case ten

Raisio Group and the Benecol Launch [A] and [B]

TEACHING NOTE

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■ SYNOPSIS ■

In 1995, Raisio – a grain milling, chemicals, and food products company based in Finland – launched Benecol, a cholesterol-reducing margarine. The two-part case describes Raisio's efforts to exploit its innovation during the period 1995–2000.

The [A] case addresses the situation in January 1997. Raisio has launched Benecol margarine in Finland and it has been a runaway success. Raisio is unable to satisfy the domestic demand for Benecol and faces acute shortages of the active ingredient, stanol ester. Overseas distributors and food processors are eager either to import Benecol or to license the product or Raisio's patented stanol ester technology. During the previous 12 months, Raisio's share price increased by almost 400%. Raisio's management is faced with the decision of how to exploit the worldwide potential of its Benecol product and its stanol ester technology. Should Raisio exploit international opportunities directly, either by exporting or direct foreign investment; should it license its intellectual property to overseas companies; or should it form an alliance or joint venture with one or more overseas companies? Equally important, where should Raisio's focus be? Should it be on the final products that contain stanol ester (Benecol margarine was seen as the first of a number of cholesterol-reducing food products), or should its emphasis be on the active ingredient, stanol ester?

The [B] case revisits Raisio three years later. The euphoria surrounding Benecol has dissipated and Raisio's stock price has collapsed; sales have been disappointing and the losses from the Benecol division threaten Raisio's viability. The worldwide alliance that Raisio formed with Johnson & Johnson has not gone well. Product launches in the US and Europe were delayed by regulatory problems. In the meantime, Unilever has entered the market with a similar, but cheaper product. The [B] case offers an opportunity to consider what has gone wrong and why, and what Raisio should do next.

■ TEACHING OBJECTIVES ■

The theme of the case is the design of strategy to exploit an innovation. Any innovation that takes a company outside of its core business raises the issue of whether the firm has the resources and capabilities necessary to exploit that innovation. A critical issue is *time* – given the limited protection offered by Raisio's intellectual property rights, Raisio has limited time to build its worldwide market position.

The case points to the risks inherent in strategic alliances. An analysis of Raisio's resources and capabilities and the need for speed suggests that a strategic alliance with a partner with complementary capabilities is a sound strategy. Yet, as the market develops, doubts arise:

a) Has Raisio chosen the right partner?
b) Has that partner the degree of commitment necessary for success?

Finally, the case raises issues about the need to focus innovation strategy around core technological strengths. Raisio's innovation and its patents relate to stanol ester, yet its strategy focuses on Benecol margarine. Perhaps Raisio would have done better concentrating on the production and sale of stanol ester as a food ingredient (a similar strategy to that of Monsanto with its NutraSweet artificial sweetener).

■ POSITION IN THE COURSE ■

I use the case to introduce the part of my strategy course that deals with innovation strategy and the management of technology. I developed the case as a substitute for the HBS "EMI and the CT Scanner" case which, despite being a fantastic case, describes events that occurred before most of my students were born.

■ ASSIGNMENT QUESTIONS ■

[A] Case

1. What is Raisio's strategy for commercializing its innovation regarding stanol ester and its cholesterol-reducing properties?
2. What alternative strategies are available to Raisio in 1997?
3. What are relative merits of the different approaches?

[B] Case

1. What are the sources of the problems that the Benecol launch has encountered? Could these problems have been anticipated?
2. How is Raisio reformulating its strategy for Benecol and stanol ester?
3. What advice would you offer Raisio concerning its new strategy?

■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishers, 2008, Chapter 10 and Chapter 11 (especially pp. 290–303, which discuss "Competitive Advantage in Technology-intensive Industries" and "Strategies to Exploit Innovation").

■ CASE DISCUSSION AND ANALYSIS: [A] CASE ■

I begin by asking students about the strategy that Raisio is embarking upon.

Typically students are quick to identify the licensing deal with Johnson & Johnson and recognize the merits of this arrangement. However, it may take a bit of prompting to get students to acknowledge that Raisio has a two-tier strategy. In terms of Benecol margarine (and future Benecol-branded products containing stanol ester), Raisio is relying on a strategic alliance with Johnson & Johnson, the foundation of which is an exclusive licensing deal. In the case of the stanol ester ingredient, Raisio's international expansion involves several joint venture plants in different locations.

I then ask the students to look at alternatives. This is best handled by a systematic structuring of the discussion using a framework that identifies the alternative strategies and the criteria relevant to selecting between them.

This results in a board layout that is an adaptation of Figure 11.4 in the textbook. I try to limit the number of strategic options considered – we could add additional columns for "Acquisition," "Outsourcing certain activities/functions," and various hybrid options. This results in table that looks something like Table 10.1 below.

Given resource and time constraints, the internal development option quickly emerges as infeasible. Even if Raisio was able to find acquisition targets with the necessary manufacturing, marketing, and distribution capabilities, Raisio's limited financial resources are almost certainly going to rule out this strategy. However, it is important to acknowledge that internal development is the strategy that Raisio has been pursuing in Finland. Should it continue this approach in its domestic market, and maybe even extend it to neighboring Scandinavian/Baltic countries? The case for continuation is that, even if Raisio licenses or joint ventures elsewhere in the world, then maintaining its technological and product development capabilities will be assisted by direct involvement in the final products.

Licensing (possibly extended into a strategic alliance) through close cooperation with the licensee (or licensees) is attractive in terms of accessing the world market for cholesterol-reducing products quickly. The chief weakness relates to Raisio's intellectual property – the Benecol trademark is unknown outside of Finland, so the key issue is the strength of the patent position.

Table 10.1 Evaluating strategic options for exploiting Benecol margarine (and other cholesterol-reducing food products)

	Internal development	Joint venture	Licensing/alliance
Risk and return	Both risk and return are highest if Raisio maintains 100% ownership. But if Raisio is unable to access the entire world market, upside potential is limited	Sharing of risk and return – but JV may allow Raisio to penetrate overseas markets more effectively	Low risk (limited investment needed), but returns limited to royalties. However, may allow Raisio to penetrate much bigger market
Strength of intellectual property	If Raisio's patents are weak (it looks as though rivals can develop alternative technologies), internal development allows building of complementary advantages	JV may allow complementary advantages to be developed more quickly and effectively. But will JV be effective and harmonious?	Licensing only feasible if Raisio has strong patent/trademark position
Resource availability	Raisio does not possess the resources and capabilities needed to make, distribute, and market Benecol products to the world	JV could offer Raisio access to international marketing and distribution	Raisio relies on resources and capabilities of its licensees – but needs to manage these relationships
Speed	Slow	Potentially faster than internal development	Quickest way to achieve global rollout – but depends on motivation of licensees

Overall, the proposed alliance with J&J, in which J&J will be the exclusive worldwide licensee for Benecol products and for the use of Raisio's stanol ester ingredients, seems sensible. J&J has the necessary global brand management and distribution capabilities, it has vast expertise regarding regulatory issues, and in nutraceuticals it has proven success – notably with Lactaid.

What about the arrangements for stanol ester? This leaves a critical gap in our analysis. We have focused on the final products – Benecol margarine in particular. But what about the arrangements for the supply of stanol ester, the critical ingredient?

Here we can pursue a similar analysis in terms of the strategic options (see Table 10.2 below). However, the outcome of the analysis is quite different. Internal development looks fairly attractive. Raisio has already built a plant – hence it possesses the necessary expertise. Also, the capital requirements are likely to be within Raisio's means. Joint ventures also look attractive: given the dependence on plant sterol and the need for food processors and forest products firms to develop extraction techniques, then JVs with these companies may be worth while. If Raisio is thinking of licensing the production of stanol ester, then J&J may be the company with the strongest incentive to do so.

However, as soon as we move upstream to consider the options of exploiting Raisio's technology in relation to stanol ester production, this has implications for downstream decisions. In particular, if J&J is the exclusive global licensee for Benecol products that use stanol ester, maybe there is a case for Raisio to boost its power relative to J&J by keeping control over the production and supply of stanol ester.

This raises an intriguing issue: If Raisio's technology, know-how, and market strength all relate to stanol ester, why is Raisio so strongly focused on margarine and other food products? Maybe Raisio's best strategy is concentrate on developing the market for stanol ester as a food ingredient and dominate the world market for stanol ester. If Raisio does this, it could continue to produce Benecol margarine in Finland and perhaps supply other countries too, but its main business would be sales of stanol ester, not just to J&J, but to any food processor interested in introducing cholesterol-reducing products. This strategy would probably involve Raisio branding its stanol ester – preferably using the Benecol brand name.

A parallel example would be Monsanto and NutraSweet. NutraSweet is the brand name for the artificial sweetener aspartame. Monsanto did not enter the market for low-calorie food and drinks, but sold NutraSweet to food and drink producers and required them to place the NutraSweet "swirl" logo on their labels.

Table 10.2 Evaluating strategic options for exploiting global opportunities for Raisio's stanol ester technology

	Internal development	Joint venture	Licensing/alliance
Risk and return	Both risk and return highest. But exploiting global market for stanol ester requires less investment than for Benecol margarine	Allows sharing of risk and return	Low risk; returns limited to royalties (probably 5%–10% of licensees' revenues). One problem: if Raisio/J&J are dominant buyers of stanol ester, this creates an unattractive market for independent suppliers of stanol ester
Strength of intellectual property	Given patents likely to offer only temporary protection, internal development allows Raisio to build relationships with users of stanol ester (especially J&J) and continue developing technology and manufacturing efficiency	Raisio possesses not just the patents, but also the technical know-how from building its own processing plant	Given limited strength of patents and uncertain market for products containing stanol ester, will licensees be willing to invest?
Resource availability	If world market requires only five or six plants, Raisio has the capital and the expertise	JVs with suppliers of plant sterols (e.g. wood pulp and vegetable oil producers) can facilitate access to the key raw material	Few resources required
Speed	Given that Raisio has the incentive and the necessary expertise, probably the fastest option	If cooperation between partners is good, potentially fast	Depends on motivation of licensees and ability of Raisio to transfer its know-how

■ CASE DISCUSSION AND ANALYSIS: [B] CASE ■

What Are the Sources of the Problems that the Benecol Launch has Encountered?

- The biggest problem is the delay to Benecol's US launch resulting from the regulatory challenges from the FDA. This meant that Benecol was introduced to the US market in May 1999 (about a year later than planned), and without any explicit health claims.
- Given Raisio's successful launch in Finland in 1995, it is surprising that Benecol's release elsewhere in Europe did not begin until March 1999. It is not obvious that regulatory factors were the primary reason for delay. It seems likely that J&J's focus on the US launch caused a delay to the European launch.
- Raisio's delayed launch of Benecol was particularly damaging because of Unilever's ability to develop a competing product. Raisio's prediction that it had a lead time of between 18 to 24 months over competitors (see p. 169 of the casebook) was correct in a technical sense, but in commercial terms was overoptimistic: Unilever's cholesterol-reducing margarine was introduced in the US at almost the same time as Benecol. The problem of lost lead time was exacerbated by the fact that Unilever not only possessed stronger distribution and a strongly supported brand name, its product was also significantly cheaper.
- Competition also emerged surprisingly quickly across a broader front. In addition to the introduction by a number of companies of food and drink products containing plant sterol, or sterol derivatives, a key development was the introduction of cholesterol-reducing statin drugs. The overall impact of a broader range of competitive and substitute products was to reduce the attention paid to Benecol. Rather than a startling breakthrough in managing problems of high cholesterol, Benecol was just one of a number of products that were effective in reducing cholesterol.

Could These Problems have been Anticipated?

Raisio's optimism concerning the market potential of Benecol margarine was undoubtedly heavily influenced by the remarkable success of the product's launch in Finland. In terms of potential competition, Raisio's estimate of its lead time advantage ("18 to 24 months") was accurate. What about the regulatory issues? Given the complexity and uncertainty of the issues affecting nutraceuticals, Raisio did the obvious thing – it allied with a company with unrivalled expertise in dealing with regulations concerning pharmaceuticals and health-promoting food products.

Once Unilever emerged as Raisio's chief competitor in cholesterol-reducing margarine, the disadvantages of J&J as Raisio's global alliance partner became clearer. For all J&J's global might and regulatory expertise, in the production, distribution, and marketing of food products, J&J was clearly inferior to Unilever (because of McNeil's lack of food distribution capability, distribution of Benecol to supermarkets was by food brokers). However, given the regulatory uncertainty, it was unclear in 1996/7 exactly what would be the types of products, distribution outlets, and regulatory regime through which Raisio's stanol ester technology would reach US consumers.

The key issue worth raising in class discussion is whether Raisio's single global alliance with J&J involved an undesirable pooling of risks. Certainly J&J possessed the resources ad capabilities to launch Benecol products on the world's major markets, but, given the uncertainties, might Raisio have been better served by allying with a number of partners? This raises the issue of whether Raisio should have pursued an ingredient strategy rather than a final product strategy. This would have involved supplying stanol ester as a food ingredient to a range of different food and drink processors. The key objection to this approach is that the introduction of stanol ester as a food ingredient would require stringent FDA approval. (Note that FDA approval of aspartame – the generic name for NutraSweet – took over eight years.)

How is Raisio Reformulating its Strategy for Benecol and Stanol Ester?

Again, Raisio's new strategy can be examined at two levels:

1. In terms of Benecol-branded products that contain stanol ester, the agreement with J&J was modified in two key respects. First, J&J's marketing area would comprise North America, the EU, Japan, and China. Raisio's would comprise Scandinavia, the Baltic, Eastern Europe, the Near East, Far East, and Oceania. Second, within their respective countries, each company would be permitted to involve other companies in order to expand the product range.
2. At the level of stanol ester production, Raisio renegotiated its plant sterol purchasing contracts and withdrew from sterol/stanol projects in Chile and New Zealand.

The key feature of Raisio's new strategy was a focus on supplying stanol ester as an ingredient to other food and drink companies: "The objective is to create a global network of business partners through which it can market stanol and sterol ester to consumers in various types of food." (p. 181).

What Advice would you Offer Raisio Concerning its New Strategy?

The new strategy has features that correspond closely to recommendations that have already cropped up in the class discussion so far. In particular:

- Raisio has expanded the region in which it will undertake internal development of the market for Benecol products and stanol ester. In addition to its home market, Raisio has retained sole control over Scandinavia and Eastern Europe. This will please those students who were unhappy with Raisio ceding so much control to J&J; it is also noteworthy that in these countries Raisio already has a significant production and marketing presence. The transfer of Latin America, the Near and Far East, and Oceania from J&J to Raisio is interesting. Presumably these are areas where J&J has no specific plans for introducing Benecol products, and Raisio is interested in retaining the option for future development of these markets.
- Raisio is switching its focus from final products (margarine in particular) to its stanol ester ingredient. The key advantages of this new focus are: (1) it fits more with Raisio's key resources and capabilities (notably its technological capabilities and its production capabilities); (2) it means that Raisio positions itself as a supplier to major food firms rather than a competitor; (3) it permits greater diversity in the products in which stanol ester will be used.

For Raisio's ingredient-focused strategy to work, it means that it is likely to face more stringent conditions for regulatory approval – hence, its relationship with J&J is likely to be of continuing importance. Also, the shape of its ingredient strategy will need to be formulated more precisely. In particular, will Raisio adopt the Benecol brand for its stanol ester ingredient. Also, in terms of its ingredient offerings, will it offer just stanol ester, or will it also offer other types and formulations of plant sterols?

■ KEY TAKE-AWAYS FROM THE CASE DISCUSSION ■

There are three key learnings from this case:

1. The systematic analysis of appropriate strategies for exploiting an innovation. As Figure 11.4 in the textbook shows, by examining core features of the innovation, the innovating company, and the market into which it is being introduced, we can generate useful predictions as to whether licensing, an alliance, a joint venture, or internal commercialization is the best approach. However, the case also shows that this analysis only takes us to the first stage. In the case of Raisio and Benecol, an alliance (based on a licensing arrangement) appeared to be an appropriate strategy. But once the appropriate strategic approach has been chosen, issues concerning choice of alliance partner and the management of the alliance are still likely to be important.
2. The vertical dimension of commercialization strategies. A key dimension of strategy concerns the degree of vertical integration. Thus, licensing involves simply selling the technology; internal commercialization involves the full range of activities involved in producing the final product. However, the vertical choice of activities may be more varied than this: should any particular function or activities be outsourced; should the focus be on supplying the final product or a component or ingredient? These vertical decisions involve issues of resources and capabilities, and also the choice of in which markets and against which companies the innovator will be competing.
3. Industry evolution. Technology-based markets in their initial stages of development tend to evolve very quickly. In the case of stanol and sterol and cholesterol-reducing foods that use these ingredients, market structure and the identity of key players changed very rapidly and in ways that could not easily be forecast. The implication is that innovating firms need to be flexible and create robust strategies that embody multiple strategic options.