



**Nuffield**  **Canada**  
AGRICULTURAL SCHOLARSHIPS

**An Exploration of External  
and Internal Forces  
Influencing Small Agri-Value  
Businesses**

**John D. Cote, P.Ag.**

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**NUFFIELD**  
**CANADA**

## **Nuffield Canada Agricultural Scholarships**

Nuffield Canada offers scholarships to agricultural leaders to expand their knowledge and network with top individuals around the world, to promote advancement and leadership in agriculture.

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4. Deliver long-term benefits to Canadian farmers and growers, and to the industry as a whole.

**Applications are due annually. Visit [Nuffield.ca](http://Nuffield.ca) for more information.**

## SCHOLAR PROFILE



John Cote is a Professional Agrologist, farmer and distiller in Saskatoon, Saskatchewan Canada. John's passion for learning and commitment to continuous improvement has led to twists and turns throughout his career in agriculture, with many successes and learning opportunities.

In 2001, he and his wife Barb were named Canada's Outstanding Young Farmers, where he met the many role models and mentors that helped shape his career. From that time John has been involved in various businesses and has had the opportunity to work and learn around the world with brilliant minds in the field of agriculture.

Currently, John and Barb operate an intensive agriculture operation growing the ingredients needed to create some of the world's finest spirits. Black Fox Farm and Distillery is a new venture for the Cotes, with the farm being purchased in 2010 and the distillery started in 2015. Growing small fruit, vegetables, cut flowers and grains, the goal is to transform everything that is grown on the farm and add value to it in some manner. The value adding processes include both a distillery and tourism. As with every small business there are unique complexities in value added agriculture and in John's quest to continuously improve, embarking on a Nuffield Scholarship was an obvious avenue to seek new ideas and have a better understanding of their new business.

## **ACKNOWLEDGMENTS**

My sincere thanks are extended to my family who have supported my journey not only through Nuffield, but through a lifetime of learning and trying new things. I realise it has not always been easy, but at least we all have good stories to tell.

I also thank the larger agricultural community, who, inspired me throughout my career with its collective passion and drive to continually improve. The individuals within this industry who devote their lives to feeding people and making life possible are the most honourable in the world.

## SPONSORSHIP

The Saskatchewan Ministry of Agriculture has always been a home to incredible individuals, and I thank them individually and as a whole for their financial and personal support in the project. I am always amazed by your dedication to our sector.

The Nuffield family has been an important part of my life for many years. As individuals you are each unique and inspiring, as a group you are an amazing force in agriculture, continually learning, naturally inquisitive, and moving towards a better future. Thank you all for your support and for sharing your passion.

This Nuffield Scholarship was sponsored by Nuffield Canada Alumni and the Saskatchewan Ministry of Agriculture.



## EXECUTIVE SUMMARY

In an effort to explore problems encountered by businesses in the value-added sector during the growth phase of their business, interviews with small companies in the agri-food sector in Japan, the UK, Australia, and Canada were conducted. The external influence of government programming and its effectiveness was assessed, as well as insights around internal key factors of the business that allowed for success.

The effectiveness of government programming both from a regulatory and a supportive standpoint were assessed during a series of interviews with various small businesses in several countries. Across the interview group there was agreement that the key to successful policy implementation revolved around clarity of the program, ease of use and the effectiveness of the people who had contact with the small businesses.

Internal influences, those within the control of the management, were discovered to have a profound affect on limiting or promoting growth in new companies. Leadership skill sets amongst the entrepreneurs and clarity of purpose of the enterprise were identified as the two most significant factors contributing to success and growth within the enterprise. Clearly defining the purpose of the company by identifying “the value of the value-added business” was essential. In doing so, the entrepreneur can communicate, not only to their customers but their inevitably larger and larger team, the true vision of the enterprise.

Ideally, Nuffield scholarship should have concrete impacts on the scholar’s business, their involvement in the industry and themselves personally. In my case all three goals have been achieved. Having gained insight as to the influence of government programs on small value-added businesses will allow more effective contribution to the agriculture sector. In our own business, understanding our own creation of value has allowed us to be confident enough to actively work towards expansion of the business. The importance of being able to communicate this value within our own growing business has reinforced the need for leadership skills to fully take advantage of our opportunities. By making a concerted effort to improve these skills in myself, I hope to be able to emulate the successes of the wonderful businesses I had the opportunity to visit over my journey as a scholar.

## **DISCLAIMER**

This report has been prepared in good faith but is not intended to be a scientific study or an academic paper. It is a collection of my current thoughts and findings on discussions, research, and visits undertaken during my Nuffield Farming Scholarship.

It illustrates my thought process and quest for improvements to my knowledge base. It is not a manual with step-by-step instructions to implement procedures.

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## **1 PREAMBLE**

When I began my Nuffield experience, I thought I would find “the answer;” however, soon afterward I realized I would be lucky even to find “the question.” This report is not meant to be a business guide popular in airport stands, but a journey of where I was in my business, and what I have learnt during my Nuffield travels that pertained either directly or indirectly to it. I was fortunate to have met with many amazing companies, all transforming products grown on their farms. Although the focus was to visit and learn from businesses in the alcohol industry, I found many similarities among them and the cheese producers, sweet potato growers and flower producers I encountered along the way.

## **2 INTRODUCTION**

No matter where you travel through the agricultural landscape there are many similarities. One being that farmers, being particularly good at what they do, produce more than what they need. Another is that typically they sell their produce in its raw state, forgoing the opportunity of adding value to their production. The selling of raw commodities without adding value to them is a result of farmers becoming increasingly specialized.

Our experience in Saskatchewan has been the same, and to the credit of the Ministry of Agriculture in Saskatchewan, aggressive goals have been set to increase the amount of value-added activity in the province. This has several advantages not only to the individual entrepreneur, but to the province in general. By encouraging new business development in this field as well as attracting established processing companies from outside the country, the province can increase overall GDP, and not just relocate revenue generation from another area of the country.

## **3 IN THE BEGINNING – OUR PERSONAL EXPERIENCE**

My own story is one that is typical of farming in the Canadian prairies. After completing our Agriculture degrees in the late 1980’s, my wife, Barb, and I headed back to the family farm to begin making our mark on the world, with broad acre farming, growing cereal grains and oilseeds. We had started out during some trying times in agriculture with high interest rates and dry years. Nonetheless, we had good success and in 2001 were able to join the alumni of the Outstanding Young Farmers of Canada (OYF). That was a turning point in our farming careers. We had already started traveling around the world with my wife’s involvement in the animal nutrition industry, seeing new and interesting businesses associated with agriculture, and the introduction to the alumni of OYF gave us further insight into what was possible in farming. For the next 10 years, we travelled extensively around the world immersed in agriculture. By exploring and learning from the diverse businesses we were exposed to, I grew to believe that the possibilities were endless in agriculture.

There were some key learnings in those years, and one that I have come to appreciate more over time is that not all farmers felt tied to their particular plot of soil. Being in Saskatchewan, which was indeed a foreign concept. We were raised with the idea that whatever we did in farming, we should do it where we had started. Although merely moving farms is not an assurance of success, it opened my mind to the idea that we did not have to be limited to our physical farm location to be successful in agriculture.

The second key learning was drilled into us in Economics 110 at the University of Saskatchewan, then quickly forgotten as so many of those lectures were, only to be recalled later when it finally becomes relevant in a real-world situation. That being, the economic principle that in a nearly perfect competition scenario such as commodity farming, profitability occurs only with reduced costs and efficiency gains. This was driven home to me during two summers when I had the opportunity to work with farmers in Kazakhstan on farms in excess of 50,000 ha. In comparison to our 2000 ha farm back home, these operations were huge and low commodity prices were forcing them to continue to expand, to gain efficiency in an effort remain profitable.

This was not a singular case in eastern Europe, but I had seen the same trend was occurring everywhere in the world where mechanized agriculture was the norm. In mid-western USA, South America, Western Australia and at home in Canada, farm sizes were growing at an ever-increasing rate. The impetus of this was driven by the fact that in a commodity market, you were limited to the profit margin your competitors would accept, so your only way forward is to become more efficient, which for many farms means becoming larger and larger and increasingly specialized to be able to spread their fixed costs over more and more acres.

Lastly, I noticed something that piqued my interest - ag businesses were becoming vertically integrated. There were food processors investing in farms to guarantee supply or farmers trying their hand at adding value to their production before it left the farm gate. Seeing and understanding these businesses was pivotal to the next phase of our journey in farming, as they were able to thrive in areas where traditional agriculture was struggling.

By 2010, it became apparent in our grain farming operation that we had to make some tough decisions. In order to execute a business plan that could look generations into the future, we either had to expand in size, as they were doing elsewhere in the world or rethink the way we farmed. Trends in commercial agriculture were, and are, showing rapid farm size expansion in most areas of the world. As an individual farmer, we looked at having to compete for a limited resource (farmland) for the foreseeable future. This constriction of resources would be a major limiting factor of the business model in the future. The expansion of farm size also leads to another dilemma, that of worsening rural infrastructure. Additionally, with fewer and fewer families involved in farming, services are becoming harder to find locally, leading to problems not only in the farmers' ability to access services, but in how to attract a quality workforce.

Hence, we made the decision to sell our grain farm, move, and try our hand at “value-added” agriculture. It honestly took some time to find our path. We knew that we were good at growing things and that was the extent of it when we had made our decision to change. We had seen many examples of farm shops around the world who seemed to be having remarkable success in marketing their produce directly to the public, and this seemed like a good direction to pursue.

We started by building the infrastructure of the new farm, dabbling in vegetable, and cut flower production. We quickly realized though that although these were higher value crops, we would be hard pressed to develop a good business model based on our new property of eighty acres. The lesson learned was that higher value crops are not necessarily more profitable, especially if they are viewed to be just another commodity. We needed to create value beyond production.

At this point, more by luck than by anything else we stumbled upon an especially important concept that I saw repeatedly when later interviewing businesses during my Nuffield. That was to play to your strengths. So, the business became one of growing grain (again), but grain that would be destined to become some of the best whisky in the world (which was already happening with the amount of Saskatchewan malt barley shipped to distilleries around the world). The key was to retain ownership of the product until it reached the consumer’s glass.

We chose a distillery as our way to process our commodities based on the strength that we already had in grain production. Partly because I was determined to prove that the commodity that we so readily shipped all over the world had a value beyond our wildest dreams. Secondly, I also had (and still have) full confidence that, because of our location and experience, we could grow the best grains in the world to transform into whisky. We still produce cut flowers and fruit on the farm to supply ingredients for the distillery, but the main value-adding activity is the transformation of grain not only into whisky but further into a coveted luxury good.

#### **4 DEFINING THE PROBLEM - SEARCHING FOR PROFITABILITY AND GROWTH.**

Growth is an essential part of every business’s life cycle and especially for new businesses like ours. When developing the new business, whether in agri-value or not, growing the business to the point where it is profitable, is of immediate concern. As the business becomes stable, growth continues to be an important part of the success of the company.

For the purpose of this paper, growth is defined as a sustained increase in profitability that allows the business to achieve its goals of return on investment and longevity for the owners and its ability to behave as good “corporate” citizen in the creation of new and better jobs, being sustainable, and creating wealth in the economy.

In our new business, this was indeed the case; growth is essential to our profitability and continued success. Our business, like most who venture into processing, has a certain amount

of production capacity and it is essential to quickly have the sales growth that will supply the cash flow for the business. Beyond that current horizon, is the continued sustained growth in profitability that allows for success.

This was one of the reasons we had changed farms after all; to allow for growth unimpeded by the limited farmland or other scarce resources such as labour in a small community. Yet we found that once the distillery was in production, finding market share and becoming profitable seemed harder than we anticipated. We had excess production capacity but struggled to get sales and volumes to the level where we would be profitable. My initial reaction was that cash flow problems stemmed from a revenue stream that lagged necessary investment. In the beginning, you need to invest heavily, not only in production and systems, but also in the marketing that will drive the demand for your increased production. The issue becomes that funding this continual investment on the previous year's income is insufficient to cover costs.

This is not a new problem in businesses, and access to capital at the right time as a significant limiting factor is mentioned as the number one barrier to growth from the numerous small companies I spoke with. I do believe this a major contributing factor, especially in the nascent stages of business, but I do not believe it is insurmountable.

And that's where Nuffield came in. As I started thinking a bit deeper on what may be causing us pain in our business, I thought examining other small value-added processors would reveal how they were becoming successful and growing. I also felt there could be other issues in the whole value-added enterprise that I was missing. Through Nuffield, I could interview disparate businesses from craft breweries to cheese makers from all areas of the world and gain insight into transforming a fledgling value-added company into a successful enterprise.

The group of businesses I was able to interview for this paper had a geographic distribution over the following countries: Canada, Japan, Australia, and the UK. They were made up of both vertically integrated companies producing their own raw ingredients and transforming them into consumer ready products and those sourcing ingredients from the regular supply chain. A dozen companies were interviewed over a period of 14 months.

## **5 RESULTS AND DISCUSSION / EXTERNAL VS INTERNAL INFLUENCES**

Small and medium-sized businesses face unique challenges when trying to grow and expand. As mentioned above, the struggle against inconsistent access to capital can cause a business to be unable to capitalize on growth opportunities.

There are many other limitations to growth besides capital, often divided into two categories, external and internal.

External influences on a company are those diverse forces in which it has little or no control, and can be both positive and negative, such as macro-economic trends and government

policies. For the purpose of this report the focus will be on the influence of the local and regional governments regulating and implementing various plans, designed hopefully to achieve the overall goals of country or state.

Internal influences relate to business practices and at a more granular level; the actions of the entrepreneur or the leader of the company itself. Such factors include levels of entrepreneurial, management and leadership skills available to the company, as well as the capabilities of businesses to increase the value of the products that they sell. These factors are much easier for the business to influence compared to external factors.

This report will look at how these internal and external factors may affect the success of small and medium-sized businesses across different countries and cultures.

## **5.1 EXTERNAL INFLUENCES / GOVERNMENT POLICY INFLUENCE ON BUSINESS GROWTH**

In general, policies set by governing authorities can be described as restrictive and regulatory, or empowering and facilitative. Both can have positive and detrimental effects on businesses and their growth.

### **5.1.1 REGULATORY (RESTRICTIVE) ENVIRONMENT**

Businesses depend on governments to create and implement policies in a manner that allows them to operate freely while balancing the need for public good such as environmental concerns and food safety. Within this context the majority of the study group felt it was important that the government provide a clear framework of rules and regulations pertaining to their operations. This was seen as maintaining a level playing field amongst their competition and is part of an enabling strategy. Other positive comments were that even though restrictive policies were in place it was an opportunity in some instances to create a better brand. For example, in the UK, it was perceived that the “Made in the UK” brand was strong, especially in the area of environmental issues.

It was noted that one of the key features of effective regulatory policy was that it was implemented evenly throughout what would be considered the market area of the company. However, some policies are implemented to a varying level within an area which leads to restrictions on growth. An example of this would be the meat inspection system in Saskatchewan where a meat processor who only sells their product locally is subject to less onerous regulations and oversight than the meat processor selling to a broader area (outside of the province). In this case, when the smaller business tries to grow beyond being local, it is faced not only with a higher cost of compliance, but they also must compete in their local

market against others who have not made the investment to grow. Maintaining a level playing field was brought up as a concern both in localized and in international trade.

Even though many regulatory policies would be considered restrictive, it was felt the policies could encourage and help develop their businesses, if effectively managed. Adoption of best practices were considered a positive result of regulatory policy.

All the businesses interviewed felt government policy had at one time or another hindered their business to some degree. Most of these concerns revolved around the clarity of the regulations and their enforcement. That has been a concern in our own business as well, especially dealing with agencies that do not regularly review their policies. There are regulations that are outdated and hard to interpret, which makes it difficult for small businesses to comply.

Difficulty of compliance, not the avoidance of compliance, is a common theme throughout the study. This could be detrimental to success especially in a young company, where the business is utilizing their scarce resources of time and labour trying to increase production and sales. Unnecessary money and effort spent on compliance issues can be a disproportionately large cost, and worse, businesses may do a poor job in compliance and risk being in contravention of various regulations.

If the cost of poor policy is high in an individual business, collectively it could lead to failure to establish or sustain growth of the whole sector. All the group without exception felt there were areas where cost of compliance could be reduced with better results by making process a more enabling environment.

In all areas there were commonalities in how the individuals felt this could be achieved. The first being that the regulations had to be standard and equally enforced across what the business felt was their market area, as mentioned above. Secondly, they felt they should be part of the process, having some way of giving respectful input back to the regulatory bodies. In most cases this required someone (a physical person) within the system whose goal it was to help them. The active feedback loop into regulatory policy has the advantage of utilizing the knowledge of the businesses to continually refine the policies to achieve a better outcome from both a policy and a business point of view. A majority of the businesses felt that they had the best service from government agencies when there were people involved. Hence, the quality of the personal interaction between government employees and their customers seems to have the most influence on the individual's view of effectiveness of the government policy and the perception of the program's effectiveness. An interesting observation was that all government departments I met with felt they were working extremely hard to get feedback from their business clients.

The idea that regulatory policy success is tied to the effectiveness of the people on the ground is not surprising. It does create an interesting dilemma for governments as the trend is to transition services to the virtual environment as a way of controlling costs, and away from having people in a position to advise their clients in a personal manner.

Disappointingly, throughout my travels I was not presented with any examples of resounding success vis-à-vis a collaborative approach to reducing the cost of regulatory compliance.

### **5.1.2 GOVERNMENT FACILITATION (EMPOWERMENT) OF GROWTH**

Another area of public policy is specifically designed to enable businesses to succeed to create wealth and jobs. Typically, these policies facilitate business growth, encourage production, trade, and innovation through the implementation of various programs to create an environment which is favourable to business in general and can be targeted to certain sectors that are considered a priority. These range from helping companies to start exporting, training opportunities, access to government guaranteed loans, to encouraging business clusters.

The uptake of programming is of interest, as business participation is key to the success of various programs. As an individual business there are advantages to taking part in these initiatives as they should increase your likelihood of success. Having many businesses partake in the strategy and being successful is good for intended policy objective and at the same time benefits the individual business as success for the sector can lead to opportunities for the individual.

Our own experience in participating in government-led initiatives have been positive, yet when I look at our broader business community, I see many businesses foregoing the opportunities. I was quite keen to see if there were insights from other areas that would be relevant to our policy makers in Saskatchewan as it tries to grow its value-added sector.

To gauge the utilization of programming I constructed an array of questions for the businesses I was able to interview. It should be noted that the majority of the interviews were done conversationally, and the results would be impacted by the types of companies I had chosen to visit, as I was looking for success stories, not disasters, and many had been recommended as leaders in their areas. Thus, a selection process had taken place which resulted in companies interviewed being above average.

The questions posed were as follows:

- Are you aware of any government programs that are available to help your business?
- Have you utilized any government programs in your business in the last two years? If not, what prevented you from doing so?
- What is the most useful type of program the government can offer, for example, training, marketing initiatives, access to technology?
- What is the biggest barrier to utilizing government programming?

All the businesses had access to government programs within their region, and although they varied from country to country, I was more interested in the level of utilization and whether the SMEs (Small/Medium Enterprises) had any suggestions for improvement.

Of the businesses in my group, all had some knowledge of programs that they could use to benefit their business, but only a small percentage felt they were “very well informed.” This is a true statement for most businesses as it takes time and effort on the part of the SME to research and find the particular program that they both need and are eligible for. Three methods of discovery of applicable programing were noted as the main way they were able to find applicable programing: personal contact with a government agency, personal business contacts and lastly through government websites.

In all of the cases where the SME felt they were “very well informed” the businesses were able to identify government employees who were extremely helpful in the process of pathfinding for the SME.

Differentiation was made between government programs that automatically apply to a business versus those that require some effort to participate in the programing, such as applying for approval. More than two-thirds had actively applied to participate in some type of government programing in the last 24 months. Yet at the same time most did not perceive current government programing as being particularly useful to them as individual businesses. The rationale was that even though they were applying for the programs, they felt the programing was not particularly well suited to their specific business.

Those not using government resources cited the main reasons as: the programs were too complex, too narrow of focus, and too much uncertainty/risk. These three issues are similar in that they relate to the perceived benefit of the program versus the expenditure of the time and resources required to participate.

This last point of uncertainty/risk was one that I had never considered in our own business and was brought forward as the risk of making business decisions based on government programing, not on a sound business plan. This is a very valid point and certainly shows astute management on behalf of the SME to be aware of this. However, government programs, especially in areas such as adoption of innovative technology and innovation, are typically in place to allow the SME to take more risk.

One facet I thought would be mentioned as a hindrance to programing but was never encountered was the idea of the entrepreneur being too independent and eschewing help from outside sources. In all cases, the group of businesses across all sectors felt if there was relevant programing that fit into their business plan, they would typically access it.

Of the government provided resources being used, the common theme was that it depended on what stage the company was at and what they felt was pertinent to their phase of growth. Companies who were beginning exporting cited assistance in navigating their way through the complexities of international trade and marketing assistance as being extremely helpful. Those that were looking at expansion of production felt access to innovation and technology were most useful. This is not surprising but does reinforce the issue of the government having to

provide a wide range of resources - adding to the complexity of the discovery process for the SME.

The largest barrier to using the resources provided through government programming was always the time and energy (both usually in short supply) required to find the resource, and the reporting required to qualify and complete agreements. It should be noted that in most jurisdictions, the SMEs felt that ease of access has improved in the last few years

The frustration felt by the SMEs of not having input into the design of the facilitative programs was notably absent, as compared to restrictive/regulatory policies. This may be due to the fact that the SMEs are required to be involved in regulatory process whereas access to facilitative programming is largely voluntary.

One of the important sources of information mentioned as being useful in the discovery of government programs was the use of business contacts, wherein business contacts would recommend good programs to others in their circle. This led to a discussion regarding the usefulness of governments investing in business or knowledge clusters. As a whole, the group felt this was a worthwhile endeavour and I echo their sentiment.

The group loosely defined the cluster as a collection of businesses and resources that were tied together by a commonality such as a process, a technology or type of product. As most of the businesses I had interviewed were closely tied to agriculture production, they were familiar with having many businesses doing similar things in an area and looked at the concept of a cluster as being helpful, not as increasing competition on their doorstep. Many of the advantages of having business clusters that were noted were similar to what would be expected, such as development of support infrastructure and knowledge capacity pertinent to the sector as well as fostering both rivalry and collaboration. A unique benefit that was noted by many was the idea of a business cluster creating a culture of businesses being successful in a particular area.

The concept of developing a culture of business success through a cluster is interesting as it relates to encouraging and supporting new entrants to the sector as they see examples of success in their day to day lives, not just in some far-off location. To make this effective, the group felt that the cluster had to contain a wide variety of businesses all with the same focus (i.e., value-added agriculture) and there had to be substantial variability in the stages these businesses were in. It was felt that if only large business comprised the cluster, it would not act as a role model for small entrepreneurs and start-ups as they would not readily see the path to success. Whereas if there was a mix of enterprises from start-ups to those in the growth phase of their business, it would encourage more new businesses as they would see the sector as viable and vibrant and want to be part of it. Although building clusters takes years to accomplish in a region, they are a worthwhile endeavour especially if suitably diverse. This again points to the wide range of policy initiatives that needs to be available to support SMEs at various stages of their business.

## 5.2 INTERNAL INFLUENCES

What happens internally affects small business growth potential as much or more than all externalities. This may seem a bit counter intuitive from the business's point of view as many look outwards at what is blocking their path and rarely take the time to be introspective and look to see what their internal roadblocks are.

When I examined these internal factors, it kept bringing to mind every business book I had ever read, and the difficulty of trying to find the relevance for our own situation as our business was too "different" to be able to make use of many of the strategies. Again though, there are always lessons to be learned, especially when you have a chance to see firsthand the success and hear some of the wisdom that others have learned.

One Australian entrepreneur put it this way, that if you drove around his area, you would see a number of farmers mostly all producing the same crops on the same type of land and most everything they had would be similar, yet always a few of them without fail seemed to be doing better than the others. So, given the same resources, the only difference could be skill in management.

In order to make sense of what key points really made a difference in creating a business that could grow, I had to spend a bit of time sorting through all the stories I had been told during my visits. Eventually I concluded that there were two key elements occurring in the successful businesses that were absent in those less successful.

My definition of success stems from what we are trying to achieve in our own business, which is that the company is not only profitable and showing sustained growth, but that the business was able to focus on a sustainable model showing respect to the environment, the people they work with, and the community. The two elements that I identified were the ability of the business to identify what value they were able to add to the commodity they were working with. Secondly was the leadership exhibited by the entrepreneur.

### 5.2.1 THE VALUE OF YOUR VALUE-ADDED

Finding the value in value added. More than anything else, the common theme was not to get caught in the trap of just making another commodity. It would be reckless to say there is no place for those types of businesses that aim to be low-cost suppliers of certain ingredients or finished products. However, the focus of the small businesses I was able to visit was to try to find a niche within those large product categories that offered profit potential.

The problem encountered in a company during growth is that you are never as efficient as you should be because of constraints due to lack of capital, efficiencies of scale, and limited access

to markets. This leads to two outcomes, the first is that you create something unique enough that the customer is willing to pay a premium thus overcoming the inefficiencies or you go broke.

All of the successful value-added businesses were very intent on creating something unique, especially in the alcohol industry. Beer, spirits, and wine can be a commodity marketplace just like the ingredients they are made from and typically the owners of these businesses were keenly aware of this fact and spent a great deal of effort trying to differentiate themselves and their products as a brand. The alcohol business tends to be very traditional in its production techniques, and indeed in many areas are restricted to these traditional techniques by law, making it harder to innovate in the production processes. However, many producers are able to think through the process and see where the value is being created in their product, and leverage that to create products that can reach beyond their commodity status. Being able to clearly define the value that you are creating is not only essential in creating your product, but in the end, you need to be able to efficiently communicate this to your customer, and clarity is key to being efficient in marketing.

### 5.2.2 USING TRADITION TO CREATE BRAND VALUE



Image 1 – Traditional Sake production – Kozaki, Japan

One of the most traditional alcoholic fermentations is the production of rice wine in Asia. In Japan, the production of Sake is very traditional with the starch of the rice being converted to sugar by the use of enzymes created by a particular strain of *Aspergillus*, then fermented. Some producers in this area were able to take advantage of their traditions in Sake production

to create additional value for their products by keeping production processes the same for generations.

For those Sake aficionados, the fact that the products that they enjoyed were the same as they were a hundred years ago was undoubtedly an important part of their enjoyment of the product. Maintaining traditional production methods is a double-edged sword though, as although you are able to supply your customers with a niche product, the business forgoes opportunities to become more efficient and productive and the extra value being captured in the marketplace is often offset by the costs incurred by the inefficiencies.

Another interesting model that I saw was a state-of-the-art production facility, but with the extra value-added component of allowing customers to bring rice from their own farms and create their own Sake in a traditional method. This allowed the company to create value from the traditional niche, while at the same time reaping the rewards of innovation in the processing facility.

The commonality between the models in the Sake industry was that it was hard to break away from the commodity market using “traditional” processing techniques because the opportunity cost of losing production efficiencies was too great.

### 5.2.3 USING VERTICAL INTEGRATION TO CREATE VALUE

A slightly different model of creating value that was being used not only in Sake, but in the production of beer, wine, and spirits in other areas of the world was that of leveraging vertical integration to produce unique ingredients, which could then be transformed into traditional products. The advantage to this method is that the business has the opportunity to create something unique (better tasting and more efficient) and hopefully capture intellectual property. The uniqueness of the ingredients and hence the resulting finished product is key to this model.



Image 2. *Wine, freshly barreled, made from grapes grown on the winery's orchards – Hunter Valley, NSW Australia.*

If we think about the concept of terroir in wine production and marketing the concept is the same, wherein the uniqueness of the raw ingredients leads to the uniqueness of the end product. Throughout most wine regions in the world there are limitations on what grapes could be grown because of climatic conditions and available cultivars.

Astute producers saw that the grapes differed in quality attributes because of the nuances of the particular land the grapes were produced on and the cultivation techniques, they could then use this to market their wines as being unique to their winery. This is highly effective in creating value as an important part of their claim to quality was tied to the land the winery owned.

If we take this one step further and look at those wineries that were able to plant new orchards to take advantage of better genetics, they will have a product that is unique in the marketplace while at the same time taking advantage of efficiencies in production. In the previous examples of Sake production, they found if they could intimately control the production of the rice they were using, they could select for varieties that had very particular characteristics which would make a noticeably better product or had processing advantages that in turn should create more value.

This same concept was being used by some of brewers, distillers, and wine makers in all the countries I visited, and in each case, I would say it had contributed significantly to their success. Using the resources that they had at hand (their farm) they were able to produce raw ingredients to a unique specification, which allowed them to differentiate their product in the marketplace. In a world where alcohol products are a commodity, not unlike so many food products, this gave them a particular advantage over their competition as it was hard to replicate. As an additional bonus, the system seems to scale up well, as typically the innovations came from systems implemented for choosing the genetics of the crops they were looking for and the production and record keeping techniques.

The use of vertical integration to control and curate their supply chain is a form of intellectual property, where the process and resulting product could be regarded as trade secrets or have sufficient inherent barriers that other companies cannot replicate it. This strategy could easily be adapted by many agri-value processors, and there are many examples from milk, cheese, and meat production to essential oils from flowers that show this strategy works very effectively. On a large scale we see a variation of this where processors will purchase a specific grade of a commodity with various unique traits to create their end product.

#### **5.2.4 CONSTANT INNOVATION (BUT UNNEEDED) WITHIN A BRAND**

Other variations of creating value in the alcohol industry, especially the craft brewing sector, was to continually innovate to create new recipes and flavours. This was less effective for the businesses than concentrating on creating an advantage either in efficiency or in product quality. In most cases other competitors were copying their products with alarming speed. It also set a standard for their customers that they were always looking for the next cool thing, forcing the brewery to constantly spend resources on product development that would have a short lifespan. Although innovation and product development are an important part of a business, continually trying to produce new recipes as part of a growth strategy seems to be very counterproductive.

## 5.2.5 CREATING VALUE IN A BRAND

Marketing and branding are also key features in the growth of small value-added producers, whether the business is vertically integrated into their farming operation or not. Being able to communicate with potential customers and extol the virtues of your product is the key first step in any sales process. Where this affects the growth potential of the company is that an extraordinary effort has to be made to get the marketing part correct quickly. This ties back to understanding where the value lies in what you are producing.

The clarity in defining your “value” allows you to not only concentrate on producing that product efficiently but influences your ability to communicate that to the marketplace. When you are looking at growth strategy in a small value-added business, your communication is limited by your budget and for this reason it is important to really understand your value statement. I found it a common sentiment amongst the study group that they felt they had a challenging time seeing the value from a customer centric point of view; hence they were being inefficient with the limited budget they had.



At Ashgrove, a farm-based cheese producer in Tasmania, it was apparent that the consumer expected great cheese. The Bennet family was astute enough to define exactly what made their cheese unique. By being transparent with their farming practices and engaging their customer on a journey from the farm to their fridge, they have been able to build their business into one of the most respected cheese producers in Tasmania. Hence the value of their cheese from a customer’s point of view, was not just that it tasted good, but that they could trust the farmers behind the brand.

Image 3 – Ashgrove Cheese, Tasmania, Australia – Showing value farm to plate

The key messaging from the integrated craft alcohol sector was mostly based around the wholesome nature of the business, that they were very traditional, and that all of them felt their quality was above average. It was brought to my attention though by several astute value-added processors (those outside the craft alcohol sector) that the folly of this type of branding is that it reflected what the producer thought was a value, but it was hard to articulate it from a customer centric point of view. The point being, if you are telling the consumer that your value statement is that your production is very traditional, many of them assume that all production is traditional and therefore they do not see a benefit.

The same is true about many value claims, especially those around product quality, as very few products ever market themselves as being less than something else. Most of all they felt that being farm-made was a particularly dangerous claim, as, doesn't all food come from a farm?

Hence one of the barriers to growth, which is true in all smaller businesses not just value-added agriculture, is finding the right message about your product that will allow your customer to truly understand the value you bring to the market. It sounds simple, but many businesses miss this point. This begs the question of how to resolve the problem. It is partly a matter of marketing, but more importantly there is a depth of research needed that the company has to commit to doing in identifying the customer, engaging with them, and incorporating what is discovered into your product and messaging. This takes a lot of effort, and a certain amount of risk that you may hear things you do not want to but is essential to creating a product with growth potential.

An important lesson in all this, as the companies were growing, was not to compete in the "lowest price" market. All of the producers, whether in the craft alcohol industry or not, realized that they were unlikely to be lowest cost producers as they did not have the efficiencies of scale. The value they were adding to the commodities they processed therefore had to be tangible in the consumers' eyes or else they would not be able to extract the premium they needed to be financially stable. Although the key seems to be in innovation, the innovation had to be sufficiently long lasting and effective to justify the investment. Everything within your business has to be scalable if you want to grow. Adopting practices that are not are very counterproductive.

### **5.2.6 WHAT LURKS WITHIN**

While defining value is important, it alone is not enough to drive success in a small business. We all know of products or businesses that have an excellent product with well defined value for the customer, yet they seem to not be able to make the jump to sustained growth. After interviewing all the businesses, I encountered in my studies, there were many things that happened within the business that seemed relevant to what made it possible for them to succeed. In the end though, it all distilled down to one trait, leadership.

Leadership is an extremely broad term than can encompass many traits, with the goal of encouraging the successful functioning of the organization. The intriguing concept here is that many of the skills can be learned. Programs such as Nuffield not only teach leadership skills but allow the scholars to hone the skills they already have. What makes this so interesting from a company growth perspective is that it is possible to achieve; you are able to work through the problem and put your business in a better position to achieve success.

Leadership of the success stories had two sides. There was the personal leadership of the entrepreneur, but there was also the leadership sentiment within the business itself, and one essentially follows the other.

Leaders and their businesses need to have ideas and dreams, the bigger the better. All of the entrepreneurs I met with had at one point came up with the idea for their value-added concept, whether that was brewing beer on their farm in Australia, making cheese from their milk production in Tasmania or producing sweet potato snacks in Japan. The trait that separated the ones that were successful and those that were not, was the ability to think through the process of getting bigger and being successful.

The old adage “you would never plant a tree without the expectation that it was going to grow” is particularly true in business. This ties into many good management practices such as business planning and goal setting and measurements, but the real skill is to be able to remove yourself from the day to day of getting your business going and imagine what would be possible. It is those dreams that allows the entrepreneur to lead their team continually forward.

Taking those dreams and turning them into reality is difficult, but leadership in its myriad of definitions is what allows it to happen. This is the sole role of the entrepreneur - this I believe to be true in all business, not just value-added endeavours, although that is where I have seen it being extremely important.

Of all the aspects of leadership, the most important is being able to instill into your team those big ideas, the values, and the goals of the company. This is relevant even at the smallest stage of the business. In our own business when we started it was just myself and my wife, Barb, should have been easy to have a shared vision. In reality though, even at that size, it takes a concerted effort to remain focused on where the end goal is. As your team becomes larger, it becomes evermore important to continue to keep everyone engaged in the dream and understanding of the goal.

An empowered team, with clear sense of the values and goals of the business is extremely powerful and can be an important driver of growth in any business. The reason is because it transfers some of the leadership to the business itself. It allows the business itself to begin exhibiting the important facets of leadership not only within the business but outwardly to its customers.

## 6 CONCLUSION

This report focused on the internal and external factors that influence the growth and success of small and medium-sized businesses in the value-added agriculture sector. Interviews were held with companies of diverse sizes across different countries and cultures to seek commonalities in how success was achieved.

The responses from interviews with these businesses showed clearly that governments play a key role when looking at growth and profitability of small and medium sized enterprises. Regulations set by governments are meant to be restrictive but may present challenges to businesses if they must expend an onerous amount of resources such as time and money to ensure compliance. Regulatory bodies can improve this model by adopting practices to facilitate compliance by ensuring clarity of regulations and creating an empowering environment encouraging business to engage with the regulators and achieve the goals of the government policy. The framework of policy has to be such that businesses can be competitive while fulfilling societal goals. It is a balance that is hard to achieve. We see however, that people and businesses involved in the sector are keen to help, and in ways feel frustrated that they are not more engaged.

Governments also facilitate growth in businesses throughout various programs such as promoting trade and business clusters. Businesses interviewed identified the lack of time and energy needed to participate as the largest barrier to accessing government programs. The role of business clusters is seen as important by entrepreneurs especially in its relation to the human aspect of learning and creation a service structure and needs to be carefully encouraged as to create role models and opportunities for all sizes and stages of business.

Government influence on business will continue to be even more important as we adopt new policies related to climate change, sustainability, and the myriad of challenges the future will bring. Pathways to success, both in the regulatory and facilitatory spectrum of policy require a human touch and the same leadership that allows businesses to thrive needs to be shown by government as a whole, and as importantly, by the people working within the various departments.

Success of the individual business is key. Although external influences tend to cause the most frustration within a business, internal factors are more important as the business has an opportunity to improve their systems and management to create opportunities from within. Clarity of purpose and individual leadership were seen as the most crucial factors in the success of the individual company.

Each business can and should have its own unique value that they bring to marketplace. The businesses that were able to understand what the “value” in their value-added business were

able to be more successful in their marketing to their customers and were able to ensure that the business stayed focused on creating that value.

The impact this study has had on our own business and my involvement in the industry are only now becoming clear. Having gained insight as to the influence of government programs on small value-added businesses will allow more effective contribution to the agriculture sector.

In our own business, understanding our own creation of value has allowed us to be confident enough to actively work towards expansion of the business. The importance of being able to communicate this value within our own growing business has reinforced the need for leadership skills to fully take advantage of our opportunities. Both leadership and clarity take effort, and in my case, it is obvious I needed to make a concerted effort to improve these skills in myself. By doing so I hope to be able to emulate the successes of the wonderful businesses I had the opportunity to visit over my journey as a scholar. The lessons learned of clarity of value and the effects of leadership will transform our own business.