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Baltic Sea Food

BALTIC SEA FOOD PILOTING REPORT

Cooperative "EHTNE Saaremaa", Estonia

Partners: Estonian Ministry of Rural Affairs, The Estonian Chamber of Agriculture and Commerce, NGO Estonian Rural Tourism

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1 Background

In Estonia 2 pilot organizations participated in piloting of B2B local food distribution model. For both pilot organizations, cooperative “Taluturg” and cooperative “Ehtne Saaremaa”, the operational plan was prepared in 2019 for launching the B2B distribution model. Current report describes the process and results achieved by cooperative “Ehtne Saaremaa”.

Pilot organization Cooperative “EHTNE Saaremaa” (“GENUINE Saaremaa”) was established on June 14, 2019. Saaremaa was selected as pilot region already during the planning phase of the project. Initially the project made cooperation with local company “Saarte Sahver” (the owner of the farm shop in Kuressaare), but in 2019 it was decided that the pilot organization should be changes as “Saarte Sahver” did not have enough capacity to launch the B2B distribution model. The main activity of the cooperative is the development and administration of the network of local producers using local origin and quality label “EHTNE Saaremaa toode”. The founders of the cooperative are 12 local producers, who care about island Saaremaa and want to develop and maintain local food production and culinary identity. The cooperative makes close cooperation with the founder and owner of the label Local Action Group (Leader group) “Saarte Koostöökogu” (“Saarte Cooperation Council”). In 2020, there were ca 130 local food/handicraft producers and food providers in the network, who are using “EHTNE Saaremaa” label.

Their main business operations of the cooperative take place in Kuressaare “Auriga” shopping centre, where they operate a farm shop. In addition, the cooperative is focused on serving business clients and started offering business gifts packages to different organizations and companies. The annual turnover of the cooperative in 2020 was ca 180 000 EUR.

The cooperative “EHTNE Saaremaa” will be liquidated and will be replaced with the Foundation “EHTNE Saaremaa” in 2021. The founder of the foundation will be Saarte Cooperation Council. The main reason of restructuring is the lack of human and financial resources among the members of the cooperative (small producers), so it is difficult for them to contribute and to invest to the development of the organization, incl. to the B2B business model.



For preparation of the report the in-depth interview was conducted with the representative of the cooperative “Ehtne Saaremaa”, Mrs. Susan Reinholm. The online-survey was conducted among main producers, who supplied the orders of business clients, and regular business clients. The results of the survey are included to chapter 4.

2 Description of B2B model used for piloting

As the pilot organization of the Baltic Sea Food project the operational plan was prepared by the cooperative for entering to the HoReCa market and to start cooperation with COOP retail chain in Saaremaa. The mission of the cooperative according to the operational plan is to represent local producers, to organize joint distribution of local food products to business clients and to ensure wide assortment of products.

The cooperative made preparations in the beginning of 2020 for opening the food shop/hub in one of the biggest shopping centers in Tallinn and made some investments for that. In mid-March 2020 all shopping centers were closed, so this plan did not realize and the cooperative lost some financial resources as a result of this process. Because of the Covid-19 pandemic it was not possible to launch the B2B sales for HoReCa sector, as restaurants and cafes were closed or were open only for a take-away and customers “disappeared” from the HoReCa sector. At this point sector has recovered slightly, but not completely, as Saaremaa is a tourist area and HoReCa sector depends a lot on tourism. The recovery of foreign tourism may take several years. Also there were not enough financial resources to start cooperation with local COOP retail chain, as it required the investments to storage, logistic system etc. Therefore, this report covers only the B2B sales of local food products as business gifts to the companies and organizations both in Saaremaa and to customers in mainland of Estonia.

2.1 Customer segments and target groups

According to the operational plan the main target groups in Saaremaa and in the future also in Tallinn were:

- Local retail chain “COOP”
- HoReCa sector
- Public sector (schools, kindergartens etc)

In reality the B2B sales focused mainly to the clients in Saaremaa, but there were also some companies and organizations from the mainland, who wanted to buy Saaremaa local products

as business gifts. Some of them were regular customers, but there were also one-time buyers, especially during Christmas time 2020.

2.2 Customer value proposition

The main value for the customer is the assortment of the local products, which are recognized with brand “Saaremaa EHTNE toode” (“Genuine Saaremaa Product”). The label in the product confirms, that the product has been made in Saaremaa region (Saaremaa and Muhu islands), so the customers can be 100% sure, that what they have bought is indeed local stuff. The label is wide-known and highly recognized and trusted in whole Estonia.



Other elements of the value proposition are:

- One distributor replacing many small producers
- One e-shop platform for convenient and quick ordering
- High quality local food- fresh, exclusive, tasty, wide assortment

There are currently more than 100 companies in Saaremaa, who are using “Saaremaa EHTNE” label on their products. These are mainly local food and beverage producers, craftsmen, cosmetic producers and also some catering places and farm shops. Due to such a wide range of assortment, the cooperative can deliver orders consisting of different products from different producers.

As a result of the Covid-19 pandemic the situation changed rapidly. The cooperative adapted to the changed circumstances by launching an e-shop in the spring of 2020, through which it was very convenient for customers to prepare orders. The “service package” offered by the cooperative for business gifts differs from competitors because of very wide product selection of “Saaremaa EHTNE toode” products and flexibility- there are no ready-made gift packages or baskets, so clients can put together the order according to their needs and wishes. For customers also the delivery of orders using the services of the cooperative as distributor is

very convenient and time-saving process – they do not have to communicate and make orders to each producer individually.

2.3 Channels to reach the customers

The main channel for reaching the business clients is the online-platform <https://pood.ehtne.ee/>. It was created in March / April 2020. This platform is the most important channel through which the customers can find the products and cooperative. Customers can select preferable products from the platform and after that they can contact the cooperative by phone or e-mail to specify order details, to negotiate the price (in case of bigger order) and agree the delivery solution.

Other channels are:

- Phone for first contact and for special offers, after-sales support
- Regular personal contacts
- E-mails for delivering bigger amount of info, useful before first visit of phone call
- Advertising for promoting the cooperative and brand, mainly in social media
- Business cards for disseminating contact info during events

2.4 Customer relationships

The core element of the communication is the “Saaremaa EHTNE toode” brand. Customers can be sure, that products with this label can be trusted and they are made in Saaremaa from local ingredients using local traditions. This label guarantees product quality and origin.

For promoting the brand “Saaremaa EHTNE toode”, the cooperative is organizing and participating in various marketing events. For example, every year in September in the framework of Saaremaa Food Festival a farm market day is organized in cooperation with Saarte Cooperation Council. This is a local marketing event where people can taste and buy the products directly from producers. It is a very useful opportunity for for the producers, as this event is very popular among visitors and local people.

In the future more activities are planned:

- Regular mini-fairs should be organized for producers and business clients.
- Degustation of new products
- Study visits to farms in summer
- Discussion groups
- Thematical weeks
- Promotion of „EHTNE Saaremaa“ label in restaurants and cafes

2.5 Revenue streams

Revenues in B2B sector come from serving the business clients, who placed their orders through the online-platform. Price is agreed according to the quantities – the bigger order, the better price comparing to the regular price available in online-platform for end customers. The cooperative takes orders and prepayment from customers and then orders the products from the producers and makes payment to them.

According to the operational plan in the future the distributor buys the products from producers and will sell to other customer segments (HoReCa, retail chain etc) adding ca 25% mark-up to the products (for covering the marketing, storage and distribution costs).

2.6 Key resources

The main resources of the B2B solution is the online-platform and shop in “Auriga” shopping centre. The premises of the shop are also used for the storage, where assembly of the orders from business clients takes place. There are three employees in the shop, who are also working with business clients orders. In addition, specialist from Saarte Cooperation Council, which is also the owner of “Saaremaa EHTNE toode” brand, supports the cooperative in communication with business clients (specifying and negotiating the price, payment terms, delivery etc).

According to the operational plan other key resources are:

- Wide network of producers using “EHTNE Saaremaa” label
- Network of chefs and catering businesses in Saaremaa. In small island people know each other, which makes communication much easier
- Pop-up shops, for example during bigger events in Saaremaa
- Online-platform
- In the future storage premises and additional staff members are needed

2.7 Key activities

After the business client has placed the order in online-platform, the specific conditions like prices, payment and terms of delivery are agreed via phone or e-mail. The invoice is submitted to the clients via e-mail. After receiving the payment from the client, the cooperative “EHTNE Saaremaa” orders the goods from producers and makes the payment, and producers take the products to the shop in “Auriga” shopping centre. In case of smaller order, the products are taken from the store shelves. The order will be assembled by the shop workers. The local customers from Saaremaa mainly visit the shop to receive their orders. For bigger orders and for clients outside Saaremaa the external logistic partner is used. for delivering the orders.

Throughout the process, ordering from online-platform was combined with personal communication to make the process smooth, convenient and flexible for business clients. Each customer's order was treated separately.

According to the operational plan the whole value chain includes following elements:

- Assortment of products (volumes, demand, seasonality, quality etc)
- Marketing and sales (brand, logo, customer segments, stories, additional value etc)
- Incoming logistic (ordering, packaging, transport etc)
- Inside logistic (intake of products, storage, assembly etc)
- Distribution to clients (orders, routes, delivery, invoicing etc)
- Customer support (delivery control, quality control, efficiency, communication, return of products etc)
- Quality evaluation (feedback, control, identification of deviations, learning and improvements)

All these elements of value chain are supported by the infrastructure (digital, physical), human resources (HMR, recruitment, improvement of skills) and strategy (strategic management, projects, innovation, economy/budget/accounting).

2.8 Key partnership

Main cooperation partner for the cooperative is “Saaremaa EHTNE toode” brand owner Saarte Cooperation Council (Local Action Group/LEADER) and logistic partners.

According to the operational plan other important partners in organizing local food B2B distribution are:

- Governmental organizations, sectoral associations
- Local community and municipality, incl. local sectoral associations
- Organizations providing sources for funding (credit, guarantees)
- Other local food networks
- Logistic companies

2.9 Cost structure


The main types of operational costs are purchase cost of products, logistics costs and labour costs. Labour costs, which were directly related to serving the business clients, were not calculated separately, as shop assistants handle the orders of business clients in addition of their regular work in the shop.

In the future the main costs are:

- Cost of goods (costs are purchased from producers)
- Marketing costs
- Costs of premises
- Transportation costs
- IT and communication costs
- Staff costs
- Taxes
- Other costs

2.10 Organization and strategy

It has been decided that during the first half of the year 2021 the cooperative “EHTNE Saaremaa” will be restructured as a foundation. The founder of the foundation will be the local action group Saarte Cooperation Council. The reason of this restructuring is that cooperative members are small producers, who don’t have sufficient time and financial resources to contribute to further development of the cooperative. But for future growth it’s needed to invest to human labour, infrastructure etc. As a result of this change the Saarte



Cooperation Council has wider opportunities for the access of additional funding and can make the needed decisions about investments and funding more quickly.

The mission of the foundation is to develop the brand “Saaremaa EHTNE toode” and to organize the sales of the products, to organize efficient marketing and cooperation with partners. Due to the unexpected changes in society and the outcome of the COVID pandemia, the whole system needs to be reviewed and solutions found to overcome the crisis. For this goal the new business plan is prepared for the foundation, using the operational plan that was composed for development of B2B sales in the framework of Baltic Sea Food project.

3 Changes in operational plan

The initial plan for the Saaremaa pilot area focused to new customer segments: local retail chain and HoReCa sector in Saaremaa and Tallinn. The operational plan was implemented only partly, which concerned the sales of business gifts to business clients. The cooperative was not able to approach other customer segments like HoReCa sector and local retail chain because of big changes in business environment as a result of Covid-19 pandemic.

Because of the Covid-19 virus, online-platform was launched in much shorter timeframe than initially planned, as the demand for online-shopping and home-delivery service increased significantly among local people. It was primarily intended to serve end customers, as Saaremaa was “locked” during first wave of the pandemic in spring 2020 and there were restrictions on the movement of people. Many products were delivered in Saaremaa using own resources. Many products were ordered also from the mainland, which were delivered in cooperation with logistics partners using couriers and parcel machines.

4 Quantitative results

4.1. Number of months of the piloting (pcs):	12
4.2. Number of B2B clients (pcs):	About 5 regular and 30 episodic B2B clients.
4.3. Number of producers involved to the piloting (pcs):	On average, 10-15 producers were involved. Of these, 5-6 manufacturer's products were the most popular.
4.4. Number of transactions in total and per months (B2B, and if relevant then separately also B2C, pcs):	<p>Total in 2020: 55 B2B orders/transactions</p> <p>January: 1</p> <p>February: 1</p> <p>March: 2</p> <p>April: 3</p> <p>May: 3</p> <p>June: 2</p> <p>July: 2</p> <p>August: 7</p> <p>September: 9</p> <p>October: 7</p>

	<p>November: 8</p> <p>December: 10</p> <p>One order may contain different products.</p>
4.5. Approximately how many different products were on sale (pcs):	Ca 250
4.6. Variety of assortment – which product groups (10 categories, yes or no):	<p>Meat – yes</p> <p>Fish and shellfish – yes</p> <p>Fruit – yes</p> <p>Vegetables – yes</p> <p>Flour and baking – yes</p> <p>Dairy and eggs – yes</p> <p>Beverages – yes</p> <p>Sweets – yes</p> <p>Delicacies – yes</p> <p>Others- yes</p>
4.7. B2B turnover in total and per months (EUR, if relevant then separately also B2C)	<p>Total in 2020: ca 11 000 EUR, divided between months as following:</p> <p>January: 23,45</p> <p>February: 124,57</p> <p>March: 74,91</p>

				April: 920,09 May: 222,02 June: 106,2 July: 111,45 August: 1047,61 September: 2055,15 October: 548,16 November: 4864,37 December: 1825,09			
4.8. Satisfaction of producers involved to distribution system (in 1-6 scale):				Number of answers: 8			
	1 (Very low)	2	3	4	5	6 (Very good)	Average
Communication with distributor				1	2	5	5,5
Ordering solution				3	3	2	4,88
Logistic solution			1		5	2	5
Sales results			1	2	2	2	4,63
Price level of distribution service			1	3	3	1	4,5
General satisfaction with the cooperation with distributor				1	3	4	5,38
4.9. Satisfaction of B2B clients with the distribution system (in 1-6 scale)				Number of answers: 4			

	1 (Very low)	2	3	4	5	6 (Very good)	Average
Communication with distributor						4	6
Ordering solution					1	3	5,75
Delivery of products						4	6
Variety of products				1		3	5.5
Quality of products						4	6
Price level of distribution service					3	1	5.25
General satisfaction with the cooperation with distributor						4	6

4.10. Satisfaction of distributors with the distribution system (in 1-6 scale)

Number of answers:1

	1 (Very low)	2	3	4	5	6 (Very good)	Average
Communication to clients					x		5
Communication to producers					x		5
Ordering solution				x			4
Incoming logistics		x					2
Storage and packaging of products		x					2
Delivery of products to clients				x			4
Variety of products					x		5
Sales results				x			4
General satisfaction with distribution solution				x			4

5 Qualitative results

Gained new skills / cooperation partners during the piloting:

- **Distributor**
New experience in management of orders and coordination of communication between different parties, who are involved in serving business clients
- **Producers**
75% of producers, who answered to the survey, have found new clients thanks to the cooperation with the cooperative in implementation of distribution solution.
- **Clients**
The clients have received more information and knowledge about Saaremaa local producers. They say:
“We have reviewed the assortment together to make choices for gift boxes, which has given knowledge about local Saaremaa products.”
“The brand is familiar and if you also have user experience, it is a good idea to recommend products to friends or partners.”

Examples of good experiences / success stories:

- **Distributor:**
“Thanks to the local famous chef, who is the face of Saaremaa's local food, we reached a customer who ordered a lot of different products in large quantities. Which is incredible, because our goal is to show how many different products are made in Saaremaa. Word of mouth messaging can be even more powerful than optimized digital marketing campaign. Top chefs are ambassadors, who promote Saaremaa and our local producers.”
- **Producers:**
“Market days are very successful for producers. The shop gives producers opportunity to reach customers quickly.”
“Warm and friendly communication. Opening and maintaining shop for “Saaremaa EHTNE toode” products. Arrangement of the market day in September.”
“Nice and efficient communication. Willingness to find solutions.”
“The exchange of information is very fast.”
“Online-platform option, fast notification when the products are about to end in the shelves.”
- **Clients**

<p>“The service provider is very cooperative and nice! Agreements are being adhered to, which is a very nice phenomenon nowadays.”</p> <p>“E-mails were answered quickly. Very pleasant and personal approach. Request to organize separate transport was kindly accepted, products were all nicely packaged, fresh and whole.”</p> <p>“There has been a very good cooperation with the store manager: the goods have also been assembled on the basis of an e-mail request or a telephone call.”</p>
<p>Examples of challenges/problems pilots faced during the pilot period, incl. the solutions – how they solved the problems.</p> <p>One of the biggest challenges was ordering products with different expiry date (fresh, regular etc). The cooperative had in some cases place the order from the producer in the last minute, so that the products would reach the customer as fresh as possible. Fortunately, there was good cooperation with producers in solving these kinds of issues. It means that for delivering fresh products to the mainland, which requires a cool temperature, there are still a lot challenges, which we need to solve.</p> <p>It’s also challenging to find staff members, who are committed to develop B2B solution. The delivery and pricing policy needs more careful planning in cooperation with producers. It requires the investments and takes time before the results can be achieved.</p>
<p>What needs to be improved or changed in their model for the future.</p> <ul style="list-style-type: none"> - Creation of new business plan for the new foundation - Developing logistic solutions and pricing model for business customers in cooperation with the producers which takes into account the situation after the COVID virus - Collaborate with the local COOP retail chain and identify the potential of the HoReCa sector following the recovery from the virus.
<p>What were the main benefits from participation and from piloting.</p> <p>Distributor</p> <p>The main benefit was creating a operational plan for B2B sector. It is planned to implement the plan, but it requires more capital and therefore takes time. The cooperative also values very highly the experience gained from serving business customers in current level, although daily activities are more</p>

focused at the private customers, who buy the products in shop and through online-platform.

- **Producers**

All producers plan to continue cooperation with the cooperative and recommend to other producers to start cooperation in joint network.

- **Clients**

3 clients plan to continue cooperation with the pilot organization. Some clients have chosen different solutions, but do not preclude future cooperation. All clients recommend others to start cooperation with the Ehtne Saaremaa food network.

General feedback to project partners from participation in the project.

General feedback to the participation in the project is very positive. For the first time pilot organization started seriously thinking about working with business customers. Creating the operational plan gave a final “boost”. The circumstances related to COVID-pandemia and restrictions to the movement of people did not favor starting in the B2B sales direction, but the business plan completed within the project will be the relevant basis in the future. At the moment, the form of a cooperative did not work, it would be necessary to make investments that are not possible in the current situation and a better warehouse solution is needed. The pilot organization considers that both main customer segments- HoReCa and retail- have good potential for developing local food sales, so both of these client groups will be in the focus also in the future.

6 Other local food distribution solutions developed in the region

Although the cooperative “Taluturg” in Southern Estonia did not manage to pilot B2B model during the project period, the project team managed to map two well-functioning B2B and B2C business models in Estonia.

1) South-Estonia Food Network

This network is already implementing similar B2B solution, which was planned in operational plan of cooperative “Taluturg”, just the main client group is different (retail chains). Therefore partners decided to gather more information from this network and they were ready to share detailed information about their operations, incl. data about the sales and transactions.


South-Estonia Food Network is a farmer cooperative, which was established in 2008. It has ca 30 members, who are all local food producers. The network focused from very beginning to business clients. Main client groups are retail chains (ca 95% from turnover) and HoReCa sector (ca 5% from turnover). Recently food network launched new online-platform (designed specially for their needs), which enables to serve also individual customers as B2C solution. The local producers in the network are located in South-Estonian area. The core of the assortment are fresh and processed vegetables and fruits. Other product groups are dairy (mainly cheese), eggs, products made from mushrooms and wild berries, non-alcoholic drinks, herbs and cereal products. Most of the products in assortment are organic. The main sale channel is the e-platform (ca 2/3 from all orders), where the producers publish their available products and prices. The clients select the products from the platform and based on their orders the networks staff handle the orders and compile the transportation routes (both incoming and outgoing). The network has its own vehicles and drivers, who gather the products from rural areas in South-Estonia from pre-agreed pick-up points 3 times per week. Those farmers, who are locating near Tallinn or Tartu, take their products to the warehouse of the logistics partner to the city themselves. In the warehouse in Tartu the assembly of the products takes place, and the logistic partner delivers the orders to the clients (mainly retail shops) all over Estonia. In total ca 40 producers are involved to the network, but ca 20 offer products regularly every week and ca 20 of them provide products only during the summer-autumn season (fresh products). The network has a transparent pricing model, all producers

are treated equally. The mark-up to producer's price is the same for every product, which covers the costs of incoming logistics, sales, marketing, storage and assembly, online-platform and outgoing logistics. Also the payment terms are the same for all producers. The cooperative has 3 staff members- sales manager and 2 drivers for incoming logistics. The network has good reputation as reliable and professional distributor of organic food products, who has strong and wide network of small organic farms from South-Estonia. The main value what they offer for retail chains and shops, is time efficiency – the distributor takes care of orders from individual farmers, labelling, assembly, quality, transportation etc. Shop managers do not need to spend time for communication with each farmer separately. For producers the main value is efficient marketing/sales, so the small producers have the access to the retail chains and there is an efficient logistics solution. Alone they do not have enough capacity for that.

The cooperative has not big plans for expanding the client base, as there is not big potential for increasing the volume of products, as the producers in the network are rather small or medium from their volumes. In the future there is a need for their own warehouse, where the assembly of the orders can be organized more efficiently. Producers need the facilities for storage the products all year around, they should cooperate in that as it is a big investment. The cooperation with producers has improved a lot, they understand better the requirements of the clients. Also the demand for organic premium quality food products has increased among the end customers, which motivates retail chains to continue the cooperation with the network. In the future HoReCa sector could be more important as client group, but it requires higher demand among restaurants and cafes for organic ingredients (which is more expensive than non-organic products). Also the municipalities (schools, kindergartens etc) are becoming more interested in using organic products in their kitchens.

2) Farm-market “Talust koju” (“From farm to home”)

As a reaction to the Covid-19 pandemia in spring 2020, when the restaurants and cafes were mainly closed, the owners of few TOP-restaurants in Tallinn launched the e-platform and logistic solution for delivering high-quality local food products and some pre-prepared meals for the end customers in Tallinn and it's surrounding area. There are ca 30 small food producers in the network, who deliver their products. The heart of the solution is the e-



platform www.talustkoju.ee, where clients can order the products and make the payment. The distributor (company “Talust Koju”) makes purchases from farmers, assembles the orders and these are delivered to the clients twice a week (Tuesday and Friday) in cooperation with logistic partner. In e-platform the distributor is also publishing the recipes, how the products can be used by clients, when they prepare the meals at home. There is also separate section in the website promoting each farm and their products. Short supply chain and giving higher value to local food products are the main elements of the corporate social responsibility strategy of the company. In the future the company is planning to expand their operations to other cities in Estonia. Also, they are planning to enlarge the assortment with products categories from other countries, which are not available in Estonia.

7 Conclusions

Pilot organization received interesting new ideas for order management and coordination of the whole value chain and distribution process. It was useful to exchange experiences and see what other networks are planning and achieving (for example in South-Estonia and in Sweden). It was interesting to learn the very practical experience of Swedish online-platform stockfiller.se and their solutions, which gave to the network good ideas for the future.

In the future it is necessary to educate the producers. Many of them do not understand the pricing model of the distributor- that it is not possible to sell products to the distributor with same price as to end customer. They often do not realize, what costs the distributor has to make for marketing, ordering system, e-platform, logistics etc.

Now the pilot organization should prepare new operational plan for new foundation and should update also the B2B operational plan according to the new situation. The knowledge received from preparation of financial part of the operational plan is that during the first phase of launching the B2B model it is recommended to outsource the storage and transportation service. These elements in value chain require large-scale investments, which can be difficult to implement in the beginning, when the number of clients and cash flows are smaller.