NORDIC RETAIL MARKET ANALYSIS
AUGUST 2016
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In recent years, retailers have increasingly begun to look at the Nordics as an attractive market for expansion, led by the capital cities of Stockholm, Copenhagen and Oslo and, to a slightly lesser extent, Helsinki, fuelled by the region’s economic growth prospects, a high level of affluence and an expanding population.

International retailer presence in the Nordics is currently low compared with other European countries and, despite many strong domestic brands, there is a healthy appetite from consumers for the introduction of new mainstream fashion-oriented and luxury retailers from around the world.

Retailer expansion in the region is, however, dependant on the availability of suitable space and developers have responded to this growing demand with a number of high quality new developments emerging over the past few years, most recently exemplified by Unibail-Rodamco’s one million sq ft ‘Mall of Scandinavia’, which opened its doors in November 2015.

Despite the clear appeal of the Nordics as a whole, it is important to recognise, however, that the region comprises four very distinct individual retail markets – Denmark, Finland, Norway and Sweden – each with their own unique characteristics and structures – the acknowledgement and understanding of which are crucial to a successful retailer strategy.

This report seeks to highlight the key considerations for retailers who are looking to expand to any of the four major retail markets in the Nordic region with regard to their individual economic, socio-political and cultural characteristics to enable them to identify where the opportunities are for expansion and ensure that their brand strategy is tailored to the unique needs and desires of Danish, Finnish, Norwegian and Swedish consumers, rather than a universal ‘Nordic consumer’.

Acknowledgements
This report was prepared by CBRE Limited and was reviewed and edited by ICSC Research. Special thanks to Brenna O’Roarty (RHL Strategic Solutions) and Sandra Greisman (The Retail Headquarters AB) for their support and advice.
Key findings of the study are:

- The countries are all small, open, export-led, mixed economies. However, the composition of the underlying export markets varies significantly, resulting in divergent economic performance and prospects.

- The region is affluent and wealth is widely distributed across the populations, with the Norwegians being the most affluent and the Finns the least. Focusing on comparative wealth within the region, however, might mistakenly lead to Finland being discounted given its spending potential significantly exceeds the EU average.

- The retail landscape is dominated by shopping centres in Finland, Norway and Sweden, in part due to the harsh winter climate that favours enclosed retail formats. This is mirrored in shopping behaviour, with up to 40% of consumers visiting shopping centres at least once a week, in Norway, Sweden and Finland, while this falls to a little over 20% in Denmark. (In Denmark, high-street retailing predominates.)

- Retailers must be cognisant of the different consumer attitudes, currencies, regulations and competitors within each market. For example, Sunday trading hours vary across the markets and while consumerist, Swedes are price conscious while Norwegians favour locally sourced products.

- The youngest (16-24) and oldest (55-65) age cohorts have the strongest preference for shopping centres in Denmark, Norway and Sweden. In Finland, the 25-34 years olds are more engaged.

- In addition to visiting stores, which remains the principal reason for visiting shopping centres, consumers also identify shopping centres as social spaces, with a strong propensity to meet friends when they visit. This is particularly strong amongst the younger age profile. Although this supports food and beverage (F&B) services in shopping centres, the level of engagement is lower across all Nordic markets compared with other European countries. Yet, consumers also indicated that increasing the F&B offer would encourage them to frequent shopping centres more often.

- The penetration of international retailers is low relative to other European markets. To some extent this is due to strong domestic brands in key segments (e.g., fast-fashion) but also as a result of a lack of understanding of the opportunities in each market. The consumer opportunity in these more affluent markets and a shift towards city- rather than country- led expansion strategies, is increasing cross-border retailer activity in the region. Such retailers are focused on either capital or major cities and in comparison to domestic brands, are hesitant to expand to what might be considered more secondary cities/locations.

- The perception of the Nordic markets differs amongst retailers, and this is manifest in business strategies. Retailers from within the Nordics region view each country as a discrete market and tailor strategies accordingly, with store networks managed at a national level. In contrast, international retailers have a tendency to consider the region as one homogeneous market and manage it accordingly.
While Nordic countries have some political and socio-economic similarities, with each being a small, mixed and export-led economy, the countries have distinct socio-political cultures and economic cycles.

1.0 INTRODUCTION

The Nordic region comprises Denmark, Finland, Norway and Sweden and each country possesses a distinct retail landscape. A shared history and intra-regional trading agreements, with some commonality of language in the countries making up Scandinavia, have often resulted in the misconception that retail strategies in one Nordic country can be readily applied to other markets in the region. While Nordic countries have some political and socio-economic similarities, with each being a small, mixed and export-led economy, the countries have distinct socio-political cultures and economic cycles. This aim of this research is to clearly distinguish the retail economies housed within the Nordic region, to identify the role of shopping centres within the retail hierarchy and highlight differences in consumer behaviour, and to consider if and how these differences impact retailer business strategies across the region.

This report sets out the retail opportunity in the Nordics and considers how it differs across and between countries within the region. First, the socio-economic context is considered, examining the consumer profile within the region and evaluating opportunities against prevailing economic prospects and the retail real estate landscape. Second, the role of shopping centres within the retail hierarchy is assessed for each market from the consumer perspective. The analysis evaluates centre attributes that are key to attracting and retaining customers. Third, the research considers the implementation of retailer strategies across the region and how they differ across the markets and between domestic and cross-border retailers. Finally, the retail opportunity of each market is summarised.

The research findings are based upon a desktop analysis of existing literature and data in order to evaluate the current retail environment. A questionnaire was undertaken with a representative sample of consumers in each country to further build on this knowledge base, and specifically to identify consumer behaviour and preferences in regard to shopping centres. In order to gain a more detailed understanding of retailer strategies in the region and how they might differ across countries, structured interviews were undertaken with retailers. A broad range of retailers experienced in the region were interviewed, including those with established retail brands, fascias, retailers that had entered and later withdrawn from one of more of the markets, and retailers that are in the process of entering at least one of the retail markets within the region.
2.0 RETAIL ENVIRONMENT

2.1 HISTORY OF THE REGION

Table 1  Political Framework

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flag</strong></td>
<td><img src="image" alt="Flag" /></td>
<td><img src="image" alt="Flag" /></td>
<td><img src="image" alt="Flag" /></td>
<td><img src="image" alt="Flag" /></td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>Copenhagen (1.24 million)</td>
<td>Helsinki (1.17 million)</td>
<td>Oslo (925,000)</td>
<td>Stockholm (1.37 million)</td>
</tr>
<tr>
<td><strong>Constitution / Flag day</strong></td>
<td>5 June 1849</td>
<td>17 December 1917</td>
<td>17 May 1814</td>
<td>6 June 1809</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>Constitutional Monarchy</td>
<td>Parliamentary Republic</td>
<td>Constitutional Monarchy</td>
<td>Constitutional Monarchy</td>
</tr>
<tr>
<td><strong>Planning regimes</strong></td>
<td>Very strict (national framework)</td>
<td>Relaxed (devolved to local government)</td>
<td>Most strict (national guidelines)</td>
<td>Most relaxed (devolved to municipalities)</td>
</tr>
</tbody>
</table>


As seen in Table 1, the political landscape and planning regime are critical influences on how the retail industry develops in any country. While many mistakenly view the Nordic countries as one unit, it is important to acknowledge that the Nordics have a shared political history beginning with the Kalmar Union in 1397, through to the formation of the Nordic Council in 1952. In the post-war era, the region has pursued cooperative agreements that are manifest in robust levels of intra-regional trade.

Despite high levels of interaction, common roots and similar forms of government, each country has its own political identity, separate currency and economic path, forged through years of differing cultural and political priorities.

Consequently, planning structures and rules governing retail trade differ across the region. In Norway, where protecting the natural environment and reducing urban sprawl are consistently top priorities, strict restrictions have been placed on large out-of-town retail developments. Sweden’s less stringent planning regime is reflected in its development pipeline, which is currently four times that of Norway.

Danish trading laws were rather restrictive until recently. Closing hour laws were revised in 2009, with all shops allowed to open every Sunday (except public holidays) from October 2012.

The Republic of Finland remains very business-friendly to foreign retailers – however, its relatively small size does act as a hindrance. Legislation around rental agreements represents some of the most flexible, and balanced, in Europe.
For instance, leases can be terminated if agreed between the parties. Tenants are responsible only for internal repairs and are often compensated for improvements.

Sunday trading in Finland was introduced in 1994, with more liberalised trading hours across the week introduced in 2009.

Norway, despite being outside of the European Union, remains connected to its internal marketplace through the European Free Trade Association (EFTA). Presently, stores are prohibited from late evening Saturday trading and are generally not allowed to open most Sundays unless they meet very strict criteria – e.g. smaller than 100 square metres (sq m), located in transport hubs or in high-traffic areas, etc. Recent proposals to relax Sunday trading laws were met with objections from labour unions as well as retailers and consumers.

Largely due to its mixed economy and political stability, Sweden is often considered a particularly successful post-industrialised society. Unlike in other Nordic and large European countries, trading laws are largely relaxed and unregulated, having been liberalised in the early 1970s. Retailers are free to open every day of the week, with no restrictions on Sunday trading. However, labour costs are one of the highest in Europe, with workers paid more than the standard wage on Sundays. These wages are therefore prohibitively high for some. While planning laws remain regulated, planning is largely decentralised and relatively lax compared to Denmark and Norway.
2.2 CONSUMER SOCIO-DEMOGRAPHICS

The Nordic region’s residents are among the wealthiest in the world and with much of the population concentrated in a relatively small proportion of the land mass, the region makes for an optimal consumer base, as demonstrated in Table 2. Norway has the highest household income level in Europe, with a median average net disposable income of €42,900. This is defined as net income after benefits and taxes have been applied. The remaining three countries rank highly as well, with an average (€25,500) well above that of the European Union (€15,500). Equally, consumer expenditure per capita is also well above the European average.

Disposable income levels across the region are aided by a high provision of public services, such as childcare, education and health services. While these are funded through higher taxation levels, they result in significantly more discretionary income as a proportion of disposable income.

The region’s population is set to grow more swiftly over the coming decades. The growth rate for all four countries is forecast to be above the European average, helping to drive the population towards 30 million by 2030. The appeals of urban life, coupled with easy access to job opportunities, superior educational institutions and shopping, have made Oslo, Stockholm and Helsinki three of the fastest-growing cities in Europe.

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Table 2  Socio-Demographic Profile

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
<th>EU-28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, metro (2014)</td>
<td>5,627,235</td>
<td>5,451,270</td>
<td>5,107,979</td>
<td>9,644,864</td>
<td>506,824,509</td>
</tr>
<tr>
<td>Population CAGR*</td>
<td>0.46%</td>
<td>0.47%</td>
<td>0.83%</td>
<td>1.39%</td>
<td>0.13%</td>
</tr>
<tr>
<td>(2015-2030)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total population growth</td>
<td>7.2%</td>
<td>7.3%</td>
<td>22.9%</td>
<td>13.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>(2015-2030)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median age (2014)</td>
<td>41.3</td>
<td>42.4</td>
<td>39.0</td>
<td>40.9</td>
<td>42.2</td>
</tr>
<tr>
<td>Female labour participation rate (%)</td>
<td>75</td>
<td>74</td>
<td>76</td>
<td>79</td>
<td>67</td>
</tr>
<tr>
<td>(2014)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban population (%)</td>
<td>87.5%</td>
<td>84.2%</td>
<td>85.6%</td>
<td>80.2%</td>
<td>69.1%</td>
</tr>
<tr>
<td>(2014)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population density</td>
<td>130.8</td>
<td>17.9</td>
<td>23.9</td>
<td>16.7</td>
<td>116.9</td>
</tr>
<tr>
<td>(persons per sq km) (2014)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median disposable</td>
<td>€26,900</td>
<td>€23,300</td>
<td>€42,900</td>
<td>€26,400</td>
<td>€15,500</td>
</tr>
<tr>
<td>household income (2013)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer expenditure</td>
<td>€21,100</td>
<td>€19,100</td>
<td>€28,200</td>
<td>€20,000</td>
<td>€14,600</td>
</tr>
<tr>
<td>(per capita) (2014)</td>
<td></td>
<td></td>
<td></td>
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* CAGR=Compound Annual Growth Rate

2.2.1 CONSUMER SOCIO-DEMOGRAPHIC PROFILE, DENMARK

Denmark, at just over 5.6 million, is the second-largest country in the region. With a birth rate and immigration levels lower than other Scandinavian countries, Denmark’s population is not expected to grow as significantly over the coming decades as Norway and Sweden. By 2030, the population is forecast to be 6.1 million, the lowest growth level of the region at 7.6%.

At 89.5%, Denmark’s high population density, coupled with its small size, has led to the highest urbanisation rate both within the Nordic belt and the wider European region. Copenhagen, Aarhus and Odense, the three largest cities, account for more than 30% of Denmark’s total population.

OECD figures rank Denmark as having the highest income equality of any EU member country. This, coupled with a median household income of €26,900, has helped Denmark achieve consumer expenditure levels some 44% above the EU average, although well above the EU public spending. Danish consumers spend markedly more on educational services as a percentage of overall household expenditure. Conversely, household spending on furnishings and household goods is the lowest in the region.

2.2.2 CONSUMER SOCIO-DEMOGRAPHIC PROFILE, FINLAND

Finland’s population reached 5.5 million in 2014. Traditionally, Finland has experienced low levels of population growth, due to relatively low birth rates and minimal inward migration. At a national level, these trends are set to continue with population growth rate forecasts being below other Nordic countries over the coming decades. However, urbanisation trends are resulting in strong population growth for its largest cities.

The three largest metropolitan regions, Helsinki, Tampere and Turku, are home to nearly 40% of Finland’s population. The Helsinki Metropolitan Area (HMA) comprises a conurbation of three cities and accounts for 25% of Finland’s total population, with 1.4 million residents. Overall, nearly 85% of Finland’s population live in urban areas, a higher rate than the United Kingdom, the United States and France.

Relative to other Nordic countries, Finland’s average household income is low. However, compared with other European countries it remains noteworthy. Incomes in Finland are more than 10% higher than the economic powerhouses of France, Germany and the United Kingdom. Low levels of income inequality have contributed to Finland’s high levels of disposable income and consumer expenditure. This is a major draw for retailers entering the market.

The Finnish consumer spends proportionally more than other Nordic consumers with respect to food, alcoholic beverages and restaurants. Interestingly, expenditure on catering services in particular is 20% higher for Finnish households relative to the Danish and 75% higher than Norwegian households, highlighting the higher tendency of Finnish households to eat out.
2.2.3 CONSUMER SOCIO-DEMOGRAPHIC PROFILE, NORWAY

Norway is the smallest Nordic country, with a population of 5.1 million. Of this, nearly 30% or 1.5 million live within the Oslo region and 44% live within the three largest cities: Oslo, Bergen and Trondheim. Population growth has been robust in recent years, driven by large inward flows of migrants and a subsequent increase in fertility rates. This has resulted in Norway having an unexpectedly youthful population, with a median age of 39 years, significantly below neighbouring countries. Projections suggest this is set to continue, with the population forecast to reach 6 million within the next ten years and nearly 8 million by 2050.

Internal migration also plays a powerful role in Norway, with major cities’ populations having expanded significantly in recent years. Indeed, Norway has the highest urban population growth rate in the Nordics and one of the highest in Europe. As the population continues to concentrate in a few core cities, network planning across such a large country becomes significantly easier.

While all the Nordic countries rank significantly higher than the EU and Western averages for most income factors, Norway regularly takes the top position in the region and the rest of the world with respect to average household income, disposable income and consumer expenditure. Indeed, consumer expenditure per capita in Norway is €28,200, nearly twice the EU-28 average.

As a result of high disposable income levels, the Norwegian consumer has an increased propensity to spend on luxury and high-end goods. The relationship between price and quality remains important to Norwegians, with most opting to spend on quality goods over discount brands. Expenditure on outdoor apparel and sporting goods is markedly higher than other Nordic countries, highlighting Norwegians general love for nature, the environment and outdoor activities. Additionally, as a percentage of consumer expenditure, Norwegian households spend 20% more overall on clothing than their Nordic neighbours.

2.2.4 CONSUMER SOCIO-DEMOGRAPHIC PROFILE, SWEDEN

Sweden, with a population of 9.6 million, is the largest country in the Nordic region. Forecasts place the population in excess of 10 million by 2020 and just under 11 million by 2030. The vast majority of Sweden’s current population is concentrated within the southern and eastern regions. These regions, particularly the areas along the southwestern coast, are projected to see the highest population growth rates.

Sweden is, for the most part, ethnically homogeneous; however, its key cities are highly diverse, and historically very wealthy by European standards. This has resulted in high levels of immigration and internal migration, particularly to core cities. Notably, Stockholm is expected to see a 17% increase in its population by 2020 – compared with London (+9.0%) and Paris (+3.5%). Presently, the three metropolitan areas, Stockholm, Malmö and Gothenburg, account for 40% of Sweden’s population.

Despite having one of the highest net savings-to-disposable income ratios in Europe (11.5%), Sweden also has high levels of household expenditure and overall disposable income. Swedish consumers are generally considered trend-conscious, early adopters and demanding buyers who value and embrace new international retail brands.
2.3 ECONOMIC FUNDAMENTALS

Table 3  Key Economic Variables

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
<th>Eurozone</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Gross Domestic Product (GDP) growth (%)</td>
<td>1.1%</td>
<td>- 0.04%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2015/2016 GDP forecast (%)</td>
<td>1.7% / 2.0%</td>
<td>- 0.03% / 0.9%</td>
<td>1.1% / 0.8%</td>
<td>2.4% / 2.7%</td>
<td>1.7% / 1.9%</td>
</tr>
<tr>
<td>Unemployment (%) (Nov 2015)</td>
<td>4.8%</td>
<td>10.0%</td>
<td>4.2%</td>
<td>8.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Consumer Price Index (%) – latest</td>
<td>0.7%</td>
<td>- 0.2%</td>
<td>2.6%</td>
<td>- 0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Industrial output (y-on-y % change)</td>
<td>- 3.2%</td>
<td>- 5.1%</td>
<td>5.1%</td>
<td>3.3%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Retail sales volume growth (Q1’10-Q1’15)</td>
<td>0.0%</td>
<td>4.1%</td>
<td>10.7%</td>
<td>15.1%</td>
<td>- 0.1%</td>
</tr>
<tr>
<td>Private consumption growth 2014 (%)</td>
<td>0.7%</td>
<td>- 0.1%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Interest rate (%)</td>
<td>- 0.75%</td>
<td>0.05%</td>
<td>1.0%</td>
<td>- 0.35%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, 2014

While there are numerous similarities, including high female participation rates in the labour market, high levels of productivity and general fiscal stability, the countries are quite distinct.

The Nordic region is made up of small, economically open countries, with large export-driven markets. High levels of fiscal responsibility have helped the region remain financially stable and solvent. While the eurozone as a whole is still feeling the ill effects of the Global Financial Crisis (GFC), the relative economic performance of the Nordic region has been strong, with GDP for both Norway and Sweden surpassing their pre-recession market peaks as early as 2013, before any other European countries.

While there are numerous similarities, including high female participation rates in the labour market, high levels of productivity and general fiscal stability, the countries are quite distinct, as demonstrated in Table 3. Denmark’s economy remains less volatile due to its focus on fast-moving consumer goods, while Norway’s fortune has historically been fuelled by the North Sea oil industry. Despite years of robust growth and strong economic fundamentals, countries within the region are currently experiencing divergent economic cycles.

The Norwegian economy has come under pressure from falling oil prices, while in Finland, the decline in fortunes for its technology sector, resultant weak domestic demand and economic sanctions between the EU and Russia, a key trading partner, have negatively impacted its growth trajectory. In contrast, the Danish economic recovery is solidifying and Sweden’s economy has outpaced all growth expectations. Economic forecasts for the region are above the EU average, although near-term economic prospects differ significantly.
2.4 ECONOMIC PROSPECTS

2.4.1 ECONOMIC PROSPECTS, DENMARK

Geopolitical tensions and economic uncertainty within the eurozone have not been enough to dampen Denmark’s economic prospects. (See Table 4.) Although the market recovered in 2009, the housing crash in preceding years dragged on the economy, together with austerity measures required to restore budgetary imbalances. Consumer confidence deteriorated, stifling spending in this consumerist economy. As a result, Denmark experienced three years of economic stagnation before recovering to growth of 1.1% in 2014. Over 2015, the Danish economic recovery has slowly accelerated, supported by a recovery in house prices which has been a catalyst for releasing pent-up consumer spending. GDP growth of 1.7% and 2.4% is forecast for 2015 and 2016 respectively.

Expectations of higher economic growth are largely due to the recovery of export markets, low interest rates and increased consumption. Improving economic conditions bode well for retail sales, which suffered until the housing market began to recover this year. Retail trade, having peaked in 2007, saw steady declines for six years before bottoming out over 2013. Retail sales expanded by 1.2% in 2014, making it the first full year of growth for this measure since 2007. Consumer confidence has reached a record-high during 2015 and by mid-year this was translating into stronger retail sales growth.

Dragged down by falling food prices and the significant drop in global oil prices, inflation remains low, standing at 0.5% in June 2015. However, low inflation has resulted in real wage growth as well as an increase in disposable income, up 1.9% year-on-year.

Table 4  Consumption and Retail Sales Prospects

<table>
<thead>
<tr>
<th>2015f-2019f</th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consumer spending growth</td>
<td>7.4%</td>
<td>6.2%</td>
<td>8.0%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Retail sales growth</td>
<td>12.2%</td>
<td>13.0%</td>
<td>7.6%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Proportion of online retail sales (2014/2019)</td>
<td>11.8% / 16.3%</td>
<td>9.8% / 11.2%</td>
<td>8.3% / 10.3%</td>
<td>8.0% / 10.5%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, 2014
2.4.2 ECONOMIC PROSPECTS, FINLAND

Despite a significant economic rebound following the GFC, structural changes in global demand for key exports have resulted in sustained declines in domestic demand, export growth and investment spending in Finland. Subsequently, the economy has experienced a prolonged economic contraction, as it enters its fourth year of recession. GDP declined by 0.1% over 2014, significantly smaller than declines in 2013 (-1.3%) and 2012 (-1.4%). Following a slight contraction forecast for this year, growth is expected to resume in 2016 (+0.9%).

Finland’s economic woes are deep-rooted, with both the electronics and forestry sectors having recently experienced sharp declines. Among Nordic and eurozone countries, Finland is a rare example of a country whose exports have remained largely stagnant over the last three years, impacted heavily by the aforementioned structural issues and impact of EU and Russian sanctions stemming from the Russian conflict in Ukraine.

One bright spot is the rise in real incomes, due to low oil prices and falling inflation, in spite of low pay increases. Households continue to be squeezed, though, resulting in consumption levels falling marginally for the second year in a row. Despite the economic woes, consumer confidence in Q2 2015 reached a four-year high following the general election and renewed belief that Finland’s economic situation would improve in the next 12 months.

Retail trade, after adjusting for price changes, has remained largely stagnant over the last five years, with a slight uplift of 2% experienced in the first half of 2015. Overall consumer demand has been buoyed by the low interest rate policy of the European Central Bank (ECB), which has also helped maintain disposable income levels.

On the whole, an increase in consumption, albeit weak, is expected in 2015 and 2016, as the global economy continues to improve, with its benefits spilling over into Finland. On the back of a significant decline in sales volumes in 2014, retail trade is expected to see moderate levels of growth in 2015.

2.4.3 ECONOMIC PROSPECTS, NORWAY

Despite the rapid fall in global oil prices, the Norwegian economy remains expansionary. The economy unexpectedly accelerated in the first quarter of 2015, with GDP for mainland Norway rising by 0.5%. While the unforeseen rise in GDP can largely be attributed to increasing consumer expenditure, it masks labour market stagnation and a marked decline in investment.

Given that petroleum-related activities account for 20% of economic output, sustained low oil prices will negatively impact economic growth. GDP growth forecasts have fallen sharply from previous estimates, with Oxford Economics now predicting 1.1% for this year and 0.8% for 2016.

Weakening labour market fundamentals, coupled with moderate inflation, will reduce real wage growth in the short-to-medium term. Unemployment continues to slowly inch higher and while it remains comfortably below the EU average, at over 4% it represents the highest level for almost a decade within Norway.

On a more positive note, private consumption has not been heavily impacted by recent economic conditions, buoyed by rising incomes, low interest rates and stronger-than-expected growth in house prices. Indeed, although strong house price growth is helping to drive consumption, there is also some concern that it is fuelling increases in household debt. House prices have doubled since 2003 and in April 2015, increased by 8.7% year-on-year, while household debt grew by 6.2%. Proposed lending regulations aim to curb debt and house prices with a likely negative impact on consumer spending if enacted.

Although consumer confidence has fallen to levels experienced during the GFC, retail sales volumes remain remarkably healthy. Prior to May, which saw volumes fall 0.1%, year-on-year, monthly movements (SA) have averaged 2.3% over the last four years. Annual retail sales growth is forecast to be a solid 1.6% this year and 2.1% in 2016.
2.4.4 ECONOMIC PROSPECTS, SWEDEN

Sweden’s economy grew by a remarkable 2.3% in 2014, the strongest level of growth achieved within Western Europe. Growth is expected to remain robust over the next two years, with forecasts estimating an expansion of 2% in 2015 and a further 2.8% in 2016.

Sweden’s positive economic climate can largely be attributed to household spending in recent years, with the export growth over 2015 restoring balance to this mixed economy. Supported by solid employment growth, substantial increases in real wages and a rise in disposable income, private consumption has risen significantly. Retail sales volumes grew nearly 4% year-on-year in 2014. Indeed, Sweden has enjoyed the strongest levels of retail sales growth in the Nordics over the last five years and is one of the best performers in Western Europe. Retail sales volumes are forecast to expand by more than 4% in 2015, the strongest since 2007.

Despite improving economic fundamentals, deflationary fears continue to linger, with Sweden’s consumer price index perpetually falling below the Riksbank’s 2% target rate for the last three years. The recent fall in oil prices has placed further downward pressure on inflation and following currency appreciation after the ECB rate cut, the Riksbank was forced to respond. The central bank introduced negative interest rates for the first time, as well as a small quantitative easing programme. Both have had a positive impact on household consumption and subsequently, retail trade.

Similarly to Norway, Sweden has seen significant increases in house prices, which in turn are supporting increased household consumption and debt. Long-term supply shortages have driven prices up 11% in the 12 months to May.

Overall, Sweden’s economic future appears largely positive. The government predicts it will manage to balance the budget by 2018, while simultaneously lowering unemployment and bringing inflation in line with the historical long-term average of 2%.
2.5 RETAIL LANDSCAPE

Table 5 Retail Real Estate Profile

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime High Street rents (€/sq m)</td>
<td>2,015</td>
<td>1,750</td>
<td>2,230</td>
<td>1,690</td>
</tr>
<tr>
<td>Prime Shopping Centre rents (€/sq m)</td>
<td>1,070</td>
<td>1,050</td>
<td>1,240</td>
<td>1,030</td>
</tr>
<tr>
<td>Rental growth forecast (CAGR,* five years)</td>
<td>1.8%</td>
<td>3.9%</td>
<td>4.6%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Shopping centre density (sq m per 1,000 persons)</td>
<td>261.7</td>
<td>353.5</td>
<td>606.3</td>
<td>288.8</td>
</tr>
<tr>
<td>Shopping centres over 30,000 sq m (count)</td>
<td>16</td>
<td>20</td>
<td>41</td>
<td>52</td>
</tr>
<tr>
<td>Largest shopping centre (turnover, € millions)</td>
<td>Field’s (€370m)</td>
<td>Itis (€ 368m)</td>
<td>Sandvika (€402m)</td>
<td>Nordby (€490m)</td>
</tr>
<tr>
<td>CBRE Global Retailer Representation Rank (out of 61 countries)</td>
<td>43</td>
<td>55</td>
<td>49</td>
<td>38</td>
</tr>
</tbody>
</table>

* Compound Annual Growth Rate
Source: CBRE, 2015

2.5.1 RETAILER PRESENCE

High distribution costs, as well as the perception of the markets being too small and disparate, have traditionally been considered the main obstacles to market entry in the Nordic region. Despite substantial market opportunity, the Nordics has long been a low-priority region for international retailers. However, thanks to positive economic fundamentals and a shift from country to city-led retailer expansion strategies, this trend has begun to shift. More well-known brands have begun taking space in the region, primarily in major cities.

Most international retailers choose to enter the market through franchises, department store concessions or partnered formats. Not only does this model reduce risk associated with portfolio expansion, but it also reduces capital required by utilising established franchise distribution networks. Despite reducing risks, many new market entrants fail to fully conquer the region and exit shortly after entry. A number of brands with international presence have entered and withdrawn from the Nordic markets; GAME, On Off and the Expert Group all departing soon after expanding in the region. To some extent this has been driven by the very competitive retail categories these retailers are focused on, rather than an innate incompatibility with the Nordics’ retail landscape.

The lack of international brands has allowed domestic retailers to dominate every aspect of the local market. The fast-fashion market is particularly competitive and the strong value for money offered by domestic chains results in the opportunity for cross border retailers in this segment being very narrow. With H&M, Lindex, Cubus, KappAhl as well as other large domestic brands, there is limited space for well-known international brands like Uniqlo, Topshop and GAP.
The Nordic retail landscape is dominated by shopping centres. Indeed, Norway, Sweden and Finland have the highest density of shopping centres in Western Europe – ranking first, third and fourth, respectively. There are some 800 shopping centres across the region, providing the main form of retail in smaller towns and complementing high streets in major cities. While there are a significant number of centres, they tend to be quite small. Notably, the average United Kingdom centre is nearly 36% larger than the average Nordic shopping centre. The average scheme size is less than 20,000 sq m.

Shopping centre formats differ across the region, with smaller centres in Norway and Denmark and relatively larger ones in Sweden and Finland. The F&B provision has traditionally been low in Norway, relative to the other markets. Conversely, grocery anchors are abundant across the region, with most schemes having at least one operator.

Despite the predominance of shopping centres, the region is one of the most mature omni-channel retailing markets. Online retail trade in 2014 amounted to approximately €15bn. While small in absolute terms relative to larger European markets like the UK (£43bn), Germany (£25bn) and France (£22bn), on a per capita basis the four Nordic markets rank higher than all other European countries, except the U.K. Notably, Norwegians each spend €627 online on average, nearly twice that of Germans (£344) and French (£361). Online retail sales currently account for an estimated 9% of all retail trade and are forecast to grow at 10% per annum. This represents a significant opportunity for new international omni-channel retailers to pre-test the market.

While shopping centre density and high levels of online spend represent several common themes across the region, the Nordic retail environment remains highly diversified with notable differences across markets.

(i) Denmark
In spite of its size, Denmark is one of the most mature retail markets in Europe. Total retail stock amounts to approximately 12.4 million sq m, of which shopping centres’ account for 1.5 million sq m, or 12%. While still above the European average, Denmark has the lowest provision of shopping centre space of all the Nordic markets, as seen in Table 5. This is primarily due to a strong tradition of high street retailing and strict planning rules on out-of-town space. Danish centres are on average the smallest in the region. There is currently only one scheme with more than 100,000 sq m GLA in Denmark, the Rosengårdcentret in Odense. Shopping centre development continues to focus on refurbishment and

Despite the predominance of shopping centres, the region is one of the most mature omni-channel retailing markets.
reconfiguration of existing schemes. Better configured space and improving economic conditions have not been enough to reduce the overall vacancy rate, which remains stubbornly high at 6.3%. This is significantly above the market low of 1.9% experienced in 2007.

Generating nearly 25% of retail turnover, Copenhagen, and the wider Capital Region, remains the focus for new market entrants. Denmark’s three regional cities (Aalborg, Aarhus and Odense) are also important retail centres, serving as secondary expansion points for retailers.

Danish brands, along with their Swedish counterparts, represent the largest share of cross-border brands in the region. From Bestseller, owner of Vero Moda, Selected and Jack & Jones, to IC Company, owner of By Malene Birger, Peak Performance and Saint Tropez, Danish style and fashion can be found across the value spectrum.

While Danish brands continue to expand outside of the home market, international retailers are continuing to enter and expand within the market. Typically, the second market for expansion after Sweden, Denmark’s Capital Region offers an array of international brands, numbering only slightly fewer than Stockholm. Recent market entrants include Tod’s, Valentino and Isabel Marant.
(ii) Finland

Finland has the smallest retail market of the four Nordic countries studied. Its strategic location has established it as a gateway between the EU and Russia and the Baltic Sea region. Despite this position, Finland, and specifically Helsinki, remains the last country/city international brands typically enter when expanding in the Nordics. This trend has shifted slightly however, with Marks & Spencer notably opening its first Nordic store in Finland before expanding into the larger Swedish and Norwegian markets.

Overall international retailer presence has traditionally been low, with most retail centres dominated by well-known domestic brands. However, the entry of foreign brands has slowly increased, primarily by retailers already well established within the EU.

The total retail stock in Finland is 7 million sq m, with shopping centres accounting for 1.97 million sq m or 30% of space. In general, shopping centres and retail warehouses are more common than high streets, a result of Finland’s urban structure, low population density and regional planning regimes. With more than a third of the population within a 90-minute drive, the HMA is the most important retail centre in the country and accounts for nearly 50% of all retail space. While the shopping centre pipeline currently stands at 90,000 sq m, the majority remains in the planning stage with limited space under construction. Developers remain hesitant to break ground on new schemes in Finland’s current economic climate.

(iii) Norway

Despite the country’s substantial wealth and demand for quality products, international retailer penetration has remained low. CBRE estimates that of the leading 334 international retailers, only 16% are located in Norway. This is primarily due to Norway’s small market size, dispersed population and its non-EU status. Typically international brands will expand in the Norwegian market only after they have established their brands in Sweden and Denmark. Outside of Oslo and several tier two cities, including Bergen, Trondheim and Stavanger there are few areas able to attract foreign retailers.

In the last two years a number of premium retailers have opened flagships, including Sandro, Burberry and the Kooples. Like in other Nordic markets, many retailers have chosen the franchise/partner route to market.

Norway has a well-developed retail market, largely centred on out-of-town shopping destinations. At nearly three times the European average, Norway has the largest provision of shopping centres of any European country. Shopping centre stock is set to expand slightly, with 70,000 sq m of space under construction.

Refurbishment of existing shopping centre space rather than new development is the ongoing trend. This is partly due to town-centre first retail planning regulations,
which aim to strengthen urban and suburban areas, avoid urban sprawl and improve public transport options for residents without access to cars. However, a number of new schemes have opened in the past two years, following a relatively quiet period. This has impacted the overall desirability of Norwegian shopping centres, with only the largest, redeveloped, regional schemes able to attract international brands.

Online retail sales in Norway have increased by an estimated 16% per annum since 2013. Norway leads Scandinavia not only in current online retail sales per capita, but also in predicted growth of the industry.

(iv) Sweden

Of the Nordic retail markets, Sweden is the largest and most influential in the region. As a result of its geographical size and urban density in the south, it is frequently the first target destination for international retailers entering the Nordic region. The openness of the Swedish people, coupled with the strong economic fundamentals, eases market entry and aids further regional expansion.

Swedish retailers represent a large share of cross-border retail brands and include H&M Group, IKEA, Lindex and Gina Tricot. While Continental Europe has historically been the main exporter of cross-border brands, U.S. and U.K. brands have increasingly taken an interest in the region. Superdry, Hollister and River Island all represent recent entrants to the Swedish market.

Swedish shopping centres are currently undergoing a structural shift, with new and redeveloped schemes beginning to attract retailers who previously preferred high street locations. For example, Dunkin Donuts, Michael Kors and the Disney Store will all be opening stores in the Mall of Scandinavia outside of Stockholm.

Like the rest of the Nordic region, Sweden has a well-developed shopping centre market. Of its 18 million sq m of retail stock, 2.8 million sq m represent shopping centre space. The shopping centre pipeline remains strong, with 340,000 sq m of space under construction across new and existing schemes.

Despite the pull of out-of-town shopping centres, most Swedish cities have a particularly strong city centre retail offer. Sweden’s major cities continue to be the primary focus for international retailers. Stockholm remains the premier retail market for Sweden and the wider Nordic region, with numerous high streets, department stores as well as several strong-performing inner-city shopping centres like Gallerian and MOOD Stockholm. As well as being the largest retail market in the region, Stockholm sits at Sweden’s geographical centre and as such, frequently serves as a hub for regional distribution networks.
2.5.3 RENTAL DYNAMICS

(i) Denmark

After five consecutive years of stagnation, prime high street rents have risen slightly in recent quarters, currently standing at €2,015/sq m (DKK 15,000/sq m). Prime shopping centre rents are presently €1,070/sq m (DKK 8,000/sq m).

Despite stagnation, prime rents in Copenhagen were, until recently, the highest in the region due to consistently strong demand outpacing supply. Sustained demand for prime high street space is expected to drive rents even higher. Moreover, limited space on key thoroughfares has resulted in spillover to secondary streets and prime shopping centres.

(ii) Finland

Prime rents have remained largely stable over the last four years, currently standing at €1,750/sq m, the third highest of the Nordic capitals. Occupier activity continues to be centred on core high streets and prime regional shopping centres. Tier 2 cities have begun to experience increased demand, particularly Turku, Tampere and Oulu.

Trading patterns have shifted over the last 10 years, with a greater concentration of activity in larger schemes. Larger, more modern schemes have captured significant market share from smaller schemes and town centres, leading to decreased revenue and higher vacancy rates in outdated centres.

Continuous declines in retail sales have contributed to the recent spike in vacant units, particularly in secondary locations. Nevertheless, prime rents are expected to come under slight upward pressure over the next 12-24 months as prime supply falls.

Sustained demand for prime high street space is expected to drive rents even higher

Occupier activity continues to be centred on core high streets and prime regional shopping centres
Norway has experienced steady rental growth over the last three years, with prime high street rents increasing 5.1% per annum on average and currently standing at €2,230/sq m (NOK 18,000/sq m), the highest in the region. Prime shopping centre rents are €1,240/sq m (NOK 10,000/sq m).

Strong economic fundamentals have aided the retail sector, helping to drive international demand. Coffee retailers, in particular American-based Dunkin Donuts and Starbucks as well as Sweden’s Espresso House, all have plans for further expansion in the market.

Demand for prime space along key high streets has helped sustain rental growth and suppress vacancy rates. However, growth in the next 12 to 24 months should be more modest, increasing at around 3% per annum.

(iv) Sweden
Prime high street rents are generally stable in Sweden and currently stand at €1,690/sq m (SEK 14,000/sq m), the most affordable capital in the region. Partly due to the structure of the retail market, prime shopping centre rents continue to climb, currently standing at €1,030/sq m (SEK 8,500/sq m). With the opening of Emporia outside Malmo and Mall of Scandinavia outside Stockholm, destination shopping centres in out-of-town/suburban locations have begun to re-establish themselves as key competitors of city centres.

Strong levels of both domestic and international occupier demand have dramatically reduced supply levels along key high streets and quality shopping centres. Secondary streets and community shopping centres continue to experience low levels of demand, with vacant units still hard to let.

Robust demand from retailers will help drive future rental growth. CBRE forecasts that Sweden, and particularly Stockholm, will see the highest levels of growth in the region over the coming five years, at an annual average of 7% per annum.
The Nordic region is made up of small, economically open countries, with large export-driven markets. High levels of fiscal responsibility have helped the region remain financially stable and solvent. While the eurozone as a whole is still feeling the ill effects of the Global Financial Crisis (GFC), the relative economic performance of the Nordic region has been strong, with GDP for both Norway and Sweden surpassing their pre-recession market peaks as early as 2013, before any other European countries.

While there are numerous similarities, including high female participation rates in the labour market, high levels of productivity and general fiscal stability, the countries are quite distinct, as demonstrated in Table 3. Denmark’s economy remains less volatile due to its focus on fast-moving consumer goods, while Norway’s fortune has historically been fuelled by the North Sea oil industry. Despite years of robust growth and strong economic fundamentals, countries within the region are currently experiencing divergent economic cycles.

The Norwegian economy has come under pressure from falling oil prices, while in Finland, the decline in fortunes for its technology sector, resultant weak domestic demand and economic sanctions between the EU and Russia, a key trading partner, have negatively impacted its growth trajectory. In contrast, the Danish economic recovery is solidifying and Sweden’s economy has outpaced all growth expectations. Economic forecasts for the region are above the EU average, although near-term economic prospects differ significantly.
3.1 PREFERRED SHOPPING LOCATION

Figure 1: Where do consumers prefer to shop?


‘Traditional’ shopping centres are the preferred shopping location across all four retail markets, particularly in Norway where 60% of respondents prefer to shop in either a small or large shopping centre. Of those who prefer to shop in ‘traditional’ centres, the large majority in Denmark, Norway and Sweden favour large shopping centres over small ones, although in Finland there is no clear size preference.

This preference for large centres is particularly apparent in the 16-24 age group – a trend that is present across all four nations. Conversely, small shopping centres are shown to be more popular among the 55-65 age bracket.

Norway and Denmark have a high correlation in regard to consumers’ preferred shopping location, albeit a slightly higher proportion of shoppers in the latter prefer to shop on the high street. Indeed, in Denmark, almost a third of shoppers favour the high street – the highest percentage of all four Nordic countries. By contrast, the high street is the preferred shopping location for only 10% of Finnish respondents.

Overall, Finland has the most distinct and varied shopper location profile. Despite ‘traditional’ shopping centres being the most favoured format by 43% of respondents, over a quarter of shoppers prefer to shop in retail parks – this being significantly higher than in any of the other Nordic countries.

Furthermore, by distinction, Finland has the highest proportion of online shoppers at 19% (compared with 11%, 11% and 6% in Denmark, Norway and Sweden respectively), rising to 29% in the 35-44 age category. In Norway and Sweden, however, the 16-24 and 25-34 age groups are shown to favour online shopping the most, with the latter age cohort also being the largest online shoppers in Denmark. The survey reveals that, across all four countries, the percentage of people who prefer to shop online is higher amongst males than females and this trend is particularly marked in Denmark and Finland.

Only 3% of respondents in Denmark, Finland and Norway prefer to shop in factory outlet centres, however, this rises to 11% in Sweden, led by the 35-44 age bracket but with a relatively even split between males and females. Despite the proposition of factory outlet centres being discounting and value, there is no clear distinction in preference for this shopping format by income level.
3.2 FREQUENCY AND DURATION OF VISIT

While there is a high correlation between Finland and Sweden in terms of how often consumers frequent purpose built covered shopping centres, Denmark has a more distinct profile. Shoppers from Denmark visit shopping centres far less frequently than those from the other three markets. (See Figure 2.) Only 14% of people in Denmark visit shopping centres weekly. This compares with an average of 25% across the other markets. More than one out of 10 (12%) of shoppers in Denmark only visit once every six months. The average across the other three markets is 5%.

Swedish consumers go to shopping centres more regularly than those in Denmark, with 35% of respondents visiting at least once a week. This increases to 41% amongst the 55-65 year-old age group and 38% for 16-24 year-olds. Indeed, the most frequent visitors are polarised between the youngest and oldest cohorts. Shopping is a social activity, especially amongst younger consumers, with 51% of Swedish 16-24 year-olds almost always meeting friends when visiting a shopping centre.

Finland seems to be at the other extreme to Denmark in terms of the frequency of visits, although there is some variation in the dominant age cohorts using shopping centres in comparison to Sweden. In Finland, 45% of 25-34 and 44% of 55-65 year-olds visit shopping centres at least once a week. Consumers from one-person households visit most frequently (43% at least weekly), and men visit more frequently than women. At 43%, the number of men visiting at least weekly is almost 10% higher than women visiting with the same frequency.

In regard to duration of visit, 10% of Danish consumers spend over two hours when they visit a shopping centre while only 4% of people between 16 and 24 spend less than 30 minutes, as shown in Figure 3. This contrasts with 25% of 55-65 year-olds spending less than 30 minutes. Younger consumers tend to dwell longer in the centre, being more engaged on their visits, typically by food and leisure offers.

There is an apparent disparity between household size and duration of visit in Denmark. In single-person households, 21% of people spend less than 30 minutes per visit. Equally, the duration of visits by consumers in the age cohort 55-65 years is low. Given the high divorce rate in Denmark, which is approaching 50% of marriages, and profile of empty nesters, it is likely that there is a strong overlap between respondents in single-person households and those in the 55-65 age cohort. In contrast, only 9% of households in excess of three persons visit for less than 30 minutes.

Norwegians, along with Finns, are less likely to spend an extended amount of time in a centre. Only 3% spend over two hours in a shopping centre, compared with 11% in Sweden. A high percentage across all age groups in Norway spends less than an hour on visits, with 62% of all consumers reporting a trip duration of less than an hour. This falls modestly for even the youngest age cohorts, at 55%. Male shoppers are even less likely to linger, with 73% spending less than an hour per visit. In Norway, it is the higher-income group that tends to visit the most frequently, with 46% visiting once a week on average.

Similarly to consumers in Norway, only 3% of consumers in Finland spend two hours or more in a centre. However, the duration of visit is more variable by age cohort in Finland. While 72% of people from Finland between the ages of 55 and 65 spend less than an hour in a shopping centre per visit, this falls to 47% for 16-24 year-olds. Although Finnish males have a higher frequency of visit to females, the duration of their visits is shorter with 14% more males spending less than an hour in a centre compared with females.

Swedish consumers also stay longer, with 11% of people spending more than two hours on a visit. This is almost four times the equivalent percentage for Finland. However, at 53%, more than half of consumers in the 55-65 year-old age cohort spend less than an hour onsite. Swedish males are also more prone to short visits, with 44% of males spending less than an hour compared with 32% of females.
In all markets, going to shops is the principal purpose of visiting shopping centres. Although this is perhaps unsurprising, it is an important reminder to owners as asset strategies focus on creating an appropriate balance of stores, facilities and services that entice consumers. As Figure 4 shows, for all four markets, shopping was the most frequently cited reason to visit. However, in Sweden a significantly lower number of people said this was the case, with only 55% of respondents claiming shopping as the main reason to visit. People in Norway score the highest when it comes to citing shopping as the reason for their visit, with 70% stating that they do this almost every time they visit.

In Denmark females are generally more sociable, with 22% of females almost always meeting friends when they visit a centre in comparison to 11% of men. The social aspect of shopping is even more prevalent within the younger age cohort of 16-24 year-olds, with 37% almost always meeting friends.

Generally, there is low engagement with F&B while shopping across the Nordics. While an average of 27% of people have something to eat and drink when visiting a shopping centre, this is lower than the rest of Europe (excluding the Nordics) where the average is around 40% (Source: JLL Foodservice Consulting). However, the provision of F&B in shopping centres is undergoing somewhat of a transformation. Until recently, F&B averaged 10% to 12% of GLA in Europe. This has increased to approximately 15% for all centres, with new destination centres typically positioning themselves with 17%-20% of space dedicated to F&B (Source: JLL Foodservice Consulting).

However, certain markets and shopping centres within the Nordics have introduced exciting and innovative dining concepts that have proved highly successful and that have been adopted elsewhere in Europe. Destination centres in particular have used high-quality F&B to drive footfall and create a point of difference. For example, Mood in Stockholm city centre offers a range of upscale bar and
restaurant operators, and the range and quality of F&B is an important element of the customer drawing power of the newly opened Mall of Scandinavia. This is now being mirrored across the region as schemes seek to incorporate more leisure into their offer, which is being met with much success. This shift towards a greater proportion of F&B is particularly important as online retail further penetrates the Nordic region. As well as being a sector that is not directly impacted by online retail, F&B creates a sense of place for shopping centres, attracting and engaging customers.

There is also a clear divide in Denmark between people from different household sizes when it comes to eating and drinking, partly explaining differences in duration of shopping. Households of three or more persons tend more to regularly use F&B services (36%) than single-person households (23%). Larger households are also more likely to interact when shopping with almost 25% socialising, almost twice the level for all other household sizes.

In Sweden and Denmark, perhaps reflecting their higher propensity to meet friends when shopping, 45% of 16-24 year-olds almost always use F&B services when they visit a centre. An unexpected finding was that this younger age group preferred dining at a seated, as opposed to fast food, restaurant, with 39% and 17% indicating they would regularly use these respective F&B options.

Equally, younger shoppers indicate a higher use of seated restaurants than the older age cohort of 55-65 year-olds, again 39% versus 17%.

Reflecting the greater sociability of younger consumers within shopping centre environments, it is clear that younger age groups are more likely to engage with other leisure operators. As they visit centres most often, spend the greatest amount of time and eat and drink most regularly, younger shoppers remain a key consumer group for shopping centres.

In Norway, as in Denmark, it is the younger people that are more engaged by the F&B offer, with 52% of all 16-24 year-olds indicating they almost always eat or drink when visiting a centre. Overall, though, only 18% view coffee shops as an important factor, the lowest of all four markets. Again, this age cohort is also the most likely to meet friends when they go to a shopping centre. Norwegians are the least likely to show any interest in enjoying leisure facilities, with 42% saying they never use them and 68% saying they hardly ever or never use them.

There is slightly less engagement in Finland, with only 28% indicating they almost always partake of F&B when they visit. The good news in Finland is that 16-24 year-olds are most engaged with F&B, with almost half (48%)
indicating they almost always use F&B services. The highest levels of engagement were with seated restaurants and coffee shops.

Interestingly, those on a lower income are more likely to almost always eat in a shopping centre, with a score of 15% higher than those from a higher income bracket in Finland. In contrast to other markets, the range and quality of F&B has been slower to take root in Finland. Nevertheless, over half of those in the 16-24 year-old age cohort (52%) view the presence of coffee shops as very important in determining which shopping centre to visit, contrasting with approximately a quarter of 55-65 year-olds (26%).

In terms of other reasons to visit the centre, 11% of Finns almost always use a service, such as a hairdresser, bank or dentist, while 81% almost always visit shops. The respondents also scored these areas more highly than consumers in other countries in terms of their preferences for different elements of shopping centres.

Figure 5: How much of their non-food shopping do consumers do in a shopping centre?


Shopping centres are a preferred retail format for comparison (non-food) shopping, with over 20% of consumers in Norway, Sweden and Finland spending half their non-food budget in these environments, as shown in Figure 5. The one anomaly seems to be Denmark, where 20% of people spend less than 5% in a shopping centre, reflecting the lower dominance of this retail format as a percentage of total stock.
Consumers in Denmark within the higher income grouping have higher expectations of their shopping centres than those in other income groups. When asked to address factors that were extremely or very important to them, the location, mix, range of retailers, parking facilities, presence of local retailers all scored higher than for those on low to middle incomes. The area where the reverse was true was provision of public transport.

The younger age cohort has a far greater preference to shop in large shopping centres (43%) than on high streets (13%). In contrast, the older age groups demonstrated a much higher preference for high street destinations.

Seventy-eight per cent of Swedish respondents indicated the range and choice of retailers is extremely or very important to them in deciding where to visit. This was significantly higher than the average of 64% across the other three markets. Consumers in Sweden are also the most passionate about seeing international retailers, with 30% seeing this as a determining factor of their chosen shopping location. The ability to collect products ordered online was very or extremely important to 22% of respondents.

Similarly, access to public transport is identified as a decision-influencing factor by 46% of Swedish consumers, more important than in Norway and Denmark, where only 35% of shoppers indicated its provision would impact upon their choice of shopping destination.

Despite the current low engagement with F&B in existing centres in Finland, 41% of consumers indicated that they are more likely to select a centre if it offers good-quality restaurants, while 41% indicate the provision of coffee shops as a decisive factor. Indeed, survey respondents identified extending the F&B offer of both lower- and higher-cost options as a factor that would increase the frequency of shopping visits. This suggests that the current F&B offer is not responding to consumer demand.

Convenience, location and pricing were more important to the younger age cohort in Sweden. Access to public transport showed the widest variation, with 16–24 year-olds judging this to be at least 17% more important than any of the other age segments. Good-quality restaurants also scored relatively highly. This is again a strong message that a focus on F&B is essential. The younger generation is engaging with the food on offer, displaying more interest in the seated restaurant than in fast food. As a result, the

presence of restaurants and coffee shops, along with the ability to collect goods that have been purchased online, are more important to the selection of shopping centres for younger age cohorts.

In Norway, when asked for the factors that influence their decision as to where to shop, over 40% of 45-65 year-olds indicate a preference for local retailers. This is significantly higher than for other age groups. In contrast, younger shoppers demonstrate that the presence of international retailers strongly influences their choice of a shopping centre. Less than half (49%) of all consumers in Norway consider pricing an important factor. This is the lowest score across the countries and is some 25% lower than for Finland. The convenience of the centre location again scores lower for Norwegians than for any other market.

As for reasons judged as extremely or very important to the choice of shopping centre, Finnish consumers see the mix and range of retailers as being far less important than across the other countries. Only 60% see this as key in Finland compared with 78% in Sweden. Of far greater importance is the location of the shopping centre, with 78% of Finnish consumers seeing this as critical. Pricing is also a determining factor with 74% indicating it as being at least very important. This is 13% higher than any of the other Nordic markets.

With the exception of more mid-priced brands in Sweden and Finland, and more F&B in Finland, consumers across the region did not identify very clearly any elements that could be increased or improved that would encourage them to frequent shopping centres more often, as shown in Figure 7. Consumers in Norway and Denmark are particularly difficult to entice further, scoring lower than average on every metric when asked what they would like to see more of when visiting shopping centres, and displaying no trend as to wanting lower-price, mid-price or higher-price products. Equally, Danish consumers are unlikely to be enticed by either better quality or more value-oriented F&B offerings, although their responses suggest a slightly higher appetite for luxury brands. This may be because there is a high degree of satisfaction already with the shopping centre offer.
3.5 TRAVELLING TO A SHOPPING CENTRE

Figure 8: What mode of transport do consumers use to travel to shopping centres?

Norwegian respondents typically live closer to shopping centres, evidenced by the fact that twice as many (8%) travel by foot to the centre in comparison with the other countries (4%). (See Figure 8.) Furthermore, 39% travelled for less than 10 minutes to the centre they frequent most. Respondents in Norway are also the highest users of buses when travelling to a centre, with 14% of people using this mode of transport.

Only 20% of Swedish consumers spend less than 10 minutes on their way to their centre, compared with 39% of Norwegians. In terms of distance to the shopping centre, Swedish consumers travelled for longer than those in the other countries. While 58% travelled to the centre nearest to their home, 38% had at least more than one centre nearer to where they lived than the one they preferred to visit.
3.6 INTERACTION WITH TECHNOLOGY DURING THE SHOPPING JOURNEY

There has been much concern in the past decade about the future of shopping centres and other traditional forms of bricks-and-mortar retail due to the growth of online retail sales. However, it has become clear over the past few years that online and offline channels are inter-dependent and that shoppers use these channels interchangeably within a shopping journey. Consequently, many retailers have invested heavily in a seamlessly integrated omni-channel offer.

It is now common for people to use technology while shopping in stores to check sizes, compare prices and purchase from an extended product range unavailable in the store. This tendency of consumers, and increasingly retailers, to use technology simultaneously while shopping or selling varies across countries and age profiles in degree and purpose of use.

**Figure 9: How do consumers use their smartphones when in a shopping centre?**

![Graph showing the use of smartphones in shopping centres](image)


Shoppers across all markets make active use of their devices while in shopping centres, as seen in Figure 9. Checking basic centre information is the most frequent use of smartphone technology, and it is also common for shoppers to undertake price comparison or gain further product information online while in store. Transacting online was the least common reason to use a smartphone while shopping in store. Although only 12% of Norwegians make an online purchase in store, this is significantly higher than for consumers in all other markets.
Across the Nordic countries, third-party collection points or home delivery are the dominant fulfilment options for online purchases, as demonstrated in Figure 10. In Norway, consumers use third-party collection points most with 57% of online consumers using this mode for product delivery, with the share increasing to 65% when taking only females into account.

As with the other Nordic countries, there is a very low incidence of buying online and collecting in store in Sweden (3%) and, again, a stronger preference for third-party collection points (23%) or home delivery (25%). Online shopping is the least-favoured retail ‘location,’ with only 6% preferring this over a physical environment, while 29% preferred large enclosed shopping centres and 16% high-street environments.

Denmark is among the top four markets in Europe in terms of online spending per capita (source: Ecommerce Europe). This is reflected in survey data suggesting that just over 70% of Danish consumers will undertake a little or some of their shopping online within the next three years. (See Figure 11.) Almost a third of 25-34 year-olds in Denmark expect to carry out most of their non-food shopping transactions online within the next three years.

Online shopping is also integrated into Swedish consumer behaviour, with 87% having made an online purchase or reserved online in the past 12 months. The analysis also indicates that two-thirds of Swedish consumers expect to undertake some or a little of their shopping online in the next few years, with 18% foreseeing buying most of their non-food shopping online within three years.

Norway ranks among the top four markets in Europe when it comes to online retail spending (source: Ecommerce Europe). However, in relative contrast to the other Nordic markets, a comparatively low 12% of people expect most of their non-food shopping to be done online in the next three years. Finnish and Norwegian consumers are also the least confident that any of their shopping would be done online in the next few years.
4.0 RETAILER INSIGHT

4.1 PERCEPTION OF THE NORDIC MARKET

In order to understand the perception of the Nordic region, interviews were conducted with domestic and international retailers that are either active, experienced, or newly entering the region. These interviews took place in the last year. The retailers interviewed came from many different product categories and price points. Whilst some were stalwarts of the region with hundreds of stores across all four markets, others were looking to enter with their first locations.

What became clear from the outset was that Nordic retailers perceive the market(s) differently from their non-Nordic counterparts. These differences in perception were apparent in how it has affected the development of each retailer’s respective business in the region.

“Many international players think the Nordic countries are quite small. That it will be easy to come into the market. However, the markets are quite complex. This might explain why international brands enter the market with franchise partnerships.

Nordic Retailer CEO

For many of the international brands that were looking to expand within the Nordics, the move marked the culmination of a wider European expansion strategy that was preceded by an expansion within the larger markets to the south. As the relative population size of the region is less than many other European countries, the tendency amongst retailers from outside the region was to view the Nordic market ‘as one’. This view was largely re-enforced by internal structures. Where an international brand was either seeking to enter the region or had entered into more than one country, the same individual or team would be responsible for all markets. In the majority of interviews of this type, entrants planned to manage their businesses either from their home market or from another European location. This external management of the region may reinforce the notion amongst new entrants that the region is largely homogeneous with few significant differences. The role of e-commerce was also an important factor when businesses from outside the region were planning to enter. The region is seen as a good ‘fit’ for an e-commerce led business, as people are tech savvy but more likely to be geographically isolated from a physical store. As a result, many international entrants look to cover the disparate areas of the region through an online only strategy.

In the case of the more aspirational retailers that we interviewed, brands were more likely to refer simply to the cities in which they trade or are targeting for expansion. In this strategy, brands do not differentiate between the individual markets within a Nordic region. Rather than Denmark and Sweden compared...
against Germany or the Netherlands, the discussion will instead see Stockholm and Copenhagen compared against Hamburg or Amsterdam. Conversely, domestic brands typically had strategies that were adapted to each market. Due to the higher levels of store penetration, the majority of domestic retailers managed their stores locally in each country. Whilst this approach equips the local team in each country with a deep knowledge of each market, some retailers appeared to have little awareness of the trends influencing neighbouring markets within a region.

A clear conclusion from our research is that international brands largely have a high-level view of the region, seeing few differences, whereas domestic players are more aware of the differences that exist between and within markets. These trends have shaped the retail offer in the major centres of the region. Whilst the major cities are more likely to have similar brands to one another, local retail centres have a greater number of brands that only trade in the respective market.
4.2 MARKET OPPORTUNITIES

Mass-market brands seeking to enter the Nordic market must offer a new and exciting proposition to consumers, as they compete with the ever-popular retail mainstays of the region. In fashion, groups such as H&M, Stockmann and Bestseller are well established and have a strong understanding of the consumer in each market. This familiarity creates an opportunity for new entrants to create a point of difference and add interest to the existing retail mix.

Notwithstanding the fact that the overall store requirement for each retailer is determined by the nature of an individual business model, a consensus existed amongst the retailers interviewed on core locations. In order to ensure effective customer acquisition and brand awareness, opening in the highest profile cities and shopping centres was considered essential. Fashion brands agreed that national and regional capital cities and their major shopping malls have the highest levels of footfall and dwell time and offer the greatest trading opportunity. Opinion-leading shoppers that will aid the establishment of recognition and credibility for a brand also typically visit these locations.

In conjunction to a well-considered network of stores, new brands should ensure that this forms part of a wider strategy that includes digital marketing, pop-up stores and social media campaigns to raise the awareness of their brands to drive interest and excitement prior to store openings. Working with shopping centre owners to develop campaigns prior to store openings can often create a positive buzz around a brand long before a store opening. This anticipation is likely to benefit both the investor and occupier. A further consideration for new entrants is to use individual store designs in each new location to drive interest in the brand, as many of the leading incumbents employ identical shop fit-outs throughout their store networks, which add to the perception of uniformity and repetitiveness in the retail mix.
4.3 CONSUMER PERCEPTIONS

Amongst a number of the international fashion retailers that we spoke to, Denmark was cited on a number of occasions as the natural gateway to the region. Whilst this can be explained partly by geography, there was also a feeling that the Danes were the most fashionable and interested in new trends. This was particularly true of Copenhagen and Hovedstaden, where consumers are regarded as the most avant-garde, in contrast to the more conservative values seen in Jutland. Retailers present across all four markets in the region said that new styles were often trialled in Denmark first, and only a successful trial there would see a product rolled out across the region.

"Denmark is the market in which we have to work the hardest. Consumers there are more continental and have much greater expectations of us in terms of experience and customer service."

Nordic Retailer CEO

As the largest nation within the four markets, the Swedish consumer is seen as the most ‘typical’ Nordic shopper. The perception of the Swedish consumer amongst both Nordic and international retailers was of a modest and functional shopper who values quality and practicality, eschewing flamboyance. One fashion retailer that we spoke to commented that in Sweden their sales of own-label product were the highest of the four markets.

The perception of a typical Nordic shopper as described by retailers that currently had no stores within the region was the closest in perception of the Swedish shopper. As the only market with more than one large city, retailers with a large presence in Sweden also drew a much clearer distinction between consumers in urban and rural areas. Consumers in Stockholm, Malmo and Gothenburg were considered to be more accepting of new trends than their rural counterparts.

"The Swedish consumer is very different from those in our core markets of Germany and the Netherlands. They are much more value focussed and look for quality as opposed to just brand labels. We were not aware of this when we first entered the market and our ranging was adapted quite significantly as a result."

European Retailer Real Estate Director
Sweden is also home to the largest number of immigrants of the four markets. This was a theme picked up on by a number of retailers. A number stated that they were now beginning to consider this segment of the population with targeted product ranges. Overall, the Swedish consumer can be described as rational and more considered when making large purchases than consumers elsewhere in Europe.

Norwegian consumers are perhaps the most misunderstood of the four Nordic markets by retailers entering the market for the first time. Many retailers saw no major differences between Norwegians, Swedes and Danes in terms of attitudes and values, and were mainly aware of this nation’s greater affluence and position outside of the EU. However, our discussions with retailers already trading in the region were much more cognisant of the Norwegian consumer. There is an observable distinction between Norwegians and other Nordic consumers in their view of international brands and products. One retailer stated that though Norwegians are equally aware of brands and concepts from overseas there is an inherent patriotism, which sees them prefer domestic brands. A food retailer that had entered the market with a strategy of delivering quality products at everyday low prices failed to connect with the consumer and exited the market. The respondent identified this loyalty to Norwegian products as a factor. As the retailer sourced many goods from outside Norway, they were lower cost than many equivalent Norwegian products from competing retailers. However, consumers required a local connection to the produce, and would not merely purchase based on price alone. In the same vein, a retailer present in all markets considering their online launch in the region stated that whilst they would be willing to launch a website only in English in Sweden, they would not be prepared to launch an English-only site in Norway. This is interesting in a context where 89% of Norwegians are able to converse fluently in English, compared to only 86% of Swedes.

"Norwegian consumers are the highest average spenders within our businesses in the region, much more ‘happy go lucky’. This is in contrast to Swedes whom are much harder to upsell."

Nordic Retailer CEO

When speaking to one of Finland’s largest retailers, their view on the country as the Nordics ‘forgotten’ market reflects the greater isolation of the country when compared to the other three markets within the study. In fact, more retailers planning to enter the Nordic market had no plans to enter Finland. Those that
were interviewed were much more likely to have omitted it from their expansion plan for the region, or consider it together with the Baltic states of Estonia, Latvia and Lithuania. The perception of Finland’s economy was also the most negative of the markets within the region.

One Finnish retailer remarked that whilst the country was significantly wealthier than most other European countries, the greater affluence of consumers in other Nordic markets made them seem ‘poor by comparison’.

“Finnish consumers are very price sensitive. They are certainly a nation of bargain hunters.”

Retailer Operations Manager

Most retailers from outside the region mentioned only Helsinki as a market that they would consider for expansion. However, this was usually within the context as to why Finland was not part of their expansion plans for the region.
Retail formats are largely homogenous across all markets in the region, with little difference in the ‘look and feel’ of the stores. New entrants saw this similarity as an aid to developing brand recognition across the region. Some of the more long-standing retailers with a significant number of stores across all markets were beginning to look at differentiating store fit outs, tailored to each local market.

The retailers’ approach to online retailing was mixed and somewhat out of step with the findings of the consumer survey. When asked about the importance of their online business, the majority of retailers said that it was less important than their network of physical stores. A recent new entrant to the market had developed a network of stores across a number of the markets within the region, but had no transactional website in any market. Some saw the cost of I.T. development for websites in multiple languages and the supporting logistics infrastructure as a bigger risk than opening physical stores.

One retailer that was interviewed that had entered the market over a decade ago admitted that their initial strategy around online was misjudged. From the outset, their model was predicated on the belief that the way to win online was to open very large format stores where consumers could see the widest range of products. The costs of operating these stores became challenging, and the brand has subsequently spent a great deal of time negotiating with property owners to downsize the units that they occupied. However, whilst these stores now focus on holding fewer lines, what is also key is their role within the fulfilment of customer orders placed online. Retailers are beginning to offer same day delivery in the Nordic region, and this can be achieved through using stores as delivery centres. This is becoming an ever-greater factor in deciding where to locate physical stores.

People shop online to guarantee product availability, price and the collection time that suits them. However, the majority of orders still touch a physical store in some way, and over half are collected by the customer from a store.

European Retailer Operating in Sweden

Comments around online retail also uncovered a common theme from retailers trading in Norway and Finland. A number of operators identified the challenge of distribution in the extreme rural areas of the region. This was often cited as a factor as to why new international entrants would not look beyond the core cities of Oslo and Helsinki.
The physical geography of the different markets also shapes retailer strategies within the region. This is most evident in the weather and climatic differences. Consumers in Denmark and southern Sweden, the most densely populated part of the region, enjoy relatively mild winters and warm summers, whereas further north there are four distinct seasons. This is particularly clear in Norway where the assortment must change with the seasons much more visibly to adapt to the changing weather. A leading sports and outdoor retailer that was interviewed highlighted that this also feeds into consumer habits, with northern consumers typically being more outdoor focussed and likely to take part in activities such as cross-country skiing. The landscape of each market also influences the types of products purchased in stores. Norway is very mountainous and so winter sports are much more popular, whereas in Denmark the highest mountain is less than 175m in elevation.

Another significant raft of barriers to entry stem from the differing regulatory environments. The Nordic region is often perceived as a highly regulated region that has very strict laws to protect the rights of employees and consumers. In addition, each market has differing laws in each area. Retailers relying on the overarching legal framework imposed by European bodies should proceed with caution, as there are material differences in both legal structures and policies. Despite the superficial similarities of the legal systems in each market, there are key differences across a range of legal areas from employment law to trading restrictions and property. Whilst the uninformed can use advisors whom specialise in cross border practice, this is often an expensive and time-consuming task that can deter new entrants.

Retailers entering the region should also be prepared to ensure that their supply chain is compliant with Norwegian trading regulations given its position outside the EU. This is particularly relevant to retailers that wish to ship online orders from a centralised distribution centre within the EU. When ordering items from online

“It is important that retailers have a clear operating model when selling goods across the EU border. Certain product categories, including certain foods and alcohol face heavy restrictions, and there are issues around returns…”

Kristian Ericsson, Senior Manager & Head of Negotiations, Gate46, Sweden
stores outside Norway, in most cases consumers pay 25% VAT when the item arrives in Norway. A number of retailers interviewed have overcome this issue by having separate distribution facilities for the EU markets and Norway. The differing currencies present in each market can also create another headwind for retailers from outside the region. Whilst Finland is part of the Euro area, the other three markets each have their own currencies. Whilst the Danish Krone is pegged to the Euro at an average rate of 7.46038 DKK per Euro, the Norwegian and Swedish Krone are freely traded and can often fluctuate significantly due to the lower volumes traded on international markets, and the NOK’s link to the price of oil. Retailers can seek to overcome this challenge by displaying the price of an item in multiple currencies on a ticket or accepting payments in Euros. Several of the retailers that we interviewed accept Euros in their stores throughout the Nordic region. Conversely, some retailers are beginning to see the different currencies in a defensive light, as it helps to insulate them from wide changes in the value of each krone.
4.5 EXPANSION PLANS

Notwithstanding the retailers that had left the region following an unsuccessful venture, each of the retailers interviewed as part of the study had plans to expand their footprint in the region. This ranged from a retailer seeking to develop a network of one hundred new locations in three markets, to an aspirational footwear brand looking for one department store concession in both Copenhagen and Stockholm. Overall Sweden and Denmark were more popular target regions for expansion than Norway and Finland.

It is also important to note that amongst many international retailers that had entered the market, they had done so through a franchise model. The benefits of this are seen as twofold. Firstly, the retailer could operate company owned networks in larger markets with a higher amount of potential. Secondly, a local franchisee was perceived to be better equipped to deal with the regulations governing each market.

Tellingly, many of the fashion retailers that had expanded over several decades to operate hundreds of stores across the region accepted that new entrants would be able to cover the market with a much smaller network in future. For comparison goods retailers the new optimum number of locations to cover the region was twelve. This did include a number of retailers that saw each country as ‘one store’ markets.

“For our future brands, Denmark is a 30 store market
Nordic Fashion Retailer

As a result, it is likely that in future, the focus of new international entrants will be on a small number of high potential high street and shopping centre locations, particularly concentrated in the region’s major cities. This is likely to create further polarisation in the retail offer, with more local centres the preserve of well-established, Nordic retailers with legacy retail networks.
The Nordic markets continue to hold considerable potential for new retailers seeking to expand. For international entrants it is easy to discuss the markets as one, but new entrants should be aware of significant local differences. Whilst the high levels of purchasing power and population growth, a stable political environment and strong economic platform are attractive, pitfalls await a retailer that assumes trading here will be easier than in other core European markets.

In order to unlock the potential of the Nordics, a rigorous expansion plan, underpinned by market-specific research, is advisable. Retailers must be mindful of the different consumer attitudes, currencies, regulations and competitors within each market. Whilst a traditional ‘hub-and-spoke’ approach of flagship stores in major locations, supported by smaller satellites, may work well in larger European markets, the sparsely populated areas outside of the major centres makes this a more difficult model to operate in the region. As such, the long-held assertion that flagships can become ‘showrooms’ for online sales can be thoroughly tested in the region, as retail spend is focused on the major cities and the penetration of online retail is amongst the highest in Europe. From a property perspective, retailers must be willing to invest in the core retail locations, as availability is quite limited and demand is high.

The international outlook of Nordic consumers, coupled with their relative fluency in English, facilitates a general acceptance of shopping from websites from other countries. This raises the awareness of new trends and styles amongst Nordic shoppers, but retailers must be cognisant that consumers are acutely aware of pricing structures in other markets.

Retailers from markets such as the U.S., U.K. and Australia should also be aware of the more restrictive opening time regulations in operation. Whilst retailers in Finland and Sweden can open for six hours on Sundays, Danish retailers are restricted to four hours on selected Sundays, and in Norway the practice is generally not permitted. Furthermore, stores do not typically trade late in the evenings, and most shopping is done before 6 pm.

New market entrants may be pleasantly surprised at the openness and transparency of the region. Retailers can use this to their advantage, as it is possible to understand the market in more detail before committing investment. Furthermore, whilst the relationship with landlords in other regions is characterised as an adversarial one, retailers can work in a much more harmonious way, standing ‘shoulder to shoulder’ with shopping centre owners to ensure mutual benefit.

Retailers with a strong brand who decide that the region does not hold sufficient promise may wish to explore the opportunity to work with a franchise partner.
This is much more common than in larger markets and allows a company to benefit from a local operator’s knowledge and experience. This approach will also reduce the risk of expansion into the region while requiring less capital investment.

The opportunity within the discount retail sector is often perceived as being more limited in the Nordic region than in other European countries. This is partly due to the impact of higher indirect taxes that reduce the pricing differential of discount retailers. More fundamentally, however, the existing retail market is characterised by operators offering quality goods at reasonable prices. This is much more similar to the business model of discounters and so the model is seen as less revolutionary in the region.

That is not to say that the love of a bargain is weaker amongst Nordic consumers as those in other European markets. This can be colourfully illustrated through the success of Gekås, a discount retailer based in the town of Ullared in western Sweden. This retailer has become somewhat of a tourist attraction in the region and is visited by over 4.5 million people a year, who are attracted by its simple product range and low prices. Since 2011, the store was featured in a reality TV series that was popular in both Sweden and Norway and details the lengths that consumers from all over the Nordic region will go to visit the store.

As with the future potential for luxury retailers, the growing inequality in the Nordic markets may also create opportunities for retailers targeting those at the lower end of the income scale. However, in order to be successful, the research suggests that these retailers must not compromise on the quality of their product range. Instead, Nordic consumers are more likely to accept a retail offer with a less expensive store design and fit-out.

One of the great inconsistencies of retailing in the Nordic region is that whilst its citizens enjoy some of the highest levels of income in the world, the luxury sector remains relatively embryonic. In Norway in particular, where residents enjoy a higher level of income than even bastions of luxury retail such as the Switzerland or the UAE, there is a notable absence of luxury retailers when compared to the size of the market. This is typically attributed by retailers in the sector have only a limited or no presence in the region three key factors.

The first is that there is insufficient critical mass of other luxury retailers to create the right trading environments in which to trade. Whilst this may still be true of the ‘pure’ luxury heritage brands, which are only found in small numbers in the key capital cities of the region, ‘accessible’ luxury brands or the diffusion brands
of traditional luxury houses are increasingly looking to the region to expand their presence. This is being facilitated by the development of new shopping centre schemes, such as the Mall of Scandinavia, which delivered brands such as Hugo Boss and Michael Kors when it opened in late 2015.

The second factor is that whilst the region’s consumers are wealthy, income is much more evenly distributed than in other European countries and so there are far fewer of the very wealthy consumers that luxury retailers seek when opening new boutiques. It is undoubtable that the higher tax environment of the Nordic region has resulted in lower income polarisation than in other comparable countries. For example, Sweden is home to only around 80,000 dollar millionaires or c0.8% of the total population, despite being one of the world’s wealthiest countries. By contrast, in Switzerland, the home of many luxury retail brands, there are 667,000 dollar millionaires, representing over 8% of the total population. Whilst this clearly limits the number of potential clients for the very high end, the market opportunity for more aspirational brands is increasing. Furthermore, the model of egalitarianism within the Nordic region is beginning to change. The incomes of the top 10% in the region have been rising more quickly than for middle and low income consumers over the past decade. Sweden has not levied inheritance taxes since 2005 and Norway has also moved to abolish them, with this measure also being fiercely debated in Finland. These measures are expected to fuel the growth of wealthy families in the region over coming years. In the future, this may lead to luxury brands holding Oslo and Stockholm in the same esteem as Zurich and Geneva as must have places to open boutiques.

The third assertion is that Nordic consumers are typically less interested in luxury retail brands, eschewing flashy displays of wealth in favour of more conservative brands and styles. This however, appears an overly simplistic typecast to the region’s shoppers and particularly those found on the high streets of the major cities. There is a sense that ‘if you build it they will come’, i.e. that given the opportunity to shop more frequently with luxury brands, demand in the segment will increase. This seems particularly apparent in Norway and Denmark, whose shoppers are typically more cosmopolitan and brand conscious.
5.1.1 DENMARK

For European retailers entering the Nordics, Denmark is likely to be the most similar to those in which they are currently trading. The country is much smaller than its northern neighbours and the population density is much closer to the European average, factors that will ease the logistical challenge of operating a new network of stores.

Consumers in Denmark are more cosmopolitan and fashion-conscious than in other markets, and so are often a good barometer as to how an offer will be received across the rest of the region. The country also enjoys a much milder climate than the other Nordic markets, and so fashion retailers should also consider optimising the retail mix in Danish stores to account for this.

As a natural gateway to the region, Copenhagen would be the recommended ‘launchpad’ for most new entrants as it has a strong city centre and a network of popular, modern out-of-town retail developments, such as Fields and Fisketorvet. This would build brand recognition in the market and allow further expansion into other markets in Denmark such as Aarhus and Odense. Furthermore, the close proximity of Copenhagen to southern Sweden would also raise a brand’s profile from a cross-border perspective.

5.1.2 FINLAND

Finland is often the last market to be considered by retailers looking to expand in the Nordics. In many cases, it is omitted from retailer expansion strategies all together. Its proximity to Russia and the Baltic States, Estonia in particular, often sees the market included in expansion strategies looking further east. However, Finland is a much wealthier nation than any member of the former Soviet Union, and has higher per capita incomes than both Germany and the U.K.

The demographics of the nation are less favourable than the other Nordic countries, with modest population growth expected. However, there is significant internal migration from the north of the country to the south, and this area would be the recommended focus of expansion for most international brands.

The population is overwhelmingly found in urban areas, with the HMA accounting for over 25% of the Finnish population. The southern belt of the country would present the clearest opportunity for new market entrants. Whilst Helsinki is obviously the focus, brands are encouraged to look to the other cities within the region, such as Tampere and Turku. Shopping centres represent a significant proportion of retail space; the past 10 to 15 years have seen great volumes of shopping centre development, as Finland has attempted to catch up with the shopping centre markets in other Nordic countries. Shopping centres are the natural retail format for brands seeking to target the average Finnish consumer.
5.1.3 NORWAY

Retailers that have already established a successful business in the region often target Norway, a more complex market than either Sweden or Denmark. Similar to Sweden, projections indicate rapid population growth and increased diversity in Norway over the next five years. Oslo is currently Europe's fastest-growing city, and significant new residential areas are planned to the northeast of the city centre, to accommodate the influx of new residents. This provides an opportunity for retailers to launch in the market via a new development as opposed to a more traditional retail location.

As the population density is very sparse when looking outside of Oslo, retailers are encouraged to consider whether they are able to develop sufficient scale outside the capital to merit an expansion. Oslo is home to a number of popular, high performing shopping centres and has a strong retail core that attracts consumers from across Norway. In the more far-flung corners of the nation, there is a much lower penetration of international brands, and careful consideration around logistics and store support is needed before expanding into these locations. Whilst the average Norwegian is much more affluent than other Nordic consumers, there is evidence that they will happily travel to London or Milan for major shopping trips, as opposed to visiting schemes in their own cities.

One factor for new entrants to consider is the value attributed to local products in the mind-set of the Norwegian consumer. Although consumers appreciate that goods from around the world may offer higher quality, consumers are willing to pay a premium for locally sourced goods and are less likely to be motivated by the lower price of imported goods. This would favour brands with a higher price point over more value oriented ‘fast—fashion’ operators.

Norway is the only market in the region to lie outside of the EU. However, its position within EFTA means that retailers must comply with many of the same regulations as in the other markets. For example, products must meet the same safety standards as those sold throughout the rest of the region.

The above factors may well explain why Norway is the market where new entrants are most likely to enter with a local franchise partner.

5.1.4 SWEDEN

As the largest nation within the Nordics, Sweden offers new entrants the greatest potential to develop scale. Furthermore, as a result of migration from overseas, the populations of its largest cities are forecast to grow at exceptional rates. To place Stockholm in context, the city is expected to grow by 17% in the next five years, twice the rate at which London is growing and four times that of Paris. The country has also experienced the highest levels of retail sales volume growth in the past five years, and this trend is set to continue.

Swedes are typically more price conscious than in other Nordic markets, and so aspirational brands are advised to look to the major cities as the focus of their expansion as these areas are home to the wealthiest Swedes. The increased diversity of the Swedish population presents an opportunity for niche brands to enter the market, or for product ranges to be adapted to meet the needs of shoppers from different ethnic and cultural backgrounds. The consumer research carried out for this study also highlights that Swedes are the most passionate about the arrival of new international brands.

Whilst most new entrants will naturally see Stockholm as the place to establish a brand within Sweden, this may mark the northern boundary of most brands’ expansion in the country. Most of the potential locations for new entrants lie to the south. Cities such as Malmo, Gothenburg and Helsingborg present critical mass and have sufficiently large catchment areas to support most mid-market brands.