly a lack of adoption of creative ways to drive sales at Ica stores; '...these problems were inherent from the start and gradually contributed to its failing.' Both Jon and Kenneth agreed, however, that Coop was far better suited to managing the franchise operation, as it fits well with Coop's current

Market snapshot

NORWAY

The currently fragile state of the oil market has been predicted to bring new economic risks to Norway, which generates almost a quarter of its GDP from oil and gas. The effects that the oil price crash will have on the country's economy are uncertain, but with oil companies' output and earnings dropping, investments will decrease and other industries and households stand to be affected.

However, Norway's weaker currency is expected to ease conditions in the labour market, slow down wage growth, and halt offshore cost inflation. Although the low oil price could cut between 1-2% from Norway's GDP over the next two years, much of that will be compensated by the rest of the economy.

Despite European growth being slow in 2014, and global interest lower than expected, Norway came in first in Legatum Institute's annual Prosperity Index, and has Europe's 2nd highest GDP/capita, indicating that it is one of the world's strongest economies.

business model. Ica is also a good match for Coop in terms of demographic coverage.

Suppliers like Kenneth and Jon are wary of the fact that, moving forward, there may be increased pressure on net-prices and narrower assortments as the number of soft discounters increases, making supermarkets less relevant. As Kenneth noted, there is also an increased risk in the sense that '... if we were to lose another customer, then we would be in a really difficult situation.' Generally though, there is a sense within the sector, as shared by both Kenneth and Jon, that people are looking forward to see how the situation will evolve now the deadlock has been broken.