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**Bachelor in International Marketing**

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Executive Summary

Olympic Seafood AS is a Norwegian seafood and specialty ingredient company, headquartered on the western coast of Norway, in a town called Fosnavaag. In 2012, Olympic Seafood AS and the company Avoca got together and started a joint venture, Rimfrost USA, located in Merry Hill, North Carolina. With this the Rimfrost Sublime Krill Oil was introduced to the market. Rimfrost Sublime Krill Oil is an ingredient used in dietary supplements, which is rich in omega-3 phospholipids and antioxidants, intended to help keep the heart, brain and joints in the human body healthy. The purpose of the thesis is to find out which sales model is the optimal one for Rimfrost Sublime Krill Oil in the US market. The current sales model is distributing partner.

The thesis project includes information on our client, the product and the industry in which Rimfrost Sublime Krill Oil belongs. The research presented in this thesis project includes secondary data, which focuses on the situation analysis, the industry and competitors. The primary research includes data collected by us, and the research was focused on gaining insight into the viewpoints of different players in the different stages of the distribution channel. The research methods used was in-depth interviews.

We have found that Olympic Seafood AS has a sustainable competitive advantage that is attractive for the target market and there is potential for growth in the market. Olympic Seafood AS should therefore pursue a sales model that enables them to increase brand awareness in the US, as well as presenting the opportunity for Rimfrost to become a driving force in market growth. Based on the SWOT-analysis and the research finding we came up with a strategic problem definition, goals and critical success factors for Olympic Seafood AS.

By being analytical we came up with four alternatives for sales model in the US market, which were up for discussion. In the end we gave our final recommendation, which were for Olympic Seafood AS to set up their own sales organization in the United States. We provide our rationale for this decision, and also present a thoroughly explained activation of the recommendation. The conclusion of our thesis is that Olympic Seafood has a superior product and the right resources to stand on their own in the US market, but needs to attract quality talents from within the US nutraceutical market who has the necessary knowledge and experience to take advantage of opportunities and overcome weaknesses.
# Table of Contents

**Background and industry overview**........................................................................6

**Company Background** .........................................................................................6
- Emerald Fisheries and the vessel ‘Juvel’.................................................................6
- The Joint Venture; Rimfrost USA, LLC.................................................................7
- Exclusive distribution partner for the European and US market: Bioriginal.........7
- New Zealand Subsidiary........................................................................................8

**Purpose of thesis** ....................................................................................................8

**Antarctic krill oil** ....................................................................................................9

**Industry overview** ................................................................................................10
- Description of industry............................................................................................10
- Forecast of the industry...........................................................................................11
- The US Market........................................................................................................12
- US regulations..........................................................................................................13
- The krill oil industry.................................................................................................14
- Current size of industry and historic growth.........................................................15

**Competitor Analysis** .............................................................................................16

**Main Competitors** .................................................................................................16
- Aker BioMarine AS (40% share of market)..........................................................17
- Enzymotec Ltd (15 % share of market).................................................................18
- Neptune Technologies & Bioressources (10% share of the market).....................19
- Other competitors....................................................................................................20
- Competitors’ Products and strategies used...........................................................21

**Situation Analysis** ..................................................................................................22

**Internal**..................................................................................................................22
- Competitive advantage: .........................................................................................22
- VRIN product analysis.............................................................................................22

**External**..................................................................................................................23
- Porter’s Five forces..................................................................................................23
- The 5 C’s................................................................................................................25
- PESTLE-analysis......................................................................................................27
- Conclusion from PESTLE-analysis........................................................................31
- SWOT-analysis........................................................................................................31
- Conclusion of the SWOT-analysis...........................................................................33

**Research** ..................................................................................................................34

**Secondary research** ...............................................................................................34

**Qualitative**...............................................................................................................34
- Research methods....................................................................................................34
- Research Question...................................................................................................35
Background and industry overview

Company Background
Mr. Stig Remoeey, the founder of Olympic AS, followed in the paths of his ancestors and invested in his first fishing vessel at the age of 19. As a young captain, he was fishing shrimp in the cold and distant areas in the Arctic, and the sea taught him tough lessons and two important secrets to success: A skillful team and advance technology. Mr. Remoeey gradually and successfully expanded his business to the Olympic Group in 1992, which consists of several subsidiaries, one of them being Olympic Seafood AS.

Olympic Seafood AS is a Norwegian seafood and specialty ingredient company established by the Olympic Group in 2001, which is a fishing and offshore support vessels operator. The headquarter is located on the western coast of Norway, in Fosnavaag, a place known for its fishermen and maritime traditions, and has been one of the largest fishing ports in Norway since ancient times.

Emerald Fisheries and the vessel ‘Juvel’
Olympic Seafood manages the company Emerald Fisheries that owns the specialized krill-collecting vessel ‘Juvel’, that operates in the Antarctic Ocean. Juvel was introduced in 2009 and is one of the most advanced vessels in its class, and focuses exclusively on Antarctic krill ingredients. The supply is secured with 100 percent ownership from the vessel to extraction, giving them a short value chain. The specialized harvesting and production vessel utilizes the whole harvested krill biomass to produce ingredients for human consumption, such as krill oil and other krill extracts. All their vessels are built in Norwegian shipyards.
The Joint Venture; Rimfrost USA, LLC
In 2012, Olympic Seafood AS and the company Avoca got together and started a joint venture, Rimfrost USA, LLC, located in Merry Hill, North Carolina. With this the Rimfrost Sublime krill oil was introduced to the market. Avoca is the world’s premier botanical extraction company, with extensive extraction and purification technologies, a cGMP facility. Avoca is responsible for the ethanol extraction of the krill oil, and together they combined the prowess of Olympic Seafood production of raw krill meal with Avoca’s extraction technology and produces tons of high quality krill oil: Rimfrost Sublime Krill Oil.¹

Exclusive distribution partner for the European and US market: Bioriginal
When Olympic Seafood decided to enter the US market, they chose to engage in a partnership with Bioriginal to distribute the Rimfrost Sublime Krill. Bioriginal is the global leader in delivering complete omega solutions to the Food and Nutraceutical industries. They have more than 20 years of global expertise in both plant and marine-based omegas, and has carved out a niche by scientifically combining ingredients from all over the world, directly from the source, to create unique and efficacious solutions. Rimfrost place stock within Bioriginal on consignment and they sell into the market at ‘market price’ at any one time. Rimfrost receives 92% of the revenues, and Bioriginal receives an 8% commission of the revenues.

Bioriginal was in September 2014, acquired by the company Omega Protein. Omega Protein was founded in 1913, and has its headquarter in Houston, Texas. The company deliver quality ingredient to improve the nutritional integrity of food, supplements and animal feed. Omega Protein is one of the leading and vertically integrated producer for the US market when it comes to Omega-3 fish oil, protein specialty fishmeal and organic fish soluble, and provide the food, and supplement industry with some of the most trusted innovative ingredients in the marketplace.²

¹ http://www.rimfrostkrill.com
² http://www.bioriginal.com
New Zealand Subsidiary
The sales office in New Zealand is a wholly owned New Zealand based subsidiary of the Rimfrost Group. At this facility they manufacture Rimfrost Sublime Krill Oil as well as distribute the Rimfrost Krill Collection for the Asia-Pacific region. In addition they act as an innovation hub, and they partner up with leading local research institutes to develop further understanding of the unique benefits that krill oil offers.3

Purpose of thesis
The following objective for our bachelor thesis project was provided by our client: “Define which of the model for sales works best for Rimfrost Sublime Krill Oil in the US; distributing partner or establishing their own sales organization”

Our approach to the thesis objective was to begin with secondary research. The krill oil industry is a relatively new and small industry, so there is limited information available that is concentrated around the specific industry. However, we quickly learned that the krill oil is the fastest growing source of marine omega-3 and that the end consumers are becoming more aware of omega-3 benefits and more concerned about sustainability. Rimfrost’s competitors in the US market all have their own sales organizations, which gives them more control in the market and terms of distribution. Since the thesis is in a B2B perspective, and does not directly touch the end consumers, after consulting with the client we decided not to conduct any quantitative consumer research. For our primary research we therefore decided to go for qualitative research with in-depth interviews as our method. We also quickly experienced that it is hard to get in touch with companies within the krill oil industry, and to obtain information, so no quantitative research was conducted of the industry either. With our research we want to gain knowledge about the krill industry and preferences within the market from different perspectives, to best be able to accomplish the thesis objective.

Figure 1: The distribution channel

The figure above displays the different steps in the distribution channel for Rimfrost Sublime Krill Oil. Our thesis is mostly focused on the first three steps, as the objective is to find the optimal sales model for Rimfrost Sublime Krill Oil from Rimfrost to the target market.

Antarctic krill oil

Krill is a tiny shrimp-like creature found in the Antarctic Ocean, and makes up one of the largest biomasses on earth. The krill is high in omega-3 phospholipids and antioxidants. Our client product, the Rimfrost Sublime Krill oil is pure krill oil sold in bulk to the target market, which then again encapsulate the oil into capsules that is intended as a dietary supplement, which helps keep the heart, brain and joints healthy.

The picture above illustrates how krill oil is absorbed into the human body in contrast to fish oil. Easily explained, fatty acids are water soluble, but in order to be transported in your blood they need to be in the form of lipoprotein. Omega-3 in krill oil are naturally in this form, which means that it is more easily absorbed and you do not have to do anything in order for the good fat you need to transport into your body. Most are probably familiar with fish oil as an omega-3 supplement, so we will quickly explain a few key points on how krill oil is superior to fish oil in order to put it in perspective. Krill oil is much more potent than fish oil, which means that you do not need to take as much krill oil in order to get the same effect. The human body uses fat in a certain form, and the omega-3 phospholipids in krill oil are already in that form.

Fish oil is quite perishable and also subject to oxidation that can lead to free radicals, which again can increase the need for antioxidants. Krill oil on the other hand, is rich in astaxanthin (probably the most potent antioxidant available in the nature), which makes it resistant to oxidation. Over the past years there has been a concern that many fish
oils are contaminated with mercury and other heavy metals, Antarctic krill is not subject to this contamination. Lastly, krill is much more sustainable as it is the largest biomass in the world, which again makes krill harvesting a highly sustainable practice.  

Industry overview

Description of industry

The Rimfrost Sublime Krill Oil goes under the nutraceutical industry. The term nutraceutical applies to products that range from isolated nutrients, dietary supplements and herbal products. The term "nutraceutical" has no meaning in US law. Depending on its ingredients and the claims with how it is marketed, a product is regulated as a drug, dietary supplement, food ingredient, or food. Rimfrost Sublime Krill Oil is an ingredient used in dietary supplements, meaning it is a product that contains nutrients derived from food products that are concentrated in liquid or capsule form. In the US, the Dietary Supplement Health and Education Act (DSHEA) of 1994 defined the term: “A dietary supplement is a product taken by mouth that contains a dietary ingredient intended to supplement the diet”.  

According to the report “Nutraceutical ingredients market by Type and Application-Global trends & forecast to 2018” the largest share of overall volume in the ingredient market is used in dietary supplements (79.1% in 2013), followed by pet foods (9.5% in 2013) and food and beverages (4.5% in 2013). Dietary supplements were the largest contributor to value and accounted for $920 MM in 2013 (53.5%), up from $800 MM in 2012.

Figure 2: Share of overall volume in the ingredient market

The two largest geographic markets, both in value and volume, are the United States and Europe. The US market accounted for 33,335 metric tons (mT) (37.4%) of the

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4 http://articles.mercola.com/sites/articles/archive/2012/06/21/krill-oil-radically-better-than-fish-oil.aspx
6 http://www.marketsandmarkets.com/Market-Reports/nutraceutical-ingredient-market-1319.html
volume in 2013, while Europe was responsible for 22,959 mT (25.8%) in the same year. The next largest markets in terms of volume are China and Japan with 10.9% and 5.2% respectively; these positions however are reversed for value.\(^7\)

*Figure 3: Volume and Value by Region, 2013*

![Chart showing volume and value by region](http://www.marketsandmarkets.com/PressReleases/nutraceutical-ingredient.asp)

Australia, Canada and the US saw a small decline in volume, while in Asia there was considerable growth. As for value, all geographies saw growth, but it is important to point out that this was mainly caused by increase in prices from 2012 to 2013. In actuality, real growth only exists in emerging markets, while sales in the larger and more established markets were kept from stagnating or contracting only by the increase in raw material prices.

**Forecast of the industry**

If we look at the consumer side, there are major factors that tend to push the nutraceutical product and nutraceutical ingredients market. The population is aging and the increasing numbers of chronic diseases generate health concerns in the consumer’s mind. The consumers are tilted towards healthier diet in order to fulfill the nutrient deficiency in the body and to prevent future deficiency. The growth prospects for this industry are extremely high. The role of nutraceutical ingredient is incredibly significant as the quality of the ingredients directly affects the market for that particular product.

The nutraceutical ingredient market is estimated to grow from $23.8 billion in 2013 to $33.6 billion in 2018. The market for Asia-Pacific has the highest growth rate, due to ever growing population and the urbanization in various nations of the region. This market is expected to grow with 7.4% from 2013 to 2018. The four most potential nations for nutraceutical ingredients industry are India, China, Brazil and Russia, also known as the BRIC countries.

**The US Market**

The Global Organization for EPA and DHA Omega-3s (GOED) is seeking to establish recommended intake levels in the United States for EPA and DHA. The US and Canada are basically the last of the developed countries in the world that do not have recommended intakes established for EPA and DHA. The World Health Organization has a recommended minimum intake of 250 mg per day, but specific countries, such as Japan, have higher levels.

In 2011 the US nutraceutical market was valued at US $ 56.4 Billion and was by far the largest nutraceutical market in the world. The top nations in the global nutraceutical markets are the US, Japan, Israel and Germany. Rising consumption of dietary supplements among the baby boomer generation and booming food and beverages market is driving the US nutraceutical market, which is expected to reach $90 billion by 2020. US consumers are extremely health conscious and demand specific ingredients

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in the nutraceutical products they consume, resulting in a need for customization of nutraceuticals for each target group. Currently, companies in the US are looking to diversify their products and are leaning more and more towards natural nutraceutical ingredients in their product offering, mainly due to the increasing consumer demand for all-natural, non-modified functional ingredients.

In the US, the focus for nutraceutical manufacturers has been on innovative delivery mechanism to facilitate the use of nutraceutical amongst its target groups. However, with European companies looking to the US as a takeover destination, the US market is expected to witness a gradual shift toward natural ingredients.

**US regulations**

In the US, FDA currently regulates both dietary supplements and dietary ingredients. The Dietary Supplement Health and Education Act of 1994 (DSHEA)\(^9\) cites that:

- Manufacturers and distributors of dietary supplements and dietary ingredients are prohibited from marketing products that are adulterated or misbranded. Accordingly, these firms are responsible for evaluating the safety and labeling of their products before marketing to ensure that they meet all the requirements of DSHEA and FDA regulations.
- FDA is responsible for taking actions against any adulterated or misbranded dietary supplement product after it reaches the market.

With the introduction of the federal Good Manufacturing Practice (GMP) regulations in 2007, The FDA and HHS (the Department of Health and Human Services) assumed oversight of GMP enforcement. After the introduction of GMP, the regulation focused on safety and quality to identify non-compliant actors through more active enforcement.

All domestic and foreign companies that manufacture, package, label or hold nutraceuticals, including those involved with testing, quality control, and nutraceutical distribution in the US have safety-related responsibilities. Some of these responsibilities are:\(^{10}\)

- Assure the safety of the ingredients in their products.
- Evaluating the identity, purity, quality, strength and composition of the dietary supplements.
- Preparing, packaging and holding products in compliance with FDA’s current good manufacturing practice (cGMP) regulations.
- Submitting reports to FDA of serious adverse events.

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Global regulatory bodies are becoming increasingly influential within the industry. This includes Codex Alimentarius, the World Health Organization (WHO) and the Food and Agriculture Organization (FAO).

From the industry side, the International Alliance of Dietary/Food Supplement Associations (IADSA) works closely with international and local bodies to ensure that the views of the food supplement industry are considered in the development of policy.

The krill oil industry

It is difficult to totally quantify the krill oil industry, but our client’s estimates lead us to believe it is not larger than 750-800 metric tons (mT). Aker BioMarine AS with its Superba™ accounts for 400 to 450 mT, and Rimfrost has 250 mT respectively on a world basis. The krill oil market is about 1% of the overall Omega-3 market place, but has a huge growth potential and is currently the fastest growing source of marine omega-3 today.

![Figure 5: The Global Marine Omega-3 Volume](image)

In the US market Aker BioMarine AS is the biggest player, while Rimfrost is second. Neptune Technologies & Bioressources and Enzymotec are smaller players, and some Chinese producers are establishing. We will go closer into each of these players in the competitor analysis.
Current size of industry and historic growth

Again, the krill oil industry is a relatively new and small industry, which makes it difficult to find accurate numbers. We therefore use numbers for EPA and DHA oils as a whole. The overall volume of EPA and DHA oils consumed globally in 2013 was 89,060 mT, up 2.6 % from the previous year. This equals a value of $ 1.72 billion in 2013, up 10.1 % from 2012. 11

The increase in value is in large part due to a few factors:
- An increase in the price of crude fish oils, caused by reduced availability
- A rapid growth in the volume consumed in Asia
- An increase in the production of cod liver oil
- An overall movement away from 18/12 - type oils, and into higher value products (krill oils, concentrates, virgin salmon oils and algal oils)

Figure 6: Change by type of ingredient, 2012-2013

Krill oil had a change in volume of +181 metric tons from 2012-2013 and an increase in value of $27.1 million in the same period.

Competitor Analysis

Main Competitors

The main competitors in the krill oil industry are all players of considerable size that have an established presence in the US market. There are four major players in the US, Rimfrost being one of them. Which means that the remaining three are the companies that Rimfrost battle with on a daily basis. The competitor that needs the most attention is Aker BioMarine AS, because they have the biggest market share and are the most similar to Rimfrost.

Share of market in the US are divided as follows:
- Aker BioMarine AS (45% market share)
- Rimfrost (30% market share)
- Enzymotec Ltd (15% market share)
- Neptune Technologies & Bioressources (10% market share)

Figure 7: Market share in the krill oil industry

For our competitor analysis, we will go through each of the competing players and provide an overview of their company background, products and their strengths and weaknesses.
Aker BioMarine AS (40% share of market)
Aker BioMarine was established in 2006 and is a Norwegian fishing and biotech company providing krill products through a fully documented and secured catch and process chain. They are a party of the Aker Group, and their main base is in Oslo, Norway. Aker BioMarine began harvesting and processing Antarctic krill in 2003. Aker also claims they solved the problem with harvesting krill in a commercially viable and environmentally sound way through its proprietary Aker Eco-Harvesting™.

Besides Rimfrost, Aker BioMarine is the only other player who owns and operates their own krill harvesting vessels. They own and operates the krill-harvesting vessels ‘Saga Sea’ and ‘Antarctic Sea’ in the Antarctic Ocean. Both vessels have on-board production of krill meal and krill paste. The company also owns the freighter vessel ‘La Manche’, which refuels and offloads the krill harvesting vessels at sea as well as performing crew change.

The company has registered Superba™ as the company’s brand name for nutraceuticals and Qrill™ as the company’s brand name for its krill meal and krill oil products for aquaculture. The company develops value added krill products for animal and human nutrition as well as for future pharma use. The company’s core business is harvesting, production, R&D and sales and marketing of krill based products.  

Aker’s Competitive advantage is that they produce the only MSC-Certified Krill brand. Superba is the only krill brand certified by the Marine Stewardship Council (MSC) as being sustainable and 100% traceable from sea to shelf. It is to be noted though, that Rimfrost is currently in the 18 month long process of being certified by MSC too.

Aker BioMarine has the subsidiaries Aker BioMarine Manufacturing LLC and Aker BioMarine Antarctic US in the US. The production facilities is located in Houston, Texas and their US Sales Office is located in Issaquah, Washington.

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Enzymotec Ltd (15 % share of market)

Enzymotec Ltd is an Israeli company established in 1998, and has since then enjoyed accelerated growth, generating impressive sales worldwide by launching a diverse portfolio of innovative products within nutritional ingredients and medical foods. Their administrative headquarters, all of their research and development laboratories and their production plant are located in a single facility in the Sagi 2000 Industrial Area, near Migdal Ha’Emeq, Israel. They are therefore both developers and manufacturers and their two business segments are Nutrition and Pharmaceutical.\(^\text{13}\)

They develop clinically validated products including bio-functional, lipid-based compounds that address a wide spectrum of growing consumer demands. Their comprehensive solutions they develop and manufacture are sold to major consumer companies through their global sales and marketing infrastructure. Enzymotec is also certified by the Friend of the Sea.

Enzymotec’s sources of competitive advantages are that they have safe and clinically proven products supported by proprietary technology and Research & Development expertise. They claim to have strong customer relationships and partnerships. For their weaknesses we found that they depend on third parties to supply krill meal, an essential raw material for the production of krill oil. Israel, the country of origin is not associated with neither quality nor expertise within the product category. When it comes to the US market, another weakness is that they do not have production in the market. In terms of financials, Enzymotec’s form 20-F filings for the year 2013-2014 indicates that there are many potential threats to financial loss.

\(^{13}\) [http://enzymotec.com/](http://enzymotec.com/)
Neptune Technologies & Bioressources (10% share of the market)

Neptune was founded October 9, 1998 as a biotech company in Laval Quebec in Canada. The company primarily operates on research and development of value added to natural products, with their main objectives to bring a novel source of omega-3 phospholipids to the market. Neptune was the first to bring krill oil supplements to the market in 2003, when they launched their premium krill oil, called Neptune Krill Oil (NKO). This giving Neptune the patent rights to export and paste krill oil in the US market.

Neptune Technologies & Bioressources purchases oil from other suppliers that operate their fishery in the Antarctic Ocean by the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR), there among Rimfrost. Neptune is also certified by the Friend Of the Sea, because of their suppliers sustainable harvesting standards. Neptune’s patented extraction process for the krill result in an enhanced bioactive and contains up to seven times more antioxidant astaxanthin than other krill oils. The company focuses on growing consumers health and prevent cardiovascular, inflammatory and neurological diseases. ¹⁴

Since Neptune Technologies & Bioressources was the first krill oil supplier in the US market, they have brought lawsuit to all of the other krill oil suppliers that entered the US market for their Patent rights. Rimfrost settled for an agreement with Neptune, in order to focus their time and money on selling Rimfrost Sublime Krill Oil instead. In 2012 Neptune experienced a tragic incident when they had a big explosion on their production plant, which resulted in the plant being destroyed. Neptune has since worked hard to set up a new plant and the R&D team continued to work on future expansion. Their new plant launched operation in June 2014. However, they do not own nor operate their own krill harvesting vessel, and is thus dependent on buying the krill meal from third parties. Currently, they have a net profit margin of -139.12%. Besides being negative, it is also below the biotechnology industry average, which implies that they are not effective at turning revenues into bottom line profit. ¹⁵

¹⁴ http://neptunekrilloil.com/
¹⁵ http://www.theglobeandmail.com/globe-investor/markets/stocks/summary/?q=NTB-T
**Other competitors**

We also need to pay attention to all of the other companies that are impacting Rimfrost’s market share. This is what we call indirect competition, and we put all other omega-3 supplements under that category as these products, e.g. fish oil, cod oil, are substitute products for krill oil. We also know that these oils are cheaper, so they may be favorable to the target market do to competitiveness on price. Even though these only indirectly compete with Rimfrost Sublime Krill Oil, they could be targeting the same customers (brand owners and contract manufacturers) with products that can replace Rimfrost Sublime Krill Oil. It is therefore of importance to invest in marketing and promotion to increase awareness around the benefits of krill oil in contrast to other sources of omega-3.

There have been vessels from a number of countries which have trawled the Antarctic krill fishery over the years, but in terms of current catch effort the industry is concentrated in Norwegian hands. For example, companies from South Korea and Ukraine are very active in the fishery, while other countries such as Japan and Poland, have given up krill harvesting in the Antarctic Ocean.

When it comes to China, they first sent trawlers to fish for krill in the Antarctic Ocean in 2010 and there are currently eight Chinese-flagged trawlers registered for the 2014-2015 krill harvesting season. According to Mr. Sclabos, who works at a Chilean consultancy called “Tharos”, not all of the Chinese trawlers will reach the fishery this season. But he means it is only a matter of time before China becomes the largest player in the South Antarctic krill fishery. China is an active part in the market side of the value chain when it comes to krill oil, as their rising population of middle to upper socioeconomic class consumers shows an increased demand for krill oil as a dietary supplement. Those Chinese companies are involved in fishing and at-sea processing of krill seems to have troubles competing with the efficiency and quality of end products of krill processors from other countries such as Norway. We feel however that it is important to consider these Chinese players in the market as part of the competition, as China has during the past century proved to be able to adapt well into different global industries. We further quote Mr. Sclabos: “The final objective of those involved in the Chinese krill industry, is to fulfill the expected demand of at last 3,000 MT of krill oil from 2015 to 2017”. This amount is three times the size of the current estimated size of the global krill industry.  

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Competition Products and strategies used

Essentially, krill oil is the same no matter who produces it, with exceptions made in terms of quality and pureness. What differentiates the krill oil suppliers from one another is the way the oil is made, from harvesting the krill to the actual oil extractions.

The closest resemblance to Rimfrost Sublime Krill Oil comes from Aker BioMarine AS’s Superba Krill Oil, because their operations are similar. They are also a Norwegian company with eco friendliness and sustainability as important factors in their production. Unfortunately their product is also the one best positioned in the market, as their krill oil is an ingredient in many dietary supplements sold through retailers in the US. Like the other competitors, Aker BioMarine has their own sales organization in the US market, in contrast to Rimfrost, who currently uses a distributing partner. This would mean that they have the advantage of regular interaction with the customer base in face-to-face meetings.

Neptune Technologies & Bioressources was the first supplier to bring krill oil to the US market, and are well known in the US with their krill oil brand “NKO”. Enzymotec has been in the US krill market since 2007, and has registered “K-real” as their brand name for their three krill supplement products.

Aker has established well in the US market and have secured a major brand, MegaRed, which is one of the reasons for their high market share. They are using huge resources on marketing and promotion. Included in this is advertising, sponsorships, memberships, show attendances and they have large Human Resources behind it. In terms of educating about the benefits of krill oil, Aker BioMarine has also launched a campaign called “Let’s talk krill”. Neptune Technologies & Bioressources is the second biggest in this aspect. Rimfrost has to respond to this to keep market shares.
Situation Analysis

Internal
In the internal analysis we will identify Rimfrost strength and weaknesses. For future strategies it is important for Rimfrost to exploit and expand on their strengths, as well as reducing or eliminating their weaknesses.

Competitive advantage:
Rimfrost’s competitive advantage is their sustainability story. All processing is transparent, which makes it trustworthy. Rimfrost follows CCAMLR’s regulations for krill fishery in the Antarctic Ocean, there is a third party monitoring on board and each batch can be traced 100% all the way back to the exact GPS coordinates. In addition, the unique technology onboard “Juvel” is precise and environmental friendly. It allows for minimal trawling time, which is good for the ocean and no unnecessary amount of krill is caught.

Together this makes up Rimfrost’s approach to the market, which is to impact the ocean the least and maximize the amount of oil from the krill. This is appealing to customers because the krill industry is a very delicate business. To further illustrate this we have used the VRIN framework.

VRIN product analysis
Value
For customers in the krill oil industry the quality of the krill oil is important. Rimfrost Sublime Krill Oil has won three awards such as the prestigious NuW Excellence awards in 2012, Nutraceutical Business and Technology awards in 2013 and the Engredea Anaheim in 2014. Also, they have direct access to the raw material (krill), as they harvest it themselves with their own vessel in the Antarctic Ocean, and can therefore validate the quality of the materials used to produce the krill oil. As previously stated, there are not many companies in the industry who have these resources. Most of them purchase krill meal from third party suppliers.

Rarity
‘Juvel’ has a unique krill-collecting method used to catch the krill. They have several patents and none of the other krill harvesting vessels have the same processing methods. They operate with a two-step processing method which helps preserve the nutrients in the krill before the extraction of the oil is done by the expertise of Avoca Inc. Owning their own krill collecting vessel which possess advanced technology, enables them to process the krill in the best possible way to deliver pure krill oil of superior quality. This is not something rivals can easily do, nor develop the capability of in the near future.
Imitability
The resources used to produce the Rimfrost Sublime Krill Oil cannot easily be substituted or duplicated by other companies as it takes great amounts of research, development and it is costly. There are also strict regulations when it comes to harvesting krill in the Antarctic Ocean, and not everyone gets endorsed by third party organizations such as the Friend of the Sea. To add further to this, it would be hard for a competitor to identify exactly what the particular process and tasks involved are.

Non substitutional
All of the resources used to make the Rimfrost Sublime Krill Oil, combined, makes up Rimfrost’s competitive advantage. Therefore it is not easily substituted and qualifies for a sustainable competitive advantage.

External
In the external part of the situation analysis we will analyze our clients external environment to understand the organization's business environment.

Porter's Five forces
Threat of substitutes
The potential substitutes for Rimfrost Sublime Krill Oil are other sources of Omega-3 used in supplements (e.g fish oil), mixed oils (e.g krill and fish) and krill oil without the 40% phospholipids. The oils will have a lower raw material cost, as krill is a high priced raw ingredient. A lower costs also means a lower selling price when sold to the end-customers, and without the knowledge of why krill oil is an better option, the purchasing decision will often be made based on price comparison. The consumers can however be educated about the benefits of krill oil compared to fish oil, and we therefore consider the threat of substitutes to be moderate.

Threats of new entrants
The costs of entering the krill oil industry are substantial. There are many resources needed, as well as advanced technology. Most of the capital will go into the harvesting vessels where the first step of production in executed, and developing the technology needed to do this demands huge amounts of R&D and investments. Without being vertically integrated in the market, owning and operating a krill-harvesting vessel, a player cannot really compete in this industry. Some companies may be able to take an old fishing vessel and maybe adjust it a little bit, but that is not the real major cost. The major costs lays in the technology of the vessels and facilities. The krill oil industry is very delicate, so it is vital that the companies operate in a transparent and sustainable way. A few players of considerable size dominate the industry, and it will be hard for a
new company to be able to compete against these established players. So a new entrant would have to take a huge risk to enter the krill oil industry, and be able to invest significant amounts of money, without any guarantee that the company will be able to succeed. We therefore consider the threat of new entrants to be low.

**Bargaining power of customer (buyer)**
The customers (brand-owners and the contract manufacturers) buy the oil in bulk from a supplier and encapsulate it in soft gels, before it is sold in the market as a dietary supplement. When they experience more demand in the market, they put in a new order from their supplier. The suppliers stock the krill oil in the market, and repackages into the volumes ordered by customers when a new order is made. The krill oil industry is considered to be a relatively new and small industry, and currently the supply of krill oil is higher than the actual demand, which gives the customers an upper hand. The oil from the supplier is sold at a per kilo price which follows a certain market price that fluctuates and reflects the demand in the market. When demand is low, there will be a price pressure downwards. The costs of switching supplier are non-existent, as no exclusive contracts are formed and relationships are based on trust. This gives the customer a high bargaining power and we therefore consider it to be high.

**Bargaining power of supplier**
The supply of krill oil is higher than demand right now. This means that the suppliers have more than enough krill oil to meet the demand from their customers, which gives them less power than they would have if it was the other way around. Important attributes of the krill oil for customers are quality and pureness, as well as a concern in regards of whether the krill is caught in an environmentally sustainable way or not. This gives the krill oil suppliers a chance to argue the attributes of their products, which might make it harder for the brand-owners and contract manufacturers to determine which supplier works best for them. Based on this, the brand owners and contract manufacturers could be of the assumption that they are able to choose between the different suppliers and still maintain their core values. With this in mind the bargaining power of the supplier is considered to be moderate to low.
As a conclusion, we find the intensity of rivalry within the krill oil industry to be moderate. There are few competitors, and the products are undifferentiated to a certain extent. There are two bigger players who occupy most of the market, and it would be hard for new entrants to pose any threats to their positions as they both are vertically integrated in the market. There are also considerable costs involved for new players to enter. The customers currently have a high bargaining power, as supply is higher than demand today. The industry growth today is somewhat low, but there is potential if customers and end consumers are educated to be aware of the benefits of krill oil and create an increased demand.

**The 5 C’s**

**Company**
Rimfrost is relatively new in the US krill market as well as the krill industry itself. The advantage of having their own fishing vessel gives them recognition and a stronger competitiveness in the market. They provide years of knowledge and expertise and they are constantly looking to develop themselves by research and experiences. They are getting more established in the US market by increasing their market share, and are beginning to develop brand recognition in the krill industry. Rimfrost is part of the Olympic Group, which gives them an economic safety net. Rimfrost is using a
distributing partner in the US (Bioriginal), compared to their competitors who have their own sales organization.

**Competitors**
The major competitor, Aker BioMarine is operating two krill-harvesting vessels next to Rimfrost’s vessel ‘Juvel’ in the Antarctic. Aker created patent-pending Eco-Harvesting giving them a great advantage in the industry, and they stand in the US market with the highest market share. In 2013 Aker BioMarine received a certification from the Marine Stewardship Council (MSC), for the sustainability of their Eco-Harvesting technology. At that time they were the only krill oil suppliers who had this certification. This certification was renewed in 2015. As of this year Aker will not be the only one as Rimfrost has also applied for this certification.

**Customers**
The customers (brand-owners and contract manufacturers) are a growing market as well for suppliers of omega-3 oils; they are constantly developing new products and innovations to solve diseases and similar problems. The krill is used for much more than human consumption. The pet market is also growing, and so are new entrants in the market. The krill suppliers in the US market are constantly working to reach new customers and to develop their competitiveness. The customers bargaining power is high as they get to decide which supplier they want to work with, in their quest for the best quality and price available. The customers are also looking for environmental sustainability and quality customer service provided by the chosen supplier.

**Collaborators**
Olympic Seafood has the joint venture with Avoca Inc., called Rimfrost USA, LLC. The joint venture is located in Merry Hill, North Carolina, and it is at this location the last step of the production takes place. In this step the actual oil is extracted, and Avoca, does this in cGMP facilities, with their extensive expertise.

They also have an exclusive partnership with the distribution company Bioriginal which is responsible for all Rimfrost Sublime Krill Oil sales and marketing including distribution in the US market. They are a fully integrated distribution company. Bioriginal has a vast network of clients due to their vast range of products and the fact that they have been in this industry for over 20 years.

**Climate (Context)**
There are strict regulations for krill harvesting in the Antarctic Ocean and there are many organizations. WWF-Norway and the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR), as well as independent scientists, and marine conservationists to ensure that the company contributes to the wellbeing of the
krill fishery and the Antarctic food chain. The Association of Responsible Krill harvesting companies (ARK), also works with CCAMLR to ensure a healthy and sustainable krill population in the Antarctic. The climate is more thoroughly examined in the PESTLE analysis.\(^\text{17}\)

**PESTLE-analysis**

We have conducted a PESTLE-analysis for the US market to review the external factors that impacts the organization. This analysis is useful in terms of strategic direction and for the future decisions.

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**Political**
- USA has a strong democratic setup and effective rule of law, with elections that are considered fair and transparent. The country enjoys massive political and economic influence over both national and global policymaking, and is recognized as one of the leading superpowers in the world.
- The United States offers a stable and predictable environment for business investment, consistently ranking among the countries with the fewest political and security risks for businesses and their workers.

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\(^{17}\) [http://www.ccamlr.org/](http://www.ccamlr.org/)
• Nearly 70% of American adults are either overweight or obese. People with a mass index (BMI) of 30 or higher are considered to be obese. Childhood obesity is now the number 1 health concern among parents in the US, and with good reason: almost one in three children in the ages 2 to 19 are overweight or obese. Two innovations that are now attracting attention in different states and from the congress are calorie menu labeling and healthier food options in schools.\(^{18}\)

• FDA stands for Food and Drug Administration, and is a federal agency of the United States Department of Health and Human Services. FDA is responsible for protecting the public health by assuring the security safety and efficacy of human drugs among others. FDA is also responsible for advancing the public health by speeding up new innovations that make medicines more effective, and to make sure that the public get the accurate information they need to use medicines to maintain and improve their health.

• DSHEA stands for Dietary Supplement Health and Education Act and under this act supplement manufacturers do not need to get FDA approval before marketing dietary supplements. DSHEA does not limit the amount of vitamin or mineral that a pill can contain.

Economic

• US supplement sales reached $32.5 billion in 2012 on 7.5% growth, according to Nutrition Business Journal, Boulder, CO. According to a 2013 Council for Responsible Nutrition (CRN) consumer survey, 68% of US adults reported taking a dietary supplement.\(^{19}\)

• The US total corporate tax rate at 39.1 percent is the highest corporate tax rate in the developed world, which reduces investment in the US and costs American workers jobs and higher wages. Corporate tax is imposed in the United States at the federal, most state, and some local levels on the income of entities treated for tax purposes as corporations.\(^{20}\)

• The United States is a CRT-1 country with very low levels of economic, political and financial system risk. The United States experienced its worst financial crisis since the Great Depression from December 2007 to June 2009. Growth has since returned at a rate of 1.9% in 2013 and an expected 2.9% in 2014. Increased international trade, the availability of natural resources and accommodative monetary policy has bolstered the recovery in recent years.

\(^{18}\) http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2879181/  
\(^{19}\) http://www.nutraceuticalsworld.com/issues/2014-04/view_features/dietary-supplements-increasing-in-value-potential#sthash.iuwtey87.dpuf  
\(^{20}\) http://www.heritage.org/federalbudget/corporate-tax-rate
Social

• A recent report conducted by the Nielsen Global health and wellness surveys\(^2\) shows that younger consumers are much more concerned about food ingredients, genetically modified food and organic foods than previous generations. The most health-centric group of consumers is Generation Z. These are the men and women younger than 20 years old. More than four out of ten individuals polled in this group indicated that they would be willing to spend more money for healthier products as opposed to 32 percent of millennials, and 21 percent of baby boomers.

• The US unemployment rate is high. The US population is aging, which means that the number of people retiring is higher than the number of people joining the labor force. The growth is also not yet drawing in the large number of people who lost their jobs during recession.

• A 2014 Nielsen global survey on corporate social responsibility which involved 30,000 consumers in 60 countries was conducted to gain insight on:
  - how passionate consumers are about sustainable practices when it comes to purchasing considerations
  - which consumer segments are most supportive of ecological or other socially responsible efforts
  - which social issues/causes are attracting the most concern.

Four out of ten respondents in North America reported that they had made a sustainable purchase in the past six months. The millennial generation (aged 21-34) appeared more responsive to sustainability actions. Out of the respondents in the survey who were responsive to sustainability actions, millennials represented 51 percent of those who would pay extra for sustainable products and 51 percent of those who checks the packaging for sustainable labeling.\(^2\)

Technological

• Players in the Krill oil industry are constantly doing research on eco-friendly harvesting methods to differentiate themselves from their competitors. The target market is getting more engaged in finding suppliers with environmental sustainability because of consumer and organizational concerns regarding the animals and nature of the Antarctic.

• The vessel ‘Juvel’ uses a precise krill-catching technology that makes it possible to locate krill swarms of a suitable size. Rimfrost should be aware of any new technological developments, and consider implementing them.


• Having a warehouse in the US market can provide economies of scale through efficient operations, storage capacity and a central location. Economic benefits are realized, for example, through consolidation and accumulation operations. Consolidation operations cut outbound delivery costs for both Rimfrost and its customers. Instead of shipping items individually from New Zealand or North Carolina, items are delivered to a central warehouse, packaged together and shipped back out as a complete order.

Legal
• Rimfrost has a corporate social responsibility when it comes to their employees in the US. The Working Environment Act gives employees rights and makes sure that the working conditions are as good as they are supposed to be.
• Patents/trademarks Patents issued by the US Patent and Trademark office, and is the right to exclude others from making, using, offering for sales and selling the invention in the US or importing the invention to the US for 20 years. Within the krill oil industry in the US there has been a patent dispute over the last decade, where Neptune Technologies & Bioressources has filed for patent infringements against krill oil suppliers entering the market.

Environmental
• The environmental policy of the United States is federal governmental action to regulate activities that have an environmental impact in the United States. The goal of environmental policy is to protect the environment for future generations while interfering as little as possible with the efficiency of commerce and/or the liberty of the people and also to limit inequity in who is burdened with environmental costs.
• There are strict regulations for krill catching in the Antarctic Ocean and there are many organizations. WWF-Norway and the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR), as well as independent scientists, and marine conservationists to ensure that the company contributes to the wellbeing of the krill fishery and the Antarctic food chain. The Association of Responsible Krill harvesting companies (ARK) also works with CCAMLR to ensure a healthy and sustainable krill population in Antarctic.
• There is a trend that consumers prefer to buy product from businesses that are environmental friendly and socially responsible. Rimfrost use an Ecofriendly approach and have their product is traceability which means that all the products can be traced back to the GPS coordinates and shows the exact time for when the krill was caught.
Conclusion from PESTLE-analysis
The political environment in the US market is stable, the economic factors influence spending decisions within the market and the social factors shape the demand. The technological factors is important in terms of innovation and also challenges, in order to be efficient and competitive in the market. The legal and environmental factors are especially important in the krill oil industry as there has been a patent dispute going on between the krill players in US market for the last decade, and environmentally sustainability is what differentiates the krill players from one another.

SWOT-analysis

Strengths
• Rimfrost is one of two krill oil producers to operate their own vessel. This means that Rimfrost is a vertically integrated supplier of krill oil.
• The current arrangement with Bioriginal makes distributing their product in the US market easier as well as saving costs.
• Financial strength: Rimfrost is part of the Olympic Group, which gives Rimfrost an economic safety net.
• Rimfrost Sublime Krill Oil has superior quality due to the excellent technology on board the vessel 'Juvel' where the first step of production is done; Avoca brings advanced biotechnology to the facilities in North Carolina where the oil extraction takes place.
• Certified by the Friend of the Sea.
• Country of origin: Norway is often linked to quality.
• Market share has increased. Even though Rimfrost is one of the newest players in the market they have been able to obtain a 30% share of the market during the time they have been present.
• The fact that Omega Protein has acquired Bioriginal should strengthen the sales force, which would be beneficial for Rimfrost. Bioriginal and the Management of Omega Protein are positive about krill.

Weaknesses
• Less control in the US market: A distributing partnership, like Rimfrost has with Bioriginal, results in lost control, as sales and marketing is left in the hands of Bioriginal. This means that Rimfrost themselves cannot pursue a growth strategy as effectively as competitors.
• Little knowledge of the US market, in addition to a lack of network.
Threats

• Starting their own sales organization presents the threat of losing an amount of their current customer base, because some might be loyal to Bioriginal as strong relationships are common in the industry and B2B in general.

• The biggest competitor, Aker BioMarine, might grow an even stronger market share, which could pose a threat to Rimfrost’s market share.

• Environmentally concerned organizations can make bad publicity about product, which can impact demand and sales. This is common for every “new” industry, it is therefore important to focus on environmental sustainability and communicate this to the market.

• Since Omega Protein acquired Bioriginal, the focus on Rimfrost Sublime Krill Oil could become deprioritized.

• A bigger supply than demand in the market, can give the customers high power.

Opportunities

• Secure big accounts. Brand names like MegaRed, which has a strong presence in the market, would give opportunities for increased revenue and higher market share.

• Pursue a growth strategy. They can grow the customer base by either penetrate the market or expand the market and reach out to new potential customers. For example by introducing the benefits of krill oil to brands which currently only carry other omega-3 oils.

• Rising health consciousness in the US market increased sales numbers of dietary supplements.

• If staying with Bioriginal, the fact that they got acquired by Omega Protein, which is strong in Aquaculture, Animal and Pet markets, can create new opportunities for Rimfrost to enter these markets. Omega Protein can also open up for new customers to sell krill oil to through their network. In addition, new markets may open up by focusing on R&D regarding new potential usage areas for krill.
Conclusion of the SWOT-analysis

So to sum up our SWOT we see that Rimfrost possesses great strengths in terms of product quality, and technology and process used to produce the product, which makes up their sustainability story. They also have a financial advantage since they are a part of the Olympic Group, which provides them with an economical safety net. Weaknesses are their lack of control over the sales process, which to some extent prevents them from pursuing a growth strategy in the US. As for opportunities we found that there are potentials for the market to grow, and growth opportunities exists within the distributing partners organization as well as the market in general which Rimfrost can pursue on their own by focusing on marketing and R&D. Finally, there are also threats and the biggest one is that their main competitor, Aker BioMarine AS.
Research
We designed our research for this thesis for us to be able to gather insights that would help us define which of the sales models works best for Rimfrost Sublime Krill Oil in the US. We spoke to people who work within and have many years experience in the nutraceutical market, as the krill oil industry is a relatively small and new industry there is not so much secondary research available.

The research objectives were to:

- Gather information from the target market on their perception of the krill oil industry, and their values and preferences when choosing suppliers.
- Identify values and factors of importance in the retailer’s decision-making process when purchasing krill oil supplements.
- Get an understanding of the krill oil industry, its current state as well as indicators to help forecast the coming years.

Secondary research
In the beginning of our project we started out with secondary research, in which we gathered information from different websites about the krill industry. We also studied the websites of the competing companies. Our main goal was to get an understanding of the current situation in the US market for krill oil and the omega-3 industry in general, as well as collecting information on competitors. We read several reports and news announcements from the nutraceutical industry that was related to anything from partnerships and innovations, to consumer trends and even patent disputes.

By conducting the secondary research we gained insight about current trends within the omega-3 industry regarding consumers (different market segments), choice of raw material (whether they use krill oil or fish oil) and awareness towards health benefits. This helped us form the questions that we needed answered in our qualitative research.

Qualitative
Research methods
It was decided that conducting a research based on a B2B standpoint, both from the target market (Brand owners and contract manufacturers) and their customers (retailers) point of view would provide the most information and enable more insight to the objective of the research. Our client is a B2B company, and our thesis is concerned about which sales model will be the most optimal for them in the US when selling to their customer, but adding the insight of the retailers as well will give the thesis project a broader perspective in addition to adding depth to it.
The participants in the study were purchasing managers in retailers around New York City, people who are involved in the purchasing decision process in companies within the target market and experienced individuals who work within the nutraceutical industry. It is a qualitative research with an explorative design and the methods used are in-depth interviews. Unfortunately, we found it to be quite challenging to get participants for the in-depth interviews, as many companies views the topic to be sensitive information. But we did manage to secure six interviews, which enables us to compare results and make sure that the research is reliable and valid. The empirical data we got from the in-depth interview was helpful and answered questions regarding the study, which in turn helped us develop a hypothesis about which sales model is best suited for our client in the US market. We would also like to mention that in the beginning we planned on conducting focus groups for consumers also as a part of the qualitative research, but we found that this would not help accomplish the thesis objective as our client is a raw material supplier and has no interaction with end consumers.

Research Question

"Is the current sales model the one that best aligns with the US market today?"

We choose this research question because essentially this is what we need to find out, if the answer is no, then the alternatives needs to be evaluated. Through the questions we hope to get some insight that helps us see if it is profitable or even manageable for Rimfrost to invest in their own sales organization or if it would be more beneficial for them to go through a company that is already well-known in the US market.

Sub-questions:

- “What are the consequences of Rimfrost changing their sales model in the US market?”
- “Will it financially be better to use a distributing partner?”
- “What do you need to establish your own sales organisation?”
- "What does the sales model distributing partner entitle?"
- “How dependent is Rimfrost on Bioriginal’s market knowledge?”
- “Does Rimfrost have the competence and knowledge required to establish their own sales organization in the US?”
- “What are the risks associated with establishing own sales organizations compared to continuing using a distributing partner?”
- “Would own sales organizations provide Rimfrost with more control?”
- “Are there more profits to gain by establishing own sales organizations?”
Key insights from in-depth interviews
It is important to take into consideration that we did not manage to get as many participants as we initially hoped for to participate in our in-depth interviews due to difficulties reaching potential interviewees, but the interviews we were able to obtain provided us with quality insights that helped us in this thesis.

Through our in-depth interviews with retailers we learned several things about the krill industry in addition to the purchasing managers decision-making process regarding krill oil supplements. The most important attributes with the krill oil product is the purity of the oil, its quality and environmental sustainability. As it is a very competitive industry they are also considering price as a factor in the decision-making. The retailers operates in different ways when it comes to purchasing, some stores have their main focus on quality of the product, while others are more concerned about how much of the product they will be able to move around. All the purchasing managers we talked to expressed that they prefer to go through a distributing partner because it is more convenient and make the whole purchasing process easier.

We also interviewed a contract manufacturer and a brand owner that confirmed a lot of the information we already had about the industry. Particularly that the krill oil industry has potential to grow, and big main challenge within the industry is the ongoing patent dispute. This has had a negative effect on the industry itself, because the krill oil suppliers have spent much time and resources on lawsuits instead of focusing on educating about krill oil. Another challenge is the high cost of krill oil, the lack of education about the benefits of krill oil leads to lacking justification of this price in the minds of the end-consumers. We also found that it is common for the relationship between a supplier and a brand-owner or contract manufacturer to be based on mutual trust, instead of exclusivity. We will now go through each of the key insights:

Quality of the krill oil
When interviewing people from the target market the first questions were concentrated around the process of buying krill oil for their supplements. One of the questions we asked where “What to you look for when choosing supplier?” It was clear that the quality of the krill oil was the most important feature. Each company have their own “nutrispecs” they check the raw ingredient krill oil up against. This is to ensure that the krill oil they buy do not violate the statements they label their dietary supplements with. When we talk about quality of krill oil we refer to the amount of omega-3 phospholipids, EPA and antioxidants in the oil to determine how “pure” it is. We also asked the retailers what product specifications they look for when purchasing krill oil, and the answers were very similar to those of the target market.
“We look for zero rancidity levels, low moisture, undetectable levels of yeast, mold and bacteria, as well as, EPA, DHA, astaxanthin and phospholipid value that meets our nutrition specs” - Interviewee, Brand owner

“Environmental sustainability and the quality of the oil are very important, after those two criteria we have price.” - Interviewee, purchasing manager at retailer

**Sustainability**

All three groups interviewed mentioned that there is an increased awareness when it comes to sustainability within all steps of the distribution channel. We found that the target market, retailers and also increasingly end consumers, pay attention to sustainability and are concerned with whether the krill oil is produced in a sustainable way. For the target market, one of our questions was whether environmentally sustainability was important in their decision-making process or not.

“Absolutely. Customers are always asking us how the krill are caught and whether or not methods are sustainable. Our supplier’s krill oil is the Friend of the Sea certified which is a non-profit organization that protects fisheries and the environment. A process company, which protects the fisheries and the environment when the krill is caught. Once their krill are caught, they are immediately frozen on board the vessel, eliminating the possibility of decomposition and ensuring that krill are fresh and high in potency.”

- Interviewee, Brand owner

**Price**

Krill oil is the highest price omega-3 oil in the market. We discussed the price aspect with all of the groups we interviewed and got a lot of good insights.

“To be honest, the biggest challenge that krill oil has is the cost, and consumer awareness. 9 of 10 consumers does not know what phospholipids is, they properly more educated about omega 3 fish oil. When you look at krill oil where you pay 3 times the price or 4 times the price, the consumers challenge are that they are not getting very much IPA to begin with in krill, they do not really understand the 40% phospholipids to a selling point, but consider the price difference “ - Interviewee, Brand manufacturer

“Price is a huge factor, but it is not the only factor. Quality comes first for us. When we first entered the market we were willing to take a financial hit if it meant that we would be number one in krill oil standards and quality. If you find the highest quality oil, it is hard to switch to another supplier even if they are giving you a better deal. You just do not want to take the risk of losing your customers because of inferior oil.” - Interviewee, Brand owner
This further stresses the importance of educating about the benefits of krill oil as opposed to other sources of omega-3, and suggests investing more in marketing targeted to reach the target market at industry tradeshows and other industry media. The end consumers would also indirectly be exposed by marketing by using social media platforms such as Facebook or Instagram.

**Distributing partner**
Our research suggests that customers tend to view a “middle man” like a distributing partner, as both time consuming and costly. In the B2B market customer service is important, and customers feel they are more likely to get immediate and precise product support when speaking directly with the supplier of the krill oil. In the aspect of price buying through a distributing partner is often viewed as more expensive, since it is common for the distributor to add a markup on the selling price in order to get their “share of the cake”.

“Suppliers. Less people you have to go through for technical questions and they give better pricing. Distributors are not always the most knowledgeable and it becomes a challenge when we have quality assurance questions” - Interviewee, Brand owner

“We take very good care and attention to understanding what our customers are good at, why they do things, why they are in this market and what they are trying to accomplish. So when trying to figure out who our customer will be, we probably ask about 50 questions before we ever decide that it is interesting to sell to somebody. Because if we do not really understand what motivates them, we would not be a good customer or supplier to them.”
- Interviewee, Distributing partner

**Location**
As the purpose of our thesis states, setting up an own sales organization in the US market is a viable option. To further explore this option, we asked about the location aspect of the distribution in all three groups interviews. What we found, was that the location of the warehouse/distribution center was important to the retailers, while not so important to the target market. Retailers included location in their decision making process because of delivery time.

“It helps to have a distributor, if the distributor is on the west coast and I am in east coast, and they have a distributor in the east coast it easier and goes faster to get the product, compared to if I order directly from the company and they are located on the west coast.” - Interviewee, purchasing manager at retailer
Grow the market
Based on the interviewees we managed to obtain, the majority seems to believe that in order for a krill oil supplier to be able to penetrate and/or develop the market it is necessary to do it with their own people. This in particular, makes a sales organization favorable.

“You need a strong market, and marketing. The Canadian market is not dynamic. There are no grand players or big players brand. Both Canada and the American market has potential to grow, and specially through the professional channels in America.” - Interviewee, brand manufacturer

Based on the key insights we got through conducting in-depth interviews our setting up a US sales office seems like the optimal sales model for Rimfrost Sublime Krill Oil, but staying with Bioriginal is also a viable option. We will explore these in-depth in the strategy part of our thesis. Our research also showed the need to invest more in marketing in order to educate in general about krill oil to justify the high price, and Rimfrost Sublime Krill Oil to emphasize the superior quality. We end the section on our qualitative research with a quote from our interview with the distributing partner.

“The only other “real” player in the market is Aker. Because they are also a real vertically integrated supplier. There are very few chances in this business to make a vertically integrated supply chain actually work.“ - Interviewee, Distributing partner

Quantitative
Since our thesis focus is in the B2B aspect and not the end-consumers as previously stated, our thesis project does not contain any specific quantitative primary research. The reason for this is that we found consumer research to not be relevant to our assignment and in addition to this, our client did not find it necessary as well. The parts of the distribution channel that is of importance and that we feel that could help us to answer our thesis objective are as mentioned; the distributing partner, the target market such as brand owners and contract manufacturers, and to some extent the retailers. Thus, as this industry is a relatively “sensitive” and “private” industry, we had trouble to reach the groups of relevance to gather insights. This is also the reason why we did not do any quantitative research on the B2B market neither, as it is almost an impossible task to get the surveys to the right people.
Target Market

Rimfrost’s primary targets are:
- Brand-owners
- Contract manufacturers

A brand owner is the company that owns the actual brand of the dietary supplements. A contract manufacturer is a manufacturer that contracts with a firm for components or products. It is a form of outsourcing. In this case, it would be brand owners who do not have in-house manufacturing, and therefore outsource the encapsulating of the krill oil.

We have found that the primary target is a quality-focused segment, which wants the best possible product quality and is prepared to pay for it. Companies in this segment often work with high margins, are medium-sized or large, and regard the product/service as of high strategic importance. In addition, as is common for the B2B market, this target market also tends to be a relationship-focused segment, which seeks trust and reliability and regards the supplier as a strategic partner.

We found that it would be most efficient to segment the target market based on company size. The reason for this is that the consumption levels of B2B customers are so widely different and large companies usually think and act differently than small ones.

High profile brand-owners in the world krill space would for example include Reckit Benckiser with its product MegaRed, Jamieson Vitamins, Swisse Vitamins and Sanofi-Aventis. In addition, there are also house brands of major retailers such as Costco. The brand-owners sometimes have in-house manufacturing capability, but normally they do not because filling soft-gel capsules with krill oil involves very specific technology and skills. The manufacturing process is therefore often performed by a third-party, which is the second target market; contract manufacturer.

There are numerous way to reach this target market, and increasingly also for the B2B market, is the use of Internet and social media/networks as a communication channel. Quick research suggests that the internet is an easier platform for reaching the market with marketing than personal networks, which makes it clear that communication through company website and social media can be rewarding when you find yourself in a foreign market lacking network. 23

23 http://resources.struto.co.uk/blog/lift-your-lead-generation-and-sales-with-seo
Consumers
To add some perspective we have added some consumer information as well. North America was the second largest region for the nutraceuticals market in the world in 2012 and the US has been dominating the global market for nutraceuticals for more than a decade. The concept of nutraceuticals is very well prevalent in the North American region, with more than 60% of the population living in the US and Canada claiming themselves as regular users of nutraceutical products. The ageing population has strengthened the revenues of the North America nutraceuticals industry. Escalating proportion of the elderly people in the US and Canada has propelled increasing consumption of nutraceuticals in the region. The impending risk of chronic diseases and maintenance of health in old age have been the major health concerns over the past few years.

Strategy
The strategy section of our thesis project will consist of a strategic problem definition, the short-term and long-term goal and which critical success factors are needed in order to achieve these goals. Further we will present our distribution strategy alternatives for Rimfrost Sublime Krill Oil in the US market.

Figure 11: Illustration of what digital mediums are most used when researching for future business purchase.
Strategic problem definition
The strategic problem definition is based on the SWOT-analysis and our research findings.

“How can Rimfrost best utilize their competitive advantage to achieve increased brand awareness in the US krill oil industry through growing the market and increasing demand, while minimizing the disadvantages of being a foreign Norwegian company in the US?”

Goals
We have divided the goals into short-term and long-term, which can also be viewed as operative and strategic goals, respectively.

The operative goals are to:
● Find the optimal sales model for Rimfrost Sublime Krill Oil in the US market.
● Increase volume of Rimfrost Sublime Krill Oil sold in the US market to 350 mT.

The strategic goals are to:
● Increase brand awareness in the US market.
● Build loyal customer relationship with large customers leading to brand retention and a larger market share.
● Become the leading supplier of Antarctic krill ingredients for human applications.

Critical success factors
● Build brand awareness.
● Continuously strive to maintain competitive advantage.
● Invest in marketing and promotion.
● Build relationships.
● Overcome cultural barriers.
● Understand regulatory environment.
● Attract and hire talents with necessary knowledge and experience.

Positioning statement
To the nutraceutical brand owners and contract manufacturers, Rimfrost Sublime Krill Oil is the raw ingredient that gives you the high quality and pure krill oil supplement that you want because of their unique sustainability story.
**Distribution strategies**

In light of all the research and the knowledge we have gained we came up with these four sales model alternatives:

1. The first one is to continue with the current agreement Rimfrost has with Bioriginal.
2. Stay with Bioriginal, but amend the agreement.
4. Set up own sales organization.

We will go through each and one of them in depth, discussing pros and cons of each one before presenting you with our final recommendation. Some of the alternatives, as well as the final recommendation, and the activation of this will contain financial numbers and forecasting. We therefore present some key financial information used throughout our alternatives:

**Key financials**

- Last year revenues in the US market were $26 million.
- 8% of this is paid as commission to their distributing partner Bioriginal.
- If product manipulation is necessary to meet customer requirements (blending of batches), Bioriginal has the facilities to provide this service in addition to sales force and full coverage of the North American market. This task, and the cost of it would need to be handled by Rimfrost if they are to set up an own sales organization.
- In terms of R&D, this is a large cost that Rimfrost covers, and Bioriginal ultimately benefits from. This cost is not included in our P&L statements, since we do not have the exact numbers, and it varies from company to company which excludes the opportunity to draw an industry average spending.
- The cost of krill meal that goes into making the krill oil is approximately $22 per kg. The extraction ratio is around 2.7:1 which means that 2.7 kg of krill meal gives an output of 1 kg krill oil. Therefore raw material price is close to $60 per kg.
- Processing is done either at the US facility or at the New Zealand facility. At the New Zealand facility they process the krill meal at a cost of $26.50 per kilo of oil out. If we add this to the $60 raw material cost the cost of Rimfrost krill oil from this site is $86.50.
- At the US facility the processing fees are much lower, and is around $10 per kg oil out. This gives a cost of $70 per kg of oil from this site.
- Rimfrost covers the cost of shipping bunk oil to the distributing partner in Canada, and Bioriginal covers the cost of shipping from their facilities to customers in the US. We are not familiar with what the exact costs are.
The wider Olympic Group, which Rimfrost is a part of, provides all other services and administrative support. These functions and associated costs embrace sales and marketing activities, accounting and financial support, regulatory and R&D investment.

When Bioriginal sells the oil to customers in the US market (given no discounts are given due to large quantities) the price per kilo of oil range from $170 - $200.

Pros and Cons of having a distributing partner

Before diving into the different alternatives we will discuss a few pros and cons of having a distributing partner, which applies to both alternative 1 and 2, these are: “continue with the current agreement with Bioriginal” and “stay with Bioriginal, but amend the agreement”, respectively. Olympic Seafood AS entered the US market with Rimfrost Sublime Krill Oil in 2012 and entered into an exclusive partnership with Bioriginal as a market entry strategy.

Pros

□ Bioriginal knows the local market and have the connections and established relationships. In the US it is normal for the customer to have a strong and loyal relationship with their suppliers.
□ They speak the language, are accustomed to the culture and they also understand the regulatory environment.
□ It can be cost effective as they have a sales team in place, so costs spread across other products.
□ Reduced direct head-count and cost for Rimfrost.
□ Bioriginal can hold product inventory in the US market, which is close to customers.
□ They work on commission and therefore a variable cost for Rimfrost.

Cons

□ Diversion of focus. Bioriginal could focus on other products or their own.
□ There might be products that stand as direct competition within the distributing partner’s organization.
□ The customers often prefer communicating directly with the supplier without going through a distributor when they need technical facts/ support.
□ Bioriginal does not have the same in-depth understanding of the product as Rimfrost does.
□ Situation may change with time, Bioriginal could be acquired or make acquisitions.
  □ Either could remove focus from Rimfrost Sublime krill oil
  □ Bioriginal got acquired in December 2014, the impact this will have on the relationship with Rimfrost is uncertain.
1. Continue the current agreement with Biorganic

This is Rimfrost’s current sales model. They have an exclusive partnership with Biorganic, who distributes and sell the Rimfrost Sublime Krill Oil to the North American market. They are satisfied with things as they stand today, however, it is important to think ahead and Omega Protein recently acquired Biorganic.

The optimistic view of the organization after acquisition by Omega protein

Biorganic will continue as before, as a standalone company with the same management, but with a new owner. Biorganic will focus on the Human side and Omega Protein on the Animal/Pet. Both managements are positive about krill oil and the fact that Omega Protein is strong when it comes to the animal and pet markets may create a new opportunity for Rimfrost (they may enter those new markets). The acquisition also strengthens the sales force, which should be beneficial for Rimfrost.

Biorganic receives and sells Rimfrost Krill Oil from both the Merry Hill site and the production facility in New Zealand. With regards to the oil from New Zealand large quantities are held by Biorganic in Saskatoon, Canada and distributed to customers when required.

- The cost of shipping from New Zealand is borne by Rimfrost New Zealand.
- The cost of shipping the oil from Saskatoon to customers in the US (or Canada) is absorbed by Biorganic.
- The finished oil from Merry Hill may either be
  - Stored in Saskatoon and distributed when required or
  - Shipped directly to Biorganic customers in the US, if that customer is large enough.

As an example, Rimfrost (Biorganic) have recently won a very large customer – Costco. The Rimfrost oil is therefore available to end consumers under the Kirkland Signature brand of Costco. This material goes straight from Merry Hill to the encapsulation plants of Costco’s choosing, with freight covered by Rimfrost USA, Merry Hill.

The material Biorganic distributes in North America is typically shipped directly from their Saskatoon facility to the customer. However with the companies owned by Biorganic’s new parent company Omega Protein there is now the opportunity to take advantage of the facilities owned by the company, and place stock strategically in the US, closer to clients. (With the onshore logistics in the US/Canada, shipping times are very short anyway ex Saskatoon.)
P&L Statement

<table>
<thead>
<tr>
<th>Sales</th>
<th>$26,000,000</th>
</tr>
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<tbody>
<tr>
<td>Cost of goods sold</td>
<td>$10,997,294</td>
</tr>
<tr>
<td>= Gross profit</td>
<td>$15,002,705</td>
</tr>
<tr>
<td>Selling expenses (commissions)</td>
<td>$2,080,000</td>
</tr>
<tr>
<td>Freight costs</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>= Operating profit</td>
<td>$11,922,705</td>
</tr>
</tbody>
</table>

Table 1: P&L for Alternativ 1

If revenues are $26 million, the price per kilo is $185 (the average of $170-$200) it would indicate that about 140,540.5 kilos were sold. If we assume that half of the oil came from the North Carolina site and the other half came from the facility in New Zealand we can say that the average cost per kilo of krill oil were $78.25 ($70 + $86.5 / 2). $78.25 x 140,540.5 kilos equals $10,997,294.125 in total cost of goods sold.

This leaves a gross profit of $15,002,705.875. As for selling expenses Rimfrost now pay Bioriginal 8% commission, regardless of the size of the customers, orders etc. 

Revenues x 0.08 = $2,080,000.

Rimfrost also has a marketing budget for the US market of $1 million, most of which goes to trade shows. That leaves operating profits of $11,922,705.875.

2. Stay with Bioriginal, but amend the agreement

The second alternative would be for Rimfrost to continue to work with Bioriginal and have them responsible for all sales and marketing in the US market, but to make some changes to the current agreement. Rimfrost works backwards from Bioriginal or more correctly, the market. Rimfrost places stock within Bioriginal on consignment, and Bioriginal sells into the market at a certain “market price”. Rimfrost then receive 92% of the revenues, which leaves Bioriginal with a 8% commission. This market price fluctuates and has changed over the years since Rimfrost entered into the partnership.
Suggestions for amendments:

- The fact that Omega Protein is strong when it comes to animal/pet omega-3 supplements, this provides opportunities for Rimfrost to supply Omega Protein with their Rimfrost Sublime Krill Oil to this new product market.

- They may renegotiate the commission agreement so that it takes considerations when it comes to the currency fluctuations. Today, Rimfrost is the one taking the risk on the currency fluctuations as the currency used is US dollar and not NOK.

- Let Rimfrost take place in the customer service to be able to provide customers with technical support when needed. Our research showed that most customers prefer to talk directly to the manufacturer (Rimfrost). Direct communication would therefore be strengthening to customer relationships, which is important in B2B marketing.

- Renegotiate using a sliding commission structure
  - Rimfrost sets a target for Bioriginal, and a certain commission follows.
  - Would be fair because the size of the accounts varies from larger accounts to the smaller more established “maintenance” accounts.

- When large volume sales with larger customers are secured, the commission could be lowered, as it is normal to make some price concessions on the basis of large volumes. At any one time the market gravitates towards a price point per kilo of krill oil, but this price has some flexibility when it comes to the size of the customer.
  - Rimfrost also works with Bioriginal on the big orders, while they are left on their own on the small ones.

- Give Bioriginal incentives to perform by setting sales target and/or a certain new number of accounts to acquire.
  - The bottom line is that Bioriginal as a distributing partner, will generally be driven to do what is best first for their own organization, and not necessarily what Rimfrost wants them to do.
  - Research on motivating distributing partners suggests that acting as a partner to help them build their own business provides more motivation than a point or two extra commissions.
  - Rimfrost could give Bioriginal incentive to sell more by setting goals above the past year's sales quota. This would also be easy to budget, because one would base the award on incremental sales over a comparable
period. Rimfrost could combine this incentive with basic training and communications designed to make Bioriginals salesforce more effective by for example educate them thoroughly about the product in order for the sales representatives to have a thoroughly in-depth understanding of all product benefits.

- The return on investment should have a self-liquidating aspect in that the full award budget gets used only if the program meets its goals.
- For example if the budget may have included $100,000 in award costs, it would only be rewarded if Bioriginal reaches the goal. If Bioriginal fails to reach the sales target, the commission costs will then decrease.

- If the relationship is to continue, we suggest that Rimfrost should have more control as this also is strengthening to customer relationships in our opinion.
  - Rimfrost should have a more structured participation in the sales process, especially when it comes to the large customers.
  - A sales representative from the Rimfrost office with superior product knowledge should be a part of negotiations.

**P&L Statement:**

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Amended agreement example</th>
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</thead>
<tbody>
<tr>
<td>Revenues</td>
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<td>$32,600,000</td>
</tr>
<tr>
<td>- Sales of goods</td>
<td>$10,997,294.125</td>
<td>$13,788,902</td>
</tr>
<tr>
<td>= Gross profit</td>
<td>$15,002,705.875</td>
<td>$18,811,098</td>
</tr>
<tr>
<td>- Commission to Bioriginal</td>
<td>$2,080,000</td>
<td>$2,450,737</td>
</tr>
<tr>
<td>no discount deals</td>
<td>$</td>
<td>$1,035,376</td>
</tr>
<tr>
<td>discounted deals</td>
<td>$</td>
<td>$1,415,361</td>
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<tr>
<td>-Marketing</td>
<td>$1,000,000</td>
<td>$1,250,000</td>
</tr>
<tr>
<td>-Bonus</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td>= Operating profit</td>
<td>$11,997,705.875</td>
<td>$14,930,361</td>
</tr>
</tbody>
</table>

*Table 2: P&L for alternative 2*
This P&L statement is just an example. We used a sales goal example of $32.6 million dollars. 1 metric ton = 1000 kg. The current revenue of $26 million equals about 140.5405 mT based on the price per kilo we have estimated with ($185). If this number were to increase to $32.6 million, it would equal about 176.2 mT.

The cost would then become $78.25 x 176 216 kg = $13,788,902. The gross profit of the objective sales number will be $18,811,098.

Then say they lower the commission when they secure large volumes for large customers, because discounts on price are given. If we assume that out of the 176.2 mT sold in the example, about 106 mT goes to large customers and a 10% price discount is offered on the order. About 39.7% of the revenue would then still award Bioriginal with 8% commission ($12,942,200 x 0.08) which leaves $1,035,376. Let’s further assume that the discounted deals by 10% also means that Bioriginal gets a 10% decrease off their 8% commission. This leaves them with a commission of 7.2% on the discounted deals. 60.3% of the revenues of $32.6 million is $19,657,800, their commission for the discounted deals would then be that figure times 0.072 which equals $1,415,361.

Put together a total of $2,450,737 would be paid in commission to Bioriginal. In addition we will add a bonus, as Bioriginal met the sales goal of $32.6 million in this example. The bonus awarded will be $300,000. In order to meet the increased sales target, we assume some additional costs to marketing will be necessary, and we have added 25% to the original marketing budget in our example. This leaves a new operating profit of $14,930,361, which is about 24.4% higher than the operating profit as it stands with the current agreement with Bioriginal. The revenues were increased by 25.4%. Bioriginal gets more out of an agreement like this one, which will most likely cause them to be more focused on selling the Rimfrost Sublime Krill Oil, as they get more out of it as well.
3. Buy an US distributing company

The third alternative for Rimfrost would be to buy a distributing company with an established network and facility in the US market. It would however need to be a company within the nutraceutical industry who has the omega-3 fatty acid experience, knowledge and networks. We present this alternative merely as an option that could be looked in to, and we will quickly go over a few pros and cons.

Pros
• Full access to an established network in the wider nutraceutical industry. This could open up a potential customer base and a new product category for Rimfrost.
• They would have access to the facility’s equipment and warehouses to preserve the krill oil.
• Rimfrost gets the opportunity to penetrate the US krill oil market under their own management and control.

Cons
• The company’s established relationships might be a factor. Rimfrost has to be certain that the current owner does not have any special bad reputations, as this will most likely pass on to Rimfrost.
• The sales force at place at the distribution company would have to be trained and educated about the krill oil industry, and especially about Rimfrost Sublime Krill Oil which is a time-taking and costly.
• Major improvements to premises and equipment might be needed.
4. Set up own sales organization

The fourth alternative would be for Rimfrost to stand on their own and set up their own sales organization in the US market. This will give Rimfrost full control over the entire sales process in the US. By setting up a US sales office, Rimfrost could pursue a strategy somewhere between market penetration and market development as a growth strategy, as illustrates in Ansoff’s product/market expansion grid below.

**Product-Market Expansion Grid**

<table>
<thead>
<tr>
<th></th>
<th>Existing Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Markets</strong></td>
<td>Market Penetration (low risk)</td>
<td>Product Development (medium risk)</td>
</tr>
<tr>
<td><strong>New Markets</strong></td>
<td>Market Development (medium risk)</td>
<td>Diversification (high risk)</td>
</tr>
</tbody>
</table>

*Figure 12: Ansoff’s product/market expansion grid*

As previously stated, there are three other players of considerable size within the krill oil industry in the US, aside from Rimfrost, all of which has their own sales organizations. Their biggest competitor, Aker BioMarine, was able to penetrate the market more efficiently by establishing a US sales office after using a distributing partner as a market entry strategy. Perhaps by following the same trail, Rimfrost could build stronger brand awareness in the US market. Having their own sales organization also enables Rimfrost to provide quality knowledge and expertise to the customers, thus relieving the customers of the “hazards” of having to go through a middleman.

There are a lot of things to consider setting up their own sales organization. Rimfrost has been dependent on Bioriginal since entering the US market, and leaving them could mean leaving their network and the customers with whom they have built trust and a strong relationship. But as our research showed, the quality of the oil is the important factor to customers, and we are therefore confident that they would continue with Rimfrost as their raw ingredient supplier. Of course, the costs related to setting up a US subsidiary should also be taken into account. It would be significant and Rimfrost would
have to make the investment with uncertainty, however we are confident that it will pay off. Next we will list some pros and cons of direct sale by Rimfrost.

**Pros**
- Full control of the whole process.
- Total focus; strong product knowledge. Can provide expertise to their current and potential customers.
- Immediate market feedback, which would give the information needed to develop and grow by learning. They could do forecasting and educate themselves on what the market wants and needs.
- They are able to provide their customers with quality technical support, because they are dealing directly with the supplier.

**Cons**
- Lack of knowledge in local market.
- Cultural barriers.
- Minimal understanding of regulatory environment.
- Has to build up a network and connections.\(^\text{24}\)

**Final recommendation**
Amending the agreement with Bioriginal was a good alternative, but our final recommendation is that Rimfrost set up their own sales organization.

**Advantages of an US sales office**
- Rimfrost would have full control. Rather than depending on the actions of Bioriginal, all responsibility for US marketing is in their hands.
- The staff answers to the home office in Norway. There is no need to ask for favors when speaking with the US based marketing staff, a common situation when selling via a marketing partner.
- Rimfrost will benefit from close contact with customers of Rimfrost Sublime Krill Oil, which aids new product development and the building of customer relationships. Marketing partners is known to often try to keep their non-US suppliers away from their customers.
- It eliminates the current risk of Bioriginal switching suppliers.
- Rimfrost would own all business information such as customer lists and leads from advertising, trade shows and Web sites.

\(^\text{24}\) [http://www.entrepreneur.com/article/190460](http://www.entrepreneur.com/article/190460)
• Rimfrost would become known. There would be no need to sell via private label or other methods, which hides Rimfrost's identity.
• There are no restrictions on Rimfrost’s involvement at exhibitions.

Disadvantages of an US sales office
• It is needed to provide substantial logistical, financial, manufacturing and marketing support from company headquarters, taking attention away from other markets.
• Building a reputation and generating substantial US sales takes time to develop.
• The cost of setting up and operating a US sales office is significant.

Activation of our recommendation
The marketing mix

![Diagram of the Marketing Mix]

Figure 13: The Marketing Mix

Product

The product characteristics, or more precisely the specific processing method use to make the Rimfrost sublime krill oil are the most important selling point and also their competitive advantage. Rimfrost needs to sustain this competitive by continuing to innovate the technology onboard ‘Juvel’ and as well as the extraction methods used at the production facilities. By doing this they will be able to deliver the superior quality product to customers as they do today, compared to competitors. It has already been
established that Rimfrost possesses the resources and capabilities to stay ahead of their competitors in this area, and we therefore believe that Rimfrost has a fair chance to become a market driving force, also when standing on their own feet in the US market.

**Price**

Krill oil is priced at the high-end of the omega-3 oil market, because of the production complexity and superior quality. Another factor in terms of pricing is the production costs of extracting the oil at the production facilities, which varies between the US and New Zealand plant. The price per kilo krill oil follows a certain market price, but since it reflects the quality of krill oil it can be associated with a prestige price strategy. But, the competition from Asia entering the market and the competition between the four players of considerable size will lead to a downward price pressure.

However, we feel that Rimfrost should try to continue with a high-price strategy in order to communicate their superior quality, a product feature that justifies a high price. Also, the higher price per kilo, the more profits they will gain. In terms of making price concessions on the basis of large order, this should also be continued as it can attract larger customer accounts.

**Promotion**

Rimfrost needs to invest more heavily in marketing and promotion in the US market, in response to competitors. They should focus on the advantages of krill oil in general as well as the superior quality of Rimfrost Sublime Krill Oil. The market, and by market we here refer to all brand owners and contract manufacturers within the omega-3 category in the US, the familiarity with krill oil benefits have room for improvements. While educating the market they should focus on points of difference and unique buying reasons for Rimfrost Sublime Krill Oil in order to increase brand awareness as well as brand recognition. Quality is the most important feature of krill oil, so there should be an sharp focus on how Rimfrost Sublime krill oil’s quality is unique by telling their sustainability story.

One of the key characteristics that differentiates B2B from B2C is the decision making unit. While in the B2C there tends to be only one decision maker, there are several people on several levels involved in the decision making process in B2B.
B2B promotions can be explained by taking a look at the AIDA hierarchical decision-making model. At each level in the process the numbers of people dramatically reduce so that those who actually take action and purchase are a small fraction of those who are aware of or interested in the product. Rimfrost needs to take their audience through each of these four steps in their promotion in order to get them to buy Rimfrost Sublime Krill Oil or even visit the website or fully digest the message communicated.

Rimfrost’s marketing needs to be communicated in such a way that it is quick and direct in order to grab attention, focused on their needs so that they become engaged and interested, understand how it will benefit them to create a desire and finally it needs to be very clear on what action is wanted from their part. ²⁵

Rimfrost should continue to attend industry trade shows both globally and in the US, as this is a vital part of the promotional activities. The world nutraceutical conference and expo (Philadelphia, July 2015), and SupplySide West (Las Vegas, October 2015) are examples of such industry trade shows. By continuously attending these industry trade shows, Rimfrost gets to take advantage of meeting potential new customers as well as building relationships.

To create brand awareness, advertising in industrial magazines like “Nutraceuticals World” and “Nutraceuticals Now” could be an effective channel. Many magazines are well known within the industry, and the target market is hopefully reachable through this media.

²⁵ http://www.mindtools.com/pages/article/AIDA.htm
Place

Here we have taken into consideration where the customers and competitors are based, the cost of doing business in different cities and states, easy flight access from headquarters in Norway and time zone differences.

Rimfrost’s main offices are in Norway, which means that an East Coast location in the US is preferable over the West Coast, as it will save time during their frequent flights from Norway. The time zone difference here is 6 hours (US is behind Norway), so the US office begins to work before home office people go home. It is quite a few hours in difference so it can be difficult to communicate and collaborate as efficient as perhaps wanted.

Rimfrost already has a joint venture in Merry Hill, North Carolina. On a list of the top 10 US logistics distribution locations we found North Carolina Piedmont. There has been a growth in the Southeast, where investments in new manufacturing facilities, port expansion, and rapid population growth have converged to drive a major need for investment in the distribution network. This is particularly relevant to the regions around Atlanta, Central Florida, and North Carolina. When it comes to ports, New York is also on the east coast and have (and will continue to have) a very large share of overall port-related activity as port capacity in the United States is strained, with large investments along both coasts attempting to compensate for limited capacity and increasing regulation at traditional US ports. We therefore think a sales office in North Carolina would be a good choice, at least to begin with. North Carolina has the tenth population in the nation, and the ninth-largest GDP. The state is nationally recognized for its competitive business climate, including in such industries as aerospace, automotive, biotechnology, energy, financial services and information and communications technology. The state is home to more than 800,000 small businesses that represent 98% of the state’s employers and employ some 1.5 million workers.
Digital media
The website: http://www.rimfrostkrill.com/home/

The use of Internet is increasing for each year and is one of the marketing channels with the highest growth. Rimfrost’s website was renewed in 2014, this was a major improvement and the site is now clean and easy to navigate on. On their renewed website they give the latest news PR news on the homepage. They are focusing on educating the viewers about their superior krill oil, their sustainability story and their company’s brand and history. The website has external links to their social media platforms such as Facebook, Twitter and LinkedIn. Rimfrost also has a Youtube channel, and several of their Youtube videos are implemented on the website to demonstrate their specialized krill-collecting methods and to provide information about the company. Rimfrost should continue to develop and maintain their website as this is an important marketing channel and is getting more important in the B2B marketing as well. The website should also contribute to educate the industry and the public.

Social Media Marketing

Social media marketing has become more and more important over the years and it is the most result-oriented of businesses going online. These services give quick results and have profound effect on the overall functioning of a business. Social media marketing is all about promoting the company or the website on different networking sites such as Twitter, LinkedIn, Facebook, etc. A strong presence on different social media platforms, leads to increased brand awareness and gives the audience a chance to research and familiar themselves with the brand.

Social media marketing does not require heavy investments as making a profile on this company is absolutely free. Social media is similar to public relations. It enhances brand advocacy, provides a platform where brand equity and brand personality can be advanced, and attracts and engage both current and new customers. When developing a social media strategy we feel it is important to align the social media goals with the overall marketing communication strategy.

LinkedIn

LinkedIn is a business-oriented social networking service, which means it is a professional networking site and thus, business is expected to be conducted here. This is the social media platform that will be most significant for Rimfrost’s operations. A survey by BtoB Magazine of 577 B2B marketers showed that LinkedIn is the most effective social media-marketing channel for B2B marketers. Rimfrost should use LinkedIn as a tool to attract future professional talents to the company, as well as increasing brand awareness in the marketplace. They can also reach out to other
companies operating in the nutraceutical industry to widen their network. LinkedIn gives them the opportunity to share articles and research, as well as information about upcoming tradeshows and press releases. Overall it provides Rimfrost with the opportunity to be seen by, influence, and directly interact with the market.

Olympic Seafood AS has three different pages that promote Rimfrost Sublime Krill Oil: RIMFROST USA, Olympic Biotec Limited and Olympic Seafood AS.

**Facebook**
Facebook is the second most effective place for businesses to interact with other businesses. More than 15 million businesses, companies and organizations have a Facebook page. It is also a great channel to influence consumers on, since “everyone” has a Facebook profile. Rimfrost should use their Facebook page as a marketing channel, and also to help educate the end consumers about the benefits with krill oil compared to other Omega-3 supplements. A way to do this is to post research and articles that supports their statements. Rimfrost should also link to their website to make it available for consumers who are interested in finding out more about the krill products. The Facebook page should appear interesting to make people more curious.

**Twitter**
Twitter is an online social networking site, where you can send and read short messages called “tweets” from your phone, tablets or laptop. With Twitter, Rimfrost can get a short message out to its followers (who could be the target market, their consumer and even the end-consumers) in an instant. They tweet about news, events and other happenings. The followers can also tweet about Rimfrost and their experience, or opinion about Rimfrost. By using hash tags or add the Rimfrost account, Rimfrost can keep track of followers knowledge and meanings. Now RimfrostKrill (their account name) have about 487 followers, and the goal will be to increase this number and be more active on their Twitter account. By tweeting relevant topics, information and reminders, they can use this channel to get the knowledge of omega-3 krill out to the US market as a easy and effective method. To optimize the effect of social media as a channel, it is important to integrate the different platforms, and refer back to the different sites/accounts on all platforms to increase traffic on all platforms.
Build new relationships and maintain existing ones

In order to establish long-term, profitable relationships in the US market, Rimfrost should focus on relationship management as well. Some of the barriers of being a foreign company is as mentioned cultural barriers, lack of understanding the regulatory environment, network and general market knowledge. The relationships in question are of course customer relationships, but also the relationship with employees at the new US sales office as well as strategic partners. An efficient and controlled management of these relations will enable Rimfrost to have quality relationships with customers as well as being competitive and grow the market.

For marketing, Rimfrost could hire a US firm who knows and understands the most efficient ways to communicate. This will help to achieve increased brand awareness as well as encourage potential customers to consider buying Rimfrost Sublime Krill Oil. With a new sales office, and an own warehouse, Rimfrost would also need to form a relationship with a US trucking company to deliver the Rimfrost Sublime Krill Oil.

Rimfrost Sublime Krill Oil has been in the US market since 2012, and has through Bioriginal 15 accounts that buy the product. In a perfect scenario, each and every one of them would follow the product when Rimfrost sets up their own sales organization, but nevertheless it is important to maintain these relationships. Focus on building long-term relationship is important both to retain existing customers as well as acquire new ones, in order to create brand and product loyal customers. The emphasis on loyalty comes down to the bottom line; it is cheaper to keep existing customers than finding new ones. The financial results will show that an increase in customer loyalty most often displays a significant rise in profits as well. We are encouraging Rimfrost to grow the market by attaining new customers as well, but it is very important to maintain the relationship with existing ones too.  

The American business culture is not a relationship-focused one, but a deal-focused one. Characteristics of a deal-focused culture are that they are open to doing business with strangers, contact potential customers directly, get to the point quickly, direct and low-context communication and they rely on written agreements. Another important aspect of the American business culture is that it is monochronic, “time is money”. Punctuality, and schedules are important and rigid and meetings are rarely interrupted. But even though relationship building is not an important part the American business culture, it is very important in general in B2B. This is mainly because it is people buying from people, long-term purchases (continued purchased over a long period of time) are very common, and trust is a key issue as customers in business-to-business is much

26 http://www.referenceforbusiness.com/encyclopedia/Cos-Des/Customer-Relations.html#ixzz3ZlShF1Np
more reliant on technical support for the products purchased. Once a relationship is established it is therefore important to maintain the contact with the existing customer.  

**Staffing the US sales office**  
By setting up an US sales organization in order to further grow the market and increase revenues and market share, Rimfrost will have to hire additional staff. As long-term relationships is important in the B2B environment, an important role for the American sales force would be to focus on customer satisfaction and loyalty by maintaining the relationships. In the early stages, a small number of employees would be sufficient to produce positive results, and again the B2B market also has smaller customer bases than the B2C market. To ensure that the sales office is staffed with the right people Rimfrost needs to attract qualified talents to hire and also continue to stay involved by motivating the employees.

**Recruiting the right people for the US sales office**  
First off all, the US sales office would need a Vice President of sales and marketing. The best option would be to have a staff member from the office in Norway who knows the products, the company culture, and who is trusted working side by side with an American manager with extensive industry contacts and experience, who can quickly achieve sales by using industry contacts developed over a period of many years. Each brings an important element to the success of the sales office. If only one manager is to be chosen Rimfrost should go for an American one, because the manager's ability to manage a US company, utilize a strong network of business contacts, gain entry into key accounts as well as manage reps and distributors are all far more important to achieve what is wanted. A close cooperation with the home office in Norway is still possible. We recommend that they hire someone within the US nutraceutical industry and pay close attention to this person's references, to make sure the person has good connections to potential customers and in generally in the industry. Rimfrost would then stand better equipped to expand their business network within the US, in addition to gaining easier access to potential customers.

The VP of Sales and Marketing will be responsible for the overall strategy, analyzing sales statistics to determine sales potential, set the strategic direction for the sales and marketing program to maximize profit and increase product awareness, develop business plans and set the objectives for the sales and marketing staff. The American

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27 http://business.uni.edu/buscomm/internationbuscomm/Characteristics.htm  
28 https://www.b2binternational.com/publications/b2b-marketing/
business culture is a highly individualistic culture, but again we emphasize the importance of trust and relationships within B2B.

Further we recommend hiring a Director of Sales and Marketing, which is needed when increasing marketing and promotion activities to create brand awareness for Rimfrost Sublime Krill oil in the US market. This individual as well, should be someone who has experience and knowledge from the nutraceutical industry in the US. The tasks for this person will include overseeing the competitive positioning of Rimfrost Sublime Krill Oil, budget developments for sales and marketing, set the marketing and sales strategy, plan and execute marketing and to maintain awareness in market changes and adjust marketing strategies accordingly.

Underneath the Director of Sales and Marketing, two sales representatives should be hired. These individuals should receive special training of Rimfrost Sublime Krill Oil in order to thoroughly understand all aspects of the product. Their tasks will be to sell the Rimfrost Sublime Krill Oil to established customers and develop new ones, build relationships and identify needs for the product, prepare and maintain records for sales leads and progress status of accounts, emphasize product features based on the customer's needs, maintain the contact with accounts and monitor market conditions, including competitors' products and sales. This means that they will be responsible for handling the entire sales process from proposal to closure, and they will be expected to reach or exceed sales quotas. These, and the VP of Sales and Marketing as well as the Director of Sales and Marketing will also receive commissions based on gross profit, which we will further explore in the financial part of our recommendation.

An office manager should also be hired. This is needed for coordination of the sales office and this person's tasks will include purchasing and manage supplies/equipment, review and prepare budget, greet visitors and callers, answer information requests and maintain records and databases.

The warehouse, where the krill oil will come in from the production facilities in Merry Hill and New Zealand, needs some employees as well since there will be different tasks involved such as repackaging into customer orders. Rimfrost should therefore hire a warehouse manager as well as a warehouse employee. For times with more activity, part time employees could be hired as well. The warehouse manager’s tasks is to schedule and coordinate shipments, coordinate unloading of krill oil, organizing and maintaining supplies, manage the physical inventory and communicate inventory levels to management as well and improving procedures to maximize effectiveness and efficiency. The warehouse employee will manually/mechanically load and unload trucks,
place goods in storage, and clean and maintain supplies, equipment and storage areas.  

**Motivating staff at the US sales office**  
Motivating the employees at the US sales office is important, as an motivated workforce equals higher productivity which again helps to achieve goals. It is also important in order to retain the talented workforce at the US sales organization. The American business culture is colored by strong work ethics, and we will now take a look at what motivates American employees. The American culture is a highly individualistic one, so creating a work environment where individuality is honored, by allowing the employees to prove and develop themselves by growing and learning is recommended. Americans is higher up on the emotional scale than the rational one, and allowing them to achieve things individually may therefore help improve quality. The desire to achieve things individualistically also leads to a more competitive work ethics.

We have all heard of “The American dream”, which is basically the ideal that every US citizen should have an equal opportunity to achieve success and prosperity by hard work, determination and initiative. This is an important part of what motivates the general American, they aim for the big leaps and wants to achieve breakthroughs, so setting a big goal is actually preferred instead of small step-by-step objectives. The initiative part also helps on motivation as American workers can tend to oppose change when it comes from “above”, instead they prefer to be a part of the process and come with their own suggestions as to how to achieve the set goals. Another thing to keep in mind is motivating with rewards. Money has proved to be a good incentive for every working employee, and a good commission system could therefore also help to keep the US sales office staff motivated.

**Cultural differences within the organization**
Whenever doing business in a foreign market it is of high importance to be aware and humble of cultural differences. Although the Norwegian and American business cultures have a lot in common, they also differ on certain points. Both Norwegians and Americans score high on Geert-Hofstede's dimension on individuality, and they also have a much lower power distance compared to for example Asian cultures. This means that the relationship between management and staff tends to be interdependent and more informal. However, American decision-making tends to be more top-down and not based on consensus.

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To further explore how Norwegian and the American business culture differ we can start off by pointing out that the US business culture is a masculine culture, while the Norwegian one is more feminine. For Americans work and career are often at the forefront of their lives, while family is usually the utmost priority in the life of Norwegians. This has an effect on working hours; the hours in Norway are usually much shorter than those in the US. Norwegians appreciate their weekends and work stops at the clock at the end of the workday, and is left at the office. Americans work longer hours, have bigger individual workloads and seems to have the perception that the Norwegian way makes it more time consuming to get things done.

The US is an achievement-oriented culture where achievements are based on performance, what you do is what counts (not who you are) and it is common to be judged on your “track record”. This introduces another interesting point about the American business culture, which is their business language. The American business language is full of idiomatic expressions, and most are taken from sports (e.g. touch base, ballpark figure, game plan, home run) or the military (e.g. rally the troops). Often, Americans are not even aware that they are using idioms, and it can be challenging sometimes for other cultures. Over all these cultural differences within the organization itself should be fairly easy to adjust to, the most important part when it comes to cultural differences is the relationship between Rimfrost and the customers/market. It is therefore again highlighted the importance of employing American workers.  

Legal aspects
There are many legal and tax issues need to be fully evaluated when opening an United States sales office. Some of which will be based on laws and regulations in Norway while United States law impacts others. We would strongly advised to seek qualified professional assistance from legal, tax and other advisors familiar with the laws and regulations in both the US and in Norway.
We would here recommend engaging an accountant and an attorney. An accountant can handle tasks such as; set up bookkeeping, do taxes and advise on how to reduce them as well as providing financial planning advice. An attorney can help with all necessary paperwork and make sure all local laws are followed, help with contracts and leases, provide legal advice and help in case of lawsuits.

Making the sales office a LLC will protect Rimfrost as the sales office owner, from being held liable for the actions of the LLC. This limited liability typically protects from the risks

31 http://www.tcworld.info/e-magazine/business-culture/article/time-is-money-understanding-us-business-culture/
involved if a lawsuit were to arise concerning the business. The state of North Carolina also requires LLCs to file an annual report, which is due on or before April 15th. The cost is $200.

**Costs of sales office in the US**

**Fixed costs:**

**Utilities**
This is the cost of water, heat, phones, power and electricity and so forth. There are variable elements in this cost, so it might arguably be a semi-variable cost but we have decided to put it under fixed. If we estimate $2 per square foot annually for utilities, and calculate total premises to be around 8000 square feet we get annual utility costs of $16,000.

**Insurance**
It is recommended to try to get a package deal on the insurances as there are many different ones that advisable to have. For example business interruption insurance, liability insurance and different employee insurances such as workers compensation, health and life and disability insurances. We estimate the insurances to amount to $7,000 per month, and $84,000 annually.

**Offices/Warehouse Rent**
Instead of investing in premises, Rimfrost could lease office space and warehouse. By renting premises instead of owning, costs can be saved on insurance and maintenance. A reasonable estimate to make is that these two will sum up to $9,000 per month, which amounts to total lease expenses of $108,000 annually.

**Salaries sales/marketing**
Rimfrost needs to get some of the best qualified people available within the industry in the US market so as an incentive for them to accept a job at the new sales organization the salary needs to be highly competitive. We budget that the VP of sales and marketing will get a annual salary of $250,000, while the director of marketing and sales will have a salary of $150,000. Underneath the Director of sales we recommended two sales representatives, who will have a base salary of $105,000. For the office manager/bookkeeper we budget a salary of $60,000. In terms of the logistics staff, the warehouse manager will have a salary of $70,000 and the warehouse employee $40,000. After we sum up the total salaries, we will add 20% to cover employee benefits.
Marketing/Advertising
Rimfrost needs to invest a lot in marketing, in order to grow the market. The competitors are currently spending a lot more money and resources on marketing and promotion, and Rimfrost needs to match this. Activities included here are Advertising, sponsorships, Memberships, show attendances etc. We find that $4,000,000 is an appropriate sum to budget.

Legal costs
Includes the cost of hiring professional legal services. These are usual chargeable by the hour (usually ranging from $125- $300), we will not include these in the P&L statement.

Office Expense
Includes all charges for office supplies such as stationery, forms, pens and pencils, maintenance contracts on office machines, incidental office furniture and other office equipment not subject to depreciation, and any other incidental office expenses. The first year we budget with $30,000 in office expenses since desks, chairs etc. need to be bought. The following years we expect this amount to decrease as only stationary supplies such as ink, pens and paper needs to be replaced in addition to service on copiers etc.

Variable costs:

Transportation
Costs that are directly linked to delivering goods to the customers by freight haulers such as a trucking company. The price of renting a freight hauler would be around $12,000 monthly, which gives us an expense of $144,000 the first year.\(^{32}\)

Inventory/Stock of krill oil (cost of goods sold)
As previously demonstrated, an average cost per kilo krill oil made is $75.25. Per metric ton (mT) it sums up to $75,250.

Sales force commissions
The sales team will work on a commission/bonus basis where they will be awarded an additional sum of money (a certain percentage of the gross profit) in addition to the base salary. The commissions will be a percentage of the gross profit. The VP of sales and marketing will receive a 2% commission in addition to base salary, while the Director of Sales and Marketing will receive 5% of gross profit as commission. The sales representatives will receive 1.5% of gross profit as commission.

\(^{32}\) http://www.rtsfinancial.com/guides/trucking-calculations-formulas
**P&L Statement**

<table>
<thead>
<tr>
<th></th>
<th>Current (Bioriginal)</th>
<th>Year 1 with own sales organization</th>
<th>Year 2 with own sales organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$26,000,000</td>
<td>$39,000,000</td>
<td>$58,500,000</td>
</tr>
<tr>
<td>- Cost of goods sold</td>
<td>$10,997,000</td>
<td>$16,496,000</td>
<td>$24,744,000</td>
</tr>
<tr>
<td>= Gross profit</td>
<td>$15,003,000</td>
<td>$22,504,000</td>
<td>$33,756,000</td>
</tr>
<tr>
<td>- Selling expenses/administrative</td>
<td>$2,080,000</td>
<td>$1,204,000</td>
<td>$1,204,000</td>
</tr>
<tr>
<td>- Freight costs/transportation</td>
<td>$144,000</td>
<td>$144,000</td>
<td>$216,000</td>
</tr>
<tr>
<td>- Marketing</td>
<td>$1,000,000</td>
<td>$4,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>- Bonus to sales force</td>
<td>$0</td>
<td>$2,250,400</td>
<td>$3,375,600</td>
</tr>
<tr>
<td>= Operating profits</td>
<td>$11,923,000</td>
<td>$14,755,600</td>
<td>$24,960,400</td>
</tr>
</tbody>
</table>

Table 3: P&L for our final recommendation

*These estimates are based purely on current revenues coming from Bioriginal. In reality, Rimfrost has revenues from deals made directly with customers without going through Bioriginal in the US as well. E.g. Neptune Technologies & Bioressources.

**50% growth in sales both in year 1 and 2 with a US sales office is forecasted.

Figure 16: 50% annual growth in revenues
**Break-even analysis**
We have conducted a break-even analysis to determine the point at which revenue equals the costs associated with receiving the revenue. This also shows the safety margin, meaning, the amount at which revenues exceed the break-even point. This is the amount that revenues can fall and it would still be profitable.

![Break-even analysis graph](image)

Figure 17: Break-even analysis

**Break-even volume** =  \frac{\text{fixed costs}}{\text{(unit selling price} - \text{variable costs)}}

= \frac{5,204,000}{(185 - 78.25)} = 48,749.41 \text{ kg (about 48.75 mT)}

The current volume sold today with Bioriginal as a distributing partner, we have estimated to be about 140 mT. This is calculated from the revenues of $26 million and divided by an average of the production costs between US and New Zealand, which was $185. That means that the break-even volume when setting up an own sales organization would be about 91 mT less than the current volume sold.

**Break-even value** = 48,749.41 kg \times 185 = 9,018,640

The break-even value is $9,018,640, which means that revenues can drop by $16,981,360 from the current value before Rimfrost’s profits would be impacted negatively.

**The Investment**
The investment needed in order to set up an own sales organization is the US, we have estimated to be the new fixed costs that will occur (utilities, insurance, salaries, rent, employee benefits and office expenses) and the increase in the marketing budget. By combining these costs, $4,000,000 + $1,204,000, the total investment is $5,204,000.
Return on investment
ROI is a performance measure used to evaluate the efficiency of an investment. To calculate ROI, the return of an investment is divided by the cost of the investment; the result is expressed as a percentage.

\[
\frac{\$24,960,400 - \$5,204,000}{\$5,204,000} = 3,796.387 \approx 380\%
\]

380% is a positive ROI, and also a very high one, which indicates that the investment should be taken.

Rationale for 50% growth in sales revenues annually
Rimfrost Sublime Krill Oil has superior quality, and their competitive advantage is their sustainability story, which is very appealing to customers. If they focus on educating their target market, as well as the public, about the specific benefits of their product as well as highlighting their competitive advantage through marketing and promotion they would stand in a better position to secure new and large accounts. This is easier to do with an own US sales office. If they keep on being persistent there are possibilities of securing big accounts, which has a large covering in the market. We also see a tendency of higher consumer knowledge about the benefits of krill oil as opposed to fish oil. When more consumers start buying krill oil, Rimfrost’s target market will experience an increase in demand, which in turn will lead to increased sales for Rimfrost. What this shows is that growth in the krill market is dependent on knowledge and information on the manufacture/brand-owner level, retailer level and end-consumer level in the distribution channel.

With US sales office and a highly motivated staff, they could reach out to new potential customers and maintain the relationships with the customers they receive by travelling to meet with them in person as well as a higher participation at trade shows. They are also contributing to put the Rimfrost brand in the market to build brand awareness and brand knowledge. This will potentially grow the market.
Conclusion

After conducting both secondary and primary research, as well as analyzing factors in the industry, we feel that the best option for Rimfrost would be to set up their own sales organization. In our research we uncovered multiple important attributes that the target market looks for when choosing a supplier, and we feel that Rimfrost has all of these and with that will be able to stand on their own.

Our recommendation is based on the fact that Rimfrost has financial strength, and a high quality product, which is the most important attribute for the krill oil. With their own sales organization Rimfrost will be able to penetrate the US market under their own control, and have the opportunity to grow new strong relationships. For this sales model to be a success they need to invest in marketing and promotions, both to reach out to the target market (brand owners and contract manufactures) and to educate the consumers about the benefits krill oil offers. Another aspect, which will help shape their success, is attracting the right skills. This means that they need to attract knowledgeable professionals within the nutraceutical industry to make the sales organization a greater success.
Appendix 1: Figures and tables

Figure 1: The distribution channel
Figure 2: Share of overall volume in the ingredient market
Figure 3: Volume and Value by Region in 2013
Figure 4: Forecasts growth in the nutraceutical market
Figure 5: The global Marine Omega-3 Volume
Figure 6: Change by type of ingredient, 2012-2013
Figure 7: Market share in the krill oil industry
Figure 8: Porters 5 forces
Figure 9: The different elements in the PESTLE analysis
Figure 10: Shows a synopsis of the SWOT analysis with key insights
Figure 11: The main insights from our in-depth interviews.
Figure 12: Digital medium used by B2B market
Figure 13: Ansoff’s product/market expansion grid
Figure 14: The Marketing Mix
Figure 13: The elements in the AIDA model
Figure 14: Histogram of revenue growth
Figure 15: Break-even analysis

Table 1: P&L for Alternative 1
Table 2: P&L for Alternative 2
Table 3: P&L for Final recommendation
Appendix 2: Definitions

Volume: Refers to the weight of oil, expressed in metric tons (mT)
Value: Refers to its commercial value, expressed in millions or billions of US dollars
EPA: Eicosapentaenoic acid, an omega-3 fatty acid
DHA: Docosahexaenoic acid, an omega-3 fatty acid
Krill oil: Virgin oil extracted from Antarctic krill (Euphasia superba)
Omega-3 oil: An oil containing EPA and/or DHA, used as an ingredient for consumer products, including dietary supplements, food additives, pharmaceuticals or pet
Phospholipids: Phospholipids are natural, integral parts of cells—they are structural components of cell surface membranes and the membranes within the cell
FDA: The Food and Drug Administration; a federal agency of the United States Department of Health and Human Service
DSHEA: The Dietary Supplement Health and Education Act of 1994, is a 1994 statute of United States federal legislation which defines and regulates dietary supplements
CCAMLR: The Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR) has the objective of conserving Antarctic marine life.
MSC: The Marine Stewardship Council is an independent non-profit organization, which sets a standard for sustainable fishing
ARK: The Association of Responsible Krill Harvesting companies
Appendix 3: Sources
17. http://www.ccamlr.org/
23. http://resources.struto.co.uk/blog/lift-your-lead-generation-and-sales-with-seo
27. https://www.b2binternational.com/publications/b2b-marketing/
Appendix 4: Questions for in-depth interviews

Questions for in-depth interview with purchasing managers at retailers:

Background/introduction questions
"What is your job description and position?"

"How long have you worked in this industry and this job particularly?"

"What knowledge do you have about omega-3 supplements?"

“What knowledge do you have about krill oil omega-3 supplements? And what brands are you familiar with?”

Questions related to the purchasing process
"What process do you go through when selecting what brands to sell?"

“When making a purchase from a specific producer, what producer/product features are you looking for?”

"When purchasing a product, do you usually buy it directly from the producer or is it normally a distributing company involved?"

"Who is the decision-making unit in your company? Who plays a role in the decision process of buying in products?"

"Do you think everyone in a similar position as yourself, in the whole country, operates in the same way regarding managing purchases?"

"When you decide which krill oil capsules to purchase, is the manufacturer behind the oil a deciding factor for you?"

Questions regarding the market/product segment

"Are there certain "big players" in the market, that distributes for several producers that you usually buy from, or is individual purchases from independent producers/companies more common?"

"How do you usually learn about new products in the market?"
"In your view, would you say own sales organization or a distributing partner is better for a producer of omega-3 in today’s market?"

**Questions for in-depth interview with target market**

“What is the process when buying krill oil?”

“How did you find/contact your supplier?”

“What relationship do you have to your supplier? How important is the relationship/communication between you?”

“When selecting a supplier, which qualities do you look for?”

“In your opinion is it preferable to buy directly from the supplier or through a distributor?”

“Would you say the location of which the krill oil is shipped from is an important aspect of your decision?”

“In your decision-making process, do you consider environmental sustainability as important?”

“Is it preferable to buy from a supplier/distributor than can provide large quantities of krill oil in one delivery?”

“Are you noticing an increased competition around the different suppliers?”

“Do you see an increased demand for krill oil in the US market?”

“In the krill industry, do you see a typical pattern around the competitors?”

“When you are looking for potential suppliers, where do you do your research?”

“Are there any other omega-3 oils that can potentially be a huge competitor for krill oil?”

“Is price important when choosing a supplier to buy krill oil from?”

“Are there any suppliers that are more favorable than others?” (And in this case why?)

“When it comes to delivery, how do you prefer it?”

“Do you prefer to buy from the suppliers themselves or from distributors?”

“Would you say there is any difference in price whether you buy directly from the supplier or if you go through a distributor?”

“Is the supplier’s country of origin a factor when you choose a supplier?” (Is there a relation to quality here?)
“Do you take wishes from your own customers into consideration when buying the oil?”
“Do you feel there are any suppliers that is more desirable than other in the market?”

“Are there big fluctuations in price in the market?” (what determines this?)
“Are there clear clusters in the industry?”
“Where are the largest distribution centers located? What is the easiest route from distribution centers to you?”
“Would you say it is more common for suppliers to handle sales directly themselves or go through a distributor?”
“Are there any dominant players in the krill oil market that handles most sales?”

“Which supplier do you prefer when it comes to buying krill oil?” (if it is a different one than used, why do they not use that one? Why do they prefer the one they currently use?)
“Is it important for you and/or your customers that the krill oil in the supplements you make are pure krill oil?”
“What dealbreakers do you have?” (Like what turns you off a supplier)

“Do you have a long-term agreement with the krill oil suppliers, or is it easy to make new arrangement with another?”
“What would it take for you to consider a new distributor?”