

Functional Foods sector in Finland

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INVEST IN FINLAND

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Consulting Services for
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1. Finland ahead of the curve in functional foods

Finland is held to be a pioneer in the development and commercialisation of functional food products with a market that has been steadily maturing since the early 90s. It was the first country in the world to develop cholesterol-lowering products (the Ben 1 Finland ahead of the curve in functional foods Finland is held to be a pioneer in the development and commercialisation of functional food products with a market that has been steadily maturing since the early 90s. It was the first country in the world to develop cholesterol-lowering products (the Benecol brand) and has long traditions in 'free-from' products, particularly in the case of gluten and lactose.

The market has taken big steps forward in recent years thanks in part to strong consumer demand. Finnish consumers are increasingly health conscious and with more household disposable income and a decrease in price sensitivity, they are more willing than ever to buy health and wellness products.

Governmental support has also been an important factor in the development of the functional food industry. Close collaboration between universities and companies has led to the development of new niche products. Small companies are closely connected to Centres of Expertise (OSKE), which help them to find appropriate partners and funding if necessary. There is also an initiative by the Minister of Finance to tax unhealthy food, e.g. products with an excess of sugar and saturated fat.

1.1. Functional foods needs scientific validation

There is no official definition for functional food, but according to International Life Sciences Institute Europe (ILSI), foods that provide a health or wellness benefit beyond the traditional nutrients and reduce risk of illness are considered functional foods. They can include e.g. fermented milk products, breads, margarines, gums and beverages.

Presently the EU is enacting a law reform concerning nutrition and health claims. All the health claims must be approved by the EU Commission before the product can be classified as functional and the scientific background of the intended claim must be evaluated by EFSA (European Food Safety Authority). This new legislation is expected to reduce the number of existing functional food products.

There are three different business models governing the offering of functional food:

- selling functional food as such
- selling raw material which is considered functional
- selling the license for producing either one of them

2. Market overview

Big players dominate the Finnish market while small companies are struggling to make their way from product development to finding distribution channels. The size of the domestic market puts many companies in a position where aiming abroad is the only alternative. Initiatives and programs exist to support smaller companies to form export groups to collectively target international markets.

One of the key players in this, Tekes, the Finnish Funding Agency for Technology and Innovation started a 35 million euro four-year-programme (2008-2012) called Sapuska with the objective of improving the international competitiveness of the Finnish food industry.

2.1. Top know how, governmental support, excellent raw materials

In Finland food safety is exceptionally high due to advanced research and strict control in the area. Functional foods are strongly in place in the market and a positive public attitude together with governmental support provides a solid basis for development of the country's functional food sector.

Finland invests a lot in R&D and technical know how in functional food is among the world's best. Centres of Expertise (OSKE) specialised in food development are located in Helsinki, Turku (Functional Foods Forum), Kuopio, Jokioinen and Seinäjoki and all play an important role in connecting companies and research institutes.

Finland also boasts a state-of-art dairy industry. This together with high consumption of dairy products means that Finland is one of the world's top know-how countries in issues related to probiotics. Dairy products aside, there is also a wide variety of raw material available which can be used for functional food, for example, berries which serve as a very good source of antioxidants and help to control blood pressure.

2.2. Problems of scale, internationalisation and collaboration

Despite the relatively large number of small companies active in the functional food sector, a lack of resources and marketing know how limit operations in international markets. Subcontracting is almost nonexistent among functional food companies since the smaller players feel that they derive no benefit from this kind of collaboration model. Nevertheless, larger Finnish food companies could contract out the development and processing of functional products and market them under their own brands.

It is likely that the whole functional food sector would be stronger and have more possibilities in international markets if there were more networking and collaboration between the companies concerned.

2.3. Functional food trends in Finland and abroad

Finpro has collected indicators and formulated them into global trends in the food sector. According to the findings, functional food is growing in importance not just in Finland but globally.

<http://www.finpro.fi/fi-FI/Business/Programs/Food+Safety/>

Consumers' increasing proactivity is one of the strongest drivers behind the growing interest towards functional food with notable concern in the public about personal health issues and tailor-made food. People are also looking for alternatives to pharmaceuticals in order to optimise their personal wellbeing and the growing elderly demographic in particular is seen as a potentially lucrative consumer base for such products. There is also a trend towards specialisation of the market and the growth of new product niches.

There are several identifiable areas for business exploitation in functional foods:

- Cholesterol and blood pressure lowering products
- products that promote gut health.
- Anti-ageing properties,
- prevention of cancer and other serious diseases

In Finland the tendency is towards an increase in weight among all age groups. At the moment approximately 20 per cent of Finns are obese and this figure is expected to increase in near time. This means that the demand for products aiming at weight control will also grow significantly.

2.4. Finland's business environment

According to the EIU (The Economist Intelligence Unit) report, "Despite the sharp contraction expected in 2009, Finland has the best business environment in the next five years." Finland's business environment was already ranked third best in the world in the previous Business Environment Rankings published for the period 2004-2008.

For those interested in setting up business, Finland is known for fostering foreign ownership and proactively hiring foreign labour – more so than in many other European countries. The security environment is also excellent.

2.5. Who dominates the Finnish market?

Against this background, competition in functional foods has become fiercer since the main players are launching new products at a brisk pace. The main competitive edge is based on product differentiation and manufacturers are expected to update their offering continuously.

The biggest domestic producers Raisio, Valio, Arla Ingman, Karl Fazer and Hartwall dominate Finnish health and wellness food and beverage sales. All of them have long-established positions in the Finnish market, their brands are well known and they have been particularly active in health and wellness product developments in recent years.

Valio and Hartwall in particular launched numerous health and wellness-focused products in 2007 and 2008, indicating their belief in the future growth potential of health and wellness sales.

Valio is famous for its probiotic LGG® (Lactobacillus GG) products including buttermilks, yoghurts, milk, fruit drinks and cheeses. They are sold under the Valio GEFILUS® brand. There are also GEFILUS products which are targeted to children and sold under the KIDIUS GEFILUS® brand. In 2008 Valio launched GEFILUS MAX, a daily dose drink, which has been developed and patented by Valio. It reduces stressed stomach symptoms and at least at that time, there was no similar product anywhere else in the world.

Raisio is globally well-known for its Benecol product family. Benecol is based on a component, plant stanol, which can be added to food. It not only lowers cholesterol but also improves the health and well-being of blood vessels. The company is present in 29 countries all over the world and ca. 95 per cent of Raisio's Benecol business comes from outside the Baltic Sea region. Their business model in foreign markets is based on licensing the Benecol® brand.

Other players

There are also approximately 50 other companies, mostly micro and small-sized, concentrating on manufacturing niche products in the functional food sector. Some are still in the product development stage and act in close collaboration with universities, research centres and OSKEs. One good example of this type of collaboration is Bioferme's Yosa products, which have been developed together with the University of Turku/Functional Foods Forum and the University of Helsinki.

There are also foreign players in the Finnish market. Unilever claims to have 95 per cent market share in milk-based vegetable fat products. Unilever is also very strong with its Becel/Flora proactive cholesterol-lowering food brands. They have 140 employees in Finland and the turnover in 2008 was 218 million euros.

The Danone group employs approximately 350 persons in Finland. According to the company's own estimations, their market position is quite strong with a 24 per cent market share in fat free yogurts and 81 per cent market share in drinkable yogurts.

3. Potential business opportunities for foreign investors

Even though Finland is a small country it offers interesting business opportunities, especially for companies with established sales channels. The Finnish business environment is considered dynamic, secure and open with spontaneous communication between all the involved parties.

Finland has many top quality universities and research centres. There is strong scientific know how in functional foods, and a ready resource of highly educated and innovative workers in the bio and food sector. As such, Finland is also an optimal place to set up a company's own research and product development unit.

A potential collaboration model could consist of a Finnish company providing innovative products, raw material and/or ingredients for foreign investors. These small companies need help especially in commercialising their products outside Finland and opening new markets.

3.1. Finland as a gateway for business

The biggest Finnish retailers are aiming to integrate Scandinavian purchases by co-operating with Scandinavian partners thus significantly increasing business opportunities. The Russian market can also be reached from Finland, for example, through Finnish companies, which already operate in Russia.

For anyone interested in setting up a business in Finland, various facilities for public funding exist, for example Tekes, the Finnish Funding Agency for Technology and Innovation for product development. There is also a possibility to participate in publicly financed projects and programs arranged by different public organisations.

Case example: Soyprom Investment Limited

Soyprom Investment Limited has decided to locate a soy processing factory in the Town of Uusikaupunki, Finland. The business venture will be implemented by Finnprotein Oy Ltd which is a subsidiary wholly owned by Soyprom.

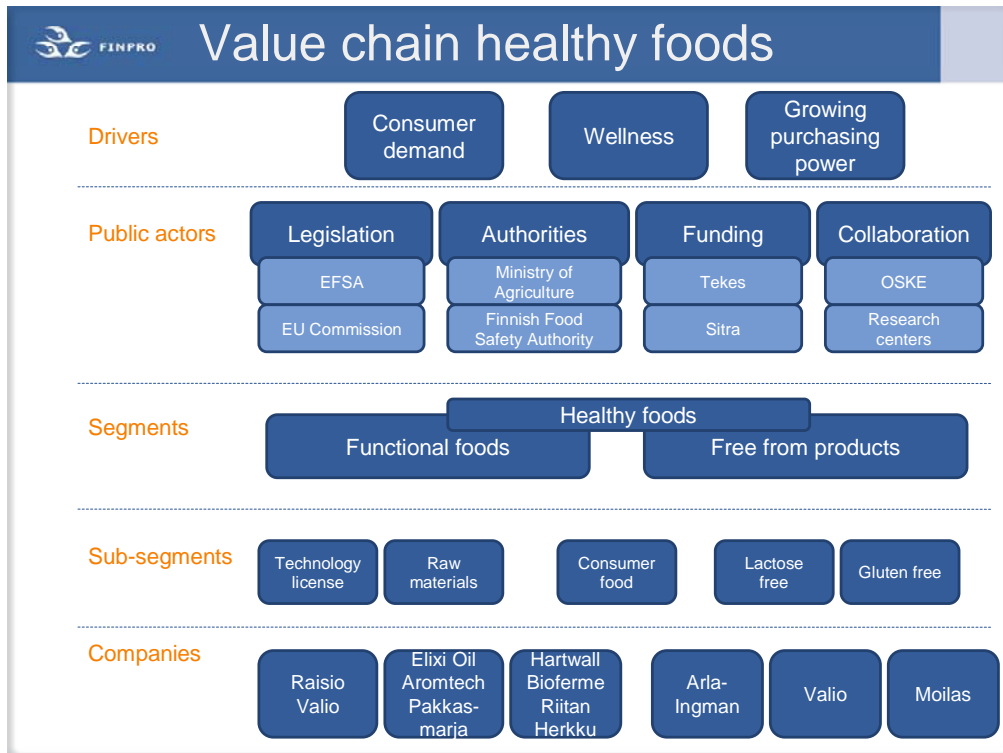
The factory is expected to become operational by mid-2012. Upon commissioning the plant will process up to 400,000 Metric Tons of non GM soybean per year and produce ~ 65 000 tons of soy protein concentrates.

As first products Finnprotein Oy will be manufacturing food-quality soy oil and high quality soybean meal with a salmonella guarantee as requested by the Finnish agro-industry. The plant will also produce soy lecithin and soy molasses – also highly demanded and valuable products. Soy oil represents a platform for future establishment of bio-diesel production as well.

The location of the factory was chosen because of the infrastructure, skills and support:

“Uusikaupunki is a modern site with all necessary infrastructure to commence the construction in place. The existing logistics provide excellent transportation links. The Port of Uusikaupunki is equidistant from Project key selling markets –Europe, Russia and CIS. Our decision has been made on the basis of the infrastructure assets in the Uusikaupunki port, the competence of the Turku University, available skilful workforce and the incredible support that we were offered”, said Mr. Rob Reid, the CEO of Soyprom.

4. Value chain



5. Conclusions

- Finland has a clear time advantage in the development and commercialisation of functional food products from xylitol, 'free from' products to cholesterol lowering products like Benecol.
- The operational environment is dynamic and supportive with close collaboration with universities and Centres of Expertise (OSKEs, a well-educated workforce and public funding programs available.
- Innovative and R&D focused small and micro companies offer potential for foreign investors with well-established sales channels and marketing know how.
- Finland can act as a gateway to Scandinavia and Russia with the biggest Finnish retailers aiming to integrate their Scandinavian purchases and Russian companies potentially interested in know how in Finland.

6. Examples of companies related to functional foods

The following list has been made based on public sources and does not cover all companies in the sector.

Arla Ingman

www.ingman.fi

- 'Free-from' products

Aromtech

www.aromtech.com

- Food supplements, functional ingredients

Bioferme

www.bioferme.fi

- Manufactures and markets high quality plant-based food products and organic products for health-conscious consumers.

Danone

www.danone.fi

Eckes-Granini Finland

www.marli.fi

- Marli brand, sells e.g. juicy berry shots filled with nature's own antioxidants

Elix Oil Oy

www.elixioil.fi

- Produces speciality nutrient oils and fibre products made mainly from flaxseed

Fazer Oy

www.fazermakeiset.fi

- Xylitol chewing gums and candies

Finnfeeds Finland/Danisco

www.danisco.com

- Xylitol chewing gums and candies

Hartwall

www.hartwall.fi

- Markets health drinks with added vitamins

Lapland Nutrition

www.laplandnutrition.fi

- Sports drinks and recovery products from pure raw materials, whey protein is isolated from pure Northern Finnish milk as a by-product of cheese making

Leaf

www.leaf.fi

- Leaf's health enhancing products include 100 per cent xylitol-sweetened chewing gum – Jenkki Professional and xylitol-sweetened Läkerol Dents -pastilles.

Moilas GF

www.moilas.fi

- Naturally gluten-free products since 1985

Pakkasmarja

www.pakkasmarja.fi

Raisio

www.raisio.com

- Raisio's main products are foods and functional food ingredients, as well as feeds and malts. Raisio's best-known brand is Benecol.

Riitan Herkku

www.riitanherkku.fi

- Produces and markets e.g. juices using a wide variety of Finnish berries

Sinebrychoff

www.sinebrychoff.fi

- Sinebrychoff's Hyvää Päivää ("Good Day") beverages are finely carbonated wellness drinks containing plenty of natural juices.

Unilever

www.unilever.fi

- Becel/Flora pro-active cholesterol-lowering food brands

Valio

www.valio.fi

- Valio is famous for its probiotic LGG® (Lactobacillus GG) products including buttermilks, yoghurts, milk, fruit drinks and cheeses.

7. Sources

Interviews:

Anna Hillgrén, Project Manager, Functional Foods Forum

Mikko Laavainen, Commercial Director Ingredients Division, Raisio

Seppo Heiskanen, Director, Finnish Food and Drink Industries' Federation (ETL)

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