



EUROPEAN  
REGIONAL  
DEVELOPMENT  
FUND

EUROPEAN UNION

---

**Baltic Sea Food**

# BALTIC SEA FOOD PILOTING REPORT

Hardangersmak SA - Norway

HANEN

## Table of Contents

1	Background .....	1
2	Description of B2B model used for piloting .....	2
2.1	Customer segments and target groups .....	2
2.2	Customer value proposition .....	3
2.3	Channels to reach the customers .....	4
2.4	Customer relationships .....	4
2.5	Revenue streams .....	5
2.6	Key resources .....	5
2.7	Key activities .....	6
2.8	Key partnership .....	7
2.9	Cost structure .....	7
2.10	Organization and strategy .....	8
3	Changes in operational plan .....	8
4	Quantitative results .....	9
5	Qualitative results .....	12
6	Other local food distribution solutions developed in the region .....	16
7	Conclusions .....	17

## 1 Background

The Norwegian pilot organizations participating in the Baltic Sea Food Project was originally two parties, one from the western part and one of the southern part of Norway. However, one part didn't function well and decided not to participate.

The organization from the western part is a local food cooperative called Hardangersmak SA. It is a cooperative owned by the members, who are all local food producers from the Hardanger region. The Hardanger region is located around the Hardangerfjord in western Norway, with small villages dotted around the fjord. The closest large market for local food is Bergen (Norway's 2.nd largest city), 80 km away from the cooperative's administrative center. Hardangersmak was formed in 2017, with the main goal of creating B2B sales and distribution for the members, and building a strong brand representing and marketing genuine local products from Hardanger region both on a national and, in time, international level. B2C sales were not included and are managed by the producers themselves by selling directly from the farm or through nearby farmers markets. It had 12 small and medium size members during pilot period, which now is increasing with members of bigger scales. Producers are all individual farms with no B2B experience. Main produce are different meat and sausages, vegetables, fruit/berries, applejuice, jams/special products and baked goods. A board consisting of an elected group of owners runs the cooperative. As a startup in 2017, a project-manager was responsible to form the business, setting goals and gather producers to work together. In 2018 a daily manager was hired full time, in charge of all daily activities in the organization, consisting of marketing and selling products, organizing distribution, budgeting and accounting. The organization also provided workshops on topics requested by the members to raise competence levels, as a strong network where producers can build on each others strengths and experiences. Sales activities started during second half of 2018. Products from the producers were marketed towards the HORECA sector and selected specialty stores in the Bergen and Hardanger area. The sales were lower than expected, and it has taken more time and resources to get the business up and running than initially thought. Although sales have steadily increased and the customer base continues to grow, the organization has been highly dependent on external funds from public sources so far, and has not yet reached a sustainable economic status by the end of 2020. In addition to the global pandemic affecting the local food sector, the organization has also had a change in staff during 2020, which has in some ways also affected its development by losing momentum in some projects, while gaining in others.

## 2 Description of B2B model used for piloting

Hardangersmak aims to increase sales for small and medium local food producers in Hardanger, by combining their forces in marketing and logistics, making their products more visible and available for the customers, and especially free up both time and money for the producers. Expectations were that the customers were willing to buy the products if they could get easy access to them, and that there was a high demand for local food products even at a premium price.

The organization is owned and controlled by the producers themselves, to ensure that all income goes back to the producers, either by reinvesting back into the organization or in resource building activities such as workshops and courses benefiting the producer's competence. The organization itself should not financially benefit from the sales apart from reinvesting the income into running and expanding the organization.

### 2.1 Customer segments and target groups

The organization has targeted the HORECA sector, with hotels, specialty shops stocking local food products, and restaurants with a focus on Norwegian/local food, in the Hardanger and Bergen area. Clients in these segments are considered more likely to spend the extra costs of an exclusive hand made product from Hardanger, due to having customers with strong purchasing power, valuing local food and the stories behind them.

These areas were also chosen because of logistics of transport and marketing reasons, being the closest market with perceived sales potential. Hardanger is well known for its tourism, with local food becoming a larger and more important part of what both domestic and international tourists are looking for and expecting when visiting the area. Bergen is the second largest city in Norway with a thriving and high quality restaurant sector, also known for its tourism and is named by UNESCO as a "Creative City of Gastronomy" with a strong connection to local food from the surrounding regions.

It was thought, and confirmed through a market research executed during the formation of the organization, that customers in this segment find it challenging to locate genuine local products and find out how to order, know what is available at any given point (i.e. what is in season or storage), as well as getting a reliable and predictable delivery. Transporting and ordering small amounts from different producers scattered around the region with many different logistics solutions can be time consuming and costly for the producer and customer.

Through a wholesale model Hardangersmak aims at making a large variety of genuine local products from the Hardanger region available to business customers through “*one* contact point, *one* order, *one* delivery, and *one* invoice”. Thereby making a large range of local products obtainable with less effort, making the products more visible to the customers, more available and affordable by sharing transport, marketing and administration costs between the producers. From 2021 this will be organized through a digital portal where customers can log in to an account, find all products and volume available to them, make an order, receive order confirmation and shipment notice, find purchasing history, make favorite product lists, etc.

For the clients to be able to justify the price of local products to their customers once they have access to them, the story behind them and being able to convey it is another challenge. Some products are able to convey their story through their packaging, or engaged storytellers at the point of sale (i.e. waiters or shop employees), but this relies on professional marketing material and/or time consuming close contact between the customer and producer, which is not always available or achievable. Hardangersmak works continuously for improving this part because it also strengthens the brand.

By building a strong brand around the Hardangersmak name, the organization wants to make it easier for the end consumer to identify genuine local products. By helping the producers telling their story, thereby they are enhancing the value of their products, through campaigns and marketing. In addition it wants to assist the producers in improving and adapting the appearance and quality of their product, packaging and marketing material to what the customers wants. With many small producers who only had been selling directly to end consumers via private channels before, some members of Hardangersmak were used to being able to personally tell their story and sell their products based on personal contact, rather than thinking about how reach the consumer with this information when going through another business. Some efforts have been taken to achieve this, but it still remains a challenge for some products and producers at the end of the pilot period and will be something to continue work with.

## 2.2 Customer value proposition

Some of the differences between Hardangersmak and other wholesalers in the area, are that none have this many local producers from the same region available through the same contact point. They often require a higher portion of the sales as they aim to profit more from the business transactions than a producer owned organization. Hardangersmak also has the advantage of working closely with the producers in their marketing and being able to draw on its members' many resources and experiences. It also offers a closer contact between the clients and the producers. During the pilot period this was

discovered as an important point, as some customers were skeptical to buy through a third party due to losing the direct communication with the producers themselves. It turned out that some customers hold great value in being able to gain more detailed contact about products, plan production and orders ahead, and generally build a strong report with the producers, which in some cases overruled the positive sides of buying through a third party.

## 2.3 Channels to reach the customers

Without having a digital solution set up except from a webpage and Facebook page, customers have been contacted via email and phone. Initial contact with new potential customers has been conducted via phone and personal meetings, with confirmation and formal communication followed on email. It was found that the first personal meetings were important to connect with the clients and introduce them to *the story* of Hardangersmak and its members. The value of local products often lay in *who* makes them, and personal network, it was discovered, matters in the Norwegian restaurant market in the area.

Through the pilot period, traditional marketing through local newspapers or ads in social media was tried and not found to have much effect in reaching the desired target groups. Facebook and Instagram was used to try to build and strengthen the brand Hardangersmak, and it was found that Facebook was effective at reaching the end consumer, but the potential business clients were more present and active in networking with each other and partners via Instagram.

After the initial contact communication has been conducted via email and phone. This has created challenges and unnecessary extra work in i.e. the lack decent systems of tracking and tracing orders, viewing order history etc., especially when there has been several changes in staff during the piloting period. It is also labor intensive in communicating updated product information between the producers and the customers. It was concluded that for the business model to be viable a digital solution is necessary and should be prioritized.

## 2.4 Customer relationships

Hardangersmak aims, as mentioned, to build a strong brand representing genuine local food products from the Hardanger region, by becoming a sort of quality stamp and way of recognizing a high-quality genuine product within strict regional criteria. At the same time, it does not want to overshadow the individual producers' brands. Their brands hold their stories and their values, which Hardangersmak wants to showcase. The intention is that the producers should use the Hardangersmak brand and logo on their packaging and labels, and in their marketing, although any formal requirements were not in place during the pilot project. Some members have been using the joint

brand actively, but many have not. If it had been used more actively it could have helped building and establishing the brand faster. In the future the brand hope to establish itself to be attractive enough to recruit new members, and possibly be strong enough for members to be willing to pay to use it, with the income going towards further marketing.

## 2.5 Revenue streams

The pilot organization is practically set up as a wholesaler, with producers invoicing all products ordered to the organization, the organization then bills all products ordered to the customer in one combined invoice, including shipping from storage facility. Products should be priced the same through the organization as if bought directly from the producer, to facilitate sales through the organization, with a percentage of the sales (20%) going to the organization instead of the producer to cover costs of marketing, distribution and administration. The members also must buy ownership of the organization with the initial share costing approximately 1.000 EUR, raised to approximately 1.500 EUR during the pilot period. This gave the organization some startup capital to get going.

This however has not been nearly enough to cover the costs of running the business, with cost of staff for one fulltime employee being the highest cost category, and the organization have been highly dependent on external funds so far. Other smaller lines of income have been generated through occasional special event sales, fairs, and Christmas packages for businesses.

## 2.6 Key resources

The main resources available to the organization have been its members, their network and experiences, distribution routes and knowledge of the business. Two of the members have also been distribution partners, on both existing and new delivery routes. The local business garden, Næringsshagen i Hardanger, has been essential in both the startup of the organization. They have gathered producers and creating a network, getting funding for the startup and develop budgets, also improving skillsets in storytelling, developed a strategy for a strong business structure.

Examples of how the organization has been capitalizing on the resources of its members are special events where the producers have contributed with their time and skills preparing and serving food as a marketing stunt, and an organized tour for potential customers farm to farm where the producers introduced themselves and their products. Especially the latter had very good effect in signing up new customers and building that important relationship for repeat sales.

This is time consuming and potentially disorganized way of running a business, and one of the weak points of the organization model so far. One particular challenge with this has been setting and



keeping good routines for communication between the producers and management, ensuring product lists were updated and orders organized in a professional manner. However, it is expected that a digital system will also have its challenges as it puts the responsibility of updating the information going directly out to the customer on the producers, who are not always either willing to spend the time necessary to do so, or capable of navigating a more complex digital system often due to lack of experience using this form of technology.

Upon receiving an order the producers are responsible for transporting the ordered products to the organization's storage facility. It was agreed that products should not be stored at the organizations facilities to start with, to avoid the risk of wasting products on the shelf due to the unpredictable and sporadic sales during the startup. As the business grows, and sales are more stable the organization will now consider having some popular products with good shelf life in storage to limit the need for and cost of transporting smaller amounts of goods.

Distribution to the customers have during the pilot period been organized through several third-party transporting companies operating in the area, or through one of the members who has a weekly sales route to the Bergen area. Which distributor to be used has been dependent on where the customer is, how the products need to be transported, i.e. frozen products or dry goods, and the amount of products being shipped. All these factors have affected the price and availability of transportation. It has been difficult to find an affordable distributor who has been able to deliver all types of products to all different customer locations. Generally, transportation within and out of the Hardanger area is time consuming and costly due to the challenging geography of the fjords and spread out population.

The aim is for the business to grow enough to be able to operate its own distribution service to the nearby markets, both picking up products from the producers and delivering directly to the customers. This way delivery also could become a part of marketing and a point of sale and would make the brand more visible and more attractive for other producers to join the organization. For this to succeed the organization need to increase the volume of products by attracting more members and customer.

## 2.7 Key activities

Sales were planned on being organized through a digital portal where producers themselves can control their product range and update availability according to season and what is in storage on a weekly basis. As funds were limited during the startup this was postponed and is being implemented in 2021 instead. Correspondence has therefore been conducted manually via email and phone during the pilot period. Updated product lists were manually put together and sent out weekly to customers. Orders received were passed on to the relevant producers.



## 2.8 Key partnership

Some of the main partners Hardangersmak has been working together with, during the pilot period have been the local business garden (Næringsshagen i Hardanger), Hanen, Matarena, the members, and local distributors. It has also been in contact with other local food organizations to explore possibilities for cooperation, which is still being investigated at the end of the piloting period, such as the local sider cluster "Siderklynga Hardanger" and another local food wholesaler Generasjonsmat. The organization has also communicated with other local food cooperatives in other regions in Norway, such as Gudbrandsdalsmat, Røros mat and "Smaken av Nordhordland". This has been very useful exchange of knowledge, experience and comparison.

## 2.9 Cost structure

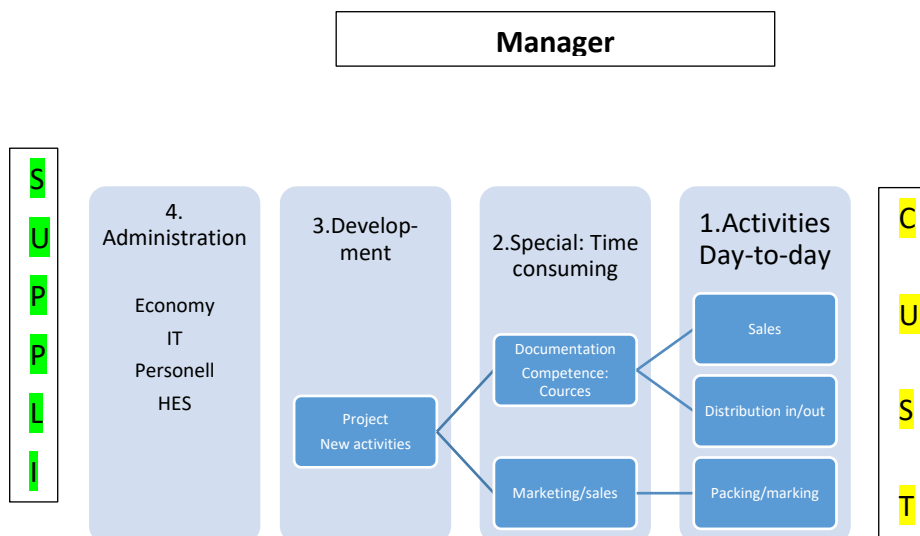
The main fixed expense of Hardangersmak during the pilot period has been staff cost, which would not have been possible to cover without external state funding from "Innovation Norway". This source of funding is not accessible to the organization from 2021, and the business will have to find alternative sources of funding unless sales are increased radically. The second highest variable cost is distribution, with limited options for affordable transport of smaller orders. A solution to this will be more and larger orders to spread the cost over more orders, as it is cheaper per order when filling a car. Alternative solutions for distribution are being investigated for 2021.



## 2.10 Organization and strategy

Organization model: A simple model to understand the abstract organization of the activities, and especially having an overview of how to balance the working time.

1. Daily activities close to our customers, 70-80% of activities. Generating income.
2. Activities where we need more competence or time-consuming work 10-15% of activities.  
Necessary to strengthen the daily activities. Generates some income.
3. Easy to forget: develop the business and working through projects to be better (as our digital ordering system). Very time consuming 5-10%, not income generating activities
4. Only a cost, but necessary internal activities, close to suppliers



Hardangersmak has developed strategy and action plans, including more detailed activities for every six month to follow up. The business garden and board follow up our strategic plans once a year, we adjust our plans if necessary. Activity plans are developed every six months and put into our follow up activities; results checked out by the board.

## 3 Changes in operational plan

The Covid-19 virus in 2020 has affected most of the pilot's customers (mainly the HORECA market) and Hardangersmak needed to find new ways of surviving. Efforts were made to move more over to the chain store grocery sector as well as local food specialty stores as the targeted customer segments.

There had also been earlier projects on marketing Christmas gifts for medium to small companies, which in 2020 was rejuvenated and implemented. A new project was also started focusing on e-commerce with the new digital portal, as it was seen as an even greater advantage to now embed digital sales into the marketing.

## 4 Quantitative results

4.1.Number of months of the piloting (pcs):	<b>12</b> (January - December 2020)			
4.2.Number of B2B clients (pcs):	<b>62</b> ( <b>40</b> during oct-dec 2019)			
4.3.Number of producers involved to the piloting (pcs):	<b>16</b> ( <b>14</b> in 2019)			
4.4.Number of transactions in total and per months (B2B, and if relevant then separately also B2C, pcs):	Total: <b>388</b> (oct-dec 2019: <b>150</b> ) January <b>10</b> July <b>66</b> February <b>15</b> August <b>55</b> March <b>16</b> September <b>50</b> April <b>12</b> October <b>43</b> 2019: <b>64</b> May <b>8</b> November <b>33</b> 2019: <b>52</b> June <b>40</b> December <b>40</b> 2019: <b>34</b> Average: <b>32</b> (oct-dec 2019: <b>50</b> )			
4.5.Approximately how many different products were on sale (pcs):	Ca <b>200</b>			
4.6.Variety of assortment- which product groups (10 categories, yes or no):	Meat	<b>Yes</b>	Dairy & eggs	<b>No</b>
	Fish and shellfish	<b>Yes</b>	Fruit	<b>Yes</b>
	Vegetables	<b>Yes</b>	Beverages	<b>Yes</b>
	Flour and baking	<b>Yes</b>	Sweets	<b>No</b>
	Delicacies	<b>Yes</b>	Others	<b>Yes</b>
4.7.B2B turnover in total and per months (EUR, if relevant then separately also B2C)	Total: <b>151.993 EUR</b> (oct-dec 2019: <b>42.595 EUR</b> ) January <b>1 148</b> July <b>23 982</b> February <b>4 586</b> August <b>21 983</b> March <b>6 719</b> September <b>13 359</b>			

	April	<b>6 661</b>	October	<b>12 280</b>	2019: <b>10.608</b>
	May	<b>4 682</b>	November	<b>10 552</b>	2019: <b>12.479</b>
	June	<b>15 816</b>	December	<b>30 225</b>	2019: <b>19.499</b>
	Average: <b>12.667</b> (oct-dec 2019: <b>14.198</b> )				

4.8. Satisfaction of producers involved to distribution system (in 1-6 scale):			Number of answers: <b>7</b>				
	<b>1</b> (Very low)	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b> (Very good)	<b>Average</b>
Communication with distributor		1		1	1	4	5
Ordering solution			4	2		1	3,7
Logistic solution	1		3	1		2	3,7
Sales results							
Price level of distribution service			2	3	2		4
General satisfaction with the cooperation with distributor				2	1	4	5,3

--	--	--	--	--	--	--	--

4.9. Satisfaction of B2B clients with the distribution system (in 1-6 scale)				Number of answers: <b>19</b>			
	<b>1</b> (Very low)	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b> (Very good)	<b>Average</b>
Communication with distributor		1	3	5	4	6	4,6
Ordering solution		2	4	6	4	3	4,1
Delivery of products			2	5	7	4	4,7
Variety of products			4	7	6	2	4,3
Quality of products				4	6	9	5,3
Price level of distribution service		3	2	8	4	2	4
General satisfaction with the distributor			2	4	9	4	4,8

4.10.Satisfaction of distributors with the distribution system(in 1-6 scale)				Number of answers: <b>1</b> (pilot organization)			
	<b>1</b> (Very low)	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b> (Very good)	<b>Average</b>
Communication to clients			1				3
Communication to producers		1					2
Ordering solution			1				3
Incoming logistics		1					2



Storage and packaging of products			1				3
Delivery of products to clients				1			4
Variety of products					1		5
Sales results			1				3
General satisfaction with distribution solution			1				3



## 5 Qualitative results

### **Gained new skills / cooperation partners during the piloting:**

#### **- Distributor**

Importance of communication and good routines.

Not all producers are used to operating professionally, i.e. time limits, communication, labelling, loyalty etc.

Building a good business and team culture takes time and effort.

Unless you have a good digital system it is very time consuming, both communicating with customers and producers.

Good agreements with flexible and reliable transport partners are very important.

Personal meetings and contact between customers and producers creates long lasting loyal sales relationships.

#### **- Clients**

Gained better overview over local producers and their products.

Given better knowledge about local products on the menus.

One client arranged a local food market in cooperation with the organization, which showed potential for other joint events and projects.

#### **Examples of good experiences / success stories:**

##### **- Distributor**

The organized tour for potential customers visiting the producers gained new loyal sale relationships and utilised the resources of a producer owned organization in an effective and rewarding way.

Small producers are becoming more visible and reaching customers they could not have been able to themselves.

##### **- Producers**

Gained new customers and extended the market, participated in fun events to market the products with other producers.

Very exciting and promising with the new digital order system.

Good to be a part of a community with other producers who are doing similar things, and be a part of creating something new.

##### **- Clients**

Weekly updated product lists and emails, easy to communicate with and flexible delivery. Able to organize last minute orders. Good variety, selection and quality of products. Good dialog with producers, they are good at adapting products to our needs. Delivery is executed with a smile and good service.

#### **Examples of challenges/problems pilots faced during the pilot period, incl. the solutions- how they solved the problems.**

Communication with producers have been challenging, getting the orders to storage facility in time, with correct, professional and consistent labelling and packaging. It needed a lot of communication with some producers to make them understand what the customer expects, and why some routines and systems are important for effective and professional work flow, as they were not used to dealing with business customers. A workshop addressing some of these issues and connecting customers with



producers were planned using BSF funds before the pandemic put this on hold. A new digital order system is being implemented in 2021, which will also help formalise the communication.

Loyalty to the concept has been lacking with some of the members, and it has been difficult to set demands other than holding each other accountable. The work continues to build a culture of teamwork and loyalty through motivational and teambuilding gatherings and activities. Such activities have been difficult to implement during the pandemic.

Distribution is expensive, especially for small orders and outside the home region. Larger volumes are required to spread the distribution costs. Smaller producers may also run out of products and not be able to meet the demands of larger customers. To gain sales volume and lower the cost of distribution it is necessary to recruit new larger producers to the organization who can contribute to higher volume sales. Two new producers with large sale potential have been recruited at the end of the piloting period. This work continues in 2021.

Distribution with existing member transport routes have worked ok, but could have been better if the distributor was a better ambassador for the organization. The organization will look into alternative ways of distribution.

### **What needs to be improved or changed in their model for the future**

Implementing a digital ordering solution specially adapted to a local food cooperative. This is being introduced in early 2021.

Find better distribution systems and/or partners

Create ways for the customer and producers to be able to have direct contact discussing product detail and satisfying the wish for building a close report, while still letting the sale go through the organization. This requires the producer to feel ownership of the organization and be loyal to the concept.

### **Benefits from participation and from piloting.**

#### **- Distributor**

Piloting the BSF business model has given very valuable experiences, especially through being encouraged to work through the different sides of the business model, making conscious decisions around goals and strategy on a detailed level regarding customer segments, marketing strategy and digital solutions.

#### **- Producers**

Exchange of experience. Together contribute to develop an important sector for small scale production and sales.

All producers asked said they will continue to work with the business model.

All producers asked would recommend other producers to join the organization.



## 6 Other local food distribution solutions developed in the region

### **B2B and B2C**

**FAIRS & FESTIVALS:** Local, regional & national: Its not innovative, however the form is changing from traditional market events. Bigger events often create special meeting point for producers. They are offering themed subjects, speeches and courses, and arenas for meetings and discussions.

Some places they also offer meeting points for producers and stakeholders (B2B). It is a good way for both parties to present themselves and get to know each other. In the western part of Norway we have fairs and festivals offering meeting point not just for producers and customer, but also for the stakeholders and producers (B2B): Siderfestivalen (Øystese), Siderruta (Ulvik), The cider festival (Odda), Matarena local food fair (Bergen).

### **B2C**

#### **REKO-RING**

This is the fastest growing service for direct sales to customers(B2C). It is giving the best economical result for the producers in this region because there are no intermediary part, however it's a lot of work for the producers, and can be deceivingly so for smaller producers if they do not track and value their own working hours spent on organizing these sales.

All producers invite to a pick-up spot/parking lot at a given time (They stay 0,5-1 hour only). A private group of producers offer their produce in a Facebook group and customers order products at the joint FB group *to each producer* and pay each directly. Customers pick up at the given day and time offered.

For smaller producer this is a great solution, though potentially time consuming, as they have to be there themselves and cannot organize delivery with someone else, i.e. another producer, even if they only have a small amount of orders. They can, however, set a minimum amount of orders required for them to participate as long as this is stated in their ads. For bigger producers, it can be hard to organize and keep track of the bookings through FB.

#### **FARMSHOPS**

**Mainly local food shops, restaurants and gourmet sales (B2C):** Because of COVID-19 both shops



and restaurants have been closed down for shorter or longer periods: A lot of them are now offering 1-3 “To go Menus” or meal kits mainly containing local food (i.e. a 3 course meal including produce or semi-prepared dishes and recipes the customer prepare at home by themselves). A lot of local food is sold this way, especially in the cities. Customer order, prepay and pick up at the given day for the menu offered. It’s easier to plan for the producers, shops and restaurants.

## 7 Conclusions

Some of the key experiences Hardangersmak has gotten piloting this project has been that it takes longer to build a customer base and reach a sustainable level of sales than first expected. It would also be very difficult to build an organization without external funds. In Norway, networking with the clients builds stronger and more loyal customer relationships. Better logistics and a digital order solution is crucial to further development of the organization for succeeding in B2B sales.

