How we create value

Our operations are based on stable finances, professional and committed people throughout our value chain, and a strong and consistent K brand. We are a major local operator, and our activities affect all aspects of society. We create value for all our stakeholders: customers, personnel, shareholders, retailers, suppliers of goods and providers of services, municipalities and nations.
Value creation

Our most important resources

Kesko’s operations are based on professional and committed people throughout our value chain, a stable financial position and a strong, unified K-brand. Efficient and responsible use of resources ensure the success of business operations.

45,000 people work at the K Group, 20,000 of whom at Kesko. 1,100 retailer entrepreneurs at K-stores.

Around 48% of the personnel are in Finland and 52% are in the other operating countries.

Value creation in our operating result

The key functions, such as efficient logistics, responsible purchasing and digital services, provide the K-store and Kesko personnel with the best conditions to do their jobs well. We offer our customers high-quality products and the best service at stores and in digital channels alike. The K Group value, ‘The customer and quality – in everything we do’, is visible across our business operations.

Over 1,200 different stores of different sizes, several online stores and digital services.

9 operating countries

1.6 million customers per day

Added value to stakeholders

We create value for everyone who operates with the K Group, from suppliers and personnel to stakeholders and people who shop at our stores.

- €248 million in dividends
- €575 million in salaries
- 24,600 suppliers, of which 11,900 are in Finland
- €8.6 billion in purchases

Shared value and impacts

We are a significant local operator and the impacts from our operations extend throughout society. When we do our work right, we create wellbeing everywhere around us.

- €741 million in capital expenditure
- €69 million in income taxes
- €602 million in retailers’ direct purchases
- 66% of Kesko’s purchases from Finland
- 19% from the other operating countries

Services in connection with stores
For our stakeholders, the most important areas where we create value are customer value, owner value and social value.

Customer value

- Our main duty is to offer our customers the products and services they need. Our products are well researched, safe and responsibly manufactured. We create new services to make our customers’ everyday lives easier and make them available in multiple channels.
- Our agile retailer business model is our competitive advantage.
- A personal approach and an inspiring customer experience are our strengths. Because every person is different, every K-food store is also different.
- B2B customers are becoming increasingly important in the building and technical trade. Building and renovation are becoming more technical and are increasingly the domain of professionals.

K brand to the next level

Building a new, strong K consumer brand has been an important part of our strategy work. In 2016, we moved to a new level in building the K brand as we launched an extensive chain brand renewal under the K umbrella brand.

First, we launched a new chain brand and chain identity in the K-Market chain. Next, we moved on to K-Rauta and K-Citymarket. During the spring of 2017, we will modernize the fourth chain brand, K-Supermarket.

Responsibility, inspiration and individual attention to every customer are the key aspects of the new K brand. Just as our every customer is different, so is each of our stores, tailored for its customers. For shopping to be fun.

K-retailers are our competitive advantage

In 2016, 45% of Kesko’s net sales came from the retailer business model. There are 1,088 K-retailer entrepreneurs operating in Finland, 841 of them as K-food retailers, 147 as retailers in the building and home improvement trade and/or agricultural trade, and 100 as specialist retailers. The number of K-food retailers will grow in the near future as at least 400 Siwas and Valintatalos converted to K-Markets will be placed under the control of retailer entrepreneurs over the next two years.

K-retailer entrepreneurs are responsible for customer satisfaction, product selections, pricing, personnel and business profitability in their stores. K-retailer entrepreneurs tailor the product selections and services around the needs of local customers and listen to their wishes.

Find out more about K-retailers

Own brand products

Own brand products play a key role in K-stores’ diverse product selections. Our own brands enable us to offer more affordable shopping baskets and high-quality products that suit various life situations.

The Pirkka product range contains nearly 2,600 products that combine high quality with affordability. When new products are selected for inclusion in the Pirkka range, Finnish products always take precedence, providing that the product meets the quality and price criteria.

Products in the Pirkka range with responsibility labels in 2016:

- Pirkka products with the Swan label: 65
- Pirkka products with the Hyvää Suomesta (Produce of Finland) label: 247
- Pirkka Fairtrade products: 36
- Pirkka Organic products: 118
- Pirkka MSC-certified fish products: 37
- Pirkka products with the UTZ label: 32
The asset of the K-Menu range is affordability. K-Menu products are high-quality, basic everyday foods whose price is the most important criterion for consumers.

The own brands of the building and home improvement trade – Cello, PROF, FXA and Fiorin – provide customers with reliable and affordable products for home and garden, as well as tools for building and renovation. Among Onninen’s own brands, Online offers electrical, HEPAC and refrigeration products for B2B customers. The electrical and HVAC products under the OPAL brand are primarily designed for B2C customers.

Find out more about products with responsibility labels
Find out more about Pirkka and K-Menu products
Find out more about Cello products

Product development and product research
Product research laboratory
Kesko’s product research laboratory controls the quality of the grocery products sold by K-food stores. High-level analyses ensure the safety of foodstuffs.

The Product Research laboratory is a T251 testing laboratory that has been accredited by the FINAS accreditation services. It is the only research laboratory for the trading sector’s own brand products that has been approved to comply with the SFSEN ISO/IEC 17025 standard.

The product research laboratory analysed 7,770 product samples and conducted 17,176 analyses in 2016.

All new own brand products – Pirkka and K-Menu range products – are analysed thoroughly several times. Each new product to be included in the range goes through a multi-stage survey which consists of lab analyses and sensory evaluations.

K-maatalous Experimental Farm
The K-maatalous Experimental Farm in Hauho invests in development and research work on plant varieties to promote sustainable cultivation methods and better Finnish food production. The research conducted on the farm aims to provide K-maatalous retailers and farmers with tested solutions for making productive product choices and optimising their harvests.

The K-maatalous Experimental Farm made a Baltic Sea Commitment to the Baltic Sea Action Group (BSAG) in June 2016. The experimental farm’s commitment focuses on developing measurement practices and devices to determine the growth conditions and nutrients in soil.

Read more about Product Research

Read more about the K-maatalous Experimental Farm

Responsible purchasing
Our purchasing activities are guided by the following:

- Kesko's purchasing principles
- The Principles and Practice of Socially Responsible Trading guide
- Corporate responsibility policy statements

We have responsibility to our customers to ensure that the products sold at K-stores are of high quality, well researched and responsibly produced.

Special attention is paid to human rights issues and working conditions in the purchasing chain. When suppliers are monitored, the focus is on the countries where the risks of violations of these rights are the greatest. Special attention is paid to working conditions at factories in high-risk countries, though the quantities imported from these countries are small (1% of all Kesko’s purchases in 2016).

International assessment systems, BSCI auditing and SA8000 certification, are used for supplier audits in high-risk countries.

Read more about responsible purchasing
Owner value

- Kesko is a financially sound listed company
- Good dividend capacity
- A responsible investment

Our financial position is very strong. As a result of acquisitions, our net sales increased by 17.3%, the comparable operating profit was €273 million and the return on capital employed rose to 11.9% in 2016. At the end of 2016, Kesko had liquid assets of approximately €391 million and a balance sheet total of €4.4 billion. A strong and stable profit and financial position enable investment in growth and long-term business development. We expect acquisitions to generate significant synergies in the near future.

We distribute at least 50% of our comparable earnings per share as dividends while taking into account the Company’s financial position and operating strategy. A dividend of €2.0 per share is proposed to be paid for 2016, which would represent an average rate of 99.5% on the comparable earnings per share. We have paid dividends every year but one (1967) since we were listed in 1960. In 2016, the price of a Kesko B share rose to 46.7%, while the closing price was €47.48.

Corporate responsibility plays an increasingly important role in investment decisions

Responsible business is crucial for the achievement of good and sustainable financial results. All of our operations are built on trust between Kesko, the K Group stores, our customers and business partners. Corporate responsibility manifests itself in our everyday work and our stakeholders require this of us.

Besides financial factors, investors are increasingly taking account of aspects related to the environment, social responsibility and corporate governance (ESG) when they make investment decisions.

Our long-term inclusion in sustainability indices provides independent evidence of our responsible operations and facilitates investment decisions. On the 2017 Global 100 Most Sustainable Corporations in the World list, Kesko ranked 25th and at the same time, as the world’s most responsible trading sector company.

Find out more about Kesko as an investment
Find out more about corporate responsibility

Social value

- We are a significant employer, taxpayer and service provider, and our operations create welfare for society as a whole.
- We select our business partners with care and we require them to operate responsibly.

We create jobs

At the end of 2016, the number of Kesko personnel was 22,476. K Group – Kesko and the K-retailers – employ approximately 45,000 people in total. Roles range from jobs at a store to retailer entrepreneurship as well as expert positions and supervisory positions in various fields.

We offer a wide range of career and development opportunities in different roles in the trading sector. As the operating environment and customer requirements in the trading sector change, continuous competence development for personnel takes on an increasingly important role.

The core areas of competence development are management culture and supervisory work, sales and service skills, product line specific competitive advantage projects, e-commerce and services.

The ongoing digital revolution requires new skills. In 2016, we recruited dozens of new professionals to
develop mobile services, analytics, process automation and modern online store solutions. We also arranged a six-month K Digital Trainee programme, and the five trainees who completed it are now permanent employees developing digital services in various parts of K Group.

Find out more about our personnel

Suppliers are important partners

Most of the economic benefits generated by Kesko’s operations – approximately 84% of Kesko’s net sales – flow to suppliers, from which purchases were valued at €8.6 billion in 2016.

Kesko had approximately 24,600 suppliers and service providers (from which we made purchases of at least €1,000) in 2016. Approximately 11,900 of these were based in Finland, approximately 10,200 were in Kesko’s other operating countries, and approximately 2,500 were based elsewhere.

We select our business partners with care and we also require them to have responsible operating practices. The business partners’ version of the K Code of Conduct is appended to new and renewed agreements.

Purchasing Finnish products and services creates economic benefits for Kesko’s home country and promotes local work.

In 2016, the purchases of all Kesko companies from suppliers operating in Finland totalled €5,661 million, accounting for 65.9% of the Group’s total purchases. K-retailers’ direct purchases from Finnish regions totalled €602 million.

Pirkka products are manufactured by nearly 120 companies across Finland. Their manufacture, or the inclusion of a manufacturer’s own product in Kesko’s grocery trade selections, provides many regional companies with an opportunity to expand their market to cover the entire country.

The taxes we pay benefit society

Kesko is a significant taxpayer; in addition to paying income and real estate taxes, Kesko collects, reports and remits indirect taxes, such as value-added tax and excise duties.

Our principle is always to pay taxes on operating income and assets to the respective operating country in compliance with local laws and regulations.

K Group and its around 45,000 employees have a substantial impact on the municipal sector. Municipal taxes paid by our personnel account for a considerable proportion of municipalities’ tax revenue.

In 2016, there were K-food stores in 280 municipalities in Finland. Real estate taxes on the business premises used by Kesko and K Group are paid to the municipalities in which the premises are located. Part of the income taxes from Kesko’s and K-retailers’ entrepreneurial activities are distributed to those municipalities where the activities take place.

Read more about taxes
K in Action:
Plastic shopping bags replaced by new kind of circular economy bags

K Group is committed to reducing the consumption of plastic bags. The latest alternative for a plastic bag is the Pirkka ESSI circular economy bag manufactured from plastic packaging recycled by households.

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in K Group’s operating environment is the littering of the Baltic Sea and large lake bodies.

The aim of the EU packaging directive (94/62/EC, 2015/720/EU) is to keep the annual consumption level at a maximum of 40 plastic bags per person by 2025. K Group is committed to promoting the achievement of this target. In 2016, 55 plastic bags per person were consumed in Finland.

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in Kesko’s operating environment is the littering of the Baltic Sea and large lake bodies. Kesko is committed to the EU’s objective to reduce consumption of plastic bags to 40 bags per capita by 2025.

Kesko provides alternatives for plastic bags in its selections: reusable bags, cotton bags and jute bags, as well as paper bags and recycled plastic bags. At the beginning of 2017, Pirkka ESSI recycled bag was added to the choice. Kesko aims to increase alternative carrier bags’ and cardboard boxes’ share of sales to 10% by 2025.

The chlorine, stabilisers and phthalates contained in PVC are estimated to cause significant environmental and health impacts. Packaging material containing PVC in Kesko’s own brands’ products will be replaced with an alternative material by the end of 2016.
In order to protect waterways, Kesko will discontinue the use of plastic microbeads in all of its own brands’ cosmetic products during 2017.

As from the beginning of 2017, retail plastic bags will be subject to a charge at all K-Group food stores, building and home improvement stores, agricultural stores and machinery stores, as well as furniture stores.

Thin small plastic bags will no longer be on display at the checkout line. They will be handed out on request for covering products that may leak.

In its procurement and distribution logistics, Kesko uses reusable plastic containers, which reduces the quantity of cardboard packaging waste by around 4,000 tons per year.

Nearly all of Kesko’s own brand product packages have recycling identification codes. The missing codes will be added to the packages of own brand products within 2017.
The K-Group offers its customers the most comprehensive Rinki eco take-back point network in Finland. Plastic is collected at 160 plastic collection points adjoining K-stores. K-food stores receive and recycle nearly 120 million PET plastic bottles per year. Kesko’s target is that by 2025, 100% of plastic waste is collected for reuse in all divisions.

The operations of the food and building and home improvement stores are guided by the K-responsibility concept. One of its main themes is taking care of the environment. As for its e-commerce, Kesko recognizes its responsibility as a producer by taking care of the collection of plastic and other packaging materials and by paying the producer responsibility fees for its packaging.

Circular economy bags made of household plastic packaging waste

As from January 2017, we offer K-food store customers a new kind of circular economy bags, made from packaging plastics recycled by customers, as alternatives to shopping bags.

There are 396 Rinki eco take-back points in connection with K-stores, 160 of which accept plastic packaging plastics.

The Pirkka ESSI circular economy bag, manufactured by Amerplast Oy, is the first Finnish plastic bag made from recycled plastics from households. It promotes the circular economy, because after use, it can be recycled again through the Rinki eco take-back points for use as a raw material for new circular economy bags.

At least 45% of the recycled plastic used as a raw material for the Pirkka ESSI circular bag economy consists of plastic packaging waste from households. At least 45% of used recycled plastic comes from industry. As such, circular economy bags considerably reduce the use of virgin raw material consumption and greenhouse emissions.

Read more about Kesko’s plastic policy statement
K in Action:
Human rights assessment helps improve the company’s operations and supply chain transparency

Between 2014–2016, we carried out a human rights impact assessment in accordance with the UN Guiding Principles on Business and Human Rights. The extensive work was worth the effort because it gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.

What is it about?

- The UN Guiding Principles on Business and Human Rights, which were launched in 2011, have become the global standard that guides corporate responsibility related to human rights.
- The principles oblige businesses to respect human rights in all their operations. Businesses must assess the human rights impacts and risks of their operations, create systems for avoiding risks, and establish processes for any corrective measures.

Our human rights assessment in a nutshell

- During the extensive assessment, we listened to the views of customers, personnel and factory workers in high-risk countries on how human rights are realised in K Group’s operations.
- Dialogue with customers affirmed our view that for customers, the right to health, children’s right to special protection, and non-discrimination are the key human rights that we must ensure.
- The results of surveys at factories in high-risk countries (China, India, Bangladesh and the Philippines) were largely congruent with those in the BSCI and SA8000 reports. Employment relationships were found to be fragile and omissions were detected in working hours and overtime pay, among other things.

We respect all internationally recognised human rights

- According to the UN Guiding Principles on Business and Human Rights, the management of responsible businesses must make a public statement of commitment to human rights.
- We published our human rights commitment in September 2016. In it we state that we respect all internationally recognised human rights and expect our business partners to do the same. We listen to our stakeholders’ views on human rights and take them into account when developing our operations.
- Respecting human rights is one of the 12 principles of the K Code of Conduct.
What next?

- The human rights assessment gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.
- We are obliged to take responsibility for human rights in the supply chain of our products, especially in high-risk countries. We have forwarded the information obtained from the high-risk country surveys of our human rights assessment to the BSCI organisation for use in the development of audit procedures.
- We ensure that all our operating models are built to take account of the respect for human rights in all our operations.

- We communicate about human rights matters to our personnel and stakeholders through different channels.
- We review our human rights assessment every three years and update it on our website.

Find out more about our human rights assessment:
Identified salient human rights impacts and assessment of related risks
Survey of stakeholder views
Monitoring and corrective actions
Statement of commitment on human rights
Stakeholder’s address: Kesko promotes human rights

Kesko has done concrete work to promote the rights of workers in developing countries in collaboration with the Trade Union Solidarity Centre of Finland (SASK) since 2006. The work conducted with Kesko’s subcontractors began with a training project in Vietnam, where the objective was to improve the corporate responsibility of 13 subcontracting companies in matters required for BSCI certification, including labour protection and interaction between the employer and employees.

A follow-up study was conducted in 2016 among the original business partners. The purpose of the study was to find out how permanent the results of the training project were several years after the project had ended. The results were a positive surprise: the majority of the better practices implemented as part of the project were still in use, and almost all of the companies that were studied had continued to improve working conditions after the project ended.

In 2016, Kesko and SASK worked together also to evaluate how well certain suppliers met their targets for corporate responsibility certification in relation to working conditions in four high-risk countries in Asia. Employees were asked to give their perspectives on the practical realisation of matters corresponding to the BSCI certificate. The results showed that the companies have improved their operations in matters required for certification in many regards. However, almost all of the studied companies had major deficiencies in questions related to the position of employees, such as wages and overtime.

By studying the actual effects of the certifications that Kesko requires in developing countries, Kesko has demonstrated a pioneering approach and commitment specifically to human rights – not just to certificates that strive to improve such rights. Kesko has also delivered the results of the study to the BSCI certification organisation to enable it to develop the monitoring of certificates specifically in the areas in which deficiencies were detected. If BSCI succeeds in rectifying its deficiencies as a result of this work, it will make a significant contribution to improving the living conditions of employees working for thousands of suppliers.

Kesko’s human rights commitment and the stated level for guaranteeing the human rights of employees in value chains can act as an example to other commercial operators in Finland and particularly to Kesko’s own commercial partners. Kesko is undeniably one of
Finland’s leading companies implementing the UN’s Guiding Principles on Business and Human Rights, and an agent for the realisation of principles related to human rights, even though the company’s network of subcontractors is very large and extends to several high-risk countries.

The Trade Union Solidarity Centre of Finland (SASK) would like to thank Kesko for its cooperation so far and is keen to continue this work. SASK is an expert organisation established by the Finnish labour movement whose aim is to improve the conditions of workers in developing countries by supporting local labour movements and boosting their competences.

Janne Ronkainen, Executive Director, Trade Union Solidarity Centre of Finland (SASK)
K in Action: The 'Pink Ribbon' campaign result multiplied

In 2016, Kesko’s grocery trade made a significantly bigger contribution to the Pink Ribbon campaign than before. A total of €262,187 of the Pirkka Pink Ribbon products sold at K-food stores and the ribbon brooches sold at K-Citymarkets and K-Supermarkets in October was donated to the Finnish cancer foundation Syöpäsäätiö. The year before, the amount was €21,000.

During the Pink Ribbon campaign weeks, from 26 September to 30 October 2016, a total of 61,619 Pink Ribbon brooches were sold at K-Citymarkets and K-Supermarkets. K-food stores, Valintatalos and Siwas sold Pirkka range campaign products, the most popular of which were baby plum tomatoes, Fairtrade roses and raspberries. In addition, the K-Citymarket chain donated ribbon brooches to its entire personnel, a total of 10,000 people.

“We are able to, for example, ensure the counselling service operations of the foundation for a whole year with the sum donated by Kesko. We have several nurses specialising in cancer counselling to provide support and information without charge to people ill with cancer and their families,” says Sakari Karjalainen, Secretary General of Syöpäsäätiö.

“We succeeded in exceeding the campaign target with flying colours, for which I wish to thank the K-food store customers,” says Vice President for Commerce Ari Akseli of Kesko’s grocery trade division.