SARURE
Interreg Europe

European Union
European Regional Development Fund

RURAL RETAIL DIAGNOSIS

INDEX

I. Objective of the Mapping Analyses in SARURE

The path to a good monitoring and evaluation system is started with a sound mapping analysis.

Baseline information is necessary to understand the cause and/or effect of any project, study or policy implementation; however, mapping reports often don't get the attention and effort they should, spoiling the possibility to see how far a project reached after implementation. To put it in simple words, mapping analyses measures key conditions before a project begins and provide a clear starting point to benchmark progress. Without something to measure new results against, it is difficult to assess results as positive, negative or otherwise.

Quantitative and qualitative data collected through the mapping analyses need to correlate with the end goal of the project. Thus, the scope of the analysis must be thoroughly defined, in order to request only strategic information serving the purpose of the analysis. Moreover, data to be collected should be those which can be tracked in the future in the same way, as baseline data are most useful when they can be compared to new data at a later date.

In summary, a sound mapping analysis is that one providing a present photo of where we are today with regard to a topic, a snapshot of indicators and circumstances at a time; but also one serving for later benchmarking from which to measure progress.

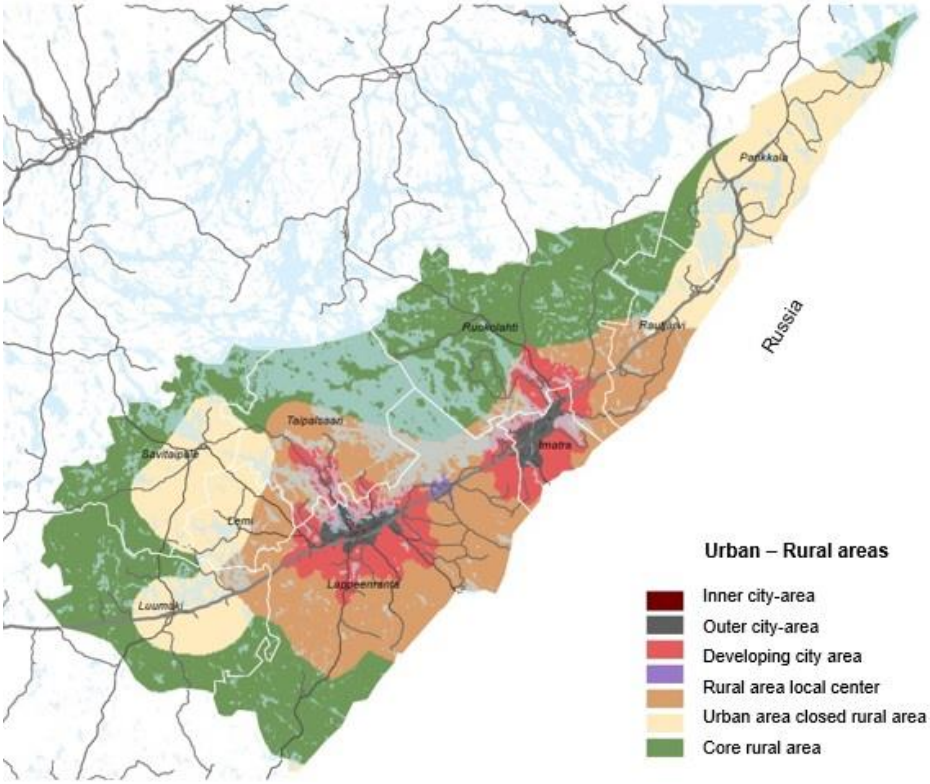
SARURE Advisory Lead Partner, the Chamber of Commerce of Teruel, has produced an *ad hoc* template for the partner regions in SARURE to produce Mapping Analyses of the state of the art of rural retail in their territories. Thus, the present template is accompanied by surveys to be launched to retailers and related stakeholders as well as to inhabitants/ consumers.

Some partners allocated budget for external support to draft the Mapping Analyses: these funds can serve to subcontract the launching and exploitation of the surveys and/or the support to write the report itself. The partners with only internal resources to draft the Mapping Analyses can launch the surveys to a sample of retailers and consumers they are in direct contact with (through their internal data bases or through the stakeholders' groups, for example), even if the number of addressees to make the sample valid and reliable is not observed. However, the surveys will provide some feedback worthwhile having.

As the Advisory Lead Partner will summarise and conclude the main hints behind all the analyses, it is kindly requested the structure and limitations of space in the following pages to be observed. Please include quantitative and qualitative information and the sources when necessary.

II. Concept of Rurality in force in South Karelia

South Karelia consists of 9 municipalities: Lappeenranta, Imatra, Lemi, Luumäki, Parikkala, Rautjärvi, Ruokolahti, Savitaipale and Taipalsaari. Population is mostly concentrated in two cities, Lappeenranta and Imatra, and their surrounds.



Agriculture is an important source of livelihood in South Karelia. The businesses in rural sector are primary production (food, plant production) and forestry. In national level, most common farming article is grain. In domestic animal production biggest sector is dairy cattle and milk production. The profitability of primary production is lower in South Karelia region than in average in Finland. Low profitability has increased the amount of side businesses: most common of them are machine building, production of firewood, construction and logistics services. At the moment agriculture is in the middle of a structural change. The amount of farms is decreasing rapidly and the size of units is growing. Referring to a report of Ministry of Economic Affairs and Employment of Finland (MEAE), the number of farms is now approximately 1400 but it is estimated to be in 2025 less than 1000. In addition to the low profitability in agricultural sector, there is a need to improve competitiveness and widen the range of business activities in rural areas. Forest industry has long traditions and a strong impact in the local and regional economy. South Karelia is one of the most significant forest industry concentrations in the world. One quarter of added value comes from forest industry.

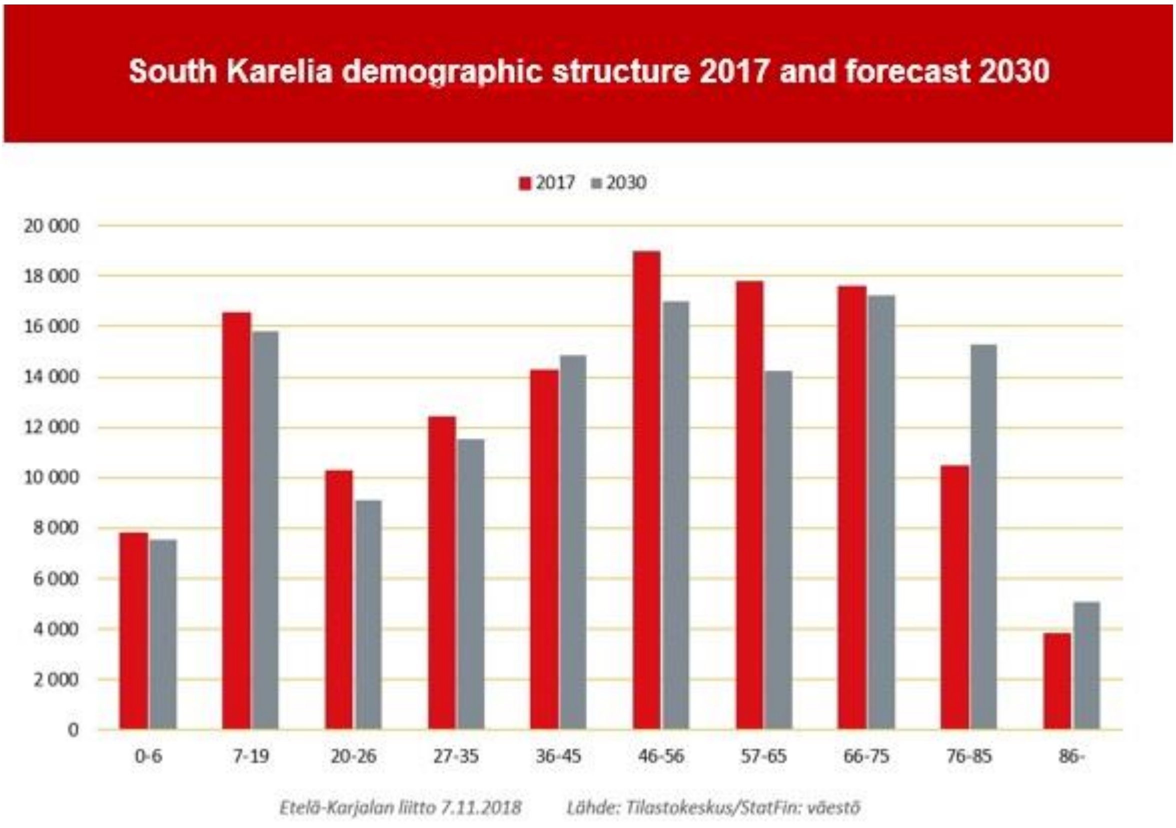
III. Socioeconomic state-of-the-art in South Karelia

This chapter contains brief information on population (structure, development forecast), tourism and border crossing statistics and the impact of Russian border for the region.

a. Sociodemographic aspects:

i. Sociodemographic characterization of the territory

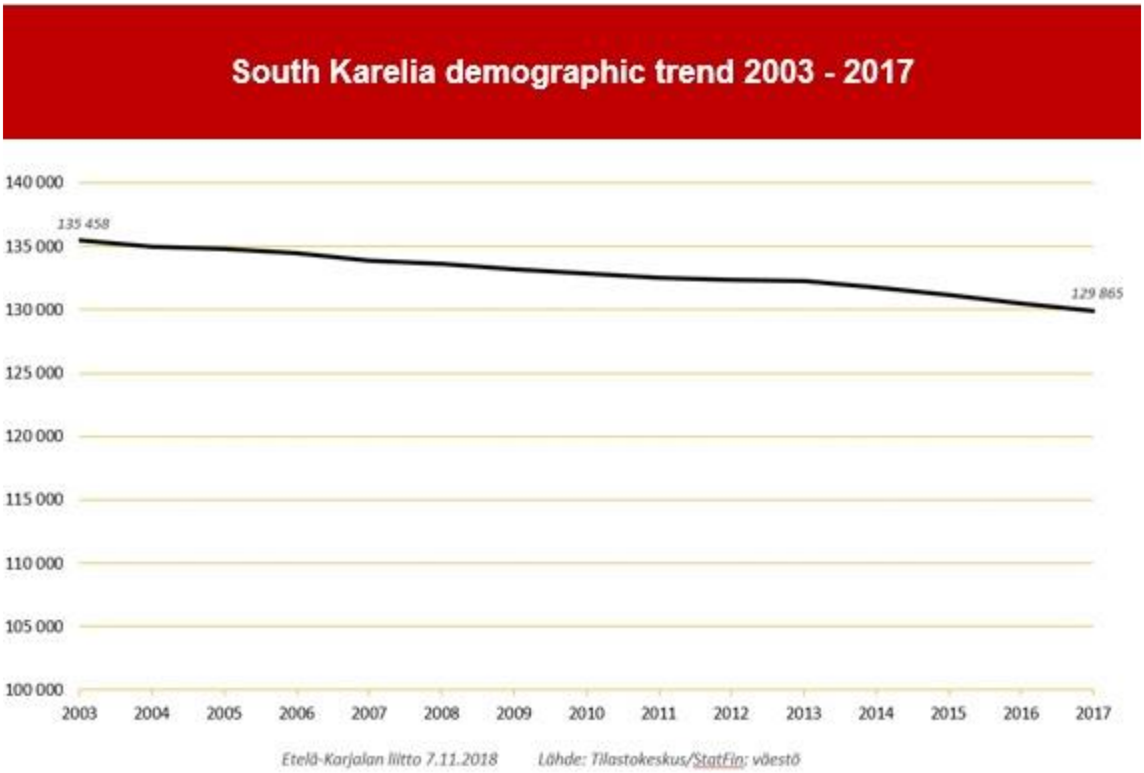
Population of South Karelia gets older and the number of inhabitants decreases. The birth rate in the region has decreased for several years in row. This trend influences in long term all aspects of life in the region: public services, economy and employment.



The population gets older. At the same time, the birth rate decreases.

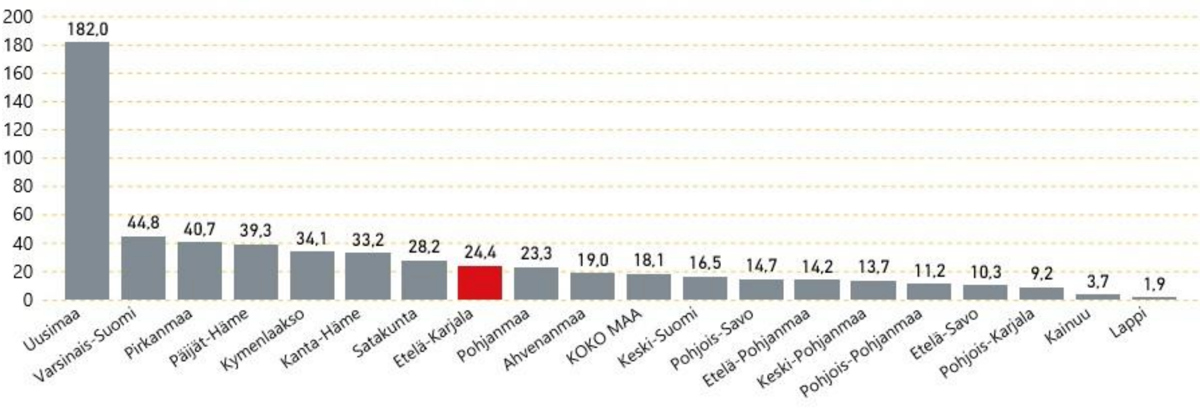
ii. Depopulation

According to MEAE June 2018 statistics, at the end of year 2017 the population of South Karelia was 129 172. The number has decreased by 869 from the previous year. The trend may be seen in the table below.



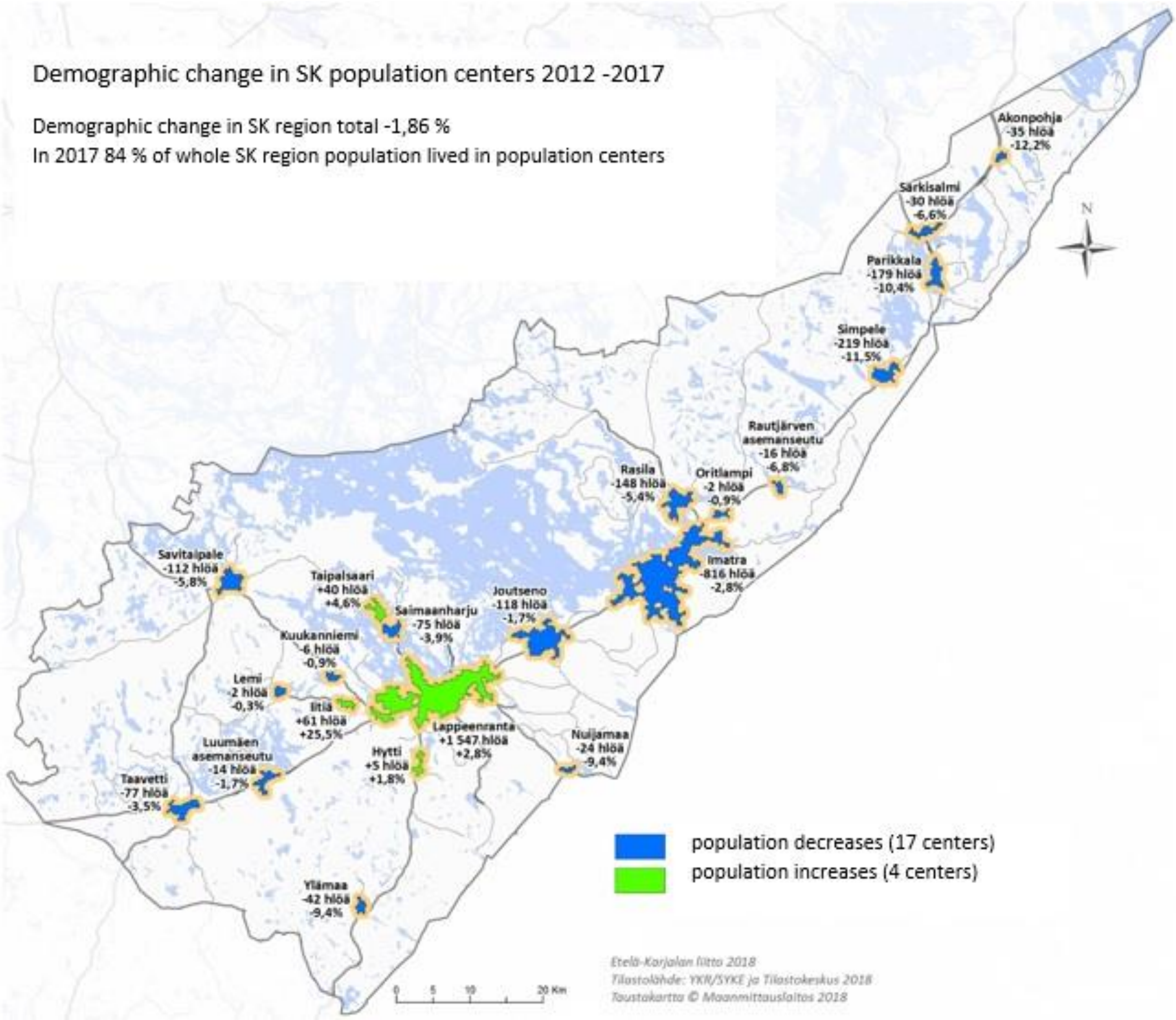
In

Below, you may find the population density in South Karelia (in red) in comparison to other regions in Finland. The average number of inhabitants per square kilometre in South Karelia is 24.4. The average in Finland (all regions summed) is 18.1 persons per square kilometre.



iii. Demographic imbalances in the structure of the rural population

Villages and small municipalities are losing their population in South Karelia. Until year 2018, Lappeenranta was the only municipality in the region to increase its population. The map below demonstrates development of the population between 2012 and 2017. The green Lappeenranta area has gained population, while the blue areas have lost it. As a whole, South Karelia has lost population.



According to Regional Council of South Karelia's statistics, the change rate of population of the municipalities in the region confirms this trend. In years 2010-2017 the only municipal in region that has had a positive trend in population development is Lappeenranta. Parikkala, Rautjärvi and Savitaipale municipalities face the biggest challenges in population decrease. They have lost population from -10 % to -14 % during the same period. However, the recent statistics show that also rate of Lappeenranta has turned negative in year 2018.

b. Economy and Employment:

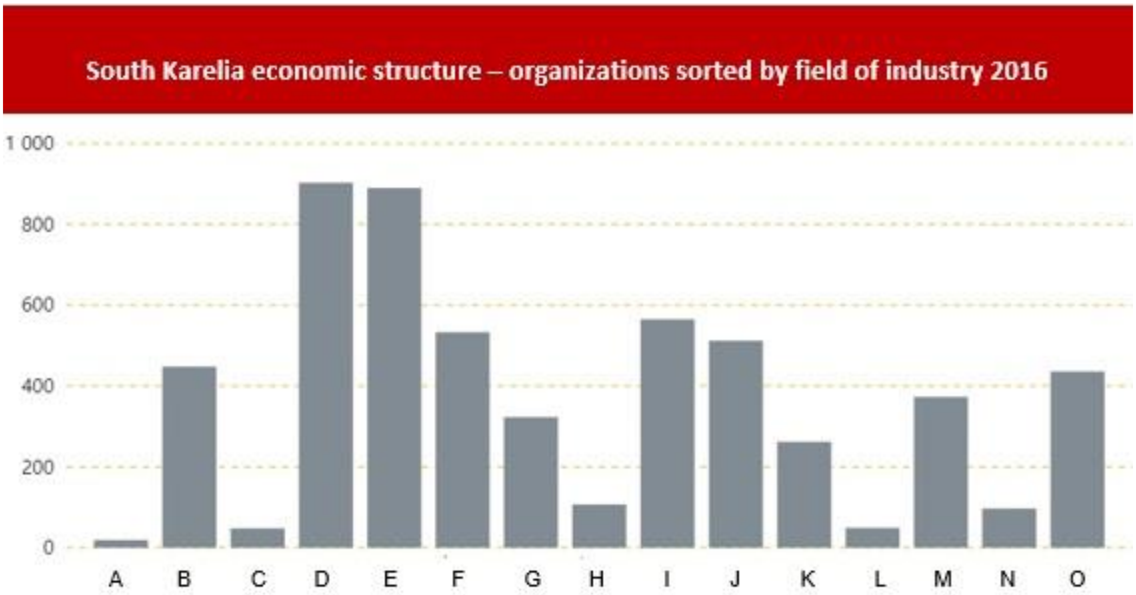
One big regional challenge in the future is to improve region's vitality. The key issue is to attract new businesses and innovations to South Karelia to foster regional development. The trend of development indicated in the number of open vacancies has been negative in past years.

Russia plays a key role for the region and its impact in economy is significant: it has influence especially to trade and tourism. South Karelia's location as a border region makes it possible to receive accross the border growth and business potential especially with biggest cities Imatra and Lappeenranta. Three major border crossins between Finland and Russia are located in South Karelia (Nuijamaa, Imatra, Vainikkala). In addition to these three there is border crossing point in Parikkala that operates with restricked crossing concept. Annual numer of border crossings to Finland via these points in 2018 was approximately 4 800 000.

Research Center TAK statistics show that in 2017 almost 1,7 million foreing tourists visited South Karelia. Almost 95% of them were Russian and 87 % were on a day trip. In 2017 Russian shopping spent 298M€ in South Karelia.

i. Business activity and proximity services in the territory

In South Karelia the scope of businesses is divided. There are lots of small and micro enterprises and also big, international industrial organizations. The two biggest business sectors in 2016 were construction and trade.



A: Mining, B: Industry, manufacturing, C: Industry, energy, D: Construction, E: Trade, F: Logistics and storage, G: Hospitality, H: Information and communication, I:Real estate, J: Expertice, scientific and technical businesses, K: Administration and support services, L: Education, M: Social and healthcare services, N: Art and entertainment, O: Other service business

ii. Employment

Statistics show that the employment has improved in 2018 from year 2017 in South Karelia. Altought the number of unemployed people has decreased, South Karelia region still has higher unemployment rate (12,4% / first half year 2018) than national average in Finland (10,1% / first half year 2018).

According to the development review of Ministry of Economic Affairs and Employment of Finland from October 2018, social and healthcare sector has the biggest employing affect, especially for women. Other sectors with positive employment prospects are industry (welding, machine building) and construction. Employment possibilities in tourism and trade are also seen positive. A new trend for Lappeenranta is IT and software businesses, which find nearness of Lappeenranta Uniuversity of Technology attractive. This sector is foreseen to employ a good number of software and IT specialists.

iii. Analysis of the retail offer (exploitation of survey to rural retailers and stakeholders' groups)

Majority of retail shops in South Karelia are located in urban area: cities of Lappeenranta and Imatra. The retails shop in the rural area offer consumers mainly food and good for daily consumption. Retail of Finnish food and daily consumed goods is strongly organized under two main chain operators. Firstly, there are co-operatives (regional South Karelia Co-operative "Eekoo") and second one is "Kesko", which operates on francizing method, whereas each retail shop is run by an independent entrepreneur. South Karelia has very few shops or entrepreneurs operating independently from these two chains.

The next table shows the volume of whole retail sector in South Karelia. It lists the number of all retail units in South Karelia region in each municipality between 2013 and 2017. The numbers include all retail, all fields of activity, various shop sizes, chained stores as well as independent entrepreneurs. The numbers are from Regional Council of South Karelia's statistics.

	Year 2013	2014	2015	2016	2017
Imatra	196	181	174	163	167
Lappeenranta	456	445	440	423	417
Lemi	11	12	11	9	12
Luumäki	18	19	16	18	19
Parikkala	39	39	36	34	36
Rautjärvi	16	14	13	9	11
Ruokolahti	20	19	17	19	17
Savitaipale	20	21	21	18	21
Taipalsaari	17	18	17	20	15
In total	**793**	**768**	**745**	**722**	**715**

SARURE project has focused on retail located in rural and sparsely populated areas in South Karelia. The frame in the project holds not only food and daily consumption goods, but all sorts of retail. In South Karelia and whole Finland the retail operated in rural areas consists almost only of food and daily consumption goods. All other retail is concentrated in population centres and bigger cities. Digitalization and online stores have influenced especially on retail of the personal consumables (clothes, shoes, and accessories), household equipment (home electronics and appliances) and technical device as well as boosted the online sales.

The state of the retail shops located in rural and sparsely populated areas in Finland is concerning. According to Pellervo Economic Research (PTT) the number of the shops located in these areas has diminished between years 2002 – 2015 even by 60%. PTT estimates, that the number of these "village shops" is under 300 in year 2017 in whole Finland. This rate includes only shops that fulfil following definitions:

- Distance to nearest retail unit is at least 7,5 kilometres
- Annual sales of a retail unit is less than 2 million euros
- Retail shop is located in sparsely populated countryside, or in rural areas around population centres or in a local village centre in the countryside
- Retail shop offers the possibility to make all shopping for daily consumption
- Shop may be seasonally operating
- Shop shall not be located beside a gas station or shall not be a mobile shop

Finnish Grocery Trade Association estimates the number of such shops to be 10 in South Karelia

Regional Council of South Karelia organized a survey for the mapping analysis. The target groups for the survey were retailers and consumers in the region. The survey was open for replies between 14th of January and 10th of February 2019. The distribution was through following channels:

- retailers and the supporting operators: stakeholder newsletters and emailing lists, directly by email to 19 entrepreneurs
- consumers: regional council webpage, social media groups, stakeholder posts and newsletters

SARURE project got response from 13 retailers and 56 consumers. All answers for the retail survey were from retail entrepreneurs and none from support organisations. Although the survey can't be taken as an extensive analysis of the retail or consumption behaviour in South Karelia region, it offers valuable information on the topic.

Majority of shopkeepers informed their activity to involve non-perishable goods (10) or fresh food (8). Other mentioned actions were hostelry (4), leisure (3), personal equipment (1), handcraft (1) and hardware (1). Most common sales method was direct sales (9). Other mentioned options were self-service (4) and home delivery (1). The average business age of shops was considerably high: four shop keepers declared a business age higher than 30 years. Second common business age was 6-10 years. The average of age of respondents was 41 years. Lowest reported business age of a shop was 3-5 years.

Presumably, the average age of an entrepreneur is quite high and that at least some of the shops are family businesses in which more than one generation has practiced shop keeping. Majority of respondents (9 out of 13) evaluates the current state of business as regular. All answers (13) see increased number of clients as solution to improve their situation. Secondly, investing for shop modernization was seen important (7). Marketing or promotion actions were found less important for the future. Most respondents were optimistic for the future of their business (6) or were cautious (4). In general the respondents have believe in business opportunities.

Survey mapped retailers' attitudes towards certain aspects. These were digital client, e-commerce and new technologies, retail regulation and legislation, new formats of retail and economic situation. The trend in all answers was, that influence of above mentioned aspects was evaluated very minimal. "Indifferent" was the most common answer. There were hardly any extreme positive or negative answers. It may be, that the respondents were not familiar with some of the topics. According to answers, the economic situation was the biggest (negative) influence for retail business (7), regulation and legislation were at 2nd place (5). Economic situation was also seen as the biggest positive influencer (4). Exploitation of new technologies seemed not to be important. This should be studied more.

Other retail shops in the region were seen as main competitors (8). Also malls and stores were seen to compete on the same customers (7). Respondents estimated personal attention (11), location (9) and their professionalism (7) as biggest assets in competition .The results show that shop keepers trust in very traditional assets. Assets, that they already own (service, location).

Survey included several questions dealing with marketing and exploitation of promotional tools. Most commonly used channels for promoting were social media (10) and media (9) including printed and digital press, TV and radio. Loyalty cards (8) and discounts (6) is used to supporting customer loyalty. Results of promotional acts are analysed by sales statistics (8) and satisfaction surveys (7). Two respondents were not analysing the impact at all. The social presence of majority consists of a combination of web pages and social networks (6). Three entrepreneurs used web pages only and three had no online presence at all. Almost all (12) aim to enhance online presence within 12 months. The biggest obstacle in this was time needed (5) and the opinion, that the channel does not suit the clients (4). Four respondents find no obstacle. As a conclusion, more information on the possibilities and means to use effectively social media would be beneficial.

When asking about initiatives considered necessary for improving the local retail in South Karelia, the variation in answers was big. Most answers pointed out promotion of the village itself (8). The shop keepers see that vitality and attractiveness of the village/area would partly do the marketing work. Modernization of the shop (5) and enhancement of generational relief and entrepreneurship in the retail sector (4) were second and third options. Organization of fairs and improvement of the professionalism in the retail sector (external advice) got no endorsement.

iv. Analysis of the retail demand (exploitation of survey to inhabitants-consumers)

Population in South Karelia area in 2017 was 129 865 persons. Majority, 72 909 persons, lives in Lappeenranta. Most of the retail supply is also located in Lappeenranta (as presented in chapter iii). This means people have to travel to the regional capital, unless food or daily consumptions goods are of concern. In addition to the permanent residents, Russian shopping tourists and part-time residents have a big impact in retail sales.

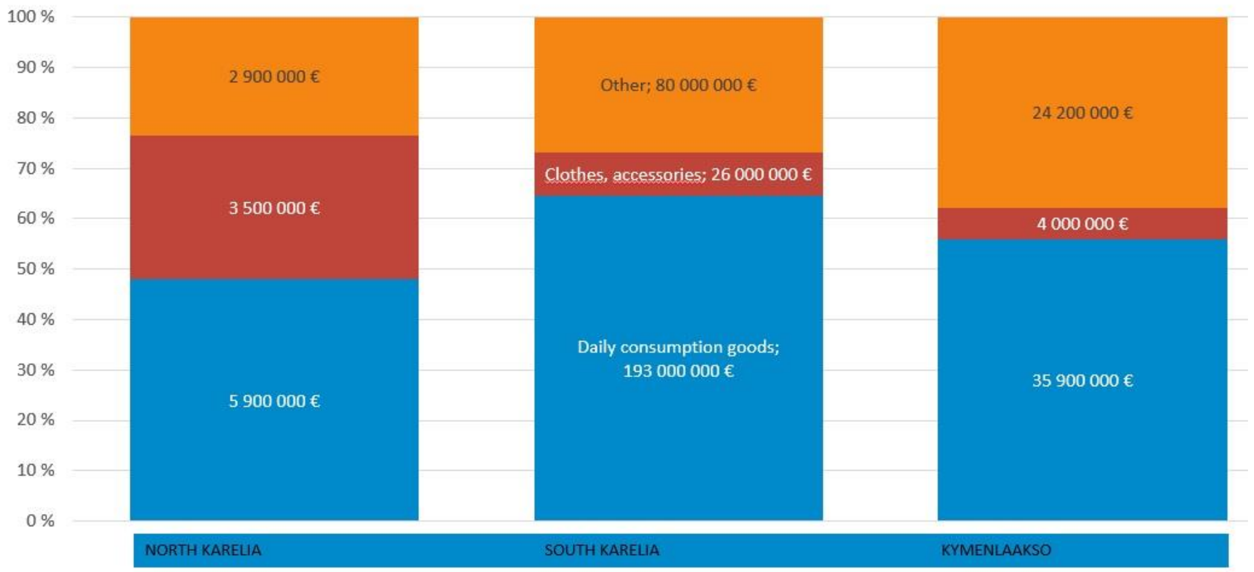
Regional Council of South Karelia collected information on the consumer behaviour and retail demand by a mapping survey between 14th January and 10th February 2019. The survey collected 56 answers. Age of the respondents varied from 20 to 73 and survey collected answers from all parts in the region. Annual income of a family is commonly between 60 001 and 90 000 euros (20 answers) or 30 001 to 60 000 euros (15). Survey shows, that people travel most often to the capital city Lappeenranta for shopping. This applies to all product groups. Online commerce is most popular while shopping electronics and computing devices.

The result are not surprising. Most of the people have no option to choose a local shop (in the same village or neighbourhood), as all the supply is located in Lappeenranta or Imatra. 22 of the respondents travel weekly out from their municipality to shop non-daily consumption goods and 16 of respondents do it monthly 16. Respondents find improved adaptation of the product selection (37) most motivating for purchasing locally. Prices and payment option (23) and flexible opening hours (15) are also seen as important factors. Majority (30) of respondents promote local food shops. At second stage are clothes, shoes and accessories (17). All other categories got only few entries. Results show the importance of easy and near-located food and daily consumption goods the local shops are offering.

Most (20) of the respondents did not recognise any particular "consumption pattern". 17 persons search the information needed for buying decision in internet and made the purchase in a physical shop. Very similar option "I usually inform myself and buy from a physical shop" got 15 answers. It's possible that these two options mean quite the same thing for people who answer. The consumers make lots of product search and compare by themselves instead of using help of the shop personnel.

Buying online was familiar to people. Yet most of the respondents (33) are aiming to maintain the present online consumption level. Most significant reasons to choose online shopping were: easiness in the process of purchasing (34), availability of products difficult to reach in local shops (31), 24 hours shopping possibility (28) and the better prices and promotions in online stores (25). In addition to online shopping, people had experiences in selling and buying by themselves in digital platforms and marketplaces (31). People's activity to follow local shops in social media varied: majority (31) followed some while seven persons not at all. This may correlates with the activity in social media and internet advertisements and with the age of each consumer.

Shopping tourism of the Russians is significant for South Karelia. According to a research performed by TAK Research Ltd the Russians buy in South Karelia mostly daily consumption goods. The year 2017 statistics below show the relations between different product groups. The products shopped and amounts of money spent varies greatly between South Karelia and its close-to-the-border neighbour regions in Eastern Finland.



In addition to own residents and shopping tourists, South Karelia has also a considerable number of part-time residents increasing the local retail demand. Regional Council of South Karelia organized in 2016 a survey, that collected information on the service expectations and preferences of persons living permanently outside the regions; yet having a holiday house or cottage located in South Karelia region. The survey was addressed to 1050 persons and the response rate was 45%. Among most appreciated services were shopping and restaurant services. The survey showed that two thirds of the respondents owing a holiday house in South Karelia, shop daily consumption goods the municipal where the holiday house is located. This seasonal volume for retail demand is remarkable especially for rural municipalities in South Karelia.

IV. Rural Development Policies (Plans & Programmes) in force in the territory

Regional Council of South Karelia has draft a regional development plan for years 2018 – 2021. The main objectives of the plan are related to positive population growth and employment in South Karelia area. To accompany the development plan, Regional Council has drafted an innovation strategy for region. The vision of South Karelia in 2030 is solution oriented, experimental and learninig explorer of new technological solutions.

Centre for Economic Decelopment, Transport and Environment has development plan for Southeast Region rural areas for years 2014 – 2020. Development plan includes vision of the state of rural areas in 2020 (South Karelia included). According to vision, Southeast region produces pure and from origins well known food supplies and acts as a "gate to eastern market" for these supplies. In result of favourable operational environment, versatile and competitive tourism and other business will emerge in rural areas. The renewable energy sources are widely exploited in area according to by sustainable development ideology.

Ministry of Agriculture and Forestry of Finland has a strong impact on regional rural development. Ministry has drafted a development program for the rural areas for continental Finland. Purpose of this program is to support development and growth and to bring welfare. The program is operating from 2014 to 2020 and the funding totals to 8 171 billion euros which includes resources received from EU and national funding. This EU Program finances projects and initiatives that promote environmental sustainability, rural livelihoods and employment and in general activities and vitality in rural areas.

The program is executed in many levels: national, regional and local. The focus in development is highlighted especially in regional and local levels. Centre for Economic Development, Transport and Environment admits regional ERDF –business funding. South Karelia has two operating Leader groups. They finance initiatives and investments that are in line with local development strategies. The focus in Leader associations is to activate and encourage local communities, entrepreneurs and associations to development work for their own good.

When observing the development policies, programs and plans in region, two notions can be made. Regional Council's own regional plan does not separately acknowledge the development of rural areas. Secondly, South Karelia has no actual development strategy designed by any public authority.

V. SWOT Analysis of the Rural Environment studied

S Clean nature, diversity of nature Leisure time residence Accessibility of region Good connections: logistic and traffic Innovatively renewed forest industry sector Big investments in tourism sector	**W** Decrease of population Lack of diversity in economic sectors Russian: rubles exchange rate, the impact of political decision making Attitudes towards / image of rural areas
O Natural resources: berries, fishing Opportunities in tourism and logistic cooperation with Russia: opening of Parikkala boarder crossing point, Imatra-Pietari city train Impact of quick internet/ data-connections 100 Mb optic fiber	**T** Negative population development Structural change: number of farms decreasing, no replacing business branches Condition of surface waters The impact of municipal re-organizations and reunions

VI. Conclusions

The challenges of South Karelia region are strongly related to demographic challenges and imbalanced population development. This affects to areas vitality and future prospects widely in economic and employment aspects. Loss of the population affects negatively especially in rural areas that loose also local services among the inhabitants. The regional development officers and actors have recognised the need for more diverse business structure in South Karelia rural areas. Initiatives, including SARURE, are supporting the change towards lively rural areas and countryside that offers possibilities to work and live outside population centres.

Besides of challenges, region has also many strengths and possibilities when talking about the rural retail. Region's location in the Russian border creates business opportunities. It has also strengthened the local trade and tourism. In the case of Russian tourists, the aspect of areas accessibility are highlighted: effectively and well operating border crossing points have a huge role in the retail sales, business and tourism in the region. Tourism creates many possibilities for trade in region and increases the number of potential consumers. South Karelia has many examples of combining shopping possibilities with tourism activities. This is something to develop in future.

The role of leisure time residences is significant to shops in rural areas in South Karelia. According to Statistic Finland estimation, the number of summer cottages in South Karelia was over 20 000 in 2017. People with part-time residence prefer local shops during their stay and in this way support the maintenance of rural retail. In this aspect the investment to accessibility of shops in rural areas would support the rural retail. In case of this group, also the case of communication is significant: people visiting should be well informed about the services available in the area.

The survey showed, that the retailers exploit only minimalistic the possibilities of digital solutions and platforms as a technical support to retail or in marketing. This is an interesting topic that should be investigated further. One of the challenges of shops in rural areas is be the age of entrepreneurs – how shops can continue when the time comes for change? Even the shops estimated the condition of their business quite positively, all answers highlighted the importance of increase in customer volume.

The opinion of consumers is clear: possibility to buy food and daily consumption goods nearby home is preferred. The survey addresses that with other products and needs people are willing to travel or to buy online.

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