

# **Role of regional and rural development policy in supporting small-scale agribusiness in remote areas**

Findings from discussions with firms and a workshop in Nexø, Bornholm

Derek Baker, Jens Abildtrup, Anders Hedetoft and René Kusier  
db@foi.dk

## *Authors*

Derek Baker is Senior Researcher in the Division of Production and Technology of the Institute of Food and Economics, Faculty of Life Science, University of Copenhagen.

Jens Abildtrup is Researcher in the Division of Environmental Economics and Rural Development of the Institute of Food and Economics, Faculty of Life Science, University of Copenhagen.

Anders Hedetoft is a consultant at the Centre for Regional and Tourism Research, Nexø, Bornholm.

René Kusier is Project Leader in the Division of Rural Development, the Directorate for Food, Fisheries and Agribusiness (DFFE) of the Danish Ministry of Food, Agriculture and Fisheries.

## **Abstract**

*This report summarises discussions with small and isolated food industry firms about the role of regional development policy in their meeting commercial and social challenges. Specific challenges examined and discussed with the firms included the presence of powerful food industry buyers, innovation and new product introductions, and the use of networking amongst firms. Firms described their experience with regional and rural development assistance, and expressed their specific needs in the context of their commercial and social environment. They requested policy changes.*

*The following recommendations arise from the workshop and discussion with firms:*

- *a review of quality and availability of information and its dissemination procedures regarding rural and regional development assistance;*
- *an information campaign about assistance available for innovation and the marketing and analytical aspects of new product development and introductions;*
- *increased flexibility in the use of funds awarded under a particular project, particularly in changed expenditures due to changed needs and conditions, particularly with regard to new products;*
- *a more practical approach to export assistance;*
- *incorporation into project design the measurement and consideration of buyer power;*
- *a review of assistance programmes' suitability for support of "networks" of firms, taking into account the specific needs of various possible forms of such networks;*
- *training in issues related to network formation and sustainability;*
- *projects' eligibility for re-imburement of recurrent costs where they sustain networks under certain conditions.*

## **Keywords**

*Regional development, rural development, food industry firms, small firms, policy, workshop.*

ISBN 978-87-92087-18-8 (on-line, Role of regional and rural development policy in supporting small-scale agribusiness in remote areas)

## Table of contents

Preface .....	6
Summary .....	7
1. Background .....	9
1.1. Aim of study .....	9
1.2. Details of project .....	9
1.3. Overview of method used .....	9
1.4. Outline of report .....	10
2. Rural and regional development assistance available .....	11
2.1. Overview of programmes .....	11
2.2. Detail of eligibility and types of assistance .....	12
2.2.1. The Rural Development Program .....	12
2.2.2. The LEADER+ programme .....	13
2.2.3. The Innovation Law .....	14
2.2.4. The Rural Development Fund .....	14
2.2.5. Objective 2 of EU Structural Funds .....	14
3. Small Danish agribusiness firms in remote locations .....	16
3.1. Commonality across firms .....	16
3.2. Sales and growth .....	16
3.3. New product development .....	17
3.4. The competitive environment .....	18
3.5. Networking .....	18
3.6. Needs for assistance .....	19
3.7. Relationship to the policy environment .....	20
4. Participating firms .....	21
4.1. Contacts with firms .....	21
4.2. Overview of firms involved .....	21
4.3. Opportunities and problems identified by firms .....	22
4.4. Use and targeting of regional and rural development assistance .....	23
4.5. Firms' proposed changes in regional and rural development assistance ....	26
4.5.1. To assist local food industry development .....	26
4.5.2. To assist co-ordination amongst local food industry firms .....	26
4.5.3. To assist co-ordination between local food industry firms and firms elsewhere .....	26

### 4 FOI Role of regional and rural development policy in supporting small-scale agribusiness in remote areas

5. Workshop.....	27
5.1. Firms' comments on new product introduction.....	27
5.1.1. Introduction procedures.....	27
5.1.2. Specialist markets.....	28
5.1.3. Differentiation of local products.....	28
5.1.4. Assistance used.....	28
5.2. Firms' comments on power buyers.....	29
5.2.1. Relations to power buyers.....	29
5.2.2. Marketing stance.....	29
5.3. Firms' comments on networks of food industry firms.....	30
5.3.1. Previous experience.....	30
5.3.2. Purpose of the proposed network.....	31
5.3.3. Status and membership of the network.....	31
5.3.4. Dis-aggregation of benefits and costs of the network.....	32
5.3.5. Challenges of establishment and sustainability of a network.....	32
5.4. Firms' proposals for assistance.....	33
5.4.1. On new product introductions.....	33
5.4.2. The issue of confronting powerful buyers due to concentration in the food industry.....	33
5.4.3. Networking as a proposed development tool.....	34
6. Conclusions.....	35
6.1. Firms' problems.....	35
6.2. Firms' knowledge and experience of regional and rural development assistance.....	35
6.3. Firms' views on the appropriateness of existing assistance.....	36
6.4. Correspondence between assessment of assistance received and appropriateness of assistance.....	36
6.5. Firms' progress with networking.....	37
7. Recommendations.....	38
7.1. Available information.....	38
7.2. Support of innovation and new product introduction.....	38
7.3. Support to small agro-food firms in a changing competitive environment	39
7.4. Support to networking activities.....	39
References.....	41

## **Preface**

This report summarises discussions with small and isolated food industry firms about the role of regional development policy in their meeting commercial and social challenges. Firms described their experience with such assistance, expressed their specific needs in the context of their commercial and social environment, and requested policy changes. To a significant extent, this report passes on those requests.

Thanks are particularly due to the firms participating in interviews and the workshop, but who remain anonymous. Thanks are due to Karen Hamann and Milijana Nastasijevic for telephone interviews made to the firms, and to Anders Hedetoft for logistic arrangements on Bornholm.

Mogens Lund  
Institute of Food and Resource Economics  
Copenhagen, May 2007

## Summary

This report examines linkages between regional and rural development policy and the development of small Danish food industry firms in comparatively remote locations. Its aim is to present policy makers a set of statements regarding current policy, with proposals for change as outlined by firms.

This report summaries discussions with a small group of such firms. Those discussions particularly focused on two contemporary food marketing developments, namely the introduction of new products and the presence of large powerful retailers as dominant buyers. In terms of isolation, firms report problems in obtaining market information and as a result of transport and logistics costs. However, they do not report difficulties arising from isolation from customers/consumers, nor shortages of skilled staff. Most firms proposed to develop and participate in networks, and this was adopted as a further discussion item for the workshop.

Firms claim that their new product introductions are constrained by managers' marketing analytical skills, rather than market developments. Ideas for new products centre on the uniqueness of local landscape, products and raw materials: although steps in certification to aid differentiation have not yet been taken. Although aware of the potential problems inherent in dealing with power buyers, firms report a relatively productive relationship with such buyers to date. In particular, such buyers have assisted firms in achieving market access, rather than the opposite.

While expressing general satisfaction with support received under regional and rural development programmes firms requested more information about the various programmes. However, semi-structured evaluations by the (small number) of firms reveal that certain business needs are poorly served by the programmes: particularly value addition and establishing linkages with suppliers and buyers. Firms showed a surprising amount of concern about the potential social impacts of such assistance: they claimed that it does not achieve several desirable outcomes such as creating local employment and retaining value added within the local community. Notably, firms generally expressed the view that programmes had inappropriate objectives: they stated that there should be objectives associated with "overcoming isolation".

Despite much previous experience with networking and group action, firms' efforts in networking are at an early stage. Because benefits from such a network would span

public, private and some coalitions of firms, the role of rural and regional development assistance was unclear and a matter of some interest to firms.

The following recommendations arise from the workshop and discussion with firms:

- a review of quality and availability of information and its dissemination procedures regarding rural and regional development assistance;
- an information campaign about assistance available for innovation and the marketing and analytical aspects of new product development and introductions;
- increased flexibility in the use of funds awarded under a particular project, particularly in changed expenditures due to changed needs and conditions, particularly with regard to new products;
- a more practical approach to export assistance;
- incorporation into project design the measurement and consideration of buyer power;
- a review of assistance programmes' suitability for support of "networks" of firms, taking into account the specific needs of various possible forms of such networks;
- training in issues related to network formation and sustainability;
- projects' eligibility for re-imbusement of recurrent costs where they sustain networks under certain conditions.

## **8 FOI** Role of regional and rural development policy in supporting small-scale agribusiness in remote areas



# 1. Background

## 1.1. Aim of study

This report examines linkages between regional and rural development policy and the development of small Danish food industry firms in comparatively remote locations. Its aim is to present policy makers a set of statements regarding current policy, with proposals for change as outlined by firms.

## 1.2. Details of project

This research is conducted under the auspices of the project<sup>1</sup> “Perspektiver for og Udvikling over den danske fødevarekæde (phase 2)”,<sup>2</sup> commonly known as “the food chain project”. This project is funded under the Innovationslov and administered by the Food Economy Directorate of the Danish Ministry of Agriculture (DFFE). The objectives of the project are to:

- measure changes in function, structure and commercial practice in the Danish food industry and compare and contrast these with developments in other countries;
- characterise vertical and horizontal relationships in the Danish food chain and their role in delivering optimal levels of food quality, variety and safety;
- evaluate the efficiency and competitiveness of the Danish food system at each stage of the marketing chain;
- review and evaluate instruments of Danish, EU and foreign public policy in the development of the food marketing chain; and
- communicate research results in a number of media.

This report employs communications and a workshop with small food industry firms, and ad hoc policy evaluation procedures, in line with the final two objectives listed above.

## 1.3. Overview of method used

Some 15 small Danish food industry firms were approached in late 2006 and invited to participate in research into the reach and effectiveness of regional and rural development policies in addressing their problems. Eight firms agreed to be interviewed by

---

<sup>1</sup> Further information about the project are available from the author at [db@foi.dk](mailto:db@foi.dk).

<sup>2</sup> “Perspectives and outlook for the Danish food marketing chain”.

telephone and to attend a workshop to discuss the issues with government staff and the researchers.

Telephone interviews were conducted in November 2006 and subsequent discussions with the firms were held in February and March 2007. These delivered a set of responses that characterised firms' commercial size and operations, use of regional and rural development assistance and managers' opinions about effectiveness and targeting of such assistance.

In order to focus the discussion at the workshop (5 March 2007), two prominent current food industry issues were emphasised: new product development and introduction; and the exercise of market power by large firms in the food chain, particularly retailers. In response to firms' emphasis on local networking and complementary actions by firms, some workshop discussion was dedicated to this topic.

Workshop attendance entailed 5 food industry firms, a researcher from Bornholm's Centre for Regional and Tourism Research, a representative of the EU's LEADER+ programme, a staff member from the Directorate of Food, Fisheries and Agribusiness in the Ministry of Food, Agriculture and Fisheries working on implementation of regional development policy, and two researchers from FOI.

#### **1.4. Outline of report**

This report is composed of seven sections. Section 2 presents basic elements of regional development assistance, and section 3 reviews some recent Danish work on the needs of small Danish food industry firms in relatively remote areas. Section 4 describes the firms involved in the discussion of regional development assistance, and summarises the information and views they provided, as well as their experience with such assistance. Section 5 outlines discussion at the workshop in Nexø, section 6 presents conclusions and section 7 lists recommendations from the study.

## **2. Rural and regional development assistance available**

Both rural development policy and regional business policy target the development and economic growth in remote or disadvantaged locations in Denmark. The overall aim of Danish rural development policy is that all areas in Denmark will be attractive areas for development and settlement and thereby sustaining the geographical dispersion of the population and economic activity (Indenrigs- og Sundhedsministeriet og Fødevarerministeriet, 2004). Its more specific objectives are:

1. Reduction of the income disparity between rural and urban areas through economic growth in rural areas;
2. Increased employment in rural areas;
3. Increased settlement of rural areas; and
4. Enhanced supply of environmental and cultural services in rural areas.

Lagging peripheral regions are in particular addressed by the regional business support programmes (Regeringen, 2006). In Danish regional and rural policy, the regions eligible for support are mainly defined at county (kommune) level, with obvious emphasis on peripheral or rural counties.

### **2.1. Overview of programmes**

In Denmark there are five support programmes that to some degree are geographically targeted at rural or lagging regions and are relevant to agro-food enterprises (see table 1).

In addition, rural and remote areas are supported by a number of other measures, including support programmes for fisheries-dependent areas, fiscal transfers from high-income to low-income municipalities, and a programme of tax deductions for travelling expenses, knowledge transfer, and infrastructure investments in such areas. Furthermore, the Danish regions and municipalities receive national fund allocations which can be used to support local development of enterprises and business structures: and this includes resources for co-financing projects supported by EU Structural Funds.

**Table 1. Danish regional and rural development programmes**

<b>Programme</b>	<b>Legal basis</b>	<b>Implementing agency</b>
The Rural Development Programmes	Council Regulation (EC) Nos. <u>1257/1999</u> and <u>1698/2005</u> for the periods 2000-2006 and 2007-2013, respectively	The Directorate for Food, Fisheries and Agri Business, Ministry of Food, Agriculture, and Fisheries
The LEADER+ programme <sup>3)</sup>	Council Regulation (EC) No <u>1260/1999</u>	The Directorate for Food, Fisheries and Agri Business, Ministry of Food, Agriculture, and Fisheries
The innovation law ("Innovationsloven")	Bekendtgørelse nr. 318 af 7. maj 2001 om tilskud til fremme af innovation, forskning og udvikling m.v. i fødevarer-, jordbrugs- og fiskerisektoren	The Directorate for Food, Fisheries and Agri Business, Ministry of Food, Agriculture, and Fisheries
The rural fund for financing experimental projects in rural areas, and information and research initiatives ("Landdistriktspuljen")	Funded from annual budget allocations	Ministry of Interior and Health
The objective 2 programme of the EU Structural Funds	Council Regulation (EC) No <u>1783/1999</u> (The EU Regional Fund) and Council Regulation (EC) No <u>1784/1999</u> (The EU Social Fund)	National Agency for Enterprise and Construction, The Ministry of Economic and Business Affairs

<sup>3)</sup> From 2007 included in the Rural Development Programme

## 2.2. Detail of eligibility and types of assistance

### 2.2.1. The Rural Development Program

The Rural Development Program 2000-2006 encompasses a large number and variety of subsidy schemes. There were two principal schemes relevant to the agro-food industries: the "subsidy scheme for improving the processing and marketing of agricultural products"; and the "subsidy scheme for promoting the adaptation and development of rural areas" (the so-called "article 33").

The objectives of the first scheme are to increase the competitiveness and the value added of existing agricultural products, and the development of new products. Firms processing food and non-food agricultural products are eligible for investment support. Eligible investments are in the categories of environment, hygiene, food safety, documentation of production processes, traceability, organic production and animal health. Recurrent costs are not eligible for support under these schemes, but start-up

or one-off costs such as consultancy or studies for marketing are eligible. Normally, the investment support constitutes 17% of the eligible investment costs, and 25% in targeted areas.

The objective of the “Subsidy scheme for promoting the adaptation and development of rural areas” is the creation of attractive living and business conditions in rural areas. The subsidy is given for the development of basic services in the rural economy and for local firms (e.g. establishment of networks, renovation and use of abandoned buildings, investment in infrastructure, and marketing of regional products). As above, recurrent costs are ineligible. The subsidy constitutes 25% of the eligible cost, and 50% for applications by public agencies. Published guidelines for proposals for networks supported under article 33 designate their functions as exchange of knowledge by various mechanisms. Support is generally requested for consultancy and research/investigative work preparation of the proposal for the network (i.e. not the network’s functions).

The new Rural Development Programme for the period 2007-2013 has yet to be approved by the EU Commission. However, its draft version contains only minor changes to the previous programme, notably that support of development of quality food products must be linked to approved quality labels.

### **2.2.2. The LEADER+ programme**

The objective of the LEADER+ initiative is to encourage local communities to initiate economic, social, and cultural activities in rural areas. Four themes are addressed by the Danish LEADER+ programme:

- 1) use of know-how and new technologies to enhance the competitiveness of products and services of rural areas;
- 2) improvement of the quality of life in rural areas;
- 3) assistance to small enterprises with market access for local products; and
- 4) exploitation of local natural and cultural resources.

Support of projects is conditional on approval by local action groups. Twelve such groups represent remote and lagging areas in Denmark, including the island of Bornholm. The required (national) co-financing of the support is provided by the national government and municipalities. However, private projects can only be subsidized if the co-financing is provided by the national government.

The LEADER+ programme covers the period 2000-2006. For the period 2007-2013 the LEADER initiative is to be incorporated into the Rural Development Programme.

### **2.2.3. The Innovation Law**

The objective of the Innovation Law is to promote innovation and enhance research and development effort in the agricultural, food and fisheries sectors. Support to the food processing sector gives priority to projects that address the working environment, food documentation, food safety, exports, organic production, processing for non-food use, applied research, animal welfare, eating quality, traceability, quality control and environmental protection. The maximum support to small and medium-sized firms is 50% of the eligible costs. Eligible costs again exclude recurrent costs, although additional costs to salary, on-going consultancies, and materials, equipment and marketing costs that deliver the development outcome are eligible. Firms in sparsely populated or economically backward municipalities (defined by EC Treaty article 87(3)(c)) can obtain an additional 5% in subsidy.

### **2.2.4. The Rural Development Fund**

The objective of Rural Development Fund (“Landdistriktspuljen”) (full name: Rural Fund for Financing of Experimental Projects in Rural Areas, and Information and Research Initiative) is to improve the potential for development of rural areas. This is achieved through support of new activities and/or pilot projects. Its facility extends to support of enterprises for construction of facilities for rural communities and for tourists, establishment of information technology infrastructure, acquisition of real estate, and through support of research and information projects.

### **2.2.5. Objective 2 of EU Structural Funds**

The support from the European Regional Development Funds<sup>3</sup> is in Denmark implemented in the so-called Objective 2 Programme.<sup>4</sup> The objective of this programme, operating in the period 2000-2006, was to increase wealth and employment in regions with structural problems through improvement of the conditions for development and adaptation. Three themes have been prioritised for support:

---

<sup>3</sup> This description draws on National Agency for Enterprise and Construction (2000).

<sup>4</sup> “Danmarks Mål 2” program.

- 1) development of regions (support to local agencies in the form of infrastructure investments, consulting services, analysis and research);
- 2) development of small and medium-sized firms (support of product development, plant construction, technology transfer, consulting services and environmental improvements); and
- 3) development of competence (training and development of educational institutions and processes).<sup>5</sup>

The Objective 2 Programme is targeted geographically, at eight lagging regions (including Bornholm) in Denmark defined by, *inter alia* unemployment rates, income, and educational level. Each of the eight regions has a committee that recommends projects for support.

---

<sup>5</sup> financed by The European Social Funds.

### 3. Small Danish agribusiness firms in remote locations

#### 3.1. Commonality across firms

A recent survey by VIFU<sup>6</sup> (2006a) covered 145 small food industry firms located in Nordvestjylland, Sønderjylland, Bornholm, Lolland-Falster, Møn and the 27 small islands.<sup>7</sup> Although there were few differences in responses according to location, some locations featured marketing and product mixes that are quite different to others. As one example, small food industry firms in Bornholm and Sønderjylland are much more oriented toward export than are similar firms in other locations. Notably, firms on Bornholm expressed a more positive view of networks than did those from other areas.

#### 3.2. Sales and growth

Across all locations, firms reported average positive growth in employment in recent years (VIFU, 2006a). Those companies that expressed a strong desire to grow appear to spend more time and resources on marketing and networking activities than do firms that are less oriented to growth. In addition, the growth-oriented firms make greater effort in locating assistance, and engage in more new product development and technological advance. A survey of food industry firms as part of the Food Chain Project confirms the prevalence of sales growth amongst small firms, as well as large firms (see table 2).

**Table 2. Sales growth**

	Small firms (less than 20 employees)	Medium-large firms (20 or more employees)
Growth in sales, by value		
No response on sales	13%	4%
Sales rise	70%	85%
Sales fall	17%	10%

Source: FOI survey of food industry firms (2006).

In VIFU's studies, firms reported a diverse set of sales outlets, spanning tourist visitors and local retail shops, through location-based wholesalers, as well as large buyers such as supermarket chains. Several food processing firms reported using their own

<sup>6</sup> A food industry research centre (see [www.vifu.net](http://www.vifu.net)).

<sup>7</sup> Nordvestjylland (48), Sønderjylland (35), Bornholm (20), Lolland-Falster (26) and Småøerne (16).



retail outlets. The internet is mentioned as a sales outlet but its significance is not reported. Many firms identified “time and money” as the major constraints to expansion of sales, while only the smallest firms thought that legislation and regulation were barriers to growth. The Food Chain Project’s survey found few processing firms, small or large, that owned their own retail outlets.

In examining routes to growth on Bornholm, Haahr et al. (2006) identify a need for strengthening the formulation and implementation of a local strategy based on a shared vision and the use of networks to include local firms in regional development planning and to promote innovation. Identified constraints include high logistics costs, which particularly impact the food industry firms (including fish) which constitute a large proportion of Bornholm’s small firms.

### **3.3. New product development**

VIFU (2006a) reports that the firms studied produced small numbers of products, but expressed a strong interest in new product development. Specifically, there was support amongst firms for the idea of such new products being differentiated according to “specific qualities” (organic produce received some attention here). However, firms reported that new products introduced are rarely “totally new”, but rather are developments of existing products. In a separate VIFU study (2006d), small food industry firms claimed that the most profitable new products are those that do not compete with those offered by “big supermarkets” – essentially niche products (see Hedetoft, 2004). In the VIFU study, firms reported that product development ideas arose from diverse sources, some based around local events and resources. However, some arose from co-operation amongst firms.

Table 3, drawn from the Food Chain Project’s survey of food industry firms, provides a comparison of new product development for small and medium-large food industry firms. Small firms introduced a smaller number of new products per unit of sales (1.0 per million DKK) than did other firms (2.2), but for small firms the ratio of new products being introduced to old ones being removed was higher (1.8 compared to 1.3).

**Table 3. Products introductions**

	Small firms (less than 20 employees)	Medium-large firms (20 or more employees)
	Numbers of products	
Number of new products introduced	23	228
New Products/million DKK sales	1.0	2.2
Number of products removed	13	17
Products introduced per product removed	1.8	1.3

Source: FOI survey of food industry firms (2006).

### 3.4. The competitive environment

Although a variety of summaries are available of consolidation and concentration in the Danish food industry (e.g. Baker, 2003), little information is available about the perceptions of small, remote food industry firms on this topic. The Food Chain Project's survey of food industry firms investigated concentration on buying and selling markets, and a dis-aggregation of results is presented in table 4. A mixed picture is observed: while the number of sellers to small firms has declined just 12% (c.f. 25% for medium or large firms) between 2000 and 2005, the contraction in the number of firms selling just 75% of the small firms' raw materials has been greater (19%) than for medium-large firms (5%). On the output side, small firms' numbers of buyers have actually grown (by 15%), but the number of buyers buying eth bulk of small firms' output has shrunk by 3%: this trend is opposite to that observed for medium-large firms.

**Table 4. Development of buyer and seller concentration**

	Small firms (less than 20 employees)			Medium-large firms (20 or more employees)		
	2005	2000	% change	2005	2000	% change
Nr. sellers to firm	44	50	-12%	284	377	-25%
Nr. sellers 75%	13	16	-19%	18	19	-5%
Nr. buyers from firm	92	80	15%	734	833	-12%
Nr. buyers 75%	32	33	-3%	284	247	15%

Source: FOI survey of food industry firms (2006).

### 3.5. Networking

Most firms in VIFU's (2006a) study report wanting to be part of a network of firms. Many firms (49% of those surveyed) are already members of such groups, although

little information is available about the form and function of such networks: they are reported to have limited effect on firms' sales. Isolated instances were reported of networks' involving local and non-local firms, and embracing relations between food processing firms and distributors and wholesalers.

Firms' future hopes (VIFU, 2006d; Hedetoft, 2004) for the functions of networks of small firms include sharing of experience, joint marketing actions (e.g. local brands), a portal for media contacts, a forum for knowledge dissemination, and a means of taking advantage of available subsidies. Haahr et al. (2006) report on successful joint use by Bornholm firms of a "food ambassador", a joint marketing effort with the purpose of penetrating markets outside the locality.

Some firms expressed the wish that networks deliver commercial logistic advantages (e.g. storage, transport, quality control). A number of firms expressed the view that that across a range of networks' potential functions, intensification is needed (VIFU, 2006c). A parallel, and somewhat contradictory, view is that the networks should be cheap to operate, and firms advocated a single network with diverse services, and links across to industries such as tourism. Notably, firms on small islands want to co-operate with local firms only.

### **3.6. Needs for assistance**

VIFU (2006c) reports firms' identified needs for counselling and advice, colourfully described as "getting rid of bad habits" (perhaps a move to greater professionalism), developing and achieving a long term strategy, ability to identify and use available subsidies, developing packaging and marketing activities, and compliance with legislation. Identified marketing-related needs for assistance included assistance in product differentiation according to regional attributes, achieving co-operation throughout the marketing chain (e.g. with wholesalers and with restaurants), and co-operation with other industries (particularly tourism and the media), and on how to employ the internet. Notably, firms claimed that they did not require assistance on finance and capital. VIFU (2006c) reports that barriers to using advice were uncertainty about its cost and quality (2). Haahr et al. (2006) emphasise the help Bornholm's firms need in developing export markets.

Many small firms cite a need for knowledge, or rather access to knowledge institutions, that can help firms in introducing new production technology or processes. Larger firms have, in general, good connections to universities and other knowledge pro-

ducing institutions but small firms are in general outside this network. Investment in advanced process technology is rare in small firms, perhaps because they do not recognise its potential advances, or managers' own lack of knowledge (VIFU 2006a).

### **3.7. Relationship to the policy environment**

From VIFU's work, firms' views on legislation and regulation featured the complaint that it requires too much detail in reporting and registration: firms favoured a once-only reporting system that could operate on-line. Firms felt that food industry authorities should act more as "partners", than as policing agencies. Interestingly, given small firms' potential role in creating local employment, some firms cited difficulties in obtaining work permission for foreign workers.

## **4. Participating firms**

### **4.1. Contacts with firms**

On the basis of the work summarised above, two problems were targeted with the Bornholm firms: new product introduction; and marketing in the presence of the increasing market power of large retail chains and large distributors. In addition, networking amongst firms was examined due to its being a major current initiative amongst firms interviewed. Firms were identified in association with relevant authorities on Bornholm and contacted twice. In the first case an interview was conducted and firms were invited to a workshop to discuss the connection between their firms' development and regional and rural development policy. In the second case, points raised in the telephone interviews were re-visited and the content of discussions at the proposed workshop were finalised.

### **4.2. Overview of firms involved**

Some 11 firms (7 from Bornholm, 4 from Northwestern Jutland) were interviewed, of which 6 provided complete responses and support for the workshop. Firms participating in the study generally employed 4-10 people and had 2006 sales of 4-15 million DKK. Around 10-30% of products sales were "local", with the remainder going outside the area: an exception was a food processor for which some 80% of sales were to local firms for further processing. Most firms had some degree of vertical integration (e.g. ownership of a retail outlet and/or specialised distribution equipment), and a few were engaged in farming.

All firms interviewed had received support from regional and rural development programmes. Three firms had received support for investment in production facilities under the Objective 2 programme or the Rural Development Programme and most of the firms had received support for marketing under the LEADER+ programme or the Rural Development Programme.

Almost all firms owned and used a brand, but none used a brand that was owned or administered by a local network. Almost all firms supplied large retail chains, but just one supplied retailers' own-label brands. Most firms reported that on the last 5 years their main product or service had changed, their production and marketing procedures had changed and their relationships with local firms had all changed considerably. The only exceptions were new firms. Changes in the main product mainly involved an

extended product line (rather than “truly new” products); changes in process involved more value addition; and new relations with local firms typically involved formal or informal networks. Other than locality, firms were unable to describe what common factor mobilised their network.

#### **4.3. Opportunities and problems identified by firms**

When firms were asked to describe their greatest single advantage, all mentioned the uniqueness of location. The older firms cited their established, known and reliable brands in various markets, and their business status in the locality. Younger firms cited high quality and uniqueness of products: particularly the uniqueness of Bornholm as a place.

When prompted about each of 19 proposed “problems” likely to be faced by small food industry firms in a remote area, firms rated the problems according to severity, or alternatively not as problems or as an advantage (see table 5). The most frequently cited “severe” problems were lack of information, the dominance of large firms as buyers and access to/complexity of government support. Other common definitions of problems included cost or time involved in transport, lack of a business network extending to other locations (no firm claimed that local networks were lacking), and paperwork. A few firms claimed that there were advantages to having large firms as buyers (specifically, assistance with product development), and to documentation demands (aptitude for traceability).

**Table 5. Firms' assessment of problems faced**

Problem identified in interview	Severity of problem			
	Severe	Moderate	Not a problem	An advantage
Isolation from consumers	1		4	
Isolation from wholesale and retail network	1		4	
Isolation from farm and food raw materials suppliers		1	4	
Isolation from suppliers of other inputs and services		1	4	
Inability to differentiate products			5	
Lack of information about market trends	4		2	
Lack of information about new technologies	3		3	
Lack of skilled staff		2	3	
Lack of a local business network			6	
Lack of a business network involving other locations		3	3	
Standards and procedures (required by buyers) in production and processing	1	2	3	
Standards and procedures (required by regulation) in production and processing	1	1	4	
Having to provide documentation and information as part of running the business	3	1		2
The dominance of large firms as buyers	4		1	1
Cost or time involved in transport	2	2	2	
Lack of government support	2	2	2	
Lack of clear information about government support	4		2	
Inappropriate objectives, purposes and targeting of government support	4		2	
Complexity and delays in applying for government support	6			

#### 4.4. Use and targeting of regional and rural development assistance

Although almost all of the firms contacted had utilised regional and rural development assistance funds in the past, most declined to discuss details of the programme employed, the amounts and the purpose of the assistance. Firms did provide indicative information about the effectiveness of the assistance used, in response to prompting in regard to a set of broader policy objectives as proposed by the authors.

Table 6 lists the 25 possible policy targets offered, and the frequency of responses to two questions:

- 1) according to the firm's experience, to which extent did the assistance received achieve the nominated target (on a scale -3 = "assistance was a major barrier to achieving this to +3 = "assistance was a major help in achieving this") – averages are presented in the middle column of table 6;

- 2) what role should each of the nominated policy objectives play in regional and rural development policy (on a scale 0 = “no role” to +3 = “a major role”) – averages are presented in the right hand column of table 6.

Firms rated received assistance very favourably (average of 2.6 out of possible 3.0) for its ability to “meet the needs of firms in this locality”. Firms ranked this objective first amongst the positive impacts of the received assistance, and first equal for its appropriateness for being addressed by regional and rural development assistance. Although this comment is rather general in comparison to other questions posed, it is an indication of overall approval.

Firms also ranked specific new product introduction objectives (identifying and introducing new products, as well as new technical procedures) 3<sup>rd</sup> and 2<sup>nd</sup> respectively as being achieved by assistance received. However, the scores were low at just 1.0 and 1.2 of a possible 3.0. Firms’ rated the effectiveness of the assistance they had received at 0.8 (rank 4<sup>th</sup>) in assisting development of location-specific unique food products, and 0.6 for networking (three objectives – between firms locally, in other locations, and in adding value) and ranked them 5<sup>th</sup> equal. Firms’ assessments of the assistance on broader development objectives (local employment, retention of added value) were very low (0.0 out of possible 3.0). Business-oriented objectives (links with buyers and suppliers) also scored rather poorly and ranked 9<sup>th</sup>.

Firms’ opinions about the appropriateness of regional and rural development policy for addressing the specified objectives present a different pattern. Solution of transport and logistic problems was ranked first equal, with solution of other location-specific “uniqueness”- related problems and “food industry opportunities” ranking 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup>. Meeting the needs of food industry firms was ranked the 6<sup>th</sup> most appropriate target of regional and rural development assistance: albeit from a sample comprised of food industry firms. Firms’ ranking of the objective “establishing links with buyers” (12<sup>th</sup>) was far higher than “establishing links with suppliers” (22<sup>nd</sup>).

The final rows of table 6 show the Pearson correlation between firms’ assessments of policy performance over each policy objective and appropriateness for addressing that objective, and the Spearman correlation for the same variables (but addressing rankings). The Pearson correlation coefficient (26%) is insignificant at the 10% level of the test, and the Spearman correlation coefficient is close to zero. This means that although firms express some satisfaction with assistance received, they indicate that policy is inappropriately targeted across a broad range of possible objectives.

## **24 FOI** Role of regional and rural development policy in supporting small-scale agribusiness in remote areas



Firms' ranking of broad development objectives (e.g. local employment) is 9<sup>th</sup> out of 24. Their ranking of social objectives (maintaining local population and influencing its age distribution) is 11<sup>th</sup> and 12<sup>th</sup>: rather higher than enhancing value addition by organisational change (18<sup>th</sup> and 21<sup>st</sup>) and retaining value added within the local community (22<sup>nd</sup>).

**Table 6. Firms' evaluation and targeting of policy instruments**

	Experience of effectiveness of assistance in satisfying specific policy objectives	Opinion as to the appropriateness of regional and rural development in achieving specific policy objective
	-3 = strongest negative effect; +3 = strongest positive effect (rank)	0 = no role; +3 = a major role. (rank)
<b>Nominated objective of regional and rural development policy instruments</b>		
Meeting needs of firms in this locality	2.6 (1)	3.0 (1)
Meeting needs of food industry firms	0.2 (12)	2.0 (6)
Identifying and serving new markets for food products	0.0 (15)	1.0 (18)
Identifying and introducing new food products	1.0 (3)	0.5 (24)
Identifying and implementing new technical procedures for food processing	1.2 (2)	1.2 (12)
Identifying and implementing new ways of organising the firm	0.2 (12)	0.5 (24)
Identifying and implementing new ways of co-ordinating with other firms	0.6 (5)	1.8 (7)
Overcoming problems associated with isolation	0.0 (15)	2.5 (4)
Overcoming other problems (i.e. not isolation) unique to this locality	0.2 (12)	2.7 (3)
Developing food industry opportunities unique to this locality	0.8 (4)	2.3 (5)
Helping establish links with suppliers	0.4 (9)	0.7 (22)
Helping establish links with buyers	0.4 (9)	1.2 (12)
Helping firms in this locality to work together with each other	0.6 (5)	1.7 (8)
Helping firms in this locality to work together with firms elsewhere	0.6 (5)	1.2 (12)
Identifying and implementing the benefits of formal co-operatives	0.0 (15)	1.2 (12)
Helping in identifying how to add value to food products	0.4 (9)	1.0 (18)
Helping in providing the necessary investments to add value to food products	0.0 (15)	1.5 (9)
Helping in providing the necessary organisational change to add value to food products	0.0 (15)	1.0 (18)
Help in working with other firms to add value to food products	0.6 (5)	0.8 (21)
Ensuring that value added is retained in the local economy	0.0 (15)	0.7 (22)
Solving transport and logistic problems	0.0 (15)	3.0 (1)
Creating local employment	0.0 (15)	1.5 (9)
Raising local skill levels	0.0 (15)	1.2 (12)
Maintaining local population levels	0.0 (15)	1.2 (12)
Maintaining a stable age distribution in the local population	0.0 (15)	1.3 (11)
Correlation between assessment of effectiveness and of significance of role (Pearson's)		26%
Correlation between rankings of effectiveness and rankings of significance of role (Spearman's)		3%

## **4.5. Firms' proposed changes in regional and rural development assistance**

### **4.5.1. To assist local food industry development**

The most common proposal voiced by firms was that more information about the available programmes and assistance be made available, and that application procedures be simplified (by reducing bureaucracy and paperwork). This included the suggestion that the programmes should nominate and supply staff members specifically to help with advice on eligibility and the application process.

Several firms proposed that programme administrative agencies include a greater proportion of staff with technical knowledge and skills. Frequently, firms want assistance from people with a practical "hands on" knowledge. One example from Bornholm is knowledge of foreign transport systems.

Several firms requested elements of support for transport and logistics, which they view as a major constraint on firms in remote areas. With regard to the specificity of local problems, several firms proposed that regional and rural development programmes be designed only after dialogue with local firms.

### **4.5.2. To assist co-ordination amongst local food industry firms**

Several firms requested support for networking activities such as workshops involving the firms. Most firms requested assistance in the creation of clusters of firms, but were not specific about what form such assistance should take.

One firm proposed that an independent (local) body be established to develop and implement strategy for the local food industry.

### **4.5.3. To assist co-ordination between local food industry firms and firms elsewhere**

Three firms requested a programme of workshops for exchange of experience and information – although not for business liaison.

## 5. Workshop

### 5.1. Firms' comments on new product introduction

#### 5.1.1. Introduction procedures

Firms generally reported an abundance of ideas for new products and few technical problems in developing the products. Two exceptions concerned the sourcing of raw materials and ingredients. Where differentiation of products required specialist activities by farmers, special stock control within the firm or investments in equipment, constraints on new product development were experienced. Where specialist ingredients (e.g. herbs and flavourings) from outside the area were needed, delays in locating a reliable supplier held up product development. The major problems, however, related to information and analysis:

- information about trends in market behaviour and prices, and in consumer preferences; and
- analysis of likely and actual impacts of new products on the existing product line.

Several firms reported a shortage of facilities and services for “testing” (including certification) of farm and food products and processes. Several firms operated retail establishments (e.g. restaurants) where consumer testing was carried out. Market access for new products was not widely reported by firms as a problem. Moreover, large retail chains were reported to have assisted firms with product labelling, delivery of product information, and even in development of new products. Most firms used a wholesaler, in some cases as an exclusive sales outlet. The firms reported no significant barriers to new product development as a consequence of sales to wholesalers.

Firms were unable or unwilling to list cost items associated with new product development. In general, staff time was not counted and the costs of technical tests were unknown. Instance of product failure was not reported, and its costs not factored into overall costs of new product development and introduction. Two firms reported that new product development was a form of promotion, designed to sell more of the main product lines: the firms could not comment fully on the extent to which this was effective, and did not substitute sales away from the main products.

### **5.1.2. Specialist markets**

One firm supplied ethnic shops with special fresh products. It reported logistic problems (high transport and storage costs relative to those of mainland firms) to be a major barrier to both introduction of new products and accessing new buyers. One firm reported similar problems in assembling fresh ingredients brought in from outside the area.

Entry into export markets (as one form of new product introduction) drew a separate set of comments from firms. Barriers included unfamiliarity with foreign countries' administrative tasks, the need to identify freight carriers and warehousing services, securing information about buyers and advice on payments systems. One firm had paid a fee to a government agency to assist, but had received "advice on strategy, rather than practical help". An often-repeated comment from firms was the need for "practical" help.

### **5.1.3. Differentiation of local products**

Almost all firms listed their locality as being a valuable promotion item in new product introduction and sales of the existing product line. Firms expressed the view that local origin of new products and their raw materials formed a central element in product promotion. It is notable that no firm reported using a local certification system or brand. However, most firms also reported using a variety of non-local inputs and raw materials, particularly herbs, spices and ingredients not available in the locality.

### **5.1.4. Assistance used**

Most firms reported having used regional and rural development assistance in the past. The assistance commonly entailed expansion of processing facilities (construction, equipment purchase) under objective 2, establishment of retail sales outlets under various programmes, marketing studies under LEADER+, and packaging under article 33. LEADER+ had also been used to fund a "food ambassador" for Bornholm (discussed below).

The firms expressed general satisfaction with the assistance, its administration and its impact. However, two concerns were expressed:

- the lack of information about forms of assistance and eligibility of certain expense items; and
- the necessity to lay out all plans for expenditures in advance, which reduced flexibility in the use of funds later, as new information came to light or new needs appeared.

## **5.2. Firms' comments on power buyers**

### **5.2.1. Relations to power buyers**

In general, firms expressed the view that “power buyers” were a problem for the future, and reported few such problems at present. There had been isolated cases of buyers requesting payment of slotting fees (payments to ensure access to supermarket shelves), and pressure to produce retailers’ own-label brands, but these were not the norm. One firm reported that a buyer had requested a contribution toward in-store promotions, but that the request was withdrawn when the manager objected.

One firm reported that “power buyers” contracts were extremely exacting and provided facility for high costs to the supplier of any breach of supply conditions. However, that firm reported that such contract clauses were never actually utilised: this was interpreted as a safeguard for the buyer rather than a threat. A different firm stated that contracting arrangements with power buyers had disadvantaged him due to recent increases in raw materials costs, but that firm noted that this was no a consequence of market power but of the use of contracts.

There was general favourable comment about the relations experienced with power buyers. They provided specialist advice on product and packaging design, labelling, logistics, information provision, regulatory compliance and the operation of HACCP systems. The persons employed as buyers were recognised as professional and honest to deal with.

### **5.2.2. Marketing stance**

Most firms reported that their scale of operation and (in some cases) newness in the business detracted from their credibility as reliable suppliers. Some firms (but not all) reported that a minimum supply was required for serving large buyers. However, this issue was reported to be a disadvantage in dealing with all buyers, not only large

chains and those with market power. Prices paid by power buyers were reported to be about 20% below that offered by wholesalers, but the size of orders was adequate compensation, in the view of the firms.

This appears to contradict an earlier study by Hedetoft (2004), in which buyers from several retailers stated that minimum supply volume is not a major factor, and nor is ability to deliver all year around. Rather, quality and price motivated the buyers.

One firm reported a strategy of selling no more than 20% of total volume to any one buyer. As stated above, several firms operate retail establishments providing high mark-up sales outlets, although these are highly seasonal in operation. One firm stated that it refused to sell to power buyers, preferring to target high value, high priced small customers. That firm acknowledged that this would be difficult as (i) its own volumes grew and (ii) industry consolidation reduced the number of small buyers in the market. One firm expressed the desire to serve institutional buyers (hospitals, the armed forces, prisons) as a means of avoiding power buyers.

Several firms reported a developing trend toward use of a “quasi-private label”. In this model, retail firms’ names appear on the label, but so does the name of the manufacturing firm, with the locality’s name displayed very prominently.<sup>8</sup> Firms interpreted this as high demand for the locality’s products. On the topic of retailers’ own-label brands, two firms welcomed offers from retailers, as commitment to a long term commercial relationship offering savings in marketing costs.

For almost all the firms, the favoured stance on power buyers was the establishment of a network of firms in the locality.

### **5.3. Firms’ comments on networks of food industry firms**

#### **5.3.1. Previous experience**

Bornholm features a long tradition of cooperation amongst food producing firms at the island, based on the various owners’ knowledge of each others’ products and management attitudes. This has led to several previous attempts at networking amongst Bornholm’s food industry firms. The EU-funded “Regional Madkultur

---

<sup>8</sup> This model is most apparent on some wine labels in supermarkets.

Bornholm” operated under open membership, and included firms selling non-local products. That network had been criticised for lacking focus on members’ needs, and for having an ineffective decision-making structure. Moreover, firms expressed the view that it had not established and maintained the commitment to quality that is essential in the modern food industry. It did not, for example, succeed in establishing quality criteria for regional products and membership of the network.

A second EU-funded network was “Gourmet Bornholm”, which featured a “food ambassador” intended for promotion of local products on Danish markets outside Bornholm. This was also open to all firms, although small firms expressed the view that they were not served to the same extent as larger ones (Børsen, 2005). Even large firms felt that it was “too much of a discussion group”.

A third networking initiative, funded by large firms themselves, is underway but has not yet been operationalised.

### **5.3.2. Purpose of the proposed network**

Firms’ ideas on the purpose of the proposed new network were not entirely formed. The general idea is to establish a joint effort in complementary promotion and marketing, information provision and certain mutual support activities. This latter function of the network would essentially be exchange of information and advice on commercial and legal matters threatening one firm or another. Proposed complementary marketing actions included development of a catalogue and website, joint promotions to tourists, use of a logo based on a consistent “story” about the locality, and enforcement procedures for quality of products and reliability and consistency of supply.

### **5.3.3. Status and membership of the network**

Firms were not able to specify the legal status that the proposed network might adopt. The proposed network was described as a totally private organisation with no links to government. These choices affect the ability of the network to sign and comply with contracts, employ staff, administer quality certification and trademarks, etc. It also affects the capacity of the network to absorb funds available under various regional and rural development funding programmes.

One firm expressed its intention not to join the proposed network because its products were “quite different to those of the other firms”. This is a noteworthy comment because of the network’s purpose of product complementarity. The issue of whether member firms should be similar or dissimilar has, thus, not been adequately addressed so far.

#### **5.3.4. Dis-aggregation of benefits and costs of the network**

At this stage of planning, firms were generally unable to classify impacts of the proposed network according to:

- public goods – benefits that accrued to all local firms regardless of whether they were network members;
- “club” goods – benefits that are able to be confined to members of the network only; and
- private goods – benefits that are able to be confined to individual firms.

This classification has implications for both the form of funding of network activities that might be adopted, and for any application for regional and rural development assistance.

The manner in which the network might approach tasks affecting one subset of members, as opposed to all members, has also yet to be decided. While a fee-paying membership was favoured by prospective members, there was also a stated desire to ensure that firms paid for the services provided. A key item not discussed was whether the network would be a loss-making entity, and how losses might be funded. Overall, transparency of arrangements was prized amongst the firms, but arrangements for providing it had not yet been developed.

#### **5.3.5. Challenges of establishment and sustainability of a network**

The twin challenges of initiating a network were discussed with firms:

- establishment – getting firms to join; and
- sustainability – getting firms to stay in.

The choice of activities to achieve these two ends has particular resonance for the utilisation of regional and rural development funding programmes. In particular, re-



current expenditures are largely ineligible for subsidisation. Sustainability is further implicated by the degree to which the network's benefits require monopoly (in sales or representation): if the departure from the network of a few firms reduces its benefits to the remaining firms then instability is (i) likely and (ii) likely to be exploited by power buyers. Firms showed a good understanding of these issues but had not yet reached a stage in design of the network that enabled responses to these questions.

#### **5.4. Firms' proposals for assistance**

##### **5.4.1. On new product introductions**

Firms first requested information about what assistance would be available for the introduction of new products. They emphasised that ideas and (for the most part) technical issues were not problematic, but pre- and post introduction analysis and monitoring of new products presented a challenge. All firms felt the need for information about products, markets and consumer trends.

Firms generally expressed a need for assistance with exports, particularly technical and colloquial knowledge and contacts in export markets. This would both generate sales and information exchange with buyers about the potential for new products.

Several firms proposed that assistance might be mobilised to establish a site for trials of products (agricultural, processed and technical) and dissemination of information to firms regarding their potential in local products. This might also extend to testing and certification, in association with a local programme of quality management.

##### **5.4.2. The issue of confronting powerful buyers due to concentration in the food industry**

Firms generally adhered to the idea of joint effort through a network to promote their product to power buyers. This effort is focused more on satisfying their requirements than on avoiding any difficulties in dealing with them. Assistance was proposed for taking a number of steps in "becoming more professional": particularly in making changes within the firm and between firms so as to be able to guarantee quality, volume and logistic commitments to buyers. Although problems were recognised in dealing with suppliers, no assistance was proposed in this regard other than an increase in information flow and contacts with firms in other locations.

All firms anticipated further product differentiation as they dealt with power buyers, and for the most part this was to utilise the local “story”, emphasising its uniqueness in various contexts. Firms recognised that this strategy required technical and management effort in terms of quality control, as well as strong definitions of what was meant by a “local product”. It was noted that certain key ingredients were imported from other localities either because of the local physical conditions or because of lacking industrial facilities. This produced an awkward marketing position, where local firms were dependent on firms in other locations for products being marketed a “local”. Assistance was requested in regard to this broader issue.

#### **5.4.3. Networking as a proposed development tool**

Firms were clear on the goal of their proposed network, and encouraged by the success of the “food ambassador” initiative under the LEADER+ programme. The goals of the proposed network are essentially to provide a platform and set of procedures for joint marketing effort and the exchange of experience. Planned outputs include a catalogue and an internet website, for which assistance was requested.

In general, the form of the network is still at the planning stage, as is its full set of activities. Firms recognise that public, private and “club” goods will all be produced by such a network. Discussion and agreement amongst the firms will be needed to define the means of delivering and funding private and “club” goods. However, a strong potential role exists for financial assistance in generating and sustaining the network’s public goods. The firms requested information on the availability of such funding or other assistance.

A significant share of the cost of such a network are likely to be running costs. Under most assistance programmes these are ineligible for support. Firms requested information on means and assistance by which the network might be maintained and sustained after formation.

The network’s role in identifying new markets (particularly amongst retailers) is unclear: a website and catalogue generates “outwards” rather than “inwards” information flow.

## **6. Conclusions**

### **6.1. Firms' problems**

Firms in isolated locations claim to lack information about market trends and new technologies. In general, few claim to suffer due to their isolation from consumers or trading networks, and do not claim that a shortage of skilled staff is a severe problem. The cost of transport and logistics was seen as a moderate to severe problem by most firms.

Firms claim that the burden of business- and regulation-related paperwork is severe. Satisfying standards and procedures was not a major problem but firms diverged in their assessment of "large powerful buyers": some treated this as a problem but others as an opportunity. Some positive experiences with powerful retail buyers were also reported. Workshop discussion revealed that the constraint on small firms' ability to commit to large volumes was a major difficulty in dealing with large buyers. To some extent this contradicts earlier work based on buyers' impressions.

New product introduction, and innovation more generally, was apparently not constrained by firms' ideas and flexibility. Rather, firms claim to lack the analytical capacity to determine how best to fit new products (i) into the existing product line and (ii) into contracting and other arrangements with suppliers and buyers.

Ideas for firms' product differentiation centred on "local" products. However, this concept suffers from a lack of clear definitions of "local" (agro-food firms source many other raw materials), particularly referring to ingredients or certain advanced large-scale processing operations. Firms clearly want to employ the "local" identity as a central theme in a network of local food industry firms. This network has some clear objectives and proposed functions, but much thinking remains to be done before the concept is put into practice in a sustainable way.

### **6.2. Firms' knowledge and experience of regional and rural development assistance**

Firms requested more information on available support under regional and rural development initiatives. Although firms stated their general satisfaction with assistance received, they criticised the burden imposed by its bureaucratic components: paperwork; and inflexibility following implementation.

In a telephone assessment, firms claimed that government support was inappropriately targeted, was complex in administration and subject to delays. They also claimed that too little information was available about the programmes. This assessment was in some contrast to discussion at the workshop, where most firms expressed satisfaction with the assistance they had received.

Also in the telephone interview, firms' evaluation of assistance received was positive with regard to some specific items, most notably "meeting the needs of firms in this locality". However, firms claimed that the assistance they had received had not helped achieve some business-related targets (e.g. adding value to products, establishing linkages with suppliers and buyers). Firms also claimed that assistance received had not helped at all in reaching some social development goals specified by the authors (e.g. retaining value added in the local community, creating local employment, overcoming isolation and problems unique to this locality).

### **6.3. Firms' views on the appropriateness of existing assistance**

Leaving aside the assistance received, firms' assessment of what programmes *should* target was mixed. Top priority was assigned to "meeting the needs of firms", solving transport and logistic problems", "overcoming problems associated with isolation", and more generally supporting the local agro-food industry.

Firms' view was that social targets (raising local employment, maintaining the local population) were more important than some business and economic targets (creation of value added and its retention within the local community). This is a surprising result that would bear more examination.

### **6.4. Correspondence between assessment of assistance received and appropriateness of assistance**

There was a weak correlation between firms' assessments of assistance received and the extent to which each objective *should* feature in regional and rural development assistance. For example, firms claim that assistance received did little to offset high transport costs and other issues associated with isolation, but should target this as a very high priority. Although assistance was useful to firms in business re-organisation, this was assigned a very low priority as a policy objective.

### **6.5. Firms' progress with networking**

The firms accessed in this research are actively working on the definition and development of a network of small food industry firms based in a specific locality. The form and function of the network is based around the differentiation of products due to the locality's uniqueness, and the potential for complementary amongst the firms.

The nature of benefits to be generated (essentially, public or private) have not been clearly identified by the firms. The means of cost recovery (essentially for generation of private or "club" goods) has not been addressed by the firms. Firms are encouraged by previous experience with, and assistance to, a local network, and have some ideas for some initial activities (e.g. release of a catalogue of local food products).

There was concern amongst firms about the potential for small or non-commercially-motivated firms to "spoil" relations with large buyers due to their lack of attention quality or poor understanding of the needs of large buyers. This led to (as yet loose) guidelines for membership eligibility: open membership was not a preferred option.

## **7. Recommendations**

### **7.1. Available information**

A review of information provision mechanisms for small agro-food industries in remote areas is required. Regardless of whether firms' claims (a shortage of information) are correct, the impression of exclusion and isolation is real and needs addressing. The form of available information appears to lack sufficient guidance on the types of expense, activity, or investment that may be applied for by particular types of firm.

Firms' complaints about bureaucracy and delay should be addressed in the review of information delivery. At least part of the problem is that firms' expectations exclude the delays and procedures that are probably inevitable in this context.

### **7.2. Support of innovation and new product introduction**

Firms specifically requested information about the available opportunities for support of innovation of various kinds, and particularly with new product introductions. Several firms identified the need for specific skills and analytical techniques in the planning and implementation of new product introductions, which appear to be amenable to funding of consultancy services and marketing studies. It is recommended that this element of support programmes (cutting across several programmes and sources) be addressed in a targeted information campaign.

Owing to the nature of new product introduction within the firm and between trading partners, flexibility in implementation of supported projects has been requested. It is recommended that nominated expenditure items in project plans be subject to reviews during the life of the project, with scope for significant changes in orientation and reallocation of such spending as innovative activities proceed, succeed and fail.

Practical assistance with exporting (including sales in other areas of Denmark) for small food industry firms has been requested. In particular, some firms objected to the "strategic" approach taken by government assistance agencies: they would have preferred direct answers to some practical (perhaps "tactical") questions. It is recommended that regional and rural development assistance programmes interface with other government agencies to help participating firms access the advice they need in this regard.

### **7.3. Support to small agro-food firms in a changing competitive environment**

Firms requested surprisingly little support in this regard, although they anticipate difficulties in the future. It is recommended that development programmes include awareness of such issues in their future design. In particular, this might include support of information bureaux or mechanisms that highlight consolidation trends and advise on the best approach for small firms in specified commodity sectors. In addition, consultancies provided under the various assistance programmes should be required to provide information related to buyer power, in addition to market assessment of a more aggregated nature. This would improve firms' understanding of market access requirements in spheres beyond the technical.

### **7.4. Support to networking activities**

It is recommended that a review take place of the definition and concept of "network" in regional and rural development assistance. This should define key desirable tasks of networks of small agro-food firms, and provide an assessment of the degree to which they might be promoted and secured by existing and/or new policy instruments. This will necessarily address the eligibility of certain types of expenditure for support, particularly recurrent costs. It will also address whether assistance can be provided to a network as an independent agent, rather than to the firms that make up the network.

Networks are capable of delivering several forms of benefit in a number of settings. The nature of these might dictate the likelihood of their being able to recover costs of various types from members and/or users. It is recommended that a review be made of the capacity of regional and rural development programme elements to assist in funding public goods components and functions of networks. This will necessarily involve an examination of whether local government should play a role in networks receiving assistance for delivery of public goods. This also raises questions whether network membership is open or closed.

Firms are struggling to define the conditions under which they would form networks. It is recommended that training be offered in this regard: it could draw on, for example, Denmark's tradition of co-operation at farm level and its successful operation of food processing and marketing. It could also draw on knowledge and experience bases about the use of the internet and communications technology in networks.

A longer term problem facing firms is the sustainability of networks. First, they may disband. Second, they may combine, fragment, or change form in some other way. It is recommended that guidelines be established regarding assistance to networks that undergo change: two networks that merge should not, ideally, be entitled to two sets of assistance *per se*. However, it would be nonsensical to simply cut off support to one or the other network where separate activities were being pursued. More generally, support of networks may require subsidisation of their running costs. It is recommended that this possibility be reviewed and the outcome of the review publicised.



## References

- Baker, D. (2003): "The Danish food marketing chain: developments and policy choices" Danish Institute of Food Economics, Rapport nr. 154.
- Børsen (2005): "Kvalitetsmad fra Bornholm til Hele Danmark" 20 juni 2005, p.4.
- Haahr, J., T. Andersen, A. Hedetoft, H. Piester and S. Jakobsen (2006): "Vækst på Bornholm – barrierer og potentialer". Teknologisk Institut.
- Hedetoft, A. (2004): "Regional fødevareproduktion Rammebetingelser og udviklingsmuligheder på Bornholm". Center for Regional- og Turismeforskning, working paper.
- Indenrigs- og Sundhedsministeriet og Fødevareministeriet (2004): "Landdistriktsredegørelsen 2004 – Regeringens redegørelse til Folketinget". Indenrigs- og Sundhedsministeriet, København.
- National Agency for Enterprise and Construction (2000): Danmarks Mål 2 program 2000-2006. København, 23. October 2000.
- Regeringen (2006): "Regional politisk vækstredgørelse af 24. maj 2006". Regeringens redegørelse til Folketinget 24. maj 2004. Økonomi- og Erhvervsministeriet.
- VIFU (2006a): Småskala fødevareproduktion – Producenternes fremtidsforventninger og behov for viden og rådgivning.
- VIFU (2006c): Småskala fødevareproduktion – Hvad gør småskala fødevareproduktion til en succes?
- VIFU (2006d): Indtjeningssucces for småskala fødevareproduktion – hvordan?

## Working Papers

Institute of Food and Resource Economics

---

06/07	May 2007	Derek Baker Jens Abildtrup Anders Hedetoft René Kusier	Role of regional and rural development policy in supporting small-scale agribusiness in remote areas
05/07	Maj 2007	Jørgen Dejgård Jensen	Analyse af tre forskellige scenarier for afgiftsændringer på fødevarer
04/07	March 2007	Hans Grinsted Jensen Kenneth Baltzer Ronald A. Babula Søren E. Frandsen	The Economy-Wide Impact of Multilateral NAMA Tariff Reductions: A Global and Danish Perspective
03/07	March 2007	Svend Rasmussen	Optimising Production using the State-Contingent Approach versus the EV Approach
02/07	Februar 2007	Kenneth Baltzer Søren E. Frandsen Hans G. Jensen	European Free Trade Areas as an alternative to Doha - Impacts of US, Russian and Chinese FTAs
01/07	Januar 2007	Lill Andersen Ronald A. Babula Helene Hartmann Martin M. Rasmussen	A Vector Autoregression Model of Danish Markets for Pork, Chicken, and Beef
11/06	December 2006	Lars Otto	GRO modellen: Grise, Risiko og Økonomi. Datagrundlag
10/06	December 2006	Lars Otto	GRO modellen: Grise, Risiko og Økonomi. Teoretiske grundlag
09/06	Oktober 2006	Johannes Sauer Arisbe Mendoza-Escalante	Schultz's Hypothesis Revisited – Small Scale Joint - Production in the Eastern Amazon

08/06	August 2006	Johannes Sauer Jesper Graversen Tim Park Solange Sotelo Niels Tvedegaard	Recent Productivity Developments and Technical Change in Danish Organic Farming – Stagnation?
07/06	Maj 2006	Johannes Sauer	Prices and Species Diversity – Stochastic Modelling of Environmental Efficiency
06/06	Maj 2006	Jacob Ladenburg Søren Bøye Olsen	Starting Point Anchoring Effects in Choice Experiments
05/06	Marts 2006	Svend Rasmussen	Optimizing Production under Uncertainty. Generalization of the State-Contingent Approach and Comparison with the EV Model
04/06	Marts 2006	Red. Johannes Christensen	Fremtidens biogasfællesanlæg. Nye anlægskoncepter og økonomisk potentiale
03/06	Januar 2006	Jacob Ladenburg	Attitudes towards Wind Power Development in Denmark
02/06	Januar 2006	Johannes Sauer B. Balint	Romanian Maize – Distorted Prices and Producer Efficiency
01/06	Januar 2006	Johannes Sauer	Economic Theory and Econometric Practice: Parametric Efficiency Analysis

---