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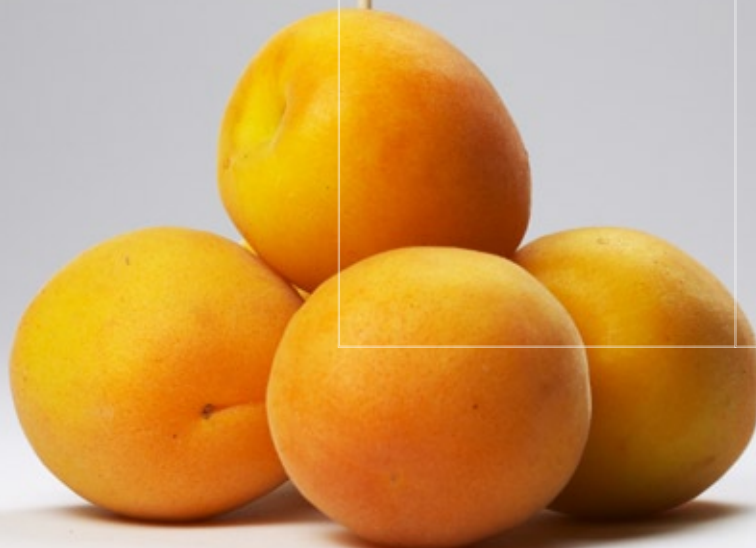
Nordic Innovation Centre

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Nordic SMEs commercializing healthy nutrition

- Who is successful in commercialising healthy nutrition?
- Why do products fail?
- Ways forward?

Functional Food!



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Abstract: Within the NICe programme Functional Foods, this project focused on the activities of SMEs commercializing healthy nutrition in the Nordic countries. The main aim was to generate information and insight about the companies and their commercialization activities. We wanted to gain a better understanding about the drivers and hurdles, commercialization strategies and the marketing and branding capabilities of the companies. This report is part of the project. It summarizes the main discussions and findings and is based on a survey directed to the companies, a number of qualitative interviews with SME entrepreneurs and managers, as well as desk research of functional foods and healthy nutrition initiatives both in the Nordic countries and internationally. The project has set a platform for continuing the work with SMEs active in healthy nutrition. Through consulting, networking, coordination and sharing information and resources, their commercialization activities will be supported also in the future.		
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Executive summary

The purpose of the project was:

- To generate information and insight about the Nordic SMEs (small and medium sized enterprises) active in nutrition & health, their commercialization activities, hurdles, drivers and needs
- Support policy makers in setting up strategies to better support the SMEs
- Help the SMEs themselves gain more insight about their business and how to strengthen their commercialization processes and marketing capabilities.

The study has achieved these aims by:

- Mapping current initiatives, networks and programs for supporting commercialization of functional foods and healthy nutrition in each Nordic country
- Mapping and categorizing SME companies working with food and health in each Nordic country
- Gaining a better understanding of the SME's commercialization process (hurdles, drivers, time spans, products launched, etc.) and what kind of needs the companies have in terms of support
- Presenting selected case studies of best practice commercialization and marketing strategies
- For the benefit of policy makers benchmarking international clusters initiatives and highlighting best practices, strengths, weaknesses in the identified clusters
- Making information available through a website for Nordic SMEs involved in healthy nutrition in order to help the SMEs gain more information about the market and develop and improve their commercialization and marketing capabilities.

Methods:

Through desk research, monitoring and interviews the project partners conducted country-specific studies containing the two following tasks:

- Overview and mapping of the activities and initiatives for supporting SMEs active in healthy nutrition.
- Identification of companies working with healthy nutrition, contact details, short descriptions, classification.

Based on the company details provided by the project participants Invenire Market Intelligence conducted a survey of the Nordic companies. The main objective was to get insight into the commercialization and marketing activities of the SMEs. The survey was conducted electronically with the use of a survey software and contained both multiple choice questions and more qualitative open answers.

During the project some 20 Nordic SMEs were chosen for in-depth interviews. The companies illustrated different strategic approaches to bringing healthy nutrition to market.

As part of its activities, the project also presented research into the international environment. A benchmark study was conducted, identifying and analyzing functional foods centres and initiatives internationally. This research constituted of both desk research and primary data collection through interviews with industry, academia and government officials.

Analysis has been performed based on all the data gathered during the project, in order to present what can be learnt about the Nordic SMEs in terms of their commercialization and innovation processes (hurdles, drivers, time span, strategies, products and services launched, level of internationalisation, support, etc.)

Main results and conclusions:

Comparatively little information about Nordic SMEs involved in healthy nutrition was available from before. In none of the countries there were any ready overviews or listings. Thus, the initial task of gathering the basic information turned out to be a major one, and crucial for the continuation of the project. In other words, our initial premise that little is known about the Nordic SMEs proved right.

We have identified approximately 200 SMEs. Despite our efforts during this project, we are still aware that there are many companies we have not been able to identify. However, during the project, many have contacted us themselves, and we expect this development to continue also after the project – which is addressed in suggestions for further studies.

When applying the strict SME definition, the number drops dramatically. An SME is generally considered autonomous only if less than 25% of the capital or voting rights are held by another enterprise. A large number of the Nordic SMEs do not meet these criteria.

The SMEs involved in healthy nutrition vary in size, form, earning logics, background, age, nature and goals. The spectrum was more varied than what we first anticipated.

The commercialization and marketing competence in Nordic SMEs is quite low. This applies particularly to health ingredient and technology based companies. Many lack a broad understanding of the market and have for the most part little understanding of consumer behaviour and the role of marketing and branding in creating value for the firm.

Nordic SMEs keep up a high rate of product development despite their small size and limited resources. To a certain extent we found that this rat wheel approach is exhausting the companies.

Particularly small businesses need to learn more about the management of the commercialization process and what it entails. A main conclusion from this project is that many SMEs struggle to manage the commercialization process professionally and keep their commercialization activities in balance. As a result, many experience a constant lack of resources, hindering them from meeting their targets.

Can a model for the commercialization process of functional foods in SMEs be created? This was one of the main questions of this study. Based on this project, we have not been able to identify such a model. What we have learnt is the fundamentals of managing a commercialization process applies just as well to this field of business as any else. Our conclusion is that there are no particular characteristics of commercializing healthy nutrition that would be so specific that they would require special management. To our minds, the biggest challenge in commercializing healthy nutrition is to raise the competence of commercialization and marketing management in general. Strategically, more focus and more resources need to be directed to these tasks.

Some of the current initiatives and projects targeting functional foods and healthy nutrition appear too disconnected from the everyday operations of running business, and are therefore also failing to bring benefits to or support the competitive edge of the companies involved. Despite good intentions, some of the initiatives focused on SMEs have sadly failed to direct their actions and resources accordingly, resulting in disappointing outcomes for the companies, and feeding an increasing fatigue towards public initiatives among them.

Why are SMEs commercializing healthy nutrition important? A main conclusion of this project is that even though there is much work needed in improving the commercialization management and marketing competence of the SMEs, they are an important driving force for the industry. Due to the entrepreneurial character of many Nordic SMEs they fill the role of innovative and broad-minded players in the industry. Through their boldness and tolerance of failure, they have successfully managed to bring new ideas to market that would long gone have been dismissed as nonviable by more risk averse and critically analytical larger corporations.

Recommendations for continued studies and actions:

First of all, a more systematic long-term plan to monitor the Nordic SMEs is important. An up-to-date relevant database of companies involved in healthy nutrition could help a number of stakeholders to be better informed, like larger corporations in the industry, retailers, distributors, policy makers, public initiatives, not to mention the SMEs themselves.

The opportunities and potential benefits of joint marketing, PR and branding efforts for Nordic SMEs should be explored. Internationally, Nordic SMEs could benefit from an enforced branding effort to communicate the strengths these companies have in commercializing healthy nutrition. As shown in this project, SMEs have limited resources and skills in marketing. Therefore efforts that support them in this task should be explored. E.g. such concrete measures in connection to trade fairs, shows and other international gatherings could be effective.

Second, policy makers wanting to support SMEs commercializing healthy nutrition need to gain better insight into the real hands-on problems that the companies are facing in their efforts. The tools offered need to be concrete, goal-oriented and suitable for the SME in question. To our minds there is a lot of fieldwork that could be done to investigate these possibilities. More action-based research would be recommendable so that e.g. outcomes of scientific research were made

more easily available and comprehensible to SMEs. Commercialization of science in connection to the situation of SMEs is an area that we recommend for continued studies.

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Introduction

It is often stated that entrepreneurial SMEs are important players in the business of healthy nutrition. Many of the most successful products and concepts in this business worldwide have been brought to market by fairly small companies. A plausible explanation may be that these companies often have the vision, determination and endurance required to successfully do this. In general, we however know quite little about the SMEs active in healthy nutrition and health ingredients. Looking at the Nordic companies e.g., there is little information available on their whereabouts, commercial activities, position on the market, products and services, successes and failures, innovation drivers and hurdles, etc.

Commercialising healthy nutrition is a challenge. At the same time as it represents the most exciting and active area of focus for the food and beverage industry worldwide, failure is commonplace and profits elude many companies. This can probably be explained by a number of reasons. Here in the Nordic countries we seem to have strong competence in applying science and technology, but commercial aspects of the innovation process are often neglected and promising inventions fail to succeed. This may be due to lacking marketing insight, limited understanding of the business of healthy nutrition, as well as of markets and consumers. Or just simply, because not enough resources have been allocated for communicating, promoting and sustaining the invention along the different stages of commercialization. Our general hypothesis for this project is that Nordic companies lack the capability to fully manage, exploit and develop the innovations to reach their full commercial value.

This project within the Nordic Innovation Centre's programme Functional Foods, focused on SMEs and their activities. Through the project we worked on gaining better and deeper understanding of them regarding the issues of innovation acceleration, entrepreneurship, strategies to enter the market, and best practices.

Content of project

The project SMEs commercializing healthy nutrition can be divided into two major parts which have been focused on a) generating information and insight and b) communicating and networking with SMEs.

The part of generating information and insight is presented in figure 1.

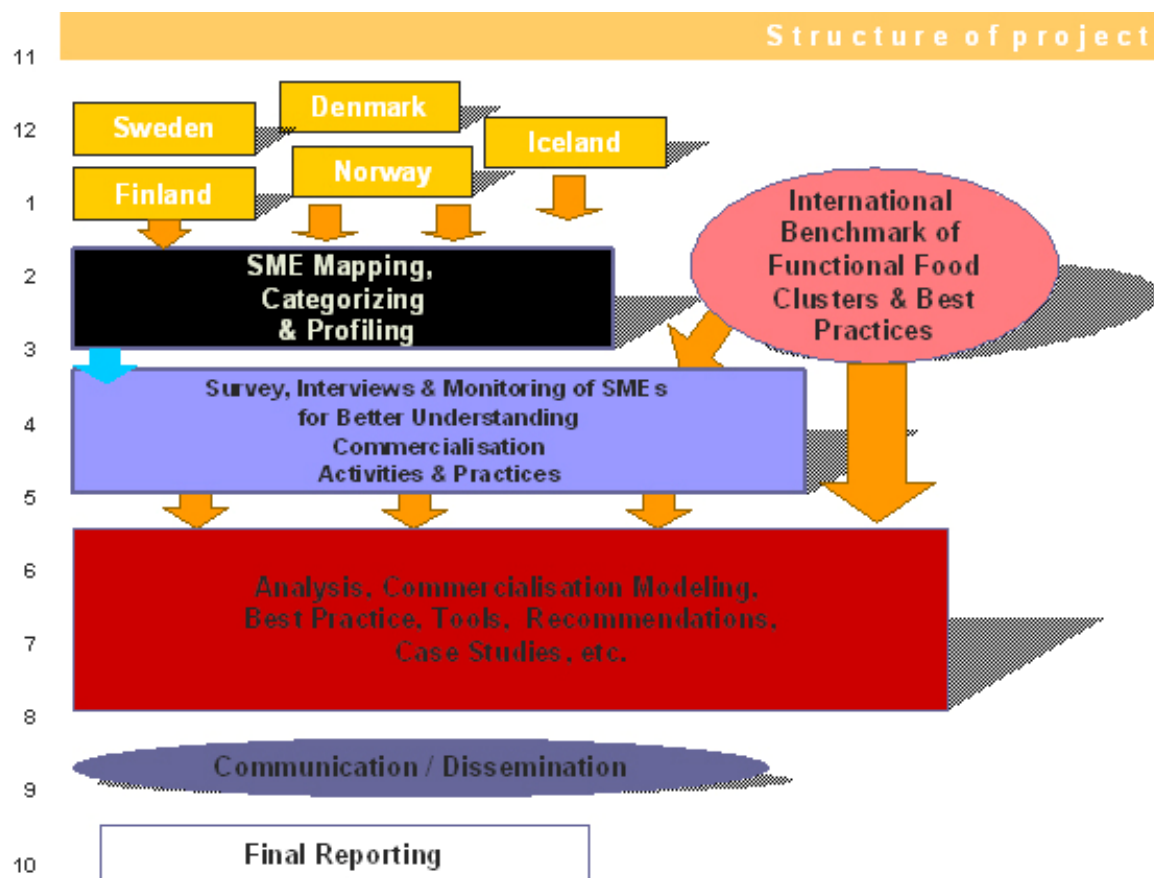


Figure 1 Structure of the project

This project has focused on presenting overviews of the SMEs and activities and initiatives for supporting SMEs active in functional foods or healthy nutrition. Based on the company details provided by the project participants, Invenire Market Intelligence conducted a survey of the

Nordic companies. The main objective was to establish contact with the SMEs and generate insight into their commercialization and marketing activities.

Some 20 companies were interviewed during the project. The interviews were made to illustrate different strategic approaches to bringing healthy nutrition to market.

In addition, a benchmark study of international clusters and centres was made. There are a number of competitive functional food clusters from which valuable lessons were drawn.

Secondly, the focus on the part b of the project has been on communication and networking. They are key factors for the success of Nordic healthy nutrition. Therefore, emphasis has been on establishing direct contact with the SMEs and share resources, information and knowledge for their benefit. The ambition of the project owner is to continue these activities also after the termination of the project.

During the project we have worked on establishing new and interactive ways to communicate the results of the project and ensure a wider leverage of the results and key findings. As we were working with a number of countries and with limited time, as much as possibly of the key findings and reports have been made available over the internet. In this way the project aims at reaching a wider audience –at its convenience. SME managers are time starved and are not always able to attend to conferences and workshops. Through well developed web solutions with interactive elements we wanted to address this limitation.

Commercializing healthy nutrition

What do we mean with healthy nutrition? We wanted to use a broad term that covers more than “functional foods”. So with healthy nutrition we mean any kind of nutritional products and services that are focused on health, communicating health or supporting commercialization of health. It may then be functional foods, functional ingredients, health ingredients, technology, dietary supplements, health enhancing foods –or just intrinsically healthy foodstuffs or ingredients. In other words – we wanted to use a broad enough definition to be able to include as many as possible of the Nordic SMEs working within the field of nutrition and health.

Hopefully a broad approach can also inspire to new commercial solutions. Perceiving health and nutrition in a broad way is to our minds essential for successful commercialization. Particularly in the early stages it is important that as many optional commercialization paths as possible are taken into consideration. Stepping off the commercialization highway can open prospects to meet underserved market needs or even encounter unexplored gaps. Innovation does not necessary take place in the product or technical solution itself, it can just as well be in the choice of commercialization route. Finding an alternative route to market and differentiating oneself from the masses is crucial and has also been the recipe of some of the most successful SMEs we’ve monitored during this project.

This project has shown that the above mentioned challenge is particularly important for small businesses developing ingredients. The competition is harsh, and even though the product in itself is scientifically well documented and even technically superior, it is far from enough to be able to compete successfully. The choice of commercialization route, marketing and branding are today just as (if not even more) important success factors.

It can be discussed whether there are any fundamental differences between bringing conventional or healthy nutrition to market. How does a health profiled product launch differ from that of any other product? There is no clear distinction. Any commercialization process contains a wide range of different tasks, decisions and more or less controllable events that influence the whole process and its outcome. The commercialization process is divided into a few main phases that have expected outcomes and completion points, and whose stakeholders vary during the process.

Worth remembering is also that commercialization of healthy nutrition just like any nutrition takes place both in the B2B (business-to-business) as well as the B2C (business-to-consumer) environment. Understandably these environments are proposing settings that are poles apart.

Commercialising an ingredient or technical service can be dominated by e.g. providing technical or scientific proof of principle, developing product and service platforms, acquiring support from venture capital, getting the product or process rapidly accepted by various market constituents and continuing efforts to entrenching and expanding use of the technology e.g. in other business areas or industries. The commercialization of a food, beverage or dietary supplement may be more concerned about developing a suitable and sellable concept which is accepted by the retailer and the consumer. Focus may be on packaging design, targeted communication or optimal product positioning.

In other words, a complete commercialization process from A to O requires success in two very different business environments, which again tells us that the knowledge base and skills of those performing the exercise have to be extensive. In reality the organisations and personnel change along the process, but from a strategic perspective it is important to have an understanding of the whole process.

Companies commercialising healthy nutrition are harnessed by the same reality as any other type of commercialization. Each step has to be identified and managed in a balanced and purposeful way with set goals and completion points. A very common problem in particularly technology driven firms is that this management is imbalanced. We've e.g. encountered companies that have been so consumed in providing clinical proof for their ingredient or food product that they have reached a point where they have failed to meet basic requirements of taste or consumer understanding, failed to assure their venture capitalist of the commercial progress or failed to build a strong enough sales and distribution system to bring the product to market when finally ready. The biggest challenge for many is to pace ones resources and time right so that the load does not tip over at the first bump of the road.

Who is successful in commercialising healthy nutrition?

Based on our experience the most successful in the commercialization are those who apart from manage the process well, have a certain entrepreneurial attitude towards the task, which will be discussed in more detail in Chapter 'Analyzing the reality of SMEs bringing healthy nutrition to market'.

Those who have been able to bring healthy nutritional solutions and brands to the market are those who have challenged (on purpose or by ignorance) the existing industry paradigms and have been innovative and bold in their thinking and actions.

Many of the organisations behind current market successes internationally have been SMEs. This is however not a prerequisite, but there is a potential explanation in the organisational characteristics. Small businesses tend to be quicker in their decision making, less formal and more entrepreneurial to their character. Larger corporations again are often more organised and better resourced, but slower in changing direction or lacking the ability to apply new and innovative ways of thinking. In terms of commercialization both types of organisations have pros and cons.

Small businesses benefit from their ability to acquire knowledge by doing, i.e. on-the job learning. They also tolerate failure better, which is a vital trait for an innovative organisational culture. They also have a tendency to invest more short-term, with more obvious returns. Therefore they will most likely not e.g. develop the solutions that will change the nutritional habits of a whole population, but they will bring a spectrum of innovative new solutions to the market and generate profitable cash flow.

SMEs commercialising healthy nutrition are important players on the market because they are creative, take action, and are persistent. They do not put new ideas under too much critical analysis too early, but rather nurture active learning, trial and error that is beneficial for all ventures. Most importantly, SMEs provide a compliment to larger corporations and ultimately add to the diversity of the market place which we see important for the continuous dynamic development of the nutritional market.

SMEs in healthy nutrition – business in general

Small and medium-sized enterprises are defined by the European Commission as independent enterprises that have fewer than 250 employees, and an annual turnover not exceeding 50 million EUR or a balance-sheet total not exceeding 43 million EUR.

Table 1 Classification of SMEs

Enterprise category	Headcount	Turnover	or	Total balance sheet
Medium-sized	<250	= 50 million EUR		= 43 million EUR
Small	<50	= 10 million EUR		= 10 million EUR
Micro	<10	= 2 million EUR		= 2 million EUR

Within this definition micro enterprises are categorized as having fewer than 10 employees, annual turnover/ balance sheet not exceeding 2 million EUR and small enterprises as fewer than 50 employees, annual turnover/balance sheet not exceeding 10 million EUR.

Micro, small and medium-sized enterprises are socially and economically important, since they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship and innovation.

An SME is generally considered autonomous only if less than 25% of the capital or voting rights are held by another enterprise. A large number of the Nordic SMEs do not meet these criteria. We decided not to take this limitation into account at this point. It is however an issue that should be examined. Acquisitions of the Nordic SMEs by larger companies during the past decade, has reduced the number of independent SMEs considerably. Many are today controlled by larger corporations within the business, and the trend seems to be continuing. During this project, one of the largest acquisitions was the one of Ugglarps by Danish Crown.

SMEs involved in healthy nutrition are of different age and size. The majority of the companies seem to be employing less than 10 people. Larger companies are found in the fields of food and beverages as well as dietary supplements, where production operations justifiably require a larger workforce. Many of these companies have also been operating for a longer time.

Almost half of the SMEs participating in the survey reported to have turnover of less than one million euros. It should however be noticed that many of the respondents were unwilling to reveal their financial data or considered it too early in terms of their operation. The health ingredient and service companies tended to be small both in terms of turnover and workforce.

In general we found that there are very few companies of the size of approx. 50-70 employees. We identified only a few. This we find is a worrying fact in terms of innovation and commercialization. To our minds, slightly larger SMEs are important drivers for taking on new innovations and taking them to market. Smaller companies often lack the resources, whereas bigger ones again tend to be more risk averse. These mid-sized SMEs would also be important customers for newly established ingredient companies trying to gain acceptance for their new solutions. The threshold for a 50-70 employee company to try something new from a less known supplier tend to be lower than that of a larger corporation. Smaller SMEs should be encouraged to apply growth strategies and aim at becoming strong nice players within well-defined areas of healthy nutrition. This would increase the competitiveness of Nordic companies within the field.

Most SMEs define their home market as their country of origin. Some of the respondents had a broader perspective, including some other Nordic country. There were some differences between the company types. According to our survey, service companies were strongly limited to their country of origin.

The Nordic SMEs are focusing on a large spectrum of health benefits. The top ten is:

- ⇒ Cholesterol management
- ⇒ Intestinal health
- ⇒ Immunity
- ⇒ General heart health
- ⇒ Blood sugar management
- ⇒ Weight management
- ⇒ Diabetes
- ⇒ Children's nutrition

-
- ⇒ Energy/Vitality
 - ⇒ Sports nutrition

We've found that the Nordic SMEs have a very positive view of their business. Most of them reported in our survey that their sales have increased during the past 12 months. To their own opinion their main products or services are very innovative in terms of health benefits. They also reported that the health benefit of the product is supported by solid science.

In general, Nordic SMEs seem to be looking at health from quite a broad viewpoint. Products are often aimed at consumers, who are generally interested in health and wellbeing, but health is however not their main buying criteria.

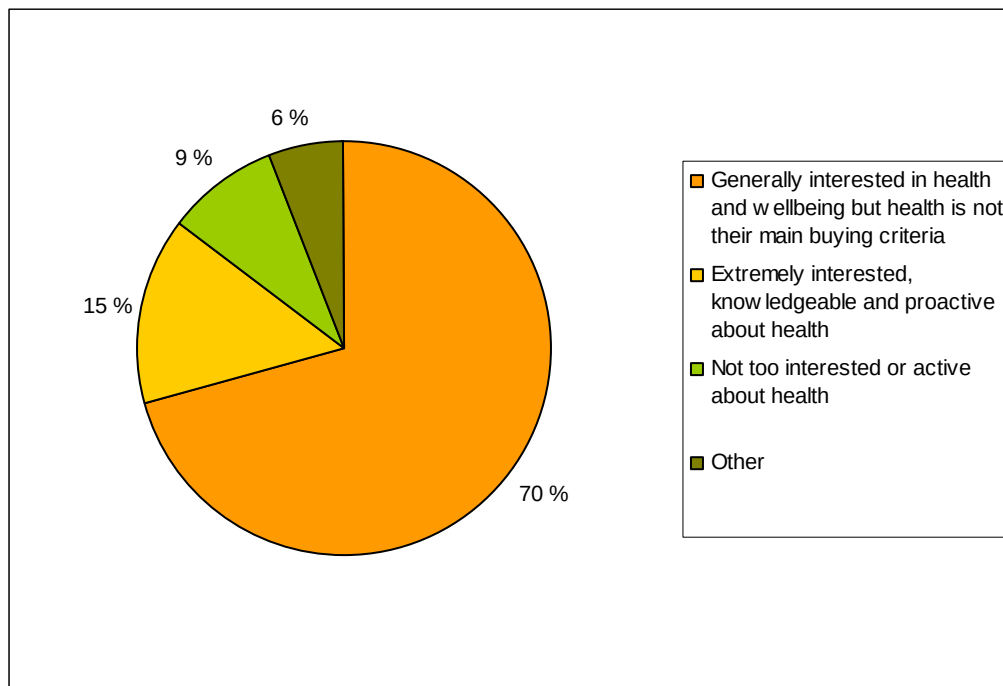


Figure 2 Products are aimed at consumers, who are...

In the following, a small comparison is made between different types of companies and their own evaluations of the strongest and weakest capabilities of their main products or services.

SMEs manufacturing food and beverages indicated that taste is the best trait of their product. This is followed by solid science supporting the product's health benefit, and brand loyalty. Weaknesses are found in brand awareness.

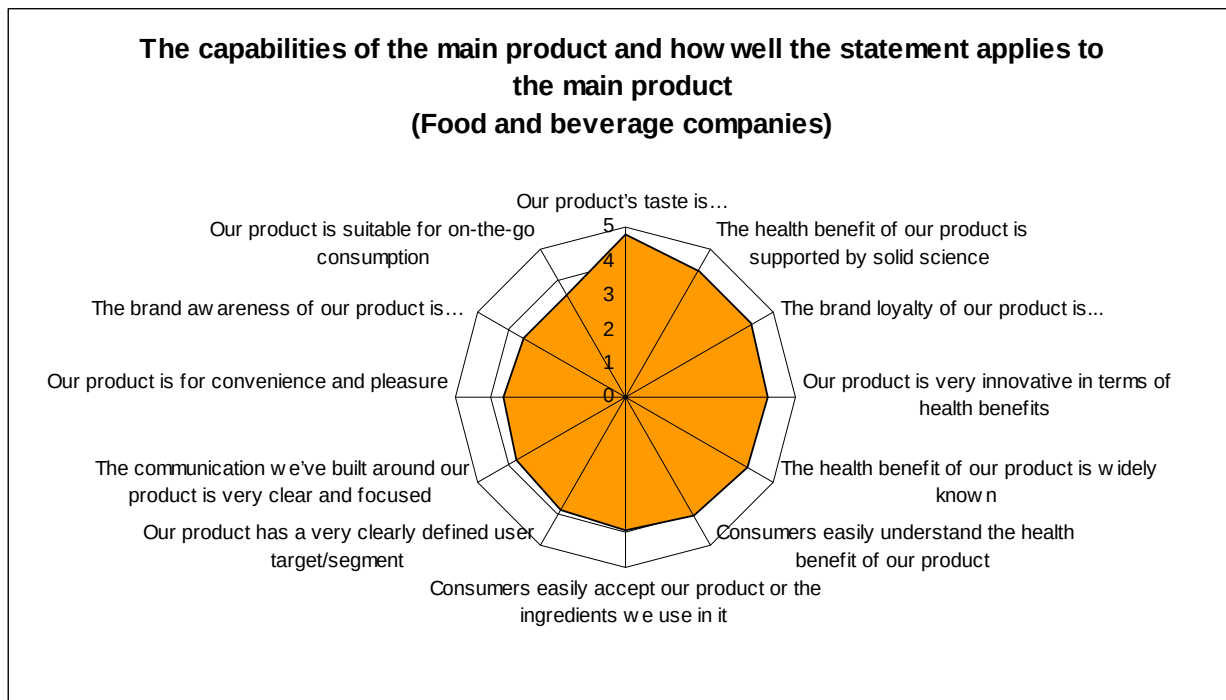


Figure 3 The capabilities of the main product in food and beverage companies on a scale 5 excellent ... 1 very poor.

Dietary supplement companies evaluated that the best capabilities of their main product is the solid science supporting the health benefit. Again, brand awareness was seen as the weakest link.

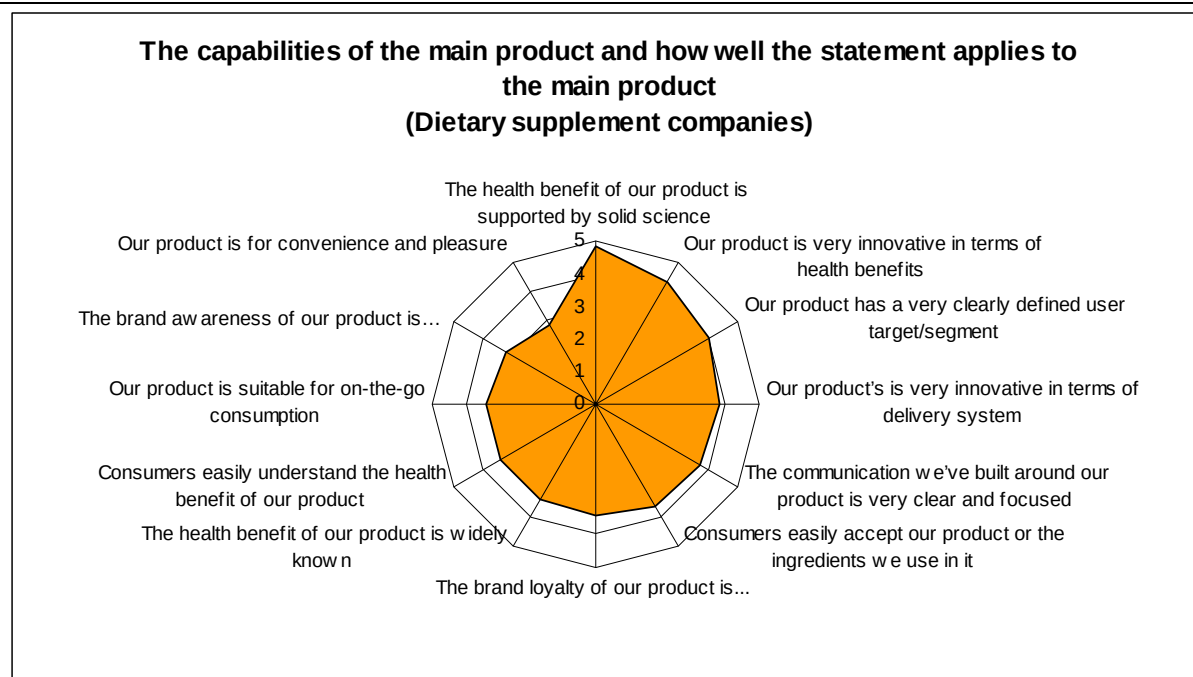


Figure 4 The capabilities of the main product in dietary supplement companies on a scale 5 excellent ... 1 very poor.

Also ingredient companies saw the science as the strongest capability of their product, whereas brand awareness and loyalty were problems. Service companies on the other hand found strength in capabilities such as service quality and innovativeness. The weaknesses materialize in brand awareness and communication.

Nordic SMEs lack strength in brand building and developing good marketing concepts around their products. They have however a good foundation in the technically strong products and well documented research backup.

Analyzing the reality of SMEs bringing healthy nutrition to market

Entrepreneurial attitude

During this project we have been familiarized with great many SMEs of different size and form. The wide spectrum of different approaches to commercialising has been striking. We've met family-run established businesses with tradition and maturity, high risk taking ventures, university professors running small knowledge intense companies as a side business, traditional food companies who have added value to their commodities through health, and ingredient and supplement firms who are in the very beginning of commercialization. Also the backgrounds of the persons we have met have been very different – on a scale from employed professional managers to self-made business owners.

However, despite the great diversity, there seems to be a common factor in the most successful SMEs. There is a certain something characteristic of the people in charge, which is probably best described as entrepreneurial.

The management literature proposes a number of attributes which are said to be typically entrepreneurial and enterprising. The makeup of the entrepreneur has been explored by a number of people. Worth remembering is that entrepreneurship can also take place in a larger organisation, a small business is not a requirement for entrepreneurship, even though it is there it's often fostered. Bridge et al (2003, p.37)¹ summarises typical attributes as follows:

- | | |
|--|---|
| ⇒ Autonomy / Independence | ⇒ Initiative |
| ⇒ Belief in control of one's own destiny | ⇒ Leadership |
| ⇒ Creativity | ⇒ Moderate rather than high risk-taking |
| ⇒ Determination | ⇒ Need for achievement |
| ⇒ Flexibility | ⇒ Optimism |
| ⇒ Goal orientation | ⇒ Perseverance |
| ⇒ Hard work | ⇒ Persuasive powers |

¹ Bridge, Simon, O'Neill Ken and Cromie, Stan (2003): *Understanding Enterprise, Entrepreneurship and Small Business*. Palgrave Macmillan, UK.

⇒ Imagination

⇒ Problem-solving ability

A definition that is also well fitted to the SME managers we've met is the one of OECD/CERI, also cited in Bridge et al (2003, p.36)²:

An enterprising individual has a positive, flexible and adaptable disposition towards change, seeing it as normal, and as an opportunity rather than a problem. To see change in this way, an enterprising individual has security, born of self-confidence, and is at ease when dealing with insecurity, risks, difficulty and the unknown. An enterprising individual has the capacity to initiate creative ideas...develop them, and see them through into action in a determined manner. An enterprising individual is able, even anxious, to take responsibility and is an effective communicator, negotiator, influencer, planner and organiser. An enterprising individual is active, confident, purposeful, not passive, uncertain and dependent.

In our analysis of the interviewed managers, we found particularly their adaptable disposition towards change and positive attitude very dominant. Also, many were very good communicators, which seems an important tool in persuading and motivating others to share their visions and goals.

Also the entrepreneurial edge seems to be about remaining in balance. The backside of the coin is a risk of being over confident, not well enough organised –and as a consequence easily suffer from being under-resourced. An entrepreneurial manager is often in the risk zone of taking on too much and being too optimistic about his organisation's abilities. Another challenging issue is the question of power and whether the manager is able to delegate tasks to others, or whether his or her urge to remain in control hampers the decision-making.

High rate of launches

The Nordic SMEs are actively launching new products to the market. Based on the results of the survey conducted during this project we found that nearly all respondents had launched new

² Bridge, Simon, O'Neill Ken and Cromie, Stan (2003): *Understanding Enterprise, Entrepreneurship and Small Business*. Palgrave Macmillan, UK.

products or services during the past three years. In addition, a majority was also planning new launches of health enhancing products or services within the next twelve months:

- ⇒ 88% of food & beverage and dietary supplement companies
- ⇒ 83% of the ingredient companies
- ⇒ 73% of the service companies

The survey found that Nordic SMEs consider nutritional or technological research, market trends and market research as the most important sources for new product ideas.

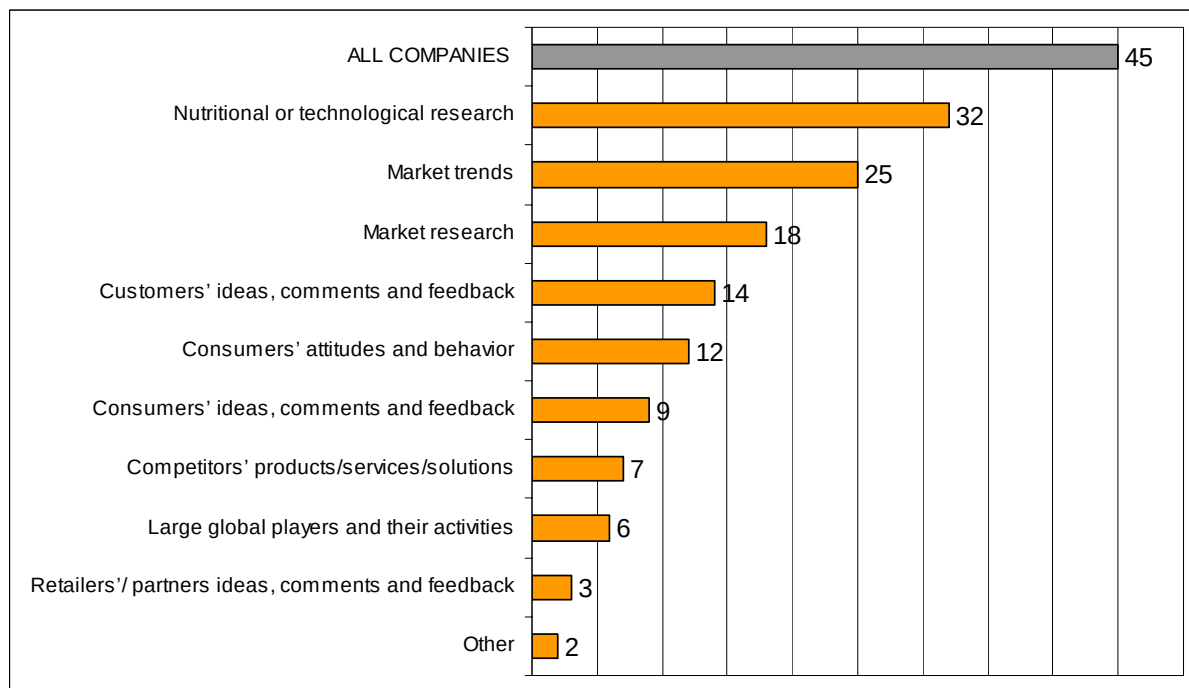


Figure 5 Main sources for new ideas indicated by Nordic SMEs

These were the top three for food & beverage, dietary supplement and health ingredient companies, while service companies listed customers' ideas, comments and feedback as the most important source.

Examples of product launches made by Nordic SMEs are found at
www.NordicNavigator.com.

The average time to market from the first phases of product development to product launch varies. The food, beverage and dietary supplement companies reported less than one year up to three years, while health ingredient companies reported also longer time spans up to over 4 years.

In our analysis a question whether not the companies are putting too much effort into launching new products and services too often occurred –particularly those working with consumer products. One can ask if not at least a share of those efforts rather should be put into sustaining and improving existing products on the market. A manager said in the interview that she experiences pressure particularly from the retailers to keep up the frenetic launch schedule. “If you don’t come up with something new, you are out”. Another manager commented their past product development phase as too intensive: “A company can only deal with a limited launches a year, if they are too many, the quality suffers and the organisation is exhausted”.

Other managers commented the importance of looking over the existing products and brands. “We need to put more effort into positioning our products more clearly and brush up our company brand and what it stands for”, the marketing manager of a longer established dietary supplement company said.

Some of the SMEs had also developed alternative ways for dealing with the pressure of keeping up the new product development:

A Swedish juice company said it had developed a new product together with the retailer in order to bring a new alternative to a promising product category. The process had entailed working out the concept, packaging and pricing together with the retailer. The manager described this kind of collaboration as a good way forward, even though he was very critical towards the uneven division of the risk. “In these cases the retailer needs to take its own share of responsibility and not place all the risks on the SME developing the product”, he said. “It is unsustainable that a retailer puts all the R&D costs to the company, but makes no commitment to volumes or shelf space”. In this particular case the collaboration has however turned out well because the product seems to be well positioned, it is strongly supported by the retailer’s marketing and it sells satisfactorily.

Another model which we've found in many newly established SMEs is the so called spider in the web model. The company outsources most of its activities and only holds the core capabilities and assets in house, like e.g. the brand, certain patents or distribution. This strategy is applied in order to be fast moving on the market, take less risk by not investing in own production and machinery, etc. The interesting new aspect here is the approach to product launches. We found one example in a Swedish dietary supplement company who developed the product concept by designing the recipe, the packaging, the layout and the communication. At this point it then introduced the concept to potential clients. Only if the client showed interest, the product was actually made and the contractors and suppliers were put to work. Controlling such a process based on outsourcing is challenging and many things can go wrong as many players are involved. However, it seems to be an applicable model for small start-ups who are still testing their concepts on the market place.

Commercialization drivers and hurdles

When examining a commercialization process it can be done through identifying a number of factors and events that either work in favour or against the desired goal. During this project, the focus has been on identifying commercialization drivers and hurdles, as they are decisive factors for the outcomes of the activities involved in bringing something new to market.

The drivers and hurdles were explored both in the survey and the interviews conducted with SME managers.

In the survey, the majority of companies (69%) reported that the main drivers for commercialization are consumer, market trends, scientific research, and resources such as staff, managers and capital. Whereas only a few companies mentioned that moves of competitors, ethical issues and public services were driving factors for the commercialization.

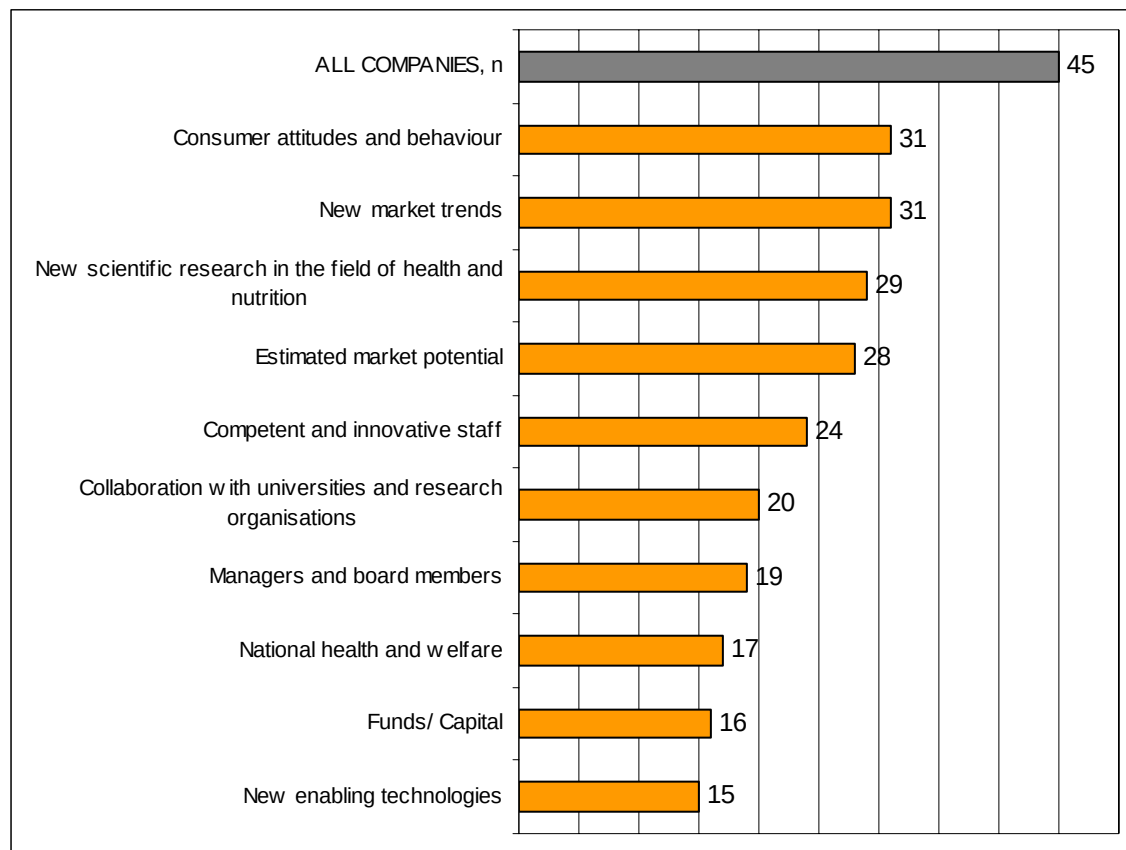


Figure 6 Ten main drivers for the commercialization process indicated by Nordic SME companies within healthy nutrition

As can be seen in figure 6 the major drivers mentioned are external ones. The first internal driver listed is competent and innovative staff.

Obstacles and challenges for the commercialization process of SMEs are mainly lack of funds and issues related to legislation and regulations. Regulatory issues, health claims and communication were considered to be the most challenging issues in bringing new products to the market (figure 7).

Food and beverage companies also found that getting taste and texture right, and negotiation with retailers and other distributors to be among the most challenging issues in bringing a new product to market. Ingredient companies answered that regulation issues, health claims, and

communicating the benefits of the product are the most challenging issues in bringing new products to market (figure 8).

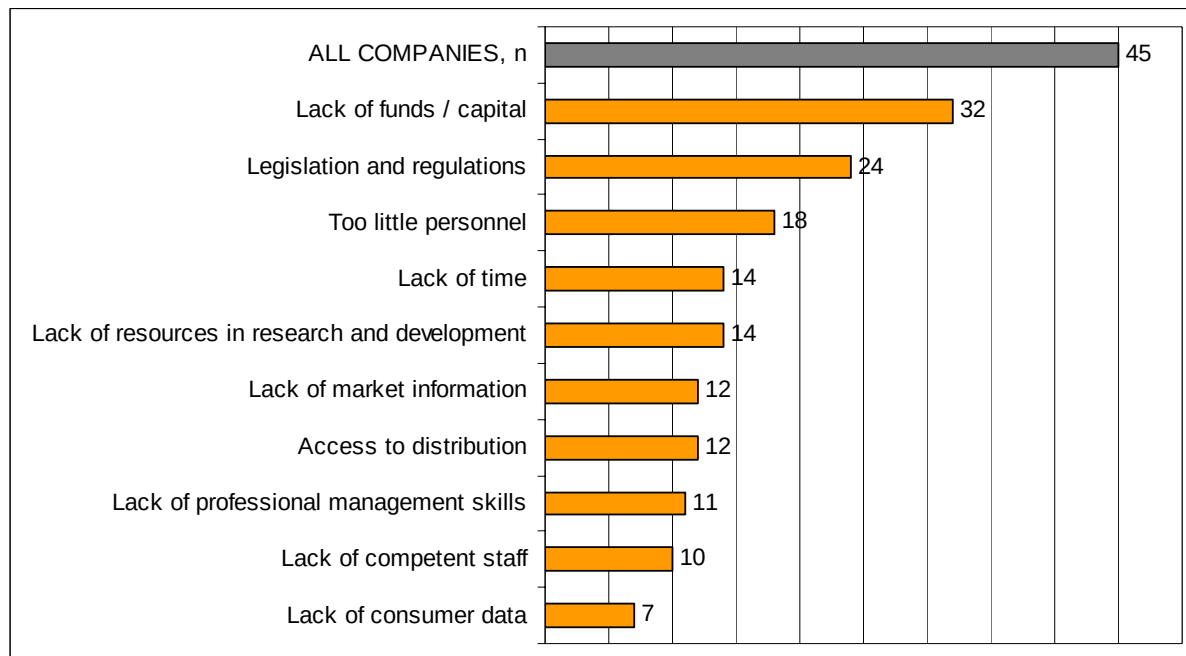


Figure 7 Ten biggest obstacles in the commercialization process for SMEs indicated by Nordic companies

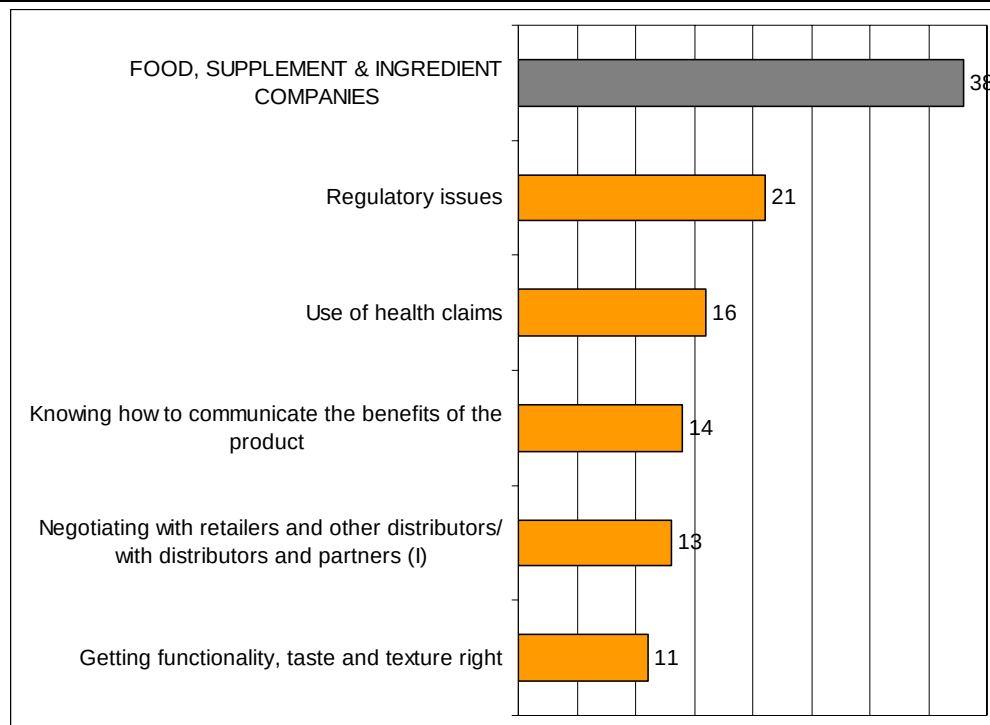


Figure 8 Five the most challenging issues in bringing new product to market for food and beverage, dietary supplement and ingredient companies

Why do products fail?

It is a wide known fact that almost 80% of all new food and beverage product launches fail. Healthy nutrition doesn't seem to be an exception. We discussed about requirements for successful commercialization with the SMEs and we also touched upon the experiences concerning product failures.

Our survey found that over 40% of the food and beverage and dietary supplement companies have had to withdraw a health enhancing product from the market during the past 5 years. In most of the cases, the redraw has been made within 2 years after the launch. The most common reasons for redraws were unsatisfactory sales and lack of consumer understanding of and appreciation for the benefits or taste of the product.

The reality of ingredient companies is somewhat different. Only few reported that they had redrawn their product. The explanation can however be found in the different nature of the business. A poor selling ingredient can be kept in the product range for a long time even though it is not successful. Most common reasons for redraws of ingredients were unsatisfactory sales for the company or the distributor, and lack of consumer understanding of the benefits of the product.

A common observation is that many of the products fail because they are poorly positioned on the market and they fail to differentiate themselves from the masses. Many food and beverage producing SMEs have understood the crucial importance of taste. However, their marketing could be better planned and better resourced. Many of the interviewed companies reported the difficulty of understanding consumer behaviour and attitudes, as well as knowing which target group to focus on.

Marketing, branding and communication

Estimating skills in marketing, branding and communication is difficult as the measures are not easily defined –nor the results. However, when we asked the companies themselves to evaluate their marketing skills in the survey, they were quite optimistic. The majority argued that their skills in marketing are at moderate or better level (see figure 9).

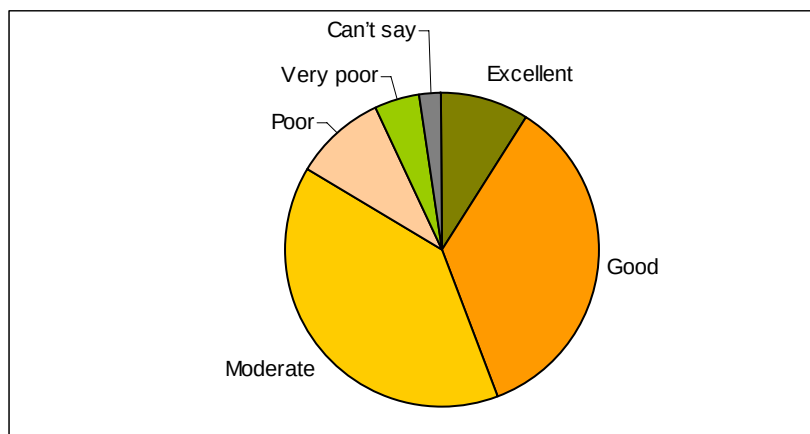


Figure 9 Skills in marketing according to the SMEs themselves

However, a majority of companies would like to get better at building a brand. Other areas where respondents said they would like to improve were

- ⇒ Targeting the right consumer or customer
- ⇒ Identifying emerging new trends on the market or identifying customer needs
- ⇒ Developing market communications

Food, beverage and dietary supplement companies evaluated their skills to be best in managing the product launch, understanding and analyzing consumer attitudes and behaviour and building a brand. What they however would like to get better at were similar things, i.e. building a brand, identifying emerging new trends on the market, targeting the right customer and marketing communications. See figure 10.

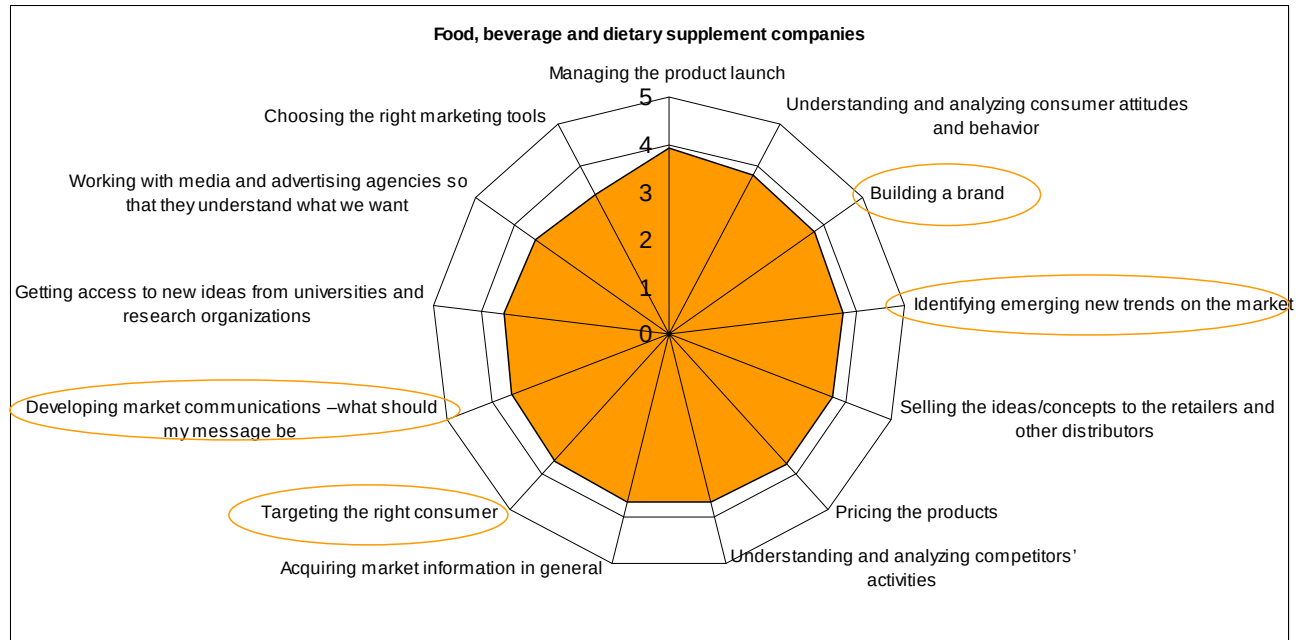


Figure 10 Skills in marketing indicated by food, beverage and dietary supplement companies on a scale 5 excellent ... 1 very poor. Circles indicate the main things in which companies would like to get better at.

In figure 11 is the evaluation of the health ingredient companies. They evaluated their skills to be best in

- ⇒ selling concepts and ideas to distributors and marketing partners
- ⇒ pricing the products
- ⇒ identifying emerging new trends on the market

Health ingredient companies would like to get better at

- ⇒ identifying emerging new trends on the market
- ⇒ identifying, understanding and analyzing customers and their needs
- ⇒ building a brand
- ⇒ understanding and analyzing consumer attitudes and behaviour

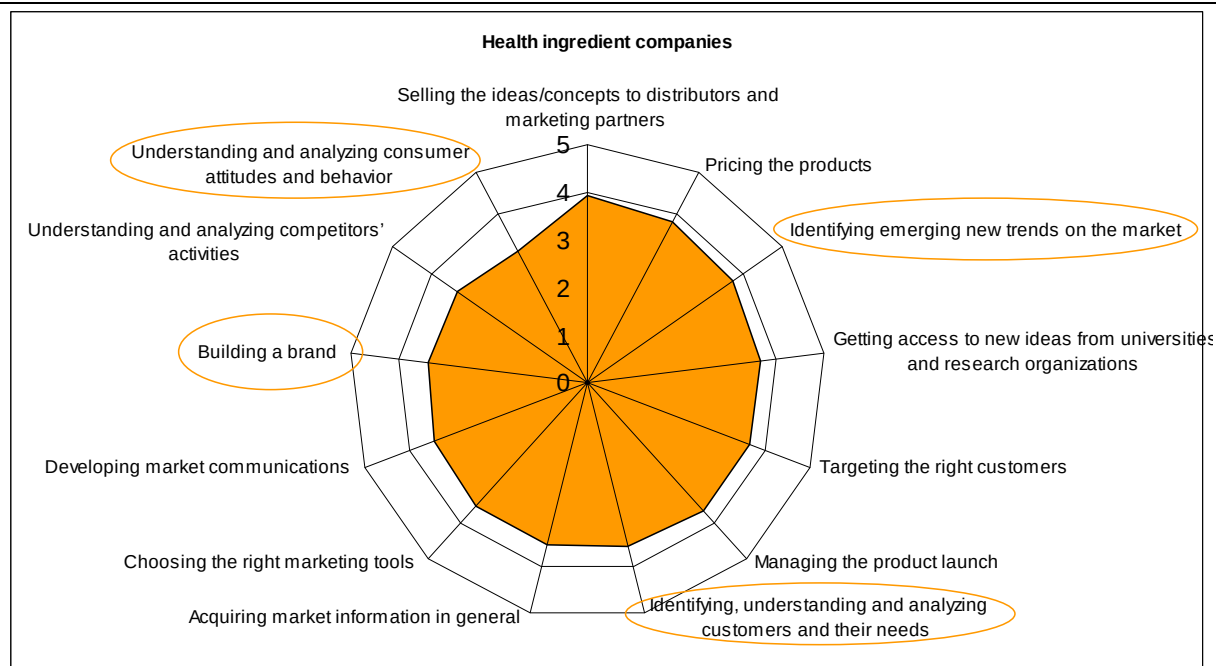


Figure 11 Skills in marketing indicated by health ingredient companies on a scale 5 excellent ... 1 very poor. Circles indicate the main things in which companies would like to get better at.

Service companies (figure 12) evaluated their skills to be best in understanding and analyzing customers and their needs, acquiring market information in general and selling concepts and ideas to partners. They feel however that they should be better at targeting the right customer, building a brand and market communications.

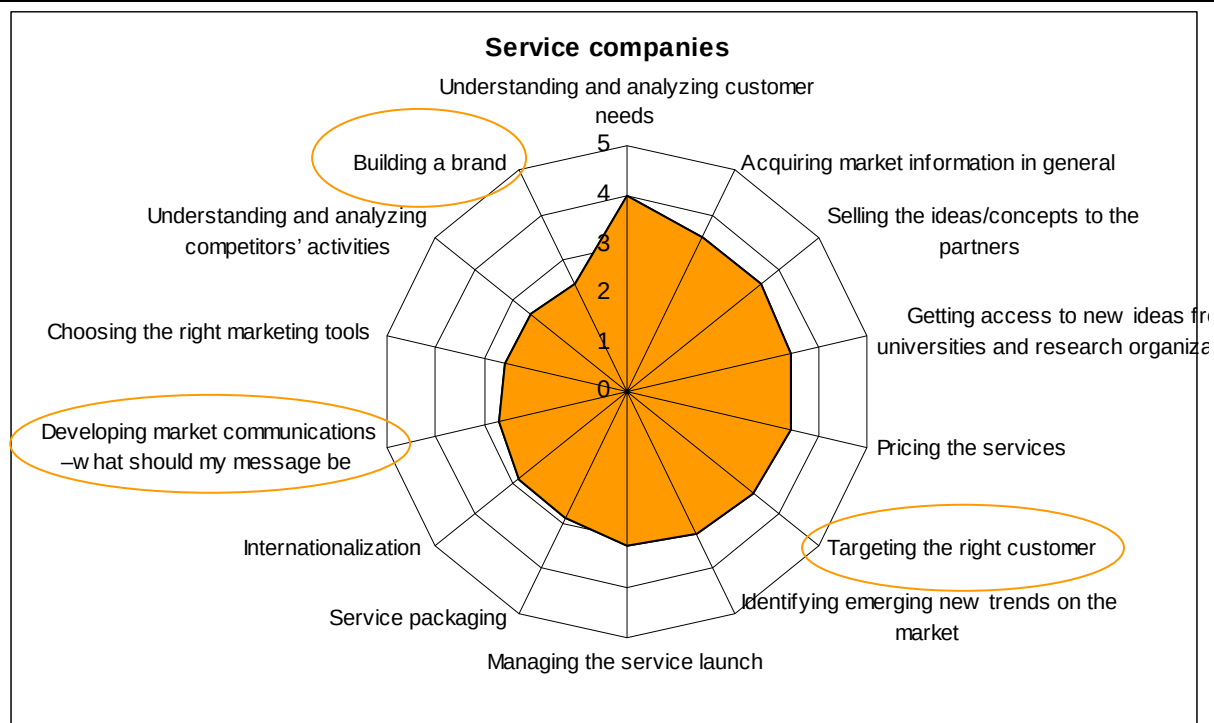


Figure 12 Skills in marketing indicated by service companies on a scale 5 excellent ... 1 very poor. Circles indicate the main things in which companies would like to get better at.

In the interviews, the SME representatives were much more critical to their own ability to market their products than in the survey. Targeting the right consumer was a common problem. A representative of a dietary supplement company said: "Segmentation is something we need to become better at. Within healthy nutrition today, how many millions are not put into marketing? To be able to differentiate yourself you have to narrow down your segment. It is not easy. You would like to sell to everybody. I think we are afraid to segment because that means we have to unselect people. At a course once, I was told that when you have segmented and think you are ready, reduce it by half. Only then you are getting close to the right size of segment". He concluded by saying: "We simply have to get better".

External support

The Nordic countries

A topic of interest has been the experience the SMEs have of using external support services. During the past years a number of centres, clusters, programs, initiatives and networks have been set up to support companies working with food and health. They work on national, regional and local level and provide a number of different services like networking, consultancy, financing, technical support, etc. We used the term centres to cover all these different organisations. Many of the centres are connected to universities or governmental initiatives. We were interested to learn more about how these centres have been working with SMEs, how well they are supporting them in the commercial activities and what they should do better.

In our survey we found that 70% of Nordic SMEs have worked with centres that are providing services for companies working with healthy nutrition. They have mainly utilized the centres in research and product development and also in networking and financial support, but less in developing marketing and business (see figure 13).

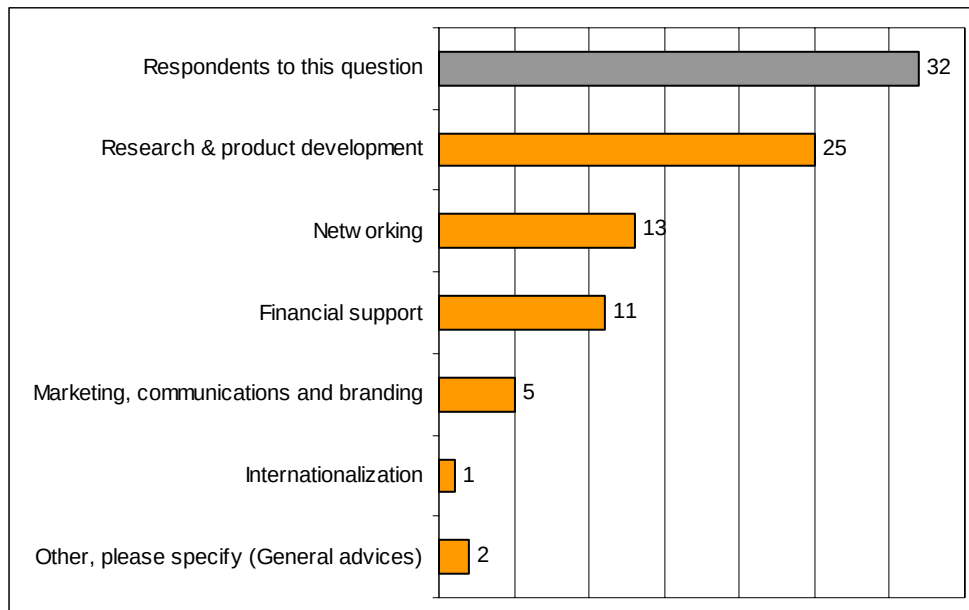


Figure 13 Help provided by centres

Access to academic research and new inventions, as well as taking part in seminars, workshops and training events, were the issues that the SMEs reported as important benefits gained through the centres.

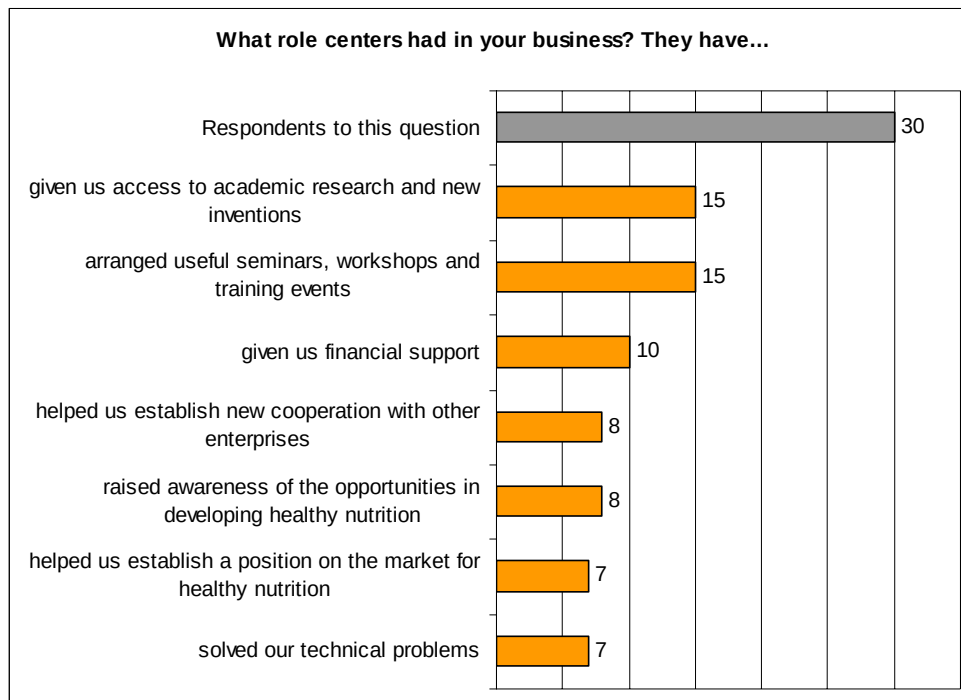


Figure 14 The main roles of centres in SMEs' business

During the project we got mixed signals from the SMEs concerning the centres. Some reported to be very pleased with current support systems; others said bluntly that they had experienced no benefit at all. Half of those who responded to the survey said that they think that the centres are doing enough to support the commercialization processes of their company. In the interviews however, some of the companies said directly that they feel that they are not supporting their activities and are too focused on research outcomes and R&D. During the analysis of the centres we found that many of them did not in any way communicate commercialization, marketing support or services. If they did, they were very vaguely expressed and communicated, and not applied in practice. Recently, e.g. in Finland there has been larger developed programs on healthy nutrition and functional foods, which have also targeted SMEs. Their success in this domain has however been moderate and the level of activity among the SMEs has been very low. It is

advisable that the centres audit and evaluate their activities at a regular basis to address any problems within this area.

Best practices internationally

As part of this project, we have also examined a number of international clusters and centres. A few years back there was an international boom of setting up initiatives around food and health. National or regional initiatives were set up in e.g. Australia, Ireland, Scotland, and Canada. However, in the update done in this project, we found that quite a few of these initiatives have been terminated or integrated into other programs. In other words, it seems like the interest has cooled down considerably during just a few years. However, some of the remaining centres are viable and working efficiently.

Somewhat surprising both in the Nordic and international centres has been the low engagement in SMEs and their commercialization and marketing efforts. Some of the centres have included SMEs or commercial aspects into their missions and strategies, but very little is shown for it in reality. Also, the services offered are not very actively communicated and the services are not clearly defined.

However, one initiative that has been able to deliver very tangible results for SMEs has been the Scottish Food and Drink's Health Enhancing Foods Project. This initiative has also been able to show results of its efforts in form of new product launches and improved sales by the companies involved.

The project has been delivered through a number of mechanisms including workshops, learning journeys, one-to-one surgeries with companies, formation of industry groups, grant assistance and 'link-up' lunches aiming to create links between companies and the research base.

Very hands-on and on-going support has been one to one surgeries for companies together with marketing and branding experts in the field. An average of 7-8 companies have attended per day. The project also subscribes to a number of market data and insight resources for the benefit of the companies and in addition, a small amount of targeted grant assistance has been made. Evaluating the project, its qualitative impacts include increased understanding and awareness of the health enhancing food opportunity. It has worked as a valuable knowledge provider for the SMEs interested in the business. The most common response of companies has been to re-position existing products to benefit from a healthier proposition. The project has also been able

to show direct increase in sales by a few companies, and a few more are expected to increase their sales in the future.

What makes the Scottish case very interesting is also its efficiency in terms of money. From a total estimated spend of some €400,000 over three years, the project has had considerable economic impact on sales and job creation across the Scottish economy. These results demonstrate that a relatively low cost, but well targeted project can achieve excellent results.

Ways forward?

We find that the support services provided by centres should be audited and evaluated in order to estimate their true effect in terms of reaching their goals and in relation to how much money is put into them. Could they e.g. be more targeted or more action-based? Are they working with long enough timetables to ensure results? Any centre which is truly dedicated to supporting SMEs should have well defined and market-oriented service offerings that offer concrete tools and support. In this way, SMEs would most likely become better involved. Due to their goal-oriented and entrepreneurial approach many small business managers need assurance of clear and concrete beneficial outcomes as a result of participation.

Some of the current initiatives and projects targeting functional foods and healthy nutrition appear too disconnected from the everyday operations of running a business, and are therefore also failing to bring benefits to or support the competitive edge of the companies involved. Despite good intentions, some of the initiatives have sadly failed to direct their actions and resources accordingly, resulting in disappointing outcomes for the companies, and feeding an increasing fatigue towards public initiatives among them.

Conclusion

The Nordic SMEs see a bright future ahead for their business despite many challenges in commercialization. They expect the market to increase during the next five years and interlinked they see their own sales to be heading upwards.

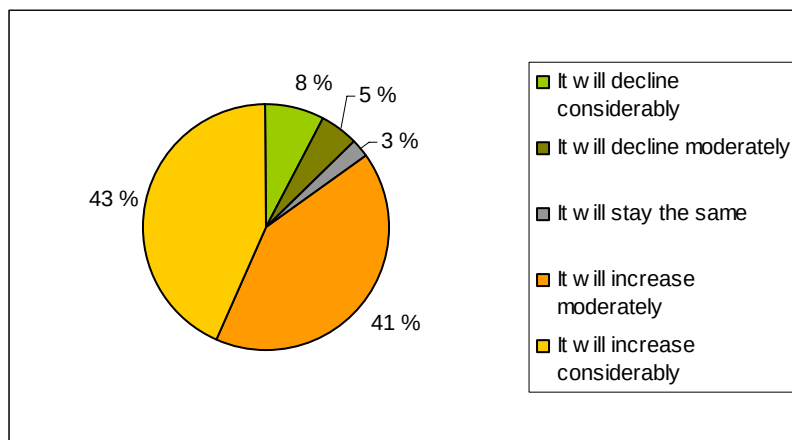


Figure 15 How Nordic SMEs see that the market for health enhancing/ functional foods will develop during the next 5 years

The greatest market potential are found in weight management, heart health, diabetes, general health and welfare, and brain health, according to the companies who replied to the survey of the project. Therefore the companies are within their own R&D keeping an eye on particularly heart and digestive health.

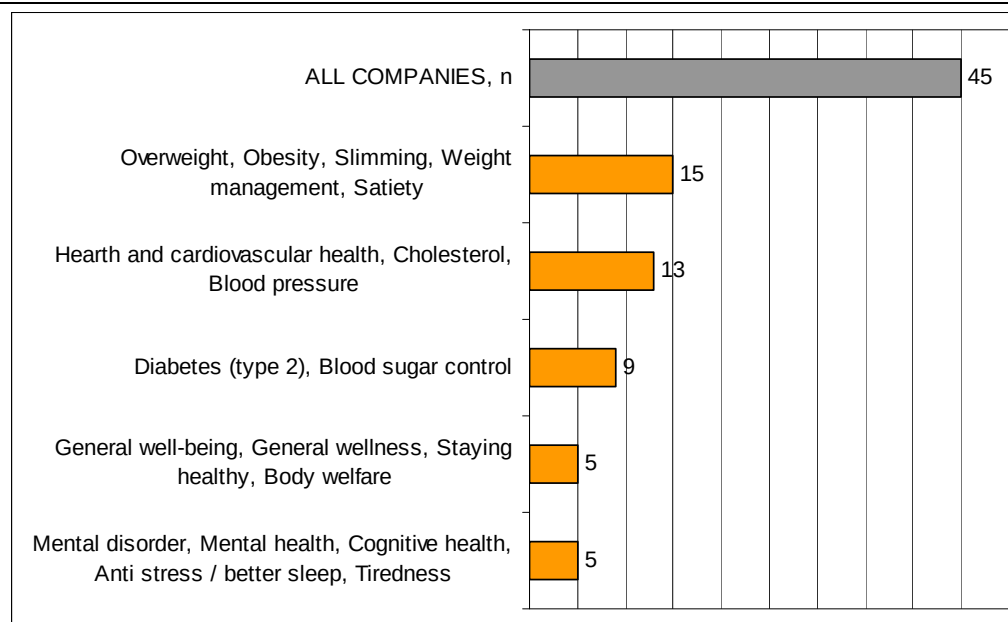


Figure 16 Health issues/topics which will be the most important for the nutrition business during the next 5 years indicated by Nordic SMEs

The purpose of the project SMEs commercialising healthy nutrition has been to generate information and insight about the SMEs and their activities, support policy makers in setting up strategies to better support these companies, as well as provide SMEs themselves with more insight about their business and how to strengthen their commercialization processes and marketing capabilities.

Comparatively little information about Nordic SMEs involved in healthy nutrition was available from before. In none of the countries were there any ready overviews or listings. Thus, the initial task of gathering the basic information turned out to be a major one, and crucial for the continuation of the project. In other words, our initial premise that little is known about the Nordic SMEs proved right.

One of the main results of this project is that we have been able to identify and map a majority of these companies. Currently there are approximately 200 companies in our database. Despite our efforts during this project, we are still aware that there are many companies we have not been able to identify. However, during the project, many have contacted us themselves, and we expect this development to continue also after the project.

Another important finding is that when applying the strict SME definition, the number drops dramatically. An SME is generally considered autonomous only if less than 25% of the capital or voting rights are held by another enterprise. A large number of the Nordic SMEs do not meet these criteria.

The SMEs involved in healthy nutrition vary in size, form, earning logics, background, age, nature and goals. The spectrum was more varied than what we first anticipated. In our analysis we have not been able to identify a certain type of SME that would be typical. This is an important finding particularly for those working with policy making and functional food initiatives. A good understanding of the individual SMEs participating e.g. in projects and programmes is recommendable – as skills, needs and expectations vary greatly.

The commercialization and marketing competence in Nordic SMEs is quite low. This applies particularly to health ingredient and technology based companies. Many lack a broad understanding of the market and have for the most part little understanding of consumer behaviour and the role of marketing and branding in creating value for the firm.

For the food and beverage companies a major challenge is their relationship to retailers. Predominantly when it comes to introducing their products internationally, they seemed to be lacking essential information and access to the decision makers within the retailers. Also solving practical issues such as logistics, packaging and communications was perceived as challenging in introducing the products to other Nordic markets. There is interest for increased presence on other Nordic markets, but bottlenecks need to be addressed and risks reduced.

Nordic SMEs keep up a high rate of product development despite their small size and limited resources. To a certain extent we found that this rat wheel approach is exhausting the companies. They are pressed to continuously come up with new concepts and products. As a result they are doing a poor job in sustaining and supporting their current products. Considerably more effort should be put into keeping the exciting products and services alive on the market and expanding their sales.

The Nordic SMEs have limited knowledge about other SMEs in the Nordic countries. By increasing their awareness of each other, there are good opportunities for them to network, collaborate and also challenge each other to strengthen their competitive ability further. Also just benchmarking own activities to others, help SMEs evaluate their own situation and strategy better,

and hopefully inspire them to develop their activities further. This project found that an increased level of focused information, awareness and communication already in itself brings many advantages to the SMEs.

Particularly small businesses need to learn more about the management of the commercialization process and what it entails. A main conclusion from this project is that many SMEs struggle to manage the commercialization process professionally and keep their commercialization activities in balance. As a result, many experience a constant lack of resources, hindering them from meeting their targets.

Can a model for the commercialization process of healthy nutrition in SMEs be created? This was one of the main questions of this study. Based on this project, we have not been able to identify such a model. What we have learnt is that the fundamentals of managing a commercialization process applies just as well to this field of business as any else. Our conclusion is that there are no particular characteristics of commercializing healthy nutrition that would be so specific that they would require special management. To our minds, the biggest challenge in commercializing healthy nutrition is to raise the competence of commercialization and marketing management in general. Strategically, more focus and more resources need to be directed to these tasks.

There are only a few centres in the world that have been able to support SMEs in an active and efficient way. The true champion at the moment is the initiative in Scotland, the Scottish Food and Drink's Health Enhancing Foods Project. Despite a limited budget this initiative has been able to show results of its efforts also in form of new product launches and improved sales by the companies involved.

According to our findings, the support services provided by centres need to be more action-based. There should be well defined and market-oriented service offerings that offer concrete tools and support. In this way, SMEs would most likely become better involved. Today, being part of general research projects, programmes or from top to bottom directed clusters are not appealing. Due to their goal-oriented and entrepreneurial approach many small business managers need assurance of clear and concrete beneficial outcomes as a result of participation.

The role of Nordic SMEs in the business of healthy nutrition is still important. Many of them have brought important innovations to market. We however see that considerably more work could be done within the firms to strengthen their commercialization ability. The large knowledge base the companies possess could be better commercialized through the help of

increased awareness, better productified and packaged commercial solutions, as well as increased networking and collaboration between the players. Nordic SMEs have a reputation of being innovative within healthy nutrition – to keep up that reputation the market needs further success stories.

Nordic Innovation Centre

The Nordic Innovation Centre initiates and finances activities that enhance innovation collaboration and develop and maintain a smoothly functioning market in the Nordic region.

The Centre works primarily with small and medium-sized companies (SMEs) in the Nordic countries. Other important partners are those most closely involved with innovation and market surveillance, such as industrial organisations and interest groups, research institutions and public authorities.

The Nordic Innovation Centre is an institution under the Nordic Council of Ministers. Its secretariat is in Oslo.

For more information: www.nordicinnovation.net