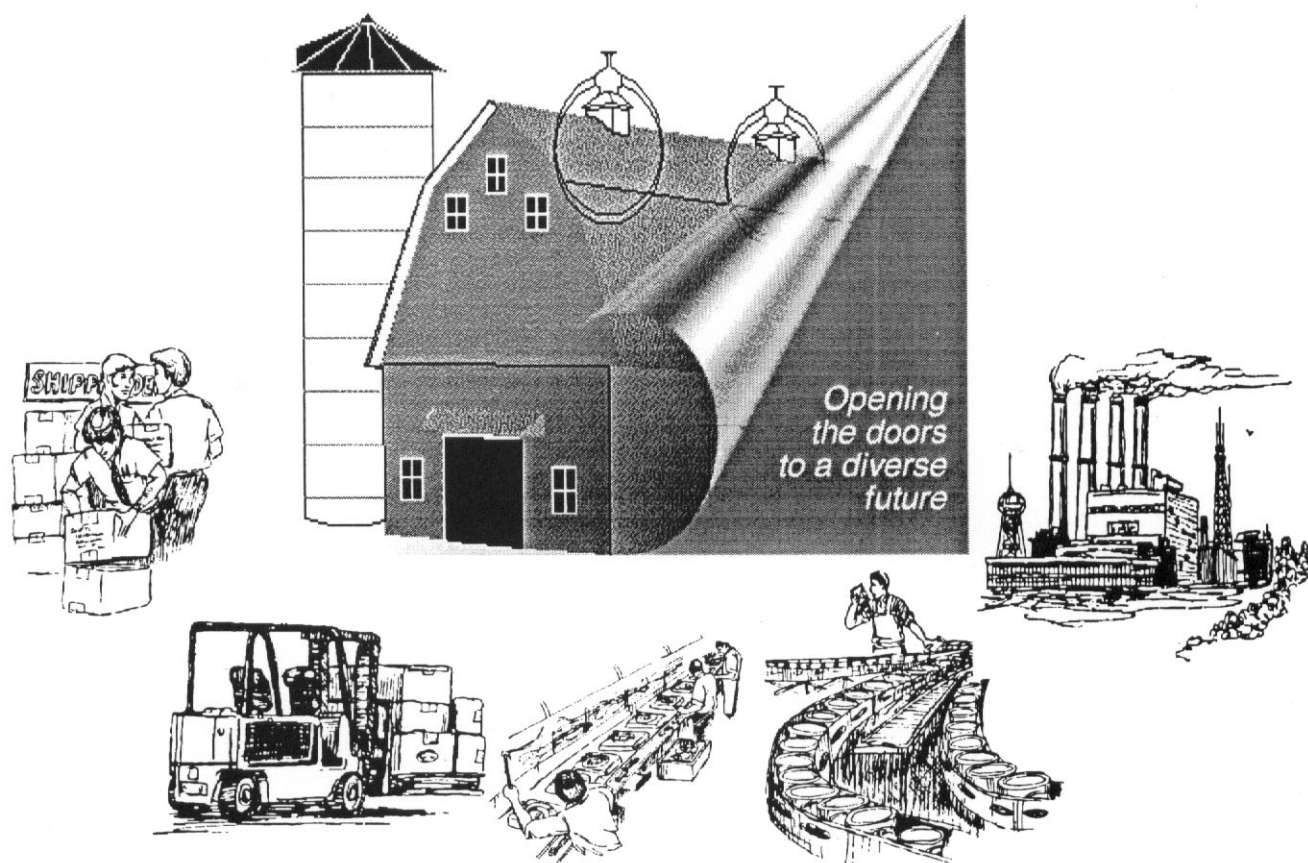


IDENTIFICATION OF ISSUES DURING START-UP AND OPERATION OF VALUE-ADDED AGRI-FOOD BUSINESSES IN RURAL MANITOBA



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**IDENTIFICATION OF
ISSUES DURING START-UP AND OPERATION OF
VALUE-ADDED AGRI-FOOD BUSINESSES
IN RURAL MANITOBA**

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PREFACE

The primary aim of this project was to develop a broad understanding of factors relating to the success of ventures in agri-food value-added businesses in Rural Manitoba. The effort is part of a series of projects focusing attention on the opportunities extended to rural Manitoba by the long-established and productive agricultural industry. Creating processed goods from raw products holds great promise for the rural economy, allowing not only markets for farmers, but also diversified employment opportunities for all rural residents.

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Richard C. Rounds
Series Editor

EXECUTIVE SUMMARY

This study of rural-based agri-food businesses was aimed at identifying issues faced by entrepreneurs during start-up and early operation. Information was gathered directly from owners of agri-food businesses through either telephone or direct interviews. Information sought focused on the personal experience of operators of small and medium-sized rural businesses. Thirty-two of 55 businesses targeted are included in the sample used for assessment.

Respondents were asked to comment on a series of questions. Open-ended responses are classified into categories and paraphrased. Information relates to the following aspects of agri-food enterprises:

- Why business has succeeded
- Specific challenges during start-up
- Challenges or barriers following start-up
- The role of technology in the business
- Advice to new entrepreneurs
- General comments and suggestions

Responses to all questions are categorized for coherency. Categories include personal work habits, product quality, markets and marketing, customer service, innovation, team-work and networking, risk management, location, planning and technology. The roles of government and research and development also are examined.

Entrepreneurs' responses indicate a variety of philosophies and approaches to establishing value-added agri-food enterprises. Widely divergent views are expressed concerning government involvement in financing and regulation. The essential preliminary work for a prospective entrepreneur also is emphasized, especially the need for a comprehensive business plan, secure financing, and market analysis. A series of policy implications is presented.

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INTRODUCTION

The purpose of this study is to develop a broad understanding of factors relating to success, or failure, of ventures in agriculture-related “value-added” businesses in rural Manitoba. Study findings are intended primarily to assist governments in their efforts to stimulate rural development through value-added processing. As a secondary benefit, entrepreneurs contemplating, and to provide information to entrepreneurs contemplating entry into this field of business.

Information gathering was achieved primarily through contact with entrepreneurs directly involved with the start-up and operation of successful businesses within the rural community. In addition, members of the consulting team were requested to comment on the input from the entrepreneurs and to give context to the information. In contacting the successful entrepreneurs, our aim was to gain insight from their personal experiences. Interviewing focused primarily on small and medium sized businesses. Although most of the companies contacted were located off-farm, approximately 15 percent were on-farm value-added ventures. Only rural entrepreneurs were interviewed. However, much of the information contained in the report would apply equally to start-up businesses in urban areas.

THE INTERVIEW PROCESS

Initial contact with entrepreneurs was by way of a letter of introduction sent to the principal of the company. About 10 days later, a follow-up telephone call was made. In attempts to achieve a high level of response from the target entrepreneurs, this call was made personally by Dr. McEwen of Threshold Technologies. The consulting team was aware that Manitoba’s food processing industry had been surveyed on numerous occasions over the past decade by mail-out questionnaires and were, therefore, concerned that “yet another” mail-out survey form would receive little attention. To further enhance the probability of entrepreneur participation, respondents were advised that their specific comments would remain confidential to the extent that statements and their source would not be linked in our report, nor would their individual comments be passed on verbally to others.

Names of entrepreneurs along with the name, address and phone number of their companies were obtained with the help of field representatives of the Departments of Rural Development and Agriculture. A total of 120 company names were forwarded to the consulting team. As regions overlapped for the representatives from the two departments, about a third of the names received were duplicates. Some of the submitted names were for businesses not directly involving agriculture, while others (such as the pedigree seed business, or raising novel breeds of livestock) were deemed to be outside the scope of the study.

A preliminary list of target companies was prepared and forwarded to our departmental contact for review. The draft letter of introduction and the list of questions to be posed to the entrepreneurs also were forwarded for review and comment. Upon completion of minor revisions and receipt of approval to proceed, the interview process began with a total of 55 letters being mailed to companies considered to be relevant for this study.

By agreement, the list of questions was kept short as it was perceived that busy entrepreneurs could only be asked to share about 15 to 30 minutes of their time to participate in the study. However, the interviewer was given leeway in expanding upon the questions where the entrepreneur appeared willing to continue the discussion. Respondents were coached to consider both their personal and their company perspective in formulating answers to the questions. In some cases, where the respondent was new to the company and not involved in its start-up the interview began with question number 4. A list of companies contacted, along with the letter of introduction and the list of questions are included in Appendices A, B and C respectively.

COMPANY INFORMATION

The companies surveyed have been in business for varying lengths of time as follows:

1-2 yrs	3-5 yrs	6-10 yrs	11-20 yrs	20 yrs +
4	6	7	4	9

Response to the question concerning the period of time from the idea stage to actual start-up varied considerably. In some cases the entrepreneur entered the business through purchase of an existing business. In other cases, there was a fairly rapid response to a local business opportunity. Under these circumstances, the time to start-up was very short. In other cases, the business "evolved" over a longer period of time -sometimes progressing from a home business to a full fledged processing plant over a period of years.

The question relating to the number of employees was not asked in cases where the respondent seemed anxious to complete the interview. When the question was asked, numbers varied from a low of two part-time owner/operators, to one plant with more than 200 employees. About one-half of companies surveyed had less than 10 employees.

Entrepreneurs were hesitant to give any definitive answer regarding future growth. The question also was somewhat in conflict with the overall tenor of the interview where we were seeking advice, not proprietary information. For these reasons, the question was not asked in most instances.

RESPONSES FROM COMPANIES

Introductory Comments

Of the 55 companies contacted, 32 agreed to answer our questions. Of those which did not respond, thirteen were either not available, or chose not to take the time; four businesses had changed hands recently and the new owner did not feel qualified to answer the questions; four were in fields which fell outside our definition of value-added; and, two companies were no longer in business.

The level of cooperation from those who answered our questions was excellent. With few exceptions, respondents were cooperative and in some cases were willing to talk at length about their business and their experiences during the inception and start-up phases. Many appeared to be genuinely interested in sharing their experiences (good and bad) with others who may be starting their own business.

Almost all companies surveyed had a unique story to tell. However, some of the challenges during start-up, as well as some of the key elements of success, were similar.

Entrepreneurs were quick to point out that success in business is a relative measurement and not an achievement to which a simple yes, or no, status can be assigned. Although most respondents agreed that they had achieved a measure of business success, a few cautioned that they should not necessarily be listed as "success stories" as the jury is out whether or not they still will be in operation at this time next year. In fact, several suggested that thinking of oneself as a "success story" could well be the first step to failure. These people indicated that each day brings new challenges and new hurdles which must be overcome if the business is to continue to survive and grow.

The points and comments which follow represent the essence of the responses to our questions made by the entrepreneurs interviewed. Where deemed appropriate, some clarification and/or expansion on a point has been supplied by the consulting team.

Question: Why has your business succeeded?

Although some respondents were modest about their reasons for success, all identified at least two or three specific things that helped them establish and maintain their business. Virtually all mentioned the following four basic reasons for still being in business:

- Hard work
- Product quality
- Market understanding
- Customer service

With few exceptions, interviewees identified their reasons for success and their advice to new entrepreneurs as being very similar. To avoid duplication, these responses are presented together in a later section dealing with advice to the agri-food industry.

Question: What specific challenges or barriers to success did you encounter during the start-up phase of your business, and how were these overcome?

In many cases the specific challenges or barriers to success which respondents encountered during the start-up phase of their business turned into the very reasons for their success when these hurdles were overcome. In other cases, the challenges and/or impediments are ongoing. These comments have been summarized under a number of specific headings as follows:

Personal Challenges

- Many respondents admitted that in retrospect they knew very little about the food business when they started and consequently underestimated the complexity of starting a business and the work involved.
- Some found it difficult to get their message across, describing it as a lonely time.
- One respondent described the food business as “fickle.”
- Negotiations to produce private label product were long and frustrating - but persistence and patience paid off.
- Some entrepreneurs were new to Manitoba and needed local people to teach them the differences in doing business here versus in Europe.
- Some found it difficult to match production with sales owing to the limited shelf life of the product.
- Some had real cash-flow problems - the only answer was to continue farming and continue with their off-farm jobs.
- One entrepreneur found it a scary time when he realized that pursuing his dream meant going into debt.
- Some said they felt lost, not knowing where to go to get process or market information.

Financing

- Just as entrepreneurs often underestimate the complexity of the food business, many also underestimate the cost of equipment and facilities - all of which must meet stringent sanitation requirements.

- Most of the respondents identified the raising of investment capital as a challenge to starting their business.
- Some entrepreneurs overcame cash flow problems by keeping spending to a bare minimum while others borrowed to their limit in order to purchase larger scale equipment to reduce their per unit operating costs.
- Similarly, some entrepreneurs relied on word of mouth to expand markets while others invested heavily in a marketing program to increase sales.

Raw Material Supply

- Many of the entrepreneurs identified the importance of accessing quality raw materials at competitive prices.
- Some realized the only way they could assure the quality and quantity of raw materials needed to satisfy their customers was to get into the production business themselves.
- Several respondents identified challenges in raw material supply owing to production quotas and central selling desks.

Personnel

- Several respondents found it challenging to find competent staff sufficiently trained in food processing while also understanding the entrepreneurial needs of a small start-up business.
- The problem of competing lifestyle, salaries and fringe benefits enjoyed by urban workers posed a real challenge to several rural businesses.
- Some stated that the amount prospective workers receive through the welfare system made it difficult for the start-up company to compete for labourers.

Regulation

- Many were unaware of the range of regulations which govern the food industry and, therefore, found it difficult to not only understand the regulations, but also to find the time and financial resources to comply.

Marketing

- Two major challenges confronted entrepreneurs in marketing. First, product acceptance was identified by many as a key challenge during start-up, owing to existing brand loyalty. When it comes to trying something new, consumers can be very conservative in their tastes. Getting a product onto the store shelf can be a daunting task -keeping it there can be even tougher. The second marketing issue relates to competition. Pricing by a large corporation that produces similar products can be very difficult to match.

Packaging

- Several respondents identified packaging as a major hurdle they had to confront during their start-up period. When volumes are low, costs per unit can be double that of a large competitor.
- Some of the key types of packaging are not produced in this region, and must be shipped in at considerable expense. Local transfer from Winnipeg to a rural processing plant is another expense and ongoing challenge.

Several respondents mentioned that they had overcome challenges through a belief in themselves and their ideas, through listening to others, through continually learning, and above all, by being persistent.

Question: What challenges or barriers do you face now in achieving even greater success? What are you doing to overcome barriers?

In some cases the challenges which businesses faced during start-up remain as challenges today. However, in other cases, different barriers to growth have surfaced. Specific challenges were identified as follows:

Personnel

- As businesses grow, in some cases, availability of technically trained and motivated staff in rural areas has become a major limitation to expansion.
- In certain cases, the low return on investment makes it difficult to get sons or daughters to take over the business.
- A lack of skills in international marketing has restricted growth in some cases.
- Some entrepreneurs are content with the size of their existing business, recognizing that to attempt to expand may result in lower net revenue, or an unacceptable level of risk.

Regulation

- Regulation governing the marketing of various agricultural commodities was cited by several people as an impediment to growth. A few entrepreneurs identified the high cost of meeting sanitation and plant construction standards (particularly the federal meat processing regulations) as restricting their growth.

Financing

- As many as a third of those contacted identified lack of access to additional capital as a barrier to growth. Several companies expressed a belief that additional capital would elicit additional sales, but, as they were already levered to the bank's limit, additional funding had been denied.
- One company said they had overcome their financial problems with their US operations by securing a loan from a US bank.
- Some companies identified the need to do more research if they were to expand, but the cost of the research is beyond their financial means.

Competition

- The primary concern expressed was the challenge offered by the big companies with large advertising budgets and low prices.
- One entrepreneur would like to see small Manitoba companies collaborate, or perhaps even amalgamate, to reduce local competition.

Cost of Business

- Where key raw materials must be supplied from distant locations (i.e. dried vegetables, glass jars, etc.) competitive pricing can be difficult.
- Several individuals identified the cost of distribution to markets outside the province as limiting to growth.
- A few respondents identified taxes and competition with unemployment benefit as significant cost-related issues.

- One entrepreneur mentioned he had begun a research program aimed at reducing their cost of doing business.

Supply

- Certain industries (such as wild rice processing) are restricted from growing owing to supply limitations.
- The seasonal nature of raw material supply may limit entry into markets where a constant year-round supply is desired.
- Several respondents said they were unable to expand due to limitations caused by supply management and/or the pricing structure practised by single desk selling.
- The inability to ensure some crops (i.e. vegetables) causes supply problems.

Transportation

- Some entrepreneurs identified the trucking services offered within Manitoba as a key to their success. Others felt that the high cost of transportation restricted further expansion. The railways were criticized for having virtually no interest in serving small companies.

Other responses

- Entrepreneurs attempting to export to foreign markets identified non-tariff barriers as a significant impediment to expansion of their business. The EU was specifically mentioned in this regard.
- Limited population in Manitoba and continued depopulation in some rural areas significantly reduces, or eliminates, the opportunity for business expansion into local markets. Some, however, are content to operate within the province because exporting carries too great a risk.
- A couple of respondents suggested that the granting of support to start-up companies represents an impediment to growth of companies already operating in that sector.
- One respondent felt that there were few, if any, barriers to growth. The skills of the entrepreneur are the only real limits imposed.
- One entrepreneur was limited owing to the slow acceptance of the ethnic food they produce.
- Some companies are not looking to expand because of the challenges to keep up with current demands on their time and resources.

Question: What role has technology played in your business?

Responses to the question "What role has technology played in your business?" varied considerably. For many of the companies, technology has played a very minor role. For others, it has been a crucial factor in their success. Technology was defined for respondents as the practical application of disciplines such as chemistry, microbiology, engineering and computers.

Approximately one-half of the companies surveyed are using computers in the management/accounting side of their operations. Slightly more than half of the respondents indicated that technology has played a significant role in their processing operations. However, care must be exercised in interpreting the responses because of the difficulty in drawing a distinct line between the art and science of food preparation.

As a general rule, respondents were fairly consistent in their belief in the importance of product quality and operational efficiencies. For some, this has been achieved through the application of technology. For

others, it has been achieved through a full understanding of their product and how it is to be handled under varying processing situations.

Several entrepreneurs indicated that they understand the importance of innovative technology, but they just could not afford to make the necessary investments given the chronic cash flow problems they face.

Question: What advice would you give to an entrepreneur who might be interested in getting into the agri-food industry in Manitoba?

Responses to this question were a pleasant surprise. Most entrepreneurs interviewed were genuinely interested in offering advice to others wanting to enter the value-added agriculture field. In many cases, the advice followed from answers to the earlier questions relating to the challenges and barriers faced during start-up of their own business, and how these were overcome. Thus the following comments are a compilation of each of these responses.

Dedication

- Be prepared to fight to overcome set-backs. These are a fact of life for new businesses. This is accomplished through hard work. Running your own business is not an 8 to 5 proposition. Be prepared to work long hours for low wages.
- Believe there is a need for your product.
- Believe in yourself, don't give up, and be sure employees buy into the company's vision and understand the need for hard work and dedication to achieve success. Even if you are doing all the right things and still fail, don't become discouraged.
- As an owner of a start-up business, don't underestimate the value of personal involvement in all aspects of the business.
- Don't be lulled into a false sense of security from early successes.

Product Quality

- Your product must not be just good, it must be consistently good. In certain markets, your product must meet, or surpass, national and international standards.
- If you are in the food or feed business, you must be aware of the importance of nutrition and understand what this means in technical terms. Accordingly, you must know where your raw material comes from and be confident in its quality. Make product quality your most important attribute - promote quality ahead of price. Also be aware that there is no easy way to build a reputation.

Understanding Markets

- Entrepreneurs stressed that one must understand how chain store managers and buyers operate if you are attempting to enter the retail food business. Don't underestimate the strength of the large retail chain stores. Identifying markets is one thing, gaining access to them is another. Look for niche markets where the competition is not quite as severe. Offer a product that differentiates itself from competition - or have a superior product at a competitive cost.
- Consider starting with a local market where there are "friendly" buyers and customers who will assist you through the tough start-up times. Wherever possible, use personal contacts and local trade shows to expand your contacts and knowledge of all aspects of the business, and especially to gain acceptance of your product. Know what your customers want and set about meeting their wants. Supply and demand drives prices, which drive profitability. One must understand these relationships. Use innovative forms of

marketing such as the Internet and Fax machines. Personal selling, however, is superior to all indirect contact.

- Be prepared to change your product, packaging, price and/or marketing strategy if sales are lagging, or, if buying patterns are changing. Find a mix of new and established products, but understand that markets drive production, not the reverse. Listen to the customer - be pleasant - success is a whole bunch of little things that add up.
- Ensure there is sufficient market (or market potential) for your product before you launch your business. Determine if your target market is currently lacking supply in any way. If it is, you may have some opportunity to enter the market. Learn what the market will bear.

Customer Service/Relations

- Build your business around a quality relationship with your customers. Listen to them, spend time with them, and do what they want. Be fair and honest in your dealings with your customers if you expect the same from them. Stand behind your product - if you have an unsatisfied customer, be prepared to replace the item at no charge. Getting along with others, particularly your customers, is essential for long term success.

Be Innovative

- Innovation is essential to maintaining business. One must understand that the business environment is continually changing and that survivors are those who change with the times. Although focusing on your core business is essential, don't abandon the search for innovative ways to increase operational efficiencies, or to capture new markets. Do not underestimate the impact the computer and the Internet have on your business.

Building a Winning Team

- People are the key to success. Be sure that everyone involved in your business is clear on the goals and objectives and that all are working together. It is essential that family members, including yourself, understand the sacrifices that must be made when starting and operating a small business.
- Learn how to manage people. Investment in a personnel management course may be the best investment you make. Learn to do each of the jobs yourself if you want to show the kind of leadership a business requires, but understand that you can't do it all yourself.

Building a Network

- In addition to building a unified internal team, entrepreneurs stressed the need to establish external networks. Sharing information and experiences with others in similar businesses is deemed essential. Attending trade shows and fairs and asking questions, talking with local people and listening to their advice, and joining trade associations and keeping your eyes and ears open all are important.
- The internet is a "bonanza" for some start-up businesses. Be thorough in analysis rather than taking one person's advice also is important.

Financing

- It is critical to learn about the food industry because there are a lot of hidden costs of which one may not be aware. This knowledge is essential to understanding cash requirements, including contingency funds required to overcome unexpected problems. One must be realistic about cash flow projections so as to avoid misleading either oneself or investors.

- Some businesses can be started on a “shoestring” budget while others require large investments before the first jar or package can be produced. One must understand the costs and benefits of both equity and debt financing, and find the combination best suited to a particular situation. Once defined prepare a spreadsheet analysis before making commitments, and if one expects a business to finance an entire family, be sure to include personal expenses, as well as business expenses in a spread sheet. Be confident in your business, but don't mortgage the house.

Location

- The importance of location cannot be overstressed. The three elements mentioned repeatedly are access to competitive transportation, access to raw materials and access to markets. Entrepreneurs emphasized the need to determine the optimal location for a particular business, because the requirements may be business specific.

Understand Risk and Risk Management

- Risk and owning your own business go hand-in-hand, and if you cannot handle risk, you should think twice about starting your own business. Knowledge is the key to reducing risk because risk management involves trade-offs between the time and money spent on knowledge accumulation versus the potential loss from lack of knowledge.
- Being one's own engineer, or product development specialist, is like being one's own doctor, or lawyer - it comes with a risk. Risk can come from being overly cautious (missed opportunity), or from moving too quickly. It may be wise to retain current sources of income until sufficient research into a new business indicates manageable risk.

Planning

- Successful businesses have a well thought out plan. This is essential if one wants staff to know where the business is heading, or to garner support from bankers and investors. You may choose to develop your own plan, or to pay someone else to do it for you. If you choose to hire someone else, be sure you understand what is behind each number and statement and that you support what is in the plan. If you choose to do the plan yourself, consider taking formal training if you have not already done so. An effective business plan requires a great deal of expertise to prepare. Time and money spent on developing a business plan usually return greater dividends down the road.
- A business plan is a living document which can, and should, be upgraded as situations change. Business plans are not a necessary evil prepared only to elicit financial support, then left on the shelf to collect dust.
- If, in constructing a detailed business plan, you come to the realization that your business ideas are not nearly as attractive as you thought they might be, and as a result, you decide to look for different places to spend your time and money, the exercise may have cost you a certain amount, but it may have saved your life savings.

Technology

- Product quality and customer service are difficult, or impossible to maintain without sufficient technical knowledge of your product(s). Investing in technology, for either yourself or your staff, often is expensive, but, may be critical in the long term. If your competitors introduce a technologically superior product, all of your hard work, planning, and marketing may be for naught.
- Successful companies are, more often than not, those which have maintained their technological competitiveness.
- There may be financial and environmental reasons to process byproducts. New technologies may be available to add to profit through spin-off product development.

Question: Are there other comments or suggestions you wish to make which might help stimulate the rural economy through value-added processing?

In this final question, respondents were asked to share any additional thoughts they may have about value-added agriculture and what advice they might give to government or other organizations involved in the industry. It is important for government and industry leaders alike to know what the successful entrepreneurs are thinking. Specific responses are paraphrased as follows:

Advice to Government/Industry Leaders

- Paper management in the office is an ongoing task for many small companies. Perhaps a government program could be devised whereby a portion of an office management specialist's consulting fee could be rebated upon successful completion of an in-house analysis and training program.
- The public needs to be educated to buying local products. There are far too many foreign brands in supermarkets. An attitudinal change in Manitoba consumers could assist local processors.
- Governments must refrain from "picking winners" in providing financial support. External selectivity discourages true entrepreneurs from entering the business.
- Public sector wages at \$20 to \$25 dollars an hour draw many of the skilled young people out of rural Manitoba and away from rural business careers.
- Because we are losing control of our processing sector, farmers should be encouraged to form processing cooperatives to reverse the trend. More people should realize that value-added processing is the key to rural survival and to solving many of the social problems facing rural communities. Manitoba has an abundance of agricultural commodities that can be processed into valued-added consumer products - there is no limit to the potential. Why then is Manitoba beef being shipped to Alberta for processing and being sold back into our province?
- "My advice to government is 'stay out of business' - things get screwed up when government is involved."

Entrepreneurship

- Many new food-related businesses are being started by recent immigrants. There should be more entrepreneurship taught in the schools. We must promote successful entrepreneurs as they do in Europe and the USA to develop interest among our young people. If an entrepreneur is from a farming background, he/she must take off the producer's hat, and put on the entrepreneur's hat, and learn to function in the Walmart world.

Market Access

- In many instances, it is hard for a small business to survive or grow. Investment capital and markets may not be available in spite of the effort shown by the entrepreneur. Government contacts abroad provide an important link to expanding markets for local industry. More entrepreneurs should use this valuable service. It is important to have marketing data through trade connections that indicate your product has a place in a very competitive marketplace. National and international markets may be available for some products. Local markets are essential for some businesses to establish. The Rural Forum and various trade fairs provide a useful way for new companies to become known.

Regulations

- Regulations may be daunting for the start-up company. Entrepreneurs should be aware of the need for regulatory compliance, but at the same time, regulators should go as far as possible in reducing the impact of this barrier to success. If government is too involved it stifles innovation. Let the new entrepreneur breathe.

- The biggest detriment to this industry is agricultural subsidies which falsely reduce the risk and only lead to higher risk in the long run. Entrepreneurship in value-added agriculture will flourish if subsidies and marketing controls are removed. Manitoba is in a position to be competitive in the North American market. Competitive feed prices mean competitive livestock prices. But we must have a “level playing field” if we are to take advantage of this situation. Regulations that restrict the supply of raw materials, or that jeopardize access to markets, are serious deterrents to value-added processing in rural Manitoba.
- High taxes were mentioned as a deterrent by a few people interviewed, but this common complaint did not appear to be a significant factor.

Financial Programs

A wide range of comments and opinions were expressed by entrepreneurs regarding the role of financial programs in business development. Responses are grouped into three main categories: 1) start-up, 2) target of funding, and 3) specific sources of funding.

- Many enterprises feel that government support of start-up companies has been significant in the past and has been beneficial for many enterprises. There is, however, a strong need for a well designed screening process to determine where support funding dollars should go.
- Some recommend that government provide funding for independent (private sector) analysts to provide an assessment of new ventures prior to their receiving government support.
- Diverse opinions are evident on the process of obtaining government funding. One entrepreneur stated that “after an initial warm reception by the banks and the government, I was discouraged that my loan application was denied. However, when I did what they requested, I not only received the loan, but also my understanding of the business was significantly improved. Others starting businesses should know this.” Conversely, another respondent said “I met all criteria of the funding programs, but the monies didn’t come through. I lost a considerable amount of time only to become highly cynical. It is not appropriate to require a professional audit costing \$15,000 as a requirement for a \$6,000 loan. My advice is to cut out all programs and let entrepreneurs compete on an even footing.”
- Some respondents expressed the thought that governments should not spend so much of their resources assisting start-up companies when the time and dollars could be better spent on existing companies requiring help.
- Two ideas were presented regarding financial assistance to businesses. First, because research and development are essential to maintain competitiveness, tax credits should be extended for R & D. Second, some recommended that the “Crow” (WGTA) offset monies should be placed in a loan fund to assist agri-food start-up companies. This is especially important in small communities where it is difficult to raise investment capital.

Research

- Entrepreneurs feel that continued funding must be maintained for universities and the Food Development Centre as they provide important support for the industry. R & D is vital to the future of the value-added industry. There is awareness that a lack of research in the industry will be an escalating problem. Results cannot be produced on demand at some future date if the ongoing effort is terminated. A related aspect is the fact that the industry must continue to expand if there are to be jobs for university graduates.

Miscellaneous Comments

The following general observations were made:

- Successful entrepreneurs have learned to understand large and small “p” politics.
- Attitude is a key element because there is no reason why Manitoba can't be the leading supplier of value-added agricultural products in North America.
- The fact that small volume businesses are a growing trend will help rural Manitoba.
- Too many farmers don't realize they are growing a food product. Too many think of it only as a commodity for export.

DISCUSSION

Entrepreneur's responses to our questions indicate that there is no single approach to establishing agriculture value-added enterprise in Manitoba. In fact, on certain issues, totally divergent opinions are expressed. For example, some entrepreneurs stressed the importance of government support, while others preferred to see a minimum amount of government involvement.

The primary reason for this difference can be attributed to the divergent attitudes among people regarding the appropriate role of government in private enterprise. Differences also may be a result of varying levels of skills among entrepreneurs, with some requiring considerably more assistance than others in starting their business.

Although most respondents suggest starting small and building the business gradually as knowledge and finances permit, some indicated that they could not have survived the competition if they had operated at a small scale. This may appear contradictory, but it can be explained based on the type of business. Production operations that can be conducted on a small scale (i.e. seed cleaning, vegetable washing, certain baked goods) can be started with a minimal amount of investment. However, businesses that require either sophisticated processing, or which compete in national, or international markets are difficult to establish without a large capital investment at time of start-up.

Differences also were seen in approaches to capitalization of a business. Some respondents stressed the importance of keeping borrowing to a minimum while others saw maximum leveraging of their capital as a normal and acceptable means of financing their operation. In cases where the entrepreneur has an idea and a desire to establish a new business, but is not prepared to develop a well-researched business plan, lending institutions may give them no option but to operate with their own resources.

In spite of these differences, several conclusions can be drawn from the responses received. The following statements should be of interest to governments seeking to stimulate entrepreneurship, as well as entrepreneurs on the threshold of starting a new business, or who are currently operating a small business.

The Role of Government

1. Given the value of achieving and maintaining technological superiority, it is important that governments continue to support the pre-competitive research which underpins those agriculture based sectors of strategic importance to the province and/or the region. It is a rare case where there is sufficient profitability in the business to warrant the high cost and the risk of doing basic research. On the other hand, governments should refrain from taking a lead role in applied research in the form of product and process development, unless it is done in conjunction with and supported by a business. There is no shortage of “entrepreneurs” seeking this kind of government assistance, but the true entrepreneur will always find ways of doing applied research on a confidential basis with their own resources. In some cases, the government's role may be to maintain facilities that can be rented or utilized by entrepreneurs.

2. If capturing export markets for processed products is a provincial priority, the impediments caused by legislated supply management and single desk selling must be eliminated. This message came through loud and clear from many of the business owners interviewed.
3. Whereas it is tempting to want to support start-up companies, governments must be cautious not to favour one business, or entrepreneur, at the expense of another. If governments choose to support this sector, it is critical that assistance be given only in those areas which are GATT "green" to avoid replacing one challenge with one or more new challenges (e.g. restricted, or encumbered, access to foreign markets) of much greater proportions. The conundrum, of course, is how to ensure due diligence with public funds without "picking winners." This makes a strong case for no government monies being allocated for private business development.
4. Information on the size, scope and characteristics of foreign markets is of key interest to companies seeking to expand into these markets. Arguments can be made for governments to continue supplying this information at little or no cost, particularly to small, or start-up, companies. Identifying and gaining access to markets may be the most vital and appropriate role played by governments.
5. Manitoba processors are generally of the opinion that they can successfully compete for local, North American, and in some cases global markets, provided that they are not impeded in doing so by discriminating domestic and foreign legislation. Government, therefore, is the logical instrument to use for trade negotiation agreements.

The Role of Entrepreneurs

6. All involved in a start-up enterprise must be prepared to invest a great deal of hard work. Perseverance is needed in overcoming the many challenges and setbacks entrepreneurs face in both starting and maintaining a business. Support from family and friends is essential.
7. Sufficient research must be carried out before significant investments are made in the enterprise. Other people in the business should be contacted - especially those knowledgeable in the particular sector. Key information must be gathered about the raw materials, the process, the product(s), packaging, transportation, applicable regulations, the market, the competition, and the availability of a supply of suitably trained (or trainable) labour.
8. Don't underestimate the complexity of the processing industry -food processing in particular. For example, the Food and Drug Act in Canada is far different than the legislation governing the grain industry. Whereas a few rodent hairs, or insect parts are "ok" in a load of grain, they are not tolerated in a food product. A food processor is responsible (i.e. own expense) to see that the product quality is upgraded to meet the more stringent food quality standards. Also, don't think that because one can produce a first rate product in the home kitchen for the family dinner table that it will be easy to do the same thing on a commercial scale. Product safety, chemical stability, unit cost, and many other factors come into play in the commercial world.
9. Understand the important role microbiology plays in the food industry. The essence of food processing is the challenge of controlling the growth of microorganisms while at the same time maintaining, or enhancing, the nutritional and aesthetic characteristics of the end product. A full understanding of food safety is an essential prerequisite to entering the business.
10. It is essential to pay attention to product quality. Understanding the technology involved in producing and processing a quality product is basic. Try to incorporate some unique features into the end product. Each of these factors increases the incidence of repeat purchases and ultimately leads to the success of the business.

11. Don't be afraid to seek outside opinion on product quality. Consumer rejection often can be traced to a premature product launch based only on the company president's belief that clients can't help but love the product.
12. Understand the market. Listen to what the customer is saying and provide what he/she wants. Customer satisfaction and loyalty are essential for success. Seek professional assistance if market assessment skills are not a company strength. Without exceptional product quality, or a significant price advantage, it is difficult to take business away from current suppliers.
13. Understand that by-product recovery may be an important part of the profitability of the business. Not only is it getting more difficult to find means of disposal of waste product, but also profit margins often are such that without the return from secondary products produced from "waste", the balance sheet just won't measure up to investor expectations.
14. Cultivate linkages with others in the industry. This interaction will help, not only in the understanding of the industry, but also in building a support group in times of need. This includes linkages with suppliers, customers, regulators, technical experts, truckers, distributors, and even competitors.
15. Time management and people management are critical skills needed to operate a successful business. At the appropriate time, management must either invest in formal training, or seek professional assistance in these key areas.
16. Always prepare a business plan before committing major investments of time, or money, into the business. Don't view a business plan as a necessary evil just to convince the banker that the company is worth supporting. Treat it as a blueprint for company personnel to follow. It will help all involved know if they are on target, ahead of schedule, or behind schedule. A properly prepared business plan will have built in flexibility and, thus, should not be viewed as a constraint, but rather as an important measuring tool helping to avoid failure. A properly prepared business plan need not contain trade secrets which should remain confidential.
17. "One stop shops" for business start-up advice, or service, sound attractive, but as in the retail goods business, one probably can find better bargains if you know where to look and what you are looking for.
18. Understand risk management concepts and how they relate to you and your business. Understand that doing nothing about a particular issue, or going at things too slowly, can lead to elevated risk just as can moving ahead too quickly.

Policy Implications

A number of responses received from successful rural agri-food processing industries suggest areas in which policies could be revised, added or dropped. The uniformity of responses on some issues provides guidance for either policy makers or program managers. The diversity of responses on other issues suggests that some policies either are selective or lack flexibility, or indicate the need for new policies or programs to fill existing gaps.

1. There appears to be diverse opinions on the very basic issue of government funding of entrepreneurial ventures. Some believe that start-up financial assistance is critical to new ventures, while others think that government should stay out of the financial game entirely. A third component concerns the lack of financial assistance to existing businesses as opposed to new businesses.

The issue of government involvement in funding probably will never be compromised owing to divergent political philosophies among individual citizens. To the extent that anti-government feelings may relate to negative experiences, however, there may be room for re-evaluation of programs. Care must be taken that public monies do not favour one entrepreneur over another when direct competition is involved. If public programs in any way unbalance the capital "playing field" away from private entrepreneurship,

the long-term efforts could be diminution of private initiatives. All possibilities of unfair competition should be investigated thoroughly prior to investment. The complicating factor is the expansion of markets and difficulty in recognizing sources of competition. A classic case was the luring of large-scale processing to Alberta at the expense of all other provinces in western Canada. Government programs and monies can be dominating forces in the agri-food industries.

The fact that it often is both easier and more productive to retain existing businesses than to establish new ones is an axiom of rural development. The fact that several entrepreneurs specifically mentioned a need for mid-stream financial programs to restructure or expand existing enterprises may signal a weakness in the system. Conversely, one must question why mid-term enterprises require assistance at a time when they should have reached profitable status.

2. The diversity of opinion regarding application and approval requirements for new businesses may reflect individual preferences concerning "paper work." There may, however, be room for improvement in regulation. The universal call for more "user friendly" processes suggests that on-going simplification of procedures still has a way to go. One area of improvement may be the tailoring of requirements to match the size/risk involved in the business. Although the importance of a business plan is recognized by most respondents, input costs that exceed the value of requested financial assistance do appear ludicrous. Perhaps a "small business" program with different regulations can be devised for situations where expenses related to application are more than a fixed percentage of the requested capital (e.g. 25%). Conversely, public capital could be denied to applicants requesting small amounts of money (a cut-off point), where personal/private risk could be expected (high-risk, low amount start-ups).
3. The relationship between the availability of public funding and its impact on private sector investment deserves investigation. Programs may be less intrusive and more effective using resources to provide other incentives.
4. It appears that there are two essential aspects to new agri-food ventures that private (especially SMEs) start-up or existing businesses find difficult. First, research and development (R & D) usually are beyond the financial and/or skill capabilities of SMEs. Although there is some reservation in publicly supporting "product development", there certainly is a need for back-up assistance in technological areas for the production, transportation, packaging and marketing components. Government research centres and universities must focus efforts on the needs of entrepreneurs in a problem-solving venture. The Roblin Commission Report on post-secondary education calls for universities to get more involved in the real life of Manitobans. A follow-up working document is needed to make this happen. The historical separation of universities from governments and society will not be rectified unless repeated pressure for change is evident.

Second, globalization, rapidly changing trade relationships, technological innovation and socio-economic shifts in local areas are creating complex and confusing marketing of products. Clearly, local enterprises (especially SMEs) are not capable of identifying and accessing markets on an on-going and encompassing level. Owing to the legislative nature of international trade, government has to take the lead role. Much more effort has to be made to communicate with rural SMEs and to include them in trade-related events. Marketing personnel in rural development offices may be more important to the private sector than community development offices. Because most of rural Manitoba continues to depopulate, local markets continue to diminish. Local industries, therefore, either face ever-increasing competition or diminishing returns in local markets, and will have to expand market focus to survive or expand. Assistance is needed in marketing. The oft-cited success stories are the exception - not the rule.

5. Care should be exercised as not all rural businesses are producing product that can be marketed successfully outside their local area. Similarly, not all entrepreneurs possess the skills required to compete in foreign markets. Encouraging some operators to expand beyond their existing field of operation may be a disservice rather than a service. Quality raw materials at a competitive price was mentioned as fundamental to business success. The traditional focus of support to producers, that has aided production at the expense of processing, is changing slowly. Maintaining a solid producer base while working toward more favourable conditions for value-added enterprise will be an on-going

challenge for government. The conundrum of vertically-integrated agri-food enterprises and the continuation of structural changes in agriculture, and concomitant rural depopulation (dwindling local markets) is a major problem in rural development. Unless significant processing volume occurs in rural areas (eg. farmer processing cooperatives), rural decline will continue. Incentives must be available to major processors to locate in rural areas. Although the urban-rural "playing field" looks good on paper, in reality is not level at all.

6. The most common responses concerning success in rural agri-food ventures are hard work and perseverance. Although hardly new, these responses may be instructive. The relationships between traits of the entrepreneur and ultimate success are well-established. Since government programs have to define who receives assistance, assessment of the individuals involved may be more important than all the other paper work combined. Assessment tools are available, but their application is difficult. To be effective, they would have to be applied universally by trained personnel who are capable of establishing and testing standards.

Appendix A

List of Companies Contacted

Company	Address	Contact	Phone
Glenlochiar Kitchen	Miniota	Sandra Armitage	567-3770
Chappell's Greenhouses	Hamiota	Bill Chappell	764-2435
Prairie Specialty Meats	Ste. Rose	Emile Paradis	447-3332
Springhill Farms	Neepawa	Bill Teichroew	476-3393
Agri Tel Grain	Beausejour	Robert Small	268-1415
Arseniuk Wild Rice	Lac du Bonnet	Harry Arseniuk	345-2277
Cambrian Wild Rice	St. Georges	J. L. Gaffray	367-8451
Mohawk Oil	Minnedosa	Ron Wilmot	867-2763
Emu Vision	Minnedosa	Mark Wahoski	867-3131
Rolling River Wild Boar	Minnedosa	Roberta Galbraith	874-2104
Prairie Harvest	Altona	Eugene Heinrichs	324-8484
Pioneer Meats	Altona	Bernie Penner	324-5454
Gilbert International	Arborg	Bob Gilbert	474-0686
S. S. Johnson Seeds	Arborg	Brian Johnson	376-5228
Int. Pollination Systems	Fisher Branch	Lee Gregory	372-6891
Puradome Feeds	Arborg	Ken Remple	376-5278
R. K. Corral	Viriden	Karen Read	748-1491
Lee Stadnyk Feedlot	Foxwarren	Lee Stadnyk	847-2085
Bar Me Ranch	Viriden	Robert Gardiner	748-2956
Clair Cooley	Erickson	Clair Cooley	636-2906
Covenant Farms	Winkler	Garry Wiebe	325-9004
KWest Investments	Fisher Branch		372-6920
Vogel Honey	Fisher Branch	Gerhard Vogel	372-8217
Arborg Feeds	Arborg	Ray Delourme	376-5080
Kris's Meats	Arborg	Kris Johnson	376-2307
Gimli Feed	Gimli	Kimberly Shaw	376-5564
Central Bakery	Gimli	Chris Neufield	542-5544
Northern Goose	Teulon	Don Salkeld	886-2552
Lundar Bakery	Lundar	Norma Magnusson	762-5341
R & M Custom Meat Cutting	Narcisse	Roger Enstrom	278-3220
Pick N Pay	Stoney Mountain	K. S. Henry	344-5328
M & M Honey Farm	Woodlands	Alice Mair	383-5104
Upper Crust Bakery and Cafe	Teulon	Leanne	886-4575
Swiss Alex Bakery	Gimli	Alex P	642-8967
Crystal River Foods	Clearwater	Celia Fuitford	837-2454
Eidse Family Farms	Morris	Bonnie Eidse	746-8070
Parent Seeds	St. Joseph	Renald or Ronald Parent	737-2625
Keystone Grain	Winkler	Frank Reimer	325-9555
Pembina Poultry Packers	Morden	Jim Inglis	822-4452
Winkler Meats	Winkler	Harry Dyck	325-9593
Down Home Country Meats	Kenton	Sherry Grandmont	838-2068
Pizzey's Milling and Bakery	Angusville	Glen Pizzey	773-2575
Rossman Country Meats	Rosburn	Dennis Didych	859-2376
River Valley Nurseries	Viriden	David Kalinchuk	748-1463
Roy Legumex	St. Jean	Richard Sabourin	758-3597
Premier West Peat Moss	Ste. Anne des Ch	Richard Pelletier	422-8805
Sun Gro Horticulture	Elma	Jack Taman	268-2321
Saputo Cheese Ltd.	Souris	Jim Ludlam	483-3001
PeaSnax	Hartney	Nina Cowan	858-2743
Perogy Pantry	Oak Lake	Linda Kostaskey	855-2977
Davidson's Meat and IGA	Carberry	Len Davidson	834-2312
Prairie Rose Meats Ltd.	Souris	Murray Wilkinson	483-2765
Oak Lake Meat Market	Oak Lake	Don Thiry	855-2618
Oak River Quick Freeze	Oak River	Derek Shamray	566-2385

Appendix B

LETTER SENT TO COMPANIES

Dear XXXX

My company has been retained by the Rural Development Institute to assist in identifying successful rural businesses in the agriculture value-added industry Manitoba. Your company has been identified as one of these success stories.

My specific task is to document the key elements of success in this industry so that rural entrepreneurs starting into business will benefit from the experience of others such as yourself.

In approximately one week's time, I will be contacting you by telephone, and with your permission, I would appreciate 10 to 15 minutes of your time to ask you a few questions. The questions deal with reasons for success, barriers you have encountered, and how these barriers have been overcome. We are seeking your response both from a personal perspective and company perspective. The questions are not intended to delve into any proprietary areas of your business.

I can assure you the telephone interview will be brief and confidential. Any specific responses you make will be reported without reference to source.

Thank you for your anticipated cooperation.

Sincerely,

Tam McEwen

Appendix C

Survey Questionnaire Industry Questionnaire

Company: _____ Date: _____ Contact: _____

Preamble: Good afternoon Mr./Mrs. _____. My name is Tam McEwen. I am calling in follow-up to you (your company) last week regarding value-added agriculture success stories. Might you have 10 to 15 minutes now to answer a few questions, or shall I call back at a more convenient time?

1. As I mentioned in my letter to you, your business has been identified to us as a success story in value-added processing of agricultural products. Would you agree that this is so?

Yes _____ No _____ (If NO, determine why, then skip to question 3).

2. Would you mind sharing with me a few of the most significant reasons why your business has succeeded? (ID both personal and corporate reasons)

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

3. What specific challenges or barriers to success did you encounter during the start-up phase of your business, and how were these overcome?

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

4. What challenges or barriers do you face now in achieving even greater success? (Personal and Company) What are you doing to overcome these?

1. _____
2. _____
3. _____
4. _____
5. _____

5. What role has technology played in your business? (definition)

6. How long has your company been in business in Manitoba? _____

How long was it from the time the business was conceived until commercial operations began? _____

What is the current number of employees? _____

Growth Projections? _____

7. What advice would you give to an entrepreneur who might be interested in getting into the agri-food value-added industry in Manitoba?

8. Are there any other comments or suggestions you wish to make which might help stimulate the rural economy through value-added processing?

Mr./Mrs. _____, I have taken XX minutes of your valuable time therefore I must end this interview and let you get back to your work. I want to sincerely thank you for sharing your time and experiences with me. Your cooperation is much appreciated. Good bye.

