FAMILY BUSINESS INNOVATION: PERFORMANCE ANALYSIS IN THE FOOD INGREDIENTS INDUSTRY. THE CASE KEMIN

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ABSTRACT

Kemin is a family business set up by Rolland and Mary Nelson in 1961 in Des Moines (Iowa). Its core business is the production of ingredients and nutritional solutions. At the beginning, they had two product lines, an office in their family room and a manufacturing plant in an old wool barn. The founders, who are still active in the business today, have started by serving the animal food market with ingredients such as antioxidants, flavors and mold inhibitors. From these humble beginnings, Kemin has grown to serve the needs of customers in the global feed and food industries as well as the health, nutrition and beauty markets.

Kemin is more than a supplier to their worldwide customers. It’s a researcher, a resource, and a partner. Kemin is a company committed to innovation and technology. Through constant innovation it creates innovative products for different industries. There are many factors that lead the company to continuous investments in research and development. Among these:

- Market trends
- Competition
- New types of consumers
- Company philosophy (constant innovation)
- The need to improve

Innovation in Family Business is identified with the need and the courage to keep doing what you can do best. Kemin today is currently composed of 14 independent operating units, each with their own president. Together, they produce more than 500 ingredients to serve their customers. The net sales reached in 2014 was $585 million.

Keywords: leadership team, family business, innovations, technology, social responsibility, ability to evolve, entrepreneurship approach.
1. INTRODUCTION

The changes that have occurred in recent years have led to a change in the competitive environment. Today companies are continuously looking for new competitive strategies. Several factors impact on the companies’ propensity to innovate, such as the organisational structure of the companies, their size, the impact of their sectors and strategic approach to changes in the context. Some scholars argue that the role of innovation is the opening to the newness. The innovation for family businesses\(^1\) may be considered as a means to reach and to maintain a competitive advantage in a long-term perspective.

Not only, as some research has emerged as family businesses invest a lot in terms of innovative strategies.\(^2\) In the light of this, the paper has as objective the study of innovation management within a family company, Kemin.

2. THE CASE HISTORY: KEMIN

Kemin was created in 1961 by Rolland W and Mary Nelson in Des Moines, Iowa (United States). It’s a globally family business that produces innovative nutritional and health solutions for a growing and constantly changing world. Kemin combines molecular science with human creativity to improve the lives of humans and animals worldwide. Using science, it produces more than 500 ingredients, therefore providing important nutritional benefits for humans and animals. From these humble beginnings, Kemin has grown to meet the needs of customers in the feed and food sector globally, as well as in the health, beauty and nutrition markets. It’s production and organizational expansion dates back to the ‘60s.

It’s precisely in the years of the economic boom that the company felt the need to expand outside the United States of America. The small company settlement turned into an industrial production. This allowed the company to take advantage of the extremely positive historical moment to invest and to find new opportunities in the market.

At the end of the ‘60s, Kemin was exporting its products to distributors in the United Kingdom, the Netherlands and Spain. With reference to the constantly changing and growing European demand, in 1970 Kemin opened its first regional office in Herentals, Belgium. After the ‘80s, convinced of the idea of expanding effectively in other territories the company established manufacturing facilities in many other countries outside the Usa, fully respecting the local cultures and customs. The internalization

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\(^1\) Source: Dreux 1990: “Family Business are companies that appear to be controlled by one or more families, who have a level of incidence in organizational governance sufficient to substantially influence the company’s decisions”.

\(^2\) Source: Craig, Moores 2006
strategy consisted in use of qualified staff and management chosen locally. This smart production choice allowed the company to achieve significant results not only in the relevant markets, but also with local distributors. During these years, a new approach to R&D was introduced. Not by chance, in fact, the development of Kemin translates into the ability to continuously invest in research and development. In reference to the ever changing, Kemin decided to found his second regional headquarters in Singapore in 1988. Then through continuous investments, the company expanded its global presence through further openings of new subsidiaries:

- In 1994, it opened an additional production site and sales in Zhuhai, China. Since then its philosophy was to use science and education to address market requirements and therefore provide better quality products.
- Shortly after that, the company turned its attention to the Indian market, taking on sales and manufacturing operations and displacing an additional site in Chennai¹.
- The increasing amount of products exported to Europe, made it necessary to establish production facilities, R&D and administration by implementing a penetration in the European market. To this regard, in 2010, Kemin opened a cutting-edge production facility in Veronella, Italy².

Thanks to the increasing quality of products and the distribution capillary action, there was a decisive step forward not only in terms of sales but also in industrial investment. During these years, the company implemented significant investments in R&D in fact, since 1980, it expanded the range of products to the human food sector as well. By means of constant research they discovered that the same chemical products used for the production of animal feed was also effective to the inhibition of mold, bacteria and microorganisms that may arise also in human food. All these improvements make Kemin a bioscience company that produces nutritional and innovative solutions for a world that is growing and changing.

Kemin now has wide range of ingredients (about 500) and more than 200 patents. Its peculiarities and its values are well known in the United States and around the world, in fact, they sell in more than 90 countries including Belgium, Brazil, China, Italy, Singapore, South Africa and the USA.

**Mission and Vision**

Kemin's intent is to work in partnership with its customers to satisfy their needs.

Through the mission the company reaches its target, with primary emphasis on the satisfaction of customer needs; through a combination of talent and science Kemin aims to find innovative solutions for a world that is growing and changing.

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¹ India

² Source: http://www.kemin.com/about/history/
nutritional and health solutions for a changing world.

With constant innovation at the molecular level, thanks to new technologies and research and development, the company promotes steady improvements in its products and processes.

In 2005, the International Electrotechnical Commission (IEC) 17025 awarded Kemin an international recognition. Through this quality standard the company's competence in the conduct of laboratory tests was certified. It is easy to identify those values that best represent the company’s essence:

- Integrity, communication, respect for colleagues, customers and suppliers.
- Constant work maintaining high product excellence
- Constant change as a business model to be pursued
- Teamwork across functional and business units.
- Passion in serving customers.
- Confidence in the value of the products.
- Innovation and quality in processes, products and services.

Business Unit

The company is structured into seven divisions:

- **Animal Nutrition and Health**: Kemin intends to meet the animal’s nutritional requirements and completely eliminate from its feed all toxic substances and bacteria. In addition such innovative solutions help manufacturers and meat breeders reduce production costs.

- **Pet Food Technologies**: For more than three decades Kemin has cooperated with many of the major pet food producers of the world. In close collaboration with its suppliers they create innovative ingredients that meet the formulation needs, taste and attractiveness of the products.

- **Rendering**: As an active partner in the pet food industry for more than 30 years, Kemin has realized important relationships that help provide solutions and unique services for the rendering industry.

- **Dietary Ingredients**: Kemin offers a diverse line of scientifically developed nutritional ingredients. It provides supplements designed to encourage the hiring of certain elements and substances not present in some foods.

- **Food Technologies**: Extensive knowledge of oxidation processes and molecular food, made Kemin a leading choice for comestible preservation and safety. To best meet the particular

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1 Source: http://www.kemin.com/about
2 Source: https://www.kemin.com/en/europe/markets
needs of diverse economic and geographic regions, as well as the needs of multi-national companies, Kemin Food Technologies has production facilities around the world.

- **Personal Care:** Their personal care line is composed of ingredients that improve skin appearance, formulation texture, stability, performance, and delivery of actives. Ingredients consistent, reliable, effective and safe, for the various sectors in which it operates, including the cosmetics sector. Moreover, it is able to offer active and functional ingredients, with the aim of offering further benefits to the final consumer.

- **Pharma & MedDevices:** Kemin was the first company to introduce lutein-based intraocular dyes. Today, Kemin Pharma offers one of the most comprehensive lines of intraocular dyes available for the ophthalmology surgical device market.

Today, these seven divisions are held together by Kemin’s mission. The current market penetration of the company is estimated to “touch” to 2.5 billion people every day; this clearly show Kemin is vision and a values.

**Swot Analysis**

The SWOT analysis is one of the main measures undertaken within the strategic analysis.

It is a structured planning method used evaluate the strengths, weaknesses, opportunities and threats. The SWOT analysis (also called SWOT Matrix) is the kind of analysis that can be used for a company, a product or even on a person. The starting point is focusing on the goal the company wants to achieve. Thanks to this tool the company makes an analysis of its:

**Strengths (S):** characteristics of the business or project that give it an advantage over others; **Weaknesses (W):** characteristics that place the business or project at a disadvantage relative to others; **Opportunities (O):** elements that the business or project could exploit to its advantage; **Threats (T):** elements in the environment that could cause trouble for the business or project.

From the intersection of these four points we get many different strategies that can be adopted by an enterprise: **SO** strategies use their strengths to take advantage of opportunities; **ST** strategies use their strengths to avoid threats; **WO** strategies take advantage of the opportunities overcoming weaknesses; **WT** strategies make minimal weaknesses and avoid threats. Applying the Swot Analysis allows Kemin to identify its strengths, weaknesses, opportunities and threats as follows.
<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tbody>
<tr>
<td>Over 200 patents supported with quality processes and procedures;</td>
<td>Low investment in adv;</td>
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<tr>
<td>Cost advantage through the property know-how;</td>
<td>Lack of products directed for children;</td>
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<td>High quality products;</td>
<td>The patchy distribution of products throughout the Usa;</td>
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<td>Sales in more than 90 countries (global coverage);</td>
<td>Limited brand visibility to the final consumer;</td>
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<tr>
<td>Advanced Research and constant innovation with patenting of new formulas;</td>
<td>Use of ingredients not available in every countries;</td>
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<td>Equitable and sustainable development;</td>
<td>Constant need of investments in R&amp;D.</td>
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<td>Great selection of human resources through a high vocational training;</td>
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<td>Exclusive access to natural resources</td>
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<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<tr>
<td>Information and communication;</td>
<td>Strong competition (direct and indirect);</td>
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<td>New market trends;</td>
<td>Presence of substitute products;</td>
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<td>Removal of international trade barriers;</td>
<td>Instability of the commodity market prices due to war for the extracts and the raw materials.</td>
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<td>Possible partnerships and strategic alliances with other companies.</td>
<td>Development online shopping;</td>
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<td></td>
<td>Strong barriers to enter world markets due to different regulations;</td>
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Figure 1.4 - **SWOT Analysis Kemin**

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1 Source: Results of SWOT performed by the authors

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The following table shows the strategies that Kemin could adopt by crossing the four areas below:

<table>
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<tr>
<th>Strategies S-O</th>
<th>Strategies W-O</th>
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<tbody>
<tr>
<td>To take advantage of new market trends (e.g. food) in order to create new products, by reducing the amount of chemical additives and components; To maintain a high quality level of chemical recipes; To keep training staff at high level; To expand its presence into new countries through the opening of new production sites (eg. Turkey).</td>
<td>To focus more on the image and brand awareness approaching the B2C market; To resort to research Joint Venture by reducing costs in R&amp;D. To enter emerging countries (Asia, Japan), very sensitive to the culture of natural products; To reinforce the segments in which the company operates; To expand the range of products and natural/innovative ingredients.</td>
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<tr>
<th>Strategies S-T</th>
<th>Strategies W-T</th>
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<tr>
<td>To increase marketing strategies in order to involve multiple buyers; To continue to invest in R &amp; D due to high competition (highly skilled competitors); To increase the information about the company products and their use; To develop biological products by responding in detail to the trend of the sectors.</td>
<td>To abandon the sectors with the decreasing sales and the references which do not generate substantial returns; To focus on visibility and brand awareness both in positioning against competitors, and as returns in terms of customer loyalty (B2B and B2C).</td>
</tr>
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</table>

Figure 1.5 - Strategies

3. FAMILY BUSINESS INNOVATION

In this section, we examine the impact of these changes in all services offered by the company and we explain the many factors that push the company to constant investments in innovation. First of all, these changes consist in an evolution of the operating businesses and their organizational structure. The opinions in the field of innovation in family firms do not seem to be unique. Dunn (1996) says that family businesses tend to be less innovative but more traditional and conservative; very often these companies focus on the internal dynamics of the company and are less prone to develop external collaborations.

Contrary to what some scholars say, family businesses invest a lot on innovation in order to maintain a sustainable competitive advantage in the long term. In fact, according to Craig and Moores (2006, pp. 1-10) “consolidated family businesses seem to attribute much importance to the practices and innovative strategies”. According to these theories, the family owned businesses are more creative and innovative. There are many factors that drive companies to constant investments in innovation. An examination of the literature in the field of high-tech companies emerge a variety of definitions. It may be useful to summarize one of the most significant.

According Kleingartner and Anderson (1987), the high-tech companies as a feature of the primary objective of transferring new ideas in the market. To achieve this goal:

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1 Source: Results of the strategies carried out by the authors
2 2006, pp. 1-10
• Devote significant resources to R & D, with an R & D ratio / sales at least twice the average of other sectors;
• Take on employees and develop professionalism highly technology-oriented;
• Research of new products for existing markets and new markets.

This feature provides a strong scientific/technical content to the sector which result in pressures that make different competition from that of other sectors. One of the reasons why Kemin is considered a high-tech company is given by the impact that its R&D has of sales. The net sales recorded in 2015 amounted to about $3,4 billion and the impact of R&D represent 13% of it. This data is a clear proof of how the company follows this market trend to offer more quality products and services. Despite Kemin is a family business, innovation represents the means of strategic change. The innovation for Kemin may be considered as a means to reach and to maintain a competitive advantage in a long-term perspective.

Hereinafter is a list of some of the factors that drive a company like Kemin to innovate:

- **Competition**: great global competition means that companies continue to invest in R&D to maintain their competitive advantage. In a constantly changing world, innovation is the first tool to compete.

- **Company philosophy** (constant innovation): As our world continues to change and evolve, it is necessary to provide innovative solutions for the consumer designed to meet the increasing needs following the market trends. Motivated by personal health, animal welfare, Kemin invests in R&D to create new solutions for the new consumer.

- **Need to evolve**: The rapid economic growth and the population growth lead to the need to evolve. To evolve means to be able to change and adapt to new market drives.

Whatever the specific goal of an enterprise is, this is due to the desire to build its competitive advantage by exploiting the opportunities that arise in the macroeconomic environment. In the specific case of Kemin, that advantage is represented by constant innovation of products and processes. This innovation is surely guaranteed by high training staff, maintenance of hygiene factors (Those factors the absence of Which demotivates people), quality production guaranteed by sustainable methods and international certifications as well as in the high investment in scientific research laboratories. The strategic tool that takes into account the trends dictated by the industry is PEST. PEST represent the analysis of the following detailed environments:

- **Political-legal**: the political environment surrounding the company has an important influence on its strategies. The legislative measures and upgrades, both national and international, are

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1 Result obtained using the following formula: R&D as % of sales = (Expenditure on R&D/Total Net sales)*100
2 Source: Data provided by the company - Kemin

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increasingly regulating the operation of businesses and represent indispensable guidelines for placing products on the market.

It is clear that a company like Kemin, a manufacturer of ingredients and natural extracts, operating internationally, must necessarily comply with the rules followed by each of the countries they wish to operate in.

- **Economical**: is the collection of forces acting on the economy and interacting with the operations of the enterprise. Such an environment is influenced by factors such as income, unemployment, inflation and interest rates; items to be evaluated with particular care when planning a strategy. The constantly increasing globalization and emerging markets, make the economic dynamics more complex, with respect to both paining attention to the local rules and the instability of the money exchange.

- **Socio-cultural**: this field refers to population characteristics, education, consumer habits and their lifestyles. The different trends, changes in perceptions and attitudes in relation to certain themes can have significant effects on both the demand and the supply of goods and services offered by the company. Focusing more on the consumer preferences, companies need to adapt their offers to new trends that keep manifesting within the industry.

- **Technology**: technological trends have a significant impact on the company's products and services. Substantial and constant technological improvements are carried out within the industry as far as the R&D of new ingredients, materials and solutions. The technological impact on the products of the company and its production processes make it cutting-edge and able to protect itself against potential threats.

4. CONCLUSION

An analysis carried out has emerged as family businesses play a fundamental role in the global economy. Innovation in a family business plays a very important role, acknowledged by all stakeholders. Like other companies, Kemin, over the years, is structured internally with a specific area of R&D. Kemin like family owned have some advantages over other companies, in their focus on the long term, their commitment to quality and their care and concern for employees. They separate individual business and coordinate them in order to create value and customer satisfaction. They have to coordinate the individual business in order to cut the costs and create synergies. The advantages of organising a business like Kemin in independent business units is that they care about them in a separate way which is meaning that they can take separate risk, and less risk as well. It is necessary that the entrepreneurial family never cease to study the market and its dynamics (SWOT).
In fact, the supervision of the family is essential to innovate while retaining the values and corporate culture. This research has analyzed a large-size operating in different sectors, in particular in the food ingredients market.

Innovation is an important element that is also affected by the economic environment, social, technological (PEST) in which the company operates.

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