ENTREPRENEURSHIP AND SMALL FIRMS

DEAKINS AND FREEL

5th EDITION

STUDENT'S ON-LINE LEARNING RESOURCE MATERIAL

CHAPTER 12: ISSUES IN BUSINESS START-UP

Case Studies

Additional case studies are provided for this chapter for Ace Cleaning and cases in the context of entrepreneurship and business creation in a rural environment. They provide examples of innovative entrepreneurship in difficult environments. The cases illustrate that innovation is an important part of diversification and entrepreneurship in a rural environment.

The Ace Cleaning case is included as an example of a start-up case that involves overcoming a major crisis and provides an example of the owner's solution to that crisis. Part A only is provided; tutors are able to obtain the remaining case material, Part B from the lecturer's on-line material.

For those set in a rural environment, the first case, *Prospect Farm*, illustrates how a farmer and entrepreneur was able to successfully diversify a new business. Part A should be considered separately from Part B. Additional material on *Prospect Farm* is provided for tutors in the lecturer's manual. Additional cases, for example, *Second Nature,* illustrate further the importance of innovation and collaboration in achieving diversification. We also include the case of *The Puffer*, an example of a successful niche business in the tourism sector.

CASE STUDY

The first of our case studies, Ace Cleaning (UK) Ltd, concerns the creation and early stage development of the business. It has been included in this chapter because it takes the reader to a particular decision point faced by the entrepreneur, Mary Anderson. The case puts the reader in the position of the entrepreneur. You should decide what options are available to you and what you would do in the same situation. Student assignments are suggested after the case. What actually happened is detailed in the second part of the case which is available in the tutor's manual that accompanies this text. Further discussion and tutor's notes are also available in the tutor's manual. It is also recommended that the reader should compare this case to another pre-start and early stage case: Alternative Publishing Ltd, which has been included at the end of Chapter 3.

Case Study: ACE CLEANING (UK) LTD

Background

After 14 years of continuous employment as Contracts Manager for a small/medium sized cleaning company (ACE Ltd.), Mary Anderson found herself without permanent employment and means of support. As a result of cumulative debts ACE Ltd. had been forced into liquidation.

As a single parent, at the age of 52, the job market offered little prospect of re-employment. Recognising this dearth of opportunity and, in light of her previous experience, perceiving a potential within herself to successfully manage within this familiar market, Mary determined to investigate the concept of salvaging what contracts she could from ACE Ltd. and starting her own company.

Start-up

The original ACE Ltd. had gone into receivership with debts in excess of £80k. Mary, in acquiring their contracts list and goodwill was required to take on board this debt. Although the debt referred specifically to leasing and purchasing agreements for equipment and stock, the low capital intensive and high labour intensive nature of the contract cleaning industry is such that a company's value can be measured to a greater extent by its contracts list and customer goodwill. Thus, such contract lists have a certain sale value. By taking responsibility for the £80k debt accrued by her previous employers, Mary ostensibly purchased the plant and equipment required to run the company.

In addition to the £80k that it had cost to 'purchase' the contracts list from her previous employers the new company required working capital for wages and stock. The industry's staff were paid on a weekly basis, while invoice turnover and customer payment has a minimum cycle of 30 days. In addition, turnover on stocks has a lag period of between 4 and 8 months. As a result, though Mary required little finance for the purchase of capital equipment, the endeavour she proposed was not self-financing in the immediate term.

Financing

In effect, a nominal funding package in excess of £100k was required to finance the launch of ACE Cleaning (UK) Ltd. This figure was greater than any personal savings held by Mary. However, she was able to negotiate the phased payment of accrued debts by offering a 'director's guarantee' of future reimbursement. Thus, the outstanding £80k debt was to be repaid from monthly turnover over a period of 2-3 years.

By offering this director's guarantee to creditors, Mary was also able to ensure the continuation of previous leasing and supply agreements. However, there still remained the requirement for operating capital in the region of £30k-£40k. On approaching the bank to request the provision of an overdraft facility for this purpose, Mary met with some initial resistance. Although she was in the position to invest £5k from private means, the shortfall she had hoped that the bank would provide in the form of an overdraft (£25k) would result in ACE Cleaning (UK) Ltd. being relatively highly geared. By means of collateral, to compensate in some manner for the adverse gearing ratio, Mary was able to offer her house. The bank, in turn, would accept the collateral, valuing the house equity at £25k. However, there remained difficulties in obtaining the funding. ACE Cleaning (UK) Ltd. were heavily in debt, had

little or no tangible fixed assets/capital in the conventional manner and, while the contracts list inherited from the former ACE virtually amounted to guaranteed orders, the bank required assurances regarding cash flow and customer payment. Thus Mary was informed that provision of the overdraft facility would be contingent on the company securing an agreement for the factoring of its invoices.

Mary initially had difficulties in securing the factoring agreement. Many of the leading factoring companies were not prepared to accept the risk. An agreement was eventually reached with a factoring company whereby 100% of her invoices would be factored at a cost of 4% of total invoice value. Consequently the bank settled on the provision of a £25k overdraft facility. ACE Cleaning (UK) Ltd. was now in a position to begin trading.

Premises

The company had little scope when choosing premises at start-up and Mary chose to continue with the occupation of premises leased by the former ACE Cleaning. Although these were far from ideal, necessity dictated that they would suffice for initial trading purposes and they had the additional benefit of association. Since ACE Cleaning (UK) Ltd. hoped to gain a majority of the custom enjoyed by the original ACE, the benefits of continued occupation, and hence visibility and ease of approach for previous ACE customers, were obvious.

Marketing and Client Acquisition

Although Mary was unable to secure the custom of all those firms with whom she had previously worked during her time as contracts manager at the original ACE, at start-up she had succeeded in regaining sufficient custom such that expected turnover on these contracts alone was in the region of £200k (75% of which would be expended

upon the associated wage bill). This custom had been gained primarily through going 'cap-in-hand' to former clients, offering security through perceived continuity. Further, as a result of her employment with ACE, Mary had been able to establish a considerable network of personal contacts within industry and clients groups and her standing and visibility were high within the geographical confines of her immediate market.

No specific activities were undertaken with regards to the direct marketing of the company and its product. It was felt that since it was extremely difficult to compete on non-price factors (quality being the exception, but not demonstrable prior to sales) given the low profit margins involved, making price competition more subtle, and appreciating the limitations of budget, a sophisticated marketing campaign would not prove to be either cost effective or, indeed, viable. This being the case, Mary continued to use direct, personal approaches. As Mary was made aware of the existence of a potential customer through industry contacts, or public information boards (e.g. newspapers, television, local authority contracts, bulletins, etc.) she made direct speculative enquiries, offering free quotations to ensure that initial contact was gained.

A further operational practice which can be viewed in some way as an extension of the marketing activities of Ace Cleaning (UK) Ltd was the decision to undertake the contract cleaning of private dwellings. Profit margins in these cases were lower still than those for commercial cleaning contracts. Yet Mary chose to pursue this type of work, utilising it in a similar manner as 'loss leaders' are used by supermarkets. Carrying out this work increased the visibility of ACE Cleaning (UK) Ltd. Its vans could be seen out and about, and it could hope for the benefits of word-of-mouth and referral business, since those individuals who could afford the services of a contract cleaner were often in a position of relative authority within commerce.

As a result of these activities, shortly after commencing trading ACE Cleaning (UK) gained its first significant contract independent of the goodwill and contracts list associated with the original ACE. This contract, that of the Hilton Hotel at a major UK airport, represented £45k and provided the young company with a broader foundation from which to develop for the future.

With regards to customer maintenance, or the securing of repeat custom, Mary appreciated that her business, in common with all service sector endeavours, required a strong customer orientation. From the outset, customer care, quality and thoroughness were viewed as essential to success. She personally visited each individual corporate client to allow them to identify the managing force behind ACE Cleaning (UK) Ltd. and make any complaints, or offer any suggestions, directly to the top.

At the end of the first year the company's turnover had risen to over £350k and, through the activities described above, the company was beginning to enjoy the benefits of referral business.

Management Structure and Style

At start-up, ACE Cleaning (UK) Ltd employed in the region of 70 staff. This figure was split into office staff (three, including Mary) and field staff (the number was growing steadily in line with client acquisition). The office staff, excluding Mary, were primarily concerned with administrative and clerical tasks and had no management responsibility *per se*. Of the field staff, there were two supervisors while the rest of the company's relatively large staff were cleaners. Low profit margins, profits *per*

capita employee, made it difficult for the company to employ essentially non-productive members of staff, in the form of supervisory or management positions.

The effect of this organisational structure, of Mary's desire to maintain a high degree of direct, personal and regular intercourse with clients and of the company's concern with customer orientation, resulted in a managerial style that was in some manner dictatorial or autocratic. The structure did not lend itself to the devolution of responsibility. There was no middle-management with which to insulate or separate Mary from the line managers and in-field employees. Any empowerment which was exercised was limited to low level, on-site tasks. As a result, Mary's time was concerned almost exclusively with the daily operational issues of her company, leaving little scope for strategic questions. Whilst business planning was undertaken, this was more often a mental activity on the part of Mary with little time available to establish a formal planning process.

Early Stage Growth

During the first two years trading ACE Cleaning enjoyed steady, if unspectacular, growth. Turnover rose from £354,565, for the first year, to £380,772, for the second trading year. However, net profit fell from £12,925 to a loss of £4,495 in the same period. During this period the personal drawings of Mary Anderson followed no formal path and were dependent on the capital needs of the company - when there arose a requirement for the purchase or maintenance of plant and machinery this affected Mary's salary. In effect she was paid, directly, what the company was able to afford.

This relative success over the first two years was the result of increasing the client base from the approximate £200k turnover represented by clients salvaged from the

original ACE. Although no formal marketing activities were undertaken to achieve this success, Mary felt that, in the absence of product differentiation capabilities, the vigour and determination of their direct approaches to potential customers played a significant role in gaining additional custom. Everything she owned was on the line, and as such her motivation to succeed was strong.

This initial growth was further reflected in the relocation of ACE Cleaning (UK) Ltd. to new premises towards the end of the second financial year.

Relocation

Mary was made aware of the availability of alternative premises. These new premises were of a considerably superior quality to those inhabited from start-up and at a significantly reduced rate (the first 3 months of occupancy being rent free with the following 3 months at half rent). A further benefit gained through this move was the establishment of foundations for a working relationship with the local Enterprise Agency who were acting as agents in the leasing of the industrial estate.

The VAT Dilemma

After two years' trading with relative success the company may have reasonably expected to have gained a degree of security. However, at the end of the second year ACE Cleaning (UK) Ltd. were suddenly faced with closure. As discussed, they had been trading and trading well; however, they had been trading in the VAT. That is to say, the company had been charging clients the requisite 17½ per cent and, through naiveté, had been failing to transfer this revenue to the appropriate government body. In Mary's words the company had been over-trading. Mary had been under the mistaken impression that she would be able to pay the VAT owed by the company late and had been using all incoming revenue for prompt, and even

early, payment of suppliers. As a result the company found themselves with a demand for £18,000 from H.M. Revenue and Customs and one week with which to pay in full. Although from a turnover in excess of £380k this may seem a small sum, the fact remained that, due to the nature of business costs, the money was not available. Further, no assets existed with which to raise the necessary finance and Mary Anderson stood to lose quite literally everything.

In retrospect, Mary believes that this situation forced her to 'face up to some home truths'. Until then she had been 'the Boss', enjoying the power without the responsibility. The shock of this crisis brought her to the realisation that her role as Managing Director was to manage and to direct the business, not 'to boss'. She had responsibilities to those who worked for her, to her creditors, and to her customers. After consideration she came to the conclusion that her business and those involved in it constituted an excellent venture which had suffered from *her* poor management, and she determined not to let others endure the consequences of her failings. Mary stood to lose everything, but more importantly to her, her staff (now in excess of 200) stood to lose their jobs.

Financial Accounts of Ace Cleaning Ltd

Profit and loss accounts
For the year ended 31st August Year 1

Turnover		£354,565
Cost of Sales		£269,730
GROSS PROFIT		£84,835
Administrative expenses		
Staff Costs	£15,813	
Depreciation	£9,437	
Other Operating Charges	£46,660	
		£71,910
NET OPERATING PROFIT		£12,925
Interest Payable		£1603
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		£11,322
Tax on Ordinary Activities		£1,912
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		£9,410
STATEMENT OF RETAINED EARNINGS		
Retained Profit for the Year		£9,410
RETAINED PROFIT CARRIED FORWARD		£9,410

Balance sheet
As at 31 August Year 1

FIXED ASSETS		
Tangible Assets		£43,007
CURRENT ASSETS		
Stock and Work in Progress	£10,090	
Debtors	£31,286	
Cash at Bank and In Hand	£783	
	£42,159	
CREDITORS: Amount Falling Due Within 1 Year	£60,165	
NET CURRENT ASSETS		(£18,006)
TOTAL ASSETS LESS CURRENT LIABILITIES		£25,001
CREDITORS: Amount Falling Due After 1 Year		£4,841
		£20,160
CAPITAL AND RESERVES		
Share Capital		£10,750
Profit and Loss Account		£9,410
		£20,160

Profit and loss accounts
For the year ended 31 August Year 2

TURNOVER		£380,772
Cost of Sales		£292,369
GROSS PROFIT		£88,403
ADMINISTRATIVE EXPENSES		
Staff Costs	£20,346	
Depreciation	£8,836	
Other Operating Charges	£63,716	
		£92,898
NET OPERATING PROFIT		(£4,495)
Interest Payable		£3,925
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(£8,420)
Tax on Ordinary Activities		(£1,912)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		(£6,508)
STATEMENT OF RETAINED EARNINGS		
Retained Profit for the Year		£9,410
RETAINED PROFIT CARRIED FORWARD		£2,902

Balance sheet
As at 31 August Year 2

FIXED ASSETS		
Tangible Assets		£41,886
Goodwill		£13,591
CURRENT ASSETS		
Stock and Work in Progress	£10,412	
Debtors	£39,641	
Cash at Bank and In Hand	£8,832	
	£58,885	
CREDITORS: Amount Falling Due Within 1 Year	£76,951	
NET CURRENT ASSETS		(£18,006)
TOTAL ASSETS LESS CURRENT LIABILITIES		£37,411
CREDITORS: Amount Falling Due After 1 Year		£8,509
		£28,902
CAPITAL AND RESERVES		
Share Capital		£26,000
Profit and Loss Account		£2,902
		£28,902

PROSPECT FARM

By Mark Chapman

Part A

1. Introduction

This is the story of a farmer and entrepreneur. It is about a traditional business, established for over a century, and how it faced terminal decline. It tells the story of an enterprise made fragile by the changes and uncertainties affecting U.K. agriculture over the last decade. It is about a crisis and a response which resulted in a radical change of direction, and optimism for the future. But above all, it is about how an entrepreneur recognised an opportunity, the euphoria created by the birth of a new business venture, and the problems encountered in developing the idea to realisation.

But first it is necessary to set the scene. Over the past decade a series of shocks have severely affected the profitability of livestock farming. Foot and Mouth, Salmonella, B.S.E., E Coli and a numerous other safety scares have affected the market for meat products. Export markets have been lost and the resulting surpluses have caused 'farm gate' prices to fall, often to uneconomic levels. The present system allows farmers little scope for increasing income. This case study is about a radical response to these changes, brought about by a crisis which could so easily have caused economic disaster to a business. It is about the way in which one farmer changed direction and decided to cultivate tourists instead of sheep and cattle.

2. Background.

At first sight, Eddie Blane fits snugly many of our preconceptions of the 'typical' farmer. A family man married to a school teacher, Eddie is in his mid 40s and a first impression is of a softly spoken and unprepossessing man. But look beyond his cautious and thoughtful manner and we see the clues to his approach to business. Eddie is a man who has planned carefully, researched enthusiastically, proved his mettle as a hard bargainer and, above all, has realised that sentiment and tradition have at best a limited part to play in modern business. Prospect Farm has been in the Crawford family for four generations. The great grandfather of the present owner was the first member of the family to farm at Prospect as a tenant farmer. His son followed on, and Eddie Blane's father bought the freehold during his stewardship. Eddie Blane's son is in line to take over the enterprise some time in the future.

For several years, Prospect Farm has been one of the main producers of the "Epicure" early potato. Because of its close proximity to the coast, these new potatoes are among the earliest in the British Isles, and consequently command premium prices. As the season progresses other later potatoes reach the market increasing supply and forcing down prices. Consequently, Eddie Blane's window of opportunity for high prices is very narrow. It is essential to harvest and sell as much of the very earliest crop as possible. To make matters more difficult, the crop has a very short shelf life and is usually sold to the dealer on the day it is harvested.

The activities of the farm had changed little over the years and the farm is typical of the mixed holdings in the region. Sheep and cattle were both bred and fattened for market. Potatoes and vegetables are grown for local consumption and further afield. Products were sold in the time honoured manner; livestock through the markets and produce through the local dealers. The potatoes are particularly important to the farm

both historically, and as a vital part of plans for a profitable future. In economic terms the farmer is usually a ‘price taker’ - accepting the price for produce prevailing at the time of sale. Good prices are obtained when the number of buyers and sellers is in balance, better prices when produce is in short supply

3. The Turning Point

It took a crisis point in both the personal and professional lives of Eddie Blane to make him think the unthinkable. Until then, he was the first to admit that “ten years ago, if I thought I would be doing this I’d say I was off my trolley”.

Three years ago Eddie had been hit by life changing experiences. It came in the form of a shock which affected both his personal life and his business. It began on a personal level with the untimely death of a close friend. Eddie began to think about the quality of his own life. Then, within a year, his local potato merchant died in tragic and sudden circumstances.

This death had serious consequences for the business. Eddie had harvested a ton of this precious crop on the morning he received the fateful phone call informing him of the death of the local merchant. Suddenly he had over £300 worth of a very perishable commodity to shift - and fast. His family had dealt with the merchant for years and there were no other buyers. What should he do?

Prospect Farm

Part B

1. A Quick and Dirty Solution

As is the case with so many successful entrepreneurs, Eddie managed to turn disaster into triumph - but he would admit it was more by luck than judgement. Although he did not realise it at the time, Eddie was about to make the decision that changed his life, and his business, forever. After some discussion with his family, a possible solution presented itself. Unfortunately, the solution centred around a cattle trailer. And this cattle trailer had recently been in use. It was enveloped in a distinctly agricultural ambience! An hour with a pressure hose solved that problem.

Next, the family filled it with the potatoes and towed it to the lay-by on the busy A77 road, which runs alongside the farm. A crude sign informing passers-by that “Ayrshire Tatties” were for sale was posted. To Eddie's amazement the whole lot was sold within a couple of hours. However, more significantly, the tatties fetched shop prices - more than double the money the dealer had paid in the past! It looked as though Eddie had some serious rethinking to do.

2. Planning for Problems?

Initially Eddie decided to try to expand the roadside selling activities. But this proved easier said than done, as Eddie had not accounted for the local Council’s Planning and Roads Departments. He was about to find out first hand about the obstacles potential entrepreneurs have to overcome in order to achieve their goals.

To trade in the lay-by - part of the public road - Eddie required a Street Traders' Licence. As the A77 is a busy trunk road this conflicted with local policy. The Council argued that there were road safety implications and recommended refusal of Eddie's application. Eddie then argued that the point of sale could be situated on his own land alongside the lay-by. This way, he would not need a Street Traders' Licence. This proved to be a tactical error. The Planning Department was then able to insist on a formal Planning Application for the stall, which the indicated they would oppose on the ground of policy.

At first sight Eddie seemed to have hit a brick wall. But the authorities had underestimated Eddie's determination to succeed. He went over their heads and appealed directly to the local elected Councillors. He made his case at the meeting. After a short adjournment the Councillors returned and granted Eddie a Street Traders' Licence. Eddie had won the first of the many battles to be fought on the way to realising his dream for the new Prospect Farm.

While this was going on, Eddie realised that what he needed to do was "get out of the lay-by and build a farm shop". There was a clear opportunity to sell an expanded range of farm produce, and even bought in goods. He had several redundant farm building that could be suitable for conversion. He made the appropriate applications. Ironically, only four weeks after the grant of the Street Traders' Licence Eddie had full planning permission for the new shop

3. Strengths, Weaknesses, Opportunities and Threats

After a couple of years, and as the shop prospered, a reassessment of the traditional side of the business was necessary. With prices falling for livestock, and the farm overdraft with the bank increasing, Eddie realised that there was a real danger that

there would be nothing left to pass over to his son when the time came. Eddie needed to carry out an audit of the business and there was no room for sentiment. What were the strong points? What opportunities existed either in the existing business or in taking new directions? Was any part of the existing business causing a drag on expansion and profitability plans? What about competition and economic uncertainty?

The potatoes were still profitable and still had a future. In addition, extra soft fruits and vegetables could be grown for sale in the shop. The proximity of the A77, with its tourist traffic to and from the ferry ports to Northern Ireland was an advantage that could be exploited. A wide range of redundant outbuildings offered further potential for diversification or expansion of existing activities. A paddock between the farm shop and a small lane leading to the A77 was sufficiently large for conversion to a car park suitable for several lorries or coaches - a unique advantage on this stretch of road.

On the downside the cattle and sheep were a drain on resources, and did not offer any scope for expansion of income, and the farm overdraft was a constraint on growth. Uncertainty still remained in the traditional farming sector as EU support systems changed. The Government were actively encouraging farm diversification so first mover advantage was essential to keep ahead of potential competitors.

5. Into the Unknown

In two years of trading the shop had turned over £120,000. It seemed that this was the way forward and Eddie began to formulate a Business Plan for radical diversification. This would involve running the remaining farm activities and the diversified venture as two distinct businesses. Eddie's sister, a qualified accountant

and until recently an employee of Highlands and Islands Enterprise, was brought on board as a partner in the new business. Advice was taken from a variety of sources, including the Farm Advisory Service at the Scottish Agricultural College, Scottish Enterprise Ayrshire, and Euro Access in Edinburgh.

Phase 1 of the plan was to be the restaurant which accompanied and complemented the farm shop. Eddie describes what he wants to do in his own words "We've identified…What there seems to be is a lack of…..well the bed and breakfast people that move into the area. Say they arrive in the area about 4 o'clock and you're not wanting to have an evening meal at the guest house. There seems to be a lack of something for people to do between five and six and they are wanting a meal. There seems to be a lack of that in this area. There are options - they will get a meal at seven o'clock and they are to wait till seven to get it. Or it's too expensive for what they are really wanting. We are trying to fill the gap."

Eddie believed that there was a clear gap in the market. But this conviction that visitor demand existed was based upon more than blind faith. Eddie had noticed the large number of coaches taking people to and fro the Ferry Terminals for Northern Ireland. Each coach carries around 40 passengers and several dozen pass each day in the summer. So Phase 2 would include the conversion of redundant outbuildings into small units to be let as for the sale of crafts and the like. Looking even further ahead, Phase 3 is likely to include the development of a visitor attraction based on the history of the Epicure potato. In Eddie's grandfather's time, hundreds of migrant workers came from Ireland to the farm at harvest time. The accommodation they used when they worked there is still in existence and Eddie is aware they there could be considerable interest in an interpretation centre based on the events of those times. In every case, the additional attractions would increase the throughput of the shop and restaurant, and encourage return visits.

6. The Business Plan

A fully costed and timetabled business plan was drawn up. The diversification would take place in 3 distinct phases over a period of up to ten years. Eddie needed to raise £200,000 start up capital. It was time to find what money he could and approach the bank for the remainder. The farm borrowings had to be reduced and new finance arranged for the expansion and diversification plan. Part of that plan included a radical departure from around a century of family tradition - the livestock had to go. In Eddie's own words, "We decided to get out of livestock farming and I hoped to sell all of my livestock and get a bit of cash that way to put towards reducing my borrowing. It was not sufficient the way the livestock prices went last year. So my next option was to look at selling some land to come up with some more funding. Selling capital was an option here because I could turn it over and the Inland Revenue were not going to get involved. So you weren't selling something and losing money to the Inland Revenue. That sale - it made it more attractive to do that rather than go to the banks for all of it".

The farm had a working relationship going back decades with the local branch of the Royal Bank of Scotland, and naturally this is where he took his proposal, expecting a favourable response. Eddie was about to encounter his next lesson on the entrepreneurial learning curve.

Depressed livestock prices meant that the sales of land and livestock still left the farm with a hefty overdraft. However, the value of the land and buildings, including four farm cottages, was such that Eddie did not anticipate any problems raising the necessary finance. With impressive understatement Eddie describes the bank's reaction to his proposals as "not very favourable". His application met with a point

blank refusal. However, in Eddie's eyes, the worst part of this was the six months it took the bank to make up its mind. What went wrong? Eddie takes up the story: "I couldn't get past the local manager. I couldn't get further up the tree. The only further up the tree I got was to the agricultural advisor. I showed the pair of them round and they just couldn't get a feel for it." It seems that Eddie's plans had run into the buffers. What could he do and to whom could he turn?

SECOND NATURE

Source and acknowledgements: The following brief case study is written from features in *Country Living Magazine* and the *Guardian Newspaper*.

In 1998, Christine Armstrong was in business running a successful interiors shop in Penrith, Cumbria; however, she had owned the business for 10 years and felt that it was time for new challenge. With her husband, David Armstrong, she also had a sheep farm in the Eden Valley and an interest in the nature and development of woollen products. Christine knew about the natural insulating properties of wool and decided to investigate whether it could be used in buildings.

To carry out the investigation, research was conducted at Leeds University, which had expertise in textile manufacturing. After 2 years of R&D 'Thermafleece' was developed and proved its value. It is a special product made from a blend of fibres, largely otherwise discarded, from the textile industry. The material works by having a matrix of fibres which traps warm air for added insulation and a chemical-free treatment is applied to protect the material from insect penetration.

The inclusion of wool in the product means that it will last for 50 years and hence can be used in buildings for insulation. It has the advantage of being entirely recyclable and is warm in winter, yet cool in the summer. Early demand for Thermafleece has been encouraging with orders from the National Trust and from people wishing to build environmental friendly properties. Although the product is new, Christine Armstrong's company, Second Nature, achieved £100,000 worth of orders in the first year and hopes to achieve a turnover of £2m by Year 3.

By the end of Year 2, Second Nature UK Ltd, won the small business award in the Country Living Enterprising Rural Women Awards.

Discussion Question: What have been the key critical success factors, from a micro and macro perspective, in Second Nature's entrepreneurial development?

The Puffer

by Alistair Anderson and Sarah Jack

This rural business is concerned with the operation of a fifty year old steam driven coaster. The “puffer”, so called because of the endearing characteristic of its smoke stack, is a small ship which was originally built to cheaply carry basic commodities from the central belt to the outlying places of the Highlands and Islands. Puffers were particularly convenient because they were equipped with a reinforced bottom which allowed them to put aground on remote sandy beaches where no harbour was available. The Scottish author, Neil Munro, glamorised these puffers in his famous folksy tales of Para Handy, a colourful but intemperate captain whose puffer, the Vital Spark, sailed around the west coast of Scotland.

The English owner of this vessel moved with his teacher wife in search of a better way of life. He is well spoken, educated and articulate, and not at all a Para Handy, nor indeed the sort of person instantly associated with dirty, oily machinery. Nonetheless after purchasing the dilapidated boat he quickly refurbished and equipped it to become a comfortable cruiser to sail around the scenic and beautiful areas of the West Highlands and Islands of Scotland. However, rather than enjoying the greasy fare of Para Handy, customers may enjoy fine claret with their gourmet meals. Customers now pay handsomely to relive, albeit selectively, the finer lifestyle aspects of sailors of yesteryear. But not all the sybaritic seadogs choose to idle, many take delight in working aboard; helping to maintain the great thumping engine; oiling and cleaning; helping to tie up and even tidy up. Most ironic of all, some pay over £300 a week for the privilege of being allowed to shovel coal!