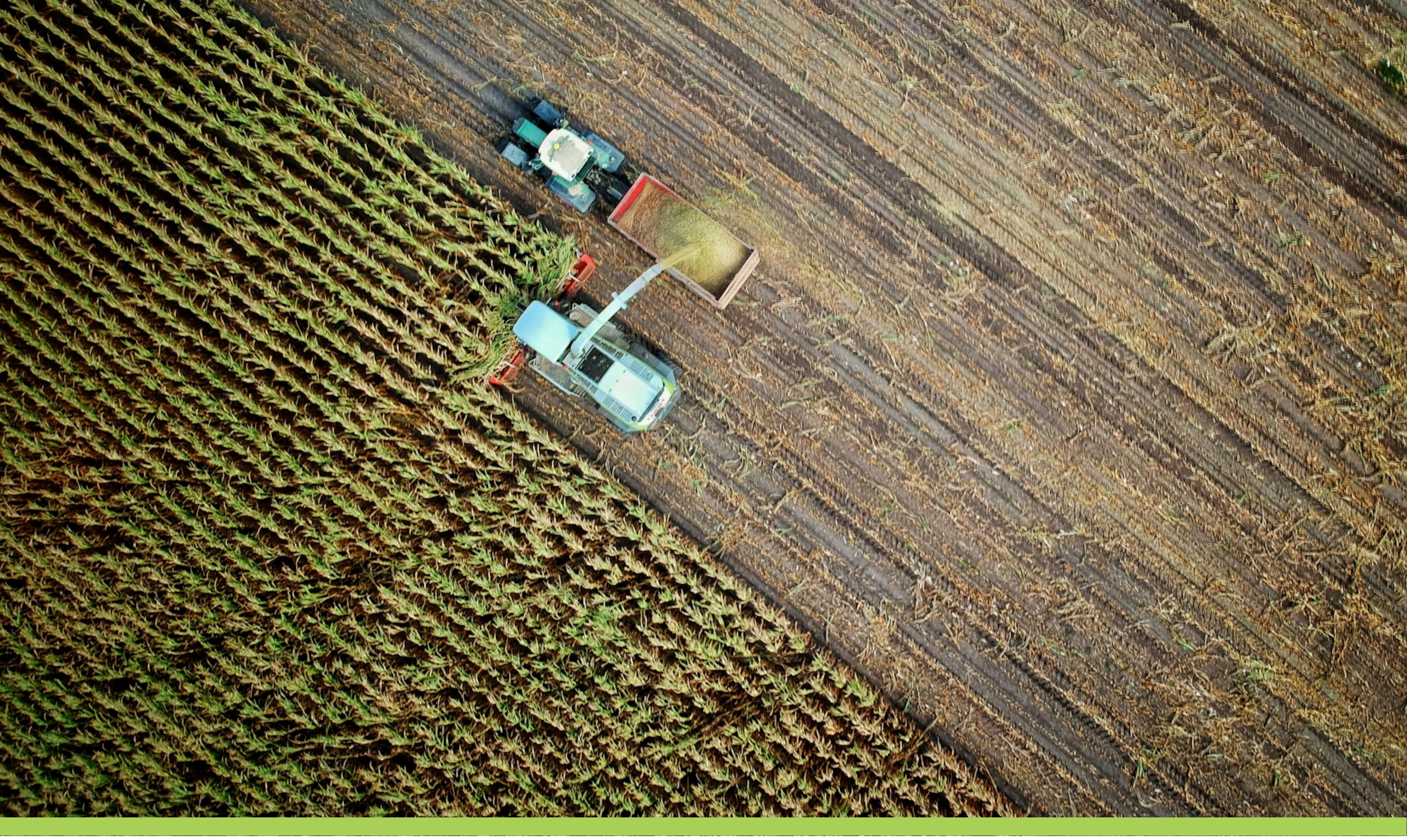
Market Concentration and Second-Chain Dynamics in Swedish Agriculture:

Challenges and Opportunities

LIQUIDITAS

TABLE OF CONTENTS



Executive Summary

The Swedish agricultural industry is experiencing significant transformation driven by market concentration, sustainability imperatives, and technological advancement. This report examines the current state of second-chain factors in the agriculture sector in Sweden, focusing on the relationship between retailers, processors, and distributors, while identifying key challenges and opportunities for stakeholders across the value chain.

Sweden's agricultural supply chain is characterised by high market concentration at the retail level, with significant implications for second-chain actors such as processors, distributors, and intermediaries. This structure creates unique challenges and opportunities for industry participants, particularly in the context of increasing sustainability requirements and digital transformation.

Market Structure Analysis

The Swedish food retail market is among Europe's most concentrated, with three major players dominating the landscape:

- ICA Gruppen: Maintains approximately 50% market share, operating approximately 1,300 stores across Sweden
- Axfood: Controls 22% of the market through various brands including Willys, Hemköp, and City Gross
- Coop: Holds 17% market share, operating 809 stores nationwide

This concentration has created a highly consolidated market where these three retailers control nearly 90% of food distribution channels.

Impact on Supply Chain Dynamics

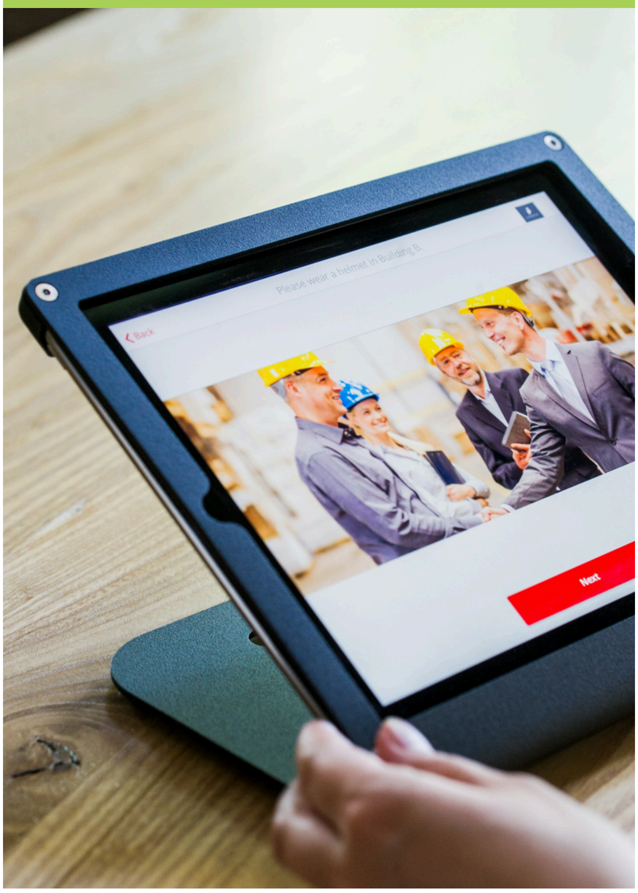
The high level of retail concentration has several meaningful implications:

1. Bargaining Power: Major retailers apply substantial influence over suppliers, processors, and distributors, affecting pricing strategies and operational requirements
2. Market Entry Barriers: New entrants face significant challenges due to limited distribution channels and high infrastructure requirements
3. Quality and Environmental Standards: Retailers impose stringent requirements on suppliers, particularly regarding sustainability and product quality

“

Challenges in the Second Chain

Operational Challenges



High entry costs for processing facilities

The food processing sector in Sweden faces prohibitively high entry barriers due to significant initial capital investment requirements. Those companies that are new must secure financing for advanced processing facilities, specialised equipment, and cold chain infrastructure, which can run into millions of kronor before generating any revenue. These financial obstacles are particularly challenging for small and medium enterprises (SMEs) that are eager to enter the processing segment, as they often lack the capital reserves or financing options available to larger corporations. The necessity for significant upfront investment effectively limits market participation to established players or well-funded newcomers, contributing to ongoing market consolidation.

Need for advanced technology integration

When it comes to adopting sophisticated tech solutions, Swedish food processors and distributors face increasing pressure to stay competitive. Advanced automation systems, AI-driven inventory management, blockchain-based traceability platforms, and IoT monitoring devices have become essential rather than optional in modern food processing. Many mid-sized processors still lag in digital transformation, creating a technological divide within the industry. This gap is particularly problematic as major retailers increasingly demand real-time tracking capabilities and comprehensive digital integration with their own systems. The cost of these technologies, coupled with the expertise required to implement and maintain them, presents a significant challenge for many second-chain actors who must balance innovation with financial sustainability.

Compliance with tough regulations

Swedish food processors operate within one of Europe's most demanding regulatory frameworks, with compliance requirements spanning food safety, environmental impact, labeling standards, and employment practices. Although these regulations are meant to ensure high product standards, they additionally impose substantial operational burdens. Food safety regulations require comprehensive HACCP implementations, regular auditing, and extensive documentation systems. Environmental compliance necessitates investments in waste reduction technologies, energy-efficient equipment, and sustainable packaging solutions. The administrative costs of maintaining compliance - including specialised staff, certification expenses, and documentation systems - create ongoing operational challenges that disproportionately affect smaller actors in the second chain who lack dedicated compliance departments or economies of scale.

“

Challenges in the Second Chain

Operational Challenges

Low margins due to retailer bargaining power

Processors and distributors in the Swedish agriculture supply chain operate within extremely tight profit margins, often averaging between 2-4% compared to retailers' 5-7%. This margin compression can be traced directly from the significant bargaining power wielded by dominant retail chains, which can effectively dictate purchase prices while transferring risk down the supply chain. Food processors frequently face challenging contractual terms, including extended payment periods (sometimes exceeding 90 days), volume penalties, and promotional requirements that erode already thin margins. The combination of high fixed costs and limited pricing power creates a precarious financial situation for many second-chain actors, restricting their ability to invest in innovation or expansion while increasing vulnerability to market fluctuations.

Increasing operational costs

The agricultural processing sector is also a constant witness of consistent cost inflation across multiple operational areas, creating cumulative pressure on profitability. Labour costs have risen significantly, with skilled worker shortages in food technology and logistics driving wage increases. Energy costs, especially electricity and heating, have seen substantial volatility in recent years, with prices increasing by approximately 15% between 2022 and 2024. This energy dependency is particularly challenging for processors requiring refrigeration, cooking, or other energy-intensive processes. Additionally, transportation and logistics costs have surged due to fuel price increases, driver shortages, and more strict environmental regulations for delivery vehicles. These rising inputs, linked with the limited capacity to pass costs to consumers due to retailer resistance, have created a cost-price squeeze for many processors and distributors.

International competition

The intense competition from international suppliers who often benefit from lower production costs, alleviated regulatory environments, and larger economies of scale are also a challenge for the Swedish agricultural supply chain. European producers, particularly from Poland, Germany, and the Netherlands, can offer comparable products at lower price points while meeting the basic quality and sustainability requirements imposed by the Swedish retailers. This price competition is particularly challenging in commodity-like product categories where differentiation is difficult. Additionally, large multinational corporations have increased their presence in the Swedish market, leveraging their global supply chains and advanced technological capabilities to capture market share. The pressure from these international competitors further constrains pricing flexibility and market opportunities for domestic processors, particularly in the mainstream product segments where cost sensitivity is highest.

Strategic Recommendations

For Processors and Distributors

Processors and distributors face unique challenges in Sweden's highly consolidated market. To remain competitive and drive profitability, they must adopt strategic models that foster collaboration, enhance product differentiation, and tap into niche market opportunities.

Collaborative Models

Partnerships and resource-sharing initiatives can help reduce costs, improve efficiency, and create new market opportunities.

Develop Partnerships for Resource Sharing

By pooling resources, small and mid-sized processors can collectively invest in advanced production facilities, storage infrastructure, and logistics networks. Joint warehousing or cold chain distribution hubs can lower costs and increase market reach, particularly for businesses struggling with the high capital expenditures needed to scale.

Create Cooperative Infrastructure Solutions

Shared processing and distribution facilities can allow smaller players to meet retailer demands without the burden of individual infrastructure investments. For example, a cooperative packaging facility could help multiple suppliers comply with retailer packaging and labeling standards, reducing per-unit costs.

Establish Joint Technology Platforms

Industry-wide digital platforms for supply chain visibility, demand forecasting, and real-time tracking can improve efficiency and ensure compliance with strict food safety regulations. These platforms can facilitate direct data integration with major retailers, improving transparency and responsiveness.

Value Addition

Competing on price alone is not sustainable, given the bargaining power of major retailers. Instead, processors must focus on creating differentiated, high-value products.

Focus on Sustainable Product Development

Consumers and retailers increasingly prioritise sustainability. Processors can develop organic, carbon-neutral, or regenerative agriculture-based products to appeal to premium markets. Innovations such as low-waste production methods, biodegradable packaging, or plant-based alternatives can command higher margins.

Invest in Quality Differentiation

Moving away from commodity production and investing in quality improvements—such as locally sourced ingredients, artisanal processing techniques, or premium certifications (organic, fair trade, etc.)—can create brand loyalty and enable processors to negotiate better pricing.

Explore Niche Market Opportunities

Expanding into niche markets can shield processors from direct competition with mass-market suppliers. Opportunities include:

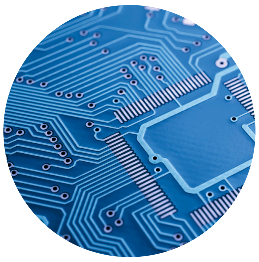
- Functional foods
- Ethnic and specialty food segments
- Limited-batch, high-end products for gourmet and hospitality sectors

For Industry Stakeholders

Beyond individual businesses, industry-wide shifts are needed to create a more resilient and competitive supply chain. This requires strategic investments in technology, adapting to market changes, and diversifying distribution models.

Technology Investment

Digital transformation is a necessity, not an option, for Swedish agriculture's future.



Prioritise Digital Transformation Initiatives

Industry stakeholders, including trade organisations and policymakers, should provide financial incentives and training programs to accelerate technology adoption. Government-backed grants or tax credits for automation, blockchain traceability, and AI-driven inventory systems could help second-chain actors remain competitive.

Implement Advanced Tracking Systems

IoT sensors, blockchain-based traceability, and AI-driven quality control can reduce food waste, improve safety compliance, and enhance operational efficiency. These systems can provide retailers with real-time data on sourcing, transportation, and environmental impact—an increasingly critical factor for retail procurement decisions.

Develop Integrated Supply Chain Solutions

Seamless end-to-end digital integration between producers, processors, and retailers can reduce inefficiencies. This includes cloud-based order management, predictive analytics for demand forecasting, and AI-powered logistics optimisation to streamline supply chain operations.

Market Adaptation

Changing market conditions require a more agile approach to distribution, retail partnerships, and sustainability alignment.

Align with Retailer Sustainability Requirements

With Swedish retailers imposing stringent environmental requirements, industry stakeholders must ensure processors and suppliers understand, prepare for, and exceed these expectations. This may involve developing industry-wide sustainability benchmarks, collective carbon reduction initiatives, or retailer-approved supplier accreditation programs.

Develop Flexible Distribution Models

Diversifying distribution beyond traditional retail channels can mitigate dependency on major supermarket chains. This could include:

- Direct-to-consumer models (e.g., online subscription boxes for farm-fresh produce)
- Partnerships with specialty food retailers and independent grocers
- Exploring export opportunities to high-demand markets

Explore Alternative Sales Channels

In addition to e-commerce, Swedish processors can explore:

- B2B partnerships with restaurants, catering services, and institutional buyers
- Collaborations with food-tech startups that focus on personalised nutrition
- Farm-to-table initiatives that connect directly with consumers

Opportunities for Supply Chain Finance Solutions

Financial constraints remain a major hurdle for second-chain buyers in Sweden’s agriculture industry. Working capital shortages, long payment cycles, seasonal revenue fluctuations, and high operational costs create liquidity challenges that can slow growth and weaken supply chain stability.

These challenges present a significant opportunity for supply chain finance (SCF) providers to offer tailored solutions that enhance financial flexibility, improve cash flow, and reduce financial risk for processors, distributors, and suppliers.

“

How SCF Solutions Address Financial Pain Points

Invoice Financing: Unlocking Tied-Up Capital

Agricultural Swedish processors and distributors often experience cash flow constraints due to delayed payments from major retailers and export partners.

Invoice financing provides an immediate solution by enabling companies to access capital before invoices are paid, reducing the strain of long payment cycles.

By converting outstanding invoices into working capital, businesses can meet payroll, invest in production, and sustain operations without resorting to costly loans.

Supply chains are vulnerable to price fluctuations, currency risks, regulatory changes, and supply chain disruptions. Without proper financial tools, processors and distributors face significant uncertainty, which can hinder expansion and investment. Risk management solutions can help businesses:

Payables Financing: Extending Payment Terms Without Harming Suppliers

Retailers exert significant bargaining power over payment terms, often delaying payments to suppliers by 60-90 days or more. Traditional financing options for suppliers are either too expensive or difficult to obtain.

Payables financing allows buyers to extend their own payment terms while ensuring suppliers receive early payments, preserving liquidity on both ends of the supply chain. This not only strengthens supplier relationships but also enhances financial stability across the industry.

Inventory Financing: Monetising Stored Assets

For many Swedish agricultural processors and distributors, large volumes of inventory tie up valuable capital.

Given the seasonality of agriculture, companies must stockpile raw materials, processed goods, and packaging supplies, leading to high working capital demands.

Inventory financing provides a solution by allowing businesses to leverage their stored inventory as collateral for short-term funding.

This enables processors to access financing to cover operational costs while maintaining the necessary inventory levels to meet retailer demand.

Dynamic Discounting: Strengthening Supplier Relationships Through Early Payments

In an industry where tight margins and financial pressures are common, suppliers often struggle with delayed payments that impact their own liquidity. Dynamic discounting enables buyers to offer early payment to suppliers in exchange for a slight discount, creating a win-win scenario. By automating this process, buyers can provide suppliers with faster access to cash while improving procurement cost efficiency. This strengthens supplier trust and allows businesses to secure more favorable long-term pricing and supply contracts.

Risk Management Tools: Hedging Against Market Volatility

Agricultural supply chains are vulnerable to price fluctuations, currency risks, regulatory changes, and supply chain disruptions. Without proper financial tools, processors and distributors face significant uncertainty, which can hinder expansion and investment. Risk management solutions can help businesses:

Solutions

Hedge against commodity price volatility by securing fixed-cost contracts.

Mitigate currency fluctuation risks for cross-border transactions.

Ensure business continuity by integrating financing options that support supply chain resilience.

How Can Liquiditas Help?

Liquiditas is redefining supply chain finance for Sweden's agricultural industry by offering flexible, digital-first financing solutions that empower second-chain buyers to navigate liquidity constraints, improve working capital efficiency, and strengthen supplier relationships.

Unlike traditional financial institutions, Liquiditas provides a faster, more transparent, and customisable approach to financing, making it easier for businesses to access the funds they need—when they need them. Through integrated invoice financing, payables financing, and dynamic discounting, Liquiditas helps processors and distributors unlock capital, extend payment terms without disrupting suppliers, and optimise cash flow in a way that aligns with their operational cycles.

Additionally, Liquiditas' technology-driven platform ensures real-time visibility into financial transactions, offering risk management solutions that protect businesses from price fluctuations, currency instability, and supply chain disruptions.

For companies in Sweden's agricultural sector looking for a modern, agile, and scalable SCF solution, Liquiditas is the partner that ensures financial stability and long-term growth.

About This Ebook

This analysis is based on comprehensive market research and industry data from 2023-2025, focusing on the unique characteristics of the Swedish agricultural supply chain and its second-chain dynamics. The findings and recommendations are solely for informational purposes and are intended to provide stakeholders with possible actionable insights for strategic planning and market adaptation.

www.liquiditas.com | contact@liquiditas.com

LIQUIDITAS