

Innovation Needs and Outcomes in Food Micro Firms

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DECLARATION

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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Abstract

In the context of the prolonged rural crisis affecting both the UK and many other Western regions, the adding of value to agricultural products at, or near the locality of, the farmgate represents a potentially rich form of rural development. One common method for adding value to such products is through the small-scale production of high quality food products that command price premiums in the marketplace, through the targeting of niche consumer demands.

Despite a growing interest in this form of value adding, formal understanding of the mechanics of how the businesses that produce these products operate remains limited. This thesis attempts to contribute towards this understanding by taking innovation as a central point of analysis. It aims to contribute both towards our theoretical understanding of micro food firm dynamics and, practically, towards the development of effective policy tools to support food micro firm supply chains. This is achieved through the development of a broad conceptual framework developed through a multidisciplinary literature review. Through this framework, a longitudinal study of six micro food firms is undertaken along with a comprehensive postal survey of Welsh food businesses. The empirical data is subsequently co-analysed and related back to the existing theoretical understanding of the research issues. The thesis concludes by drawing upon a number of central issues that influence the development of food micro firms.

Among the findings of the research are that the aims and objectives of microfirm entrepreneurs are central to the development of the firm. Moreover, these are failing to be understood by both policymakers and mainstream food industry interests. In a broader context, the thesis argues that small scale quality food systems must learn to exist under the shadow of conventional interests, and follow development paths that are able to resist mainstream appropriation. Only the development of systems that effectively bridge the two production ethics in a form that ensures the integrity of small scale activities can enable the alternative values encompassed within many microfirm entrepreneurs to cease being alternative.

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Chapter 1: Introduction to the Research Issue

1.1 The Research Context

In the context of the prolonged rural crisis currently affecting both the UK and many other Western regions, the adding of value to agricultural products at, or near the locality of, the farmgate represents a potentially rich form of rural development. One common method for adding value to such products is through the production of high quality food products that command high price premiums in the marketplace. This form of rural enterprise has grown strongly in recent years. Typically, such activities are commonly undertaken by small scale businesses using ‘artisanal’ methods to produce products based on qualities associated with good taste, tradition, rural nature and / or ecological values. Such products are commonly known as ‘speciality’ foods, and are associated with niche consumer demand characteristics. Food From Britain estimate that there are now over 3000 speciality food producers in the UK, directly employing approximately 20 000 people (Food From Britain 1999).

The rural development potential of businesses of this nature is widely recognised to expand beyond economic income, as important as that is, to forms of cultural, social, environmental and entrepreneurial development within rural areas. Consequently, the promotion of small-scale value adding food activities in rural areas has become a key theme of both policy makers and academics alike, in recent years.

Despite this swelling of interest, formal understanding of the mechanics of how these businesses operate remains limited. Whilst academic studies have begun to address wider issues in this area, particularly those related with notions of quality (e.g. Ilbery & Kneafsey 1998; Ventura & van der Meulen 1994), the marketing of speciality food products (Kupiec & Revell 1998; Kuznesof, Tregear & Moxey 1997); and their potential contribution to rural development (van der Meulen & Ventura 1995; Ritson & Kuznesof 1996), inquiry into the developmental loci of such businesses remain somewhat limited.

This thesis, therefore, seeks to enlighten understanding in this area by focusing on how factors associated with the firm and its environment interact to influence the development of food micro firms. This is achieved by taking a broad definition of innovation as the central point of analysis. Innovation when defined as an undertaking that is either novel or unusual to a firm, or in other words beyond the normal routine of a firm, becomes a powerful focus for understanding the development of a firm. The key objective of this research is to characterise innovation in micro food firms and form a better understanding of how innovations are influenced by other factors, such as the entrepreneur, the product, other parts of the supply chain, government etc. Better understanding innovation and its influence on food micro firms can provide a basis for better supporting such businesses and maximising their potential benefit to rural areas and wider society in general. The aims of this research are, therefore, two-fold;

- to characterise and forward understanding of the development of food micro firms in general and specifically with respect to innovation, and secondly;
- to contribute towards the development of effective policy tools that support rural food micro firm supply chains.

Wales has been chosen as the case study region for a variety of reasons. Not least, it has a strong agricultural tradition that has suffered in recent years from low commodity prices, strong competition and fluctuating demand, particularly for red meat products. This, combined with highly visible manifestations of increasing interest in speciality rural food products, has roused interest from practitioners and policymakers in the value of such forms of rural diversification. Moreover, since devolution, Wales has had an increasing say in its agricultural, rural and food regulation. This has enabled the development of an increasingly powerful, coordinated and targeted rural development strategy that has included diversification and value adding strategies at its heart. It therefore represents a relatively dynamic, from the sense of rural communities, and innovative, from the sense of rural and business regulation, environment.

1.2 The Growth and Value of Speciality Food Producing Firms

Interest in speciality food products from academics, practitioners and policymakers alike has grown significantly in recent years (Marsden 1998; Mason & McNally 1997; Goodman & Watts 1997; OECD 1996). A broad variety of factors can be seen to contribute towards this situation. Figure 1.2a presents an outline of some of the main underlying factors and their effects, in the realm of producers, consumers and policymakers.

Figure 1.2a: Driving Forces Behind the Growth of Interest in Speciality Foods

	Underlying Factor	Effects
Producers	<ul style="list-style-type: none"> ● Increased economic marginalisation among many farmers and rural communities ● Growth in ‘migration’ into rural areas by outsiders with appropriate skills, desires etc ● High profile success stories in sector ● Recognition of consumer trends (see below) ● Increasing policymaker support (including provision of grants etc) ● Recognition of the value of increased control associated with niche products 	<ul style="list-style-type: none"> ● Increased market orientation among agricultural producers ● Growth in on-farm diversification ● Increase in speciality business start-ups ● Expansion of some existing speciality food producers
Consumers	<ul style="list-style-type: none"> ● General increase in prosperity and associated disposable income ● Series of food industry related health scares ● Growth of food related media ● Increase in foreign travel ● Increased awareness of environmental, ethical and health related issues 	<ul style="list-style-type: none"> ● Growth in demand for ‘healthy’, ‘environmentally friendly’, ‘natural’, ‘safe’ food ● Growth in ‘sophistication’ of consumer food tastes ● Increasing demand for convenience foods ● Growth in food related tourism ● Reaction to over commercialisation of food

		through seeking alternatives
Policy Makers	<ul style="list-style-type: none"> ● Recognition of economic and social marginalisation of rural areas ● Desire to move away from dependency culture in the agricultural sector ● Recognition of need for environmental sustainability ● WTO commitments for agriculture ● Recognition of economic and employment potential to rural areas ● Political and regulatory change providing greater freedoms in certain areas for regional government ● Appreciation of consumer and producer trends (above) 	<ul style="list-style-type: none"> ● Growth in support programmes and services for rural food entrepreneurs including training, bespoke support and marketing activities. ● Reinforced recognition of need to minimise negative effect of government policies on small business

Sources: (Marsden & Arce 1995; Ventura & van der Muelen 1994; de Bruin 1995; OECD 1995; Mason & McNally 1997; Kuznesof *et al* 1997)

These three arenas of interest have converged in recent years to produce a burgeoning speciality food sector in the UK. Consequently, growth in speciality food demand has resulted in the sector becoming an increasingly important source of income to many rural areas (Borch 1998), and a key developmental tool to policy makers in many rural regions of Europe and North America (Goodman & Watts 1997). In addition to the speciality food specific factors listed above, there are also wider benefits associated with small locally embedded businesses.

1.3 The Wider Benefits of Micro firm Vitality

The beneficial impact of a strong microbusiness sector is often much greater than its net economic contribution to an area. In addition to job creation, microbusinesses can bring value to local economies through socio-economic aspects such as the provision of opportunities for local people and the creation of markets in areas of otherwise little economic activity. Endogenous microbusiness activity can also bring ‘know-how’, confidence and vitality to areas through the engagement of local human and non-human resources and can be important in promoting the formation of networks. These characteristics contrast with large businesses which are often only embedded in local areas in terms of location and jobs. Inputs are typically brought in from outside the locality and outputs, both physical product and economic gain, are removed, with very little trickle down to local people (Westall *et al.* 2000). These characteristics are witnessed in the mainstream food industry, for example, which is more likely to ‘import’ ingredients from outside the locality. Mainstream food businesses also tend to be owned by large multinational businesses who appropriate much of the economic gain.

In the case of food, as well as being more likely to use local ingredients and supply local markets, many micro sized businesses export products outside their region. This can act as a valuable source of external income for local communities. Microfirms are also more likely to provide products and services tailored specifically towards local communities (Greenbank 2000) and also use professional services from the local vicinity (Hitchens 1997).

In terms of employment generation, the potential for micro businesses is based not on large increases per firm but through the net effect of the sheer number of such firms. Despite the fact that only a small proportion of microbusinesses experience substantial employment growth in their lifetime, the accumulation of many businesses can potentially provide a significant source of labour. In fact, approximately 92% of all UK VAT registered businesses have less than 10 employees (i.e. are micro businesses). Moreover, 28% of total employment is accounted for by the

microbusiness sector (Storey 1994). Microbusinesses therefore represent a highly powerful sector, both economically and socially.

Microbusiness vitality is therefore increasingly being regarded as desirable, particularly in disadvantaged areas that have been shunned by 'big business' (Lean 1998). To quote Westall *et al.* (2000, p2) 'it is clear that if appropriate strategies are created, micro-enterprises can be part of creating long-term change in disadvantaged areas, reversing the leakages of money and people out of an area into a virtuous circle of growth and employment'. Greenbank (2000) contends that general microbusiness support is not as developed as its importance to the economy suggests it should be.

The growth and development of micro agrifood firms are typically based on largely endogenous growth drivers. Van der Ploeg & Saccomandi (1995) describe endogenous development patterns as those 'based mainly, but not exclusively, on locally available resources'. Such resources include labour, culture, knowledge, ecology and climate. Endogenous processes can be characterised as being largely 'self-oriented' and participatory in nature. Endogenous development, when successful, can reinforce local identities, in contrast to exogenous forms, such as inward investment, which tend to affect localities according to external goals (Iacoponi *et al.* 1995). In this way, it can be thought of as a more robust form of development in that it is often more geographically fixed (Ray 1996).

Small scale endogenously based development also has its drawbacks. As well as being difficult to stimulate and providing comparatively few jobs per enterprise, traditional endogenous developments are typically regarded as lacking in innovativeness, and therefore having difficulty in adapting to change (Murdoch 2000; Chassagne 1995). With respect to niche marketing opportunities, the OECD (1995) also characterises rural areas as suffering from lack of awareness, business acumen, a resistance to change and a general distrust of new ideas. Additionally, the micro business sector in general has a notoriously high failure rate among new businesses, although Greenbank (2000) suggests that rates are much better for businesses once they are established.

1.4 Academic Approaches to Small Business Studies

Despite the potential value of microfirms, as mentioned previously, our understanding of the sector remains limited. In the words of Reid (1999, p304) “knowledge of [small business] functioning, especially at the bottom or “micro-firm” end of the size distribution of firms, is rather scant, particularly if a broad theoretical perspective is taken of their *modus operandi*.” (emphasis in original)

Small business studies are a relatively new and ‘immature’ academic discipline. It can also be characterised by the fragmented nature of its intellectual base. As an area of academic inquiry, small firms have attracted interest from virtually all areas of social science. As well as conventional management / business disciplines, small businesses have been studied in sociology, human geography, economics, political science and psychology among others (Goss 1991). In addition, small business development is a subject dealt with frequently in policy and non-academic circles (such as practitioners’ guides and support institution publications).

Consequently the study of small businesses presents the challenge of adopting literature from a wide variety of sources that have adopted often diverse reference points, definitions and methodologies. The area has been seen to have suffered from a degree of politicisation and idealistic speculation (Goss 1991). As Curran (1999, p11) concurs “a good deal of the discussion of small scale enterprise is highly selective or ideologically driven and, overall, poorly informed.” A challenge of this research is therefore to bring together various strands of research in a method that elucidates some of the key issues associated with the development of food micro firms.

1.5 The Structure of the Thesis

The thesis proceeds with a review of the industrial and institutional context in which food micro firms operate (Chapter 2). Chapter 3 reviews the current state of academic understanding relevant to this study and develops an empirical schema to guide the research process. Chapter 4 outlines the methodological choices that were made and the methods used to collect and analyse the empirical data. Chapters 5 and 6 present the empirical basis of this study, firstly through a postal survey and subsequently through 6 in-depth case studies. These discrete empirical findings are then co-analysed in Chapter 7 and the findings discussed in relation to the research aims and the original empirical schema. The thesis concludes in Chapter 8 with a discussion of the key findings of the research with respect to the broader context and outlines the contribution of the study to both the academic and policy fields.

Chapter 2: The Industrial and Institutional Context of Welsh Food Micro Firms

2.1 UK Agrifood in a Global Context

The global agrifood industry is a highly complex interlinking set of relations on which the livelihoods of many and the lives of most depend. It is the largest global domestic industry, with many millions formally employed in the sector, and millions more engaged either through informal participation, employment in associated industries or through the influence of the global industry on forms of subsistence agriculture common in many less developed countries.

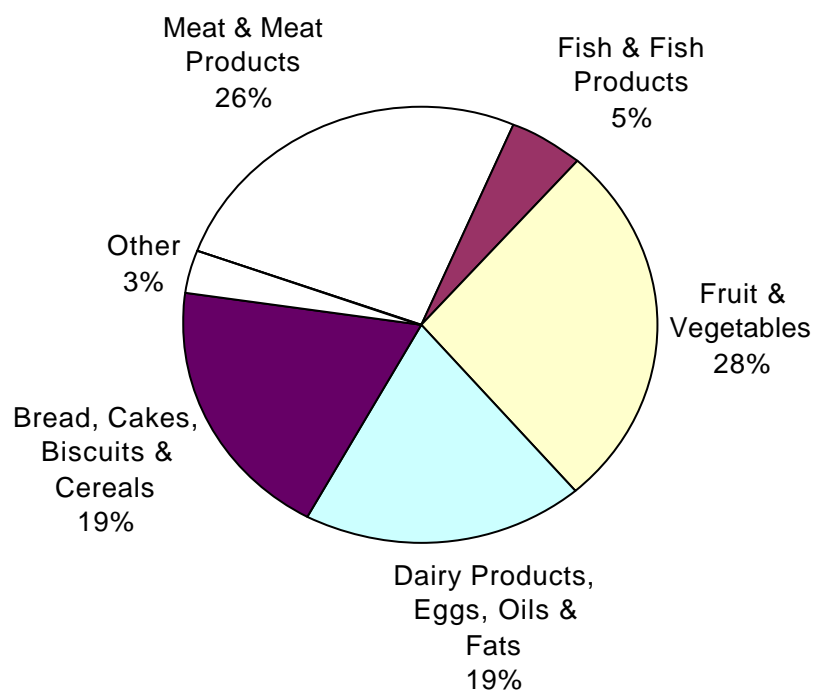
In the context of this study, the agrifood sector can be seen to encompass all organisations and individuals formally involved in the transformation of food from ‘farm’ to ‘fork’. As such, it includes producers (farmers, growers, fishermen etc), those involved in product combination / transformation (processors, manufacturers), consumer interfaces (retailers, caterers) and agents who store and / or distribute food (wholesalers, distributors). There are also other concerns that are not traditionally considered as part of the agrifood sector but which play key roles influencing it, such as the agricultural input sector, the public sector, NGOs, parts of the media and, not least, consumers.

This chapter attempts to contextualise this study by reviewing the key characteristics of the agrifood sector from the context of small Welsh food businesses. This is achieved by outlining the structure of the UK food industry and the role of small firms within this. The Welsh context is then addressed, in terms of both primary agriculture and food processing, and through reviewing the current knowledge base of Welsh food supply chains. Lastly, the institutional support structure for agrifood businesses in Wales is outlined.

2.1a The UK Food Industry

The food industry is one of the largest economic sectors in the UK. In 2001, the UK food and drink industry earned retail sales of £46.37 billion. At the same time, the sector employed approximately 436 000 people domestically, plus many more overseas. In fact, as a nation, the UK is a net importer of food products. Imports average out at approximately 3 times the value of food exported. In 2001 alone, the UK imported £16.5 million worth of manufactured food products, fresh produce and live animals. The mainstream food sector can also be characterised as a high advertising expenditure sector. Despite recent declines in advertising revenues, the sector still spends over £500 million in the UK every year (Keynote 2002). Figure 2.1a highlights consumer expenditure in terms of six product categories. The pie chart illustrates that fruit and vegetables are the largest sector, accounting for 28% of consumer food spending. Meat & meat products follow closely behind on 26%. In fact, 2001 was the first year that consumer spending on fruit and vegetables had overtaken meat and meat products. This reflects a long term trend of eating red meat, which has been compounded by the effects of BSE and Food & Mouth disease.

Figure 2.1a: UK Consumer Food Expenditure by Sector (2001)



Source: Keynote (2002)

There are a number of other general trends of note in the food sector, particularly in the context of this study. Not least is the gradual concentration of power towards a small number of large retailers. Five multiple retailers accounted for of 74% all UK food retail sales in 1999 (Mintel 2001). Moreover, this trend has been steadily evolving over recent decades and shows no sign of reversing, or even stalling. Recent years have seen the already dominant retailers move increasingly into other formats such as convenience stores and internet retailing, as well as broadening into non-food areas. The net effect of these developments has been a concentration of power that has shaped the structure and activities of much of the food industry into forms that favour the multiple retail sector.

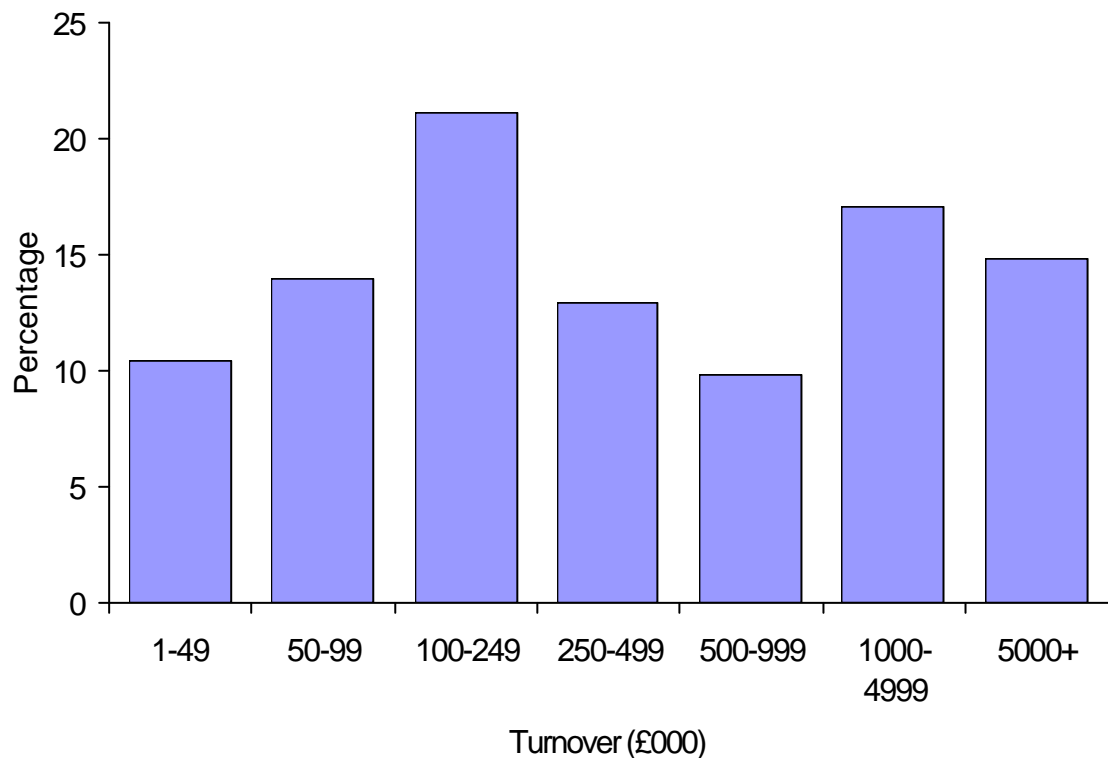
This has included, among other things, a general reduction in the margins accrued by other parts of the supply chain, and a shift towards retailer own labelled goods rather than producer brands. One effect of multiple retailer dominance has been to effectively mask the identity of much of the food industry from the consumer whilst appropriating many innovation functions and aspects of propriety, particularly in the area of product development. This has consequently reduced the power of other actors in the food industry who have essentially become sub-contractors to retailers rather than true supply chain partners. Power to negotiate has, therefore, been eroded by the ability of retailers to purchase from other businesses. Multiple retailers have also sought to reduce the number of businesses they deal with, mainly to simplify trading arrangements. Whilst it may be argued that developments such as these have increased the variety and value of food for many consumers, the long-term sustainability of the food sector is being increasingly called into question, not least in terms of food access, farming vitality and environmental impact.

From a consumption perspective, the UK food industry is characterised by increased segmentation of consumer needs combined with a gradual trade up by consumers from low priced commodity products to higher priced convenience based products. In addition to supply sided factors, the move towards higher priced convenience food can be seen to be a consequence of higher disposable incomes combined with time pressures among consumers. Consumer demand for food products is also broadly resistant to macroeconomic effects. This provides a certain degree of stability in the market, at least in terms of net consumer demand.

There are approximately 10 000 food manufacturing firms in the UK compared with 123 000 agricultural businesses (mainly farmers) and 37 000 food retailers. The agrifood sector as a whole is thought to account for 296 000 VAT registered businesses (Keynote 2002).

Structurally, most sectors of the industry have been experiencing consolidation, in terms of the number of food-related businesses at least, for a number of years. Structural trends in the industry, in addition to increasing retail concentration, include a reduction in wholesale trade, replaced by more direct supply chain relationships, and consistent growth in the catering sector. The number of food manufacturers has also been in steady decline, down 12% between 1997 and 2002. Figure 2.1b outlines the size distribution among UK food manufacturing firms. It illustrates vast differences in scale between firms in the sector.

Figure 2.1b: Size Structure of UK Food Manufacturing Sector by Turnover (2002)



Source: Keynote (2002)

2.1b The UK Specialist Food Sector

The UK specialist food sector is generally thought to have experienced gradual growth in the UK in recent years. This is particularly observable in terms of the number of speciality business start ups. A Food From Britain study estimated the British speciality food sector to have a retail worth of over £3 Billion as well as employing over 20 000 people (Food From Britain 1999). Growth in this sector can be attributed to a number of factors which were outlined in 1.2. The same study identified that the main product groups for speciality producers were beer (14%), dairy (13%), bakery (11%) and meat products (10%).

Consumers of speciality foods are commonly regarded as middle-aged, relatively wealthy and educated. They are also often associated with having concerns about mainstream food production and an interest in the quality of ingredients. Speciality food consumers are by no means limited to these groups, with a Mintel survey identifying that over 80% of all respondents either buy or would consider buying speciality foods (Mintel 1999a).

The specialist food retailing sector, however, has borne mixed results. Many businesses have suffered, particularly as a result of wider consumer trends and increased competition from the multiple retail sector. This competition, for example, has virtually destroyed the specialist fishmonger sector. Within this trend, however, there are areas where specialist shops have prospered, for example some high quality greengrocers and bakeries (Mintel 1999a).

2.2 The Welsh Agrifood Industry

The agri-food sector in Wales can be characterised as being largely primary production based, with a traditionally strong agriculture sector mainly involved in livestock production and dairying. Average farm size in Wales is relatively small in UK terms but large compared with Europe and the rest of the world. Despite only contributing approximately 2% to Welsh GDP, agriculture is a highly significant sector socially, politically and, in many rural areas, economically (Coleman 1999). In common with many other regions, Wales is suffering from increasing marginalisation in productionist terms, in what has become popularly known as the 'farming crisis'. This has resulted in a period of significant upheaval for Welsh agriculture and a general push towards rationalisation and value-adding, less price competitive, activities.

Processing and other forms of value-adding in Welsh agrifood are generally regarded as underdeveloped. Large scale (conventional) food processing does exist, but links with rural areas and the Welsh economy in general tend to be minimal due to sourcing originating primarily from outside Wales. In fact many areas of the farming and mainstream food processing sectors operate in complete isolation from each other.

The agriculture sector employs approximately 55 000 people on farms. However, employment in the agriculture sector has fallen continually in recent years. Between June 1998 and June 2000, the sector lost over 10% of its agricultural workers (Hancock 2001). It should be noted that these figures pre-date the Foot and Mouth outbreak in 2001.

The Welsh food industry as a whole is estimated to employ 55 000 FTE jobs in production and processing alone. Approximately 2/3rds of these jobs are located in the predominantly urban areas of south west and north east Wales (The Grocer 2000). Figures indicating the value of the processing sector in Wales are not available; however, the supermarket sector alone sourced approximately £400 million worth of Welsh food products in 2000 (The Western Mail 2001).

2.2a Agriculture and Primary Processing

As mentioned, agriculture in Wales is predominantly livestock based, with the main activities being dairy, lamb and beef. Dairying is thought to account for 32% of the total gross output for Welsh farming, with lamb and beef combined accounting for 57%. Farming is widespread throughout Wales, although less significant around the urban areas of south and north east Wales. Figure 2.2a presents basic statistics from the latest agricultural census for Wales.

Figure 2.2a: Basic Agricultural Statistics for Wales (2000)

Total Agricultural Land	1 468 000 Hectares
Number of Holdings	28 410
Average Farm Size	52 Hectares
Total Cattle and Calf Holdings	15 047
Dairy Breeding Holdings	4 307
Beef Breeding Holdings	9 326
Total Sheep and Lamb Holdings	15 088
Total Pig Holdings	921
Agricultural Land by region:	
South Wales	13%
North West Wales	16%
North East Wales	14%
Powys	28%
Ceredigion	9%
Pembrokeshire	8%
Carmarthenshire	12%

Source: Welsh Agricultural Statistics 2001

The Welsh Dairy Sector

Dairying is a traditional activity among Welsh farmers. Wales contains approximately 13% of all UK milk producers. Production is mainly focused in two milk fields; one in South West Wales (Pembrokeshire, Carmarthenshire and Ceredigionshire) and one in the North East (around Wrexham and Denbigh).

Figure 2.2b: Characteristics of the Welsh Dairy Sector (1998)

<p>Primary:</p> <ul style="list-style-type: none">• Total number of producers: 4078 (13 % of UK total)• Total annual production 1997/98: 1416m litres* <p>Processing:</p> <ul style="list-style-type: none">• Processing sector: 67 sites plus 30 small ice cream manufacturers• 23 Farmhouse cheese producers <p>Consumption:</p> <ul style="list-style-type: none">• Total liquid milk consumption in Wales: 290m litres (81% from Welsh herds)

*Figure estimated by using net quota after leasing as a proxy.

Source: (Agrifood Partnership 1999a)

According to the Agrifood Partnership Dairy Action Plan (Agrifood Partnership 1999a), the dairy processing sector in Wales is locked into a process of polarisation between very small and very large producers. The plan segments existing operators into three groups; large scale, middle scale and small scale. There were nine large operators in Wales in 1999, each with an annual consumption of milk of over 50 million litres. Together they account for 85% of the total milk processed in Wales. The group of medium sized producers are more loosely defined. They include operators with great growth potential and larger businesses whose immediate prospects were judged to be limited. There are thought to be up to 15 companies in this group, handling 170 million litres of milk per year (14% of total Welsh liquid milk processing). The final group, defined as small operators, is made up of approximately 40 processors with a net consumption of under 5 million litres per year (less than 1% of total production). Included in the group were 23 farmhouse cheese producers and 13 un-pasteurised 'green top' milk producers. They were categorised in

the report as having little or no expansion plans and therefore in need of support that allows them to stay in operation.

Figure 2.2c: Segmentation in the Welsh Dairy Processing Sector (1998)

Segmentation	No. of Processors
Processors Buying Milk from Farms or Farmers' Co-ops	
Large (over 100m litres/year)	7
Medium (10-100m litres/year)	7
Small (under 10m litres/year)	6
Sub-total	20
Other Processors	
Product conversion and packing centres	4
Significant ice cream makers*	6
Farm-based un-pasteurised milk retailers	13
Farmhouse yoghurt maker	1
Farmhouse cheese makers	23
Sub-total	47
Total	67

Source: (Agrifood Partnership 1999a)

NB: * Defined as companies with regional or national distribution.

Figure 2.2d: Milk Utilisation in Wales (1998)

Product	Millions of Litres	%
Liquid (drinking) milk	252.5	20.8
Commodities:		
Butter	120.6	10.0
Cheese	809.9	66.8
Preserved Milks	-	-
Non-Commodities: (yoghurt, other fresh products, desserts)	29.0	2.4
Total	1212.0	100.0

Source: (Agrifood Partnership 1999a)

The Welsh Lamb and Beef Sector

Lamb and beef production are widespread in Wales. Sheep farming dominates in upland areas, while beef cattle are concentrated in the western regions.

Figure 2.2e: Characteristics of the Welsh Lamb and Beef Sector (1998)

Primary:	
• 17,000+ cattle holdings (11% of UK Total)	
• 16,000+ sheep holdings (26% of UK Total)	(1997 census)
• 50 Auction Markets*, annual throughput estimated at 4 million	
Slaughtering and Cutting:	
• 34 Licensed abattoirs	
• 37 Licensed cutting plants	

*not all trade every week.

Source: (Agrifood Partnership 1999b)

The Welsh lamb and beef sector, like most other parts of UK agriculture, has experienced a significant period of turbulence in recent years. The Figures in 2.2e (above) are therefore likely to have changed significantly since they were published. Average livestock holding size is slightly smaller than the UK average (53 hectares versus 73 hectares) but considerably larger than the EU average (14 hectares). Figure 2.2f presents estimates for the numbers of licensed abattoirs and cutting plants in Wales.

Figure 2.2f: Numbers of Full and Low Throughput Abattoirs and Cutting Plants Licensed in Wales (1998)

	Full throughput	Low throughput
Slaughter and cutting plant	13	4
Slaughter only	1 (non operational)	16
Cutting plant	5	6
Cutting plant, linked to cold stores	3	3

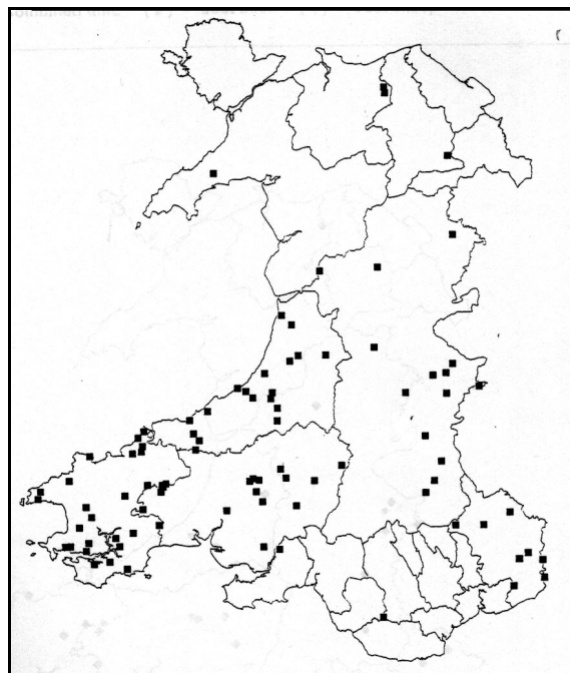
Source: (Agrifood Partnership 1999b)

The Welsh Organic Sector

The Welsh organic sector has grown significantly in recent years. In 1998, 1 in 235 Welsh farmers farmed organically; by 2001 the figure had risen to 1 in 50. The National Assembly For Wales has a target to raise total organic output to 10% by 2005. Output in 2001 grew by as much as 400%, although it still only stands at roughly 2% of total agricultural output (Agrifood Partnership 1999c).

The Welsh organic food industry is described as being mainly small scale in comparison to mainstream production. In addition to livestock, organic vegetable production is also a significant sector, although it is limited by climatic conditions. Organic Farm Foods in Lampeter are the largest pre-packer and distributor of organic fruit and vegetables in the UK, supplying most of the major retail chains. A significant proportion of their produce, however, is sourced from outside Wales (and the UK). The Welsh organic sector also has two major organic meat processing and distribution companies, supplying predominantly Welsh organic meat to customers across the UK. Figure 2.2g highlights the location of organic farms in Wales that were operational in 1998. This figure highlights a concentration in western areas of Wales.

Figure 2.2g: The Geographical Spread of Organic Farms in Wales (including those in conversion) (1998)



Source: (Banks 1998)

The Welsh Horticulture Sector

Welsh horticulture is a small but significant sector concentrated in southern parts of the region. The main area of existing horticulture production in Wales is field vegetable production in Pembrokeshire and sheltered locations along the South Wales coast. Potatoes are the main horticulture crop in Wales with approximately 3300 hectares in commercial production. Just over half of this production takes place in Pembrokeshire. Other areas with notable field-based horticulture are the Vales of Clwyd (in the south) and areas around Deeside (in the north). Commercial fruit production in significant volumes is largely limited to the Gower peninsular (south) and areas around Chester and Shrewsbury (north east). These areas tend to produce soft fruit crops such as strawberries, blackcurrants and raspberries. Potential in this sector is considered limited due to physical and climatic restrictions as well as lack of domestic demand and poor transport infrastructure (FRCA 1999).

2.2b The Welsh Food Industry

According to the Welsh Development Agency's Food Business Directory, there are approximately 600 agrifood businesses in Wales. Of these, about 2/3rd are food producers and another 2/3rds act as distributors or wholesalers. The database excludes retailers, unless they are also producers and or distributors / wholesalers. A breakdown of the sector drawn from the database is given in Figure 2.2h. Many businesses are classed in more than one sector. In fact, the average business appears in 1.75 sub-sector categories, although this statistic is likely to be skewed by a small number of businesses operating in a large number of sub-sectors (non-specialist distributors, smokeries etc).

Although no one sub-sector dominates, four are significantly larger in terms of number of businesses; Meat Products, Dairy Products, Baked Goods and Poultry / Game / Eggs. The latter two categories, however, are fairly aggregated and therefore include quite distinct products (the baked goods category for instance includes bakers, ready meal manufacturers and meat pie makers). Therefore, the two dominant product categories seem to be dairy and meat products. This reflects strongly the situation in the agriculture sector and indicates linkages between primary and processing sectors in the Welsh agrifood sector.

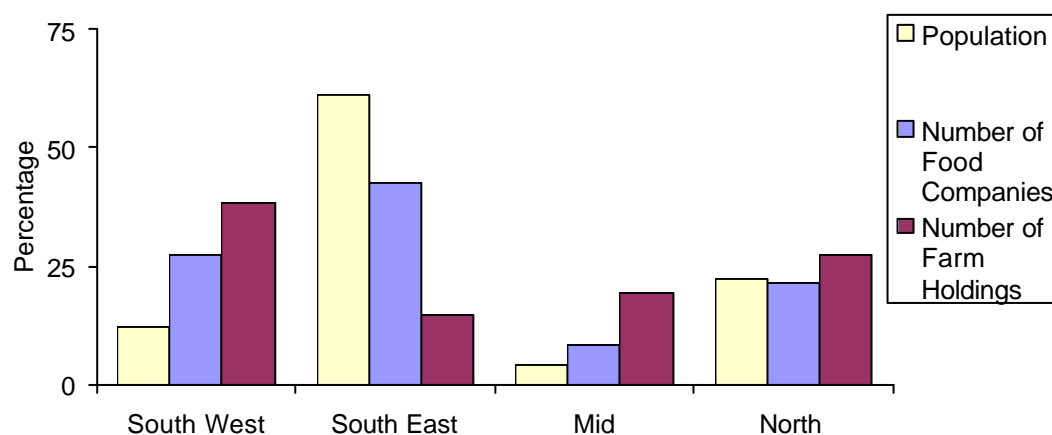
Figure 2.2h: Welsh Food Firms Broken Down by Sub-Sector and Activity (1999)

	FOOD BUSINESS ACTIVITY				
	Total Businesses in Sub-sector	Producers	Distributors / Wholesalers	Both Producers and Distributors / Wholesalers	Proportion of Producers who also Distribute
Baked Goods	175	147	120	92	63%
Alcoholic Beverages	63	35	51	23	66%
Non-alcoholic Beverages	88	46	70	28	61%
Dairy Products	153	118	112	77	65%
Fish / Seafood	66	39	55	28	72%
Fruit / Vegetables	81	51	58	28	55%
Meats	172	125	132	85	68%
Poultry / Game / Eggs	154	106	124	76	72%
Preserves / Sauces / Condiments	92	60	69	37	62%
<i>Cumulative Total</i>	<i>1044</i>	<i>727</i>	<i>791</i>	<i>474</i>	<i>65%</i>
Pluriactivity index	<i>1.75</i>	<i>1.77</i>	<i>1.71</i>	<i>1.71</i>	
Actual Total	597	411	463	277	67%

Approximately two thirds of producers in Wales also distribute their own (and often other companies') products. The table also indicates that this is remarkably consistent among sub-sectors. The only significant exception to this seems to be fruit and vegetable companies who are significantly less likely to distribute their own product.

Figure 2.2i presents the geographical location of the food businesses in the WDA database and compares this with the percentage of population and farm holdings.

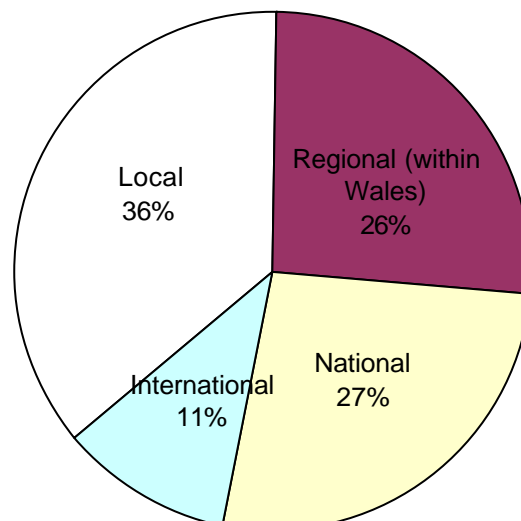
Figure 2.2i: A Geographical Breakdown of Welsh Agrifood Sector (1999)



This figure shows that the majority of food businesses (just under 43%) are in the predominantly industrial South East region of Wales. This is also where the majority of the Welsh resident population lives. South West Wales (defined as Pembrokeshire, Carmarthenshire and Ceredigion) has the second largest concentration of food firms with mid Wales (Powys only) having the smallest. From this information presented in the graph, it is not unreasonable to suggest that the majority of food businesses in South East Wales are not rural or farm based in nature. Rather, the businesses situated in this region are there for ‘urban factors’ such as employment, customers, distribution links etc. However, South West and mid Wales however have low populations but a relatively large number of food businesses and farm holdings. This suggests that these food businesses are more likely to be based there due to rural (production) factors. The North Wales region is less conclusive as it encompasses a mixture of both rural and urban areas.

Figure 2.2j illustrates the market reach of Welsh food businesses in terms of the furthest extent to which firms conduct a significant amount of business. As the pie chart depicts, the majority of Welsh food and drink businesses operate in local markets only. Just over a quarter of businesses extend to regional markets (defined as non-local but within Wales) and a similar proportion have a national presence. Approximately 11% of businesses compete on international markets.

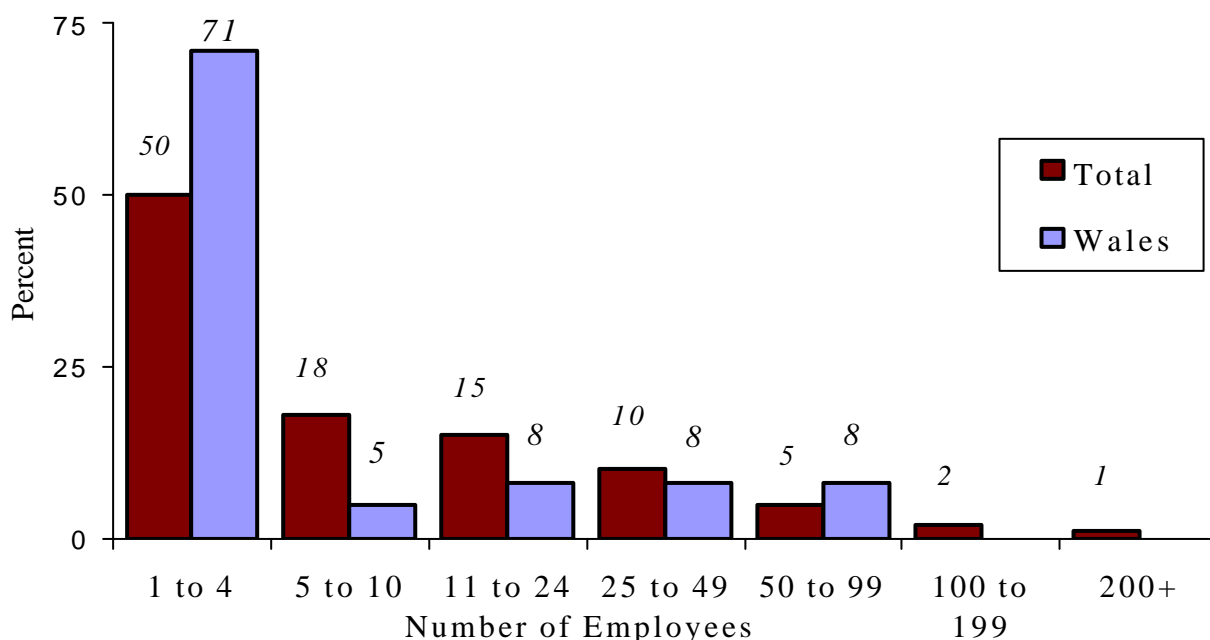
Figure 2.2j: Market Reach Among Welsh Food Businesses (1999)



DTZ Pieda Consulting published a report on the UK Speciality Food and Drink Sector in 1999. Sponsored by Food From Britain and MAFF, the report included a comprehensive survey of speciality food businesses. The report included a statistical annex for 53 Welsh companies who took part in the survey. The findings for the Welsh sample are broadly similar to that of the total sample and although the sample was small, it seems safe to assume that the findings of the survey are applicable to the Welsh speciality food and drink sector as a whole (Food From Britain 1999).

The study showed that the vast majority of speciality food producers are based in rural areas. In fact, only 9% of all businesses that responded to the survey are situated in cities or conurbations, 21% are located in regional towns with the remaining 70% in rural areas. The average (median) size of sampled businesses was 8 FTE employees and an annual turnover of between £100,000 and £200,000. The sample did, however, contain a small number of large companies who have a presence in speciality food markets (8% of all companies have over 50 employees). Figure 2.2k gives a breakdown of business size in terms of number of employees. The difference between the whole sample and Welsh companies is apparent here. This seems to suggest that Welsh companies are much more likely to be smaller when compared with UK speciality food and drink businesses. It should be remembered, however, that only 53 Welsh businesses were sampled, making any comparisons only speculative (Food From Britain 1999).

Figure 2.2k: Size Distribution of UK and Welsh Speciality Food and Drink Companies (1999)



A Midmore *et al.* (1996) study investigating linkages between tourism and agriculture in South Pembrokeshire provides some interesting information about the nature of the Welsh food industry. Among its findings, the authors concluded that local processing capacity was ‘insubstantial’ in South Pembrokeshire. As a consequence, local supply chain structures for processed foods were regarded as weak. They illustrated this by detailing the case of local potatoes which are washed, graded and packed several hundreds of miles away in England before returning to the area.

The main finding was that, despite a respectable (albeit seasonal) range of vegetables grown in the area, Pembrokeshire produce purchased through conventional supply chains invariably travel via one of the major wholesale markets situated outside the area. This was found to be due to the wholesaling system’s drive to balance supply and demand by sourcing from a wide range of locations in order to provide consistency and value. To this extent, the availability of local food through the wholesaling system is dependent of external supply and prices.

Among individual sectors, meat and dairy products were found to be the most integrated between local production and consumption. These reflect the size and tradition of the local production base. The quality and range of local meat was found to be an important demand factor. In the dairy sector, sourcing of fresh milk and cream is predominantly from local farms and dairies rather than on the wholesale market. Direct sourcing from the farm was reported as strongest in rural areas. The availability of local cheeses however was regarded as mixed, with respondents stating a lack of range and appropriate sizes. As a result, the extent of linkages with local cheese producers varied considerably between establishments. Local ice cream manufacturers are frequently sourced in preference to national brands, although some criticism was voiced over the quality and pricing of local products. Welsh yoghurts were well stocked; however, problems existed in sourcing the individual butter portions favoured by catering establishments.

Overall, the degree and form of local food supply chains was found to vary considerably among the different types of food produced in South Pembrokeshire. Local supply chains that serve the tourist market through catering establishments were found, but were inconsistent and imposed specific issues to those involved in the

chains. In particular, seasonality and inconsistency seem to be the major problems, coupled with a lack of range available (Midmore *et al.* 1996).

A study comparing 'quality' and 'conventional' food chains in West Wales also provides some important information about Welsh food supply chains (RIPPLE 2000). As part of this project, the researchers focused on a number of individual sectors. When comparing quality and conventional lamb and beef, they found that, in addition to adhering to higher product quality standards, producers seem to have a significant environmental conservation motivation which in many cases is considered as important to the producers as pure profit maximisation. Also significant is the relatively high proportion of in-comers, when compared with conventional farmers, and the existence of strong local economic linkages through use of local input suppliers, contractors, slaughterhouses etc. Quality producers also supply a wider range of markets including multiple retailers and local consumers. In the conventional sector, the marketing of lamb and beef is reported to be done mainly by intermediaries in the supply chain, for example slaughterers and the Meat and Livestock Commission. Instances of producer-led marketing or explicit strategic development were found to be rare.

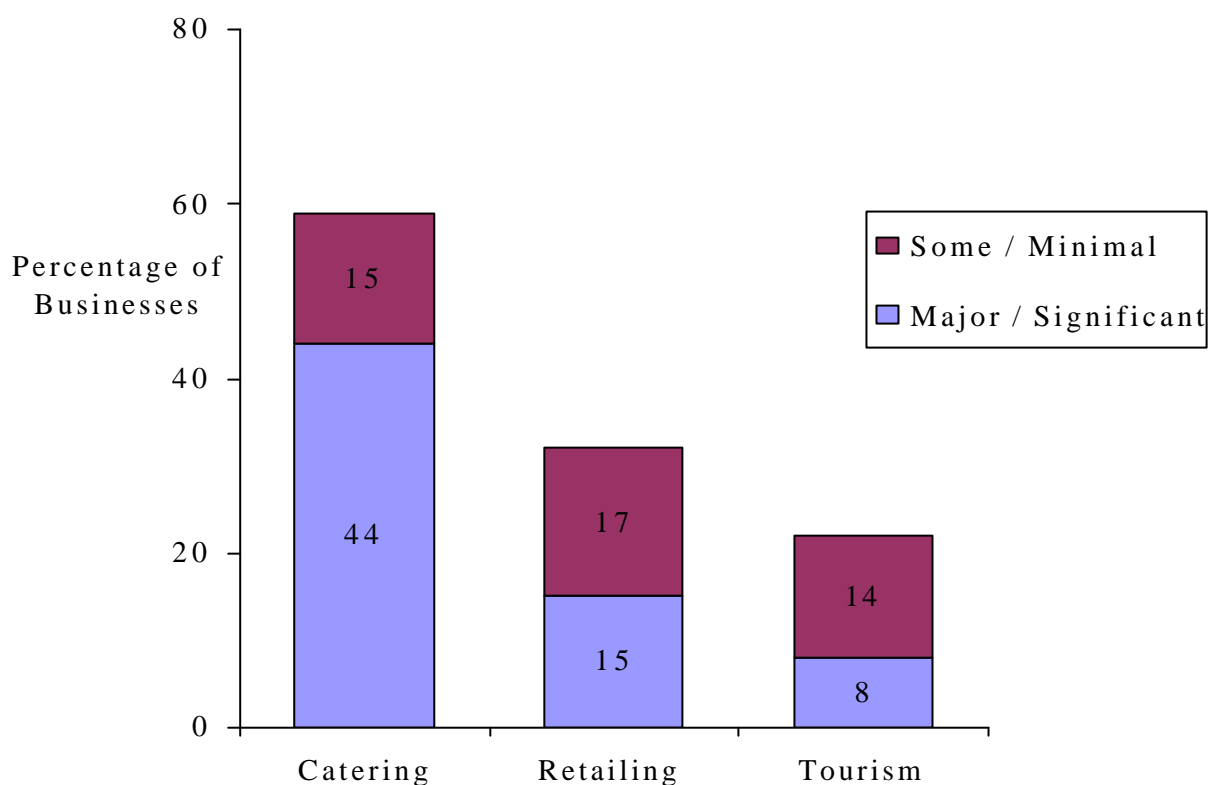
The organic sample interviewed during the RIPPLE study expressed strong differences with conventional farmers. In addition to a high degree of outsiders, organic farmers are more likely to be part-time and pluriactive. Farm size is generally smaller and incomes (during the period up to the study) are more variable. This is particularly apparent for organic vegetable growers who are highly seasonal and dependent on seasonal labour. Again, linkages with local communities were found to be stronger than for conventional farmers, mainly due to greater labour intensity and local demand. The certification of many types of organic produce has an impact on supply chain structure and mechanisms. For instance, the requirement for using organically certified abattoirs both tends to extend the physical length of organic livestock supply chains in Wales and reduce the margin accrued to the farmer, due to increasing transport and associated costs. This issue has been abated recently due to the increasing number of slaughterhouses in Wales that have achieved organic certification. Organic supply chains were found to be shorter, on average, than conventional ones.

The general cheese sector in West Wales is considered by the report to be more competitive than the other sectors in the survey. The area was identified as containing a number of businesses that service both the bulk commodity cheese market and speciality markets. The speciality producers surveyed tend to supply predominantly local markets and particularly rely on the tourist trade. The producers themselves were characterised by the authors as being predominantly 'lifestylers' rather than commercial business people. As a result the businesses are often sole traders, or only have a few part-time employees. Also observed is a 'cultural resistance' among the sampled producers towards expansion and the exploitation of latent market opportunities. Milk for cheese making was generally sourced either on their own farm or from local farmers. Other inputs (usually rennet and salt) tend to be sourced from conventional markets outside the region. Again the supply chains employed by such producers tend to be distinct from those of conventional cheese producers. Local markets represent a significant proportion of demand; this is met through farm shops and supplying local retailers and caterers. Cheese is often sold further afield to delicatessens and specialist retailers. These businesses tend to be supplied directly, although intermediaries are also used. Their presence in regional supermarkets and on the internet was also reported to be increasing during the period of the study.

DTZ Pieda Consulting have been involved in an additional study that increases our understanding of Welsh food supply chains. The Welsh Rural Food Distribution Study (2000), funded by the WDA, studied the importance of distribution as a constraint on Welsh food businesses (WDA 2000). The report found that distribution was usually rated as a development issue of intermediate importance by producers and institutional experts alike. This factor was consistently rated below marketing, financial control and management as important development issues for Welsh food businesses. Among the distribution constraints identified by focus group participants were physical factors such as long distances, a poor road network, and insufficient temperature controlled / chill distribution facilities. Poor management and delivery services were also seen as a problem in Wales along with poor information about the services available. A consumer interface survey gave indications about the efficacy of food supply chains across Wales. Businesses in North Wales were shown to experience the most problems in sourcing Welsh food products, followed by mid Wales. Of the three sub-sectors surveyed, catering businesses experienced the most

problems (see Figure 2.21). Within this, restaurants were most likely to complain about sourcing problems, followed by hotels / guest houses and bed and breakfasts.

Figure 2.21: Experience of Problems Procuring Welsh Food Products by Consumer Interface Type (1999)



Source: WDA (2000)

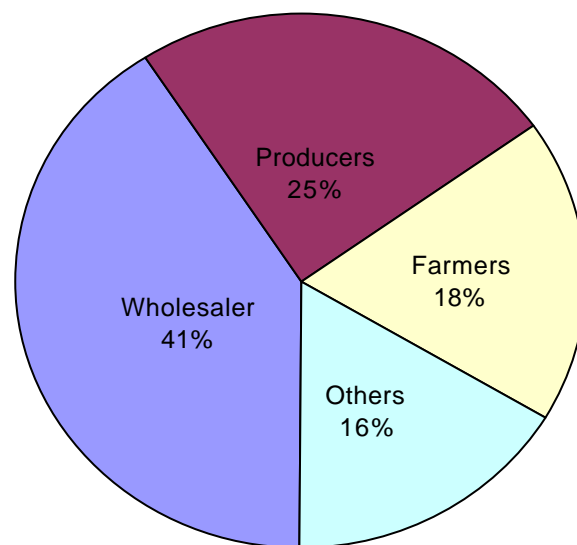
Just under one third of respondents regarded that there was a 'limited product range' available, while a similar number thought that 'poor marketing' had constrained their purchase of Welsh food products. Over 3/4 thought that marketing should be a 'high' or 'fairly high' priority for the future. Encouragingly, 62% of respondents have never experienced distribution problems with Welsh food products.

Overall, it seems that endogenous Wales-based supply chains are becoming increasingly established in Wales. 51% of respondents reported that demand for Welsh products is increasing, while only 8% reported any degree of decrease in

popularity. Moreover, 63% of respondents are willing to pay some kind of premium for food if it is Welsh.

The survey also gave an indication of supply chain structures by asking which were the dominant supplier types for their business (see Figure 2.2m). As is clearly shown in the pie chart, the wholesale system still dominates the sourcing of Welsh foods.

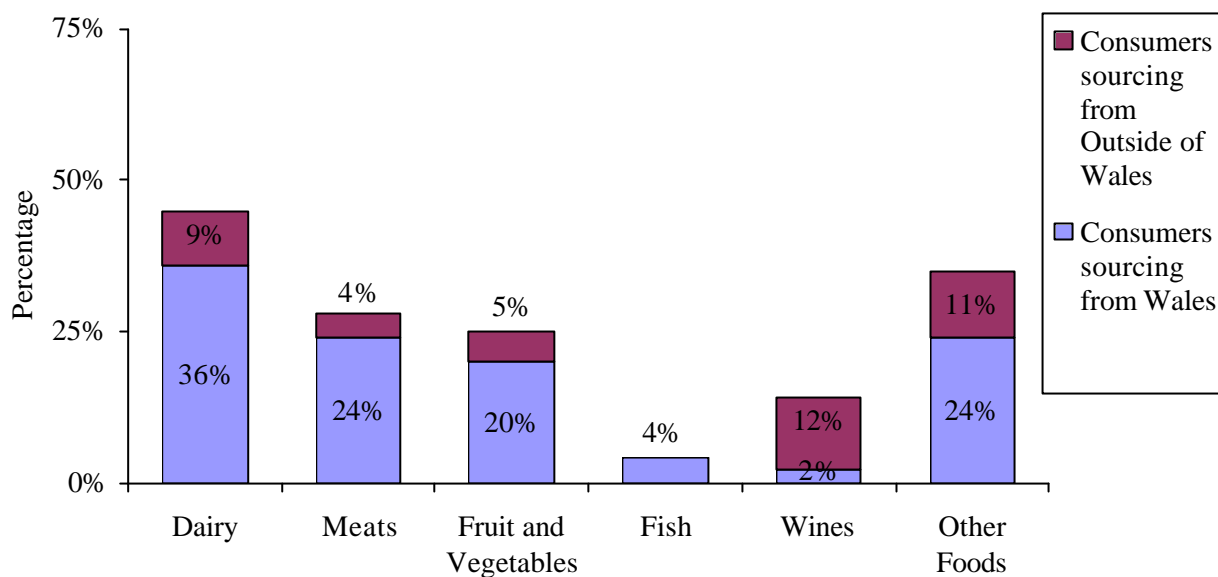
Figure 2.2m: Most Common Type of Supplier for Welsh Food Consumer Interface Businesses (1999)



2.2c Consumption Characteristics for Welsh Food

The RIPPLE study described above also included a Welsh consumer survey. This report provides some information about the demand characteristics of Welsh food products. As part of this survey, respondents were asked to state the origin of any 'quality' food or drink products that they commonly purchase. The following Figure summarises these results.

Figure 2.2n: Welsh Consumer Quality Food Sourcing Habits for Speciality Foods (1999)



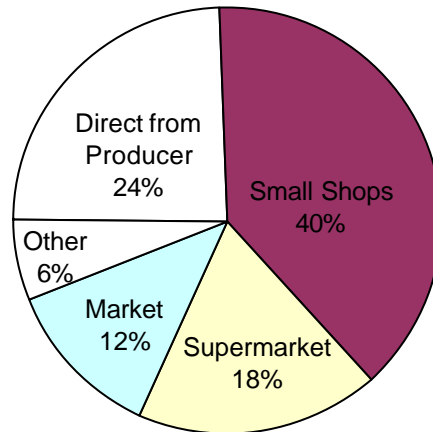
As the graph demonstrates, the majority of quality food and drink products sourced by the survey respondents were from Welsh food companies, rather than products originating outside of Wales. Moreover, this is common across the main sectors including Dairy and Meat. The only exception to this trend seems to be with wine. The report cites the presence of high profile local products as contributing to the popularity of certain local food types. A few well known west Wales meat and dairy producers seem to produce this effect. The second link identified is between freshness and distance to markets. Products for which freshness is an important aspect of quality (e.g. meat, dairy, fish and fruit and vegetables) tend to have a stronger local demand in this study.

These results therefore appear to show that Welsh quality products generally have a strong market share among Welsh consumers, although the market size, in terms of the total amount of quality products purchased by Welsh consumers, maybe underdeveloped.

The pie chart below (Figure 2.2o) shows the most frequent place of purchase for quality food and drinks products among the respondents. It is clear that Welsh consumers access quality food supply chains at different points than for conventional food products. This again highlights the structural differences between conventional

supply chains and those of quality food and drink products. The study found significant differences in purchase locations between urban and rural consumers. For example, approximately one third of respondents in Cardiff source quality food products from supermarkets, compared with 18% for the study sample as a whole.

Figure 2.2o: Retail Purchasing Locations of Welsh Speciality Foods (1999)



2.3 Institutional Food Business Support and Strategic Direction in Wales

An understanding of the range of institutional support programmes and initiatives available to Welsh food businesses is a key element for contextualising this study. In particular, it is important to understand the strategic aims of support institutions and the mechanisms that are employed to operationalise them. The key strategic support process for Welsh food firms is the Agrifood Partnership. Formed in 1999, during the beginning of this study, the Agrifood Partnership was an attempt to coordinate the activities of more than 60 public institutions that had responsibilities for agrifood in Wales at that time, and give a strategic direction to the development of agrifood support services and programmes. It was borne through a consultation process that involved the canvassing of many representative interests in the Welsh agrifood sector with the aim of agreeing what the strategic goals of the sector should be and how best these can be achieved.

The Agrifood Partnership represents an innovative approach to supporting the agrifood sector, not least because it involved direct cooperation and partnership between industry leaders, development institutions and independent consultants. The resulting strategy for the development of the sector has been developed on a largely sectoral basis but with a delivery mechanism aimed at recognising regional priorities and competencies.

The sectors chosen as foci for the strategy were lamb & beef, dairy and organic. The latter was chosen due to its perceived potential rather than an existing production base. An initial action plan was developed for each sector, drawn up by a working group made up of representatives from industry (typically making up 2/3^{rds} of the total number), academic and developmental institutions, a representative from the retail sector and a consultant from the WDA. Each group was led by a leading industrial figure from the sector. A working group for farm development was later added to the process. The aims of each of the initial groups are summarised below.

Figure 2.3a Summary of the Agrifood Partnership Lamb and Beef Sector Action Plan

Mission Statement: *‘To help farmers and the related meat industry in Wales to develop profitable and sustainable markets for Wales Lamb and Beef’*

Strategic Goals:

- To differentiate Welsh lamb and beef products in the market so that they compete more on quality and less on price
- To strengthen the added-value supply chain
- To develop an integrated approach to improving the quality and cost efficiency of primary on-farm produce

Source: Agrifood Partnership (1999b)

The Lamb & Beef Action Plan detailed a number of specific objectives designed in order to achieve the strategic goals set out. These included the desire to build a greater stake for farmers in the supply chain through the promotion of livestock cooperatives and investment in downstream value adding activities. The adoption of quality assurance schemes covering both farm and supply chain is also viewed as a key aim in order to strengthen the fortunes of Welsh livestock supply chains. Another priority is the improvement of marketing support provision and particularly initiatives that focus on growth in export and niche markets (Agrifood Partnership 1999b).

Figure 2.3b Summary of the Agrifood Partnership Dairy Sector Action Plan

Strategic Goals:

- To improve the marketing of the sector
- To maximise the performance of the processors
- To maximise the performance of milk producers
- To improve the information base of the industry

Source: Agrifood Partnership (1999a)

The Dairy Action Plan detailed a number of objectives set out to achieve the strategic goals. Among them were to provide marketing assistance to the sector, to improve training facilities and specialist support, particularly for small dairy processors, and to improve access to existing grant assistance. Also acknowledged was a need to

improve market intelligence availability to those within the sector (Agrifood Partnership 1999b).

Figure 2.3c Summary of the Agrifood Partnership Organic Sector Action Plan

<p>Mission Statement: <i>‘To establish the key role of organic agriculture in agricultural and environmental policies in Wales, to expand the Welsh organic sector by increasing production of existing and new businesses to 10 per cent of the Welsh agricultural products sector by 2005 and to exploit full the growing market opportunities within Wales, the UK and elsewhere.’</i></p> <p>Strategic Goals:</p> <ul style="list-style-type: none">• To increase the supply of organic produce from Wales• To develop markets for Welsh organic produce• To address specific problems facing the organic sector
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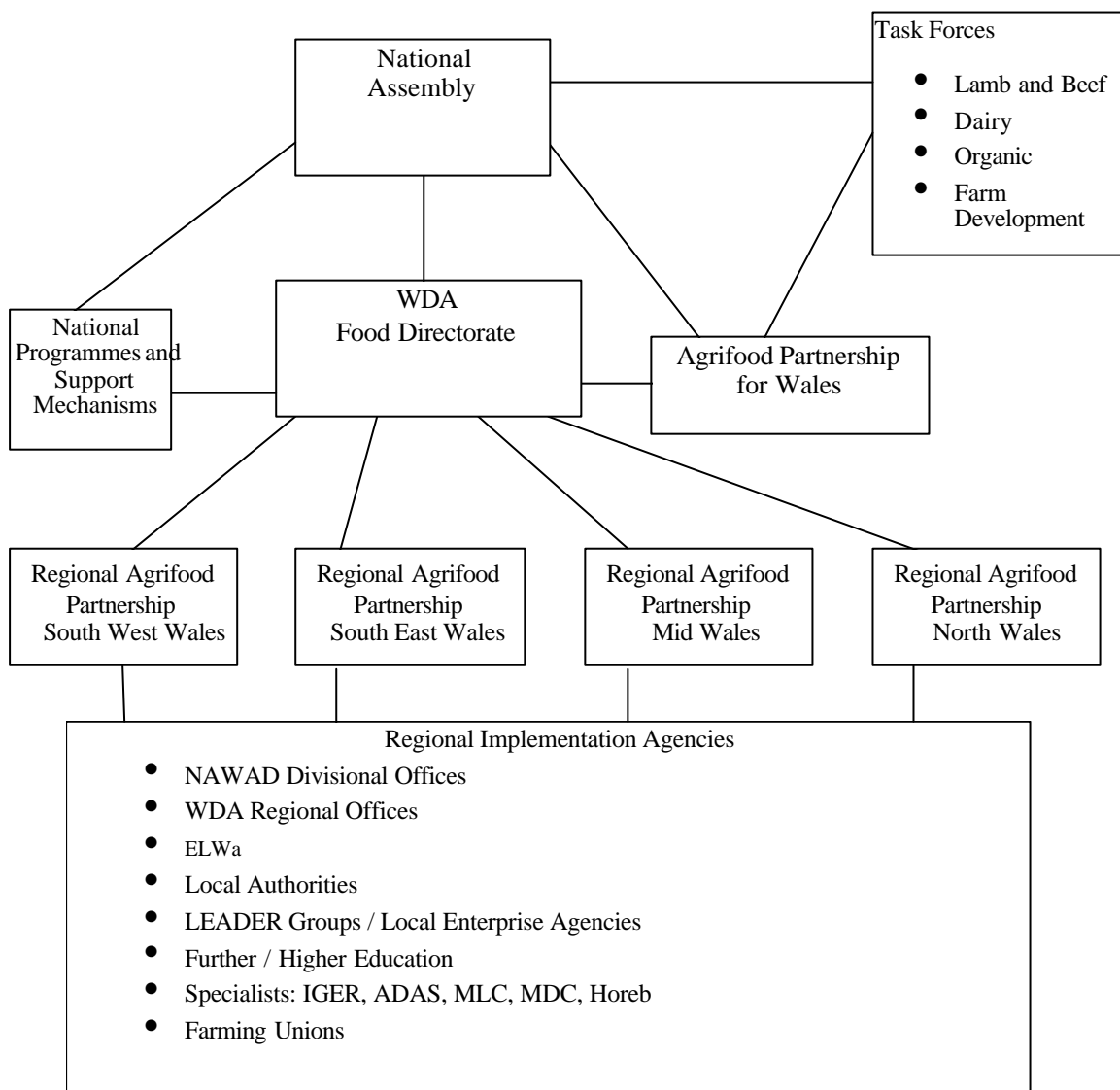
Source: Agrifood Partnership (1999c)

The Organic Action Plan aimed to meet its strategic goals through the implementation of a number of objectives. These included the setting up of an Organic Task Force to act as a strategic coordinating body in Wales, the improvement of information services to existing and potential organic supply chain members particularly in terms of conversion criteria and marketing activities and the provision of a centre of excellence for the sector. The task force also aimed to develop measures that would improve the supply infrastructure in Wales in a fashion that retained control in the hands of producers and allowed for both local and national marketing initiatives (Agrifood Partnership 1999c).

A key element of the Agrifood Partnership is the delivery mechanism formulated for the implementation of the different action plans. The structure is illustrated below (Figure 2.3d). The structure was designed according to two guiding principles: national direction and regional delivery. In this sense, it aimed to optimise national resources and expertise in a manner that was sympathetic to regional variations and specific needs. Importantly, the whole implementation process was designed to be

overseen by the industry-led task forces. In addition to the original sectoral task forces, a fourth group was added later for farm development. This group has been created to lead development support targeted specifically at farmers. Amongst its core aims are the development of a comprehensive network of demonstration farms and strengthening the provision of training and sign-posting of services. It was, however, founded during the later stages of this study and therefore can be assumed to have had little influence.

Figure 2.3d: The Agrifood Partnership Delivery Structure



The Agrifood Partnership can be seen to be a response to the progressive economic marginalisation of Welsh agriculture. As such it is driven by the realisation that many traditionally staid farming communities in Wales must seek to adapt and innovate in order to sustain markets for their products and increase incomes to rural communities. The key aspects of each of the original three action plans are therefore associated with innovation and adding value to agricultural produce. As food processing is perhaps the most immediately achievable form of adding value to primary produce, the food processing sector in Wales is a key aspect to this strategy. In acknowledgement of this, each of the regional and sectoral partnerships has representation from the food processing sector, usually from SMEs but also in some cases micro business owners. The partnership also includes the key institutions that hold a remit to support small Welsh food processing businesses, as described below. Excluded, however, are a number of institutions based in England that provide support to Welsh food businesses including a number of specialist research centres. It should also be noted that although the partnership proceeded to set up a Farm Development action plan and working group, no equivalent scheme has been set up for small food processing firms, despite them being an apparently crucial aspect of the overall strategy.

The largest dedicated supporter of Welsh food processing businesses is the Welsh Development Agency Food Directorate. The Welsh Development Agency (WDA) has a statutory duty to provide support for agrifood in Wales. As such, it takes prime responsibility for the development of the Welsh agrifood sector along with the National Assembly for Wales.

As well as providing the secretariate for the Agrifood Partnership, the WDA runs a number of major schemes. Its activities are essentially channelled through three main programmes:

- The Producer Retailer Programme: aimed at linking Welsh producers with major retail chains.
- A Taste of Wales: an accreditation scheme for the hospitality sector that promoted the use of Welsh food and ingredients.
- Speciality Foods Group: a body that supports collaboration within key speciality food sub-sectors in Wales.

The Food Directorate also administers a number of grant schemes. In fact, between 1999 and 2001, (i.e. during the study period) the WDA and National Assembly for Wales invested over £9 million into the Welsh agrifood sector, largely through the framework of the Agrifood Partnership. £5.5 million of this was awarded directly to Welsh food companies and partner organisations in the form of grants. A further £500 000 was allocated specifically to the organic sector during this period (Agrifood Partnership 2001).

A number of specialist enterprise agencies also provide significant assistance and investment to the agrifood sector in the region. In addition, Wales has three food centres that provide dedicated research and development facilities to the agrifood industry. All three centres, which are spread across Wales, have developed significantly in recent years, largely through public sector investment. Local Authorities in Wales also have programmes and initiatives targeting food businesses and small businesses in general. These vary depending on the circumstance and goals of each authority.

There is also a broad range of non-agrifood specific support structures aimed at small businesses. These are run by public institutions, charities and other third sector agencies. Public sector support for small business has focused in recent years around the Business Connect scheme (known as Business Link in England). This is essentially a signposting scheme that is designed as a 'one stop' interface between businesses and the multitude of support agencies. It came into existence after a critical Department of Trade and Industry review of UK SME support needs. Among the principal findings of the report were that existing schemes lacked clarity to businesses (Priest 1999). Recently, a similar scheme aimed at the farming community called Farming Connect has been established in Wales.

2.4 Conclusions

This chapter sets out the context in which individual food micro firms operate. It covers both the dynamics of the wider UK food industry and the Welsh context. In addition, the institutional support context is outlined, in terms of both strategic direction and immediate support initiatives.

These sections illustrate that food microbusinesses operate within a dynamic industry that can be characterised by a highly concentrated and powerful retail sector and an increasingly polarised processing sector, in terms of large multinational food processors and a burgeoning small food business sector. Section 2.3 illustrates that Welsh food businesses tend to be concentrated towards the smaller end of the food processing sector. The Welsh agrifood sector as a whole can be characterised as having a traditionally strong primary sector, which is currently going through a prolonged period of hardship, and an associated strategic transition. As mentioned, the Welsh food processing sector is predominantly made up of small businesses. These tend to supply local and regional markets. This section also identifies gaps in our current knowledge about the Welsh food sector. For example, very little is known about the types of supply chains that such businesses operate in, the degree of linkages between the primary production and food processing sector, innovation characteristics etc. Additionally, as section 2.3 outlines, there is a broad basis of support for Welsh agrifood firms, both primary based and food processors. What is not known, however, is how effective these support structures are, which schemes are most valued by producers etc.

Our understanding of Welsh food microbusinesses and their innovation patterns can, of course, be significantly enhanced by the theoretical understanding developed through various relevant academic fields. The next section (chapter 3) reviews our current understanding of food microbusinesses from academic fields and attempts to piece them together in a fashion that aids our conceptual understanding of the processes and interactions at the heart of rural food microbusinesses.

Chapter 3: Innovation, Food Supply Chains and Rural Food Microbusinesses

3.1 Introduction

This chapter attempts to bring together the many strands of academic research that can potentially inform this research and distil its most pertinent aspects into an empirical schema through which the dynamics of food microfirms can be better understood. As such, it draws together theories and empirical findings from a number of different disciplines including small business research, rural sociology, marketing and political economy.

The chapter is split into six parts. It begins by covering the key areas of literature that contribute towards our understanding of the competitive basis of small firms. In other words, what are the unique competencies exhibited by small businesses, and food micro firms in particular, that form the basis of their ability to compete against seemingly more resourceful larger firms? The second section focuses on the relevant strands of innovation theory and entrepreneurship and attempts to shed light on the particular aspects of microfirm entrepreneurship. The third part of this literature review focuses on the influence of external agents such as government, cultural factors and other aspects which are thought to enable and / or constrain food microfirms. The following sections go on to investigate the internal dynamics of the small firm and then review two key contributions towards the conceptualisation of small firms: linear firm growth theories, from the business studies discipline, and network approaches, borne largely from sociology and political economy fields. Finally, the empirical schema constructed from the preceding sections of this chapter is presented and used to further develop the study's research aims.

3.2 The Competitive Basis of Small Businesses

3.2a Structural Change

The growth in small business enterprise in the UK over recent decades has been attributed to a number of key changes in social and business environments. Curran (1999) lists the following developments as contributing towards a more favourable small business climate in Britain:

- Economic restructuring and the emergence of a global economy
- Technological progress
- The rise of unemployment since 1979
- The increase in outsourcing and the vertical disintegration of large enterprises
- Income effects and new patterns of consumer behaviour
- Reductions in red tape and privatisation
- A re-assertion of enterprise culture.

The onset of post-fordism and the accompanying freeing up of markets has created a climate of increased opportunity for small business. At the same time, the value to society of small business has also been slowly realised, leading to the development of favourable government policies towards small business and entrepreneurial culture. In addition to these general trends, Keeble and Tyler (1995) suggest two further factors that have contributed to the growth of small businesses in rural areas:

- An influx of in-migrants from urban areas attracted by environmental / lifestyle factors
- A growth in consumer demand for niche products of rural character.

Two main groups of theory exist which contribute towards our understanding of how and why small firms have been able to take advantage of such changes and how they are able to compete successfully against large firms: Flexible Specialisation theory and those that use relationships, networks and clusters at the centre of their analysis.

3.2b Flexible Specialisation Theory

Flexible Specialisation Theory purports that the competitive basis of modern small enterprises is due largely to their ability to meet the needs of post-productivist consumers who demand ever increasing specialisation and flexibility from their products and services. This has resulted in the differentiation and segmentation of markets, both 'business to consumer' and 'business to business' markets.

The main protagonists of Flexible Specialisation Theory (in particular see Piore and Sabel 1994) argue that smaller businesses are best suited to meet small markets largely due to scale attributes. The competitiveness of large firms is mainly based on economies of scale and / or scope (for cost and other factors). Consequently they are largely unable to apply such economies to markets of limited size whilst retaining an economic advantage. Moreover, the structural characteristics of big firms dictate that they are slow to react to shifts in demand with their own shifts in production, management, logistics etc.

The size and structure of small businesses and the supply chains they are generally involved in allow them to be more flexible in their approach to enterprise at all levels. Mobility and the ability to adapt are valuable characteristics in dynamic and diverse market places. Moreover, in many sectors, modern technology has created the means to supply small volumes of the appropriate quality and consistency at economically viable costs. One of the consequences of niche market demand is the advantage to operationally flexible businesses when supplying specialist products. Such demands are often met more effectively in supply chain systems composed of small units, often working with a high degree of cooperation.

As a result, successful small firms tend to compete on the basis of quality, as these markets tend to be smaller and thus shielded from large firms. Storey (1996) backs this with empirical evidence in the UK that small firms who compete on quality tend to be more successful than those that compete on cost. This theory, along with empirical evidence for flexible specialisation, has created an increased focus on supply chain dynamics and the value of information transfer, trust and collective tools among small firms (Porter 1990).

3.2c Relationships, Networks and Clusters

All businesses, regardless of their innovative capabilities, are embedded in socio-economic networks (Granovetter 1985). Such networks are numerous, complex and include many different actors. Principal among these are relationships between businesses, between businesses and consumers, and also between individuals and groups both within businesses and with other actors peripheral to supply chain businesses, such as support institutions, family, friends and other societal interactions. Networks can be either personal or non-personal, immediate or remote, continual or intermittent, inter-organisational or intra-organisational.

According to Brüderl and Preisendörfer (1998), entrepreneurs “who can refer to a broad and diverse personal network and who received much support from it are more successful”(p214). This is a sentiment shared by many academics who believe that the existence and dynamics of such networks form the basis of much small business success (for example see Hogarth-Scott 1996 or Chassagne 1995). Brüderl and Preisendörfer (1998) go on to describe three functions of networks commonly identified in academic literature that contribute to the attainment of success by ‘networking’ small firms:

- gaining access to information
- gaining access to potential customers and suppliers
- bringing the possibility to broaden the financial basis of a firm.

McQuaid (1996) offers the following additional values for participation in networks, both formal and non-formal:

- Forums for ‘testing out’ new ideas
- Potential to be referred to specialist assistance by network members (who may have a personal relationship with specialist)
- Availability of moral support.

Information gained through social relations and contacts is often regarded as more valuable than through formal sources, in terms of its relevance, reliability and exclusivity. With regard to broadening the financial basis of a firm, relatives and

acquaintances can be especially helpful during the start-up and early phases of a business.

According to Sweeney (1985, p67), 'entrepreneur vitality is strongly related to information, its accumulation and its flow. It is the vital resource of the entrepreneur and the factor which nourishes his growth'. Information can exist in many different forms and serve many purposes within a small business. Lack of access and cognition of information in general is thought by some to be a common hindrance among SMEs in rural areas (Hassink 1992).

Cooperation, openness and a willingness to learn are key attributes for creating an innovative firm. Innovation theorists propound the value of 'learning by doing', capturing the value of tacit knowledge transfer. Successful firms benefit from being bound in systems that forge synergies between actors from all aspects of the supply chain (i.e. users, producers, inventors and innovators). Important is the creation of a basis of trust that allows cooperation for mutual gain, with refraint from opportunistic behaviour. The benefits of such ties are a reduction in perceived risk, easier exchange of goods / services, and increased learning capacity (Cooke *et al.* 1998; Cooke & Morgan 1998). Indeed, networks between rural enterprises that provide cooperative production or marketing opportunities have proven to be successful in many rural areas (Levin 1993).

The value of strong networks can be illustrated by the benefit many small businesses gain from the existence of a local consumer base. Not least, it allows the possibility for straightforward feedback mechanisms between consumers and supply chain participants. It can also provide a reliable consumer base in times of external problems and help build credibility with external consumer / markets (van der Meulen & Ventura 1995; Fanfani 1994). To this extent, the characteristics of local demand and the quality of communication between local customers and the producer are perhaps more important than the net size of demand. Supply chains with a significant local demand are more able to recognise purchasing needs, particularly emergent demands which tend to take longer to transmit from more remote consumers. Moreover, companies with highly sophisticated and demanding local consumers are

likely to benefit by the requirement to comply to their 'advanced' needs, keeping them one step ahead of external consumers and competition (Porter 1990).

Successful industrial districts in general have been identified by Amin (quoted in Lowe *et al.* 1995) as having the following common features:

- Institutional thickness: proactive firms with widespread trust in collective representation (e.g. through marketing boards, government agencies, innovation centres, trade associations).
- Local industrial atmosphere: good for knowledge creation, inventiveness / entrepreneurship, information dissemination. Strong 'know-how' in an atmosphere of 'socialisation, sociability and trust'.
- Inter-firm dependence: due to task-based specialisation within an integrated system.
- Structures of sociability: a local containment of the division of labour within the cluster.

Such networks allow flexibility to deal with change and also the retainment of added value within the system.

Networks, and in particular informal networks, rely on the transfer of tacit knowledge between actors. Tacit knowledge is difficult to codify, often of a personal and context dependent nature and therefore transfers best through personal interaction (Morgan & Murdoch 2000).

The use of tacit and localised forms of knowledge is an important point of departure between 'alternative' and conventional food systems, who tend to rely on codified and standardised knowledge (Morgan & Murdoch 2000). Supply chains that attempt to provide higher 'quality' products tend to demand higher degrees of coordination between supply chain members. This is particularly evident in the product transformation process, where physical qualities and conventional notions of hygiene tend to be more important in more commoditised food supply chains (Fanfani 1994). Products that communicate certain production methods or traditions also require

strong relations between supply chain members to ensure that these processes are adhered to.

Strong network structures can also compensate for areas of weakness in individual firms (Brüderl & Preisendörfer 1998). However, there can be disadvantages to taking a networking approach to business. These include the increased influence of weaker network members, higher coordination costs, strong time demands, and a loss of secrecy. Networks can also become over dominated by stronger chain members to the detriment of less powerful concerns (Biemans 1992). In sum, however, effective networks can potentially reduce both the risks and costs (in time, effort and consequently money) in entrepreneurial activities.

Perhaps the best known example of effective network structures in small scale agrifood are the agri-industrial districts of northern Italy as described by Iacoponi (1995) and Fanfani (1994) among others. Iacoponi (1995) defines two types of agri-industrial district (i.e. clusters of supply chain activity within close geographical proximity): those made up of on-farm enterprises and those where farmers supply local firms. According to Fanfani (1994 p81), the success and diversity of Italian agri-food districts can be attributed to 'the territorial attachment of enterprises, the close relationship between enterprises and families, the territorial concentration of production [and also] the thick network of social, economic and institutional relations, together with deep evolutionary dynamics of these realities'. The areas also tend to have strong traditions of local small scale production, not only in food products but other craft goods.

According to European academics such as Saccomandi and van der Ploeg, a key to the success of agri-industrial districts is a low level of transaction costs (i.e. the cost of 'going to market'). Analysis on the basis of cost highlights that agrifood districts typically have lower transaction costs between enterprises but higher potential governing costs for the supply chain as a whole. Supply systems with a lower total cost structure obviously hold an advantage when producing products which compete to a degree on price. An advantageous balance of costs has been suggested for the success of certain agri-food SME clusters which benefit from reduced transaction costs due to a high basis of trust (Lowe *et al.* 1995; van der Ploeg & Saccomandi

1995; Borch & Arthur 1995). Highly integrated firms may also bring elements of risk reduction through cultural / social factors that build strong trust relationships between both horizontally and vertically aligned firms (Lowe *et al.* 1995; Thompson 1991).

As a model for rural agrifood development though, Italian agrofood districts are not without their detractors. In addition to their high specificity and complex origins, the majority of these archetypal districts in Italy are concentrated in productively efficient agricultural areas. Their transferability to less productive areas can therefore be questioned. Similar agrifood clusters, on smaller and less successful scales, have been identified in The Netherlands (Renting *et al* 1999); however, this region can also be considered as agriculturally endowed. Moreover, many of the 'traditional' relations present among the more successful SME industrial clusters are likely to have been eroded in regions such as Wales due to its strong commoditisation which has seen 'market' relations prevail.

3.2d Niche markets

A dominant factor that allows small food businesses to prosper is their tendency to target niche markets. The operational manifestation of a 'niche' marketing strategy could be defined as the avoidance of a 'clash between rival producers of goods and services by dividing the market into very fine segments to exploit untapped or undiscovered possibilities' (Guerry 1995, p68). In particular, small firms seek such strategies to avoid competition from large firms with greater resources and economies of scale. Successful differentiation into a niche market provides a barrier to conventional market principles (such as competitive supply and demand, economies of scale) and conventions (such as costly transportation and packaging). The meeting of highly specific needs and the lack of direct competition breed potentially greater customer loyalty than for products in conventional markets. Moreover, the loose adherence to market conventions provides the opportunity for higher margins for producers through lack of direct competition and, in some cases, to reinforce quality attributes.

A further aspect of niche markets is that, due to the nature of the target consumer, products are often marketed on bases other than price, for example; convenience,

quality, authenticity, 'ethical-ness' or just differentiated usage. This is beneficial to small companies who, due to economies of scale, are not able to compete on price alone. The typical perception of small business in the eyes of consumers as representing less commercial values also gives them more cache to promote differentiated attributes other than price. Moreover, typical marketing strategies employed by large firms, such as volume growth through brand creation and communication, are unlikely to be successful for small speciality food producers due to cost constraints, among other things (Christy & Norris 1999).

3.2e Quality, Authenticity and Place : Regional Food

The incorporation of certain quality criteria provides the competitive basis for many micro food firms. 'Quality' is a complex, rich and contested notion. As such there are many aspects to it that can be, and are, exploited by businesses in general, and small niche firms in particular. Adequately defining quality and identifying the multitude of qualities that can influence the consumption of food is therefore an ambitious task. It is clear, however, that food supply chains involve the conception and translation of numerous quality perceptions, held by different actors at different times (see Ventura & van der Meulen 1994; Thevenot 1998). Moreover, the concept of quality is largely socially constructed (Marsden 1998).

Murdoch (2000) identifies 4 qualities with respect to agrifood: productive quality, ecological quality, brand quality and consumer-perceived quality. According to Murdoch, all types of food supply chain operate with a combination of these qualities. Ilbery and Kneafsey (1998), again in relation to food, list four groups of quality indicators used by consumers, those that;

- establish an *association*, either geographically, culturally or historically
- ensure *specification*, of production method, raw materials or ownership
- achieve *certification*, for example appellation contrôlée, organic symbols, or quality marks
- generate *attraction* through subliminal wants, e.g. taste, texture, flavour, appearance, price, freshness, design.

In other areas of the supply chain, alternative qualities may come to the fore, including processing qualities, service qualities and consistency qualities (such as appearance, supply etc). An additional facet of the quality definition when applied to foods is that, for many consumers, quality is bound up in infrequent consumption. Quality products are often 'occasion' foods, made special, in part at least, by its non-everyday use (Guerry 1995).

The consumer appeal of 'quality' rural foods may be enlightened by Bessiere (1998, p25) who states, in relation to food as a tourist attraction, that 'by eating a so-called natural or traditional product, the eater seems to incorporate, in addition to nutritional and psycho-sensorial characteristics of the food, certain symbolic characteristics: one appropriates and embodies the nature, culture and identity of an area. It also represents integration into a social world as opposed to the universe of industrialised food. Eating farm-fresh products, for example, may represent for the urban tourist not only a biological quality, but also a short-lived appropriation of a rural identity. He symbolically integrates a forgotten culture'.

A perception of authenticity of food products among consumers can be actively constructed by businesses and support institutions. In fact, many food producers base a large proportion of their marketing activities on creating and reinforcing the authenticity qualities of their products. Institutions can also play a role, for example through the regional promotion of food. For example, as far back as 1972, the Scottish Tourist Board ran a programme to develop the perceived authenticity of Scottish food products. In this exercise, three types of authentic food products were identified: those from 'ancient traditional products', those which used place connotations (i.e. local/regional products) and thirdly modern products developed using Scottish produce (Hughes 1995). Images of rurality and artisanal practices using indigenous resources tend to be perceived by consumers as being consistent with authenticity and authentic products (Kuznesof *et al.* 1997).

The marketing of rural food products on the basis of geographical origin is common place. The territorial attachment of artisanal food products ties in with other 'authentic' qualities held by such products. The importance of geographical origin in consumer decision making processes is one which has been investigated in marketing

literature. Although much of the literature pertains to geographical origin on a country-basis and focuses on non-food industrial products such as automobiles (Kuznesof *et al.* 1997), it is apparent that geographical origin is strongly associated in food due to its nature.

This is illustrated by the growth in regional food labels over recent years. Initiatives such as EU designated labels of Protected Designation of Origin (PDO) or Protected Geographical Indication (PGI) as well as UK government 'speciality food grant schemes' have been manifestations of this trend (Kuznesof *et al.* 1997; Tregear *et al.* 1998). Such regional quality parameters serve to preserve differentiation in rural areas through the protection of local production systems. Their main mechanism for achieving this is the projection of 'regionally identifiable and quality assured foods' to consumer markets (Marsden 1998). The potential benefits of these types of labels are three-fold:

- Granting of monopoly advantage to local producers and processors.
- Enhancement of raw material value within a region (through use in premium products).
- Ensurance that processing activity occurs within a locality, benefiting the local economy.

(Ritson & Kuznesof 1996)

As such, these policy initiatives potentially favour rural economic sustainability (at least in areas that achieve these marks). An important aspect of these EU schemes is that they can only apply in situations where producers are organised into some kind of cooperative structure (Ilbery & Kneafsey 1998).

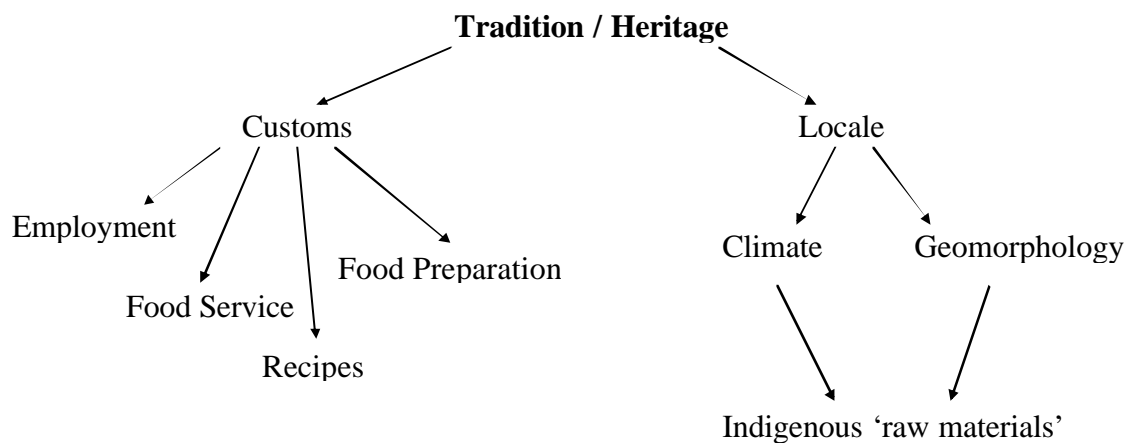
The development and use of quality certification systems in the UK has generally been weak, particularly when compared with its Mediterranean partners in the EU (Moran 1993). The reason behind this lack of uptake could be attributed to a relatively low interest in regional cuisines and artisanal food products in the UK compared with southern European countries. Various attempts have been made in recent years to introduce labelling schemes in the UK, although their long term success has yet to be proven. The use of official quality marks, however, can be particularly attractive to

small businesses who tend not to hold large marketing budgets with which to build ‘immediate’ and easily communicable quality images (without years of reputation building).

A study by Kuznesof *et al.* (1997) investigated UK consumer perceptions of regional foods. Respondents in this study identified a linkage between regional food products and the traditions or heritage of the locale. Among the conclusions was that, in the perception of consumers, both local customs and the physical locality contribute favourably to their definition of a regional food (see Figure 3.2a). The same consumers also linked regional foods to notions of ‘authenticity’.

Many quality foods entail a personalised purchasing process, through specialist shops, farm gates or food fairs, that can represent part of the appeal of the product. In effect, the consumption process for many consumers begins with the searching and purchasing of the product and may be of more satisfaction than actually physical eating the product (Kupiec & Revell 1998).

Figure 3.2a: Factors relating to the tradition and heritage of regional food



Source: (Kuznesof *et al.* 1997)

3.3 Enterprise, Innovation and Change

Innovation is a highly complex and multifaceted notion which can be defined and analysed in a multitude of ways. Innovation is inextricably linked to wider notions of enterprise and change in general. Academics have sought to understand innovation through the foci of the individual, relationships between individuals, the firm, the supply chain, the region and culture. The following section distils some of this theorising, with relevance to innovation needs and outcomes in food supply chains.

3.3a Conceptualising Innovation

Innovation and its role in economic development is currently a popular theme among academics and policy makers alike (Cooke *et al.* 1998). A number of academic disciplines incorporate the study of aspects of innovation. In particular, the fields of entrepreneurial studies, marketing, economics, planning and general business management are dominant. As a consequence this study takes a multidisciplinary approach when dealing with the concept of innovation. The main drawback of the more established literature with respect to the research focus is that studies of innovation have been traditionally focused on large scale, dynamic and generally high technology fields. In fact, very few studies have addressed innovation in low technology sectors, particularly in relation to food (Cooke *et al.* 1998).

Definitions of innovation vary, according to the type of study, the industries in focus and the academic discipline. There are, however, two distinct categories of innovation definition: those in which an innovation is an occurrence completely novel to an industry and those in which an innovation can be new only to a firm (North & Smallbone 2000). The stricter definition of innovation tends to be applied to studies which concentrate on sectors as a whole or which focus on the transfer of particular innovations. Often such studies are concerned solely with technological advances. Such approaches are typical in the technology transfer field of literature. The second looser definition is finding increasing favour in studies which take individual businesses as the centre of focus and which employ a more holistic approach to firm development, encompassing a broader range of innovations (i.e. beyond the notion

that firm or sector advancement is largely due to technological advancement). Therefore, this incorporates anything which is beyond the normal routine of the business, including new marketing activities and new product development. This definition of innovation is applicable for industries that do not rely on technological advancement for the attainment of a competitive advantage.

The fact that micro food businesses tend to have a predominantly low technology base, particularly when compared with other industries, lends support to the adoption of the second Boser form of definition to this study. Moreover, it is clear that the development of very small businesses in immature markets that are based on other factors than price is dependent on continual improvement in a wide range of areas, including marketing, human resources, product development and management of the supply chain. Curran (1999, p35) sums the approach of small firms as such:

“Most new small firms are not... very innovative. Much more commonly, new small firms are simply clones of existing businesses organised in traditional ways, using well established technologies to produce goods and services and market them in simple, well tried ways”.

Therefore, in order for the notion of innovation to have any relevance for the majority of small businesses, it must be expanded to include small iterative events novel, or even unusual, to the small firm under study.

The value of a wider definition of innovation is shown when summing up the food industry as a whole. Relative to other industries, innovation in terms of R&D intensity (i.e. technological, capital-intensive innovation) can be categorised as very low (Galizzi & Venturini 1996). However, in terms of product development, process development, packaging, distribution, marketing etc, the sector as a whole is widely perceived as innovative and dynamic. This indicates that innovation in terms of R&D and technology in general in the food industry is relatively unimportant compared with other types of innovation e.g. low-technology / marketing solutions.

The recent reconfiguration of relations within mainstream supply chains in the food industry (see chapter 2.1) has increased the importance of innovation as a competitive tool with regard to both business to business and business to customer relations. In a review of relevant empirical literature, Galizzi & Venturini (1996) observe that

incremental innovations dominate within the mainstream food industry rather than radical innovations. The authors attribute this, in part, to a natural aversion to risk among consumers with regard to food products that lead them to prefer products not too distant from existing products.

Innovation in a business enterprise can occur in a number of forms. In addition to technical research and development, innovation can influence physical processes, organisational structures and commercial strategies (such as marketing decisions and procurement practices). Moreover, innovation does not always involve radical change but can be incremental and iterative. It is also often a collective process rather than origination from a sole 'innovator' (Huiban & Bouhsina 1998; Cooke & Morgan 1998).

Earle (1997) defines three types of food product innovation: novelty, improvement, fundamental. Novelty is described as small / fashion changes, such as new flavours. And improvements innovation is described as a continual change in a food over time. Earle gives the example of the incremental improvement of a brand of instant soup. Fundamental innovations are associated with more classical notions of innovation, i.e. they involve the development of completely new products or processes.

Categories of innovation are, of course, not mutually exclusive. For example, product innovation and process innovation are often closely linked, as process innovations can often provide new possibilities for product innovation (Wilkinson 1998).

Measures of innovation

The innovation process is high complex and multifaceted in nature. As such, it can be measured in many different ways, using different defining characteristics. One of the most common ways of defining innovation is with regard to its physical consequence, i.e. an innovation is a change in practice that influences the form of a product or a process. Innovations can also be defined with regard to its impact on different actors, e.g. an innovation is a change in practice that influences consumers, retailers or producers. Value can also be gained through defining innovation in a purely informational sense, as either information creation (e.g. new product development), information flow (e.g. marketing) or the encapsulation of existing information (again,

new product development or new processes). This way of thinking, developed through the informational economics discipline, highlights the importance of information processes in innovation and their transferable value. Therefore, the gaining or adoption of information during an innovation may be of more long-term value than the actual physical manifestation of that innovation (Manderville 1998). A practical illustration of this could be the learning involved in setting up a website to promote a business's products.

3.3b Entrepreneurship

The role entrepreneurs play in economic development is currently under-served by theory. This has been largely due to the difficulty of conceptualising the inherently unpredictable nature of entrepreneurship (Ripsas 1998). In fact, no clear consensus of a definition for entrepreneurship exists among academics (Morris et al. 1994).

Authors tend to define entrepreneurship in an attitudinal and / or behavioural sense. For example, according to Sweeney (1985, p36), what distinguishes an entrepreneur is 'the *belief* in their ability to control the outcome of their efforts' (emphasis added). Pioneered by Rotter, this approach argues that successful entrepreneurs have strong 'loci of control' and therefore believe that events are to some degree contingent on their own efforts. This locus of control in an individual essentially serves as a perceived-risk reducing function (Sweeney 1985). Entrepreneurial attitude is fundamentally the willingness to embrace opportunities and their associated risk. Morris *et al.* (1994, p25), on the other hand, define entrepreneurs according to the behaviour of their undertakings; 'to the extent that an undertaking demonstrates some amount of innovativeness, risk-taking, and proactiveness, it can be considered an entrepreneurial event and the person behind it an entrepreneur'. Schumpeter defined entrepreneurship simply as the 'carrying out of new combinations' (Schumpeter 1934). Anderson (2000, p91) is more nebulous, defining the entrepreneurial process simply as a 'commodification of values, whereby entrepreneurs create and extract value from their environment'. According to Knight, however, entrepreneurs rarely initiate change but instead use change towards their own goals (Ripsas 1998).

Along with the willingness to embrace opportunity and bare risk, successful entrepreneurs can be identified as having a strong working ethic, leadership behaviour, foresight and resourcefulness (Meredith et al 1982). Highly successful entrepreneurs can also be characterised as having a high need for achievement (Herbig *et al.* 1994).

What makes a person become entrepreneurial is a question long debated among academics. Entrepreneurial role models are undoubtedly a big influence. The majority of founders of small firms, for example, are thought to be the children or fathers of independent business people (including farmers). Other evidence suggests that many follow examples of other successful people they know of, not necessarily close family members (Sweeney 1985). Porter (1990) identifies entrepreneurs within systems as often originating from outside, from a different background, and thus with a different perception on issues relevant to the firm or supply chain. This has been empirically backed up by Commins & McDonagh (1998) in the case of SME agrifood firms in Ireland. In a study of rural entrepreneurs in Scotland, Anderson (2000) distinguished that those of external origin tended to view the local environment as an opportunity whilst 'locals' tended to err towards its perception as a constraint. Another key difference observed in this study was that locals looked towards other locals for peer group approval while non-locals had a much wider base of approval.

Entrepreneurship is often pursued as an 'alternative path of success' for those that are disadvantaged in some way by conventional business systems. Ethnic minorities, women and 'under qualified' men often fall within this category (Scase 2000). It is conceivable that those in particularly rural areas may also sometimes use entrepreneurial strategies to these ends. Such groups often prevail in sectors where little capital funding is required, possibly because they are unable to gain funds through conventional means (eg banks and support institutions) (Scase 2000).

According to Stanworth & Curran (1976), feelings of social marginality are common among small business entrepreneurs. In fact, entrepreneurship in this form is seen as a method for achieving certain intrinsic satisfactions that minimise the psychological deprivations associated with social marginality. The 'social marginality' the authors describe can be due to such events as a loss of livelihood, relocation to a 'threatening'

environment or more pervading feelings of feeling 'out of place'. Being those that have 'only recently adopted the entrepreneurial role', it is inferred that they are not naturally entrepreneurial but rather have reverted to the role as a means to cope with the impact of their external environment.

Many entrepreneurs are pushed rather than pulled into entrepreneurship, for example through unemployment, job dissatisfaction and time of life, rather than a particular attraction to money making opportunities (Sweeney 1985). The primary motives of a typical small business entrepreneur are therefore factors associated with independence, rather than money (Herbig *et al.* 1994). For example, a study of rural business start ups found that the achievement of independence was the most popularly quoted motivational factor (Townroe & Mallalieu 1993). Similar research in Holland has indicated that the main spur to rural diversification is the quest for extra income, along with the desire for independence and enjoyment at work (van Broekhuizen *et al.* 1997). The craving for freedom, however, also means that many entrepreneurs do not operate well in bureaucratic environments (Herbig *et al.* 1994).

According to Liles (1981), individual entrepreneurs are typically borne from certain kinds of experiences and situational conditions – rather than personality or ego. Moreover, the realisation of this entrepreneurial potential typically occurs during a 'window of opportunity' in an individual's life, when present circumstances are favourable and sufficient experience has been gained. Other important life-cycle factors include family and domestic responsibilities as well as an overall perceived risk, in relation to potential outcome (Goss 1991).

The degree of entrepreneurship among individuals varies depending on the influence of the pre-mentioned characteristics. Schumpeter distinguishes between managers who merely operate an established business and the entrepreneur who innovates (Schumpeter 1934). In practice, however, the behaviour of business owners can change between the two. Farmers may for example only show entrepreneurial tendencies for brief periods, acting managerially during the other periods. Others, however, may seek out new opportunities constantly, therefore being almost constantly entrepreneurial (Bryant 1989).

Burns and Dewhurst (1996) identify three aspects of entrepreneurship in business: Uncertainty, Innovation and Management. Uncertainty deals with how entrepreneurs react to uncertainties from the market, customers and their own aspirations among others. Perceptions of too much uncertainty may cause an over emphasis on short-term considerations, to the long-term detriment of the business. Innovation entrepreneurship is the management of innovation within businesses, whilst Management entrepreneurship is the day to day running of the business.

Stanworth and Curran (1976) offer two classes of small business entrepreneur: the 'classical entrepreneur', who is concerned with earnings and profit, fitting closely to classical economic notions of the entrepreneur, and the 'manager' entrepreneur who finds satisfaction through the achievement of financial security and status among peers. Mertz *et al.* (1994) provide a typology of four entrepreneurial classes according to their growth characteristics:

- Focused Entrepreneurs (associated with steady high growth)
- Adventurist Entrepreneurs (associated with volatile high growth)
- Survival Entrepreneurs (associated with steady slow growth)
- Unfocused Entrepreneurs (associated with erratic slow growth).

Focused Entrepreneurs are most likely to perceive a complex but less dynamic business environment, whilst Unfocused Entrepreneurs typically regard their environment as hostile (Mertz *et al.* 1994).

3.3c Artisanal / Microfirm Entrepreneurship

Many micro business owners have distinct entrepreneurial characteristics that set them apart from the more classical, and better researched, notions of the entrepreneur. Far from the risk taking, profit maximising, forward thinking entrepreneurs littered in classical economic theory, small business entrepreneurs tend to be thought of as conservative, risk averse with lifestyle preserving rather than profit maximising priorities.

Stanworth & Curran (1976, p105) attempt to define what they term the 'artisanal entrepreneur' in the following manner: 'the artisanal identity is not very concerned with growth and is more frequently found among people who have only very recently adopted the entrepreneurial role'. Small businesses owned by entrepreneurs with artisanal characteristics, therefore, tend to show different behavioural patterns, both in terms of long-term growth and day to day operation. This is illustrated in a study of UK craft producers. Among the findings was a discrepancy between the desire and motivation of producers to expand their business. While 70% of respondents to a postal survey stated that they would like to expand, only 47% thought that it was important for them to do so, indicating that expansion, whilst attractive, is not important to their business lives. There are, therefore, more important factors that supersede expansion. 'Personal satisfaction' was the most stated reason for their desire to expand. 'Production capacity' was seen as the greatest barrier to expansion. Interestingly, desire for expansion was found to increase with age until the 30s and then slowly diminish (Wright 1996).

Small business support policies often misunderstand the 'lifestyle' priorities of many small business owners (Scase 2000). According to Cromie *et al.* (1999, p254) 'what is regarded as a non-economic decision by an outsider may make excellent sense to family insiders. Family entrepreneurship may differ from strict economic entrepreneurship but it may, by enhancing organisational commitment, confer a competitive advantage on the firm'. Moreover, 'success' to the small business owner is a function of their original expectations (Davidson 1989) rather than the kind of objective measures usually sought by support organisations such as turnover, unit margins, employment creation etc. In fact, 'success' may not be connected with growth in anyway at all. For instance, in some entrepreneurs, business success may be the achievement of a situation where management of the enterprise can be achieved on a part-time basis, or success may be measured by achieving a certain level of product quality (Perren 1999a).

Microfirm entrepreneurs differ from their larger organisation counterparts in a number of ways. Most apparent is their integratedness in all aspects of the business. They tend to be both owners and managers and work at both the operational and management level. Their interaction and information gathering is therefore very much on a

personal, tacit level rather than through the more formalised feedback mechanisms present in larger organisations. Moreover, decision making tends to be concentrated among one or two people (usually the owner / partners) (Greenbank 2000).

Organisational commitment from owners in general tends to be stronger than in larger businesses, both through the tendency to work longer hours and demand lower wages. Micro and artisanal businesses in general often employ family members. This can have strong consequences for people management within the firm. The employment of kin in positions of responsibility, for example, may not always be due to their ability to do the job (Cromie *et al.* 1999). Family factors may also influence major expenditure decisions made within microbusinesses as the distinction between family finances and business finances is often blurred (Scase & Goffee 1987).

3.3d Microfirm Decision Making

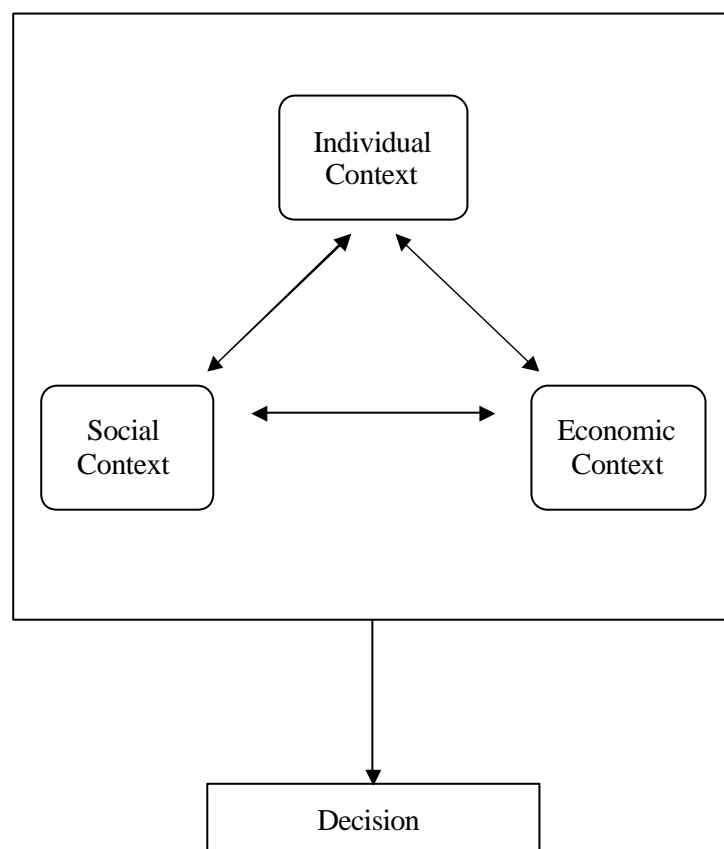
Entrepreneurial behaviour is difficult to explain and predict using economic theory alone. Factors which are generally ignored in conventional economic models, such as psychological, cultural and sociological influences, can all be highly significant but difficult to quantify. The result is an absence of an adequate economic decision making model (Ripsas 1998).

It is clear that microfirm entrepreneurs do not always made decisions within the classical notion of an entrepreneur as rationalising within purely economic boundaries. Instead they are exposed to a myriad of influencing factors which act and interact with different degrees of effectiveness. Influences on entrepreneurship can operate on many levels. At the individual level, personal characteristics such as a willingness to assume a certain degree of risk, an ability to plan effectively and the desire for self-standing or autonomy can prevail. At the family level, characteristics such as life-cycle stage and degree of off-farm employment can also be important (Bryant 1989). Then there are wider economic, social, political and environmental influences that influence both the individual and the business (see section 3.4).

Greenbank (2000) has developed a microbusiness decision making model in which microfirm entrepreneurs make decisions as a result of a function of three different

contexts: the individual, the social and the economic (see Figure 3.3a). In this model, the individual context describes their personal behaviour, abilities, perceptions and beliefs. Social context is their interaction with others, e.g. through networks, employment, education and family, both previously and at the present time. The final context, economic, describes the influence of the economic desires and needs of the individual. This model illustrates the complex nature of decision making processes, which can produce a multitude of different outcomes. Consequently, effective generalisations are difficult to achieve.

Figure 3.3a: A Contextual Model of Microbusiness Decision Making



Source: Greenbank (2000)

In sum, the influences on decision making, whether on an individual basis or in a business as a whole, are complex and seemingly difficult to model effectively. The process of decision making in small firms is best described by Reid (1999) who outlines the activities of small firms as ‘complex actions and simple outcomes’.

3.4 External Influences on Small Firm Activities

3.4a Innovation Inducing Environments

Creating innovative and entrepreneurial regions has become a key economic objective of many levels of western government, from the EU, through national and local levels in recent years (Thomas 2000). Among the growing body of literature that addresses environmental influences on innovation and business development, one of the most insightful areas is the Regional Systems of Innovation (RSI) literature. This approach focuses on the influence of the external milieu on business, and, in particular, the value of creating an enabling regional environment for entrepreneurship. The literature centres on the potential governments have to aid the creation of conducive environments and states that this is best achieved, in general, at the regional level. Cooke *et al.* (1998), for example, identify the following characteristics of a region that indicate its potential for fostering successful regional systems of innovation (see Figure 3.4a)

RSI literature emphasises a series of notions which differentiate it from standard economic theory. The most pertinent for the purpose of this study are:

- The importance of the institutional setting of norms, routines and conventions within regional supply complexes.
- The increasing realisation of the significance of locality for global firms in order to achieve competitiveness (through innovation).
- A recognition of the role of informal networks by creating high-trust relationships between actors.
- The value of tacit-knowledge exchange along with other externalities, and their dependence on proximity.
- The importance of high institutional and organisational learning propensity within regional complexes.

(Cooke *et al.* 1998)

Figure 3.4a: Differential Indicators of Potential for Regional Systems of Innovation

Stronger RSI potential	Weaker RSI potential
Autonomous taxing and spending	Decentralised spending and/or taxation
Regional private finance	Dependence on national financial organisations
Regional partnership capacity for financing	Weak regional capacity for partnership financing
Regional mediation and promotion capability	Limited mediation and promotion competence
Control and influence on strategic infrastructure	No control over strategic infrastructure
Embedded universities	Diss-embedded universities
Integrated R&D laboratories	Absence of R&D laboratories
Regional vocational-training competence	Normal state training system
Regional innovation strategy	Piecemeal innovation projects

Source: (Cooke *et al.* 1998)

As a school of thought, it contributes towards alternatives to standard views of organisational relationships which have traditionally been thought of as functions of hierarchies and markets (Cooke & Morgan 1998; Cooke *et al.* 1998). It also emphasises the influence of governments and institutions on entrepreneurship within regions.

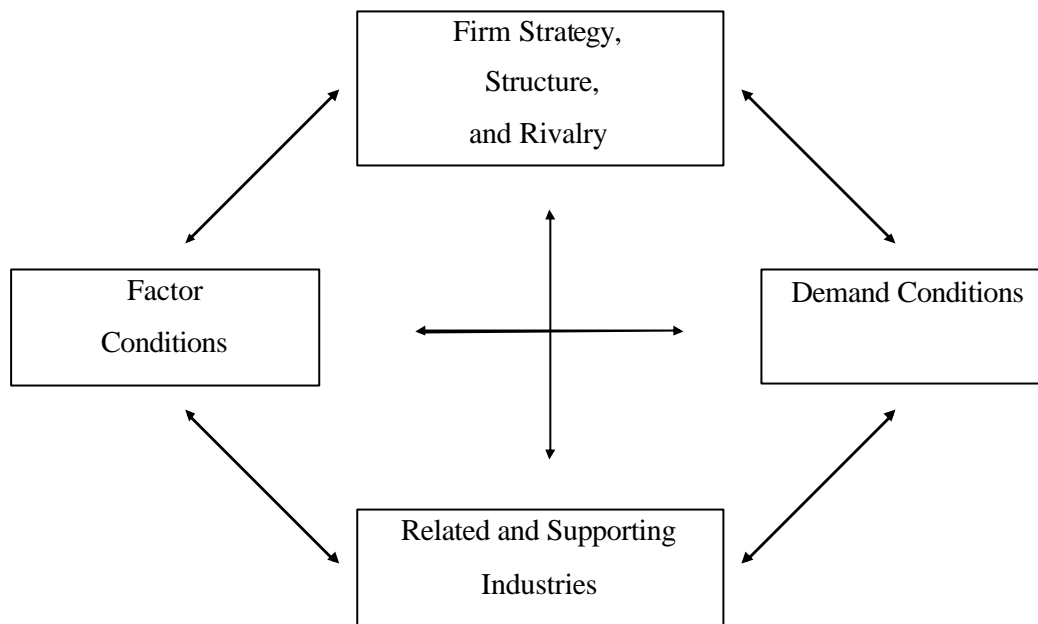
In recent years, the regulatory burden placed on firms by government has become increasingly highlighted as a significant constraining factor for small firm vitality. Dunphy & Herbig (1994), among others, argue that lightening regulatory burdens is key to increasing the innovative capacity of small firms. In fact, rather than the provision of support instruments, Storey (1994) regards macro economic policy and access to capital as the key influences of government on small businesses in the UK.

Wider macro economic conditions can hold powerful sway on small business fortunes, as business failure statistics during economic downturns consistently highlight. In relation to food, Wilkinson (1998) suggests that innovation patterns within the sector must be analysed relative to the current economic cycle. The influence of different types and phases of economic cycles must be appreciated in any analysis and innovation patterns should not be seen as generic and static attributes of the food industry as a whole. Bradley *et al.* (1995) provide empirical support for this by observing that new technology is most likely to be adopted in the Northern Irish food industry during the expansion stage of the business cycle.

A key factor that has spurred much investigation into external influences on innovation has been the obvious disparities in innovation and enterprise that exist between seemingly similar regions and nations. A number of studies have focused on the influence of culture on innovation. Dunphy & Herbig (1994), for instance, conclude that 'culture has a profound influence on the innovative capacity of a society'. In particular, they point to societies that reinforce static economic systems tend to restrict innovation and only develop when circumstances threaten the status quo. (Dunphy & Herbig 1994) (see also Herbig & Dunphy 1998). In fact, entrepreneurship prospers best in diverse and tolerant societies which avoid over protection of vested interests (Herbig *et al.* 1994). The sociocultural climate in the UK is thought to be restrictive to innovation, particularly in comparison to the innovative regions such as the USA (Dunphy & Herbig 1994).

Porter's diamond theory of National Competitive Advantage (Porter 1990) can contribute to our understanding of the external factors that influence business. As Figure 3.4b details, the approach illustrates the interactions between four factors that combine to determine the competitiveness of a nation or region in any particular industry. Although originally designed to be applied to nations and regions, the model can be successfully translated to the level of the firm, in which the factors interact to determine the competitive capabilities of a firm. By placing the firm at the centre of this analysis, an effective model of the influences on a firm is created.

Figure 3.4b: Porter's Determinants of National Competitive Advantage.



Source: (Porter 1990)

3.4b Support Policy Efficacy (and the problems of)

Although the past 30 years has witnessed a boom in government prescribed support policies aimed at assisting the development of the small business community in the UK, the success of such policies has been regarded by many as poor. In fact, Storey (1996) suggests that explicit public policies aimed at encouraging new firm formation may have had only a marginal impact. Studies which have attempted to empirically frame support policy efficacy problems through monitoring / evaluating methodologies have, however, typically yielded limited, inconclusive and occasionally contradictory results. Part of the problem seems to have been a lack of explicit objectives associated with many policies that has rendered effective evaluation difficult (Goss 1991; Johnson *et al.* 2000). Indeed, measuring the effectiveness of policies needs a clear understanding as to which are the most desirable aspects of their impact and how these can be measured. For example, measuring the effectiveness of policies that target high potential firms presents the problem of identifying how much subsequent success is due to the assistance and how

much is a result of their potential that would have been realised regardless of the support received. Hart *et al.* (2000) postulate this effect in the case of SME assistance in Northern Ireland, although they fail to empirically validate this. Indeed, identifying high potential firms is fraught with problems, both in terms of identifying suitable definitions of 'high potential' and also predicting what type of firms are likely to fulfil this potential. Studies from both academic and practitioner fields have tended to focus on discrete outputs such as new jobs or customer satisfaction rather than, for example, transferable measures associated with business expertise (Johnson *et al.* 2000). An additional problem with measuring the effectiveness of small firm support policies is that it can take years before the full influences are realised and can be measured sufficiently (Storey 1996).

In spite of these methodological problems, a number of studies have addressed the problems associated with low support policy success in the UK. Curran & Blackburn (2000), for example, list the following factors as being foremost in contributing to the low take-up of small business services:

- Poor marketing
- Over pricing
- Poor quality
- Inappropriateness
- Poor reputation of service provider

Of these factors, the authors point to the last two as being most likely in the UK as a whole and across sectors. Poor reputation, for example, can occur through previous poor performance of the organisation or just by being associated with the state and the mistrust that many small business owners can have of central government. Curran & Blackburn, however, point to the inappropriateness of many services as being the biggest problem in the past. The categorisation above is supported by Johnson *et al.* (2000) who, through a review of relevant academic literature, ascribe the poor uptake of support services in general as suffering from the following factors:

- Lack of networking between support services
- Overlaps and gaps in support provision
- Variable quality of support delivery

- Lack of proactivity among the policy community in contacting businesses and developing relationships
- Inadequate tailoring of services to meet local needs

These first four criticisms have directly led to a new generation of integrated support models such as Business Connect and the Agrifood Partnership in Wales (see 2.3). It is the final point, mirrored by Curran & Blackburn (2000), that support policies are too often inappropriate for the needs of small business owners that presents perhaps the biggest challenge to service providers. Curran & Blackburn (2000) cite an unpublished PhD thesis by G Lightfoot (Kingston University, 1998) which found that many owner managers who do not take up schemes feel that support providers do not understand their business sufficiently. However, Lightfoot suggests that rather than this signifying the inherent inappropriateness of the service or organisation, it is likely to reflect a common small business owner's psychology of wishing to do things their way. Curran & Blackburn (2000, p185) agree with this point of view, stating that 'because they believe passionately in their way of doing things, [small business owners] often have little time for the ordered, formal methods of conventional business. Yet the latter are the basis of the skills and approach that small business support providers offer to small business owners'. Similarly, according to Townroe & Mallalieu (1993, p51) 'the successful entrepreneur will frequently be a strong individualist, with an aversion to conformist institutions and a resistance to defined hierarchies. There are, therefore, psychological barriers to the receipt of training and advice that go beyond an apparent 'provision of the facts''.

In a survey of rural businesses in four English counties, Bennett & Errington (1995) found that the *perceived* need for management training amongst managers increased proportionately with business size. Similarly, they also found that the proportion of businesses who regularly arrange training for their employees increases with business size. This could reflect either a lack of an appreciation of the benefits of such training or a lack of desire to develop (either themselves or the business). The authors conclude, however, that a failure to provide appropriate training is also likely to be a major factor behind the low value placed on training by small rural businesses,

although only 23% of the respondent businesses mentioned unsuitability of training provision as a barrier.

The uptake of training courses among all types of small businesses, rural and urban, is regarded as very low (Down 1999; Townroe & Mallalieu 1993). Many other reasons have been put forward as to why this is so. Cost, in terms of both money and time is often purported as being a major factor, as is lack of specificity in courses offered and, in the case of rural businesses, locational problems (Townroe & Mallalieu 1993). The Bennett & Errington (1995) survey found that over half of the sample businesses regarded 'lack of time' a significant barrier. In addition, 37% and 30% (respectively) found money and distance as constraints. Keeble *et al.* (1992) also reached similar conclusions concerning the general inappropriateness of training methods available to small business and the locational problems met by rural businesses. In a food specific example, a study by the Agricultural Training Board (reported in Bennett & Errington (1995)) concluded that the uptake of management training courses in the agrifood sector was very low and that better promotion of the benefits of improved management skills was needed.

The general approach to training microbusiness entrepreneurs has traditionally been to attempt to introduce formalised, theory-based decision making routines into day to day management, in an attempt to improve the awareness and efficacy of microbusiness operations. Greenbank (2000) however, suggests that in most cases this type of training is unsuitable to the background and capabilities of both the business and entrepreneur. Instead, he suggests the decision making among small business managers is much more informal and intuitive and training support would be much more effective if aimed at improving these existing processes rather than imposing formalised, theory and information hungry approaches. This approach would sit comfortably with the concerns mentioned above over the non-conformist outlook of many small business owners. Greenbank does admit that there are problems with relying on intuitive management, not least the quality of both the intuition and the experience(s) on which it is based. There is also the existence of bias, for instance towards remembering only recent events (Greenbank 2000). Down (1999) suggests that 'training' maybe more effective if employed through existing and potential networks employed by business owners (for example through suppliers, banks and

accountants) rather than formal consultants and public sector business advisors. Policies which promote networks, and in particular the enhancement of trade and professional associations are also put forward as a possible method for raising the skills of small business owners.

The wider question mark over the efficacy of institutional support can be illustrated by a study in the North East of England examining farmers' reactions to various forms of institutional support for diversification schemes (Bowler *et al.* reported in (Clark *et al.* 1997)). In this case, farmers who had diversified claimed that institutional support had no major effect on their behaviour. Of these farmers, only 32% claimed to have had contact from a supporting institution and only 30% received grant support. Moreover, the majority of those businesses that received financial support regarded them as irrelevant or a 'bonus', rather than a stimulant for development. The authors did conclude however that the support structures did serve some purpose by legitimising diversification in these rural areas. A study in the Nordic countries backs up the finding about the inappropriateness of financial aid, finding that expertise assistance was far more valued among small agrifood producers, particularly assistance in the areas of sales, marketing and distribution (Borch & Arthur 1998). Similarly, a study in Ireland estimated that between 50 and 60% of small rural manufacturing firms that received funding would have proceeded without any financial aid (McDonagh *et al.* 1999).

In an OECD sponsored study of the support needs of rural businesses engaged in niche market activities, Chassagne (1995) concludes that their needs are highly specific, dependent on the type of area, rural situation and the type of enterprise culture present. Similarly, with respect to small firm entrepreneurship in developing countries, Verschoor (1997, p263) states that "it is difficult to formulate policies to support small-scale business through social, political, economic or technical incentives alone", the relationships that govern actors' behaviour are instead too complex and require an understanding of the multi-dimensional character of action. In fact, McDonagh *et al.* (1999) suggested that, rather than influencing businesses for the good, public agencies are largely seen as obstacles to the fortunes of small firms, particularly through their management of macroeconomic policy, legislation, access to capital etc.

The potential for public agencies to develop effective support structures is limited further by the traditional culture of risk aversion typically present in such organisations. Government agencies tend to operate in an arena where avoidance of failure is paramount rather than innovation, risk and success. Consequently, the formulation of support methods tends to favour established ways of doing things. This has a profound effect on both innovation and the development of new forms of support and wider governance structures in general (Herbig *et al.* 1994). In successful innovation inducing environments, innovative-ness should be evident not only at the firm level but also among the other actors who influence rural food supply chains, including support institutions (Bryant 1989).

Skuras *et al.* (2000) found empirical evidence suggesting that the assistance needs of small rural firms immediately proceeding state financial support varies depending on the size of investment, size and age of firm and the owner's age and education. For example, the study found that larger investments are more likely to require marketing, quality assurance and new premise assistance. The study highlights the need for support institutions to recognise that innovations are not discrete events, rather they can often have on going repercussions for the firm involved.

The methods used to support small businesses in the UK have shifted in recent years, partially as response to the kinds of criticisms argued above. Johnson *et al.* (2000) describe four recent trends in UK small business support and governance:

- The Localisation of Business Support; attempting to deliver support in ways more sensitive to local needs.
- The Introduction of Quasi-Markets; aiming to foster competition and business-like attitudes among support institutions.
- Partnership in Governance Structures; particularly between public and private sector interests, believed to be more effective because of representation of private sector interests and also the creation of a wider expertise base.
- Regionalisation and Rationalisation; the creation of Regional Development Agencies and the devolution of various responsibilities to regional institutions.

Overall, public and private support organisations, partnerships and networking (both formal and informal) have proliferated in recent years. Concurrent with this has been the gradual blurring of the lines between private and public sector organisations. Public sector organisations have been made to become more financially viable whilst some private sector businesses have introduced free or low cost services traditionally associated with the public sector in order to win business (Johnson *et al.* 2000). Additionally, in 2000, small business support in England was reviewed again and an attempt made to improve its effectiveness through the introduction of the Small Business Service. This new agency is designed to aid the delivery of government resources to small business and also to represent and coordinate small business interests within central government, including attempts to reduce the legislative burden. The agency also claims to acknowledge the value of small firms not just in an economic sense but also socially. Despite this admission, however, commentators have noted that the rhetoric of the Small Business Service still seems to be focused towards high growth firms and 'spotting winners' etc (Low & Talbot 2000; Curran & Blackburn 2000). The impact of these new ways of supporting small businesses, however, has yet to stand the test of time.

3.5 Understanding the Dynamics of (Food Micro) Firm Development

3.5a Microfirm Growth

Only a small proportion of microbusinesses in the UK can be categorised as growth orientated (Lowe & Talbot 2000). In fact, few micro firms experience significant growth during their lifetime. A study in rural Ireland of a cross section of small manufacturing businesses found that approximately 50% had witnessed no significant growth at all since their formation (McDonagh *et al* 1999).

There is a sharp discrepancy between the number of business owners who profess to pursuing a growth strategy and the much lower proportion of those that actually experience growth. There are thought to be a number of possible reasons for this. Firstly, entrepreneurs may tend to overstate their growth objectives, particularly to outsiders. Secondly, definitions of growth vary, so that what is growth for a small business owner may not necessarily be regarded so by academics or peers etc. Thirdly, small business entrepreneurs may in some way be constrained from achieving their desired growth (Storey 1994).

Failure rates among all new businesses are notoriously high. Of those that do survive, only a small proportion account for the majority of growth witnessed in the sector. In fact, of the small businesses which survive longer than 10 years, only 4% provide 50% of the net jobs created (Storey 1994). Moreover, of those that do progress from small to large enterprises, most tend to have only a very short period as a small business. The majority of small firms can be classified as 'lifestyle' businesses. Such businesses tend to grow from a very small start-up phase until the owner attains a desired form of lifestyle. Often this crudely comprises an acceptable level of income with a 'comfort' level of activity (Burns & Dewhurst 1996).

Consequently, few small businesses practise strategic management principles with a view to growth. Most instances of strategic management are confined to periods of crisis for either the business or the business owner (Burns & Dewhurst 1996). For

most firms, the most innovative period is, by far, the period prior, during and immediately after start-up (Reid 1999). During start up, many decisions have to be made regarding, amongst others, physical location, production, business strategy, marketing strategy, financial structure, inventory, human resources and supply chain type. As businesses grow, the role and skills of the central entrepreneur must evolve. As Burns & Dewhurst (1996, p9) put it, “the personal characteristics required to launch a business successfully are not those required for growth ... not those required to manage it once it has grown to any size”.

In organisational terms small businesses can be considered very different to larger firms, particularly in terms of innovation, motivation and performance. Small firms tend to have simple direct organisational structures within which the manager has a high degree of control (Borch & Arthur 1995). As they grow, the owner must expect a certain amount of loss of control and develop effective delegation and the formalisation of roles and activities among staff (Burns & Dewhurst 1996). Very often, the manager represents the vast majority of the managerial talent available to the small firm (Cooper *et al.* 1997). As such, demands on managers are both broad and dynamic. From a longitudinal perspective of a firm’s development, the managerial demands placed on owners are challenging, particularly if the business is pursuing a growth strategy. As well as requiring new skills and roles within the firm, the allocation of time spent on different tasks must change. Growth in family businesses enforces greater distinction between the family and the business as external skills and interests are brought in, the need for ‘subsidised’ family labour decreases and often businesses outgrow locations at or close to the family home (Scase & Goffee 1987). Often owner managers are reluctant to relinquish control over certain aspects of the firm, particularly production (Storey 1994). This refusal to give up certain tasks and structural aspects and spend more time managing and giving strategic direction to the business may impact of the firms performance and ultimately stunt growth potential (Davidson 1989). As Cooper (1995, p114) highlights, “a very successful small firm may become a mediocre or even failing larger firm as it outgrows the entrepreneur or the management methods which accounted for its earlier success”.

The adoption of an entrepreneurial role as a reaction to social marginality, as proposed by Stanworth & Curran (1976), is also seen by the authors as a limiting factor to the growth possibilities of many such firms. In short, they hypothesise that growth is often resisted through fear of recreating the social feelings that produced the original feelings of marginality, for example through the need for systematic order and non-personal relations. Such dynamics are what the authors term the 'internal social logic of the firm', which drives the formation and growth possibilities of many small firms (Stanworth & Curran 1976).

As Goss (1991, p163) puts it, according to Stanworth & Curran's socially constructed view of the firm; 'the growth potential of a business will be determined largely by the *meaning* the entrepreneur attaches to growth.... In other words, these meanings are not fixed and immutable but are constantly negotiated and renegotiated through the experience of social interaction' (emphasis in original). This 'social interaction' of course brings into this concept external structural factors that act independently of the entrepreneur, such as market relations and cultural norms.

3.5b Empirically Based Evidence of Factors Linked to Innovation and Growth

The traditional focus of much enquiry into small firm innovation and growth has been to identify empirically sound causal links between various factors and innovation and / or growth. This section sets out some of the more pertinent relationships covered in the relevant literature. Perhaps the key causal link for this study is the often assumed correlation between firms that innovate and their subsequent growth. Reid (1999), however, found that post start-up process innovation had no significant effect on microbusinesses' survival rate and product innovation actually decreased the chances for success. The authors put this down to premature introduction of new products, although another line of reasoning is that businesses already in trouble may attempt new product launches in a bid to reverse fortunes. In fact, firms innovating during crisis periods were identified in 3.3c as a common strategy for small business entrepreneurs. It is likely, therefore, that correlations between innovation and growth may include a considerable subset of businesses that are in fact in crisis, consequently reducing the impact of genuine 'market opportunity' based innovations.

Firm size has traditionally been considered as one of the most important factors for innovation. The general logic has been that the more a firm grows, the greater its innovative capacity. However, empirical results across a wide range of sectors have however borne mixed results. A small number of food specific studies have tested this hypothesised link. Huiban and Bouhsina's (1998) study of innovation in the French food industry, for example, indicated a strong positive correlation between size and innovation (using a sample that concentrated on small-scale firms). The authors concluded that small firms are generally less process innovative due to a lack of capital and personnel with the required specific competencies. They did find evidence, however, that small food businesses may potentially be more product innovative (Huiban & Bouhsina 1998). Wilkinson (1998) attributes correlation between size and product innovativeness in the food industry to larger firms ability to spend more resources on market research, testing and advertising. A survey of technological innovation within the Northern Irish food sector also found that innovation frequency increased with firm size (Bradley *et al.* 1995). At best, however, business size should only be considered as a proxy of innovation and growth, indicating the presence of other factors which have a more direct influence. For example, organisational form and structure, management demands and objectives and financial reserves are all likely primary influences on innovation and growth which also correlate strongly with business size.

Burns and Dewhurst (1996) contend that the biggest difference between growth and non-growth firms is that the former tend to think strategically over the long term. Nayak and Greenfield (1994), however, found that strategic planning is rare among microbusinesses, with many firms keeping only few records and therefore not being able to monitor plans even if desired. Forsman (2000) found lack of strategic orientation as a significant limiting factor among Finnish small scale rural food producers. Additionally, research on young micro firms in Scotland (Smith 1999) suggests that owners who apply more formal, structured approaches to business achieve stronger performance. Similarly, firms with a greater awareness of their own strengths and weaknesses also tend to perform better. The Forsman (2000) study also concluded that marketing skills were both deficient and under appreciated by Finnish rural micro businesses. Consequently they tend to adopt 'supply oriented' approaches to their business activities. Patten (1989) concurs with this with respect to the small

business sector as a whole, pointing out that marketing is commonly perceived by business owners as solely constituting selling, advertising and promotion.

Once aspect of management that has received limited attention from academics is the significance and determinants of time allocation by entrepreneurs within small businesses. Cooper *et al.* (1997) hypothesis that the priority and length of time given to different management tasks within a small business environment can have a significant influence on financial performance. Additionally, the authors propose that personal background, motivation and prior work experience are the major influences on time allocation. They found that entrepreneurs with money making / growth aspirations take less of a 'hands on' approach and are consequently more successful than those whose primary objectives are lifestyle connected. 'Lifestylers' by contrast prefer to keep the administrative / planning elements of their role to a minimum.

The significance of social ties in small business enterprise has been empirically determined in a number of studies. In a review of the relevant literature, however, Brüderl & Preisendörfer (1998) conclude that empirical correlations between 'networking' and performance / success are inconclusive. More recently, Thomas (2000) reports on an extensive survey of small firms in the West Midlands of England that found that firms that network with each other and support institutions experience higher rates of growth.

Another factor which has attracted a significant amount of empirical investigation has been the influence of education and training on small business performance. The results of these studies have been far from conclusive however. When discussing the links between formal education and business performance, Storey (1996) reports that of 17 studies reviewed, 8 show a positive association between education and performance while 9 show no significant relationship at all. Similar observations were made when looking at previous studies which addressed prior sector experience and success. Subsequent to this review, Huiban & Bouhsina (1998) concluded that, in the case of the French food industry, the 'quality' of labour is a significant factor and is dependent on both an individual's characteristics and how they are employed within the firm

Of particular relevance to this study is the existence of any linkages between rurality and business growth and / or innovation. Again the empirical evidence is rather inconclusive. In a study of small rural manufacturing firms in the UK, North & Smallbone (2000) found no significant difference between what the authors defined as 'remote' and 'accessible' rural areas for levels of both product and service innovation (using sectorally matched samples). An empirical study by Keeble and Tyler (1995), which compared possible constraining factors to small businesses in urban, accessible rural and remote rural areas, found that rurality was significant in a few aspects of business but not in most that they investigated. They found that the most significant rural specific barrier to their multi-sectoral sample of firms was the problem of recruiting 'skilled labour'. Another significant difference identified was a shortage of 'marketing and sales skills' in both accessible and remote rural firms compared to urban businesses of similar size and sector. Significantly, no appreciable differences were found for constraints associated with access to business support infrastructure.

A number of authors have identified factor deficiencies and other constraints to entrepreneurial activity in rural areas. North & Smallbone (2000), for example, acknowledge the fact that rural firms are often more isolated from their customer bases, which are often concentrated in rural areas. This can present problems for communication between the two, particularly in terms of marketing and being aware of changing consumer trends. The dispersed nature of rural businesses can also present constraints to networking activities (North & Smallbone 2000). Vaessen and Keeble (1995) take a different perspective on remoteness, suggesting that small firms in peripheral areas can often utilise factors of remoteness to strengthen themselves.

Rurality also thought to also present specific issues with respect to providing small business support. For instance, the sparseness of rural areas can lead to problems associated with an inadequate provision of support services, particularly those of a normally commercial nature such as accountants and solicitors (Hitchens 1997). Businesses in such areas are thought to experience comparative disadvantages in terms of the quality, range and price competitiveness of these services (O'Farrell & Hitchens 1990). Chambers of Commerce also tend to be weaker in rural areas than urban ones (Johnson *et al.* 2000). As mentioned above, Keeble and Tyler (1995)

found no evidence of deficiencies in business services in their comparative study of rural and urban firms.

3.5c Problems with Empirical Evidence

When considering the findings set out in the preceding section, and indeed in much of the predominantly quantitatively based small business literature, a considerable air of caution must be retained when generalising conclusions. As Figure 3.5a below, from Storey (1996), ably illustrates, the quest to identify direct causal relationships in the realm of the small business is fraught with problems.

This table illustrates that agreement across multiple studies of the impact of various factors is rare, even in terms of whether the relationship is positive, negative or neutral. This is a problem that dogs traditional enquiries into small firm performance. Although the table is for studies exploring correlations between entrepreneurial characteristics and growth, similar tables in Storey (1996) for the relationship between firm factors (p138) and strategic factors (p144) with growth show similar, if not more variable, results.

Huiban & Bouhsina (1998) point out, in the case of the lack of consistency in results of studies linking innovation and growth, that error may be, at least partially, due to methodological problems. In the case of empirically determining links between entrepreneurship and motivation, Johnston (1990) suggests that rather than there being no link, it has been hidden by the employment of 'flawed research methodologies' that have lacked, amongst other things, 'an explicit consideration of interrelated contextual variables'.

Figure 3.5a: A Review of Studies Linking Entrepreneurial Characteristics and Growth

	Barkham (1992)	Hakim (1989)	Woo <i>et al.</i> (1989)	Kinsella <i>et al.</i> (1993)	Johnson (1991)	Storey <i>et al.</i> (1989)	Jones (1991)	Macrae (1991)	Wynarczyk <i>et al.</i> (1993)	Storey (1982)	Storey (1994)	Dunkelberg <i>et al.</i> (1987)	Dunkelberg and Cooper (1982)	Kalleberg and Leicht (1991)	Solem and Steiner (1989)	Reynolds and Miller (1988)	Westhead and Birley (1993)	Reynolds (1993)
Motivation	+			+	+	+			x			x						x
Unemployment push				x	x				-	-	-					x	x	-
Education	x	x	+	+	+	+	+	+	x	x	(+)	x	+	x	x	x	x	+
Management experience	+	x	x		+		+				x	-	+		x		x	
Number of founders	+	+	+			(+)						+					x	+
Prior self-employment				x		x					x	-		x		x	x	
Family history																	x	
Social marginality			-								+	x					x	
Functional skills							+		+									
Training		x				x		x										
Age				(+)		x		x	x		(+)		-	-	x	x	x	+
Prior sector experience						x	-				+	-		x	x	x	x	-
Prior firm size experience			x	x		x						x	-					+
Gender	x	x	x	x	x	x	-	x	x		x	x		x		x	x	+

Key: + positive relationship between the element and growth of the firm
 - negative relationship between the element and growth of the firm
 () relationship present in a univariate context, but weak in a multivariate context
 x element not shown to be significant in influencing growth

Source: Storey (1996) p127

Such problems therefore raise doubt about the 'conclusive' nature of many small business findings. For example, the research of Smith (1999) which found that micro

firms in Scotland that applied formal structured approaches to business achieve stronger performance does not *de facto* mean that formal business structures lead to stronger performance, even on average. What this observation may obscure, in fact, is that owners with high growth aspirations are both more likely to adopt formal businesses structures and more likely to show strong performance. The causal link is therefore between individual aspirations and growth, not business structures and growth. Many conclusions of this nature are achieved using quantitatively based econometric studies that neglect many aspects of context. It may be concluded from this, therefore, that reaching high levels of insight about causal links in small businesses is difficult to achieve using quantitative techniques alone (see 4.1).

3.6 Conceptualising the Dynamics of (Food Micro) Firm Development

3.6a Micro Firm Growth Theories

As illustrated above, small and medium size enterprise studies are well-established among academic literature. One of the most common objectives of such research has been the development of various theories and models of business development and growth. In spite of this, however, there are very few studies which focus on the growth and development of very small or micro businesses. In fact, only one recently produced growth model can be located that focuses on the slow-growth type of microbusiness dealt with in this thesis, namely Perren (1999a) (See also Perren (1999b)).

The majority of business growth models can be classed as linear stage models. The central tenant of such models is that the business growth life cycle can be conceptualised as a series of stages, each of which contains a distinct set of circumstances and challenges. Businesses therefore confront and overcome these challenges and thus move on to their next stage in development. Implicit in these models is the notion that businesses start small and then progress through the series of stages until they ultimately become large mature organisations (although some models also include business decline scenarios).

In recent years, however, many small business academics have increasingly acknowledged the inadequacy of such linear stage models (for example see Storey 1996; Scott & Rosa 1996). Among the criticisms are that such theories tend to show no allowance for the possibility of firms not following the prescribed steps. For example, firms may skip a stage or go backwards. Many growth theories seem to overlook the fact that most firms do not grow past a finite point. Indeed, in practice, significant and sustained growth in small firms tends to be the exception rather than the rule (Burns & Dewhurst 1996).

Predicting firm development is a notoriously difficult exercise. In fact, most growth models tend to be solely descriptive rather than predictive (Storey 1994; Gibbs and

Davies 1990). As Cooper (1995) highlights, “the central problem for predicting entrepreneurial performance has been the lack of well developed theories of causal relationships”. Practical observations of business growth illustrate that businesses can, and do, follow a multitude of different development paths. At best, growth models could be regarded as potentially valuable predictors of imperatives that firms need to be aware of if they wish to grow successfully and linearly.

Despite their failings, however, firm growth theories are useful tools for understanding firm dynamics, not least as they provide a firm-centric approach in which the firm is seen in a similar perspective to the owner / manager. The longitudinal nature of many growth theories can also provide valuable insight and highlight the different demands placed on businesses and business managers as firms develop. For example, the loss of control and need for effective delegation and formalisation of roles and activities when firms reach critical sizes (Burns & Dewhurst 1996).

Perren (1999a and b) offers a model of microbusiness growth based around the existence of four ‘interim growth drivers’, namely;

- Owner’s Growth Motivation
- Expertise in Managing Growth
- Resource Access
- Demand for Products and Services

Perren’s research, empirically based on longitudinal case studies of 16 microfirms across different sectors, identified the interactions of these four factors as dictating the growth of a micro firm. These four drivers are themselves driven by 16 ‘independent factors’ that can each act on one or more of the interim drivers. Figure 3.6a lists these factors, which are themselves grouped into 4 categories.

Figure 3.6a: Perren's Independent Growth Factors for Microbusinesses

<u>Personality Attributes</u>	Desire to be one's own boss Desire to succeed Active risk taker Innovator
<u>Transferable Experiences</u>	Transferable personal capital Transferable primary skills Transferable support skills Transferable network of contacts
<u>Stakeholder Patronage</u>	Family, 'investing' friends Key employees, partners Active professional advisors Debtors and creditors
<u>External Influences</u>	Societal and other 'outer' factors State of the economy Product sector and market segments Competitive dynamics

For example, 'state of the economy' can influence both 'demand for products and services' and 'resource access' drivers. 'Family', 'investing friends' influences all four intermediate drivers in his model.

The basic tenant is that for firms to grow out of the microfirm stage, all four intermediate drivers must be positively represented. In certain circumstances, however, a lack of one driver can be compensated by a particularly strong performance in another. The 16 independent factors can be further categorised into those which the owner-manager has little or no control over, those which the owner-manager has more control over and those which require self awareness in owner-managers.

This model can be criticised on a number of levels. In particular, the specific influences of each independent factor on each driver were based solely on the 16 firms in the study. Simple theorising can create further combinations between

independent factors and intermediate drivers that are wholly plausible. Perren uses the model to develop a diagnostic toolkit which aims to stimulate reflection and proaction by owner-managers who use it (see Perren 1999b). It is, however, so far untested.

3.6b Network Approaches to Understanding Food Chains

The gradual appreciation of the importance of networks and relationships in business development has led to an increasing interest from academics in recent years (O'Donnell *et al.* 2001). Network approaches to understanding food chains are rooted in the notion that market based relationships are not formed solely around economic criteria. Conventions Theory, for example, examines the way in which commodity circulation presupposes prior processes of qualification. These qualifications are achieved through the development and dynamic interactions of rules and organisations. Underlying this theory is the notion that rules and organisations are dominant forces in exchange, in addition to conventional 'market forces'. Conventions Theory attributes this to the element of uncertainty that is present on both sides during exchange, resulting from the scarcity of perfect information. This phenomenon applies particularly in the case of product (and service) qualities. It is the collective learning process by actors along the supply chain, incorporating the effects of rules and organisations, that lead to the conventions which govern relations and exchange. The theory takes a 'symmetrical' approach to people and 'things', treating them equal. Importantly, rules do not exist in abstract, and cannot be deciphered by objective reasoning. One strength of conventions theory for the purpose of this study is that it incorporates broader definitions of quality rather than price. Its product-centred approach also accommodates diversity in production and therefore suits niche market applications (Wilkinson 1997).

Network approaches to understanding food chains, entrepreneurship and development in general hold a number of advantages. To quote Murdoch (2000, p408) on the subject of rural development, 'as sets of relations that can straddle diverse spaces, networks hold the promise of a more complex appreciation of 'development' than has traditionally been evident in state-centred versus market-led or endogenous versus exogenous models'. The potential of network approaches in entrepreneurial studies is also increasingly being recognised, for example, as a viable alternative to classical

approaches such as linear stage growth models (O'Donnell *et al.* 2001). Whilst the majority of studies in the small business literature focus either on the entrepreneurial characteristics of the owner / manager or the impact of external factors on business fortunes, using network approaches provides an opportunity to dovetail both aspects (McQuaid 1996).

Supply chain studies are one form of network approach that allow the analysis of socio-economic activity at the intermediate level, between the micro economics of the enterprise and the macro economics of the 'market' and region (Renting *et al.* 1999). Such approaches concentrate on the interaction and influence of constituent individuals and organisations along the whole supply chain. This level of analysis can be a potentially powerful tool in understanding the dynamics of food chains and can therefore aid the development of appropriate support measures. Key to this is gaining an awareness of socio-economic relationships between firms. Investigating such relationships, for example, can aid the determination of effective forms of chain integration / cooperation (both vertical and horizontal) (Borch & Arthur 1995).

A successful empirical application of a supply chain approach in a food context that illustrates its value is that of Chianina Beef. Ventura and van der Meulen (1994) (see also van der Meulen & Ventura (1995)) use a 'food circuits' approach to investigate to dynamics and 'success' factors of an artisanal form of beef production in rural Umbria, Italy. By following the product and the relationships built around its passage from producer to consumer, the study identifies the pivotal role performed by butchers in defining and translating qualities along the chain.

A key element of networks is knowledge, in particular its form, type, interpretation and transfer between people. Morgan & Murdoch (2000) define networks in an informational sense as 'forms of organisation in which knowledge is, in some sense, "strung out" along a chain of actors and organisations'. It is this knowledge that is thought to play a key role in binding relationships in networks together.

One sophisticated network-based academic approach that is relevant for this study is Actor Network Theory (ANT). ANT attempts to explain change by focusing on forces within networks, as opposed to external factors, and attempting to analyse how their

interactions influence network structure. To this extent it attempts to avoid structuralist criticisms of other theories such as flexible specialisation and regulation theory which tend to abate the influence of 'alternative' movements and structures (Murdoch 2000) (Murdoch 1995). This form of analysis identifies the 'materials' that make up networks as including not just human resources but non-human, material and non-material resources too. This includes technologies, texts and cultural norms. A key concept of the ANT approach is that power within a network is associative, i.e. tied up in relations between actors rather than within actors themselves. This shifts the emphasis away from one or two individuals with hegemony to the analysis of all power relations along a network. The approach therefore aids the understanding of alliances and cooperation between people and focuses on micro events rather than macro actions (Woods 1997).

According to the ANT model, networks with strongly associated actors result in an enhanced 'power' which can be used by translating actors (i.e. those who interact with external players) to represent the coordinated needs of the network. This power is described by Murdoch (1995, p748) as 'the glue that binds the network together' (Murdoch 1995). Hence, ANT contrasts with conventional forms of network analysis which tend to concentrate on socio-economic components (Murdoch 2000).

An innovator, in an ANT perspective, is therefore, in the words of Callon and Law (quoted in Murdoch 1995), 'one who is able to use resources drawn from a series of pre-existing networks to build a novel network which is able to sustain a two-way exchange of resources within these networks'.

3.6c Resource Based Theory

Resource based theory is a multidisciplinary approach to the study of firms that takes on board elements of marketing, strategy research and institutional theory (Borch & Iveland 1998). According to this theory, the long-term competitiveness of a business is dependent on the possession and effective employment of resources that enable it to differentiate itself from its competitors in a self sustaining manner. As a strand of theory, it has been used extensively in the study of SMEs (Rangone 1999).

Competitive resources open to a firm can be defined in a number of ways. Common classifications of resources include financial / physical / human / technological etc, tangible / intangible, assets / skills and competencies / capabilities. When operationalised however, the theory addresses only those resources that are critical to the firms sustainability, rather than analysing all possible forms of resource. (Rangone 1999).

Forsman (2000) presents two main attractions for using a resource based approach for the study of small scale food processing firms: firstly, such firms often rely on significantly different tangible resources than large scale firms and secondly, they also tend to lack certain resources that are necessary for sustainably developing the firms to their potential. Therefore, taking the availability and characteristics of these resources as a central point of analysis allows their influence to be studied.

Within their application of resource based theory to small food firms, Borch and Iveland (1998) differentiate between internal and external resources available to the firm. Internal resources include physical resources (i.e. capital), financial resources, organisational resources, motivation and entrepreneurial spirit, as well as “immaterial and rare human” resources. Resources external to the firm include government influence, network building and financial support.

As Rangone (1999, p237) states however, ‘the endowment of critical resources cannot be directly related to a company's financial performance, as the latter also depends on the specific structure and attractiveness of the industry in which the company acts, and on the ability of the company to translate resources into capabilities and, subsequently, competitive advantage. With regards to this last point, a fundamental role is played by the entrepreneur, who can be seen as a “special” resource supporting all the others’. As such, resource based theory alone is unlikely to be able to account for all the nuances present in small firm development.

3.7 Discussion and Presentation of Empirical Schema and Key Research Issues

The preceding sections of this literature review have outlined five conceptual areas of theory and knowledge that contribute towards our understanding of food micro firms. The central message from these sections is that the dynamics of food micro firms are complex and contingent upon the influence (both directly and indirectly) of many factors. Moreover, these factors are themselves complex and contingent both on each other and on many factors outside the scope of this review. In addition, influence or relations between factors can be conceptualised in a number of different ways, with each method having its own strengths and weaknesses as vehicles for analysis.

Constructing a structured and meaningful conceptual framework which contains the dynamics of this complex interaction, therefore, is an ambitious task. As the review of micro firm growth and the endeavours to understand and model the dynamics of growth show, previous attempts to build predictive theoretical frameworks have not been very successful. This problem applies both to models of larger businesses with an assumed economic rationality and to attempts to frame small and micro businesses, who often do not conform to economic rationality principles, or at least conform to a different set of such principles. In fact, modelling 'artisanal' activities would appear a far more troublesome objective. Whereas economic rationality is, at least theoretically, bound in logical axioms, the artisanal mindset appears less predictable. The central tenet of this study therefore is, that predicting the behaviour of micro firms accurately and in a meaningful way is infeasible. At best, we can bid to understand how rich, context dependent factors interact and influence facets of micro firm development.

Taking these issues into account, this study contributes towards effective conceptualisations by developing an empirical schema in which the factors that effect micro-firm development are presented in a manner that aids conceptual insight. As such, it draws upon the body of knowledge reviewed above and presents these factors in a form which allows their interaction to be conceptualised by the reader with greater clarity.

A number of authors have attempted to categorise and list the factors that influence small businesses. Gibb & Scott (1985), for example, categorise their 8 key influences according to whether they are internal or external to the firm:

External

- The state of the economy and its bearing on the relevant industry
- Administrative and institutional barriers (e.g. 'red tape', planning restrictions)
- The complexity and uncertainty in the particular market
- The influence of competition
- The influence of business assistance

Internal

- The availability of management time and resources
- Environmental awareness (as perceived by the business)
- Strategic awareness

With reference to agrifood businesses in general, Bryant (1989) lists his factors of influence according to the geographical scale at which they operate (see Figure 3.7a)

Figure 3.7a: Geographic Scale of Influence on Individual Decision Making in Agri-food Businesses

Geographic Scale	Manifest Forces and Factors
<p><u>Macro</u></p> <ul style="list-style-type: none"> • International Arena • National 	<p>Supply / Demand Conditions Technological Change Government Policies / Regulations Industry Structure Macroeconomic Conditions</p>
<p><u>Meso</u></p> <ul style="list-style-type: none"> • Regional 	<p>Marketing Boards Cooperative Structures Urban Development Patterns Regional Support Agencies (cont...)</p>

<p><u>Micro</u></p> <ul style="list-style-type: none"> • Local • Individual Farm / Firm • Individual Household / Family • Individual 	<p>Local Government Policies</p> <p>Firm / Farm Characteristics</p> <p>Family Characteristics</p> <p>Personal Characteristics</p>
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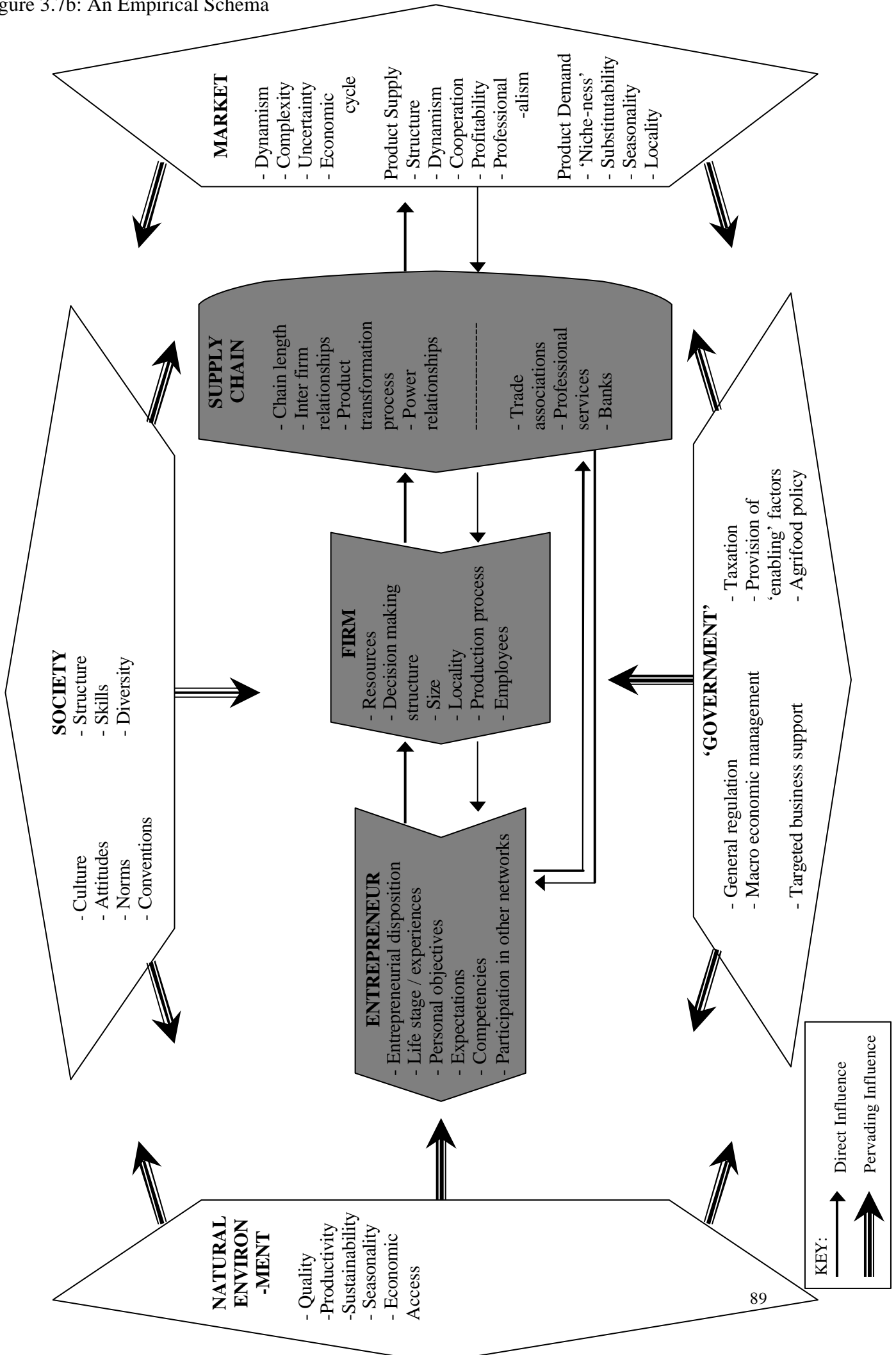
Source: (Bryant 1989).

The empirical schema presented below, therefore, integrates these kind of approaches, as well as those discussed earlier in the chapter. It takes the pertinent factors of influence reviewed in this chapter, as well as aspects discussed in Chapters 1 and 2 and some additional, hypothesised factors not explicitly featured in the sources reviewed. As such, it is a response to the 'strong voices in the field of entrepreneurship research' noted by Johnson (1990) that call for a departure from the focus on the individual entrepreneur towards 'more sophisticated multidimensional models of venture creation and growth that consider, at a minimum, the individual, the venture, and external environment or social context'. It also attempts to meet the challenge of Wilkinson (1998) who criticises previous work on innovation in the food industry as suffering from:

- a generic categorisation of the food industry, limited to common elements of industrial organisation (size, concentration etc);
- a dissociation of the food industry from its up and downstream linkages;
- a static focus on timeless characteristics.

By adopting a broad viewpoint, with respect to the literature adopted and the subsequent theories incorporated, the empirical schema also goes some way towards addressing what Verschoor (1997, p254) describes as the first problem in conceptualising small firms, that is overcoming “the debate between formalists, who maintain a pre-eminence for *homo economicus*, and substantivists, who persist in championing the salience of *homo sociologicus*”.

Figure 3.7b: An Empirical Schema



The schema responds to the central message of much of the literature review by placing the entrepreneur / microbusiness owner at its heart. The relationships between the entrepreneur and his or her firm, between the firm and the supply chain and, to a lesser extent, between the supply chain and the individual are central to this representation of microfirm development. Outside of this trinity are the pervading forces of the Market, Society, Government and the Environment. These four forces influence, to a greater or lesser degree, all the areas of interaction that form the production / consumption process of the food product in question and in particular the firm itself. As the preceding sections illustrate, the relationships between the factors presented in the schema are both complex and vital to a full understanding of food microfirm development. Network approaches illustrate the multi-dimensional nature of relationships and the importance of both human and non-human relations.

Another vital aspect to the relationships presented in this schema is the essential distinction between actual and perceived. As Marsden and Arce (1995) remind us, value can be gained from regarding external processes as in fact 'internal to the action of the actors'. In other words, how actors perceive relations with factors can be as important, if not more important, than the actual influence of factors themselves. The relationships between factors in the schema must therefore be regarded in this light. Moreover, as there are many actors involved in the development of food microfirms there are many sets of perceived relations as well as the actual relations in each case. The empirical schema, and the study it informs, takes the perception of the central entrepreneur as the most important set of relations, in addition to, of course, the actual set of relations.

The Entrepreneur

The entrepreneur is defined as the owner / manager of the microbusiness: the person who is responsible for both the day to day running of the business and its strategic direction. Clearly, there can be more than one person with responsibility for these aspects and even in situations where there is one central entrepreneur, the person is often influenced by other individuals, either employees or family members etc. Nevertheless, the characteristics of the entrepreneur and the translation of these factors onto the operation of the firm have substantial bearing on its development. The literature points to a number of facets of the entrepreneur that appear most pertinent.

A person's entrepreneurial disposition can be defined as their willingness to bare risk, which itself is a function of their perception of risk and their desire for change. It also encompasses their psychological makeup. This is linked strongly to their life experiences, which includes education, training and previous employment as well as their age, marital status, health etc. Participation in other networks is also seen by many as an important variable. These may include personal relationships, other business concerns and community organisations. These factors combine to give an entrepreneur a set of competencies, a set of expectations (with regard to the environment) and a set of objectives. It would seem that the constant interplay between these three aspects is what defines the action of an entrepreneur.

The Firm

The nature of the firm, in particular its internal logic and relationships with the entrepreneur and supply chain is central to its own development. Aside from the entrepreneurial heart, the production process is perhaps the key component of a small firm as it directly influences other important components such as the number and skills of employees, business location, level of technology adoption and business size, and what type of market the business operates in. Also vital are the resources which the firm has at its disposal such as financial, skills and natural resources, and the 'costs' to access these resources.

The Supply Chain

The supply chain in which the firm operates can be extended to different levels. As well as conventional notions of 'farm to fork' supply chains (i.e. those businesses directly involved in the production of the main ingredients, the production of the food product and then the supply and marketing of the product to the consumer), the concept of supply chain can be extended to include non-core food ingredients such as additives, farm inputs (fertilisers, seeds) and non-food elements such as machinery and packaging. In addition, institutions that supply non-physical aspects, such as finance and expertise, can also be considered as part of a supply chain. After all, there is, without doubt, a banking supply chain for example. As the purpose of the schema is to encompass a comprehensive set of relations that influence food microfirm development in an accessible manner, then these less apparent supply chains should also be considered (at least conceptually).

In a supply chain, elements such as chain length (both physical and in terms of numbers of actors and interests) and power relationships across the chain are important. Again, the supply chain characteristics seem to be contingent, to a large extent, on the product transformation process at its heart.

The Market

The main driver of the supply chains in which the food microfirm is embedded is, of course, the market. Again, the notions encompassed within the market and its functioning are complex and not easily predictable. It includes the supply and demand characteristics of the main product in question and also aspects of the nexus where these two elements meet. It also includes the same elements for other markets relevant to the microfirm, such as the market for finance, labour and any substitutable products. In fact, the different aspects of the product itself can be seen to be embedded in distinct sets of market relations. For instance, notions of authenticity or healthiness which may be contained within a product are themselves embedded in separate markets with their own supply and demand elements. The notions listed in the schema under the market heading therefore apply not only to the physical product but also to other aspects of the firm's activities. As mentioned above, market relations pervade throughout the empirical schema, including at the point of influence of the other pervading factors on the firm and its components.

Government

The label 'government' in this framework encompasses not only the conventional notion of government but also wider elements of 'governance'. It therefore not only includes local, regional, national and pan-national government institutions but also the other apparatus of institutional regulation employed for 'civic good'. This therefore includes the so-called third sector and other tools used by government to create, among other things, elements of the enabling environment heralded by the RSI literature.

Society

Wider society is a vital dimension to the empirical schema. Sociological perspectives highlight the importance of norms and conventions in the social relations that pervade

this model. Society, through culture, provides the values on which the relations in this model are based. The structural aspects of society and its diversity are important elements in this respect. Studies highlight the importance of cultural attributes for the provision of skills and attitudes to entrepreneurial activities.

Natural Environment

Any study of food must recognise the important role that the natural environment plays, not least through the transfer of environmental qualities through the food product itself. The qualities of food are inextricably bound with the environment, more so in the case of 'rural' foods. Other aspects of the environment also impact on a rural food micro firm. For instance, the productivity and availability of natural resources are key, both in terms of ingredients and also wider aspects. An additional factor related to these two aspects is seasonality, which impacts both on supply and demand.

Influences

The two classes of influence - direct influence and pervading influence - are the two major areas of 'unknown' in this model. In fact, how these various factors influence each other is the key question that perplexes many researchers of small firms. The approach outlined above enables insights gained from network based theories such as ANT and Conventions Theory to contribute towards our understanding by accommodating both flexible and grounded forms of analysis.

This empirical schema and wider study aims not to pinpoint exact relationships and dynamics of influence, but rather to provide a holistic framework for understanding food micro firms that identifies the key relationships and areas of influence. It is only through a better understanding of these processes that an effective role for government and governance structures can be identified.

3.8 Conclusions

This chapter illustrates both the broad basis for understanding microfirm dynamics and the lack of adequate theoretical development that can encompass the issues identified in the literature review. It demonstrated that existing knowledge and understanding of small firms is too underdeveloped to warrant the confident development of specific hypothetical statements about causal relationships between firms and their influences. Moreover, it may be argued that the identification of powerful causal relationships in such complex and diverse phenomena is unobtainable.

The next section therefore details the development of a methodology which is able to meet the twin objectives of this research:

- to characterise and forward understanding of the development of food micro firms in general and specifically with respect to innovation, and;
- to contribute towards the development of effective policy tools that support rural food micro firm supply chains.

Chapter 4: Development of the Empirical Methodology

4.1 Entrepreneurial Research Methodologies

It is clear from the aims and objectives set out in chapter 1 and the subsequent literature review and empirical schema given in chapter 3, that this study essentially has an ‘entrepreneurial’ focus, although bound within the context of agrifood. Consequently, it is within the broad field of entrepreneurial research that the precedents for an appropriate methodological development lie. As noted in the introduction, entrepreneurial research at the level of the small firm is a relatively underdeveloped and disparate discipline. As such, there are no ‘standard methodologies’ for small firm inquiries. Moreover, the complexity of the issues involved mean that arriving at robust empirically-based predictive theories is methodologically challenging, if not improbable. This fact was highlighted in section 3.5c by the lack of corroboration between studies of causal factors that influence small firm performance. A lack of theoretical grounding has led many authors to call for an exploratory emphasis to research that looks to develop theory and is phenomenological in basis rather than positivist (Shaw 1999; Bygrave 1989; Churchill & Lewis 1986). According to Bygrave (1989, p23), ‘in entrepreneurship research, it is nearly impossible to reduce problems to neat constituents that can be examined in isolation. We should avoid, whenever possible, reductionism in our entrepreneurship research. Instead, we should look at the whole’. Bygrave goes on to contend that, at this stage in the intellectual paradigm, ‘inspired induction (or more likely enlightened speculations) applied to exploratory, empirical research may be more useful than deductive reasoning’.

The lack of robust theoretical grounding for understanding the actions of entrepreneurs and their businesses is therefore a key attribute in determining the methodological basis of this study. There are three other vital aspects which inform the methodological development of this study. Firstly, the methodology should respect the broad basis of intellectual enquiry in this area, as outlined in the literature review. The empirical schema and accompanying review highlight the broad spectrum

of influences on small businesses and our understanding of them. Secondly, as chapter 2 illustrates, there are large gaps in the knowledge base of the food micro firm sector upon which the study could draw. Lastly, this research has both conceptual and practical objectives. As outlined in the introduction, the objectives of this research are to characterise and forward understanding of food micro firms and to contribute towards the development of effective policy tools that support them.

4.2 Meeting Research Aims: Towards a Methodological Framework

4.2a The Trade Offs Between Qualitative and Quantitative Data Use

Methodological frameworks for investigating small businesses vary somewhere between subjective techniques (i.e. qualitative, invasive, relationship based) and objective methods (quantitative, indicator-type, remote). The debates between the use of quantitative and qualitative data are by now well versed. Figure 4.2a reproduces Sarantakos' summary of the principal perceived differences between quantitative and qualitative methodologies.

Figure 4.2a Perceived differences between quantitative and qualitative methodology

Feature	Quantitative methodology	Qualitative methodology
Nature of reality	Objective; simple; single; tangible sense impressions	Subjective; problematic; holistic; a social construct
Causes and effects	Nonological thinking; cause – effect linages	Non-deterministic; mutual shaping; no cause-effect linkages
The role of values	Value neutral; value-free inquiry	Normativism; value-bound inquiry
Natural and social sciences	Deductive; model of natural sciences; nomothetic; based on strict rules	Inductive; rejection of the natural sciences model; ideographic; no strict rules; interpretations
Methods	Quantitative; mathematical; extensive use of statistics	Qualitative, with less emphasis on statistics; verbal and qualitative analysis
Researcher's role	Rather passive; is the 'knower'; is separate from subject – the known; dualism	Active; 'knower' and 'known' are interactive and inseparable
Generalisations	Inductive generalisations; nomothetic statements	Analytical or conceptual generalisations; time-and-context specific

Source: Sarantakos (1998)

It should be clear from the figure above that a predominantly qualitatively based methodology is most appropriate for the objectives and other key attributes for this study as outlined in the preceding sections.

Although traditionally small firm enquiries have relied on quantitative techniques, there is a growing acceptance of the value that qualitative approaches can bring, particularly in light of the growing calls for more exploratory research outlined above. Curran *et al.* (1993), for example, argue that qualitative methods are suited for studies concerning small firm involvement in networks as they can only be understood in terms of how participants perceive networks, rather than what they actually are. The level of data richness achievable through quantitative methods is insufficient for many elements of network research. At best only a partial picture of the processes involved can be gained (Blackburn *et al.* 1991; Down 1999). Others suggest that such is the complexity of processes involved in microfirm development that only studies which incorporate qualitative data are likely to make understanding of these issues clearer (Curran and Burrows 1987). The aim of qualitative research is to understand rather than measure phenomena (Gilmore *et al.* 2001). It is also particularly attuned to the study of life in natural settings. Qualitative data, however, is generally more time consuming and skill demanding in their execution. They also lack the key attributes of quantitative methods, in particular their ability to infer characteristics of the population as a whole from a sample (Punch 1998).

By adopting a predominantly qualitative approach, the study method is also better able to integrate two further methodological aspects that can provide unique value to the study in the light of its objectives and key considerations. These are grounded theory and longitudinal approaches.

4.2b Grounded Theory

The lack of a rigorous theoretical basis for the study supports the use of aspects of grounded theory. Grounded theory is an approach that aims to generate abstract theory through data collection and analysis. Pioneered by Strauss and Corbin, it allows researchers to focus on an area of study and slowly bring out ‘relevancy’, without the constraints of pre-defined theory (Strauss & Corbin 1998). At its core is the search for conceptual categories in data and the identification of relationships between categories. These relationships are then accounted for by increasing levels of abstraction. Punch (1997) identifies three layers of coded data in this process:

1. Substantive codes – initial conceptual categories in the data

2. Theoretical codes – connecting the categories; and,
3. Core codes – the higher order conceptualisation around which theory can be built.

The grounded theory approach is similar to theory building approaches in case study analysis (Chetty 1996). Its main point of departure, however, is that its central concern is not with description or the interpretation of data, but with the generation of grounded abstract concepts which can become the building blocks of theory (Punch 1998). As such, grounded theory research tends to emanate without, or with very little, theoretical under-pinning. Instead, the process of data collection and analysis informs the application of theory to the study. Grounded theory is particularly appropriate for studying causality issues as its focus is on action and process (Stauss & Corbin 1998).

Carson and Coviello (1996, p53) neatly sum up the grounded theory process in relation to qualitative research at the marketing / entrepreneurship interface;

‘Grounded theory in emerging research areas such as that of the marketing / entrepreneurship interface would be developed from a combination of the existing literature, professional and personal experience, and analytical process. Thus, the process is sensitive to the subtleties of both the data and the meaning of the data. The grounded theory method also allows for theoretical sensitivity by having the researcher periodically step back from the analytical process to question “what is going on?”’.

4.2c Longitudinal Approaches

Longitudinal studies are another methodological aspect whose value and subsequent use has increased in recent years. According to Bygrave (1989), the fact that longitudinal methods have tended to be ignored in the past is more to do with their time consumption and costliness rather than academic worth. A number of authors have suggested the suitability of longitudinal research for innovation studies. Ray (1996, p176), for example, points out that ‘innovation, almost by definition, can include ideas that are experimental, longer-term and whose impact may be, at first, difficult to tell’. O’Donnell *et al.*(2001) acknowledge that a weakness of many network studies is their static nature. Consequently, they propound the use of longitudinal methods in the entrepreneurial studies field. Similarly, in the field of

entrepreneurship, Bygrave (1989) points out that entrepreneurship is a process that evolves with time.

4.2d Case Study Theory

The most appropriate qualitatively based data generation strategy that allows the generation of longitudinal data and can effectively incorporate aspects of grounded theory is the use of case study methodology. The use of case studies in small business research has grown in recent years. Case studies are regarded by many as a highly effective method of qualitative research. Yin (1994, p1), a leading proponent of case study research, describes them as suited to 'empirical inquiries that investigate contemporary phenomena within real-life contexts, especially when the boundaries between phenomenon and context are not clearly evident'. In other words, they are suited to issues where the context of the phenomenon is a key variable. As such, they suit goals that attempt to answer 'how' and 'why' questions (Yin 1994; Chetty 1996).

Case studies should not be designed to seek representativeness or statistical inference, but rather to explore theoretical propositions and general analytical generalisations (Burton, 2000). In other words, they are tools for generating insight (Gibb & Scott 1985). The research flow from data to theory makes a case study approach particularly applicable for areas under-served by theory or effective conceptual frameworks (Chetty 1996). They are also suited for questions that deal with understanding phenomena that develop over time, rather than merely collecting frequencies or other measures of incidence (Yin 1994). Additionally, they also overcome problems when the population is not large enough to sample in a statistically rigorous manner (Chetty 1996).

Case study research tends to involve in-depth investigations from the researcher, often over an extended period of time. Its strengths include flexibility and the potential use of a wide range of evidence (including observation, interviewing, documents and artefacts). Multiple sources of information allow for a broad range of data. A degree of triangulation is also achievable, which bolsters the integrity of the data. The data collected may be qualitative, quantitative, both or somewhere in-between (Chetty 1996).

Critics of case study method often point to problems of generalisability when focusing on a small number of individual cases among a large population. Yin (1994, p10) responds to this by stating that case studies 'like experiments, are generalisable to theoretical propositions and not to populations or universes.' In other words, the quests for generalisability should be in the form of analytic generalisation not statistical generalisation.

Nevertheless, the nature of case study research ensures that effective research in this area presents particular challenges to the researcher. For example, procedures for data collection are less formalised than, for example, survey research. As Smith *et al.* (1989) note, research into entrepreneurial activity is typically fraught with 'sensitive data'. Data collection is particularly prone to bias from both respondents and researchers. The onus is therefore on the researcher to be able to skilfully handle data collection from varying sources, in varying situations and using a wide range of methods. Appropriate questioning, listening and data recording are paramount (Burton 2000). The less formalised nature of case studies means that bias and subjectivity are hazards. This can be overcome to some degree by using multiple sources of information (Yin 1994).

Eisenhardt (1991) purports that the number of case studies used should be contingent on the topic and the degree of further information that can be gained for each additional case. However, she recommends however that between 4 and 10 cases should be used. Less than 4 renders theory generation difficult and over 10 risks data overload (Eisenhardt 1989).

For multiple case studies, cases should be chosen purposively on the basis that they will either produce similar results or contrasting results but for predictable reasons. According to Yin (1994, p34), 'the ability to conduct six or ten case studies, arranged effectively within a multiple-case design, is analogous to the ability to conduct six to ten experiments on related topics; a few cases (two or three) would be literal replications, whereas a few other cases (four or six) might be designed to pursue two different patterns of theoretical replication'.

Purposiveness rather than random selection aids the collection of rich data pertinent to the research issues involved. This is achieved by focusing on cases that provide rich sources of information rather than relying on random samples that would require higher numbers of cases to elicit the same richness. Sampling in this manner does, however, require the researcher to develop a good understanding about the research issues (Shaw 1999).

Dyer & Wilkins (1991) warn that multiple case study methods are liable to focus too much on constructs and measurability between cases and neglect context. They also caution that exemplar cases are more likely to be avoided using such methods, ridding the opportunity for researchers to compare their own stories and gain rich theoretical insights.

4.3 The Methodological Framework

As detailed in section 4.1 above, the key attributes that inform the development of the methodology are:

- A lack of robust theoretical grounding for understanding the actions of entrepreneurs and their businesses,
- The broad basis of intellectual enquiry in this area,
- A lack of knowledge base concerning the food micro firm sector, and
- The twin conceptual and practical objectives of the study.

The preceding sections have outlined the value of taking a qualitative, exploratory, longitudinal approach to this study, principally through the use of multiple case studies. In order to satisfy the need to resolve the lack of knowledge base associated with food micro firms, and reinforce certain aspects of the case study findings, a postal survey was also employed. This provides a stronger basis to which the exploratory nature of the case study findings may be applied, both by helping to position the case studies within the food micro firm population and by applying a certain degree of triangulation of findings borne independently from both the case studies and survey.

As outlined already, the search for statistically robust causal relationships is not an objective of this research. The small number of Welsh food microbusinesses (there are approximately 340 food manufacturers in total according to the WDA) and the nature of survey research, also dictates, that respondent sizes are likely to be relatively small. This therefore precludes the possibility of drawing many statistically significant inductive conclusions. The survey was consequently designed to complement the exploratory nature of the research in the following ways:

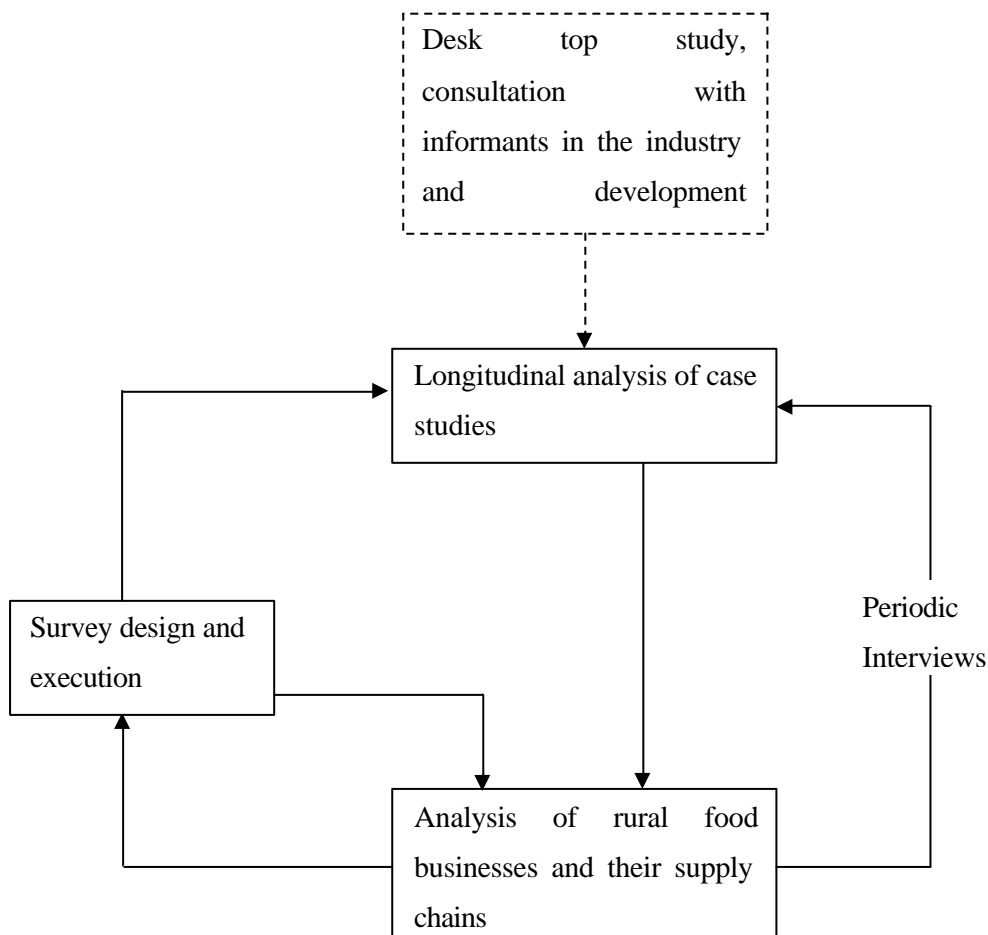
- It covered a wide range of issues
- The trade off between survey length and respondent rate was balanced firmly towards survey length
- It contained a broad mix of question types designed to elicit rich and varied information

Similarly, the case studies were chosen in a purposive manner so as to provide a rich source of data. The issues covered with case study businesses were also deliberately broad, at least initially, in order to guide the exploratory nature. As such, the case study inquires adopted strong elements of grounded theory as outlined above.

4.3a Data Collection

The data collection process was designed to satisfy both the exploratory nature and the associated need for longitudinal insight. Consequently, the case studies were visited at regular intervals during an 18-month period. This length was decided appropriate in consideration of both the likely time frames for developments in micro firms and practical considerations to do with PhD research. The case study data collection process was also used to inform the development of the survey, in particular to outline key issues that should be covered in the questionnaire. The results of the survey were subsequently used to inform the later stages of the case study research. The data collection process is outlined in Figure 4.3a.

Figure 4.3a: The Data Collection Process



This structure allowed for an iterative approach to data collection to be taken, with subsequent interviews being developed on the bases of previous findings. The iterative process allowed issues to be taken back to respondents that were not fully satisfied previously. Similarly, some areas that were originally identified for future analysis were later dropped after initial interviews signalled either their irrelevance, inappropriateness or supersession by other topics. In other words, interview data were used to sharpen the focus of subsequent interviews.

4.3b Case Study Selection and Interviewing

The case studies were selected purposively to provide a rich set of data. Businesses were identified through a variety of means, including personal recommendation from experts, newspaper articles and random selection from the database used for the postal survey (see section 4.3c). Although the amount known about each business prior to initial interviews varied, attempts were made to select businesses with some apparent similarities and some apparent differences. The selection criteria used were chosen on the bases of visibility, with little or no enquiry needed, and significance (on the basis of the preceding chapters). In particular, product type and supply chain type were used as bases of selection, both due to the accessibility of this type of information and recognition through existing literature that these factors are both important and relatively better understood. Location was also a contributory factor, both for theoretical and practical reasons.

Businesses were chosen so as to both cover a broad range of characteristics and provide important points of contrast. For instance, each of the main agricultural sectors in Wales was represented, plus one business that sourced all its ingredients from outside the region. Also a mixture of consumer interfaces and business sizes were sought. One business was also selected from a different region of Wales. There are, of course, other equally valid factors that could have been used for selection criteria but were hidden from immediate consideration. As the empirical schema indicates, entrepreneurial characteristics are a key factor that was not used. This was largely due to practical considerations and the fact that the identification of entrepreneurial characteristics would require concerted enquiry prior to case study selection.

Six case study businesses were chosen. This figure was reached on the basis that any more would contribute little to our understanding within the research constraints presented. Fewer than six businesses meant excluding identified firms that provided an important point of contrast.

Potential businesses were identified through a variety of means. These included personal suggestions from experts, newspaper articles and examination of the information in the WDA food business database. Businesses were ensured that all information would be used anonymously for the purpose of this research only. All six businesses approached agreed to take part.

Each business was interviewed periodically, predominantly face-to-face at their business locations or occasionally via telephone. Interviews were of a semi-structured nature, using interview guides. Care was taken not to restrict the flow of pertinent data from the case study respondents (Yin 1994). Consequently, some unplanned issues were raised during interviews as a result of information given.

The iterative nature of the interview process, coupled with the development and analysis of the survey during the longitudinal case study enquiry provided a number of clear advantages.

4.3c Survey Development

As outlined above, a number of key considerations had to be respected when developing the postal survey. The exploratory nature of the research dictated that a wide variety of issues needed to be covered, so as not to risk neglecting any important areas of consideration. At the same time, it was recognised that long surveys are more likely to dissuade individuals from responding. It was decided to limit the questionnaire to six sides of questions, corresponding to a completion time of approximately 20 minutes. This allowed a comprehensive set of issues to be covered while, it was hoped, ensuring a response rate that would provide a substantial number of replies.

The structure of the survey and the types of questions included were designed to provide a broad arrange of data. The survey was split into six sections each covering a different topic: Business characteristics, Business relationships, Entrepreneurial profile, Innovations, Differentiation and Business development. A copy of the questionnaire is included in appendix A. The subject matter was derived directly from the literature review and early case study interviews. The level of existing knowledge about the Welsh food industry, as outlined in 2.2, was also considered.

The questionnaire was developed using lay language, and avoiding complex issues. Although a degree of sophistication was retained, particularly in the section requesting information about innovations, the questions were designed so as to avoid misleading or confusing respondents (de Vaus 2002).

The formats of questions varied considerably, both reflecting the variety of issues under investigation and so as to prevent respondent lethargy. For example, both exclusive and non-exclusive categories were used. Scales were typically either nominal or ordinal in nature and often of the LIKERT or Semantic Differential type. Data of both objective (e.g. demographic, economic) and subjective (attitudinal) nature were sought.

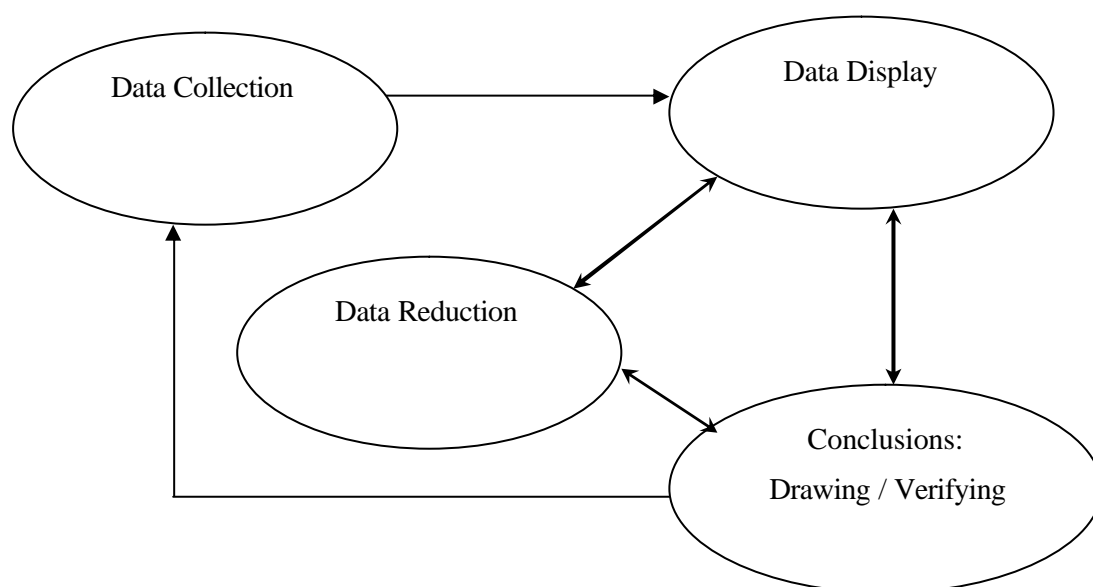
The WDA food business directory was used as the source of data for Welsh food businesses as it is the most comprehensive source available. The 411 businesses contained within the database were reduced to 343 after the exclusion of known large businesses and double entries. As the directory gave no clear indication of business size, non-micro sized firms could not be excluded. It was decided that other small businesses, with over 10 employees should be included in the survey and subsequent analysis, but that they should be clearly marked.

The survey was administered by mail, with a covering letter and completion notes. A freepost envelope was also included to encourage responses. Respondents were ensured that all findings were would be used anonymously.

4.3d Data Analysis

The case study analysis involved both taking a broad view, across cases, and subsequently focusing in on individual aspects. Even during focused analysis of specific issues, a holistic perspective was maintained. This was important in order to keep the analysis of the phenomena within its context. Similarly, when broad analysis was taking place, within the confines of the case study data, it was important to retain the fact that it was being derived from specific contexts (i.e. the case studies). The analysis of the qualitative data followed closely the Miles and Huberman framework (Miles & Huberman 1994) illustrated in Figure 4.3b below.

Figure 4.3b: The Miles and Huberman Framework for Qualitative Data Analysis



Source: (Miles & Huberman 1994)

This method involves interplay between data reduction techniques such as summarising and labelling, and data display through charts, tables etc. The effect is a gradual iterative process that allows the elucidation of key phenomena, concepts etc. From this process, conclusions can be drawn and potentially verified. In practice these three aspects often take place concurrently (See also (Punch 1998)).

As well as presenting the basic characteristics of the entrepreneur(s), the business, its dynamics and the environment in which activity takes place, the case studies were

analysed to identify 'recurring regularities', i.e. the same phenomena occurring at different times, among different businesses and in different contexts. For example, notes made during interviews were analysed both across the case studies according to the issues under investigation and longitudinally along the course of interviews carried out on an individual business. Data collected through the interview process were also analysed with secondary data, including both business literature and wider external market analysis. This provided both a degree of triangulation and allowed a greater understanding of the business, and cross case, context. The findings from the case studies were also co-analysed with the survey material, in a mainly qualitative sense, in order to provide further lucidity. Where applicable, preliminary analysis was fed back into the longitudinal data collection process.

A largely exploratory approach was taken to analysing the survey data, with a variety of statistical methods being investigated with the aim of characterising various aspects of food micro firm activity. As noted above, due to the nature of the study and the characteristics of the sample, statistical inference was not the key aim of the postal survey. Consequently, survey analysis was largely restricted to descriptive analysis and cross tabulations. Other statistical treatments were also applied to the data in order to help elucidate relationships between variables.

Where possible, the applicability of statistical tests was investigated, although rarely used for analysis due to inherent shortcomings. Comparative non-parametric tests such as chi-square, while seemingly suitable for this type of approach, were commonly rejected due to either a low number of businesses in each comparative category or a lack of statistically significant findings. More sophisticated multivariate techniques such as cluster analysis and factor analysis were investigated where possible. Factor analysis, a data reduction and structure detection method was rejected as a suitable tool due to the inappropriateness of the data, particularly in terms of the number of firms and comparative categories. Cluster analysis, an exploratory data analysis tool used to sort cases into common groups, whilst more suitable for the survey, failed to generate any meaningful results. In fact, this method was unable to identify any groups of businesses that shared common characteristics across a significant number of variables. This method was used, for example, to try to

ascertain whether some firms can be grouped according to innovation characteristics or certain entrepreneurial perceptions.

As noted above, the approach taken to both the longitudinal case study and postal survey analysis allowed for a degree of flexibility and interaction within and between each aspect. For example, the ongoing analysis of the case studies aided the development of the survey by providing indications about which issues are more pertinent. During the longitudinal case study data collection process, a number of issues that originally appeared important were discarded in favour of seemingly more relevant issues. For example, a lot more time was spent discussing individual innovations, and importantly, the progress of innovations, than was originally anticipated.

The complex nature of this research focus has typically caused problems of reproducibility in studies that have identified causal links (see section 3.5c). In this light, the difficulties outlined above appear to be due to the nature of the phenomena under investigation rather than methodological error.

Chapter Five: Agrifood Business Survey Analysis

5.1 Introduction

As outlined in 4.3c, the survey was designed to fill notable gaps in the existing knowledge base about Welsh food businesses, and to complement the case study inquiry. The emphasis of the questionnaire was on eliciting a broad range of relatively rich data, rather than achieving a high response rate and attempting to make inferential statements about the population of Welsh businesses as a whole. Consequently, the data are presented mainly in a descriptive sense, with strong use of cross tabulation.

This section starts with a description of the sample compared with the known population and then covers in depth the questions and responses in each of the 6 sections. A copy of the questionnaire used is contained in appendix A.

5.2 Sample Characteristics

The survey yielded a total of 76 usable responses, from the 343 businesses solicited. This gives a response rate of 22.2%. Whilst low, it is comparable to similar surveys; for example, a major Food From Britain postal survey of 3100 Speciality food firms in the UK in 1999 achieved a 20% response rate (14% among Welsh firms) (Food From Britain 1999).

The strength of the sample is indicated in Figure 5.2a which illustrates a high degree of similarity between population and sample in terms of products produced. The number of businesses in each product category for expected and observed samples are, in most cases, very similar. There is, however, a large discrepancy in the baked goods category. An explanation for this anomaly is not immediately forthcoming, although it could be hypothesised that bakers, who make up a large proportion of the businesses in the baked goods category, do not regard themselves as 'agri-food'

businesses, in the conventional sense. Despite the deficiency in the baked goods category, it can be concluded that, in terms of products produced at least, the sample reflects the population closely.

Figure 5.3a: Comparison of Product Types in Population and Sample

	Population	Expected sample*	Actual sample	Difference
Meat products	88	19	19	0
Poultry / game / eggs	69	15	15	0
Fish / seafood	34	7	7	0
Fruit / vegetables	43	9	12	+3
Dairy	80	17	15	-2
Baked goods	111	24	14	-10
Alcoholic beverages	31	7	10	+3
Non alcoholic beverages	30	6	6	0
Preservatives / sauces	46	10	14	+4
Other	27	6	7	+1
Total	559	119	119	

*rounded to nearest integer

It should be noted that the total number of product categories is greater than the number of businesses as many businesses produce more than one type of product and some products can be classed in more than one category. The average number of categories per business in the population is 1.63, whilst the sample returned slightly fewer categories per business at 1.57.

When compared using a chi squared test, the data sets return a P-value of 0.49. This indicates that, whilst there are differences, they are not statistically significant enough to conclude the observed sample as unrepresentative. A number of general factors can be suggested as contributing towards the small discrepancies between the cross sections of observed and expected samples. For instance, it seems likely that larger businesses would be less likely to respond, as the questionnaire is tailored more towards micro firms. Additionally, time pressures for such businesses may be greater. Unfortunately, as no data exist regarding business size for the population, it is

impossible to test this hypothesis. A disproportionate number of larger businesses among the respondents may also account for the reduction in the average number of product categories per business, as, broadly speaking, larger businesses are more likely to produce a wider range of products. As mentioned above, one would also expect that firms who do not class themselves as a typical agrifood business would be less likely to respond. Again, however, there are no data available to test these hypotheses.

5.3 Business Characteristics

Section one in the survey attempted to gain key statistics about the respondent businesses such as their age, turnover, current growth and employment.

Age

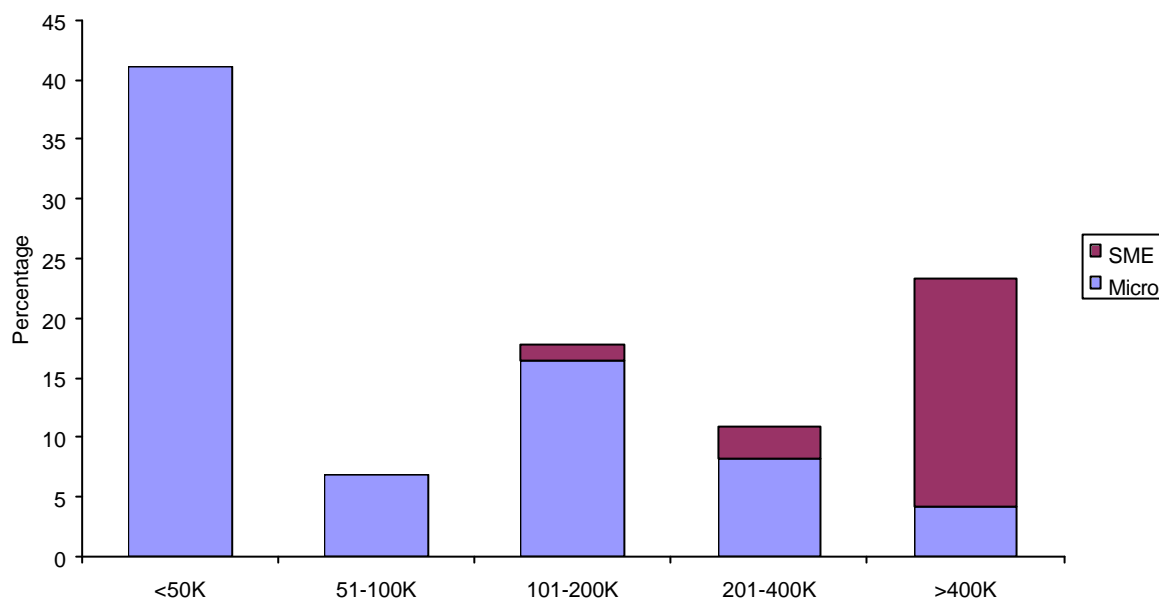
The year of establishment among the sample population ranged from 1922 to 1999. The distribution is significantly skewed towards recent years. This is illustrated by comparing the mean and medium year of establishment, which are 1981 and 1988 respectively. This indicates that half of all respondents were formed since 1988. Micro businesses tend to be younger than their larger counterparts, with a mean and medium of 1982 and 1990 respectively. The most common year of establishment (i.e. the mode) was 1996, when 6 businesses in the sample were formed. This illustrates the young nature of many small businesses, corresponding to the growth in small enterprise in the UK over recent decades, the expansion of the quality food sector and the high turnover of small business start-ups.

Turnover

The respondents were asked to indicate their business turnover in one of five broad categories. Figure 5.3b presents the results. Just over 40% of businesses achieved a turnover of under £50 000 in the last financial year. The second most popular category was businesses that achieved a turnover of greater than £400 000 per year. Interestingly, the bar chart shows a “W” shape with peaks at the beginning, middle and end categories. Whilst this may indicate a step nature in size characteristics, in

terms of turnover at least, it may also be due to the non-linearity of the turnover categories used. Unsurprisingly, non-micro sized firms are concentrated among the larger categories of turnover.

Figure 5.3b: Approximate Turnover



Interestingly, of the 3 microbusinesses that reported an annual turnover of over 400 K, two were meat processors while the other was a horticultural cooperative.

A cross tabulation of turnover and year of establishment (Figure 5.3c, below) illustrates that Welsh food businesses do not grow uniformly over time. If this was the case, then one would expect the vast majority of larger businesses to also be older businesses. In fact, the proportion of businesses established during the 1980s who command an annual turnover of more than 400K is greater than that of businesses formed before 1970 (40% versus 33%). Conversely, the proportion of businesses started in the 1980s whose turnover is less than 50K is much greater than the respective proportion pre-1970 (28% versus 3%). Again this probably illustrates the boom in the formation of artisanal food businesses during the 1980s and 1990s, for whom growth aspirations tend to be, almost by definition, low.

Figure 5.3c: Crosstabulation of Business Turnover Versus Decade of Establishment

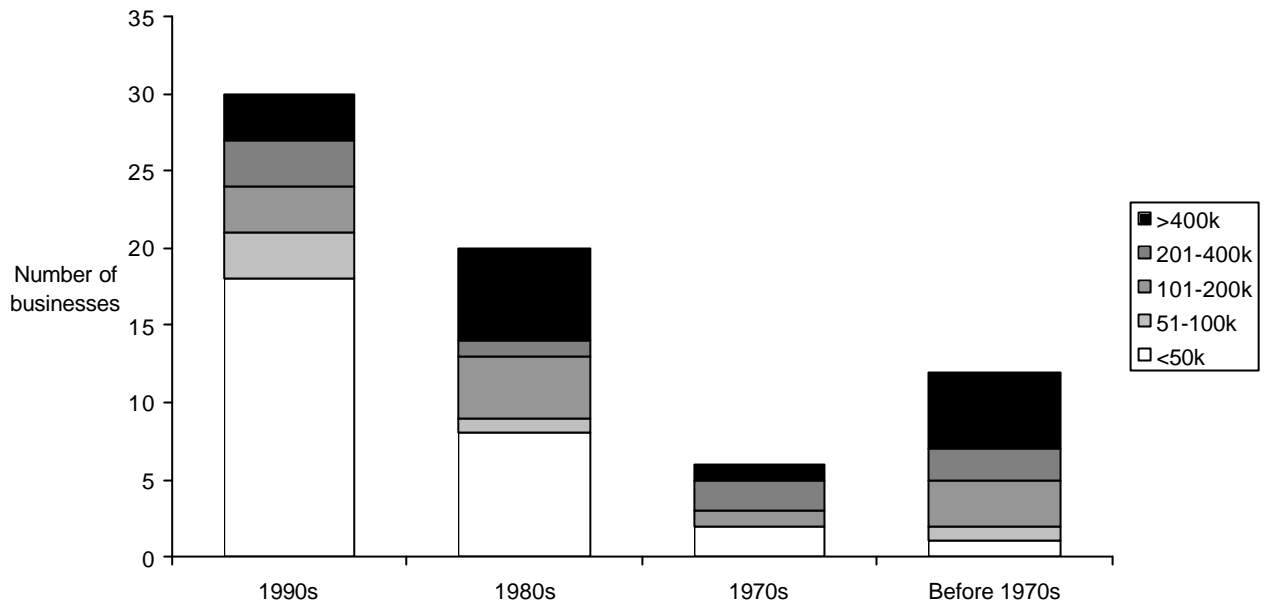


Figure 5.3d: Crosstabulation of Product Category Versus Turnover

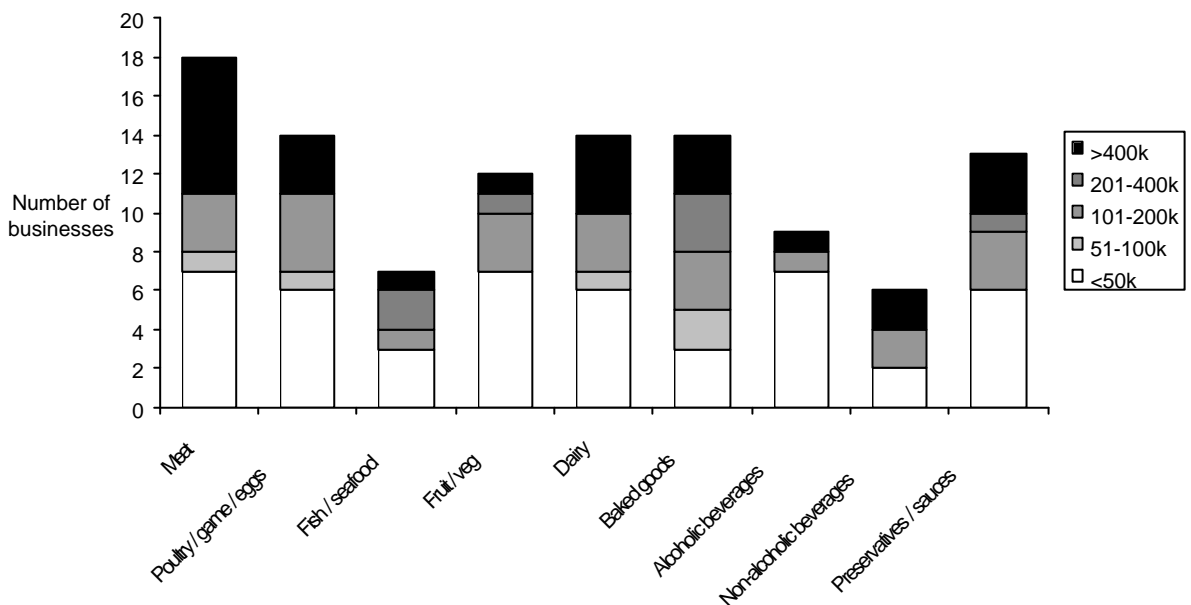


Figure 5.3d (above) shows few clear patterns of certain businesses sizes dominating in certain product categories. Alcoholic beverages and fruit / vegetables have the largest proportions of very small businesses (i.e. <50K), whilst baked goods have the smallest proportion. The meat product category is of note due to its dominance of businesses at either end of the turnover scale. These findings go somewhat towards supporting the notion that product type plays a significant role in defining the size

possibilities of businesses (although this is by no means conclusive as, among other things, these results are not adjusted for business age).

Current Growth

As Figure 5.3e illustrates, nearly one third of businesses classed themselves as ‘growing steadily’. The second largest category of growth characteristic were businesses that were ‘not currently experiencing any significant growth’ (23.7%). An only slightly smaller proportion of businesses, however, were ‘achieving significant growth’ during the period when the survey was administered. The sample contained 5 recent start-up businesses. 13.1% of respondents classed their businesses in one of the poor performing categories (losing sales / in review because of poor sales / planning to end production). Of interest is the high proportion of responding SMEs who responded who were currently reviewing operations.

Figure 5.3e: Current Growth

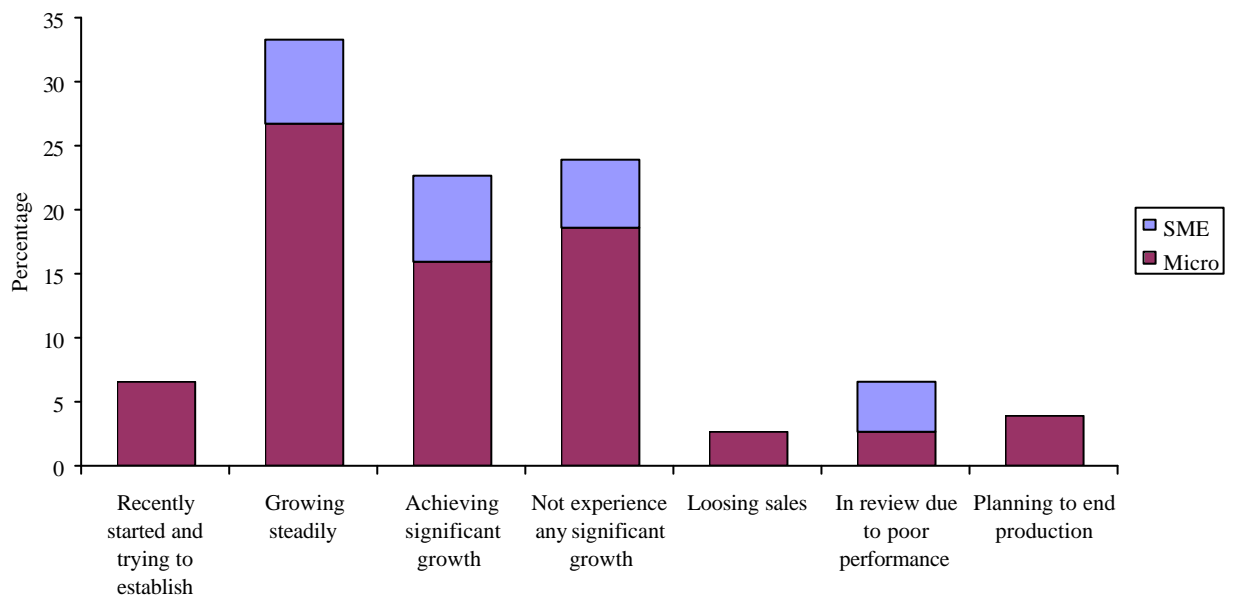


Figure 5.3f: Current Growth Characteristics Versus Product Category

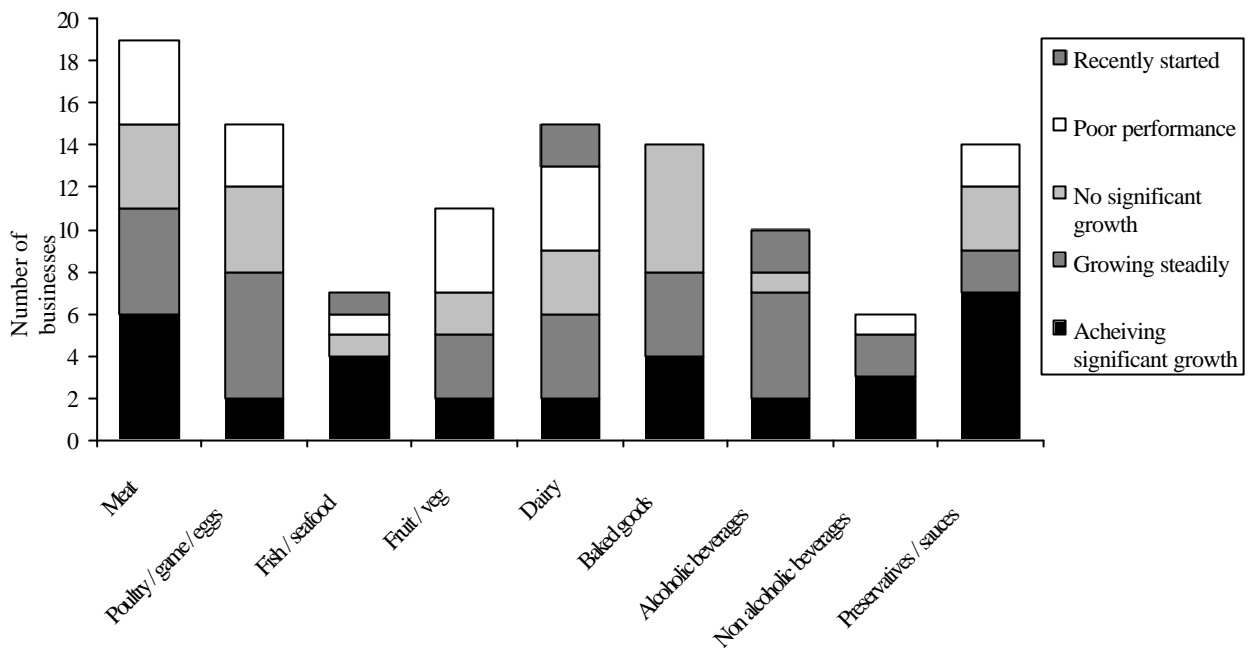


Figure 5.3f shows growth characteristics according to the product categories that the businesses operate in. Of interest here is the high proportion of businesses achieving significant growth in the fish / seafood, preservative / sauces and non-alcoholic beverage categories. Alcoholic beverage producing businesses also appear to be performing well with only one business not showing positive growth.

Figure 5.3g: Current Growth Characteristics Versus Year of Establishment

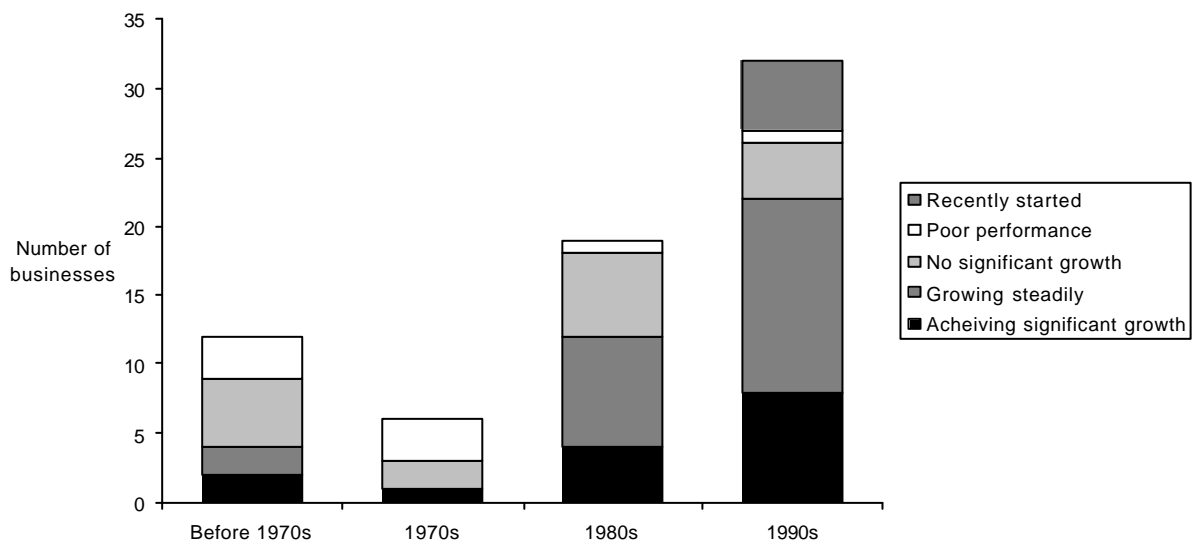


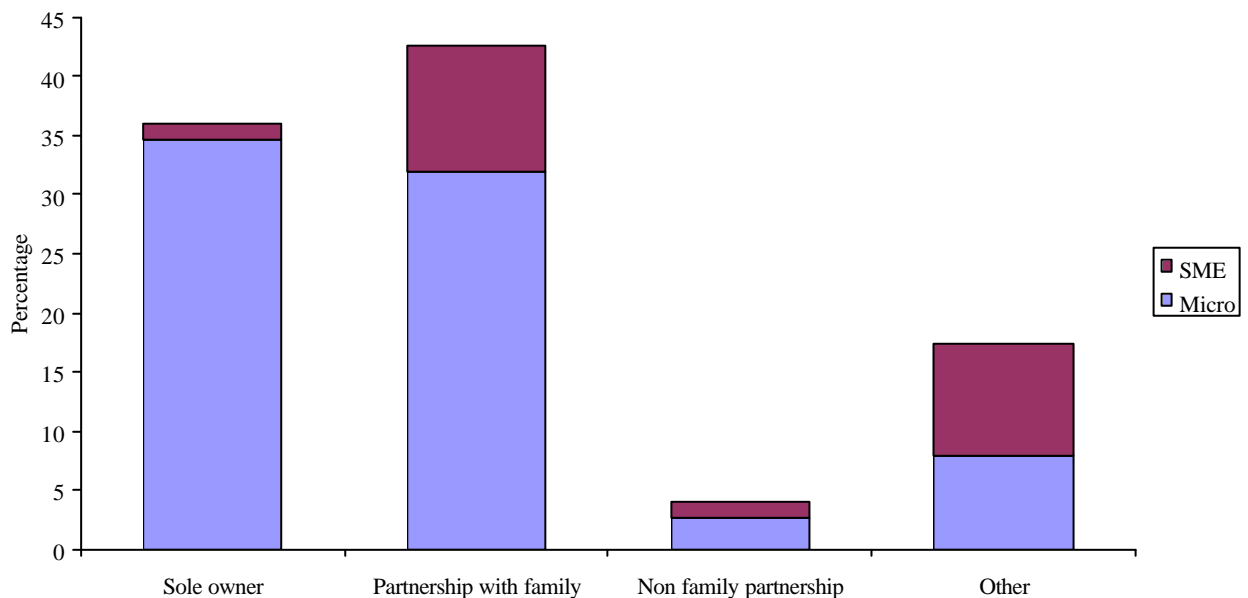
Figure 5.3g cross tabulates business age versus current performance. Unsurprisingly, businesses established more recently are more likely to be experiencing growth. Of those established prior to 1970, 42% are experiencing no growth and 25% are performing poorly. There are however 2 businesses from this age bracket that are experiencing significant growth (including one established in 1924).

Farm Based

The respondents to the survey were almost equally split between farm and non-farm based businesses (51.3% & 47.4% respectively). However, micro sized firms were more likely to be farm-based (59.3% versus 39.0%). These figures highlight the strong integration between the farm sector and smaller food processing businesses in the Welsh economy.

Business Ownership

Figure 5.3h: Business Ownership



Nearly 79% of businesses are either owned by sole proprietors or are partnerships within the same family (35.5% & 42.1% in each group respectively). Among micro firms the figure rises to 86.2% (44.8% & 41.4% respectively). Only one SME was run by a sole owner. Similarly, the proportion of microfirms with non- sole or family ownership was low (under 14%).

Number of Employees

The average business employed the equivalent of 83.66 months of labour per year (just under 7 full time equivalents (FTEs)). This compares with the DTZ average for Speciality food producers of 8 FTEs. There were, however, a small number of larger businesses in the sample that skew the results upwards. Figure 5.3i shows the spread of sampled businesses in terms of number of FTEs. Of the 70 businesses that responded adequately to this particular question, 53 were micro-sized (i.e. had 9 or less FTEs). Of the six businesses in the sample which failed to adequately complete the employment questions, further examination using secondary sources reveals that these businesses were all (almost certainly) micro-sized (the non-respondents were 3 honey farms, two small dairy producers and an organic farm). Including these companies, therefore, there are 59 Micro businesses and 17 SMEs in the sample.

Compared to the DTZ Speciality food study, the sample is found to be significantly different to both UK Speciality food businesses (P = 0.018) and Welsh Speciality food businesses (P = 0.001), with respect to the proportion of microfirms. The proportion of micro businesses in our sample and the DTZ Welsh firm sample is, however, very similar (77% versus 76% respectively).

Figure 5.3i: Total Employment Among Respondent Businesses.

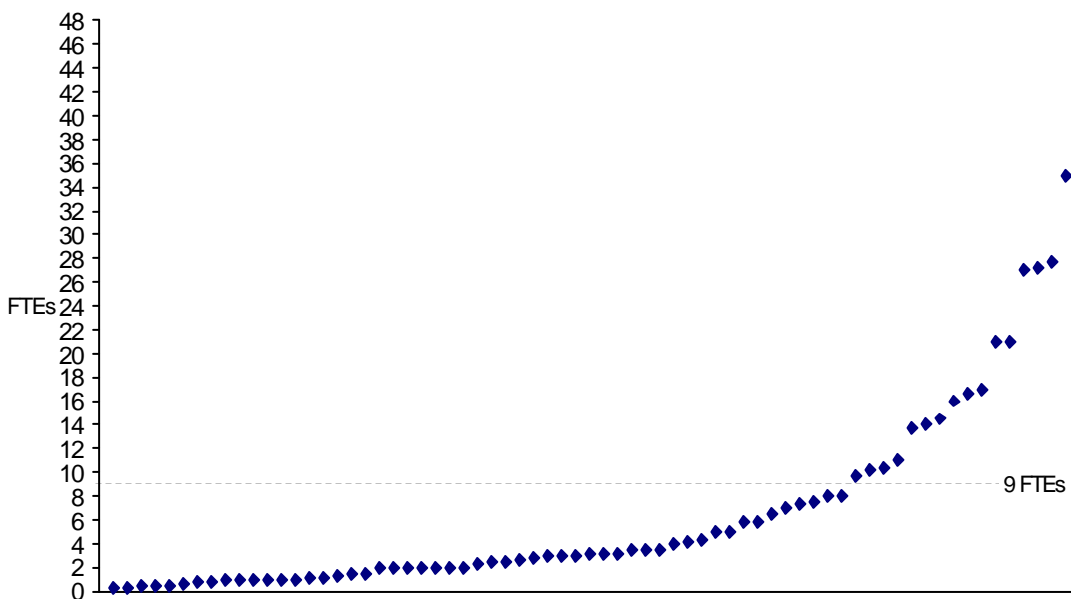


Figure 5.3j crosstabulates the average employment levels according to type of employment (i.e. full time / part time / seasonal and family / non-family) for both the micro businesses and SMEs in the sample. As this figure illustrates, the most significant difference between microfirms and SMEs is the levels of non-family employment. In fact, the average level of full-time family employment is almost identical between micro firms and SMEs (1.03 FTEs versus 1.08 FTEs respectively)

Figure 5.3j: Average Employment Levels According to Business Type for SMEs and Micro Firms.

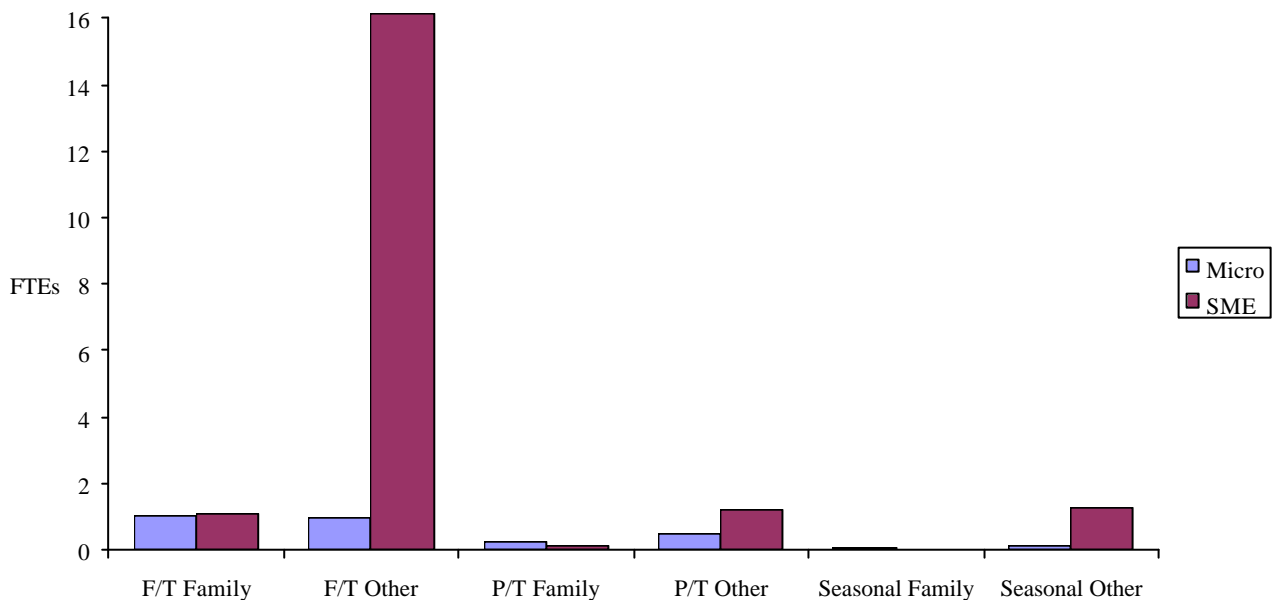


Figure 5.3k further breaks down employment levels by showing the proportion of businesses in certain bands of FTEs for each employment type. These figure illustrate that 50% of businesses do not use external full time labour; only 11.4% of businesses use seasonal family labour and 32.9% use seasonal external labour.

Figure 5.3k: Summary of Employment Breakdown, According to Employment Type

FTEs	F/t Family	F/t External	P/t Family	P/t External	Seasonal Family	Seasonal External
None	28.6	50.0	68.6	57.1	88.6	67.1
= 0.5	4.3	0.0	17.1	12.9	11.4	22.9
> 0.5 & = 1	35.7	8.6	14.3	15.7	0.0	1.4
> 1 & = 2	27.1	5.7	0.0	5.7	0.0	2.9
> 2 & = 3	4.3	1.4	0.0	4.3	0.0	1.4
> 3 & = 6	0.0	12.8	0.0	4.3	0.0	2.8
> 6 & = 10	0.0	4.3	0.0	0.0	0.0	1.4
> 10	0.0	17.1	0.0	0.0	0.0	0.0

Location

Just under 45% of businesses that responded to this question are located in a town / village. Of the remaining businesses, the average distance from a settlement is just over 3.5 miles (with a standard deviation of 2.24). 11 businesses are located in towns with greater than 15 000 inhabitants. For the remainder, the average distance from such a town was 14.1 miles (with a standard deviation of 11.2). Cross tabulation of distance from a town and current performance showed no significant correlations.

5.4 Business Relationships

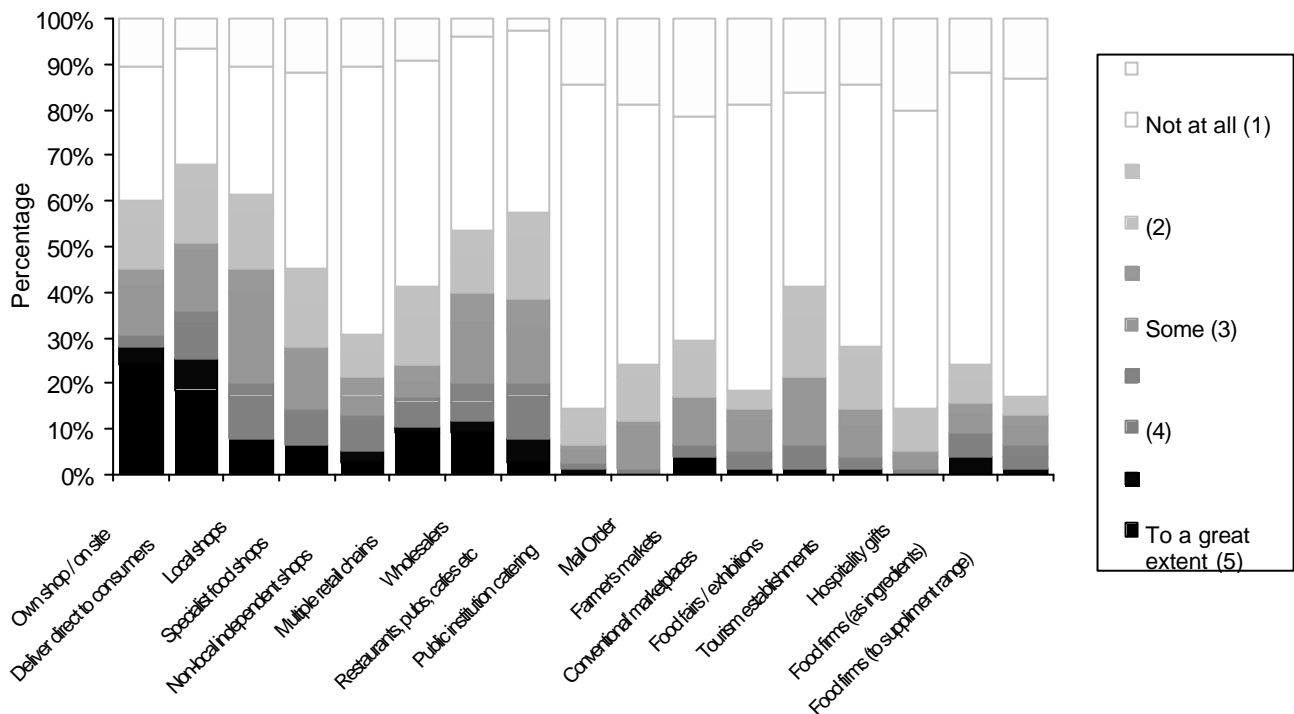
The aim of this section is to reveal the supply chain structures of respondent businesses, in terms of where they source / sell their products, how they distribute their product etc. Information of this type is generally scarce for small food businesses in general and virtually non-existent in the Welsh context.

Customer Characteristics

Interestingly, the two most common types of supply channel employed by businesses both dealt directly with the end consumer. Nearly 28% of all businesses sell product 'to a great extent' through their own shop or from the site of production. This was the most common chain type which producers used 'to a great extent'. The most popular

chain type, regardless of degree of usage, was delivery direct to consumers with 68% of respondent businesses using this method to some extent. As Figure 5.4a illustrates, a wide range of supply chain types is used by the sampled businesses. The graph also enables one to identify chains which are not well used, but perhaps have the potential to be. For example, the proportion of businesses that supply other producers, either as ingredients or to supplement their ranges, is low as are the number of businesses that supply public institutions.

Figure 5.4a: Supply Channel Usage



NB: Dotted area in this figure and also others in this chapter indicated the SMEs in the sample, unless stated otherwise.

Multiple retailers are well represented in the supply chains, with over 40% of businesses having at least some trade with them. Only 10% of businesses supplied supermarkets 'to a great extent'. When micro and non-micro firms are compared, the larger businesses seem to be more likely to use the following types of supply channel: non-local independent shops, restaurants cafes etc, public institution catering and supplying other food firms (both as ingredients and to supplement their ranges). Interestingly, micro firms seem more likely to supply a significant proportion of their

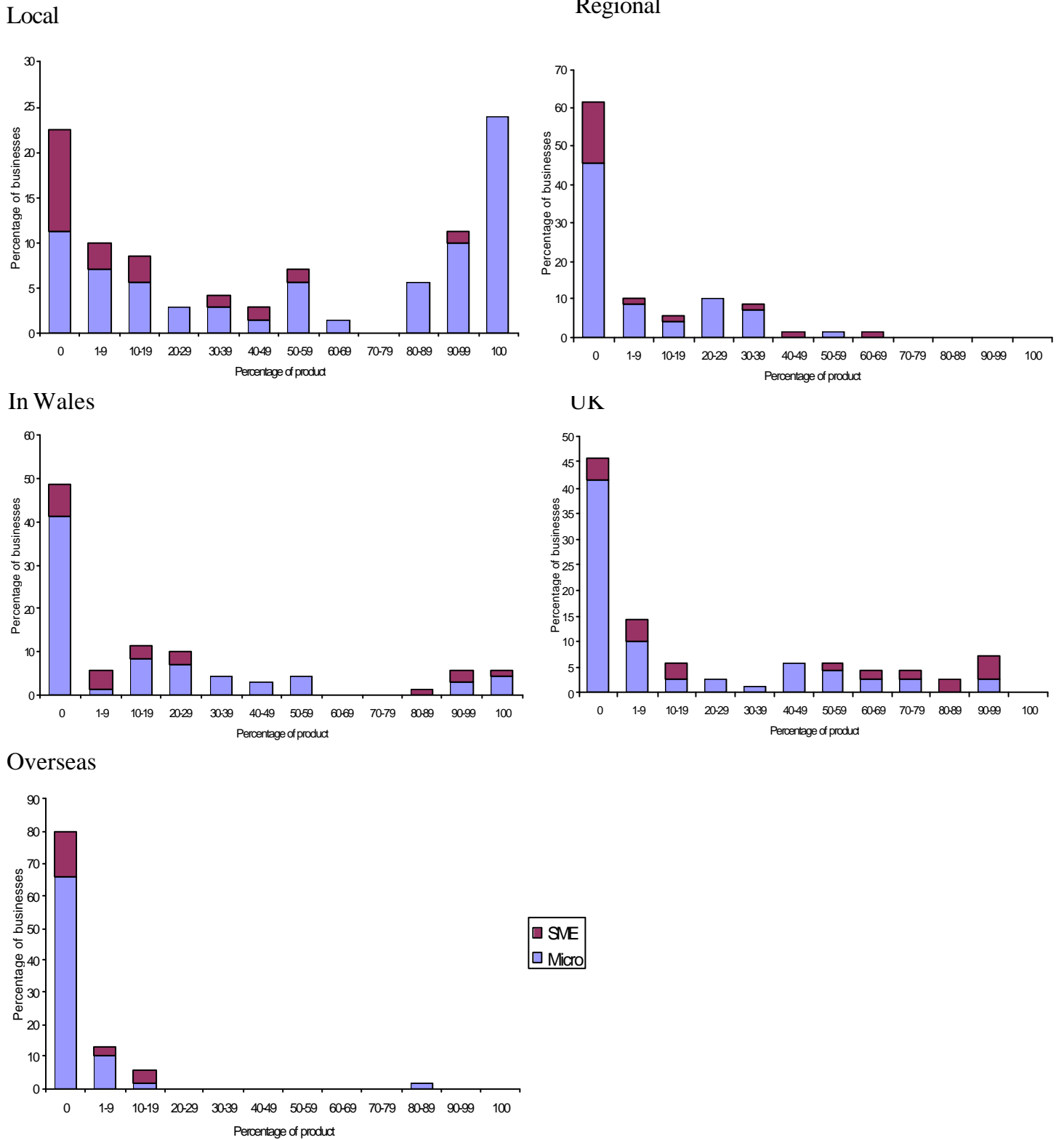
product to multiple retailers than SMEs. This seems to illustrate the trend of supermarket sourcing policies towards either large or micro sized firms (to meet increasing consumer demand for specialised products) but at the expense of SME food businesses.

From the 17 specific categories of supply channel given in the survey, respondent businesses use on average 6.3 different types. This indicates that Welsh food firms use a wide range of supply channels to market their products. This is backed up by the fact that Welsh food businesses rarely seem to have only a small number of significant individual customers. In fact, only 7 respondents (9.2%) have 3 or less significant customers. This indicates that very few businesses are dependent on the fortunes of individual businesses down the supply chain. These responses also suggest that small businesses tend to trade with other small businesses rather than with larger businesses who would individually account for a higher proportion of output.

Only 17% of businesses reported having a contractual relationship with any of its customers. In fact, among microbusinesses only 10% have such contracts. By contrast, just over 41% of the SMEs in the sample have fixed contracts. This emphasises the informal nature of business relationships prevalent among small rural food businesses.

Figure 5.4b shows the proportions of products sold to different geographical areas among the sample. The areas were defined as being mutually exclusive, i.e. produce sold locally was not included in the figures for produce sold regionally. As the graphs indicate, local markets are both the most common and largest geographical markets for the sample. Over 77% of businesses supplied their products to local consumers; the average proportion of output going to such markets was 47.7%. Interestingly, regional demand was much less served; only 55% of businesses claimed to supply such markets and with an average (per business) of only 8% of output. The proportions of businesses that supply other parts of Wales and the UK are similar (50% and 53% respectively) as are the average amounts supplied (20.5% and 22.3% respectively). Trade overseas is limited and 80% of businesses have no custom abroad. Only one business in the sample had a significant proportion of their sales in this geographical range.

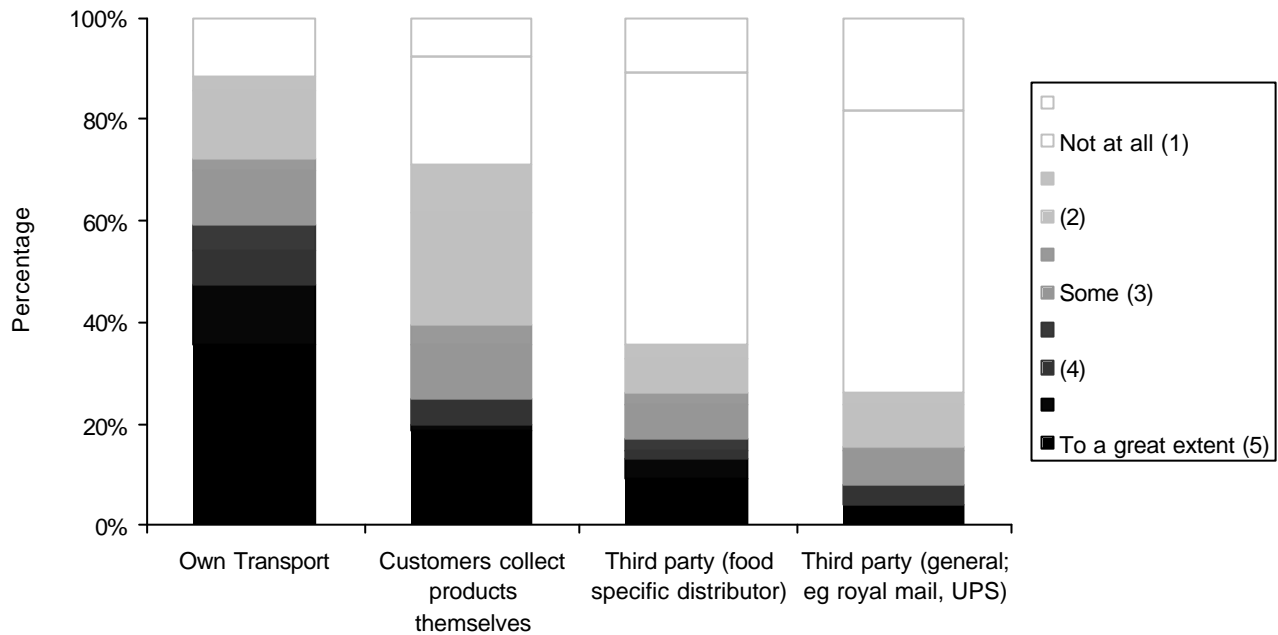
Figure 5.4b: Geographical Location of Markets



Distribution Methods

Approximately half of the respondents (51.3%) indicated that at least some of their product is transported in a chilled or frozen state. Slightly more (55.4%) regarded their products as fragile, in distribution terms. This illustrates the specific nature of many products' distribution needs and therefore the unique requirements of this sector vis-à-vis non-food sectors (and its implications for cost, reliability etc).

Figure 5.4c: Product Distribution Methods

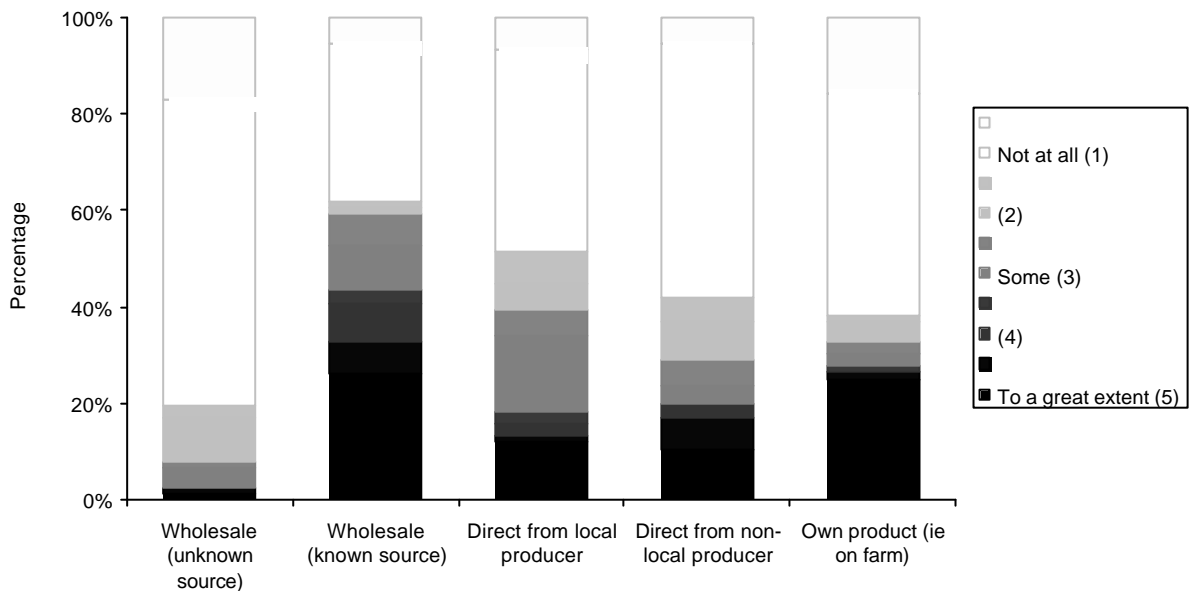


As Figure 5.4c illustrates, the most popular method for distribution is using the companies' own transport; nearly 90% of respondent businesses used this method to some degree. In fact, just over 47% of businesses used their own transport 'to a great extent'. The second most popular means of distribution is customer collection; 71.1% of businesses use this method. Third party methods are less significant among the respondent population. SME businesses seem proportionately more likely to use their own transportation and third party specialist distributors and less likely to use customer collection methods and non-specialist couriers. The high proportion of own transport and customer collection corresponds to the high share of local customers noted above.

Supplier Characteristics

The most popular source of ingredients among respondent businesses was wholesale markets. In such cases, they almost always purchase product from a known source (via the wholesaler). Sourcing directly from producers, both local and non-local, was next popular while approximately 40% of businesses use at least some of their own products. Overall, this indicates a high degree of traceability (or at least immediate traceability) among small Welsh food businesses. SMEs seem more likely to purchase on wholesale markets and direct from non-local producers than microbusinesses.

Figure 5.4d: Ingredient Origins

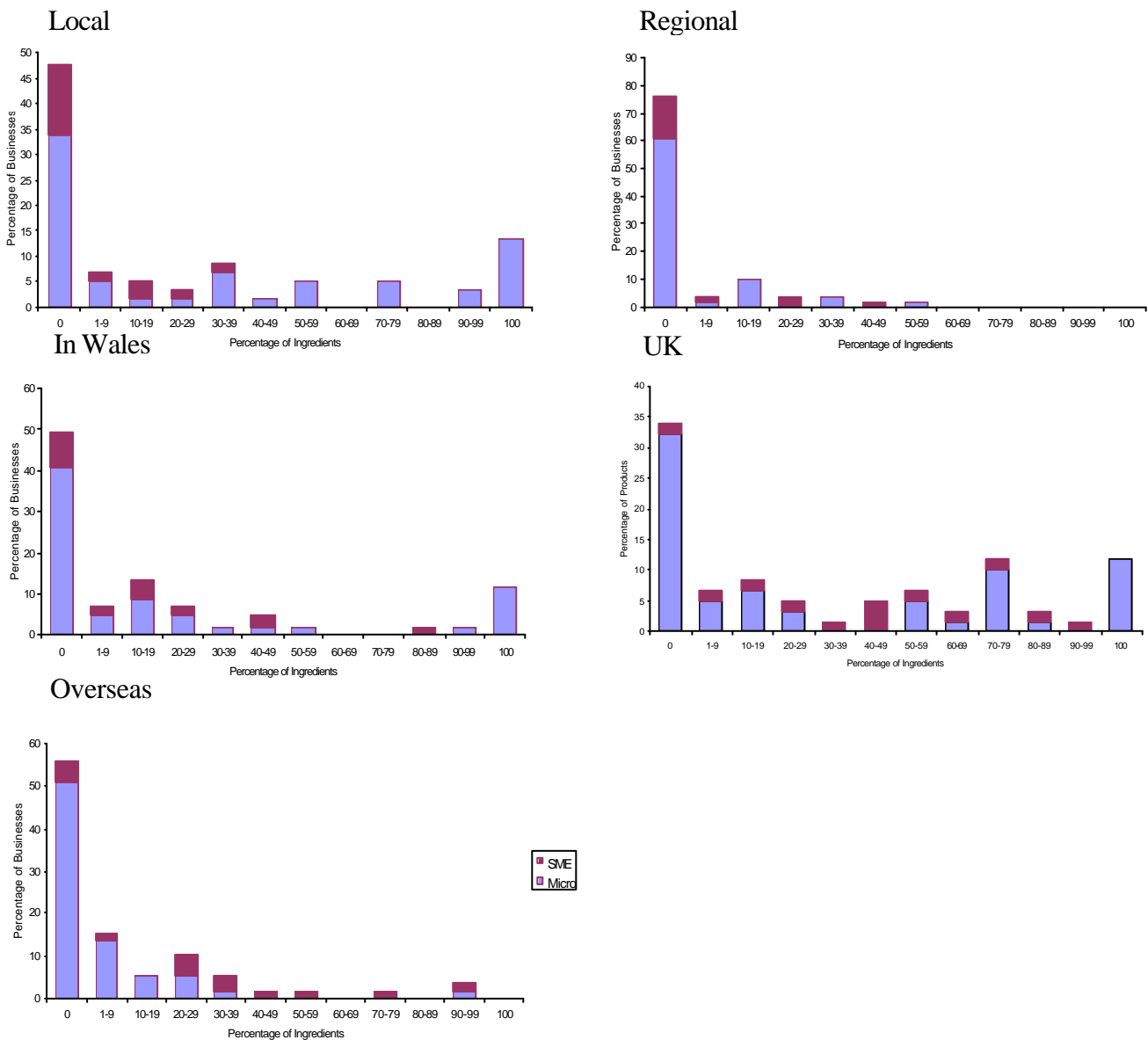


The supply base for small food businesses appears relatively narrow; 71% of businesses regarded themselves as relying on a small number of significant suppliers. Among those that considered their businesses to fall into this category, the average number of suppliers was 5.5. As with their customers, only a small proportion of businesses have any kind of contractual agreement with suppliers (16.7%). Moreover, there seemed little difference between micro businesses and SMEs in this respect.

Geographical location of Suppliers

Figure 5.4e illustrates the proportion of ingredients sourced from various geographical locations. 53% of businesses use local ingredients (to some degree) in their products. This compares with 51% using non-local, non-regional Welsh ingredients, 66% using wider UK sourced ingredients and 45% sourcing from abroad. In fact, the sample businesses source significantly more product abroad than they supply abroad. The figures also show that SMEs are less likely to source locally than micro firms. It is of interest to note that firms are more likely to source products UK wide than from local markets.

Figure 5.4f: Geographical Location of Ingredients



5.5 Entrepreneurial Profiles

As the literature review and empirical schema (Chapter 3) recognise, the entrepreneur is at the heart of the dynamics of small business. This section therefore focuses on the characteristics of the respondent and other entrepreneurs in the business.

Entrepreneurial profiles were recorded for 135 individuals as part of this survey. 62% of businesses gave details for both the respondent and a partner. 23% also completed details for another significant individual in the business. Overall, 64% of entrepreneurs were male; this included 74% of actual respondents, 41% of partners and 80% of ‘Other significant’ employees (who have ‘a significant decision making influence on the business’). A cross tabulation between business turnover and the gender of the respondent (Figure 5.5a below) shows clearly that male entrepreneurs dominate among the larger businesses in the sample. In fact, among the smallest bracket of businesses (less than 50K) there are only 2 more males than females.

Figure 5.5a: Cross Tabulation of Entrepreneur Sex and Business Size

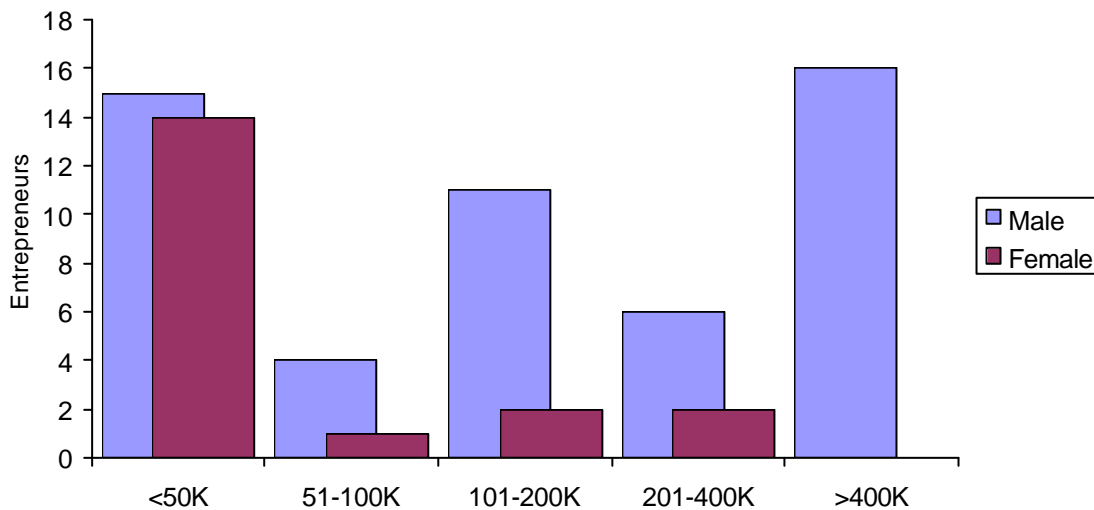


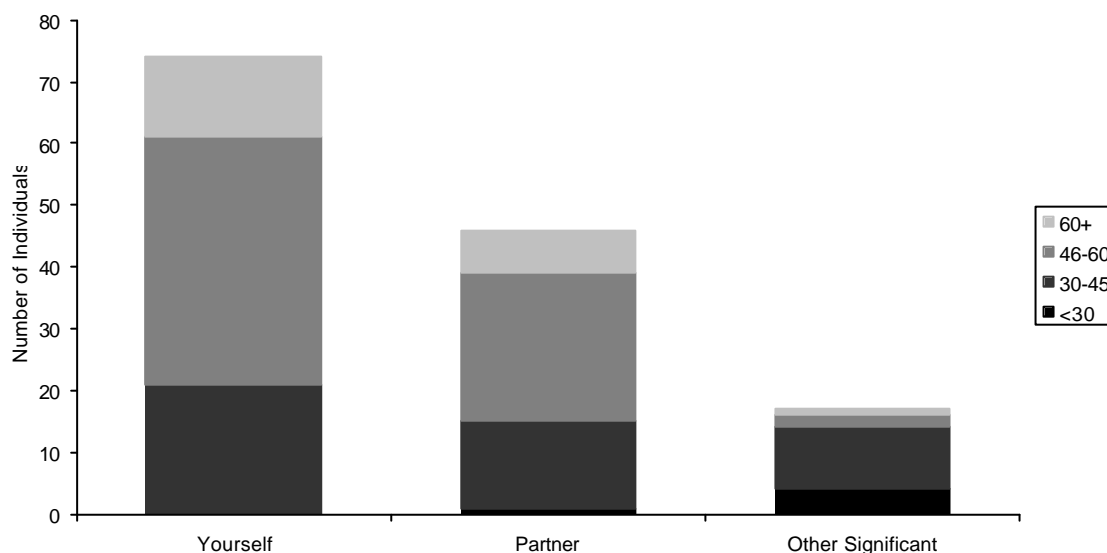
Figure 5.5b: Summary of Entrepreneurial Characteristics

	Yourself	Partner	Other Significant
Age Category			
<30	0 %	2.2 %	23.5 %
30-45	28.4 %	30.4 %	58.8 %
46-60	54.1 %	52.2 %	11.8 %
60+	17.6 %	15.2 %	5.9 %
Sex			
Male	74.3 %	41.3 %	80.0 %
Female	25.7 %	58.7 %	20.0 %
Highest level of formal education			
None	11.1 %	14.6 %	8.3 %
O level / GCSE	25.0 %	24.4 %	25.0 %
A levels	6.9 %	14.6 %	16.7 %
Degree level	56.9 %	46.3 %	50.0 %
Vocational	9.5 %	6.8 %	17.6 %
Local origin			
Yes	54.9 %	53.3 %	80.0 %
No	45.1 %	46.7 %	20.0 %
Previous food related experience			
Yes	66.7 %	46.7 %	78.6 %
No	33.3 %	53.3 %	21.4 %
Previous business ventures			
Yes	46.5 %	44.4 %	25.0 %
No	53.5 %	55.6 %	75.0 %

Figure 5.5b presents the basic characteristics of the entrepreneurs. The age profile reveals that they are mostly within the 46-60 age bracket. Few exist in the sample under the age of 30. ‘Other significant’ entrepreneurs tend to be younger, potentially

indicating their role as professional employees (see Figure 5.5c for a graphical representation). This observation is backed up by the high incidence of higher education qualifications among the ‘other significant’ entrepreneurs. Although only 19 people are present in the sample, ‘other significant’ entrepreneurs seem significantly more likely to be younger (i.e. 30-45 rather than 46-60), male, of local origin and have vocational qualifications. They also have a greater tendency to have previous food related experience but no previously business venture experience. Overall, 53% of the entrepreneurs in the sample have been educated to degree level. Only 12% have no formal education. 10.4% of entrepreneurs were listed as having a vocational qualification (although doubt about question structure).

Figure 5.5c: Age Breakdown of Entrepreneurs



When the data in this section are crosstabulated by firm size, it reveals a number of interesting but inconclusive (due to the small number of non-micro firms) trends. Entrepreneurs in SME businesses seem more likely to be male (87.5% versus 70.1% for respondents, 70.0% versus 33.3% for partners), and more likely to be of local origin (68.7% versus 50.9% for respondents). Whilst academic qualification levels seemed more or less equitable, no SME respondents or partners had any vocational qualification (compared with 12.1% of respondents and 9.0% of partners among microbusinesses). In addition, SME entrepreneurs seem far more likely to have had previous food related experience. In fact, only 1 SME respondent did not (compared with nearly 40% of microbusiness respondents).

Specific Positions of Responsibility

Respondents were asked which of a range of areas they and other entrepreneurs in their business have direct responsibility for on a day to day basis. Figure 5.5d summaries the results by measuring the average differences between the scores for each responsibility among entrepreneurs in each business. For example, if the scores in business x for responsibility for procurement were; respondent = 3, partner = 1 and other significant = 5, the average distance would be $(3-1) + (3-5) + (1-5) / 3 = 2.67$. Therefore, if the role was shared equally between entrepreneurs the score would be 1; if only one person was responsible then the score would be 4. The aim of analysing in this way is to identify which tasks are generally shared and which are more likely to be the responsibility of one person. As Figure 5.5d illustrates, there appear to be some differences between responsibilities. Financial management / planning is most likely to be done by a single person. Product development and strategic planning, by contrast, are the most common shared responsibilities. These findings seem to make intuitive sense, although it should be noted that there may be others in the business with responsibilities whose details were not given in the survey.

Figure 5.5d: The Sharing of Responsibilities Among Entrepreneurs

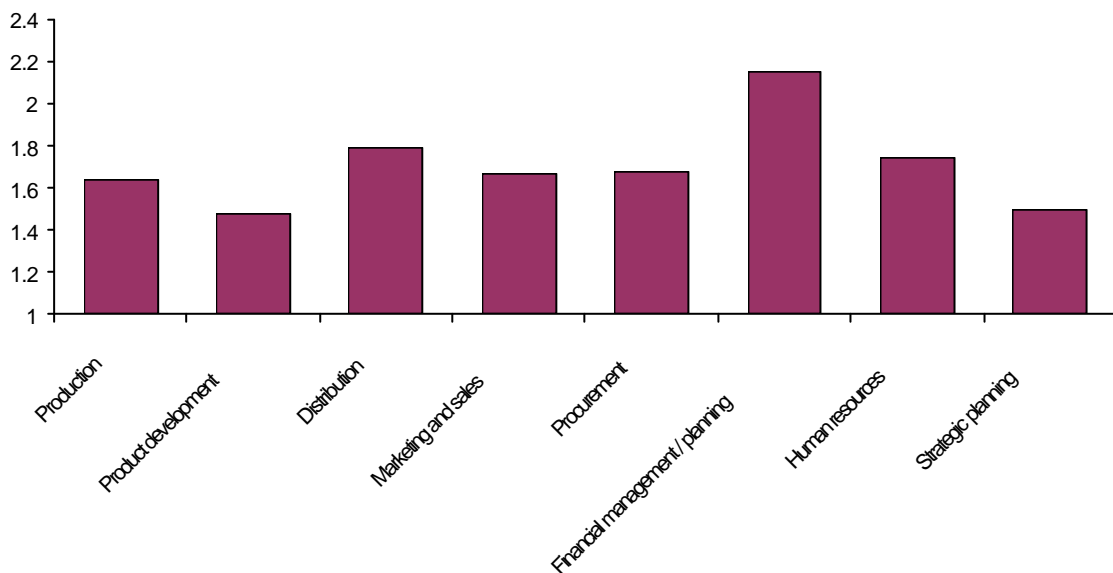
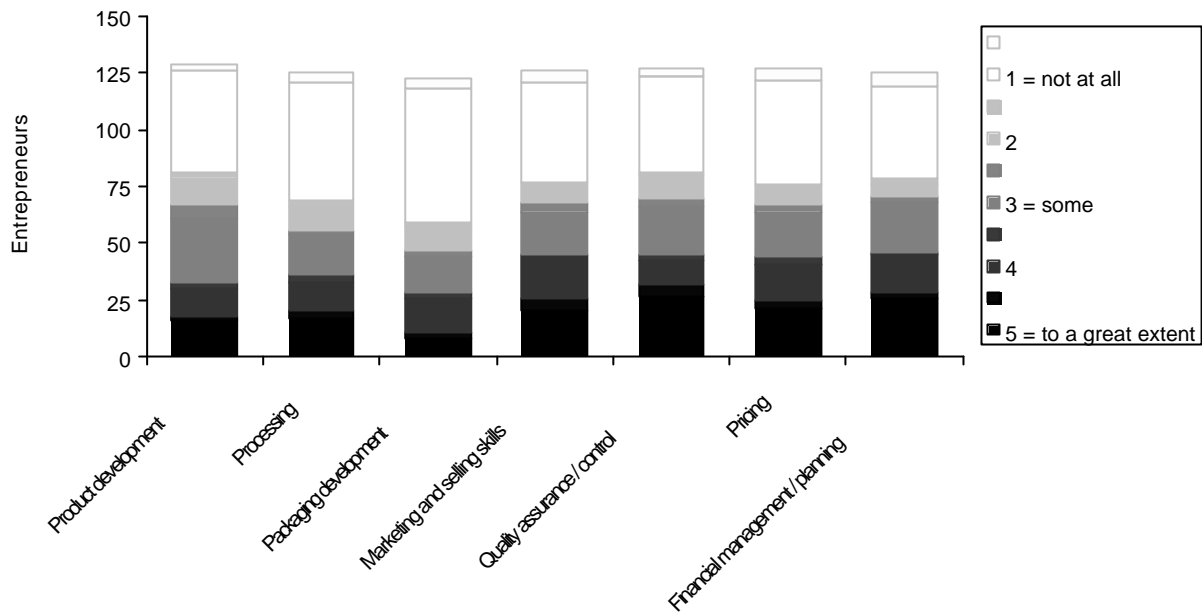


Figure 5.5e: Training or Acquired Competence Through Earlier Experience

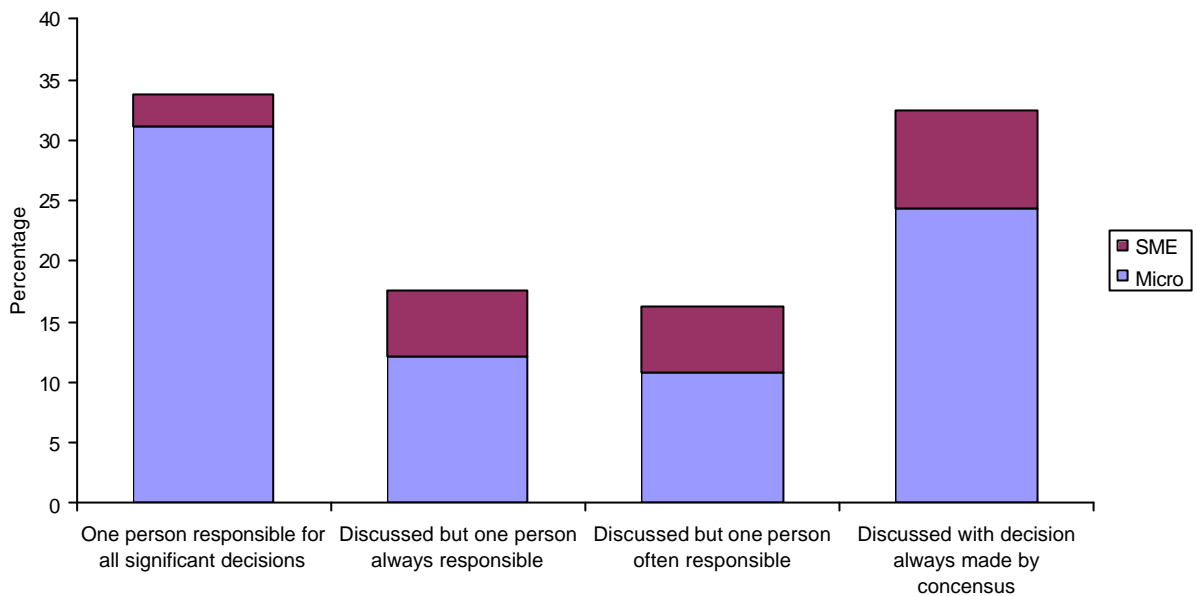


NB: Shade area above indicates 'other significant' entrepreneurs.

Figure 5.5e shows that most entrepreneurs have little or no training or prior business experience in any of the given business roles. Moreover, the ratios were relatively consistent across the categories, except for 'packaging development' (although it should be noted that this may be only a minor concern for some businesses).

In terms of decision making within the businesses, Figure 5.5f illustrates that among the micro businesses, significant decisions are made by only one person in the majority of cases. The small number of SMEs in the survey, by contrast, were most likely to make decisions by consensus. Again this is consistent with expectations that single entrepreneurs are less able to take responsibility for all management / control aspects as the firm grows.

Figure 5.5f: Decision Making Relationships



Factors which influenced the establishment of the business

The following question asked how much influence the given series of factors had on the decision to start the enterprise. As Figure 5.5g illustrates, the two strongest factors across the sampled businesses were the identification of a market niche and the development of a good product or business idea. The importance of these factors may seem to contradict the artisanal thesis identified in the literature review, which emphasises non-economic factors as being prevalent among micro business entrepreneurs. What these results suggest is that, although non-economic factors may prevail, entrepreneurs typically require an economic rationale to help reduce their perceived risk in undertaking the venture (and perhaps the perceived risk of a bank manager etc). It should be noted here that other reasons, not suggested in the questionnaire may also be important; for instance there may be a wide range of non-economic factors that were not accounted for. Also of interest is the low score for ‘difficulty to find waged work’, suggesting that entrepreneurs are rarely ‘forced’ into entrepreneurship due to lack of alternatives. ‘Desire for control / challenge’ was also a significant factor among nearly half the respondents.

Figure 5.5g: Factors Influencing Business Formation

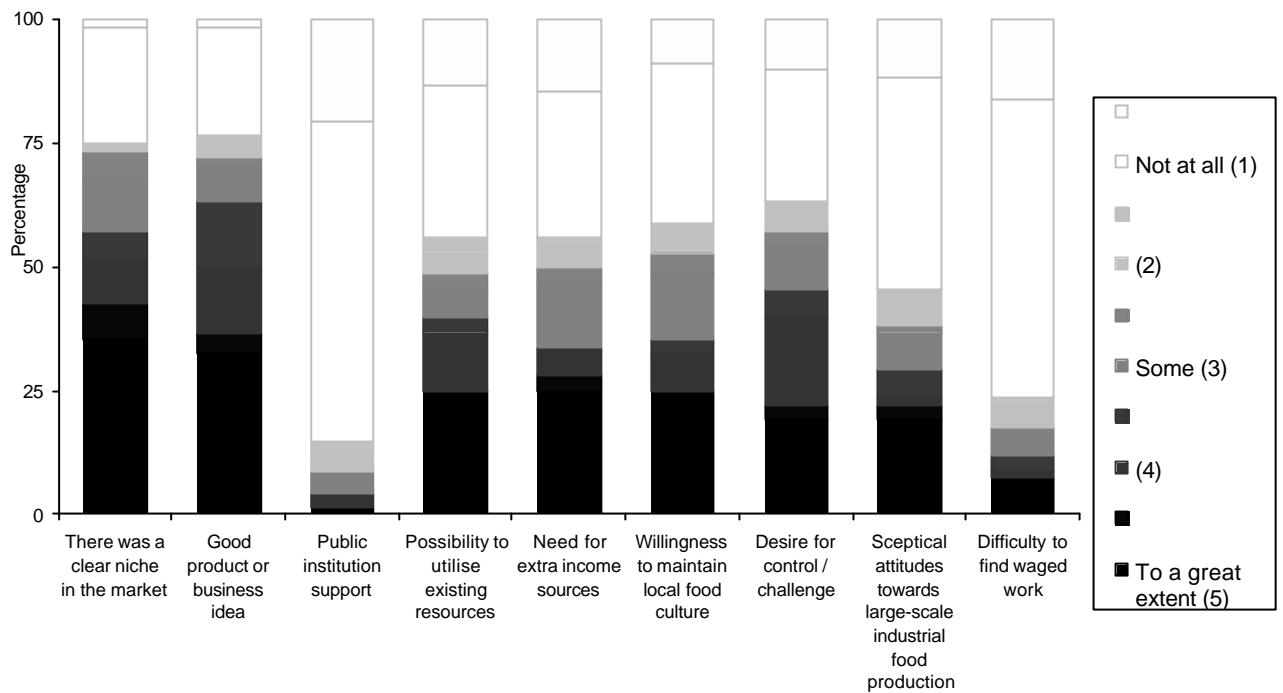
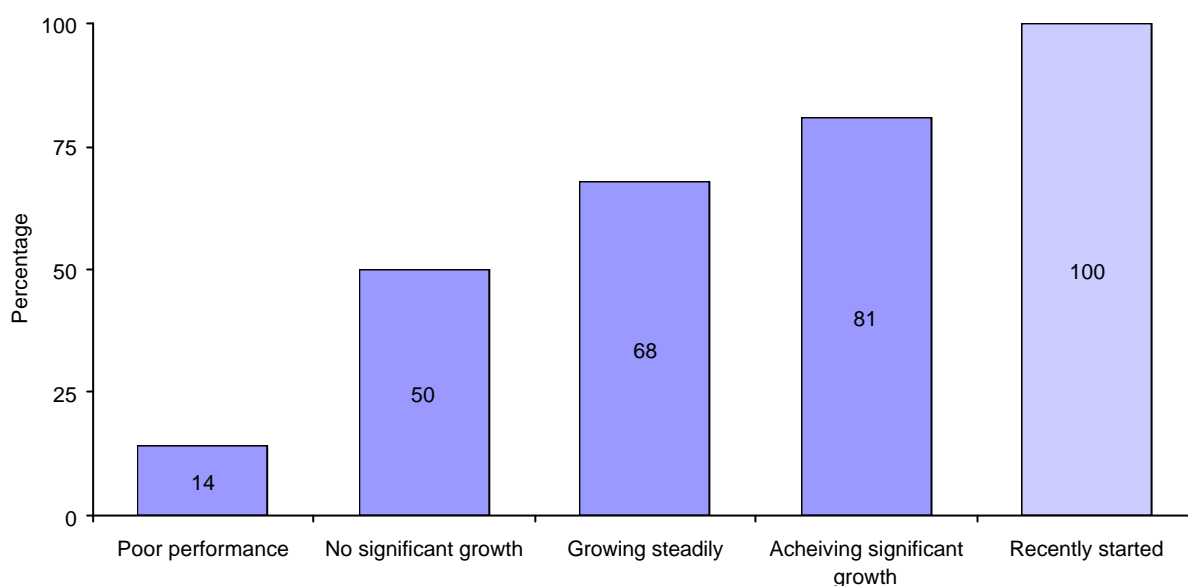


Figure 5.5h: shows the results of a cross tabulation between those that rated the influence of a good product or business idea upon the formation of the business as either 4 or 5 (where 5 = great extent and 1 = not at all) and their current business performance. The figure illustrates a clear positive correlation between their performance at the time of the questionnaire and the likelihood that the business was formed due to a good product or business idea. Again, the objectives of the entrepreneur should be taken into consideration when drawing conclusions from these data. Those businesses not founded on a good product or business model may also be those in which the entrepreneur has little growth ambition, regardless of the potential of his / her business. Also, entrepreneurs may perceive that their businesses is based on a good product or business idea during times of plenty, but not when the businesses is struggling.

Figure 5.5h: Current Growth Versus 'Good Product or Business Idea'.



Cross tabulation of factors influencing start-up and whether the respondent is of local origin also produces some interesting data. Although few differences are observed for many of the factors, outsiders were significantly more likely to found a business as 'there was a clear niche in the market' (72% versus 47% gave scores of 4 or 5). This contrasts with equitable results for 'good product or business idea' (63% versus 61%), suggesting that outsiders are drawn more towards niche market opportunities. Locals, by contrast, were significantly more likely to be influenced by a 'desire for control / challenge' (55% versus 36%).

Also of significance is the similarity of scores observed for 'willingness to maintain a local food culture' (35% local versus 37% non-local) and also an inconclusive difference for 'sceptical attitudes towards large scale industrial food production' (35% local versus only 23% non-local).

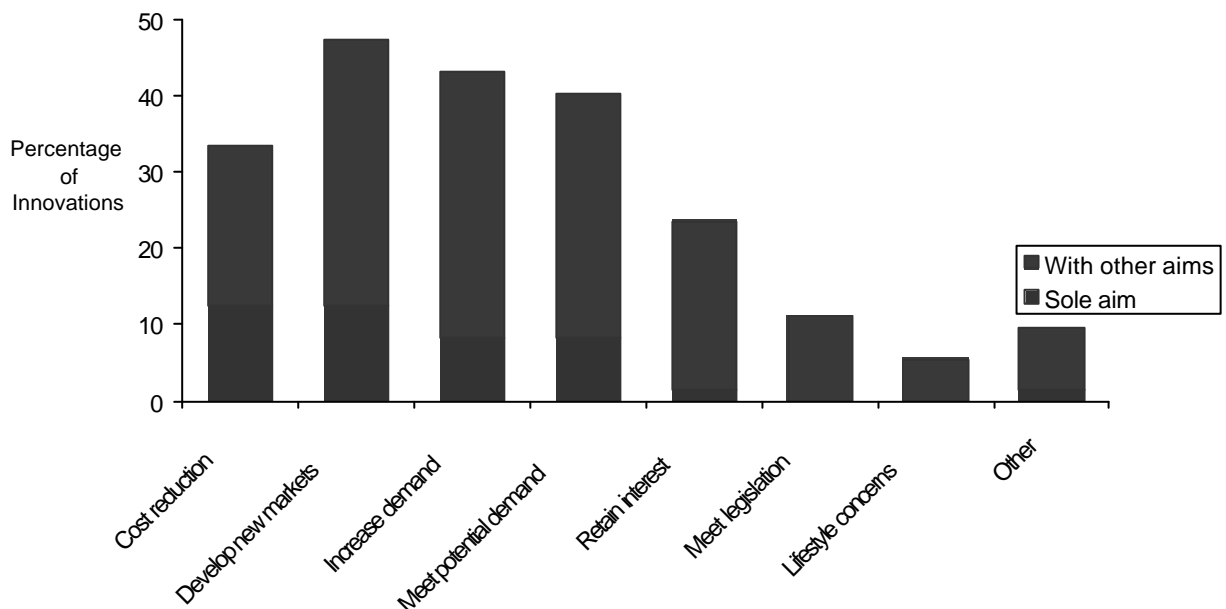
5.6 Innovation

This section of the survey was designed to elicit discrete information about individual innovations which could complement those identified by the case studies. In order to create useful data, the survey asked for details of innovations broken down into

different aspects. The section finished by posing some general questions about innovation propensity in the business concerned.

The survey yielded details of 72 innovations from 46 different firms. A wide range of innovations were submitted, ranging from new factories and purchasing more cows to updating internet presence. Innovation descriptions ranged from very specific details of action (for instance purchasing UV lighting for disease control) to generic courses of action (e.g. new marketing activities). The vast majority of innovations given had marketing related aims. In fact 59 of the 72 (81.9%) were described according to one of the four marketing related aims ('develop new markets', 'increase demand', 'meet potential demand' and 'retain interest'). Among these categories, the aim to 'develop new markets' was the most popular with 34 (47.2%) innovations listing this as either the sole aim or one aim. Multiple aims were common among the innovations given. Only 44.4% gave one single aim. Figure 5.6a illustrates the proportion of innovations given for each aim given in the survey. Of interest is the lack of innovations responding to legislation and lifestyle factors.

Figure 5.6a: Aim of Innovations



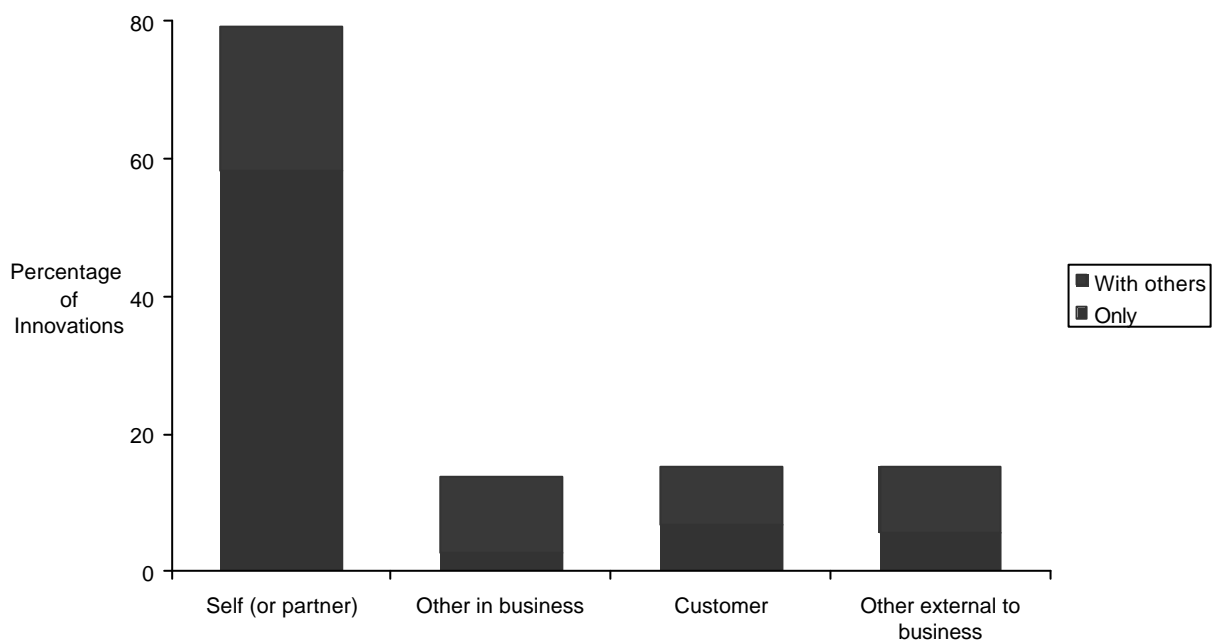
Further investigation by cross tabulations reveals that innovations aimed at retaining interest are more prevalent among larger businesses. In fact, 50.0% of all innovations

among businesses of 7 or more employees have ‘retaining interest’ as an aim. This compares with just 10.5% of those from businesses under 7 employees. Similarly, 75.0% of innovations from businesses with 14 or more employees had developing new markets as an aim, compared with 44.4% of innovations from businesses with less than 14 employees. The aim of cost reduction shows a similar split between businesses of 7 or less and greater than 7 employees (62.5% versus 37.5%)

Origin of innovation idea / stimulus

Approximately 60% of the innovations given originated solely from the owner / partner. About 1 in 5 innovations, however, originated with no influence from the owners at all. The proportion of innovations that originated, at least partially, from the other categories were similar for each at around 15% (See Figure 5.6b).

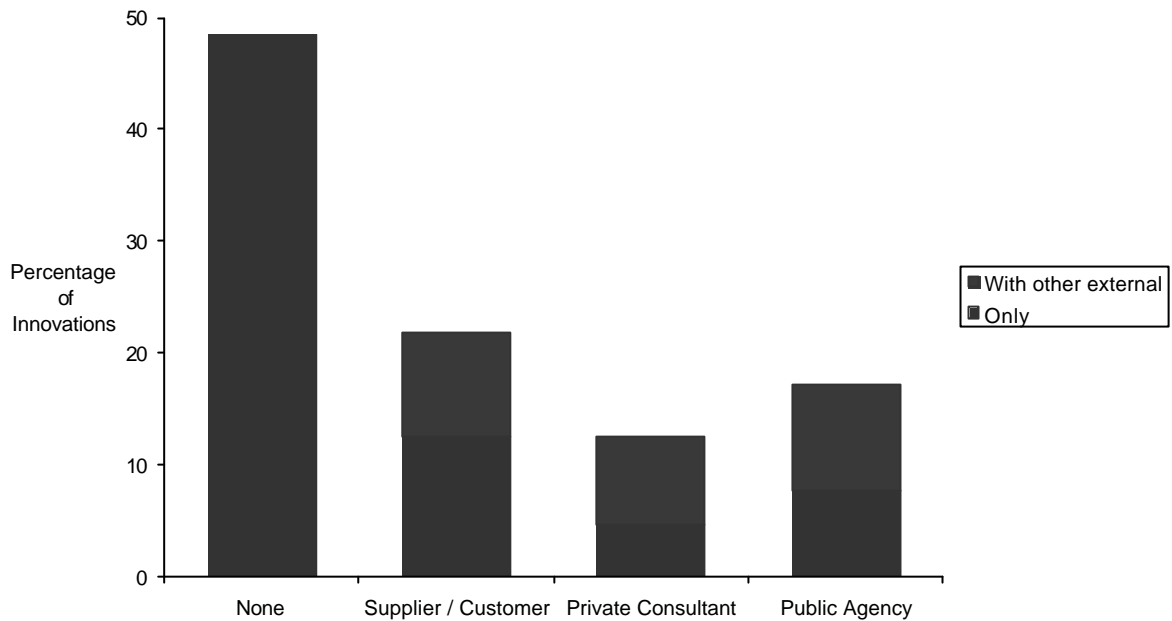
Figure 5.6b: Origin of Innovation Idea / Stimulus



A cross tabulation of innovation origin and innovation aims reveals little of statistical significance. This process is hindered however by the small numbers of innovations originating from sources other than ‘self (or partner)’. When those innovations originating solely from ‘self (or partner)’ are cross tabulated with innovation aims however, a strong correlation emerges with innovations that aim to retain interest. Of the 42 innovations that originated solely from self (or partner), only 4 (9.5%) aimed to retain interest in the businesses’ products. This compares with 50% of those

innovations that originated, at least in part, from other sources. This correlation is significant to 0.01 using a chi squared test. This finding may, however, be due to smaller businesses being both less likely to innovate for retaining interest reasons (see above) and more likely to originate innovations from the owner or partners only.

Figure 5.6c: Assistance Received During Innovation Process



Approximately half of all innovations were assisted by agents external to the business. Of these, other immediate supply chain businesses (e.g. suppliers / customers) were most frequent, involved in 22% of cases. Public agencies had involvement in 17% of innovations and private consultants in 12%. It is expected that responses in this section, in common with responses to this survey in general, would be skewed towards those businesses with favourable experiences with consultants / public agencies.

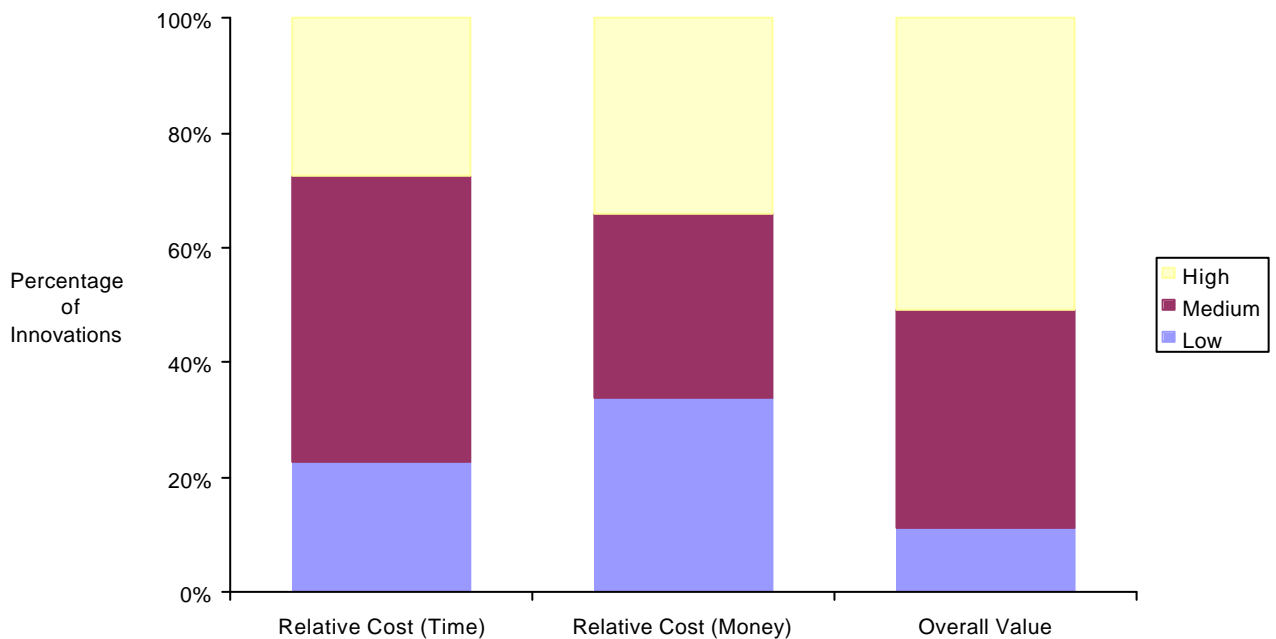
When the findings of ‘innovation origin’ and ‘assistance received’ are considered together, it appears that in the majority of cases no significant influence is received from outside the business, at least in terms of other supply chain members, consultants or the public sector.

Innovation outcomes

A diverse range of responses were gained for this section. Respondents were encouraged to indicate approximate impacts in one or more of 9 categories. This section is difficult to summarise as different measures cannot be related to each other in an objective manner. Moreover, ‘perceived’ outcome is dependent on a multitude of other factors. The category used to measure the outcome of innovations does however give an indication of the criteria to which the respondents to this survey quantify an innovation outcome. Change in turnover and sales were the most frequent measures used (approximately 42% of cases). Changes in margin was the least popular measure (excluding ‘other’ and ‘no measurable outcome’), occurring in only 22.2% of cases. The measures used, however, do depend greatly on the type of innovation being described. Not all measures are valid for all innovation types. For example, the effect of new packaging is not likely to be measured by changes in employment levels. Five innovations were recorded as having no measurable outcome. All five originated from the owners and had no external assistance.

Relative cost and value.

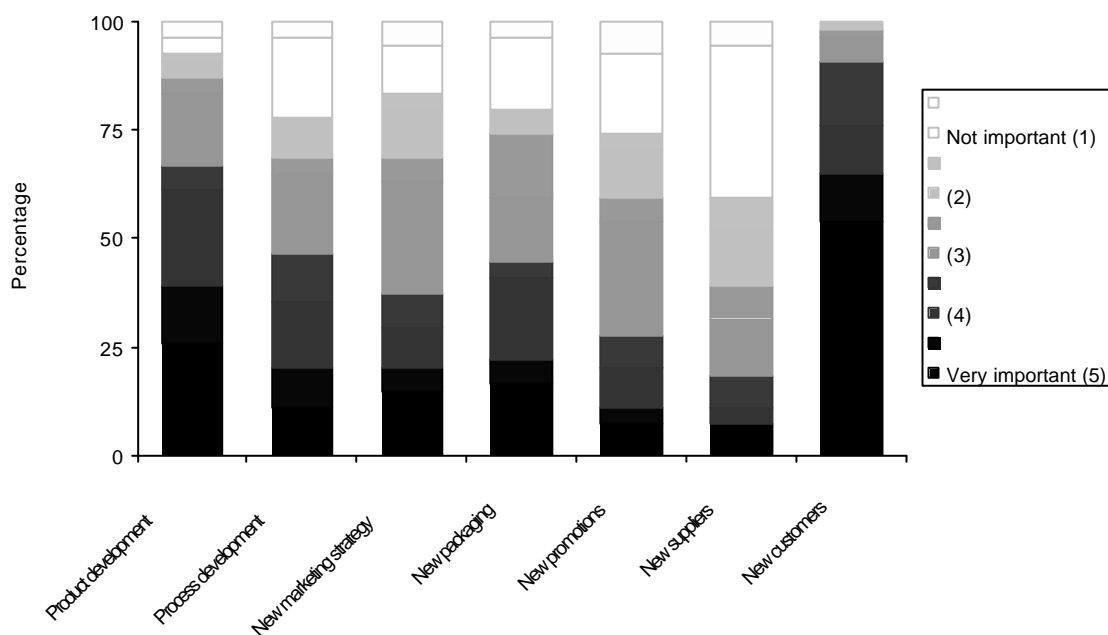
Figure 5.6d: Relative Cost and Value for Given Innovations



As Figure 5.6d illustrates, most innovations given by respondents were high / medium cost but high value. In fact, only 2 innovations given were rated as low cost in both time and money and low value. Interestingly, cross tabulation reveals no correlations between perceived value and innovation origin or assistance received.

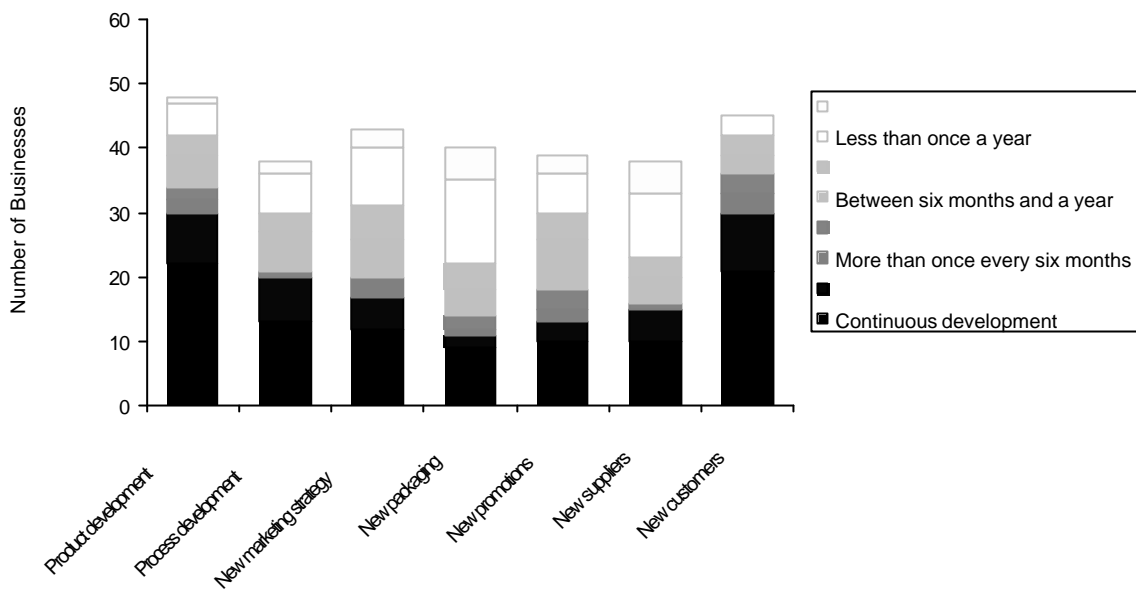
The theme of exploring which generic categories of innovation are more important than others for food microbusinesses was explored further in the subsequent question. The responses are summarised in Figure 5.6e. For the purpose of this question, obtaining new suppliers and new customers were treated as innovations in their own right, although they may equally be considered as outcomes of innovations (particularly in the case of new customers). Consequently, ‘new customers’ was deemed by far the most important ‘innovation’. Interestingly, however, new suppliers were deemed the least important out of all the categories.

Figure 5.6e: The Relative Importance of Various Types of Innovation



Respondents were subsequently asked to indicate the frequency of the innovation categories in their businesses. These are presented in Figure 5.6e.

Figure 5.6f: The Frequency of Various Types of Innovation



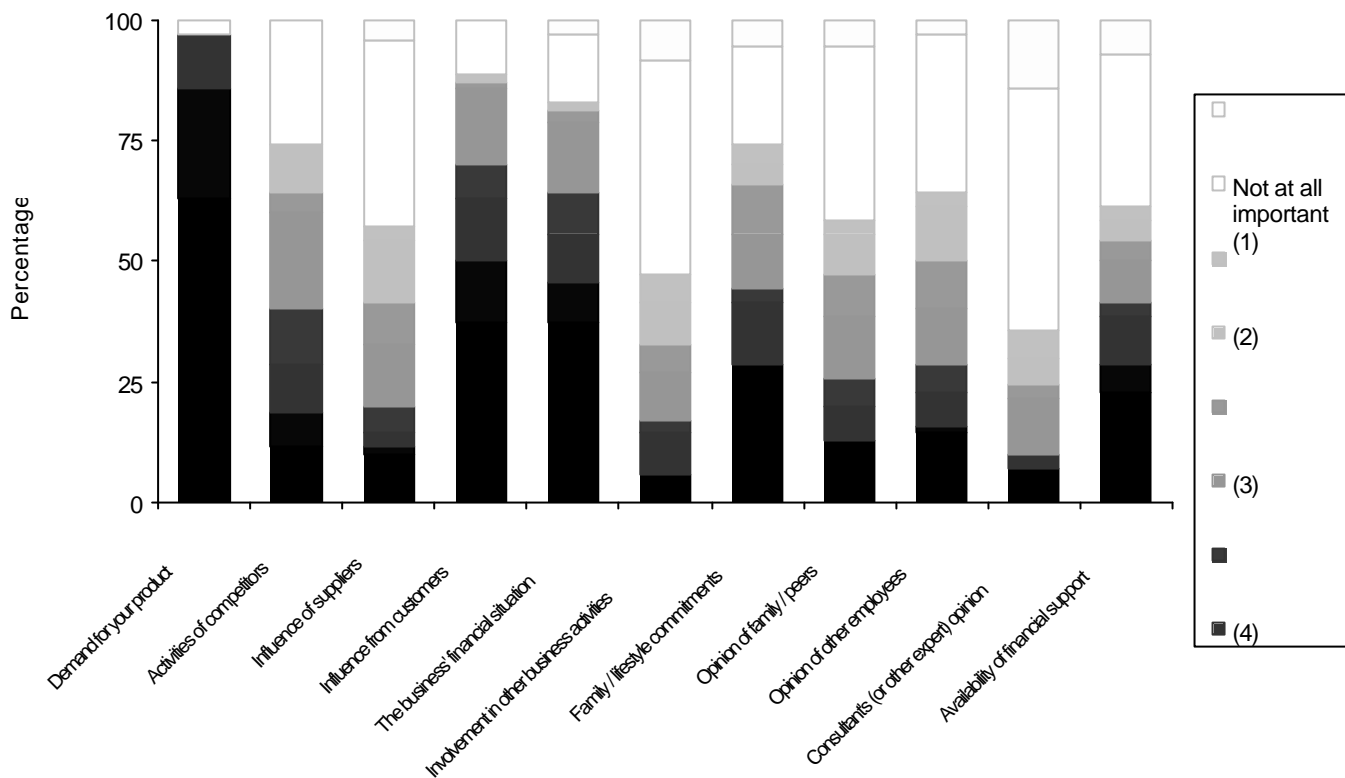
This Figure shows that, overall, innovations are not frequent among the businesses questioned. Again, ‘new customers’ was the most popular category, but even here nearly 60% of businesses obtained new customers less than once a year .

These last two figures together confirm that, excluding ‘new customers’, product development is both regarded as the most important and most frequent type of innovation. Although deemed next important, ‘new packaging’ was also the least frequent innovation among the businesses sampled. Interestingly, ‘new marketing strategies’ and ‘new promotions’ were regarded as of low importance and low frequency among the businesses. Again, this is indicative of a production-led philosophy among producers.

Importance and frequencies of innovation

As Figure 5.6g confirms, the level of demand for the company’s products is by far the most important determinant of its performance, at least in the eyes of the respondent. Two further factors seem to stand out from those given as belonging to a second tier of importance: influence from customers and the businesses’ financial situation.

Figure 5.6g: Factors Influencing Business Performance

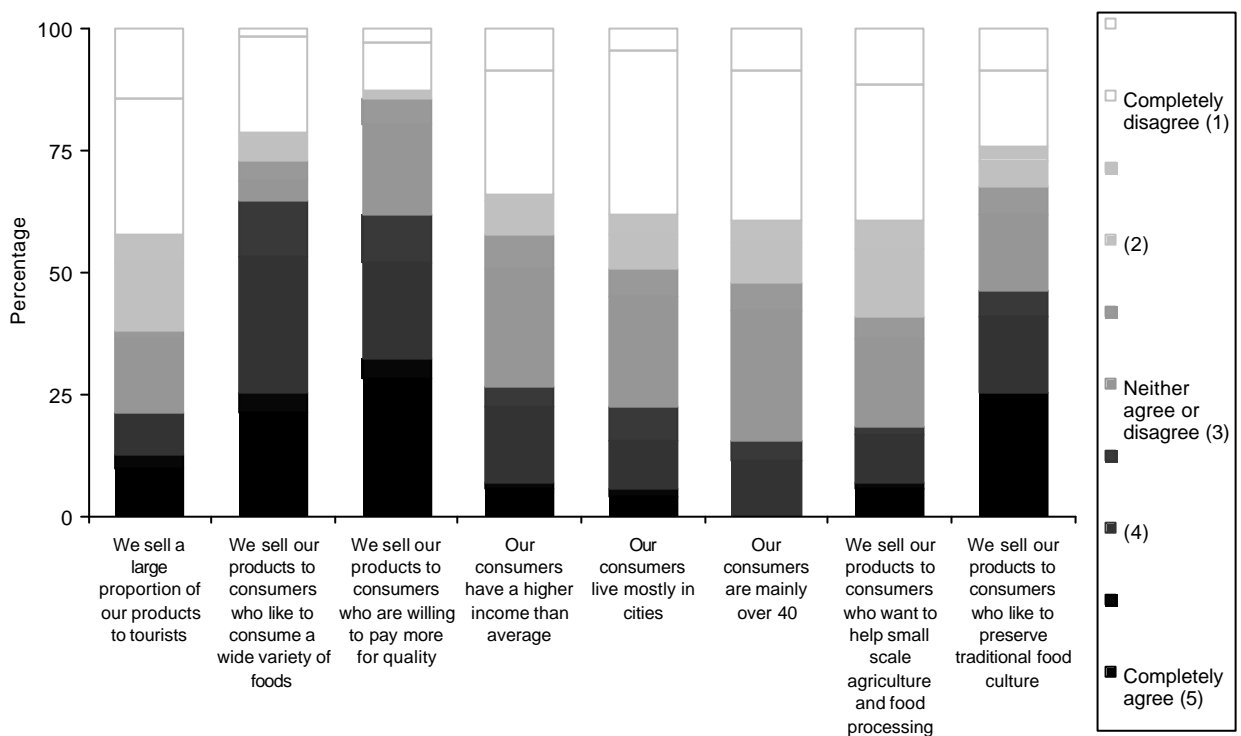


Tellingly, ‘consultant’s (or other expert) opinion’ was regarded as the least influential factor given. This was particularly apparent among the SMEs in the sample. There were, however, a small number of businesses (10%) who gave scores of 4 or 5 for this factor. The opinion of family / peers and other employees was deemed more important overall, although they were also relatively low. SMEs and Micro businesses contrast strongly on the importance of lifestyle / family commitments. In fact, over half of all micro businesses gave this factor either a 4 or 5, illustrating the influence of this factor on microfirm performance. SMEs seem more likely to see the activities of competitors as a threat. SMEs were proportionately more likely to regard the activities of competitors as important. In keeping with earlier observations, customer influence was deemed significantly more important than supplier influence.

5.7 Differentiation

As outlined in Chapter 3, the economic bases of many small businesses are gained through differentiation and, particularly in the case of foods, in niche markets. The aim of this section was therefore to explore how small food businesses differentiate themselves and from whom.

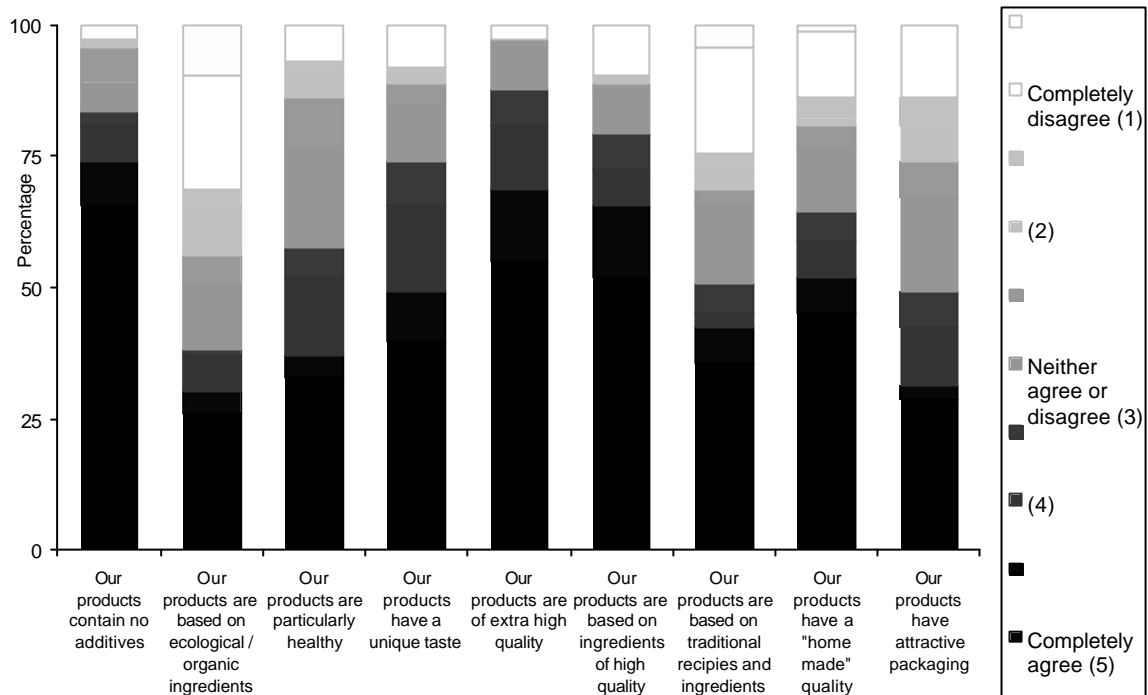
Figure 5.7a: Consumer Characteristics



According to the responses summarised in Figure 5.7a, most businesses regard their customers as willing to pay more for quality, consuming a wide range of food and interested in the preservation of food culture. Least agreed were the statements that their consumers live mostly in cities and are over 40 years old. Most respondents also disagree that a large proportion of their products are sold to tourists. Interestingly, the businesses regarded their consumers to be significantly less interested in supporting small scale agriculture and food businesses than traditional food culture as a whole.

Of note is the wide variety of responses to these questions, indicating a diverse customer base across the sector as a whole.

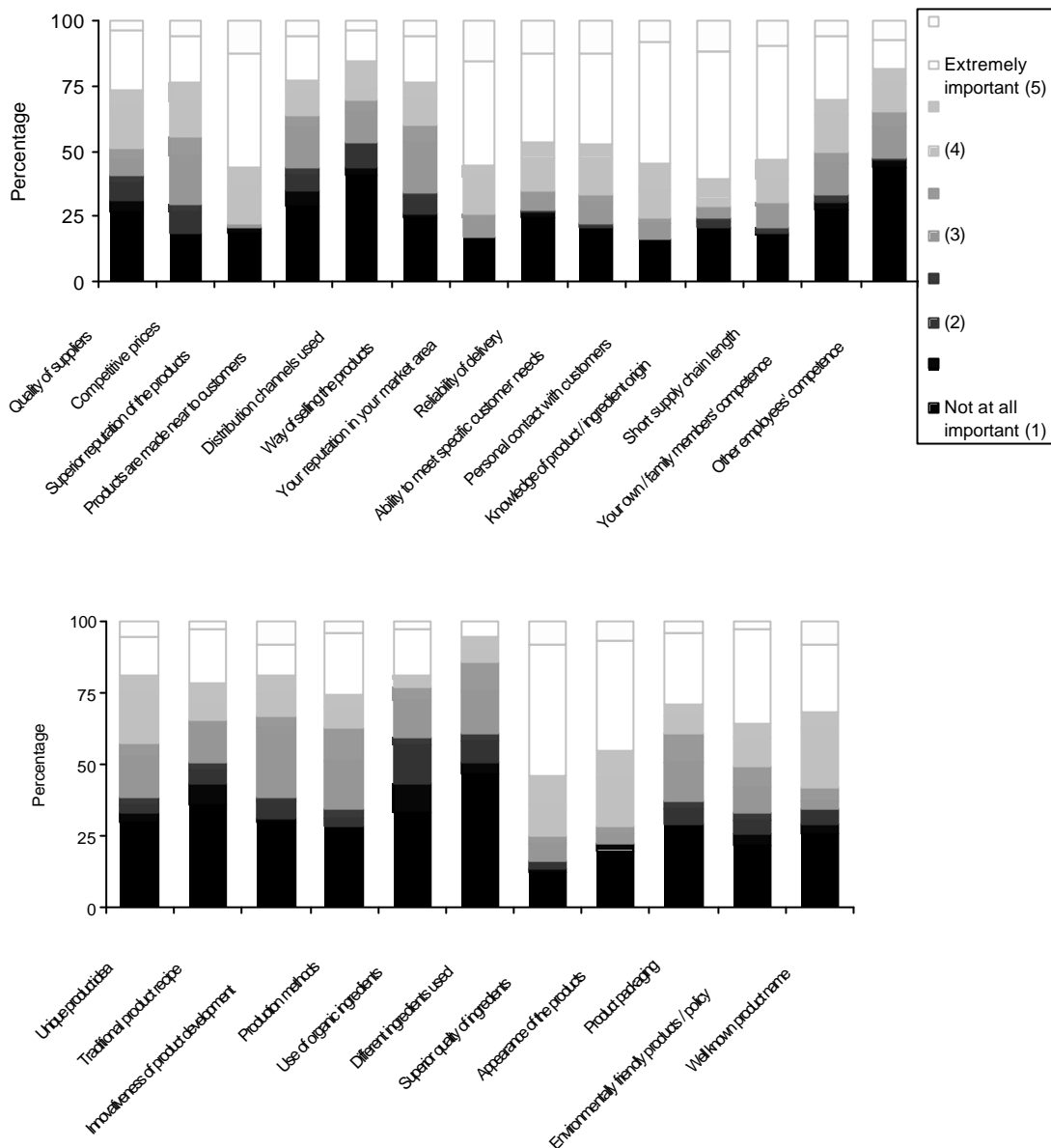
Figure 5.7b: Product Characteristics



In general, most respondents agreed with the statements given in Figure 5.7b. The most favourable were statements regarding the quality of products and ingredients. The businesses also tended to regard their products as having a unique taste and being additive free. Overall, these questions indicate that Welsh food products tend to be of higher quality, organoleptically and in terms of food culture and health, than mainstream food products. SMEs seem less likely to have products based on ecological / organic ingredients, attractive packaging or healthiness. Scores for quality and tradition are, however, quite similar.

Businesses that regard their products as extra high quality are more likely to be experiencing significant growth. In fact, 75% of businesses who are experiencing significant growth rated this factor with a 5, compared with 67% of other businesses.

Figure 5.7c: Factors of Differentiation Against Competitors



The responses to the questions above (Figure 5.7c) show clearly that the competitive edge of the sampled businesses lies mainly in the development of a good reputation backed up by good quality products and strong personal contact. Nearly three quarters of respondents rated the two factors concerning reputation with either a 4 or 5. Similar scores were recorded for personal contact with customers and product quality / appearance. The least important of the given factors were using different types of ingredients (including organic ingredients) and different distribution channels. Differentiation on the basis of a traditional product recipe was also rated poorly, as was innovativeness of product development.

Nearly half of all businesses regarded ‘environmentally friendly products / ingredients’ as an important factor in differentiating their business / product. Among Micro businesses only, the Figure is 55%. In terms of other differences in attitudes between micro firms and SMEs, there are a few clear differences. For instance, 80.0% of SMEs rated the ability to meet customer needs as important compared with 63.0% of micro firms. In fact, these data suggest that SMEs place more importance on differentiating their business than microbusinesses. This is borne out by taking the averages of all scores for micro firms and SMEs. Micro firms rated each factor with an average of 3.11 compared with SMEs who scored on average 3.68. The proceeding questions in the survey sought to shed light on what types of business the respondents compete with, and which aspects they are able to differentiate on. The table below (Figure 5.7d) summarises the responses.

Figure 5.7d: What Type of Businesses Firms Compete With and How They Differentiate Themselves

Small scale firms	Premium / Speciality products from large-scale firms	Ordinary products from large-scale firms	Who are your main competitors ? (number of firms)	Differentiated in terms of... (number of firms)		
				Physical product	Services	Overall
✓	✓	✓	13	13	13	16
✓	✓	✗	2	1	0	1
✓	✗	✗	11	3	3	2
✓	✗	✓	3	0	1	1
✗	✓	✓	5	2	1	9
✗	✗	✓	5	4	2	2
✗	✓	✗	6	1	0	0
✗	✗	✗	11	5	8	7

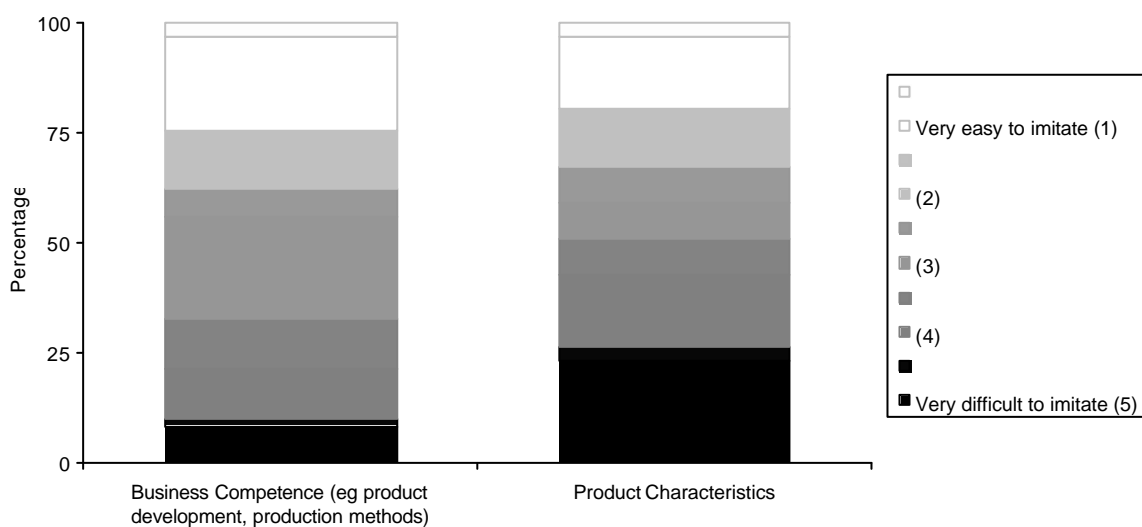
Where ✓ indicates agreement (i.e. either 4 or 5 rating) and ✗ indicates disagreement (i.e. either 1 or 2 rating) with the statement.

The Figure illustrates that 13 businesses regard themselves as competing with small scale firms, quality products from large firms and ordinary products from large firms.

Of most interest here is the fact that there is such a wide spread of results among respondent businesses. Just 11 firms regarded themselves as only competing with other small businesses. The same number considered that they had no direct competition. The largest group, however, were the 13 businesses who regarded themselves as in competition with both small and large firms and both quality and conventional products. This table highlights both the high degree of competition between large and small firms and conventional and high quality products and the wide diversity of competitive bases. In terms of who they differentiate themselves against, it is again of interest that few businesses differentiate themselves against large firms but not other small firms. Even fewer purposely differentiate either their product or services in this way. The most common strategies were those firms with either no differentiation against both large and small, quality and conventional and those who differentiate against all three given categories.

Figure 5.7e illustrates that the uniqueness (or inimitability) of the firms in the survey is more likely to be based on product differentiation rather than other business competencies. In fact, approximately 50% of businesses rated their products as difficult to imitate (i.e. a score of 4 or 5). No significant correlation could be found between inimitability and current growth.

Figure 5.7e: Degree of Business and Product Imitability



Together, these questions suggest that, although physical product differentiation is high across the sector, competition with other firms with similar types of products is significant.

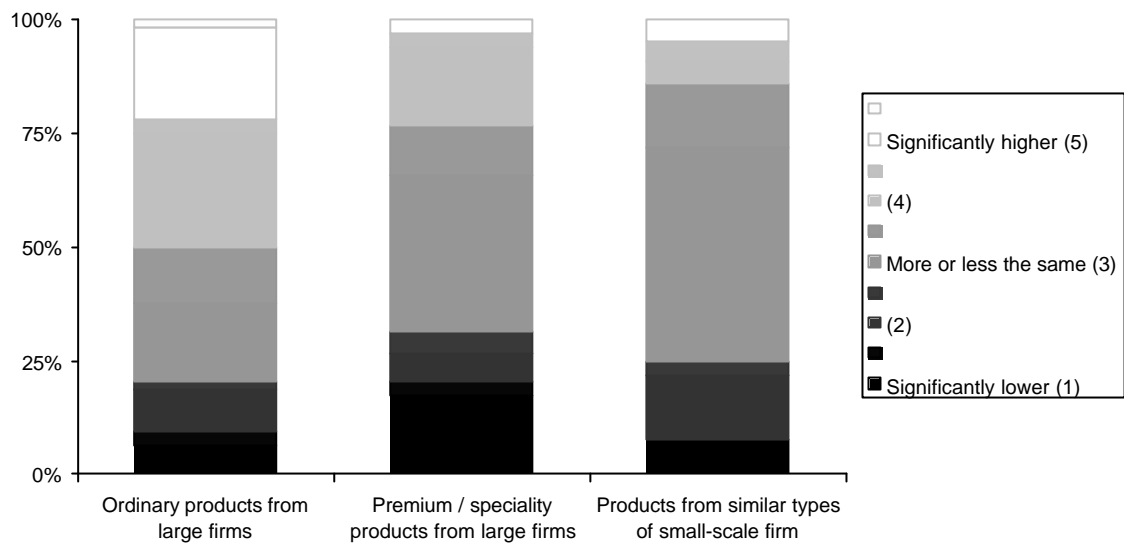
The question of how easily the firm's customers are able to substitute their products gave a broad spread of responses (see Figure 5.7f). Approximately 20% of businesses regarded their products very easy to substitute while a similar number regarded their products very difficult to substitute.

Figure 5.7f: Product Substitutability



The final question in this section asked the respondent to compare the price of the firm's products with others in the same market. As Figure 5.7g illustrates, the prices of respondent firm products are on average higher than normal products and broadly similar to high quality products of both small and large firms. Again this signifies the general high product quality among respondent firms.

Figure 5.7g: Product Price Versus Competitors

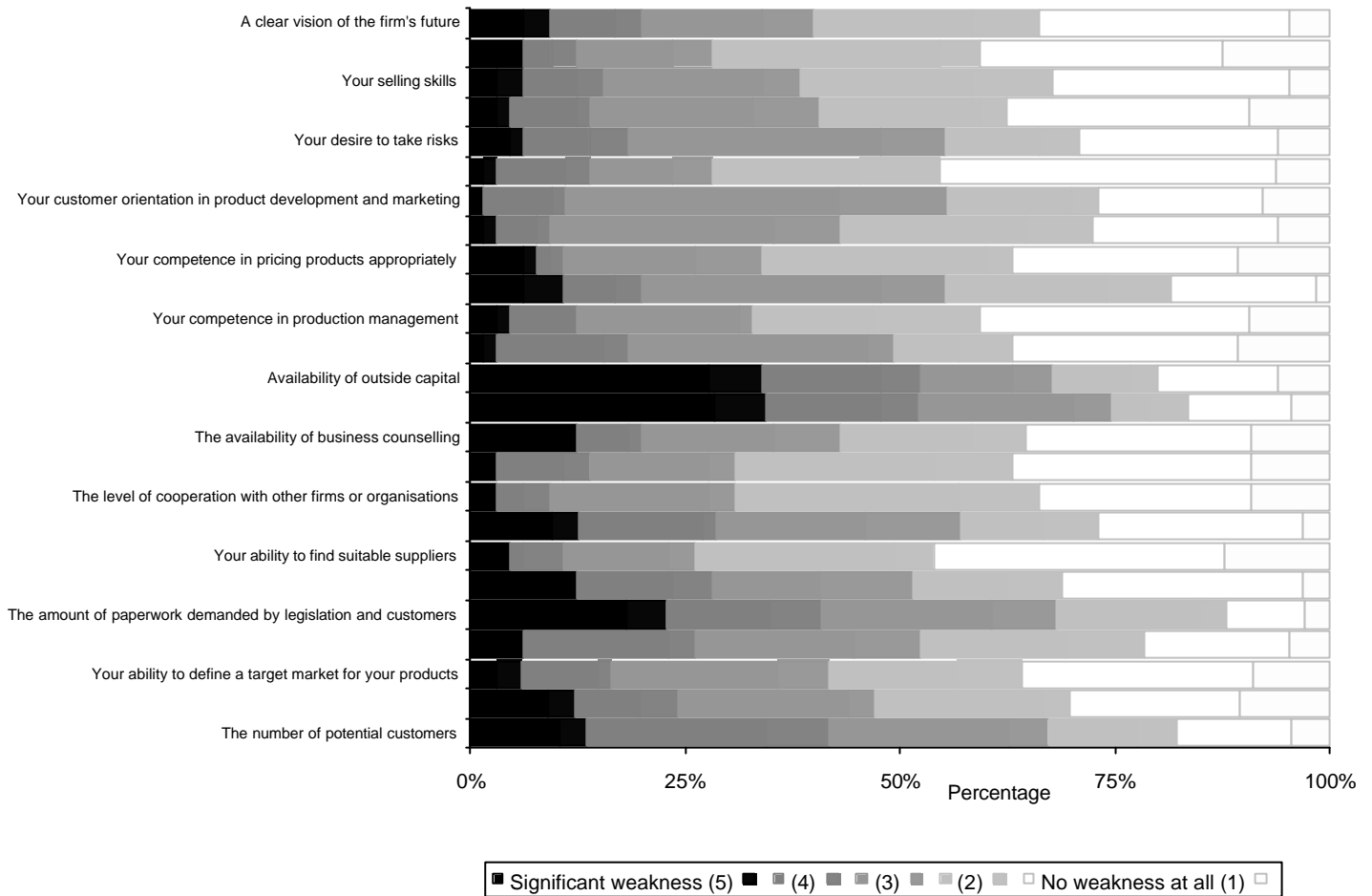


5.8 Business Development

The final section covered respondents' perceptions of their businesses development, and their perceptions of institutional support. In particular, the survey sought to explore levels of satisfaction and perceived weaknesses in the firm.

As Figure 5.8a signifies, a significant number of businesses do not identify with the factors given as being a significant hindrance to the development of their enterprise. In fact the average score across all factors and businesses was 2.47 (out of 5). This equates to a general recognition that these factors do constitute weaknesses, but they are generally not of 'significant' influence on the business. The factors perceived as the biggest weakness to businesses were the two concerned with capital; 'availability of outside capital' and 'the level of the firm's capital resources'. Both these factors were rated as either 4 or 5 by 52% of respondents, and only approximately 20% of businesses considered these factors not to be a weakness to them.

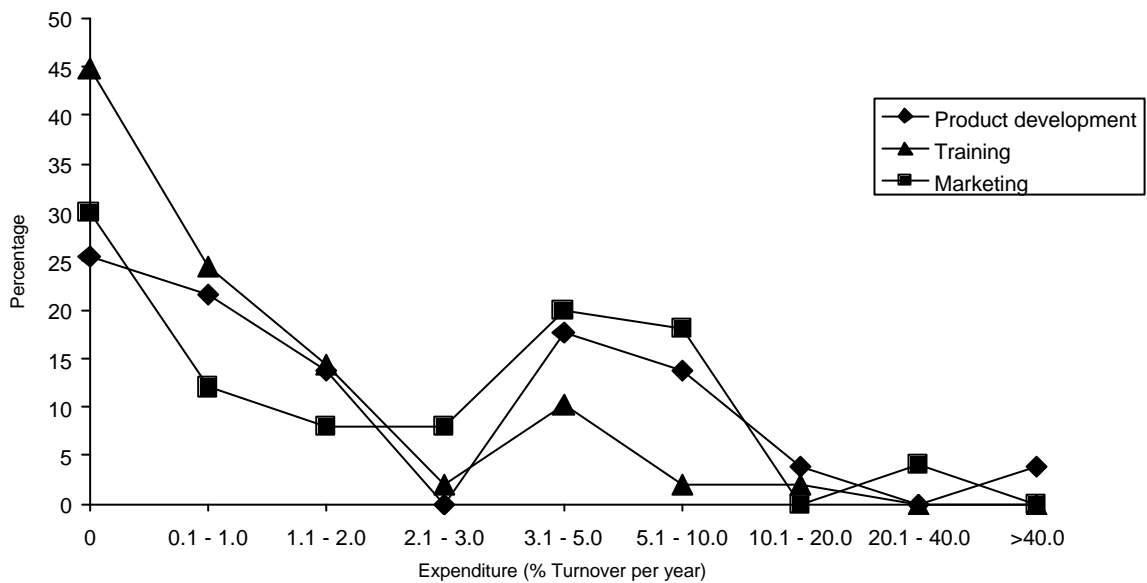
Figure 5.8a: Factors Which Make it Difficult to Achieve and Maintain a Competitive Position



Two further factors are considered as significant weaknesses by respondents; ‘the amount of paperwork demanded by legislation and customers’ and ‘the number of potential customers’. These were rated with 4 or 5 by 41% and 42% of entrepreneurs respectively. The lack of ‘potential’ customers perhaps relates to the number of firms operating within niche markets, or maybe to the geographical sparseness of many parts of rural Wales. A third tier of factors can be identified which were rated as 4 or 5 by about 25% of respondents. These were ‘the availability of professional employees’, ‘the ease of entry into distribution channels’, ‘your ability to acquire information about customers and markets’ and ‘your location relative to your customers’.

A Crosstabulation of ‘the availability of professional employees’ with firm size (in FTEs) presents some interesting findings. 75% of all businesses in the survey with between 4 and 10 FTEs rated this factor with either a 4 or 5, compared with 22% of businesses with under 4 employees and 19% of businesses with greater than 10 employees (i.e. SMEs).

Figure 5.8b: Average Expenditure on Marketing, Product Development and Training Over Previous Three Years



The average expenditure for those businesses that spent on the given areas was 8.3% for product development, 6.1% for marketing and 2.8% for training. As the above figure illustrates, however, a large proportion of businesses reported no expenditure in the three given activities (45% for training, 30% for marketing and 25% for product development). This may, exclude activities in these areas that have not been costed, either as they are integral to another process or ad hoc in nature etc. It seems unlikely that 30% of Welsh food businesses had not done any marketing over the 3 years prior to the survey, for example. Expenditure in these areas will obviously tie in with other developments in the business such as new product launches, new machinery purchase and external influence.

Figure 5.8c: Profitability During Past Three Years

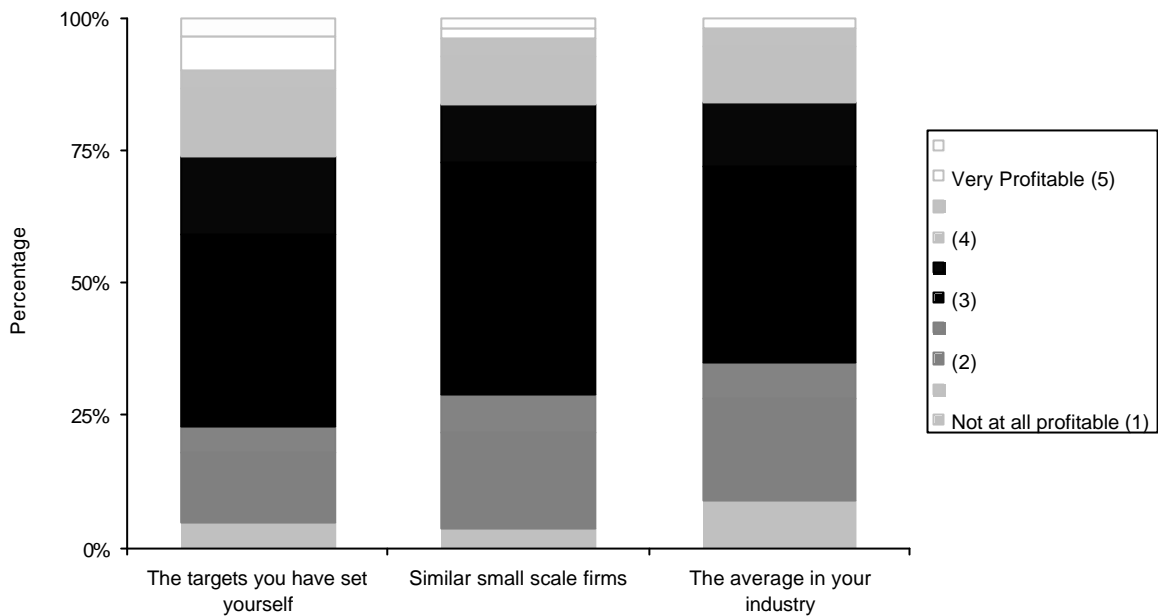
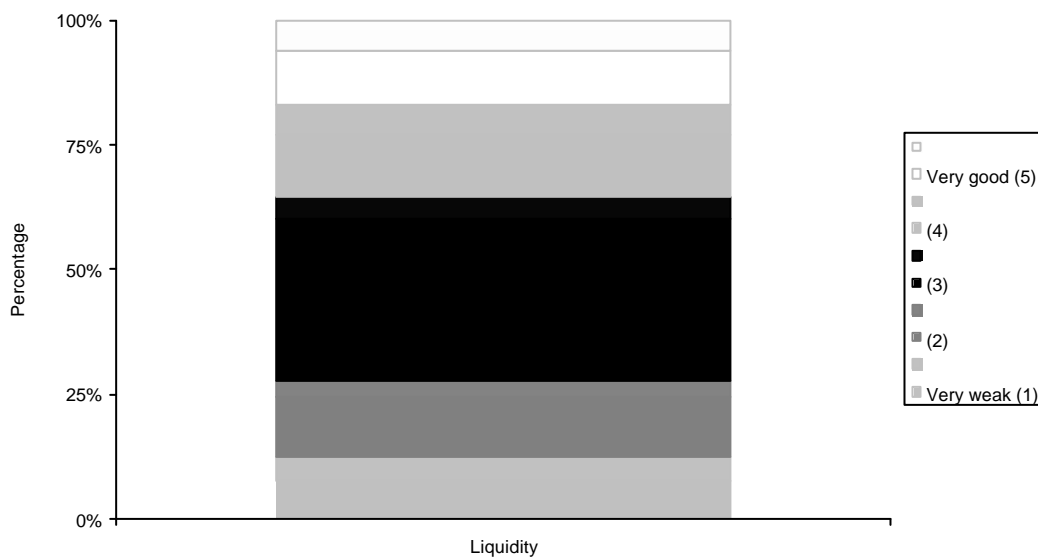


Figure 5.8c presents interesting data which show that most entrepreneurs regard their businesses as moderately profitable when compared with the targets they have set the business, but less profitable compared with how they feel similar small scale firms fair and versus the average in their industry. This suggests that their own targets tend to be lower than they would consider average, i.e. they perceive competitors to be more competitive than they actually are.

Figure 5.8d: Liquidity During Past Three Years



Just over 18% of respondents reported that their financial liquidity had been ‘very good’ over the past 3 years, this compares with under 14% who rated this aspect as ‘very weak’. Most respondents gave a neutral response to both this question concerning liquidity and the previous questions regarding profitability. This may suggest a hesitancy to divulge information of a financial manner. This, in turn, may have something to do with respondents’ perception of the purpose of the survey.

Figure 5.8e presents levels of satisfaction for various performance factors over the past three years of business operation. Respondents were most satisfied with the level of customer satisfaction with their products. In fact, just under 90% of all respondents gave either a 4 or a 5 for this score. Very high levels of satisfaction were also registered for ‘quality of your product versus competitors’ and ‘reliability of delivery to customers’. Factors which gave the least satisfaction were mainly those to do with costs (raw materials, labour, capital and product unit costs) or other financial indicators (revenue, return on investment and profit). The number of new products launched was also rated lowly, with only 25% of respondents offering a 4 or 5 score. Interestingly, SMEs were more likely to express lower levels of satisfaction among nearly all the factors given, maybe due to the increased competitive nature of their business. Overall, however, satisfaction levels were generally high among the given issues.

Figure 5.8e: Levels of Satisfaction for Various Performance Factors During the Past Three Years

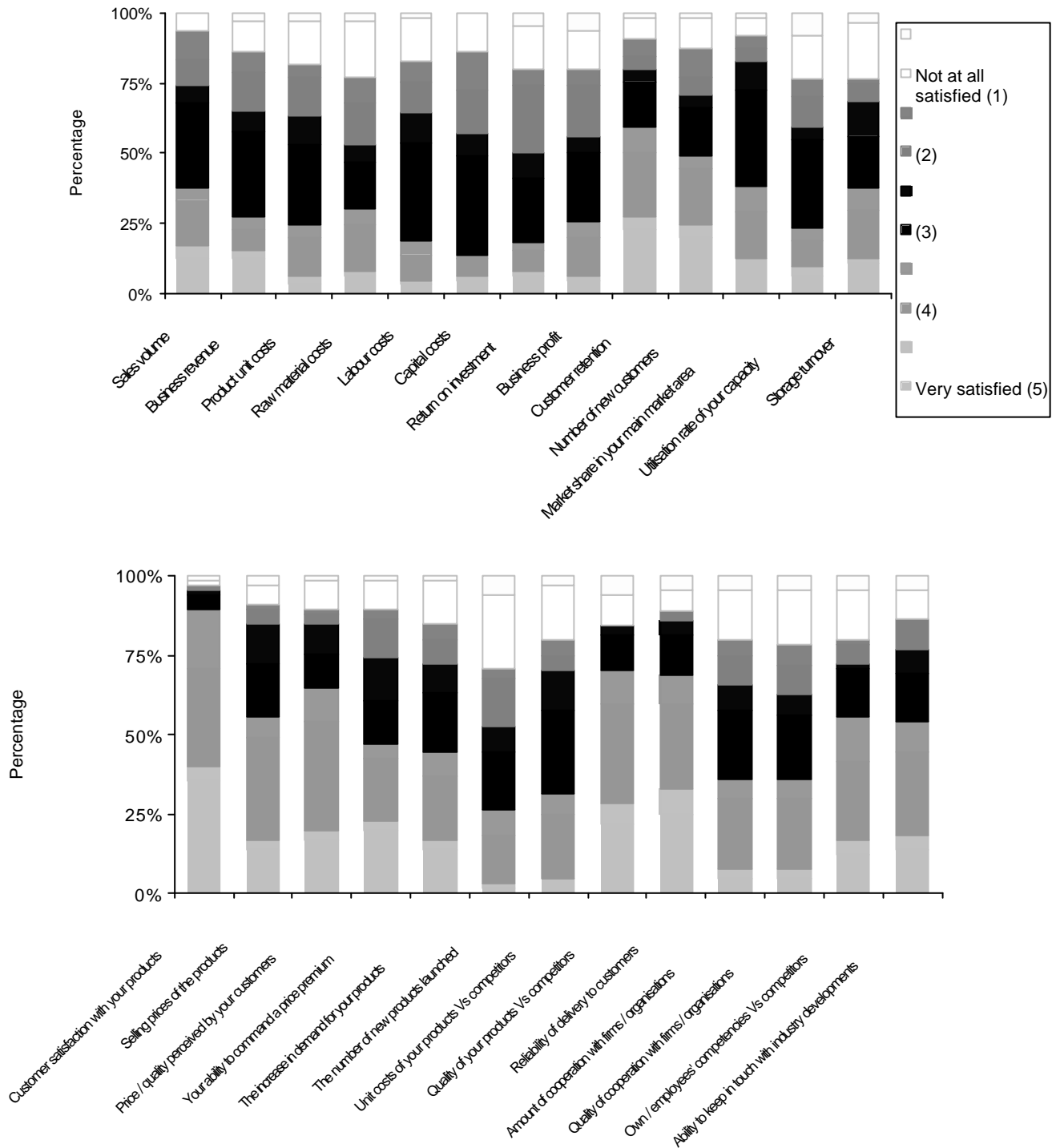


Figure 5.8f: Use of Marketing Tools and Methods

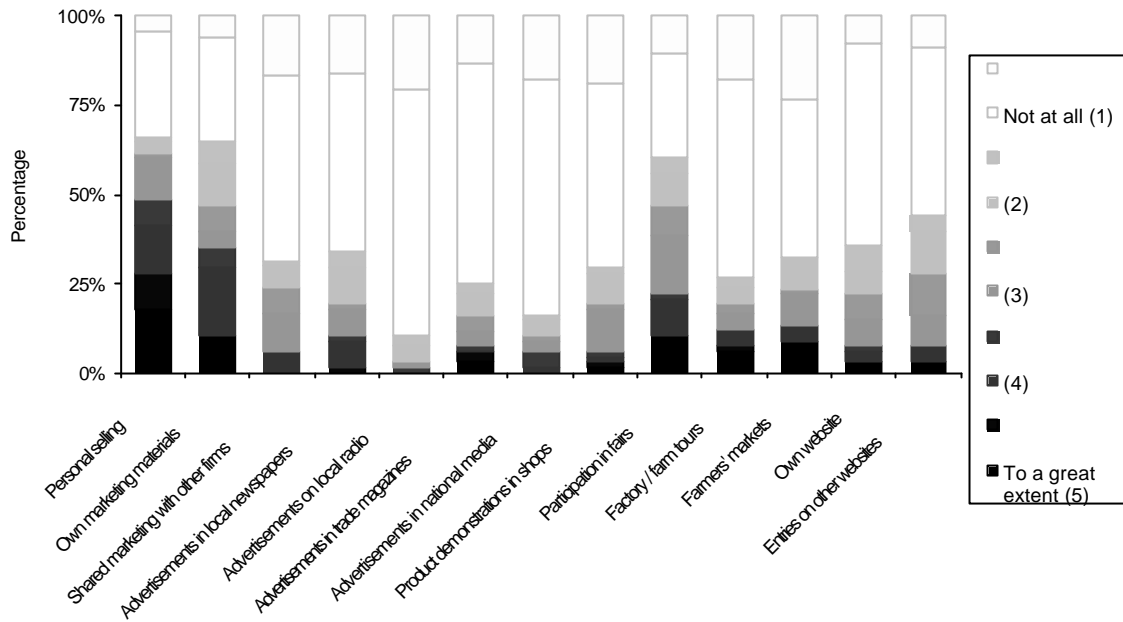
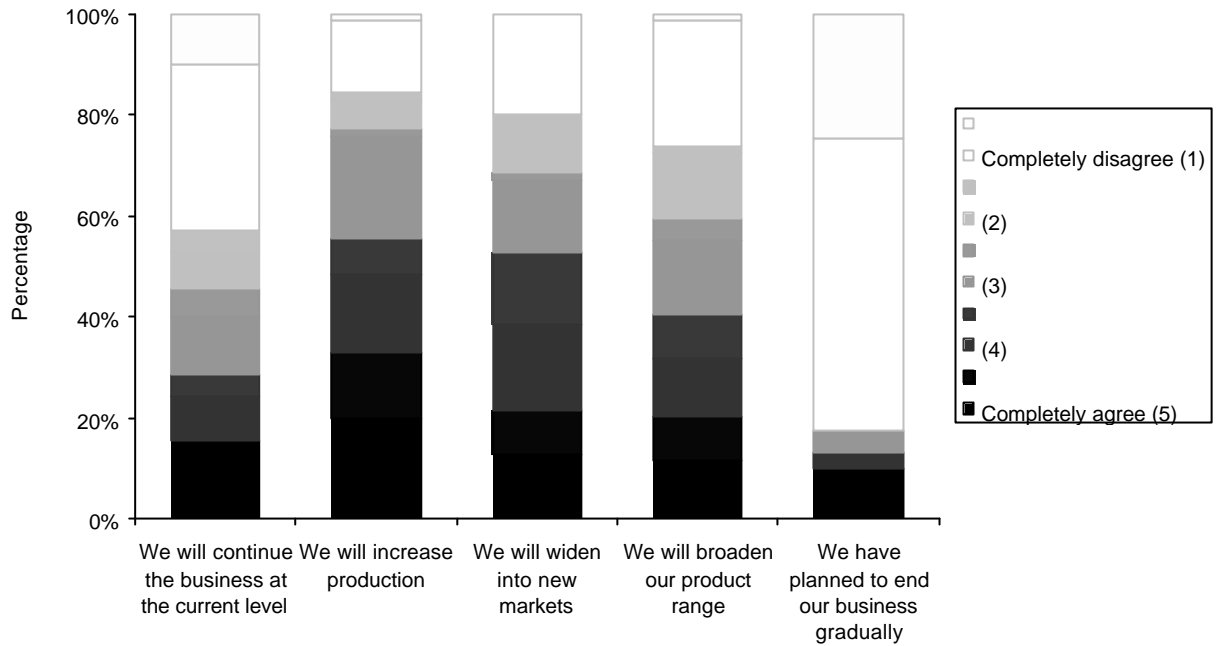


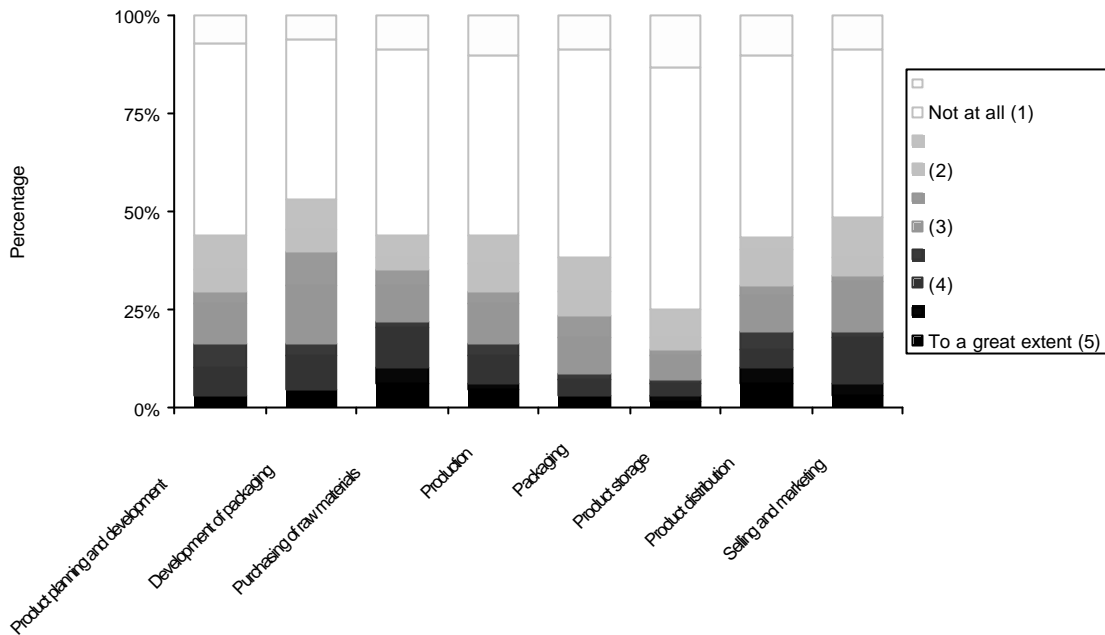
Figure 5.8f illustrates the strong reliance on personal selling among small food businesses in Wales. Nearly 50% of businesses scored this method with a 4 or 5. This was by far the most popular of the methods given. Marketing materials and participation in food fairs (which is also a form of personal selling) were the next popular methods. Business websites were rated lowly. In fact, only 35% of businesses had their own website and 44% had any kind of significant presence on other websites. Of those that have their own website, only 21% indicated that it was used for marketing purposes to a significant extent (i.e. either a 4 or 5). The lowest scores however were for advertisements on local radio, national media and trade magazines.

Figure 5.8g: Development Objectives



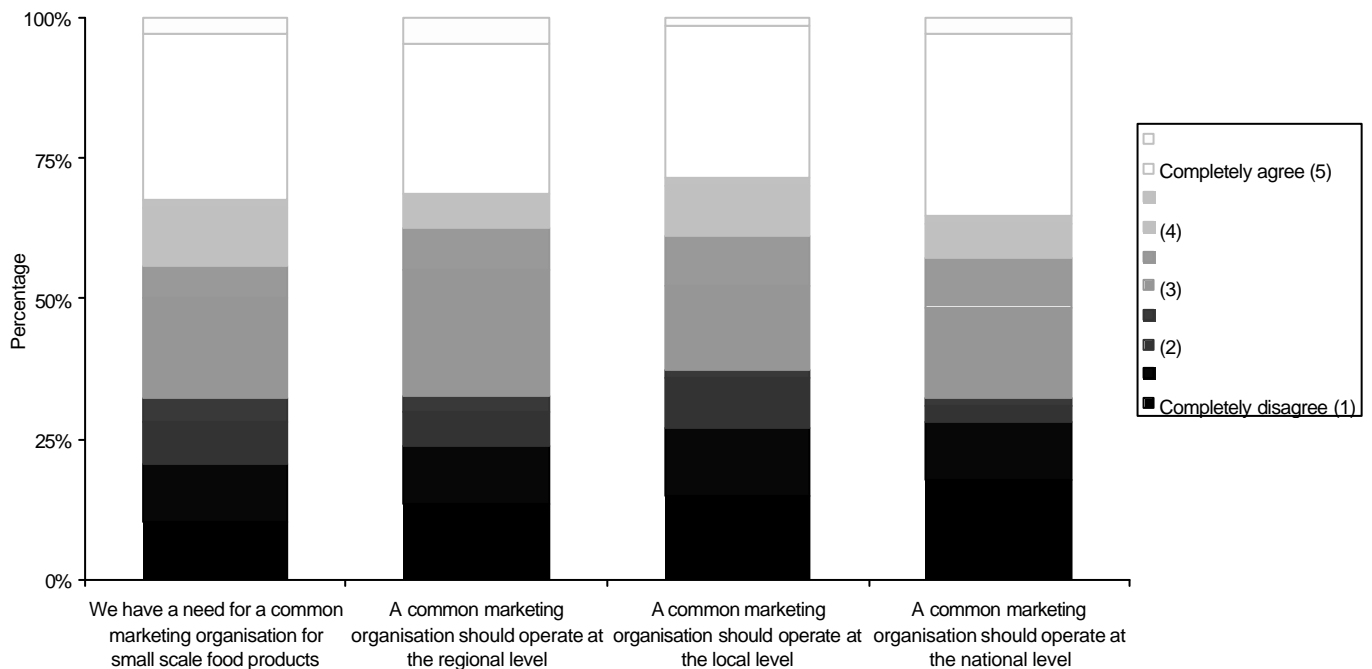
The above figure presents a mixed picture of health among the respondent businesses. Approximately 17% of businesses agree to some extent that they plan to end their business gradually. However, nearly 60%, foresaw an increase in production with a similar number claiming that the business will widen into new markets. These figures, however, mask deeper factors behind these plans. For example, plans to widen into new markets and broaden product ranges may be due to both adverse conditions forcing new strategies or synergies developed through opportunity and strong performance.

Figure 5.8h: Levels of Cooperation During Past Three Years



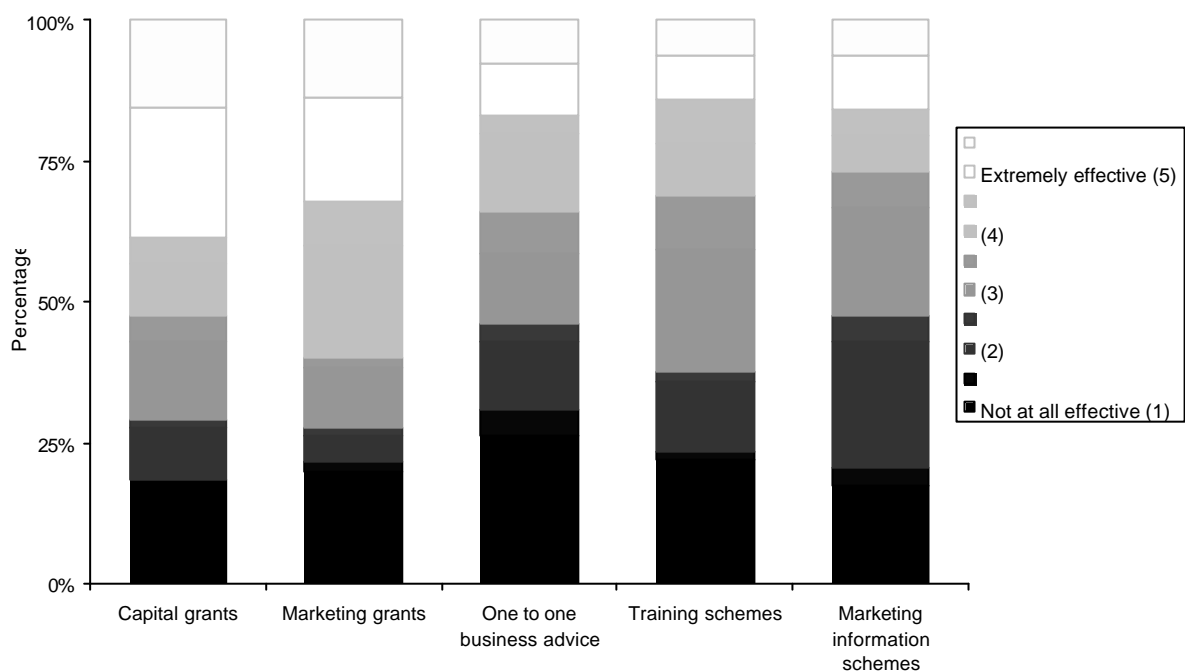
This figure highlights the low level of cooperation among small food businesses in Wales. Of the types of cooperation given, raw material purchasing, product distribution and selling and marketing were most likely to involve cooperation with other firms. Each of these methods, however, were only scored 4 or 5 by under 20% of firms. Product storage and packaging were the least likely activities to involve cooperation.

Figure 5.8i: Perception of Need for Common Marketing Organisation for Small Scale Food Products



Opinion was generally split over the need for common marketing organisation for small businesses. The SME community in particular felt that such an organisation was not necessary. Just under 53% of microbusinesses agreed to a significant extent (i.e. either a 4 or 5) that an organisation of this nature was needed. Opinion about which geographical level such an organisation should operate was inconclusive, with the 'national level' being only marginally more popular.

Figure 5.8j: Perceived Effectiveness of Support Programmes and Initiatives



Opinions about the effectiveness of the various types of support were far from unanimously positive. In fact, more respondents gave scores of either 1 or 2 for 'one to one business advice', 'training schemes' and 'marketing information schemes' than gave 4 or 5s. Unsurprisingly, capital and marketing grants were perceived as most effective, although even with these types of support just over ¼ of businesses rated them as either 4 or 5 (5 = not at all effective). SMEs were more likely to find the support measures given effective compared with microbusinesses. In the case of training schemes, 23.5% of SMEs considered them extremely effective compared with only 10.6% of microfirms. Overall, however, the respondent businesses gave low opinions of the effectiveness of support initiatives.

5.9 Conclusions

Overall this survey illustrated the broad nature of Welsh food firms. The length of the survey enabled the generation of a considerable amount of data. As outlined in section 4.3, the nature of the survey and phenomena under consideration, combined with the relatively small sample, dictated that in many cases statistical tools were not appropriate. Despite this, the survey provides clear indications of many aspects of small food firm behaviour and provides a strong basis with which to both apply aspects of the empirical schema and to better understand the following case study phenomena.

A number of broad conclusions can be drawn from the preceding chapter:

- Food micro firms and the perceptions of their entrepreneurs appear highly diverse.
- Growth characteristics among the businesses sampled appears non-linear.
- The presence of significant correlations between factors (given the sample size used), in a statistical manner, is low.
- Welsh food micro firms supply a broad range of products through a diverse set of supply chains.
- Their own purchasing activities, however, are much more concentrated.
- The innovation details given were highly diverse, but mainly originated from the business itself. Assistance was often received during the innovation process.
- Marketing based innovations associated with winning new business dominated.
- Products tend to be perceived by their producers as highly value laden.
- The competitive basis of food micro firms tends to be developed through gaining good reputation via a good product and strong personal contact.
- In general, businesses perceived a wide range of constraining factors, although they did not tend to regard them individually as highly significant.
- Marketing tends to be based on personal selling and the use of marketing materials.
- Cooperation between Welsh food micro businesses is generally uncommon.

In sum, the small food businesses surveyed displayed a broad range of characteristics and perceptions. Although some correlations were identified, the sample provided very little evidence of causal relationships between factors. Lack of correlation indicates the highly contextual nature of the phenomena under investigation and therefore adds credence to the employment of case study techniques to aid understanding.

The findings in this chapter are distilled further and co-analysed with the case study data in Chapter 7. They were also used to inform the later stages of the case study data collection process.

Chapter 6: Case Study Analysis

6.1 Introduction

As outlined in Chapter 4, six case studies were chosen in a purposive manner. Figure 6.1a presents each of the six businesses and the criteria with which they were chosen. All the case studies have been anonymised in order to encourage openness from respondents during the data collection process.

Figure 6.1a Case Study Businesses Outlines and Selection Criteria

	Meadow Cheese	Wye Smokery	Yew Tree Organics	Harvest Bakery	Nature's Bounty	Oceanview Cheese
Description	Farmhouse Cheese	Traditional Smoked Products	Organic Meat and Eggs	Craft Baker	Quality Ice Cream and Meringues	Farmhouse Cheese
Primary Product Group	Dairy	Meat	Meat, Organic	Wheat, Some Organic	Dairy	Dairy, Organic
Farm Based?	Yes	No	Yes	No	No	Yes
Relative Size (Employees)	Medium	Small	Small	Large	Large	Small
Significant Consumer Interfaces	Specialist Wholesale, Specialist Shops	Mail Order	Own Delivery, Own Shop	Own Shop, Wholesale	Wholesale' Tourists	Specialist Wholesale, Farm Purchases
Location	West Wales	South East Wales	West Wales	West Wales	West Wales	West Wales

This chapter presents each of the six case studies in discrete sections and following the same broad structure. After an introduction, each case study is divided into three sections:

- Part One: Activities and Context – covering a profile of the business, the supply chains it uses, the nature of the wider market in which it operates, and the business’s perceptions of both its market and the role of government.
- Part Two: Dynamics of Change and Innovation – covering broad growth and innovation characteristics and then focusing in on discrete innovations (both actual and failed) that have occurred either immediately prior to or during the case study period.
- Part Three: Managerial Characteristics – managerial responsibilities and time use plus the owner’s personal histories and perceptions of support services.

The case studies were investigated in regular intervals over an approximately 18 month period between 1999 and 2001. This period can be characterised as being relatively economically benign, with low interests rates and strong (national) economic growth, but in the context of an ever increasing rural crisis. The latter end of the case study period coincided with the outbreak of Food and Mouth Disease during 2001.

6.2 Case Study I: Meadow Cheese

6.2a Introduction

Meadow Cheese (MC) is a farm-based manufacturer of speciality cheeses based near the village of Meadowberis on the Carmarthenshire / Pembrokeshire border. The business makes two types of cheese: Meadow Cheese (and a laverbread variant), and Vale Organic Cheese, which was developed during the course of the case study. Meadow Cheese is made from the farm's own herd of rare breed cows, while Vale Organic Cheese is made from organic milk produced by the nearby organic farmers' group Calon Wen. Both cheeses are made to unique recipes developed by the business. During the case study period, the business witnessed a major expansion linked with the development of the new product.

Meadow Cheese primarily supply purveyors of fine cheeses such as delicatessens, specialist cheese shops and some department stores. Approximately 60% of its product is sold outside of Wales, including a limited amount overseas. Restricted amounts are also sold through regional stores of a major supermarket.

The business is owned and run by Joan Smith who lives on the farm with her husband, who has minimal involvement with the business. Joan Smith is also an active member of the UK Cheesemakers Association and the Welsh Cheesemakers Association.

6.2b Part One: Activities and Context

Business Profile

Meadow Cheese was founded in 1984, soon after Joan Smith and her husband moved to the farm. Prior to the expansion, MC employed 3 staff 'on a regular basis' (not full time) whose main role was to make cheese, and a full-time cowman employed on the farm. Turnover was estimated to be 'under £200 000' per annum. Expansion brought the number of employees up to 5, with the original staff working longer hours,

although this may increase again depending on future demand for the new products. Two of the employees are wives of neighbouring farmers.

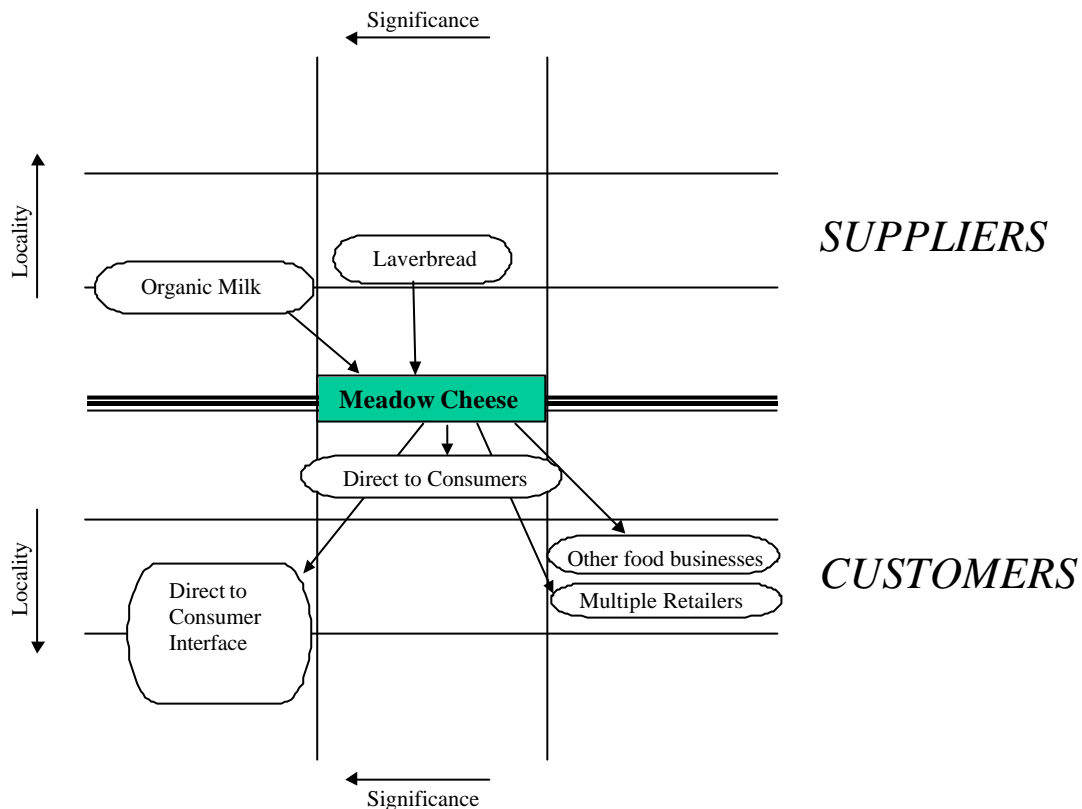
Traditional cheese making methods are employed in the production of both types of cheese. The cheeses are handmade, with what the owner describes as the only 'concessions' to modern techniques being the stainless steel equipment and up-to-date cheese moulds. Meadow cheese is made from unpasteurised milk from the farm's herd of Sark cows. It is believed to be the only commercial cheese in existence made from this breed of cow. The cheese is a hard cheddar type variety with a mild buttery taste. Meadow cheese is also made in a laverbread variety. Vale Organic Cheese is made from pasteurised milk sourced solely from a local farm group. It is also a hard cheese with a unique taste. Both products are made without the use of artificial additives and acquire their rich tastes through long maturation periods (up to 11 months).

Both cheese varieties have won awards at the prestigious British Cheese Awards. In fact, Vale won both a gold medal in the New Cheese class and the title of Best Organic Cheese, just 10 months after it was launched. Meadow Cheese has won both silver and gold medals in previous years.

Supply Chain Characteristics

Figure 6.2a outlines the basic supply chain that MC has been involved in during the course of the case study period. The diagram positions each major component of the supply chain according to whether it has a supply or customer relationship with MC, its locale of activity with respect to MC's location and its significance in the overall supply chain. The same form of diagram is used in all the case studies.

Figure 6.2a The Meadow Cheese Supply Chain



Prior to the expansion, the only significant raw material supplier to the business was a laverbread producer in the Gower region of South West Wales (approximately 35 miles away). All milk was produced from the farm’s herd of approximately 90 Sark cows. Part of Meadow Cheese’s uniqueness is achieved by the mixing of morning and evening milk from the herd. Since the expansion, organically certified milk is sourced from local producers on a non-contractual basis.

The business uses either specialist distributors or courier firms to distribute product to its customers. Four main specialist businesses are used: Caws Cymru (the Welsh Cheesemakers Association’s business arm), Abergavenny Fine Foods, Vin Sulivans (a private business based in Gwent) and Cegin Cymru (a publically supported Welsh fine food distributor and retailer). Most trade customers are dealt with directly. Among other reasons, Joan states that this allows better control of the maturation state of the cheeses when it reaches the consumer.

The most significant form of consumer interface used by MC are local shops and non-local specialist fine food retailers. Supermarkets, wholesalers and food service establishments are also regarded as significant destinations for the business. In addition, smaller amounts of product are sold direct from the farm, through mail order, farmers markets, food fairs and regional tourism outlets. The business also sells some product direct to other firms who use Meadow products to supplement their own range, including in hampers. Additionally, the organic variety is also used in some box schemes.

MC Consumer Profiles

Joan regards her target consumers as food lovers who demand high quality and enjoy a wide range of foods. These consumers tend to have a higher than average income and be over 40 years old. Many actively sympathise with small scale production and the preservation of local food cultures.

External Environment

Market Conditions

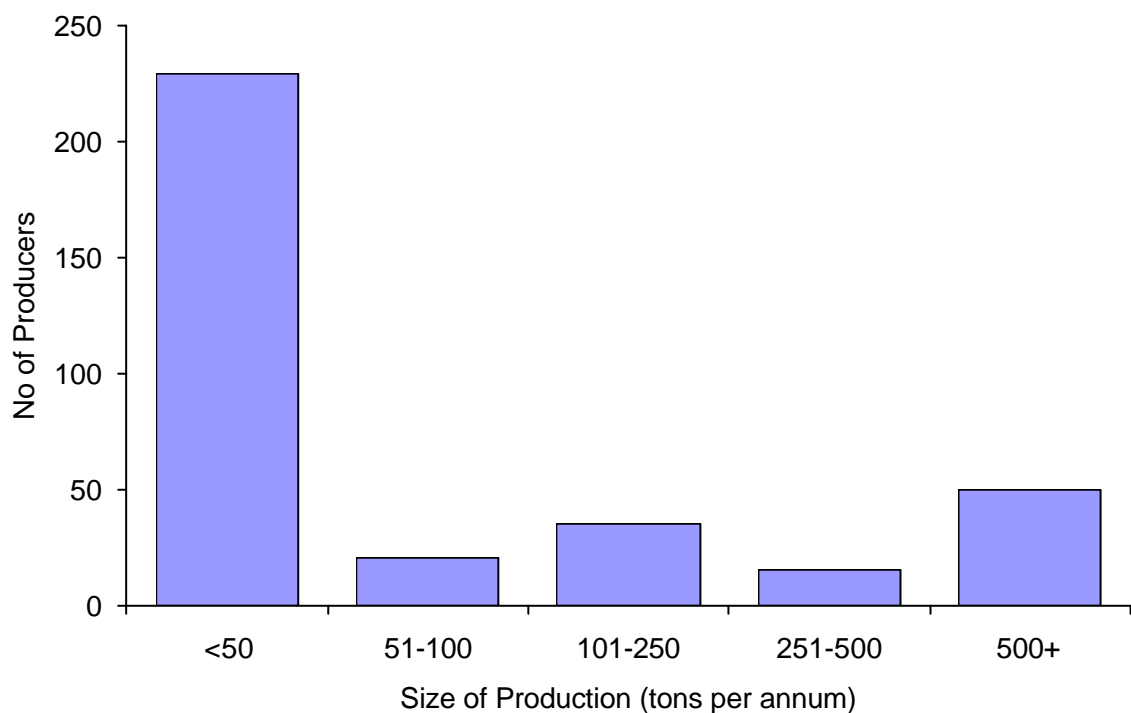
Household consumption of cheese in the UK is almost universal. In 1998 it was estimated that 96.5% of all UK households purchased cheese (at least once a year) (Mintel 1999c). Indeed the market for cheese is considered mature by industry analysts as the product is well known and well tried. The maturity of the market means that growth dynamics are characteristically slow. The overall retail market for cheese in the UK has been fairly stagnant during the past decade. Within this, however, there are discernible trends in the type of cheese consumers eat.

Cheddar is by far the most popular category of cheese in the UK accounting for 55% of sales in 1998. Territorial cheeses (i.e. those with British geographical denominations, excluding cheddar), Natural or Soft cheeses, Processed and Continental cheeses all account for approximately 10% of the retail market each. However, Continental, processed and soft cheeses have all steadily grown in popularity over recent years at the expense of Territorial cheeses and to a lesser extent Cheddar. Despite the maturity of the market, per capita consumption of cheese in the UK is relatively low compared with other European markets. This represents an area

of opportunity which the industry as a whole has long been trying to address (Mintel 1999c)

There are estimated to be about 350 cheese makers in the UK. This is a figure which has risen in recent years from an estimated low of 126 manufacturers during the period after the 2nd World War (Cunynghame 2000). Between them it is estimated that there are approximately 500 distinct varieties of cheese produced in the UK. Figure 6.2b presents a cross section of the cheese producing sector in terms of business size. As this figure illustrates, the sector is characterised by a large number of very small producers and a small number of very large producers.

Figure 6.2b: UK Cheese Producers According to Output (1999)



Source: Specialist Cheese Association (1999)

Cheese production as a whole in the UK is dominated by six major producers: two UK companies, St Ivel (part of Unigate) and Dairy Crest (formed out of the Milk Marketing Board), and four overseas companies who are part of larger conglomerates. There is also a strong group of smaller but significant producers that includes

Associated Cooperative Creameries and Abergavenny Fine Foods who are both based in Wales (Mintel 1999c).

Historically, the mainstream cheese industry has pursued a strategy of high-value low-quality pre-packed cheeses. This has resulted in much of the market becoming commodity based. Consequently, the majority of cheese produced in the UK is generic and few strong brands exist (Mintel 1999c). Recent years, however, have witnessed a trend towards higher quality products, a development that has been witnessed in many food sectors (see chapter 2). Branding has increased, as has the choice made available to consumers through mainstream retail outlets. Lower quality generic cheeses now tend to be used in processed foods.

As with most food categories in the UK, the vast majority of cheese is sold through mainstream multiple retailers. In 1998, 80.6% of all retail sales of cheese was sold through multiple retailers. Figures for delicatessens and specialist farm / dairy shops are only available aggregated with sales from milkmen and garage forecourts. Together these account for about 8.6% of the retail market. Moreover, Mintel estimate that major retailers make margins of around 40% on cheese in their stores (Mintel 1999c).

The mainstream cheese sector as a whole spent approximately £20 million on advertising in 1999. This is relatively low for food sectors of this size (Mintel 1999c). There is however a high occurrence of price promotions in the sector.

In terms of the market for organic cheeses, this is still relatively small, both compared with the cheese sector as a whole and compared with other organic sectors. In fact, a survey by the British Cheese Board in 2000 found that only 1% of consumers seek organic cheese products. Demand for organic cheese is predicted to grow strongly in the short to medium term. As a reflection of this, organic cheese is firmly established in supermarkets. Such products are normally produced by the same large companies that supply the bulk of the supermarkets mainstream range. However, there has been however, a shortage of supply of organic cheeses to the multiple sector. In a number of cases this has 'forced' multiple retailers to approach some specialist farmhouse organic cheese makers, rather than their traditional supply base. This has been seen as

a big opportunity for the specialist sector, albeit probably a temporary one until mainstream companies come on stream. Due to supply side shortages, organic cheese still carries a high premium in supermarkets. This is thought to discourage many consumers (Keynote 2001).

There are estimated to be approximately 250 artisanal producers in the UK (depending on the definition of artisanal). These businesses tend to survive by serving mainly regional specialist markets. A survey of artisanal cheesemakers by Portsmouth University reported in Cunynghame (2000) revealed that approximately 1/3 of producers use only their own milk. A further 1/3 buy in all milk (i.e. are not farm based), with the remainder mixing own and bought in milk. Artisanal cheesemakers are represented by the Specialist Cheesemakers Association, a body that was originally set up to lobby on behalf of producers who use unpasteurised milk (the majority of artisanal producers).

MC is a member of the Cheese Association of Wales, Caws. The organisation, which was set up by the WDA, is aimed at fostering cooperation / coordination among small cheese producers in Wales. Its principal activities are connected with marketing. In particular, the group organises attendance at fairs. The group meets approximately 3 times a year, often at each others businesses. These meetings often include a tour round the hosting business. The UK-wide Specialist Cheesemakers Association provides assistance for members on issues such as environmental health advice, providing details of suppliers, organising seminars and running a helpline.

Business Perception

The business has experienced a strong growth in demand for its products in recent years. Joan has noticed the market for speciality cheeses change over the years since the company began. There is more competition now in the market but also more assistance and interest from large retailers and public agencies. Organisations like the Specialist Cheesemakers Association and Caws assist their members significantly.

Demand for MCs products are busiest during the Christmas period, when sales are 50% above normal demands. This growth in business is mainly from existing customers. The business also experiences a smaller peak during Easter (up by 30%)

and again during the summer season. Sales in January and February are generally the lowest. Production is partially dependent on milk yields which peak during the summer months.

The unique nature of MCs products means that the business feels it has no direct competitors. Moreover, the nature of the products dictate that they would be very difficult to imitate by potential competitors. Joan feels that obtaining information about potential customers and markets is not a big problem for the business.

Government / Legislation

It is felt that there is more paperwork required now than when the business started. HACCP, for example, creates extra work, although the need for this is appreciated by Joan. In fact, in contrast to the other case study businesses, Joan does not feel that the business is significantly over burdened by legislation or other forms of paperwork.

6.2c: Part Two: Dynamics of Change and Innovation

Growth

Demand is said to have been consistently greater than supply since the business was founded. Initially the business grew strongly, but then growth, in terms of physical output, 'stood still' as capacity was reached. This situation lasted for approximately five years until the expansion was undertaken. The impact of the expansion in terms of turnover could not be estimated by the end of the case study period. In employment terms, however, one extra person was employed full-time and two existing part-time employees had their hours extended significantly.

Innovation Patterns

Product Development

Although there have only been two periods in the business's lifetime when new products have been developed (at start-up and during the case study period), product development is regarded as being a continual process of refinement. This is largely through small changes designed to 'perfect' the product. This has been a particularly

important task immediately after products have been launched. Key variables that have been improved include developing different stages of maturation.

Process Development

Process development is also regarded as being continuous in the business, largely for similar reasons as stated above, although the methods employed by the business are traditional in nature. The new product range involved developing new equipment (see below)

Marketing Strategies

The business has employed a clear marketing strategy since its inception, aimed towards its target consumers (as described above). The focus has been on communicating the quality of the product and its uniqueness due to the use of Sark cow's milk. Marketing in general has been an important element of the business's development over the years. Moreover, it is regarded as even more important in the period after the launch of the new product.

The amount of money spent on marketing has been limited during the case study period due to the amount spent on the expansion. The business has considered employing a marketing assistant / advisor, essentially as someone for Joan to bounce ideas off.

The main marketing activity employed by the business has been the production of marketing materials, which are used at the point of sale. Both farmers' markets and food fairs are attended regularly. The business also participates in shared marketing with other members of CAWS. A website is also planned in the future.

Packaging Development

Outside the development of the new range, packaging development has only occurred very limitedly. This is largely due to the nature of the product and the fact that it is usually cut up further down the supply chain before it reaches the end consumer.

New Suppliers

Prior to the expansion, the business only had one significant ingredient supplier (for lavabread). The limited availability of this product and its lack of significance in cost terms has meant that finding new suppliers has not been an issue.

Innovations

1: Supermarket Interest

Although initially not interested in supplying the mainstream retailing sector, the business succumb to interest from Safeway in 1995. Joan has always been wary of the supermarket sector due to the 'cut throat' nature of the business and a perceived loss of control this kind of business relationship would bring. She feared getting too dependent on trade with large customers which would bring problems if they ended their custom. She now believes that she has a 'good relationship' with Safeway; the business supplies a limited amount of product to five Welsh stores. Moreover, she feels that she has retained a degree of control due to the uniqueness of her product.

2: Expansion Process

The process of expansion which occurred during the case study period represents a major period of change for MC. The process is predicted to eventually double the output of the firm and significantly shift the dynamics both within the firm and in terms of the supply chain relationships employed by MC. Within the process there were a number of important innovations which will be dealt with separately for the sake of clarity (although they are of course intrinsically linked).

i) Product Research and Development

Extensive research was carried out during the development of ideas for the new products. The decision to produce an organic cheese was a direct consequence of observing market trends and estimating its potential. The decision to obtain Soil Association accreditation was taken as a marketing tool.

Among the product development techniques used was selling trial versions of the product direct to consumers, at farmers' markets and food fairs, in order to gain

feedback. The final product was chosen from 16 different varieties developed by the business.

Suitable packaging was developed with the aid of the regional WDA Agribusiness advisor. Smaller sized packages were developed for the tourist trade.

ii) Product Name

The names were chosen to reflect the provenance of the products as well as their other qualities. The aim was to purvey connections with Welsh cultural heritage. Brainstorming was employed with experts, friends and family. The original names chosen had to be dropped as they were found to already exist. The chosen name (Vale) is derived from the name of their farm.

iii) Obtainment of Grants

The business received financial aid from the WDA for the development in the form of a Processing and Marketing Grant which provides up to 40% of costs for large investments in processing or marketing schemes.

iv) New Staff

Finding staff has been a significant problem for the business over the years. Although there is no shortage of applicants, there have been very few people who Joan sees as appropriate for the positions. The particular qualities she was interested in were intelligence, fitness and a good attention to detail. Motivation has not been a problem among her employees.

v) New Supply Chain Development

New customers for the organic products were sought in order to maximise the potential of both the new and the original cheeses. It was feared that the new hard cheese variety may compete with Meadow cheese in some outlets due to their similarities. In addition, the organic nature of the new cheese would make it suitable for some consumer interfaces where the Meadow range were not (i.e. exclusively organic interfaces, including box schemes). The new product was also developed to target existing customers.

Perhaps the biggest change in supply chains used by the company has been the need to purchase milk from outside the farm for the first time. A local organic farmers group, Calon Wen, was chosen. The close proximity of milk production was deemed favourable for both practical and ethical reasons. Calon Wen were chosen in part because she objects to using ingredients which have been 'transported half the way around the world'; it was also felt that the local producers share the same philosophy as Meadow Cheese.

v) Management Role

The expansion has caused a distinct change in role and routine for Joan Smith. Her role became more managerial and consequently less 'hands-on'. She has attempted to retain some practical tasks such as cheese pressing and rearing young calves, largely because she enjoys these activities. A lot more time is now spent dealing with people, mainly because she now has more suppliers and customers to deal with. This is regarded as a very important part of the business and therefore is one which she feels it is vital to retain control of.

Among the skills she needed to develop were marketing and IT skills. Marketing before the expansion has always been relatively non-aggressive because of the volumes involved. The cheese sold itself. However, with the development of the new range it was necessary to employ marketing principles, to develop an effective product and to communicate its qualities to the market place. Assistance was received for this and Joan also attended a marketing course. IT was also seen as a skill that needed improving in order to make the administration side of the business more efficient and widen the marketing possibilities.

3: Tailored Packaging

Joan has investigated the possibility of special packaging for her products that would be tailored towards special events or particular customers. For example, specific labels would be produced for the Christmas and Easter periods and also for tourists during the summer. She is particularly interested in innovative designs. Possibilities, however, are limited by the volume of cheeses produced and the cost of packing and cutting facilities.

6.2d: Part Three: Managerial Characteristics

Managerial Responsibilities

Joan Smith is responsible for all day to day decision making in the business. Other employees in the business take no managerial responsibility. Joan does however consult quite widely for important decisions. In addition to paying for professional advice during the expansion process, Joan also uses other professional sources including her bank manager and a local advisor from the WDA. The cowman is also consulted on production issues as is her husband, who is an expert on finance. Overall she does not feel that the business lacks any core competencies in management, although she did consider seeking marketing and IT expertise during the case study period.

Personal Histories

Joan Smith and her husband are both in late middle age (46-60) and of non-local origin. They have two children who have left home. Joan was educated to a degree level and was a teacher for many years. During this time she made goats cheese as a hobby. The business started after the couple moved to Meadowberis from Herefordshire, England.

Originally the business was started with her sister, who enrolled on a cheese making course and was responsible for the early production. In addition to making goats cheese, she had previous experience, both in the food industry and with other business ventures (in a financial management / planning role).

Joan Smith has played an active role in a number of organisations connected with speciality cheese and food in general. For example, she is on the board of the UK Speciality Cheesemakers Association and was a non-executive director of Welsh Food Promotions Ltd (which was subsumed into the WDA Food Directorate). She also plays an active role in CAWS.

Joan shows a distinct ethical dimension to her business operations. The business was established partially due to a wish to maintain local food cultures and as a consequence of her misgivings about mainstream food production. She is keen to

employ locals where possible and in particular females. The whole farm is run to an artisanal philosophy. For example, homeopathic remedies are used on cattle.

Her other main motivations for starting the business were to supplement farm income and to find a commercial use for her rare breed of cows. She recognised strong commercial possibilities for her products.

Perception of Support Services

Joan has been a keen utiliser of various support services in the development of her business. She welcomes institutional support and feels that there is much more support available for new and growing businesses now than there was when she was starting out.

The business has used both regional and national support facilities, according to her needs. For instance, Joan has used facilities at the Milk Marque research centre in Cheshire as she felt facilities there were better than at Horeb (although more expensive). She also attended a HACCP course at Horeb which was run by someone from a large company who seemed to misunderstand the situation for small businesses. She has also used consultants from ADAS in HACCP matters as well as advice on pasteurisation.

She has had mixed experiences with Business Connect, the one stop business advice network run in partnership with various agencies. She found that there was a wide variation in the knowledge and awareness of people and organisations within this network.

She feels that the criteria for grants tend to place too much emphasis on employment creation and demand a level of detail in business plans that put people off applying. Moreover, grants tend to be aimed at larger businesses. For example, the Processing and Marketing Grant is only available for sums over £70 000 which would exclude a lot of businesses. Many businesses are happy to be small, but lose out on grant assistance as a result. According to Joan, the agencies do not seem to realise that even schemes that bring 3 new jobs to a rural community are important.

Despite this, in terms of her own business she feels that there is no problem with the availability of outside capital. This, no doubt, reflects her success at attracting state funding support and her acceptance of risk associated with borrowing money.

6.3 Case Study II: Wye Smokery

6.3a Introduction

Wye Smokery (WS) is a traditional small scale smokehouse producing a wide range of smoked foods made using traditional methods. The company is based on the edge of Crickhowell, a small town in the Breacon Beacons National Park with a population of approximately 2000. The business supplies goods mainly via mail order to customers all over the country. Product is also supplied direct to local and regional customers. Demand is highly seasonal, with approximately 40-50% of the business's yearly turnover gained during the Christmas period.

The smokery is owned by James and Jill Smith who are husband and wife. James effectively runs the business, with Jill helping out occasionally. The business employs 2 full-time workers. Seasonal staff are also taken on during busy periods. The business is primarily aimed at the high quality end of the market. All products carry a significant premium and marketing is focused towards 'food connoisseurs' and ABC1 'country lovers'.

All interviews were conducted with James Smith, either in the office or during the smoking process.

6.3b Part One: Activities and Context

Business Profile

Wye Smokery was founded in 1996. The company is located in a small industrial estate on the edge of a town. Turnover during the case study period was approximately £180 000 per annum. The most popular products produced by WS are

chicken, duck and salmon. The business also smokes a wide range of other foods such as Trout, Haddock, Geese, Quail, Cheese and Sausages. In addition to this, WS smokes products on demand from either individuals or other businesses.

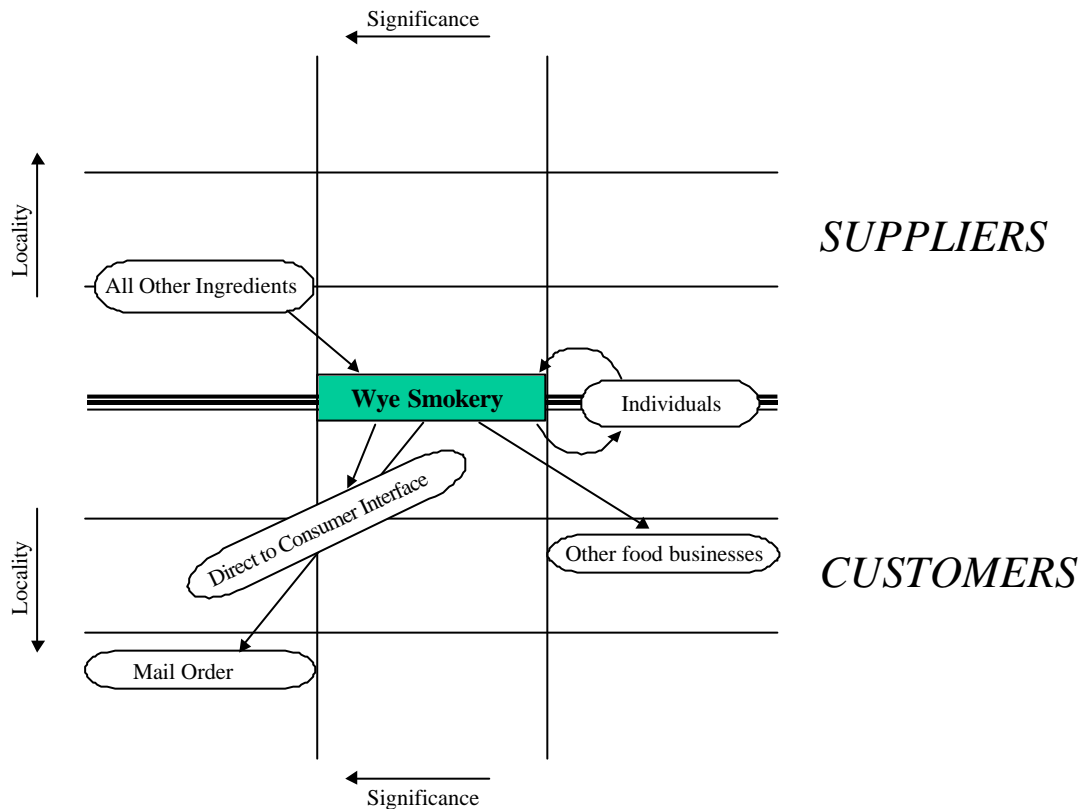
Production is very much based on traditional methods, although the smoking equipment is of a modern nature. Everything is batch produced by hand, in relatively small quantities. Products are smoked over local oak chips producing a distinctive natural smoked quality. The products contrast strongly with modern smoking techniques which tend to use chemical smoke flavouring rather than traditional wood chips.

After smoking, the products are often portioned, filleted or sliced and then vacuum packed. This gives a shelf life of 10 – 28 days if kept refrigerated. All products are guaranteed to be free from artificial colourings, flavourings and preservatives.

Approximately 95% of business involves buying-in product from wholesalers, smoking it and then selling it on under the Wye Smokery label. The remaining output is on commission from other businesses or from individuals (usually for game which they have caught). The business also produces a gift range, targeted mainly at the Christmas trade. The company aims to produce a high quality product combined with good service. Consequently, they are able to charge a high premium for their products. For example, Smoked Chicken breasts cost £2.34 per 100 grams compared with Sainsbury's Premium Smoked Chicken which costs £1.49 per 100 grams (price as of 25th May 2001).

Supply Chain Characteristics

Figure 6.3a: The Wye Smokery Supply Chain



Raw material is procured from a variety of businesses both local and regional. During interviews, James stated that the choice of supplier is based mainly on price as most organoleptic qualities do not survive the smoking process. The most important quality of the final product is its 'smokedness'. WS does occasionally procure raw material based on other qualities (e.g. organic) if requested by customers. Purchasing is done on spot, depending on the best value available rather than using long-term relationships. Raw materials are relatively expensive as a large degree of weight is lost during the smoking process.

The bulk of the smokery's own product is sold direct to consumers through mail order. Such orders are normally delivered the next day either via first class post or courier. Postage and packing are charged extra. Product is also supplied direct to local and regional restaurants, caterers and delicatessens in a region from Cowbridge

(approximately 70km south west) to Ludlow (approximately 70km north). As such, the business is reliant to a certain degree on the tourist trade in the area, although tourists are not directly targeted. Delivery is done using the business's own vehicle.

WS also occasionally undertake commissioned smoking for other, usually larger, food businesses such as Abergavenny Fine Foods, Hazelwood Foods and Beacon Foods (see smoked shallot innovation below). Customer turnover is regarded as fairly high, particularly for the mail order trade. For this reason continual marketing is an important aspect of the business.

WS Consumer Profiles

James states that the business gets a lot of support from people in the local area. He describes the local custom base as 'adventurous and affluent'. Mail order customers also tend to fit that description with many being mature and connoisseurs of both fine food and the countryside.

External Environment

Market Conditions

Market information specifically for smoked foods is difficult to locate. The sector is too small to warrant inclusion in any market reports by large market researchers such as Mintel or Keynote. In addition, there is no national organisation of smokeries that may hold such information. Therefore, estimating market conditions for smoked foods is very difficult. A good proxy for information of this kind may be the speciality food market as a whole (See section 2.1b). As noted earlier the overall speciality food market has grown strongly in recent years.

Business Perception

James recognises that there is a steady growth in demand for high quality smoked foods. Mail order in particular is seen as the main source of potential growth for the business, particularly with the development of the internet. The tourist trade is profitable but has been too variable in recent years.

James also recognises a strong growth in demand for smoked vegetables which he feels he could take advantage of. This has originated mainly from the major supermarkets who have observed the popularity of these ingredients in places such as California.

Trade for WS is highly seasonal and focused around the Christmas period. Immediately prior to and during this time the company typically employs up to 8 extra staff to cover the increase in production. James states that the business only runs at full capacity for the 2 weeks leading up to Christmas. During the rest of the year it is a 'fraction' of this.

6.3c: Part Two: Dynamics of Change and Innovation

Growth

The business has experienced consistent growth in turnover since its establishment. In the first year of operation, it achieved approximately £60 000 in sales. By the beginning of the case study period (1999) turnover had reached £180 000. The business grew consistently during the case study period, with Christmas sales in 2000 estimated to be up by 30% on the previous year. However, the business did suffer from inconsistent tourist markets during the same case study period.

The mail order custom is considered to be the most profitable side of the business. James states that this is due to the lack of middlemen between producer and customer. It has also proved to be the most consistent over the years. Despite charging a premium for WS products, the business has experienced decreasing margins in recent years, leading to a gradual decrease in return on capital. Narrower margins are attributed to both increasing costs and a growth in competing businesses.

Overall, however, demand is still regarded as greater than supply. The growth potential of the business is regarded as being limited by its production capacity, particularly with regard to opportunities that have arisen to trade, both directly and indirectly with supermarkets. Opportunity to expand is, in turn, limited by access to acceptable forms of financing. James estimates that an appropriate level of expansion

would cost approximately £200 000. Borrowing this amount through conventional sources (including small business loans) is regarded as too much of a risk. The interest rates associated with commercial financing are too high for the business. In fact, the owners feel that significant expansion will not proceed without financial aid from a public source.

James regards the business as being a difficult size. Overheads are high due to its limited production capability and the highly seasonal demand for their products. The only ways to reduce costs are to either expand, which would decrease unit costs, or produce more out of season. Existing equipment provision is also seen as weak in the business. Their size dictates that they have only one of most pieces of equipment; therefore, if any of them go wrong the whole process is delayed.

Innovation Patterns

According to James, the nature of the business and its consistent growth since inception has meant that innovation, outside of smoking new products and some marketing initiatives, has been limited. The objective 'to sell more' has meant that marketing is the business's current priority.

Product / Process Development

Aside from smoking different products, product development has limited potential for the business. Further development is therefore restricted to refining the optimum smoking process for the product in question. With the exception of commissioned smokings, the business experiences little influence from customers in terms of the development of the product range or specific product attributes.

Packaging Development

The vacuum packed nature of the product has been consistent since the business was established. This is partially due to the perishable nature of the product and its end use. Vacuum packing brings versatility in terms of portion sizes. Logos and labeling have not been changed significantly in the lifetime of the business.

Marketing Strategy

Marketing innovations are regarded as very important for the business as they are the primary method for increasing turnover. The fostering of relationships between the business and its customers is the key marketing strategy of the business. This is achieved through regular personal contact, mainly via the telephone.

The business's products are advertised mainly through attendance at shows, mail shots to existing customers and direct advertising in targeted magazines (e.g. Sporting Index). Attendance at shows is an effective tool to increase custom as taste is thought to be a key factor in attracting consumers to WS's range.

Another marketing tool used is tasting promotions. These tend to be organised with producers of other compatible products such as wines and other fine foods. Targeted customers are invited to these events which are generally considered as successful for the business.

A major objective of the business during the case study period was to decrease the seasonality in demand for their products by promoting interest outside of the Christmas season. This has, in part, been attempted by the attendance at farmers' markets and targeting hotels in the region. The business was wary, however, of targeting businesses that rely on the tourist trade which is regarded as un-reliable. The owners are also resistant to pursuing direct or indirect trade with supermarkets for similar reasons. It is felt that they are too concerned with 'fads' and therefore should not be relied on. Consequently, the focus has been on what they term their 'loyal trade'.

Marketing to many restaurants is difficult as they tend to use core suppliers who mainly source from large (or mainstream) smokeries. The company has attempted 'door to door' marketing to restaurants, but with little success.

In general, WS does not regard its location in Wales as a potential marketing tool. This is largely based on feedback once gained from a buyer for Fortnum & Mason who suggested that, with the exception of lamb and some cheese, Welsh-ness was not a significantly positive attribute for food. James therefore considers the nearby Welsh-

English border (approximately 8 miles away) as irrelevant to his business and makes no distinction when purchasing from Wales or England.

New Suppliers

The pervading smoke-ness quality of WSs products dictates that the quality of ingredients is largely redundant, in terms of final product quality. Suppliers are therefore chosen on the basis of value, location and availability. Consequently, the business tends to purchase from a small number of local or regional suppliers.

Innovations

1 Partnership with Beacon Foods

In the period prior to the case study duration, the business was approached by a large independent food ingredients supplier based in nearby Brecon. Through a formal consultation agreement, WS trial smoked a number of vegetables, including Shallots, for the company. James saw potential in developing this arrangement but was unable to pursue it due to the limited production capacity of the smokery.

2 Co-promotion with Shoe Company

The business was approached by a quality shoe company based in London who saw a WS advert in a magazine. A prize draw promotion was run to which WS donated 5 packs of smoked salmon. In return, the business gained over 200 new names for their mailing list plus good advertising and association with a quality product.

3 Training Grant from TEC

WS received a training grant from Powys TEC for £500. This was used for on-site training on second hand equipment acquired by the business. The TEC approached the business to offer the grant. Moreover, according to James, it was made clear by the TEC that they were trying to use up grant funds in order to qualify for funding for the next year.

4 Cooperation with Neighbouring Businesses

During the latter half of the case study period, the business began linking with another business on its industrial estate that produces optics. This took the form of

coordinated deliveries and sharing hired equipment. The neighbouring business was responsible for raising the idea.

5 Supplementation of Range [failed]

The business investigated the possibility of supplementing the range of products on offer with other compatible products bought-in. It was anticipated that there may be a latent demand for products such as salami and saucisson among customers. These would be bought in and sold on without additional processing or repackaging. This innovation failed as it was decided that the margin would be too small on products such as these if they were to be competitively priced against supermarkets and delicatessens etc.

6 New Director / Marketing Manager

During 2000, Brian Jones was brought into the business to be a director. His specific area of responsibility is marketing the company's products.

7 New Website

Also during 2000, the business relaunched its website with a stronger design, incorporating more features than the previous version. The new website lists a complete product range with photos of each product. Also included on the website are serving suggestions and recipes for each individual product, details of the smoking process and links to local customers and complementary food businesses. Importantly, the new website also allows customers to purchase products electronically as well giving instructions for purchasing via phone or fax.

This was seen as an important development for WS, particularly regarding its mail order trade. It represented a major improvement on its previous website which was much less sophisticated, and only listed product descriptions and prices. The website was produced by a local company.

6.3d: Part Three: Managerial Characteristics

Managerial Responsibilities

Although the business is registered in both names, the day to day running of the business is conducted by James. Jill does however take on some roles occasionally. All major decisions are discussed between partners, but James is responsible for the final decision. The employment of a marketing manager has allowed James to concentrate on production management and strategic issues.

Personal Histories

Neither James nor his wife are local. James values his independent lifestyle; in fact he has rarely worked for others. He states control and the associated flexibility that business ownership brings as being the key attractions. The avoidance of rigmarole is regarded as more important than making money.

Neither husband nor wife have had any experience in the food industry prior to WS. Previously James was an independent merchant banker based in South Africa.

Perception of Support Services

The business felt that there was a lack of support available from the WDA during their start up process in 1996. By contrast, a competitor has recently relocated to the area (approximately 6 miles away from the business) from over the border in England and received a significant grant from the WDA. The presence of this business is seen as a threat to WSs local customer base and the awarding of a grant by the WDA as unloyal.

WS has boked for assistance from supporting institutions in the past but found that too much effort has been involved for the potential return. Often it is easier to do it by themselves. For example, they have looked for IT grants but found the potential rewards did not warrant the effort needed.

In general, James believes that current business support is aimed mostly towards large businesses at the expense of small companies and start-ups. The owner also feels that

a major area for improvement is the provision of suitable capital grants. He gave an example of a capital grant scheme that he investigated (he could not recall its name) that stated that all equipment purchased must be new not second-hand. This was perceived as a particular problem for WS as new smoking equipment is expensive.

6.4 Case Study III: Yew Tree Organics

6.4a Introduction

Yew Tree Organics (YT) is a small producer and distributor of organic meat and eggs. All their products are raised on their own 450 acre mixed farm near a small village in Pembrokeshire, and sold through either their own organic butcher's shop located in a nearby town or delivered direct to consumers, both local and regional.

The farm produces a variety of livestock products including Beef, Lamb, Chicken, Turkey, Pork and Eggs. All products have Soil Association certification. The retail shop supplies a small local demand for organic meat. However, the majority of business is conducted through their own delivery service which principally serves the area between Cardiff in South Wales and Cheltenham across the border in England. YT delivers to a broad range of customers including shops, hotels, restaurants and residential premises in this region. The business also directly supplies some customers in the London area.

The delivery and shop areas of the business were set up only a few months prior to the case study period. Before this all output from the farm was sold to a thriving organic wholesaler located in the region. Therefore, the case study period coincided with the business attempting to establish itself in its new supply channels.

YT is owned by a husband and wife; Paul and Karen Smith. Interviews were primarily with Paul, although his wife participated occasionally. All interviews took place in the farmhouse kitchen.

6.4b Part One: Activities and Context

Business Profile

The business in its current form was established in 1998, although they have been farming organically since the late 1980s. The owners were unwilling to give turnover figures. The reason given for this was that ‘the business is still trying to establish itself’. Judging by the size of the farm and its output, turnover would be estimated to be in the region of under £50 000.

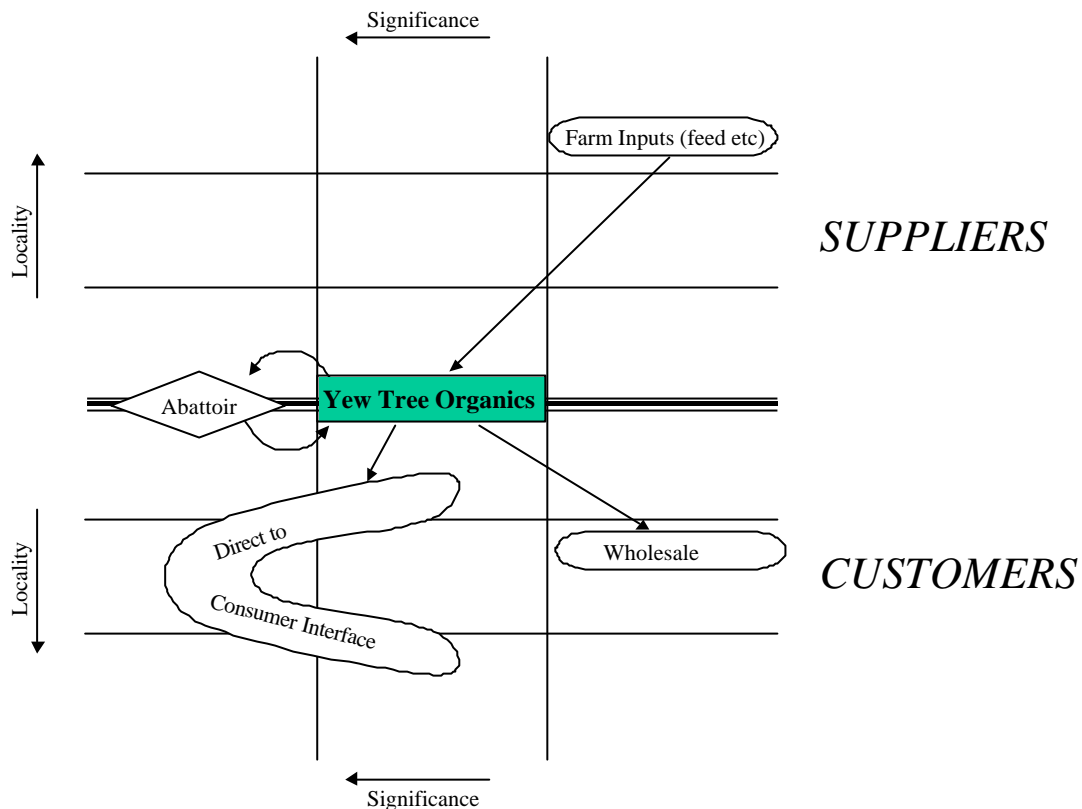
In addition to Paul and Karen, the business also employs their son, who works on the farm and one person full time in their shop. Deliveries are made by one of the family members, usually Paul, using their own chilled van.

The output of the farm, in terms of numbers of each animal, varies depending on demand. The most popular products typically are chicken, beef and lamb. The farm also produces cereal for animal feed and some vegetables for the owner’s own consumption. The livestock breeds used are typical for farm production in the UK.

The business’s shop, located approximately 15 miles away from the farm, cuts and packages YT products after slaughter. The types of cuts and packaging used are standard for the butchery sector.

Supply Chain Characteristics

Figure 6.4a: The Yew Tree Organics Supply Chain



The business has no significant ingredient suppliers, aside from feed and other agricultural inputs. These are purchased from conventional non-local suppliers. All feed is either produced on farm or purchased from sources that meet Soil Association guidelines. Yew Tree differs from the other case studies in this study in that it has two distinct sites involved in production (farm and shop). It is also distinctive as an intermediate business (an abattoir) operates between the two aspects of the business, handling the majority of the farm product before returning it back to YT. The abattoir (TWM Ltd) holds a Soil Association licence and usually takes all livestock produced by YT. It is located approximately 50 miles away from the farm, near the town of Llanelli. After slaughter, the carcasses are transferred to the YT shop where they are cut and prepared for sale. This shop is located in Pembroke Dock, which is about 15 miles from the farm and 50 miles from the abattoir. Pembroke Dock has a population of approximately 10 000, and has recently welcomed a large multiple retailer.

Approximately 75% of all YT's output is delivered direct to the customer. These are mainly located in the urban centres of South Wales, principally in the Cardiff area. As

mentioned above, the business supplies a wide variety of customers. Demand in London is mainly from specialist restaurants. Custom in this area was initially gained through friends and is now growing strongly. Demand from the South Wales region is growing less strong. This is primarily thought to be due to greater competition in the area and a smaller consumer base, compared with London. The London trade is resisted to a certain extent, however, due to the long distances that the business must travel to deliver the product.

In addition the business attends a local farmers' market once a fortnight. This is seen as holding strong potential for the business. Paul knows of a local producer who has increased his trade by three times through attendance at farmers' markets. This has been largely a consequence of regular orders being set up after consumers have discovered the business through the market.

Excess output, particularly beef, is sold to the Welsh Hook Meat Centre, a major Organic distributor in the area, which supplies product all over the UK. Before the business developed its own butchery and delivery service, they supplied all their product through this firm.

YT Consumer Profiles

Paul regards their customers as being a mixture of food lovers and animal welfare sympathisers. The people who frequent the types of businesses they deliver to are also perceived as being fairly affluent. The butchers, shop by contrast, attracts a wide range of local people.

External Environment

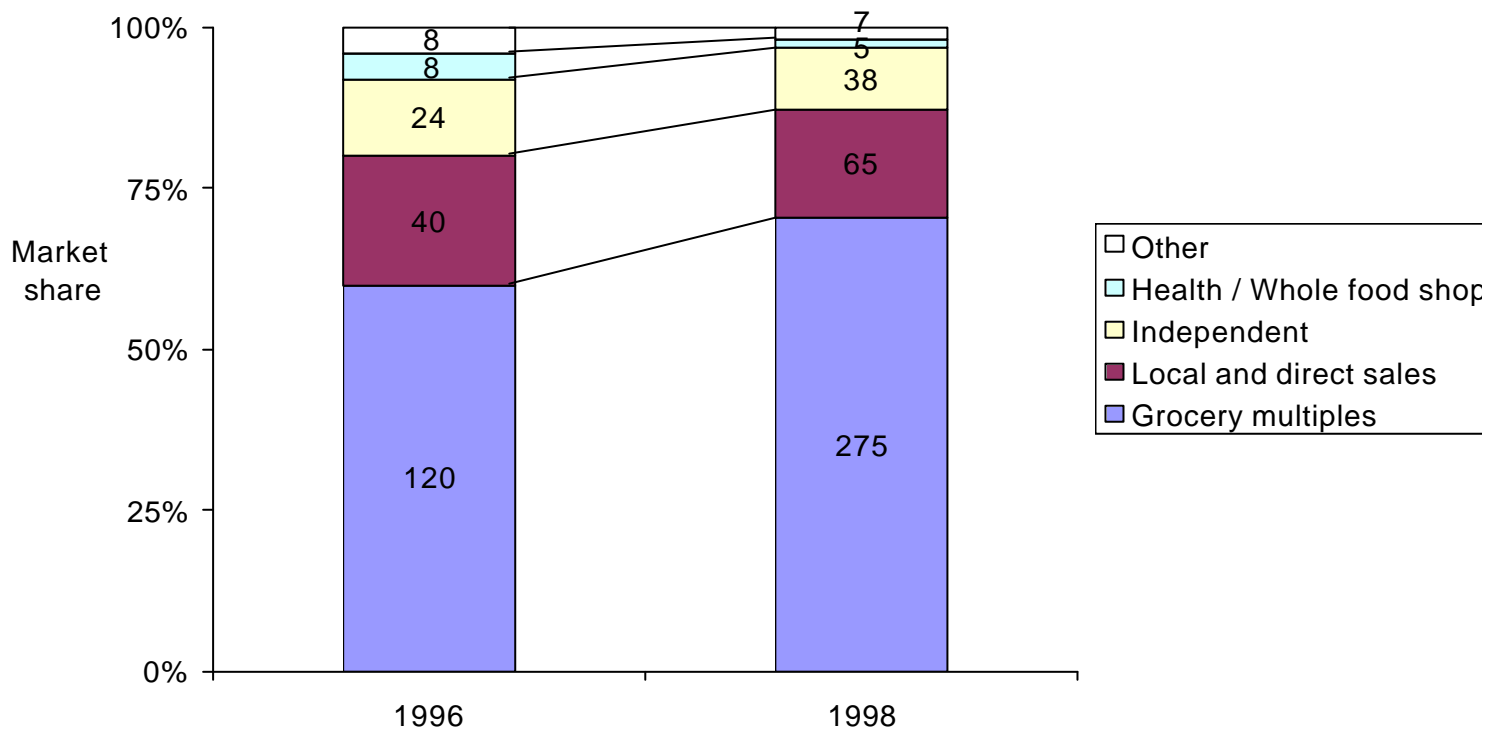
Market Conditions

Retail sales of Organic food have grown dramatically in recent years and are predicted to grow faster still. The sector grew from £100 million in 1993 to just over £605 million in 1999/2000 (Soil Association 2001). Moreover, it is predicted to break the £1 billion mark by 2001/2002 and double again by 2004/2005 (Keynote 2001). This trend has been tied in with the rapid appropriation of the traditionally non-aggressive (in a commercial sense) organic sector by the mainstream food industry

and its interests. Prior to 1999 there were no recognised mainstream brands or companies in the market. By the time of the case study period however, high profile companies such as Heinz and Mars had entered the market and were to be followed by other leading branded food companies. In mainstream terms, however, the supply of organic food in the UK was still considered fragmented at the time (Mintel 1999).

The appropriation of the organic sector by mainstream food industry interests has been led by the supermarkets. This is reflected in trends within distribution channels for organic products (see Figure 6.4b).

Figure 6.4b: Market Share and Net Worth in the Organic Sector According to Consumer Interface (1996 Versus 1998).



Source: Mintel (1999)

NB: The figures inside the columns represent the value (£M) of organic food sold through each interface type.

This graph highlights the growth in market share achieved by the multiple retailer sector in recent years. This has accrued largely at the expense of the market share in health and whole food shops and other forms of consumer interface not categorised. Local and direct sales of organic food (the category which YT falls into) grew considerably between 1996 and 1998 from £40 million to £65 million, despite losing overall market share to the supermarkets (down from 20% to 17%). The explosion of organic products onto the shelves of supermarkets since 1998 indicates that the supermarket share of the sector is likely to have grown significantly since these data were published.

The growth in the supermarket share of the organic sector can be attributed to many of the same factors attributed to the growth in multiple grocery retailing overall. In the case of organic food, these include expensive marketing campaigns, discounting, using their strong purchasing power and the influence that they already hold on the food industry. Local and direct sales have also suffered from the limited availability of British organic produce.

Meat has been one of the least popular organic subsectors, which are dominated by fruit and vegetables, cereals and dairy products. In 1998/1999 approximately £14 Million worth of organic meat was sold through retail outlets. Of this figure, only 5% was imported from outside the UK. The total farm gate value of organic meat in the same year is estimated at £6.9 Million, giving an indication of the proportion of the final price that goes to chain intermediates (Keynote 2001)

In common with the mainstream meat sector, branding of organic meat products is limited largely to generic marketing labels such as those under the Soil Association label and supermarket own label brands.

Business Perceptions

YT is clearly operating within a strongly growing market and one with potential to grow further. The type of supply chain which it chooses to operate is one which is losing market share to more 'conventional' chains, i.e. supermarket chains.

Within the overall growth in the market, there are trends which influence the operation of the company. In particular, decisions concerning livestock numbers and types are routinely based on previous demand and wider market observations. For example, the number of laying hens was increased during the case study period in response to strong demand. These are obviously medium term decisions and require a level of insight by the owners.

On a yearly basis demand is strongest during the Christmas period. In 1999 sales were up by 75% during this period. This increase is mainly derived from extra demand from existing customers rather than one-off festive orders. No additional marketing activities are employed during this period. Demand slows considerably after Christmas and recovers only by Spring.

The fortunes of YT are not, in the experience of the owners, linked to the state of the farming industry as a whole. Paul feels that, in general, there has been little or no effect from the current farming crisis on the business, neither in terms of costs nor demand. The exception to this was the food and mouth outbreak, which occurred at the end of the case study period and severely disrupted business.

Trends in the mainstream meat industry also have an impact on the business, not least through rationalisation in the abattoir sector. Paul feels that the reduction in the number of slaughter houses is a problem for his business. The nearest facility is approximately 50 miles away. This adds significant cost to the products; approximately £30 per head of cattle and £5 per pig or sheep.

The Soil Association has also become an important external influence on the supply chain that YT operates. As well as making annual farm inspections, according to Paul, the organisation 'often' change the rules and procedures of its certification scheme. This has a direct impact on how the farm is operated. For example, guidelines on stocking density of livestock have changed. Changes also bring more paperwork to the business. The breadth of organic certification organisations available to businesses is seen as important in providing competition and choice to producers.

In terms of local or regional competition to the business, the strongest is probably the Welsh Hook Meat Centre, to which YT used to supply all its meat and occasionally still supplies excess beef. The Welsh Hook Meat Centre operates a similar retail shop and home delivery service although on a larger scale. The areas served by the businesses are very similar but YT is obviously at a disadvantage in terms of scale efficiencies (i.e. range, cost, advertising).

Influence from other parts of the supply chain or external organisations is minimal. Paul states that very little feedback is received from customers, apart from re-ordering. There has been an instance of beneficial feedback, however, which influenced the packaging design of YT's products.

Government / Legislation

Overall it is felt that the government impose too much regulation on the business. Their approach is perceived as being over cautious and restricts the performance of the business. Paul feels that they do not understand the values of small organic producers such as themselves.

6.4c: Part Two: Dynamics of Change and Innovation

Growth

Although turnover has grown significantly since the business developed its own direct selling interfaces, the business has struggled to establish itself. In particular, during the case study period, excess production was still being sold through their previous wholesale channel. Moreover, the shop was only just covering its overheads and not making a profit. Consistent slow growth was experienced, however, during the course of the case study period. The couple are optimistic about the future even though they anticipate a reduction in the organic price premium that they currently enjoy.

Innovation Patterns

Product Development

Aside from the paté trial (see innovations below), the products sold by YT conform to conventional butchers' cuts. The business is keen however to explore the possibility of developing novel products that use currently unprofitable parts of the carcass, although this is an objective that is, by their own admission, shared by much of the industry.

Process Development

The nature of the business dictates that there is little use of technology which is not the standard for the farming and butchery sectors. Therefore 'process development' is limited in YT.

Marketing Strategies

The main strategy of the business since its shift in operations has been to widen the customer base. During this period YT has promoted itself largely through attendance at regional food fairs and leaflet drops in targeted areas. Advertising in regional newspapers has also been used.

As a whole, the business places an emphasis on growing local demand for its products as distant markets are deemed more 'troublesome'. Local selling also sits more comfortably with the ethics of the owners.

Packaging Development

The nature of the product dictates that packaging development is a rare occurrence. The business had altered the labelling and the general presentation of their products prior to the case study period after suggestions from a customer.

Innovations

1: Development of Own Delivery / Retail Shop

YT made the decision to sell direct to customers rather than via wholesalers as it was deemed to be a potentially more profitable activity. This is largely due to the removal

of 'middlemen' and the value through developing a strong brand. It also brought more employment to the family through the need to manage more aspects of the business and distribute the products.

The business received help during the development from Pembrokeshire Business Initiative, a local economic development agency supported amongst others by Pembrokeshire County Council. The organisation assisted by giving general business advice as well as helping produce marketing materials.

The greatest impact on the business has been the need to keep up with what the consumers want and to control the business and its service in order to meet consumer desires. The couple now work harder because of the change, although they profess to enjoy it more.

2: Production of Paté

Just prior to the case study period the business trialled the production of paté. This was made in the retail shop and sold through both the shop and home delivery customers. Production ceased however after a short while due to lack of demand compared to the effort involved to make it.

3: Approach by Ready Meal Manufacturer [failed]

YT received an approach by a supplier of ready meals to the Marks and Spencer supermarket chain, who were interested in taking a regular supply of beef for its products. Paul rejected the approach on animal welfare grounds as Marks and Spencer stipulated that the cattle would have to be slaughtered in Leicestershire (approximately 250 miles away), so as to retain control over the process. The deal would have also resulted in a significant increase in farm production which would have had an impact on their 'way of life'.

6.4d: Part Three: Managerial Characteristics

Managerial Responsibilities

Both partners are active in the day to day running of the business. There are no defined roles in the business; however, in general Paul is more concerned with the delivery and shop, while Karen concentrates on farm husbandry. The shop is in Paul's name only.

Significant decisions are made on a mutual basis. Consultation between the couple about aspects of the business is made on a daily basis.

Personal Histories

Both Paul and Karen are of local origin. Prior to YT they used to farm in neighbouring Ceredigion, on a tenant basis. They decided they would like to farm organically primarily for ethical reasons. The current farm was chosen because it was easily convertible to organic production due to its run down state and the fact that it had never had 'conventional' farming practices on it.

The ethical beliefs of the couple have a strong influence on the business. For example, they are not interested in dealing with the supermarket sector (see innovations above). Both partners also express a degree of risk averseness typically associated with farmers. For example, Paul is unwilling to take commercial loans from banks. They are also not keen on joining cooperative movements due to the reduction in control over their destiny (and a perceived increase in overheads).

Perception of Support Services

Paul feels that the business has suffered from being perceived as a conventional farmer rather than a rural business. Consequently, they have found themselves excluded from schemes in the past that would have benefited them as a small business.

It is felt by the couple that there is a lack of funding available for capitol investment, such as new buildings. For example, the farm needs a new pig house, but has been

unable to find funding for the project. The owners do not like match funding schemes as they are unwilling to get commercial funding from banks.

They also believe that Welsh development institutions often seem to ‘bend over backwards’ to attract inward investment rather than supporting local businesses. In many instances, local businesses suffer when outside firms are attracted. They cite the development of a Tesco supermarket recently built in Pembroke Dock as an example of this.

Overall, however, Paul values the efforts of the Agrifood Partnership to promote the Welsh Organic sector generally.

6.5 Case Study IV: Harvest Bakery

6.5a Introduction

Harvest Bakery is a traditional craft bakery business based in a small Carmarthenshire town with approximately 3000 inhabitants. The business comprises a bakery and 2 shops in the town and a market stall in nearby Carmarthen. The bakery produces a wide range of premium / traditional quality bread products and morning goods. The business also produces an organic range of products, although they do not hold any official certification and represented only approximately 5% of overall output.

The focus of activity of HB has changed considerably over the course of the study. When first interviewed, the main activity was supplying the local wholesale trade mainly through Spar shops (within an approximately 30km radius) as well as its own retail outlets. However, due to a combination of owner health problems and pressure on margins in the retail trade, the business gave up its wholesale trade and is instead developing other activities.

All interviews conducted with Harvest Bakery were with Richard Smith, who co-owns and co-runs the business with his wife, Catherine Smith. Interviews took place either in his office or whilst he was working.

6.2b Part One: Activities and Context

Business Profile

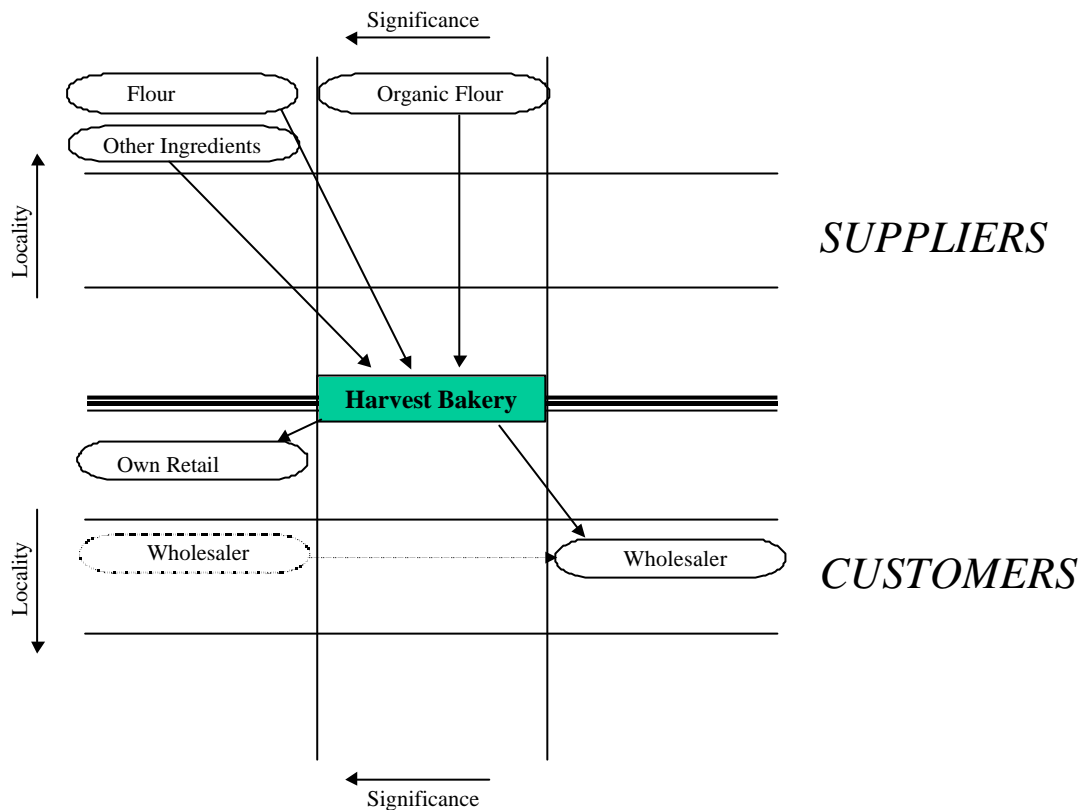
Harvest Bakery is a relatively well established small business. It was founded in 1987 and has achieved almost consistent growth up to 2000. The business employs five full-time employees in addition to the two owner / managers and approximately 14 part-time staff. The approximate turnover before restructuring was 220K per annum. However, it is anticipated that this figure will fall significantly, at least initially, after the restructuring of the business's activities has been finalised. The bakery and office is located at the rear of their main shop in the principal shopping street in the town.

All products are made using equipment and production methods conventional in the craft bakery sector. All processes are done on a batch basis with only one major oven. Virtually all products have a shelf life of a few days, therefore dictating a fast throughput and relatively little need for storage space. Products destined for the wholesale trade are packaged and labelled on site at the bakery using specialised equipment. Products for the own retail sites are not generally packaged until point of sale.

The management structure within the business is typically simple and authoritarian. The partners (Richard and Catherine Smith) hold all positions of responsibility. Each partner has a loosely defined management role within the business.

Supply Chain Characteristics

Figure 6.5a: The Harvest Bakery Supply Chain



As highlighted in the above diagram, all HB's ingredient suppliers operate on non-local markets. Indeed, the ingredients used in the manufacture of HB products are all non-local and predominantly from the conventional wholesale food market. The principal ingredient in the majority of its products, flour, is sourced from one of two major millers (Allied Mills and Rank Hovis). Both are owned by multinational companies who procure the flour on the world market. Both companies have regional mills (in South Glamorgan & Gloucestershire), which deliver flour direct to HB. Organic flour is principally sourced from Bacheldre Watermill, a small independent producer of Organic flour based in Powys, mid Wales.

The choice between which flour supplier to use is based mainly on price, but also takes into account other services that the millers provide. The mainstream flour market is very competitive. This competitiveness, when combined with the uniformity of the product, has created a very price conscious sector. As a consequence, the major

millers provide other services such as promotional materials, financial help (low interest loans) and new recipes.

Richard Smith states that HB has tried to be loyal to its traditional suppliers in the past, but the market has become very competitive. As a result, there is generally less loyalty in the market now than previously. All mills are constantly trying to reduce prices; for example, Allied Mills recently stopped supplying a local customer as they were ordering so little and in a remote location that the cost was too high.

The other ingredients required by the bakery tend to be purchased from Bako Ltd., who are the largest wholesaler to the bakery trade in the UK. They have a distribution centre in Swansea. Organic ingredients are also purchased from Essential Trading Ltd., a workers cooperative based in Bristol that specialise in 'natural' products.

At the commencement of the case study period, 60% of HB's output went direct to the wholesale trade. In particular, the business supplied eight Spar shops in the region. In addition to Spar, a number of independent retailers were supplied wholesale plus some local restaurants. The business also had a major contract with a local theme park (Oakwood) which ceased just prior to the case study period. The other 40% of business was through its own shops in the town and a market stall in Carmarthen.

During the course of the case study period, the wholesale side of production was scaled down significantly. The majority of the Spar business was 'let go', with only two Spar shops in Llanelli and one Spar in Kidwelly remaining. These have been kept on due to their locality and logistical ease. The business with Spar was not contractually based, but was instead agreement based and subject to re-negotiation approximately every two years. As such, Spar (unlike the common practice for other multiple retailers) had no input into the process in terms of product range, packaging etc.

HB was consequently operating on a much lower turnover by the end of the case study period. However, the number of employees has remained broadly the same. Moreover, it is affirmed by Richard Smith that this state of reduced output is only a transitional period as other opportunities are being explored by the partners. Most

notable of these is the anticipated launch of a home delivery service in partnership with other local businesses (see innovations below). If successful this will significantly increase the value-adding capacity of the firm.

HB Consumer Profile

The dominant market for HB's products are consumers in the town, those from surrounding villages and small towns and visitors to the market in Carmarthen. The typical customer of their retail shop is described as being over 40 years old and mainly those that were brought up eating home-baked bread. In fact, a significant proportion of customers are said to be in the over 60 year old bracket. Many of these like to use the shop as a source for catching up on local gossip. A major attraction for customers is therefore the interaction involved with purchasing the products, in addition to the actual products themselves. There is much less demand from younger people in the area 'as they tend to care more about cost when it comes to bread'. According to Richard, HB has a significant number of customers who travel from neighbouring towns (Llanelli, Burry Port) to purchase bread, in preference to other sources of bread in their towns.

External Environment

Market Conditions

Bread products have almost universal market penetration in the UK and relatively high per capita consumption (Mintel 2001b). Despite this, per capital consumption of bread in the UK has been in long-term decline since the 1960s. In fact, consumers ate nearly 40% less bread in 1998 (in volume terms) than in 1965¹. Changing eating habits brought about by increased standards of living and associated increases in foreign travel and variety of foods available are seen as the major reasons for this decline. In addition, bread has been traditionally associated with weight gain and therefore deemed unhealthy. This opinion has changed considerably in recent years as the relative dietary benefits of carbohydrates have come to popular attention. A boom

¹ It should be noted however that these figures are from the national food survey which measures consumption at home only. It therefore excludes the effects of the strong growth in eating-out witnessed in recent years. Bread products such as sandwiches and baguettes are popular forms of eating out.

in healthy eating in recent years, combined with strong product innovation in the sector, has generally thought to have contributed to the leveling off of this decline over the past 5 years. Strong product innovation has also contributed to a growth in value terms in the sector over the past 5 years. Between 1995 and 2000 the sector is thought to have grown in value by 6% in real terms (Mintel 2001b).

The bread sector is, however, dominated by supermarkets and major multinational-owned plant bakeries. As the Figure 6.5b illustrates, the market share for the craft sector is small and slowly falling in both value and volume terms.

Figure 6.5b: Breakdown of the UK Bread Market

		1996	1998	2000 (est.)
Industrial Plant Bakeries	% Value	72	72	73
	% Volume	80	80	81
Supermarket In-Store Bakeries	% Value	18	20	19
	% Volume	12	13	13
Craft Bakers	% Value	10	8	8
	% Volume	8	7	6

Source: (Mintel 2001b)

The decline in market for the craft bakery sector can be attributed to a number of factors common to both small food businesses in general and craft bakers specifically. In particular, in recent years, the growth of in-store bakeries (ISBs) within supermarkets, combined with the general move away from high street shopping towards out of town shopping, has contributed to the decline in the craft bakery sector. In fact, the growth of ISBs over the past decade or so (from zero to 19% of the market) is said to have been largely at the expense of craft bakers (Mintel 2001b).

The number of high street / craft bakers in the UK has fallen dramatically from 20 000 in the 1930s to under 5 000 in 2000 (Mintel 2001b). By contrast, there are now approximately 2200 ISBs in the UK (Mintel 2001b). The National Association of Master Bakers, which represents craft bakers in the UK, has seen their membership shrink from 5000 in 1990 to 1300 in 2001. It is thought that at least part of this

decline has been due to consolidation in the sector, with bakers purchasing each other but the total number of outlets remaining fairly constant (Mintel 2001b). Those craft bakers that remain tend to compete almost exclusively on quality dimensions as they are unable to match the low prices of the supermarkets. Additionally, small bakers tend to have too low a throughput to make an adequate profit from this kind of 'high volume low margin' strategy. The major bakers have challenged the craft sector even more in recent years with the introduction of the branded white sliced premium and super premium loaves. This sector grew from 3.8% to 19.6% of the total market between 1995 and 1999 (Mintel 2001b).

The plant bakery sub-sector is dominated by two leading companies: Allied Bakeries and British Bakeries, who between them account for over half of all production in the sub-sector. These major bakeries support their key brands consistently through advertising campaigns. In 2000, £11.1 million was spent on advertising bread and bakeries. Of this 90% was spent by the three largest plant bakers (Mintel 2001b). Generic advertising campaigns are also carried out by a number of trade associations and other bodies connected with the sector, including the National Association of Master Bakers which represents craft bakers. The advertising spend of these associations, however, is dwarfed by the major bakeries.

The morning goods market, which traditionally comprises bread rolls and bakery snacks (scones, croissants, donuts etc), has shown stronger growth in recent years. Bakery snacks in particular are increasingly popular among consumers who are attracted by the diversity and convenience of morning goods on offer. Much of this market growth has been tied in with the growth in supermarket ISBs. The craft baker total share of this market is estimated to be around 8% in value terms, similar to the sub-sector's share of the bread market (Mintel 2001b).

Business Perceptions

Harvest Bakery experiences two seasonal peaks in demand: Christmas and Summer. Summer is the highest peak, and is largely due to the increase consumption of cold meals combined with the influx of tourists into the surrounding area. The Christmas peak is smaller and originates from the demand for party food. The most volatile part of the product range is the organic loaves. Demand for these has tended to be variable

since their introduction and dependent on the economic climate. The business has directly felt the effects of the downward trend in farming fortunes in the area through decreased custom. This is particularly evident at their stall in Carmarthen.

The main area of competition for the business is seen as being the supermarkets in the region. In particular, there is a Leo's Coop in Kidwelly itself. There are also major supermarkets in Llanelli and Carmarthen. Richard considers this competition as largely indirect as they do not sell products of similar quality. There are 16 small independent bakery businesses in Carmarthenshire of which 12 are within a 15km radius of an HB retail site.

Government / Legislation

HB along with other craft bakers has suffered from changing labeling laws in recent years. Richard cited one local bakery who was said to have folded due to problems caused by these changes. The problems experienced originate from the complexity and lack of continuity of labeling laws. At the time of the interviews, the business had to label all ingredients used and include percentages. The business has experienced confusion from local trading standards officers over new labeling legislation; one officer said that labels were needed for loaves sliced in the shops, which the business complied with only for another officer to subsequently contradict him. Richard perceives that there are too many agencies involved (Trading Standards, Environmental Health).

6.5c: Part Two: Dynamics of Change and Innovation

Growth

Prior to 1999, HB had shown consistent growth in turnover year on year. The main area of expansion at this time was in wholesale supply and in particular the supply of local Spar shops. This was complemented by some growth through introducing new lines. Turnover was approximately £100 000 in 1991, when the business employed 5 people. By 2000, turnover had risen to £250 000 and employment to 14 (not FTEs).

As mentioned above, business growth has been slowed by the loss of a major wholesale contract in 1999 (to Oakwood Leisure Park) and then, significantly, the

cessation of Spar business in 2000. Future growth of the business will depend on the success of the proposed home delivery service (see below).

Innovation Patterns

Product Development

The business does not tend to introduce new products often as their core customers are not very experimental. Tastes are very limited and therefore any new lines tend to be traditional / 'tried and tested' products. New bakery products that are introduced are likely to be developed from recipes provided by suppliers. In fact, providing new recipe ideas and the ingredients required to produce them is a common source of marketing employed by suppliers to this sector. These recipe ideas are first trialled with small batches to gauge their potential. Richard believes that the extent of product development varies a lot among small craft bakers depending on their location and therefore customer base. For a business in his location, new product development is not as important in order to satisfy his customer base.

Process Development

Production methods in the craft bakery sector do not change much. In fact there have been no major changes in processing since the business was established. This is, in part, to do with the fact that high quality bakery products follow traditional production techniques. Therefore, there is little scope for change without altering the products. Only minor changes in production have been introduced, for instance changing production routines so that staff are more efficient with their time. However, when the business relocates it plans to buy a new oven. This is mainly because the existing oven is too old to be worth moving. The new oven, which is being purchased from a local company, will be both more fuel efficient and time efficient (by heating up faster). In general, however, cost reductions have been sought through other means rather than changing the production process.

Marketing Strategies

Richard feels that the business does not conduct any ‘marketing’ as such. Therefore, they do not have a marketing strategy. The business has core customers to which they provide what is demanded. The business relies on word of mouth to promote its products. There is no major spend on advertising, although HB does support some local events, the local rugby club and advertise in the parish magazine.

Packaging Development

The only packaging used is for sliced loaves. The capability to package products is essential for the wholesale trade. A lot of craft bakers do not supply the wholesale trade as they do not have, and do not want to invest in, machinery for packaging and labelling. The business has had no problem in purchasing appropriate packaging supplies. A local company in Carmarthen is used, although there are also major suppliers available.

New Suppliers

Richard Smith feels that the business has no problems with identifying suitable suppliers for the products it needs. HB tends to use two major suppliers for both flour and other raw materials. Richard ‘plays them off each other’ to get as good a deal as possible. He has found distinct benefits of adopting this approach as it has increased his purchasing power and prevented him from being purely a price taker. As a result, he now purchases flour at £7.50 a bag compared with £10.50 which a local friend pays.

Innovations

Richard considers innovation to be an important role for the business. The period of the case study has witnessed a number of innovations of differing significance and success.

1: Spar Promotion [Failed].

The possibility of running a promotional scheme with HB products in Spar shops was discussed in detail during the last negotiations for the supply agreement between the businesses. The stimulus for this development was said to have come jointly between HB and Spar. The promotion would have involved Point of Sale literature and substantial price reductions (for example ‘3 for 2’ promotions). This scheme however

failed due to time pressures within HB. Richard Smith has complained that they are too busy running the business and therefore have no time for schemes like this.

2: Organic Certification [Failed].

The business investigated in depth the possibility of acquiring official certification for its organic products. Certification is seen by HB as being increasingly necessary when dealing with wholesalers such as box schemes. Demand for its organic range is growing although volatile in the short term.

The business was originally sent a 'starter pack' from the National Association of Masterbakers which contained all the relevant information about how to apply. In the end it was decided that certification would be too costly for a small business like HB, both in terms of money and time. The amount of paperwork required was described by Richard as 'phenomenal'. The application takes approximately 3 months to go through.

In the end the issue of gaining organic certification was finally rested when the wholesaler side of the business was dropped. HB continues to sell organic bread to local customers but without official certification.

3: Move out of Wholesale trade.

The decision to move out of the wholesale business is seen as the culmination of a number of adverse factors influencing the business. Richard regards the deciding factor for this event as being his ill health which has forced him to take a less hands-on role. The wholesale side of the business was seen by him as being very demanding and stressful. Moreover, the margins made on that side of the business had been getting progressively smaller over the years. Blame for this was put on increasing competition in the sector. The business was under continual pressure to decrease margins in order to stay ahead of the competition. The sale or return policy operated by Spar also proved to be costly to HB as unsold products are disposed of.

Richard felt as though they were always having to make extra effort to keep the Spar business. For example, they had to employ extra staff hours to put labelling on all the products.

The business decided to move out of wholesale despite being given an opportunity to start supplying a range of cakes and confectionery to Spar as well as its bread products. This, however, would also have been on a sale or return basis.

4: Home Delivery Service. [Planned]

The main strategy to replace the income from the wholesale business has been the planned development of a home delivery service. This is seen as a direct replacement for the wholesale side which is both less stressful and has strong potential. Importantly for Richard, it will also put control back into his hands.

The home delivery service will operate in partnership with a local greengrocer and butcher. The service will supply products from all three businesses. The greengrocer also sells some household products which will also be available. HB will, however, be responsible for control and operation of the business, providing the infrastructure, marketing vans and labour.

The operation of the service will involve a Freephone number which customers will order through; it is hoped that the Freephone aspect will help reduce inhibitions for callers. Deliveries will then be made direct to the door step, either that day or early the next, depending on when the order is placed. The aim is to make the majority of deliveries during the early morning (7-9 am) when most people are at home and the business is traditionally quiet (i.e. after the bread products are baked but before the shop has opened.) There will be no charge for either delivery or registration but a premium will be placed on the products to cover extra costs.

Customers will be required to register for the service. The registration will provide extra information about customers and their requirements as well as enabling a smoother service.

Initial marketing of the service will involve the posting of flyers in targeted residential areas in Kidwelly. It is hoped that this method will allow the business to control the amount of interest it creates. The business estimates that 300 – 500 addresses will be targeted initially. It is anticipated that the service will be popular amongst older

people, who are often less mobile, as well as those who lack time. A website has been considered to advertise the service and potentially to take orders. However, this development will depend on the nature of the customer base as it is anticipated that the initial target market is not likely to be regular internet users.

As part of the researching process for this new venture, Richard has investigated the Iceland and Tesco home delivery services, both of which operate in the Kidwelly area. He does not consider, however, the home delivery service to be in direct competition with these supermarket services as HB's custom base will be much smaller and the product range available much smaller. HB's service will also be differentiated from supermarkets by the fact that they will not charge directly for the service. Richard feels that this will be possible for them as they will only deliver to targeted areas, which will be 'highly' populated. The supermarkets, by contrast, are committed to deliver to anyone within a certain radius of their stores. The service will only move into more rural areas if it is a success. Richard does anticipate, however, that custom will be good in more rural areas as 'farmers like to take bulk orders'.

Richard recognises that this service will present a logistical challenge to the business. In particular, the attitude and commitment of the staff will be very important. This service is due to come into effect once the relocation of the factory is complete (see below) as demands on space will be high.

5: Relocation of Bakery [Planned]

As part of the business restructuring, the bakery is going to be relocated to a site closer to the home of the business owners. The existing site of the bakery and shop is going to be sold to a development company situated next door to the site. The shop will then be leased off this company. The new factory will be built in a building which will be converted and have an extension put on. Planning permission already exists for this. All current bakery staff will be retained and moved to the new site, which is only a few miles away from the current location.

The relocation is mainly due to a lack of space at the existing bakery. This is a problem that the business has had for a while. The possibilities of expanding the existing premises have also been looked into.

As part of this process, the availability of capital grants was investigated. This was not successful as the business failed to meet the job creation criteria. Eventually the move was decided without any outside funding.

6: Selling Cawl

HB started selling Cawl (Welsh soup) during January 2001. It was originally produced as a request from a local Probus club (a retired persons association) for one of their meetings. HB normally supplies sandwiches etc for their functions. A one-off batch was produced and proved to be popular, so they started selling it in the shop. The product has subsequently become popular and now even one of the remaining wholesalers takes it. Originally HB produced only one batch per week, but it soon became a daily process.

Thought to be popular because of the cold weather as well as being perceived as good value for money (£1 for a bowl and a roll), Richard does not expect the demand to be year round, only in the colder months.

7: Staffing Plans [planned]

As part of the restructuring of the business, HB plans to make all its staff redundant and re-hire them on a self-employed basis. The main perceived benefit of this will be the reduction in administration, which is seen as a strong drain on management resources. Holiday pay will also cease but the business will have to pay a higher rate when re-employing them. A redundancy package will also have to be offered to staff.

The idea for this development came from talking to other business owners at the local rotary club who have made similar adjustments. This practice is also common in the building trade, in which Richard used to work.

The business recognises that the adjustment to this situation will be difficult for both employer and employees. In particular the rights of each party will be significantly different. Richard states that it 'will be a culture shock'; however, it will make life easier for both Richard and Catherine. Richard is confident that they will accept the situation as there are few opportunities in the area for similar employment.

6.5d: Part Three: Managerial Characteristics

Managerial responsibilities

Both partners are active in the day to day running of Harvest Bakery. The management roles of each partner have changed during the course of the study due to personal circumstances. However, they do remain fairly defined. The major change has been the transferring of production responsibilities from Richard to Catherine. Richard now concentrates on administration and day to day issues as well as focusing more on strategic management. Catherine is also largely responsible for staffing issues.

Major decisions are always discussed between partners. Other decisions are also discussed on less formal bases such as 'pillow talk'. The example given to differentiate major from non- major decisions was setting hours for staff members. There is no formal conference for setting the rota for part-time staff but there would be if one decided to cut the hours of a full time staff member.

Personal Histories

Richard Smith was originally trained and employed as an architect. He is of local decent and the son of a farmer. Catherine is trained as a nurse who originates from Italy. Both started to look at the possibility of starting a business during the mid-1980s (circa. 85 / 86). This was said to be largely due to work pressures and frustration due to excess 'red tape' at work. In addition, the abundance of assistance available to people wishing to start up businesses at the time was also considered a stimulus. The main personal attraction of owning a business is said by Richard to be 'being in charge of your own destiny'.

Initially, the partners looked at a variety of business ideas, both food and non-food related (particularly connected with the building trade). They knew that the town used to have a craft bakery and 'liked the idea' of working in this area.

When the business started up both partners initially tried to continue their own careers at the same time. They found this difficult however, mainly as they were unable to

rely on staff to operate the business properly. Richard concedes that in hindsight it may have been 'better if [they] had not gone in' to this line of business at all as they would probably now have a better standard of living if they had stayed in their old jobs. He also regrets not taking control of the business straight away instead of relying on staff competencies.

Richard states that both have a 'love of food' and wanted to run a wholefood type business. Consequently, as little processed food is used as possible. For example, only unbleached flour is used and 'definitely no GMOs'. Additionally, the business likes to deal with local businesses rather than source outside the area. This is illustrated by their use of packaging suppliers and the sourcing of the new oven.

Perception of support services

Richard states that, in general, the business grants available are not appropriate to the needs of businesses like HB. In particular, they tend to be job creation based and ignore other less direct factors. In his view this mentality encourages short-termist companies. This is a view shared by other small business owners that he knows. Specifically he felt that EU Objective 1 grants should look at 'sustaining' jobs as well as creating.

The availability of literature and business advice is regarded as of good quality, but it is felt that a business like HB is unable to apply any of it without adequate finance. The main source of information and guidance received has been through the local county council (Carmarthenshire).

6.6 Case Study V: Nature's Bounty

6.6a Introduction

Nature's Bounty is a high quality ice cream and meringue producer based in a small village in Pembrokeshire, close to the boarder with Ceredigion. The business is a

successful case of farm diversification which has moved off-farm and currently resides on a rural industrial estate. Ice cream has been the traditional base of the company and accounts for around 60% of output, in the form of approximately 30 different flavours. The remainder of production is of ready-made meringue cases. Both products are high quality orientated and targeted firmly at the premium end of their respective markets. NB also distributes food products from a small number of local businesses to supplement their range and reduce transport costs.

NB products are sold to consumers mainly through independent quality food shops, restaurants and, in the case of ice cream, local and regional tourist attractions. The focus of the businesses activity is on regional markets, although product is sold in a number of UK locations through wholesalers. The company also started selling a limited amount of its meringue product to a major multiple retailer during the course of the case study period.

The business is run by its founders Maude and Jack Smith. Interviews were predominantly conducted with Maude Smith, although Jack took part occasionally. The location of interviews was the office / reception in the factory.

6.6b Part One: Activities and Context

Business Profile

Nature's Bounty was established in 1984, producing ice cream on the owner's farm. The business moved off-farm in 1987 and began producing meringues in 1991. Growth was strong in the early years, but has slowed recently. The business employs 7 full time people in addition to the owners. Approximately 7 additional seasonal staff are also taken on during the summer season. The business turnover is estimated as £300K per annum.

The business operates as essentially two separate production processes. The only significant link between the two is the use of egg white left over from the ice cream process (which requires egg yolk) as a major ingredient in meringue. In fact, meringue production was originally introduced in the business solely for this purpose.

Demand for the product has grown so much, however, that egg white is now bought in.

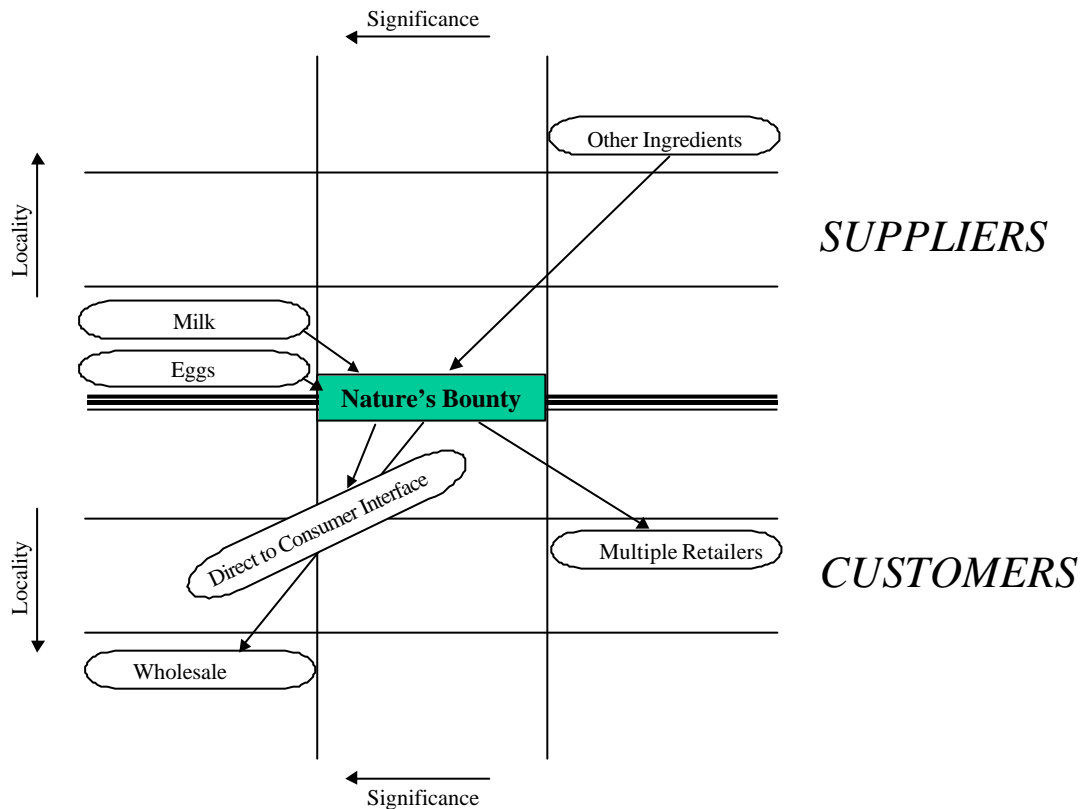
Ice cream production is a relatively complex process (particularly compared with similar sized food businesses). The machinery used is specialised and the nature of the product dictates that the process has to be critically controlled, not only in the factory but along the supply chain (i.e. appropriately chilled), in order to provide a consistently high quality product to the consumer. Meringue production, in contrast, is similar to a conventional bakery. Production is also more automated and less hands on than for ice cream.

At present, there is no perceived conflict between producing two distinct types of product. In fact, the products are seen as complementary as the business benefits by having a wider range of products available. Moreover, the supply chains used are very similar if not the same.

NB also wholesales / distributes a variety of local food products including cheeses, Welsh tea, chocolate and Welsh cakes. However, this activity is not considered a core part of the business, only to supplement the range on offer and subsidise distribution. In general they have difficulty gaining a sufficient margin of this activity. Customers (i.e. other local food producers) tend to have a 'do us a favour' attitude and are unwilling to give NB a wholesaler's margin.

Supply Chain Characteristics

Figure 6.6a: The Nature's Bounty Supply Chain



The two principal ingredients, in terms of bulk, used by NB are milk and eggs. Both are procured from local producers on a non-contractual basis. Milk is sourced solely from Little Hook dairy (approximately 15 miles away). Eggs are purchased direct from a local farmer. Both products are standardised and produced in relative abundance in the region. The other ingredients used, such as sugar and flavourings, are procured from non-local markets through conventional wholesale arrangements. The owners stress that ingredients are made on site where possible.

NB use their own transport (a chilled Van) for regional deliveries. Such deliveries extend as far North as Betsycoed (approximately 150km away) and East as Gloucester / Bristol (approximately 240km away). A number of speciality food wholesalers in England take NB products.

NB ice cream is sold to the consumer in two main forms: through the scoop trade and in retail tubs. The scoop trade is the serving of ice cream in cones. These tend to be at regional tourist centres and fairs etc. Retail tubs are sold mainly through independent quality food shops such as delicatessens. NB ice cream is also sold to consumers as a dessert item in hotels and restaurants.

Excluding the tourist scoop trade, the presence of NB products is greatest in the urban centres of South West Wales. In fact, little custom exists in North or Mid Wales, mainly due to a lack of big buyers that would make servicing the area viable. Further afield, speciality food wholesalers supply NB products in Staffordshire, York and London.

Meringues are sold in many of the same places as the ice cream tubs e.g. delicatessens. They also have strong demand from wholesale customers. Meringues are also supplied to a national supermarket for its Welsh stores.

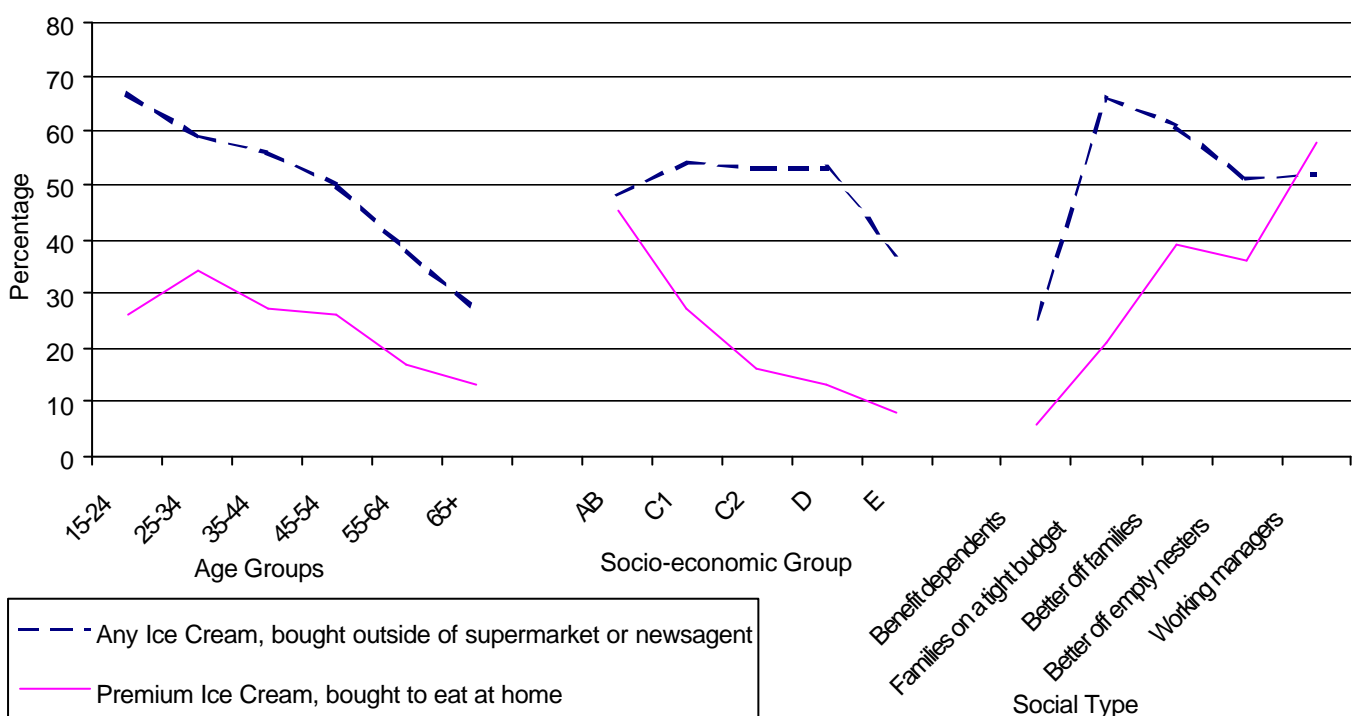
NB Consumer Profiles

Nature's Bounty consumers can be roughly divided into those that purchase their ice cream products on impulse at tourist attractions, hotels etc and those that purchase NB products to take home. The owners regard their core consumers to be those that have an interest in quality food. In the case of the ice cream range, Jack Smith admits that consumers tend to either 'love it or hate it'. He contrasts this to mainstream lower quality products which are so bland everyone is 'okay with it'.

The Mintel market intelligence company has commissioned research into ice cream consumption patterns (Mintel 2000c). Figure 6.6b represents selected data from this research which shows two categories of ice cream consumption that are roughly analogous to the two different categories of NB ice cream consumption outlined above. The figure plots the percentage of consumers who have purchased in the given categories during the 6 months prior to the study. 'Any ice cream, bought outside of the supermarket or newsagent' can be used as a proxy for impulsive ice cream consumption as a whole, including the scoop trade. 'Premium ice cream, bought to eat at home' can be taken to include products such as Nature's Bounty bought in tubs for home consumption.

The figure shows significant differences between core consumers of ice cream outside the home and those of premium quality take-home ice cream. The core consumers of premium quality ice creams tend to be those of higher socio-economic status and those between the age of 25 and 34. Impulse ice cream, by contrast, is consumed most by the 15-24 age bracket and by families. Socio-economic status is a less significant variable for this type of consumption. It can be hypothesised, therefore, that NB ice cream consumers conform approximately to these two core groups of consumers.

Figure 6.6b: Ice Cream Consumption Across Socioeconomic Groups



External Environment

Market Conditions

Available information on the ready-made meringue case market is limited. The information gained here is confined to details given by the owners and observations in retail shops. No information on the UK market is published by any of the major market intelligence companies or can be found on the world wide web. This is a problem for both academic researchers and potentially those in industry wishing to

investigate the market place. To the knowledge of the owners, NB meringue products are largely unique. They know of only one other company, based in the Cotswolds, who produce a similar quality product but on a smaller scale.

The UK ice cream sector, by contrast, is a well established market with strong brands and a highly differentiated product range. The sector as a whole was estimated to be worth £1035 Million in 1999 (KeyNote 2000); as such, is it one of the largest packaged grocery markets. This is reflected by the presence of a number of large multinational companies. In fact, the ice cream sector is highly concentrated and dominated by three companies: Wall's (a subsidiary of Unilever), Mars and Nestlé. Indeed, many of the biggest selling ice cream brands in the UK are international brands. For example, Magnum and Viennetta (both produced by Wall's) are sold in 85 different countries worldwide (Mintel 2000). The annual advertising spend in 1999 was estimated at £26.2 million, of which the vast majority was spent by the big three producers.

The ice cream sector can be divided into two product subsectors: impulse & take-home. The impulse market covers products sold and consumed immediately, i.e. the scoop trade and individually wrapped products. The take-home trade largely covers ice cream sold in containers, mainly through supermarkets and other retail food shops. In the UK, the take-home sector out sells the impulse sector by approximately 2:1 (KeyNote 2000).

The ice cream sector as a whole is extremely seasonal. In fact, it is heavily dependent on warm sunny weather during the summer months. For example, a poor summer in 1998 resulted in a down turn in sales (in value terms) of approximately 18% in the take-home market and 29% in the impulse market (Mintel 2000).

The main stream industry has put in considerable effort in recent years to reduce the seasonality of the sector. This has largely revolved around the introduction of winter-themed products and marketing strategies aimed to sustain interest in home consumption. In common with many other food sectors, the ice cream market has seen strong growth in premium and super premium products in recent years. This has helped broaden the appeal of ice cream away from a product aimed at children or a

traditional after dinner dessert. The take-home premium / luxury market was estimated to be worth £112m in 1999 and has grown consistently year on year over the past decade (KeyNote 2000).

Key Note predicts that future growth in the ice cream market will be strongest in the take home sector, and that this will be concentrated in premium adult focused products (KeyNote 2000). The increasing propensity for leisure activities, particularly days out, will also contribute to overall growth in the impulse market (Mintel 2000).

Figure 6.6c presents a breakdown of the ice cream producing sector in terms of number of employees. The data, produced by Key Note, calculates, that there are 275 ice cream producers in the UK, of which 71% are microbusinesses (employing 9 or less employees) (KeyNote 2000). In contrast, the national Ice Cream Alliance estimates that there are over 1000 producers. If this figure is more accurate, it would significantly increase the number of microbusinesses producing ice cream.

Figure 6.6c: Breakdown of Ice Cream Manufacturing Sector

Employees	Number of Companies
1-9	195
10-19	40
20-49	20
50-99	5
100-199	5
200-499	5
500-999	0
1000+	0
Total	275

Source: (KeyNote 2000), figures from 1999

As shown in the Keynote data, the sector contains a small number of large businesses, who are responsible for the majority of employment and turnover in the sector. In fact, 82.2% of the companies included have a turnover of less than £1M (KeyNote 2000).

The majority of these small ice cream producers, such as NB, tend to produce niche products and concentrate on specific geographical areas. This limits the degree of direct competition between this type of business. The origins of these businesses are typically either from Italian immigrants or farmers who have diversified. Such producers tend to be limited in terms of their development potential. Those that have expanded to national markets tend to have done so through partnership with another more established branded company, who provide the necessary financial muscle required in developing an effective marketing and distribution system (KeyNote, 2000). Mackie's and Rocombe are two small manufacturers that have grown from a regional base and now have a national supermarket presence (Mintel 2000). Both produce high quality, 'farm house' products. In fact, Rocombe has recently been purchased by a multinational food conglomerate.

There are two principal trade associations for ice cream producers: The Ice Cream Alliance and The Ice Cream Federation. The Alliance is focused towards providing information and marketing services to its members, whereas the Federation is more concerned with technical issues and lobbying on behalf of the industry. Nature's Bounty is not a member of either organisation, or in fact of any professional organisation.

Business Perceptions

The experience of NB in the ice cream sector reflects well the general situation outlined above. Demand for NB products is very seasonal in the case of ice cream and more consistent for meringues. Sales peak for ice cream during the summer months and again in December. Overall, Christmas sales are double the winter average but only one quarter of the summer peak. Meringues also peak during the summer months and Christmas, although this is much less pronounced than for ice cream. The causes of these peaks in demand for NB products are largely self evident. They are mainly due to the fact that both ice cream and meringues are 'treat' foods associated with warm weather and social occasions. Demand for both products is also aided by the influx of tourists into the regional market.

In terms of ice cream products, the owners regard themselves as in direct competition with other similar businesses. They also acknowledge general competition from

multinationals who compete within their non-specialist markets (e.g. tourist attractions, pubs / restaurants). In particular, they feel that NB has a disadvantage because they are unable to provide a similar level of marketing support as the large companies. This has been combated to a certain degree by producing their own marketing materials, such as flags and signs. However, this however is an expensive option for a business of NB's size. They see very little direct competition in the quality meringue market, aside from the Cotswold producer mentioned above.

Government / Legislation

In general, both Maude and Jack Smith are unhappy with the influence of government on their business. In particular, they feel that the government is imposing more and more responsibilities on small businesses that used to be government duties. Examples given for this include PAYE forms and Stake Holder Pensions. It is felt that governments are getting businesses to do more and more as it is 'free labour' at management levels. They believe that the government recognises that small business managers will work 15 hours a day if necessary, and takes advantage of this.

Another issue that the business is unhappy with is labelling regulations. These change 'frequently', particularly concerning ingredient panels. Even though businesses are given a period of grace when they are allowed to use up existing stocks of labels, they do have to pay for new printing plates.

The fuel crisis has hit the business 'hard' due to using their own distribution and the distance from their markets. In fact, the costs of distributing their products have long been a source of problem for the business. Maude estimates that they have 'lost thousands on distribution' over the years.

The owners believe that costs in general are currently too great for SMEs, particularly those they pay through taxes. In fact, they feel that the burden placed on their business by government (i.e. through taxes and legislation) is at an all time high.

6.6c: Part Two: Dynamics of Change and Innovation

Growth

Nature's Bounty developed rapidly during the first few years after its establishment. Growth has slowed in recent years. The business was originally founded on the owner's farm in 1984. Since, its location has moved twice due to reaching production capacity, once in 1987 and again in 1994. Meringues were first produced in 1991.

Maude considers the growth in the business to be market-led so far. Demand for their products is still greater than supply. In particular, their current supply of meringue cases is 'a long way off peak demand'. The growth process has also been precipitated by the need to fill capacity after each expansion, in order to reduce overheads.

The owners feel that they have suffered from inconsistent seasonal markets. In particular, revenues were seriously affected by poor tourist seasons in 1999 and 2000. Perhaps consequently, the business 'never turns down custom as [they] never know when you will lose others'.

The business has now reached a size where it receives certain scale advantages. For instance, its ingredients are now delivered free of charge. The meringue packaging is also manufactured especially for them, giving them a clear distinction from others in the market. The owners admit, however, that they are at a difficult size now. They have in many ways outgrown their regional market and face a challenge in terms of the next stage of development (see below).

They have increasingly found that their 'farmhouse' image can serve as a hindrance at times due to the perception that they would be unable to handle large contracts. They have had to overcome this, but have built up a good reputation for reliability over the years.

Innovation Patterns

Product Development

Product development is very important to the business, but only in terms of introducing new flavours to the ice cream range. This is regarded as a necessary activity for NB, in order to keep up with consumer trends and retain interest among customers.

However, they feel that this is a fairly straightforward process for them. The biggest constraint is time rather than information on consumer preferences etc. The business has never sought external assistance in product development. New flavours are introduced at least once a year (see innovations below).

Packaging Development

The business has introduced new container sizes for its ice cream products on a consistent basis since the business was founded. They began operations with ½ litre containers and then introduced 1 litre, 2 litre, 4 litre and finally single portion tubs. Meringue packaging has also changed. New sizes and a new distinctive style have been introduced (see innovations below). Despite this, Maude feels that the style of packaging on the whole is not important for the business. They trade far more on their company name and reputation. An exception to this has been the introduction of new meringue packaging which resulted in a significant upturn in sales.

Packaging for the ice cream products is fairly straightforward for the business to obtain as it is fairly standardised across the market. Finding appropriate packaging for the meringue products has been harder (see innovations below).

Process Development

Maude asserts that the business has no problems with wastage or general inefficiencies. Therefore, they have rarely attempted to reduce costs. Examples of when they have include purchasing an automatic labeller (see innovations below) and switching their energy supply to Economy 7.

The biggest constraint to process development is viewed as the availability of finance. There are adequate suppliers and outside experts available. If they do need assistance in process development, they are most likely to go direct to suppliers. Their only experience with outside experts was unsatisfactory (see below: new meringue packaging).

Marketing Strategies

The business targets its products at the premium end of their respective markets. This is the same for both the wholesale and direct customers. This strategy has stayed constant since they began although, as outlined above, the market has changed around them.

New business is achieved mainly through attending trade fairs or canvassing (largely by phone). The business never approaches other businesses without a prior appointment (unlike some of its competitors). The business does not attend farmers markets as they perceive that demand for their products would be low outside summer months and things are too busy during the summer. NB has no direct internet presence (ie a website). The reason given for this is that the products are not suitable for mail order (ice cream needs to be frozen, meringues are very fragile).

Due to the nature of its products and the nature of its supply chain, the business is presented with problems when trying to begin supplying new geographical areas. Essentially, due to the business delivering its own product, it must find enough orders to make the journey economically feasible. It had this problem in the Bristol area during the course of the case study. The alternative is to find a wholesaler in the area that will handle it for them. This has also been difficult as many wholesalers do not like handling frozen product. Additionally, there is also competition from other 'farmhouse' producers in the Bristol region. The business was once given a list of wholesalers by an agency (they are unable to remember which one) in order to help overcome this problem. Unfortunately the list was not very accurate. Many businesses listed were also manufacturers. Meringues have less of a problem in this area as they are easier to handle and there is less competition in their market.

Marketing direct to consumers is done through the supply of flags and other materials as well as the attendance of fairs etc. The business also supplies some customers with customised display cabinets (freezers) which advertise Nature's Bounty.

New Suppliers

Maude Smith feels that the business has no problems with their ingredient suppliers. Hence they do not change suppliers and have rarely considered it. The most important characteristic for the business in choosing suppliers is the price of the products related to the quality. Moreover, NB feels that they would have no problems identifying new suppliers if the need arose. Hence, they see no eventuality where they would need to seek external assistance on this matter.

Innovations

1: Move to New Factory

In 1994, NB moved for the second time to a larger factory. The reason for this was that they needed more space to cope with the growth in demand for their products. This innovation was aided by a 25% grant from Pembrokeshire County Council towards new equipment. A DTI development loan scheme was used to finance the main expansion. Collateral was needed for this loan and 'normal' interest rates payable.

The move resulted in a decrease in profitability for the business as overheads increased significantly. This was gradually offset by a push to increase custom.

2: New Meringue Packaging

The company introduced new innovative packaging for its meringue products during the course of the case study period. The objective was to have the products packaged in a way that would enhance the quality image of the products. They initially approached the Design Council of Wales for help in identifying potential suppliers. The Council was unable to help find anyone suitable. Eventually they found a supplier themselves who custom produce the packaging. Maude recognises that the business benefited from being large enough to have packaging custom made. The final packaging for the product was made with a transparent material which allows the

product to be seen fully. It is estimated that sales rose by between 15 and 20% as a direct result of the new packaging. In hindsight, however, Maude believes it would have been easier if they had found the packaging first and developed the product around it.

3: New Product Development

Developing and introducing new flavours to the ice cream range is a regular process for NB. At least one variety is introduced a year. The main purpose of this is to retain interest from customers (some of which have been taking the company's products since NB was established). All trial work is done on site. There is no perceived need to go to outside agencies such as the Food Centre Wales (30km away).

New flavours are developed depending on 'what [they] think will sell'. For example, they know through experience that products with chocolate in tend to be successful. There is also a certain degree of observing the market place, seeing which products are doing well. Customers sometime request new flavours. This happens increasingly frequently (three times during 1999) but often only on a one-off basis.

4: Third Expansion [Planned]

By the end of the case study period, the business was deemed to be at a critical size. The capacity of the current factory had been reached, forcing the owners to decide whether they should relocate again and push for larger (i.e. national) markets or remain at their current size. It is described by Maude as a 'make or break' period.

The main stimulus for the expansion is the growth in demand for their meringue products. If they expand / relocate, they envisage increasing production by 400-500%. The new meringue equipment which would be purchased is also likely to be more efficient in both time and money. They already have interest from some large customers for product if the production capacity is increased.

The main factors being taken into consideration are the expense and risk involved with expansion and the availability of appropriate sites. This latter factor is key as the staff would be unwilling to travel far to work. In addition, they must take into

consideration the additional pressure on management, in particular paperwork and time pressures. Delegating responsibilities to staff is also a major issue.

They are searching for grant aid to help fund the process. The owners have stated that they will not expand unless they find funding. An alternative option is to renovate buildings at the owner's home to be used for storage. This would in turn free up space at the existing site.

5: Automatic Labeller

The business invested in an automated labelling machine. The primary objective of this innovation was to reduce labour costs and time. No assistance outside of the business was received for this process.

6: Membership of a TEC Marketing Group

NB joined a marketing group run by the local Training and Enterprise Council. This mainly involved receiving 21 days of subsidised labour from a salesman to help win new custom for the business. Overall, however, this was an unsatisfactory experience for the business as, despite this investment, the salesman only won 2 new customers. Moreover, of these two customers, one ordered only once and the other only twice. According to Maude, this exercise showed that the 'hard sell' does not work in their line of business.

6.6d: Part Three: Managerial Characteristics

Managerial responsibilities

Both partners are active in the day to day running of Nature's Bounty. There is a clear division of responsibilities for small tasks. Maude is in charge of advertising, ordering equipment and some packaging. Jack takes responsibility for ordering cardboard, maintaining freezers and organising attendance at shows. However, the rationale behind these roles is unclear. Major decisions are made jointly between the couple.

Strategic decisions tend to be left to the quieter months of the year (i.e. between Christmas and Easter), when the business in general is traditionally reviewed. The owners have found that as the business has grown they spend more time running it

and less time developing it. They regard the business as being at a bit of an impasse in terms of management roles. If they were to expand anymore they would need to employ people in positions of responsibility. People with the skills to take this on are expensive and difficult to find in the local area. In fact, the business has a long standing problem with finding suitable staff from the surrounding workforce. This is escalated by the seasonality of their staffing demands.

Managerial time use is split between three main activities: production management, dealing with supply chain partners and paperwork. With the exception of managing the production line, the largest proportion of managerial time is devoted to dealing with customers. On average, about 3 hours per day is spent on telesales with existing customers, largely procuring repeat orders. In addition, during certain times of the year, as much as 2 hours per day is spent soliciting new customers. The peak period for this is February / March when production is low and the summer season imminent. No more than 90 minutes per week is spent dealing with suppliers. This is largely because relationships with suppliers are fixed and therefore need little 'negotiation'. Moreover, most ingredients other than milk and eggs are relatively low volume / long life and can therefore be bought in bulk. Approximately 15 hours per week plus an extra 4 – 5 hours at the weekend (i.e. out of work hours) are spent on paperwork. This is seen as a major problem for the business as much of it is regarded as un-necessary and imposed from outside (see above).

Personal Histories

Both Jack and Maude Smith are from the local area. They farmed together for many years before diversifying into ice cream production. The main stimulus for the founding of Nature's Bounty was the introduction of Milk Quotas which came into effect in 1984, the same year the business was founded. The couple ceased farming when NB moved off farm. They still own and live on the original farm, but it is managed by a third party.

Maude states that she enjoys the element of risk associated with the business. She views it as a challenge to 'beat the risk'. In contrast, however, a large concern for the owners is not running up too much debt whilst developing the business. In this respect they are keen to exploit any opportunities for financial support.

Perception of support services

NB consider that the Welsh Development Agency and the National Assembly for Wales are too interested in large businesses and large expansions. Efforts to promote gradual growth in small businesses are subsequently ignored. Maude and Jack believe that small producers are more likely to require little help more often. They believe that the priorities of these kind of organisations are generally too short-termist. Moreover, the people who work for them tend to lack experience at the ground level.

They also feel that the paperwork required to get small grants is also too great. Often it is not worth the time and effort that needs to be invested by them to make an application. For example, NB investigated getting a council grant for new computer equipment. The application procedure was too complicated however, involving the submission of a detailed business plan. They regard time as too important for them to afford to make small grant applications.

NB's experience with business consultants has been generally good. They were particularly helpful during the start-up phase of the business. However, they feel that the general emphasis on consultancies by support agencies is misguided. The availability of assistance in terms of training, product development and general consultation is regarded as 'fine' but there is 'nothing available if you know already what you are doing'. They feel there are better means to support businesses such as themselves. For example, they would like a better capital loans system. They find banks too commercial and therefore insensitive to their needs.

The business has found assistance received from the Economic Development Unit of Pembrokeshire County Council particularly helpful. Among other things the Council gave grants totalling in the region of £70 - 80K and subsidised the presence of NB at local trade fairs. This was particularly useful at earlier stages in the business. In fact, Jack says they are probably too large for these fairs now and only attend them solely to 'return the favour'.

Maude and Jack perceive that most existing support is aimed at businesses either smaller or larger than themselves. They find that they are currently at an awkward size in terms of business support. This criticism is aimed at the WDA in particular.

Moreover, in their view, the WDA seems to be more careful with giving money to small firms than to large.

6.7 Case Study VI: Oceanview Cheese

6.7a Introduction

Oceanview Cheese is a small farm-based producer of organic cheese situated in a coastal hamlet in Ceredigion. The business produces a small range of gouda-type cheeses produced to a unique recipe developed by the owners. Three varieties are produced: Mild, Mature and Garlic. The cheese is produced using organic milk from the owner's own herd of cows.

Business supplies cheese direct to delicatessens and specialist cheese shops via courier and also through small number of specialist wholesale distributors. Custom is largely local or in regional urban centres (i.e. South Wales). Demand also exists from specialist retailers and mail order customers further afield in the UK.

The farm and business are owned by Peter and Alice Smith. Peter essentially runs the farm and Alice is responsible for manufacturing cheese, although there is a limited amount of interchange between the two roles. The owners have a 'non-aggressive' attitude to the business, with lifestyle and altruistic concerns seemingly paramount. The business also employs two part-time workers.

All interviews were conducted with Alice, either in the farm kitchen or whilst she was making cheese.

6.7b Part One: Activities and Context

Business Profile

Oceanview Cheese is a relatively small producer of cheese, using approximately 2000 litres of milk each week. Turnover is about 40K per annum. The business was formed

in 1988 when the couple moved to the area. The production process is completely by hand, using traditional methods. OC's recipe is based on high quality gouda varieties produced in the Netherlands. The final product is therefore unique and strongly differentiated from the standard gouda products found in the UK. The cheeses are produced in traditional wheels with a natural rind, and predominantly sold this way. Some product is also sold in pre-cut portions. The cutting of the cheese is also by hand on farm, despite the business having machinery to do this. It is thought that the quality of the cut is better when done by hand.

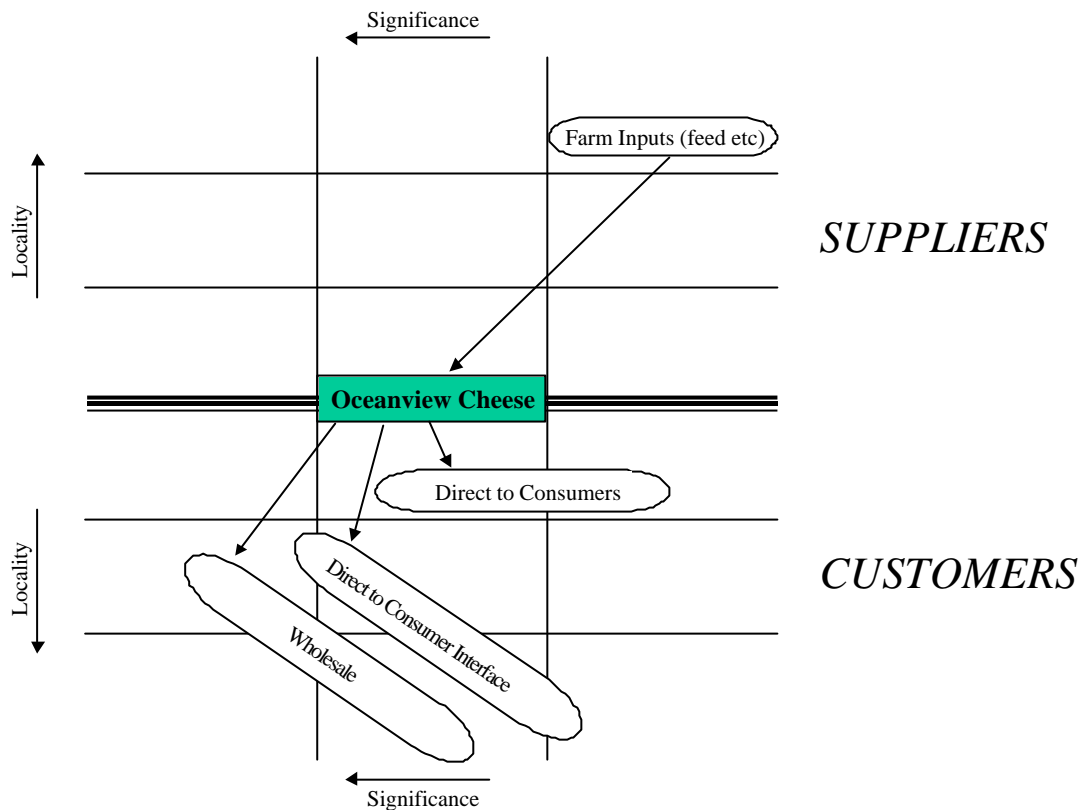
The milk used for production is sourced solely from the owner's herd of Friesian, Brown Swiss and MRI (a Dutch breed) cows. The production of cheese, in terms of timing and output, is dependent to a degree on the patterns of milk output from this herd. Excess milk (approximately 50% of all production) is sold to Rachel's Dairy, a major producer of organic dairy products based approximately 60 miles away, through a contract with the Axis milk cooperative (now First Milk).

The Oceanview Cheese range all hold Soil Association organic accreditation as well as being vegetarian and GMO free. These three qualities are all promoted in the limited promotional material that the business produces and on product labels. The cheeses have won a number of awards over the years including a first at the Royal Welsh Show, a second at the national Organic Food Awards and two seconds at the British Cheese Awards.

OC does not add any 'organic bonus' (i.e. premium) to the price of their cheeses as they state that they want to make the products available to as many people as possible. In general, the price has been kept constant (£4.99 / lb) although the wholesale price is cheaper. Alice will also charge less to those that collect and pay in cash. In addition, she says that she will sometimes charge more to tourists who she finds rude (those who do not leave the car, for example).

Supply Chain Characteristics

Figure 6.7a: The Oceanview Cheese Supply Chain



As the diagram illustrates, the business employs characteristically short supply chains from farm to consumer. There are few or no suppliers, aside from providers of farm inputs.

Suppliers

The only other ingredients used in the OC range are salt, vegetarian rennet and garlic. Salt and rennet are bought through a specialist non-local supplier. Garlic is purchased from a local producer.

Consumer Interface

The majority of cheese produced reaches consumers via a small number of specialist wholesalers. The remainder of the product goes via courier or is sold / collected at the farm gate by local customers and tourists. Wholesale customers include Neil's Yard (based in London), Cegin Cymru and Blas ar bywd (based in North Wales).

A major wholesale customer for OC over the years has been Welsh Organic Foods, a relatively large national supplier of organic cheese. This custom was lost however as the company expanded its own range of cheeses. At the beginning of the case study period the business took approximately 15 cheeses a week, but this was reduced to 1 or 2 to supplement their range.

The principal form of consumer interfaces are either delicatessens, specialist cheese shops, wholefood shops or farm shops. In addition, the cheese is also taken by hotels and restaurants. In general, there is quite a large turnover among consumer interfaces as many like to rotate the specialist cheeses that they stock.

In addition to the above outlets, Oceanview supplies a couple of regional box schemes which deliver to consumers in the main urban centres of South Wales (i.e. Cardiff - Newport area).

OC Consumer Profile

Alice recognises two groups among her core consumers; organic eaters and cheese lovers. Cheese lovers are the majority group. In fact, Alice believes that only a small proportion of their customers purchase the cheese because of its organic qualities. With the current growth in consumption of organic foods however, it can be expected that this proportion will grow.

External Environment

Market Conditions

See section 6.2, Meadow Cheese for summary of UK cheese market.

Business Perceptions

In many ways, the market situation detailed in section 6.2 is of only slight concern to OC. This is largely because of their non-aggressive, non-expansionist approach to business. Alice recognises that there is strong latent demand for products like her own in the market, but she is not interested in pursuing it as it means compromising her business ethics and lifestyle concerns. Despite the business' ambivalence to the market, the fortunes of the sector do have a direct influence on OC's operations. For

example, growth in the speciality sector has led to the formation of Caws which has aided OC significantly.

In addition, Oceanview cheese has faced increasing competition from larger companies in the region who have gradually moved into both farmhouse style and organic cheeses in recent years. Abergavenny Fine Foods is an example of a company who had a direct impact on regional demand for Oceanview Cheese by both cutting down on its custom with OC and replacing it with its own range of organic cheeses.

The specialist nature of the product dictates a seasonality of demand consistent with 'gift' and traditional food products. Two peaks in demand are experienced: the tourist season and Christmas. Christmas demand is highest with sales more than 50% higher than normal. January and February are 'dead' by comparison. During the summer, demand from tourists compensates for a general decrease in custom from the 'organic' trade (i.e. those who regularly purchase the product due to it being organic). This is thought by Alice to be mainly due to these customers eating more vegetables.

Government / Legislation

The major government / legislative threat in recent years has been the threat to ban the production of milk using unpasteurised milk. It is believed that this outcome would jeopardise not only the existence of the majority of UK speciality cheeses but also the businesses that produce them (of which there are estimated to be around 200). The threat derives from a perceived health risk of contracting food borne diseases from cheese made with raw milk. Although the threat of a ban was greater during 1998, it is still a distinct possibility which is heightened by recent food scares, and the government's toughening stance towards them. In terms of the general legislative burden, the owners feel that current regulations on the business are too restrictive. Alice gives the example of when they were told they had to put a new floor on the store room. This created a lot of problems for the business as they had nowhere to store the cheese while the floor was being done.

6.7c: Part Two: Dynamics of Change and Innovation

Growth

The business has experienced steady but slow growth since it was established in 1988. Turnover was approximately 14K in the first year, rising to round 40K in the 2000. As mentioned above, the main influence on growth in the business has been the personal desire of the owners. In addition to this there have been two events which have had a significant impact on output: Alice's pregnancy in 1991, during which time output was reduced dramatically; and the building of a new cheese room after which output had to grow in order to reduce overheads (see innovations below). Growth in the business reached a plateau once it was decided to put the farm and business on the market (1999).

Innovation Patterns

Oceanview Cheese has traditionally been a non-innovative business, even in the loose definition of the concept. Changes that have occurred are usually small and primarily concerned with either lifestyle values or legislation. The sources of innovations have been largely from Alice herself, the result of practical experience. Some have also occurred through observing other cheese producer practices.

Product Development

Product development has occurred only twice in the business: at the start up, when the cheese that produces both the mild and mature varieties was developed, and later when a garlic variety was developed to aid a friend (see innovations below). Oceanview Cheese and its garlic variant are unique cheeses developed by Alice and based on high quality gouda recipes.

Process Development

Small changes in the process of producing cheese have been the most active source of innovations in OC. Changes have occurred periodically over the life of the business, primarily for time saving / lifestyle reasons. Among these have been the purchasing of trolleys, taps and pumps and the switching to Economy 7 electricity.

Marketing Strategies

The business has no marketing strategy as such. On the whole, the business has relied on the growth in reputation of its products through existing customers. The products have not been aimed at specific consumers, although its custom tends to be from easily definable groups (e.g. organic consumers, fine food consumers and tourists).

The main marketing tool traditionally used by OC has been to attend trade shows. This has often been done through Caws Cymru. The business also approaches some selected businesses, particularly when orders go down. This activity increased during the case study period as the business lost customers who had either ceased trading or started taking other products (particularly imported cheese). Potential business has been identified through the Organic Food Awards, lists produced by the WDA and queries via Caws Cymru.

Packaging Development

Oceanview cheese is invariably obtained by the final purchaser either loose from a delicatessen counter or as part of a meal. For this reason packaging is viewed as relatively unimportant, although it obviously plays a marketing role among trade members. Excessive packaging is also perceived as potentially detracting from the 'farmhouse' quality of the product.

New Suppliers

The only ingredients purchased from outside the business are salt and garlic (which is purchased from a local grower). Changing suppliers is not therefore an issue for the business.

Innovations

1: Introduction of Oceanview Garlic Cheese

This variety of Oceanview Cheese was introduced prior to the period of the case study. It was developed as a consequence of a friend who was on a low salt diet. As a favour, Alice investigated making a cheese without any salt content. Garlic was used due to its strong preservative qualities. The product proved successful and has won prizes at fine food shows. It is only made once a month as the process requires extra

work and stains equipment due to the smell. The garlic used is organic and sourced locally.

2: New Cheese Room

A new room for making cheese was created with the help of a grant from the local county council (Ceridigion CC). OC received a grant of 33% of the total cost through a scheme aimed at promoting organic production. They took advantage of this scheme after learning about it by a leaflet that came through the post. The main benefits of the new room were to make the process easier (more efficient in terms of time, effort and money) and to increase the production capacity. Production consequently increased by approximately 3 tonnes a year (equivalent to an increase in turnover of £15K per annum). The new cheese room also helped meet legislation requirements.

3: ADAS advisor

The business took advantage of a free consultation offer from ADAS that involved an advisory visit from an ADAS officer. They found this to be of only limited value however. The only useful advice given was some suggestions on improving HACCP.

4: Heater on Cheese Vat

During visits through Caws to other cheese producers, Alice got the idea of using a heater normally used for heating swimming pools to heat the cheese vat. The effect of this was to make the whole process more efficient in terms of both time and cost. The previous method of heating the vat involved using hot water taken from the mains tank. The biggest benefit to Alice was that it saved a lot of effort.

5: Sale of the business

During the early part of the case study period it was decided by the owners to sell both the farm and the business. The main factors behind this decision was a desire to get out of farming and try something new. Alice had plans to train as a homeopath. The couple were also keen to move to a location not so remote.

The business and farm were advertised as one through specialist agencies (including internet based ones). It took almost one year to find a suitable purchaser. The main problem was that the farm lacks a real 'farmhouse', i.e. the house is not considered

attractive. This is thought to have put off a number of buyers who were described by Alice as ‘yuppies’.

The farm and business were eventually sold to a couple from the Peak District. They have no experience of cheese making but the husband is a herdsman. The process of negotiation with this couple lasted 6 months.

6.7d: Part Three: Managerial Characteristics

Managerial Responsibilities

Although Alice and Peter are officially partners in the business, Alice is in charge of the vast majority of day to day running of the business. Peter works full time on the farm. Consequently, all non-major decisions in the business are taken by Alice. Consultation only occurs on issues concerning money or major change.

Personal Histories

Neither Alice nor Peter are of local origin. In fact, Alice is Dutch and Peter is Irish. They met in Wales on an alternative lifestyle retreat. Both partners had cheese making experience prior to setting up the business: Peter in Ireland, Alice in Holland.

They decided to start the business to supplement farm income and to bring an attractive lifestyle to Alice. In particular she enjoys the personal contact elements and the overall small business ethic involved. She stated that she does not like ‘impersonal’ business such as dealing with supermarkets. The biggest drawback to the business for her is the time and energy required to keep it going.

The couple’s non-aggressive business nature is also illustrated by the fact that Alice helped a local farming couple diversify into producing Ewe’s milk cheese in 1998. This business, to whom she gave advice and contacts, has since become established in the market.

Perception of Support Services

In general, Alice feels that supporting institutions do too much talking and not enough action. She feels that they seem to be content with being seen to canvass opinion

without actually doing anything about it. She would like to see easier processes for obtaining grants put in place. She feels that many existing grants are too difficult to obtain. The time periods and paperwork involved do not warrant the rewards. In particular, Alice found that producing business plans was particularly cumbersome. The training courses available are usually good but often too expensive. She quotes Horeb as an example of this.

Alice also highlighted the discrepancy among county council authorities as to what they offer small food businesses. She gave the example of some grants being available in Ceredigion that are not available in Carmarthenshire.

In general, she would like to see more promotion of Welsh products by supporting organisations but she regards colleagues and others in her sector as more useful to the business than professional advisors.

OC is a member of the Cheese Association of Wales, Caws. The organisation, which was set up by the WDA, is aimed at fostering cooperation / coordination among small cheese producers in Wales. Principal activities are connected with marketing. In particular, the group organises attendance at fairs. According to Alice, small producers in Wales act as colleagues not competitors through this organisation. She finds the organisation very useful as 'producers are usually too busy for these types of activities'. Caws also acts as a good source of communication and new ideas. The group meets approximately 3 times a year, often at each other's businesses. These meetings often include a tour round the business.

6.8 Conclusions

Between them, the six case studies suggest a broad diversity among small food businesses. Despite strong similarities, not least in terms of business size, location and artisanal emphasis, each of the firms show strong divergences in operation, entrepreneurial outlook and interactions with their environment. Therefore, what the case studies communicate primarily is the context laden nature of microbusiness activity. It is evident from these six businesses alone that understanding a food microbusiness requires a broad comprehension of the activities and context of the firm and, importantly, the characteristics of the entrepreneur(s).

Notwithstanding this, however, a number of broad conclusions can be drawn from the case study inquiry:

- Firm growth appears non linear and dependent on a broad range of factors, both commercial and personal.
- Innovations exist in many forms but are relatively frequent.
- The aims and objectives of the entrepreneur(s) are very important in dictating the operations and potential of the firms.
- Supply chains, product characteristics and market conditions are also significant influences on micro food business operations.
- Although highly diverse, the case studies exhibited a number of similarities that can be explored further, in conjunction with the survey findings.

The next chapter, therefore, explores the key findings that can be drawn from the case studies businesses and further co-analysed with the survey data through the focus of the empirical schema.

Chapter 7: CoAnalysis and Discussion

7.1 Introduction

This discussion attempts to draw together the differing perspectives generated through both the survey and each of the six case studies and relate them back to the literature review and the original objectives of the research. Through co-analysing the two elements of data generation, a clearer picture can be attained of the issues confronting micro business owners and their responses to these issues. Both the case studies and survey analysis illustrate the diverse nature of food microbusinesses. By relating the rich experience gained from the case studies to the larger but less sophisticated survey data, a unique light is shed on the complex dynamics of food micro businesses.

As detailed in the methodology, no claim can be made as to the representativeness of the case study businesses vis à vis the population of Welsh food businesses. Tallying the number of case study businesses that meet certain criteria is therefore a largely redundant exercise. What they do do, however, is provide us with contextualised instances in which phenomena recognised in the survey occur. The purposeful selection of a broad range of micro businesses has led to data on a diverse range of issues. The broad set of characteristics recognised in the survey confirm this as an appropriate strategy for elucidating general issues associated with the sector.

This chapter, therefore, sets out the findings that can be drawn from the analysis of both sets of data. It is structured to cover seven key aspects of microfirm operation drawn from this study: Entrepreneurial characteristics, Business relationships, Operational aspects, Innovation characteristics, Growth, Constraining factors and 'Government'.

7.2 Entrepreneurial Characteristics

As detailed in the survey chapter, the respondent entrepreneurs from the survey were typically middle-aged and male. Over half were educated to at least degree level, with a similar proportion originating from outside the region. The young age of most surveyed businesses, compared with the middle-age status of most entrepreneurs, suggests that a large proportion of businesses were founded after the entrepreneur(s) had gained significant experience in other jobs. Approximately 2/3rds had had previous food related experience, while less than half had been involved in previous small business ventures. Only 13 businesses had no entrepreneurs with either previous food or small business experience.

The proportion of degree level entrepreneurs can be compared to a multi sectoral study of rural business start ups, reported by Townroe & Mallalieu (1993), which found that only 28% had degrees and a further 24% had professional qualifications. Our survey, however, found no correlation between qualifications and business success (either 'current growth' or size).

Interestingly, nearly 3/4s of all female respondent entrepreneurs owned businesses in the smallest size category given (i.e. with a turnover of less than £50 000 per annum). This suggests a resistance to growth among female entrepreneurs, although this was not unanimously reflected by female entrepreneurs in the case studies. Similarly, female respondent entrepreneurs were significantly more likely to rate lifestyle as very important (63% versus 38%).

The large proportion of respondents to the survey that were of non-regional origin (55%) was mirrored in a similar survey of food producers from the South West of England which found 57% of respondents were from outside the region (Ilbery & Kneafsey 2000). Commins & McDonagh (1998) have noted a similar trend among agrifood SMEs in rural Ireland. This aspect was also present among the case study businesses. Only two businesses contain no entrepreneurs of non-local origin. Also all three businesses without a partner of local origin moved to the area for 'lifestyle' reasons. The survey corroborates this to a certain degree by showing that 53% of non-

local respondents felt 'family / lifestyle commitments' were a significant influence on their business compared with only 38% of local respondents.

Despite a low incidence of innovations to meet lifestyle objectives, the importance of lifestyle factors came out in both the survey and particularly the case studies. Interestingly, lifestyle issues were considered most important by the three farm-based case study businesses. This suggests a blurring of the boundary between business and home-life evident when they are located in the same place. Indeed, in each of these three businesses, the domestic kitchen also doubled up as 'office space'.

Meadow Cheese, however, illustrated that a high priority given to family / lifestyle factors does not necessarily dictate that growth is of low priority. In this case the entrepreneur was able to significantly expand the operations of the business while retaining her core values, which included her desired lifestyle as well as environmental, social and (food) cultural ideals. She even managed to retain some of the production aspects that she particularly enjoyed, while passing others to employees so she could concentrate more on management / strategy.

In fact, all case study respondents illustrated their attraction to certain wider aspects of the way of life associated with micro business management. A clear desire for 'independence', for example, existed among all the entrepreneurs interviewed. Two important elements of this appear to be the desire to operate according to their own set of values and a desire to be in charge of their own destiny. In fact, these two factors were almost consistent among the interviewees and evident in much discussion. A dissatisfaction with the way things are conventionally done was also evident, particularly for the organic food producing businesses.

The priority for independence also seems to contribute to scepticism towards commercial bank loans, which were seen as tying them into dependence on banks. In the case of Yew Tree Organics, desire for autonomy extended to having virtually no supply chain partners, a distrust of producer organisations (such as cooperatives) and a resistance to bank loans. The case studies suggest that decisions to found rural food businesses are often tied up in personal circumstance, even if 'rational' factors are also present. For example, in the case of Harvest Bakery, the personal reason that both

entrepreneurs were unhappy in their previous career paths combined with the fact that the local craft baker had recently closed down. Figure 7.2a illustrates the wide range of both economic and non-economic contributory start-up factors gained from just the six case studies.

Figure 7.2a: Contributing Factors to Business Start-up Expressed by the Case Study Entrepreneurs

Non-Economic	Economic
Dissatisfaction with current job	Utilise farm resources
Interest in food / food culture	Source of income
Attracted to lifestyle	Milk quotas
Desire for control	Employment of family members
Desire for independence	
Ethical reasons	

These observations back up the previous findings detailed in the literature review (see section 3.3c) that identify the importance of marginality and desires for independence, as well as economic factors, in influencing the decisions of nascent entrepreneurs to go into business. These findings were also reflected in the survey, which demonstrated that, although sound business reasons prevailed among most businesses, the desire for control / challenge was cited by approximately 50% of respondents as a significant factor.

The survey indicated that businesses with sole ownership are far less likely to grow than partnership-led businesses. Indeed, 76% of all individually owned businesses were in the two lowest turnover brackets (i.e. less than 100K) compared with 34% of partnership-led businesses. The experiences gained from the case studies seem to suggest that the ability to share responsibilities and risk through partnership greatly eases the business's ability to cope with growth. This is enhanced by the dearth of suitable employees with which positions of responsibility can be entrusted. The two largest case study businesses (HB & NB) both have two active partners operating in evolved positions of responsibility. In operational terms at least, the other case studies tended to have one active entrepreneur and one 'sleeping partner', who was consulted

strategically but did not play an active role in the day to day running of the business. It is clear that the presence of a non-active partner may play a supporting role, ensuring that they are not 'in it alone'. Again, this is a clear merging of the domain of family and business. Indeed, consultation between partners often happens during normal family routines, such as during meal times and 'pillow talk'.

A production-led approach was evident in both the case studies and the survey results. This can also be seen from evidence elsewhere in this study, to reflect both the attitudes of typical small business entrepreneurs and the characteristics of their products. Forsman (2000) notes similar characteristics among small-scale rural food producers in Finland, and argues that such outlooks can be detrimental, particularly as strategic marketing objectives tend to be neglected as a consequence.

7.3 Business Relationships

The empirical data collated for this study show that, although the supply chains in which Welsh food micro firms operate are highly diverse, a number of generalisations can be made. Small business owners tend to concentrate on the value of personal relationships between business partners or customers. Even if face-to-face contact is not readily achievable, telephone calls are often used. The use of personal relationships can be seen to be an important business tool for small firms. This type of interaction is generally preferred to more codified forms of exchange such as contracts and marketing literature. Figure 7.3a lists the various uses of personal relationships shown by the case study businesses.

Figure 7.3a: Objectives of Personalised Relationships Among Case Study Businesses

- Communication of complex product qualities
- Customer feedback
- Quality control
- General marketing
- Negotiations with suppliers
- Control over terms of exchange

Respondents to the survey illustrated this by rating 'personal selling through telephone or visiting customers' as the most used marketing method. Over 4/5ths of businesses stated that their 'personal contact with customers' was an important factor in differentiating their products from competitors.

In fact, formalised relationships across the sector are rare. Less than 1 in 5 of the surveyed businesses hold contracts with any suppliers or customers. Overall, this can be seen to bring the flexibility and 'thickness' to business relationships that was noted in the literature review as constituting one of the main competitive tools employed by small firms.

The supply chains in which rural food micro businesses operate can be characterised as being relatively short, both physically, in terms of the distances travelled 'from farm to fork', and in terms of the number of institutions / individuals involved in the process. Although there are obviously exceptions to this characterisation, this is an important point of contrast between many of the supply chains observed in Wales and more conventional oriented supply chains. Structurally, the empirical data reveal that small firms tend to have a small number of suppliers but a wide spectrum of customers, both in terms of business type and number of businesses.

Evidence from the case studies suggests that a wide spectrum of customers is, at least in part, a strategy to avoid over reliance on individual customers and supply chain types. For example, a number of businesses stated that supermarkets and tourist markets could not be relied upon for long-term, consistent trade. Instead, a broad range of loyal customers was perceived as a more robust strategy.

If the evidence from the case studies is indicative, then it is likely that some small businesses actively pursue a diverse range of customers as a risk reducing strategy. Certainly, the survey data showed that many of the businesses use a broad range of supply channels and rarely rely on a small number of customers. Additionally, small businesses seem to target customers on geographical bases rather than specific business chain types. Whilst the strong logic behind this is clearly the benefit of geographically close custom and an element of taking business where it is available,

there is also a distinct risk reducing advantage. The case studies also expressed strategies for targeting specific consumer types rather than supply chain types. As niche customers are likely to consume products through a variety of consumer interfaces, then niche product producing businesses should also supply through the same variety of consumer interfaces.

As referred to above, the desire not to rely on tourists as a major source of custom was common across the case study cases. This is perhaps understandable, as tourist seasons have been volatile in recent years, particularly in rural areas such as Wales. This is also reflected in the survey, with just over 80% of respondents disagreeing with the statement 'we sell a large proportion of our products to tourists'.

In contrast to the broad usage of downstream customers, both the survey and case studies highlight the narrow supply base employed by many firms. Although only approximately 1/3rd of businesses produce their own ingredients to a significant extent (i.e. scoring either 4 or 5 in the survey), over 70% of businesses regarded themselves as purchasing from a small number of individual suppliers. This contrasts strongly with the much broader customer base for their products. In fact, businesses most frequently purchase products from wholesale markets. They may, therefore, be sourcing through a variety of locations via the wholesaler. In using wholesalers, businesses can be seen to be intrusting them certain tasks, of which obtaining a good price can be seen to be paramount.

Differentiation on the basis of ingredients used was regarded as the least useful of the differentiation strategies given in the questionnaire. Moreover, very few businesses thought 'finding suitable suppliers' was an issue in terms of firm's weakness. Respondents also rated 'new suppliers' as the least important area for innovation out of the given options in the survey. This suggests that changing the supply base of the business is often not considered an option. A number of reasons can be put forward for this including a low appreciation of this strategy as a competitive tool, lack of competition / dynamism among suppliers and the presence of highly embedded supply relationships.

Downstream characteristics of the case study businesses range from Yew Tree Organics and Oceanview Cheese, who have virtually no suppliers, to Harvest Bakery who purchase the majority of their ingredients from either of two multinational milling companies. Among the case study businesses that source ingredients to a significant degree, supply issues were not perceived as a major issue.

By focusing on supply issues, an important distinction can be identified between value-adding activities near the site of consumption (e.g. HB) and value-adding activities near the site of ingredient production (the other 5 case studies).

Although the survey revealed a broad customer base for Welsh food products as a whole, evidence from the case studies suggests that individual businesses target their customers according to a narrow group of characteristics. The most common set of consumer characteristics perceived by business owners in both the survey and case studies are people that demand high quality products (and are willing to pay for it) and those that like to consume a wide variety of food products. In fact, all the case study businesses identify that their consumers demand high quality food. The basis on which high quality judgements are made can be seen to vary between ethical qualities (e.g. YT), organoleptics (e.g. WS), tradition / authenticity (e.g. HB) or a combination of the three.

By pursuing high quality strategies, the case study businesses can be seen to be engaging themselves in niche markets. As discussed in 3.2d, niche markets can be distinguished as containing targeted consumers with highly differentiated needs from conventional markets. Such qualities are evident among the markets that the case study businesses serve. For instance, NB regard their core consumers as food lovers. They also recognise the fact that by pursuing these customers they have to make a product that not everyone will like, but that people will either love or loathe. Similarly, HB produce bread products that compete on quality rather than price. As a result, they have a small set of loyal customers who are willing to go out of their way to purchase HB products.

As well as product quality, the other key marketing tool employed by businesses in the survey is reputation. 'Your reputation in your market area' and 'superior

reputation of the products' were both rated in the survey as important factors in differentiating businesses from their competitors. Again, this is reflected among case studies. NB, for example, consider that they trade strongly on the basis of their positive reputation. This attitude also conforms with the importance given to personal relations and the strong marketing orientation mentioned earlier.

7.4 Operational Aspects

Rural food micro businesses can be characterised as retaining more operational aspects than their mainstream counterparts. This incorporates the retention of production processes for which it may appear more economically rational to 'buy in'. NB, for example, despite producing a wide variety of ice cream flavours and despite the presence of established suppliers of suitable ingredients, still produce as many of the ingredients (particularly flavourings) as possible on-site. In addition to contributing to the uniqueness of NBs product range, this also ensures that the owner's values are sustained. In this case, they are able to ensure high quality (i.e. not 'mass produced') and freshness. YT also purposely conducts every stage possible from farm to fork, aside from slaughtering which is unfeasible due to licensing restrictions. Similarly, HB retains the entire baking process within their business', bucking the trend for bakeries to buy in part-baked loaves etc. In fact, all the case studies perform activities that are typically rationalised off in mainstream counterparts. It is clear, therefore, that the retainment of control is an important distinction between alternative and mainstream businesses and production ethics.

There is also evidence of this in the survey data. For example, in the case of distribution, fewer than 20% of respondents rely on third-party distributors to a significant extent (i.e. gave a score of 4 or 5). Traditionally, results like this would be interpreted as meaning that there may be supply issues, i.e. the problem is that there are insufficient third-party distributors to meet the need. The evidence compiled in this project, however, suggests an alternative thesis; that it is actually an unwillingness to relinquish elements of control, particularly to conventional interests who may not understand their products. The high proportion of businesses that sell directly to the public at the site of production or through their own shops is also an

indication of this mentality. Approximately 60% of all businesses surveyed sell at least some product direct to consumers. Similarly, respondents rated highly the use of ‘personal contact with customers’, ‘knowledge of product / ingredient origin’ and ‘short supply chain length from producer to customer’ as important business tools. Each of these can be seen as essentially methods of retaining control or influence on the supply chain process.

This issue also extends to the low incidence of cooperation between firms, which was illustrated in both the survey and case studies. As the survey revealed, cooperation tends to be rare across all aspects of the business, with joint purchasing and distribution activities slightly more prevalent. This was reflected among the case study businesses who, the relationship between the cheese makers and CAWS aside, showed very little cooperation with other firms.

The desire to retain control over as much of the supply chain process as possible and in particular the physical product transformation aspects is, at least in part, a result of needs that originate in the complex quality characteristics bound up in the product. Figure 7.4a lists four classes of product quality, observed through the case studies, that dictate the need for close control of supply chain aspects.

Figure 7.4a: Quality Aspects That Favour the Retention of Control

- Authenticity – notions that are easier to communicate through personal contact
- Fragility – both physical and organoleptic qualities which may degrade easily
- Specificity / uniqueness – distinguishes associated needs from other products (for example highly specific ingredients may not be obtainable from suppliers)
- Paucity – lack of volume may lead to unfavourable relations with supply chain partners

It is clear, for example, that the uniqueness of MC’s original cheeses depends, to a certain extent, on the ability of the owners to mix morning and evening milk from their own herd. Such specificity would be difficult to achieve and control if milk was brought in from other farms. The issue of paucity is illustrated by both YT and HB moving out of relationships with larger firms due to their inability to secure what they

perceive as fair prices for their products. The issue at the root of this aspect is one of market power, and the difficulty which small firms with transferable products face when negotiating trading relationships. In both cases, YT and HB dealt with their unfavourable trading relationships by enclosing what were external activities within the realm of the business. Both MC & NB illustrated how fragility can influence the decision of small food businesses to retain control. For NB, the key physical quality issue is the necessity that the product remains at optimal temperatures. This influences the need for the business to deliver its own products in temperature controlled vehicles. In the case of MC, cheese maturity is also an important organoleptic quality and is controlled as much as possible by the business through dealing direct with retailers rather than through wholesalers. The issue of effectively communicating the authenticity of products can be illustrated by all the businesses who, with the exception of NB, use minimal packaging and only few marketing materials. This means that without personal expert communication, it is difficult to convey the virtues or 'story' of their products. In most cases, personal communication is achieved by either selling direct to consumer interfaces or direct to consumers.

Although these are issues that are shared with conventional interests, it is also an important point of distinction. Mainstream firms are able to source out many more aspects of their product transformation process primarily because their processes are more formalised and attuned to codification. The conventional need to formalise and codify, in order to expediate processes, also leads to products with less complex quality composites. Therefore, relationships between conventional interests are potentially more facilitative. Successful relationships among non-conventional businesses or between non-conventional and conventional businesses require a common understanding which is harder to achieve in the absence of either shared values or a formalised and codified quality control system.

These issues can also be seen to relate to the control of operations within the businesses themselves. Food micro businesses can be characterised as having authoritative management structures with the owners retaining responsibility of as many of the operations as possible.

7.5 Innovation Characteristics

Both the case studies and the survey provide information on a wide range of innovations. Whilst the information gained from the survey only scratches the surface of the innovation processes given, the case studies bring a more in-depth understanding that can be broadened out with the use of the survey data. As well as providing richer contextualisation, the case studies also revealed a number of potential innovations that had failed to materialise.

If the classical definitions of innovation discussed in 3.3a were employed in this study, formal innovation occurrence would be sparse, and probably confined to the development of a small number of unique products. The much broader understanding of innovation adopted for this study has therefore allowed the dynamics of micro firms to be better understood by allowing a wider range of activities that are either novel or unusual to be included.

In general, the innovation details given by the case study businesses matched the characteristics observed in the survey. Most innovations were marketing related, either forms of market communication or product innovations. The majority of innovations were also initiated by the firm itself rather than by outside interests (60% solely from the firm and a further 20% co-initiated between the firm and an outside interest). Similarly, roughly half of the recorded innovations were assisted to some degree by outside organisations. The similarity between the two sources of information is important as it lends credence to the data, which were gained using different methods and have their own methodological strengths and weaknesses. One key difference between the two sets of data however is that survey respondents appear more satisfied with the value gained from their innovations than the case study entrepreneurs. This may be due to a tendency for the respondents to choose to detail positive developments in the limited time with which they wished to complete the questionnaire. Moreover, the more in-depth nature of the case studies fostered a level of trust between interviewer and subject that allowed innovation issues to be explored to a greater degree and to bring out less positive aspects which may not have been at the forefront when completing a questionnaire.

We can characterise innovation in small food businesses, therefore, as being predominantly marketing led, originating from entrepreneurs in the firm itself and frequently involving the assistance of others outside the firm. Cost cutting, lifestyle and legislative aims are less common, as are innovations originating solely from outside the firm.

The range of recorded innovations in both sets of data is broad. Indeed, significant correlations, in terms of identifiable causal relationships in the survey data, are hard to find. Exploration of links between innovation aim and perceived value, innovation origin and outcome, business size and innovation aim etc prove fruitless. This suggests a myriad of factors influencing innovation, rendering the identification of causal relationships infeasible, if not impossible. Even methodological approaches such as qualitative cross case construct tables and predictor outcome matrices fail to elucidate any additional insight.

There are, however, some distinct findings that can be drawn from the innovation data. For instance, a comparatively high proportion of planned innovations actually failed to materialise. In most instances, the potential innovations that failed were discussed during interviews when in the early stages of development and then revisited during later interviews. It is probable that some of the failures were actually a result of wanting to appear proactive to the researcher in the initial interview, without fully thinking potential innovations through. This did not appear to be always the case, however.

What these cases illustrate is that small business entrepreneurs are able to generate a large number of potential innovations, either by themselves or through other influences. Many of these seem to be discarded before their realisation, for a wide variety of reasons. This suggests that any perceived lack of innovativeness may be more to do with an inappropriate 'enabling' environment rather than lack of entrepreneurial insight.

A number of recorded innovations failed to meet their desired outcomes. For instance, the trial conducted by WS with a major food manufacturer, which went no further due

to limited production capacity, or NB's participation in a TEC marketing scheme that raised only two 'one-off' orders.

The key factor which clearly links failed and only partially successful innovations among case study businesses is that they tended to involve other firms / organisations whose interests and outlooks conflict in some way. As Figure 7.5a illustrates, of the partnership-based innovations, those that involved similar small businesses were predominantly more successful. Partnerships with large conventional businesses and / or public institutions often appear to either fail or not reach their full potential.

Figure 7.5a: The Outcomes of Partnership-Based Innovations

Business	Partner	Innovation	Outcome
WS	Large Manufacturer	Smoking Vegetables	✗ Small trial, no further business due to limited capacity
WS	Quality Shoe Manufacturer	Co-promotion	✓ Advertising, association and 200 new names in mailing list
WS	Neighbouring Firm	Cooperation	✓ Shared deliveries and hired equipment
YT	Large Manufacturer	Supply Products	✗ Failed due to ethical and lifestyle factors
MC	Supermarket	Supply Products	✓ Limited amount supplied to regional stores
MC	Local Organic Milk Cooperative	Source Product	✓ Use relationship as a marketing tool
HB	Supermarket	Discount promotion of existing range	✗ Failed due to lack of time and perceived value to HB
HB	Local OAP Club	New Product	✓ Established and sold in shop and wholesale
NB	Public Institution	New Packaging	✗ Institution failed to meet needs
NB	Public Institution	Joined Marketing Group	✗ Gained only two one-off orders

OC	Friend	New Product	✓ Established, won prizes
OC	Public Institution	New Processing Facility	✓ Increased production capacity

Among the examples given by the six case study businesses, there are two instances involving larger firms and institutions that have been successful. Overall, therefore, it seems clear that innovations succeed best between partners of similar scale and outlook (or values).

It should also be noted that innovations, whether they succeed or fail, are likely to impart a certain degree of transferable experience to the firm. With this in mind, the influence of external organisations may be greater than at first apparent. Knowledge gained from previous innovative experiences may assist seemingly independent future innovations. For instance, businesses which have received help with marketing literature (such as YT) may be more able to produce the literature themselves in the future.

The relative frequency of different types of innovations may be influenced to a certain extent by the ease with which they are achievable. Marketing based innovations are perhaps the most immediate and straightforward strategies of change that a production-minded micro business owner would follow. They are also relatively low cost, low risk and intuitive in nature.

The case studies shed some light on the low incidence of ‘cost saving’ innovations. Although low satisfaction was expressed in the survey on the level of costs (raw material, labour and capital), very few innovation details that aimed to reduce costs were given. Among the case studies, attempts to reduce costs were noted for WS, YT and NB in particular. Of these, the diversification into meringue production in order to reduce waste (in the form of egg yolks) was the only major success. The other two have attempted in vain to reduce costs, making use of unprofitable cuts of meat in YT’s case and finding non-seasonal markets in the case of WS. NB had also successfully introduced other cost cutting measures such as the replacement of labour with machinery (an automatic labeller) and also movement to new factories, which

made the overall processes more efficient. This suggests that cost saving options are both less apparent and much harder to achieve. It also seems that food micro firm owners are most inclined to deal with such problems with marketing based solutions, such as product development and new market development.

The survey questions exploring how important and how frequent different types of innovation are, raises questions as to how marketing led the apparent marketing based solutions are. The respondents indicate that product development is deemed significantly more important, and employed more frequently, than either new marketing strategies or new promotions. It is clear from the case studies, however, that promotional activity is often not considered an appropriate or effective strategy for the businesses and their products. As mentioned above, the focus tends to be on building loyal trade, not short-term expansion of sales. Appropriate marketing strategies, whilst perceived as very important, are not suitable for frequent change. Very often the target market is set and therefore strategies for reaching consumers are somewhat limited. The primacy of product development, both in terms of importance and frequency, can be seen to be linked strongly to both its relative straightforwardness and the presence of a production based philosophy that is often linked with the belief that good products 'sell themselves'. This is clearly reflected in both the case studies and the survey.

Although both the case studies and particularly the survey showed that a large proportion of innovations progress without any influence from outside interests, the case studies also showed the value of external influence when called upon. In fact, the six case studies between them drew on a wide range of networks in the course of the innovations recorded. Among others, the businesses were influenced by customers, consumers, family, friends, suppliers, public support institutions, competitors and small businesses in other sectors. This illustrates the value of engagement in broad networks, both informal and formal. MC is an example of how major innovation processes can be aided and eased by effective networking. Joan Smith used other people as an effective source of ideas, personal support, technical expertise and also as a means to obtain further resources.

An important distinction may also be made between reaction and proaction-based innovations. For instance, HB's shift from wholesale to home delivery can clearly be seen to be a direct reaction to the continual downturn in fortunes, coupled with personal circumstance. The expansion of MC's operations, by contrast, is a pro-action based innovation based on observance of market opportunity etc. Among the other recorded case study innovations, both pro-action and re-action innovations can be observed.

It is clear from the study that food micro businesses are relatively un-innovative using narrow definitions of the term. An index of innovative activity for multi sector rural SMEs, developed by North & Smallbone and published during the study period, produces 'Low' classifications for four of the six case studies, with only MC and NB achieving a 'Moderate' score. This can be compared with North & Smallbone's own study of 180 rural manufacturing firms across a variety of sectors, in which only 24% were classed as having 'Low' levels of innovation (North & Smallbone 2000).

In fact, the North & Smallbone study gives us an indication of how similar innovation among food microbusinesses is to rural manufacturing firms as a whole. Allowing for methodological divergences, the studies produce a number of similar results. For instance, in the North & Smallbone study, 60% of innovations occurred without any assistance. This compares favourably with our study that showed approximately 60% of recorded innovations originated without assistance and 50% received no assistance during the innovation process. Moreover, among the 27 food firms in their study, customers were most likely to assist in the innovation process. Again, this finding mirrors our own observations (North & Smallbone 2000).

7.6 Growth

At best, the survey data provide only a snap shot of the growth dynamics of rural food micro businesses. A richer understanding of growth through the postal survey would not be possible without presenting a series of complex questions to the respondent. Therefore, the data are limited to descriptions of current growth, satisfaction with

previous growth and objectives for future growth. In addition, the survey covered a range of supporting issues that contribute towards our understanding of growth.

The case studies, on the other hand, illustrate well the complex influences on business growth. They highlight that growth is a far more complex issue than solely a function of market demand for the business's products. HB, for example, illustrates that businesses may grow and then contract, even if for short periods, due to market difficulties or personal circumstances. This is reflected in the survey, which failed to show a linear relationship between age and turnover. In fact, the survey results show a wide range of 'current' performances across businesses of varying ages. In fact, there are businesses established before the 1970s that were experiencing significant growth at the time of the survey. It is evident that they would not have been able to sustain significant growth consistently over the years and still remained a small business. Indeed, there are varying levels of performance in businesses from each of the decades since 1970. Evidence supporting the variable nature of small firm growth is supported by the failure to find any correlations in the survey data between measures of current growth, satisfaction with previous growth and objectives for future growth.

In addition to the personal objectives and values of the entrepreneur, a number of the case studies have highlighted the importance of the business's physical production capacity in dictating growth. Both MC and NB witnessed a stalling of growth due to the business reaching full capacity. In the case of NB, this has twice forced the business to relocate to bigger premises. Expansion has also further contributed to growth as it significantly increases costs, both during the actual expansion phase and also in the subsequent period until the business fills the additional capacity (due to the associated increase in overheads). OC also experienced similar expansion pressures when they developed a new cheese room. NB, in particular, state this to be a major issue affecting their growth and profitability. For MC, production growth was stagnant for 5 years until the entrepreneur decided to expand capabilities. As well as personal and market reasons, the potential for expansion was further influenced by the fact that their farm could not hold the significant increase in cattle that would accompany any expansion of the original varieties of cheese. The solution to this was to develop new varieties that would use milk sourced from off the farm. Once more, however, this illustrates the complexity inherent in major decisions like this.

Consequently, it should not be concluded that businesses which stated in the survey that they are experiencing strong growth are necessarily benefiting solely from favourable conditions in their market. As the case studies illustrate, this growth could be associated with a recent expansion or the loss of a rival business. Conversely, non-growth firms may not be meeting their growth potential due to capacity problems or personal circumstances.

The stop-start nature of growth observed among the case studies contributes to the notion that business owners are not necessarily either classically entrepreneurial or managerial in nature but, instead, typically switch between the two, depending on circumstance. The cases of YT and MC show that entrepreneurs are willing to make considerable changes to their business, if the costs and potential benefits are suitable. The main outcome of the MC expansion process was the new kind of management role, including the need to deal with a greater number of supply chain partners (new distribution channels and, for the first time, significant suppliers). YT, by contrast, moved the other way, reducing its involvement with other businesses, taking control of its own supply chain. Although new management roles were also adopted, due to the home delivery, butchery and retail elements, production still remained firmly in the remit of the owner's activities.

The case studies illustrate how the role of entrepreneurs has to change as businesses develop. NB, as the largest business among the case studies, provides a good example of this. The owners recognise that their roles have changed over the years as the business has grown. One of the owners in particular has had to focus her role towards administration and other desk-based activities. The MC expansion process outlined above also provides an insightful account of the change that entrepreneurs face. The enhanced management role also had to be combined with a relinquishing of certain production controls to other employees. The need for training in IT illustrates the changing nature of the role the entrepreneur was facing. This change in demands on entrepreneurs may present potentially significant barriers to the growth of the business. For example, owners may not want to move to a more managerial role, or may not be adept at it. Such developments present issues in terms of required skill, loss of control, and change in work conditions (including stress). Growth may also

signal movement into new supply chains, increase competition and other cost pressures.

The study witnessed a number of businesses struggling to establish themselves in their markets during the case study period. Yew Tree Organics, for instance, having recently switched from supplying a wholesaler to dealing direct with consumers, were still having to sell some produce to the wholesale trade while their own markets grew. Similarly, Wye Smokery was operating below capacity for much of the year. Despite this, however, both businesses considered potential demand for their products to be larger than they could supply, and were pursuing a selling led approach to their marketing. In other words, from their perspective it was essentially a case of bringing people into contact with their existing products. This selling led approach was witnessed in most of the case studies and showed up strongly in the survey. 'Increasing demand' and 'Developing new markets' were the two most frequently cited innovation aims, and 'New customers' the most important of innovation categories.

Seasonality can be recognised as an important influence on growth dynamics of food micro firms. One third of businesses in the survey employ seasonal labour from outside the family unit. This measure can be assumed to be a good proxy for seasonality, either in supply or demand. Among other things, it indicates that employment among small agrifood businesses rises significantly during seasonal periods (i.e. the summer months and the period up to Christmas). Seasonality also implies that many businesses are running below capacity during out of season periods. This is a particularly important factor for businesses with a seasonal product that has a short shelf life. This is observed in both WS and NB, who regard running under capacity for slow periods of the year as a significant problem. Other seasonal businesses with less perishable products can slowly stockpile products out of season. The two cheesemakers are examples of this kind.

Seasonality is also an issue in terms of production. The production possibilities, both in terms of volumes and finished product characteristics, for both cheesemakers are influenced by the time of year. YT and, to a lesser extent, WS, both have similar restrictions in terms of the availability of certain types of livestock. This is another

important point of departure from conventional food businesses who tend to dampen the seasonal constraints of food supply through technology and geographically broad sourcing. Consequently, many products from food microbusinesses have natural seasonal rhythms bound up in them.

The case studies also illustrate the restrictions that farm based businesses have in terms of growth. Although the survey indicated that approximately half the businesses were farm based, these were concentrated among the smaller businesses in the sample. Among the case studies, the growth of farm-based businesses can be seen to have been restricted by available space (NB), hygiene demands (MC) and the juxtaposition of business and family life (arguably all three farm-based case studies). In the case of NB, their growth strategy was achieved only once they moved off farm.

An important aspect of growth that is apparent from the case studies is that it is dependent on the market in which the firm is operating. More specifically, the development of a business is influenced by the evolution of the market in which the firm operates. OC provided an example of this when they lost a significant wholesale customer who decided to produce their own premium cheese range as demand for such products rose. In fact, both OC and YT have suffered due to growth in their respective markets that has attracted larger companies. It would seem that it is often the case that non-aggressive firms lose out as markets grow. Similarly, firms that operate in growing markets but in the wrong supply chain may also suffer. It should be concluded from this that being in a growing market is only a small part of ensuring business success. Many small organic firms will no doubt testify to this.

7.7 Constraining Factors

As well as those factors internal to either the firm or the entrepreneur, a number of issues external to the firm can be identified as presenting particular constraints to the development freedoms of the businesses in this study. Whilst the survey results indicated a mixed response to perceptions of various external constraining factors on businesses, a number of issues can be drawn out that demand particular attention.

The availability of finance is a clear constraining factor that can be identified among both the case studies and survey respondents. Virtually all the case studies single this issue out as restricting their ability to develop in line with their objectives. In particular, they feel that government has a role to provide cheaper, easier and less risky sources of finance to small businesses. In the survey, 'level of the firm's capital resources' and the 'availability of outside capital' were clearly the two most significant perceived weaknesses of those given. The case studies indicate that the risk associated with commercially available loans, plus the restriction imposed by owing the money to banks, are major factors that prevent greater uptake of commercial finance. WS provides an illustration of the impact these perceptions can have on businesses. The owner states that expansion of his business will be stalled unless suitable financing can be made available. Other businesses have embraced existing financing arrangements successfully. Both MC and NB have benefited from grants in order to allow expansion plans to proceed.

Issues of staff availability and suitability were expressed in both sets of data. The survey indicated that this issue was dependent to some extent on the size of the business. In fact, significantly more businesses with between 4 and 6 FTEs (75%) rated the availability of professional employees as a major weakness compared with those with either more (19%) or less (22%) employees. MC and NB have both experienced difficulties recruiting what they regard as suitable staff for their businesses. These businesses attribute this constraint to the scarcity of local population and the drain of 'gifted' youth to urban centres. MC states that the business usually has no difficulty attracting candidates, but they tend to be unsuitable, in terms of intelligence, fitness and attention to detail. NB has similar problems attracting staff who are able to cope with significant delegation of responsibilities. Staff issues are also an issue during seasonal periods when casual staff are required.

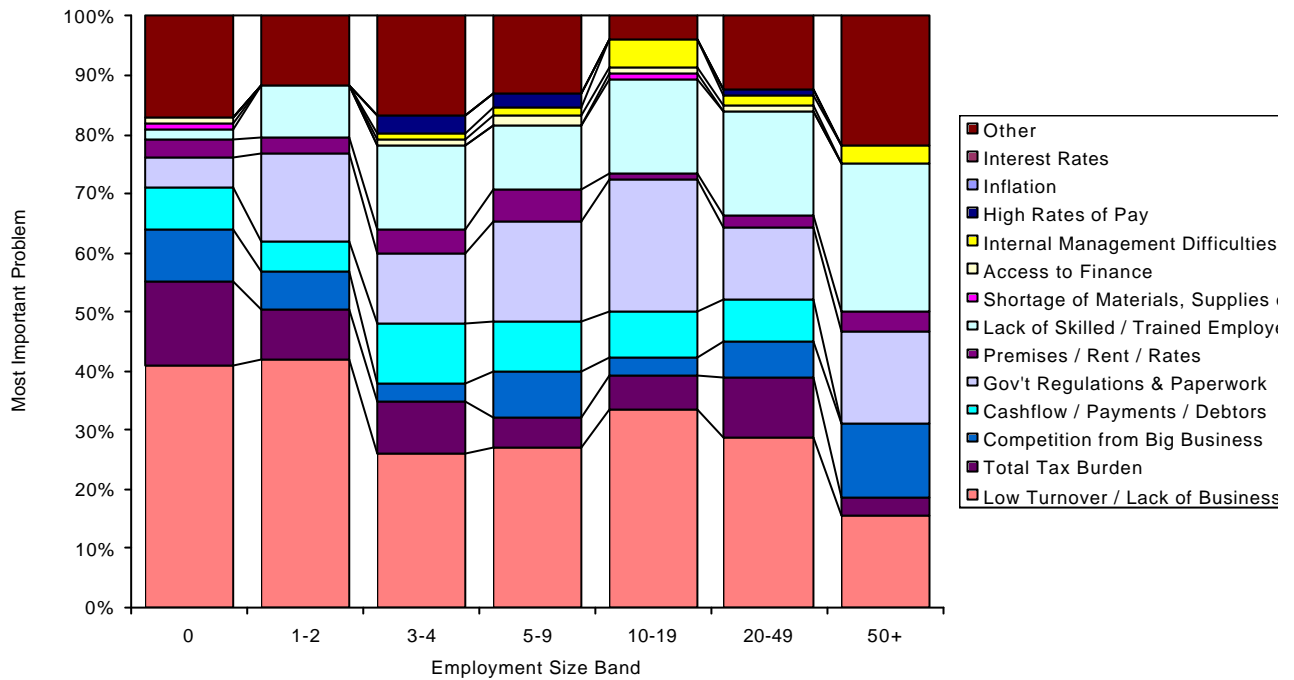
In fact, the influence of location on the fortunes of the businesses under study appears to be mixed. The rural nature of many businesses has a clear benefit in terms of providing space and allowing the 'natural' environment that contributes to both actual product characteristics and notions of authenticity and purity etc that accompany naturally produced foods. The survey illustrated that many of the products hold characteristics that are normally associated with authentic / natural foods, such as

'home made' and extra high quality, traditional recipes, ecological ingredient etc. Such qualities are sure to evoke a certain amount of rural imagery in consumers. In spite of this, nearly half of all surveyed businesses rated the weakness associated with the business's location as either a '4' or '5'. Moreover, cross tabulation with distance from a town found that 79% of firms more than 10 miles from a town of 15000 or more people found their location relative to customers a weakness ('2'-'5' rating) compared to 62% of those within 10 miles of a town. Among the case studies businesses, MC did not regard 'rurality' as being an important factor to consumers when choosing their products. NB, however, considers their location to have cost them thousands of pounds in distribution costs over the years.

The following figure presents data from the Nat West Bank Plc Quarterly Survey of Small Business in Britain (Nat West 2001). This provides an insightful set of data with which the findings from our survey can be compared. As part of the survey, over 700 firms are regularly asked which of a small number of given factors are most detrimental to the prosperity of the business. Figure 7.7a presents data from 2001, broken down according to firm size. These data are particularly valuable as the survey is periodically repeated and the trends widely reproduced (although this does not mean there is no systematic or methodological error associated with the data).

The key message from this figure is that perceived problems seem to vary according to the size of the firm. For example, problems associated with lack of skilled / trained employees grow steadily with size. Tax burden and cashflow / payments / debtors are an issue for micro and very small firms, but fall away when firms reach 50+ employees. These broad issues, and the fact that some issues appear to vary with business size, are reflected strongly among both the case studies and the survey data.

Figure 7.7a: Nat West Quarterly Survey of Small Business in Britain Data Indicating the Perceived Problems of Small Business (2001)



Source: (Nat West 2001)

7. 8 Public Institutional Support

As Figure 7.8a illustrates, the case study business have had mixed experiences with public institutional support schemes. In fact, the majority of cases discussed with the entrepreneurs were deemed by them to be unsatisfactory. The table clearly shows, however, that financial schemes have been the best received. NB, for example, received subsidies to attend trade fairs when they were smaller, which was appreciated. They then went on to receive much greater financial assistance when they moved premises.

Between them, the six case study businesses illustrate the problems typically associated with much institutional assistance. Cases of training / advisory support can be singled out as being particularly unsatisfactory experiences. Moreover, in the cases

discussed, the problem was often one of inappropriateness. In effect, the institutions misunderstood the needs of the microbusiness.

Figure 7.8a: Case Study Business Experience with Institutional Support

Business	Experience
NB	✓ Subsidised presence at food fairs when smaller
NB	✗ Joined marketing group but had little positive impact
NB	✓ Received grants for expansion
NB	✗ Gave up on application for a council IT grant as too complicated
NB	✗ Unable to help find a suitable packaging supplier
MC	✓ Assistance with packaging development
MC	✗ Attended an inappropriate marketing ‘American style’ seminar
MC	✓ Received grants for expansion
YT	✗ Not been able to apply for schemes as regarded as ‘farmer’ instead of ‘business’
YT	✓ Assistance with marketing literature and general business advice.
WS	✗ Received superfluous training grant so institution could meet budget
WS	✗ Gave up on application for a council IT grant as too complicated
WS	✗ Rival received large grant to move from England
OC	✓ Grant given towards new cheese room
OC	✗ Advisory visit only had limited benefit
OC	✗ Found training courses too expensive

The survey results concur with the findings of the case studies by revealing the poor regard for institutional support schemes other than capital and marketing grants. Only approximately 1/3rd of businesses rated ‘one to one business advice’ and ‘training schemes’ as significantly effective (i.e. scores of 4 or 5). MFs experience with the design council’s inability to identify a suitable supplier for the new meringue

packaging, for example, typifies criticisms of the reflexivity of third sector institutions and their practical knowledge.

A common opinion offered by the case study respondents was that public institutions seem to target large firms and inward investments at the expense of small indigenous businesses. YT gives the arrival of a local Tesco supermarket as an example of this.

In terms of applying for financial assistance, between them the case studies criticise schemes as too complex, time consuming and containing inappropriate conditions. WS, for example, complained that an equipment grant they investigated was only applicable for new equipment, which was much more expensive than second hand. Decisions about grants were also criticised for relying too much on employment creation criteria.

In general, the case study entrepreneurs generally perceived the paperwork associated with government influence to be over burdensome. The perception of MC, however, differed significantly from the other case study respondents. Despite recognising that the amount of paperwork has increased over the years, it is not felt that this impairs the business. The survey identified a divergence in perceptions of legislation and paperwork depending on business size. Among the respondent businesses, those with 4 or more employees are more than twice as likely to regard 'the amount of paperwork demanded by legislation and customers' as a weakness compared to those with less than 4 employees (59% versus 27%). Evidence from the case studies suggest that this may be largely due to employment associated paperwork imposed by government.

OC's new cheese room, however, provides a rich example of legislative pressures combined with an associated support scheme indirectly leading to significant expansion of the business. In this case, the business was compelled to invest in new processing facilities due to problems meeting hygiene regulations. The presence of a council grant to subsidise the development led to the business expanding their production potential. Subsequent sustained growth was realised, largely due to the fact that the new facilities were more efficient but also more expensive (i.e. overheads were higher).

7.9 Conclusions

This chapter has presented and discussed the core issues of rural food micro firm development as developed through this study. The use of a broad holistic empirical schema combined with an exploratory data collection and analysis methodology has enabled the identification of a range of dynamics that influence the form and development of microfood businesses. Many of the issues discussed above have potentially important implications both for our understanding of food microfirms and their interactions with the wider environment and also in the context of the efforts of public institutions to support such forms of economic and social activity.

The final chapter attempts to expand upon some of the key themes discussed above and draw the conclusions out to consider broader issues such as; how does this research contribute to our understandings of micro firm innovation? what is the best way to appraise micro firm development potential? and how can public organisations contribute towards the strategic development of the sector?

Chapter 8 Conclusions: Conceptualising Micro Food Firms and the Challenge for State Support

8.1 Introduction

Figure 8.1a summarises the discussion in the previous chapter by distilling the key characteristics of four essential elements in this study: the entrepreneur, the firm, innovation and public support.

Figure 8.1a: Characterisation of Key Variables Influencing Innovation Needs and Outcomes in Food Micro Firms.

<p>The Entrepreneur(s)</p> <ul style="list-style-type: none">• The crucial element of the business and its external engagement• A readily available source of innovative ideas• Able to mix both artisanal and conventional priorities at different times• Tend to resist external influences that hold different values
<p>The Firm</p> <ul style="list-style-type: none">• Highly contingent on entrepreneurial and product characteristics• Exhibits non-linear growth• Form and function of business is highly contingent upon the entrepreneurs attitude to risk and control• Development is restricted by access to finance
<p>Innovation</p> <ul style="list-style-type: none">• Tends to be mainly in the form of small incremental steps• Usually originates from the entrepreneur• The process commonly involves assistance from external interests• A high proportion of innovations either fail or do not progress to fruition• A key distinction can be made between pro-active and re-active innovations
<p>Public Support</p> <ul style="list-style-type: none">• Mixed levels of effectiveness (in Wales)• High proportion of failures or dissatisfaction from businesses

- Generally have poor reputation
- The custom base regard access to appropriate finance as the most important aspect

The broad aims of this research, as originally set out in Section 1.2, were two-fold:

- to characterise and forward understanding of the development of food micro firms in general and specifically with respect to innovation, and;
- to contribute towards the development of effective policy tools that support rural food micro firm supply chains.

This concluding chapter therefore discusses the findings of this study in the light of these two original aims. It begins in relation to the first aim, by discussing how our understanding of micro food firms has been forwarded by this study. In particular it focuses on the strategies that many food micro business entrepreneurs adopt in order to cope in the environment their firms operate in. From this basis, the implications of this study on the role of state support to micro food firms is discussed and key recommendations made for how such businesses may be better supported.

8.2 Characterising Food Micro Business Strategies

Chapter 7 discussed the series of key dimensions that characterise micro food firms and their entrepreneurs. By relating these core features to the empirical schema (see Figure 3.7b) it is possible to shed further light on the nature of rural business strategies. On the whole, the findings of this study reinforce the conceptual basis of the empirical schema. Each of the discrete groups of factors in the schema can be seen to have significant influence on micro food firms, in both the survey and the case studies.

It is clear from this study that, at the level of the individual supply chain, the entrepreneur is the key entity in the entire food micro firm dynamic. Although a multitude of factors play important and complex roles, the ultimate impact of an individual product depends crucially on the central entrepreneur or entrepreneurs for as long as the business retains personal or partnership based ownership. The key

difference between small businesses and their larger counterparts is, therefore, the primacy of the owner(s). The effect of this is that the values of the owner translate into the values of the firm and the values encapsulated within the product. This goes some way to explain the value laden nature of many speciality food products.

The empirical data in this study highlight that the values and objectives of micro firm entrepreneurs are broad and difficult to characterise. Among the case study businesses, for example, we witnessed not only strong variation between artisanal and conventional values and goals, but also clear mixing of both sets of values. For example, both MC and YT have illustrated that lifestyle preserving and forward thinking are compatible goals. Indeed, MC also illustrates that growth and lifestyle, as well as growth and ethics, are compatible goals.

The findings from the empirical data do, however, confirm many of the more qualitative aspects of the previous studies as reviewed in Chapter 3. They also, however, illustrate the conceptual flaws in research methodologies that attempt to identify causal relationships between various factors and aspects of small firm performance. The six case studies alone, even though these were of similar nature and operating in the same broad sector, illustrated the vast diversity among micro food businesses. Vinnell & Hamilton's (1999, p5) characterisation of small firm development effectively sums up the dynamics observed in this study:

'Small firm development is revealed to be complex, the result of an idiosyncratic and unstable process involving the interplay of the local environment and features internal to the firm'

Consequently, this research demonstrates the value of taking a broad, theoretically unrestricted, approach to understanding micro firm entrepreneurs. The empirical schema given in chapter 3 allows the investigator to understand the full range of influences and relationships without imposing binding judgements as to which factors rule over others and how exactly they interact. As the case studies ably illustrate, the complexity of the system is such that predicting such relationships on the basis of limited proxies is not feasible. The power of the empirical schema therefore is that it can be used as a framework for the investigator to organise and analysis the system dynamics on a case by case basis, using rich, in depth data. Of course in practical terms, there is a need to understand key relationships and dynamics that can be

summarised across contexts and employed to generalise. This study achieves this by addressing the key issues which have arose from analysing 6 concurrent business case studies and conducting a comprehensive survey.

8.3 Conventional Resistance Strategies

A key aspect of the exploratory nature of this research has been the ability to consider a wide variety of issues that were raised through the interplay between the broad literature review and the empirical data. Such an approach allowed the consideration of phenomena on various levels and from various perspectives. As a result of this approach, the key issue of an apparent conflict in values between micro business owners and conventional interests was observed.

Many food micro businesses can be conceived as following what may be termed 'conventional resistance strategies'. During the course of the case study period, many of the firms illustrated the clash of values that occurs when 'alternative' and 'conventional' interests meet. Sometimes, in the cases of Meadow Cheese and Nature's Bounty in particular, some aspects of conventional interest are appropriated by the firm in a way that allows both sides to accommodate the conflict of values. Often, however, firms resist the approach of conventional interests, preferring to retain their own core set of values. In fact, examples pervade all the case studies of potentially symbiotic relationships with mainstream food industry interests that were either fully resisted or failed due to a contravening of the ethics or aims of the entrepreneurs. Figure 8.3a illustrates this by providing examples of conventional encroachment on their operations and the response (or coping strategy) that it elicited.

Figure 8.3a: Examples of Conventional Encroachment on Case Study Interests and Responses Elicited.

Case Study Business	Conventional Influence	Response (coping strategy)
NB	Introduction of Super Premium Ice Cream Products	Assimilated marketing methods (branded chill cabinets, flags etc) and Competed. Re-enforced 'home made' qualities of product
YT	Approach to supply large manufacturer	Rejection on lifestyle and animal welfare grounds.
MC	Approach from Multiple Retailers	Supplied only limited amount to regional stores (avoiding over reliance).
OC	Growth in demand for organic cheese led to loss of custom by major wholesaler who started to produce own.	Re-insulated from mainstream forces by seeking specific individual businesses to replace custom lost.
HB	Wholesalers Tightening margins	Moved out of wholesale trade, developed 'insulating' strategy (own delivery service).
WS	Approach from Large Food Manufacturer	Rejection due to limited production capacity.

These examples represent clashes of values between artisanally driven entrepreneurs and the mainstream consumption and profit oriented industry. The survey also showed clear divergences among small Welsh firms from conventional values. Approximately 45% considered 'sceptical attitudes towards large-scale industrial food production' as a factor in their business's establishment.

The reluctance to engage with other businesses noted in both the survey and case studies also appears to be a consequence of not wishing to relinquish aspects of control. Cooperation may challenge the operational ethics of the producer as well as

his / her ability to retain autonomy. The importance of being able to meet the entrepreneur's ethical code was demonstrated on numerous occasions among the case study businesses (including some of those in Figure 7.3a above).

Nature's Bounty has a more compatible approach with industrial concerns, to the extent that it supplies supermarkets, although only to a limited degree. In fact, in the case of their delivery of other products, they complained that other local producers were not commercially minded enough to appreciate the need for NB to charge a sufficient margin. The 'do us a favour' attitude of local producers again illustrates the alternative set of ethics present among small rural businesses. The approach taken by NB is in many ways a consequence of their size and the market they are in. In recent years they have had to compete more and more with conventional businesses, both as their business has grown and as large businesses have moved into their area. The mechanised nature of the production process and the precise demands associated with chilled and frozen food supply chains dictate close concern with an 'industrialised' ethic.

Harvest Bakery, despite being a small business, is very much tied, if not to individual conventional businesses, then to conventional business concerns in general. The highly concentrated nature of the flour market makes it difficult for craft bakers to avoid dealing with very large businesses. HB illustrates the kinds of pressures facing many businesses who deal with conventional concerns. In fact, many of the problems faced by the business are directly due to its exposure to price-based competitive pressure from larger interests. The presence of supermarkets in the region, for example, dictated that price became more of an issue to both consumers and therefore HB. Additionally, many of the innovations discussed with HB either originated or were strongly influenced by external organisations, including supply chain partners. In fact, major millers provide business support to small bakers, as part of their competitive strategy. This makes them important sources of innovation for many small bakers, while at the same time tying them in further to relationships with those firms. This situation appears unique among small food businesses.

8.4 Alternative Versus Mainstream

All the case study entrepreneurs may be conceived as following niche strategies, whether in terms of product or geographical area. Whilst not all niche strategies are developed in order to insulate the firm (or entrepreneur) from mainstream interests, certainly all successful strategies to insulate from mainstream interests involve the pursuance of niche markets (be it product based, consumer based or geographically based). Understanding market niches should therefore be a cornerstone of attempts to understand small firms and further their support.

Market dynamics, for instance, mean that niches are often transient, or at least under threat. For example, the growth in speciality cheese markets and the organic sector has directly threatened the niches of three case study businesses. Mason & McNally (1997) describe similar dynamics in the case of micro- real ale brewers in the UK after strong growth in their niche. Strategies for state support need to take account of these dynamics if they are to be effective in the long run. The current appropriation of organic food by mainstream interests after strong encouragement by state interests for small producers to convert to organic production is a pertinent example of this. This highlights that strategies for the development of small artisanal sectors must take into account the relationships between conventional and alternative interests rather than encouraging the seeking of immediate market opportunity. In other words, they must seek to insulate microbusinesses from conventional forces rather than seek to engage the two.

As the survey highlighted, many micro firms regard conventional food products as well as other speciality food products as a threat to their interests. Among the case studies, only the two cheesemakers could claim a unique product range. Even then, however, their uniqueness is primarily superficial. There is likely to be a high degree of transferability between their products and other farmhouse cheeses among consumers, even if the other products taste and / or appear slightly different. Differentiation on the basis of product alone seems a very difficult (and unrealistic) strategy for rural food micro businesses. As we have witnessed, however, micro business owners seek to differentiate themselves and resist conventional forces, not

only through their products but through how they run their business and the supply channels they use. In particular, as discussed in Chapter 7, they often seek to retain control over aspects of the supply chain that, according to conventional rationality, are more appropriately controlled by third parties.

This study therefore paints a picture of constant conflict and contestation between alternative and mainstream values and interests.

This also extends to other areas, such as attitudes to packaging and hygiene. Oceanview Cheese use as little packaging as possible for its products as it detracts from the 'farmhouse' quality of cheese. Conventional interests, such as supermarkets, health officials etc would regard the packaging of Oceanview Cheese as essential in terms of hygiene and, also, as a medium to convey product information (both written and coded).

Dissonance between conventional and alternative interests also restricts the transferral of values between the two aspects. This is relevant, not only in terms of alternative interests adopting aspects of conventional value but also for values being communicated and transferred the other way, from alternative sources into the mainstream. The transition of values in both directions may be witnessed in the case of organic food and natural therapies for example. It is a broader challenge, therefore, for alternative movements in general to be able to engage with conventional interests in a symbiotic nature without losing out to the value depleting effects of commercial attractiveness. Conventional and alternative interests are, of course, inextricably linked. As Murdoch (2000) points out, alternative approaches to rural development tend to be developed on the back of mainstream production systems.

To summarise the understanding of individual food microfirms, their dynamics and the significance of environmental factors, Figure 8.4a employs the framework of the original empirical schema to illustrate the key factors that can be brought out from this study. The influences given in the figure represent those that can be deemed to be of most immediate influence on innovation needs and outcomes in micro food businesses. As such, this figure is able to communicate the core concepts to the reader in a manner that schematically illustrates how such factors interact. As this study

demonstrates however, the precise interplay of factors that influence microfirm dynamics is inherently complex and dependent on numerous other factors. The presence of many of the factors in the original schema (Figure 3.7b) provided a guide through which the study could progress in order to develop the refined schema of Figure 8.4a.

Outside of the schema, three key notions can be extracted and distilled from this study that appear of primary significance to answering of the original research aims:

- The aims and values of the entrepreneur

These influence in particular, the type of product and business, supply chain relationships, growth objectives, ability to innovate, involvement with conventional interests etc.

- The qualities associated with characteristics of the firm and the product

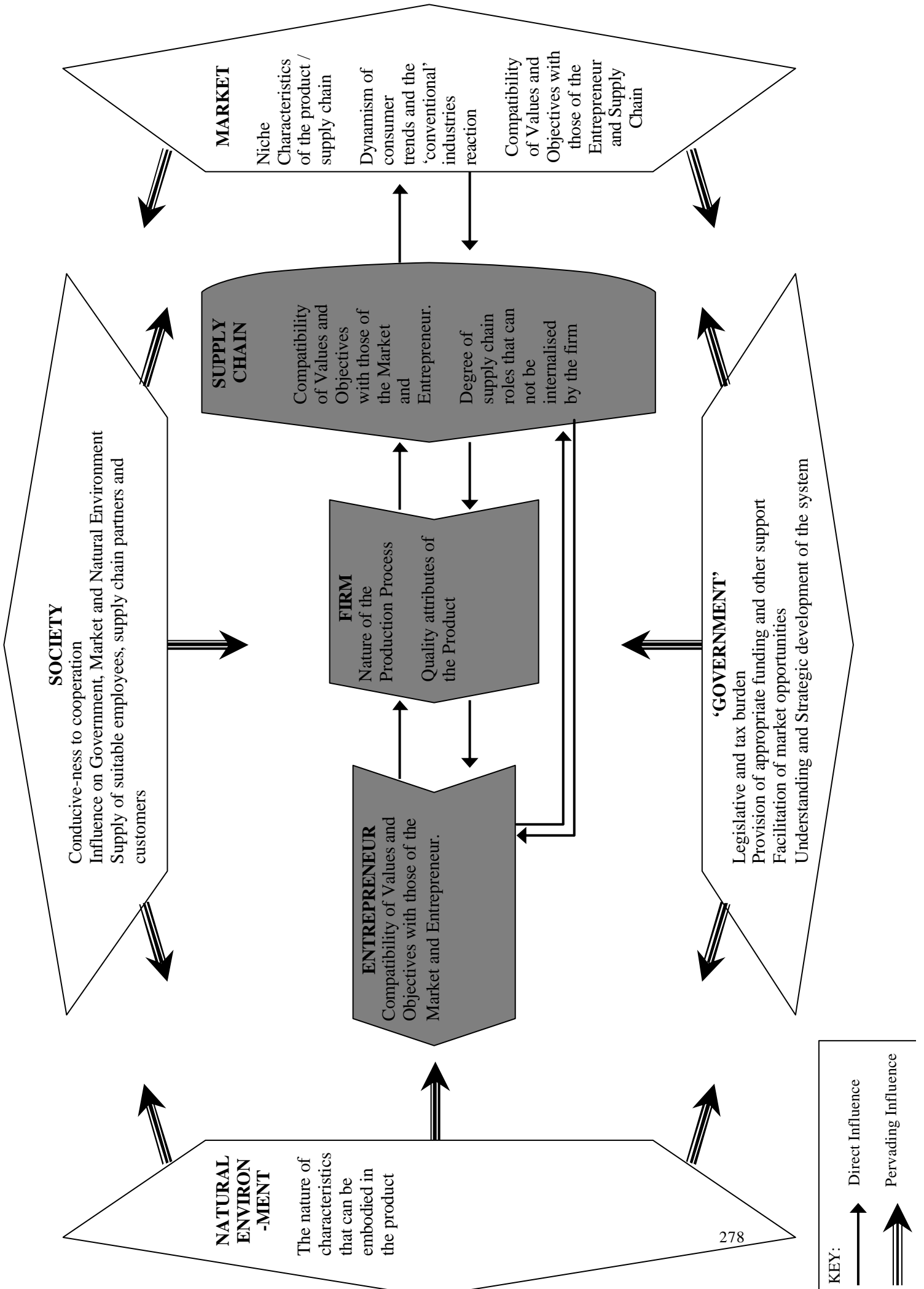
These influence in particular, types of supply chain the business can operate in, the scope for innovation, the level of attraction from conventional interests etc.

- The level of dissonance between supply chain partners

These influence in particular, the transfer of quality and values along the supply chain (to the consumer), the ability and effectiveness of innovations, involvement with conventional interests etc.

Of course, the influence of these three characteristics is much broader than illustrated above, but these examples demonstrate their pervasion. They also are clearly contingent on each other. They do, however, represent the key variables that must be considered when attempting to understand both individual cases and the sector as a whole. It is with these factors in mind that this chapter now goes on to consider the role of the state and key policy recommendations in the light of this research.

Figure 8.4a: A Revised Empirical Schema



8.5 The Failings of the State

Lowe and Talbot (2000) set out three strands of reasoning that promote the provision of small business support policies by government:

- Neo-liberal Arguments; to address either market or government failure (i.e. bias in economic power and in government against small business).
- Social Economy Arguments; the belief that small firms are more likely to be both socially and economically embedded in local areas, bringing greater stability, diversity and socioeconomic prosperity to locales.
- Governance Arguments; the flexible and embedded nature of small businesses has made them increasingly attractive as vehicles for government policies such as technical innovation, employment and the environment.

It would appear that all three strands of reasoning could apply with respect to rural food micro businesses. There are clearly neo-liberal arguments as a consequence of both increasing agrifood regulation, disproportionately impacting on small business, and an increasingly polarised agrifood sector, particularly the supermarket sector. Social economic arguments also hold up; as we have seen in this study, small business agrifood chains are often highly embedded in their areas (economically, socially and environmentally). This is a particularly attractive objective in the face of continual marginalisation of many aspects of conventional agrifood. The promotion of micro food firms for governance reasons also holds up, for example as a conduit for greater environmental sustainability among others. The issue therefore should be, not if food micro firms should be supported but how microfirms should be supported and to what ends. These two aspects of debate have in common the existence of an orthodox view that is gradually being challenged by new ways of thinking.

On the issue of how small firms should be supported, there are clear problems with the effectiveness of traditional, mainly prescribed forms of small business support. This is clearly illustrated both in the literature review (section 3.4b) and in the empirical findings of this study.

The second aspect of debate is one much less well rehearsed; what should be the strategic aim of small business support? Traditionally, support policies have been based around the need to identify small businesses with high growth potential. In other words, it has been to identify successful niche businesses and expose them to conventional market forces. Whilst this may be a preferred strategy for some small business owners, this is clearly not the ideal of many. In fact, with respect to the agrifood sector, there are lines of reasoning that suggest that large food businesses may in fact be less beneficial to local economies than a diverse range of small businesses. In particular, larger firms are arguably more likely to purchase supplies from outside the local area, more likely to be environmentally invasive and more likely to take money out of communities through external ownership. Large firms are also more likely to be engaged in conventional, more competitive and therefore potentially more fragile markets. Marsden *et al.*(1999) sum up the argument for more locally based (and therefore implicitly small) diverse agrifood sectors in the following manner:

“The gradual reform of rural and agricultural policy structure, and the development of new forms of market orientation... put a stronger emphasis upon creating more effective local and regional production and value-added supply chains which may be able to create positive ‘defences’ for rural regions against the prevailing trends of globalisation and further industrialisation of markets. Moreover, new forms of consumer consciousness may provide opportunities for expanding value-added supply chains in terms of the foods, environments and other economic and social benefits they might deliver.” (p295)

With these arguments in mind, it seems clear that a persuasive reasoning exists for stronger support of both agrifood business start-ups and existing low growth firms.

The conclusions of Caulkins & Weiner (1999) reflect a central observation in this study; that most low growth firms do not, typically, have their needs addressed by development agencies. In their study of Welsh manufacturing firms, they concluded that firms of this nature tended to fall between the two dominant working definitions of small firms used by support agencies: high growth and no growth firms. High growth firms are the obvious focus of development agencies, with those firms that do not show a willingness for major expansion being classified in the no growth category. The authors, however, found that many small manufacturing firms showed an egalitarian business philosophy which aimed for steady sustainable growth, but not

at the expense of factors which were perceived as more important such as 'the quality centered culture' in the organisation and loyalty to employees. Caulkins & Weiner explain the lack of support for such businesses as essentially an issue of 'misclassification'. Attempts to impose 'high growth' business models on firms of this nature are met with resistance, while defining them as 'no growth' means that they are subsequently ignored by development agencies. The result is the widely found opinion of small business owners that development agencies do not understand their needs. In order to counteract this problem, Caulkins & Weiner suggest that agencies should give greater focus to 'medium growth' sustainable businesses, which are in turn more likely to foster entrepreneurship among the local population (as opposed to entrepreneurial immigrants typically associated with high growth firms). This study can be seen to broadly support the conclusions of Caulkins & Weiner.

The Curran & Blackburn (2000) conclusion that the low take-up of small business services is generally due to poor marketing, over pricing, poor quality, inappropriateness and poor reputations also seems to be supported in this study.

Perhaps the major element of small business development which prevents the development of highly effective support policies is the sheer heterogeneity among small businesses. The formulation of support measures, by necessity, tends to pool together the needs of highly diverse businesses into categories that can be targeted by service providers. For instance, the widely used definition of SMEs as businesses with between 50 and 250 employees implies some kind of natural grouping and similarities between businesses within this label. Similar arguments can be made about the worth of grouping firms of similar size but widely differing operations together, for instance service and manufacturing firms or different industries. Support instruments based on such definitions have meant that they have had to address a wider range of needs and circumstances, therefore potentially weakening their effectiveness.

As discussed in chapter 7, the greatest value from innovating may be the transferable aspects which may be remembered and used during later experience. In the case of poor experiences with public institutions, however, it may be that the aspect of greatest value to the firm is the memory that public institutional support has in the past been unsatisfactory. Therefore, it is important to get things right first time.

Similarly, studies concluding that businesses fail to take an interest in institutional support due to lack of time or lack of money could alternatively be interpreted as meaning current support arrangements represent lack of *value* with respect to the time and money cost associated.

8.6 The Challenge for Effective Micro Firm Support

The case studies in particular illustrated the Curran & Blackburn (2000) observation that those that provide small firm support services face a very skeptical market. The overall insignificance of institutional support services to the businesses in the survey echoed similar findings from a sample of small manufacturing firms in rural Ireland (McDonagh *et al* 1999). Their study also identified the significance of alternative, what they term ‘soft’ person to person forms of support from banks, colleagues, customers and family. Again, this observation is consistent across both studies. It is clear, therefore, that the challenge for policy makers is to engage with micro firms in ways that are more appropriate for the particular circumstance of very small firms. As the case studies illustrate, too often principles from larger more conventional aspects of business are directly translated to the micro business context with little regard for the divergences in values and objectives.

In a case study based investigation of growth in microbusinesses from a variety of sectors, Perren (1999a) concluded that the complexity of factors that influence microfirm development dictates that institutional support should be ‘tailored and timely’ rather than standardised and supply-sided.

Support mechanisms should account for the increasing realisation of the wider benefits of small low growth firms, particularly in the agrifood context, by providing for their particular needs. For instance, better provision is needed for owners with risk averse attitudes who wish to grow organically. For instance, this often requires smaller loans than are typically made available.

Support mechanisms must also aim towards long-term goals for micro food business and take account of sectoral trends. The lessons currently being experienced in the organic sector (particularly for dairy farmers) should be that building robust, insulated markets is more important than pursuing high growth opportunities that will ultimately attract conventional interest.

Although the receptiveness to the formation of common marketing organisations was generally low, they were still higher than actual levels of existing cooperation. This suggests that there may be at least some latent demand for a higher degree of cooperative synergies among businesses, at least in terms of marketing. Cooperation with marketing may be perceived as less of a threat to the owner's values than cooperation on other aspects (such as distribution and purchasing).

8.7 Alternative Support: Appropriate Networks

The ineffectiveness of traditional small firm support, coupled with the clash of values between micro firms and large institutions, suggests that new forms of small business support may benefit from different strategies for engagement between firms and institutions. The lack of innovations that originated without any assistance from the firm itself warns against notions of imposing solutions on firms. Indeed, evidence from this study suggests that innovations proceed best when they are predominantly borne and supported from the firm itself. Of innovations that involve interests outside of the firm, the case studies clearly show that the closer the outside interests are to those of the firm, the more likely that the innovation will be successful. This suggests that existing networks in which micro firm entrepreneurs operate may be a more suitable conduit to supporting innovation and development. Indeed, it appears that network relationships that firms choose to take part in, rather than have to take part in, are most appropriate. This study therefore supports the emerging body of literature reviewed in section 3.4b that argues that support, particularly in the form of training, is potentially more effective through appropriate networks at the level of the firm.

The suggestion by Down (1999) that training may be more effective through existing business networks such as banks, accountants and suppliers, however, appears to be in need of qualification in the light of this study. Certainly, typical relationships between food micro firms and banks would appear to be prescriptive and untrusting, and therefore not conducive to rich forms of innovation inducing networks. This is illustrated by Hitchens (1997), who found that, in the case of small manufacturing firms in mid Wales, bank managers are a common source of advice, particularly among the smaller businesses in his sample. In fact, in his survey, 60% of micro businesses had taken business advice from their bank manager in the previous year. The advice received, however, was considered disappointing in 30% of cases, and was predominantly based around trying to sell the bank's products to the customer.

The other suggestion from Down (1999), that trade relationships and professional associations may be a potential method for raising the skills of small business owners, would seem to be backed up by this study. The successful relationships between the cheesemakers and Caws (the Cheesemakers Association of Wales) provide a good example of how effective trust based support networks can be formed.

In fact, Caws provides an interesting case study in itself of how effective producer support organisations can be developed. As well as providing a forum to discuss ideas and share experiences, Caws also provides a marketing and more specifically a market access function. For example, the producer group has managed to win large contracts (e.g. with ferry companies) that would not have been open to individual members. For Oceanview cheese, the relationship with Caws can be seen to be particularly important, both as a source of advice (including innovations) and as a source of market opportunity. The organisation also manages to foster successful, symbiotic relationships between large and small firms which, as we have seen, in normal circumstances is often laden with problems due to contrasting values. In fact, Caws is in many ways a unique organisation. Similar groups, in other product areas, have been set up in Wales without achieving much success. The effectiveness of Caws seems to be due partly to the nature of cheese products. Both small and large firms are able to work together without feeling challenged or fearing a loss of advantage. Perhaps this is something to do with a 'cheese board' effect, i.e. varieties of cheese can complement each other in the right circumstances. This characteristic is

rare among food products and therefore does not bode well for similar schemes. Notwithstanding this, however, Caws may be held up as a model from which other alternative support networks can be drawn.

Another model from which effective, innovation inducing, support organisations may be developed are Chambers of Commerce. It is estimated that only 10% of all businesses in the UK belong to an affiliated Chamber of Commerce, and less still in rural areas. Traditionally the key role of this group has been to represent the interests of small businesses in policy circles; more recently however, many have developed advice and development services to aid members (Johnson *et al.* 2000). Our study would suggest that support and cooperation from other similar sized businesses originating from a variety of sectors could be an effective asset for small firm development.

Appropriate networks may also be achieved through supply chain partnerships, such as Harvest Bakery's experience with the support schemes set up by major flour millers. As outlined above, however, the situation of firms such as HB that are in chains dominated by conventional interest is significantly different to typical micro firms that engage with supply chain partners of similar outlook.

In sum, therefore, opportunities for support through the development of effective networks, based on trust, mutual goals and understanding, and refrain from opportunistic behaviour need to be explored further.

8.8 Promoting New Enterprise

If the notion is accepted that the growth potential for many micro firms is, in fact, limited and a numerous but diverse food sector is actually an asset, then a key policy objective must be to promote new agrifood enterprise. It is clear from this study that small enterprise creation policies should aim to ease the conversion of latent entrepreneurs into business people by better accommodating the range of values and

aims found among small business owners. Sweeney (1985) identifies four key elements that influence an individual's decision to start a businesses:

- a disposition in the nascent entrepreneur (i.e. a locus of control).
- the existence of an entrepreneurial role-model (parent, colleague, culture).
- the occurrence of a displacement event that precipitates action.
- the availability of resources which makes a venture economically and technically feasible.

Of these factors, policy makers can potentially influence business start-up propensity through the provision of resources. To a lesser extent, the promotion of entrepreneurial role models and other, more subtle long-term, initiatives aimed at building entrepreneurial capital are also viable policy options. The current rural and food crises are clearly enough of a displacement event for many. Therefore, the only element left untouched is the disposition of nascent entrepreneurs. Clearly, promoting the stock of nascent entrepreneurs is a long-term and challenging strategy. More realisable would be attempts to promote the self realisation of nascent entrepreneurial potential. Evidence suggests that even risk-averse people can become entrepreneurial, as long as they adopt an appropriate development strategy (McMullan & Vesper 2000). This is supported by the existence of risk averse behaviour among the case study businesses.

In a study of person change of individuals who have experienced entrepreneurial training programmes, McMullan & Vesper (2000) identify 8 discrete steps in the transformation of those who began by considering themselves as non-entrepreneurial but ended up successfully founding a business:

1. Concluding they could become an entrepreneur
2. Deciding they want to be an entrepreneur
3. Acquiring the knowledge required to become an entrepreneur
4. Finding a meaningful (business) opportunity
5. Evaluating that opportunity
6. Developing the idea until it is at the point of launch
7. Overcoming scepticism from self, family, peers etc
8. Appreciating their change in self definition as a result of the experience.

This model illustrates the kind of personal change that is typically experienced by someone without previous entrepreneurial experience when starting a business. These kind of processes need to be appreciated and supported as much as possible, ideally through alternative support networks, for example peer counselling.

8.9 Demand Based Support

As discussed in section 8.1, microfirm entrepreneurs react best to market opportunity. Indeed, 'selling' is often their primary activity. Stimulation of demand for micro business products by public institutions would seem to be a potentially powerful tool for small firm policymakers. Active support for new markets is a significant difference between small business support policies in the UK and the United States, who tend to be held up as a prime example of effective small business support (Westall *et al.* 2000). Although forms of marketing support, such as labelling schemes and export organisations, are a relatively common form of small business assistance in the UK, the potential scope for stimulating market opportunity is far greater.

Public procurement, for example, has the potential to be a powerful market support tool. Although competition legislation restricts openly favouring specific businesses, small businesses in general can be targeted through the development of appropriate procurement structures and contract clauses. Local food procurement in particular can potentially raise multiple dividends that exceed purely economic support. Figure 8.9a lists some of these.

Figure 8.9a: Potential Benefits of a Local Food Procurement Policy for Welsh Institutions.

- Market for local producers
- Greater profile for local products
- Reduced environmental cost
- Greater retainment of expenditure in local area
- Increased exposure of food products to visitors to institutions (especially VIPs etc)
- Encouragement of mainstream wholesalers to supply such products (and promote these services to other non-public and external institutions).
- Good public relations for public institutions and politicians.

Moreover, public procurement of small scale food products could prove to be more cost effective than traditional support measures such as training schemes, large grants for individual companies and generic marketing campaigns.

Demand-based assistance is not limited to public procurement, however. The WDA run a successful Producer-Retailer Scheme, that links Welsh firms with supermarkets. This kind of mediation role could be extended to other parts of the supply chain, linking local producers with tourism outlets for example. The survey showed that Welsh firms have a seemingly underdeveloped presence in more concealed parts of the food industry such as catering, public institutions and trade between food companies.

Demand-based assistance is also likely to be perceived favourably by small firms who, as we have seen, tend to harbour suspicion against public institutions. Directly assisting the creation of markets gives the impression that public institutions are helping the cause of small firms rather than attempting to impose their own values on them, for example through training schemes and insensitive legislation.

Public supporting institutions may also have scope to build conditions into their contracting arrangements with service providers and grant recipients that would promote micro firm sourcing. Nature's Bounty, for example, described the problems

they experienced attempting to win business with a major tourist attraction that had recently been founded largely with public money. They found that the new organisation used one large conventional supplier for all their catering needs. In fact, linking local food and agriculture with tourism has potentially strong value adding effects (see Parrott *et al.* 1999).

8.10 Appropriate Finance

The importance of access to appropriate finance in order to pursue development strategies was demonstrated in both the case studies and survey. As discussed above however, many businesses expressed strong resistance towards using commercial banks. In spite of this, approximately 76% of all UK small firm debt is in the form of bank overdrafts and short term commercial loans. This is due to the fact that, although such forms of borrowing are relatively expensive, they are often the only available sources of finance to small established firms. In commercial terms, the reason for this is usually associated with a lack of collateral with which to guarantee loans (Burns & Dewhurst 1996). NB criticised banks as being too commercial for the needs of businesses such as themselves. This issue again relates to a lack of shared values between micro business entrepreneurs and conventional interests. Microbusinesses, on the other hand, do not tend to be attractive to commercial banks due to the high transaction costs associated with lending small amounts and a high risk (both perceived and actual) associated with very small businesses (Westall *et al.* 2000) (Burns & Dewhurst 1996).

Although there are some state-sponsored schemes available to established small firms, such as the Small Firms Loan Guarantee Scheme, they tend to be perceived as unsuited to the needs of many small firms. Common criticisms for such schemes include the amount of paperwork and inappropriate loan sizes and payback terms (Burns & Dewhurst 1996). A number of case study businesses relayed these factors. In particular, NB, who have successfully used such loans in the past. The issue of appropriate financing is also demonstrated by WS and NH, both of whom have found their growth ambitions limited by lack of financial options.

As illustrated by the innovations data, micro firm development is often a series of small steps rather than significant expansions. Lack of finance however can hold up even small developments. Seaview Cheese, for example, benefited considerably from what would be considered small scale financial assistance, when they developed their cheese room. Wye Smokery, on the other hand, had to cope without back-up equipment because they could not afford any and found existing grant schemes inappropriate and too time consuming.

It may be concluded, therefore, that a lack of what micro firm entrepreneurs would perceive as appropriate financing is potentially restricting a considerable amount of small scale agrifood development.

Experiences from this study, however, suggest that alternative systems of financing may provide considerable opportunity for micro firms. Financing schemes that allow small firms to borrow flexibly, at less than commercial rates, through organisations that they perceive as being non-aggressive and sharing some of the same values as themselves, would seem to hold great potential. Appropriate models do already exist, particularly in the form of microfinancing schemes, which are an increasingly popular development tool both in third world countries and deprived communities in developed countries (Westall *et al.* 2000). Similarly, forms of credit unions may also hold potential for very small agrifood businesses. These types of schemes tend not only to be sensitive to 'grass root' needs and circumstances but, if successful, can also become self-sustaining (due to loan repayments plus interest).

Micro credit schemes do exist in the UK but they tend to be restricted to small geographical areas and run primarily by local councils (ILO 1998). The issues discussed in this thesis illustrate the problems that exist between micro firms and public institutions, therefore suggesting that such schemes would be more successful if administered by 'non-public' institutions.

Within Wales, the Institute of Welsh Affairs recently concluded that 'there are clear opportunities for an expansion of micro-lending, which would provide new sources of

accessible finance, with the potential to make a significant difference to generating and preserving employment' (Blewitt 2000, p20).

8.11 Strategic Development of the Agrifood Sector

The strategic development of agrifood sectors in regions such as Wales should be formulated with respect to medium and long term dynamics. In the medium term at least, the prospects for 'capital rich' agriculture, and for regions that have comparative and competitive advantages in these areas, are good. Despite growing rural development trends illustrated here and elsewhere, the relative power of conventional agri industrial interests is likely to grow (vis à vis broader rural development interests). Three main factors can be seen to underlie this development. Firstly, the sustained overall movement towards global free markets through the WTO process, despite short term-ist trade barriers, will strengthen global competitiveness between agricultural regions. Secondly, the continued development of GM technology is likely to have far reaching implications, increasing economic efficiencies and opportunities for adding value in 'conventional' terms. Thirdly, the growth in demand for food and other agricultural products based on quality criteria other than price, is likely to further stimulate the appropriation of these markets by conventional forces. These three aspects represent major challenges to rural development interests, particularly in marginalised regions such as Wales.

The medium term objectives of rural development protagonists should therefore be the development and strengthening of diverse rural development aspects which have little potential for appropriation by conventional concerns. Such 'insulation' against appropriation can be achieved in a number of ways. Firstly, the strategic development of regional and local production systems which engage the interests of consumers should be a priority. The activation of consumer subscription to a region's agrifood sector is in many ways a panacea for regional agrifood, both in terms of purchasing loyalty and political significance. The vibrancy of local and regional food systems in nations such as France and Italy are testament to this. Secondly, diversification of agrifood activities represents a valuable tool, as outlined above. In particular, small

diverse agrifood activities are both more embedded in local areas and less prone to distant competitive pressures in the market place. 'Lifestyle' businesses should be encouraged. Interestingly, the postal survey showed no correlation between profit and importance of lifestyle among respondent businesses. Thirdly, greater integration within the agrifood sector should be pursued. Two findings from the survey inform this objective: the lack of integration between some aspects of the Welsh food industry, for instance between institutional catering and food producers and between food producers themselves (i.e. supplying ingredients), and a lack of cooperative culture between food producers.

The strategic direction called for in this thesis fits with wider rural development thinking in Europe which increasingly recognises that the rural economy is inextricably linked to national, European and global economic dynamics. As such, rural development objectives should seek to broaden and deepen economic activity, in other words move away from economies of scale towards economies of scope (Marsden *et al.* 2002).

Small scale quality food systems, as defined by the values outlined in this thesis, must learn to exist under the shadow of conventional interests, unable to 'breakout' without risk of appropriation. Only the development of systems that effectively bridge the two production ethics in a form that ensures the integrity of small scale activities can enable alternative values to cease being alternative.

8.12 Methodological Reflection

The methodological approach taken in this thesis was deliberately broad and reflexive, so as to compliment the exploratory nature of the research issue. As such, this approach presented a number of distinct challenges to the researcher. These were also compounded upon by the nature of the research subjects. For example, conducting a series of regular interviews with microfirm entrepreneurs required the building of confidence and trust between interviewer and interviewee. It also required commitment on behalf of the business owner to provide both the time for interviews

and the required level of candidness for effective insight. In practice, this dictated the need for a considerable amount of flexibility in return by the researcher. For example, interviews were invariably conducted in the workplace, often while the entrepreneur was producing the product. Whilst providing benefit in terms of broadening the understanding of production methods and encouraging novel forms of enquiry, these situations also restricted data collection techniques. In particular, interviews could not be audio recorded in situations of high background noise.

The highly seasonal nature of both production and consumption of many artisanally based food products also had a practical impact on what times of the year interviews could be scheduled. For example, the period leading up to Christmas had to be avoided, despite there being certain attractions to seeking the views of entrepreneurs during this business time. In this instance, issues relating to Christmas were discussed as close to the actual period as possible, so as to ensure accurate recall.

The Foot and Mouth Disease outbreak during 2001 also presented a series of challenges to the research. As well as significantly weakening the rural economy, and therefore potentially having an impact on business fortunes, the movement restrictions associated with the outbreak also prevented the conduct of face to face interviews at the farm-based businesses. In these cases, interviews had to be conducted by telephone.

An additional issue raised by the exploratory nature of the case study enquiry was the use of semi-structured interview scripts. Whilst allowing interviews to flow more smoothly, they also created challenges in covering the desired range of subjects in only limited interview periods. On the occasions where un-anticipated avenues of enquiry were followed to an extent that the original interview issues could not be fully covered, the issues were returned to in subsequent interviews. This practical consideration highlights the trade-offs researchers face between flexibility and focus.

8.13 Implications for Future Research

Given the nature of the area of enquiry and the research methodology adopted, it is apparent that this thesis will leave a broad range of issues that would benefit greatly from further research. As outlined in the methodology section (Chapter 4), this study is part of the early stages of an intellectual paradigm. There still remain many unknown factors connected with understanding the development of micro firms in general and micro food firms in particular. This study furthers understanding by taking an essentially empirical approach to the issue. The result is a better understanding of the issue, particularly with respect to innovation needs and outcomes. Amongst other things, it highlights a series of key issues that impact on the development of the phenomena under investigation.

The research agenda in this area should take account of the contribution to understanding that this study provides in a number of ways. For example, by focusing on relationships between 'alternative' values and 'conventional' values. This should be pursued in particular through notions of quality constructs, and also more broadly in terms of supply chain relationships and issues of trust and mutual understanding.

In terms of the policy implications from this area of enquiry, it is clear that current support measures for food micro firms are far from universally effective. This study contributes towards a growing body of literature (see section 3.4b) suggesting that small business support suffers mainly from poor design, particularly through engaging inappropriate networks. Given the importance of this area, this research suggests greater academic pursuit needs to be given to addressing how appropriate support instruments can be fostered and made more effective.

There is a need for a stronger empirical basis for these research issues. Although this thesis contributes greatly to the level of empirical understanding, it is confined only to rural Wales. Our understanding would benefit greatly from comparative research in this area, both between regions and between sectors and environments (for example agriculturally endowed versus marginalised).

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Appendix A: Welsh Agrifood Business Questionnaire

***PLEASE RETURN BY
10TH NOVEMBER 2000***

SECTION ONE : BUSINESS CHARACTERISTICS

A1 In what year was your business established?

A2 What is your approximate turnover? <50K # 51-100K # 101-200K # 201-400K # >400K #

A3 Please indicate which of the following best describes the current growth of your business:

- The business has recently started up and is trying to establish itself in the market #
- The business is growing steadily #
- The business is achieving significant growth #
- The business is not currently experiencing any significant growth #
- The business is currently loosing sales #
- The activities of the business are being reviewed because of poor performance #
- The business is planning to end production #

A4 Is the business farm based? (ie do you use ingredients from your own farm?) Yes # No #

A5 Who owns the business? Sole owner # Partnership within family # Non family partnership # Other #

A6 What is the average number of employees in the business? (please answer in months, i.e. 1 person f/t =12 months etc)

	Full time	Part time	Seasonally
Family Members months months months
Other Employees months months months

A7 How far away is your firm located from... the nearest town / village? miles (if located in town/village please put '0')
the nearest town with over 15,000 people? miles (ditto)

SECTION TWO : BUSINESS RELATIONSHIPS

B1 Please indicate the extent to which you use the following types of supply channel for your products...

1= not at all 3= some 5= to a great extent

Own shop or on-site sales	1	2	3	4	5	Mail order	1	2	3	4	5
Own delivery direct to consumers	1	2	3	4	5	Farmer's markets	1	2	3	4	5
Local shops	1	2	3	4	5	'Conventional' marketplaces	1	2	3	4	5
Specialist shops / delicatessens	1	2	3	4	5	Fairs (food fairs, exhibitions etc)	1	2	3	4	5
Other non-local independent shops	1	2	3	4	5	Tourism establishments	1	2	3	4	5
Supermarkets or other retail chains	1	2	3	4	5	Sold for 'hospitality gifts'	1	2	3	4	5
Wholesalers	1	2	3	4	5	Other food firms as ingredients	1	2	3	4	5
Catering (resturants, pubs, cafes etc)	1	2	3	4	5	Other food firms to suppliment range	1	2	3	4	5
Public catering (schools, hospitals etc)	1	2	3	4	5	Other (please specify).....	1	2	3	4	5

B2 Do you deal with a small number of significant individual customers? Yes # No #
if so, how many?.....

B3 Do you have a fixed contractual relationship with any of your customers? Yes # No #

B4 Please estimate, as a percentage, what proportion of your products are sold in the following geographical markets...

Locally= %	Regionally= %	In Wales = %	UK = %	Overseas= %	Total = 100%
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B5 Do you have products that require chilled or frozen distribution? Yes # No #

B6 Do you consider any of your products as fragile in terms of distribution? Yes # No #

B7 How do you distribute our products?

1= not at all 3=some 5=to a great extent

Own Transport	1	2	3	4	5	Third party (food specific distributor)	1	2	3	4	5
Customers collect products themselves	1	2	3	4	5	Third party (general; eq royal mail, UPS)	1	2	3	4	5

B8 Please indicate the extent to which you use the following types of supplier...

1= not at all 3= some 5= to a great extent

Wholesale (unknown source)	1	2	3	4	5	Direct from non-local producer	1	2	3	4	5
Wholesale (known source)	1	2	3	4	5	Own product (ie on farm)	1	2	3	4	5
Direct from local producer	1	2	3	4	5	Other (please specify).....	1	2	3	4	5

B9 Do you deal with a small number of significant individual suppliers? Yes # No #
if so, how many?.....

B10 Do you have a fixed contractual relationship with any of your suppliers? Yes # No #

B11 Please estimate, as a percentage, what proportion of your ingredients originate in the following geographical areas...

Locally=	%	Regionally=	%	In Wales =	%	UK =	%	Overseas=	%	Total =	100%
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SECTION THREE : ENTREPRENEURIAL PROFILE

Please answer for yourself and any other person that has a significant decision making influence on the business

C1 Age Category?	Yourself	Partner	Other Significant
< 30	#	#	#
30-45	#	#	#
46-60	#	#	#
60+	#	#	#
C2 Sex?			
Male	#	#	#
Female	#	#	#
C3 Highest level of formal education?			
None	#	#	#
O Level / GCSE	#	#	#
A Levels	#	#	#
Degree Level	#	#	#
Vocational	#	#	#
C4 Local origin? (ie within region)			
Yes	#	#	#
No	#	#	#
C5 Previous food related experience? (eg farming, processing industry)			
Yes	#	#	#
No	#	#	#
C6 Previous business ventures?			
Yes	#	#	#
No	#	#	#

C7 In which areas do you and your partner etc have specific positions of responsibility (on a day to day basis)?

1= not at all 3 = some 5= to a great extent

	Yourself					Partner					Other Significant				
Production	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Product development	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Distribution	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Marketing and sales	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Procurement	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Financial management / planning	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Human resources	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Strategic planning	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Other (please specify)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

C8 To what extent have any of you had training or acquired competence through earlier experience in the following areas?

1= not at all 3 = some 5= to a great extent

	Yourself					Partner					Other Significant				
Product development	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Processing	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Packaging development	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Marketing and selling skills	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Quality assurance / control	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Pricing	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Financial management / planning	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

C9 Which of these statements best describes the decision making relationship within your business?

One person is responsible for all significant business decisions	#
Significant decisions are most often discussed between partners.....	
... but with one partner <i>always</i> responsible for making the final decision	#
... but with one partner <i>often</i> responsible for making the final decision	#
... with final decisions made by consensus	#

C10 To what extent did the following factors influence the establishment of the business?

1= not at all 3 = some 5 = to a great extent

There was a clear niche in the market	1	2	3	4	5	Willingness to maintain local food culture	1	2	3	4	5
Good product or business idea	1	2	3	4	5	Desire for control / challenge	1	2	3	4	5
Public institution support	1	2	3	4	5	Sceptical attitudes towards large-scale industrial food production	1	2	3	4	5
Possibility to utilise existing resources	1	2	3	4	5	Difficulty to find waged work	1	2	3	4	5
Need for extra income sources	1	2	3	4	5						

SECTION FOUR : INNOVATIONS

D1 Please detail any innovations that have occurred in your business during the past year, following the example below. Other examples include marketing activities, product development and new suppliers. You can tick more than one box in each section.

Description of Innovation	E.g. New Processing Equipment	1.	2.	3.	4.	
Aim of Innovation (please indicate which category or categories best describe the desired outcome of the innovation)	Cost Reduction	Cost Reduction	Cost Reduction	Cost Reduction	Cost Reduction	
	Develop New Markets	Develop New Markets	Develop New Markets	Develop New Markets	Develop New Markets	
	Increase Demand	Increase Demand	Increase Demand	Increase Demand	Increase Demand	
	Meet Potential Demand	Meet Potential Demand	Meet Potential Demand	Meet Potential Demand	Meet Potential Demand	
	Retain Interest	Retain Interest	Retain Interest	Retain Interest	Retain Interest	
	Meet Legislation	Meet Legislation	Meet Legislation	Meet Legislation	Meet Legislation	
	Lifestyle Concerns	Lifestyle Concerns	Lifestyle Concerns	Lifestyle Concerns	Lifestyle Concerns	
Other (please specify)	Other (please specify)	Other (please specify)	Other (please specify)	Other (please specify)	Other (please specify)	
Origin of innovation Idea / stimulus	Self (or partner)	Self (or partner)	Self (or partner)	Self (or partner)	Self (or partner)	
	Other in Business	Other in Business	Other in Business	Other in Business	Other in Business	
	Customer	Customer	Customer	Customer	Customer	
	Other External to Business	Other External to Business	Other External to Business	Other External to Business	Other External to Business	
Assistance received	None	None	None	None	None	
	Supplier / Customer	Supplier / Customer	Supplier / Customer	Supplier / Customer	Supplier / Customer	
	Private Consultant	Private Consultant	Private Consultant	Private Consultant	Private Consultant	
	Public Agency	Public Agency	Public Agency	Public Agency	Public Agency	
Outcomes of Innovation (please indicate, if possible, the approximate impact of the innovation in one or more of the following categories)	Turnover:	Turnover:	Turnover:	Turnover:	Turnover:	
	Employment:	Employment:	Employment:	Employment:	Employment:	
	Customers:	Customers:	Customers:	Customers:	Customers:	
	Efficiency: <i>Increase 10%</i>	Efficiency:	Efficiency:	Efficiency:	Efficiency:	
	Cost Saving: <i>approx 5K per Year</i>	Cost Saving:	Cost Saving:	Cost Saving:	Cost Saving:	
	Sales:	Sales:	Sales:	Sales:	Sales:	
	Margin:	Margin:	Margin:	Margin:	Margin:	
	Other...	Other...	Other...	Other...	Other...	
No Measurable Outcome	No Measurable Outcome	No Measurable Outcome	No Measurable Outcome	No Measurable Outcome	No Measurable Outcome	
Relative Cost	Time	Low <input type="checkbox"/> Med <input checked="" type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>
	Money	Low <input type="checkbox"/> Med <input checked="" type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>
Overall Value	Low <input type="checkbox"/> Med <input checked="" type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>	Low <input type="checkbox"/> Med <input type="checkbox"/> High <input type="checkbox"/>

D2 Please indicate the importance and frequency of the following innovations in your business:

	Importance					Frequency			
	1 = Not important	2	3	4	5 = Very important	Continous development	More than once every Six months	Between six months and a year	Less than Once a Year
Product development	1	2	3	4	5	#	#	#	#
Process development	1	2	3	4	5	#	#	#	#
New marketing strategy*	1	2	3	4	5	#	#	#	#
New packaging	1	2	3	4	5	#	#	#	#
New promotions	1	2	3	4	5	#	#	#	#
New suppliers	1	2	3	4	5	#	#	#	#
New customers	1	2	3	4	5	#	#	#	#

* e.g. market positioning, pricing strategy

D3 How important are the following factors to the performance of your business?

1= not at all important 5= extremely important

Demand for your product	1	2	3	4	5
Activities of competitors	1	2	3	4	5

Influence from suppliers	1	2	3	4	5
Influence from customers	1	2	3	4	5

The Business' financial situation	1	2	3	4	5
Involvement in other business activities	1	2	3	4	5
Family / lifestyle commitments	1	2	3	4	5
Opinion of family / peers	1	2	3	4	5

Opinion of other employees	1	2	3	4	5
Consultant's (or other expert) opinion	1	2	3	4	5
Availability of financial support	1	2	3	4	5

SECTION FIVE: DIFFERENTIATION

E1 To what extent do you agree with the following descriptions of your consumers?

1= completely disagree 3=neither agree or disagree 5 = completely agree

Our market is growing strongly	1	2	3	4	5
Our products are used mainly in festive occasions	1	2	3	4	5
Our customers are ordinary consumers	1	2	3	4	5
Our consumers are mainly over 40	1	2	3	4	5
We sell a large proportion of our products to tourists	1	2	3	4	5
We sell our products to consumers who are willing to pay more for quality	1	2	3	4	5
We sell our products to consumers who like to consume a wide variety of foods	1	2	3	4	5

Our consumers live mostly in cities	1	2	3	4	5
We sell our products to consumers who want to help small-scale agriculture and food processing	1	2	3	4	5
Our consumers have a higher education than average	1	2	3	4	5
Our consumers have a higher income than average	1	2	3	4	5
We sell our products to consumers who like to preserve traditional food culture	1	2	3	4	5

E2 How well do the following descriptions apply to your products?

1= completely disagree 3=neither agree or disagree 5 = completely agree

Our products contain no additives	1	2	3	4	5
Our products have a "home made" quality	1	2	3	4	5
Our products are of extra high quality	1	2	3	4	5
Our products are based on ecological / organic ingredients	1	2	3	4	5
Our products have a unique taste	1	2	3	4	5
Our products are particularly healthy	1	2	3	4	5

Our products are based on traditional recipes and ingredients	1	2	3	4	5
Our products are based on ingredients of high quality	1	2	3	4	5
We document the quality in our production (i.e. with a quality assurance system)	1	2	3	4	5
Our products have attractive packaging	1	2	3	4	5

E3 To what extent do you consider the following factors to be important in differentiating your main products or your business from your principal competitors?

1= not important at all 5= extremely important

Superior quality of ingredients	1	2	3	4	5
Quality of suppliers	1	2	3	4	5
Unique product idea	1	2	3	4	5
Superior quality of products	1	2	3	4	5
Innovativeness of product development	1	2	3	4	5
Production methods	1	2	3	4	5
Competitive prices	1	2	3	4	5
Superior reputation of the products	1	2	3	4	5
Products are made near to customers	1	2	3	4	5
Use of organic ingredients	1	2	3	4	5
Different ingredients used	1	2	3	4	5
Traditional product recipe	1	2	3	4	5
Appearance of the products	1	2	3	4	5
Product packaging	1	2	3	4	5
Diversified product range	1	2	3	4	5

Distribution channels used	1	2	3	4	5
Way of selling the products	1	2	3	4	5
Your reputation in your market area	1	2	3	4	5
Reliability of delivery	1	2	3	4	5
Your own / family members' special competence within a field	1	2	3	4	5
Other employees' special competence within a field	1	2	3	4	5
Ability to meet specific customers needs	1	2	3	4	5
Personal contact with customers	1	2	3	4	5
Knowledge of product / ingredient origin	1	2	3	4	5
Short supply chain length from producer to customer	1	2	3	4	5
Environmentally friendly products / policy	1	2	3	4	5
Well-known product name	1	2	3	4	5

E4 Who do you regard as your main competitors?

1= completely disagree 5= completely disagree

We compete with ordinary products from large-scale firms	1	2	3	4	5
We compete with premium / speciality products from large-scale firms	1	2	3	4	5

We compete with products from other small-scale firms	1	2	3	4	5
We have no direct competitors	1	2	3	4	5

E5 To what extent are the physical characteristics of your product differentiated if compared with...

1= no differences 5=completely different

Ordinary products from large firms	1	2	3	4	5
Premium / speciality products from large firms	1	2	3	4	5

Products from similar types of small-scale firm	1	2	3	4	5
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E6 To what extent are your services (e.g. delivery, meeting special demands) differentiated if compared with...

1= no differences 5=completely different

Ordinary products from large firms	1	2	3	4	5
Premium / speciality products from large firms	1	2	3	4	5

Products from similar types of small-scale firm	1	2	3	4	5
---	---	---	---	---	---

E7 To what extent is your overall way of running the business differentiated if compared with...

1= no differences

5=completely different

Ordinary products from large firms	1	2	3	4	5
Premium / speciality products from large firms	1	2	3	4	5

Products from similar types of small-scale firm	1	2	3	4	5
---	---	---	---	---	---

E8 How easily can the characteristics of your products which differentiate them from your competitors, be imitated?

1= very easy to imitate 5= very difficult to imitate

Business Competence (e.g. product development, production methods)	1	2	3	4	5
--	---	---	---	---	---

Product Characteristics	1	2	3	4	5
-------------------------	---	---	---	---	---

E9 How threatening do you consider imitation to be in your market area...?

1= not threatening at all 5= extremely threatening

From large/medium-scale firms	1	2	3	4	5
-------------------------------	---	---	---	---	---

From similar type small-scale firms	1	2	3	4	5
-------------------------------------	---	---	---	---	---

E10 How easily do you think your customers are able to substitute your products with products from other firms?

1= very easy to substitute 5= very difficult to substitute

1	2	3	4	5
---	---	---	---	---

E11 Are the prices of your main products higher or lower if compared with...

1= significantly lower 3=more or less the same 5= significantly higher

Ordinary products from large firms	1	2	3	4	5
Premium / speciality products from large firms	1	2	3	4	5

Products from similar types of small-scale firm	1	2	3	4	5
---	---	---	---	---	---

SECTION SIX: BUSINESS DEVELOPMENT

F1 To what extent do you consider the following factors to be a weakness in your firm which makes it difficult to achieve and maintain a competitive position in your market area?

1= no weakness at all

5=significant weakness

The level of the firm's capital resources	1	2	3	4	5
Availability of outside capital	1	2	3	4	5
The number of potential customers	1	2	3	4	5
Your location relative to your customers	1	2	3	4	5
Your ability to define a target market for your products	1	2	3	4	5
Your competence in product development	1	2	3	4	5
Your competence in production management	1	2	3	4	5
Your ability to acquire information about customers and markets	1	2	3	4	5
Your competence in marketing	1	2	3	4	5
Your competence in pricing products appropriately	1	2	3	4	5
The ease of entry into distribution channels (e.g. shops, restaurants wholesalers)	1	2	3	4	5
Your customer orientation in product development and marketing	1	2	3	4	5

Your employee motivation	1	2	3	4	5
The level of co-operation with other firms or organisations	1	2	3	4	5
The quality of co-operation with other firms or organisations	1	2	3	4	5
Your competence in financial planning and accounting	1	2	3	4	5
The availability of business counselling	1	2	3	4	5
Your desire to take risks	1	2	3	4	5
Your ability to innovative	1	2	3	4	5
The availability of professional employees	1	2	3	4	5
Your ability to find suitable suppliers	1	2	3	4	5
Your adoption of new production methods	1	2	3	4	5
A clear vision of the firm's future	1	2	3	4	5
The amount of paperwork demanded by legislation and customers	1	2	3	4	5
Your selling skills	1	2	3	4	5

F2 How much would you estimate you spend on average per year on the following over the past three years?

Product development : ____ % of turnover or £____ per year

Marketing: ____ % of turnover or £____ per year

Training: ____ % of turnover or £____ per year

F3 How profitable do you consider your business to be on average during the three last years if compared with...

1= not at all profitable 5= very profitable

The targets you have set yourself	1	2	3	4	5
Similar small scale firms	1	2	3	4	5

The average in your industry	1	2	3	4	5
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F4 How do you rate the Liquidity and financial solidity of your business, on average over the past three years?

1= very weak 5= very good

Liquidity	1	2	3	4	5
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Financial solidity	1	2	3	4	5
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F5 How satisfied have you been with the following factors when considering your business during the past three years?

1= not at all satisfied 5=very satisfied

Sales volume	1	2	3	4	5
Business Revenue	1	2	3	4	5
Product unit costs	1	2	3	4	5
Raw material costs	1	2	3	4	5
Labour costs	1	2	3	4	5

Capital costs	1	2	3	4	5
Return-on-investment	1	2	3	4	5
Business Profit	1	2	3	4	5
Customer Retention	1	2	3	4	5
Number of the new customers	1	2	3	4	5

Market share in your main market area	1	2	3	4	5
Customer satisfaction with your products	1	2	3	4	5
Selling prices of the products	1	2	3	4	5
Price / quality relationship perceived by your customers	1	2	3	4	5
Your ability to command a price premium	1	2	3	4	5
The increase in demand for your products	1	2	3	4	5
The number of new products you have launched	1	2	3	4	5
Unit costs of your products relative to competitors	1	2	3	4	5
Quality of your products relative to competitors	1	2	3	4	5

Utilisation rate of your capacity	1	2	3	4	5
Storage turnover	1	2	3	4	5
Reliability of the delivery to customers	1	2	3	4	5
Amount of co-operation with other firms and organisations	1	2	3	4	5
Quality of co-operation with other firms and organisations	1	2	3	4	5
Own/employees' competencies compared with main competitors	1	2	3	4	5
Ability to keep in touch with development within the industry	1	2	3	4	5

F6 To what extent do you use the following marketing tools / methods?

1= not at all 5= to a great extent

Personal selling through telephone or visiting customers	1	2	3	4	5
Own marketing materials (e.g. brochures)	1	2	3	4	5
Shared marketing with other firms	1	2	3	4	5
Advertisements in local newspapers	1	2	3	4	5
Advertisements on local radio	1	2	3	4	5
Advertisements in trade magazines	1	2	3	4	5

Advertisements in national media	1	2	3	4	5
Product demonstrations in retail shops	1	2	3	4	5
Participation in fairs	1	2	3	4	5
Factory / farm tours for customers	1	2	3	4	5
Farmers' Markets	1	2	3	4	5
Own website	1	2	3	4	5
Entries on other websites	1	2	3	4	5

F7 How well do the following statements describe the development objectives for your business?

1= completely disagree 5= completely agree

We will continue the business in the current level	1	2	3	4	5
We will increase production	1	2	3	4	5
We will widen into new market areas	1	2	3	4	5

We will broaden our product range	1	2	3	4	5
We have planned to end our business gradually	1	2	3	4	5

F8 To what extent have you cooperated with other firms/organisations in the following areas, during the past three years?

1= not at all 5= to a great extent

Product planning and development	1	2	3	4	5
Development of packaging	1	2	3	4	5
Purchasing of raw materials	1	2	3	4	5
Production	1	2	3	4	5

Packing	1	2	3	4	5
Product Storage	1	2	3	4	5
Product distribution	1	2	3	4	5
Selling and marketing	1	2	3	4	5

F9 What do you think about a common marketing organisation for small scale food products?

1= completely disagree 5= completely agree

We have a need for a common marketing organisation for small scale food products	1	2	3	4	5
A common marketing organisation should operate in the regional level	1	2	3	4	5

A common marketing organisation should operate in the local level	1	2	3	4	5
A common marketing organisation should operate in the national (all Wales) level	1	2	3	4	5

F10 How effective do you feel the following types of support programmes and initiatives are to your type of business?

1= not at all effective 5= extremely effective

Capitol grants	1	2	3	4	5
Marketing grants	1	2	3	4	5
One to one business advice	1	2	3	4	5

Training schemes	1	2	3	4	5
Market information schemes	1	2	3	4	5
Others (please specify)	1	2	3	4	5

F11 How do you think institutions can best support food businesses such as your own?

Thank you for your time.