Analysis of the regional food and drink industries

Partner organization/region: South Ostrobothnia
Date: 15.4.2020

Introduction:

Please describe the answers as well as possible. By reading into this topic you will get a lot of information, so you can get a good overview of your region. Through dialogue with local food industries, local facts and numbers can be collected. The information requested in this list will help you to get to know your region better. These questions are intended to help you.

1. <u>General description of the current status of the food sector in your region</u>

   Take a look at your region in terms of food industry: Which branch of the food sector is the biggest/most important in your region?

Agrofood sector is recognized as one of the most important economic pillars and clusters in South Ostrobothnia. The sector includes the agriculture, food processing and food technology. In the national context South Ostrobothnia is one of the leading food and food technology clusters in Finland.

South Ostrobothnia is one of the most specialised Finnish regions in primary production and foodstuff refining, regardless of how it is observed, from the number of workplaces, personnel and turnover perspectives. Relatively speaking, in Finland, the highest employment in agriculture and the food industry is in South Ostrobothnia, with 15% of turnover for the whole country's food industry located in the region. Agriculture and food industry employment and economic influences are at their greatest in South Ostrobothnia when the figures are a proportion of the employment level and economy size of a region. The impact for employment is over 21 % and the impact for the region's GDP is 15 % (national average 9 %). The impact of the food industry solely for region's GDP is 8,6% and for the employment around 8 %.

Primary production and foodstuff refining form the supporting foundation for sectors closely connected to food systems and the bioeconomy. For example, machine and instrument production associated with the foodstuff industry is significant from the perspective of turnover and labour productivity. In terms of turnover, 12% of foodstuff machine production is in South Ostrobothnia while furthermore, the agriculture technology companies in the region form 14% of the country's total.

The region is a home for some of the major food and drink processing businesses in Finland, such as Atria (meat), Valio (dairy), Altia/Koskenkorva (alchohol), Kyrö Distillery, and Juustoportti (dairy). Most of the food and drink sector companies are however micro or small companies employing less than 10 employees (over 90 % of the companies). In a recent survey from spring 2019 made for 69 SMEs in the region 90 % of the companies employed 1-5 persons and their turnover was less than 0,7 MEUR.

A study from 2017 shows that from the 106 food sector companies;

- 81 (76,4 %) employ less than 5 employees,
- 8 (7,55%) employ 5-9
- 5 (4,72 %) employ10-19
- 6 (5,66 %) employ 20-49
- 6 (5,66 %) employ more than 50 employees

The same study also analysed the branches:

- Manufacture of **bakery products** 39 -> **37 %**
- Manufacture of **other food products** 17 companies -> **16 %**
- Manufacture of **vegetable, berry and fruit products** 15 companies -> **14 %**
- Processing and preserving of **meat and production of meat products** 13 companies **-> 12 %**
- Manufacture of beverages -> 8 companies -> **7 %**
- Manufacture of dairy products -> 7 companies -> 7 %
- Manufacture of grain mill products, starches and starch products -> 4 companies -> 4 %
- Processing and preserving of fish -> 3 companies -> 3 %

No data about the distribution is available.

Please fill in these data as good as possible. If you don´t have any numbers, please estimate a rough comment. You can also try to get information about your region via Eurostat (https://ec.europa.eu/eurostat/de/home). Through cooperation with a local food producer you can try to include at least specific data about a regional producer to get a rough idea of the current situation.

Category	Criteria	Description	Data/comment
General description of the current status of the food sector in your region	Role of your regions food and drink industry in national context	Percentage of food-sector-employees in your region as a proportion of food-sector-employees in your country	Latest study from 2018: **10,5 %** Number of employees in Finland: **33 208** In the region: **3498**
		Percentage of food-sector-enterprises in your region as a proportion of food-sector-enterprises in your country	Percentage: **5,3 %** Number of enterprises in Finland (2018): **2089** Number of enterprises in South Ostrobothnia: **111**
		Share of sales in total sales of the national food sector	Percentage: **15,05%** Sales in national level (2018): 1**1,10 billion €** Sales in South Ostrobothnia: **1,67 billion €**
	Role of the food and drink industry in your region	Percentage of food-sector-employees as a proportion of total employees in your region	Percentage: **7,4 %** Number of employees in the region: **47 178** Employees in food sector: **3498**

		Percentage of food-sector-enterprises as a proportion of total enterprises in your region	Percentage: **0,6 %** Number of enterprises in the region: **17 864** Number of food sector enterprises: **111**
		Share of sales in total sales of the regional economy	Percentage: **15,43 %** Sales of all enterprises: **10,82 billion €** Sales of food sector enterprises: **1,67 billion €**
		Total numbers of employees, enterprises and share of sales of the regional food sector	Employees: **3498** Number of food sector enterprises: **111** Share of sales: **1 670 682 000 €**

European Union
European Regional
Development Fund

FRiDGE
Interreg Europe

2. Current policy instruments, funding/support programs etc.

	Who are the programs aimed at? (target group)	**How is the support structured? (financial, training programs, social project to support employees, infrastructural improvement)**	**Importance/ Relevance (frequency and acceptance)**	**Current policy ambitions within the region/instruments of supporting the food industry?**
EU instruments/programs				
A European Regional Development Fund	SMEs RDI organisations	Financial support for SMEs (direct funding) to support growth, internationalization and productivity. Funding is applied from the Center for Economic Development, Transport and the Environment of South Ostrobothnia (ELY-Center). Funding for general regional development projects and investments for local RDI organizations. Funding is applied from the Regional Council of South Ostrobothnia	Important source of funding both for SMEs and RDI organisations in the region. Direct funding for SMEs is quite easy to access and receive. Project proposals Continuous submitting for funding. General development projects are more demanding, requiring skills to write project proposals that fit the program requirements and have added value for the region. Calls for project proposals are arranged twice a year. 30 % of project budget needs to be applicants own funding or other public funding, which is sometimes a hindrance for applying.	Very high. SME's funding growth and internationalization are key policy objectives. Developing Sustainable Food Systems is one of the key policy objectives in the regional strategy that guides the funding.

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B European Social Fund	RDI organisations	Financial support for development projects to improve employment and labour skills etc. Funding is applied from the ELY-Center.	Some of the funding can be directed to projects that enhance skills and productivity of food sector enterprises and their employees.	Moderate. Themes such as digitalization and skilled labour are important.
C European Agricultural Fund for Rural Development - regional funding from ELY-center	SMEs RDI organisations	**Direct support for small enterprises with less than 50 employees** • Starting-up of business: 5000 – 35 000 EUR • Investments to develop new or an already existing business: 5000-35 000 EUR • Investments to physical property (incl. development and refining of agricultural, food and drink products and development of marketing and market reach). Starting from 2000 EUR (support for 20 % of total investment) • Experiments: 2000 – 10 000 EUR • Research on investment: 40-50 % of total budget **Development project and common-good investments:** • Education and advisory projects • Promotion of cooperation • Development of rural services and villages	Very important source of funding both for SMEs and RDI institutions in the region. Quite a lot of funding is directed for the region in general. Direct funding for SMEs is relatively easy to access and project applications can be submitted continuously. Calls for development projects are arranged few times a year. And the waiting time for receiving the approval is sometimes relatively long. There are relatively high-level competition for the funds.	Very high Developing the region as a Food Province is highly recognized in the policy objectives guiding the funding. And in the ongoing program period various projects have been funded under the policy instrument.

		• Common-good investments (75 % support)		
D EAFRD - LEADER Funds Applied from the four Leader Action Groups (LAGs) in the region: Leader Liiveri, Leader Aisapari, Leader Kuudestaan and Leader Suupohja	SMEs RDI organisations	Support for SMEs: • Starting up of rural business • Funding for investments • Cooperation of SMEs Development projects: • Common-good development projects • Common-good investments (65 % support) • Education and advisory projects	Very important instrument for small companies. Access to funding is very easy. Applications for both sources of funding can be submitted ongoing.	All four leader groups (LAG) are directing their funding to support local businesses and entrepreneurship. Two of the LAG's have prioritized food sector also in their strategies. These are Leader Liiveri and Leader Aisapari.
E Interreg	RDI organisations	Sharing of good European solutions. Three different programs: - Interreg Europe - Interreg Baltic Sea Region - Interreg Botnia-Atlantica	In the ongoing program period international Interreg Projects have been important in the region to create international networks and share good ideas for regional development with other European regions. Many of the projects in the region are dealing with issues around the food sectors (food waste, innovations in the food value chain, organic production etc.) Influence for SMEs is indirect.	
F Horizon 2020	Research & education institutes, enterprises	Research and innovation projects.	Participating in the high-level research and innovation projects are important for the region in general to maintain its position as one of the leading regions	Food safety, sustainable food production and forestry are recognized as one of the key societal

			with regards to food production and processing in the country. Participation in the projects brings new high-level knowledge in the region and enhances the innovation capabilities of and indirectly the innovation capabilities of the local food sector SMEs. Participation in the projects is very demanding and access is not easy.	challenges by EU and the Horizon 2020 programme. Sustainable food systems (including food safety) is recognized as one of regions key sectors. (Regional strategy, RIS 3 strategy etc.).
National instruments/programs				
A Business Finland support for growth and internationalisation Funding is applied from Business Finland. There is a local officer working under ELY-Center who gives advice for SMEs and communicates about the funding opportunities.	SMEs	Various opportunities for SMEs with substantial potential for growth and international markets. Programs are: • Food From Finland programme (offering training, events etc.) • Research, development and piloting for SMEs and Midcaps • Innovation voucher • INTO - Innovation expertise in support of international growth. • Cooperation between companies and research organisations • TEMPO – accelerating internationalisation	The funding opportunities are important and useful especially for SMEs that have good potential for growth and internationalization. The programme is highly under-utilised by the food sector SMEs in the region and should be utilized more.	Food From Finland program is especially directed to food sector SMEs. Other programmes are available for SMEs in all fields.

		• MARKET EXPLORER - Expertise to make progress in a new international market • Growth engines		
B Finnvera – Financing institution under the State of Finland	SMEs	Financial support for SMEs: • Financing for the start, growth and internationalisation of enterprises. • Guarantees against risks arising from exports	Important	The funding is directed to SMEs in all sectors.
C A Startup grant – under the Public Employement and Business Services	SMEs	The grant provides an entrepreneur with a secure income during the time that getting the business up and running is estimated to take (no more than 12 months). The startup grant consists of a basic grant, which amounts to EUR 33.66 a day.	Important for new entrepreneurs	The funding is directed to SMEs in all sectors.
Regional instruments/programs				
A				
Local instruments/programs				
A				

European Union
European Regional
Development Fund

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Interreg Europe

Other (e.g. crowd, private, solidary supported)				
A				
B				

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3. Marketing and distribution channels currently used for regional products

Which sales channels are predominantly used?
Transport duration & frequency (short/long distance, high/low frequency?)
Import/Export of the produced food?
Are there any initiatives in your region that want to improve market reach, internationalization, local food associations and aim to do so?

There is no data available how sales are distributed between different sales channels. But here is some rough evaluation of the most used distribution channels and some examples of regional specialities.

Retail and wholesale trade
Retail and wholesale trade are probably the most important sales channels for the food SMEs in the region. In Finland there are two dominant retail and wholesale groups: Kesko Group (K) and S Group (S). Within the past 10 years Lidl has also came to the markets. Most SMEs sell their products directly to the retail stores in the region. The retailers in Kesko Group are more open to local products and are free to expand their selections. In the S Group there are more limitations and selections are managed on regional level.

In the wholesale trade the need for high volume might occur to be a problem for the smallest companies. In addition to Kesko, S Group and Lidl there are also some smaller wholesalers who work more on the regional level and supply products more for restaurants, public kitchens etc.

In the drink sector Alko has the monopoly to sell alcohol products over 5,5 % of alcohol for consumers.

Direct sales from production plant or online shop
Direct sales from the production plant or through websites is also important for some SMEs (especially the smallest ones). Bakeries might have their own stores with cafes on the spot. Many have up-to-date websites where they promote their products and provide info on how to order products. Online shops are not that common.

Events
Many of the region’s food enterprises take part in various events arranged in the region but sales from events is not the dominant There are quite a lot of events organized in the regions where local producers can take part. One of the biggest events is Kauhajoki Food Fair that is organized every year in Kauhajoki in late August or early September. From time to time local producers have took part in the events under common Food Province brand. Participation in events is also important marketing strategy.

REKO (Fair Consumption) networks / groups
A sales model that has spread all over Finland (originally from France, works also in Sweden). The REKO retail and distribution model offers customers a way of ordering products directly from the producer, without the need for middlemen. The REKO networks operate via Facebook as closed groups in which orders and deliveries are agreed on. The groups are run by volunteers, who do not receive payment for their contribution. Products are usually delivered to consumers in a joint gathering that takes place usually on a parking lot outside. These gatherings are held once a week and consumers need to place their orders in Facebook few days prior. This is a very important distribution channel for the small producers in the region. At the moment there are 9 REKO networks in the region. More info on REKO: https://aitojamakuja.fi/en/what-is-reko/

Public kitchens
Public kitchens are possible sales channels for some of the SMEs in the region (vegetable or potato producers for example). The challenge for smaller producers is the need for high volume. The food supply for public kitchens is also under public procurement so smallest SMEs don’t always have the competitive edge to succeed in the procurement processes.

Restaurants
Some SMEs cooperate with local restaurants and sell their products directly to restaurants. Bakeries, meat producers and vegetable producers use these opportunities especially. Also the breweries sell products directly to restaurants.

Local food automats
Few years ago, a local meat farmer and producers invented a local food automat where customers can purchase products from local producers. There are two types of automates with different temperature: freezer and fridge. There are three automats placed now in the region. They sell products such as meat, berry juice, ice-cream, cheese and jellies.

Airports / Airlines: Some drink producers have sought new markets at airports and airlines. The Finnair for example has been a very important sales and marketing channel for Kyrö Distillery and Altia/ Koskenkorva.

Import / Export:
No information about the share of exports is available but roughly estimated most of the SMEs in the region sell only locally or nationally. Of food producers maybe maximum 5 SMEs have had exports. There are anyhow much interest on exporting and these possibilities are at the moment searched more in project funded under the EAFRD called: Enhancing growth and exports among the Ostrobothnian food SMEs.

Among the drink sector there are more possibilities for exporting and few SMEs are already exporting with high extent.

Transportation duration / frequency: no data available.

4. <u>Current technological environment, research & development scene in the region</u>

Which institutions are located in your region (for example Universities, research facilities, state agencies, NGO's, etc.)? What are the greatest challenges for technological improvement? (internet, finance, resources, state of knowledge, scientific development, competition, …)

The RDI environment is relatively well organized in the region and there are plenty of organizations who focus highly on the food sector. The focus areas are sustainability, food safety, food innovations and trends including consumer behavior. The most important actors are:

Seinäjoki University of Applied Sciences (SeAMK)

- Education and RDI activities around sustainable food systems (from Field to Fork concept), Frami Food Lab learning and research environment, participation in RIS3 Agrifood Platforms

Foodwest Ltd.

- private consulting company – food innovations, product development, consumer involvement and commercialization

University Consortium Seinäjoki (UCS)

- research focus on sustainable food systems, food experiences, healthy food, food safety,

Into Seinäjoki

- business development organization in Seinäjoki area, strong emphasis on agrifood sector business development. Participation in RIS3 Agrifood platforms.

ProAgria and Rural Women's Advisory Organisation

- supporting and training rural SMEs in various levels,
- Rural Women's Advisory Organisation involved in the management of the Food Province food label.

More actors and networks are explained in the policy assessment report.

Greatest challenges for technological improvement:

- finance and resources are the biggest obstacles or challenges for technological improvement. Many of the actors are depended on RDI funding from various EU

programs and generally the EU development funds have decreased in every program period, so the competition of the development funds is increasing all the time. In the current period the funding under the EAFRD has been very important for the RDI activities and the plans for future funding period for 2021-2027 does not look very promising.

5. SWOT-analysis, accelerators and obstacles

What do you think are the strengths, weaknesses, opportunities and threats for the food sector in your region? What are accelerators and obstacles? You may think of following key words: technology, trends, competition, politics (strategic success factors), finance, know-how, image, staff, core skills/competences, etc. What are the key problems/difficulties? Common advantages of different branches?

	Helpful *(for food enterprises)*	*Harmful* *(for food enterprises)*
Internal	***Strengths*** • *Well educated employees and possibilities for further education (still?)* • *Quality of raw materials* • *Strong RDI environment and support system - expertise on food quality, safety, traceability, food experiences, consumer behavior, entrepreneurship, sustainability, marketing etc.* • *Image of the region as the Food Province of Finland – recognition of the sector on the strategic level is high (strong political support in the regional level)* • *Strong entrepreunial environment and attitudes in the region* • *Technological adaptation in production*	***Weaknesses*** • *Small size of SMEs -> Lack of resources, low-level input on RDI and general business development* • *Lack of knowledge and ambition regarding business and strategic planning, marketing and sales and exporting* • *Productivity (expensive production costs) and relatively low-level extent of added value of products (all over Finland)* • *Individual culture –> limited use of networks and willingness to cooperate with external partners* • *Ageing population and entrepreneurs*

	Opportunities	*Threats*
External	• *New food and consumer trends (appreciation of local food, superfoods, healthy food, vegetarian diet) - new possibilities for new products* • *Consumers are interested in and open for new products and trends* • *Sustainability and circular economy* • *Food tourism* • *Innovations on packaging materials (renewable, biomaterials)* • *New distribution channels and ways of purchasing and consuming food* • *Networking with researchers and between companies* • *Use of new technologies and digitalisation*	• *Imbalances in global economy – resilience to risks and crisis (coronavirus* • *Lack of employees / work force (urbanization and ageing population)* • *Political environment (restrictions to meat consumption etc.)* • *Laws and requirements* • *More intense competition on national and global level* • *Decreasing purchaising power of consumers* • *Increased importing of food products (competition with cheaper foreign products) in national markets* • *Lacking behind in digitalisation and new technologies* • *Narrowing down of the education (reductions in sector specific education programs or management).*

6. Other regional, geographical and social factors effecting the food industry

For example geographical factors like climate, weather conditions, agricultural conditions, landscape, infrastructure, etc. or social factors like unemployment rate, age structure, demographics, living space, educational landscape, family environment, working conditions, etc.

Geography – scarce population and long distances -> high distribution costs

Ageing population and urbanization -> lack of work force

Climate change -> affects to production and supply of raw-materials, heat and heavy rains in summers of 2018 and 2019, on the other hand, climate warming might lengthen the growth period and increase productivity in Finland.

7. Recent surveys, reports, research results regarding the regional food sector

Are there any current reports that could be interesting for the food industry?
What results could be gained from these studies/publications?
Find key contacts / key economic motivation for new studies – cooperation with universities, associations, units & define common goals for cooperation; Chance to work with local experts?
Who can we get feedback from? Stakeholders, industry, politics, publics?

There are not many recent surveys or researches made specifically about the region's food sector.

Survey for food sector SMEs in Ostrobothnia region
A survey was made for SMEs in the Ostrobothnia region that includes three different regions: South Ostrobothnia (69 SMEs replied), Ostrobothnia 43 and Central Ostrobothnia 16. The survey was made as part of a food sector SME development project and the aim of the survey was to examine the current state of the SMEs, the main products, size, interests and preparedness for exporting.

The study shows that most SMEs produce bakery, meat, berry or potato products. But also dairy, honey, alcohol, fish and vegetables. Other products were spices, herbs, sweets, snacks and animal feeds. Most of the SMEs within the three regions are micro-sized employing less than 10 persons with less than 0,7 Meur turnover. 44 % of the SMEs employ 1-5 persons.

47 % of the SMEs are interested in exporting. The most interesting countries for export where: Sweden (50%), Germany (35 %), China (21 %), Estonia, Russia and Norway. The SMEs who were interested in exporting produce meat, potato, alcohol, bakery and berry products.

According the survey the biggest challenges are marketing, sales and distribution channels. There is a clear need for upgrading marketing and branding skills to be able to produce appealing products and product families for consumers. Other challenges are for example financing, lack of skills in marketing, lack of resources in employees and production, lack of exporting skills and partners. One third of the SMEs were interested to come up with a common international brand and network with other SMEs in the region.

The project manager from SeAMK in this development project is involved in the FRIDGE stakeholder group and we look forward on collaborating with our projects.

National industry report about the Food Sector in Finland
The ministry of Economic Affairs and the Employment collects national data about the food and drink industry. Every few years they collect a comprehensive report about the food and drink industry that covers information about current state of the food industry in Finland. The latest report stems from late 2019.

According the report:

The food and drink industry sector employ approximately 34,000 full-time personnel in nearly 1,800 enterprises in Finland. In addition, there are roughly a thousand companies engaged in local food production. Micro enterprises dominate the sector, which is a significant provider of seasonal work. Places of business are located across Finland, and the sector accounts for significant indirect employment. The food industry reported a turnover of EUR 11.2 billion in 2018, showing an increase of 4% on the previous year. Trends and phenomena shape the food sector, and the popularity of flexible eating is growing. Focus on the consumer and constant renewal are increasingly important, both in Finland and in the more global business environment. Export provides the best opportunities for growth in the sector.

National SME barometer

Every 6 months the ministry of Economic Affairs and the Employment creates a survey for SMEs in Finland to study the current state of SMEs and their views on the future development prospects. The report is divided between the different industry sectors, food sector being one of them. The latest report stems from the fall 2019. The report shows that SMEs had positive expectations for future businesses and that many SMEs are expecting to grow. According to the SME barometer, investments and the development of product selection are the most popular methods of business renewal. Other methods of renewal include operational improvement and personnel recruitment. Development needs revolve around sales and marketing.

Forkful of Facts – Finnish Food Industry Statistics

The study contains a wide variety of figures concerning Finnish agriculture, covering the entire food chain, from field to fork. The study presents figures about food chain practices and value-adding factors, which can be utilised to enhance the competitiveness of the Finnish food chain, which relies on responsible practices. The statistics have been divided under headings environment, product safety, nutrition, work and well-being at work, animals and animal well-being, locality and economy. This division follows the seven dimensions of food chain sustainability. Nevertheless, it must be noted that the selected statistics do not measure the level of sustainability, as research on the subject is still at an early stage. The latest information in this Forkful of Facts is mainly from 2018.

The study shows that the added value impact of the whole food sector (including agriculture) of national GDP is 9 %. In South Ostrobothnia the GDP amounts for 797 MEUR being 14,5% of the GDP of the region (data from 2016).
Link for English report:
https://www.ruokatieto.fi/sites/default/files/Flash/tietohaarukka_2019_englanti.pdf