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Food Supply Chains in Lagging Rural Regions of Finland: an SME Perspective

Publications 4
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Foreword

An essential component of the food production sector in Finland’s lagging regions consists of small-scale enterprises located in rural areas. A high proportion utilise traditional production methods, emphasising local identity and distinctiveness, thereby differentiating products and servicing niche or segmented markets. Such enterprises frequently integrate with other sectors of the local economy, such as raw material suppliers, distributors, tourism and catering, thereby enhancing local activity. Thus the assessment and development of food supply chains from rural small and medium-sized enterprises (SMEs) is crucial, not only from the perspective of SME performance but also for the economic health of the region. The development of marketing and distribution systems for products from SMEs is one of the most essential activities of business operations. A critical problem for many rural SMEs is market access. Distance from major population centres, low output volume and the dispersed nature of enterprises add to the dilemma.

The objective of this report is to review and evaluate the factors influencing supply chain development and performance in Finland, their likely evolution, and their impact on small-scale food enterprises and rural development in terms of benefits and problems. The report starts by introducing the theoretical framework and methodology of the study followed by the food supply chain environment in Finland. Then the different stages of food chains are presented based on empirical findings. The report is concluded by a presentation of different supply chain strategies of rural food SMEs. Various case examples are given to better illustrate the great variety of strategies. These case examples can be called best practices. The aim of these examples is to reveal best practices that are useful to entrepreneurs in the early stages of business in getting new ideas. In addition to entrepreneurs those involved in development work in the SME sector may also find these examples most helpful.

This report derives from the EU funded (5th Framework) project: Supply Chains Linking Food SMEs in Europe’s Lagging Rural Regions (SUPPLIERS, QLK5-CT-2000-00841). Collaborating laboratories were: SAC, Aberdeen, UK (Co-ordinator); Coventry University, UK; University of Wales, Aberystwyth, UK; Teagasc, Dublin, Ireland; ENITA Clermont-Ferrand, France; University of Patras, Greece; University of Helsinki, Ruralia Institute, Seinäjoki Unit, Finland; and the Agricultural University of Krakow, Poland. The funding enabled the fruitful collaboration between above-mentioned universities. Technical realisation of this report has been taken care by Jaana Huhtala and Jari Eloranta at the University of Helsinki, Ruralia Institute. Pia Kattelus has been the co-writer in the Delphi report in Finnish. Thank you for their important contribution to this report.

The authors want to thank all the representatives of different processing businesses, intermediary businesses, commercial customers, institutions and organisations that were interviewed for the study between 2001–2004. They devoted their time and we want acknowledge that their input has been invaluable. Thank you!

Director, professor Sami Kurki
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Abstract

An essential component of the food production sector in lagging regions consists of small-scale enterprises located in rural areas. A high proportion utilise traditional production methods, emphasising local identity and distinctiveness, thereby differentiating products and servicing niche or segmented markets. Such enterprises frequently integrate with other sectors of the local economy, such as raw material suppliers, distributors, tourism and catering, thereby enhancing local activity. Thus, the assessment and development of food supply chains from rural small and medium sized enterprises (SMEs) is crucial, not only from the perspective of SME performance, but also for the economic health of the region. The development of marketing and distribution systems for products from SMEs is one of the most essential activities for business operations. A critical problem for many rural SMEs is market access. Distance from major centres of population, low output volume and the dispersed nature of enterprises add to the dilemma.

Recent changes in the retail sector have accentuated the problems and may ultimately threaten the competitiveness and viability of many rural food SMEs in particular, and the regions in general. There is greater emphasis on supply chain management which involves the integration of business processes, from end-user through to the original product producer and their suppliers. Retail chains have increasingly recognised that integrated and highly managed supply chains can be a major source of competitive advantage. Competition between individual businesses within and between stages in the supply chain is being replaced by competition between chains. This now means dedicated suppliers and exclusive contracts ensure that the benefits of investing in machinery, people, systems and programmes designed to maximise consumer satisfaction are retained and distributed appropriately between chain members. Such developments tend to militate against the involvement of small enterprises with major retailers, thereby limiting access to major markets and having implications for rural development.

The objective of this report is to review and evaluate factors influencing supply chain development and performance in Finland, their likely evolution and impact on small-scale food enterprises and rural development in terms of benefits and problems. The report starts by introducing the theoretical framework and methodology of the study and then the food supply chain environment in Finland. After that different stages of food chain are presented based on empirical findings. The empirical data of the study was collected by face-to-face interviews. Different stages of food chains include: SME processors, intermediate chain members, commercial customers and institutions. The report is concluded by a presentation of different supply chain strategies of rural food SMEs. Various case examples are given to better illustrate the great variety of strategies.

Key words: food SMEs, rural development, small businesses, supply chains.
1 Introduction

1.1 Background and rationale of the project

A significant component of the food production sector in lagging rural regions (LRRs) consists of small-scale enterprises. A high proportion utilise traditional production methods, emphasising local identity and distinctiveness, thereby differentiating products and servicing niche or segmented markets. Such enterprises frequently integrate with other sectors of the local economy, such as raw material suppliers, distributors and tourism and catering, thus enhancing local activity. Consequently the assessment and development of food supply chains from small and medium sized rural enterprises (SMEs) is crucial, not only from the perspective of SME performance, but also for the economic health of the region. The development of marketing and distribution systems for products from SMEs is one of the most essential activities of business operations. A critical challenge for many rural SMEs is market access. Distance from major centres of population, low output volume and the dispersed nature of enterprises add to the dilemma.

Recent changes in the retail sector have accentuated the problems and may ultimately threaten the competitiveness and viability of many rural food SMEs and their host regions. There is a greater emphasis on supply chain management which involves the integration of business processes, from end-user through to the original producers and their suppliers. Retail chains have increasingly recognised that integrated and highly managed supply chains can be a major source of competitive advantage, and have invested heavily in Efficient Consumer Response (ECR) and Category Management. Moreover, competition between individual businesses, within and between stages in the supply chain, is being replaced by competition between chains, with dedicated suppliers and exclusive contracts ensuring that the benefits of investing in machinery, people, business systems and programmes designed to maximise (perceived) consumer satisfaction are retained and distributed appropriately between chain members. Such developments tend to militate against the involvement of small enterprises with major retailers, thereby limiting access to major markets and having implications for rural development.

1.2 Objectives

The overall objective of the SUPPLIERS project was:

To assist the sustainable development of small-scale food enterprises in lagging rural regions (LRRs) of the European Union and Poland through the development of new tools and models for supply/distribution chain integration leading to improved market accessibility and competitiveness.

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1 Efficient Consumer Response (ECR) is a generic term that covers a number of related approaches and techniques that aim to deliver greater consumer value, more rapidly and with less cost.

2 Poland became part of the EU not until after the research in SUPPLIERS project was carried out.
The Supply Chain Environment Objective identified factors which influenced the operation and development of food supply chains from LRRs. The likely evolution of such factors was determined, along with their implications for supply chain access and management, the development of existing and new supply chains, and for rural development in the LRRs.

The scientific and technological objectives were as follows.

(i) To construct a theoretical framework and to elaborate basic research propositions and tentative relationships to examine (a) the development and performance of food supply chains involving SMEs with identification of indices for the measurement of efficiency, effectiveness and structural impacts; (b) the linkages between supply chain characteristics and rural development trends, structures and strategies; and (c) the role of policies and institutional structures in influencing supply chain performance with respect to the competitiveness and market accessibility of food SMEs in LRRs.

(ii) To assess the development of information and communication technology (ICT) and the implications for the marketing and promotion of rural products in the supply chain environment; analyse the existing and likely use of ICT by food product SMEs and by the intermediate chain members, examining the factors which facilitate and constrain its development, performance and use; review the use and utility of ICT from the end customer perspective; determine the implications (costs and benefits) of ICT for the future competitiveness of food-producing SMEs in LRRs, and the extent to which ICT can effectively reduce the importance of proximity to markets; and evaluate the role of institutions in aiding the adoption of ICT by SMEs in LRRs for the supply logistics and marketing of food products.

(iii) To review and evaluate factors influencing supply chain development and performance in each participating region and country, and their likely evolution and impact on small-scale food enterprises and rural development in terms of benefits and problems. The evaluation is to include a broad assessment of ICT developments, and their implications for the marketing and promotion of rural products in the supply chain environment.

(iv) To review the study regions in terms of their physical, demographic, social and economic features as well as the production and marketing of food and its significance for local economic development and the existing institutional arrangements to support economic and social development. Confirm food product groups to be studied; review existing production and marketing structures and supply chains in each study region for the selected products, and assess the existing role of ICT and its perceived contribution to supply chain development in the regions.

The Producer Objective evaluated the food supply chain from the SME producers’ perspective, with particular emphasis on chain characteristics and performance, ICT use, linkages to the local and regional economy, and relationships with institutions.
The scientific and technological objectives were as follows.

(i) To identify and assess the structure, internal relationships and effectiveness of supply chains used by food product SMEs.

(ii) To analyse the existing and likely use of ICT in supply chains and determine the perceived costs and benefits of the adopted systems.

(iii) To determine the broad economic linkages of rural food producing SMEs.

(iv) To assess producers’ views on the activities of institutions to assist the accessibility, development and management of supply chains.

The Intermediate Supply Chain Member Objective evaluated the food supply chain from the intermediate chain members’ perspective, including structural and operational characteristics, business performance, ICT use, chain integration and development, and relationships with other chain members.

The scientific and technological objectives were as follows.

(i) To identify the objectives, activities, business relationships, decision-making procedures, ICT use, and conduct and performance of supply chain members.

(ii) To assess the factors that facilitate and constrain members’ innovativeness, development and performance with respect to the needs of both individual chain members and rural development in the study regions.

The Commercial Customer Objective examined the food supply chain from the commercial customers’ perspective, emphasising chain organisation and relationships, chain dynamics, consumer requirements, and chain performance.

The scientific and technological objectives were as follows.

(i) To identify customers’ own needs and practices in supply chain organisation, management and development.

(ii) To assess supply chain performance from the customers’ perspective.

(iii) To assess the developing role of ICT specifically for SME food producers.

(iv) To identify customers’ perceptions of consumer needs and how they are being met.

The Institutional Objective assessed the strategies, measures and structures of national, regional and local institutions that assist food product SMEs and supply chain management, integration and development in LRRs.

The scientific and technological objectives were as follows.

(i) To identify and classify the relevant national, regional and local institutions.

(ii) To specify institutions’ roles and functions with particular reference to their position with respect to supply/distribution chain integration leading to improved market access and competitiveness.
(iii) To describe and evaluate the strategies and measures undertaken to fulfil these roles and functions.

(iv) To assess the contribution that supply chains make to the region – the ‘ring fencing’ of value added from the supply chain to the LRR, from a rural development perspective.

(v) To assess institutions’ roles with respect to: a) ICT (including e-commerce and information exchange); b) organisation of producer networks and their interaction with institutions, and c) linkage with rural development programmes and objectives.

**The Evaluation and Policy Objective** provided an overall evaluation of food SME supply chains in LRRs, identified the possibilities for effecting improvements in supply chain integration and performance, and investigated the development of tools and models for the cost-effective dissemination of good practice.

The scientific and technological objectives were as follows.

(i) To evaluate the structure, performance and competitiveness of food supply chains involving SMEs, in terms of their communication and decision-making systems, forms of inter-member dependence, access to suppliers and market, cost/value generation and allocation between chain members, geographical scope and responsiveness to technological and market change.

(ii) To assess the implications of ICT adoption for the future competitiveness of food-producing SMEs.

(iii) To assess the contribution of food supply chains to rural development.

(iv) To identify how good practice in SME food supply chain integration and development might be disseminated in a cost-effective manner within LRRs.

(v) To explore the possibilities for improved policies, institutional structures and rural development strategies for food supply chain integration and development in different LRRs of the EU and Poland.

**1.3 Study regions and products**

The two lagging Finnish regions being studied, namely Southwest Finland (see Figure 1.1) and Northern Ostrobothnia (see Figure 1.2), are predominantly rural in character, economically disadvantaged, relatively remote from urban centres and have high-quality natural environments.

Southwest Finland is situated along the south western coast of Finland. The average population density is 41.9 inhabitants/km². The climate, especially in the archipelago, is the most maritime in Finland. The economic structure of Southwest Finland breaks
Figure 1.1 Finnish study region: Southwest Finland.

Figure 1.2 Finnish study region: Northern Ostrobothnia.
down to agriculture and forestry 10%, manufacturing 34%, construction 6% and services 50%. Telecommunications has become the most important industry in the region and the importance of agriculture and forestry has been decreasing for decades. However, the food industry is still significant industry in the region. Northern Ostrobothnia is situated in northern Finland, extending from the Gulf of Bothnia in the west to the Russian border in the east. Average population density in Northern Ostrobothnia is 10.4 inhabitants/km². The economic structure of Northern Ostrobothnia breaks down to agriculture and forestry 8%, manufacturing 23%, construction 6% and services 63%. In a short time, Oulu, the regional capital, has developed into one of the leading centres of technological expertise in Finland as well as in Scandinavia. Tourism is an extremely important means of livelihood in the region and ski resorts attract many tourists.

In both cases, agriculture makes an important contribution to the rural economy. Likewise, both study regions have strategies to restructure their food chains through the creation of new markets and market niches via product differentiation. Such strategies are considered necessary because of the regions’ structural disadvantages, their peripheral location and the small size of their farms, all of which tend to make the regions uncompetitive in a conventional, commodity-based agri-food market. The types of food production suggested by the regions’ strategies offer potential advantages to the rural economy through more sustainable agricultural and environmental practices, quality foods for consumers, and local economic development impacts in terms of downstream opportunities within the food chain. A more detailed description of the regions is provided in Section 4.2.

The product groups chosen for the SUPPLIERS study are presented in Table 1.1. They are discussed in more detail in Section 4.2.

<table>
<thead>
<tr>
<th>Southwest Finland</th>
<th>Northern Ostrobothnia</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Meat products</td>
<td>• Milk products</td>
</tr>
<tr>
<td>• Fish products</td>
<td>• Meat products</td>
</tr>
<tr>
<td>• Mill and bakery products</td>
<td>• Berries and vegetables</td>
</tr>
</tbody>
</table>

1.4 Report structure

Following the Introduction, Section 2 presents the findings of the literature review and the Theoretical Framework developed for the SUPPLIERS study. To establish the theoretical framework it was necessary to review developments in the political, culture and market economy literatures, and to assess the role of ICT in contemporary supply chain developments as well as the relevance of these factors to rural development policies and programmes. Section 3 outlines the project’s methods, providing both an overview and a summary of the methods deployed within each work package.
Section 4 reviews the supply chain environment in Finland and its development within the context of SME businesses. The study regions and their food production and marketing systems with respect to SMEs are also studied.

Section 5 presents the findings of the SME producer objective. It particularly focuses on the results of the producer survey undertaken for the project, and covers the characteristics of the producers, the supply chains within which they operate, their use of ICT, their views on the activities of institutions in relation to food SME supply chains, and their contribution to rural development.

Section 6 draws on the intermediate supply chain member objective, the aim of which was to analyse the supply chain from the perspective of intermediate chain members. The section mirrors the structure of Section 5 but views each issue from the perspective of the intermediate chain members.

Section 7 draws on the commercial customer objective, the aim of which was to examine the food supply chain from the commercial customers’ perspective. The section has a similar structure to section 6, but views each issue from the perspective of the commercial customer.

Section 8 covers the institutional objective, the aim of which was to assess the roles, strategies, measures and structures of national, regional, and local institutions in assisting food product SMEs and supply chain management and development in LRRs. The section covers the institutions involved, their strategies and measures for SME and supply chain support, and their activities in relation to ICT adoption and rural development.

Section 9 sets out the conclusions of the research project from all the main perspectives that have been considered, namely: the supply chain environment, the various participants within food SME supply chains, institutional involvement, the role and contribution of ICT in such chains, and rural development in lagging rural regions. Several case examples are used to better illustrate the variety of supply chain environments and strategies used by rural food SMEs.
2 Theoretical framework

2.1 Aims and scope

Particular emphasis is given to examining (a) the development and performance of food supply chains involving SMEs, (b) the linkages between supply chain characteristics and rural development trends, structures and strategies, and (c) the role of policies and institutional structures in influencing supply chain performance with respect to the competitiveness and market accessibility of food SMEs in lagging regions.

To establish this theoretical base, it was necessary to review developments in the political, culture and market economy literatures, as well as to assess the role of ICT in contemporary supply chain developments and the relevance of these factors in rural development policies and programmes. The theoretical framework developed for the SUPPLIERS project is outlined at the end of the chapter. This is purposefully wide-ranging. As the empirical stages of the project developed, it was necessary to review the literature, and to augment and critique theoretical developments. Initially, various strands were selected to provide a guide to the empirical research, rather than one robust hypothetical position. Figure 2.1 shows how the various theoretical perspectives contribute to the project. It is included at the start as a visual guide to the different theoretical perspectives and will be returned to at the end of the chapter.

2.2 Agrarian political economy

Broadly speaking, agrarian political economy focuses on articulations between agriculture, agri-capitalist enterprises, the state and non-agricultural institutions (Friedland et al. 1991). Proponents of the political economy approach suggest a model of agrarian change that is broadly parallel to the industrial model of production. This dominant pathway of change is characterised by intensive market competition, globalisation, the use of technology and mass markets (Goodman 1999).

The issue of globalisation – which in simple terms means the opening up of national economies to international markets – has received the most attention. While it is not a new phenomenon, its impacts are now more extensive and it is perceived as one of the primary drivers of change in the agri-food economy, with far-reaching impacts on the regulation and functioning of the environment within which food production occurs and supply chains operate (Goodman and Watts 1997). In general terms, globalisation is accompanied by trade liberalisation, deregulation and privatisation. A variety of political economy approaches have been adopted to analyse this trend (Marsden 1999). This has

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3 The theoretical framework was developed through co-operation between the participating laboratories, i.e. SAC, Aberdeen, UK; Coventry University, UK; University of Wales, Aberystwyth, UK; Teagasc, Dublin, Ireland; ENITA Clermont-Ferrand, France; University of Patras, Greece; SIRRT, University of Helsinki, Finland; and the Agricultural University of Krakow, Poland. The final version was drawn up by Teagasc.
highlighted the transformation of food production under the unfolding logics of globalisation, the growing specialisation of agricultural enterprises and regions, the growing dominance of industrial and transnational capitals, the changing power relationships and inequalities arising between players and regions, and the processes by which industrial capitals have tried to incorporate natural production systems into its own methods of industrial production. Figure 2.1 identifies the main elements of the SUPPLIERS theoretical framework. Three of the most significant political economy developments in the context of food supply chains – regulation theory, commodity chains and systems of provision – are summarised below.

### 2.2.1 Regulation Theory

The relatively stable organisation of production, exchange, consumption and income distribution over a period of time (regime of accumulation) is maintained by a particular set of institutions, rules, procedures and routines (mode of regulation). Institutional arrangements that mediate economic processes may spring from national, supra-national or sub-national politics (Le Heron and Roche 1999). The central research problem in agri-food regulation theory is to understand how state practices and roles governing food systems are changing, and how state practices (e.g. WTO and CAP reforms) shape agri-food system changes (see Buttel 2001).

### 2.2.2 Commodity Chains

Commodity chains theory focuses on the progressive movement of a commodity through the sequential phases of production, distribution and consumption (Leslie and Reimer 1999; Hartwick 2000). The theory constructs a unilinear chain whereby commodities are produced in ‘peripheral’ regions of the global economy for retail and consumption in the ‘core’ (Hughes 2000). Analysis focuses on actors’ connections between the core and periphery and their spatial reach. Crucially, all connections are determined by power relationships, which can be either producer-driven (as in automobiles) or buyer-driven (as in food commodities). The emphasis lies with *production*, with systems and flows rather than individual nodes, and with the vertical dimensions of the food supply chain (i.e., up and down the chain from the participant in question) (e.g. Lowe and Wrigley 1996).

### 2.2.3 Systems of Provision

Systems of provision provide a more balanced and arguably more in-depth examination of the relationship between production and consumption (see Fine 1994). Crucially, Fine argues that producer-consumer relations can be different for different commodity chains. In theory, each commodity has its own unique system of provision; hence the need to study the vertical dimensions of *particular commodities* or groups of commodities (albeit
from an avowedly production-oriented perspective) and the material culture surrounding these dimensions.

Despite usefulness in the analysis of agri-food restructuring, the political economy approach has a number of important limitations. First, the approach exaggerates the macro-structural determinants of events by reifying abstract concepts such as ‘transnational capital’, with the result that it downplays the concrete decisions and actions of individuals.

Figure 2.1 Links between conceptual perspectives.
and businesses as they deal with the specific conditions in which they find themselves. Secondly, it adopts a narrow econometric interpretation of the likely development of LRRs. In reality, the particular forms of development and performance of economic units in any region will depend, not only on the macro-economic constraints and opportunities in the wider economy, but on public policy decisions and on the way in which local economic actors interpret and respond to external forces. Thirdly, such a framework obscures the role of socio-cultural factors. In short, there is a need to re-focus commodity-specific or sectoral dynamics that reveal the diversity of agri-industrial and regional trajectories and that take account of socio-cultural factors.

2.3 The Culture economy: socio-cultural perspectives

Within the past decade or so, there has been a shift in the focus of rural studies, in large part influenced by the ‘cultural turn’ (Buttel 2001; Morris and Evans 2004). Here scholars have sought to contest or add new dimensions to the above-mentioned political economy perspectives. For example, the idea of culture economy has emerged in rural development literatures (Figure 2.1), where analysis of economic activity takes account of local territo-
ries and cultural constructs (see Ray 1998; Kneafsey et al. 2001). As before, this culture economy approach remains primarily concerned with production. However, behaviour is not seen simply as optimising narrow economic returns. Instead, economic activity is ‘embedded’ in patterns of social organisation and cultural dispositions. In this framework, there is a need to counter the “absolutization of the market” (Barber 1995). Indeed, culture itself, or, more precisely, the culture-territory, in the form of local or regional identity, is a potentially productive resource in the development of LRRs.

Crucially, taking a culture economy perspective (which incidentally extends far beyond Ray’s neo-modernist interpretation) allows for a greater consideration of many of the issues significant for the functioning and operation of food supply chains as conceptu-
alised in sociological literatures relating to commodity circuits, network theory, social embeddedness and conventions theory (Figure 2.1). These four important theoretical developments are summarised below.

2.3.1 Commodity circuits

Commodities move through the phases of production, distribution and consumption as a non-linear circuit, rather than a chain. Circuits are ‘constructed’ and ‘reconstructed’ by consumer knowledge and production is consumer-driven (Cook and Crang 1996). The downside is an over-emphasis on the role of the consumer, with limited explanation of supply chain relations. For this reason, its application in the SUPPLIERS study is limited.
2.3.2 Network theory

This provides a way of connecting local/global analyses or micro/macro perspectives. For example, actor network theory (ANT) seeks to bridge the producer-consumer and micro-macro divides by focusing on the heterogeneous sets of relationships across agri-food systems (e.g. Whatmore and Thorne 1997). However, ANT has been criticised for downplaying the role of power in food supply chains, particularly the power to appropriate a surplus (Lockie and Kitto 2000). In response, a ‘vertical’ and ‘horizontal’ network approach has been proposed that seeks to get to grips with the relationships that exist between different actors in the rural economy (see Murdoch 2000). In theory, this connects food SMEs through vertical commodity exchange relationships, but also brings together other actors via the multidirectional flows of information, material and services that variously support exchange relationships.

2.3.3 Social embeddedness

Allied to the above, the notion of social embeddedness propagates the idea that economic behaviour is embedded in, and mediated by, a complex and extensive web of social relations. In the case of (local) food supply chains, both economic relations (e.g. prices, markets) and social relations (e.g. local ties, trust) are seen as being vital for success (see Hinrichs 2000; Winter 2003). Interaction may take the form of acknowledgement, attention, respect, friendship and sociability, all of which can be subsumed within the concept of ‘regard’ (Sage 2003). As Hinrichs (1998: p.510) argues, by applying the concept of embeddedness, economic activity “holds more nuance and complexity than when individuals are seen simply as optimising for maximum returns…certain forms of rural work and enterprise do contribute to the broader social goal of livelihood, even if they don’t ‘make money’”.

2.3.4 Conventions theory

As conceived by network theory, productive activity is a form of ‘collective action’. However, conventions theory differs by arguing that productive activity is organised – into chains, circuits or networks – through the operation of conventions, or the practices, routines, agreements, and their associated informal and institutional forms, which bind acts together through mutual expectations. Murdoch et al. (2000) identify six conventions relevant to ‘quality’ food products: commercial (e.g. price), domestic (products drawing on attachments to place or traditional production methods), industrial (concerning efficiency and reliability), public (such as consumer recognition of trademarks, brands and packaging), civic (e.g. societal impact), and ecological (e.g. environmental impact). In their research into specialist food production in Wales, Murdoch et al. (2000) note that domestic, public, ecological and civic conventions are ‘bundled’ around the commercial
conventions employed to make production economically viable. Combined with network theory and social embeddedness, this approach is insightful. However, Murdoch et al. (2000) do not explain the interactions and conflicts between the different conventions that ‘bundle’ around particular foods. Thus, conventions appear “abstractly imposed”. It may be more instructive, and worthwhile, to focus explicitly on the supply chain practices that add value to ‘quality’ food.

In summary, political economy perspectives identify broader macroeconomic and structural forces within which food chains function. The culture economy framework is valuable in that it serves as a corrective against the assumptions and propositions of mainstream economic analysis – the economising, rationalising individual, the absolutisation of the market, and the idealisation of economic efficiency. However, socio-cultural perspectives tend to understate the practical value of economic and marketing concepts for understanding the day-to-day functioning and supply chain practices of food businesses.

2.4 The Market economy and supply chain constructs

2.4.1 Development of competitiveness

The concept of competitiveness is highly complex and elusive, embracing issues of resource endowment and quality, resource organisation and use, managerial capability and performance, international demand and supply conditions, unpredictable physical conditions such as climate, and policy issues in many areas. At a very practical level, and in the context of relatively free markets, competitiveness can be defined as “a sustained ability to profitably gain and maintain market share” (Trail and Pitts 1998). The SUPPLIERS study was very much concerned with how food SMEs can develop lasting competitiveness through their supply chain arrangements and the distinctiveness of their cultural, socio-economic and physical environments.

2.4.2 Formation and co-ordination of the supply chain

The formation and co-ordination of the supply chain is an important aspect to focus on, and the driving factors are varied. Transaction costs, such as information, negotiation or enforcement costs, arise throughout the supply chain for all involved (Cheung 1987). The level of these costs will depend on the type of transaction taking place, the type of product involved, and the type of relationship within the supply chain. Hobbs and Young (2000) claimed that supply chain co-ordination could be driven by socio-economic, technological and regulatory factors. Fearne (1998) suggests that crises are also important drivers, given recent occurrences in the UK and continental European food industries. Control and strategic options for co-ordination are elaborated on by Peterson and Wysocki (1998) by considering relational characteristics within a supply chain. Different forms of
co-ordination, such as spot market transactions, informal and formal contracts, strategic alliances and vertical co-ordination, may be characterised by their degree of interdependence, focus of control, type of transaction, and degree of exclusivity.

2.4.3 Selection and entry into the ‘right’ supply chain.

A crucial aspect for food SMEs in LRRs is the selection and entry into the ‘right’ supply chain. In this research, particular emphasis is given to short food supply chains where there is a close, strong relationship between the producer and the consumer, with the consumer receiving a product carrying information about where and how it was produced. Such chains must be directed towards a suitably sympathetic market, with an infrastructure and intermediary sector available and suitable to facilitate the movement of the product and maintain its ‘embedded’ features. As the supply chain continues to function, it is important that food SMEs retain enough flexibility to learn and adapt to an ever changing environment, which embraces both crisis and non-crisis factors. Other, longer and more industrialised chains and networks are also an option for food SMEs in LRRs; these of course have positive and negative aspects. On the positive side, such chains can provide high-volume market access, but a negative aspect can be the loss of regional identity and territorially embedded features.

2.4.4 Chain identity

Chain identity is also a food SME issue, perhaps more so at in the pre-entry stage, information and knowledge permitting. Hagelaar et al. (1998) suggest three main types of chains. Firstly, “director’s chains” have a high concentration of power and knowledge, and are likened to chains driven by multiple retailers in the UK. “Negotiation chains” are more balanced in the dispersal of power and knowledge, more equal in their distribution of benefits, and have a higher degree of consensus amongst actors. “Market chains” are also characterised by dispersed power and knowledge, but are more likely to have involved actors ‘doing their own thing’ when the opportunity arises. Food SMEs in LRRs will ideally use knowledge and information to access or construct suitable, competitive supply chains which will support the sustainable economic development of their business and of the area. Evaluation of supply chains is therefore key to ensuring that these criteria are met. Beamon (1996) suggested a combined approach, where efficiency measures (focusing on resources), effectiveness (focusing on output), and flexibility (responsiveness to a dynamic market environment) are all evaluated. Other measures such as value chain analysis and benchmarking can also be used.
2.4.5 Management and performance of the supply chain

The management and performance of the supply chain dictate a number of key outcomes; perhaps most significant in this instance is the level of apparent innovative behaviour present in the network. Innovation can be described as a process, reorganisation, technology, or combination of these, that is ‘new’ within the network context. Innovation can take place at the business, network or institutional level and, as discussed by Omta (2002), depends on key elements such as business strategy, business culture and network system. Dependency between firms in the network may stimulate innovation (e.g., investment leads to an increased share of customers’ markets) or inhibit it, due to closeness and contractual arrangements between partners.

2.4.6 Marketing

Finally, within the market economy, the actual process of marketing is considered. The ability of supply chain actors to market their product is paramount to successful supply chain performance and target market access. Identification and analysis of market opportunities are key, so that following market research, market segmentation can be undertaken and a marketing strategy developed. Food SMEs must create competitive advantage, position themselves within their own industry sector and selected target markets, manage their product, and innovate and develop where necessary. Information and planning are key to marketing activity, as is the capacity to invest in new resources, techniques and technologies when required by market environment conditions, and by the supply chain environment.

2.5 Information and communications technology

Developments in ICT have been welcomed as an opportunity for LRRs to overcome their main disadvantages – peripherality and remoteness (Grimes 2000). Cornford et al. (1996) refer to the possibility of ICT releasing LRRs from the “tyranny of geography” as, previously, literature had indicated that distance and remoteness would no longer be an issue. However, a contrary view suggests that ICT developments could be to the detriment of LRR development. They could help to further concentrate economic activity in the core regions, and thus intensify the control and domination of these core regions over LRRs (Cornford et al. 1996).

In the context of the SUPPLIERS study, it was important to see ICT from both sides of the ‘digital divide’. Miles and Thomas (1990), in considering a typology of ICT, arrive at three general classifications:
• **Informational** – ICT which would provide information (mostly as remote accessible databases),

• **Communication** – ICT used specifically for interacting with other participants, for example, voice mail or email, and

• **Transactional services** – this category included the more advanced services such as EDI (electronic data interchange), remote banking, and remote reservations (e.g. the tourism industry).

The SUPPLIERS study recognised all types of ICT and considered their use, recognising that the technology is not always very complex. Often, the more simplistic approaches favour SME operations within LRRs.

The review also considered ICT adoption, the role of ICT in supply chain operation and ICT in LRRs. The main review findings for each are summarised below.

2.5.1 ICT adoption

Adoption of ICT by members of a supply chain may be directed by forces or specific enterprises internal to the chain (usually the retailers), or by forces external to the chain (particularly the consumer). Adoption of ICT may also be strategic or operational and thus serve different market conduct needs. A range of factors determines adoption of ICT. These are classified as follows.

• **Supply factors**: The supply of ICT depends greatly on the telecommunications infrastructure available for the dispersal of the technologies. Infrastructure development typically happens first in the core regions, due to the high intensity of demand and the potentially high level of use (Cornford et al. 1996).

• **Business specific factors**: These refer mainly to the financial capabilities of firms and the availability and capabilities of human capital.

• **Demand factors**: Many customers (either retailers or consumers) may demand greater adoption of specific ICT services, and may even make it a condition of trading (Mitchell and Clark 1999). SMEs that cannot respond are marginalised and effectively excluded from increasingly integrated supply chains, thus adding to the uneven development of the LRR.

2.5.2 ICT in supply chain operation

The adoption (or non-adoption) of ICT directly affects the operation of SMEs in a supply chain. In particular, ICT affects supply chain competitiveness (e.g., the ability to increase or maintain sales and profitability), supply chain formation (e.g., the influence of ICT on
the character of supply chains), supply chain selection/entry (e.g., the extent to which ICT facilitates or inhibits an SME’s ability to join a particular supply chain), supply chain functioning (e.g., how ICT influences the operational conduct of a chain) and supply chain management (e.g., how ICT influences the strategic development of a chain).

2.5.3 ICT and lagging rural regions

As noted previously, the potential of ICT in the development and positioning of LRRs has been greeted with positive and negative responses. The following five points are significant here.

First – access to supply chains. The most attractive opportunity which ICT offers to SMEs in LRRs is the ability to enter into supply chains which may have been previously inaccessible. The technology enables SMEs to interact and communicate with suppliers and customers, despite the remote and peripheral nature of their location, and to potentially participate in the supply chain as fully as an actor based in the core region. SMEs therefore can be considered on a par with other businesses, and their ability to react speedily and efficiently is greatly enhanced. Second – increasing competitiveness. The issue of competitiveness for LRRs is a major consideration and the importance of enabling lagging regions to reach a level of competitiveness comparable to that of core regions has been identified (Gilmore et al. 2001). Third – food SMEs and ICT. Research findings have indicated that business size is an important factor in influencing the adoption and use of ICT (e.g. Mitchell and Clark 1999). Resource availability and allocation is a key component, and is often the main restriction identified in attempts to increase the penetration of ICT into SMEs in LRRs. The orientation of the business has also proved influential, with regards to the type of product produced, the strategic objectives of the business, and the management style and culture that prevails. Fourth – ICT and the food supply chain. The need for downstream customers to secure supplies has resulted in a number of ventures to increase vertical and horizontal co-operation and co-ordination along the supply chain (see Hughes 1995). The fluidity of this integration has been greatly assisted by ICT, thus increasing efficiency and competitiveness and creating what has become known as ‘lean’ supply chains. Fifth – food SMEs, ICT and institutional involvement. SMEs in LRRs are in a difficult position. Increasing competitiveness in the market environment demands that ICT becomes a crucial component in business development, yet certain high-level forms of ICT provision can be inappropriate for SMEs and a huge drain on resources, both financial and human. Where SMEs have made efforts to move with market demands, ICT has on occasion been inadequately introduced and installed. It then becomes an issue for the institutional environment to play a facilitating role in the adoption and use of appropriate ICT.
2.6 Rural development in LRRs and linkage with supply chain organisation

The contribution made by food supply chains to rural and regional development is well documented (e.g. Ilbery and Kneasfey 1998; Marsden et al. 2000; Renting et al. 2003). There is also a new recognition of the role of SMEs in rural economic development (Figure 2.1). They tend to be more labour intensive and less capital intensive than larger firms. This characteristic is applicable to the more peripheral regions where capital shortages are often a problem (CEC 1996).

Public policy orientations are also of central relevance to the newer trends towards territorial development. Despite the general retreat of the state from direct interventionist policies, policy-makers at national and EU levels must continue to address the specific problems of LRRs. In particular, to ensure the political acceptability of the European integrationist project, the EU must seek to reduce regional socio-economic disparities, promote economic and social cohesion, and maintain the European model of rural society. Accordingly, the EU has increasingly directed funds away from sectoral policies and towards territorial approaches that encourage regions to design and implement strategies that valorise local resources and contribute to sustainable development.

Marsden (1999) suggests that options need to be considered as to how new, sustainable food supply chains could be created in rural regions, and how regions could sustainably use local resources to allow value-added and wealth generating activities at the regional level. A warning note on the potential dilution of these opportunities is given with regard to ICT. From the individual firm level, through to the other network participants, there are varied economic, cultural and social benefits to be had from supply chains and networks in rural areas. Marsden et al. (2000) question how networks in rural areas can interface with other supply chain actors, and how the rural development effect can be sustained over time and space. Ideas such as clustering are proposed, so that the maintenance of relationships is ensured and benefits accrue to all participants (see Porter 1990). Murdoch (2000) highlights the need to have the correct type of networks matched to the conditions of the rural region. Networks will not provide a one-stop solution to rural development problems, but may open up new opportunities based on existing resources and practices. One of these opportunities is ‘quality production’, however quality is defined, thus allowing producers to gain a higher degree of value from their food product, leading to sustained rural development. Renting et al. (2003), in the context of short food supply chains, recommend increased institutional support and new interactions between and within networks to sustain rural development.
2.7 The SUPPLIERS theoretical framework

Returning to Figure 2.1, the political economy framework provides a basis for explaining the evolution of agri-food systems and for assessing the forces shaping the food supply environment in the study regions. Political economy perspectives also provide an understanding of the differential regional impacts of economic modernisation and thereby help to explain some of the reasons why certain regions are described as ‘lagging’. Central to these explanations are power relationships in the commercial world that, in turn, can be reflected in regulatory systems.

The LRRs covered by the SUPPLIERS project exhibit regional specificities in terms of resources, systems of food production, local market potential, marketing practices, food chain organisation, rural development programmes, and cultural and social organisation. A central proposition is that economic activity is embedded in specifiable social and cultural circumstances. Cultural and socio-cultural concepts help to elucidate the theoretical underpinnings of the models of regional development being pursued, as well as to explain the economic behaviour of individual actors (producers, intermediaries and customers) in food supply chains. Actor network theory treats food chains as the social constructions of ‘real actors’ in which actor relationships, from production to consumption, form part of a complex of transactions. More usefully, ‘vertical’ and ‘horizontal’ network theory draws attention to the webs of interdependence in the rural economy and helps to identify horizontal linkages between food supply chain organisation and other dimensions in the rural economy.

Marketing theory is fundamental to analysing the overall market performance and competitiveness of food supply chains. The key approaches here are supply, conduct and performance (SCP) analysis, theories of transaction costs, marketing processes, and economics-based evaluations of supply chain management and performance. However, there is a need to bridge the gap between socio-cultural approaches, and marketing and economic analysis. It is proposed that this will be provided by conventions theory. Economic analysis is culturally/territorially ‘blind’, but conventions theory is culturally sensitive. It relates networks and embedded economic behaviour to particular cultural forms. Thus the ideas drawn from network theories, economic analytical approaches, and conventions theory, provide the main theoretical foundations for the SUPPLIERS project.

2.7.1 Selecting food supply chains

There are clearly increasing variations in the structural complexity and spatial extension of food supply chains. Given that the SUPPLIERS study is focused on food SMEs, and the fact that a high proportion of these are likely to be involved with products emphasising local distinctiveness and serving segmented markets, it is proposed that a main focus of the project will be on short food supply chains. In recent years, there has also
been an important shift from an overriding concern for the quantity of food produced to a new concern for the quality of food products. This resurgence of interest in more ‘natural’ or ‘fresh’ types of food comes at an important time for agri-food regions in the SUPPLIERS project which have traditionally ‘lagged behind’ regions of commercial agriculture (Nygard and Storstad 1998). It supports the reason for selecting food supply chains dedicated to local and/or quality-based food production.

2.7.2 Putting theory into practice

Figure 2.2 shows how different work packages (WPs) are linked to the theoretical framework. Importantly, the WPs were embedded within a regional context. Within this context, an entire food supply chain is framed by a set of sector-specific conventions. However, Figure 2.2 also attempts to express how each of the actors within a supply chain/network can also have their own set of actor-specific conventions. These conventions may well be the same as for any other actor but, in some circumstances, they can also be quite different. For instance, organic cheese producers may be framed by an environmental convention, as the production process is the key concern for that particular set of actors. However, at the commercial level, one may find that public conventions concerning issues such as labelling and marketing may also be of equal, if not more, importance. The institutional actors were positioned to reflect the influential role that they play throughout the entire food supply chain. Figure 2.2 also includes the consumer perspective, to reflect the final stage of the chain (although the SUPPLIERS study did not concern itself directly with this set of actors).

Clearly, Figure 2.2 is a simplification of the ‘real world’ processes that occur within food supply chains in an LRR. However, the diagram is useful as a way of showing how the different work packages are linked and how the terminology is operationalised. Figure 2.2 also demonstrates how a product can be both territorially embedded (e.g. it is produced in a certain place) and territorially disembedded (e.g. if it moves out of the local area to be sold and the local association is significantly diminished). Crucially, this process of disembeddedness is not necessarily seen in a negative sense; in fact, it may be necessary if a food SME is to be successful in terms of product sales. Certain actors within the food supply chain may therefore market a product’s local embeddedness in order to differentiate the product from a similar one (e.g. to create a particular niche market for a type of cheese) and so establish an economic gain. In this case, actors may be demonstrating high levels of instrumentalism and market awareness.

As shown in Figure 2.2, other factors such as learning and innovation as well as horizontal and vertical networks can also be applied to understand the development and performance of food supply chains. Like the commodity chains approach, power relations are also still important; however, they do not move in a unidirectional manner. Thus the network theory approach is favoured because it refuses to privilege one site over others but rather conceives of power as the ability to ‘act at a distance’. For instance, some food SMEs
may have been awarded a Protected Designation of Origin or Protected Geographical Indicator by the EU. This label then acts on the basis of a copyright principle (i.e. an institutional mechanism) preventing other food SMEs from imitating the product. The EU is therefore enabled to ‘act at a distance’.

Combining network theory with conventions theory, therefore, enabled the SUPPLIERS project to better understand the negotiations that take place in the food chain. By doing this, it may be possible not only to trace the network but also to explain how the networks are framed by conventions, thereby providing a new understanding of food supply chains within the broader context of rural development. Thus by analysing producers, intermediate members, commercial customers and institutions as part of a network – framed by
particular conventions – one can understand individual roles in the food supply chain, and also build up a picture of how these actors are linked together by complex webs of interdependence. Economic analysis will demonstrate how their performance as food supply chains rated in terms of market access and competitiveness.
3 Methodology

3.1 Overview of methods

The sequence of research activities started with the development of the project’s theoretical framework and assessment of the Food Supply Chain Environment. The supply chain environment objective took account of general developments in the ‘macro’ food chain environment using secondary information sources and a Delphi study employing a panel of key informants. A review of regions focused on the study regions and their particular production and marketing circumstances, again using secondary information sources and a Consultation Panel of local informants.

Producer, intermediate chain member and commercial customer objectives represented the main supply chain survey and analysis activities, examining the activities and views of producers, chain intermediaries and customers in turn. The institutional objective examined the roles and strategies of institutions in supporting food SMEs and supply chain development and again employed a survey approach. The policy objective, the main evaluation and information dissemination work package, synthesised the findings of earlier work packages and developed a set of six supply chain case studies for each region, taking an integrated view of supply chain activities from producer through to customer. Both institutional and policy objectives involved workshops with invited audiences to present and obtain feedback on the project’s findings. The methods employed in the respective objectives are considered in further detail below.

3.2 Description of data collection

3.2.1 Theoretical framework

In the early stage of the project a theoretical framework was created, within which the research was conducted. It set out general propositions and tentative relationships to examine (a) the development and performance of food supply chains involving SMEs, (b) the linkages between supply chain characteristics and rural development trends, structures and strategies, and (c) the role of policies and institutional structures in influencing supply chain performance with respect to the competitiveness and market accessibility of food SMEs in LRRs. The framework drew from the literature of all the participating countries and took full account of developments in EU policy rationale and trends with respect to rural and SME development, the lagging regions, European integration and agri-food sector support and regulation. It provided guidance to, and informed, the subsequent research tasks.
3.2.2 Supply chain environment objective

The supply chain environment objective reviewed and evaluated factors influencing supply chain development and performance, their likely evolution and impact on small-scale food enterprises, and rural development in terms of benefits and problems. This review included a broad assessment of ICT developments and their implications for the marketing of rural products, and helped define the particular supply chain environment. The research also included a ‘Delphi study’ (see Section 3.2.2.1) with a panel of supply chain experts. This panel identified the primary strategic and operational concerns of supply chain members, factors acting on supply chain operation and development, and their consequences for SMEs and LRRs over the next 3 to 6 years.

The review of regions provided an overview of the study regions in terms of their physical, demographic, social and economic features, the production and marketing of food and their significance for rural development, and the existing institutional arrangements to support economic and social development. The regional review largely used secondary information sources, but was supported by a local ‘consultation panel’ in each region which consisted of representatives of local government institutions, development agencies, food chain organisations and other experts.

3.2.3 The Delphi method

The Delphi method is a qualitative forecasting technique that employs a team approach to decision-making (Feret and Marcinek 1999). It is a market research technique used to determine factors that will eventually alter the future of an industry (Kaynak, Bloom and Leibold 1994) and it aims to make use of the positive attributes of interacting groups while removing the negative aspects within such groups (Rowe, Wright and Bolger 1991). The method was used in this study to forecast the likely evolution and impact of factors influencing food supply chain development and performance, particularly as they relate to SMEs in lagging regions. The Delphi method is reported to be particularly useful when accurate information is unavailable or expensive to obtain (Linstone and Turoff 1975; Shon and Swatman 1998). Rowe et al. (1991) claim that the main criterion for Delphi’s employment is the indispensability of judgement information, which may arise in cases (such as forecasting) where no historical data exist, or where such data are inappropriate.

A Delphi study involves anonymous forecasts made on two or more rounds by a group of independent experts who receive feedback between rounds. This allows for learning within the panel; over time the members move towards common views, which form the basis for predictions – the results of the Delphi study (Harland et al. 1999).
Using a survey is the most common technique of Delphi application (see Appendix 1). The main steps involved in designing a Delphi survey include: 1) identifying, contacting and recruiting participants, 2) designing and sending the first-round questionnaire, 3) producing feedback from the first round, 4) designing and sending the second-round questionnaire, 5) analysing the results of the second round, and 6) preparing a final presentation. Round one usually contains a number of open-ended questions, whereas Round 2 or any subsequent rounds involve more closed questions (Shon and Swatman 1998). The Delphi for this study involved three rounds, so steps 3 to 5 were repeated. Figure 1 illustrates the Delphi methodology.

There are four key factors that characterise the Delphi method (Rowe et al. 1991, 237):

1) **Anonymity** is necessary to remove social pressures (mail questionnaires are usually used);

2) **Iteration** is important to allow panel members to review and change forecasts (structured questionnaire presented over a number of rounds until consensus or stability is reached);

3) **Controlled feedback** is important with each iteration, where panellists receive a copy of the synthesised responses to allow them to review their previous forecasts and assumptions based on the group responses;

4) **Statistical aggregation** where, at the end of the procedure, the result is typically given as a group median. The spread of forecasts can be used as a measure of the consensus reached.

### 3.2.4 Surveys of different chain members

Data for producer, intermediate chain member, commercial customer and institutional objectives were collected through a survey of respective supply chain members, using an interview schedule containing both unstructured and structured questions which permit qualitative as well as quantitative analysis of the results. The surveys were conducted through personal interviews with entrepreneurs or managers in the study regions – Southwest Finland and Northern Ostrobothnia – and in some cases also outside these regions.

The sampling of producer businesses was not made randomly but instead a purposive sampling approach was used in the selection of businesses to be interviewed for the study. A series of criteria was created to direct the sampling. The five criteria for selection were the following: (1) food SME, (2) rural location in the study area, (3) membership in a chosen product group, (4) value-added products, and (5) initial knowledge of the supply chains used, to include a variety of supply chains in the sample. The first three criteria of the list had to be met and the last two were recommended. Recommendations from the regional Consultation Panel (CP) members were crucially important in the initial selection phase. Further guidance was sought from various food directories and there were
also other contact persons in the study areas in addition to CP members. In many cases producers were asked to identify other producers that they considered to be relevant to the study, thus introducing a degree of snowball sampling which aimed to locate information-rich key informants (Patton 2002).

The sampling of businesses in following WPs was not made randomly but they were selected mainly on the basis of the producer objective interviews. The supply chains used by the food SMEs interviewed for the producer objective were followed. In addition, other suitable businesses were also selected and interviewed because relatively few suitable interviewees were identified from the interviews previously conducted.

The questionnaire in all stages had the following structure: (1) interview details, (2) business and entrepreneur/manager characteristics, (3) supply chain characteristics, (4) information and communication technology, (5) institutions and (6) rural development and local economy.

The survey data was collected mainly through personal, face-to-face interviews with entrepreneurs or managers in the premises of selected businesses, at a time and date convenient for the interviewee. A minority of the interviews were conducted by telephone. A telephone interview was used only when necessary, when co-ordinating schedules between interviewer and interviewee was not possible. The initial contact with the entrepreneurs or managers was made by means of a telephone call. With entrepreneurs or managers who indicated a willingness to co-operate, a suitable time for an interview was arranged. Usually interview times were set one or two weeks in advance. The total number of interviews included 64 producer interviews, 41 intermediate interviews, 63 commercial customer interviews and 27 institutional interviews. A more detailed division of interviews in different phases is presented in the respective sections.

All interviews were carried out from mid-period November 2001 to late January 2003. No interviews were carried out during the Christmas period. To save time at the interviews and to guarantee the quality of data all interviews were tape-recorded. Tape-recording was always done with the permission of the respondent. Tapes ensured a more precise record of details, because the tapes were fully transcribed afterwards. The length of the interviews varied from 20 minutes to 2½ hours, the average being approximately 60 minutes. The telephone interviews were usually the shortest. Additional data in the form of business brochures, newspaper clippings, etc. were also obtained from some of the interviewed businesses.

The interview study sought for an understanding of the kind of supply chains commercial customers are in, how they see their role in the food supply chain environment and what the future looks like from their point of view. A qualitative approach was regarded as the most appropriate because interviews with open-ended questions yield in-depth responses about people’s experiences, perceptions, opinions, feelings and knowledge.
The aim of qualitative analysis is thus to explain and understand things rather than measure them (Alasuutari 1999). The actual interview process was designed to be more like a conversation rather than an interrogation with a fixed set of questions. As Bewley (2002) noted in his article:

"An obvious way to learn about motives, constraints, and the decision making process is to ask decision makers about them [...] the task of interviewing is to learn as much as possible".

A theme-based approach was used in analysing the data. The analysis combined theoretical, empirical and policy-based themes. The themes were picked by adapting the initial structure of the questionnaire. The analysis phase required a very careful reading of the transcriptions several times. The annotations also played an important role in understanding the viewpoints of the interviewees. Understanding the wider entities deepened as the interviews became more familiar to those concerned during the process.

### 3.2.5 Workshops

The workshops were designed to be dissemination tools whereby findings are presented, but also would serve as a means to aid the project’s final evaluation and policy development and to assist the development of new tools to support supply chain development. Hence the workshops can be viewed as a feedback device whereby initial recommendations are presented and later fine-tuned following further input from workshop participants. However, the primary focus of the workshop would be on presenting a synthesis of the SUPPLIERS research findings and on obtaining critical feedback from the institutional and business representatives. The institutional objective included one workshop, and policy objective two workshops. The feedback is incorporated into the relevant sections of this report.
4 The supply chain environment

The aim of this section is to review the food supply chain environment and its development within the context of SME businesses. The review of the supply chain environment involved mostly desk-based research; primary data were also collected through interviews with key informants and by using a Delphi panel consisting of supply chain experts. The study regions and their food production and marketing systems with respect to SMEs are also studied.

4.1 Review of the food supply chain environment in Finland

4.1.1 Developments in the macro environment

The driver of changes in the Finnish food industry is technological as well as market-based. In addition to membership in the European Union in 1995, other factors influencing the changing environment of the Finnish food industry include, for example, the fall of the Russian economy in 1998, severe domestic competition from both Finnish and international enterprises, increasing imports of food products, changing consumer wants and needs and an ever increasing use of ICT. (Wiklund & Brännback 2001; Ihmisten maaseutu – Tahdon maaseutupolitiikka 2000.)

Membership of the European Union in 1995 had great effects on the Finnish food industry as a whole, but according to the director general of the Finnish Food and Drink Industries’ Federation, Pekka Hämäläinen (Elintarviketeollisuuden näkymät parantuneet 2001), the tough phase of adjustment to enlarged food industry markets is now starting to end and prospects for the future are clearly getting better. The forthcoming eastward enlargement will bring new competitors to European food markets, but at the same time the inner demand will also increase (Kallio, Marttila & Mäkimattila 2001). According to the Delphi panel experts, enlargement will also dramatically increase the import of non-produced foodstuffs and further tighten the competitive environment.

In the current programming period (2000–2006) the funds available for the regional Objective 1 and 2 Programmes in Finland are estimated at 5.9 billion euros, and for other EU structural policy measures more than 1.7 billion euros, including financing from the EU, State, municipalities and companies. Owing to EU enlargement, among other things, the funding for structural policy will not be at the same level in the next programming period. In addition, new Member States from Eastern Europe will be in urgent need of support from the Structural Funds. (EU-ohjelmatyö; Rural areas and rural policy.) These will have an effect on the food sector too.

The ongoing migration from rural to urban areas in Finland means fewer people living in the countryside. The Delphi panel experts saw this migration as one of the most severe
problems (together with centralised retail and wholesale trade) currently affecting the supply chain environment in Finland. The structural changes in rural areas have included among other things the withdrawal of services which in turn speeds up migration to urban centres. Finnish regional policy aims to promote the independent development of the regions and good regional balance, and is co-ordinated by the Regional Councils (Ihmisten maaseutu – Tahdon maaseutupoliitiika 2000; Uusitalo 1998).

Price development in the domestic food market is largely dependent on the level and development of prices of imported goods. Fluctuations in international markets affect the level of Finnish exports, and changes are almost immediately seen in the profitability of enterprises dependent mainly on exporting. (Volk, Laaksonen, Kallio & Mäkimattila 2000.) Food prices and the disposable income of consumers are factors that considerably affect the demand for food products. Consumer food prices rose by 2.7 % in 2000. Compared to other European Union countries, food prices are at a reasonable level in Finland. (Suomen maatalous ja maaseutuelinkeinot 2001.) There has been much discussion in Finland in various forums about lowering the value added tax (VAT) on food products. Today this is as high as 17 %, the second highest in Europe. The European Union average is less than 10 %.

According to Wiklund and Brännback (2001) a shared understanding exists among managers in the Finnish food industry about the importance of technological changes that are valuable for the development of the whole supply chain, its management and its integration. However, technological developments are also seen as a threat if the domestic food industry is not able to keep pace with global development tendencies.

The recent development of ICT has been a lot quicker than expected. Finland has a high level of education, high input into research and development, and an eagerness to apply new innovations; together these have created fertile ground for the development of new tools. (Laurila 1998.) An ICT skill base should be established and developed for the future, because this will considerably decrease the vulnerability of LRRs and rural SMEs and expedite the vertical integration of supply chains.

The popularity of e-commerce has been increasing in Finland during the last few years; books and clothes in particular are the products that are most commonly bought through the Internet. The Delphi panel experts believed that e-commerce from business to consumers could be a possibility for rural food SMEs to some extent, but is not a panacea for solving all their problems. Payment methods were still regarded as a huge problem, and consumers do not have enough confidence in the safety of paying via the Internet. It would be unfeasible for food SMEs to rely solely on e-commerce because food products are different from other products. Food products are usually not suitable for e-commerce, because e-commerce lacks physical stimuli (e.g. scent, taste) and because of the perishable nature of food. Rural food SMEs usually also lack the financial resources and human expertise required to run an e-marketplace cost-efficiently.
4.1.2 Developments at the consumer level

Finland had a population of 5.18 million at the end of the year 2000. The number of Finnish households has increased considerably over the past decade, reflecting both population growth and smaller household sizes. Even between 1998 and 1999, the number of private households in Finland increased by 77,000 (3.6%). The total number of households in Finland was 2.273 million at the end of 1999 with the average household size being 2.35 persons. The number of one and two person households has increased significantly during the past few years and as a result of this the growth in households is expected to continue in the near future as well. (Tilastokeskus 2001.)

Ageing of the population is also evident. The proportion of people over age 65 has increased from 6.7% to 14.8% from 1950 to 1999. The proportion of 65-year-olds and over will continue to grow over the coming decades, because between 1945 and 1952 (after the war) the number of live births was considerably higher than before that time or at any given year after that. In 1999, the share of live births was approximately 30% lower compared to 1952. (Tilastokeskus 2001.) Both small households and the large number of elderly people have an effect on the food sector.

An increasing use of ICT applications at home during leisure time will probably expedite the acceptance of electronic trading. But how will it develop? How can problems that are being faced today, for example in delivery and distribution, be solved? The Delphi panel experts did not believe that e-commerce for food products would grow drastically in the near future, because not all food products are suited for it, with scent and taste aspects missing. It is also usually the delivery to the consumer and other logistical problems which are seen as major hindrances, together with a mistrust of paying via the Internet.

The emergence of the ‘careful consumer’ has been evident in Finland of late. Nowadays Finnish consumers highlight the importance of the origin of food products and traceability is becoming more and more requested. Food safety is one of the major factors affecting the food choice situation. Meat consumers are particularly very careful about buying and consuming only domestic products, not imported. Recent developments concerning BSE and FMD (foot and mouth disease) in other parts of Europe have probably increased the number of consumers who patronise Finnish meat and meat products. The case is most obvious where fresh meat is concerned.

Along with safety aspects, ease of food preparation is also highly appreciated among Finnish consumers. Leisure time is declining and this has resulted in the growth of the convenience food sector. The fast food business is booming and convenience foods are selling more and more. People do not want to spend their few leisure hours in the kitchen preparing complicated meals during the weekdays and would rather eat something quickly and spend more time with their families. (Varjonen 2001.)
Individualism is also a trend in current food consumption. In retail stores consumers often think in terms of ‘what I want to eat’. Individual desires direct our behaviour in the modern world. Many consumers do not write shopping lists before going to a retail store, they just wander around the store and buy whatever is offered and what feels intriguing at that specific moment. (Varjonen 2001.)

Promoting regional foods is increasing in Finland and consumers are getting more interested in the products produced near them. Seminars and theme weeks are arranged by different organisations all over the country. According to a study conducted some years ago (Tapionlinna 2000), Finnish consumers argue that the most important factors in regional foods are the perceived safety aspects and freshness. On the other hand, 34% of consumers had no knowledge of on what ‘regional food’ even means.

4.1.3 Developments at the primary producer level

The Finnish food industry is largely dependent on domestic primary production and raw materials. A decrease in primary production prices can lead to a situation in which the farm income does not completely cover variable costs. This in turn leads to a decrease in domestic raw material supply and companies being forced to buy foreign raw materials. (Volk et al. 2000.) Consumers might interpret this kind of situation as a decrease in quality.

Nowadays customers value, among other things, food safety (Kallio, Isosaari, Kola & Marttila 2000; Lääperi & Tohmo 2000). And to minimise the effects of BSE or FMD, for example, close co-operation between primary production and the food industry would be extremely essential to maintain consumer confidence. A traceability system for raw materials will better guarantee their safety and quality for the consumers. The use of ICT applications would facilitate good quality control at the farm level.

The Agenda 2000 means lower prices for farm-based food product raw materials. It is obvious that lower prices should be transmitted through the whole food supply chain all the way to consumers. This would mean lower production costs for Finnish food SMEs and obviously lower retail selling prices which in turn would increase domestic consumption and the demand for Finnish food products. (Volk et al. 2000.) Possibly the effect of lower costs is not that straightforward after all.

It is believed that Finnish primary producers will increasingly co-operate with each other to form producer groups. The Delphi survey showed that farmers are facing hard times and lower farm incomes, and as a solution to such problems they suggest increased co-operation, because together farmers can achieve critical mass and economies of scale. Despite co-operation or maybe just because of it, in producer groups each partner can specialise in their own narrow field of expertise and still the group can benefit from the
co-operation, because together primary producers have more resources and are able to produce and sell larger quantities. Continuous availability would also be better.

Pre-agreed supply contracts have many positive impacts for Finnish farms; i.e., farms stay alive and vital and the contracts give farmers better financial security. These contracts guarantee the domestic raw material supply for food SMEs and thus make the future more secure. The Delphi panel argued that the continuous decline in the number of active farms calls for pre-agreed supply contracts between farmers and the food processing industry in order to guarantee sufficient raw material supply at the domestic level. This kind of arrangement would be beneficial for both parties.

4.1.4 Developments at the processor level

In 1998 there were approximately 2200 enterprises manufacturing food products or beverages in Finland. Almost 84% of these employed less than 20 people. Only approximately 50 enterprises employed more than 200 people in the Finnish food industry. The total number of food enterprises has increased since 1995, but it is estimated that the number will decline in the future. The increase has occurred mainly because of the establishment of new micro and small-sized businesses.

The food industry producing first-grade processed goods typically integrates downwards with primary production. The co-operation between primary production and the food industry is largely based on contract cultivation and pre-agreed supply contracts, because many industrial production methods require specific characteristics in raw materials. (Volk et al. 2000.) The Delphi panel stated that food SMEs will tighten co-operation with primary production in order to guarantee the supply of domestic raw materials and meet the demand from consumers for traceable goods.

Heinonen (2000) sums up his ideas by claiming that the main factor in rural entrepreneurship is to understand the possibilities and turn them into successful products and services. For example, links to rural tourism should be exploited whenever possible, because that may help to build strong product identity which in turn leads to competitive advantage (Elintarvikealan pienyrittäjyyden kehittämishjelma 1995).

According to Linkola (1998) and Mäkitie (1995) entrepreneurs claim that networking should bring them concrete benefits and more money as well as add value to consumers. It has to be a win-win situation for all the actors involved. Networking can be a starting point to specialisation and lower costs, lower risks and better quality (Vihtonen & Forsman 2001; Mäkitie 1995). The driving forces for horizontal networking among SMEs besides lower production costs are the increasing power of retail and wholesale trade, globalisation, the growth of specialty food markets and increasing possibilities for co-operation with large food manufacturing enterprises. Horizontal networking brings benefits also
to consumers, such as better service, wider product lines and more flexible production. (Silén 2001; Elintarvikealan pienyrittäjyyden kehittämisohjelma 1995.)

As the macro environment affecting food supply chains in Finland is in constant change, this places high demands on SMEs. The challenges of increasing globalisation and competition should be faced in a well-prepared manner. High investments in education and training of personnel in the SME are required. Useful course themes could include marketing, business strategies, languages, food safety and legislation, and the effects of the Euro.

In spite of the optimistic prospects, SMEs will face many threats, even in the near future. The small size of companies and the lack of adequate knowledge are tightly linked together. In general, SMEs do not have enough resources for the development of new products or for marketing, and their competence in these fields is also rather restricted. In addition, there can be also seen a reluctance to network, which is unfortunate, because co-operation among SMEs could guarantee a better bargaining position in negotiations with the retail and wholesale trade. (Ihmisten maaseutu – Tahdon maaseutupoliitikka 2000.)

4.1.5 Developments at the wholesaler level

The wholesale sector basically acts as a distributor of goods, but also as a distributor of knowledge and information between the food processing industry and retail sector. The Finnish wholesale sector employed a total of 85,000 people in 1997 of which approximately 10,000 dealt with food and drinks sales. Most of the wholesalers in Finland are rather small, but the ones acting with the food retail sector are clearly bigger than average size wholesalers. Wholesale agencies are concentrated in southern Finland. (Santasalo & Kontio 1997.)

The Finnish wholesale sector is becoming more internationalised because borders between different countries are more open and it is nowadays generally easier to operate abroad than it used to be only some years ago. Finnish food markets are rather limited in size and it is quite understandable that large wholesalers seek new markets outside the country. The larger Finnish wholesalers are doing business for example in the Baltic countries (Estonia, Latvia and Lithuania), but otherwise the emergence into international markets is not yet too pronounced.

The Finnish wholesale and retail sectors work very closely together. In fact, the biggest retailers have their own wholesale units even though they are separate businesses in a legal sense. For example, in K Group, which is the largest retail chain in Finland, the wholesale sector is managed by Kesko Ltd. Kesko Ltd serves only K Group stores, which buy most of their product selection from it. Most of the K Group stores are managed by private entrepreneurs, who have the possibility of choosing small amount of their products outside the chain selection.
The increasing concentration of the wholesale trade makes it even more difficult for SMEs to gain access to markets via wholesalers. Wholesale is a good supply chain alternative because of its intense distribution of goods. It is also an easy solution for SMEs because wholesalers usually take care of everything, such as the distribution to retail stores all over the country. Of course, quality and safety factors must be in order to get access in the first place. The negative side in doing business with the wholesale trade is the low bargaining power of single SMEs. Close co-operation and networking among food SMEs could bring them a more powerful position in negotiation situations.

4.1.6 Developments at the retail level

The structure and strategies of Finnish retailing have largely been shaped by the intense competition and struggle over market share. The Finnish retail sector is highly concentrated; approximately 80% of grocery sales go through the three biggest retail chains, and independent retailers are nowadays quite rare. The driving factors in the Finnish retail environment today are the following (Kaupan toimintaedellytyksiin vaikuttavien tekijöiden kehitys ja kehitysnäkymät 1995):

- **society-based factors** – population and its age structure, education and occupation structure, regional division of the population, number and size of households, export and import
- **customer-based factors** – household consumption, unemployment, number of retired citizens, number of working women, buying habits
- **supplier-based factors** – supply sources, distribution channels, logistics, trading chains
- **competition and cost factors** – structure and number of trade enterprises, development of cost level and income level, employment and availability of labour
- **institutional factors** – law on business hours, environmental legislation, city planning and land use.

In the retail sector the competition has been largely domestic. Neither have Finnish retailers too eagerly put up their own units abroad. Nowadays some Finnish retailers have stores in the Baltic countries. The Finnish retail sector is probably now slowly internationalising due to the presence of Lidl, the German discount chain came to Finland in 2002. Before that, Finland was actually lacking hard-discounters. Some independent discounter retailers existed, but they were usually restricted to small geographical areas. (Lidl antaa hinta–laatu-suhteen puhua puolestaan 2001.)

The role of the retail trade has considerably changed in the course of the last decades. Retailers do not want only to be distributors of goods but want to also strengthen their position as generators of value-added. The number of retailers’ own private labels has
increased in Finland. The retail sector is more and more taking part in quality assurance and developing new packages. (Lääperi & Tohmo 2000.) For example, Kesko has its own brands, and the Pirkka brand is especially well-known in Finland. Its recognition level is nearly 100% among consumers and the Pirkka range includes approximately 700 products (Kesko in brief).

ICT business to business applications on are transforming the relationship between the retail sector and its suppliers. Retailers nowadays operate mainly through computer-aided methods. EDI capabilities are usually required from large suppliers and the retail sector is increasingly starting to require EDI from SMEs too, but SMEs still have other ways of doing business with retailers, for example orders by fax or phone. The Delphi panel believed that in the next six years, the food SMEs will practically be forced to adopt EDI if they want to get access to the retail trade, even though it will be quite expensive for them.

As the Finnish retail sector is highly centralised, it is not too easy for food SMEs to gain access to retail sale even locally. According to Pohjalainen’s 1996 study, Finnish retailers do see it as important to have SMEs’ products in their product range, because the goods are supposed to be fresh and of high quality. Selling local products also gives a positive image to the retailer. On the other hand, the major hindrances to buying from SMEs include too small volume, uncertainty of regular supply, high price and low demand. Retail sector representatives mention that SMEs producing vegetables, bread or fish products have the best chances to get access to retail trade. The toughest conditions are for SMEs producing meat and milk. Horizontal and vertical networking could be a solution for rural food SMEs to stay competitive under the pressure of a centralised retail trade.

4.1.7 Developments in the food service sector

The food service sector includes two divisions: the profit-making sector and the ‘institutional’ sector, both trying to meet the needs of consumers. During last ten years there has been a growing tendency in Finland to eat out. An average Finn eats out approximately 130 times per year. This does not only include traditional restaurants, but also canteens at workplaces and institutional food services in schools, hospitals and so on. (Markula 1999.)

The popularity of eating out is not the only current tendency in the food service sector. Other important trends are, for example, chained food service units and networking among different units. Restaurants and staff restaurants have gone through a chaining process for a long time already, but it is expected that the tendency will continue in the future. Networking within the food service sector is a much newer trend. In particular, large institutional kitchens owned by municipalities have networked with each other and together try to seek economies of scale through centralised buying, for example. (Markula 1999.)
The Delphi panel experts considered it important that food SMEs try to do more business with the food service sector, because there are obvious growth possibilities in view. However, many of the experts argued that SMEs do not know how to do business with food service sector representatives because of completely different organisational customs and cultures.

4.1.8 Summary of supply chain environment review

**Developments in the macro environment**
Various factors at the macro environment level are currently influencing supply chains involving food SMEs in Finland. These include European Union policies, national policies, the domestic economy, food safety and quality schemes, and technological developments. The focus here is on the impact of these factors on Finnish food SMEs.

**Developments at the consumer level**
The ‘careful consumer’ has recently emerged in Finland. Consumers today are becoming more and more interested in the origin of the foods they are buying and consuming. Changes in household compositions and lifestyles affect the consumption of foods and the impact of new technologies on consumers is also one factor influencing the food choices of Finnish consumers. Changes in consumer tastes and preferences have steered food consumption patterns in more healthy and convenient directions. The impact of different factors on Finnish food SMEs is also discussed at the end of the chapter.

**Developments at the primary producer level**
Domestic agriculture is the cornerstone of the Finnish food industry as a raw material producer for the processing sector. It also has an essential role in the maintenance of food safety in Finland. Both structural and strategic changes at the primary producer level are studied here. These include the decline in the number of active farms, the impact of EU eastward enlargement on farm income, Agenda 2000 and its effects, and the increasing demand for traceability at the farm level.

**Developments at the processor level**
The Finnish food processing industry has undergone many changes during the last few decades. The structural and strategic changes discussed in this section include short vs. long food supply chains, mergers, integration between primary production and processing sectors, co-operation and networking (horizontal and vertical) among processing enterprises, integrated food supply chains, new product development requirements and resources, export, marketing practises, megatrends, outsourcing and technology developments.
Developments at the wholesaler/distributor level
The Finnish wholesale sector today is rather concentrated. Structural and strategic changes currently influencing the sector include the internationalisation of wholesale trade, the adoption of efficient consumer response (ECR), the concentration of ownership and the importance of logistics and development of logistical solutions. The wholesale sector puts high demands on food SMEs as their suppliers, but the demands are by no means insuperable.

Developments at the retail level
The driving factors in the Finnish retail environment today can be divided into five categories: society-based factors (e.g. population and its age structure, education and occupation structure, regional division of the population, number and size of households, export and import), customer-based factors (e.g. household consumption, unemployment, number of retired citizens, number of working women, buying habits), supplier-based factors (e.g. supply sources, distribution channels, logistics, trading chains), competition and cost factors (e.g. structure and number of trade enterprises, development of cost level and income level, employment and availability of labour) and institutional factors (laws on business hours, environmental legislation, city planning and land use).

Developments in the food service sector
Growth in the food service sector has been evident lately in the form of the increased popularity of eating out. Networking is also very much pursued among different food service units, because the units seek economies of scale through centralised buying, for example. The changing food habits among consumers have an influence on the selection of food service sector units. Increasing interest in regional foods by Finnish consumers is also a factor worthy of attention.

Impact of changes in the supply chain environment on food SMEs
Combined together, the developments in the supply chain environment on food SMEs are resulting in an increasingly competitive business environment where profit margins are fairly low. Market access for food SMEs is restricted because of the highly chained retail and wholesale trade sectors in Finland. The concentrated trade makes it rather difficult for food SMEs with only limited processing capacity to get market access. Horizontal and vertical networking among food SMEs could be the way to counter the concentrated food markets and gain more bargaining power.

Impact of changes in the supply chain environment on rural development
With Finland being the most rural country in Europe, the existence of rural SMEs is very important for the Finnish economy. For example, the efficient use of various ICT applications could reduce the remoteness of rural food SMEs to some extent, and can offer new possibilities for SMEs to continue their businesses in rural surroundings. Migration from rural to urban areas is fastest in Finland when compared to any other EU country, and eventually leads to the withdrawal of basic services from the rural areas which in
4.2 Review of study regions and their food production and marketing systems

4.2.1 Geographical features

Southwest Finland has an area of approximately 17,187 square kilometres, of which about 38 is water. The region consists of 5 sub-regions and 56 municipalities, with 23 of these being very small, having a population of less than 2,000 inhabitants. The sub-regions are, from north to south, Vakka-Suomi, Loimaa, Turku, Salo and Turunmaa. These sub-regions differ from each other considerably in terms of means of livelihood, regional structure and natural conditions. In terms of economic geography the region can be divided into three different and distinct areas: the industrial and service zone near the coastline, the agricultural area in the north, and the archipelago to the south. (Maakunnan tila 2001.)

The capital of Southwest Finland is Turku, the oldest town in Finland. Turku is situated on the south-western coast of the region at the mouth of the Aurajoki river. The Turku area has been inhabited for several thousand years, and Turku has the oldest university in Finland, founded in 1640. The area surrounding Turku is probably the most historical in Finland with medieval churches every 10 kilometres and plenty of prehistoric remains. Medieval architecture can still be seen in Turku’s cityscape. (Lehtipuu 1996.)

Northern Ostrobothnia has an area of approximately 37,120 square kilometres, of which only 4.9% is water. The region of Northern Ostrobothnia consists of seven sub-regions (eight sub-regions before 2001) and 41 municipalities. The sub-regions are, from north to south, Koirismaa, Ii, Oulu, Raah, Ylivieska, Siikalatva and Nivala-Haapajärvi. The sub-regions in Northern Ostrobothnia differ from each other to a large extent, for example in economic structure. In a short time, the city of Oulu has developed into one of the leading centres of technological expertise in Finland as well as in Scandinavia. Oulu is a busy place with a large university campus and many high technology industries. The population of the Oulu region has been increasing fast, due mainly to the telecommunications industry. (Pohjois-Pohjanmaan tilastokatsaus 2001; Pohjois-Pohjanmaa, alueen, kulttuurin ja identiteetin muodostuminen 1999; Finlandia 1986.)

The main factor influencing Finland’s climate is the country’s geographical position between the 60th and 70th parallels, in the Eurasian continent’s coastal zone, which shows characteristics of both a maritime and a continental climate depending on the direction of airflow. The mean temperature in Finland is several degrees higher (as much as 10°C in winter)
than that of other areas at these latitudes, for instance Siberia and southern Greenland. The temperature is raised by the Baltic Sea, inland waters and, above all, airflows from the Atlantic, which are warmed by the Gulf Stream. The mean annual temperature is about 5.5°C in south-western Finland, decreasing towards the north-east. (Pohjois-Pohjanmaa, alueen, kulttuurin ja identiteetin muodostuminen 1999; Finlandia 1986; Finlandia 1984.)

4.2.2 Socio-demographic and cultural conditions

Approximately 430,000 people live in Southwest Finland, most of whom are Finnish speakers. The percentage of Swedish speakers is 5.9, a bit higher than the Finnish average. Finland has two official languages, Finnish and Swedish. Other common languages spoken among the inhabitants of the region are Russian, Estonian and Arabic (spoken by immigrants). Southwest Finland is the third largest region in Finland in terms of population. The average population density is 41.9 inhabitants per square kilometre, which is considerably higher than the Finnish average of 17 inhabitants per square kilometre. (Suomen tilastollinen vuosikirja 2000; Finland 1984.)

Northern Ostrobothnia has a population of over 362,000, of which only 0.1 per cent is Swedish speaking. The average population density in Northern Ostrobothnia is 10.4 inhabitants per square kilometre, which is clearly lower than Finland’s average. Approximately 33.1 per cent of the population, 120,000 inhabitants, live in Oulu, the capital of the region. (Suuri tilastollinen vuosikirja 2000; Finland 1986.)

The population in Northern Ostrobothnia is the youngest in Finland. The birth rate is extremely high and the death rate is lower than the Finnish average (Rantala 2001). Over 42% of people in Northern Ostrobothnia are under 30 years of age, compared to 36.1% in Southwest Finland and 36.8% in Finland as a whole. The percentage of people aged 60 or older is considerably higher in Southwest Finland (21.2 %) than in Northern Ostrobothnia (16.9%).

The population has been growing moderately in both study regions, at 0.6% in Southwest Finland and 0.5% in Northern Ostrobothnia in 1999. The growth has not been equal in the different parts of the regions. For example, the Vakka-Suomi sub-region in Southwest Finland and the Koillismaa sub-region in Northern Ostrobothnia have been the biggest population losers. The greatest gainers have been the Turku sub-region in Southwest Finland and the sub-Oulu region in Northern Ostrobothnia. Both sub-regions include the capital of their region, a university and a strong telecommunications cluster.

The education level in the Oulu region is statistically higher than in Finland as a whole. More than 55% of the population over 15 years of age has completed a post-compulsory education programme, five % more than the national average. In 1995 people with a diploma comprised 56% in Northern Ostrobothnia (62.4% in the Oulu sub-region).
The Turku area plays host to a variety of events all through the year. Musical events include Ruisrock, the oldest rock festival in Scandinavia, the Naantali Music Festival (chamber music), Koneisto (Scandinavia’s first electronic music festival) and Down by the Laituri. Turku’s Medieval Market attracts thousands of medieval enthusiasts to the historic Old Market Square each year in July. The Medieval Market offers visitors the opportunity to try traditional foods, view displays of medieval life and buy traditionally made crafts. (BusinessLINK 2001.)

The cultural offerings are likewise ample and varied in Oulu, which has old traditions in music and theatre. Today the city hosts many choirs and orchestras, including the northernmost symphony orchestra in the world, Oulun Kaupunginorkesteri. The Oulu City Theatre, Oulun Kaupunginteatteri, is located beside the City Library. Both these buildings are built partly on the seashore and partly on a man-made island, which is connected to the mainland and a nearby island by bridge. In addition to the City Theatre, there is a vast number of amateur drama groups and dance theatre groups performing in various locations in the town. Furthermore, there are numerous fine arts festivals organised in the city and of course the City Art Museum hosts many exhibitions, which would be of interest for both tourists and locals alike. (Oulun kaupunki 2001; Pohjois-Pohjanmaa, alueen, kulttuurin ja identiteetin muodostuminen 1999.)

4.2.3 Economic environment

The long economic recession in the early 1990s affected the Finnish economy very deeply. Numerous enterprises went into bankruptcy (over 7,300 enterprises in 1992, compared to less than 3,000 in 2000) and the unemployment rate soared to almost 17% in 1994. The economy has grown rapidly in recent years, but now growth is slowing, consumption is declining and the future prospects are not seen to be as promising as last year, for example. Inflation has been quite stable after the last recession, but now it has begun to rise. The inflation rate was 3.4% in 2000. Figures show that in a year’s time the unemployment rate declined slowly from 7.8% in July 2000 to 7.6% in July 2001. (Työttömien määrä vähenee hitaammin 2001; Tilastokeskus 2001.) Unemployment has been rather high in both regions during the past decade. The recession in the early 1990s affected both regions’ economies severely but the situation has improved in recent years, though the low unemployment rates of 1990 are still far off. The most vibrant industry in both regions has been telecommunications.

The gross domestic product in both study regions has been increasing together with the decrease in unemployment rates. From 1996 to 1999, GDP in Southwest Finland grew approximately 19%. The major industrial sector affecting the growth of regional GDP has been electronics and telecommunications. However, growth has not been equal in the different sub-regions, with GDP growing mainly GDP in the Turku and Salo sub-regions.
In Northern Ostrobothnia the gross domestic product has increased in all sub-regions compared to the situation in 1990. The growth of GDP from 1990 to 1999 has been highest in the Oulu sub-region, at approximately 51%. The growth of GDP in the region as a whole from 1990 to 1999 was around 39%. In agricultural areas the growth has been moderate.

The number of farms in Southwest Finland has decreased steadily during the last ten years. Table 4.1 presents the number of farms in different years and their average size. Finland became a member of the European Union in 1995 and since then the number of farms has dropped significantly, especially farms. The average farm size has simultaneously increased by over 10 hectares.

### Table 4.1 Farms in Southwest Finland, 1990–2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farms</th>
<th>Agricultural and horticultural land (hectares)</th>
<th>Average / farm (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>12,203</td>
<td>283,796</td>
<td>23.26</td>
</tr>
<tr>
<td>1995</td>
<td>10,578</td>
<td>291,333</td>
<td>27.54</td>
</tr>
<tr>
<td>1997</td>
<td>9,690</td>
<td>293,725</td>
<td>30.31</td>
</tr>
<tr>
<td>1998</td>
<td>9,464</td>
<td>294,068</td>
<td>31.07</td>
</tr>
<tr>
<td>2000</td>
<td>8,635</td>
<td>294,361</td>
<td>34.09</td>
</tr>
</tbody>
</table>

Source: Tike 2001

The number of farms has almost halved in Northern Ostrobothnia during the last ten years. Table 4.2 presents the number of farms and their average size in different years. The average farm size in Northern Ostrobothnia was only 18.27 hectares in 1990. In ten years time the average size of farms increased by approximately 67%. The amount of agricultural and horticultural land has remained almost at the same level in Northern Ostrobothnia while in Southwest Finland it has been increasing.

### Table 4.2 Farms in Northern Ostrobothnia, 1990–2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farms</th>
<th>Agricultural and horticultural land (hectares)</th>
<th>Average / farm (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>10,875</td>
<td>198,717</td>
<td>18.27</td>
</tr>
<tr>
<td>1995</td>
<td>8,206</td>
<td>188,435</td>
<td>22.96</td>
</tr>
<tr>
<td>1997</td>
<td>7,353</td>
<td>189,400</td>
<td>25.76</td>
</tr>
<tr>
<td>1998</td>
<td>7,207</td>
<td>195,024</td>
<td>27.06</td>
</tr>
<tr>
<td>2000</td>
<td>6,534</td>
<td>199,697</td>
<td>30.56</td>
</tr>
</tbody>
</table>

Source: Tike 2001
4.2.4 Food supply chain characteristics in the study regions

**Meat products (Southwest Finland)**

In the slaughtering and meat processing industry there are a little less than 60 companies in Southwest Finland. The large businesses in the region include HK Ruokatalo Ltd, one of the biggest meat processors and producers of convenience foods in Finland. However, most of the companies are rather small, employing less than 20 persons. The most common products of the small meat processors are different kinds of sausages, canned meat products, wiener, filet, and steakes.

**Fish products (Southwest Finland)**

The fisheries sector is very important to Southwest Finland and is extremely characteristic of the region. There were recorded to be over 60 fish processing enterprises. The processing of fish in Finland is generally most often limited to primary production. Processing may include canned fish products, steakes, filets and smoked products. In most cases the fish products are easily perishable, with only canned fish being an exception. Because of the perishable nature of fish products a constant chill chain is required.

In the maritime region there were 511 professional fishermen in Southwest Finland in 1998 (Suomen tilastollinen vuosikirja 2000). The fish caught by fishermen in Southwest Finland are usually sold either to wholesalers or straight to private customers or food service sector units. The most important fish in Southwest Finland is Baltic herring, from both amount and value point of view.

There is a Finnish Institute for Fisheries and Environment (Suomen Kalatalous- ja Ympäristöinstituutti) in Parainen (in the Turunmaa sub-region) which belongs to Turku Polytechnic. The Institute of Fisheries and Environment is well equipped to produce knowledgeable and skilled people for the fishery and environmental professions. The Institute will provide any student requiring a boat operator’s or machinist’s licence the necessary know-how to pass the official examination. In an up-to-date fish processing facility the students process the catch. It is possible to test various refining processes, do product development and even, finally, market and sell the finished products in the Institute’s own consumer shop. For water and environmental research there are three well-equipped laboratories with video microscopes. Studies at the Institute are very practical and guided by well-educated and skillful personnel, who have established good contacts with employers as well as research and educational institutions in the field through numerous joint projects both in Finland and abroad.

**Mill products and bakeries (Southwest Finland)**

There were recorded to be 26 companies in Southwest Finland that belonged to the mill products category. Only one out of 26 companies employed more than 20 people. The mill product enterprises are most often small family-owned rural businesses. The most common products made by small mills are flour, grits, hulled grains and bran. Though
the degree of processing is not extremely high, the milling industry has an image of healthiness and regional distinctiveness, which promotes the line of business.

The total number of bakeries in Southwest Finland was 100 in 2000, of which 90% employed less than 20 people. The baking industry mainly operates at the local markets. There are also various bakeries that are part of larger companies, for example Fazer or Vaasan & Vaasan. Smaller bakeries usually try to find their niche, through a product that is characteristic of them and which is different from conventional bakery products.

### Meat products (Northern Ostrobothnia)

According to Oilinki-Nenonen (2000) a total of 349 people were working in the meat industry in Northern Ostrobothnia. The turnover in 1997 was approximately 291 million Finnish marks (48.9 million euros). Turnover per employee was lower in Northern Ostrobothnia than in Finland on average, at 143,000 and 194,000 euros, respectively.

Some large food enterprises in the meat industry have ceased production in Northern Ostrobothnia and have transferred these operations outside the region, meaning a loss of 300 jobs. However, various small or micro enterprises have started up at the same time. The opportunities for food SMEs in the meat sector are in offering new tastes, healthiness, and exotic experiences to new kinds of consumer groups, i.e. to develop their product range according to the customers’ needs. (Oilinki-Nenonen 2000.)

### Milk products (Northern Ostrobothnia)

The dairy business is the largest food industry in Northern Ostrobothnia in terms of employees and annual turnover. In the late 1990s there were 474 people working in the dairy sector in Northern Ostrobothnia and the turnover was 886 million Finnish marks (149 million euros). Turnover per employee was lower in Northern Ostrobothnia (1.8 million FIM) than the Finnish average (over 2 million FIM). (Oilinki-Nenonen 2000.)

During the agro-food industry’s fast structural development process the co-operative milk processing industry has been concentrated in a few large and effective units (e.g. in the Oulu sub-region). The products of the large processing units are marketed through a nationwide co-operative company called Valio, or Ingman Foods. Only some small co-operative processing units have remained through the structural changes. The regional development of the dairy industry and its growth is almost totally dependent on the decisions and actions of Valio and Ingman Foods. Valio, for example, has tried to be even more efficient by eliminating small product groups because of a fierce price war. (Oilinki-Nenonen 2000.)

Small cheese dairies are significant local processors. Farm cheese (also called cheese bread), for instance, is a characteristic product of the region. There is only one large farm cheese producer with a relatively high market share in the region. In addition to this company, there are numerous small producers who produce farm cheese usually on
farms. Other products processed in the dairy industry in Northern Ostrobothnia include curd cheese and different kinds of soft cheeses.

**Berries and vegetables (Northern Ostrobothnia)**

Not many professional berry entrepreneurs in Northern Ostrobothnia further process their berries; the region serves more as a raw material producer for businesses situated in other regions (Olinki-Nenonen 2000). There are numerous farmers growing strawberries, raspberries, black currants and red currants. The wild berries that are most often picked from nature are lingonberry, blueberry, cloudberry and buckthorn. Processing companies usually produce jam, juice or jelly sweets.

Vegetable production in Northern Ostrobothnia is largely based on potato growing. In this line of business there were 14 companies, employing a total of 120 people. The annual turnover was 117 million Finnish marks (19 million euros). Only one large company, Raisio Yhtymä, is among the most important producers of potato-based products in Finland. Raisio’s most important product is French fries. In addition, the seed potato centre in Tyrnävä is important for the development of potato production. (Olinki-Nenonen 2000.) The consultation panel members highlighted the fact that the area around Tyrnävä has a type of microclimate that is extremely favourable for potato growing. Along with the professional potato growers and producers there are dozens of small semi-professional growers who may occasionally sell their potatoes even to local retail stores.

**4.2.5 Summary of study regions review**

**Geographical features**

The two study regions selected for Finland are Southwest Finland and Northern Ostrobothnia. The former is situated on the south-western coast of Finland and the latter further north, ranging from the Gulf of Bothnia in the west to the Russian border in the east. In Southwest Finland there are many small municipalities, with 23 of the 56 municipalities in total having less than 2,000 inhabitants. Both regions have a coastline, but Southwest Finland has an extensive archipelago and Northern Ostrobothnia is almost devoid of islands. Climatic conditions differ substantially between the regions. The climate in the archipelago of Southwest Finland is the most maritime in Finland. The climate on the coastline of Northern Ostrobothnia has obvious maritime characteristics, but a continental climate becomes more and more visible towards the eastern parts of the region. Both regions have numerous rivers that empty into the Gulf of Bothnia. The growing season in Southwest Finland is longer than in any other region in Finland, which is why it is a very favourable area for agriculture. Northern Ostrobothnia is extremely abundant in forests and swamps. In some parts, forests cover 80% of the area and swamps 60%.
Socio-demographic and cultural conditions
The population of Southwest Finland is 20% greater than Northern Ostrobothnia’s and the average population density is considerably higher, at 41.9 inhabitants per square kilometre in Southwest Finland and only 10.4 inhabitants per square kilometre in Northern Ostrobothnia. Both regions have only one larger city, Turku in Southwest Finland and Oulu in Northern Ostrobothnia. The age structure is rather different in the regions: Northern Ostrobothnia has the youngest population in Finland, and the percentage of people aged 60 or more is considerably higher in Southwest Finland than in Northern Ostrobothnia or even in Finland as a whole. The percentage of those with foreign citizenship is not very high in either of the regions, at 2% of the total population in Southwest Finland and 0.7% in Northern Ostrobothnia. The education level is high. Study opportunities are relatively good and the number of people who have completed a post-compulsory education programme is rather high in both regions. The two regions offer a wide choice of leisure activities both in sport and culture.

Economic environment
Over 71% of the population of Northern Ostrobothnia live in the Objective 1 or 2 areas. The Objective 2 area in Southwest Finland is not that straightforward because of the many municipalities that are only partly Objective 2 areas. Unemployment has been rather high in both regions during the past decade. The lengthy recession in the early 1990s affected both regions’ economies severely but the situation has been slowly improving over the last few years. The most expansive industrial sector in both regions has been telecommunications. Gross domestic product has risen steadily in the regions during the last decade and moderate growth is expected in the near future. On average, farms are larger in Southwest Finland than in Northern Ostrobothnia.

Food supply chain characteristics
The food supply chains for the selected study products are quite varied. The products selected for Southwest Finland are meat products, fish products and mill products including baked goods. The product groups for Northern Ostrobothnia are dairy products, meat products and berries and vegetables. Even though the supply chains can be varied, the food SMEs in the study regions most often serve the local markets. Expansion of the market area is an objective for many small rural enterprises.
5  The SME producers’ perspective

The aim of the producers’ perspective was to evaluate the food supply chain from the SME producers’ standpoint, with particular emphasis on chain characteristics and performance, existing and likely use of ICT in supply chains, and in determining the perceived costs and benefits of the adopted systems. The linkages of rural food SMEs to the local and regional economy were also studied, as were the relationships with institutions assisting SMEs. The main objectives were as follows.

i) To identify and assess the structure, internal relationships, and effectiveness, from the producers’ perspective, of supply chains used by food SMEs.

ii) To analyse the existing and likely use of ICT in supply chains, determine the perceived costs and benefits of the adopted systems, and analyse the factors, which facilitate and constrain development and performance.

iii) To determine the broad economic linkages of rural food-producing SMEs.

iv) To assess producers’ views on the efforts of institutions to assist the accessibility, development and management of supply chains.

5.1  Producer characteristics

A total of 64 businesses from different product groups were interviewed in Finland for the study. The businesses in the Southwest Finland sample produced either meat, fish or mill products whereas in Northern Ostrobothnia the businesses produced meat or dairy products or berries and vegetables. The main results of the producer surveys are presented in the following sub-sections. Table 5.1 below summarises in more detail the types of businesses that were interviewed for the survey in Finland.

The age of businesses ranged from 2 years to over 100 years, but most commonly the businesses were established in the 1980s or early 1990s. The oldest business was established as early as 1903. Many businesses particularly in the berry sector were rather young. Among these were several that had been established after or during a development project in the past programming period. Surprisingly, many businesses, approximately one-fourth of the total number, were established during the economic recession in 1990s. In some interviews the entrepreneur stated that he or she had become unemployed because of severe structural changes in their sector during the recession. After being left unemployed they had regarded self-employment as the most secure way to guarantee a livelihood.

The proportion of family businesses was approximately 60–8 % in both study areas and no major differences were evident between regions or product groups. The proportion of family businesses was lowest in the berry and vegetable group because the sample
consisted largely of co-operatives, one-person businesses and public limited companies owned by persons who were not related. The figure includes businesses in which at least one person in addition to the entrepreneur/owner working in it was from the same nuclear family.

The size of the businesses differed considerably between different product groups, whereas between the regions the mean number of employees did not differ that much. Very often rural food SMEs in Finland are micro or small businesses (Ruoka-Suomi työryhmä kartoiitti elintarvikeyritykset 2001), and so were the businesses interviewed for this study. As there were among the interviewed businesses some that employed around 100 people, the average business size (full-time employees) was approximately 20 employees. In the sample were many micro businesses and even one-person businesses. In the meat product sector in Southwest Finland the average business size was the smallest whereas in Northern Ostrobothnia in the meat product sector the average business size was the biggest.

Modal annual turnover both in Southwest Finland and Northern Ostrobothnia was more than 500,000 euros. The actual turnover of all businesses ranged from 16,000 euros to over 11 million euros. Modal annual turnover was the lowest in Southwest Finland in the meat and mill product sectors. In the meat product group the businesses were the smallest among the sample, which explains at least partly the low modal turnover. In the mill product sector many businesses were farmbased and often conducted as a subsidiary industry.

Table 5.1  Key characteristics of sampled businesses

<table>
<thead>
<tr>
<th>Product sector</th>
<th>Mean age of enterprises</th>
<th>% family owned</th>
<th>Mean number of employees</th>
<th>Modal annual turn-over of the businesses in 2001 (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Full time</td>
<td>Part time</td>
</tr>
<tr>
<td>Southwest Finland</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat products</td>
<td>21</td>
<td>69,7</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Fish products</td>
<td>12</td>
<td>62,5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mill products</td>
<td>19</td>
<td>75,0</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Mill products</td>
<td>28</td>
<td>69,2</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Northern Ostrobothnia</td>
<td>16</td>
<td>61,3</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Meat products</td>
<td>17</td>
<td>83,3</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>Milk products</td>
<td>25</td>
<td>57,1</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Berries and vegetables</td>
<td>11</td>
<td>55,6</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

4 The mode may be problematic to use in a very small sample because there might be no single number that occurs more often than any other and for this reason, the mode is not a particularly useful descriptive measure (see e.g. Milton, McTeer & Corbet 1997).
Entrepreneurs were asked about motivation for business formation or start-up and the reasons can be grouped into either internal or external motives. Entrepreneurial spirit is a common example of internal motive. The entrepreneurs had usually worked earlier in another business owned by someone else and gradually the urge to establish their own business had increased, for example because of the tedium of working from 8 to 4 every day. Another internal motive for business start-up is family tradition. Entrepreneurship can be ‘the normal way of life’ for a family and therefore it would seem only natural to start one’s own business in the same or different sector. It must be noted that family tradition can also be a burden for some people. Older generations may assume that after their retirement the younger generation will continue the business they have started, even if it does not interest them. Family tradition as a motive for business start-up could be identified in all the product groups.

A common example of external motives was the start-up of a business after unemployment. Many interviewees stated that after being left without a job they had decided to start their own business, because they believed that self-employment would best secure their livelihood and allow them to live in the same rural area. On the other hand, unemployment was seen as an opportunity to start doing the kinds of things that had already interested them for a longer period.

Declining farm income had served as an impulse for the start-up of most subsidiary industries where farm-based businesses were concerned. Following Finland’s joining of the European Union in 1995, the Finnish system of agricultural subsidies has been based on the Common Agricultural Policy of the EU. In Finland, such aid accounts for a larger percentage of farmers’ income than in other EU countries. Considerable uncertainty exists concerning EU aid payable after eastward enlargement, and therefore new sources of income are sought, for example from food processing. (Suomen maatalous ja maaseutuelinkeinot 2001.)

Several kinds of business strategies were on view. Both growth-oriented and stable businesses were common among the sampled businesses. Some entrepreneurs were fairly confident that they would even double their turnover in a relatively short time, but in most cases the strategy was just to stay in business and have it provide at least a decent livelihood. A modest growth strategy was rather popular, and no differences could be identified between the product sectors. Many entrepreneurs also thought that as their businesses are fairly small they should produce speciality products rather than bulk, in order to find their niche in the food markets.

The future of the sampled businesses was regarded as positive by most of the entrepreneurs despite ever increasing migration from rural to urban areas which directly leads to diminishing local markets. A general opinion among the entrepreneurs was that they will continue to seek new markets or broaden their sphere of operations. Product development was seen as an important part of future operations in many businesses. The
raising of the degree of processing was also regarded as an essential means of retaining competitiveness in the future.

Table 5.2 presents in more detail certain key characteristics of the entrepreneurs interviewed. It reveals, among other things, differences in the age structure of entrepreneurs in the different regions and sectors; i.e., most frequently the entrepreneurs were middle-aged, but it is obvious that the entrepreneurs were slightly older in Northern Ostrobothnia. It may be that younger people are more willing to move to southern Finland because of better job opportunities while older ones stay and try to ‘survive’.

In both regions most of the interviewed entrepreneurs/owners were originally from the study area. In Southwest Finland the number was almost 80%. The smallest number was in the milk product sector in Northern Ostrobothnia, only a bit over 70%. Therefore, no great differences were perceived. Only a minority of entrepreneurs had moved to the study region, because they had wanted to establish a business there. Most of the entrepreneurs interviewed were males both in Southwest Finland and Northern Ostrobothnia. In Southwest Finland the number of male entrepreneurs was as high as 74%. The highest number of female entrepreneurs was in the mill product sector in Southwest Finland.

In Southwest Finland there were many cases in which a married couple together owned the business, and usually those businesses were farmbased and quite often food processing was practised as a subsidiary industry. The milk product sector in Northern Ostrobothnia was the only sector in which there were no businesses owned by a couple together. However, married couples possibly did work side by side but the ownership was not formally shared. Table 3.1 shows that the proportion of family businesses was also fairly low in the milk product group among the whole sample.

Secondary level education was the most common in both study areas as well as among all the product groups. There were very few entrepreneurs or owners who had third level education. There was no direct correlation between the size of the business and the educational level of the entrepreneur; some entrepreneurs with third level education were managers of medium-sized businesses whereas others owned micro businesses or even a one-person business. People in Northern Ostrobothnia were somewhat better educated than in Southwest Finland. Usually the entrepreneurs had attended a vocational school or institute related either to the field in which they currently worked or, almost as often, to a completely different field.
Table 5.2  Key characteristics of the entrepreneurs/owners

<table>
<thead>
<tr>
<th>Product sector</th>
<th>% from the study area</th>
<th>Modal age group</th>
<th>% gender male</th>
<th>% gender female</th>
<th>% couple</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Primary</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Secondary</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Third</td>
</tr>
<tr>
<td><strong>Southwest Finland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat products</td>
<td>78,8</td>
<td>35 – 44</td>
<td>51,5</td>
<td>18,2</td>
<td>24,2</td>
<td>24,2</td>
</tr>
<tr>
<td>Fish products</td>
<td>87,5</td>
<td>45 – 54</td>
<td>62,5</td>
<td>12,5</td>
<td>25,0</td>
<td>37,5</td>
</tr>
<tr>
<td>Mill products</td>
<td>75,0</td>
<td>35 – 44</td>
<td>41,7</td>
<td>16,7</td>
<td>25,0</td>
<td>33,3</td>
</tr>
<tr>
<td></td>
<td>76,9</td>
<td>35 – 54</td>
<td>53,8</td>
<td>23,1</td>
<td>23,1</td>
<td>7,7</td>
</tr>
<tr>
<td><strong>Northern Ostrobothnia</strong></td>
<td>72,7</td>
<td>45 – 54</td>
<td>74,2</td>
<td>12,9</td>
<td>9,7</td>
<td>16,1</td>
</tr>
<tr>
<td>Meat products</td>
<td>83,3</td>
<td>55 – 64</td>
<td>83,3</td>
<td>0</td>
<td>16,7</td>
<td>16,7</td>
</tr>
<tr>
<td>Milk products</td>
<td>71,4</td>
<td>45 – 64</td>
<td>85,7</td>
<td>14,3</td>
<td>0</td>
<td>28,6</td>
</tr>
<tr>
<td>Berries and vegetables</td>
<td>77,8</td>
<td>45 – 54</td>
<td>66,7</td>
<td>16,7</td>
<td>11,1</td>
<td>11,1</td>
</tr>
</tbody>
</table>

Most of the entrepreneurs had attended some kind of shorter training and courses. Most commonly the courses had dealt with entrepreneurship in general, marketing in a broad sense and quality standards. The courses were usually organised by continuing education centres, development projects, sector-specific associations and Rural Advisory Centres. Various universities and the Federation of Finnish Enterprises with its regional organisations were also mentioned as providers of various training courses.

*Types of products studied*

The meat product sector in Southwest Finland included both lightly and heavily processed meat products. Most commonly the meat products’ raw material was either pork or beef. Other fairly frequently used raw materials were mutton and turkey. The variety of products included smoked products, frankfurters, marinated oven-ready roasts and different sausages such as bratwurst or salami. Northern Ostrobothnia’s meat product sector was different from Southwest Finland’s to the extent that one of its main raw materials besides pork and beef was reindeer meat. Northern parts of the region belong to the reindeer husbandry area and therefore reindeer meat is a natural raw material for meat processing businesses to use.

The fish product group in Southwest Finland was rather homogenous even though the businesses themselves were fairly different from each other in many other respects, such as who they supplied, who their customers were or what their degree of processing was. The most common products in this group were fish fillets, hot and cold smoked items and salted fish products. Full, ready meals were manufactured by only one company as a subsidiary of another. In all, rainbow trout and Baltic herring (*Clupea harengus membras*) were the most significant species used by the businesses in this product group.

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5 Information was not available for each case in all the interviews. That is why e.g. the total sum of different educational backgrounds is below 100.
The bakery sector was also included in the mill product group in Southwest Finland and partly due to this the group was rather heterogeneous in nature. The businesses in this group were involved in the production of a wide range of different products. There were mills or farms that had concentrated on the production of different flours, grits and flakes, whereas the bakeries produced bread, coffeebread, biscuits, cakes and small savouries, in other words mainly perishable products. Some of the raw materials used in the processing of the products in this group were organically grown.

The milk product group in Northern Ostrobothnia was probably the most homogenous of the sample. The businesses were mainly producers of different cheeses or milk, and the degree of processing was not high. The assortment was fairly narrow in all of the businesses, some had only one product, but most of the products were regional specialities and highly appreciated by the local people.

The product group of berries and vegetables in Northern Ostrobothnia was the biggest in the sample and embraced very different types of products, businesses and degrees of processing. Berry producers were mainly involved in strawberry, raspberry, currant or buckthorn (*Hippophaë rhamnoides*) cultivation or wild berry harvesting. Many also further processed berries into juices, jams and jellies. The vegetable producers were involved in potato and vegetable growing and processing. Some of the study products in this group were organically grown. In this product group two businesses were rather distinct from others in terms of what they produced or what their business idea was: one was involved in the production of alcohol which greatly affected its strategy, markets, etc. mainly because of legislation; the other operated solely as a contract manufacturer for other businesses having none of their own products. This kind of business concept is fairly rare even at the national level. In the end, it is worth noting that few of the sampled businesses practised wholesale activities.

### 5.2 Food supply chain characteristics

There was a great variety in the supply chain arrangements of sampled businesses in both study regions. In terms of upstream features, most businesses sourced suppliers inside and outside their region. Many businesses were using their own inputs as well. There were not many written contracts with input suppliers but regardless of this, the supply relations were usually long-lasting and no substantial problems were mentioned. The most important criteria in selecting input suppliers were the price-quality ratio, reliable suppliers and price per se. Almost all interviewees in both regions wanted to emphasise that the overall quality of raw material must be high and different deliveries must always be homogeneous. Quite often they wanted their raw material to be produced in nearby areas to avoid high transportation costs.
The downstream supply chain of the food businesses contained great variety. Although some businesses exported their products, the customers of the food businesses were mainly local or national. The most common customers of the food SMEs in this study were retail stores. It should be noted, that the retail stores alone seldom constituted the whole downstream supply chain. Although they were, economically speaking, the most important customers for many entrepreneurs, all the businesses also had other distribution channels for their products. As a fish product entrepreneur from Southwest Finland said: “You can never lean on one customer only”. Institutional kitchens, wholesale firms and direct sale to end-users were also often mentioned where customers were concerned. A few businesses also supplied large food processing firms with their products.

Typical of the mill product group was the important role of direct sales. The great majority of businesses in this group had their own shop or stand in a market hall. Especially for the bakeries, their own cafes were an essential distribution channel, both economically and image-wise. Besides direct sales, retail stores and institutional kitchens located in the neighbourhood of a business were a common customer group. Peculiar to this group was the absence of wholesale firms; one reason for this would be the high concentration of the business, another is the nature of the products. Bakeries produce perishable goods; end customers expect to buy them fresh from the oven. Because of this fast turnover of products, wholesale trade becomes rather difficult.

In the fish product sector there was a clear division between the businesses in terms of customer groups. In this group there were some rather large businesses (i.e. measured by turnover and number of employees) when compared to other businesses of the sample. The main customers among these large fish product businesses were wholesalers and food processing enterprises. Typical of the large fish businesses was the orientation to export their products. The export countries mentioned by the interviewees were Russia, Germany and Japan. Direct trade with retail stores was not regarded as being essential. There were also some smaller fish product businesses in the data. These businesses consisted of one to eleven employees and their annual turnover was less than 500,000 euros. Among these businesses, retailing and direct sales to end customers were the main distribution channels.

The milk product group in this study was composed of rather small businesses. The emphasis of distribution channels in these small milk-based businesses was on retailing and direct sale (e.g. marketplaces). The businesses also supplied some nearby institutional kitchens but this was not thought to be economically significant. The customer structure was again slightly different within the larger milk businesses. Among these, the wholesalers were the main distribution channel for the products. There was the same division between the meat producing businesses as described above. The large businesses (i.e. mainly measured by annual turnover) distributed their products predominately to wholesalers, retail stores and the food industry whereas the emphasis in the smaller businesses was on retailing and direct sales.
Typical of the berries and vegetables group was the essential role of institutional kitchens. Institutional kitchens were a relatively important customer group especially among the businesses specialised in vegetables and their processing. In some cases, especially among potato products, the business rested largely on a couple of institutional kitchens. This naturally makes a business rather vulnerable, especially when the business contracts are made for one year at a time. Other important distribution channels were retail stores and direct sale to the end customers. There were also a few larger businesses supplying mainly wholesale businesses and the food processing industry. It should also be mentioned that a couple of berry businesses within this group exported a majority of their products.

A shift of emphasis in clientele is usually a result of many investments. When dealing with wholesale businesses, a business must be ready to deliver large quantities within a certain time. Thus the shift from retail stores to wholesale businesses is seldom an overnight leap; on the contrary, it is a long and gradual process. It should also be noted that becoming a supplier for a wholesale business is generally not an easy task, even if the business is willing to make that move. Furthermore, even if a business has the capacity, resources and reliability to deliver large quantities, it still may have difficulties marketing its products to wholesale businesses, especially when large multiple wholesale businesses are concerned. These large wholesalers dealing in close co-operation with retailers enlarge their product range considerably because of the limited shelf space in the actual stores. In order to supply these wholesale businesses, an entrepreneur must already have a product which is well acknowledged and soughtafter.

Typical of the downstream features of the food businesses was also a certain stability. According to the interviewees, the clientele of the businesses were rather constant, and the changes minor. This does not, however, mean that the entrepreneurs interviewed were perfectly satisfied with the clientele of their businesses. The greatest dissatisfaction was often related to the quantities delivered. Naturally the entrepreneurs wished to deliver as large quantities to one customer as possible. Regularity of business transactions was also highly appreciated. This would make the sometimes chaotic working days of a small entrepreneur a bit more controllable.

The interviewees were asked to describe how their most important business relationship (measured by turnover, quantity, image, etc.) had started. Although the business relationships varied greatly, there was a lot of congruence between the descriptions. A great majority of the entrepreneurs emphasised the importance of personal activity when starting a business relationship with a customer. Especially when a business is young and the products are unknown, a personal visit to a customer with a sample of the product is a good way to expand the clientele. At the beginning of an entrepreneurial career, a major portion of an entrepreneur’s time can be used for paying visits to different potential customers. It should be mentioned though, that personally visiting a customer in his/her store was not the only way to make contacts. The business relationship might have started, for example, at a trade show. The entrepreneurs also took advantage of their earlier work...
experience and the contacts born during their work history when looking for potential customers. There were many cases when the initiative for a business relationship had come from the customer, too. In these cases, the products concerned were already rather well known, either locally or more widely. In cases where entrepreneurs had not started the business by themselves, the clientele might also be inherited. In some cases, taking part in a development project had greatly helped in creating a business relationship with an important customer.

The business relations between the food entrepreneurs and their customers were mostly unofficial (i.e. no written documents or contracts). Usually the business relationship was based on mutual trust and understanding. Sometimes this might have been a result of years of co-operation. One-third of the entrepreneurs, however, had written contracts with their customers. This does not automatically mean that they did not trust their business associates; sometimes it was merely a question of a business policy. Especially when dealing with large customers, written documents become very usual. This was also the case when supplying municipal and other public institutions or when exporting.

Although communication with customers was most often unofficial, it did not mean that communicating partners always had equal positions when negotiating. When dealing with wholesale stores and large, public institutional kitchens, for example, the entrepreneurs thought that these partners had an advantage in the bargaining because of the amount of potential suppliers. Especially micro and small businesses were often defendants in business negotiations. Medium-sized businesses also felt that wholesale businesses were sometimes too powerful in negotiations.

Generally, more than the business branch, the size of the company and naturally the location of customers seemed to determine the distribution channels of a business. Entrepreneurs dealing directly with the nearby retail stores and institutional kitchens usually delivered the products themselves. Although the costs of this kind of delivery system were generally thought to be relatively high, it was still considered to be economically more sensible than turning to outside transport companies. Besides the economic reasons, there were also other important motivations when selecting the type of transportation. Small entrepreneurs regarded the personal contact with the customer as essential for their business activities; by delivering the products themselves they were able to get important feedback about their products almost instantly. Furthermore, personal delivery to the customers was also regarded as one way to improve a business’s ability to compete in the market by raising the level of service. In some cases personal delivery was also connected to an entrepreneur’s sense of control over his/her business operation. For distant customers, however, mail delivery and bus were common means of transportation.

Very seldom was chain integration found to exist. Regardless of this, positive views towards potential integration activities were expressed by several entrepreneurs, meaning that chain integration was perceived to bring advantages to the supply chains as a whole.
However, interviewees usually indicated that an external actor should be responsible for the development of the whole chain. Some entrepreneurs were afraid that increasing chain integration and co-ordination would also increase the amount of bureaucracy. A minority of entrepreneurs considered that at least some kind of chain integration existed in the supply chains they were using. Generally, chain integration or co-ordination was seen to be led by some external actor and this was considered to be a good solution. Some external actors mentioned by the interviewees were certain interest groups of different product sectors and Rural Advisory Centres. Some entrepreneurs indicated that if one of the chain members would try to actively lead the integration process of the chain, this would be looked at unfavourable.

The negotiating power of a single food SME was considered to be fairly minimal in the case of the practising wholesale and/or retail trade. Both the wholesale and retail sectors are highly concentrated in Finland (approximately 80% of grocery sales go through the three biggest chains) and that greatly affects the access of SME products in their selection. The prices paid by the wholesalers, for example, are fairly low and a fear of substitute products was evident with SME entrepreneurs. To decrease the bargaining power of both wholesalers and retailers, food SMEs have tried to concentrate on speciality or niche products, because the shortage of substitute products better guaranteed the acceptance of SMEs’ products by the large supply chain members. In the food service sector the negotiating power of SMEs is relatively dependent on whether they are doing business with the public or private sector. The price of a product is an important selection criterion in the public sector and hardly ever does an SME have adequate resources for price competition. In the private sector quality is the key criterion, the price is less important. However, there were cases among the sampled businesses in which the reputation of a business had lessened the need for price competition in the public sector as well.

5.3 ICT in food SMEs

Table 5.3 presents the types of ICT used by businesses in different product groups. Here it can be seen that telephones and mobile phones are used by all the companies in every product group. This was expected, and a few entrepreneurs stated that they have started to use ordinary telephones less and that they might abandon them in the near future and use mobile phones only.

Fax machines and e-mail were commonly possessed by the businesses but were not always used. The fax was often not used because there was no need for it due to more sophisticated ICT, for example e-mail. The main reason for not using e-mail was that it was recently acquired and nobody in the business was yet able to use it.
Table 5.3 Types of technologies used by businesses (%).

<table>
<thead>
<tr>
<th></th>
<th>Meat products (S.F)</th>
<th>Fish products</th>
<th>Mill products</th>
<th>Meat products (N.O.)</th>
<th>Milk products</th>
<th>Berries and vegetables</th>
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<td>100</td>
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<td>100</td>
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<td>83</td>
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<td>72</td>
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<td>92</td>
<td>100</td>
<td>86</td>
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<td>86</td>
</tr>
<tr>
<td>E-mail</td>
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<td>67</td>
<td>86</td>
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<td>66</td>
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<td>25</td>
<td>46</td>
<td>33</td>
<td>43</td>
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<td>33</td>
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<td>83</td>
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<tr>
<td>Extranet</td>
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<td>0</td>
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<td>0</td>
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<td>17</td>
<td>14</td>
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<td>6</td>
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<tr>
<td>Advanced professional software</td>
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<td>0</td>
<td>17</td>
<td>14</td>
<td>11</td>
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</tr>
</tbody>
</table>

There was great variety in the answers of the interviewees when reasons for adopting or non-adopting various ICT applications were concerned. Based on the entrepreneurs’ answers, in this section ICT can mean all kinds of applications or devices except telephone and mobile phone which were usually thought to be basic necessities.

Different applications or programs were usually acquired for internal reasons but external impacts were also evident in various cases where the adoption of ICT was concerned. The urge to acquire ICT applications was quite frequently based on intuition rather than on strategic decisions. The impact of entrepreneurs’ own children was also rather significant: the younger generations usually had wanted PCs for playing purposes and gradually their parents started to use PCs for professional purposes. External requests had usually come from companies providing IT services, public organisations or current customers. The latter case was rather rare, however.

The reasons for non-adoption of ICT were usually simple. Some entrepreneurs were reluctant to adopt certain types of ICT because they had so far managed without it or they thought themselves too old to use new devices. A few entrepreneurs also said ICT is not suitable for their line of industry.

The impact on supply chain access was not too clear according to the interviewees. Very few incidents were mentioned of existing suppliers or customers having demanded businesses to use more sophisticated ICT devices or applications. On the other hand, some
interviewed entrepreneurs emphasised that ICT often has had a significant impact on accessing new supply chains because ICT use considerably shortens the reaction time to call for bids and customers’ requests in general. However, a common view was that if the business was not using a particular ICT (normally used by the customer) it did not necessary restrict developing a business relationship.

Most of the interviewees saw the future of their ICT usage as somewhat obscure. They were fairly sure that the requests for ICT use would be more and more demanding in the future, but due to the small size of their businesses they were almost certain that they could manage with the ICT they currently have. Many entrepreneurs said they had not really even thought about possible investments in ICT in the future or that they were not capable of providing it for themselves.

5.4 Institutional support for food SMEs

The great majority of the entrepreneurs interviewed in this study had used some kind of external support while carrying on their business. There was naturally a quite substantial variety among interviewed entrepreneurs as far as the utilisation of external assistance is concerned. Some of the entrepreneurs had a negative attitude towards all external help. Others thought that external assistance was a good thing in principle but for one reason or another they had not applied for it. As mentioned above, the majority of the entrepreneurs, however, regarded external assistance as a positive thing and had applied it once or more often. In the best cases, the external assistance had had some value-added effects on the business, either by directly increasing the effectiveness of a business or by bringing some useful information or contacts for the future. In some cases businesses had tried to make good use of all possible assistance because competitors did so too. In some senses direct financial support can distort the competition between two businesses. It should be mentioned though, that the entrepreneurs considered the regulation and evaluation connected with external assistance to be so accurate that misuse of the assistance received is very rare.

Financial support in addition to advisory and consultancy were the most often-used ways of external support. Particularly the investment subvention granted by the Employment and Economic Development Centre was broadly utilised by the interviewees. Besides investment subventions, the businesses interviewed in this research had used financial aid mainly for R&D and export activities.

Although the investment subventions were generally considered to further the business activities and increase the effectiveness of a business, they also came in for some criticism. The main criticism concerned the demand to invest in new machines. Some of the interviewees thought that the investment subvention should apply to used equipment as well. Entrepreneurs who wanted to start their business venture with as low a financial risk as possible thought that the investment subvention system was somehow unfair to them.
As mentioned above, advisory and consultancy services were also widely used by the entrepreneurs. University units, other educational organisations as well as other interest groups were mentioned as important organisations as far as advisory and consultancy services were concerned. Different kinds of development projects had become useful tool for developing business activities, too. Among the businesses studied in this research, several business ideas were born and strengthened in a development project. Development projects can be essential help especially when making new innovations as well as in marketing and exporting activities. An important aspect of development projects was also the social intercourse with other entrepreneurs. Development projects provide an important arena for exchanging ideas with people in the same area of business.

However, some entrepreneurs were also rather critical of development projects. In their opinion, project work is often too short-sighted or too general to deal with specific business problems. Project work was considered to be bound to its financing methods, thus not allowing for sufficient time to examine business problems deeply enough. According to this research, the entrepreneurs had high and clear expectations of the development projects. They expected the projects to work in a long-lasting and sustainable manner as well as to become involved in some real and important business problems.

The data showed that an essential feature related to external assistance was the ease of finding the right organisation to turn to. The majority of the entrepreneurs thought that it was not always easy to locate external assistance. Finding suitable aid among the numerous of suppliers was in some cases rather difficult. Especially those at the beginning of their entrepreneurial careers considered it to be very laborious to apply for external assistance. In spite of this, the entrepreneurs were quite unanimous in stating that the amount of external assistance was extensive. However, when there was an actual need for external assistance, the activity of the entrepreneur was crucial. It could be said that searching for the right external assistance requires skills and time.

According to the interviews, the external assistance used was seldom directly related to the supply chains. There were no undertakings concerning the effectiveness of the food supply chain as a whole. Furthermore, there was only a little external assistance available for helping small or medium-sized food businesses get in to a supply chain. Although this kind of evident assistance was largely absent, the external institutions have surely been an important factor affecting the nature and amount of supply chains of a rural food business. By offering resources, both economic and informational, the external institutions have created opportunities to find new partners and deepen the collaboration in a supply chain. Where the SMEs are concerned, every action made to develop the effectiveness of the business, either with or without the help of the external institutions, somehow affects the supply chain of that business. For that reason it is very difficult to estimate the role of the outside institutions from the perspective of the whole supply chain.
5.5 Food SMEs and rural development

The location of a business is an essential strategic factor affecting its success. Still it is not the only explanation of the success or failure of a business. A range of other factors, like the demand for products and the behaviour of customers have an impact on the operation of a business. Location, however, creates the frames of reference for the operation and it is thus very relevant. A rural location as well as an urban one can either promote or hinder the effective operation of a business. A supportive atmosphere for entrepreneurship and good infrastructure, for example, have a positive effect on a business, and these need not be exclusively the characteristics of urban areas. The recent economic and demographic changes have, however, weakened the concrete operational environment of many businesses in rural areas. Similar businesses operating in rural and urban areas might thus have a very unequal base for their operations.

It should be noted that a majority of the interviewees in this study considered the location of their business to be either tolerable or good; it all depended on the location of the main customers of the business. Especially those businesses located in the vicinity of a growth centre or busy main roads were very pleased with their location. In general, the situation was good when the amount and location of the customers were both suitable in relation to the objectives of the business. One should bear in mind that all food SMEs are not striving for national markets; on the contrary, for many their objective is to operate effectively in the local market and keep the business rather small.

The availability of raw materials was considered to be the main advantage of a rural location. In many food businesses the raw materials are very sensitive to transport, and call for special transportation like refrigerated lorries. In these cases lengthy transportation of raw materials would be very expensive. For this reason it is more cost effective for a business to be located near the raw materials in the countryside. Operating near raw materials is also considered to give a certain flexibility to a business. Furthermore, many entrepreneurs produce raw materials and refine products concurrently. Usually these are farms that have, for one reason or another, started to further refine their own products. In these cases the location of the business is often bound to the farm and relocation would be very difficult.

Rural location can also be seen as an advantage for a business because of the small number of competitors. In some cases the competitors were all located in other regions which gave the businesses an opportunity, within limits, to act like a monopoly. These kinds of businesses were naturally very small and operated very locally. When a business starts to grow, it eventually has to face competitors. Furthermore, some competition between businesses might be a good thing for a business in the long run. It might help it to continually develop its products and production methods and thus make it more effective.
Producers in the sample generally considered Southwest Finland to have a positive image, associated with farming, clean nature, the archipelago and the sea. The former capital of Finland, Turku, was also understood to attract large numbers of tourists each year. There are various events in Turku that draw people from different age groups, especially during the summer. Regional consumers were thought to appreciate local products. However, most of the producers said that consumers like to buy locally produced goods because of their freshness, but are not prepared to pay extra just to get products made in Southwest Finland. Opinions about the image of Northern Ostrobothnia varied among the interviewed entrepreneurs. In Northern Ostrobothnia a couple of municipalities are highly popular among tourists and therefore have a strong and predominately positive image. The businesses that are located in these municipalities do try to benefit from their location. The entrepreneurs whose businesses were located in lesser known municipalities thought that their northern location was not something that they could use in marketing. However, businesses that used reindeer meat in their processing saw their northern location as an advantage.

The use of regional imagery was not that straightforward among the sampled businesses. However, there could be many opportunities for food SMEs to start using this in both study regions. Nowadays all kinds of stories are popular particularly among tourism businesses. Jensen (1999) sees that the dream society is the next phase after the information society, or partly overlapping it. The story behind the product is what really counts, because people are willing to pay for the image of how they see themselves as a part of the society or how they want others to see them (Jensen 1999). Businesses located in lagging areas should consider making full use of metaphors, local stories and legends, and that way attract new customers.

Employment generation was most commonly mentioned when businesses were asked about their contribution to the local economy. In small villages it was extremely meaningful if a business was able to employ at least a couple of people. Medium-sized food processing businesses were major employers at the municipal or even regional level. Self-employment was also regarded as rather significant by many entrepreneurs because in small rural municipalities each job is valuable. According to the interviewees the significance of employment generation by a certain SME was relatively dependent on the distance between the business and a growth centre. Direct economic factors were also highlighted: businesses pay taxes and thus participate in public utility provision for their own municipalities.

The interviewees saw the role of their business as complementing the services in their areas. Many entrepreneurs said that if they ceased their operations, a huge gap in the local service supply would then be noticed by many consumers or commercial customers. Quite often the interviewed food SMEs provided other services as well (e.g. grocery, postal services, cafe, lunch counter) interconnected with their own shop, and in sparsely populated areas this was seen as a meaningful asset for the local economy and the people living there.
Maintaining the viability of local rural areas was regarded as one of the most important roles SMEs may have. The viability of local and regional economies can be advanced by giving a positive picture of the small-scale entrepreneurship in rural areas. Increasing the attractiveness of food processing as a means of livelihood for the young was also seen as an important task as far as the future of rural areas is concerned. Quite a few entrepreneurs were involved in local or regional development projects in the food sector either as experts/consultants or as benefactors.

Most of the entrepreneurs believed that their businesses had enhanced the image of the municipality or region. The name of the municipality in which a certain business is located may be remembered among consumers because of the business. Customers from other municipalities may also use other services in the municipality or region, and in this way the sampled food SMEs considered themselves to be highly important to the local economy. Some entrepreneurs also regarded the maintenance of local traditions for future generations as extremely important.

5.6 Summary of SME producers review

Business and product characteristics
A total of 64 businesses from different product groups were interviewed for the study. The businesses in the Southwest Finland sample produced meat, fish or mill products whereas in Northern Ostrobothnia they produced meat or milk products or berries and vegetables. The age of businesses ranged from 2 to over 100 years. The proportion of family businesses was approximately 60–80% and many businesses were classified as farm based. Most of the businesses surveyed were micro businesses.

A high percentage of entrepreneurs were males originally from the region. However, many businesses were operated by married couples, especially in Southwest Finland. The entrepreneurs were usually middle-aged and, for example, people under 25 were non-existent among the sample. Secondary education was the most common, and higher formal education was rare. In addition to vocational education, most of the entrepreneurs had attended at least some kind of short training courses during their professional careers.

Food supply chains
There was great variety in the supply chain arrangements of the sampled businesses in both study regions. In terms of upstream features, most businesses sourced suppliers inside and outside their region. Many businesses used their own inputs as well. There were not many written contracts with input suppliers but regardless of that, the supply relations were usually long-lasting and no substantial problems were mentioned. The most important criteria in selecting input suppliers were price-quality ratio, reliable suppliers and price per se.
The downstream food supply chain of the sampled businesses in particular contained great variety. Although there were some businesses that exported at least some of their produce, the customers of the food SMEs were mainly local, regional or national. Very rarely did a business rely on one supply chain only. Generally speaking, direct sale and sales to retail outlets were the most common supply chains used by the Finnish food SMEs. Personal contacts were seen as crucially important when searching for new customers. Business relations between food SMEs and their customers were almost without exception rather informal; written documents or contracts were seldom used. Networking among food SMEs was not particularly common; however, both horizontal and vertical networking were regarded as extremely useful to both parties.

**ICT in food SMEs**

Fixed line telephones and mobile phones were used by all the sampled businesses. Over 80% of businesses also had a fax and computer. The fish product group was more advanced in terms of ICT adoption than the other product groups, as it was the only group in which some businesses had adopted Intranet use, and one-fourth of the businesses were using advanced professional software. The frequency of use of various ICT applications was fairly different where low- or high-level applications were concerned. Low-level ICT (e.g. telephone, mobile phone and fax) was used almost every day in all the businesses but usage of high-level ICT was more occasional. The reasons for ICT adoption or non-adoption varied considerably, but usually the reasons for adoption were demand driven. The businesses had adopted ICT mainly to increase efficiency and reduce costs. Non-adoption was commonly explained by the size and nature of the business. The future role of ICT in the sampled food SMEs was seen as fairly central but the entrepreneurs had a hard time putting their views into words because they thought that their knowledge of ICT was inadequate.

**Institutional support for food SMEs**

External support for food SMEs is available in Finland to a large extent. In both regions, support includes business advice, training and financing. A great majority of sampled businesses had used some kind of external support. The most common forms according to the interviews were financial support in addition to advisory and consultancy. The investment subvention granted by the Employment and Economic Development Centre was in particular broadly utilised. The majority of interviewed entrepreneurs indicated that it is not always easy to locate the external assistance needed. Especially those at the beginning of their entrepreneurial career considered it to be very laborious to find, apply for and receive external assistance.

**Food SMEs and rural development**

Small-scale food processing is a relatively important line of industry for rural areas in Finland. All the businesses interviewed for the study were located in rural areas. Regardless of the often remote location of a business, the majority of interviewees considered their location to be either tolerable or good. In general, the situation was good when the
amount and location of customers were suitable to a business’s objectives. One of the main advantages of rural location was the availability of raw material. Long distances were considered to have a negative effect on a business in the shape of high distribution costs. The role of food SMEs was usually seen as that of an employment generator.
6 The intermediate chain members’ perspective

This section of the report draws upon work package 5, the aim of which was to analyse the supply chain from the perspective of intermediate chain members, and assess their behaviour with respect to the needs of both individual chain members and rural development in the study regions. Specific objectives were as follows:

i) To examine the objectives, activities, business relationships, decision-making procedures, ICT use, and market conduct and performance of supply chain members.

ii) To assess the factors which facilitate and constrain members’ innovativeness, development and performance with respect to the needs of both individual chain members and rural development in the study regions.

6.1 Characteristics of intermediate chain members

The total number of intermediary interviews was 41, of which 15 were conducted in Southwest Finland, 14 in Northern Ostrobothnia and 12 in the Helsinki area. The intermediary businesses studied in this research can be divided into five categories: 1) transportation and warehousing businesses, 2) secondary processors, 3) marketing businesses, 4) speciality wholesalers, and 5) multiple wholesalers. A more detailed division of interviews into different groups according to intermediary type is presented in Table 6.1. Typical of the Finnish food and other grocery trade is the notable concentration of the sector (see e.g. Päivittäistavarakauppa 2002). The high level of concentration has, among other things, an effect on the geographical spread of the intermediary businesses in the food sector. Big intermediary businesses are often located near large population centres, and large markets. This could also be seen in this study. Only few of the intermediary businesses studied were located in rural areas, and the majority were located in the regional capitals, i.e. Turku (Southwest Finland) and Oulu (Northern Ostrobothnia) or in the Helsinki area.

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Number of businesses interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and warehousing</td>
<td>7</td>
</tr>
<tr>
<td>Secondary processing</td>
<td>8</td>
</tr>
<tr>
<td>Marketing</td>
<td>3</td>
</tr>
<tr>
<td>Speciality wholesalers</td>
<td>10</td>
</tr>
<tr>
<td>Multiple wholesalers</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>41</strong></td>
</tr>
</tbody>
</table>
The majority of the transportation and warehousing businesses can be described as non-sector-specific businesses, meaning that they were not specialised in any particular food products (see Table 6.2). For the majority of the transportation businesses, food supplies constituted only part of the products they delivered. In fact, only one transportation business delivered mill and milk products. The multiple wholesalers were likewise non-sector-specific businesses. These took care of the wholesaling of huge amount of different products, and they were not exclusively concentrated on the grocery trade.

Secondary processors as well as speciality wholesalers and marketing businesses, on the other hand, were usually sector-specific. The majority of the secondary processors handled fish products, but there were also milk and vegetable businesses too. The speciality wholesalers as well as the marketing businesses were mainly specialised in different vegetables.

**Table 6.2** The line of business among the intermediaries

<table>
<thead>
<tr>
<th></th>
<th>Meat products</th>
<th>Fish products</th>
<th>Mill products</th>
<th>Milk products</th>
<th>Berries and vegetables</th>
<th>Non-sector specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and warehousing</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Secondary processing</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Marketing</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Speciality wholesalers</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Multiple wholesalers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
</tbody>
</table>

The great majority of the businesses were either limited companies or co-operatives. It is noteworthy that there were also several listed companies among the interviewed businesses. These were mainly multiple wholesalers.

The age of the surveyed businesses varied considerably (Table 6.3). The oldest business was established in 1899, while the youngest had been operating for only a couple of years. It should be mentioned, however, that the age of a business was sometimes rather difficult to define. Acquisitions, company mergers and changes of main branches have made the history of some businesses laborious to review. Some of the intermediary businesses also had international owners, making their histories even more difficult to grasp. For this reason the following table gives only some guidelines and estimations concerning the age of the businesses.
Table 6.3. The age variation of the businesses by the intermediary categories

<table>
<thead>
<tr>
<th>Intermediary category</th>
<th>Number of businesses</th>
<th>Mean year established</th>
<th>Year range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and warehousing</td>
<td>7</td>
<td>1958</td>
<td>1937–1990</td>
</tr>
<tr>
<td>Multiple wholesalers</td>
<td>13</td>
<td>1951</td>
<td>1901–1997</td>
</tr>
</tbody>
</table>

As Table 6.3 above shows, the oldest businesses in the survey were the multiple wholesalers and those engaged in transportation, while the marketing companies were relatively young. Some marketing businesses were, however, established through other businesses. For example, one of the marketing businesses was officially established in 1997 but the history of the firm goes back further under a different company form and line of business.

The size of the businesses differed considerably between the five intermediary categories, too. In terms of employees the multiple wholesale firms were gigantic compared to other business categories (Table 6.4). Typical of the multiple wholesalers was that they had their own nationally or regionally operating chain of retail stores which increased the number of employees. There was, however, much variation inside this category as well. The largest multiple wholesale business employed almost 6,000 people and the smallest had 300 employees. The surveyed transport businesses were also rather large when measured by number of employees. Table 3.3 indicates both the permanent employees of a business and the subcontractors. The number of permanent employees was rather low in all of the transport businesses. Instead of hiring many permanent drivers, the businesses tended to contract out most of the transportation. The smallest businesses in this study, measured by number of the employees, were the marketing businesses. The smallest marketing business employed two people, the mean number of employees being five.

Table 6.4  Mean number of employees by the intermediary categories

<table>
<thead>
<tr>
<th>Intermediary category</th>
<th>Mean number of employees in 2001</th>
<th>Employee range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and warehousing</td>
<td>202</td>
<td>15–250</td>
</tr>
<tr>
<td>Secondary processing</td>
<td>43</td>
<td>14–100</td>
</tr>
<tr>
<td>Marketing</td>
<td>5</td>
<td>2–9</td>
</tr>
<tr>
<td>Speciality wholesalers</td>
<td>71</td>
<td>4–300</td>
</tr>
<tr>
<td>Multiple wholesalers</td>
<td>2145</td>
<td>300–6000</td>
</tr>
</tbody>
</table>
6.2 Supply chain characteristics

The importance of the study products to the intermediary businesses varied depending on the type and function of the intermediary. If the intermediary was fairly small in size, the importance of a single product was naturally relatively high, and vice versa. There were also differences according to product group. In the fish product group, for example, the importance of a single supplier was sometimes very high for an intermediary. The fish product sector, ‘wild’ fish, (not farmed), is very much subject to the forces of nature, and fluctuation in supply is enormous in different seasons. The intermediate chain members’ views concerning traceability of raw materials were rather similar to the views of SME processors. Both SME processors and intermediate chain members regarded traceability as highly important in general. However, intermediate chain members did not see taking care of traceability as their principal duty whereas the SME processors did. The interviewed SME processors and intermediate chain members both had almost equally vague opinions about consumers’ views concerning traceability.

The supplier selection process varied greatly where different types of intermediary chain members were concerned. The interviewees in the group of multiple wholesalers usually stated that they do not have to search for new suppliers: they get enough contacts and thus are able to choose from a large number of possible newcomers. Speciality wholesalers usually know their own branch very well and rarely are they contacted by a completely ‘new’ supplier. In the case of speciality wholesalers it is as normal for input suppliers to contact them as it is vice versa.

The significance of small suppliers to intermediary chain members had less to do with finance and more to do with image. Usually SME suppliers’ products were seen being rather low-volume for intermediaries, but as the following quote shows, the meaning of SMEs’ products is unarguable.

A few multiple wholesalers said that having SME suppliers was a fundamental part of their service supply. If they did not have SMEs as suppliers, something would clearly be missing. A noteworthy comment was also that each small supplier must be taken seriously in a small municipality or town because these suppliers are usually the wholesalers’ customers too. In summary, the quality of SME suppliers’ products was generally regarded as fairly high and therefore SMEs were appreciated as suppliers and partners if their volumes were adequate and logistical issues were solved cost-effectively.

The interviewed intermediate chain members were also asked whether having SMEs as suppliers had any particular implications for their business. One multiple wholesaler said that the size of the supplying business has no absolute value per se but it is the day-to-day operations and their smooth functioning that really counts and defines whether a business relationship can succeed. If the relationship with an SME works without any great difficulty, it makes no difference for wholesalers whether their supplier is an SME or not.
Flexibility of SMEs was highly appreciated by many speciality and multiple wholesalers. They said they are could be sure that an SME as a supplier would be able to provide them with new supplies at short notice and usually even at odd hours. When dealing with large food businesses the ordering schedules are fixed, as agreed in the contract. It was also acknowledged that SMEs treat all their customers with respect.

On the other hand, it can be much more time-consuming to have a business relationship with an SME because the interaction is not always as ‘professional’ as with larger businesses. Some interviewees indicated that SMEs did not always have a clear picture of how everything works in the business environment. However, some interviewed intermediaries seemed to appreciate the more informal way of doing business. Some interviewees indicated that they had actually made good friends with their SME suppliers and some even met socially.

The interviewees were also asked about their criteria and requirements for suppliers. On average the most commonly mentioned selection criteria were: 1) an ability to meet delivery schedules, 2) delivering correct quantities, 3) high quality, and 4) reasonable prices. Most of the intermediaries, regardless of their type, preferred long-term, established supplier relationships to spot trade. They said that they wanted to use the same suppliers because together they have created over the years a certain way of doing business and therefore it was fairly easy to understand each other. Conflict situations thus happened very rarely in established supplier relationships. The multiple wholesalers in particular indicated that because of the large number of suppliers in total, they had no interest whatsoever in changing suppliers if everything is working fine, because it would tie up so much human resources for no reason. The common view among intermediate chain members was that they wanted to devote time and energy to attending to the existing supplier relations.

Approximately half of the interviewed intermediaries had (at least partly) formal, written contracts with their suppliers. Written contracts were usually valid for a year, a season, or a shorted period. Oral contracts were used mostly by small businesses. The group of speciality wholesalers (especially for berries and vegetables) and also secondary processors were the most common types of intermediaries who used informal, oral contracts. The reason for not using formal contracts was for example the constant change in the price of raw material or long-term co-operation with the supplier side, sometimes for several generations already. Multiple wholesalers and marketing businesses used written contracts almost without exception. One respondent stated that a written contract is best for both parties; there are no ambiguities when everything is written down.

Although all the intermediary businesses had one main customer group (direct sale to retail stores, multiple wholesalers, food service sector, other processors, etc.) to whom they supplied the majority of their products, they usually did not depend on one customer group only (the exception being the multiple wholesalers, who only supplied their own
According to the interviewees it is not commercially wise to have just a couple of big customers, as the economical risks are too high. But specialising in a customer group, though, can economically be a good decision. Because competition is hard, it is very important to know the customers and their needs well. Some interviewees, for example, considered it impossible to deal directly with the retail stores and the multiple wholesalers at the same time. Choosing a practical supply chain for the business is an important strategic decision for an enterprise. The decision is greatly affected by the nature of the products supplied and the services the business wants to offer its customers.

The familiarity of the products and services and the demand for them had an essential effect on the fact of whether the intermediary business was actively seeking potential new customers. For those businesses with long business traditions and established brands the search for new customers was rather different compared to those businesses which were just about to start operations. For the young businesses, active marketing of their products was essential in creating new business relations. In general, young businesses emphasised their own activity when a business relation was established. Once a business had an established clientele, active selling did not become unnecessary. As one of the interviewees said: “This requires active selling every day”. Selling was done either by phone, e-mail, post or personal visit. Although the great majority of the businesses were in some respect using well-advanced communication technology, the phone was still the most important communication device between a business and its customers. Despite the age and size of the business, personal meetings with customers were considered to be very important when maintaining good relations with them.

According to the interviewees, typical of their business relations was that they were long-lasting and continuous. In many cases the business relations were established contemporaneously with the establishment of the business and were still, after many years, functioning well. It should be noted that the nature of the product has some effect on the nature of the business relation. In the case of speciality products, the product might be so unique that it cannot be purchased anywhere else, while with bulk products there might be numerous suppliers. This can affect the loyalty of the customer. Furthermore, in some cases, a supplier of a speciality product has developed the product together with a customer. This kind of collaboration naturally increases the customer’s awareness of the product and at the same time increases the commitment of both parties to the business relationship.

According to the interviewees, an important element in a successful business relationship between a supplier and a customer is trust. Mutual trust was considered to be a precondition of both information exchange and fruitful negotiations between a business and its customers. Although communication with customers was often rather unofficial and based on trust, the business contracts were usually official written contracts. This was a business policy especially where large businesses were concerned.
Several facts influenced the way distribution of the products was organised in the businesses. According to the interviewees, the size and location of the market as well as the nature of the business and the product were important factors affecting the distribution policy of an intermediary businesses. In particular, the perishable nature of the products greatly affected the distribution systems of the businesses studied. Because of the high risk of spoilage, food deliveries have to be especially fast, and effectively arranged. The distribution decisions were justified by the quality of the service and by the reliability of the supply. Furthermore, distribution decisions are naturally important economic decisions as well.

6.3 ICT in intermediary businesses

The surveyed intermediary businesses were asked about their ICT usage in general. All the interviewed businesses used at least low-level ICT (telephone, mobile phone, fax and personal computer) on a daily basis. Compared to the SUPPLIERS producer survey, the level of advanced ICT adoption among the intermediary chain members was much higher than among the food SMEs.

The secondary processors’ ICT adoption was at a medium level. Along with low-level ICT the processing businesses most commonly had professional software and used the internet, to search for specific information, for example. Some secondary processors also had EDI systems in use, because they were dealing with large customers who had requested this. The surveyed businesses stated that the level of ICT was not a factor in their business where, for example, turnover or market area were concerned. The number of employees was not dependent on the level of ICT either. The general view was that ICT had no role in building business networks, even though ICT was seen as an image issue. Finally, according to the secondary processors the importance of basic ICT was still unarguable in everyday business.

ICT adoption by marketing businesses was of a medium level. E-mail, webpages and professional software, for example, were in use in almost all the businesses in this group. The marketing businesses were also relatively prepared to invest in more sophisticated ICT in the future, in order to either develop their internal operations or meet the demands of large customers. One interviewee stated that electronic ordering systems had to be adopted at some point in the future. However, all of them emphasised the significance of the telephone in daily operations.

ICT adoption by the surveyed transportation businesses was of a high level. The businesses in this group used sophisticated professional software, intranet and EDI quite commonly. Sophisticated professional software included warehouse stockkeeping systems and track-and-trace programs for goods in delivery. One interviewee stated that their line of business generally uses more sophisticated ICT than large food processing businesses,
for example. All transportation businesses emphasised that because of ICT their truck drivers must be capable in other areas besides actually driving trucks. The drivers have to be able to use the ICT that is nowadays part of their work and therefore the need for further training in ICT is almost constant.

A medium level of ICT was adopted by the speciality wholesalers. Some interviewees from this group stated that their businesses also used intranet or EDI. Many speciality wholesalers said they were prepared to adopt EDI systems in the near future because they wanted to keep up with development, and were also convinced that some large customers would demand it. However, the significance of the telephone was highly emphasised by most of the respondents. They explained the importance of the telephone in terms of the hectic nature of their business and the perishability of products.

ICT adoption by multiple wholesalers was also of a high level. Intranet, EDI and advanced professional software were in daily use in almost all the surveyed businesses in this group. Even though multiple wholesalers already used all types of ICT, they were still prepared to invest in even more developed devices and programs. One of the interviewees said that there was a direct correlation between ICT and sales. However, some interviewees stated that basic ICT was essential because of the fluctuating nature of their businesses, for example the vegetable and fish trades.

There was great variety in the answers of the interviewees regarding the reasons for adopting or not-adopting various ICT applications and devices. Based on the intermediary chain members’ answers, in this section ICT can mean all types of applications and devices except telephone and mobile phone, which are usually thought to be basic needs and necessary for operating a business.

The reasons for adopting certain types of ICT were both internal and external, meaning that investments were made in ICT because businesses had wanted or needed it themselves or were forced to invest in it by an external partner. The most general and simple reasons for ICT adoption were the following: “it is easier”, “it is quicker” and “it looks more professional”.

Most of the intermediaries saw the future of their ICT use as rather obscure. The great majority of interviewees were relatively confident that requests for ICT use would be more demanding in the future, even in the next few years. However, they were not so sure whether their business would be forced to invest in more sophisticated ICT, because they generally thought that they already had as much ICT as they needed. According to the interviewees, it was evident that some business relationships would require further investments in ICT, but this was not seen as the most important reason for ICT adoption. Many intermediaries simply stated that this was how businesses nowadays work: everything is based more and more on ICT.
6.4 Institutional support for intermediate chain members

The external institutional assistance mentioned by the intermediary businesses could be divided into two categories: financial aid, and advising/training. It should be mentioned that these two categories are not mutually exclusive but instead overlap. An external institution that is mainly perceived as offering financial support can thus simultaneously provide advice.

The size and age of a business were important criteria influencing the intermediary businesses’ opportunities and willingness to collaborate with external institutions. In short, the bigger the intermediary business was (i.e. number of employees and annual turnover) the less it used external assistance. Furthermore, those businesses at an early stage of operation were more interested in external assistance than the older ones. In some cases the type of business seemed to influence the need to collaborate with external institutions.

External assistance was rarely used by the speciality wholesalers, financial aid in particular. The reason might be that the majority of speciality wholesalers were rather large and established businesses. Some of the businesses had, however, benefited from the training opportunities and legal consulting provided by a local entrepreneurial association. In general, the speciality wholesalers saw educational assistance as being good for their businesses, though limited time often hindered the effective utilisation of education and training. Furthermore, the majority of speciality wholesalers emphasised the activity of a business in finding a suitable form of external assistance.

Unlike the speciality wholesalers, external assistance was more common among the secondary processors. The majority had received financial support for their investments, mainly from the local Employment and Economic Development Centre. Some of the businesses had also benefited from the financial aid directed to exporting businesses. In general, financial aid was considered to be very important for the economic operation of the business. In addition to external financial aid, many secondary processors had also taken advantage of the educational assistance provided. The secondary processors thought that the information concerning external assistance as well as the actual amount of external assistance were both sufficient.

Concerning the marketing businesses different kinds of development projects were often mentioned as external assistance. The development projects were usually administrated by the business in question. In general, experiences from the business-run development projects were better than those from projects co-ordinated by another party. Training and education were also mentioned when external assistance was discussed. It should be mentioned, though, that some of the marketing businesses did not utilise the existing supply of education; on the contrary, they provided information for other businesses by giving lectures, etc.
The utilisation of external assistance was rather low among both the transport and warehousing businesses as well as the multiple wholesalers. The great majority of these businesses were truly large – annual turnover was huge and the number of employees was high. Thus it could be thought that these businesses were rather self-sufficient; they did not have an actual need for external assistance. Furthermore, not many institutions, especially public organisations, provide assistance to businesses operating on that scale. Where transportation and warehousing businesses and the multiple wholesalers were concerned, the issue was more one of co-operation rather than external assistance.

6.5 Intermediate chain members and rural development

The advantages and disadvantages of the location of a business were greatly related to whether the business was located in a city or in a rural area. As mentioned earlier, the majority of the interviews were conducted in the regional capitals of the study regions, i.e. Turku and Oulu. It should be noted that the population of both cities is rather high (approx. 174,000 and 123,000 inhabitants, respectively) when compared to Finnish cities in general. Furthermore, the cities are well located in so far as traffic connections are concerned. Thus it could be assumed that both provide rather good conditions for business.

Concerning businesses located in the cities, the great majority of interviewees considered the location of their business to be good. The large amount of potential customers and good traffic connections were regarded as the main advantages of their locations. It should be noted that the intermediary businesses and their suppliers were usually located in different areas. Put simply, the intermediary businesses were usually located in cities while their suppliers were more often located in rural areas. Sometimes the distance between an intermediary business and its supplier might be hundreds of kilometres. The long distances to raw material suppliers and the ensuing high transportation costs were considered to be the main disadvantages of an urban location. However long distances to raw material suppliers was considered to be the lesser of two evils, meaning that the interviewees thought it more important to be near customers than raw material suppliers.

When compared to urban location, the advantages and disadvantages of rural location were almost the opposite. The closeness of the raw material suppliers was regarded as the major advantage, while the often long distances to markets was the chief disadvantage. Furthermore, for some rural businesses, especially those located in the archipelago, the poorer traffic connections might be an inconvenience for business operation. A growing concern of the rural intermediary businesses might also be the decreasing number of educated, competent employees. It should be mentioned, though, that rural intermediary businesses thought that the location of their business was either good or tolerable.
Table 6.5  Strengths and weaknesses for location of intermediary business.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• good traffic connections, good road network</td>
<td>• far from raw materials</td>
</tr>
<tr>
<td>• large market area</td>
<td>• bad traffic connections</td>
</tr>
<tr>
<td>• near to customers</td>
<td>• lack of competent employees</td>
</tr>
<tr>
<td>• close to raw materials</td>
<td>• long distances</td>
</tr>
<tr>
<td>• close to harbour/airport</td>
<td></td>
</tr>
<tr>
<td>• agriculturally good production area</td>
<td></td>
</tr>
<tr>
<td>• local knowledge</td>
<td></td>
</tr>
<tr>
<td>• well-educated employees</td>
<td></td>
</tr>
</tbody>
</table>

The business group played only a small role where the advantages and disadvantages of the location were concerned. Typical of the transportation businesses was the strong emphasis on good traffic connections and nearness to a harbour and/or airport. Furthermore, the transport businesses were nearly all located in the regional capitals, near customers, but not precisely in the middle of the city. According to the interviewees, the best location for a transportation business is near a bypass road.

The marketing businesses were located in both rural and urban areas. For some it was important to operate near production. Rural location was related to the image of the business. The only concern for some of these businesses was whether there would remain enough competent employees in their areas. One of the marketing businesses was, however, located in the regional capital. This business, too, considered its location in the middle of its market area, as excellent.

Common to the secondary processors in the study was that they were all located in a city. In some cases, however, only the marketing unit of the business was in a city while the production unit was located in a rural area. The secondary processors reflected the advantages and disadvantages of the location mainly through the logistics. One of the secondary processors crystallised the optimal location as follows: “I have learnt this much, that I know that the best location for the business would be next to a truck terminal”. Especially when production premises were located in the archipelago the logistics system required careful planning. Despite the awkward traffic connections, these businesses were all in all rather pleased with their location. They valued the nearness of raw material suppliers. Some of the secondary processors, however, thought that the location of the business was not so important. Location was considered to be more important for businesses that have direct sales points. While supplying other businesses, there would anyway always be distribution costs.

All the speciality and multiple wholesalers were located in the cities, and all regarded the location of their businesses as optimal. For them it was important that they operate near their customers. Good traffic connections were also important to them.
According to the interviews, the contribution of the intermediary businesses to the local economy and community was diverse. The most common positive impacts mentioned by the interviewees were the direct and indirect employment effects generated by the businesses. Particularly in small rural municipalities, the employment effect of an intermediary business could be of inestimable value. As one of the secondary processors said: “We have an essential role in the area, we are the biggest private employer in this municipality. Every now and then we have employed even more than the municipality does. That certainly has an important meaning, both directly and indirectly”. Although the majority of the intermediary businesses were located in the big cities, their positive employment effects usually reached the rural areas around the cities, as not all the employees were living in the cities in question.

By direct employment effects the interviewees were usually referring to the employees working in the business and in other businesses that were more or less regularly used as subcontractors. It should also be noted that besides direct employment effects the majority of the intermediary businesses were responsible for extensive indirect employment effects as well. Other economic impacts, like the taxes the businesses pay, were also mentioned where the businesses’ contribution to the local area was concerned.

Many interviewees also saw their businesses as important developers of the food industry. For example, many of the transport businesses considered themselves the key link in developing new logistical solutions for food transportation. Likewise, the most important contribution of some marketing businesses was considered to be the new ways of doing business that they had introduced.

Furthermore, the interviewees saw the role of their businesses as complementing the supply of services in their areas. In some cases a certain intermediary business was the only business operating in the area and thus its operation was essential for the proper functioning of a certain branch. In others, there were many similar intermediary businesses operating in an area and the major contribution to that area emerged through the competition between them – it was considered to be the customers’ advantage to have a choice between different intermediary businesses and their products. Many of the businesses felt they had a certain special know-how, that brings added value to the business operation of their customers.

Intermediary businesses that operated from rural areas were regarded as having a strong positive impact on the maintenance of the areas’ vitality in general. The viability of the local economy can be advanced by giving a positive picture of entrepreneurship in rural areas. Furthermore, in remote rural areas it is often due to certain intermediary businesses that the availability of different services, for example transportation, remains good. Many of the intermediary businesses also believed that they had enhanced the image of their region. The name of the municipality in which a certain business is located may be recognised because of the business.
6.6 Summary of intermediate chain members review

Business characteristics
Altogether 41 intermediary businesses were interviewed in the Finnish study regions and in the Helsinki area, of which 15 were from Southwest Finland, 14 from Northern Ostrobotnia and 12 from the Helsinki area. The businesses selected for the study belonged to different supply chains that were already identified in the previous work package (WP4) or were selected for the interview because of their suitability for the study. The size of businesses varied considerably, ranging from only a few employees to nearly 6,000, and in consequence, the variation of annual turnovers of the surveyed businesses was also very wide.

Supply chain characteristics
There was great variety in the supply chain arrangements of the sampled businesses. In terms of upstream features most businesses emphasised the suppliers’ activity in starting a new business relationship. The general selection criteria for suppliers were most often the ability to meet delivery schedules, delivering correct quantities, high quality and reasonable prices. Most of the intermediaries preferred long-term and established supplier relationships. Written contracts with suppliers were fairly common.

The downstream supply chain of sampled businesses also contained great variety. Almost all the businesses had one main customer group, but usually they did not depend solely on this group. It is not commercially wise to have only one or two large customers because then the economic risks are too high. Typical of downstream business relations was that they were also long-lasting, because mutual trust was regarded to be an important element in a successful business relationship.

ICT for intermediaries
ICT use was common and at the medium or high level among the surveyed intermediary businesses. The adoption of certain forms of ICT was usually related to ease of business operations, time saving, or a more professional way of doing business. The reasons for adopting certain types of ICT were both internal and external. The surveyed businesses had invested in ICT because they had wanted or needed it themselves or were forced to invest in ICT by an external partner. The impact of ICT on supply chain access was seen as quite minimal in general. However, when dealing with multiple wholesalers, a high level of ICT use was seen as almost mandatory by other chain members. Most of the interviewed multiple wholesalers confirmed this view. The future role of ICT was rather obscure to most of the intermediaries. However, the great majority of interviewees were fairly convinced that requests for ICT use will be more and more frequent in the future, even as soon as in the next few years.
Institutions
The types of external assistance mentioned by the intermediary businesses were usually financial aid, advising and training. The size and age of a business were important criteria influencing the intermediary businesses’ opportunities and willingness to collaborate with external institutions. The bigger the intermediary was, the less it used external assistance. Businesses that were at the early stages of their operation were more interested in external assistance than older ones. In some cases the type of business also seemed to influence the need to co-operate with an external institution.

Rural development
The advantages and disadvantages of the location of a business were largely related to whether the business was located in an urban or rural area. When the business was located in a city, the great majority of the interviewees considered the location of their business to be good. The large number of potential customers and good traffic connections were regarded as the main advantages of an urban location, while the long distance to raw material suppliers was considered to be the main disadvantage. When compared to urban location, the advantages and disadvantages of a rural location were almost the opposite. The closeness of raw material suppliers was regarded as the major advantage, while the often long distances to markets was the most often mentioned disadvantage of a rural location. It should be mentioned, though, that the rural intermediary businesses thought the location of their business was either good or tolerable.

According to the interviews, the contribution of the intermediary businesses to the local economy and community was extensive. The most common positive impacts mentioned by the interviewees were the direct and indirect employment effects generated by their businesses. Many interviewees saw their businesses also as an important developers of the food industry. Transportation businesses considered themselves as important link in developing new logistical solutions for safe food transportation. Marketing businesses felt that they had introduced to the food sector many new ways of conducting business. Furthermore, the interviewees also saw the role of their businesses as augmenting the services of the area. Intermediary businesses that operated in rural areas saw themselves as having a great impact in maintaining the vitality of the areas.
7 The commercial customers’ perspective

This section of the report draws upon work package 6, the aim of which was to examine the food supply chain from the commercial customers’ perspective, with an emphasis on chain organisation and relationships, chain dynamics, consumer requirements and chain performance. The main objectives were as follows.

(i) To identify customers’ characteristics – their needs and practices – in supply chain organisation, management and development.

(ii) To assess supply chain performance from the customer’s perspective.

(iii) To assess the developing role of ICT specifically with SME food producers.

(iv) To assess commercial customers’ views on the activities of institutions that assist the accessibility, development and management of supply chains.

(v) To consider the implications of customers’ supply chain arrangements on rural development in the study regions.

7.1 Characteristics of commercial customers

The total number of commercial customer interviews was 63, of which 33 were conducted in Southwest Finland and 30 in Northern Ostrobothnia. A more detailed division of interviews into different groups according to commercial customer type is presented in Table 7.1.

<table>
<thead>
<tr>
<th></th>
<th>Southwest Finland</th>
<th>Northern Ostrobothnia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailers</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td>Caterers</td>
<td>3</td>
<td>1</td>
</tr>
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<td>ALL</td>
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The majority of interviews, 59, were conducted in retail stores, and in order to facilitate the analysis of retail sector data, a classification model was created. The stores were classified according to their size and autonomy. The size of a store was measured by turnover (< or ≥ than 5 million €), number of employees (< or ≥ than 25) and square metres of the store (< or ≥ than 1,000 m², see Päivittäistavarakauppa 2002). A store was classified as large if at least two of the requirements mentioned above were fulfilled. The concept of autonomy was more complicated. Autonomy illustrates the level of freedom that retail store owners/managers have in making strategic decisions concerning products.
In addition how and to what extent the owners/managers used their freedom was also estimated. Figure 7.1 presents the classification model and the number of retail stores belonging to each group, named simply A, B, C and D. The stores in group A are small and have limited possibilities of making decisions concerning product selection. The stores in group B are also small, but have more freedom in the product line selection process than the previous group. The stores in group C are large and have a low level of autonomy. In group D the retail stores are also large and can make product selection choices rather autonomously.

![Figure 7.1 The classification of retail stores surveyed.](image)

The age of the commercial customers ranged from 4 months to almost 90 years. The oldest business was established in 1916, and the mean age of the businesses was 23 years. Although the small retail shops (groups A and B) seemed to be the oldest businesses in the data, the age variation between the different groups was not significant. More important was the age variation inside a certain retailer group. In every group there were businesses with long historical backgrounds as well as those at the beginning of their lifespan. This age variation of businesses highlights the dynamic nature of the retail sector in Finland. According to the Finnish Food Marketing Association, the striving for effectiveness, migration from urban to rural areas, increasing product assortment and development of ICT have all driven the structural change in the Finnish retail sector. Between 1978 and 2001 the number of retail stores decreased from 9,398 to 3,555 (Päivittäistavarakauppa 2002).
The size of the commercial customers varied considerably between the different business categories. As mentioned above, groups A and B included rather small retail stores, measured by number of employees, annual turnover and selling area. The mean number of employees in groups A and B was 8 and 9, respectively, while the mean number of employees in the entire data was 26. It should be noted that the variation within a category was again considerable. The smallest retail stores in groups A and B employed two people, while in other businesses in the same categories the number of employees was ten times that. Usually businesses with only two employees were owned and managed by a couple.

The mean annual turnover for the entire data was 8.6 million euros. In groups A and B, the mean annual turnover was less, at 2.5 million euros and 3.6 million euros, respectively, while in groups C and D the mean annual turnover was higher, at 9.2 million euros and 16 million euros, respectively. Again, the variation inside a group was noteworthy. The variation of annual turnover was great, especially in the group D – from 6 million to 50 million euros.

The majority of the interviewees, 66%, were males, while female interviewees comprised 32%. In one case, a couple was interviewed. Among businesses run by an entrepreneur, the large retail stores were often owned by a male entrepreneur, while the smaller businesses were mainly owned by a female entrepreneur or married couple. For example, in group D only one female entrepreneur was interviewed. Among the salaried storekeepers/managers the distribution of men and women was more even. Although male storekeepers/managers were more common in large retail stores, there were female managers in every retail store group studied.

In addition to the retailers described above, four caterers were also interviewed. Two of these represented the hotel and restaurant branch and two others public organisations. All interviewees operating in the catering sector were salaried female managers.

### 7.2 Supply chain characteristics

The importance of different types of supplier groups to the commercial customers was fairly even in all the respondent groups. For the retail sector the most important suppliers were their own wholesalers, i.e. their parent company. Multiple wholesalers supply the retail stores in their own chains. In some cases wholesalers deliver almost all of the products sold in a certain store, but there are huge differences between different chains. Large nationwide food processors (e.g. in the milk and meat sectors) also deliver products directly to retail stores and were seen by the retailers as fairly important business partners. The number of SME suppliers was relatively low in most stores, but even then the importance of SMEs was not regarded as insignificant. However, many retailers emphasised that the importance of SME suppliers was not primarily economic, but more related to image.
The most important suppliers for the interviewed caterers were wholesalers specialised in supplying the food service sector. There are few large actors in the field, and therefore the SME processors could have opportunities to operate competitively in the food service sector, especially with differentiated or further processed products.

The interviewees were asked what local or regional products they usually buy. The most common product group that included at least some local products was berries and vegetables. Tomatoes, cucumber and potatoes were most commonly sourced by the respondents either locally or regionally. Many interviewees indicated that these are the very products that consumers usually prefer to buy locally and are even prepared to pay extra for. Some interviewees said that the price of locally produced tomatoes can be many times higher than imported tomatoes and still they sell. Bread was another product group in which locally or regionally produced goods were common. The market share of the two biggest bakeries in Finland is around 70% (http://www.finfood.fi/uutiset). Therefore some retailers commented that they would not actually need to take bread from suppliers other than the two largest, because their product ranges were so wide. However, consumers want local bakeries, because of local specialities and the desire for change. In other product groups the proportion of local or regional products was significantly lower in general.

The interviewees had various reasons as to why they purchased food products from local and regional businesses. The small retailers in groups A and B said that customers were pleased to notice that there were local or regional products in the store. The local products were usually perceived to be fresher and of higher quality compared to products produced in other areas and supplied through wholesalers. Some retailers also valued the support of local entrepreneurs to maintaining the vitality of the area.

The supplier selection process among the retailers in groups A, B, C and D did not vary that much, whereas between the interviewed retailers and caterers the selection processes were relatively different. Almost all the retailers stated that it was usually the suppliers who took the first step in starting a business relationship. Few of the interviewed retailers had been active in finding new suppliers. The reasons for not seeking new suppliers were, among other things, a lack of time and limited autonomy concerning product decisions. If a retailer was searching for a new product, the impulse had normally come from the clientele: consumers had asked for a certain kind of product or a specific product by a certain producer.

Nowadays food SMEs do not often contact retailers. According to interviewed retailers the major reasons for this were the image of the chained retail trade in Finland (perceived as an entry barrier by small producers) and the lack of marketing know-how on the part of SME owners and managers. All respondents shared the view that the number of contacts from SMEs per year had decreased considerably during the past ten years. However, some retailers in group D claimed that they were contacted almost once a week by a small processor. They thought that if a retail store traditionally had many SME suppliers, the other small processors would also be encouraged to try to get their products into the selection.
In the case of the caterers there was a clear difference between the private and public sectors. In the private food service sector the supplier relationships were born much the same way as in the retail sector, meaning that the potential suppliers first contacted the buyer, and if the product suited the buyer’s needs it could be included in the selection. But in the public sector the practise was more bureaucratic, because all the acquisitions have to be raced. The food service sector was similar to the retail sector: the number of SME suppliers had decreased during the past ten years due to increased centralised buying. The public sector caterers recommended that small processors could be part of public sector centralised purchasing through wholesalers. Then the logistical issues, for example, would not be a problem.

The interviewees were also asked about criteria and requirements for their suppliers and especially local or regional SME suppliers. The most commonly mentioned selection criteria were 1) the ability to meet delivery schedules, 2) high quality, 3) reasonable prices, and 4) consumer-oriented product development.

All interviewed commercial customers emphasised the importance of long-term and established suppliers relationships. They said that they preferred to use the same suppliers year after year because together they had created a certain way of doing business and it was therefore fairly easy to understand each other. Mutual trust is extremely significant in a profitable business relationship, and conflict situations happen very rarely in established supplier relationships. A common view among the retailers was that they did not want to do spot trade with suppliers and would rather create long-term relations and tend to already existing supplier relations, because it took too much time and energy to search for new, reliable suppliers. The caterers that represented the public sector in this study indicated that they also appreciated and valued long-term relations but due to their accountability to all citizens, they had to race the potential suppliers every one or two years.

Most of the commercial customers used verbal contracts with their suppliers and especially with SME suppliers. Among the retailers in groups A and B it was more or less the exception if a retail store had a written contract with a supplier. For example, a retailer from group B said that all its contracts were verbal except one, which was made because of EU legislation (the supplier was growing vegetables under contract in order to receive EU aids). In larger retail stores, in groups C and D, written contracts were more frequent than in smaller stores. Several retailers in group D stated that their parent company requires them to use written contracts with suppliers and that it was the prevailing practise for them. Among the private sector caterers the use of written and verbal contracts varied. The tendency seemed to be towards verbal contracts. Meanwhile the caterers in the public sector used written contracts only.

Communication between suppliers and commercial customers was largely limited to day-to-day affairs, for example discussions concerning product prices and order quantities. Usually the telephone, fax or e-mail were used to keep contact with SME suppliers, but
mobile phone text messages had also been adopted for business use. However, the retail store owners and managers were sure that personal contacts were highly appreciated by the SME suppliers, because they wanted to deliver the goods directly to the store by themselves. One interviewee said that personal contacts with retail stores is a strength for an SME. Through personal contacts consumer feedback is given to the suppliers and thus the link to the end-users can be maintained without the processor’s own direct sales. One interviewee commented that it was not always easy to give negative consumer feedback to SME suppliers because many of them operated rather unprofessionally and they did not know how to take care of reclamations. Negative feedback therefore often results in a dispute between retailer and supplier.

Very few of the interviewed commercial customers indicated that they had made a practise of analysing the future prospects together with their SME suppliers. The respondents gave, among other things, lack of time and the nature of the relationships (regular buyer-seller) as reasons for not doing business planning with their small local suppliers. Long-term planning together with suppliers was mainly practised among the large retailers (especially in group D) and the caterers. One retailer from group D said that it was equally important to do long-term planning with both large national suppliers and small local suppliers and therefore the same kind of discussions were had with all suppliers. A caterer from the public sector said that the company had meetings with its suppliers two to four times a year, in which the previous months were analysed and progress for the following months was estimated.

The respondents were also asked about the meaning of local foods in general. According to many retailers the concept ‘local food’ was unclear to many consumers, and the same is evident in various studies (see e.g. Tapionlinna 2000). Surprisingly, in the present study the retailers in group A had the most positive opinions of local foods and some of them believed that local foods could serve as a competitive advantage for their business, especially in the future. However, this was not a common view throughout the group. Yet in the same group there were also storekeepers who said that local foods did not mean anything in their region because the proportion of price-sensitive consumers was seen to be considerably high. One interviewee from group A stated that the arrival of Lidl and its fast and relatively successful penetration of Finnish food markets clearly indicated what Finnish consumers really think. It was admitted by many interviewees, though, that the image of locality is often important to an individual store. During the summer holiday season the importance of locality may even be emphasised in many cases. People having a summer cottage in any particular region are usually keen on buying local or regional products.

In groups A and B, the majority of the customers were local consumers. The exceptions were those businesses providing both groceries and other products, like dishes and clothes. In many cases the selection of other products was rather small, but it still tempted some more distant customers, especially if the retail store and its customers were located
in a rural area. Furthermore, the geographical spread of clientele seemed to be wider if a business was located near busy bypass roads or if it was favoured by commuters. It is noteworthy that the small retail stores (i.e. groups A and B) did not have many food service sector customers. In some cases the lack of these customers was due to the policy of the business. For example, some times the retailers did not have an invoicing system in place and this was seen to decrease the number of such customers. Furthermore, in some cases the lack of food service sector customers was due to a strategic decision. Serving food service sector customers usually also meant extra work for a retail store.

As for large retail stores, the number of food service sector customers was again small. The reasons for not having many food service sector customers were often related to the business policy of the wholesalers: it was often more economical, especially for large food service sector customers, to buy from wholesale businesses rather than large retail stores. And when it comes to small food service sector customers, the large retail stores were not always interested in doing business with them. This was because the large retail stores seldom had services for collecting and delivering the shopping, which was often required by small food service sector customers. It should be mentioned that although the number of food service sector customers was small among the large retail stores, they were not totally absent and their economic significance should not be underestimated.

It should be noted, however, that the majority of the retail stores in these four groups did not want to devote their businesses to any particular customer segment. Their objective was to serve all types of customer groups in the best possibly way. In many cases the market area of a business was very small (when measured by the number of potential consumers) and thus specialisation in some customer segment would not be economically feasible.

The geographic structure of the clientele in publicly owned catering businesses was clear: the customers were all located inside the municipality or town in question. The publicly owned caterers mainly supplied school kitchens operating in the area. Where the restaurants were concerned the geographic distribution of customers was wider. The majority of the customers were, however, local and regional consumers but, especially in summertime, the market area comprised the whole of Finland. Foreign customers were also common in both studied restaurants, in particularly because these were connected to popular hotels.

The great majority of the retailers studied in this research relied on loyalty cards for strengthening customer relationships. The basic idea behind the introduction of loyalty cards is that a firm’s performance in terms of revenue and profit is related more to the loyalty of existing customers than to the mere number of customers (Mauri 2003). The three biggest (measured by market share) retail chains in Finland – K-group, S-group and Tradeka – all have a loyalty programme for their customers. Among the other chains, Stockmann and Spar Finland also have loyalty cards in use. In case of Spar Finland, use of the card is optional for a retail store, meaning that an entrepreneur can decide whether
or not to introduce the card to customers. Only two smaller retail chains (neither operating nationally) did not have a customer loyalty programme in use.

In many cases, though, the loyalty cards were seen as a rather mechanistic way to strengthen customer loyalty. The majority of the interviewed retailers and caterers thought that the recipe for strong customer relations was rather simple – to listen, and then serve the customer in the best possible manner. Everyday personal contacts and face-to-face communication with customers are of particular importance to the customer relations of retailers and caterers. Thus communication with the customers was often very unofficial in nature. The objective of the majority of the commercial customers was, however, that the communication would be proactive rather than reactive; that is, by chatting with customers and listening what they say, they aimed to anticipate the customers’ needs and wishes.

Competition between retail stores is very strong. Continuing concentration as well as the diminishing number of stores are manifestations of this. For many retail stores the competition means operating under the strict instructions of multiple wholesalers in order to obtain the most effective economic results. The competition is especially hard for the independent retailers. Operating independently primarily often means more expensive purchase prices for a retailer when compared to those businesses operating within a chain. The number of independent retailers in Finland has been decreasing for a long time – in this study, only one retailer out of 59 was an independent entrepreneur.

### 7.3 ICT in commercial customer businesses

The level of ICT adopted by the interviewed commercial customers was relatively high. Almost all interviewed businesses used high-level ICT (e.g. intranet and EDI) on a daily basis. It is worth mentioning that the use of low-level ICT (e.g. telephone and fax) was said to be decreasing all the time. Compared to the SUPPLIERS producer survey and intermediary survey, use of high-level ICT among the commercial customers was much greater than among the small food processors or intermediaries, on average. It must be mentioned, however, that the multiple wholesalers (a group among the intermediaries) used highly sophisticated ICT. It is noteworthy that among the commercial customers even the smallest businesses had adopted high-level ICT. There were no significant differences in ICT usage between small and large commercial customers.

In most of the cases, where retailers were concerned, the reason for adopting certain ICT applications and devices was due to an ‘external’ actor, i.e. the parent company. Internal reasons (such as the personal desire of an entrepreneur or manager) for adoption of ICT were not mentioned at all in this study. There were no negative opinions expressed towards the development of ICT, even though some respondents said that their ability to use new ICT devices was poor. The continuous development of ICT was seen to require investments in the training of personnel.
Most of the interviewed commercial customers stated that no specific investments in ICT were planned for the near future. However, it was also felt that the development of ICT continues all the time, and there would surely be some investment when the time is right. A few interviewees said that their retail chain will adopt a new cash system in which an automatic order is attached. When the system notices that a predetermined minimum level of a certain product is reached, the system sends an automatic order to the wholesaler. This kind of procedure was regarded to be suitable for preserved foods, flour and juices, among other products. A few respondents said that they had just made heavy investments and were still learning to use their new devices and applications. It was said that in the case of a new ICT tool it takes time before the tool actually improves the efficiency of personnel.

The surveyed commercial customers did not require their SME suppliers to use EDI, for example. However, some respondents said that non-adoption of EDI could become an entry barrier for an SME after a while, because electronic orders were believed to also extend to SMEs. It must be mentioned, though, that some interviewees thought that telephone or fax orders from SMEs to large businesses would continue alongside electronic orders. These were mainly small retailers who believed they would stay with telephone ordering. In summary, the use of high-level ICT was not expected or required from SMEs, but it was usually inquired about or suggested at the beginning of a new business relationship, and when used, the commercial customers were pleased. However, telephone orders were not necessarily seen as burdensome: when almost everything is done electronically or even automatically, personal contact with a supplier every now and then was actually welcomed.

Almost all of the interviewed commercial customers thought that their ICT use would change and increase in the future, even though the level of adoption of different ICT devices was relatively high already. A great majority of interviewees were confident that requests for ICT use would be stronger in the future, even in the next few years. This kind of development places high demands on the capabilities of personnel, and therefore the significance of continuous learning was emphasised. Many interviewees considered that the development of ICT systems would never end, and that current devices and programmes would soon be ‘ancient history’.

### 7.4 Commercial customers and institutions

The fact that almost all the interviewed commercial customers were part of a certain chain of businesses naturally had an effect on the amount of external assistance used. That is to say, the multiple wholesalers, for example, usually offered all the assistance, education and economic aid needed to run a retail store. Thus the majority of the retailers had no time or need for any additional external assistance. Furthermore, the majority of the interviewed retailers had a long working history in retailing, and therefore often preferred to rely on
their own experience rather than advice from experts. According to some interviewees, retailing cannot be learnt any other way than actually doing business.

Although the attitudes towards external assistance were generally good, especially when provided by a multiple wholesaler, there were also some retailers who thought that entrepreneurs should always managed on their own; that is to say, according to them external assistance, especially financial aid, did not belong to a free market economy.

### 7.5 Commercial customers and rural development

Whether the location of a retail store was considered to be favourable or not depended on several demographic and infrastructural factors. Since the majority of the retail stores in this study operated rather locally – their market area was often only comprised of their municipality (the large hypermarkets being an exception) – the number of inhabitants living in a municipality surely influenced whether or not the retailer was pleased with the location of his/her store. But more than the number of present inhabitants, migration was considered to be essential when the advantages and disadvantages of a location were discussed. The migration flow in Finland is mainly from north to south and from rural areas to cities, and as young people are often more willing to move than the elderly, the population in sparsely populated rural areas is not only decreasing but also ageing (see e.g. The Helsinki Research Institute for Business Administration 1994). Furthermore, in many rural municipalities outshopping is also a great problem (see e.g. Marjanen 2000). Thus for some retail stores in remote rural areas the location was a source of significant troubles. It should be mentioned, though, that a peripheral location can also protect a retailer (see e.g. Home 1999). In remote rural areas, the competition in the grocery sector was rather insignificant. In some cases there were no other grocery stores in the municipality and the long distances prevented outshopping to some extent.

The accessibility of a store also played an important role where the advantages and disadvantages of location were concerned. Good traffic connections, both for suppliers and customers, as well as functional property (central location, large parking area) were some of the elements mentioned in connection with accessibility. The possibility of expanding the store was also considered to be important. Furthermore, long business traditions in a certain municipality or town were thought to be an advantage related to location. Some of the interviewed retail stores had been operating in the same area for several decades. A long history and well-known way of doing business were thought to increase customer loyalty.

When the commercial customers were asked to identify the impact their businesses had on their environment, the answers were somewhat alike. First, the employment effect was considered to be important. Even though the number of employees in some small retail stores was not high, employing even one person was seen as a positive thing. Second, the
majority of the commercial customers thought that their businesses were an important part of the supply of services in the area. Especially in rural villages, the importance of retail store can thus be crucial. For many people, in particular the elderly, a retail store is not just a place for shopping, it is also where one can meet other people. Furthermore, a retail store is considered to be important for the positive image of a rural village – it is regarded as evidence of a living place.

Some commercial customers also thought that their positive influence on the local economy was related to their willingness to purchase local food products for their assortment, thereby supporting small local food businesses and at the same time promoting the economic development of the area. Although for some retailers the reasons for supporting local food businesses were rather noble, most did it because it was the economically reasonable thing to do. Furthermore, the local food entrepreneurs were often both the suppliers and customers of a retail store. Thus an active business relation was often very beneficial for both parties.

7.6 Summary of commercial customer review

Business characteristics
Altogether 63 commercial customers were interviewed in the Finnish study regions, of which 33 were from Southwest Finland and 30 from Northern Ostrobothnia. The businesses selected for the study belonged to different supply chains that were already identified in the previous supply chain stages, or were selected for interview because of their suitability for the study. A majority of the interviewed businesses, 59, were retail stores. The remaining 4 interviews were conducted in catering businesses, both public and private. The size of the interviewed businesses, in terms of number of employees, varied from 2 to 150, and as a consequence there was great variation in the annual turnover of the businesses.

Supply chain characteristics
There was less variation in the supply chain arrangements of the sampled commercial customers when considered at a general level. This was probably due to the chained nature of the commercial customers. In terms of upstream features most of the interviewees emphasised the suppliers’ activity in starting a new business relationship. The commercial customers mainly used large suppliers, but thought that the importance of SMEs was unarguable. The most often-mentioned selection criteria for SME suppliers included the ability to meet delivery schedules, high quality, reasonable prices and consumer-oriented business strategy. Most of the commercial customers preferred long-term, established supplier relationships to spot trade, because searching for potential new suppliers was seen to tie up too many human resources. However, written contracts with input suppliers were comparatively rare, especially where small commercial customers were concerned.
The downstream supply chain of the sampled businesses was comprised mostly of local consumers. Among the interviewed retailers a small number of food service sector customers were also identified. Common to all the retail stores was a lack of segmentation. However, the size of the retail store had some effects on the clientele. The geographical spread of the customers, for example, was wider when the store was larger. The customers of the catering businesses were usually rather local; in the private sector they were local consumers, and in the public sector local institutional kitchens and their customers. The important role of loyalty programmes among the retailers was also apparent in this study. The retailers thought that the loyalty cards strengthened customer relations. A common feature of the majority of the interviewees was that they appreciated the feedback from their customers and also hoped that giving feedback would become more general.

Most of the commercial customers interviewed in the study operated in close collaboration with a multiple wholesaler. The concentration of the retail sector and the powerful role of multiple wholesalers was, generally speaking, not criticised by the interviewees. Operating as part of a larger chain was considered to be the most reasonable way of doing business, especially among the retailers. The retailers expected the multiple wholesalers to take care of purchasing and marketing – the important strategic decisions concerning the business were thus left to the multiple wholesalers. However, there were similar opinions concerning the essential and inevitable role of multiple wholesalers: some of the interviewees thought that these opinions should be better taken into consideration when major strategic business decisions concerning their own operations are made.

**ICT**

The majority of the commercial customers were confident that requests for ICT use would be stronger in the future, even in the next few years. The use of ICT was on a high level, meaning that the commercial customers used intranet and EDI, for example, on a daily basis. It is worth mentioning that usage of basic communication devices such as telephone and fax had decreased considerably during the past ten years. In most cases the main reason for adopting certain ICT applications or devices stemmed from an external actor, i.e. the parent company of the respondent. Even though the ICT demands usually came from top-down, there were no negative opinions expressed towards further ICT implementation. Despite the high level of ICT used in commercial customer businesses, they did not require their SME suppliers to use highly sophisticated ICT. However, it was estimated that after a few years the demands on all the suppliers, including SMEs, may tighten.

**Rural development**

The interviewed commercial customers were rather pleased with the location of their businesses. Migration and outshopping were seen as major disadvantages of a rural location, whereas for commercial customers situated in large growth centres the high number of competitors was considered to be a factor hindering their successful business performance. The advantages of a location were related, in the case of both the rural
and urban businesses surveyed, to large enough market area, central location and good traffic connections.

The impact the commercial customers had on their environment and local economy were related to employment effects and other economic influences. The majority of the commercial customers thought that their businesses were an important part of the supply of services in their own areas. Especially in rural villages a single commercial customer can be crucial as a service provider. Some commercial customers also thought that their positive influence on the local economy was related to their willingness to provide local food products as part of their product assortment. They were thus supporting local food businesses while at the same time promoting economic development in the area. The vitality of the area was maintained.
8 The role of institutions in the food supply chain

This section of the report draws upon the institutional objective, the aim of which was to assess the roles, strategies, measures and structures of national, regional, and local institutions in assisting food product SMEs and supply chain management and development in LRRs. The specific objectives were as follows.

i) To identify and classify the relevant national, regional and local institutions.

ii) To specify institutions’ roles and functions with particular reference to how they are positioned with respect to supply/distribution chain integration leading to improved market access and competitiveness.

iii) To describe and evaluate the strategies and measures undertaken to fulfil these roles and functions.

iv) To assess the contribution that supply chains make to the region – the ‘ring-fencing’ of value-added from the supply chain to the LRR – from a rural development perspective.

8.1 The institutions involved with SME supply chains – roles and functions

A total of 27 institutional representatives were interviewed in Finland for the SUPPLIERS study. The interviews were carried out both in the Finnish study regions (Southwest Finland and Northern Ostrobothnia, see Figures 1.1, 1.2 and 1.3) and outside the study regions. Table 8.1 presents the main characteristics of the sampled institutions by area. However, obtaining information for annual budgets of the interviewed institutions or organisations proved difficult; some respondents were either unable or unwilling to provide such data. Their inability to give figures was mainly due general ignorance of the matter or difficulty in separating their department’s share from the total.

Table 8.1 Characteristics of sampled institutions (by area)6.

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</table>

6 Information not available in all cases.
The distribution of interviews between different study regions was relatively equal: 8 interviews were carried out in Southwest Finland, 10 in Northern Ostrobothnia and 9 outside SUPPLIERS study regions. There were huge variations among the sample when number of employees was considered. The smallest organisations or institutions of the sample employed only one person while the largest employed several hundred people. The biggest organisations or institutions usually operated at the national level and were located outside the SUPPLIERS study regions, usually in the Helsinki area.

Table 8.2 presents the main characteristics of the sampled institutions by type, meaning whether the organisations or institutions were by nature public (e.g. regional councils), private (e.g. lobbying organisations of various branches of the food industry) or public-private partnerships (e.g. LEADER+ groups or other organisations in which part of the funding comes from public sources).

Table 8.2 Characteristics of sampled institutions (by type).

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of institutions</th>
<th>Mean number of employees</th>
<th>Employee range</th>
<th>Mean year established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>14</td>
<td>29</td>
<td>6 – 124</td>
<td>1995</td>
</tr>
<tr>
<td>Private</td>
<td>6</td>
<td>10</td>
<td>2 – 26</td>
<td>1962</td>
</tr>
<tr>
<td>Public-private partnership</td>
<td>7</td>
<td>65</td>
<td>1 – 380</td>
<td>1959</td>
</tr>
<tr>
<td>ALL</td>
<td>27</td>
<td>35</td>
<td>1 – 380</td>
<td>1976</td>
</tr>
</tbody>
</table>

In short, the main functions of the institutions interviewed for the SUPPLIERS study were the following:

1) offering marketing support and advice,
2) promoting domestic food production,
3) financing,
4) regulating products and businesses,
5) encouraging business expansion, and
6) lobbying.

It must also be noted that the institutions’ measures were mostly aimed at the base of the supply chain rather than the chain as a whole. Many interviewees stated that direct interaction with, for example, the intermediaries of the food chain had not been seen as an element of their remit. However, they were positive that they at least indirectly effected the operation of supply chains in a broader context.
8.2 Institutional strategies and measures for SME and supply chain network support

The main institutions at the national level in Finland are Ruoka-Suomi (‘Food Finland’ unofficial translation) and the Centre of Expertise Programme for Food Development (ELO Finnish abbreviation). The following two paragraphs present these network-based organisations in more detail.

The Ruoka-Suomi group operates under the Ministry of Agriculture and Forestry. Its main objectives are

1) to enhance rural small and medium-sized food entrepreneurship by creating networks among actors such as project leaders and development bodies which provide advisory and training services,

2) to reinforce the know-how of different actors,

3) to activate entrepreneurship, and

4) to teach entrepreneurship when of a business begins.

Altogether more than 25 people from all over the country are involved in the work of Ruoka-Suomi. Communicating the latest developments in the field of small-scale food processing is one of the main functions of the group. Its most important tool for the dissemination of information is a magazine published four times a year. The Ruoka-Suomi group also takes part in the preparation and implementation of regional food sector strategies and programmes. (http://www.tkk.utu.fi/ruokasuomi/).

The Centre of Expertise Programme for Food Development is administered by the Ministry of the Interior and seeks to improve the competitiveness of food production in Finland for the period 1999–2005. Its main target group comprises established and emerging small and medium-sized domestic food enterprises. The Centre also endeavours to involve businesses which have not previously been accustomed to using research and development services. The aim of the expertise programme is more efficient and diversified exploitation of existing domestic resources, multifunctional food processing and the development of food supply chains. The ELO operates as a network throughout Finland and aims to bring together businesses, research, development and training. Its various activities are implemented through regional ELOs which are further divided to specific targeted projects. (http://www.oske.net/osamiskeskuksen/elintarvikeala/; Ihmisten maaseutu – Tahdon maaseutupolitiikka 2000; Volk 1999; Uusitalo 1998.)
8.3 The institutions’ view on ICT in food SMEs

According to the interviews carried out among the institutions, ICT does, or at least should, have a very significant role in food SMEs. ICT was seen as improving internal business efficiency, enhancing competitiveness and helping to create and, most of all, maintain close business relationships with other chain members or business partners. Two-thirds of the interviewees considered ICT as either vital or important for small businesses. Only 15% of the interviewees thought that ICT was not that important for food SMEs and for their business performance and supply chain access. They thought it could be fairly useful in daily operation, however. Almost a fifth of the respondents did not have an answer to the question. Several interviewees emphasised that the importance of ICT to a business was highly dependent on the business’s marketing channel: if the business used direct sales (traditional, not e-commerce) to consumers as a primary channel, the importance of ICT in business operations would actually be fairly low. Still, the significance of ICT had almost without exception positive implications for the rationalisation of work in SMEs.

Although the importance of ICT was clearly acknowledged by the respondents of the institutional survey, the level of know-how concerning ICT in Finnish food SMEs was regarded as either extremely low or, at best, passable. Many interviewees indicated that almost all businesses had acquired e-mail during the last five years. However, there were many businesses in which nobody actually used e-mail due to lack of training, for instance. Homepages have been made by various food businesses, but the problem with these was a lack of maintenance. In most enterprises there was no adequate know-how for to updating pages.

The significance of ICT was seen as high in many respects by the interviewees in the institutional survey. They wanted to emphasise that this importance does not depend on the size of a business but on the marketing channel the business uses. Society expects everybody to use e-mail, for example, and in many cases it is nowadays almost impossible to operate without at least basic ICT. Some interviewees went so far as to claim that business success would be impossible without the adoption of ICT, especially in the future, and therefore it should be the focus of development in all businesses. One interviewee suggested that e-commerce could be a sensible way for an SME to begin exporting, because capital investments outside Finland would be minimal. Also in hygiene and quality control the significance of ICT was highly emphasised.

According to the respondents the principal barriers to ICT adoption in food SMEs were, among other things, the low level of know-how concerning ICT, a shortage of human resources and programs not being developed for the SMEs’ purposes. As food processing is a fairly traditional industry and most entrepreneurs are relatively old, many have not learnt to use computers or other ICT devices at school and may be even afraid of using the technology. A major factor that was said to hinder ICT adoption in food SMEs was that SME entrepreneurs are usually interested in production only, and not any other
operations. Some interviewees indicated that nowadays the non-adoption of ICT cannot be based on financial issues because there are various forms of financing available to SMEs who want to invest in ICT. However, many interviewees believed that shortages of funds created a barrier to the adoption of ICT.

The forms of assistance provided for food SMEs by the institutions in the field of ICT were fairly limited or even non-existing. Even though all the interviewees regarded ICT to be very significant and that its importance would increase still, the means of supporting their ICT development were not in accordance with the identified needs. If assistance was provided, it was usually a short-term course concerning use of e-mail, web or basic office programmes, for example. Some institutions and organisations had provided training in ICT issues for people doing development work among the SMEs. Few institutions were staffed with people able to help SMEs with problems concerning ICT. The problem is, according to the interviewees, that many entrepreneurs are not aware of the possibilities they have of getting external help, for example in ICT. Only one of the interviewed institutions provided businesses with a more sophisticated type of ICT training: consultation for electronic commerce. Finally, it must be remembered that it is the attitudes of entrepreneurs that is decisive in the end.

8.4 Institutions, food SMEs and rural development

Many interviewed institutions in the Finnish study regions had direct linkages with rural development programmes and objectives. They were involved either in the distribution of money or in the implementation of projects financed from various programmes. The institutions usually aimed to promote rural areas and means of livelihood in the countryside. However, there were many institutions and organisations in which rural development was not the main focus. In the national institutions especially, the rural development was not the main objective, but in almost all cases rural development issues were in the background. The interviewees emphasised that rural development efforts do not usually create instant results, but rather it is a long process.

The Regional Rural Development Programme (ALMA in Finnish) covers areas that are excluded from the Objective 1 Programme. It is based on Council Regulation (EC) No. 1257/1999 dealing with support for rural development from the European Agricultural Guidance and Guarantee Fund. ALMA funding aims to develop and diversify entrepreneurial activities by improving competitiveness, skills and co-operation in the existing enterprises as well as by creating opportunities for new entrepreneurial activity, for example by increasing the interaction between urban and rural areas. Food processing is one of the focal areas of the programme. (Regional Rural Development Programme for Areas outside Objective 1 for 2000–2006, 2002). Some of the interviewed institutions were involved in the distribution and control of funding, whereas others had applied for funding to carry out development projects.
Food SMEs and food supply chains in rural areas, and their role in rural development, were seen as extremely significant by the respondents. The institutional interviewees believed that different kinds of supply chains benefit rural areas in different ways, which brings diversification to the countryside. The institutions surveyed in this study identified many economic, social and environmental benefits that the food chains had brought to rural development. For example, the creation of jobs and healthier food from local areas were perceived as positive benefits of local food chains.

According to some interviewees, the relevance of small-scale food processing as a means of livelihood in rural areas had clearly increased during the past ten years. One interviewee stated that this development was mainly due to the national rural policy programme. The programme has promoted, highlighted, and enhanced the image of rural food businesses.

8.5 Summary of institutions

Institutions surveyed
Altogether 27 representatives of institutions or organisations were interviewed for the SUPPLIERS study in Finland. The interviews were conducted both in the Finnish study regions and outside the regions. The final number of interviews per area was eight (8) in Southwest Finland, ten (10) in Northern Ostrobothnia and nine (9) outside the study regions. The interviews conducted outside the study regions were usually in the greater Helsinki area. Most of the interviewed organisations, namely fifteen (15), operated at the regional level, ten (10) at the national level and only two (2) at the local level. Most of the interviewees (14) were public sector representatives and the rest were almost equally divided between private and public-private partnership organisations (the former 6, the latter 7).

Institutional support for food SMEs and supply chains
In short, the main functions of the institutions interviewed for the SUPPLIERS study were the following: 1) offering marketing support and advice, 2) promoting domestic food production, 3) financing, 4) regulating products and businesses, 5) encouraging business expansion, and 6) lobbying. It must also be noted that the interviewed institutions’ measures were mostly aimed at the base of the supply chain rather than the chain as a whole. Many interviewees stated that direct interaction with the intermediaries of the food chain, for example, has not been seen as an element of their remit. However, they were certain that they at least indirectly effected the operation of supply chains in a broader context.

The current and forthcoming challenges that SMEs and food chains are facing in Finland include the power of chained and centralised wholesale and retail sectors, the lack of horizontal and vertical co-operation among different chain members, the increasing
usage of ICT and its requirements and the lack of consumer-orientation in many stages of the food supply chain.

**ICT**

All the interviewees emphasised the importance of ICT in all business operations. According to the interviews carried out among the institutions, ICT does, or at least should have, a very significant role in food SMEs. ICT use was seen as improving internal business efficiency, enhancing competitiveness and helping to create and, most of all, maintain close business relationships with other chain members or business partners. Several interviewees emphasised that the importance of ICT to any particular business was highly dependent on the channel the business uses: if the business uses direct sales to consumers as a primary channel, the importance of ICT in business operations would actually be fairly low. However, ICT’s significance had, almost without exception, positive implications for the rationalisation of work in SMEs.

The interviewees regarded it as rather difficult to estimate the importance of ICT to the supply chains as a whole. This was probably due to the nature of the organisations and institutions selected for the study; most of the organisations dealt with only one or a few nodes of the food supply chain, not with the whole chain. Almost all of the interviewed institutional respondents thought that ICT usage would change and increase in the future, even though the level of adoption of different ICT devices varied in different sized businesses and product sectors. A great majority of interviewees were confident that requests for ICT use would be more and more demanding in the future. This kind of development places high demands on the capabilities of the personnel, and therefore the significance of continuous learning was emphasised.

**Rural development**

According to the interviews, the relevance of small-scale food processing as a means of livelihood in rural areas had clearly increased during the past ten years. This development was mainly due to the national rural policy programme. The programme has promoted and highlighted rural food businesses and has also enhanced their image. Another important issue driving rural food businesses has been the awakening of consumer interest in food products that are not ‘industrially’ produced. The growing interest in local foods is a clear sign of this tendency.

Due in part to scarce human and capital resources in food SMEs, the enhancement of business networks was regarded positively among the institutional interviewees of the SUPPLIERS research. Business networks were not goal per se, but there must be a common target as to why certain businesses have created a network. The enhancement of co-operation among businesses was said to be the focus of many interviewed institutions and organisations. It was said that networking may require quite dramatic changes in the attitudes and customs of various businesses because most were only used to operating by themselves. Therefore networks were not born or built quickly. A strategic starting point
for a network was the social contact between entrepreneurs, because in order to actually co-operate, people must know each other very well.

Many interviewees in the institutional survey said that co-operation and networking among food SMEs had not proceeded as well as one would have expected from the efforts that various actors have made. However, many of the respondents stated that it was not, or should we say it could not be, a question of finding suitable partners. The total number of food SMEs in Finland is quite high and therefore one could assume that suitable business partners could be sieved out from the mass.

Business networks were believed to have important implications for food SMEs, food supply chains and the rural economy in the broader context. If business networks are born, it usually means diversification of business activities in rural regions which may easily lead to better competitiveness. That in turn results in the vitalising of rural areas which increases the attractiveness of the regions. If the regions are attractive to businesses there are more possibilities to create new networks.
9 Rural SMEs in food chains in Finland: examples of best practices

9.1 Introduction to different supply strategies of rural food SMEs

The driver of changes in the Finnish food industry has been technological as well as market-based. In addition to membership of the European Union in 1995, other factors influencing the changing environment of the Finnish food industry include, for example, the fall of the Russian economy in 1998, severe domestic competition from both Finnish and international enterprises, increasing imports of food products, changing consumer wants and needs and ever increasing use of ICT. (Wiklund & Brännback 2001; Ihmisten maaseutu – Tahdon maaseutupolitiikka 2000.) Changing food consumption patterns and lifestyles, the impact of new technology developments on consumers, changes in household compositions and constant changes in consumer tastes and preferences are also significantly affecting the development of Finnish food SMEs.

Ongoing migration from rural to urban areas in Finland means that fewer people are living in the countryside. Most of the people moving to population centres are young and well-educated. The Delphi panel experts saw the migration from rural to urban areas as one of the most severe problems (together with the centralised retail and wholesale trade) currently affecting the supply chain environment in Finland. The structural changes occurring in Finnish rural areas include, among other things, the withdrawal of basic services, which in turn speeds up migration to urban areas. Finnish regional policy aims to promote the independent development of the regions and good regional balance, and is co-ordinated by the Regional Councils.

The variety of different supply chain arrangements in the small-scale food industry in Finland is wide. In terms of upstream features, many businesses, especially farm-based, use their own inputs. External suppliers are located both inside and outside the region. Generally the businesses are able to use inputs that are not transported long distances. However, some businesses even use foreign inputs because no corresponding domestic inputs are available. A common opinion in all the product groups was that the overall quality of the raw material must be high and different deliveries must always be homogeneous. The assured continuity of deliveries and flexibility were indicated to be important factors when selecting suppliers. A high level of services, supplier professionalism and integrity were also mentioned. Usually agreements with inputs suppliers were verbal although written contracts were also used in some cases.

The downstream features of supply chains used by the businesses contained great variety too. Although some businesses exported at least part of their produce, the customers of food SMEs were mainly local, regional or in some cases national. The most common
customers were retailers. It should be noted though, that the retail stores alone seldom constituted the whole downstream supply chain. Although they were, economically speaking, the most important customer group for many SMEs, all the businesses also had other distribution channels for their products. Institutional kitchens, wholesale firms and direct sale to end-users were often mentioned as well where customers were concerned. A few businesses also supplied large food processing firms with their products.

The following sub-sections present, with the help of real-life case examples, the different supply strategies of rural food SMEs. As mentioned earlier, a business rarely concentrated on one customer group only, and therefore the supply strategy has usually been a mixture of various channels. The following case examples are presented under headings that can be interpreted as the main supply strategy of the business in question. The aim of these examples is to reveal best practices that are useful to entrepreneurs in the early stages of business in getting new ideas. In addition to entrepreneurs those involved in development work in the SME sector may also find these examples most helpful. The case examples were written keeping in mind the theoretical background of the study.

9.2 Direct sales to consumers

Direct sales to consumers from businesses’ own premises was often a very common supply strategy for small rural food businesses in the early years of operation. As years go by and the businesses gain experience, they hope to enlarge their customer base to include commercial customers (e.g. local retailers). The following case example is a good illustration of such a development.

9.2.1 Case study 1: a pork processor

**Business and entrepreneur characteristics**

This farm-based family business is situated in Ylivieska, in the southern part of rural Northern Ostrobothnia, approximately 130 kilometres from the main regional city of Oulu. The sub-region is part of the Objective 2 area. The sub-regional economic structure is relatively diversified, and compared to the national average, primary production is high. The main industries in the sub-region are electronic engineering, metal, steel, heavy machines, and mechanical wood processing. The structure and type of food industry businesses in the sub-region is changing. As larger food processing chains strengthen their competitiveness in the global market, the industry is concentrating on fewer units in order to improve the viability of farmers’ products and their competitiveness. This, in turn, enables smaller specialised units to become involved in the processing sector.

Prior to the business development, the owner had been preparing business plans for 10 years, concerning an initiative to further process and add-value to raw materials on the farm. A processing business was established in 1993, the main aim being to sell fresh,
high quality cuts of meat directly to consumers from the on-farm store. A coffee bar business was also established beside the store. As the owner explained: “Before Finland became a member of the EU, the forecasts for pig breeding were fairly negative and that provided a stimulus to finally implement the business plans” (Interview, November 28th 2001). Before actually starting the business, some small-scale marketing research was conducted and the owners became involved in several development projects that dealt with food processing. In 1998, the business was enlarged with the building of a further processing plant, which then enabled the production of high quality-products.

As well as a secondary school education, the owner had taken a degree in a ‘Farm butcher’ training programme, which was organised by the Meat Industry Centre. The owner had also taken courses in business management and administration, therefore clearly indicating investments in human capital. The business currently employs family members and some occasional workers, especially during holiday seasons. Few preservatives are used in the final products, and the current product range includes various types of sausages, smoked hams and preserved foods. The products are sold to consumers through the on-farm store, local retailers and wholesalers.

The business supply chain

The upstream and downstream linkages of case study 1 are shown in Figure 9.1. Short supply chains dominate the business’s marketing channels, which may help it have a better understanding of consumers’ wants and needs.

Upstream

Approximately 80% of the raw material used in production comes from the farm business. Some cuts of pork and beef are bought from sources outside the farm; the pork is usually bought from neighbouring farmers, and the beef is sourced from a local butcher. It is considered to be of utmost importance that all raw materials used are of local origin. According to the owner, quality is the most important factor in deciding about external raw material suppliers. The business usually has no written contracts with its upstream business partners; rather, long and well-established relationships have developed over the years. Generally there are no specific problems with suppliers; however, during high seasons there can be a shortage of raw material.

Traceability in the products is good, mostly due to the business using its own raw materials, thus having easy access to the required information. Traceability is considered to be important because it has been noticed that, as well as safety issues, consumers recognise locality as an important product feature: “Our customers [consumers] want to buy local products” (Interview, November 28th 2001).

Downstream

All products were initially sold from the on-farm store, but gradually local shopkeepers requested that the business also supply their stores. Currently, approximately 25% of production is sold from the on-farm store. Other supply channels include local retailers,
wholesalers and restaurants. According to the owner, the main issue in becoming a supplier for a certain customer is a good reference from other outlets, and then, of course “…it's up to the products” (Interview, November 28th 2001). Customer requirements have not been too specific, but a difficult area has been the retailers’ demands for proper packing of meat. The retailers presume that suppliers will pack the goods in packages suitable to the retail trade, and that has been a problem for the business – “…it's hard to be cost-effective” (Interview, November 28th 2001).

The retail sector is the largest commercial customer group, with most of the retail stores situated within 50 kilometres range of the business. Some stores are located further afield, and it is not sure how these retailers became aware of the products, perhaps through word-of-mouth or consumer demand. Generally, it is usual for the shopkeeper to initiate the business relationship, and when established, to request that the business visit the store to help promote the products. Such involvement presents problems for the business in terms of time and availability of staff. However, such promotional activities are important as vital sources of consumer information and feedback.

Transportation costs for the business are regarded as high, due to small delivery volumes. The business makes most decisions on transportation matters, as some customers are not interested in how the goods reach the stores, the most important thing being the timing and reliability of the delivery.

The supply network of the business is quite stable, and established long-term relationships are valuable as no written contracts are used. For example, with the retail customers, the owner contacts each store by telephone once or twice a week to collect the orders. This is not the most efficient way to conduct business, but it does help to maintain the relationship. Power relations within the supply chains have changed over the years. The owner has seen that the position of the business within the chain has changed, and the bargaining power of the business has probably strengthened, as “…the price is no longer a crucial selection criteria for a customer” (Interview, November 28th 2001).

**The role of ICT**

The business’s level of ICT is reasonable for an SME of this size. Telephone, mobile phone, fax, computer and professional software are used daily. The business also uses email and the internet, and has its own website. The various means of ICT are used mainly for communication, sales, marketing, quality control and information acquisition. There have not been any specific plans on how and when to adopt certain ICT applications and adoption has mainly been due to the identification of a clear need. In the future, the business aims to increase investment in ICT to improve the effectiveness of current customer relationships. The current ordering system is laborious and time-consuming, with many opportunities for error and misinformation. The owner therefore wishes to obtain an online terminal from which he would have a good overview of stock levels in customers’ stores. This would help to better prepare production planning for the business, and lead to less error in order requirements.
The role of institutions
During the early years of the business a regional food project was established in the area and the business became involved in this. The owner considered the project very helpful for a newcomer; it was a good way to learn and obtain important information on various new issues. It also helped the local businesses to know each other better, and to exchange thoughts. During the project the business received guidance on the completion of applications for grants or loans. Stemming from this, the business later applied for a grant from the regional Employment and Economic Development Centre to invest in production activities. Institutional assistance has also been made use of in product development, but still "...you always have to make that final fingerprint by yourself" (Interview, November 28th 2001).

Rural development
Being located in rural Northern Ostrobothnia, the business is quite a distance from large markets and growth centres, for example in southern Finland where the majority of the population lives. If the business was located closer to these markets it could yield greater revenue with less effort. Despite this, the owner has never considered moving the business to another, maybe more favourable, location. It is extremely important to the owner and his family that they are able to live and work in the area, and that they can continue to

![Supply chain diagram for case study business 1.](image-url)
do so. The business employs several local people on a part-time basis, thus contributing to the local economy. The village in which the business is situated has limited economic activity, and therefore every employment opportunity is highly appreciated. The owner also would like to maintain the sustainability of the Finnish countryside in the future.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strongly embedded in the region</td>
<td>• Peripheral location of the business</td>
</tr>
<tr>
<td>• Short supply chains with good upstream</td>
<td>• Labour intensive customer ordering system</td>
</tr>
<tr>
<td>and downstream relationships</td>
<td>• High transportation costs</td>
</tr>
<tr>
<td>• Enthusiasm of the owners</td>
<td></td>
</tr>
<tr>
<td>• Authenticity of the products</td>
<td></td>
</tr>
<tr>
<td>• Agricultural diversification</td>
<td></td>
</tr>
<tr>
<td>• Links with rural tourism</td>
<td></td>
</tr>
<tr>
<td>• Regional imagery aspects used in marketing</td>
<td></td>
</tr>
<tr>
<td>• Localised sourcing</td>
<td></td>
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<tr>
<td>• High quality and traceability of raw materials</td>
<td></td>
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<tr>
<td>• High meat percentage in products</td>
<td></td>
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<tr>
<td>• Good consumer feedback on products</td>
<td></td>
</tr>
<tr>
<td>• Clean production environment</td>
<td></td>
</tr>
<tr>
<td>• Considerable training undertaken</td>
<td></td>
</tr>
<tr>
<td>• Experience in accessing institutional assistance</td>
<td></td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasing consumer interest in local foods, and in healthy eating</td>
<td>• Food scares</td>
</tr>
<tr>
<td>• Strengthening of link between local food and rural tourism</td>
<td>• Lessening of traditional farming practices</td>
</tr>
<tr>
<td>• Improved linkage with customers’ stocks which could improve production planning</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 9.2** SWOT Analysis – Case study business 1.

### 9.3 Sales to retailers

Sales to retailers are a rather common supply strategy for small rural food businesses as well. Usually the retail customers of SMEs are located in areas nearby the businesses. Acquiring retail customers is generally dependent on the activity of the entrepreneur himself; rarely do retailers contact SMEs to get their product into a store’s selection. Getting the product into a retail store thus requires, at a minimum, a face-to-face meeting with the retail store manager and the initiation coming from the SME entrepreneur. The following two case examples present businesses that have adopted a retail supply strategy.
9.3.1 Case study 2: freshly baked from the archipelago

Business characteristics and products
This family-run business is situated in Southwest Finland, in the municipality of Parainen. Parainen (12,000 inhabitants) is located in the middle of the archipelago and belongs to the Objective 2 area. In fact, it is the only town in Finland which is entirely surrounded by water. Nevertheless, it is not very far to the larger cities; 23 kilometres to Turku (the capital of the region) and 173 kilometres to Helsinki. The business was founded more than 60 years ago in 1941 by the grandfather of the current owner, so it has been in the family for three generations. The current turnover is more than 3 million euros and the business employs approximately 50 people, most of them part-time. The archipelago and the insular way of living is present in the everyday operation of the business because many recipes are originally from the area.

The aim of the business is to provide customers with various bakery products, both conventional and organic, such as bread, cakes, cookies and savouries. Different types of plain bread constitute 60% of the business’s production. As well as the bakery, the business includes a coffee shop and confectionery which has operated in the centre of Parainen for over 20 years. Approximately 30–40 different kinds of pastries are available every day and the selection changes slightly according to season.

The business supply network
The upstream and downstream features of case study 2 are shown in Figure 9.3. Short supply chains dominate the business’s marketing channels, which may help it have a better understanding of consumers’ wants and needs.

Upstream
The business uses both large and small raw material suppliers. Usually the small raw material suppliers provide domestic raw material. Most of the raw material is purchased locally, as can be seen from Figure 1, because this yields low transportation costs. During the summer, berries that are needed for production are purchased locally at the beginning of the season when there is available supply. But later, after the high season, they are bought from national markets. On top of lowering transportation costs, transportation times are also shorter when raw materials are purchased from areas nearby.

It is the product and its suitability to the business’s operations that is the key factor in supplier selection. Price level comes after that. The business has its own quality standards that must be met by the supplier in order to start a business relationship. The case study business has long-term, well-established business relationships with its upstream business partners. They use one-year formal contracts with some suppliers, but there are also suppliers with whom they have no written contracts. There have been only very minor problems with input suppliers in the past. The occasional problems had to do with sudden quality fluctuations or drastic changes in pricing, for example.
The traceability of the case study business’s products is taken care of very well. An in-house control system is in operation. According to the entrepreneur, customers do not ask specific questions concerning the origins of the raw material used in production, with one exception: organic produce. Consumers who buy organic produce want to be sure that the raw material is organically produced and sometimes ask where the raw materials come from.

**Downstream**

The business bakes bread, cakes, cookies and savouries that are marketed to consumers through its own coffee house and confectionery, small and large retail stores and some food service sector units. The business started the manufacturing of organic products in 2001 in addition to conventional products. The business uses formal one-year contracts with its downstream customers, most of which are both small and large retailers in the surroundings of Turku or in the Helsinki area. The food service sector is not that essential for the business in a purely economic sense. The business would like to increase its share of large retail stores in the future. It also has other potential customers in mind, but so far has been too small to supply them.

The market area of the business is the south-western archipelago, the surroundings of Turku, other areas in Southwest Finland and the Helsinki area. The local and regional markets are supplied six times a week and Helsinki twice a week. The transportation of the products is outsourced to small, one-person businesses that work predominantly for the case study business. With organic products they have actively tried to access the markets of the capital area because these markets have the most potential. The supply network of the business is rather stable.

According to the entrepreneur, it is up to the business itself, and its activity, as to how efficiently new customers are acquired. The entrepreneur must go to see the potential customers to present the products. This is the primary requirement, but it is not enough, especially not in the retail sector: “The products must be known by the consumers for the retailers to want them in their selection. They want to be sure that there will be a demand.” (Interview, February 18th 2002).

The entrepreneur says that there is no exact model of how to build and develop a customer relationship, because they are all different, and copying from one relationship to another is not possible. The building of a business relationship thus presumes certain social skills on the part of the entrepreneur. And of course, the product must be good and have some value-added compared to similar products.

Some customer businesses are able to affect the operation of the case study business (e.g. product development). If the retail sector is considered, the consumer structure (demographic factors) between different stores can greatly differ due to the location and size of the store and thus a retail sector customer can inform the business about the type
of goods that usually sell well in its store. This can be considered a win-win situation for both the processor and customer business. Otherwise the case study business does not get much consumer feedback from its commercial customers, but fortunately they have their own bakery shop where they can talk directly to consumers.

**The supply network as a whole**

Long-term, established business relationships are appreciated by the business both in upstream and downstream relationships. Often the business relationships are formal. The emphasis is on short supply chains. Usually there have been no major problems with business partners, but due to low volumes some business relationships in the past have been terminated. The small size of the business is seen as a strength, and as a small business it is able to do even short lots cost-effectively. Therefore it is easy to tailor products according to customer’s specific needs. Larger companies are not able to make these kinds of niche products because they must have large production volumes.

The case study business entrepreneur thinks that there is no supply chain co-ordinator in the chains they are in. The development, operation and co-ordination of the supply network is in the business’s own hands.

**The wider network**

The family is embedded in the area both economically and socially, because it has provided employment for dozens of local people for three generations and has been in the immediate area for longer still. Nowadays the business employs approximately 50 locals. The business has co-operated with other food businesses in the area, and the type of co-operation that the business most commonly engaged in is the exchange of information between various regional SME entrepreneurs. Networking among the entrepreneurs, however, is not extensive.

**The role of ICT**

The adoption of ICT is on a relatively high level if compared to other food SMEs in Finland. The business uses the telephone, mobile phone, fax, computer, email, internet and various professional softwares every day for normal communication, marketing and sales, and as tool in decision-making. Email serves as a tool for quality control and the business also has a logistics programme. The website of the business presents text of the archipelago, products and the owner family and beautiful pictures. The website creates a warm and approachable image of the company.

The main reason for ICT adoption in this case study company is the nature of the bakery business. According to the entrepreneur, the adoption of ICT has had many positive effects on business performance. Various ICT devices and programmes are regarded as more or less a prerequisite for success. As the entrepreneur puts it: “*We sell a lot of low-priced goods that need a good deal of material handling, and that could be difficult without [ICT]...if we want to reach some kind of revenues then we need more IC.*” (Interview,
February 18th 2002). The entrepreneur thinks that the business has to continue investing in ICT in the future to better communicate with business partners or to access new supply chains. Attaining internal efficiency will also be a reason for future ICT investments.

**The role of institutions**

The business has had some external assistance from national and regional bodies. During the recession in the early 1990s the business obtained an interest subvention from the Ministry of Trade and Industry which was very welcome during these difficult times. The business has also been involved in a development project which had to do with the development of different areas of business operations and personnel training. On top of this, the entrepreneur and other workers have attended many courses organised by the Association of Bakers. According to the entrepreneur, external assistance for food businesses is not offered very often, and SME entrepreneurs have to know where to find it. The entrepreneur also said that one of the main problems with external assistance is that the supply and demand do not meet, because “it is usually too general in nature” (Interview, February 18th 2002).

**Rural development**

In terms of location, the south-western location of the business in the archipelago of the Turunmaa sub-region has both positive and negative effects on its business operations. A definite positive effect is that a committed workforce is available. But on the other hand, these personnel have to be trained by the business itself. The entrepreneur thinks that this training is still worth it because: “...they come to stay, not just for a moment”. (Interview, February 18th 2002). She is sure that in the capital area, for example, changing of personnel would be an issue for the business.

Economically speaking, a better place for the business could be in the centre of Turku, for instance, as the entrepreneur stated. However, the roots of the business are so deep in the history of its municipality that no real desire to relocate is expressed by the entrepreneur. The business is socially embedded in the area and is a part of many local families’ everyday life in Parainen, and has been so for decades. Their bread is on the breakfast tables in the area and local people can stop by for a cup of coffee during the lunch hour or in the afternoon.

In terms of contributing to the local economy in an economic sense, the business has a strong effect in terms of employment. The business directly employs almost 50 local people and provides work indirectly to the people who transport their products.
Figure 9.3  Supply chain diagram for case study business 2.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>• Small size makes the business flexible</td>
<td>• Customer base fluctuates between winter</td>
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<td>• Investments in human capital</td>
<td>and summer</td>
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<td>• Niche products</td>
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<td>• Long tradition spanning three generations,</td>
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<td>embeddedness</td>
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<td>• Use of ICT which aids efficiency and control</td>
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<tr>
<td>• Relocalisation</td>
<td></td>
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<tr>
<td>• Good place for tourists to stop</td>
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<tr>
<td>• Wide product range, both conventional</td>
<td></td>
</tr>
<tr>
<td>and organic</td>
<td></td>
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<tr>
<td>• Strong employment effect on local economy</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Increasing consumer interest in local products</td>
<td>• Slow growth in demand for organic products</td>
</tr>
<tr>
<td>• Increasing demand for organic products</td>
<td>• Diminishing population in the area</td>
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<tr>
<td>• Increasing consumer demand for ready</td>
<td>• Increasing centralisation of retail sector</td>
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<tr>
<td>bakery products (sparseness of leisure time)</td>
<td></td>
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<tr>
<td>• Increasing use of archipelago associations</td>
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<tr>
<td>in marketing</td>
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<tr>
<td>• Busy tourism area in summer, many cottages</td>
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<tr>
<td>• High level of through-traffic to the</td>
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<td>archipelago</td>
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Figure 9.4  SWOT Analysis – Case study business 2.
9.3.2 Case study 3: Special delicacies by traditional production methods

**Business characteristics and products**

Case study 3 is a business situated in Northern Ostrobothnia, in the capital city of the region, Oulu, which belongs to the Objective 2 area. The aim of the business is to provide its customers with high-quality meat products. The business was founded in 1943. The current managing director started in the position in 1996 after being the financial manager of the company for years. In its beginning, in the 1940s, the business operated as a bakery, prepared food kitchen and supplier of farm products. In 1947 it began to produce sausages and this decision to change the line of production can be regarded as extremely successful: sausage sales boomed right after the war. In the early years of the business the product range was fairly modest. Over the course of time the number of products has grown and nowadays the selection comprises around 80 products. The range includes bologna sausages, other kinds of sausages, cold smoked products, cold cuts and other meat products such as paté and aspic. The business also provides its customers with a selection of product packages which are suitable for business gift, for example.

The business currently employs approximately 50 people full time. On top of that the business employs dozens of seasonal workers. The turnover of the business is around 12 million euros per year. The business aims to use domestic meat in its production, which is not always possible. If domestic meat is not available, Danish meat is mostly purchased. The proportion of Danish meat has been diminishing during the last few years, due to a large supply of domestic meat, and currently stands at around 25%. Today the business is predominately known for its quality bologna sausages. The market share in Finland of the business’s bologna is 15%. Over half of the business’s total turnover is generated by bologna sausages.

**The business supply network**

The upstream and downstream features of case study 3 are presented in Figure 9.5.

**Upstream**

Both domestic and foreign raw materials are used in the production of the case study business, the majority of it being domestic. If domestic meat is not available, the business purchases mostly Danish meat. The business wants to use only checked and high-quality raw material. The main raw materials used are pork and beef. No origin labels are in use because domestic raw material supply cannot always be guaranteed. However, beef is sourced from the region. ‘Mad Cow’ disease (BSE) had its effects on the raw material purchasing of the business. The amount of beef in the total raw material consumption decreased steadily in 2001, as the business stopped using it in the production of bologna sausages. Surveys conducted among consumers showed that, they usually want to buy domestic meat only, but do not require more specific information about origin (i.e., it is
enough if they know it is Finnish; they do not need to know from which region or farm it
was produced). In actual situations, however, where a consumer is making a buying deci-
sion, the origin is seen to be less important: “...if there’s a domestic and foreign product
side by side, it [the origin] doesn’t really matter anymore, it’s the price that matters”
(Interview, November 29th 2001).

The case study business does not use formal contracts with its upstream business part-
ners, but the relationships are relatively long-term and have been well established over
the course of the years. Even though the business has no formal contracts, they usually
purchase enough raw material for three to four months at a time. The meat is ready cut
to meet the needs of the company’s production. Price and quality of the raw material,
reliability of the supplier and especially uniformity between different lots are the most
important criteria according to which suppliers are chosen. A reliable buyer-supplier
relationship is usually generated only by working closely together for years.

The business has an in-house control system and quality scheme in use. The quality of
production is also guaranteed by customer audits. In addition, the business aims to op-
erate in an ethical and environmentally conscious manner. The business operations are
monitored by the authorities at the local, national and European Union level, meaning
that the traceability of the products is very well taken care of.

**Downstream**

The downstream supply network includes many kinds of customer groups: single retailers,
retail chains, wholesalers and the food service sector. The business also has its own factory
outlet which is located beside the production plant. It is meant mainly for the business’s
workforce and beef breeders but can be used by other people too. The factory outlet is
open five days a week and new products not on sale in other places can be found there
(i.e., the shop is used for trial marketing of new products). All in all, the majority of the
products end up for retail sale. As for the ordering system, sales staff call all customers
to collect the orders, or the orders are received electronically.

Since 1994 the business has been exporting its products to Sweden. Membership of the
European Union made the exporting of goods considerably easier. Nowadays approxi-
mately 13% of the business’s turnover is generated by exports to Sweden. The business
wishes to continue investing in exports in the future in order to increase the exports’
share of total revenues.

The business wants to reinforce long-term, confidential relationships with its downstream
business partners. Usually the business uses formal contracts with its customers. The
contracts with large chains are usually valid either for a year or a 3 to 4 month period.
According to the managing director two main factors affect the decision process of the
customer: price and quality. Quality is said to mean the following: “...but in the case of
quality, they don’t do any chemical analysis or anything like that. They just look at the
Transportation of the products is handled by external transportation companies. The case study business does not have its own trucks for transporting final products. In the case of large chained customers, the products are delivered to customers’ regional terminals by an external transportation company. Then the customer business takes care of the distribution of goods to its separate units. In the past – not longer than 5 to 10 years ago – the distribution of goods was mainly taken care by the business itself, but by using external transportation companies. The large customers are considered to have started co-ordinating things more and more in business transactions than before. “Sometimes it can come to mind that is it worth all the money to use that many intermediaries, but as there are so many retail outlets in Finland, it would be impossible or extremely expensive to do it otherwise” (Interview, November 29th 2001).

The supply network as a whole
The case study business has concentrated on its core competence which is the production of bologna sausages and cold smoked products. The aim of the business is to be the best producer of bologna sausages in both Finland and Sweden. Increasing demands for efficiency and quality means the company will continuously develop its business operations. All the operations are directed by a consumer-oriented way of thinking.

The competitiveness of the business is based on the efficiency of the production process and its management, speed of delivery, trustworthiness and a good reputation generated by high quality products. According to the managing director the original taste of the products has made it possible to survive the competition from large meat processing companies. The only way for an SME to operate competitively with large nationwide customers is to specialise and produce high-class products. Each supply chain node tries to operate according to its own principles in order to guarantee the best possible profit for their business. The case study business constantly monitors the markets and market situation and tries to keep up with prevailing trends. If a certain retail chain is gaining more market share, for example, the business relationship with it is reinforced accordingly because the total markets are not currently enlarging.

The power relations within the food chain are an ambiguous issue. In general the food processing industry is quite dependent on the customers, mainly the chained and centralised wholesale and retail sector that to a certain extent is considered to direct or co-ordinate the whole sector. If a certain customer changes its ways of operating, the representatives of the food processing industry usually just try to adapt. For example, one-year contracts are largely designed by the customers to primarily meet their needs. But at the local or regional level co-operation with a regional retail chain, for example, can be extremely fruitful, because: “…the advantage of locality and close co-operation and good personal relationships guarantee much more than relationships with large, nationwide chains which are purely based on price.” (Interview, November 29th 2001).
The wider network
The case study business is embedded in the area both economically and socially because it has provided employment for hundreds of local people for many generations. Nowadays the business employs approximately 50 people full-time plus dozens of seasonal workers, especially during the summer. Management of the business has been in the hands of the same family since the 1950s. As well, the factory outlet is an essential part of the local retail selling environment.

The role of ICT
The adoption of ICT in the case study business is at a relatively high level compared to other Finnish food SMEs. The business uses on a daily basis the telephone, mobile phone, fax, computer, email, internet, advanced professional software and EDI. The business also has its own website which is versatile and of professional appearance. The website presents the business, its history and its products, and humour is not forgotten either: there is an on-line game in which one can try to shoot with a fork as many sausages as one can. The slogan of the company is: “Best taste with authentic recipes”. There are also many recipes to help consumers prepare food from the business’s products. Website visitors are encouraged to send their own recipe suggestions for bologna sausages or cold smoked products, for instance. If the business publishes the recipe on their website, the sender is rewarded.

The main reason for adopting various means of ICT has been internal demand, in other words the adoption has predominantly been business driven. The business had first used computers to manage single, small transactions, and gradually switched to larger ICT systems. The company’s first computer was purchased as early as 1969 and was meant for office use, to help the invoicing. The current level of ICT is not considered to be a competitive advantage for the business but “...keeping up with ICT developments has enabled the survival of the company in the marketplace” (Interview, November 29th 2001). In the future the importance of ICT is expected to increase considerably. The managing director is sure that the current trend in the retail sector – increasing concentration – will lead to regular orders. The ICT system of a certain retail store can send automated, basic orders to the ICT systems of the processing industry and the business will deliver that amount of products.

The role of institutions
External assistance has been fairly important for the case study business and it has used many kinds of assistance. The business has been allocated grants for capital investments and to help begin exporting. The investment grants have been highly appreciated by the business, because they were directed towards important areas of its operations. The assistance received from the National Technology Agency, for product development, has also been highly valuable since the late 1990s. According to the managing director, this assistance will most evidently continue to be crucial in the future as well. In the training of personnel the business has also used external assistance. Some of the workforce have come through a training programme from which they received a vocational basic-level degree.
Although external assistance has been seen as invaluable by many small food companies in certain phases of their business operations, the managing director of the case study business is critical of any general development activities that have been carried out in the region in the field of food processing. He stated that the money was poorly allocated. Funds should be directed to promote SMEs’ marketing and export marketing activities, for example.

**Rural development**

The northern location of the case study business, far from the largest consumer markets of southern Finland, can be seen as a clear disadvantage. However, as the infrastructure (e.g. main roads and ICT) is well developed in Finland, the location has not prevented the business from operating competitively and doing well, and neither has it prevented the business from employing skilled labour; on the contrary, it has probably been an advantage. In terms of contributing to the local economy, the business employs a relatively high number of local people, approximately 50 full time, and in summer it employs many seasonal staff. During the last decade the Oulu area has become known for its high technology industries and this may have affected the image of the company, too. At the same time, the once fairly robust local food industry has gone through a difficult period and the case study business is one of the few non-micro food businesses still left in the area.

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**Figure 9.5** Supply chain diagram for case study business 3.
Figure 9.6  SWOT Analysis – Case study business 3.

9.4  Sales to wholesalers

Sales to wholesalers require a bit more from the supplying business than the previously mentioned supply strategies. The quantities must usually be higher when supplying wholesalers if compared to, for example, local retailers. The wholesalers’ suppliers must also usually be prepared to use a high level of ICT and be part of their centralised distribution systems. Sales to wholesalers usually require a business to already be well established. The following case example is an illustration of a business operating mainly with the wholesale sector.

9.4.1 Case study 4: fresh catch from the archipelago

Business characteristics and products

This case study business is one of Finland’s largest fish farms. The business is located at the seaside (in the northern part of Southwest Finland) in the city of Uusikaupunki which belongs to the Objective 2 area. The owner of the business was born in a small village where the entire population had been fishermen generations. The sea provided them with fish of varying kinds and flavours and were very knowledgeable in all matters to do with fish. As a grown man, the owner noticed that not everyone knows how to handle fish or how to cook tasty meals with it. He had an idea to farm and process the best available fish for the dining tables of busy city dwellers, and this was how the case study business was founded.
Today the business has a modern 3,000 square meter fish processing plant. The production know-how of the business includes both traditional fish handling skills and modern smoking ovens and fish preparation equipment. The plant produces 800 tons of processed fish products a year, which are sent to customers around Finland, elsewhere in Europe and as far away as Japan. Another 800 tons of fish are delivered to consumers fresh from the sea. The turnover of the business is 10 million euros. Approximately 70 fish experts are responsible for the plant’s product quality in processes ranging from farming young fish to providing finished products for consumers everywhere. Product development and quality control are continuous in the case study business. The business has a total of 11 branches, both fish farms and fish hatcheries, in Sweden and Finland. The company’s sales office and fish processing plant are located in Uusikaupunki, in Southwest Finland. The fish farms annually produce 3 million tons of fish for sale, including whitefish, rainbow trout, sturgeon, catfish, eel and trout. Farming of pike-perch is at an experimental stage.

The product range of the business includes cold and warm smoked fish, lightly salted raw fish and fresh fish. The smoked fish selection includes filleted and ready sliced salmon, trout, arctic char, lake whitefish and flavoured fillets of mackerel. The boneless salted and cold smoked products are excellent for starters and main meals. The salted products include filleted and ready sliced salmon, trout, arctic char and lake whitefish. There are also fish frankfurters and savoury slices, suitable for those who do not eat meat.

**The business supply network**

The upstream and downstream linkages of business 4 are presented in figure 9.7.

**Upstream**

Most of the raw material used in production, approximately 70%, comes from the company’s own fish farms which are located in southern and central Finland and in northern Sweden. As can be seen from Figure 1, the rest of the fish is bought from an importing business that imports whitefish and mackerel from Canada. The main advantage of the fish farming is that the business is not too vulnerable to price fluctuations in the markets. They are able to keep the price of the raw material steady for long periods, which naturally has its effects on the pricing of the final products. The fish farming also guarantees the business’s raw material supply to a large extent. Still another advantage is the possibility to group the fish according to their size and colour at the early stage. The fish bought from Canada is first frozen and then transported to Finland. Transportation of fish from the fish farms to the production plant is taken care of by company trucks.

Traceability of raw materials is at a high level in the case study business; in-house control systems have been fully adopted. Each lot is clearly marked, there must be a lot number, the origin of the fish and time and place of the cleaning. A law ensures that retailers have the cleaning information of the fish in sight at the store for consumers. However, few consumers pay attention to this. The case study business has noticed that with Norwegian salmon, most consumers think it is a wild fish and few actually know
that it is farmed. The Norwegians have succeeded in creating a good and authentic image for their product. The case study business hopes to reinforce the image of rainbow trout as a high-quality product.

**Downstream**
Becoming a supplier for a certain supply chain requires many things from the supplying business. And even more is required if the business wants to supply a nationwide network. The supplier business must first recognise both its resources and constraints. Many large nationwide customers are extremely careful when acquiring new suppliers. They may want to visit the production plant of the potential supplier and check that everything is in order and fits their requirements. In addition, the supplier company must be in good economic condition.

The amount of fish that a single retail store sells in a week is not that great. That is why the case study business has downstream contracts with large wholesalers that supply hundreds of retailers. This is the only way to be cost-effective with large volumes. The supply network of the business includes single retail stores, large wholesalers, speciality wholesalers, the food service sector, exports to European countries, Russia and Japan and also the factory outlet. Most of the products that are sold to the retail sector are vacuum packed. The downstream business relationships are well-established, long-term and formal. Even though the orders are received electronically, the sales personnel phone almost all of the customers every week in order for the business to know in advance approximately what volumes they have to deliver. The business does not want to loose personal contact with the customers either. Transportation of products to downstream customers is taken care of by external transportation companies, and product loads leave the plant each day directly for customers’ terminals.

Even though the product range of the case study business is relatively wide, new ideas for product development are constantly needed. Not the most insignificant reason for that is a fairly low degree of upgrading among the fish processing industry in general. As a representative of the business puts it: “As I said, we are a way behind the meat processing industry in what comes to product development. The products are most commonly just fresh fish.” (Interview, March 11th 2002)

The case study business rarely gets new ideas for product development from its large downstream customers. According to a representative of the business, these customers might have their own private labels that they want to develop in the first place. They can give some hints, though, to help or direct product development, but these are on a very general level.

**The supply network as a whole**
The business fully recognises the importance of both upstream and downstream nodes in the chain. Relationships have to be taken care of. Long-term and established formal business relationships are appreciated both upstream and downstream. The business mainly
uses long chains, but short chains do exist (e.g. their store). The business operations are usually planned ahead for three- or six-month periods. The upstream element of the supply network is particularly important because the business must be able to balance supply with demand, and with its own fish farm this is fairly easy to do.

Fish farm permits are valid only for six years at a time. It is hard to develop the business operations because it is impossible to know if permission will be renewed next time and whether the business can continue farming. The business must thus operate from day to day under a constant uncertainty. The opinions of the customers may also be obscure: “Our customers aren’t yet that prepared to pay much extra for environmentally friendly products” (Interview, March 11th 2002).

The business also co-operates in production with other fish processing SMEs in the region. On one hand the business has outsourced the production of certain types of products (e.g. Baltic herring) to smaller businesses; on the other, it manufactures certain products for other fish companies. The business has understood what its core competences are and concentrates on them.

The wider network
The case study business is embedded in the area both socially and economically. The founder of the company was born and raised in the area and the business wants to communicate the image of the area and archipelago in its marketing activities. The business provides employment for dozens of local people, and is also involved both in informal and formal co-operation with other fish processors in the region. The co-operation usually has to do either with exchange of information or production.

The business has also co-operated with the regional university. The co-operation has mainly concerned hygiene issues and preservation of fish and fish products. The business has not applied for quality certificates but the quality control is at a level where it would be possible to get it. It has not considered it important to apply for a certificate because: “...the quality tastes in people’s mouth, not on paper...” (Interview, March 11th 2002).

The role of ICT
The adoption of ICT is on a relatively high level in the case study business if compared to other food SMEs in Finland. The business uses on a daily basis the telephone, mobile phone, fax, computer, email, internet, professional software and EDI. Basic ICT is used every day for normal communication, marketing and sales, ordering, and as a tool for decision-making and quality control. The business also has a website that presents the history of the business in a story telling manner, in addition to the product range and production facilities of the business. The website is decorated with beautiful pictures of the archipelago and the business’s products and clearly links the business to its region.
The main reason for ICT adoption in the case study business has been twofold. On one hand, some of the large customers require their suppliers to use EDI, for example. It is wise and almost compulsory to invest in ICT to become and to remain a supplier for these companies. On the other hand, as the business has branches in many places in two countries, ICT adoption makes it much easier to co-ordinate operations. The business is fairly sure that no large investments in ICT will be required in the near future. However, updating of current ICT must be done continuously. Despite the high adoption of ICT, the business believes that ICT is just one way of facilitating its business, not the only way.

The role of institutions
The case study business has been involved in a number of exporting projects led by an outside institution but it considers that it is not wise to rely too much on external assistance. The business has received some grants for capital investments, but emphasises that it must first raise sufficient equity capital for such investments to be made. A business that makes substantial investments must be serious about its operations and future plans. On average the business is fairly critical of external assistance because in most cases, according to it, the nature of assistance is relatively short-term and disconnected from larger factors.

The case study business has been involved in co-operation with the regional university. The co-operation has mainly concerned hygiene issues and preservation of fish and fish products. The only criticism the business has towards co-operation with the universities is the time lag before research results are available. In such areas (e.g. hygiene issues) the business hopes the public sector would increasingly invest in the near future and also communicate the results: “To share relevant information to consumers, that could be the task of public organisations, they should inform consumers about how to handle fish properly” (Interview, March 11th 2002).

Rural development
The south-western location of the case study business in the archipelago of Southwest Finland has both positive and negative effects on its business operations. A definite positive effect of the nearness to the sea is that there still is a skilled and committed workforce available for fish processing. As the sea is present in everyday life, most of the local people have some kind of understanding of fish and the fish processing business. The location can also be considered as an advantage in marketing. The image of the archipelago and sea, attached to fish products, is naturally an effective combination.

The distance from the main markets can be regarded as a disadvantage of the peripheral location of the business. Due to the centralised and chained nature of the main customers a majority of the products goes first to Helsinki, regardless of the final destination, and transportation costs money. Economically, a better location for the processing plant would be near the capital area (i.e., near the customers). This would mean lower transportation costs, but as the business has a well-functioning distribution system in place, the disadvantage of its location has been overcome.
In terms of contributing to the local economy in an economic sense, the business has had a strong positive effect in terms of employment. The business directly employs approximately 70 local people and also employs others indirectly. The municipality has acknowledged the importance of the business as a provider of work opportunities and has been relatively flexible when the business has expanded its operations over the course of the years.

**Figure 9.7** Supply chain diagram for case study business 4.
Table 9.8 SWOT analysis – Case study business 4.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in human capital</td>
<td>Environmental barriers inhibiting business expansion in Finland</td>
</tr>
<tr>
<td>Modern production facilities</td>
<td>Relatively low degree of upgrading</td>
</tr>
<tr>
<td>Strong production know-how</td>
<td></td>
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<tr>
<td>Good image used in marketing</td>
<td></td>
</tr>
<tr>
<td>High level of ICT</td>
<td></td>
</tr>
<tr>
<td>Export orientation</td>
<td></td>
</tr>
<tr>
<td>Fish farming, which guarantees supply and also has an effect on pricing of</td>
<td></td>
</tr>
<tr>
<td>the final products</td>
<td></td>
</tr>
<tr>
<td>High volumes</td>
<td></td>
</tr>
<tr>
<td>Links to the region and its identity</td>
<td></td>
</tr>
<tr>
<td>Focus on core competence</td>
<td></td>
</tr>
<tr>
<td>Strong employment effect on local economy</td>
<td></td>
</tr>
<tr>
<td>Continuous product development</td>
<td></td>
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<tr>
<td>Strong vertical networks</td>
<td></td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of exports</td>
<td>Increase of imports</td>
</tr>
<tr>
<td>Increasing consumer demand for further processed fish products</td>
<td>Increasing demand for Norwegian salmon in Finland</td>
</tr>
<tr>
<td>Strengthen link between the business and the region</td>
<td>Pricing of Norwegian salmon</td>
</tr>
<tr>
<td>Partnerships</td>
<td></td>
</tr>
<tr>
<td>Development of new, upgraded fish products</td>
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</tbody>
</table>

9.5 Sales to food service sector

The small food businesses’ main customer group has traditionally been the retail sector. Nowadays more and more businesses are trying to start operating with the food service sector. The problem is that the culture of doing business is entirely different between these two sectors. The businesses that have successfully created business relationships with food service sector customers say that the co-operation is more open with them compared to the retail sector. The following case example presents a business that has mainly targeted high-class food service sector customers, with good results.

9.5.1 Case study 5: high-class lamb for high-class customers

Business and entrepreneur characteristics
This farm-based family business is situated in the Loimaa sub-region, in the small municipality of Karinainen, in the north-eastern part of rural Southwest Finland, relatively close to the centre of the region’s main city, Turku. The sub-region is currently receiving development assistance as part of the European Objective 2 programme. Due to pres-
sures in mainstream agriculture, the farm shifted from pig breeding to lamb breeding in the 1980s. The business aims to provide its customers with different cuts of lamb and upgraded, high-quality lamb products with a high meat percentage. The owner is a local farmer whose objective is to have more value added to the primary production of the farm. The processing business was started in 1994, and currently employs family members. The owner has secondary level education in farming, and has taken additional courses in meat processing and in business management and administration. This business has therefore clearly undertaken investments in human capital. The farm is also organic.

There are approximately 15 products in the company’s range including different cuts of lamb, cooked smoked meat, various kinds of sausages, and preserves. Some of the products are manufactured entirely according to certain customers’ requirements. The competitive advantages of the business’s products are good taste, high quality and Finnish origin. The meat percentage in the products is also extremely high compared to similar types of products made in larger scale businesses. For example, in the sausages the only ingredients are meat and spices.

The business supply chain
The upstream and downstream linkages for case study business 5 are shown in Figure 9.9. Long-term, established relationships are valued by the business in both upstream and downstream relationships. Short supply chains dominate the marketing channels.

Upstream
Approximately two-thirds of the total raw material supply is purchased from other local lamb meat producers, the remainder coming from the farm’s own animals. In 1997, the local farmers founded a co-operative – a producer network – and now the majority of the meat sourced from outside the business comes from the co-operative. No formal contracts are used, and the buyer-supplier relationships are purely based on price: the buyer who pays the best price gets the meat. This is partly due to the small number of sheep in Finland; the Finnish quota is 80,000 sheep, but approximately only 50,000 head of sheep are kept. According to the owner, in Finland the sheep are mostly considered “….just keepers of the landscape and mascots...” (Interview, February 28th 2002). He states that further effort and work is required to reinforce the image of lamb and lamb products in the Finnish market.

In the past, the business has occasionally had problems with the raw material suppliers. As mentioned earlier, the upstream relationships are based purely on price and therefore the raw material supply can sometimes be inconsistent. At worst, a raw material supplier may first promise to supply the business with a certain number of sheep, but then renege on this when it gets a better offer elsewhere. This supply situation clearly has its effects on the downstream relationships of the business; maintaining a trustworthy image with customers can on occasions be extremely difficult.
Traceability of the business’s raw material is carefully recorded and monitored. The business has documents to verify and trace each raw material lot bought from suppliers, and the ready-made products sold to customers. The business does not use labels which indicate the source of origin because, according to the owner, after a BSE incident had been found in Finland, consumers perceived domestic meat not to be any safer or better than foreign supplies.

**Downstream**

The downstream supply chain of the business includes customers from both the food service and retail sectors. It has deliberately focused on supplying high-class customers, especially in the private food service sector. Most of the food service sector customers are highly appreciated, well-known hotels and restaurants in large cities. Customers in the retail sector are typically specialist butchers or delicatessen outlets. The rationale for the current customer base is the certainty that these customer types are ready to pay the price demanded by the business for its high-quality niche products, as it is not able to compete in the market with lower prices. Therefore, the business has made a calculated decision to leave regular retail stores out of its supply network, because “......consumers go there to buy only cheap products; our products are not suitable for normal retail outlets” (Interview, February 28th 2002). It also makes products to order, and these can be collected straight from the farm.

The business has not seriously tried to expand its markets geographically, as the reliable sourcing of raw materials presents a problem. However, it would be ready to expand its operations if sufficient, high-quality raw material supplies could be guaranteed. Despite the precarious supply situation, the business continues to work on securing new customers. It must have a public image, and approach potential customers with product samples. According to the owner, its current customer base says a lot about the business. Good references from important current customers clearly help the business in securing new customers: “They beat all the brochures anytime” (Interview, February 28th 2002).

The business has no formal joint product development with downstream supply chain partners, but some ideas are occasionally gathered from certain customers. In other words, the business listens and reacts to its customers. The transportation of finished products is undertaken mainly by the business itself, and in some instances the business can share and reduce the logistical costs by co-operating with another SME.

**The role of ICT**

The adoption of ICT by the business is on a relatively low level. Daily use is made of the telephone, mobile phone and computer. The fax, email and internet are used less often, perhaps a few times per week. Basic ICT is generally used for regular day-to-day communication, marketing and sales, quality control, and to help the decision making process. Adoption of ICT has been mostly due to internal demand, and is therefore business driven. The current level of ICT is not particularly considered a competitive advantage for the
business, but it is important to be attainable both by current and potential customers. In
the future, the role of ICT will increase, and co-operation with certain business partners
as well as the internal efficiency of the business will most certainly necessitate a higher
level of ICT use.

The role of institutions
The business has had various kinds of external assistance from regional bodies. It has
been involved in a regional development project which aims to promote small business
entrepreneurship in the food sector in Southwest Finland. The project has accumulated
many benefits for the business, gained from participation in, for example, the presentation
of SMEs’ products to restaurant chefs, and various food fairs. Although the owner thinks
the project has generated various benefits over the years, he is also slightly critical of this
kind of institutional assistance. The project-based development work is often too general
in nature and therefore not particularly useful for many businesses. Specifically targeted
development work would be much more appreciated by the business.

While the business was expanding its operations and building the processing plant, the
regional Employment and Economic Development Centre allocated a grant to the busi-
ness for capital investments. Although the owner appreciated the assistance received, he
had some reservations about it, as the grant was allocated only for machines bought new.
For a micro business it is often almost impossible to finance new machines, as prices can
be ten times higher than for those bought second-hand.

Rural development
In terms of location, the south-western rural location of the business has both positive and
negative effects on its operations. There is not a great geographical distance to its main
markets, but for a micro business such a distance can generate relatively high costs, e.g.
high transportation costs, or time lost in transit. Attempts to reduce the costs are made by
co-operating with other food SMEs. The business wants to continue producing its own
supply of sheep and to develop this further in the rural context, as the owner is endeav-
ing to retain the vitality of rural regions.

The business is embedded in the area both socially and economically. The family has
cultivated the land in the immediate surroundings for hundreds of years. The economic
effects of the business operations in the local economy are both direct and indirect. The
direct employment effect of the business is rather modest, as it presently employs only
family members, but is still important in the rural context where employment opportuni-
ties are limited. Self-employment provides a good opportunity to remain and work in
rural areas. The business also directly contributes by having lambs slaughtered by small
rural butchers nearby, and a benefit to the local area is its providing a possible market
outlet for other producers.
Figure 9.9  Supply chain diagram for case study business 5.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Vision of owner</td>
<td>• Inconsistent raw material supply (procurement based on short-term prices)</td>
</tr>
<tr>
<td>• Niche products, quality and traceable</td>
<td>• Lack of capital</td>
</tr>
<tr>
<td>• Investment in human capital</td>
<td>• High market season for lamb is short</td>
</tr>
<tr>
<td>• Investment in production</td>
<td>• Location means high transportation costs to market</td>
</tr>
<tr>
<td>• Horizontal co-operation with other small food producers, creating a synergy</td>
<td></td>
</tr>
<tr>
<td>• Co-operation with customers in product development</td>
<td></td>
</tr>
<tr>
<td>• Exploitation of external assistance/funding</td>
<td></td>
</tr>
<tr>
<td>• Agricultural diversification (adding value to agricultural diversification)</td>
<td></td>
</tr>
<tr>
<td>• Suitable customer base</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase in Finnish consumption of lamb products.</td>
<td>• Diminishing number of sheep in Finland</td>
</tr>
<tr>
<td>• Increase in value-added activities</td>
<td>• Imported lamb products</td>
</tr>
<tr>
<td>• Increase in horizontal co-operation</td>
<td>• Consumption patterns and trends</td>
</tr>
<tr>
<td>• Wider product selection</td>
<td></td>
</tr>
</tbody>
</table>

Figure 9.10  SWOT Analysis – Case study business 5.
9.6 Sales to further food processors

Sales to other food processors is rather common for all sizes of business. It also suits micro businesses as some may produce only a small part of the final product on behalf of another business, whereas other businesses are producing the final product or entire product line as a whole. Usually the outsourcing food processor partners are somewhat larger companies. The following case example presents a business that has specialised in tailoring its services to different customer sectors, including further food processors.

9.6.1 Case study 6: specialised expertise and production know-how

Business and entrepreneur characteristics

Case study 6 is a business situated in Northern Ostrobothnia, near the region’s main city, Oulu. It was founded in 1993 and currently employs 10 people, two of whom own the business. The aim of the business is to provide customers with different kinds of ready-made meals. Its turnover in 2003 was approximately 1.1 million euros. The business can be regarded as having its roots in family tradition: the earlier generation has over 30 years of entrepreneurial experience in the food processing sector. The business provides its customers with specifically tailored services and food processing knowledge which the owners regard as the most important assets of the business. “The competitive factor of the business is in certain kinds of production techniques and methods, and the product knowledge and understanding that we possess” (Interview, December 3rd 2001).

The main customer groups are from within the large food processing industry, the wholesale sector, the food service sector (both private and public), and the retail sector. Over the years the business has developed from a supplier of consumer packaged goods for the retail sector to a reliable and skilled partner for the food processing industry. Initially over 50% of turnover came from retail sector customers, but this currently stands at around 5%. When starting the business, the owner was familiar with the retail sector due to his parents’ business, and therefore it was easier to target this market. However, the consistent core business idea was to provide the food service sector with ready-made meals. The production know-how of the business is currently available almost everywhere in the world through its business partners.

The business is the biggest producer in northern Finland of prepared meat as a raw material. Its minced meat products are used, for example, in the production of pizzas and pies for some private label products of certain retailers, or at local restaurants. As well, the public food service sector is a large customer of the business, due to its move towards higher use of pre-prepared products. The product range of the business is quite extensive, and has been developed to meet the needs of the customers. Many products are made and sold only to one customer, with the products being developed in close co-operation with the customer and the final products being highly tailored, specific product and service
solutions. In this respect, the small size of the business is definitely a positive factor, and its customers regard the business as being extremely reliable and flexible.

**The business supply chain**

The upstream and downstream linkages of business 6 are shown in Figure 9.11. The owner fully recognises the importance of both upstream and downstream nodes in the chain, and the long-term established relationships which must be taken care of. Both long and short chains are used by the business.

**Upstream**

Domestic raw material usage has been one of the cornerstones of the business and is regarded as a value-adding factor. Most of the vegetables used in production are bought locally, and the business has year-long contracts with farmers nearby, underpinned by a well-established informal relationship. The business uses a swan flag label on some of its products, which guarantees that the product is manufactured using Finnish raw materials. The more exotic vegetables, not farmed in Finland, and so-called ‘supplementary products’, are purchased from various local wholesalers, both small and large, selected through competitive bidding. The business relies on more than a small number of raw material suppliers, in order to avoid problems with increasing costs and their effect on the final price of the product. If, however, the raw material costs suddenly rise, this causes a great problem as sudden price increases cannot be absorbed due to the business’s small scale. By using various suppliers, the business can spread such risks. The main criteria used for selecting suppliers include product quality, certainty of continuous deliveries, and price.

Traceability of raw materials is highly important to the business, and in-house control systems are well established. Every piece of raw material is recorded, which helps guarantee complete traceability through the entire production process. It is believed that the consumers want to be aware to some extent of the origins of the products’ raw materials. However, the owner thinks that consumers presently only wish to know if the raw material is domestic. The occurrence of a food scare would rapidly change the situation and the business must be fully prepared for such an eventually.

**Downstream**

Initially the business targeted the retail sector as its main customer group. As the business developed, the focus shifted towards the food service sector (public and private). Subcontracting to the food processing sector started in the late 1990s. The business aims to maintain long-term, established downstream supply chain relationships with its customers. Existing business relationships are important when trying to secure new customers, as they serve as a reference: “...we are profiled through our customers...” (Interview, December 3rd 2001). As a small and flexible business, it is essential that it tries to be proactive in product development by being aware of market trends, and if some areas of change are noticed, business operations are adapted accordingly. The owner feels that the competitive advantage of the business lies in its persistent pursuit of high quality.
New product development is usually conducted in close co-operation with the customer, thus ensuring the products are tailored exactly to the customer’s needs. According to the owner, this kind of close co-operation is generally easier to implement with food service sector representatives. The customers’ speciality needs have a great effect on production and packaging, for example. Cost effectiveness is the key factor of the business, as well as to operate cost effectively and remain attractive to current or potential customers. Cost effectiveness requires constant development in all areas of business operations.

Communication with customers is on a daily basis, mostly for sales purposes or in connection with product development. Further feedback is expected from customers in order to further develop the products to better meet the needs of customers. Consumer feedback rarely reaches the business, as direct contact with consumers is virtually non-existent, and this is considered a drawback.

Transportation of ready-made products is undertaken in various ways. The business uses its own transport to deliver final products to some local customers and customers’ depots located close to the business’s facilities. External transportation companies are used when there is greater geographical distance between the buyer and seller, or where the transportation is organised by the customer. Some customers may also collect their orders from the business’ facilities if this is considered more feasible.

The role of ICT
The business uses on a daily basis the telephone, mobile phone, fax, computer, email, internet and professional software. Basic ICT is used every day for communication and ordering purposes. The business also has its own website which is regularly updated, including current business news. From the website a potential customer can obtain a good overview of the business and its scope of operations; it therefore plays an extensive role in creating a profile for the business.

The main reason for ICT adoption has been business driven. An important stimulus has been the speed of information flow and the recognised need to manage it properly. As well as its role in communication and ordering, ICT is generally used for promotion, marketing, sales to commercial customers, information searches, decision-making and quality control. ICT use has not had any great effects on the number of personnel, because the business’s production techniques are not that sophisticated. It has, however, decreased the number of administrative personnel. Investing in more developed systems would be too expensive for the size of the business.

The role of institutions
The business has had assistance from regional and local bodies. The owner feels it is not too difficult to find the right kind of assistance if in need, but recognises that it may take time. The business has taken some initiatives in accessing institutional support, and has also been made aware by an external body of certain forms of support. It has been
involved in a regional food project, led by the Regional Council, from which the company benefited in a marketing sense. External support for research and development is valued by the owner, but the business has not particularly needed it, because, as mentioned earlier, research and development is undertaken in close co-operation with downstream business partners. Some forms of assistance, for example, a capital grant for buildings and equipment, are the most appreciated forms of support. However, the significance of external assistance is not exaggerated.

**Rural development**

The location of the business has both negative and positive effects on its operations. As the Finnish population is mostly concentrated in southern Finland, many customers or potential customers are situated in this southern location. The transport of goods to markets may thus take a long time but this is not considered a large problem. The business’s northern location adds value to its marketing activities. The profile of the business is partly created through, for example, reindeer meat and other ‘northern’ products, which makes it more credible than if it were located in southern Finland. The business image is what matters in the marketplace. The company’s main contribution to the local economy is through the direct and indirect employment of local people. It also promotes a good and clean image of the region, and endeavours to support regional farming and raw material production.

![Figure 9.11 Supply chain diagram for case study business 6.](image-url)
### Strengths

- Small scale allows business to be flexible
- Customer-led product development
- High levels of customer service
- Production technique and know-how important assets
- Niche products, tailored to customer needs
- Wide customer base which spreads risks
- Location increases business credibility
- Well-established supplier relationships
- Strong links to the region
- Networked with local and sectoral institutions

### Weaknesses

- Business is located far from its most expanding markets
- No direct contact with consumers

### Opportunities

- Need to continuously develop the business and find new markets
- The business concept offers opportunities to innovate
- Enhancement and increased use of regional imagery in marketing

### Threats

- Small scale inhibits business development
- Reduction in the amount of skilled labour available

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Figure 9.12  SWOT analysis – Case study business 6.

### 9.7  Co-operation network

The following two case examples illustrate different forms of co-operation in food chains. Co-operation among SMEs can be considered as an outstanding asset for a small food processing business located in rural surroundings. By co-operating, businesses can, for example, share costs and better concentrate on their core competence, which usually leads directly to higher profits. There are many different forms of co-operation between businesses. Case study 7 presents a micro-sized business that is engaged in various kinds of co-operation with other processors, and case study 8 a business which has a highly tailored co-operation relationship with a larger business that operates as its marketer.

### 9.7.1  Case study 7: networking as a competitive asset

**Business and entrepreneur characteristics**

This case study is a micro-sized family business situated in the Nivala-Haapajärvi sub-region, in the small municipality of Haapajärvi, in the southern part of rural Northern Ostrobothnia 160 kilometres from Oulu, the regional capital. The sub-region has 33,000 inhabitants, of whom 8,000 live in Haapajärvi. The sub-region is currently receiving development assistance as part of the European Union’s Objective 1 programme, and
the biggest problems experienced are high unemployment and migration. Development efforts have focused on mechanical wood processing and the metal industry. Since the mid-1990s, substantial investment has also been made in the development of the SME food processing industry.

Before starting the business in 1992, the owners had a cattle farm, but cattle breeding was stopped due to its low profitability. The owners did not know what they wanted to move to, only that they wanted to continue being self-employed. After scanning the regional markets, they decided to start cultivating and processing different kinds of berries; there were no similar businesses in the region. Currently the business processes juices, jams and jellies from different domestic berries (strawberry, blackcurrant, buckthorn, lingonberry, cloudberry and cranberry). The business aims to produce items that include as little additives as possible. Part of the berry cultivation is organic, and part is wild. As well as its own production, the business also makes juices from customers’ berry supplies.

The business currently employs the husband and wife full-time, and two or three external seasonal workers. The turnover of the business is approximately 0.2 million euros, and the aim is to increase this as the owners would like to employ more people. Both owners have a secondary level education, while the wife holds a degree in business and management studies. The owners have taken various short courses and have participated in different training programmes covering areas such as marketing and hygiene.

The business supply chain

The upstream and downstream linkages for case study 7 are shown in Figure 9.13. The business fully recognises the importance of both upstream and downstream business relationships in the supply chain. Long-term, established relationships are valued by the owners. The business uses both short and long supply chains, the emphasis being on short chains as the owners place high value on personal relationships with customers.

**Upstream**

The main raw material of the business is different kinds of berries, including strawberry, blackcurrant, buckthorn, lingonberry, cloudberry and cranberry. The business cultivates approximately 20–30% of its raw material on its own farm. Production is based on organic farming, but as sufficient external organic raw material cannot be guaranteed, the business has not applied for organic labels as a means of marketing its products.

The business buys approximately 70–80% of its raw material from external suppliers, which are usually located in the same region. Externally sourced berries are partly cultivated on berry farms, and are partly wild. The business does not use foreign berries and therefore is able to use a label of Finnish origin, the swan flag, on its products. The main criterion in supplier selection is the quality of raw material. The owners often want to see a sample of the raw material before closing a deal. The price is also important in supplier selection, but its significance is far less than that of quality. The business has
practically no written contracts with its suppliers. With local berry growers, from whom various lots are bought, the requirements are always the same. Long-term, established downstream relationships are appreciated and based on mutual trust, which has been built during many years of co-operation.

The business is active in horizontal co-operation with other regional and local food SMEs. For example, it conducts new product development in co-operation with a regional processor, and operates as a subcontractor for various other businesses due to its expertise in berry processing. Because of its high level of know-how, many institutional representatives call the business to ask its opinion on various issues related to berry production. The owners believe that a small business cannot operate in a vacuum, but can prosper only by co-operating with other businesses, small and large. The business engages in a high level of co-operation, but the owners still believe that this could be increased.

The traceability of raw material is at a high level. The owners have analysed the procedures together with a health officer, and have found the in-house control system sufficient and complete. The owners believe that consumers wish to know only the distinction between foreign and domestic supplies, and whether cultivation has been farm-based or in the wild. According to the owners, the domestic origin of the berries is highly important for Finnish consumers.

**Downstream**

The downstream supply chain includes retailers, food service sector units, food processors and direct sales to consumers. The business’s jam, juices and jelly products are sold under its own label and another food producer’s label. The business also makes juices from berries supplied by customers. The owners suggest that the most significant criteria when downstream customers select the business as their supplier, are the reliability of continuous deliveries, made on time, and in the right proportions. Delivery of finished products is done by either the business itself or externally: local retail stores are handled by the business and for deliveries outside the local area transportation companies are used.

The business has processed jams and jellies under another food producer’s label since the late 1990s, and this level of co-operation has taken its products to export markets, for example to Germany. The business has a significant contract with the food service sector at the regional level, through the public healthcare sector. Direct sales to consumers are undertaken, for example, through various fairs. Customer retail stores are located within the region and outside it, the majority being local stores.

The high percentage of berries in the finished products is considered an important competitive advantage. The image of the business as a producer of high-quality products is also promoted by the marketing material. The owners are certain that if a business performs well, then word-of-mouth helps to promote it.
The role of ICT
The adoption of ICT is at a relatively low level compared to other businesses in the food processing sector. The business uses on a daily basis the telephone, mobile phone, fax and personal computer. Email, the internet and professional software are used less often, approximately once or twice a week. The business is considering launching its own website. ICT is generally used for normal day-to-day communication, marketing and sales, ordering and invoicing, and as a tool for decision-making and quality control. The main reasons for adopting various ICT tools include ease of use, and the fact that the business would be able to keep agreed schedules with business partners.

The role of institutions
The business has exploited various kinds of external assistance, mainly at the local and regional levels. The owners believe that in Finland it is relatively easy for food SMEs to find external assistance, if the entrepreneur is active. The owners have received, among other things, counselling, education and training, and financial grants from various institutions. Financial assistance was granted by the regional Employment and Economic Development Centre. The business was also involved in a regional development project which aimed at creating new food SMEs and increasing the number of people working in the food sector.

Rural development
According to the owners, the rural location of the business has mainly positive effects, including the fact that it is able to produce part of its own raw materials. The business is embedded in the region both socially and economically, and the use of regional imagery in marketing is important for the business. The owners were born in the region, and they continue living on the home farm. Direct employment effects on the local economy are rather small, as the business employs only a couple of people on a seasonal basis, but the owners aim to expand the business and employ more.

The business would hope to see an increase in the use of local processors as suppliers to the public food service sector, and believes that such major decisions on sourcing should be made at the national level. If the public food service sector was able to source its input locally, even though the local products may be a little more expensive, the local area would benefit considerably; for example, money would stay in the local area and generate more tax revenues.
Figure 9.13  Supply chain diagram for case study business 7.
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Investments made in human capital</td>
<td>• Small scale of business</td>
</tr>
<tr>
<td>• Investments made in developing business operations</td>
<td>• Website not developed</td>
</tr>
<tr>
<td>• Traceable raw material supply system</td>
<td></td>
</tr>
<tr>
<td>• Significant level of horizontal and vertical co-operation undertaken</td>
<td></td>
</tr>
<tr>
<td>• New product development in co-operation with other businesses</td>
<td></td>
</tr>
<tr>
<td>• Quality products of clearly identified Finnish origin</td>
<td></td>
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<tr>
<td>• Flexibility</td>
<td></td>
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<tr>
<td>• Diversified product supply network</td>
<td></td>
</tr>
<tr>
<td>• Recognised expertise in the field of berry processing</td>
<td></td>
</tr>
<tr>
<td>• Exploitation of external assistance</td>
<td></td>
</tr>
<tr>
<td>• Positive attitude towards future investments in various business areas</td>
<td></td>
</tr>
<tr>
<td>• Strong links to the region</td>
<td></td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>• Continuous product development</td>
<td>• Increasing volume of foreign berry imports in Finland</td>
</tr>
<tr>
<td>• Moving from being a subcontractor to an equal partner in business relations</td>
<td>• A successor not yet identified for the business</td>
</tr>
<tr>
<td>• Organic production</td>
<td></td>
</tr>
<tr>
<td>• Enhanced co-operation with the food service sector</td>
<td></td>
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<tr>
<td>• Establish website to help create market image</td>
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</table>

**Figure 9.14**  SWOT Analysis – Case study business 7.

9.7.2 Case study 8: an award-winning milk processing business

**Business and entrepreneur characteristics**

Case study 8 is a family-owned micro-business located in the small municipality of Pyhäjärvi in the Nivala-Haapajärvi sub-region, which is in the southern part of Northern Ostrobothnia. The sub-region has 33,000 inhabitants, of whom 6,000 live in Pyhäjärvi. The sub-region is currently receiving development assistance as part of the European Objective 1 programme, and experiences high unemployment and out-migration. Strong development efforts have been made in mechanical wood processing and the metal industry. Since the mid-1990s, large investments have also been directed towards the development of small-scale food processing.
Before starting the business in 1997 the owner worked for a local dairy, and his own food processing business began gradually. The business started with a few products and gradually developed others, even though the total is still less than ten. The current product range is concentrated in two categories: unripened cheese (70% of production volume) and mushrooms (30%). Both include high quality niche products, some of which have won national awards. In 2002, one of the business’s cheeses won first prize in the category of small cheese processors, in a competition organised by the Finnish Small Cheese Dairy Association. The business employs family members and three hired staff, of whom one is full-time and two are seasonal, mainly during the Easter and Christmas periods. The turnover of the business is approximately 0.4 million euros, which could be doubled by expanding operations. During high seasons, the business is not able to satisfy the demand for certain products with its present capacity. The business has access to good, spacious production facilities that used to belong to a local dairy, and therefore future expansion will not require large capital investment.

The owner has taken various short courses and the business has been involved in regional and local development projects, which had to do with marketing, logistics and other aspects of business operation. The business has, therefore, clearly undertaken a significant investment in human capital. Approximately 80% of production is marketed by another business, which is a medium-sized processing business. To access certain market areas, the case study business has contracts with other marketing businesses. The business itself takes care of the local marketing of its products.

In the early stages of operations, the business undertook small-scale market research. For example, before marketing its mushroom salad, two blindfold consumer-testing panels were organised in different parts of Finland. Both consumer panels selected the case study business product as the best and most authentic.

**The business supply chain**

The upstream and downstream linkages for case study 8 are shown in Figure 9.15. The business fully recognises the importance of both upstream and downstream nodes in the supply chain. Relationships have to be taken care of, and long-term and established business relationships are valued. The business mainly utilises long chains due to its use of marketing firms.

**Upstream**

The main raw material of the business is milk, which is sourced locally from a national supplier. The milk lots are delivered to the business up to four times a week, depending on seasonal fluctuations in production. Another important raw material is eggs or egg mass. Approximately 60% of the egg mass is sourced locally and 40% comes from Southwest Finland. The selection of a main supplier for raw material has been simple, as there are limited possibilities for milk supplies. In the case of egg mass, flexibility of service and price has influenced supplier selection, as well as the supplier’s location near the busi-
The business is able to use a label of Finnish origin, the swan flag, on its products. The label is used because the business thinks that “...it’s a good label. It’s most likely to promote sales” (Interview, January 25th 2002).

The quality requirements for the raw material are extremely strict. The business has not experienced any problems with liquid milk or milk powder, but some problems have existed with egg mass. The business tightened the quality requirements for egg mass suppliers, and since then the quality has been good. The origin of raw materials can be traced all the way back to farms, but it is not regarded as an important quality feature as it is not requested by consumers. It is usually enough for the consumers to know that the cheese is Finnish.

**Downstream**

Most of the finished products, approximately 80%, are marketed by a medium-sized processing business. Co-operation between the processor and the case study business started with the initiation of the processing business in the late 1990s. At the beginning there were no written contracts, although the businesses were committed to building a long-term relationship; currently the business relationship is more formal. In order to access certain market areas in southern Finland the business has contracts with other marketing businesses. The business takes care of the local marketing of its products, and uses its own transportation when delivering to the local markets. Although it uses other businesses to market and distribute its products, these products are still sold under the brand name, with the name of the marketer visible on some product labels. External partners mainly undertake transportation of finished products, on the national level, along with a specialised carrier. In addition, one of the raw material suppliers distributes the finished products at a regional level.

The business sometimes gets new ideas or hints for new product development from its downstream partners. However, the owner would appreciate more active feedback from customers and the marketing businesses it uses. Both positive and negative feedback are expected in order to further improve the products.

The future target concerning customer segments is clear to the owner: the food service sector interests the business as an untested segment. It is thought that profit margins could be higher in the food service sector, compared to the retail sector, and that co-operation with downstream customers would be more open, for example in new product development.

**The role of ICT**

The adoption of ICT is on a relatively low level. The business uses on a daily basis, the telephone, mobile phone and fax machine. Personal computer, email, the internet and professional software are used less often, maybe once or twice a week. The business does not have a website, as it does not market the products itself. According to the owner, the
use of ICT means savings in time and money for the business. As well, there is the matter of creating an image for the products and the business, which would probably necessitate the business having its own website. ICT is generally used for normal communication, marketing and sales, ordering and invoicing, and as a tool for decision-making and quality control. The owner acknowledges that ICT will be more important in the future, if the turnover of the business increases as planned.

**The role of institutions**

The business has received external assistance for new product development from various institutions. For example, the business has received both advice and financial aid for product development from the National Technology Agency. The business has also received grants for capital investment from the regional Employment and Economic Development Centre. It has a contract with MTT Agrifood Research, in a relationship connected to new product development processes. The owner considers that the regional and local organisations are providing sufficient support for small food business owners, for example in personal development or ICT, although its relevance is not always instantly obvious. According to the owner, it is not difficult to find external assistance.

**Rural development**

The rural location of the business is considered to have both advantages and disadvantages for operations. The owner thinks that for a micro-business in the food processing industry, the main advantages include lower production costs compared to urban areas, lower labour costs and production facilities that are highly appreciated by the owner. On the other hand, the main disadvantage of a peripheral location is the long physical distance from major markets. As the business’s products are perishable, logistics is a key issue.

![Supply chain diagram for case study business 8.](image-url)
The owners have considered relocating the production plant nearer to the main markets in southern Finland, but as the name of the business is attached to the region, they would probably have to change that also and redesign the packaging; such adaptation would be costly. However, the owner is certain that the peripheral location of the business has not prevented any marketing transactions, although it may have caused some difficulties.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reliable supply of raw materials</td>
<td>• Weak connection with the final customer/consumer</td>
</tr>
<tr>
<td>• Investments in human capital</td>
<td>• Website not developed</td>
</tr>
<tr>
<td>• Investments in the development of business operations</td>
<td>• Location means high transportation costs</td>
</tr>
<tr>
<td>• New product development in co-operation with other businesses</td>
<td>• Production of some items is not always able to satisfy demand</td>
</tr>
<tr>
<td>• Innovative, quality niche products, with clear Finnish identity</td>
<td></td>
</tr>
<tr>
<td>• Long-term marketing strategy</td>
<td></td>
</tr>
<tr>
<td>• Well-functioning co-operation with a marketing business</td>
<td></td>
</tr>
<tr>
<td>• Exploitation of external assistance</td>
<td></td>
</tr>
<tr>
<td>• Links to the region</td>
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</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Food service sector targeted as a new market segment</td>
<td>• Successor not identified for the business</td>
</tr>
<tr>
<td>• Enhanced consumer-orientation</td>
<td></td>
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<tr>
<td>• Wider product range to build business image</td>
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<tr>
<td>• Production facilities offer possibilities to extend operations</td>
<td></td>
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<tr>
<td>• Website to help create market image</td>
<td></td>
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<tr>
<td>• Exploitation of awards won</td>
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</table>

Figure 9.16 SWOT Analysis – Case study business 8.
References


The SUPPLIERS (Supply Chains Linking Food SMEs in Europe’s Lagging Rural Regions) project was concerned with the development, innovation, competitiveness and sustainability of food SMEs (small and medium-sized enterprises) in lagging rural regions. The SUPPLIERS project was carried out in six European countries between 2001–2004.

The objective of this publication is to review and evaluate factors influencing supply chain development and performance in Finland, their likely evolution and impact on small-scale food enterprises and rural development.

The two Finnish regions in the project were Southwest Finland and Northern Ostrobothnia. The product groups chosen for the study in Southwest Finland were meat, fish, mill and bakery products. In Northern Ostrobothnia the products were milk, meat, berries and vegetables. The case examples of the study are useful to entrepreneurs and in development work in the SME sector.