



PROJECT H2020

LIVERUR

Living Lab Research Concept in Rural Areas

EXECUTIVE SUMMARY

DELIVERABLE 2.1:

**Conceptualization of existing rural
business models in EU and regional
areas**



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LIVERUR - 773757

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1 INTRODUCTION

1.1 About LIVERUR

“The short term objective of LIVERUR is to improve knowledge of business models growing in rural areas, including an understanding of their potential” (Grant agreement).

LIVERUR is a pioneering H2020 project (2018-2021) because it addresses Living Lab concepts, circular economy and new business models creation inside the rural communities in Europe and beyond.

LIVERUR combines relevant rural topics (Agriculture, Tourism, Innovation, Energy & Environment, Food, Water, Mobility, Entrepreneurship, Social Innovation, Competition, etc.) for future challenges in rural/remote/mountain areas, in order to give them real and sustainable perspectives to cope with existing challenges (among others, climate change effects and globalization of food value chain).

The consortium is collaborating on a unique initiative and open innovation approach (called Living Lab) providing knowledge transfer from research results, reusable/ replicable methods and tools in order to foster an effective rural sector transformation (technological, socio-economic, human centric) for all **LIVERUR** partners in their targeted territories.

The **LIVERUR** project aims at bringing rural innovation along with high impact to the wide spectrum of the agricultural activities, entrepreneurship, job creation, digital skills improvement, shared and circular economies among new business models and prototypes for better decision-making and community engagement.

1.2 About WP2

“The objective of this WP is to iterate a complete and extensive analysis of existing business models in European rural areas with specific attention to the following sectors:

- fruits and vegetal products (Latvia, Turkey),
- dairy products (Malta, Azores),
- cultivation from arid territories (Spain, South of France)
- agritourism and specific regional production (Czech Republic)
- organic farming (Slovenia)
- handcraft (Tunisia)
- agribusiness favouring social inclusion / providing social services (Italy)
- smart rural sector (Austria),
- livestock (West of France).

Capitalizing upon past European projects on rural economic development and rural jobs, this WP will create a benchmarking study where 10 traditional value-chain approaches (such as mass production, development of prices, optimising the cost structure of the enterprises, rationalisation, etc..) will be identified and compared taking into account the circular economy principles. The number of 10 will guarantee a highly diversified analysis without losing sight of the target aim, which is creating a benchmarking study between rural living lab techniques and the most currently utilized business models and value – chain approaches.

The aim is to identify, describe and benchmark different business models in terms of starting conditions, obstacle faced, enabling factors, financing mechanisms, generation of added value, jobs and other potential environmental and social benefits, gender issues, attractiveness to young workers, and the distribution of the value generated.

Specific objectives:

- Creation of an **extensive analysis of the existing business models in rural territories** in order to foster collection and capitalization of existing knowledge.
- Development of a **comprehensive approach to rural business models analysis**, which will identify relevant benchmarking criteria and suggest innovative comparison strategies.

1.3 About T2.1 “Conceptualization of existing rural business models in EU and regional areas”

“The task consists in collecting and analysing the existing business models that are operating at the European and regional/local level; **LIVERUR** strongly built this first task on past project listed in the synergies prospectus and even further.

LIVERUR does not limit the analysis to the consortium territories but focuses also on other countries thanks to the multiple links and experiences of every partners, which allow for a “net – wide strategy”. The analysis will be performed according primarily to the four **LIVERUR** pillars:

- 1) Environment and Resilience,
- 2) Resource efficiency – efficacy and management,
- 3) Competitiveness of SMAEs and rural value – chain,
- 4) Openness to new markets and technologies.

There is no doubt that other criteria will be utilized as well to benchmark the different business models, criteria such as job creation, social inclusiveness of vulnerable stakeholders, gender equality etc..

The analysis will be performed according to two strategies:

- 1) desk research (scientific/other literature review, implemented EU projects, national initiatives, etc..),
- 2) in-depth and in-field interviews.”

2 METHODOLOGY

2.1 Research methodology and sources

The consortium proceeded in three steps to reach the objectives of Task T2.1:

First, some desk research was conducted to get a general overview of the rural area in EU countries and of the main issues to address. Sources from the EU were used, as well as statistics, to draw a “macro-picture”.

Then, an online tool was developed to collect data directly from partners and to create a database of concrete cases. This database filled with 256 cases gives a much more micro-picture of the rural areas panorama, and highlights the complexity, diversities and heterogeneities among EU countries, which have to be addressed in the ‘Living Lab’ concept.

From the macro and micro-picture six types of existing business models and seven innovative trends were conceptualized. Finally, the 256 cases of the database were split into these categories, and around 30 cases from the database were used to exemplify the conceptualization.

2.2 Scope and representativeness

The objective of the consortium was to describe the EU rural areas in all its diversity and heterogeneity. This is why the micro-data was gathered directly from the partners. Each partner was indeed asked to give cases that were typical and representative of what can be found on their territory.

This way, the cases collected should be representative from several points of view:

- Geographical: the database contains cases from 23 EU and 10 non-EU countries
- Size of the business : workforce
- Maturity of the business : introduction, growth, maturity, decline
- Innovation level : given subjectively by partners (through a qualitative scale from low to high). This means that the consortium decided to select cases that represent both the “traditional” and the innovative dynamic of their territories.
- Type of activities : technical /non technical (fig 16 p25) and NACE codes (fig 20 p29)

Note: this study does not provide any statistical value, as each partner who submitted cases has a different background and knowledge. Moreover, the varying number of partners in each country induces an over-representativeness of some countries compared to others.

3 RESULTS AND FINDINGS

3.1 Global overview of rural areas in Europe

Rural areas in Europe are fundamental to sustain Europe's growth, since 56% of inhabitants live in rural areas and 91% of the surface area is classified as rural (1). For consistency, in 2010 the EU Commission agreed to define urban clusters as grid cells of one square km with a minimum population density of 300 inhabitants per square km, and a minimum population of 5,000 inhabitants. All areas outside these urban clusters are considered rural, and if more than 50% of the total population lives in rural grid cells, the region is classified as predominantly rural.

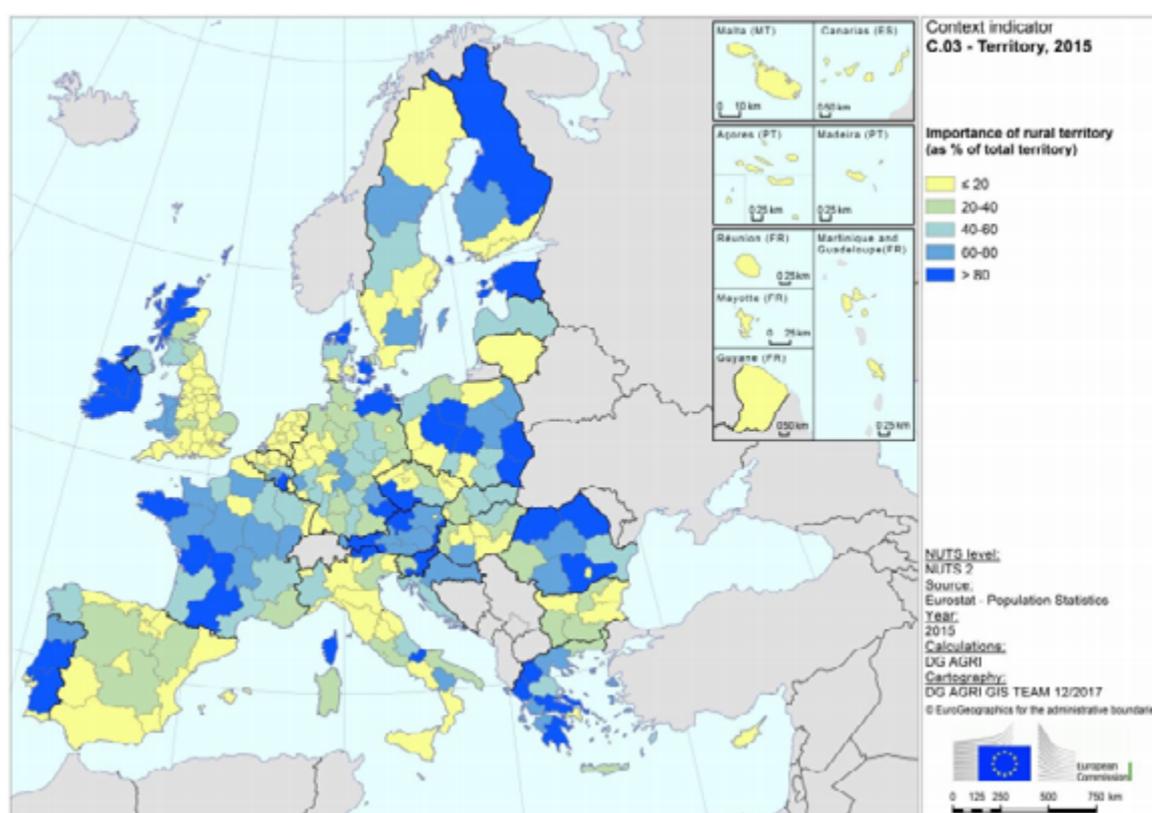


Figure 1. Importance of rural territory in NUTS 2 regions.

In 2015, agricultural, fishery and forestry activities represented 1.5 % of the gross value added generated in EU-28 and 4.8 % of jobs. Agricultural land accounts for almost half of the EU area. The last Farm Structure Survey (2016) shows there were 10.3 million agricultural holdings within the EU-28, among which 61% had a standard output in excess of €2,000. These figures reflect a high diversity in terms of economic size and area across EU-28.

Whilst the share of agriculture, forestry and fisheries in rural economies has declined, the importance of diversification in rural economies has grown. In the EU-28 as a whole, around 6.8 % of farms had at least one other source of income (referred to as other gainful activities).

Tourism is one of the three major sectors in rural areas, together with agriculture and forestry, but is particularly important in the areas characterised as coastal or upland/mountainous areas, and in places where there is a form of protective land use designation in place. Indeed, tourism has the

potential to play a significant role in the economic aspirations of many EU regions. Infrastructures that are created for tourism purposes contribute to local and regional development, while jobs that are created or maintained can help counteract industrial or rural decline.

SMEs form the backbone of the EU-28 economy. In 2015, just under 23 million SMEs generated €3.9 trillion in value added and employed 90 million people, accounted for two-thirds (67%) of EU-28 employment and slightly less than three fifths (58%) of EU-28 value added in the non-financial business sector (see Figure 2).

There is no EU-wide definition of craft (type) enterprises. The “craft sector” in Europe is very diverse, covering a multitude of different professions and trades. Furthermore, among EU Member States there are very different understandings and legal definitions of what is meant by a “craft” enterprise.

An ageing and declining rural population is a growing problem in many Member States. In 2016, the working-age population (15 - 64 years-old) represented 65% of the total and elderly people (65 years-old and above) accounted for 19%. Since 2011, the proportion of elderly people increased in all types of regions while the share of young people decreased in all regions except for the urban ones where it increased slightly (+0.1 percentage points).

Rural isolation across the EU is also another social challenge to consider. In 19 EU Member States, the proportion of people at risk of poverty or social exclusion in 2013 was higher in rural areas than in cities. In rural Romania and Bulgaria, the difference was as much as 20%. This is particularly relevant in the context of the Europe 2020 Strategy, which aims to promote “smart, inclusive and sustainable growth” in Europe during this decade.

3.2 Global picture of Database

The 256 projects implemented in the database cover 23 EU and 10 non-EU countries, providing a broad representativeness of rural areas.

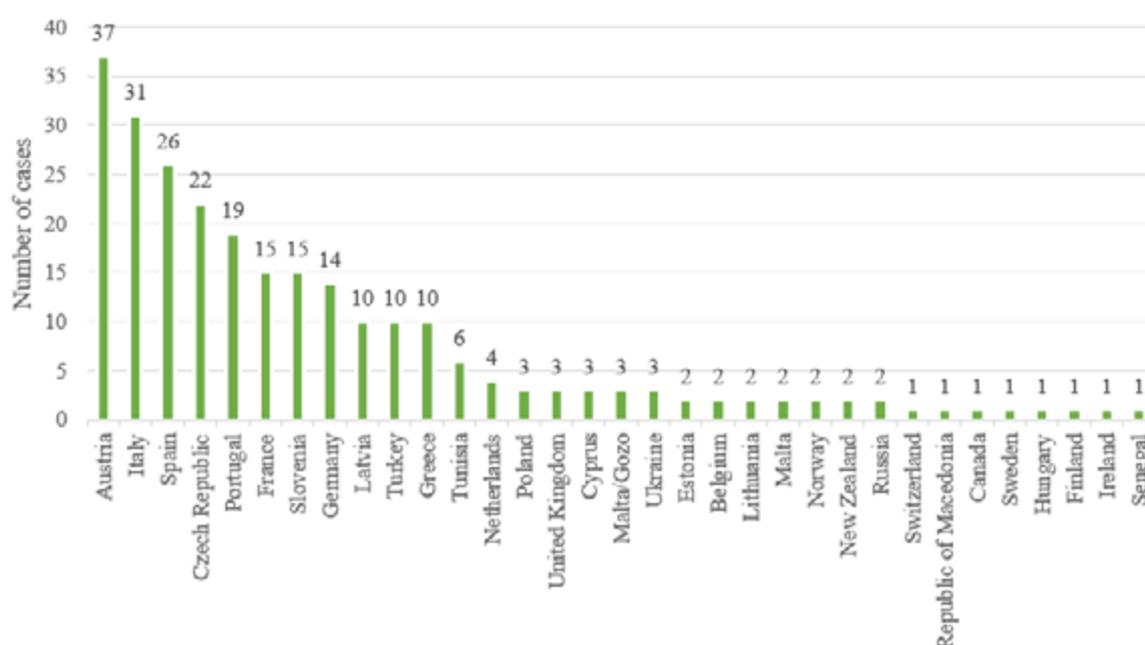


Figure 2. Number of business cases per country.

The questions address typical business model canvas criteria (product/services, customer, resources, key partners, channels, revenue stream, and cost structure) and “subjective” impact evaluation on social, economic, environmental criteria specified with **LIVERUR** expert partners.

Chapter 3 of WP2 deliverable gives the consolidated results, with graphs and comments for each item.

Key issues may be pointed out from the data global picture:

- The legal status is mainly carried by individual companies and the global geographical influence relies on regional areas. For this reason, a stronger cooperation between companies from different cities/countries would help to develop more advanced business models, which can have a national or even international impact.
- Maturity of the project: most of the business cases are going through their growth and maturity phase. As in this stage, the projects become visible and profitable, it is the time to get focused on taking advantage of this growth and try to readjust every aspect of the project which can be improved and of course taking into account the feedback from the market. Another big percentage of the business cases is in the maturity phase. In this case, the project is in its full potential and scope, but still some contributions can be added. The focus needs to be on extending this situation and invest in new developments. Only the 22% of the projects are in their innovation phase. Therefore, they need to be supported and prioritized.
- Types of products and services: 54% of the business cases are based on products (mainly food & beverages). However, only 34% are based on services and only the 12% on other products. There is an opportunity to develop new business models focused on services in order to improve, for instance, accessibility or communications in rural areas.
- Another striking point is the very few projects in **LIVERUR** database related to water management and waste recycling, since both topics are gaining importance nowadays. This could represent a competitive advantage concerning the development of new business models in rural areas.
- Workforce: In most of the projects the workforce is under 100 people. This reflects the manpower needed to get more people involved in the businesses, in order to reach a wider target and get more cooperation. The most effective and fastest way to make people know about them is by making a smart use of Social Media and developing marketing plans tailored to the business cases.
- Business cases should be promoted to make people know about them and therefore get a bigger cooperation. Marketing strategies should be involved within the projects and a more effective use of Social Media may represent a smart way to get expanded and specially to reach other targets besides the ones which are currently participating, like farmers or wholesalers.
- Positive impact on social, environmental, economic criteria: The lack of data to evaluate some environmental (water, energy consumption), economic (gross domestic product) and social (inclusion, norms for gender) criteria mean that a focused should be made to fill this gap through concrete and measuring tool and stakeholders participation.

3.3 Business Model analysis

3.3.1 Mainstream “traditional” business model

The **Business Model Canvas** is a tool commonly used to describe an existing business model or to create a new one. It gives indication on the value proposition, target customer, cost structure, financing, key activities, resources and partners to achieve the value proposition.

Such business model implementation requires to analyse the economic context and to have in mind the vision and strategic issues of the business.

The business model canvases offered in WP2 formalise the existing rural landscape and main challenges to address (developed in chapter II.1) on the 6 main existing streams, giving a framework and generic bricks to be used in the next steps of LIVERUR by the partners, as “real life setting” data, to move from this existing representation to new “Living Lab” business model creation.

The six business models that have been conceptualised through CANVAS framework are:

- Food & Drink Industry
- Services
- Conventional farming
- Diversified farming
- Tourism
- Rural SMEs

These business models have common features and interconnection, particularly rural SMEs, or services. The “rural SMEs and services business models” also include other SMEs and services than just farming; in fact, they concern each of the business models found in rural areas. However, we keep the typology as they are the most representative of specific value proposition and reflect the most relevant challenges in the selected rural regions.

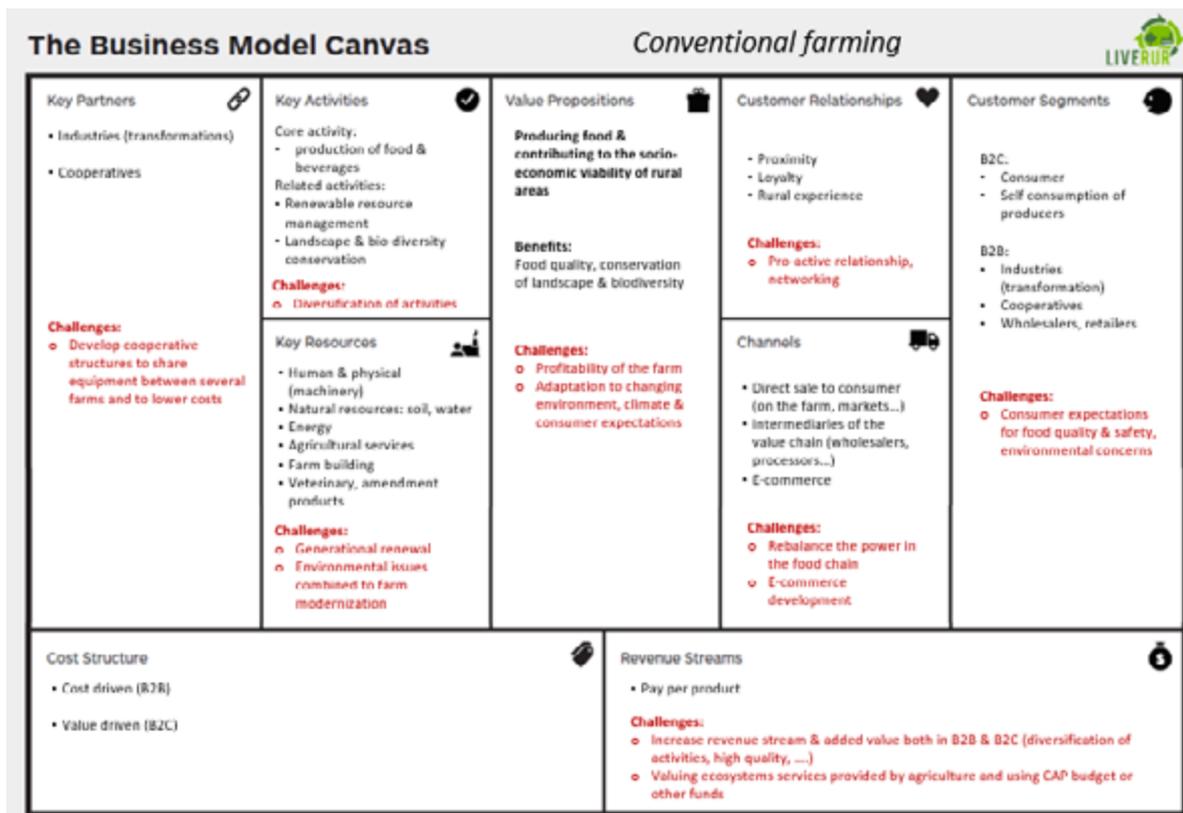


Figure 3. Example of CANVAS analysis on “Conventional farming”.

The businesses database analysis show that 50% of business cases analysed by LIVERUR are positioned on the two existing mainstream value chain of rural areas: Conventional farming, and Food & Drink industries.

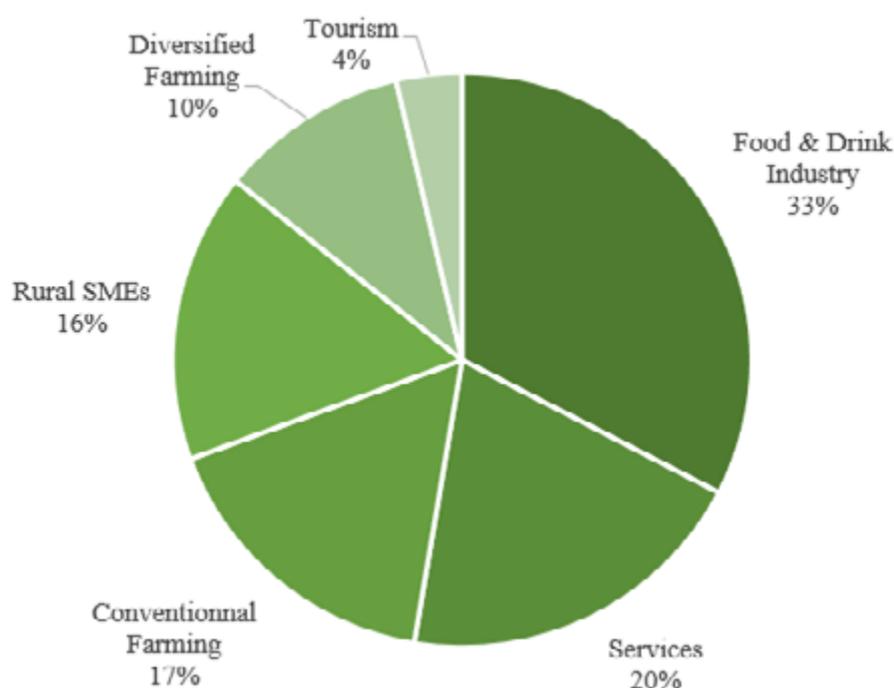


Figure 4. Positioning of business cases in the 6 existing business model types.

The main challenges for these small companies are to be more profitable, to increase competitiveness, to get more power in the value chain and to answer food safety, healthiness, and environmental increasing requirements. The proximity of small farms with customers and other stakeholders of the local ecosystem is a strength to create value through brand quality and diversification of activities (tourism, energy production, processing of farm products...).

For each business model type, typical use case were selected from database and are highlighted in T2.1 deliverable chapter 4.



Figure 5. Example of use case selected from the database for “conventional farming”.

3.3.2 Innovative trends

If the majority of the **LIVERUR** database projects concern “mainstream” value chain in growth or maturity phase, new trends are also yet emerging. We **identified seven innovative trends**, answering to rural issues, and opening the way to new business models. Quality of food and more globally or rural products is the dominant trend, driven by brand value, regulations and expectations of customers. Developing excellence including product and service design, understanding user value trend are key issues to be competitive. Services, both as social and business support, represent 38% of **LIVERUR** projects innovative trends, showing the great dynamic of rural areas in development of services. Nevertheless, it seems that big challenges still have to be faced to move towards new business models that are both socially inclusive and economically viable. Organisation that give empowerment to rural communities, integrated and new flexible approach for coordination of services across different sectors (e.g. digital platform), alternative models to deliver services (e health, e mobility..), are kind of emerging innovative ways.

With only 4% of projects concerning local energy production and use, a focus should be done on how to make it a growing concern in the further steps. Specifically water consumption, which is the major environmental issue faced in the food and drink value chain, is very poorly represented in the database.

Seven main trends have been identified, coming from major issues to address, and LIVERUR database of projects. Despite we aimed at giving the most exhaustive and representative cartography, it may be still reducer regarding the diversity, great amount of innovative initiatives and trend for linkage activities more than sectorised one.

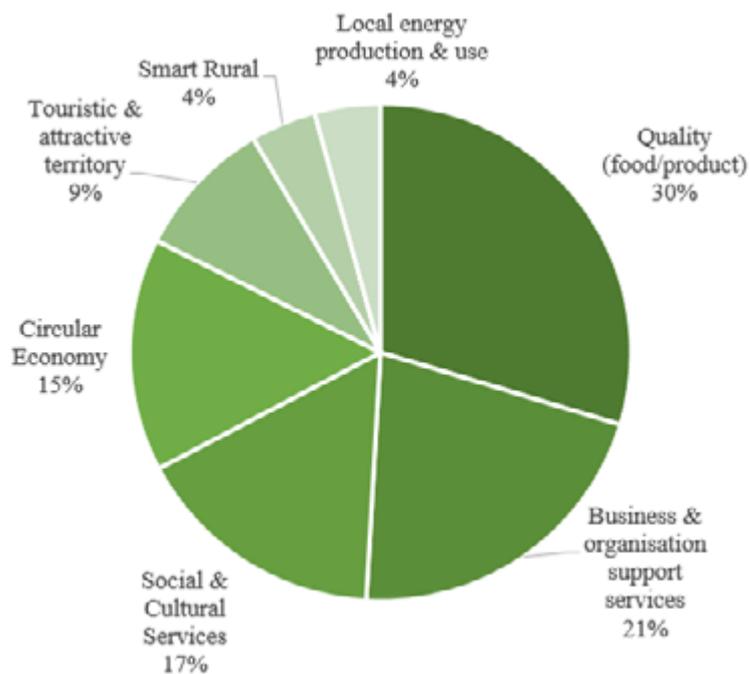


Figure 6. Positioning of business cases in the 7 innovative business model trends.

CONCLUSIONS

T2.1 provides two main outputs useful for next steps of **LIVERUR** (WP3, WP4), in order to move from mainstream and traditional business model to innovative living lab concepts. That needs to take in consideration specificities, strengths and weaknesses of the rural areas on the 4 **LIVERUR** pillars, and to target their “best living lab” model.

These two main outputs are:

- Creation of an extensive analysis of the existing business models in rural territories in order to foster collection and capitalization of existing knowledge: with its 256 business cases, the database provides a wealth of information and network for partners to exchange practical experiences, obstacles to face and success stories. This database could also be promoted to enlarged community through RAIN platform as a knowledge and networking tool.
- Existing rural business models analysis : the business model canvases offered in T2.1 formalise the existing rural landscape and main challenges to address (developed in chapter II.1) on the 6 main existing streams, giving a framework and generic bricks to be used in the next steps of **LIVERUR** by the partners, as “real life setting” data, to move from this existing representation to new “Living Lab” business model creation.