

Q&A with President and CEO Mikko Helander at Kesko's media and analyst briefing on the Q1/2019 interim report on 25 April 2019

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Pirkko Tammilehto, Kauppalehti: What message would you like to send to the future Finnish government? What do Kesko and the trading sector hope from the new government?

Mikko Helander: Firstly, we hope that a new government can be established as quickly as possible, as that will reduce uncertainty. Our traditional themes are same as before: more effective public sector operations and lower taxes across the board – measures that support good consumer demand and consequently good economic development.

Continued determined de-regulation: good progress has been made, but there is still a lot to be done. This will make the economy more dynamic.

More necessary reforms concerning the labour markets, social security and healthcare, and continue to boldly dismantle monopolies. Finland is still the promised land of monopolies, and monopolies always eventually reduce competitiveness, and taxpayers and consumers always end up footing the bill for non-functioning monopolies and lack of competitiveness. Here are some issues for starters.

In the car trade, we are really hoping for decisions that will lead to a determined renewal of Finland's car stock. It is shockingly old, and that is a big problem in terms of safety and emissions. Unfortunately, not much attention has been paid in political debate to the fact that the most efficient and fastest way to significantly reduce traffic emissions is to update our car stock. Whether it is with electric cars or gas, petrol or diesel combustion engines, that's less important. People driving newer cars in itself will significantly reduce emissions. We should now make tax decisions and other decisions that will remove the uncertainty and cause people to switch to newer cars. That would also be an ecological act, and we very much hope and wait for that to happen.

Pirkko Tammilehto: So car tax should go down, but the problem there seems to be the timing. How should it be changed?

Mikko Helander: Of course. We have good models on how to do this, also from other countries. Car trade has clearly communicated its viewpoints to policymakers. Johan, would you come and expand on this? We have repeatedly talked about these issues with political decision-makers.

Johan Friman, President, car trade: Two automotive sector interest groups, the Association of Automobile Industry, which is an organisation of Finnish car importers, and the Finnish Central Organisation for Motor Trades and Repairs, which is a retail interest group, together approached the previous government several times with the idea of gradually getting rid of car tax altogether within a time span of five to six years. Vehicle tax, in turn, would be raised somewhat to compensate for this. This solution would not result in market disturbances for any of the parties. The change would happen over the course of five to six years, not all at once.

Mikko Helander: We also want to emphasise that we will need all motive power options when reducing traffic emissions, they all offer their own competitive advantage. In the end, every buyer should make a decision that suits their needs. Demonising any modern alternative does not serve the purpose of reducing traffic emissions.

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Pirkko Tammilehto: When you talk about monopolies, I assume that entails wines in retail stores, and the pharmacy market?

Mikko Helander: For trading sector operators, these are of course the big issues. But for me, there are even bigger monopolies that have a bigger impact on the society, and dismantling these would be important for the national economy, competitiveness and the purchasing power of Finnish consumers. I encourage their bold dismantling and taking cues from other countries in Western Europe. Finland should definitely continue with this line of work.

Pirkko Tammilehto: Can you specify which monopolies you mean?

Mikko Helander: The public sector in Finland carries out many duties where it would be healthy to also have private operators working alongside the public sector to make service and efficiency better. Healthcare is one example, and I think there is a political consensus that we need to make the health and social services reform happen, one way or another. There are also issues related to energy production, and as you said, there is a pharmacy monopoly, there is a monopoly on retail sales on alcohol, the list is long. It's fair to say that Finland continues to be a promised land for monopolies, and it has been proven that monopolies are toxic to a competitive national economy.

Pirkko Tammilehto: Could you elaborate – and maybe this is a question for Ari Akseli – on how the change in legislation that allowed 5.5% strong alcoholic beverages in grocery stores has affected K-store sales?

Mikko Helander: Yes, we are happy to talk about this. Overall, it has been a success, and Ari can tell you more on that. K Group and the trading sector are happy and even proud of how responsibly the retail sector has handled the matter. Alcohol consumption has not increased and I expect the declining trend to persist also in upcoming years. This is a good example of how none of the nightmare scenarios has become a reality, and responsible actions by the stores have had a major role in this. Ari, please elaborate.

Ari Akseli, President, grocery trade: This is true, none of the nightmare scenarios came true, even though we had the hottest summer on record. The biggest sales growth in beverages was seen in waters and non-alcoholic beer. Despite the hottest summer in history, the overall consumption of alcohol stayed flat when we account for alcohol imports by travellers, Alko's sales, and sales by grocery stores.

Drinking habits became more European, and sales focused increasingly on soft alcoholic drinks. We could clearly see that when people could buy *lonkero* in a grocery store, they visited Alko stores less, which in turn meant they bought less hard liquor and imported less alcohol from abroad, and thus Finnish tax revenues went up. It may be hard to come up with an argument against the change now.

Mikko Helander: When we talk about alcohol, we should note that international online sales are growing and are here to stay. Finland will have to establish rules for legal sales of alcohol online sooner or later – and I personally think it will be fairly soon. We hope the new government can establish such rules, the last one couldn't and the matter was left unresolved. If rules are not established, either Finnish or big international operators will start to test the boundaries, and we will have an uncontrollable situation. In our view, it is clear that online sales will force Finland to make changes in retailing also in this category.

Ari Akseli: Also, if we look at the beer category, for example, we can see that 90% of the beer sold continues to be medium strength, that sales of microbrews are clearly up, and that selections overall are rich and consumers are smart and responsible. We want to support this trend.

With Mikko here, I'll also note that our Pirkka wines have received high marks for quality, with five stars and around 94 points.

Mikko Helander: Yes, Pirkka wines have been moved from Alko's sale-to-order selection to the store selection, and sales are so good we are constantly having supply issues. We worked hard in finding and testing out the wines.

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Pirkko Tammilehto: Your online grocery sales are up by 110%, what does that translate into in euro terms? Of course it's retailer-specific, but could you define the increase in euro terms?

Mikko Helander: When we started, wasn't the figure around 14 or 15 million euros annually, Ari? That equals the sales of two medium-sized supermarkets. Last year, growth was strong and the figure rose above 30 million euros, and this year it would seem we'll exceed 50 million euros. Ari and I have agreed we're not going to slow down such good growth, and the sales are already and will continue to be very significant.

We have now found a functional operating model that our customers like, and feedback shows customers even find it addictive. Very important for us is that clearly the customers who use K Group's online grocery stores also visit our physical stores more often than average, and their purchases from K Group's physical stores are also growing. So there are many positives. We are very happy that our fast-growing online grocery sales are also a profitable business for us. That is not a given, and many big operators in Europe have long struggled with profitability. But we have tremendous growth figures and the business is profitable, so we are building the business on a healthy foundation.

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Mikko Helander: Are there any more questions? If not, thank you everyone.