

ENTREPRENEURSHIP

**A CASE STUDY OF FARMDROP A FAILED SME WITH
CRITICAL ANALYSIS IN DETAIL OF ITS FAILURE**



Professor: Dr. Gladius Kulothungan

Students: Bhavinkumar Patel (2223420)
Manav Gandhi (2225500)
Vanshika (2224637)
Dineshkumar Parmar (2222138)
Priyanka Mithil Raval (2225567)

INTRODUCTION

- Established in 2012, Farmdrop emerged as a pioneering force in the UK's online grocery sector, revolutionizing the farm-to-table movement.
- Notably, the company's commitment to minimizing food miles and supporting local farmers resonated with a growing segment of environmentally-conscious consumers.
- By 2020, Farmdrop had already garnered a substantial customer base, attesting to its appeal within the evolving landscape of conscious consumerism.





BACKGROUND OF FARMDROP

- Farmdrop, which was founded in 2012, has emerged as a forerunner in the online grocery business, revolutionising the farm-to-table movement in the United Kingdom.
- Farmdrop has over 10,000 customers by 2020, indicating its popularity with a rising sector of ecologically aware consumers (Theguardian.com, 2021).
- Farmdrop developed a place for itself by advocating ethical and transparent procurement practises, with an emphasis on sustainability and fresh, locally produced goods.
- The company had raised about 41 million dollars in capital over 10 years of its business, and several factors have contributed to its collapse (Telegraph.co.uk, 2022).



MARKET OPPORTUNITY & EXPANSION

- This rise in demand highlighted the simplicity and security of online buying, pushing people to seek out additional purchase options (Ben Hassen and El Bilali, 2022).
- This change showed the potential of the online grocery sector and placed Farmdrop in a position to capitalise on a growing client base.

FUNDING AND INVESTMENTS



- The company was successful in raising a sizeable sum of money over the course of a decade, amounting to over \$41 million (Telegraph.co.uk, 2022).
- This funding came from a variety of investment rounds, including large infusions in 2018 that included \$10 million for the expansion of operations into the northern region of England (Theguardian.com, 2021).
- Further inquiry revealed that Farmdrop, although receiving a sizable amount of funding, ran into issues that restricted its ability to generate revenue.

FACTORS LEADING TO FAILURE



It is possible to blame Farmdrop's failure on both internal and external issues. A significant barrier was presented by the industry's severe competition for online grocery delivery services.

Farmdrop found it more difficult to develop a sustainable market share because to the heightened competition from both established retailers and new entrants (Рахно and Шрамко, 2019).

Furthermore, the changing nature of customer preferences, fluctuations in business trends and changing regulatory requirements added to the complications.



SUPPLY CHAIN CHALLENGES

- The Bullwhip Effect describes how small fluctuations in customer demand can lead to amplified fluctuations in orders, creating inefficiencies and inventory imbalances along the supply chain (Liu and Sun, 2021).
- The Forrester Effect, a component of the Bullwhip Effect, explains how information distortion increases as it moves upstream in the supply chain.
- These supply chain challenges underscore the significance of robust demand forecasting, accurate inventory management and transparent collaboration in sustaining an efficient supply chain, as evidenced by Farmdrop's experiences.

COMPETITIVE LANDSCAPE

The grocery delivery sector in the United Kingdom is characterised by fierce rivalry, which corresponds to Porter's Five Forces concept (Wanyonyi, 2021).

Farmdrop competed in an increasingly competitive market, battling both established shops and new competitors.

Differentiating against established merchants, on the other hand, may have been difficult due to their extensive product selection and brand familiarity.

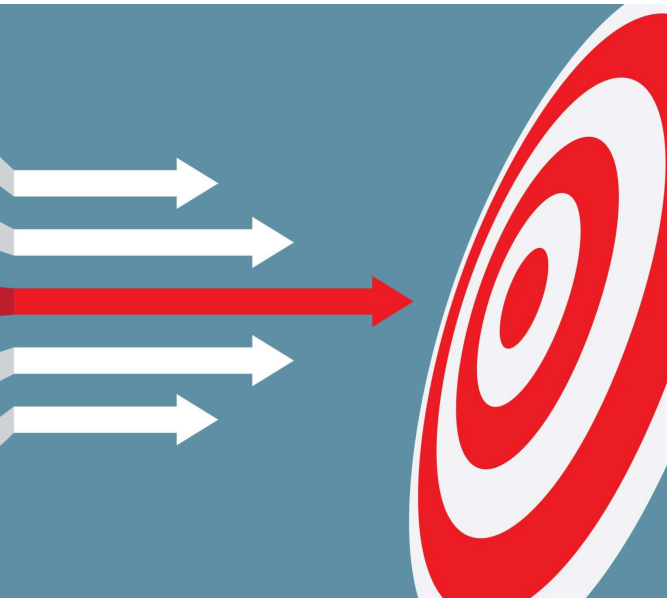


PRIYANKA MITHIL RAVAL (2225567)



SCALABILITY CHALLENGES

- Maintaining consistent product quality became difficult as the firm grew. It became difficult to ensure that the locally obtained goods fulfilled high-quality requirements on a large scale.
- Customer satisfaction dropped when the organisation went through growth difficulties (Brandtner et al., 2021).



PRICING STRATEGY

- Farmdrop used a premium pricing approach to represent their dedication to sustainability and excellence.
- However, the high cost proved a barrier to widespread acceptance, especially when contrasted with the cheaper rates given by major grocery chains (Melovic et al. 2020).



INEXPERIENCE OF MANAGEMENT

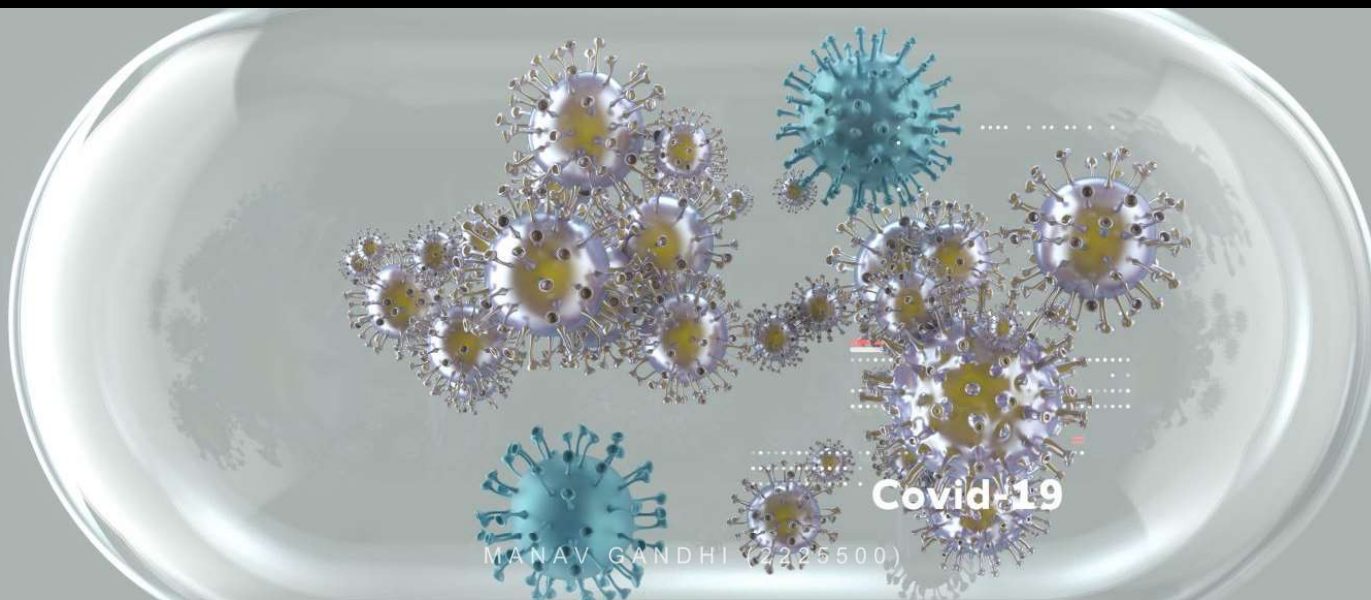
- According to the Upper Echelons Theory, Farmdrop's failure can be traced in part to the relative inexperience of its management team.
- Underestimating competition pressures, neglecting operational issues associated with rapid expansion and miscalculating the impact of the premium pricing strategy on market positioning are examples of these errors (Eisenmann, 2021).

IMPACT OF COVID-19

Farmdrop's activities were impacted in two ways by the COVID-19 outbreak. On the one side, the lockdowns resulted in an increase in demand for online grocery delivery, which aided the company's growth.

This increasing demand, however, put pressure on Farmdrop's operating capabilities, potentially causing interruptions in supply chains, inventory management and timely delivery.

The epidemic underscored the significance of agility and adaptation in dealing with unexpected fluctuations in demand (Khan, Piprani and Yu, 2023).



POST-MORTEM ANALYSIS

A post-mortem study is a thorough investigation carried out following a business failure to painstakingly look at the elements, decisions and incidents that led to the company's conclusion.



Conducting a post-mortem analysis is crucial in the context of Farmdrop (McCarthy et al. 2021).



Through this introspective process, a culture of failure-learning, creativity and improved decision-making is fostered.

UNPAID INVOICES AND CUSTOMER IMPACT

- Farmdrop's demise had a tremendous impact on small businesses, farmers and consumers throughout its ecosystem (Forbes.com, 2021).
- The ramifications of unpaid bills and unfulfilled orders highlight how interrelated the ecosystem of stakeholders is inside a corporation.
- The Farmdrop case is a heartbreaking reminder of the wider effects that a company's failure may have on its suppliers and clients, highlighting the significance of ethical corporate conduct.



FACTORS CONTRIBUTING TO FAILURE



1. Not Sustainable Model

- Loss Making Company, Unable to achieve profitability.
- Logistic Complexity in procuring goods to delivery.

2. High Cost and High Price

- Focus on High Quality, Farm to Folk model so they need to invest heavily in supply chain and delivery network.
- Due to that cost is high which result high price of product.

3. Face competition from other Players

- New Competitors like Ocado, Deliveroo, Hello Fresh
- Also well-established grocery retailers and there online delivery services like Tesco, Morrison's, Asda

4. Customer Acquisition and Retention

- Niche market due premium pricing.
- Company Focus on Customer acquisition and spend heavily in marketing, advertising
- But did not focus on customer retention. Low Customer retention ratio.

BHAVINKUMAR PATEL (2223420)



FACTORS CONTRIBUTING TO FAILURE

5. Poor Planning

- Change Business Model too often-- Subscription to traditional
- Product range is high, In 2015 Product 80, In 2018 Products 450, Result Less Focused, high cost in supply chain to delivery.
- Not able to make loyal customers hence per customer turnover decrees.

6. Mismanagement and Financial Constraints

- Decision to scale the business without sustainability, From the financials can see company depend on funding only.
- Farmdrop need substantial money to support its growth (Cherubini, Elena, 2020).
- Looks like management focus only on Valuation.

Years	2016	2017	2018	2019	2020
Funding	£3 Million	£7 Million	£10 Million	£6.5 Million	£6 Million
Profit After Tax	£-1.96Million	£-3.91Million	£-7.48 Million	£-10.79 Million	£-8.58 Million

(Crunchbase, n.d.)

BHAVINKUMAR PATEL (2223420)



LESSONS LEARNED

The company created the platform to connect farmers and global supplier. Failure of the company have severely impacted small producers and farmers (Forbes.com, 2021).

1. Sustainable and scalable Business Model

- Avoid hasty expansion at the expense of quality, sustainable growth must be in line with operational capabilities.
- The failure highlights the necessity for sustainability-focused businesses to establish a balance between their goal and commercial viability (Bocken, Weissbrod and Antikainen, 2021).

2. Control cost: Negotiate better deal with supplier, Streamline Operations, Eliminate Unnecessary Expenses

3. Compete effectively

- Provide unique value proposition, Differentiate your product with competitor
- Makes businesses reevaluate their pricing strategy and encourages them to provide competitive prices without sacrificing quality.

4. Be flexible and adoptable but with focused and data driven approach.

5. Learn from own mistakes

- Secondly, to overcome obstacles and make wise judgements, good management with sector knowledge is essential (MacLeod et al., 2022).
- Entrepreneurs can stimulate creativity, generate resilience and create a foundation for long-term success in the changing world of online retail and sustainability-focused businesses by taking these principles to heart.

CONCLUSION & RECOMMENDATIONS

Conclusion

The company's demise was the result of a confluence of elements including fierce competition, quick development, pricing strategy and management inexperience.

For long-term success in the corporate world, this case study emphasises the significance of striking a balance between values and sustainability, effective communication, market positioning, and profitable expansion.

Recommendations

- ❖ Strategic Planning: Place an emphasis on slow, steady expansion that enhances customer reach while maintaining service quality.
- ❖ Operational Efficiency: To satisfy demand spikes, use reliable inventory management and effective delivery methods.
- ❖ Profitability over Valuation: Should Focus on Create Profit rather than Valuation of company



REFERENCES

- Ben Hassen, T. and El Bilali, H., 2022. Impacts of the Russia-Ukraine war on global food security: towards more sustainable and resilient food systems?. *Foods*, 11(15), p.2301.
- Bocken, N.M., Weissbrod, I. and Antikainen, M., 2021. Business model experimentation for the circular economy: definition and approaches. *Circular Economy and Sustainability*, 1(1), pp.49-81.
- Brandtner, P., Darbanian, F., Falatouri, T. and Udokwu, C., 2021. Impact of COVID-19 on the customer end of retail supply chains: A big data analysis of consumer satisfaction. *Sustainability*, 13(3), p.1464.
- Carolan, M., 2022. Digitization as politics: Smart farming through the lens of weak and strong data. *Journal of Rural Studies*, 91, pp.208-216.
- Cherubini, Elena, 2020. Farmdrop needs 'significant' funding to sustain expansion. *Grocer*, , pp. 9. Available at: <https://www.proquest.com/trade-journals/farmdrop-needs-significant-funding-sustain/docview/2407710866/se-2?accountid=130472> [Accessed 14 08 2023].
- Crunchbase, n.d. ORGANIZATION FARMDROP. [Online] Available at: https://www.crunchbase.com/organization/farmdrop/company_financials [Accessed 14 08 2023].
- Eisenmann, T., 2021. The fail-safe startup: your roadmap for entrepreneurial success. Penguin UK.

REFERENCES

- Forbes.com, (2021). “Nightmare Before Christmas: Small Producers Left In Panic As Farmdrop Goes Bust” Available at: <https://www.forbes.com/sites/katehardcastle/2021/12/24/nightmare-before-christmas-small-producers-left-in-panic-as-farmdrop-goes-bust/?sh=28936eb643a8> [Accessed on: 07.08.2023]
- Jeremy, B.P., 2021. The Regulation of Digital Food Platforms in the UK. *Food Law & Policy*, 2(1), pp.53-106.
- Khan, S.A.R., Piprani, A.Z. and Yu, Z., 2023. Supply chain analytics and post-pandemic performance: mediating role of triple-A supply chain strategies. *International Journal of Emerging Markets*, 18(6), pp.1330-1354.
- Liu, S. and Sun, Q., 2021. Genesis and Tactics of Bullwhip in Supply Chain Effect Using SD Simulation. *J. Appl. Math. Comput*, 5, pp.73-83.
- MacLeod, C.J., Brandt, A.J. and Dicks, L.V., 2022. Facilitating the wise use of experts and evidence to inform local environmental decisions. *People and Nature*, 4(4), pp.904-917.
- McCarthy, M.C., O’Grady, L., McAloon, C.G. and Mee, J.F., 2021. The Effect of Contract-Rearing on the Health Status of Replacement Dairy Heifers. *Animals*, 11(12), p.3447.

REFERENCES

- Melovic, B., Cirovic, D., Dudic, B., Vulic, T.B. and Gregus, M., 2020. The analysis of marketing factors influencing consumers' preferences and acceptance of organic food products—Recommendations for the optimization of the offer in a developing market. *Foods*, 9(3), p.259.
- Mulcahy, G., Jonas, T., Kothe, P., Pagett, A. and La Vergne Lehmann, M.T., 2022. Response to the Inquiry into Food Production and Supply.
- Telegraph.co.uk, (2022). "How it all went wrong for Farmdrop" Available at: <https://www.telegraph.co.uk/business/2022/01/15/went-wrong-farmdrop/> [Accessed on: 07.08.2023]
- Theguardian.com (2023), "Will you power independent journalism in 2023?" Available at: <https://www.theguardian.com/international> [Accessed on: 11.08.2023]
- Theguardian.com, (2021). "Online grocer Farmdrop goes bust and cancels Christmas deliveries" Available at: <https://www.theguardian.com/business/2021/dec/17/online-grocer-farmdrop-goes-bust-cancels-christmas-deliveries#:~:text=The%20company%20confirmed%20it%20had,about%20getting%20their%20money%20back.> [Accessed on: 07.08.2023]
- Wanyonyi, E.I., 2021. Influence of Porter's Five Forces on the Competitiveness of Agrodealer Businesses in Nakuru East Sub-County, Kenya.