THE EFFECTS OF THE EUROPEAN UNION ON RETAIL IN SWEDEN

by

WENDY COLLEEN HEAD

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DAVID BOUSH

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DAVID BOUSH

The European Union is creating an entirely new economic environment that will affect every aspect of conducting business in Europe. This change is further complicated by the range of acceptance into the various stages of the EU that countries are experiencing. The concept of European unity has evolved over the last fifty years, beginning as an association to protect steel and coal interests. The EU is now realizing objectives of political, economic, and social unity.

Member nations of the EU have discovered that while a single market economy is desirable, it is increasingly complicated to implement. Companies have had to reorganize and reevaluate their methods of conducting business unexpectedly. This study will identify and clarify the multitude of challenges facing Swedish retailers, specifically Lindex, as they market within a changing Europe.

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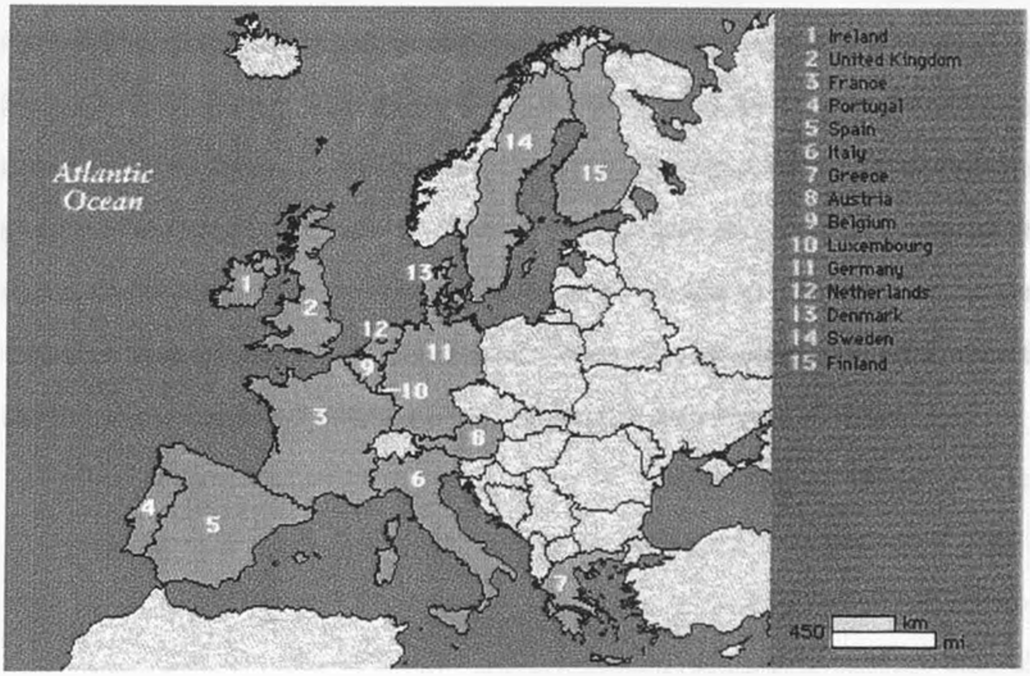
Chapter 1

INTRODUCTION

On January 1, 1995, Sweden officially became a member of the European Union. The EU is a "unique, treaty-based, institutional framework that defines and manages economic and political cooperation."[1] Entering the EU on that same date was Austria and Finland, and with the addition of these three nations, the European Union grew to 15 members. While several other countries have applied for membership, the negotiation process is long and involved.



The European Union has brought about great changes in every aspect of the social, political, and economical landscape. The struggle for unity began over fifty years ago and continues to this day. Though many of the effects have been cultivated

[1] The European Union: A Guide for Americans. (cited 12 November 1999), http://www.eurunion.org/Chapter1.htm.

through the implementation of programs and initiatives, aftershocks ripple through the member nations, creating unforeseen complications for many businesses and organizations.

One aim of the EU is the single market. This concept is designed to facilitate multinational expansion and advertising campaigns throughout member nations. By eliminating trade barriers between nations, companies can gain greater economies of scale and scope as well as capitalize on advantages in technology. Resources can be more efficiently managed.

Lindex, AB, a Swedish based retail store, is presented as a case study of the effects of the EU on retailing. Sweden has a unique position within the EU. It is a newer member of the union and one not participating in the European Monetary Union at this time. Lindex's position within the business world is further complicated by the countries in which its stores are located. Germany has been a member state from the beginning of the unification efforts. Norway has chosen not to become a member at this time, and both Sweden and Finland have joined the Union. Not only has Lindex needed to reorganize aspects of their business due to the intentional changes promoted by the EU, the unexpected effects of integration have also been addressed.

Chapter 2

EUROPEAN UNITY

History of the European Union

The European Union (EU) was not created suddenly, nor is it a static entity. It has evolved considerably over five decades and will continue to do so in the future. Though the present form emerged in February 1992 with the signing of the Treaty on European Union, the origins of European unity are deeply rooted in history. What began as a cooperative effort to protect coal and steel manufacturing interests between the Federal Republic of Germany and France grew into the European Economic Community and further morphed into the European Community before finding a final position as the European Union. The strategic goals and fundamental beliefs that propelled the initial union still underlie the extensive bureaucratic structure and enlarged union today.

In 1950, a proposal was made by France to pool steel and coal resources between themselves and Germany; other European nations were also invited. Six countries began talks that summer: Belgium, Italy, Netherlands, Luxembourg, Germany, and France. A year later, the Treaty of Paris was signed officially forming the European Coal and Steel Community (ECSC). Each nation relinquished power to a supranational organization which, in turn, enabled a unified body of power to create policy and enforce sanctions. It was no mistake that the first forces of unity were the core elements of economic and military power.

Once the common steel and coal markets were established, the Foreign Ministers from each member country of the ECSC became interested in the option of integrating the entire economies of their respective states. In 1955, a committee was established to explore this concept along with cooperative efforts on the development of atomic energy. By the next year, serious negotiations were underway which would eventually lead to the creation of the European Economic Community (EEC) and the European Atomic Energy Community (Euroatom). Goals of this cooperative effort are to "create a community; establish a common market by the removal of obstacles to the free movement of capital, goods, people, and services; to establish a common external trade policy and common agricultural, fisheries, and transport policies; to coordinate economic policies, harmonize social policies; and to cooperate in nuclear research for peaceful purposes."[2] In response to this decision, the United Kingdom begins to organize a rival community and, in 1960, the treaty establishing the European Free Trade Area was signed. This treaty bound together Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom in a free trade zone abolishing tariffs between themselves.

In 1961, the Foreign Ministers of the six member countries of the EEC announced their intentions to support a union among the European states. Soon after, the Republic of Ireland, which had remained neutral thus far, applied for membership into the EEC. Following close in those footsteps came the United Kingdom and Denmark; negotiations began in November of that year. France vetoed the United Kingdom from joining in January of 1963, and the EEC also declined to invite Denmark and Ireland to join. All three countries, quickly followed by Norway, re-applied for membership early in May 1967. Continued negotiations and conflict within the six member nations prolonged a decision regarding these applications. However, after a new president is elected in France, Georges Pompidou, these obstacles are overcome. In 1972, Denmark, Ireland, Norway, and the United

[2] Philip Thody, An Historical Introduction to the European Union (New York: Routledge, 1997), xiii.

Kingdom sign the treaty admitting them into the EEC. However, after a national referendum, Norway declines membership.

Eventually, the member nations of the EEC, the ECSC, and Euroatom found that cohesion was needed between the separate communities. By 1967, the three organizations had fused together and shared a common Council of Ministers and Commission as well as a shared Assembly and Court of Justice. Within these communities, emphasis was placed on economic and commercial benefits rather than political ones. This more efficient structure is known as the European Communities. The next milestone in European unity came in 1972 with a decision to provide currency stability to member states. This arrangement limited the amount to which national currency could vary with respect to the dollar – a first step towards a European currency.

At this point, the European Communities are beginning to realize some of their goals. The European Parliament is given more budgetary powers in 1975 and the Heads of State and Government establish the European Regional Development Fund. The Communities are achieving greater European unity also with the onset of negotiations for membership with Greece in 1976. Portugal and Spain both apply for membership in 1977. The next step in cooperative efforts at unity comes in early 1977; a fishing zone is established encompassing 200 maritime miles around the coasts of the member states. Boats belonging to all member states are allowed access to these waters. The following year, France and the Federal Republic of Germany propose the European Monetary System (EMS) to implement closer monetary cooperation.

The early 1980's were reasonably uneventful in the history and development of the European Union. A steel crisis forces the ECSC to limit steel production in member states. France and Italy experience a devaluing of their currency within the EMS while many of the other member states find their currency gaining buying power. A turning point comes in 1985 when the European Council sets a date for the completion of the Single Market of 1993. When the Single European Act comes into force, it will "codify the mutual recognition of qualifications, the open tendering for public works contracts, the free movement of capital, moves towards the harmonization of Value Added Tax (VAT) and excise duties, and the reduction of state aid to individual industries."[3] This act also gives increased powers to the European Parliament. During this time, Turkey applies for membership.

The turning point in the development of the European Union came in 1991 with the signing of the Maastrict Treaty, otherwise known as the Treaty on European Union (TEU). This treaty outlined the European Union as it is today. Though it was seen as an ending – or solution – to many of the concerns of member states, it was truly just the beginning. Once the treaty was signed, it then needed to be ratified by all signing nations. The Danish referendum initially voted against the Maastrict Treaty, creating instability and casting doubts on the success of such a venture. Later in 1992, France narrowly accepted the treaty, while Denmark revoted and changed their opinion to a "yes". However bumpy the ride, the European Union officially came into effect November 1, 1993.

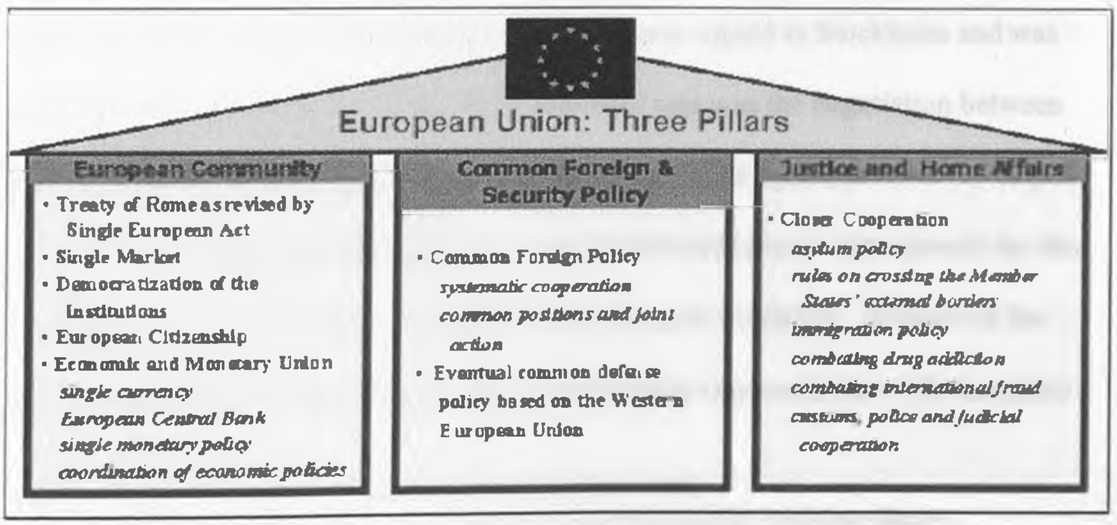
The Flag of the European Union

[3] Thody, xxiii.

Since the introduction of the EU, Sweden, Austria, and Finland joined the EU in 1995. The EU further considered expansion in 1998 by opening membership negotiations to the Czech Republic, Estonia, Hungary, Poland, Slovenia, and Cyprus while suspending negotiations with Turkey. The continued growth of the European Union is one of the greatest goals of this program in European unity and integration.

Structure of the European Union

When the Maastrict Treaty on European Union came into force, it restructured the existing European Communities. A pillar system was developed, breaking the structure into three areas. The core of the pillar system is the EC pillar, which has supranational functions as well as governing institutions. This primary pillar is accompanied by two pillars that function only on international cooperation. The Common Foreign and Security Policy (CFSP) pillar and the Justice and Home Affairs (JHA) pillar can only enact policy based on a unanimous decision of all members and cannot be enforced through the EU. The core pillar of the EU has little input into the inner workings of these two flanking pillars.



The activities of the secondary pillars are very different. The CFSP facilitates and is organized as a forum for "foreign policy discussions, common declarations, and common actions that work toward developing a security and defense policy."[4] Though much has been achieved through this organization, they have failed to realize the goal of a common security and defense. However, the EU has achieved much success within the JHA. This pillar has "formalized and extended earlier intergovernmental cooperation in combating crime, especially drug trafficking, and in setting immigration and asylum policies."[5]

In terms of structure, above these three pillars stands the European Council. This position allows coordination across the pillars. They are in a complex situation of further integrating European unity while allowing member nations to retain the control desired.

Sweden in the European Union

The path to European integration has been a long one for Sweden. In 1960, Sweden joined Denmark, Great Britain, Norway, Portugal, and Switzerland in forming the European Free trade Association (EFTA). It was signed in Stockholm and was seen as a rival organization to the EEC. The next step was the negotiation between Sweden and the European Community (EC). A free trade agreement was developed and primarily concerned industrial products. Sweden had previously rejected the idea of joining a unified European organization based on its neutrality. Because of the division of Europe during the Cold War, membership was not in line with neutrality

[4] Encarta Online, "European Union," (cited 12 November 1999), http://www.encarta.msn.com/find/print.asp?&pg=8&ti=761579567&sc=0&pt=1.

policy. Once the application for membership had been submitted, however, Sweden was quickly taken through the process.

The decision to join the European Union was a difficult one for Swedes. They have an extensive, and expensive, social welfare program supported by an elaborate taxation system that will undoubtedly suffer from membership. Much of the debate was over fears that European Community membership would dilute this welfare apparatus and lessen Swedish control of taxes. The argument of neutrality and membership came up often. Sweden has long been a neutral country within the tumultuous European continent. Many Swedes were loath to give up that neutrality for EU membership. However, Time magazine cuts to the root of the matter with its December 24, 1990 article "No Fence, No Sitting." The first sentence is "What's the point of being neutral if there are no longer two sides?"[6] The basis of Sweden's neutrality has changed, and will continue to become obsolete as Europe further solidifies into a single entity. The last obstacle to surmount with the Swedish people was their clear opposition to the potential loss of sovereignty that EU membership would probably bring. There are still many in Sweden who object, but a slim margin of voters approved membership.

In November of 1994, the Swedish people voted to join the European Union. It was only a small margin of victory, with 52.2% of voters expressing their support, and 46.9% voting against entry into the EU. Soon after becoming a member, Sweden withdrew from the EFTA. However, integration was not immediate. Sweden is still

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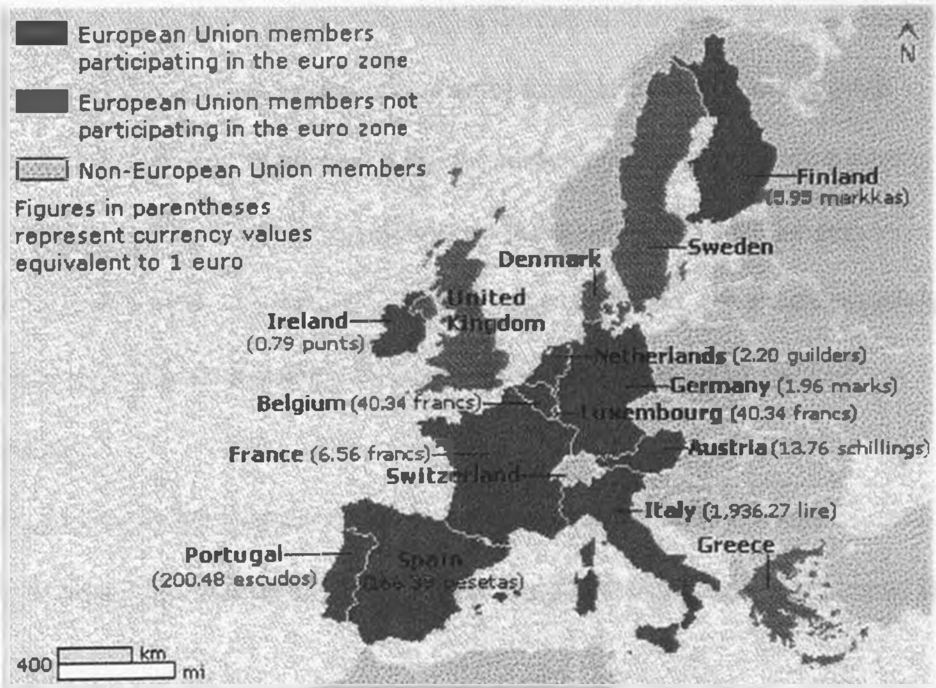
[5] Ibid.
[6] "No Fence, No Sitting." Time. 24 December 1990: v136 n27 p45.

on the fringes of the EU. After finally deciding to join, the next step was the European Monetary Union (EMU). As opposed to other EU countries, such as Germany and Spain, Sweden has decided not to join the European Monetary Union at this point. This means that they are not a part of the euro-zone. A kronor is still only a kronor and, for the foreseeable future, will not become a euro. Swedes have adopted a "wait and see" policy regarding entry to the EMU. European analysts predicted that the Swedish economy would take a turn for the worse by refusing, but instead, it has consistently outperformed the Euro-zone monetary system. Sweden has a forecasted GDP growth of 3.8% this year. As of August 1999, 62% of citizens favored eventually turning to the euro; however, many are asking if there is any incentive for joining the EMU when Sweden is growing faster than the euro-zone.

The Euro-Zone



Chapter 3

SINGLE MARKET

The reaction of Europeans to the claim of a single market falls along a wide spectrum of opinions. Some argue that it is merely a campaign, a string of empty promises and that the unification of Europe will amount to little but grand slogans. This position is supported by experts who assert that though the theory of European unity and its goals is positive, "bureaucracy, national scrambling, and contradictory practices have reduced its effectiveness and produced a different reality from that envisioned by the creating fathers of a unified Europe."[7] The alternate opinion focuses on not only an economically integrated Europe, but a politically united one also. A younger generation of Europeans are shedding their nationalistic identity and are increasingly voicing their desire of having a European identity. Truly, the reality is somewhere in between these views. The aim of a single market is to integrate European economic efforts in order to compete on the same level as North America and Japan. Anything beyond these cooperative actions will take much longer. Though the process can be streamlined and made more efficient, the single market has already made incredible achievement in the business world and economics of European policy.

The promise of the European Union is to streamline commerce and advertising. Companies will be able to have one European campaign. Right now, this

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[7] Spryos G. Makridakis and Associates, Single Market Europe (San Francisco: Jossey – Bass Inc., Publishers, 1991), 5.

dream is far from realized. If anything, it is more difficult. In the last few years, there has been a push for an International Accreditation Forum, an organization that will consist of different worldwide accreditation bodies. This forum will hopefully create standards that can be implemented throughout the EU.

To encourage competitive forces to flourish and attain their greatest potential throughout Europe, the EC presented the Single European Act. The SEA set forth a number of directives towards EC member states. The SEA redefined the authority of the commission, solidified the bargaining power of the community to third parties, and gave a greater role to the parliament. These made changes in national economic policies and were implemented with varying success. A great range of directive acceptance is seen across the member nations.

Implementation of Single Market Directives, 1992[8]	
Member State	% of 170 Directives Implemented
Denmark	89.8
France	83.4
Germany	78.6
Portugal	78.4
Greece	75.3
Netherlands	75.0
Britain	73.1
Ireland	72.5
Italy	70.6
Luxembourg	69.9
Spain	67.3
Belgium	64.3

[8] Richard W. Stevenson, "Europe Copes with Details of Unity," New York Times, November 16, 1992, D1.

Only 170 directives are measured above; however, the SEA adopted a package of nearly 300 directives aimed at consolidation of the internal market.

Though there is currently a significant amount of legislation governing what countries may or may not do outside of their borders, this is a confusing mix of individual nation regulation and EU policy. In 1996, a European Commission Green Paper presented the objective of "harmonizing" all commercial communications across the European Union. This objective is far from being reached even now. Though governments are pushing for a single market, many are refusing to surrender their own laws and regulations in favor of European Union-wide cohesion. The EU appointed an Expert Group on Commercial Communications with officials from all 15-member nations to look at one small sector of disagreement, sales discounting. They concluded that it would be impossible to have all countries agree due to the many demands for exemptions. They made a broader verdict that, if agreement cannot be reached for such a small part of marketing, there is no chance of agreement on the implementation of a single ad market.[9] With this gloomy prediction, the European Commission had to find a new way to encourage a single ad market within the EU. The current plan is to introduce a system of mutual recognition to member nations. Companies will be able to carry out activities in one country as long as these activities are legal in the company's home country. Some are criticizing this method as a settling technique and claim that true harmonization of marketing will never be achieved with this inferior alternative. There are also legal implications of the "country of origin" wording. This may open the doors to a myriad of illegal and shady practices. Many experts and EU supporters agree that the only way to create a true single market is through centralized regulation. As EU member nations find a balance between the loosely regulated markets and the draconian laws of some countries such as Germany, the industry will become more efficient and will allow companies to explore the full potential of their brands.[10] The next step in a single market is for a Code of Practices to be drawn up. However, the existence of such a code does not guarantee the implementation of it within the EU nations. Not only is implementation a problem, but there is still argument over how it will be enforced. It is unknown whether the European Commission will have the authority to hold up the Code of Practices and further marketing regulations, or if it will be at the discretion of the national governments.

The purpose of the European Community extends well beyond simply creating a free-trade zone. The ultimate objective is to achieve an economic integration among the member states that will eventually lead to some form of political unity. To this end the following goals have been articulated:

1. Complete elimination of customs duties among member states.
2. Unqualified restriction of obstacles to the free flow of import and/or export of goods and services among member states.
3. Common customs duties and unified industrial/commercial policies regarding countries outside the community.
4. Free movement of persons and capital.
5. Common agricultural and transport policies.
6. Common technical standards as well as health and safety regulations.
7. Common measures for consumer protection.

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[9] "EU's Member States Hinder the Progress of a Single Ad Market," Campaign, 2 July 1999, 4.
[10] David Murphy, "Cross-Border Conflicts," Marketing, 11 February 1999, 30-31.

8. Common laws to maintain competition throughout the community and fight monopolies or illegal cartels.
9. Regional funds to encourage the economic development of certain countries/regions.
10. Greater monetary and fiscal coordination among member states and certain common monetary/fiscal policies.[11]

Along the road progressing toward a single market there have been successes and setbacks. Though many issues remain to be resolved, several of the successes revolve around three major accomplishments. The free movement of goods encompasses the progressive reduction in customs duties that was completed by the ten original members of the EC along with Spain in 1986. Though there were barriers to this objective, such as different technology, administrative difficulties, and fragmented markets, the marketplace has persevered. The second is the changes made in the financial and banking services. This highly fractured industry has made great strides in becoming a more cohesive, unified business. The third area in which the EU has achieved is in government procurements. This has affected telecommunications, transportation, arms manufacturing, and water and electricity supply. Open competition across borders has made for a more efficient marketplace.[12]

Those issues that continue to hamper the evolution towards a single market are simple on the surface, but represent complex problems that are nearly impossible to overcome. Nationalism is the most complicated. For most of history, European nations have been adversaries more than allies. In public opinion, the idea of a

[11] Makridakis, 9.

European identity is a difficult one to envision. Each country is determined to remain autonomous and retain control over their governments. They have been loath to give up some of that control for the greater good of the European Union. Regulation and coordinating taxes is also a sensitive issue for the members of the EU. Nations have always received their respective tax revenues in entirety. It is difficult to organize an across the board tax system when each country has drastically different taxation methods. The third reason for resistance against true integration revolves around currency. For true unity, the countries must endorse a single currency. The dramatic fluctuations of the Euro have hampered this process. All countries need to be involved in this – not all European Union members have chosen to be part of the EMU. Sweden is outside that community at this time.

There is still much to accomplish before the European community realizes the dream of a single market. However, the goals are still viable and possible. The path may not be the one imagined in the beginning, but new routes will be navigated. As more Europeans begin thinking of themselves in that context and as the Euro becomes stabilized, this vision will become the reality.

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[12] Makridakis, 14.

Chapter 4

LINDEX, AB

Lindex, AB

Two men opened the first Lindex store in 1954 in Alingsås, Sweden. They wanted to design and sell women's lingerie. Lindex now operates 311 stores in four countries: Sweden, Norway, Finland, and Germany. The firm is the market leader in Sweden and Norway and is experiencing tremendous growth in the other two markets. Product strategy is broken down into four segments. Lingerie is still a large contributor to their sales, as well as ladies' wear. The remaining two departments are children's wear and Lindex care, which sells cosmetic and hygiene products. Corporate headquarters are still located in Alingsås, Sweden and employ some of the very same people who opened the small lingerie shop in 1954.

Lindex has 311 stores in 4 European countries[13]

[13] Lindex. Home page (cited 21 April 2000). http://www.lindex.se.

The business concept of Lindex is simple. They want to offer women and children a value-for-money, fashionable and broad range of high-quality clothing. Lindex desires to have a presence where the customers need them and will strive to always meet them in a warm and open relationship.[14] To accomplish this, they have developed several long and short term strategies to sustain growth and increase profitability.

Long Term Strategies

- To focus on the following customer groups: women over 30 and children up to 13
- To offer and develop a strong and well-coordinated product range with mainly our own but also internationally well-known brand names
- To increase efficiency through improved logistics
- To utilize the benefits of scale in the Lindex concept for increased profitability
- To expand with stores in prime locations and with large customer flows
- To develop further the Lindex store as the most important marketing channel
- To develop further staff skills through continuous education and training
- To ensure that all actions and activities will be characterized by high ethics[15]

Short Term Strategies

- To increase the number of stores in the Nordic countries
- To increase the number of stores in Germany
- To increase the fourth product segment, Lindex Care, through expansion to more stores[16]

In order to achieve these goals, Lindex has implemented new programs and is

[14] Lindex, AB, Annual Report, 1998 – 1999, 1.
[15] Ibid.
[16] Ibid.

reorganizing key departments. The most ambitious of these changes is the introduction of the Lindex Card. This credit card was introduced in Sweden in 1995, Norway in 1997, and Germany in 1998; over 500,000 customers are cardmembers. Examining the buying patterns of card users facilitates market research. This allows the company to tailor customer service, provide store managers with relevant feedback, and to expand their circle of loyal customers.

The Lindex Card

A second tactic being utilized by Lindex is outside consultants. With their collaboration, Lindex has been able to identify changes in product supply that will lead to more efficient inventory management. The firm will be able to direct merchandise directly where demanded, reducing the need to mark down unpurchased products. Though the process needs to be refined further, this will eventually lead to greater profitability.

Though Lindex already employs a highly skilled staff, continued training and maintaining current recruitment requirements creates an impressive competitive advantage. This past year, Lindex has introduced a bonus program to foster employee motivation as well as involving employees in the operational changes taking place.

Training programs are a combination of in-house and outside workshops. Those outside the office have been based on things such as popular game shows or have been held in fun locations such as an old Viking fortress. Each is designed to foster teamwork and to engender a positive, fun, and creative working environment.

Retail Market

In 1998, the three Scandinavian markets, Sweden, Norway, and Finland, saw the retail clothing and outfit trade increase in volume while falling slightly in Germany. There are demographic factors behind this growth as well as influence from the opening of markets due to the EU. The population has increased in Sweden and shifted toward an older average age. These new groups have a higher per capita income and are enjoying the increased consumption power that has come into play since joining the EU. While the number of children in Sweden has fallen gradually in the last ten years, retailers in Sweden, and elsewhere, are predicting a shift in this trend and continue to promote the image of their respective children's brands.

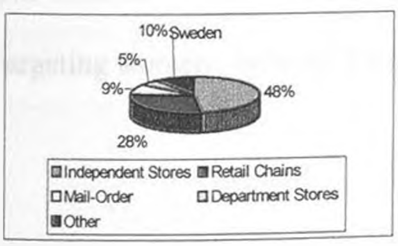
Demand for retail clothing can be simplified into three contributing factors: consumer confidence, disposable income, and the weather. Swedish consumer confidence faltered when membership was announced. However, as the Swedish economy has rallied and outperformed the Euro, consumer confidence has rebounded, factoring into the increased volume of sales. European Union objectives focusing on improving economic conditions and unemployment have also allayed fears and created a more positive retail environment.

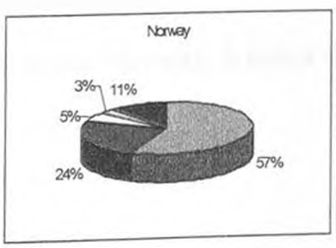
In any country, the retail industry is going to be driven by the amount of disposable income in the hands of customers. If economic conditions are expected to worsen in the future, many will begin to save money, thus reducing the amount available for purchasing. Increased disposable income is seen only after conditions have dramatically improved and will be the first to falter in the face of impending economic downturns.

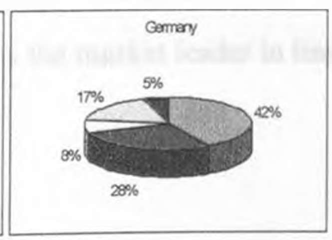
The final factor affecting the retail trade is the weather. Sales are seasonal with higher profits generally seen in autumn and the beginning of winter due to "school shopping." This is seen most affecting children's wear. Women's clothing and lingerie experience a higher sales volume near Christmas. However, lingerie is the least affected by seasonality of all the product categories.

Sales Channels

In the early 1990's, the retail chain market experienced an increase in market share. This number stabilized and remained constant in 1997 and 1998. Other channels for clothing sales include independent stores, mail-order companies, and department stores. The success of these channels varies between the countries of Lindex operation.







Independent stores have the largest market share in all three countries. However, there are indicators that many of these stores experienced problems in liquidity and profitability. Without the benefit of economy of scale and the difficulty in changing location, many independent stores close. This creates opportunity for larger retail chains.

Competition

Competition in the retail marketplace is increasing. Suburban shopping centers as well as revitalization of city centers has created space for expanding chains. However, careful examination of new locations is essential, for "locations which are not able to offer the right mix of services, adventure, and accessibility will probably be eliminated."[17]

Lindex competes in a mature industry and competition is fierce. However, each competitor has a slightly altered niche and targets to different customers. This allows several competitors to be located near one another and make it a profitable venture for both, rather than one detracting from the other. In most shopping areas, several department chains will be situated together. When looking for new locations, this can also be an indicator of a desirable space. Lindex does this by primarily targeting women. In both Sweden and Norway, Lindex is the market leader in lingerie

[17] Lindex Annual Report , 9.

and women's clothing. Children's wear is the leader in Sweden and third in Norway.[18]

1998-99 Market Shares			
Sweden	Ladies' Wear	Lingerie	Children's Clothing
Lindex	7.1	23.5	14.2
H&M	6.8	7.4	13.6
KappAhl	6.8	6.4	8.4
Norway			
Lindex	5.7	19	7.9
H&M	4.3	6.3	11.4
Cubus	4.8	8.3	15.3

Source: Lindex

In Sweden, Lindex has two major competitors; Hennes & Mauritz and KappAhl. H&M is the largest of the three chains, having 550 stores in 12 European countries. They have also made a decision to enter the American market, with great success. The first store opened in New York at the beginning of this year, and many other locations are planned for the next four years. They have a similar target market, children under 14 and women and men aged 15-35. Compared to Lindex, H&M offers lower prices and quality, but has a higher level of current fashion.

KappAhl has stores in Sweden, Norway, Denmark, Finland, and Poland. The target market is primarily children under fourteen. However, they are a tough competitor in the women's wear segment. Both the price and quality are lower than Lindex products.

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[18] Ibid, 14.

In Norway, Sweden competes with Cubus along with H&M and KappAhl. Cubus has stores in both Norway and Latvia. During 1999, they also expanded into Poland and will be soon opening the stores there. They are the market leader in children's clothing in Norway, and sell products in all three of Lindex's product range. The price and quality of children's wear is higher, yet the fashion level is lower in Cubus stores.

The primary competitor in Finland is Seppälä, which operates 110 stores within the country and one in Estonia. They currently compete with Lindex in women and men's clothing for customers aged 20-45. The chain offers products that are lower in both price and quality.

The other important competitor for all of these retail chains is the network of independent stores. These stores are a dying breed however, as they face disadvantages of scale and are significantly higher in price. As the European markets continue to open to retail, these competitors will lack the capital necessary to expand and market the company image.

Target Market

Lindex currently targets women and children. However, this focus will be narrowed in the future and aimed towards two target markets. Women over 30 constitute the first one, while children under 13 will remain a strategic thrust. This is because the typical Lindex customer is a woman in that first age bracket who has one to three children. When shopping at Lindex, she is usually shopping for both herself and her children. Sweden alone has 1.5 million children and 1.8 million women in the target markets. Northern European women purchase more clothes than men, and the women with the highest purchasing power are those within Lindex's target market. In working toward this goal, Lindex will be creating a more distinct profile for ladies' wear. The current strategy is in creating brand names that will appeal to different market segmentation. Calamity Jane's is a brand of clothing aimed toward the junior's segment, yet has been successful across the board. It is a popular brand and is being carried in stores throughout Europe besides Lindex. In autumn of 1999, Lindex launched another line of clothing, Connect. This has a higher fashion content and quality. To increase purchase of children's wear, Lindex has continued promoting the popular children's line Lindex-Eurokids through increased print advertising and direct mailing.

Consumption of women's wear per capita in Sweden, Norway, Finland, and Germany, 1998[19]

Age	Sweden SEK/annum	Norway NOK/annum	Finland FIM/annum	Germany DEM/annum
15-20	4300	4600	1970	673
21-30	4900	7000	7080	1336
31-40	4700	7500	3540	1701
41-50	6400	8400	3180	1595
51-60	6000	8900	2730	1708
61-	5100	7000	1730	1176
Average	5300	7400	2750	1437

Purchasing

The retailing aspect that is most affected by the European Union is purchasing.

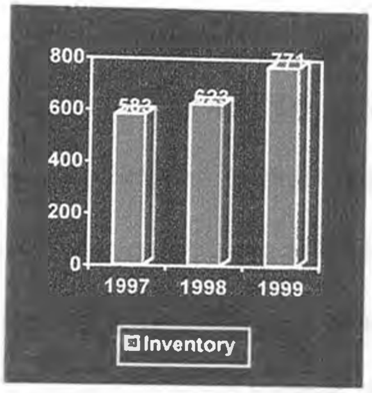
[19] Lindex Annual Report, 28.

Lindex faces unique problems as they head into the EU era. Each of the countries selling Lindex merchandise is vastly different in their involvement in the European Union. Norway has chosen to remain outside the EU, while Sweden is holding out on entering the EMS. This is causing complex problems in the procurement and distribution of merchandise.

The strong expansion efforts that Lindex has been making in their four geographic areas has increased their overall purchasing power. Over the past five years, Lindex has been able to increase the gross profit margin from 48.1% to 52.5% by placing stricter demands on suppliers.[20] Lindex has also made efforts to further develop purchasing through their design department. Cross-functional, multi-national teams work interdepartmentally to strengthen performance while coordinating the product range.

The most apparent effect of the EU on purchasing is due to quotas. Imports of some clothing, especially from countries in the Far East, are regulated through quota restrictions. This has forced Lindex to change their ordering and importing patterns. Though much of the clothing sold in the fall is ordered in the summer, Lindex has had to gradually build up their inventories in Sweden, Germany, and Finland rather than order in large quantities at one time. Inventory has drastically increased between 1997 and 1999. Just this one change can set off a chain reaction causing Lindex to reorganize their purchasing behavior. The most unforeseen consequence of this was the distribution of vacation time. Now that all stores and inventory distribution centers are spreading out their deliveries as dictated by quotas, employees are less likely to be able to take their traditional summer vacations. Employees are needed to process the influx of merchandise.

Lindex Inventory Levels 1997-1999



Differentiation in Marketing

The most important channel for marketing is the stores themselves. They vividly display the company's image and show off the merchandise. Strategic placement of new stores is an important decision, and the window displays need to show a uniform image of the Lindex company. Achieving this in spite of differing national laws and regulations has been another obstacle in the face of the European Union. Despite streamlining regulations and aiming at a common market, there are still many laws that are applicable only to certain countries.

Lindex uses various other types of marketing. They constantly use price and product promotions with advertisements and magazine ads. Strengthening brand name through increasing brand name awareness is also another tactic with which to market the Lindex name and image. To increase sales of children's clothing, Lindex employs

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[20] Ibid., 21.

direct mail. Finally, loyalty-producing programming has been introduced into the marketing mix, creating a more dynamic and varied selection.

Conclusions

Lindex will encounter many challenges as they integrate their business to coordinate with the changing face of Europe. With Norway disinterested in membership, complexities will arise in many areas of business. The instability of the Euro against national currencies continues to add new dimensions to any analysis, especially regarding operations in Germany and Finland. Dire predictions were made about the strength of the Swedish kronor when the country declined membership in the EMS; however, the kronor has been outperforming the Euro consistently.

Lindex must change the way their company is organized in order to align itself with the changes caused by the European Union. The import and export quotas are only the beginning. They need to keep in mind the trickle effect any change is going to have on the greater organization. Eventually, the EU will deliver all of the promised advantages and create a better retail environment. Until then, Lindex will continue to adjust when necessary and cultivate a broader, European image. Currently, they have a very centralized organization. This may have to be reconsidered and readjusted as Lindex continues to expand into other EU countries. Control of the window displays may remain within the headquarters for continuity of image. As the company expands, it will be important to maintain a singular image that is easily recognizable throughout their stores. However, the company may have to establish regional offices that can closely examine inventories and control the import and export of products. This will also allow Lindex to grow and will facilitate communication between stores and headquarters.

Sweden's membership in the EU has just begun to make changes in the retail industry. However, as time passes and countries become more fully integrated into membership, changes will continue to affect business. Lindex is faced with the challenge of anticipating these changes and creating opportunities for profitability from them.

Chapter 5

SWEDEN AND THE FUTURE OF THE EUROPEAN UNION

The concept of European integration has come a long way since the inception of the European Coal and Steel Community. For those member nations of the EU, many changes have been made socially, economically, and politically. In order to bring about these changes, countries have given up control to a supranational organization. A unified Europe allows greater bargaining power with outside organizations, consolidates common interests and resources for greater efficiency, and allows competitive forces to play out within a greater area. Now that financial trade barriers have been eliminated, companies have a much larger target market. However, a common economy does directly coordinate to common consumer behavior. Companies wishing to expand their organizations into other EU markets will have to consider the implications of culture and society still. A common market does not always mean that identical strategies will be successful in separate markets. However, it does mean that markets will no longer be limited by national borders. This is an exciting time in market research for Europe. It is now necessary to study markets across nations and find the similarities and differences among them. For example, are the buyers of children's clothing attracted to the same type of magazine advertisements and television spots? Now is the ideal time to begin researching this. Perhaps the EU will be similar to the United States in that, while markets are similar, they are regional. Marketers no longer have the national borders to dictate regions however, and can make more effective decisions based entirely upon consumer behavior.

Integration has also initiated economies of scale, efficiencies in technology, economics, and research, and "rationalism based upon the enhanced law of comparative advantage."[21] Though many of the programs and regulations implemented within the EU have brought about positive effects, there are many unforeseen consequences of these actions.

Member nations must relinquish control in order to attain a greater good. While many nations advocate programs that will ultimately benefit all members, countries prioritize their own objectives. Sweden has outlined the initiatives and direction they would like to steer the EU in the years to come.

Sweden has identified several issues as both high importance and necessitating high cooperation from the European community in order to be resolved. These are:

- *A Bigger EU:* Sweden has actively promoted enlargement of the EU into Eastern and Central Europe. The EU can thereby contribute to the reform process in these countries, while helping eliminate previous dividing lines in Europe.
- *Employment:* An active policy to stimulate economic growth and lower unemployment. To combat European unemployment effectively, joint and concurrent efforts by many countries are necessary.
- *The Environment:* Tough rules and legislation on emissions and the use of chemicals. Because environmentally hazardous emissions pay no attention to national boundaries, the EU is an excellent forum for pursuing an effective environmental policy.
- *Equality Between Women and Men:* Both in the EU institutions and in member countries, much remains to be done to promote greater equality between the sexes. Women must be given a larger share of the important tasks in EU organizations.
- *Openness:* The work of the EU is still characterized by too many closed doors.

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[21] G.N. Minshull and M. J. Dawson, The New Europe Into the 21st Century (London: Hodder & Stoughton, 1996), 412.

Sweden would like greater openness and transparency to be guiding principles of all EU work.

- *Free Trade:* Because of tariffs, quotas, and other trade barriers, consumers pay unnecessarily high prices for the goods they buy. The EU has too many trade barriers, and Sweden is working to open up trade as much as possible.
- *Agriculture:* The EU's common agricultural policy is too old-fashioned and highly regulated. It must be reformed in ways that benefit both consumers and the environment.
- *The Struggle Against Narcotics and White-Collar Crime:* EU cooperation in the legal and police fields needs to be made even more efficient. Anita Gradin, the EU Commissioner from Sweden, is responsible for these issues within the European Commission.[22]

Sweden is part of the changing face of Europe. This community will continue in the path begun over four decades ago and further implement programs of European integration. The greater benefits of such a union far outweigh the obstacles left to surmount. While Swedish retailers have many adjustments to make in their operations, in time they will find that the emerging single market and borderless trade can only enhance their business.

Where integration will end is unknown at this time; however, most see the EU at this time as a first step. The results of ongoing membership applications will cause even more changes as the European Union continues to change shape and evolve bureaucratic processes. As a result of continued high-level policies, a monetary union will be implemented and a common budget will be established. While countries will always retain their nationalistic pride, it is hoped that the

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[22] Svenska Institutet, Fact Sheets on Sweden: Sweden in the European Union (Stockholm: SI, 1998).

people of these countries will also consider themselves citizens of Europe and enjoy the benefits of this union. These include freedom of movement between member states, more efficient markets, and a more stable economy. Soon the fragmented nations of the EU, who were historically at war, will become a united force and change the way in which the world views the European nations.

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