



What competition do you face on the European natural ingredients for health products market?

Developing country producers of scarce raw plant materials, especially from wild-collection, are getting a better negotiation position. The power of EU buyers is decreasing because of growing regional and international demand. All companies entering the EU market need to comply with the same requirements, but you can gain a competitive edge by focusing on reliability, service-orientation and innovation.

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1 . Market Entry

New entrants stir up the market

New entrants are a particularly strong competitive force for ingredients for *food supplements*. For many species, the market is quite open to competition. Supplier-buyer relationships today are less stable and the costs of compliance are relatively low. However, for most wild-collected species in particular, it is more difficult to enter the market because suppliers need to ensure long-term access to raw materials and demonstrate the sustainability of their supply.

Competition from new entrants is low for ingredients for *herbal medicinal product* that use temperate species as starting material. It is difficult to work with buyers in Europe once their supply chains are established, reducing opportunities for new entrants. The costs of changing established supply contracts (especially in terms of establishing a new Common Technical Document), and (perceived) risks of changing suppliers often does not weigh up against the reduction in supply costs. In addition, this is a market where the level of innovation is limited, which contributes to a static and consolidated business scenario based on known and established plant species.

For both the herbal medicinal products and food supplements segments, barriers to enter the market increase as ingredients are further processed. This is due to the investment and human resources required to produce standardised extracts in accordance with international standards. Processors in countries such as China also introduce extracts based on the same species - even if it is indigenous to your area. Chinese processors buy raw materials from other producers or establishing production in China, for example in the case for maca (*Lepidium meyenii*). Although this product originates in Peru, it is now cultivated in China. However, European buyers also point towards an interest in buying products or ingredients that are not made in China.

Novel food legislation makes it difficult for unknown species to enter the European market.

However, if enacted, upcoming changes in the Novel Food Legislation may generate new opportunities for suppliers of new food supplements to EU. This can also imply stronger competition from suppliers outside the EU.

Tips:

- Comply with and exceed market access requirements in terms of quality control, traceability and sustainability to prove yourself a reliable supplier. Be prepared to offer detailed product documentation (e.g. product, technical and safety data, compliance to international standards, e.g. from Codex Alimentarius or UNECE as well as respective certification schemes based on professional sampling. For a full overview of legal and non-legal requirements and the developments within these, refer to the [CBI Module Buyer Requirements for Natural Ingredients for Health Products](#).
- Check the CBI Module Top 10 Tips for Doing Business with European buyers, on the [CBI website](#) for more information on entering and competing on the EU market.
- Have a look at [ITC's Market Access Map](#) for information on, among others, custom tariffs, tariff rates, quotas, trade remedies, rules and certificates of origin (CO).
- Be pro-active and provide your buyer with the latest literature, news and opportunities regarding your product, acting as a 'help line' for your buyer.
- Bring your buyer on board when exploring product development ideas and provide up-to-date estimates on your production forecast.

2 . Product Competition

Substitution is a strong force shaping food supplements

Ingredients for food supplements can be more easily substituted. There are three types of substitute products:

- Substitution of one plant species with another, containing similar or identical properties. In some cases, the substitute is passed off as being the same ingredient. This has become a problem in the sector. For instance, *Mentha x piperita* leaves, having a limited geographical range for production, is substituted by other plants with similar activity profiles.
- Substitution of natural ingredients with synthetic alternatives, often manufactured by large pharmaceutical companies. For instance, a competitive substitute for the natural antidepressant St. John's wort (*Hypericum perforatum*) is the synthetic medicine Prozac. Substitution by chemical alternatives is a long-established practice. Although active principles of many plants have been synthesised, this field continues to put pressure on manufacturers of herbal medicinal products.
- Substitution with other natural alternatives includes both plant-based ingredients (e.g. fruits, seeds and their derivatives), but also probiotics. This is an important source of competition, especially for supplements and is more likely for some indications than for others. For example, probiotics are very commonly used in digestive health products.

Especially in herbal medicinal products, many ingredients are less threatened by substitution. In herbal medicinal products, the composition of different active ingredients in plant material is an important factor and thus plants cannot be used interchangeably. Moreover, due to the (combination of) specific properties, history of use or a strong consumer base plants such as *Taxus baccata*, *Cinchona officinalis*, or *Vinca rosea*, are difficult to substitute.

If you supply the herbal medicinal product industry, you can reduce the threat of substitutes by building close customer relationships. Many European buyers prefer to buy from a few well-audited

suppliers with whom they can easily maintain regular contact.

Tips:

- You can try to reduce the threat of substitutes by meeting and exceeding buyer requirements and differentiating your product by sustainability, traceability or additional services.
- Find out what the chances of substitution of your product are and determine whether competitors need to be included in your market analysis. When researching the substitute products for your product and how they compete with your product, keep in mind:
 - Which (synthetic/natural) ingredient can be used in a manner similar to your product?
 - How does your ingredient compare (price, supply security/sustainability, ease/costs of substitution, legislation)?

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3 . Company Competition

Existing producers are the main competitors for raw materials

For domesticated, cultivated and established Medicinal and Aromatic Plants (MAPs), you will find many rivals. For instance, the market for an ingredient such as German Chamomile is shared by producers from Europe as well as producers from countries such as Egypt, Nepal or Argentina. As differences in ingredient quality between different areas of origin can be ameliorated through quality adjustments later on in the chain, strong pricing competition exists for products that are available all year round.

However, EU buyers face supply shortages for many (often wild-collected) species, which offer excellent opportunities for producers able to show a sustainable raw material base and specifications according to standards available. These species include both highly established species such as liquorice, as well as for uncommon species such as Tonka beans.

Fewer rivals for processed ingredients

Traditionally, there has been less rivalry in extracts than among producers of raw plant materials, due to the high market entry requirements for processed ingredients. The number of suppliers able to provide quality extracts of a suitable quality is still much lower than the number of raw material producers.

However, competitive rivalry for extracts will increase.

- Several raw material exporters in developing countries are moving down the value chain by engaging in extraction, to find a competitive advantage over their rivals and add value to their products for national, regional and international markets. An increasing number of emerging economies (e.g. China, India, Colombia, Brazil, Mexico, South Africa, Sri Lanka, Indonesia and Malaysia) are now able to comply with EU requirements in producing extracts. China is an especially pertinent example, as the country's processors source raw plant materials for natural ingredients globally for processing into extracts in China, for domestic and international markets.
- Governments are taking measures to cut back the export of raw plant materials without further processing in the country of origin, to make way for local value addition.
- To answer to these new value addition opportunities, an increasing number of extract manufacturers in countries of origin are audited and certified by institutions accredited in Europe.

European extract producers, in particular, still benefit from close relationships with buyers compared to producers elsewhere and offer audited and/or certified products with the latest technological capabilities. However, the major disadvantage of working with these companies is higher costs.

Tips:

- Be prepared to provide buyers with a range of products based on a particular species (e.g. providing extracts in different forms), but make sure you meet legislative and non-legislative buyer requirements (e.g. specifications, using suitable solvents, documentation).
- Distinguish yourself in the marketplace by improving your communications in terms of personal sales techniques, business communication, and online and traditional marketing materials. While quality and legislative hurdles can be overcome, intercultural communication skills (including trade fair participation) continue to be a challenge for many suppliers.

Market dynamics challenge traditional buyer power

Developing country exporters have several options to challenge the bargaining power of European buyers in the market for natural ingredients for health products. Traditionally, most natural ingredients for health products are traded in a buyers' market; European buyers in the classical trade structure have a strong bargaining power over their suppliers, who are constantly subjected to strict demands in terms of consistent quality, timely delivery and price.

For many *cultivated species*, the bargaining position of EU buyers is weakening. Suppliers are no longer solely dependent on the major EU markets, while EU buyers have fewer options to source

from other locations if prices are high. For an increasing number of MAPs, European buyers have been reporting shortages, vastly changing the power relation for these products for suppliers who can show a sustainable supply base. These shortages are caused by:

- growing demand for these particular MAPs in southern countries for their own domestic processing and finished product industries. Particularly Chinese companies are playing an increasingly large role in the market for temperate, tropical and subtropical species of international significance. They provide an alternative market and often pay a higher price than European buyers.

For various *wild-collected* species, EU buyers are facing a similar weaker bargaining position. As has been explained under 'Existing producers are the main competitors for raw materials', there is a limited availability of various wild species. Moreover, European market conditions for these species are increasingly unattractive.

Exporters can also have a stronger bargaining position when they deal with innovative products, as well as neglected species from BELFRIT and German positive lists. Since these products are neglected or new to the market, suppliers have better conditions at negotiating prices and other terms with their buyers. Innovation in this sector has moved from herbal medicinal product companies to food supplements, a segment characterised by less demanding requirements and more flexible, market-oriented buyers. Innovation is more relevant in certain indication areas, such as joint health, than in others. Within joint health conditions such as rheumatism and arthritis cannot be cured, but new products to alleviate their symptoms have very positive market prospects. Indications that hardly provide innovation opportunities beyond the existing market options include products focussed on the urinary system and cough & cold.

Tips:

- Build long-term and sustainable trade relationships with your buyers. Trust is necessary from both sides: the supplier and the buyer! Respond promptly and always follow-up. A good website with information on your company, products and certifications can support this. Especially supplying a consistent quality and quantity at stable prices will support the development of a pro-active supplier/buyer relationship. For more tips on building trade relationships, please refer to the Top 10 Tips for Doing Business Module on the [CBI website](#).
- Invest in quality management systems (e.g. GACP, HACCP, GMP, ISO). Implement and document these systems according to your buyer's values and in a way that is suitable for the segment you aim to target (for example CSR self-reporting). Develop customer-oriented services with related standards and SOPs.
- Manage your supply chain to ensure future availability of your ingredient, which also aids in managing costs and prices. This can be achieved depending on whether you control your own production or are dependent on suppliers, and whether you work with wild-collected or cultivated raw materials.
- Extend services for your regular suppliers to improve quality and quantity and to build on their commitment to your company. Upholding fair-trade principles and sharing benefits can also improve commitment and can discourage suppliers from bypassing you as an exporter.
- Develop resource assessment and management plans to help increase the availability of ingredients. Document these processes and demonstrate supply security to your buyer.