



# Volume Growth in Quality Food Firms – Lessons and Reflections from Norway

Gunn-Turid Kvam and Hilde Bjørkhaug, Centre for Rural Research, Trondheim, Norway

**Abstract – A review of research on growth processes in quality food chains in Norway shows that only a few studies have focused on growth in such chains. Studies look at food businesses as the focal unit and discover many challenges for local firms with growth ambitions. The main issues seem to concern distribution and follow-up sales, where communicating qualities of products to customers is a key challenge. Other challenges observed were developing and maintaining qualities of products to gain premium priced products, the financing of growth, developing the business organisation and establishing cooperation and networks for growth.**

## INTRODUCTION

Since 1990, almost 1500 small-scale food enterprises have been established in Norway. This can be seen as the result of a proactive policy promoting diversification in rural areas, which fosters and financially supports rural entrepreneurship in the start-up stages. A focus on local, environmental, organic, traditional and other specialty qualities has also been encouraged to increase opportunities for consumer choice in national markets. Producers' reaction against industrialisation and mainstream production, as well as farmers' innovation, has been driving the process from below. Of the many small-scale food enterprises established in Norway, most are micro in size and contribute little to regional development. Therefore, the government goal is to increase the size of food firms which may increase the positive effects on value added activities and regional development. In this paper, Norwegian research on growth strategies for local food firms is reviewed. The paper reflects on challenges, risks and opportunities found in studies of volume growth in quality food chains.

## METHOD

The combination of a literature search for Norwegian studies on quality food chains and growth, analysis of survey data from speciality food enterprises and public documents and statistics was employed for this study. The search for literature focused on research on Norwegian quality food chains (e.g. organic, speciality food such as traditional, geographical branding or other value added activities) on criteria such as growth processes and strategies, challenges for growth, product development, process development, distribution, market communication activities, organisation and network/cooperation. The survey

data analysis handles issues of business growth and challenges, while public reports and statistics provide contextual policy information as well as information about volume and development over time.

## RESULTS

Results show that little research has been conducted on growth since this "industry" was established at the end of the 1990s. Most studies of local food firms are case studies where the focus is on the businesses processing the food, and farm processors are the main players that have been studied. In such studies, "organic" is seen as a quality on equal terms with other qualities that food firms emphasise, such as local food, artisanal production, traceability, and animal welfare (Kvam et al 2013, forthcoming).

In a study carried out by Magnus and Kvam (2008) about 80 per cent of local food firms wanted to grow or were in a growth phase. Most firms wanted to grow in the local and regional market, while about 20 per cent aimed for a national market. Enhanced competence in the firm's own staff and board was considered by far the most important initiative within the organisation. Producers' perceptions of the most important barriers to growth included access to financial support, access to competent staff and efficient solutions for distribution, marketing and follow-up sales (Bjørkhaug and Kvam, 2010). In 2008, nearly half of the small-scale food enterprises were involved with organic products for either all or part of their production. These firms were not essentially different from the other local food firms in the survey (Magnus and Kvam op.cit.).

Since local food firms in Norway were first established, distribution has been a challenge. There were no alternative channels to the conventional ones, and producers of local food had to distribute their products themselves (Borch and Iveland 1997). Some producer networks for distribution and sale were soon established, but most producers still distribute their own products and plan to continue this as part of a growth strategy (Kvam and Magnus 2012). Reasons for this might be that they do not see any alternative distribution channel, that they emphasise direct contact with customers, or that the alternative is perceived as too expensive (Kvam and Magnus 2012; Haugum et al 2013). Some single firms and producer networks have signed distribution agreements with Tine, the dominant dairy cooperative in Norway. Other local firms use private



players offering distribution capacity. Many firms were not satisfied with either Tine dairy or the other distributing partners. One main concern was that the follow-up of sales was not good enough and thus the sale volumes were not satisfactory (Kvam and Magnus 2012). Other firms emphasise activities in stores and communication with employees in the fresh food department as important. In one case studied, representatives of the food chains were invited to visit the firm and discover the history behind the products. The aim of these activities is to develop what they call "ambassadors" in the stores, which they consider vital for sales of this type of product. To reduce the costs of following up sales, they have partnered with three other firms in sales follow-up, so that qualities can be created more efficiently at lower cost (Kvam and Magnus 2012). Sales follow-up demands substantial resources, and smaller firms are usually not in a position to manage this function on their own.

Another result is that networks increase when firms grow, especially cooperation in distribution and sales. Research on producer's networks established for such cooperation however shows that these networks are challenging to establish and run. Challenges are connected to organising the network, establishing economically sustainable networks and accomplishing the sale follow-up in a satisfactory way for members (Kvam and Magnus 2012; Kvam and Rønning 2012).

We clearly see that in some cases the growth processes will cause the production to become more similar to industrialised production, with a greater focus on efficiency as well as on more "objective" and measurable product qualities. Two businesses studied have not managed to distinguish their products from the conventional ones, and customers are not willing to pay a premium price for their products. Two more successful ones have been aware of retaining the food artisanship in production processes, which has been important for maintaining distinctiveness and a premium price (Kvam et al 2013 forthcoming). Some firms lack knowledge about the qualities for which consumers are willing to pay premium prices. They have invested a great deal of money in certification processes, processes for traceability, research projects to verify connections between the local circumstances and food, etc. to secure a premium price, but in many cases these efforts did not have any effect on price. According to organic production, research indicates that the additional quality obtained from buying organic products in Norway is not large enough or clear enough to the public, probably because conventional farming is perceived as clean and safe. Therefore organic producers of quality food also emphasise product qualities other than organic production in their marketing (Kvam and Magnus 2012).

There is a diversity of strategic options to choose for growth. The case studies conducted show that the national grocery market is the market that firms wishing to grow substantially focus on. This is also the most challenging market, because of the huge

competition, demands placed on producers for selling products and challenges in communicating product qualities. Another firm's growth has been based on the regional institutional catering market and regional restaurants. These markets are not as challenging as a national grocery market, and may provide a good option for firms with lower ambitions and resources.

#### CONCLUSIONS

Several success factors for growth have been identified in Norwegian research on growth in local food firms. They include a competent management team with a broad network, the ability to cooperate, a competent board, distinctive products, regular and goal-oriented contact with customers and consumers for communicating qualities and feedback, good solutions for distribution and for financing growth, and choice of the "right" market segment for growth according to the firm's ambitions and resources.

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