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ΠΕΡΙΦΕΡΕΙΑ ΘΕΣΣΑΛΙΑΣ

INNOGROW
Interreg Europe

POLICY BRIEF 2

INNOVATIVE BUSINESS MODELS
FOR RURAL SMES

SUMMARY

Based on INNOGROW research activities, the policy brief in hand surveys novel business models and innovation in rural economies. The aim of the brief is to communicate useful research insights for policy-making and implementation purposes. The most relevant to rural entrepreneurship business models are presented as well as key-figures and facts regarding rural business model innovations. Selected cases of successful entrepreneurial trajectories are then described to exemplify the significance of innovation in business strategy organization, and overall sustainable rural growth. The policy brief concludes with research-informed policy recommendations.

WHAT IS A BUSINESS MODEL?

A business model is the organizational and financial “architecture” of a company. In essence, it represents the core rationale a company deploys to create, deliver and capture value. It conveys information about how a company interacts with customers, manages its assets and combines technical potential with economic value.

A business model gives us information about how firms do business to achieve operational goals and strategic objectives. Either explicitly or implicitly, entrepreneurs deploy one or more business models at a time, while they can adapt their business model depending on emerging needs. There is evidence that successful businesses plan their growth strategies by carefully considering various aspects of doing business such as supply chain, trading and research & development collaborations, market generation and penetration and, importantly, product diversification strategies.

- **Cooperatives**
- **Horizontal supply chain collaboration**
- **Vertical supply chain collaboration**
- **R & D co-operations**
- **Internal R & D**
- **Trading relationships**
- **Product diversification**
- **Market Development**
- **Market Penetration**
- **Public Private Partnerships**
- **Joint ventures**
- **Value chain development**

BUSINESS MODEL INNOVATION

Business model innovation involves the idea of rethinking business structure and activities to address a clear customer need, including realigning business resources, processes, partnerships and profit formulas to enhance the value of offerings. Innovation within the business model has the implication of rapid growth and increased business competitiveness. The major kinds of innovation include the following:

- **Profit Model Innovation.** Innovative pricing strategies (e.g. bundled/flexible pricing)
- **Network Innovation.** Participation in collaborative arrangements with other organizations
- **Structure Innovation.** Organizational re-orientation (e.g. clustering of units/departments)
- **Process Innovation.** Adoption of a signature method for creating value (e.g. on-demand production)
- **Product Performance Innovation.** Superior value design of products/services
- **Product System Innovation.** Creating complementary products and services that connect together to create more value (e.g. extensions/plugin-ins, modular systems)
- **Service Innovation.** Adding value through customer support (e.g. try-before-buy, loyalty programs, personalized service, lease or loan)
- **Channel Innovation.** Introducing innovative ways to deliver offerings (e.g. diversification, flagship store, pop-up presence, on-demand)
- **Brand Innovation.** Presenting offerings in a distinctive, memorable and appealing way (e.g. co-branding, private label, certifications)
- **Customer Engagement Innovation.** Innovation in offering compelling interactions with customers (personalization, experience simplification, process automation, mastery)

KEY FACTS & FIGURES

Figure 1. Business models implemented by rural SMEs
% of rural SMEs implementing each model (n=51)

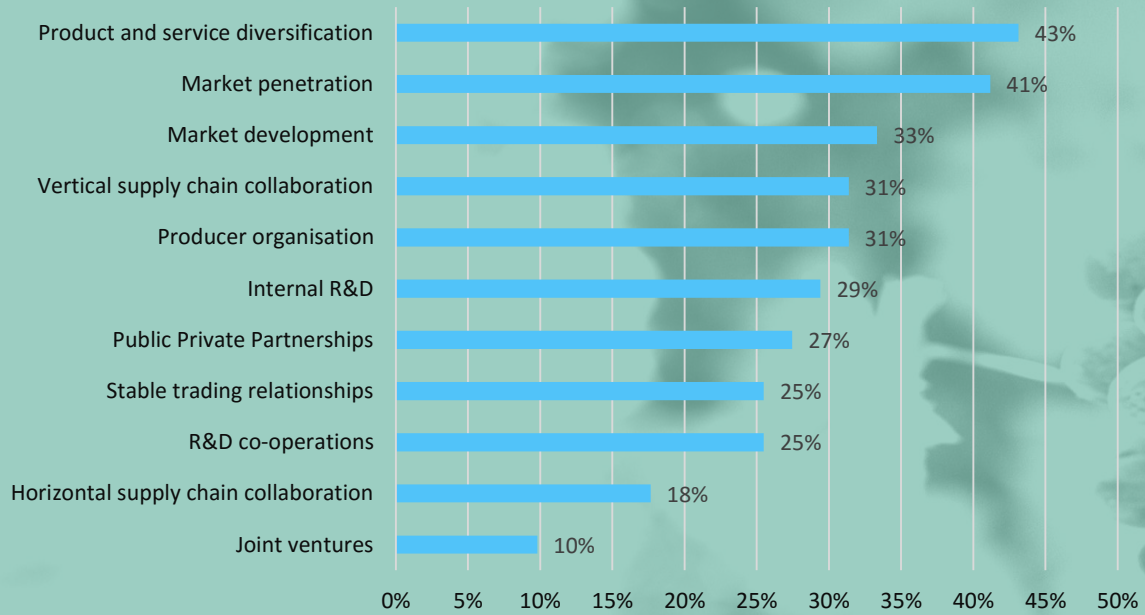


Figure 2. Types of innovation within business model
% of rural SMEs having adopted each type of innovation (n=51)

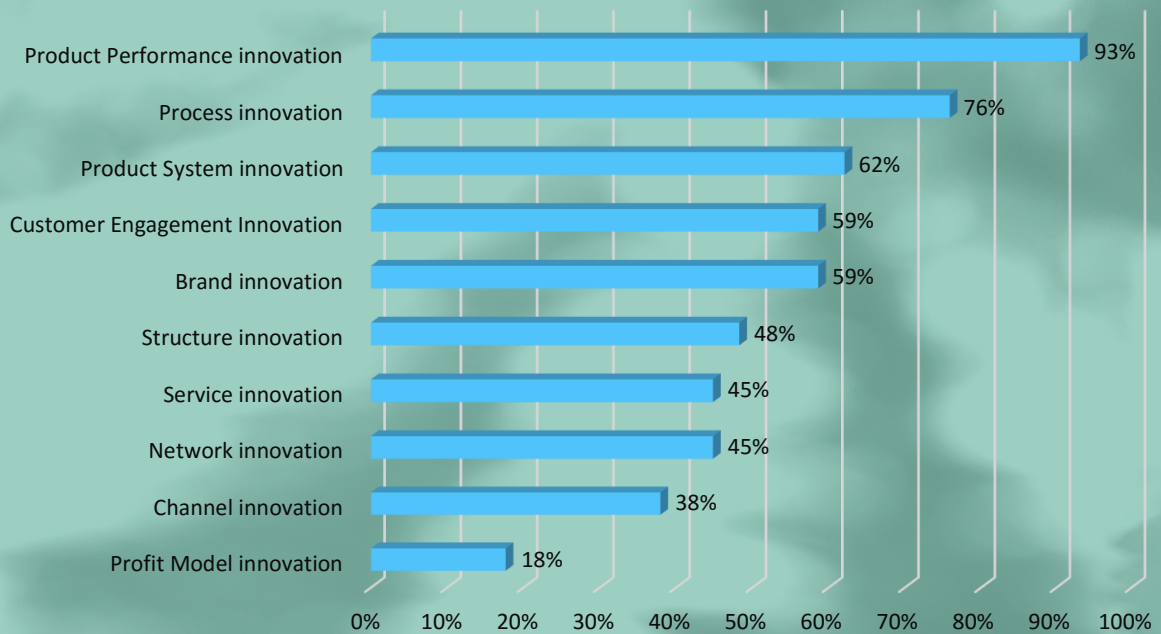


Figure 3. Achieved benefits from innovative business model implementation

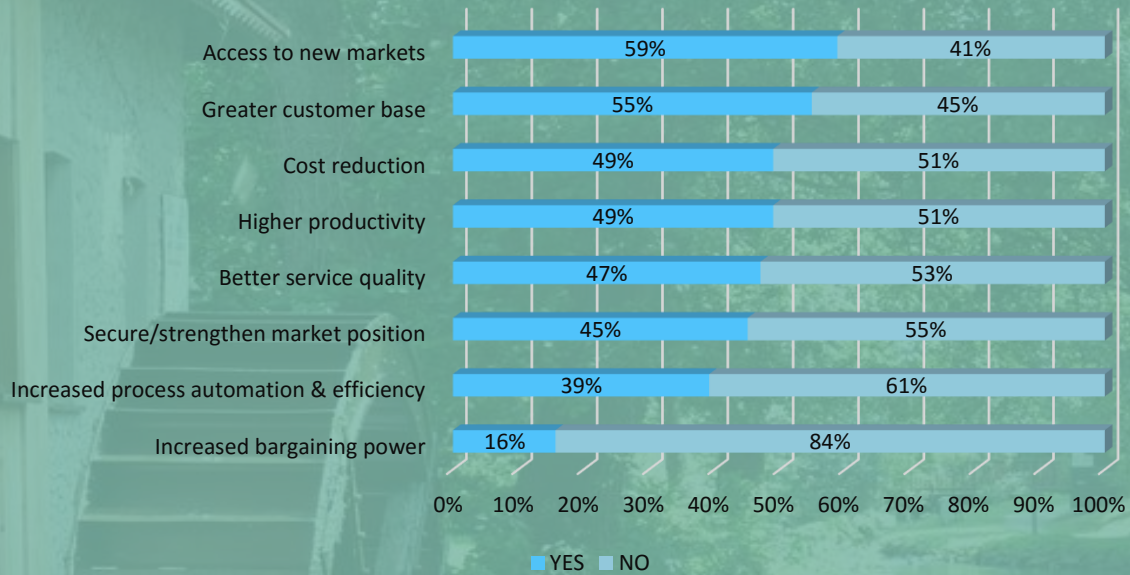
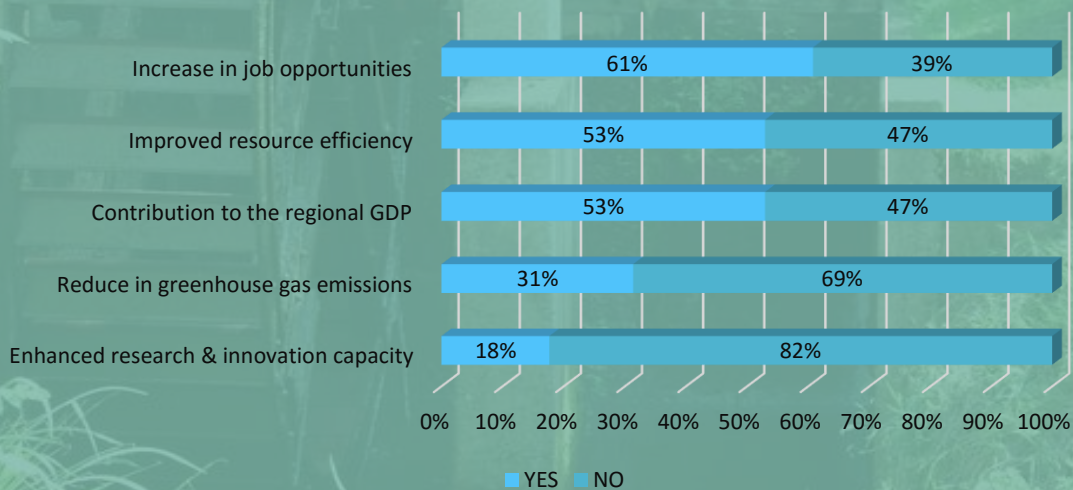


Figure 4. Achieved impact on local community, as resulted from business model innovation



BEST PRACTICES

AZIENDA AGRICOLA PRINCIPE PIGNATELLI – Product diversification (Italy)

“Azienda Agricola Principe Pignatelli is an agricultural company founded in 1669 in the Isernia Province, Italy. The focus of the company is exclusively on the production of virgin olive oil and by-products. Its establishment is the historical Principi Pignatelli Farm of Monteroduni with over three thousand centuries-old olive trees stretching in a hilly land of over 100 hectares. The company employs no more than a few employees. With 11 branches and subsidiaries, “Azienda Agricola Principe Pignatelli” is part of a larger corporate structure and a number of SMEs’ form part of the value chain and network of associations. The estimated annual profit of the company is over 130,000 euros. By investing in state-of-the-art processing technologies, the historical Monterduni farmhouse became a modern structure increasing the overall value and sustainability of the surrounding environment.

BUSINESS MODEL...

The company has transformed traditional olive tree harvesting and olive oil production into a fine art by offering six varieties of extra-virgin olive oil as well as a range of by-products such as gourmet preserves and herb-infused oils or pasta products. **Product diversification** has been central in the company’s strategy of establishing a recognizable brand of products. The company has been developing a **market development strategy** by liaising with networks of SMEs and outlets in which its products are made available. Last but not least, the company opts for **market penetration strategies** such as bundling, advertising and lower prices, to increase the market scope of given products.

INNOVATION...

in **production process**. All operations are subject to biological agriculture certifications and are sustainable in terms of using renewable resources.

in **product system**. The company has effectively bundled together a number of elements to create more value: the centuries-old premises, the quality of Mediterranean olive oil, modern technologies and appealing branding, and standardized processes ensuring safety and access to premium markets. In essence, the company pursues a brand innovation strategy, presenting its products in a memorable and distinctive way.

Rural agricultural companies can achieve similar results in terms of achieving higher productivity, better service quality and more favourable market positions. Re-branding – telling a story about a place and its products – in combination with marketing, system and process strategies that ensure safety/sustainability certifications, and enable capturing old and new markets, are highly transferable means of growth.

BEST PRACTICES

THESGALA – Producer Organisation / Cooperative (Greece)

“ThesGala” is the biggest Greek dairy cooperative. It was founded in 2011 in the Region of Thessaly (Greece) with the aim to offer high quality milk and dairy products at competitive prices, while supporting regional rural development. The cooperative forms a network of around 100 dairy farmers and 55 cows’ milk production units, sourcing 130 tons per day.

BUSINESS MODEL...

The Cooperative “ThesGala” has managed to develop a wide **network of collaborations** with some of the largest companies in the dairy industry. In addition, the company adopted an innovative distribution system by using vending machines to sell milk, allowing consumers to buy fresh milk directly from farms 24/7. The Cooperative nowadays has 44 stores with vending machines in major cities across Greece. The customer has various packaging options (glass, re-usable or single-use plastic bottles. The success of the model is due to productive network synergies and delivery services.

INNOVATION...

in **network**. The company prides an extensive network of collaborations with the largest dairy industry companies and local farmers.

in **supply channels**. The delivery of dairy products directly from farms (especially milk) to customers through automatic milk vending machines is a key innovation for the agricultural sector, which revolutionises the way agricultural and dairy products are made available to end users. The prices are lower than the average per litre of milk sold in super markets in Greece (1.50€), which entails a significant cost reduction across the supply chain.

The cooperative contributes to regional employment as more and more farmers are interested in joining the organisation. It currently employs more than 80 persons, while this number is expected to increase, taking into account the annual growth rate of the cooperation (approximately 15%). Finally, the Cooperative has been granted with an innovation award by the Athens Chamber of Tradesmen for its distribution model (i.e. vending machines).

The **transferability** either of the cooperative business model for certain classes of products or the supply chain infrastructure of vending machines, is high and it could be replicable in various rural contexts where SMEs frequently confront supply and market access problems.

POLICY RECOMMENDATIONS

An extended scope of possible actions to facilitate the building of capacities and to support growth for rural SMEs:

- **Secure funding** for technological and other innovations conducive to environmental, social and economic sustainability and growth. Such funding should target especially small-sized SMEs which confront difficulties in accessing markets due to remoteness, lack of strategic market penetration planning or outdated product safety and quality specifications. In combination with training, SMEs could profit from technological solutions to overcoming distribution obstacles, reducing advertising costs and communicating efficiently with the sector in which they belong, regionally and transregionally. Transparent funding procedures would incentivize SMEs to take action in terms of increasing their competitiveness and renewing their fixed capital, a process frequently initiating a growth chain reaction, provided there are in place suitable consulting, audit and quality control instruments. In terms of production rates and quality enhancement, various technologies are gaining visibility, especially in the agriculture sector and rural economies dominated by the primary sector could potentially face disruptive changes with the introduction of new technologies. Regional communities on the whole can only benefit from policies that lift the barriers to technological innovation in small businesses.
- **Fund vocational training.** In correlation to the previous recommendation, rural economies' stakeholders need sector-specific training to take up innovations. For instance, most technological innovations for the agricultural sector (i.e. smart farming) require a certain degree of digital literacy. More generally, all competitive sectors are increasingly dependent on digital technologies and applications. Therefore, regional authorities are encouraged to take full advantage of EU, national and other funding opportunities to foster digital literacy, through instruments that support actions favourable to enhancing vocational training and particularly, digitized technologies in production and distribution.
- Create **conditions favourable to attracting investments**, notably FDIs. Besides funding, regional authorities and policy makers, should plan strategies and implement measures increasing the chances of FDIs and other investments. For this to be possible, authorities are encouraged to take initiatives in the direction of establishing alliances and presence in finance and investments consortia with the ultimate aim of increasing regional visibility, and potential for investments. Marketing products as genuinely regional products, presupposes marketing the region, a strategy for which regional authorities have the means of implementation.
- Re-ignite local economy by fostering **synergies, cooperation and ideas-sharing**. Incentivize and involve SMEs' stakeholders in practices of valorizing regional heritage through commerce and product marketing.
- Induce and establish **transregional, sustainable commerce and trade-related platforms**. As EU regional development policy-makers have repeatedly recommended, regional trade agreements and freeing trade at this level, for instance, in relation to agricultural products, should be encouraged
- Better monitor **growth rate and relevant indicators** (e.g. Agricultural GDP) and ensure alignment with macroeconomic policies.

