

Interview: Christian Beltrametti CEO, Linnea, Switzerland



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With 35 years' experience in natural extracts, purified ingredients, semi-synthetic APIs of natural origin and manufacturing products to the highest standards of excellence and quality, Linnea is a ground-breaking company with a strong heritage that successfully accepts challenges in new segments while expanding its product portfolio.

What changes in attitudes towards natural products have you seen within the pharmaceutical industry?

There have been some changes in the way pharmaceutical products, both plant-based and semi-synthetic, are perceived within the pharmaceutical industry over recent years. When I joined Linnea, pharmaceuticals of natural origin were not particularly well-regarded or even 'well-known' despite the fact that well over half of the major contemporary drugs are derived from or inspired by natural compounds isolated from plants. Even scientists looked at semi-synthetic substances more critically than their fully-synthetic counterparts. The general attitude was that synthetic products were preferable to those based on natural origin; if you were working with a synthetic substance, you felt as if you had greater control, whereas nature always introduces a degree of unpredictability when working with natural extracts.

Are there any major trends driving the evolution of the extracts industry?

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One major dynamic is the, so called "green spirit" trend. Many consumers and even physicians now prefer to start treating many diseases with natural products. This is of course fuelling growth for herbal remedies and nutraceuticals across markets worldwide, and encouraging a greater commitment to medicinal products based on natural ingredients.

I would also like to point out that unfortunately many botanical extracts and natural ingredients are becoming increasingly commoditized. This can drive a race to the bottom on pricing and potentially have an extremely negative impact on quality.

Facing an increasingly commoditized market, how can a Swiss company be competitive versus manufacturers based in lower-cost countries like India and China?

Switzerland has always been seen as an entrepreneur-friendly country where rules and regulations offer a positive boost, rather than a barrier, to an innovative company like Linnea. The business world definitely has a bright future here in Ticino.

Ticino is home to many companies specializing in a variety of fields and represents the second largest pharmaceutical hub in Switzerland, offering industry employees probably one of the best work-life balances in the world.

At Linnea we put quality first and are meticulous about how our products are made. This may increase pricing, but we refuse to compromise on excellence. Our highly skilled and experienced team manages every step of the production process with the utmost efficiency and attention to detail.

Of course, while top-quality products can be priced higher than lower quality competitors, we must also strive to keep this differential to a minimum. With high labour costs, this means operating with a high level of productivity as well as capacity utilization. Linnea does well in both respects, producing a turnover of CHF 45 million with just over ninety people. We also run most of our production lines around the clock " 24 hours a day, 7 days a week.

This allows Linnea to produce an annual turnover per capita of about CHF 500,000, positioning the company in the industry's top percentile.

Productivity is particularly important for the markets in which we face tough competition, especially for semi-synthetic APIs, where some qualified Indian manufacturers are also active and meet FDA and EMA quality standards.

Some of these manufacturers have extremely low labour costs so they can devote large teams and significant resources to guaranteeing the quality of their products; in some cases they are in a position to utilize over five times more "man hours" than we can at Linnea, or in Switzerland and Europe in general. However, thanks to the extremely high level of productivity combined with the long-term expertise of Linnea personnel, we can still be competitive and offer high-quality products at competitive prices, despite the much higher cost of labour.

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On this point, we have seen some worrying developments in Swiss and Ticinese politics over the past few years which threaten to limit the competitiveness of businesses like ours. It is important to maintain the openness of the business environment in Ticino so that we can still access the skilled professionals that high-quality businesses need to succeed and avoid overloading the system with extra bureaucracy which can limit efficiency, productivity, and the ability of businesses to react quickly to opportunities.

You took over as general manager of Linnea in 2011 – what was the strategic direction you decided to take the company in at that time?

When I joined Linnea as CFO in 2008 the company was quite static and only focused on manufacturing its own customary extracts and semi-synthetic APIs without much interest in or intention of furthering the development of new opportunities. After monitoring the market for the first five years, it became clear to me and my management team that strategically speaking this wasn't enough anymore. Looking across Europe, we have seen a number of extract companies disappear, merge, or relocate their production sites to low-cost countries. We came to the conclusion that if we didn't diversify our revenue base and business model, we could have possibly risked experiencing a similar fate. When we changed management, we improved the performance of the existing business, which gained the support of our board.

This enabled us to begin developing a new strategy for Linnea's business and prepare to face the future with renewed optimism.

I would like to point out how flexibility, speedy response times, and our ability to capitalize on opportunities have played a key role in our success in the past. As such, whatever strategic goals and plans we put in motion, ultimately, we must be prepared to respond to our clients' needs and take advantage of any sudden opportunities that may arise in the market. However, this does not give us complete protection as some of our most important products could become irrelevant or obsolete rather quickly if consumer behaviour simply changes, new competitors enter the market, or new products are launched that outdate ours.

With that in mind, it was clear we needed to begin to diversify our sales, look at new potential markets, and also start building a pipeline of new products to launch over the next few years. As we already had a strong market position doing business with major clients in the pharmaceutical and nutritional supplements markets, we made it an objective to diversify into cosmetics and into the growing, attractive market of medical devices. We began with cosmetics by introducing our high-quality botanical extracts and matching the growth of the "natural" demand from consumers as well as the market's major brands.

Although still small when compared with the overall turnover, this relatively new segment for Linnea now represents a steady and growing proportion of our business.

As for our goals for developing new and innovative products, we have worked hard to find an effective R&D strategy. Finding full-value drug candidates in plant extracts and developing clinical trials to prove they are medically effective is a risky, slow and expensive process.

You may need to invest substantial resources in a vast number of prospective projects before you find one that is successful. Last but not least, natural products are not worthy R&D investments, since they cannot be claimed as new chemical entities and therefore are often not patentable.

This makes it difficult to recoup investment as you would do with a new chemical entity. Recent examples from the drug discovery area and the new "green spirit" trend, I mentioned earlier, encourage us to prove that this reasoning is wrong. We continue to seize opportunities to leverage our existing experience in extracts by finding new innovative technologies and developing finished products in which to utilize them. We like to say "not just from plant"; we are developing a new concept of "innovative natural solutions" that combine nature and science to benefit human health.

Linnea has developed innovative solutions around a few proprietary technologies; NioSkin, NeoSol, and SylTech. What are these new solutions and their innovative aspects?

Linnea is a global leader in sustainable, plant-based ingredients for pharma and nutraceutical health and wellness. The new targeted strategy for developing technology to apply to our ingredients enables Linnea to penetrate new market segments, such as cosmetics and liquid formulations. These two new major industrial trends meet a growing consumer demand for natural products. We trust this will provide us with a competitive edge and a return on our investments.

NioSkin® is the perfect example of what happens when you have a balanced combination of nature and science. This technology transforms our concentrated standardized botanical extracts into a high-tech formula for superior performance in cosmetics. It is an effective delivery system designed to enable the skin to efficiently absorb active natural biocomponents and ensure the optimal concentration for phytoceuticals, which enhances the condition of the skin. Clinical testing of NioSkin® has shown strong scientific evidence in clinical and cellular models which supports unique anti-ageing performance.

We currently offer NioSkin active ingredients developed with Linnea Red clover, Picea abies lignan, Ginkgo biloba, and Bilberry.

NeoSol was developed in partnership with a biotech company. With NeoSol we developed innovative, highly water soluble extracts that have enabled us to create new opportunities to use natural extracts in liquid oral formulations, which are setting new market trends worldwide, especially in Far East markets like Japan where Linnea holds an important market-share position. NeoSol water soluble versions of our Red clover and Ginkgo biloba extracts are already available and new products are currently under development.

And finally, SylTech for which we secured a multicountry licence from the Italian patent holder in 2015.

Medical devices are a new emerging segment in the "pharma" market, and Linnea has entered this market with the licence for this innovative technology. SylTech is an innovative solution for finished product platforms used for the treatment of irritated skin and mucosal healing. Different fields of applications have been already developed and finished medical devices have been licensed, while the first launch is planned in Q2 2017. Gynaecology and dermatology are the two main fields of application, but new developments include proctology, ophthalmology and oral care. Linnea firmly believes that "SylTech innovative solutions" will represent a new frontier for its business development and approach for a new business model of finished products.

Finally, I would also like to add that worldwide companies, tend to be interested in opportunities to partner Swiss companies, particularly when this involves commercializing a product internationally as they can benefit from the reputation of Swiss quality " as Linnea is based in Ticino this is clearly one of the many benefits we can offer.

With this portfolio of new products at your disposal, what are the next steps for Linnea, and where would you like to take Linnea in three or four years from now?

These new products have helped to introduce a new vision for the company, as we now offer innovative solutions that are far different from any other natural active ingredient or extract. We began this journey just three years ago and still face many challenges as we enter new markets and face new competitors. We are also trying to find the best business models to be applied to these new business segments for our company. The next step is to get these innovative solutions onto the market and focus on developing their sales, while capitalizing on the opportunity to learn more about the cosmetics and medical device markets.

Our core business is still botanical extracts and semi-synthetic APIs and we cannot neglect this aspect. Our success over the next few years will probably continue to be driven by our traditional

products and it is essential that we remain vigilant so that we can spot the right opportunities in our traditional market. That said, in three or four years I would like to see Linnea in a position where our innovative solutions account for a significant proportion of our turnover.

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