

# Development of Opportunities in the Value Chain of Rural High Quality Restaurants: Case Tertti Manor

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## **Abstract**

This paper analyses the opportunity development of high quality rural restaurant in Finland. The research questions posed are: How do the high quality rural restaurants identify business opportunities? How do they develop these opportunities to business concepts? What kind of business models will be developed on the basis of the value chain characteristics? Ardichvili et. al. (2003) opportunity development and Baron (2006) pattern recognition frameworks will be used as the basis for the analysis. Opportunity development is thought to proceed from the value creation capability through business concept to business model of a firm. Business concepts include all the value chain decisions of the firm. The overall data was gathered from high quality restaurants and their perceived value chains in Iceland, Finland, Norway and Sweden. Finnish case was selected for the analysis because it represented private ownership. The analysis suggests that value creation capability is generated both through underutilised resources and unemployed services. In the Finnish case underutilised resources were unused facilities like buildings, gardens etc. and unemployed services local supplier networks. From the pattern recognition perspective current trends such as climate change, healthy food and the development of infrastructure have been utilised in the development of businesses. Finnish case firm experienced that it is a trendsetter but innovations were mainly results of effective benchmarking and mimicking.

## **Introduction**

In 2007 Nordic Innovation Centre launched “New Nordic Food” program. Nordlands Research Institute from Bodø, Norway led the consortium including Helsinki School of Economics, Small Business Center, Finland, Jönköping International Business School, Sweden and Reykjavik University Iceland. The focus of the established EXPLORE –project (Experiencing Local food Resources in the Nordic countries) was on rural high quality restaurants. This paper analyses the Finnish results of the project from the perspective of opportunities within high quality rural restaurants.

Business opportunities are seen as one of the most important ingredients in entrepreneurial process in current entrepreneurship research (e.g. Ardichvili et. al., 2003; Sarasvathy et. al., 2003; Shane and Venkataraman, 2000). Opportunities are defined as the consequences of new ideas, inventions, beliefs and actions which generate new products and services, new ventures, markets, standards or practices (Venkataraman, 1997; Sarasvathy et. al., 2003). According to Companys and McMullen (2006) oppor-

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<sup>1</sup> The data and business model analysis for this paper was collected and completed by Senior Researcher Sinikka Mynttinen.

tunities could be classified as economic, cultural, cognitive, and socio-political opportunities depending on the birth mechanism and the context of an opportunity.

Littunen and Virtanen (2009) discovered that motivation for start-up differentiated growing firms from the non-growth companies so that growing firms are more opportunity driven. This finding emphasizes the importance of opportunities in the start-up stage. However, Littunen and Virtanen (2009) as well as Heimonen and Virtanen (2009) suggest that opportunity driven entrepreneurial behaviour will be of utmost importance for the growth and development process of businesses, too. The perceptions and measures in seizing and developing the opportunities may change during the course of time because of learning and changes both in external and internal (resources) environment and strategies of the venture. In the existing businesses opportunities form the so called strategic options. The idea of strategic options follows “corridor principle” suggested by Ronstadt (1988). After the start-up of the firm it will proceed first with the original idea but in the course of time discovers new opportunities which demand for similar evaluation and decision making as the ones at the start-up stage.

When we analyse high quality local restaurants they may not match the definition of entrepreneurship even if they were privately owned family businesses either. Growth orientation is totally different compared for example with high tech born global firms. However, example like elBulli and Ferran Adria suggest that we should not exclude this kind of businesses from the analysis because of their different goals and objectives of the entrepreneur. elBulli is an excellent example of appreciation of creativity and exclusivity and different perspective on growth of the firm.

In this study we will focus opportunities from the perspective of the development of opportunities (Ardichvili et. al., 2003) and pattern recognition (2006). Deviating from the main stream entrepreneurship literature we use these frameworks on the opportunities within the existing restaurant businesses. The opportunities may be based on innovations but taking into account the nature of the branch of industry it will be quite evident that innovations are mainly competence enhancing, not competence destroying innovations. In addition to new products and services and production processes innovations may include new sources of supply of raw materials, new markets as well as new forms of organisations (networks, business models).

The purpose of this study is to introduce and apply opportunity development framework combined with pattern recognition framework within the context of value chain of high quality rural restaurants in Nordic countries. In the case description we concentrate on one case but reflect the implications with the outcome of the other Finnish cases and Nordic countries, too. The research questions of the study are: How do the high quality rural restaurants identify business opportunities? How do they seize and develop these opportunities to business concepts? What kind of business models will be developed on the basis of the value chain characteristics?

## **Theoretical framework**

Shane and Venkataraman (2000) analyze the process of entrepreneurship starting with an opportunity and ending with the exploitation of that opportunity. The factors they differentiate include a) the existence of entrepreneurial opportunity, b) discovery of opportunity and c) decision to exploit an opportunity. Similarly as Baron (2006) they conclude different observers will give dissimilar interpretations to the opportunities because of their prior knowledge and backgrounds. Baron’s (2006) idea of opportunity events, changes and trends in external world are interpreted and perceived to build a cog-

nitive framework which could be for example prototype, exemplar or new way of doing business. Combined with knowledge and experience and active search and alertness this cognitive frame may lead to new businesses. Shane & Venkataraman (2000) point out the impact of intuition of the actors and, alike Ardichvili et. al., (2003), information asymmetry as the triggers of idea and opportunity recognition.

In the discovery of opportunities the Shane and Venkataraman (2000) refer to information corridors and cognitive properties. Information corridors mean that human beings possess different stocks of information which have an influence on their ability to recognize particular opportunities. Some people are more able to identify an opportunity when they see one which means that they are better equipped with cognitive properties proper for opportunity identification. Decision to exploit opportunity depends on the nature of opportunity and individual differences of the executor (Shane and Venkataraman, 2000). The nature of opportunity means that entrepreneur believes that the seized opportunity will add value to the business. Individual differences are formed by economic status, internal locus of control, need for achievement, optimism, perceptions and social status of the entrepreneur.

Sarasvathy et. al. (2003) consider that an entrepreneurial opportunity consists of a set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them. They present three different views of entrepreneurial opportunity from the market perspective; seeing the market as 1) an allocative process, 2) a discovery process or 3) a creative process. Sarasvathy et. al. (2003) differentiates also two types of knowledge; scientific knowledge, and dispersed information of particular place and time. The second type becomes especially important when there is a high level of uncertainty. If the distribution of information exists and is known, we will have opportunity recognition, if the distribution exists, but is unknown, there will be need for opportunity discovery, and as a third alternative; if the distribution is non-existent (and unknown) there will be need for opportunity creation.

One possible line of thought is connected with the different types of entrepreneurial opportunities and value creation (Ardichvili et. al. 2000). Some needs could be identified where resources could be available to connect these resources to exploit the identified opportunities. Ardichvili et. al. (2003) proposes that opportunities are based either on underutilised resources or unemployed services (for example new technology or proprietary knowledge). These characteristics will build up value creation capability for the business.

When market needs will be defined in the terms of benefits and value sought and resources more precisely opportunity progresses to business concept. After mature business concept has been developed it will grow into business model which will include the strategy how to create and capture value. Business plan will be the most elaborated form of opportunity including detailed and differentiated business concept and business model as well as financial model.

The benefits of Baron's (2006) pattern recognition approach helps to explain the relationships between active search, alertness, and prior knowledge of entrepreneur. This framework may be utilized and applied to the value chain of restaurants. We may pose the hypothesis that experience in some part of the value chain and/or in stakeholder relationships helps to build innovative and cost-effective methods for exploitation of new opportunities.

On the other hand, external shocks and critical events may have a crucial impact on needs as well as on the strategies of the business (Baron, 2006, Heimonen and Virtanen, 2009). For example increased need for local food production processes may lead to the demand for incremental and com-

plementary services that could have an impact on the holistic business. It may have an impact on the strategies to introduce certain kinds of tailored services in the future, too. This follows the so called corridor principle (Ronstadt, 1988) or strategic option thinking.

If we follow the idea of development of opportunity in the context of high quality restaurants we may proceed from value creation capability to business concept. Business concept is closely connected to the decisions about value chain activities. According to Porter (1985) value chain means value adding activities of a firm including both inbound and outbound logistics, marketing and sales as well as support activities. Firms use value chain information in order to improve their value systems or to create new business models.

Shafer et. al. (2005) defined a business model as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network. This definition was based on the classification of the components of business models into four primary categories - strategic choices, value network, creating value, and capturing value – under which categories they included different components. According to Shafer et. al. (2005) the components included in Magretta's (2002) business model, which was used as a framework in Ljungren et. al. (2010) emphasizes two aspects of business models: 1) the creation of value for customers and 2) the revenue models which indicate how to make money. However, from the perspective of opportunity development Shafer et. al. (2005) broader definition makes possible the analysis where strategic choices and value networks are included more deeply. Thus the outcomes of this study will be reflected with the framework of Shafer et. al. (2005).

## **Data and methodology**

The data was gathered from high quality restaurants and their perceived value chains in Iceland, Finland, Norway and Sweden in the context of the EXPLORE-project financed by Nordic Innovation Centre. From each country 2 – 3 case restaurants and their interest groups were interviewed and cases were constructed to form the data set of the study. Altogether 11 restaurants were analyzed. The framework for analyzing opportunities within value chain of the cases will be used in investigating entrepreneurial processes and learning of the entrepreneurs. In this study we concentrate on one Finnish case but the comparisons will be made with other cases and countries, too.

In collection of the data we used the same framework for the cases. The selection of the restaurants were based on the criteria that they were (a) considered to deliver high quality food and experiences, b) were located outside of cities in rural locations, and (c) the menus had a local/regional profile, relying on local ingredients. In Finland the reason behind the selection of the Anttolanhovin Kartano, Kenkävero and Terti Manor House was the fact that they all belong to the Charms of Saimaa chain which was selected as a candidate for national prize winner in "European Destinations of Excellence" in 2007. Those destinations which have developed a new tourism offer based on the appreciation of their specific local intangible heritage will have the possibility to compete at national level and be selected as 2007 destination of excellence. Moreover the Finnish Travel Quality Award 2008 was given to Terti Manor House based on the originality and manor milieu resting on locality and national culture. *"Terti Manor has arisen as an internationally interesting resort. It has succeeded in the development of tourism services very decisively. The garden of the manor is unique in Finland"*. In 2010 Terti Manor was given the honorary title by the Society of Finnish Gastronomy.

The research team developed common interview guides which have been used in the data gathering process albeit also this had to be adapted to the specific empirical and national context. The case study approach implies that interviews are conducted not only with the entrepreneurs/owners of the restaurants but also with some of their suppliers, and also with individuals representing policy organizations. Altogether 95 interviews were conducted in different countries. In Finland two farmers and 7 small case food were interviewed in addition to three restaurant managers. Secondary data such as documents menus, brochures, policy documents, strategic plans for policy organization were used to gain wider understanding of the properties of value chain.

### **Start-up and development of business opportunities**

The Manor House traditions in Tertti have been enhanced by the Pylkkänen family since 1894. The place is located along the highway 7 kilometers from the centre of Mikkeli Town. Restaurant was started by the owners Matti and Pepita Pylkkänen in 1978 after a transfer of the manor to the descendant. The main motivation for the start-up of restaurant business was a desire to maintain the family estate alive. The early days' vision was to repair the buildings and to grow vegetables in order to give support to the restaurant business.

*“Desire to make progress in business was keen, although no earlier experience existed!”*

At the start-up stage the restaurant business was not very much opportunity driven. When the interviewees were asked about their main business opportunities it was noticed that their perception about opportunity focused mainly the products and services and the surroundings not as much markets, customers and their needs. The main business idea of Tertti Manor is to produce experiences in accordance with the traditions of the Manor itself and the region. Although traditions are respected, the services are constantly up-dated. In the beginning the serving in the restaurant was only on order basis: At that time restoration of the family estate and growing of vegetables for the restaurant business were the main targets.. The restaurant was run by the young owners and their parents. In 1982 accommodation service was started in a granary. A year later the stable was renovated to serve as a festival hall. A few years ago a garden was established on old ruins.

First, there was a small shop in one of the rooms of the manor house selling mainly self-made food products. Just recently, a separate shop building was opened and the products are sold by internet, as well. Thus, starting from restaurant business Tertti Manor has grown into tourism and experience industry. The course of development has been planned, but also intuition plays a big role in finding out new, up to date, ways of serving the customers better.

Reflecting the outcomes of the case to Ardichvili et. al. (2003) value creation capability it could be proposed that these opportunities are based both on underutilised resources and unemployed services. Underutilised resources are unused facilities like buildings, gardens etc. and unemployed services local supplier networks. From the pattern recognition perspective current trends such as climate change, healthy food and the development of infrastructure have been utilised in the development of businesses.

## Strategies and business model

While relying much on benchmarking abroad in its business development, Terti Manor can also be seen as a trendsetter in its own environment in Finland. Ideas for the business have been searched for abroad and one of the most important models has been Rosendahls trädgård in Sweden. Some of the new ideas and concepts of business stem from these trips of benchmarking to e.g. Sweden, Italy, England, Ireland and South-Africa. Terti Manor has also very close cooperation with some of their customers, who have initiated and developed ideas with them. The entrepreneurs are more and more conscious about the necessity to add customer value by combining different experiences with restaurant services. These additional experiences may include very precise introduction of the raw materials and the details of the meal.

*“If we have a look at our breakfast table, there are signs so that people can see the producers of all local products. It is a matter of great importance for us...although we have only five rooms, we do it in a different way...our own way.”*

In the Nordic rural restaurants the trend which transforms the attention from the plate and meal to the holistic experience of the customer during the visit will be observed (Ljungren et. al. 2010). This has led to changes in the business models of these high quality rural restaurants, too. Extraordinary experiences demand for superior quality which has increased the interest in local raw-materials and recipes. This has clear impact on the versatility of the supply of raw materials, costs and logistics as well as on the relationships with the suppliers.

Following the idea of the components of business model by Shafer et. al. (2005) we will first introduce the strategic approaches of the case businesses. Strategic choices include capabilities and competencies of the firm. In this analysis this will be reflected in learning of the firm in the opportunity development process.

## Cooperation and Learning

”Charms of Saimaa” is a network business model developed by small experience producers. All the Finnish case restaurants including Terti Manor are owners in the company Saimaan Charmantit Oy which is behind the brand Charms of Saimaa. Charms of Saimaa was established to enhance cooperation and marketing of tourist attractions in the heart of the Saimaa Lake district. They have jointly produced a brochure in several languages, co-marketing in internet, national advertising and video for international customers. The partners give concrete support to one another by e.g. recommending each other to customers, when an opportunity comes. In order to attract foreign customers it is important to have large enough volume of high-quality destinations in one district.

There are criteria for the members in Charms of Saimaa including experience of tourism, reliability, high-quality and friendliness through the idea of faces behind the service (host and hostess running the business). The brand “Charms of Saimaa” has become well-known in a very short time and has already given a positive drive to the tourist and experience industry in the region. *“We are a part of the chain. At the moment I feel the size of the combination is good” (14 members) .*

Common concept is combination of accommodation, theatre performances and other local events and services. Terti Manor has cooperation with the local organizers of events and the theatre. Further,

Tertti Manor has found it very valuable to develop products of their own together with a university unit in town Mikkeli, as well as, cooperation with a well-known local researcher of herbs.

*“A good example is a product development process: we have an idea, and we look for a producer... well, the university unit in Mikkeli has a good field of contacts ready. When an analysis is needed, e.g. how to get this mushroom product preserved..., there it is! Compared to the situation, where we would have made attempts and experiments ourselves, they already have the knowledge, skills, and advice needed.”*

The basic idea behind the development and learning is to set goals for oneself and then determinedly pursue for them. Having got to learn the different characteristics of each other, Mr. and Mrs. Pylkkänen have found them an important resource for the enterprise. Their characteristics complete each other making them good partners.

*“I am a persistent and hard-working maker, while my wife is... how to put it... a ‘hoover of ideas’ or ‘lighter of fires’, which I then put out. On the other hand, in the case we both think this is a good idea, it will most probably work out, too.”*

Benchmarking abroad is a crucial way of learning: places of high quality food, manor houses, wine yards, market halls etc. Other elements of learning are colleagues, restaurant cooks, and other experts, also, among customers. Customer feedback is extremely important for learning and it is in active use

*“For example, one of our customers is a lady, who works for a big bank as a chief hostess. Lately she also finished a book ‘The best cook book in the city’. She has seen almost everything in our country and she is a good customer of ours. Then there is this chief consul of high quality food in Finland, who was one of the first to buy our Vorsmack in the market hall of Helsinki. He called us that it was great, but the recipe had to be changed. We worked on it... and nowadays we co-operate a lot and he is a good friend, too.”*

## **Revenue model**

The revenue model is based on a comprehensive idea of experience production and allows earning medium margins while serving medium volumes of customers. By combining high-quality food including in-house and local specialties with overnight stay experiences in peaceful, countryside surroundings of the Manor or visits to the walled garden, herb garden or exclusive shop the restaurant has become an attractive destination for local, national and international visitors and generated diversified revenue streams to the business. The future value capturing is based on all the current activities but more and more revenue will be expected to be generated by emerging role of e-shopping.

From the perspective of business models it could be said that Charms of Saimaa chain sets norms and standard for the quality of services and thus there will be a lot of similar features in business models, too. All the Finnish case restaurants are partners in Charms of Saimaa network which promotes branding of its members through story telling. All of them experience a challenge of large number of local suppliers which especially sets certain requirements for logistics. Possibly the most remarkable difference between entrepreneurial and association driven business is connected with the organisation and learning. In Tertti Manor one remarkable advantage was effective learning dynamics which could be used to renew and reshape the organisation very flexibly. This kind of strategic agility will be extremely important in economic downturns and in a turbulent environment.

## Conclusions and Implications

The major contribution of the paper will be to point out the role of opportunity development in the process of development of businesses in the value chain of high quality restaurants. The analysis suggests that value creation capability is generated both through underutilised resources and unemployed services. In the Finnish cases underutilised resources were unused facilities like buildings, gardens etc. and unemployed services local supplier networks. From the pattern recognition perspective current trends such as climate change, healthy food and the development of infrastructure have been utilised in the development of businesses.

Even if the Finnish case firm experienced to be a trendsetter its innovations were mainly results of effective benchmarking and mimicking. The most appropriate for successful business in this respect will be the context of the business. The example of this study imply that favourable context does not mean only the vast flow of people around the restaurant but the atmosphere and culture as well as presence of highly skilled workers and creative effort.

Local restaurants in the Charms of Saimaa network act as the drivers of tourism in Etelä-Savo region. The network sets quality standards for its owners and partners which improve their credibility. Since value chain of restaurants includes a large amount of diverse local producers the credibility will be reflected to these local actors, too. Even if quality systems are important but in some cases individual, traditional knowledge and its use is necessary especially in story telling. Narratives are essential part of the activity in Charms of Saimaa. In local tourism industry the use of narratives and story telling are effective ways for differentiation. In Finnish cases collaboration with event organizers is also essential. From the perspective of product and service development customers are experienced as best sources of information. There are examples that several recipes have been revised after customer feedback

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In this study I have investigated mainly one case restaurants and the opportunity focus is not so self evident. Opportunity focus will be introduced both through horizontal and vertical integration. Value chain of restaurants includes a large amount of diverse local producers and they are collaborating within the common network. One critical element for the studying all the Finnish case restaurants in opportunity development framework is the fact that two of the three case firms are not classified as entrepreneurial businesses. Thus they were excluded from the analysis. However, these businesses are owners in the common network Charms of Saimaa which could be seen as an entrepreneurial effort in experience industry. This raises a question about the applicability of opportunity framework as the basis for entrepreneurship theory since the managers of association owned businesses seem to develop their opportunities quite similarly as entrepreneurial firms.



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