

Local Economic Systems

Session 3

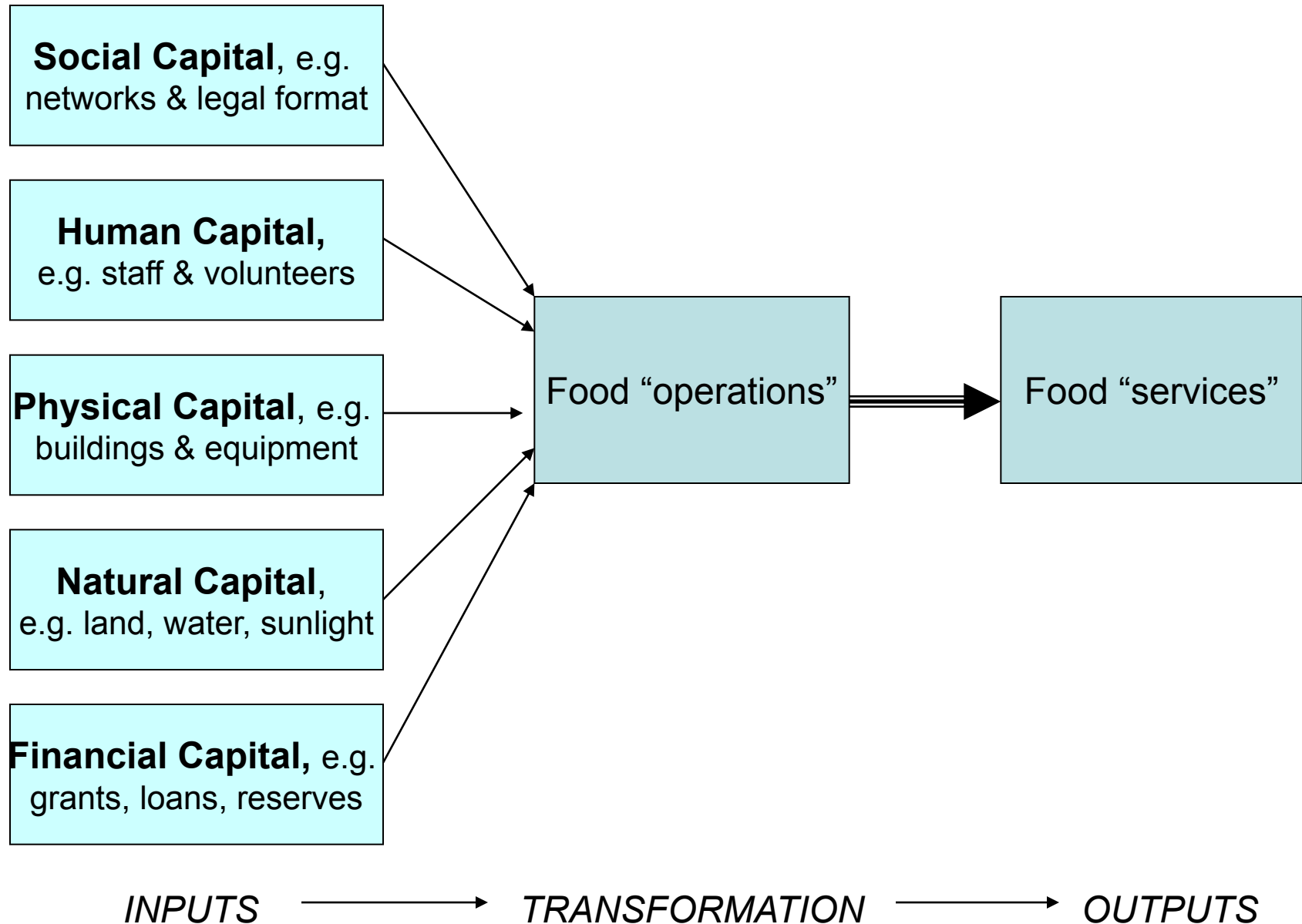
Applying the theory to a hypothetical
eco-social enterprise

Tim Crabtree

Focus of session 3

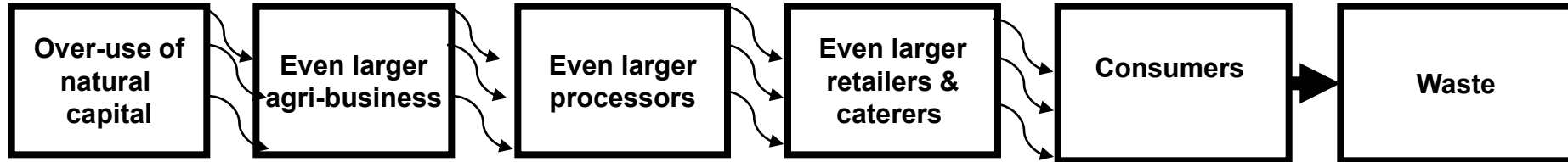
- Students will be asked to choose and describe a local food enterprise – this can be real or hypothetical – and describe the key purpose of the organisation.
- Next look at the services, in terms of outputs (goods & services) and outcomes (economic, social, environmental)
- They will then be asked to describe the key operations of the enterprise and the way in which those operations will be managed.
- Students will explore how outputs will get to consumers, through marketing and distribution.
- Next they will describe the key inputs required.
- They will then explore how waste will be eliminated or recycled.
- Tomorrow, students will explore opportunities for collaboration with other local food initiatives.

Understanding inputs: the key building blocks

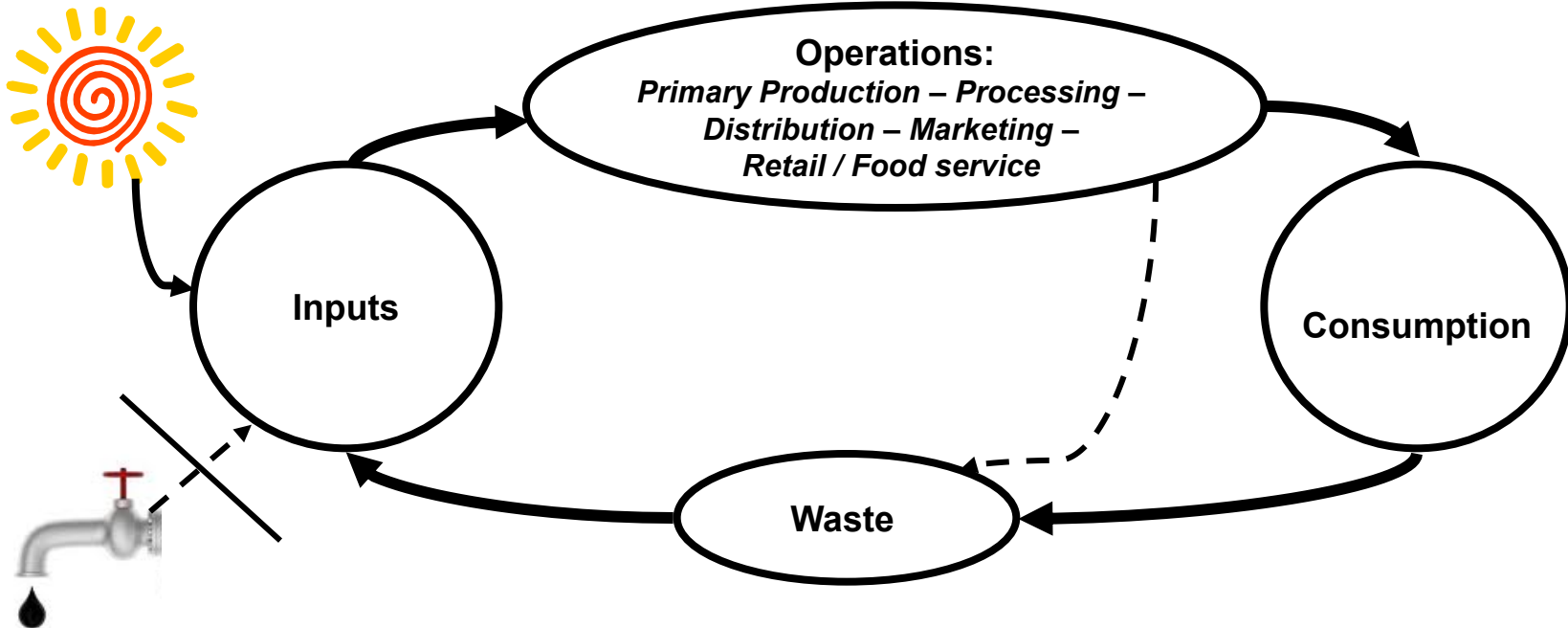


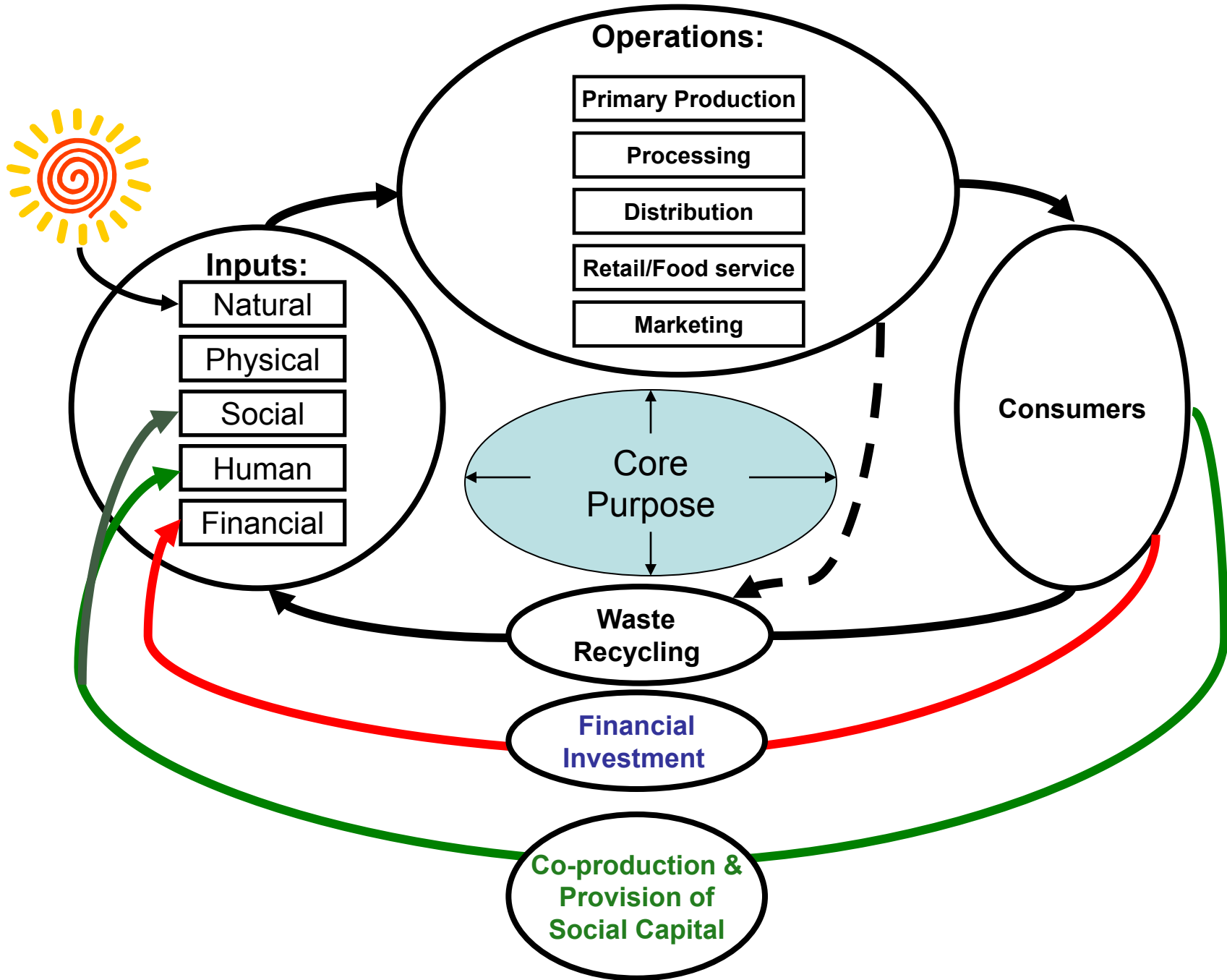
Two types of food system

“Linear” food systems



“Circular” food systems





Video: Growing Well

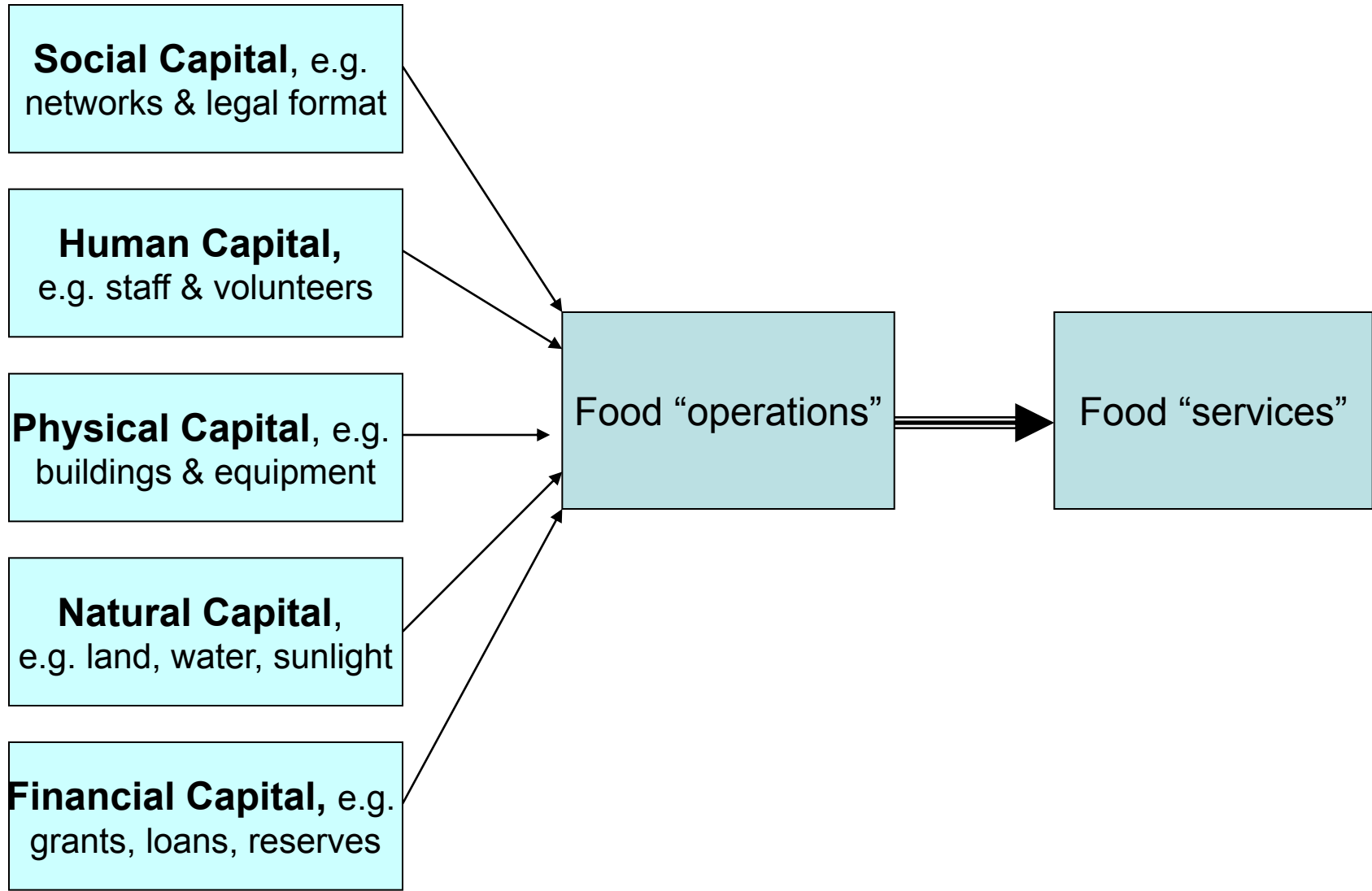
- Question – what is the core purpose of this eco-social enterprise?

Growing Well

Core purpose:

- Growing Well's mission is to promote mental well-being and organic horticulture through being a successful, inspirational, community-focused social enterprise.

From outputs to outcomes



INPUTS

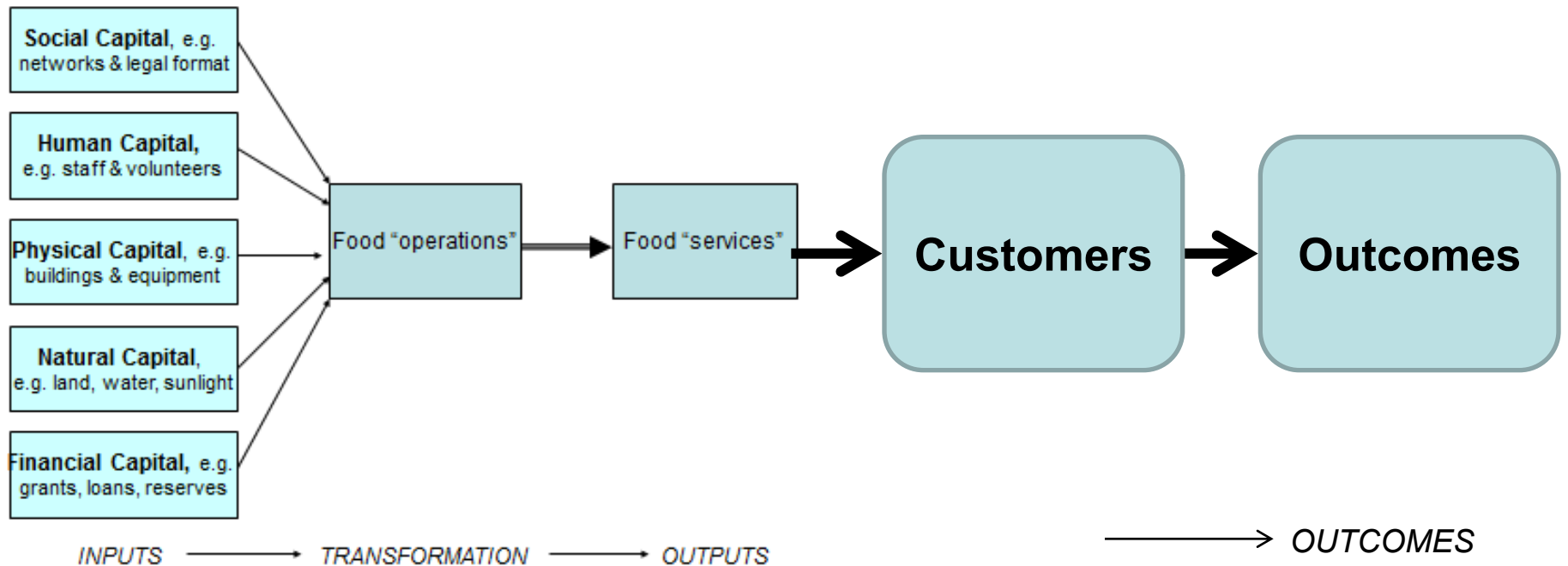


TRANSFORMATION



OUTPUTS

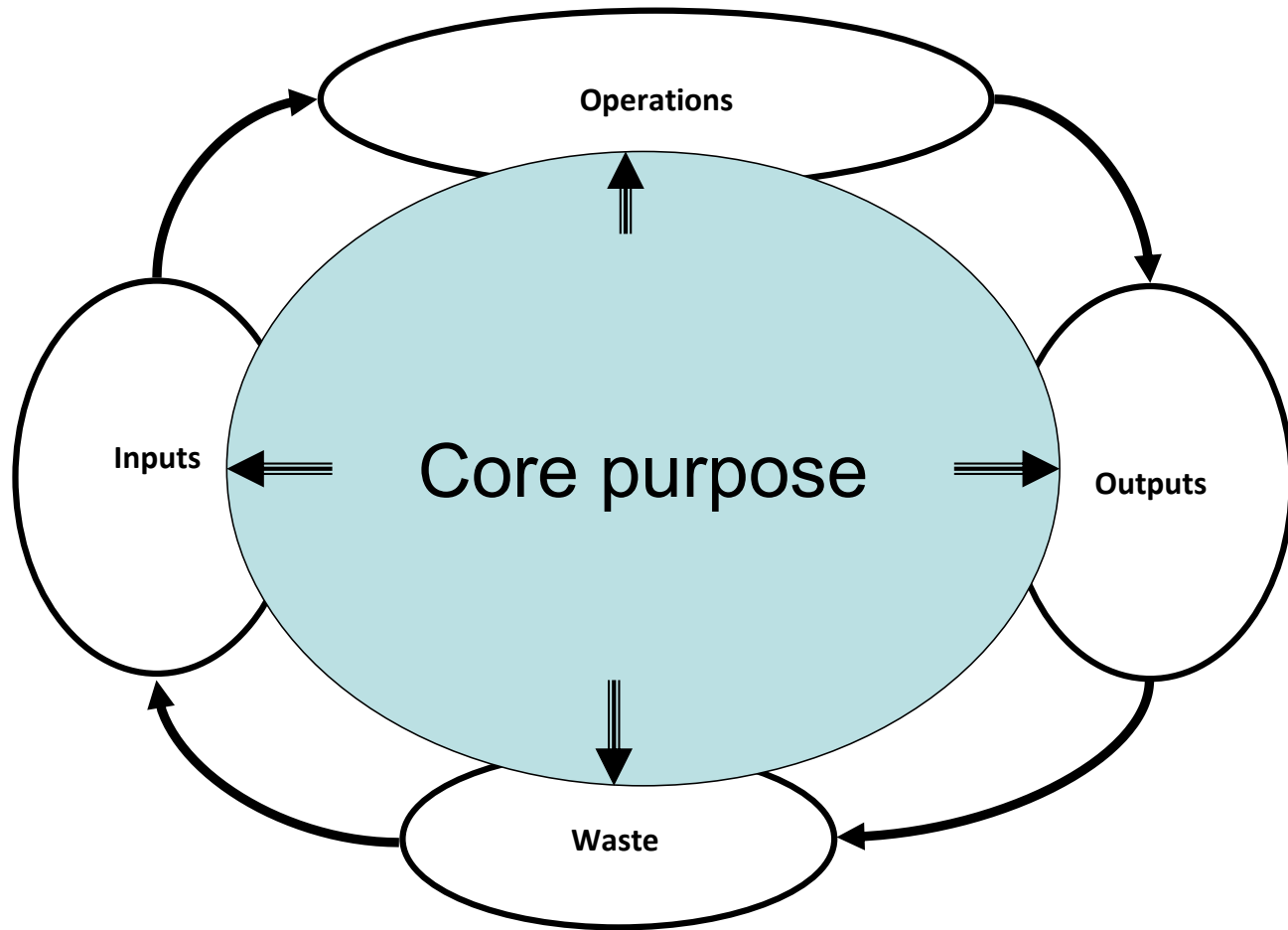
From outputs to outcomes



In any system, identifying the purpose or goal is critical

“A system isn’t just any old collection of things. A system is an interconnected set of elements that is coherently organised in a way that achieves something.....

a system must consist of three kinds of things: *elements*, *interconnections*, and a *function or purpose*.”

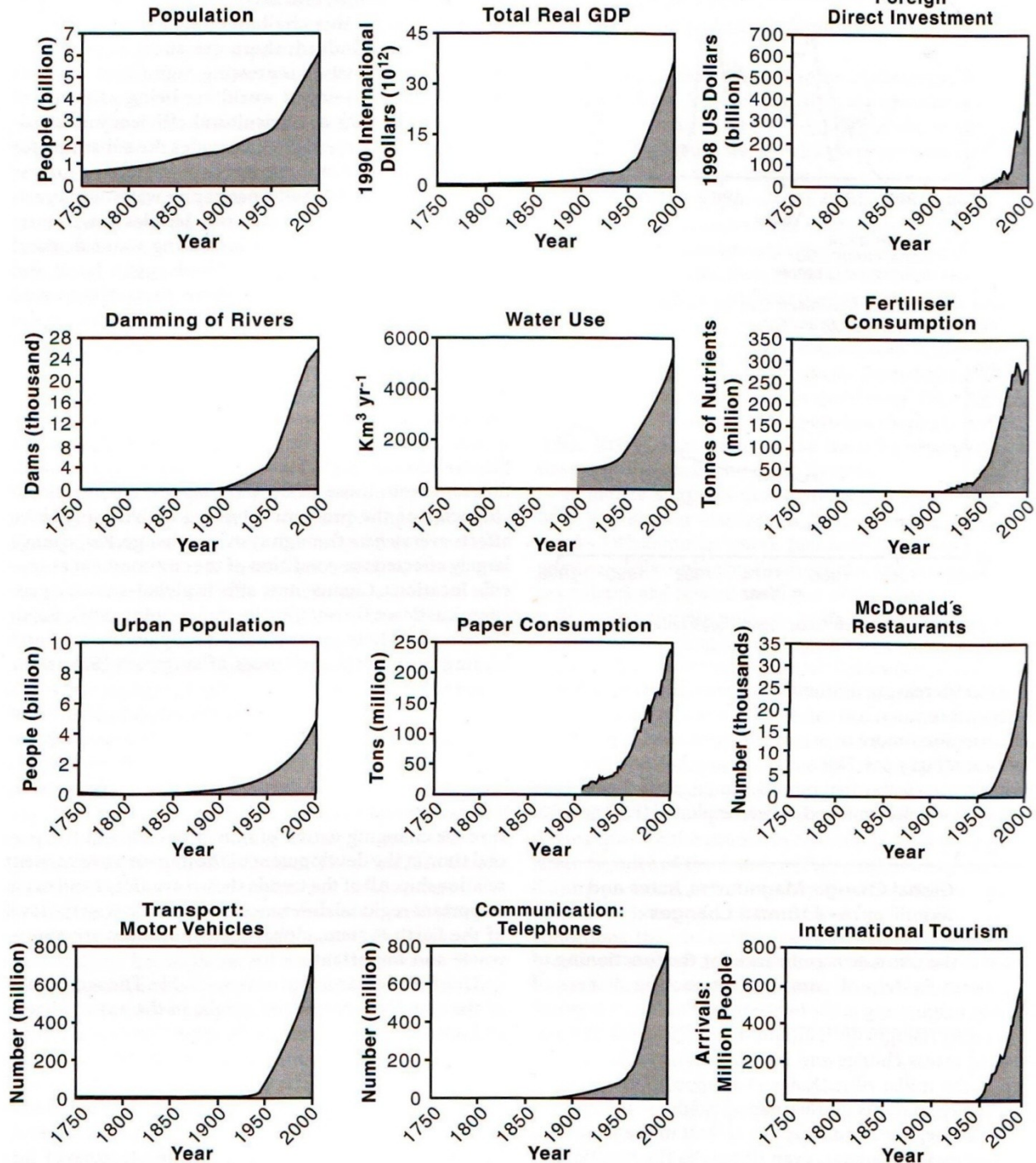


According to Meadows *“the least obvious part of the system, its function or purpose, is often the most crucial determinant of the system’s behaviour.”*

Mainstream view of firms

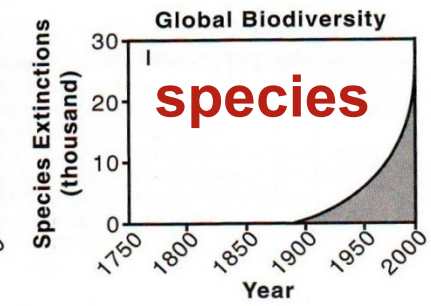
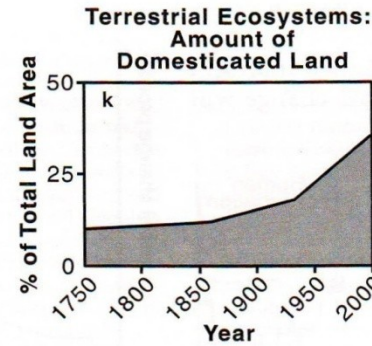
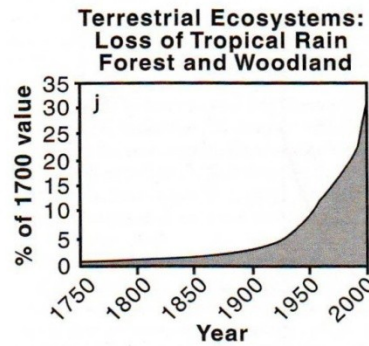
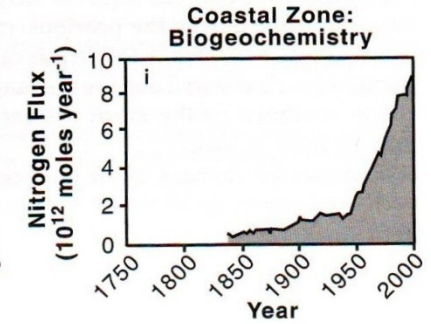
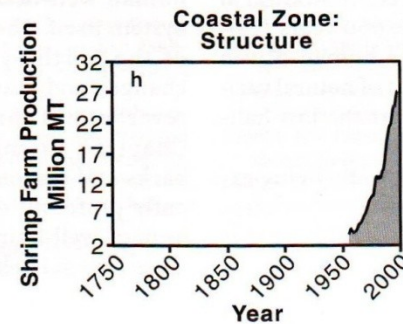
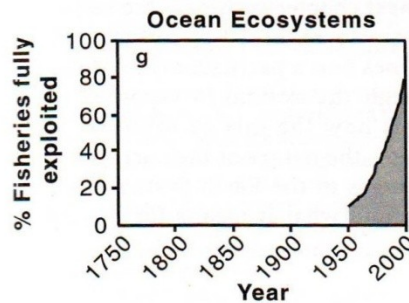
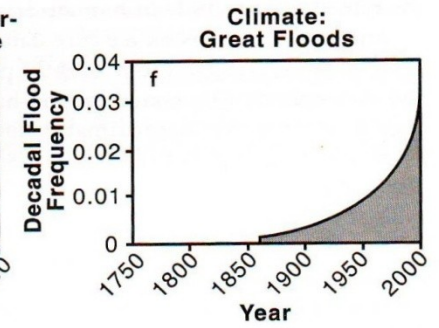
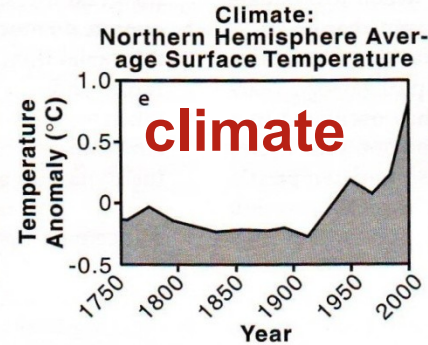
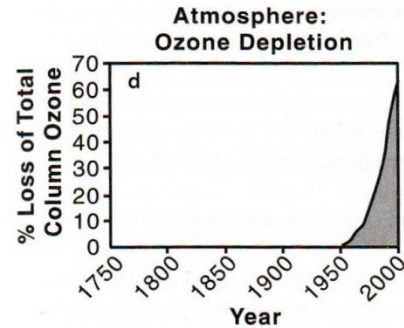
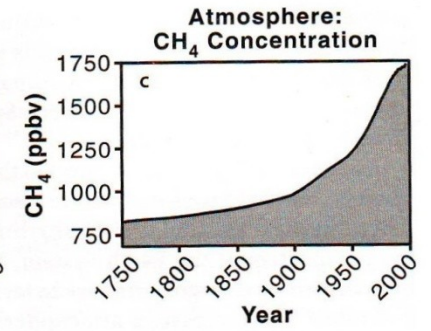
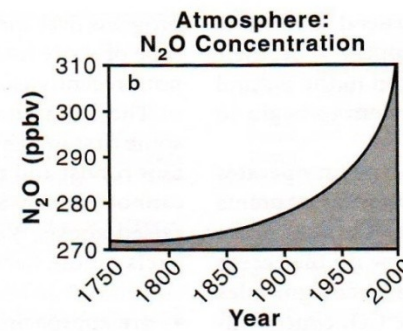
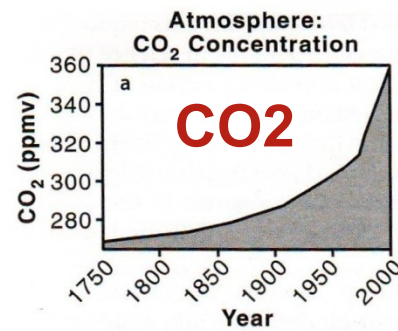
- Core purpose is to maximise profits for shareholders
- Financial considerations more important than social or environmental considerations
- Fine in theory, but.....

Drivers of Global Change



From: Steffen et. al
2004

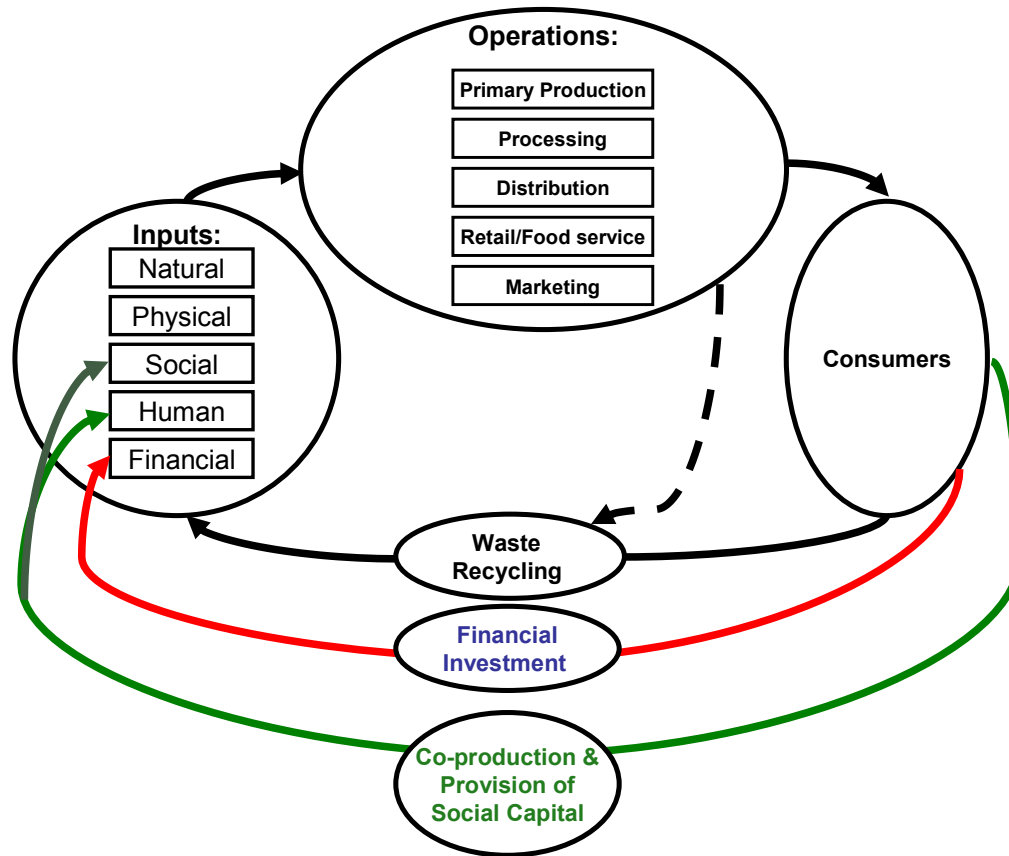
Metrics of Global Change



From: Steffen et. al
2004

Thinking about core purpose

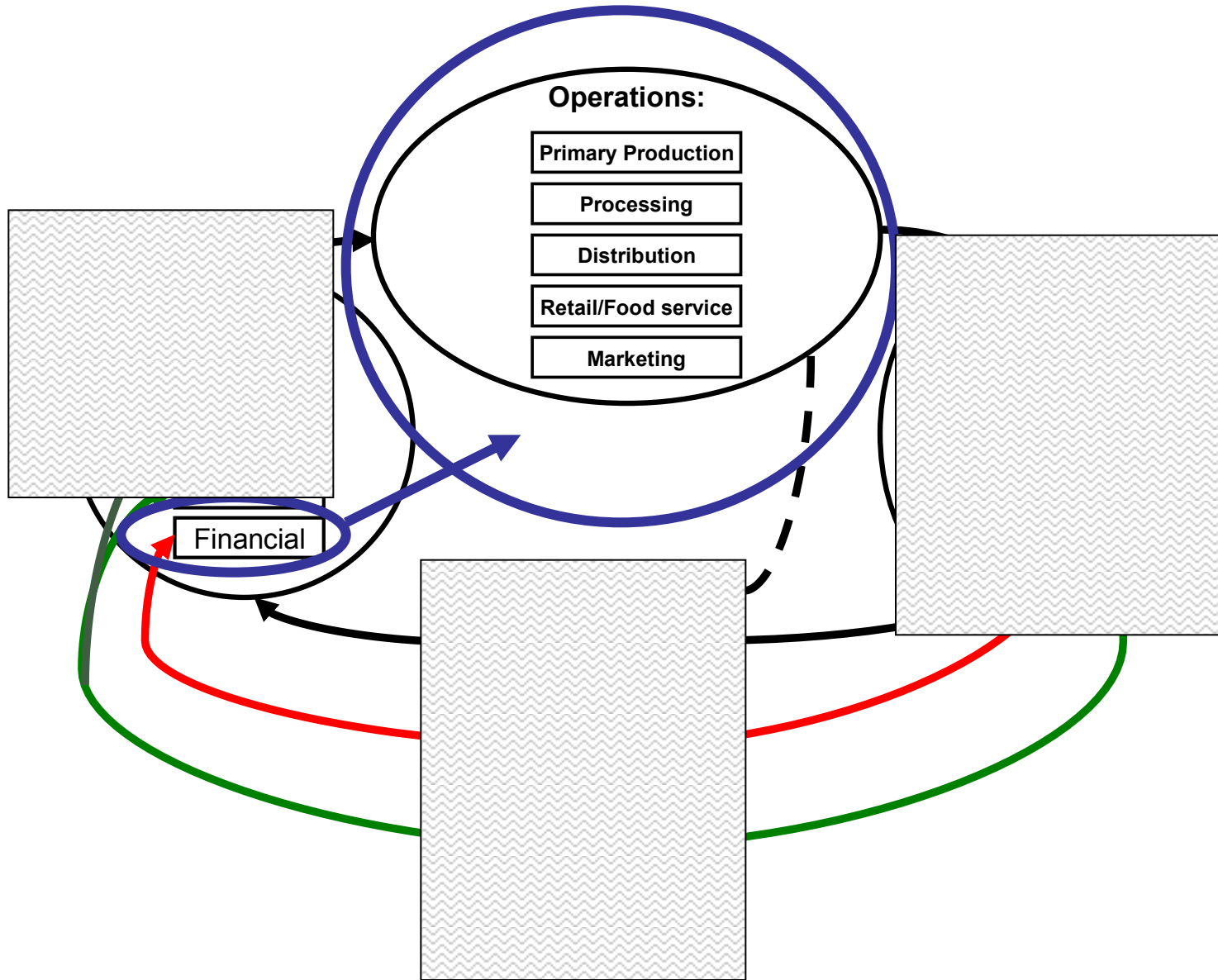
What's outside the model, what's inside?



What's outside?

- Conventional theory focuses on:
 - Operations
 - Marketing
- Inputs are outside the model:
 - Except providers of financial capital (owners / investors)
- Customers are outside the model
- Externalities, e.g. waste & pollution outside the model

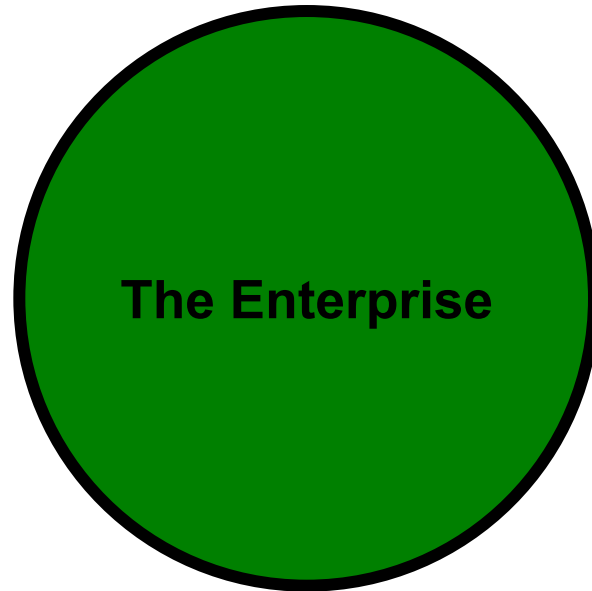
“Conventional” theory of the firm



What's outside?



Economic impacts
e.g. unfair labour
conditions



Social impacts e.g.
rising levels of obesity



Environmental impacts
e.g. climate change

In the social economy:

- The way we utilise inputs becomes part of the model
- The way we operate is part of the model
- Customers can become part of the model
- Creating low input, low pollution, low waste processes becomes part of the model

What's inside?

- Conventional theory & practice:
 - that self-interest, profit-maximisation and growth (of a company and its market share) is in the best interests of society
 - It will lead to a the best outcomes for everyone

What's inside?

- In the social economy, enterprises seek to define different purposes
- They seek a “triple bottom line”:
- Economic outcomes, e.g. they must cover their costs, while also providing fair returns to key stakeholders
- Social outcomes, e.g. they may employ people disadvantaged in the labour market
- Environmental outcomes, e.g. they will seek to reduce their environmental “footprint”

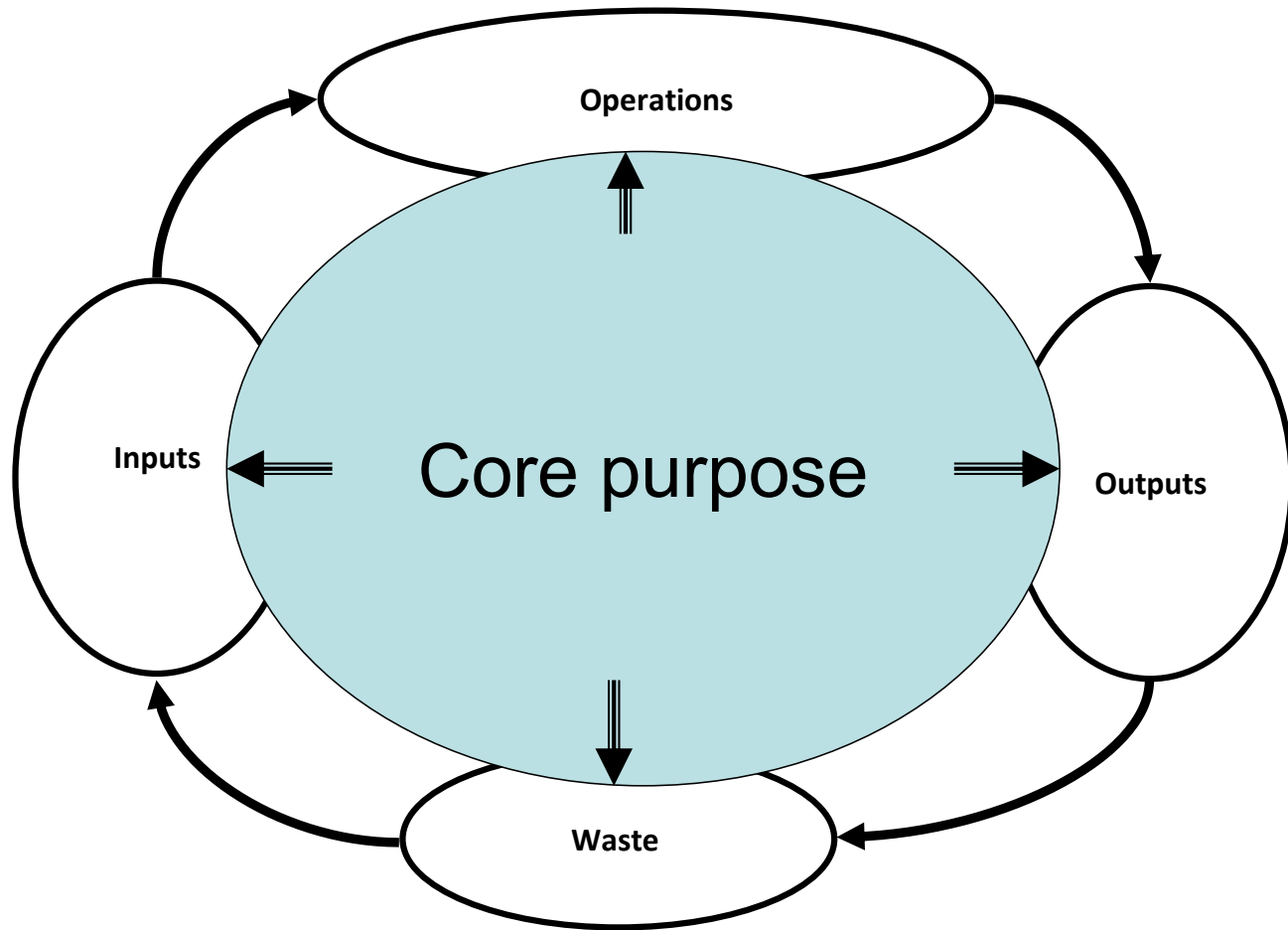
What's inside?

- Social economy organisations have different **members**:
- Conventional enterprises limited to owners / investors
- Social economy organisations may have different members:
 - Staff
 - Customers
 - Suppliers
 - Investors (but returns limited)

In any system, identifying the purpose or goal is critical

“A system isn’t just any old collection of things. A system is an interconnected set of elements that is coherently organised in a way that **achieves something**.....

a system must consist of three kinds of things: *elements, interconnections*, and a ***function or purpose.***”



According to Meadows *“the least obvious part of the system, its function or purpose, is often the most crucial determinant of the system’s behaviour.”*

The economic spectrum

Maximum
public benefit

Maximum
private benefit

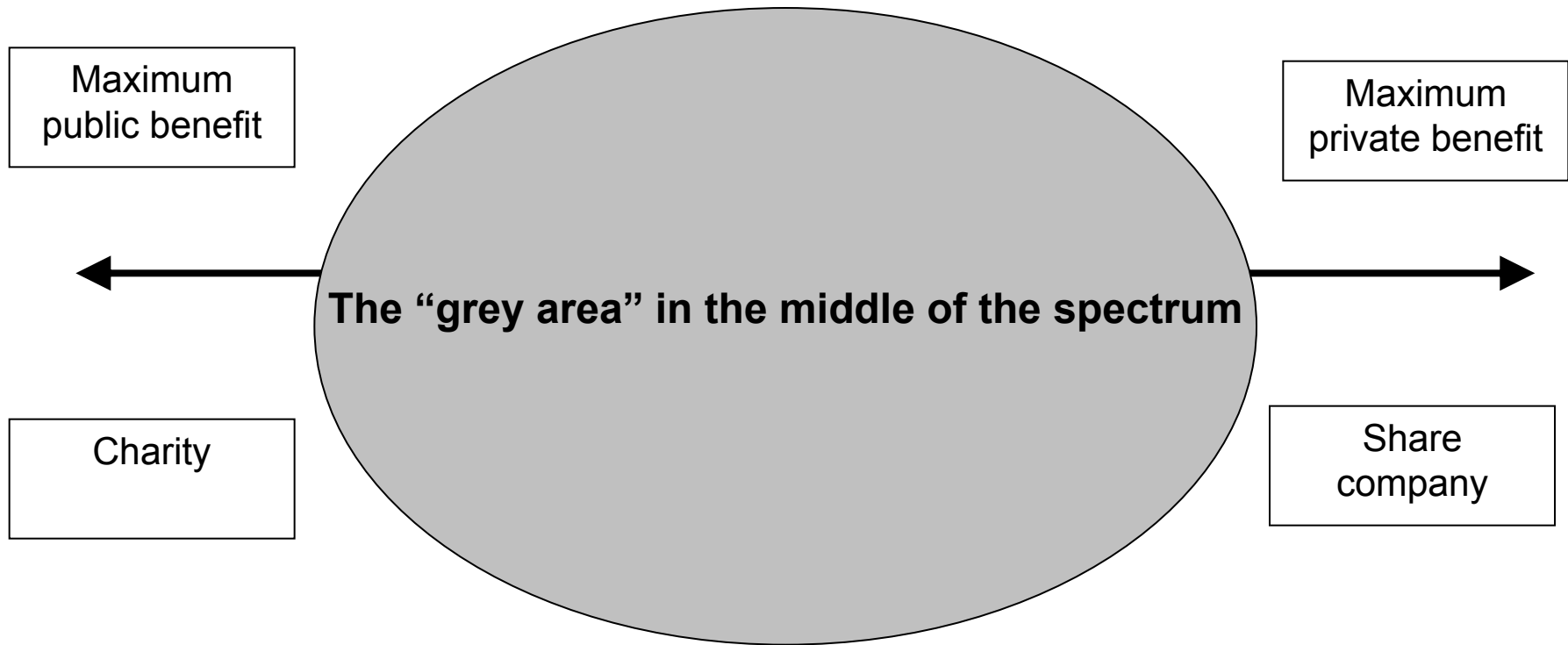


Charity

Share
company

E.g. World
Wide Fund for
Nature

E.g. British
American
Tobacco



**is where social economy
organisations operate**

High social return

High financial return

Charities/vol orgs		Revenue generating social enterprises			Socially driven business	“Traditional” business
No trading revenue	Trading revenue & grants	Potentially sustainable: 50%+ trading revenue	Breakeven – all revenue from trading	Profitable – surplus not distributed	Profit distributing – socially driven/mutual	Profit maximising
West Dorset Food & Land Trust Dorset Food & Health Trust Somerset Community Food Projects Network		Local Food Links Dorset Farmers’ Markets Somerset Local Food Direct			Waitrose Co-op Group Whole Food Markets Green & Blacks (Cadburys) Rachels Dairy	

Over-arching Paradigm

E.G.

Nature is a stock of resources
to be converted to human purposes

The market is the ideal organising
mechanism for everything

Money measures value
(people who are paid less are worth less)

Growth is good

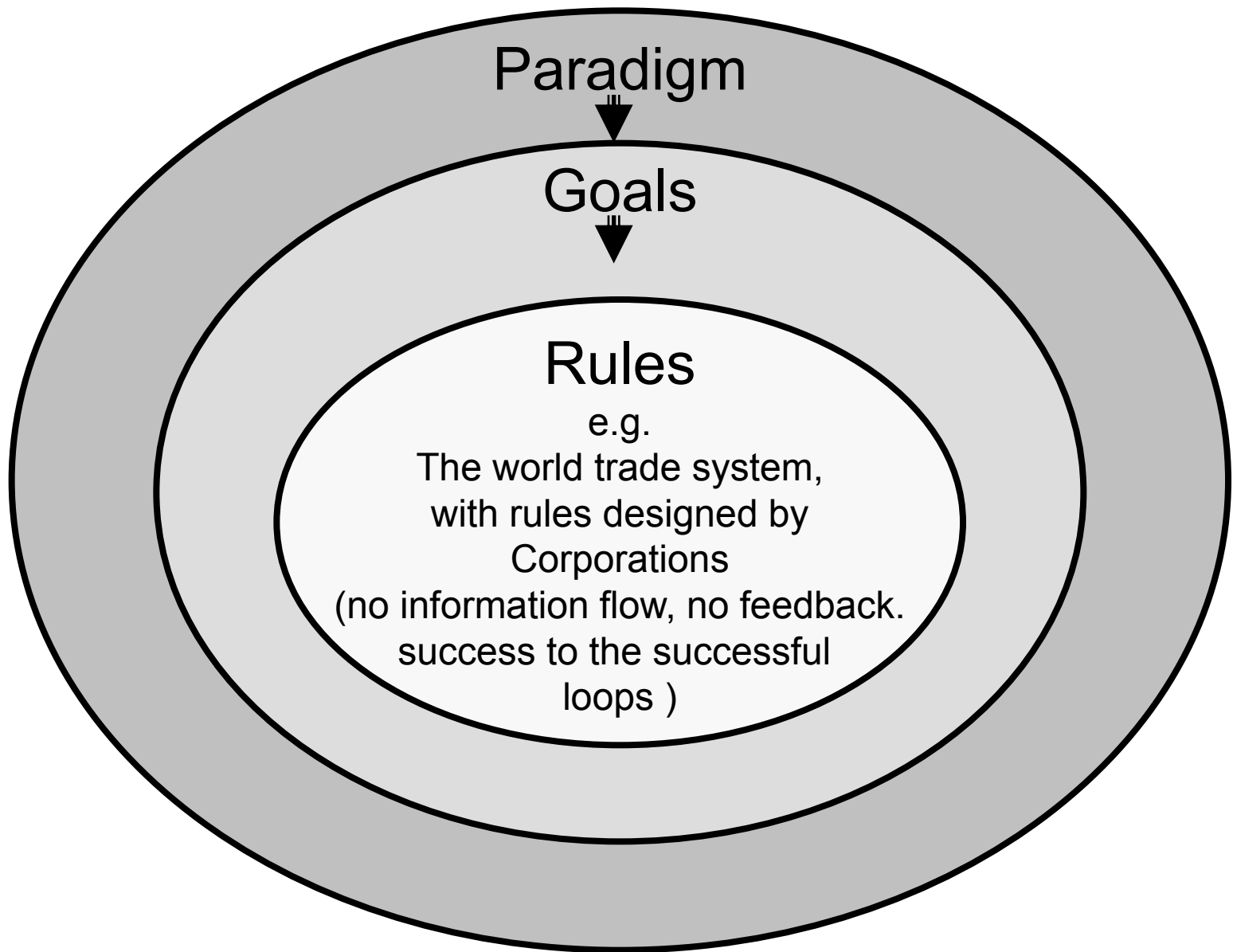
Self-interest is good

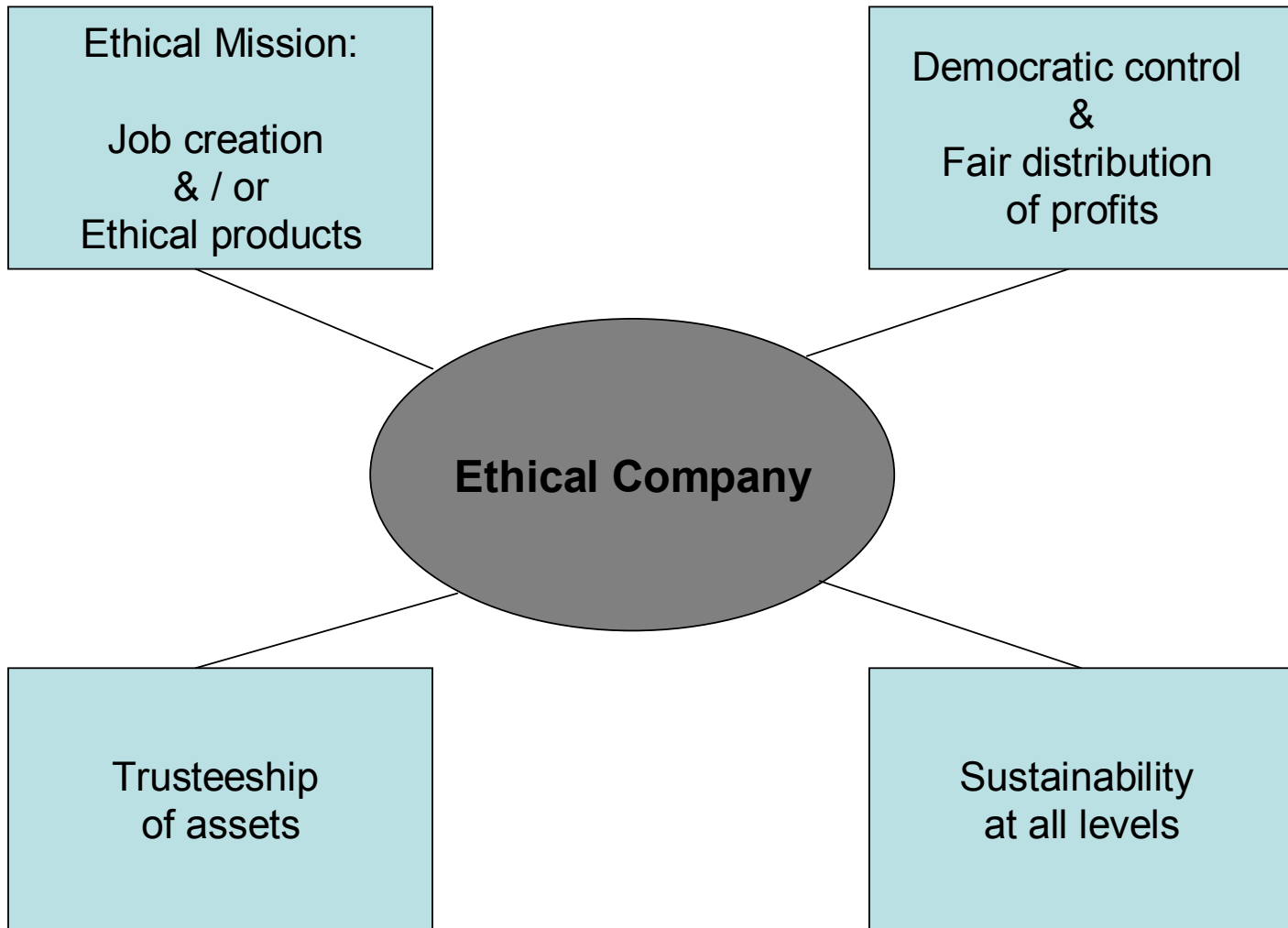
Paradigm



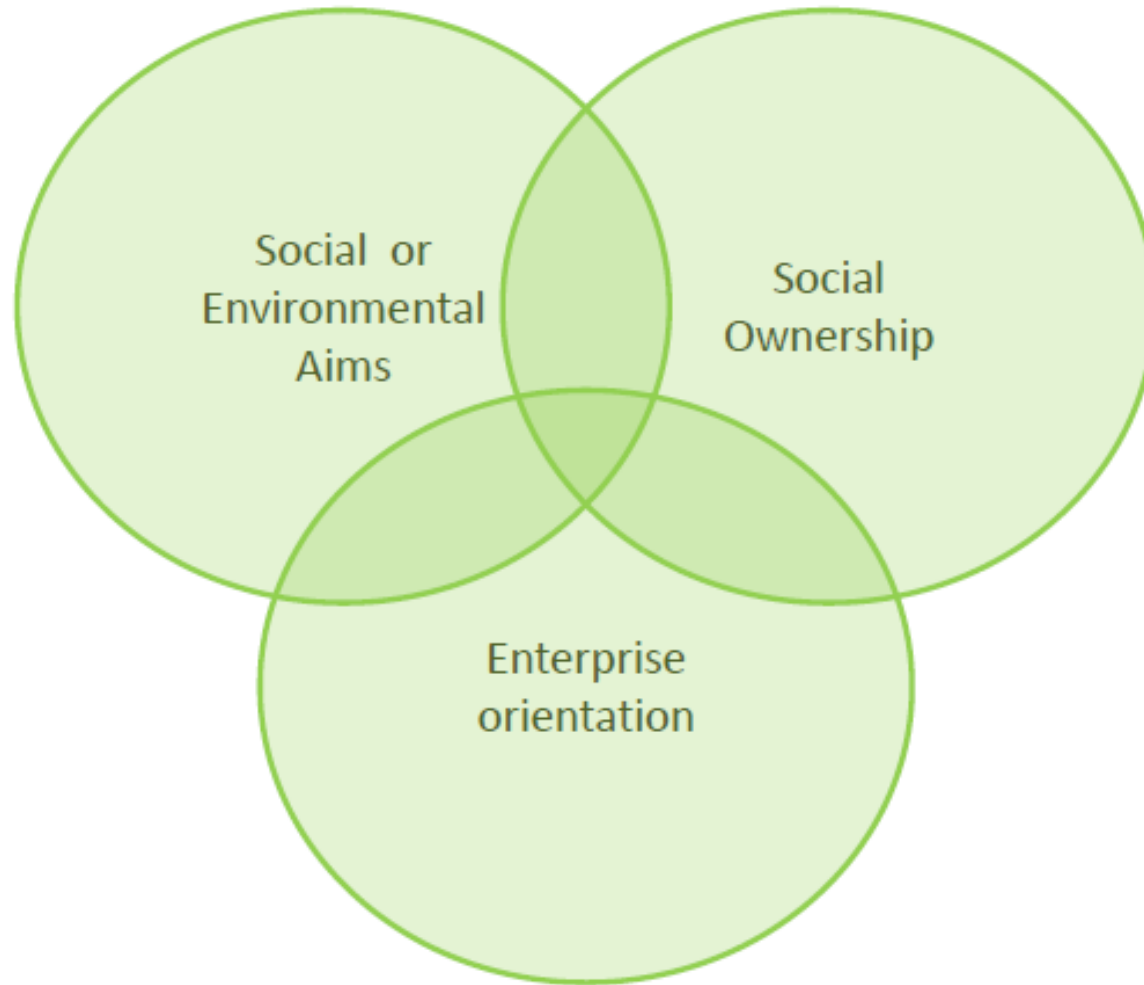
The goals of a system
E.G.

To grow,
to increase market share,
to bring the world more & more
under the control of
the corporation





Common characteristics of eco-social enterprises



Exercise

- For your enterprise, you will need to start with the purpose or goal

Exercise

- Now describe 3 outcomes:
 - Economic
 - Social
 - Environmental

The proposed outputs (goods & services) of the organisation:

- What outputs will you produce?
- How do these relate to the proposed outcomes?

Customers

– the market for your enterprise

- How could customers be brought into your enterprise?

E.g. Local Food Links:

- Parents, schools and older people could become members
- They could provide investment (equity)
- They could provide volunteer assistance
- They could sit on the board or committees

Exercise 3

- Who are your customers?
- How can they become part of the enterprise?
 - Should they be members?
 - Could they provide;
 - Human capital?
 - Social capital?
 - Financial capital?

Mosaic UK

What is it?

Established by Experian, Mosaic UK is the consumer classification of the United Kingdom:

- Provides an accurate understanding of the demographics, lifestyles and behaviour of all individuals and households in the UK
- Uses a variety of data sources and is continuously updated

UK Mosaic Groups

Mosaic UK classifies consumers in the United Kingdom into one of 67 types and 15 groups

Group	Description	% ↑	% ↓	Type	Description	% ↑	% ↓	
A	Alpha Territory	4.28	3.54		A01	Global Power Brokers	0.32	0.30
					A02	Voices of Authority	1.45	1.18
					A03	Business Class	1.83	1.50
					A04	Serious Money	0.68	0.46
B	Professional Rewards	8.54	8.23		B05	Mid-Career Climbers	2.90	2.30
					B06	Yesterday's Captains	1.60	1.44
					B07	Distinctive Success	0.48	0.48
					B08	Dormitory Villagers	1.81	1.29
					B09	Escape to the Country	1.41	1.41
					B10	Pariah Guardians	1.14	1.00
C	Rural Solitude	4.84	4.40		C11	Squires Among Locals	1.01	0.85
					C12	Country Loving Elders	1.32	1.31
					C13	Modern Agribusiness	1.61	1.36
					C14	Farming Today	0.53	0.53
					C15	Upland Struggle	0.36	0.34
D	Small Town Diversity	8.21	8.75		D16	Side Street Singles	1.21	1.17
					D17	Jacks of All Trades	2.60	1.99
					D18	Hardworking Families	2.67	2.63
					D19	Innate Conservatives	2.53	2.96
E	Active Retirement	3.41	4.34		E20	Golden Retirement	0.52	0.47
					E21	Bungalow Quietude	1.42	1.19
					E22	Beachcombers	0.97	0.80
					E23	Balcony Downsizers	0.90	1.29
F	Suburban Mindsets	13.16	11.16		F24	Garden Suburbia	2.82	2.14
					F25	Production Managers	2.31	2.63
					F26	Mid-Market Families	3.75	2.70
					F27	Shop Floor Affluence	2.62	2.73
					F28	Asian Attainment	1.65	0.98
					F29	Football Managers	1.11	1.67
G	Careers and Kids	5.34	5.78		G30	Soccer Dads and Mums	1.34	1.34
					G31	Domestic Comfort	1.24	1.09
					G32	Childcare Years	1.46	1.52
					G33	Military Dependents	0.19	0.17
H	New Homemakers	3.99	5.91		H34	Buy-to-Let Territory	1.06	1.19
					H35	Brownfield Pioneers	1.13	1.38
					H36	Foot on the Ladder	1.48	2.37
					H37	First to Move In	0.30	0.47
I	Ex-Council Community	10.60	8.67		I38	Settled Ex-Tenants	2.06	2.06
					I39	Choice Right to Buy	1.90	1.72
					I40	Legacy of Labour	3.46	2.68
					I41	Stressed Borrowers	3.15	2.20
J	Claimant Cultures	4.52	5.16		J42	Worn-Out Workers	1.62	2.30
					J43	Streetwise Kids	0.90	1.05
					J44	New Parents in Need	1.60	1.80
K	Upper Floor Living	4.30	5.18		K45	Small Block Singles	1.28	1.77
					K46	Tenement Living	0.62	0.80
					K47	Deprived View	0.38	0.50
					K48	Multicultural Towers	1.09	1.11
					K49	Re-Housed Migrants	0.97	0.99
L	Elderly Needs	4.04	5.96		L50	Pensioners in Blocks	0.69	1.31
					L51	Sheltered Seniors	0.67	1.12
					L52	Meals on Wheels	0.51	0.68
					L53	Low Spending Elders	1.98	2.68
					L54	Clocking Off	2.16	2.25
M	Industrial Heritage	7.39	7.40		M55	Backyard Regeneration	2.40	2.06
					M56	Small Wage Owners	2.61	3.09
					M57	Back-to-Back Basics	2.50	1.97
N	Terraced Melting Pot	6.54	7.02		N58	Asian Identities	1.06	0.88
					N59	Low-Key Starters	1.60	2.72
					N60	Global Fusion	1.58	1.44
					O61	Convivial Homeowners	1.74	1.68
O	Liberal Opinions	8.84	8.48		O62	Crash Pad Professionals	1.41	1.08
					O63	Urban Cool	1.25	1.10
					O64	Bright Young Things	1.38	1.52
					O65	Anti-Materialists	1.12	1.03
					O66	University Fringe	1.10	0.93
					O67	Study Buddies	0.67	1.14



www.experian.co.uk

Mosaic United Kingdom

The consumer classification of the United Kingdom



8 Mosaic groups most likely to buy local food:

Group B: Professional Rewards



Group C: Rural Solitude



Group D: Small Town Diversity



Group E: Active Retirement



Group F: Suburban Mindsets



Group G: Careers and Kids



Group M: Industrial Heritage



Group O: Liberal Opinions



Well known barriers

Perceived expense

→ Perceived to be expensive in comparison to supermarkets

Not a one stop shop

→ People seek a one stop shop with everything under one roof

Limited choice/ selection

→ Seasonality means that you can't get things all year round

Opening hours/ frequency

→ Difficult to visit if working and means you have to be organised

Location/ signage and parking

→ Difficult to get to without a vehicle and can be hard to find and park

Accessibility in store

→ Shops can be small and cramped and surfaces uneven

Payment

→ Some outlets are cash only - people have to visit a cash point first

Weather

→ People are put off going to farmers' markets if it is raining



"The cost, that was the big one...Too expensive for most people." (Crediton, Lapsed)

"The cost of parking and the cost of travelling to your destination. The petrol costs and everything, and just generally having to travel around." (Knaresborough, Potential)

"Some of the shops you can only pay cash, which can be really inconvenient." (Current, Bristol)

The well known barriers of perceived expense and inconvenience were mentioned. There is also an underlying perceived 'effort' and 'hassle factor' when shopping for local food.

Lack of trust is a big barrier

Food safety standards

- Shoppers question whether local food outlets have the same food safety standards as supermarkets

Poor quality produce

- Poor quality produce left on display is off putting and makes people further question the food safety standards

Poor product labelling

- Shoppers expect sell by dates and cooking instructions. When this is not available it is off putting and impacts on trust

Organic

- While provenance is a key motivator when shopping for local food, many question whether it is actually organic

Refunds

- Refund policies and procedures for dealing with complaints reassure customers. Unlike supermarkets, these are not always clear

Lack of competition

- With just one supplier, the lack of competition means a monopoly

Local food outlets are seen as a 'risk' as people don't know what to expect. Subconsciously shoppers look for cues that reassure them and build trust. Introducing these cues into local food outlets will work in their favour.



*"Are the farm shops' standards as stringent as the supermarket standards? Are they regulated?"
(Tunbridge Wells, Potential)*

*"There can be poor quality produce left on display. ...they don't look as appealing to buy."
(Current, Bristol)*

Impact of the Recession



Trading down on brands	→ Cutting back or switching to 'cheaper' brands/ alternatives
Looking for offers	→ BOGOFs/ bargains dominating shopping trolleys (only if needed!)
Decline in impulse buying	→ Less impulse buying when in store (e.g. gifts for kids)
Greater attention to shelf life & use-by dates	→ A rationale that the longer the food lasts, the less wastage
Greater meal planning	→ Only buying what was necessary and planning 'weekly menus'
Bulk buy essentials	→ Visiting wholesalers to 'stock up' on certain essential items
Reduction in 'treats' or luxury items	→ Cutting back on non-essential foods, such as biscuits and crisps
Reduction in organic produce	→ Organic seen as expensive with the real health benefits unclear
Increase in supermarket shopping	→ Supermarkets favoured over smaller local shops

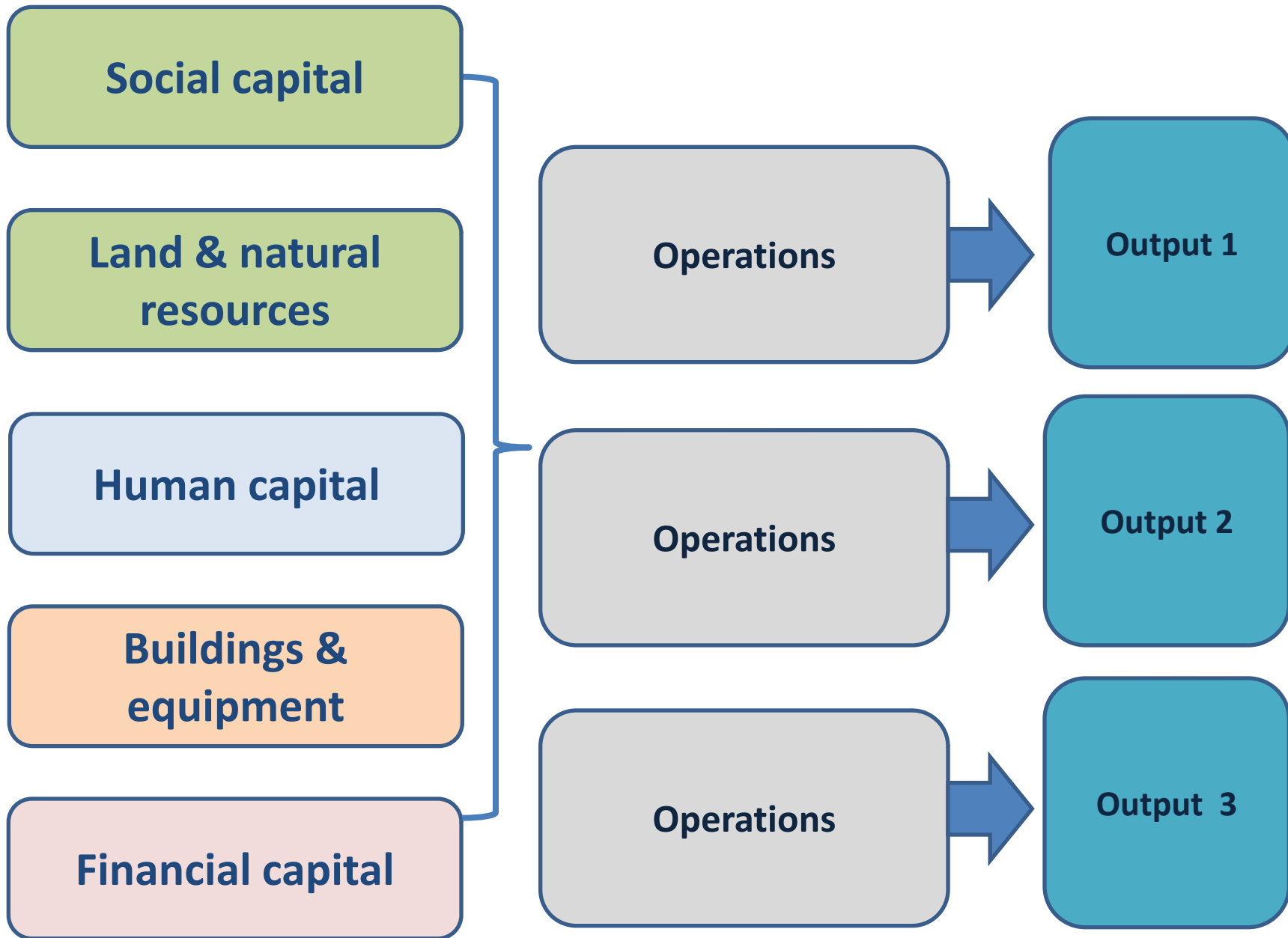


Shopping habits had changed due to the recession.

Operations

Exercise 4:

Describe the operations of the organisation



Inputs

Barriers to developing supply

Natural Capital

High cost of all land
& limited availability in urban areas.

Human Capital

Leadership & management skills.
Absence of incentive structures for entrepreneurs.
Community / volunteer engagement has a cost.

Social / Organisational Capital

Choice of organisational structure & governance.
Big Society fatigue.....
ICT could be powerful tool, but cost / skills barriers.

Physical Capital

Access to suitable premises can be difficult –
“food hubs” could be one solution.

Financial Capital

Cultural barriers: lack of entrepreneurship or understanding
of legal structures & types of finance.
Cost barriers: difficult to pay market rates.

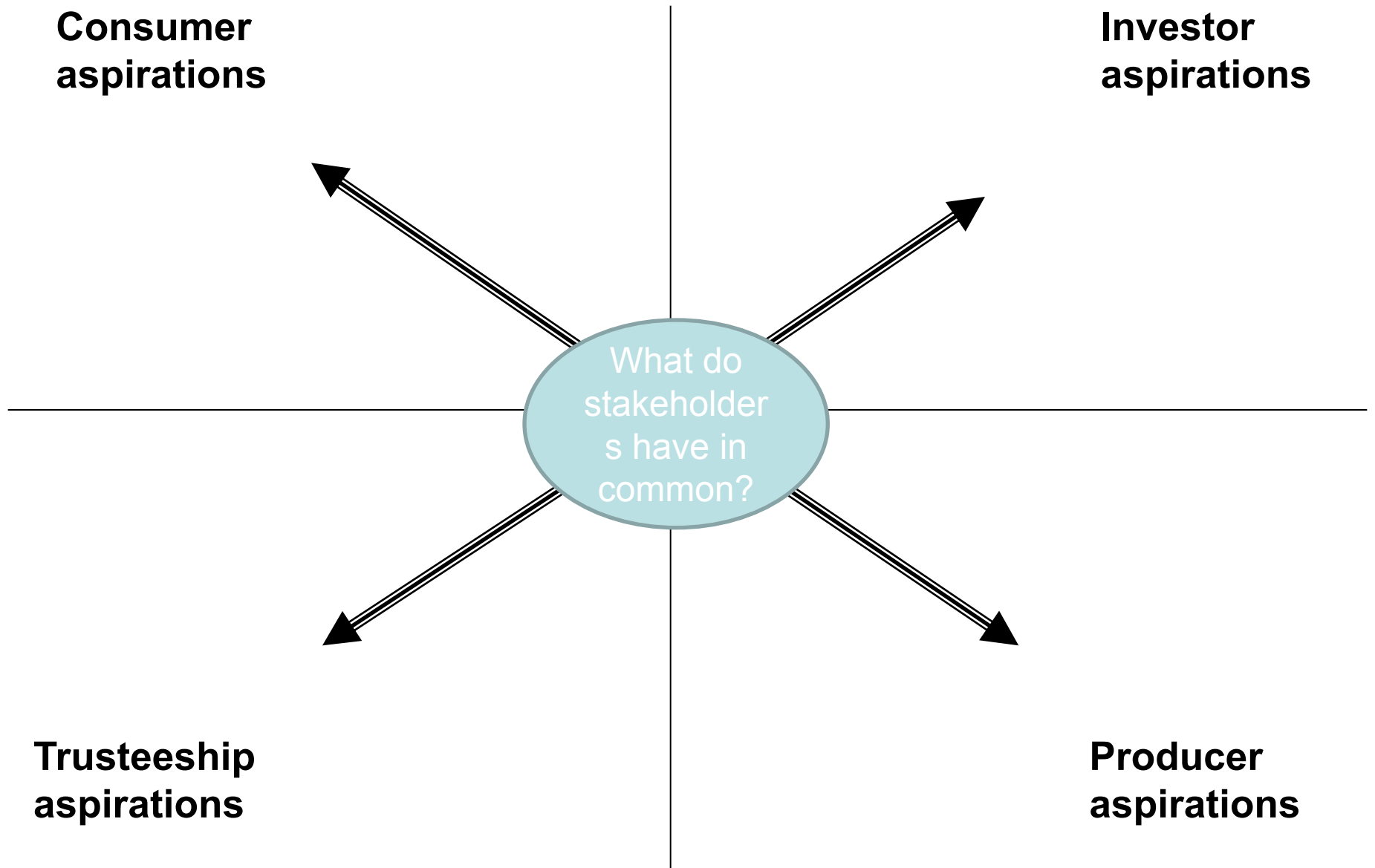
Discussion

- If a local food enterprise in the Czech Republic wishes to access any of the 5 capitals, what barriers might they face?

Exercise 5: Social Capital

- Start with the RULES of the organisation – the constitution or governing document which sets out the legal structure
- E.g.
 - Foundation
 - Company
 - Co-operative
- Define the MEMBERSHIP

Stakeholders may have divergent aspirations



Key stakeholders and their motivations

- Paid workers
- Service users (inc. volunteers)
- Commissioners, e.g. NHS & L.A.'s
- Landlord: Forestry Commissioner as tenant and Crown Estate as freeholder

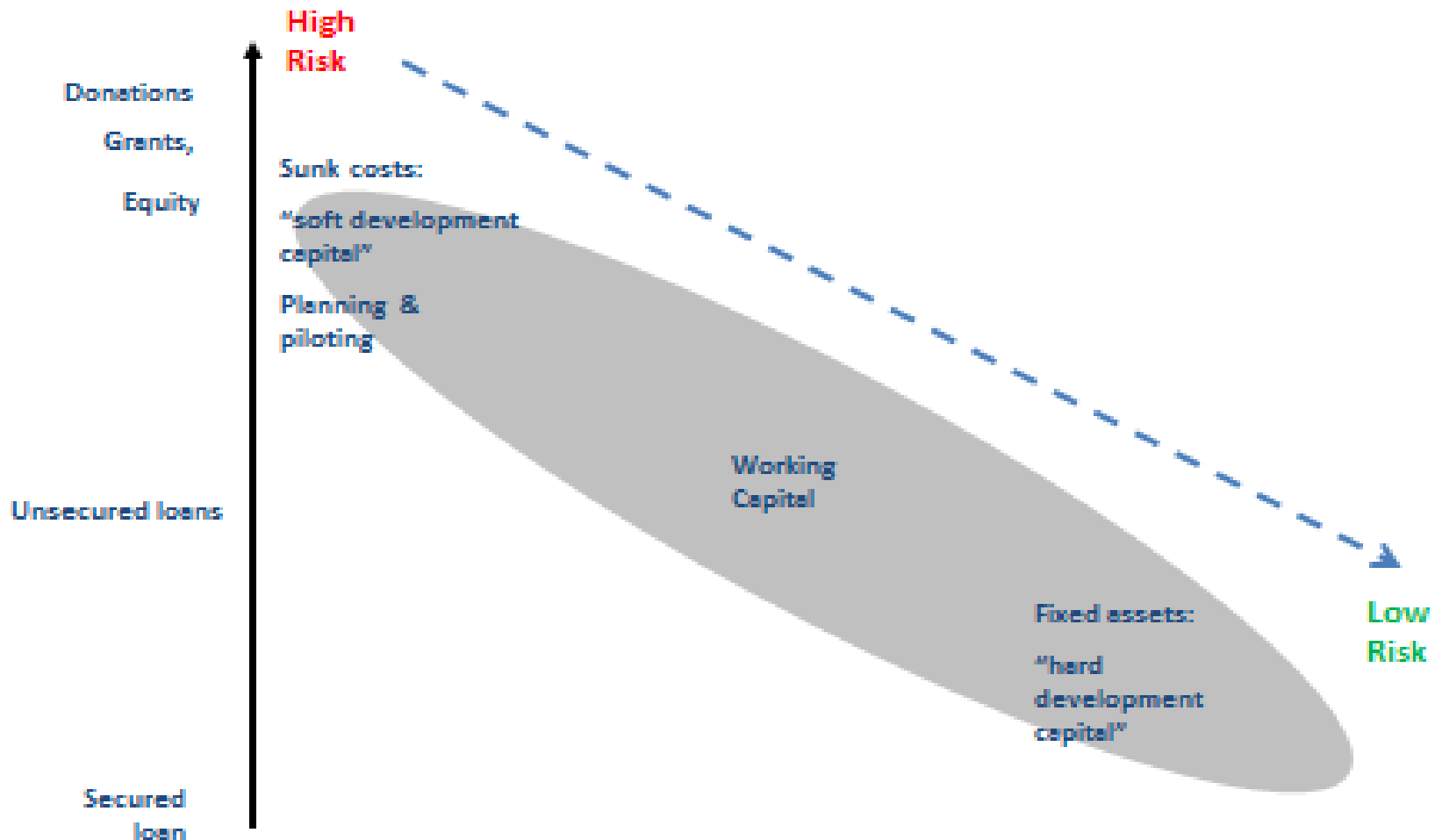
Exercise 6: Financial capital

- Who will provide this?
 - Grants?
 - Loans?
 - Equity?
- What rights do they get?

3 types of finance

- **Grants** – these do not require a financial return. However, they do require the recipient organisation to demonstrate the social or environmental return that is being created.
- **Loans** (or debt finance) require interest payments and the repayment of the amount borrowed (i.e. it is investment with the expectation of repayment of the principle sum as well as regular interest payments).
- **Equity** is investment in exchange for a stake in the organisation, in the form of shares. This stake usually entitles shareholders to a share of the profits of the organisation, or interest payments once a certain level of earnings has been achieved.

Key principle 1: Different types of finance might be appropriate at different stages of development

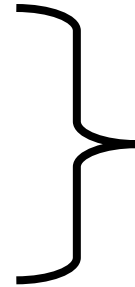


Key principle 2: rights to control

- **Grants** do not confer any rights, beyond the contractual obligations that a grant may entail.
- **Loans** carry with them an obligation to repay, but no other rights
- **Equity** can carry voting rights, income rights and/or a claim on the assets of the organisation.
- **Equity** has therefore proved to be problematic for organisations in the social economy (including charities, social enterprises and co-operatives)

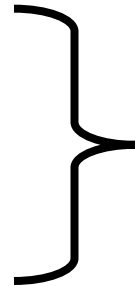
Key principle 2: rights to control

Rights to vote at general meeting



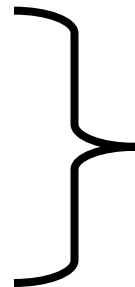
Democratic rights

Rights to net surplus



Income rights

Rights to the net value of the assets



Property rights

Key principle 3: equity can be important in the early stages of development

- Loans are marked on the organisation's balance sheet as a liability and they usually require security e.g. a building or demonstrable income streams.
- Loans may not be attractive in a situation where the organisation is trying to develop new projects or income streams because it will take time for these to generate financial returns.
- Unlike a loan, investors providing equity finance are effectively sharing the risk with the organisation and are likely to defer any expectation of a financial return for some time. Equity is treated as an asset on the organisation's balance sheet.

Exercise 7: Natural capital

- What natural capital will you require:
 - Resources
 - Sinks
 - Services

Exercise 8: Physical capital

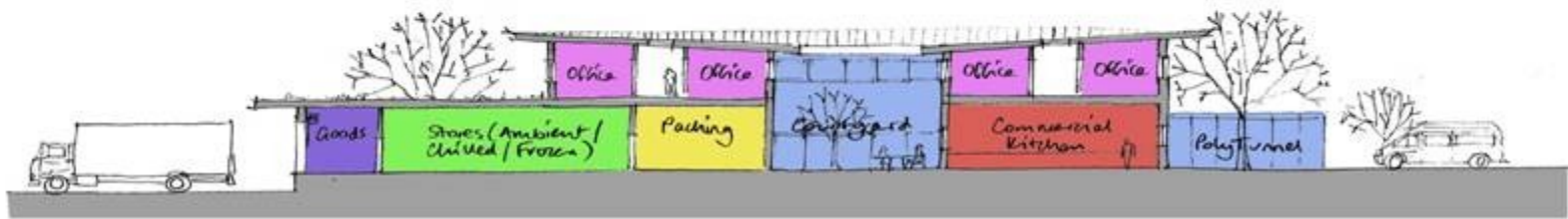
- What is required?
 - Buildings
 - Equipment
 - ICT
 - etc

Exercise 9: Human capital

- What will your enterprise require?
 - Staff?
 - Volunteers?
 - Trainees/apprentices?
 - People disadvantaged in the labour market?
 - Board members?

And finally: creating a “circular”, sustainable enterprise

- **Exercise 10:**
- Think about pollution, waste and resource conservation
- How could you address this?



Responsibility is not accepted for errors made by others or
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 be taken from issued specifications only.

A3

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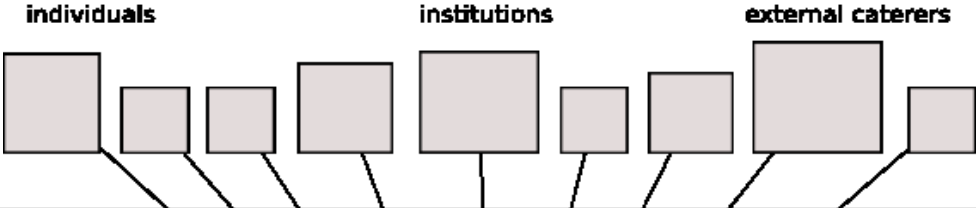
PROJECT
 Local Food Links
 Dorset Food Hub

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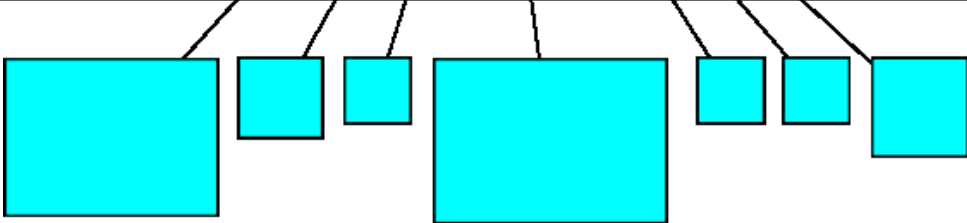
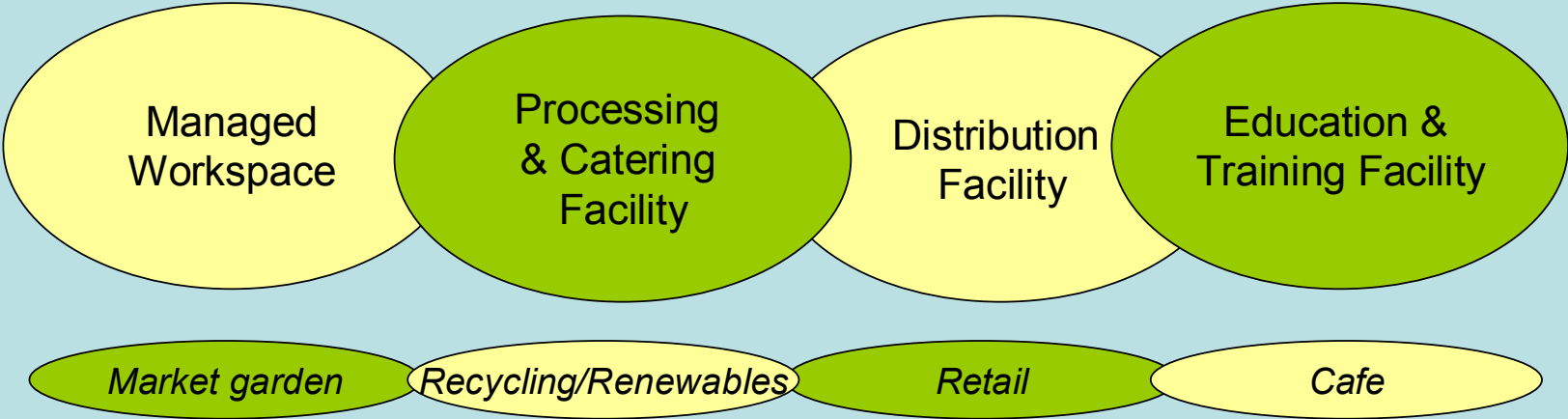
INDICATIVE SECTION

SCALE	DWG	ISSUED	CHK	ISSUED NAME	REV
NTS	05.06.09	SKL	DRB	6073_SK02	-

Customers



Key elements of the Local Food Hub

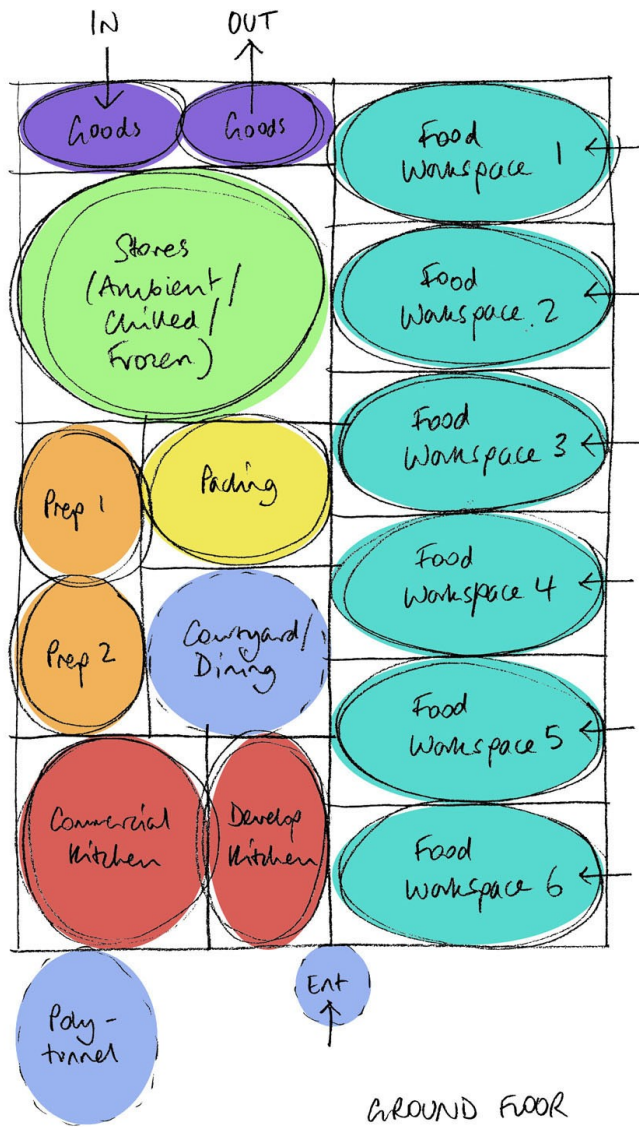


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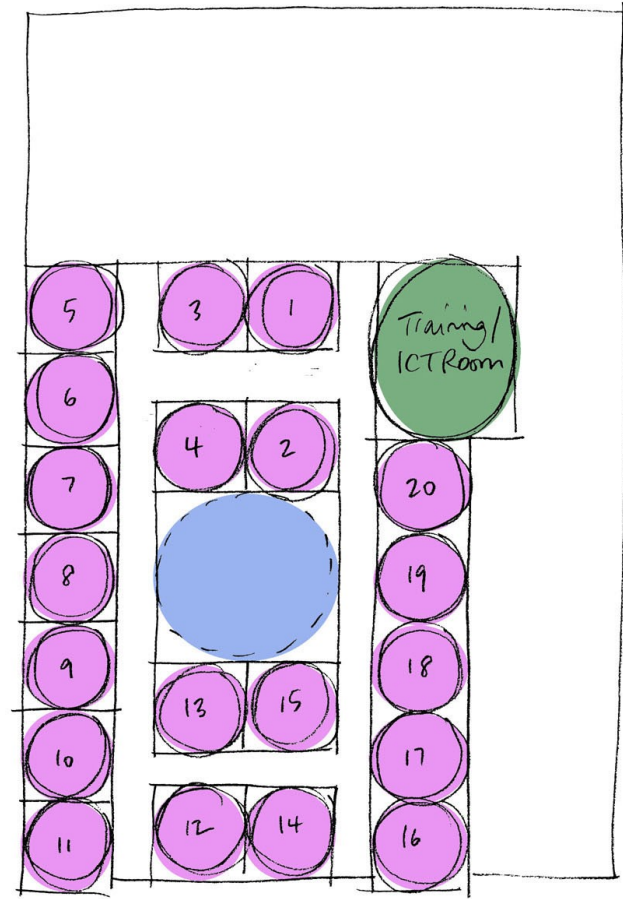
processors

distribution companies

Suppliers



GROUND FLOOR



FIRST FLOOR

Responsibility is not accepted for errors made by others in scaling from this drawing. All construction information should be taken from figured dimensions only.

A3 Original Sheet Size

0mm 50mm 05.06.09 SKL DRB Fst issue for Client comment
 Date rev name clk note

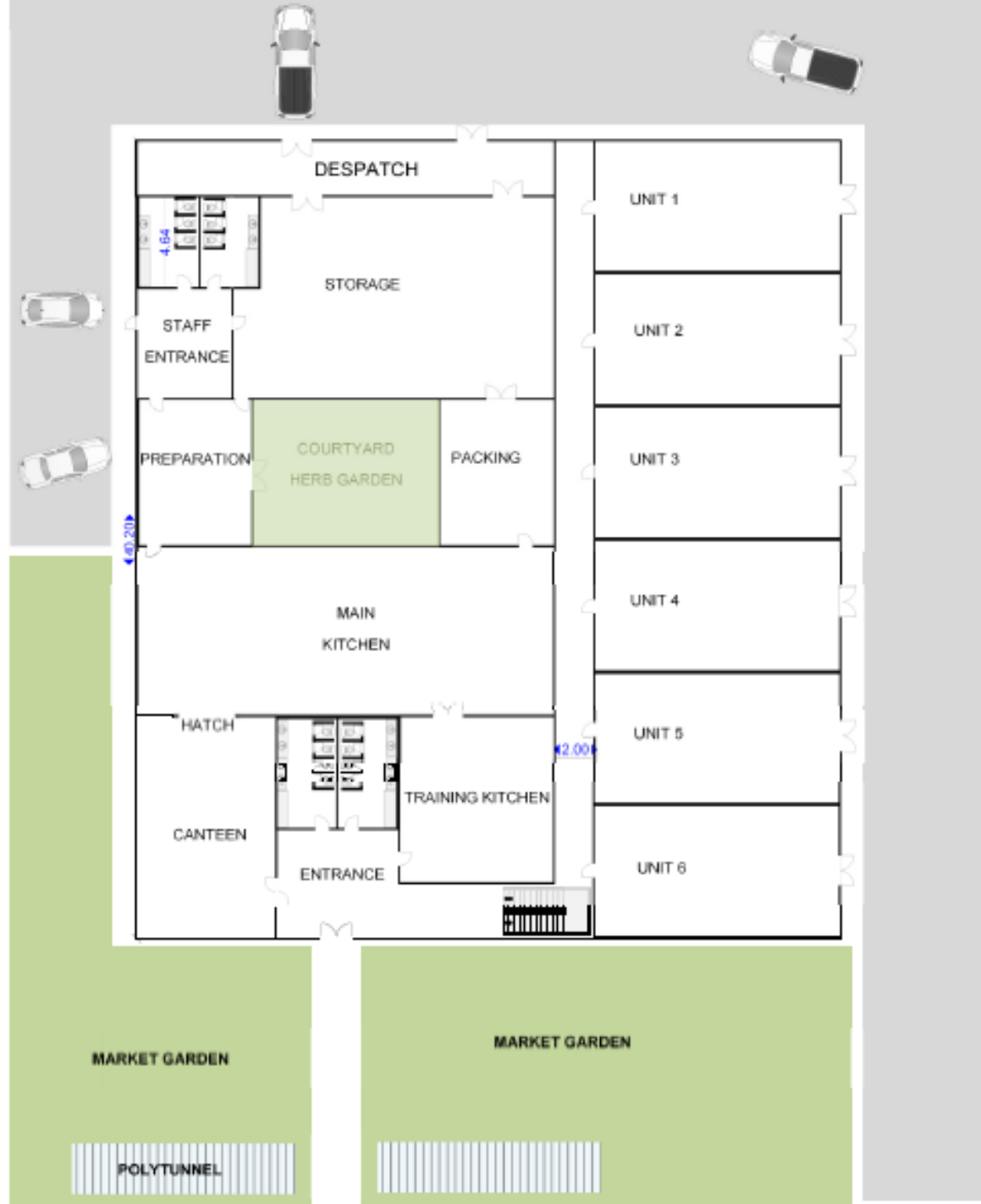
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DRAWING TITLE
 Indicative Layout

SCALE	DATE	DRAWN	CHK	DRAWING NUMBER	REV.
NTS	05.06.09	SKL	DRB	6073_SK01	-



The potential for collaboration – building sustainable food systems

- Tomorrow we will look at the potential for partnerships, collaboration and secondary structures
- These can help create stronger local food systems