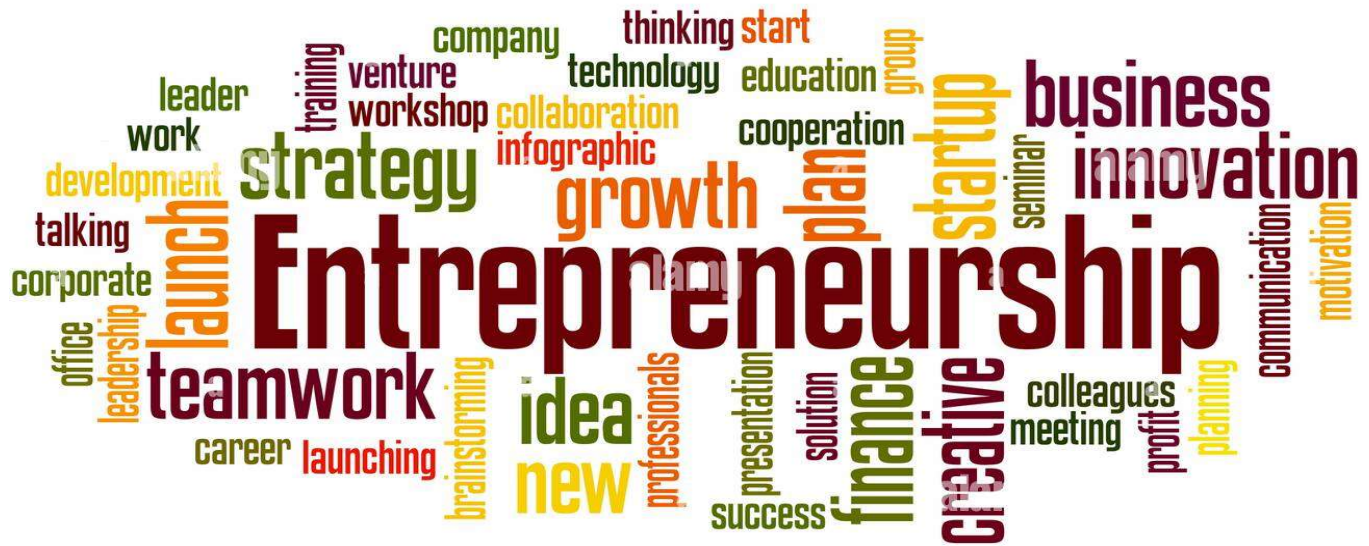




Presenters Name	: Shahedabibi Shaikh (group leader-2223092) Charanjeet Kaur (2220279) Gurpreet Singh (2220408)
Module Name	: Entrepreneurship
Module Code	: LCMB7003
Professor Name	: Jaya Gopalakrishnan
Assignment Title	: Assessment 2
Task Description	: Analysis and evaluation of a recent case study of failed SMEs in the UK with critical analysis in detail of its failure.

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Shahedabibi Shaikh

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Gurpreet Singh

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Charanjeet Kaur

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INTRODUCTION:

This report's main focus is on explaining Farmdrop's failure. Farmdrop is mainly a grocery delivery company that delivers “on-demand” cultivated food products in the UK. Principal causes for the company’s downfall are the single delivery hub in Enfield as well as inadequate funding and lack of customers and suppliers. The business model of Farmdrop was quite centralised for competing in the market. Discussion is also going to be done regarding the company's collaboration with the farmers for improving the overall business productivity. Additionally, discussion is also going to be done regarding several challenges that the company has faced, which was the ultimate reason for its downfall.

SMEs are referred to as small and medium-sized companies that are categorized according to their characteristics (Saad, 2021). These companies favour flexibility, innovation and have a more competitive and healthy economy. SMEs need to have more resilience in their business for successful operation and management.

As per Child et al. (2022), SMEs are characterised by ‘liability of smallness’ which is subjective to the lack of resources such as finance and detailed foreign market information. A company is categorised as a small or medium-sized organisation depending on its annual sales, number of employees, market capitalization, assets owned and many other factors. An SME offers a more flexible working environment and also provide room for innovation and creativity which helps them to compete in the market with bigger enterprises. As a result of limited resources, these SMEs are more resilient in operations to manage any risk that may come from time to time. SMEs need to have more resilience in their business for successful operation and management.

Current situation of SMEs in the UK:

As for the current data, 5.5 million SMEs are operating in the UK among which micro-sized enterprise counts for 5.25 million (Statista, 2023b). These SMEs account for 50% of the total revenue of the country and employ about 44% of the labour force (McKinsey, 2021).

However, due to the pandemic, the revenues have decreased considerably and have hampered their growth. In the UK, the number of SMEs is large, especially for micro-sized companies operating with 10- 49 employees in total. These companies have suffered greatly due to the pandemic and have been relying on government support to revive their business which has suffered economic loss.

Importance of SMEs for economic growth:

SMEs are a major source of job creation which gives employment opportunities in rural or underserved areas contributing towards the economic growth of the society (LinkedIn, 2023). They are also the main source of innovation and bringing new markets and new businesses to society. SMEs are important for the economic growth of the country as they drive competition in the market. SMEs contribute largely to the economic growth of a country since they generate revenue by investing in new markets, new technologies and innovation. These also help to establish a competitive environment in society leading to the development of new products, lowering of prices and thus helping in meeting the need of society.

Overview of the company:

Framdrop is an online grocery delivery company founded in the year 2012 in London, UK. The company is famous for delivering organic on-demand cultivated food products



(FarmDrop, 2023). The company used to deliver food directly from the local farmers and local producers. The company is famous for delivering organic, fresh locally grown products such as vegetables, fruits, meat, fish, dairy products, eggs, prepared food and drinks. Framdrop collaborated with local farmers and local producers who used completely organic means to produce vegetables and fruits and are free of any kind of chemical fertilisers.

The total funding amount of the company was \$41.8 million and its owners were Ben Patten, Ben Pugh and Ned Staple (Crunchbase, 2023). The company used digital tools for their effective delivery and maintaining operational functions. Due to the high quality of the products, Farmdrop has a brand awareness score of 17% (Statista, 2023). They used many digital tools to maintain their on-demand delivery of the goods, leading to high brand awareness and buzz among the customers. Due to this, the company was able to rank first among 69 competitors in the market.

Initial Operations to the Downfall:

Financial management is very important for any business in planning and fund acquisition and also earning profit (ISBF, 2023). The company while managing its increased sales during the pandemic was not able to manage their finance well (The Guardian, 2021). The company also have to suffer from a heavy financial blow due to its inability to pay more than 450 producers. However, the company was not able to pay the producers accordingly due to their inefficient financial management which led to the loss of the company. The company suffered pre-tax losses of 10 million British Pounds despite its business growth (Forbes, 2021a). Farmdrop has a centralized business model for competing in the market which is efficient for companies having huge sales. The company's focus on sales growth caused the company to overlook the net profit earned by the company.

Framdrop entered the grocery online delivery market with already bigger houses serving the same in the UK market. They focussed more on the concept of organic food materials and the maintenance of sustainability in their business which resulted in overlooking the need for proper business management strategies for the company. The company was not able to manage its business and mitigate the negative effects of the centralized model of organisation which included overburden, slowing down of decision implementation and limited communication. Farmdrop maintains its target of sustainable delivery using electric vehicles for its food delivery services (Fleet News, 2019). A modern competitive market requires proper risk management strategies for operating successfully.

Farmdrop utilized market orientation to sustain and continually grow in the market and they aimed at demand pull supply chain with zero waste. Farmdrop from the very initial stage of its business promoted sustainability in its operations to attract more customers in the market. The company undertook the decision of using only environment-friendly electric vehicles for the delivery of their food products so that they could keep their ethics in their operation. The concept was efficient for attracting customers however, its cost of maintenance was challenging for the company. The company promoted the idea of a demand-pull supply chain orientation to reduce waste which they thought would help to attract more customers. However, this strategy proved to be disadvantageous for the company during the abrupt rise in orders and demands during the covid and resulted in disruption in their supply chain.

Initially, the company was able to raise a fund worth 20.8 million GBP in six fundraising rounds (Tech Round, 2020). During Covid-19, the company was in an advantageous position due to the trend of panic-buying. When nearing the business's downfall, the company stopped trading and suddenly abandoned Christmas deliveries.

From the case study review, it is evident that Farmdrop started with huge growth prospects, particularly due to a huge demand for grocery delivery in the UK. The company has been effective in raising funds initially. However, things went wrong with time with increased overhead expenses as operational costs outweighed the profit generated. Such a scenario resulted in a struggling period for Farmdrop to collect the necessary funds from the investors.

Detailed analysis of failure:

One of the main reasons behind the failure of Farmdrop is the unexpected increase in operational costs compared to the revenue generated.

The operational facilities were quite similar to giant organisations with 200 staff members (The Grocer, 2022). Logistics operations were not up to the mark with 35 delivery vans only. It is a proven fact that cost leadership is important for organisations to survive in the long term and a lack of expertise in this area can lead to the sudden demise of a business. The same is the case with Farmdrop which had enough prospects to grow further. However, the company could not achieve the desired feet due to its lack of expertise in tackling increasing operational costs. At the time of its failure, “Farmdrop” had only a single delivery hub in Enfield. Small sites are another point of failure for Farmdrop to service an “ultra-fast delivery proposition” via Deliveroo (The Grocer, 2022).

COVID-19 has driven demand for delivered groceries, thus costs raced even higher as well as left the company required to raise more “money in a vicious circle”. The company employed about two hundred staff mainly in the operational facilities that offered a range of more than “7000 SKUs” as well as electric vehicles for deliveries to “10,000 customers”. Farmdrop faced issues of disruption in its supply chain and was unable to cope with the “ultra-fast delivery proposition” (Telegraph, 2023).

As per Resource dependency theory, a company's behaviour is mainly affected due to external resources, which they possess. In correspondence to this Farmdrop was unable to inject enough cash into its operation, which is the reason for its failure.

Due to one delivery hub, the company was unable to meet the demand and requirements of the customers. It is reported that Farmdrop primarily sourced “groceries” mainly from small suppliers, which was not enough to meet the requirement and demands of their customers. Therefore, the company was unable to exist on the path of profitability after “years of racking up losses”. At the time of its failure, the company raised only \$41m in capital over almost ten years (Telegraph, 2023). The source of finance of Farmdrop was not adequate for meeting the business goals. Shareholders were not enough for the company as they have only 441 shareholders including the staff members.

The company exhausted every possible option after working consistently over eighteen months towards securing the support as well as capital that they require to continue. Farmdrop faced operating losses of £33.9m and its collapse left customers as well as small suppliers out of pocket as well as empty handed. In 2018, the company was warned and consistent failure to raise the “required funds” was the major reason for their downfall.

Farmdrop has suddenly cancelled a huge number of orders during Christmas (The Guardian, 2021). The administration is responsible for maintaining adequate use of human resources and materials within the organisation to conduct business (LinkedIn, 2022)

Poor business administration can be mentioned as a cause of Farmdrop ‘s failure in fulfilling the orders. The administration system of the firm has ignored the customer's spending on their orders which affected the customer's shopping experience some of them got no response from the firm about their refunds on cancelled orders.

Farmdrop has closed its doors today without “a route to market” (Medium, 2021). Farmdrop followed a “centralised business model” with a lack of “operational advantages” (Medium, 2021). The business model describes a company’s profit-acquiring strategy from the target market. Since the company was a failure to develop a visionary plan before conducting its business. Hence, poor efficiency in visionary plan establishment for business can be mentioned as a cause of Farmdrop's market failure.

“Business model innovation” has become a significant organisational capability that helps to ensure business growth (BCG, 2023). Farmdrop has struggled in terms of establishing a “profitable business model” (Finance Times, 2021). The poor business model is partially responsible for the market failure of Farmdrop.

“Business model innovation” is mandatory in acquiring competitive advantages from the target market. However, Farmdrop was focused only on its traditional centralised model which has reduced its capability of acquiring competitive advantages from the UK’s highly competitive market. This implies that poor innovation in the business model of the company has reduced its willingness to gain business profit with competitive advantages. Poor efficiency to meet changing demand and orders has been observed in Farmdrop’s business operations (BBC, 2021). Farmdrop was unable to secure the support system and capital of customers in business operations.

Fulfilling changing market demand has become a mandatory factor of organisational success. Changing demand for online orders during Christmas has increased the workload of the company where it has struggled and ultimately cancelled the orders. Therefore, poor

efficiency in fulfilling orders and demands of market customers has played a significant role in the business failure of Farmdrop.

Recommendations for improvement:

“Business model innovation” refers to the changes in organisational value proposition and customers (BCG, 2023). Hence, Farmdrop can consider establishing a “business model innovation”. This model will help the company to decrease the chance of market failure in future contexts.

The adaption of “business model innovation” will be supportive to help the company in acquiring maximum business profit by adding competitive advantages. In this stage, the company can improve its business strategies for value proposition to target customers according to the changing market requirements.

Administration enables companies to ensure better use of organisational resources to meet goals (LinkedIn, 2022). Farmdrop needs to improve its traditional administration system to ensure better use of organisational resources. Hence, the consideration of improving the administration of the company will help promote its day-by-day operations without any miscommunication. In addition, the company can build a strong connection between the management team and employees to secure customer capital and service adequately. Minimising overhead expenses would be a suitable strategy so that the costs involved might not outweigh revenues (Forbes, 2021). Farmdrop should reduce workspace size, invest in more delivery vans, and lease expensive equipment instead of buying expensive equipment to reduce order and delivery time gaps.

From the review of the failed business case of Farmdrop, it is evident that operational costs outweighed the amount of revenue generated. Thus, recommendations regarding how to reduce operational costs and create a win-win situation in the area of cost leadership are appropriate. Instead of investing too much in SKUs as evident from the case study of Farmdrop, the company needs to streamline its delivery system so that a growing consumer base can be served more effectively. Reducing the size of workspaces wherever possible is also situational to minimise overhead expenses. Additionally, leasing expensive equipment can reduce overhead expenses and save money in the short term.

Hiring people only when a business is in need is a suitable strategy for start-up companies (Forbes, 2021b). Securing a “floating line of credit” is critical to make the survival of a business possible in tough times. Having such an arrangement means there are ways of repaying and borrowing flexibly.

Labour is expensive in the UK, especially when a business deals with volatile revenue and turnover. On this specific ground, it is recommended that a business like Farmdrop can go with hiring only when the business is feeling a need for the same. Indeed, having a talent pipeline in advance is one of the critical success factors for a business. However, trimming costs as well as stabilising the company’s finances is also crucial that can be achieved by hiring as required, at least in the initial phases of the business. Having a secured business line of credit is also recommended which can act as a “floating borrowing limit” that the company would be able to tap into whenever it is exposed to any crisis.

Conclusion:

A lack of knowledge and expertise in trimming operational costs is one of the main reasons behind the failure of Farmdrop. Poor business administration coupled with a lack of understanding of changing consumer behaviour also contributed to this failure. The performance of the supply chain system did not work well for Farmdrop, specifically in the domain of logistics operations.

It is recommended to reduce overhead expenses by hiring employees only when needed. It is concluded that Farmdrop needs to bring new strategies to reduce its operational costs. Reducing overhead expenses would be one of these. Additionally, the company can think of securing a business line of credit so that required cash flow can be obtained in tough situations.

Personal Learning Experience:

since we spent almost ten weeks learning this module, we had an excellent experience with Jaya Mam, especially because of her teaching abilities. Jaya mam has always focused on practical knowledge rather than theoretical understanding. As we didn't have that much information about this module entrepreneurship, we initially thought it would become difficult for us to learn but with the help of Jaya mam teaching we are now completely able to understand every perspective of this module. We studied several funding sources, including personal finances, family and friends, and bootstrapping. We studied financial forecasts, budgeting, and financial ratios.

By learning this module, we built entrepreneurial skills, confidence and managerial skills to improve the odds of success in finding, generating, delivering, and capturing value. Entrepreneurs are fantastic at solving big and little problems that we all face, and we need entrepreneurs in every sector and every firm to push the world to be a better place; this road allows you to be a part of making a difference. We heartily thank you Jaya mam for sharing her experience with us for this Entrepreneurship module.

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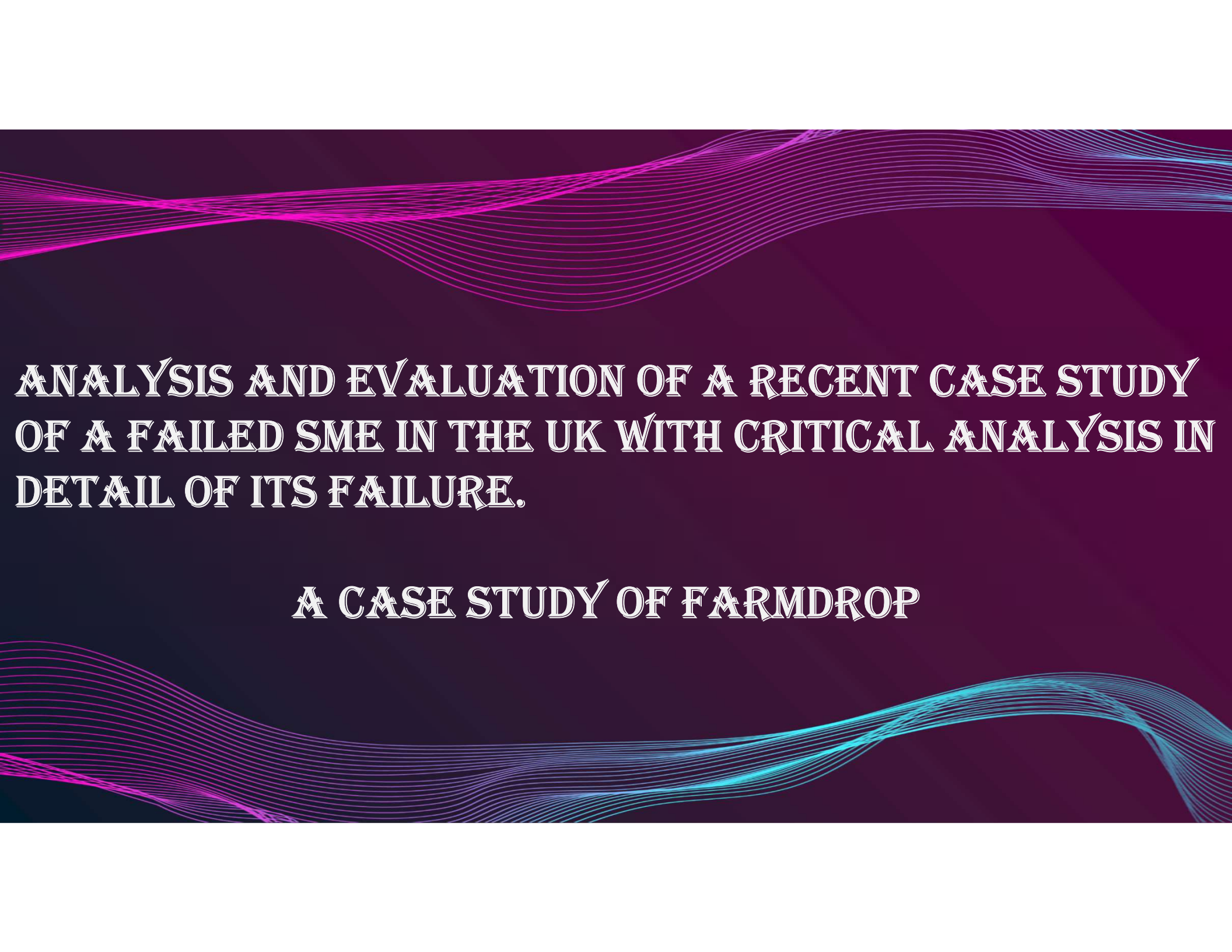
ENTREPRENEURSHIP

Presenter name : Shahedabibi Shaikh

Student ID : 2223092

Module name : Entrepreneurship

Professor name : Jaya Gopalakrishnan



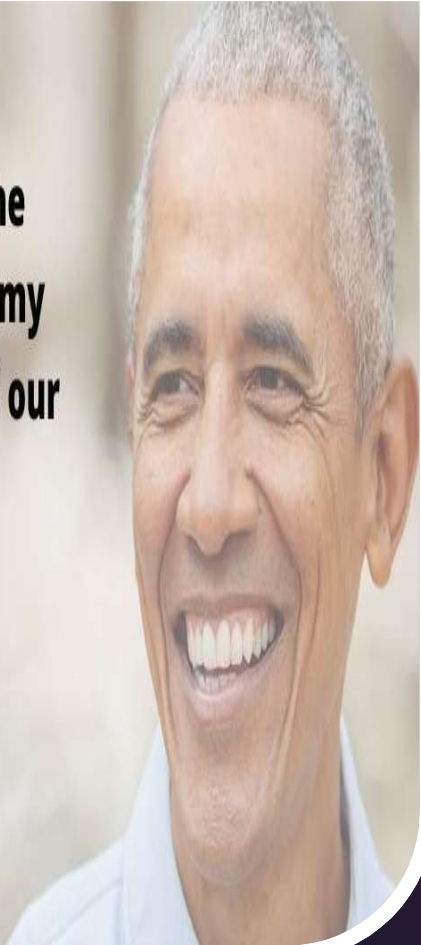
ANALYSIS AND EVALUATION OF A RECENT CASE STUDY
OF A FAILED SME IN THE UK WITH CRITICAL ANALYSIS IN
DETAIL OF ITS FAILURE.

A CASE STUDY OF FARMDROP

DEFINITION OF SMES

Small businesses are the backbone of our economy and the cornerstone of our communities.

-Barack Obama



- ❖ According to their attributes, SMEs are referred to as small and medium-sized businesses (Saad, 2021).
- ❖ A company is categorized as a small or medium-sized organization depending on its annual sales, number of employees, market capitalization, assets owned and many other factors.
- ❖ As a result of limited resources, these SMEs are more resilient in operations to manage any risk that may come from time to time.
- ❖ SMEs need to have more resilience in their business for successful operation and management.
- ❖ SMEs provide a more flexible work environment and allow for greater creativity and innovation, which helps them compete with larger businesses in the market.

SMES' PRESENT CIRCUMSTANCES IN THE UK:

- ❖ According to recent data, there are 5.5 million SMEs operating in the UK, of which 5.25 million are micro-sized businesses (Statista, 2023b).
- ❖ Approximately 44% of the working force is employed by these SMEs, which generate 50% of the nation's overall income (McKinsey, 2021).
- ❖ Due to the pandemic, many businesses have suffered considerably, and they are depending on government assistance to help them recover their financially damaged operations.

IMPORTANCE OF SMES FOR ECONOMIC GROWTH

- ❖ SMEs are a major source of job creation which gives employment opportunities in rural or underserved areas contributing towards the economic growth of the society (LinkedIn, 2023).
- ❖ SMEs are important for the economic growth of the country as they drive competition in the market.
- ❖ Since they invest in new markets, new technology, and innovation to earn money, SMEs significantly contribute to the economic progress of a nation.
- ❖ These also help to establish a competitive environment in society leading to the development of new products, lowering of prices and thus helping in meeting the need of society.



BACKGROUND OF THE COMPANY

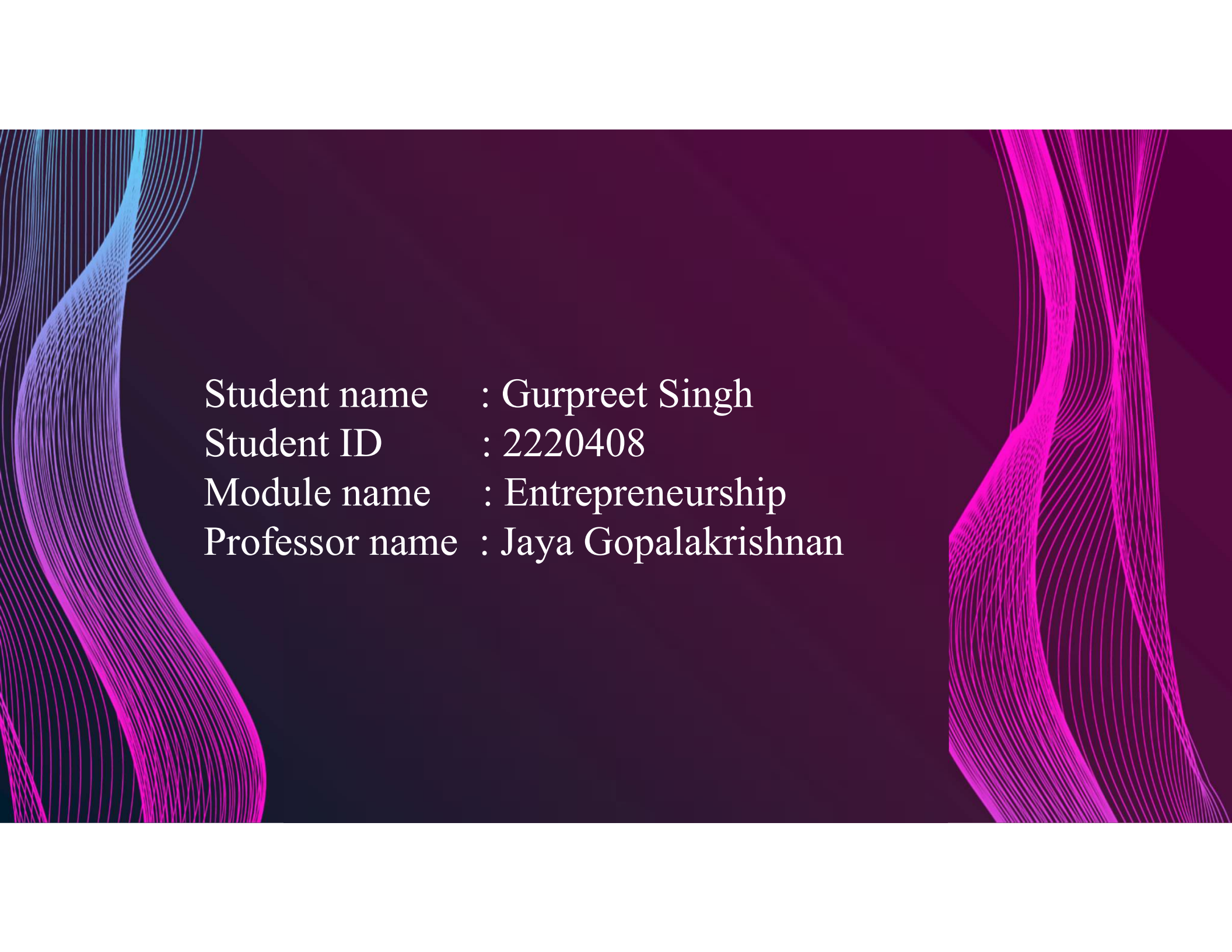
- ❖ Framdrop is an online grocery delivery company founded in the year 2012 in London, UK
- ❖ .The company is famous for delivering organic on-demand cultivated food products (FarmDrop, 2023).
- ❖ The company used to deliver food directly from the local farmers and local producers.
- ❖ The Farmdrop Company was established in London, UK in the year 2012.
- ❖ Framdrop collaborated with local farmers and local producers who used completely organic means to produce vegetables and fruits and are free of any kind of chemical fertilizers.



BEGINNING OPERATIONS THAT LED TO THE FALL:

- ❖ The business struggled to effectively manage its finances while handling the pandemic's increasing sales (The Guardian, 2021).
 - ❖ In addition, the inability of the firm to pay more than 450 manufacturers has caused it to suffer a severe financial hit. Due to their inefficient financial management which led to the loss of the company.
 - ❖ Despite the commercial expansion, the company had pre-tax losses of 10 million British Pounds (Forbes, 2021a).
 - ❖ They put greater emphasis on the idea of using organic food and maintaining sustainability in their operations, which led them to ignore the necessity of good business management techniques for the organization.
 - ❖ The business was unable to run its operations and handle the consequences of the centralized organizational model, which included excessive workload, a delay in decision execution, and poor communication.
- 

- ❖ The company undertook the decision of using only environment-friendly electric vehicles for the delivery of their food products so that they could keep their ethics in their operation.
- ❖ The company promoted the idea of a demand-pull supply chain orientation to reduce waste which they thought would help to attract more customers.
- ❖ However, this strategy proved to be disadvantageous for the company during the abrupt rise in orders and demands during the covid and resulted in disruption in their supply chain.
- ❖ The case study review reveals that Farmdrop, initially successful in raising funds due to the high demand for grocery delivery in the UK, faced challenges due to increased overhead expenses, which outweighed the profit generated, leading to a challenging period for the company to collect the required funds from investors.



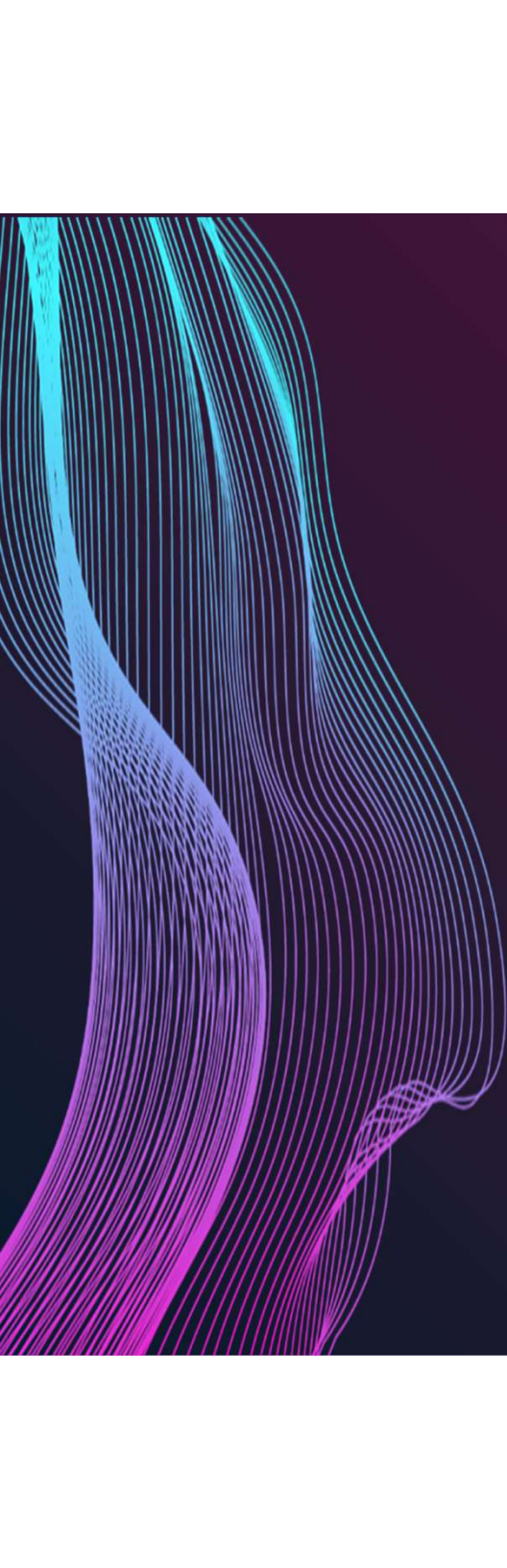
Student name : Gurpreet Singh
Student ID : 2220408
Module name : Entrepreneurship
Professor name : Jaya Gopalakrishnan

DETAILED ANALYSIS OF FAILURE

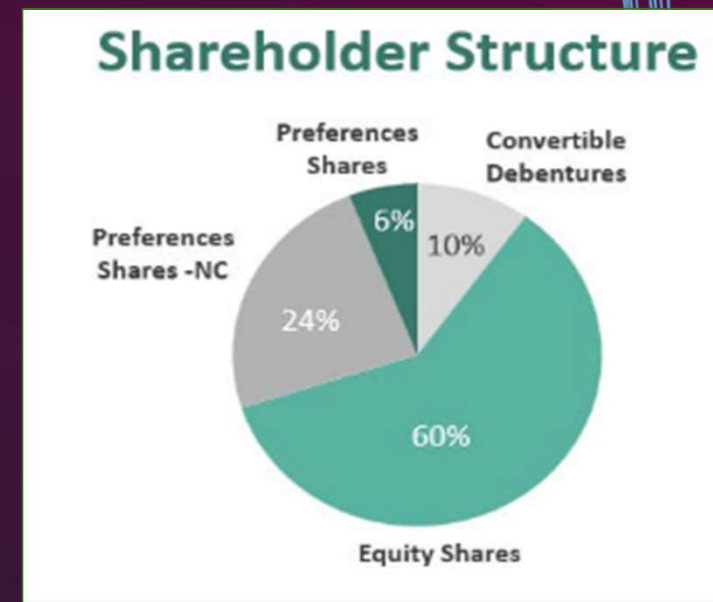
- ❖ One of the main reasons behind the failure of Farmdrop is the unexpected increase in operational costs compared to the revenue generated.
- ❖ The operational facilities were quite similar to giant organisations with 200 staff members (The Grocer, 2022).
- ❖ Logistics operations were not up to the mark with 35 delivery vans only.

- ❖ At the time of its failure, “Farmdrop” had only a single delivery hub in Enfield.
- ❖ Small sites are another point of failure for Farmdrop to service an “ultra-fast delivery proposition” via Deliveroo (The Grocer, 2022).
- ❖ COVID-19 has driven demand for delivered groceries, thus costs raced even higher as well as left the company required to raise more “money in a vicious circle”.



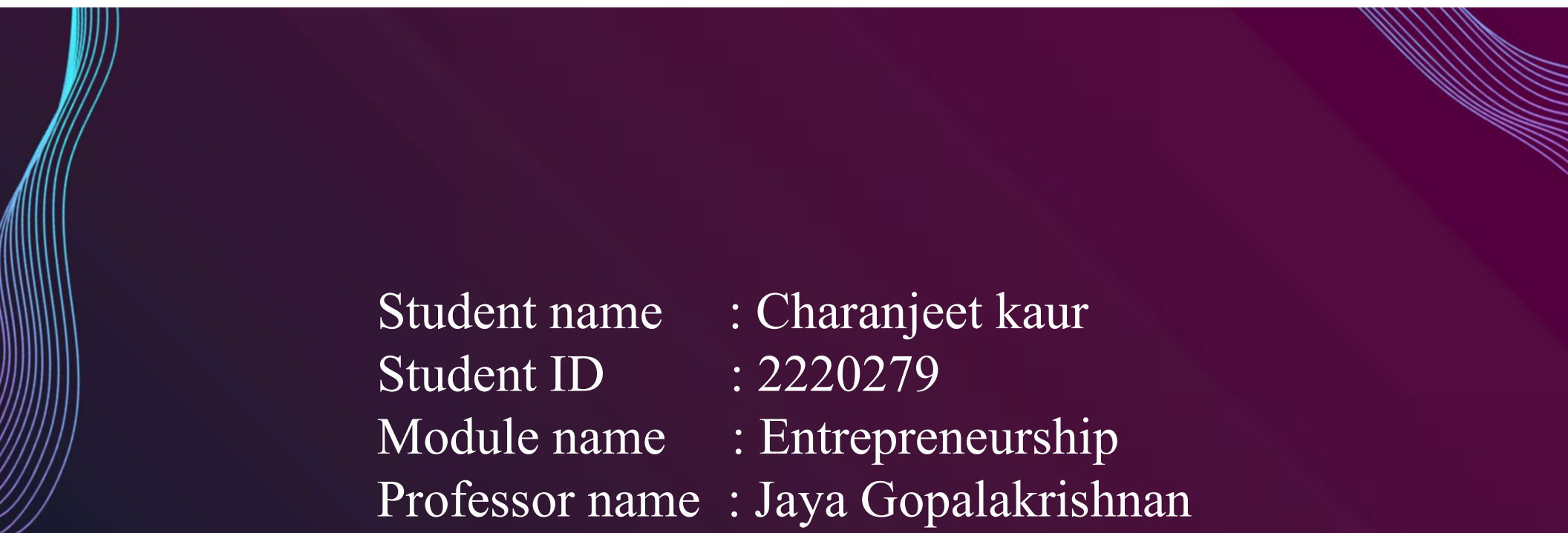
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- ❖ Farmdrop faced difficulties due to small suppliers as well as a low customer base, which is another reason for their collapse.
 - ❖ Farmdrop faced issues of disruption in their supply chain and was unable to cope with the “ultra-fast delivery proposition” (Telegraph, 2023).
 - ❖ As per *Resource dependency theory*, a company's behaviour is mainly affected due to external resources, which they possess. In correspondence to this Farmdrop was unable to inject enough cash into its operation, which is the reason for its failure.

- ❖ At the time of its failure, the company raised only \$41m in capital over almost ten years (Telegraph, 2023).
- ❖ Source of finance of Farmdrop was not adequate enough for meeting the business goals.
- ❖ Shareholders were not enough for the company as they have only 441 shareholders including the staff members.



- ❖ Farmdrop has suddenly cancelled a huge number of orders during Christmas (The Guardian, 2021).
- ❖ The administration is responsible for maintaining adequate use of human resources and materials within the organisation to conduct business (LinkedIn, 2022)
- ❖ Poor business administration can be mentioned as a cause of Farmdrop 's failure in fulfilling the orders. Farmdrop has closed its doors today without “a route to market” (Medium, 2021).
- ❖ Farmdrop followed a “centralised business model” with a lack of “operational advantages” (Medium, 2021).
- ❖ The business model describes a company's profit-acquiring strategy from the target market.

- ❖ “Business model innovation” has become a significant organisational capability that helps to ensure business growth (BCG, 2023).
- ❖ Farmdrop has struggled in terms of establishing a “profitable business model” (Finance Times, 2021).
- ❖ The poor business model is partially responsible for the market failure of Farmdrop.
- ❖ Poor efficiency to meet changing demand and orders has been observed in Farmdrop’s business operations (BBC, 2021).
- ❖ Farmdrop was unable to secure the support system and capital of customers in business operations.
- ❖ Fulfilling changing market demand has become a mandatory factor of organisational success



Student name : Charanjeet kaur
Student ID : 2220279
Module name : Entrepreneurship
Professor name : Jaya Gopalakrishnan

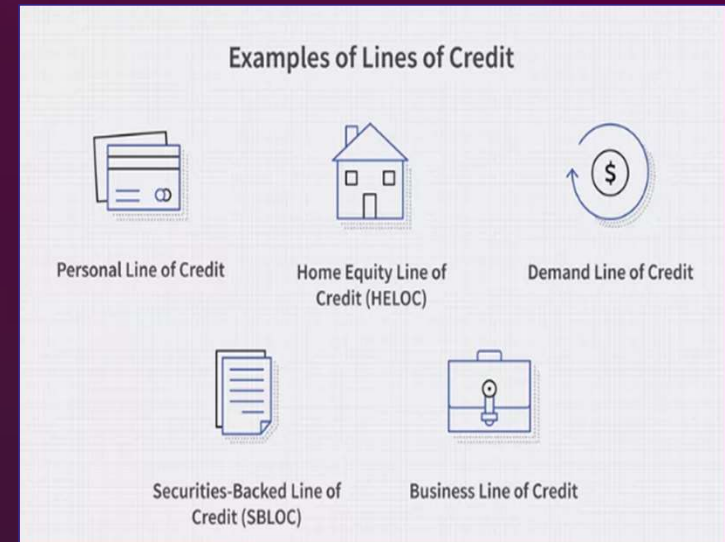
RECOMMENDATIONS FOR IMPROVEMENT

- ❖ “Business model innovation” refers to the changes in organisational value proposition and customers (BCG, 2023).
- ❖ Hence, Farmdrop can consider establishing a “business model innovation”.
- ❖ This model will help the company to decrease the chance of market failure in future contexts.



- ❖ Administration enables companies to ensure better use of organisational resources to meet goals (LinkedIn, 2022).
- ❖ Farmdrop needs to improve its traditional administration system to ensure better use of organisational resources.
- ❖ This will also help the firm to enhance customer service by enhancing operational practice.
- ❖ Minimising overhead expenses would be a suitable strategy so that the costs involved might not outweigh revenues (Forbes, 2021).
- ❖ Farmdrop can think of reducing the size of its workspace.
- ❖ It would be better to invest in purchasing more delivery vans so that gap in order time and delivery time can be reduced.
- ❖ Instead of buying expensive equipment, it is recommended to Farmdrop to lease them.

- ❖ Hiring people only when a business is in need is a suitable strategy for start-up companies (Forbes, 2021).
- ❖ Securing a “floating line of credit” is critical to make the survival of a business possible in tough times.
- ❖ Having such an arrangement means there are ways of repaying and borrowing flexibly.



CONCLUSION

- ❖ A lack of knowledge and expertise in trimming operational costs is one of the main reasons behind the failure of Farmdrop.
- ❖ Poor business administration coupled with a lack of understanding of changing consumer behaviour also contributed to this failure.
- ❖ The performance of the supply chain system did not work well for Farmdrop, specifically in the domain of logistics operations.
- ❖ It is recommended to reduce overhead expenses by hiring employees only when needed.



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