

SHEEP-FARM IN THE PYRENEES¹

Situation Summary

During the late 1990s, Aline Alègre and Pascal Blanchard were trying to expand their business. Pascal suggested that exporting to Canada would be great, although, for logistical considerations, it might be more sensible to export to Spain, about 100 km away. Another option was to focus sales on tourists visiting the area. In any event, Aline thought that a prerequisite to expansion would be to find a partner such as to enable an injection of additional capital.

The Business

Based in Aulon, a small village in the Vallée d'Aure, 1,200 metres above sea level, Aline and Pascal established their enterprise in 1991. Before that, Pascal used to shear sheep for various employers.

By the mid-1990s, Aline and Pascal owned 170 sheep, each of which produced 1,500 grams of wool annually. In contrast, the average sheep farm in New Zealand has 8,500 sheep.

In France, high wages meant shearing a sheep cost 8FF. The price of wool having recently dipped from 9FF (in 1987) to 2FF, and having risen only to 3FF per kilogram in 1995, raising sheep for fleece was not a profitable business in France. Thus, unlike farms in Tasmania which prospered with wool and mohair, French shepherds sold wool at a loss. (In 1985, Fuji Keori of Japan paid as high as \$A168 per kilogram for superfine Merino wool from Tasmania.²)

For Aline and Pascal, the principal source of income was the sale of cheese. They also sold lambs at the age of one month, keeping only some ewes to maintain their flock. A one-month old lamb (usually born in November), and weighing about 12 kilograms, usually sold for 250FF in December. As sheep attained the age of eight years old, they became less productive and were sold at market value. A sheep could otherwise live naturally until the age of fifteen. Rams were sold every two years, such as to prevent them from mating with their own offspring. An alternative might be to use laparoscope techniques of artificial insemination, using frozen semen pellets, as was the norm among Australian cormo sheep in Argentina, Belgium, China and Italy.

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²Source: Tasmanian Development Authority, Hobart, Australia.

Production and Product Line

Aline and Pascal started their new venture with mold from existing cheese. The enterprise was completely self-sufficient with milk from sheep belonging to the couple. Sheep were milked twice a day from December 1 to June 30. Each female produced 150 litres of milk annually; this included the annual pause from July to November.

Each animal eats 2.5 kilograms of hay per day, whether producing milk or not. Therefore, at the end of June, dry females are sent up to pasture in the highlands. They are brought down to the valley at the end of September.

For two reasons, rams are not brought up to graze at higher elevations. Each was evaluated at 3,000FF³ (considerably more than a female), and so Aline and Pascal felt better to have the males kept indoors. Also, rams tended to be frailer and were more likely to get injured than the ewes.

Sheep are prone to several diseases including: anthrax, babesiosis, bluetongue, caprine brucellosis (*brucella melitensis*), contagious caprine pleuropneumonia, epizootic haemorrhagic disease, foot & mouth disease, Johnes disease, maedi-visna, oesophagostomum, q-fever, rabies, scrapie, sheep scab and sheep pox. Although none of these exist in Tasmania, some are still a threat in Europe.

From July to September, somebody would go up to check the flock every Tuesday and Friday at 4 a.m. The animals were given salt blocks to lick, and wounded sheep were treated. (It often happened that a ewe would fall and hurt itself; flies were attracted to the wounds and often caused serious infections.) There were no predators, but the flies did cause death to some. It took a few hours for the vultures to completely devour the remains.

Each kilogram of cheese required six litres of (non-pasteurized) milk. Given that 1 kilogram quantities would dry rapidly, Aline and Pascal only manufactured 5 kilogram and 2.5 kilogram heads of cheese. Curing and ripening took place over a period of three months in a cellar with temperature controlled at 12 degrees) Each head of cheese was turned over daily.

³The most ever to be paid for a single ram was \$A143,000 for a Tasmanian Polworth, in Montevideo, Uruguay.

Marketing

Aline and Pascal sold their cheese for 98FF per kilogram. Aline and Pascal also packaged tidbits of cheese which they sold in a jar of olive oil with local herbs. As well as selling her cheeses in Aulon every Saturday, Aline drove to Saint-Lary and participated in the local market. Furthermore, she had recently begun selling at the Thursday market of Arreau.

The Environment for Small Business in France

Small business employment growth in France from 1989 to 1993 (less than 0.5%) was among the *lowest* in Europe (compared to almost 4.0% in neighbouring Luxembourg).⁴ Also interesting is that the frequency of business failures in France more than doubled between 1987 and 1993,⁵ while banks were more inclined to invest in government securities rather than lend to the business sector, especially small and medium-sized firms.

The *Agence Nationale pour la Création et le Développement des Nouvelles Entreprises*, popularly referred to by the acronym ANCE, was established in 1979, to promote entrepreneurship and to observe new venture creation. Across France, there are 650 ANCE resource centres known as *Points Chances*.

In addition to orienting entrepreneurs, the regional representatives of ANCE also function as advisers to local government. As well, the network includes *Missions Régionales à la Création d'Entreprises* (MRCE) which are regional missions for business creation, offering specialized expertise and policy advice.

A parallel network is that of the *Agence Nationale pour la Valorisation de la Recherche* (ANVAR). Yet another network, the *Agences Régionales d'Information Scientifique et Technique* (ARIST), was set up by various chambers of commerce and industry and *Chambres de Métier* (guilds and other professional associations). The objective of ARIST is to contribute to the transfer of data and intelligence among small and medium-sized firms, especially where these are weak relative to larger ones.

Another important regional development network is that of the *Centres Régionaux d'Innovation et de Transfert Technologiques* (CRITT), which coordinates regional talent such as to adapt technological innovation to new product development and to new production processes. The *régions* have also given rise to other functional networks including incubators.

⁴Source: The European Observatory for SMEs.

⁵Source: *Bulletin Mensuel de Statistiques*, INSEE, France.

Furthermore, the *Conseils Régionaux* (local governments of the *régions*) have supported specific small business programmes at several universities. The latter, in turn, also contribute to the regional networks. The *Instituts Universitaires de Technologie* network of technical universities offers programs in management with an option in small business management. Also, a diploma of scientific and technical studies (*Diplome d'Etude Universitaires Scientifiques et Techniques*) is available in small business.

In addition to the several networks promoting and facilitating entrepreneurship in France, there are others which assist in financing new ventures. Several foundations offer grants and/or interest-free loans.

Capital may also be obtained from local financing companies which are labelled *Sociétés de Capital Risque* (CSR). Among these are the *Sociétés de Développement Régional* (SDR), known in English as Regional Development Companies.

The *Prime à la Création d'Emploi d'Initiative Locale* (EIL) is a local job creation grant, while the *Prime d'Aménagement du Territoire* (PAT) is a regional development grant. The *Prime Régionale à la Création d'Entreprise* (PRCE) is a regional grant for new companies. There is also the *Prime Régionale à l'Emploi*, a regional employment grant.

Of course, bank loans are also possible, and the *Fonds National de Garantie à la Création d'entreprise* (SOFARIS) may provide a bank with financial guarantees. SOFARIS is referred to, in English, as The National Fund for Business Loan Guarantees.

Considering the availability of the above-mentioned networks of assistance, it might appear that setting up a new venture in France is relatively simple; however, the complexity of administrative formalities must not be underestimated. Paperwork must be completed at an administrative centre known as *Centre de Formalités des Entreprises* (CFE) in the district of enterprise.

Once this has been done, then the applicant waits for registration to come into effect, and this may be a slow process. To expedite the process, after having completed the initial paperwork at the appropriate CFE administrative centre, it is possible to apply for a rush registration. This is done at the *Greffe du Tribunal de Commerce*. The rush procedure allows a company to be registered within five working days.

With few exceptions, individuals who have not been French residents for a minimum of three uninterrupted years, may not become company directors without a Commercial License for Foreigners, known as the *Carte de Commerçant Etranger*. To be self-employed, even in the arts and craft field, one must also abide by the requirements of company directors.

Once an enterprise is created, keeping it in business is a greater challenge. There are constant paperwork requirements, numerous taxes, strict labour laws and costly social security payments along with rigid bureaucratic procedures. Each investment, for example, must be filed with the *Direction du Tresor* of the *Ministère de l'Economie, des Finances et du Budget*. This must be done within twenty days of the transaction.

For large corporations with in-house accounting facilities, sophisticated computer software and legal departments, the requirements may be easily fulfilled. The small-scale owner-manager, however, who has limited resources, sometimes lacks the time and expertise to correctly prepare complex paperwork requirements. These then become an unwelcome burden for the entrepreneur who must pay for professional services, or spend considerable time completing paperwork.

The combination of entrepreneurship promotion along with the disincentives discussed, results in significant volatility within the small and medium-sized enterprise sector. Business start-ups are facilitated by a variety of networks and incubators, but the probability of survival is low. Thus, high mortality rates accompany the high birth rates. Jobs are created, but only temporarily. This is not necessarily the optimal scenario for France.

The costly access to financial markets and the lack of cooperation from the mainstream banks is also an issue. Grants are available for start-ups, but unless day-to-day banking is smooth, then periodic financial difficulties may be encountered. It would be in the mutual interest of the banks and small business, if the former would improve their attitude towards the latter.

Bureaucratic procedures and regulations appear to be a burden on the limited time and resources of owner-managers. Combined with low labour productivity, this leads to high unit costs which in turn decreases the competitiveness of small firms.

Competition

Nobody other than Aline and Pascal produced cheese from sheep milk in the Vallée d'Aure. There was, however, considerable competition in the Basque Country.

The Basque Country

As a result of an entrepreneurial culture and a tradition of business values, the Basques are conducting themselves and governing their territory quite differently than their French and Spanish neighbours. Red tape is minimal in the Basque Country, while work ethic, entrepreneurial culture and government incentives are keeping the area at the forefront of economic development in the Iberian peninsula.

Euskal Herria (or *Euskadi* for short) is what the Basques call their country; politically, however, the Basque Country is not a country, but rather a region stretching along the Gulf of Biscay. Although the area is divided into a French part (*Iparralde*), and another ruled by Spain (*Hegoalode*), both have a remarkable spirit of entrepreneurship, quite distinct from the less entrepreneurial cultures of France and Spain.

North Americans tend to associate the Basque Country with shepherds and small farms; this is perhaps due to the large influx of Basque ranchers to the United States, particularly California, Idaho and Nevada. In reality, the stereotype is somewhat incomplete. As a result of their business orientation, entrepreneurial drive and strong work ethic, the Basques are known in Europe as the Germans of Spain, and the Basque Country is considered to be the anvil of the Spanish economy.

The Basques are among the oldest and most homogeneous ethnic groups in Europe. It is believed that the Basques have occupied the same geographic area since the Neolithic period (six thousand years ago), and possibly since the Paleolithic period (eleven thousand years ago).

Biologically, the Basques appear to be the least hybrid population in Europe. In France and in Spain, only a minority of the population has blood group O; in contrast, most Basques have blood group O. Furthermore, the Basques have the highest rate of rhesus-factor-negative blood in the world, and anthropologists claim that the Basques have a unique cranial formation as well as distinctive eye and hair color. Basque people tend to be of stocky build.

Not only do Basques tend to be homogeneous amongst themselves, but they are very different from their neighbours who govern them. Language, for instance, is quite unique. Unlike French and Spanish which are of Latin origin, Basque is *not* an Indo-European language, and linguists have not yet been able to classify it yet. It has a very complex grammar and is quite unlike other European languages, as shown in Exhibit 1.

The Basque people have intense pride in their culture. Among the most popular music instruments are an air instrument called the *txistu* and a percussion instrument known as the *txalaparta*. These are present in almost all songs and dances. Each dance has a unique costume. Folklore is very rich, as is mythology.

In contrast to France and Spain where soccer is most popular, the Basques prefer their own national sports, such as *pelota* or *zesta punta*. The latter is known as jai-alai, in the United States.

Probably the most striking difference between the Basques and the two nations governing them is business orientation. The Basques are an industrious people, with a noticeable entrepreneurial drive and a strong work ethic. Analyzing the propensity for entrepreneurship among Antioquenos in Colombia, Hagen traced their strong entrepreneurial drive to their ancestors who were Basque immigrants.

The Basque provinces of Spain (Alava, Guipuzcoa and Vizcaya) have traditionally been the industrial vanguard of the Iberian peninsula. In fact, joint stockholding and mergers were common in the Basque Country before appearing anywhere else in Spain.

Today, the metallurgic industry is among the most important in the Basque Country. About 70% of the integrated steel plants in Spain are situated on the Basque coast, and most of Spain's steel production is made in the Basque Country. Two-thirds of all machine tools made in Spain come from the Basque Country. A third of Spain's shipyards are located on the Basque Coast. Supertankers and trawlers are made there.

The town of Arrasate (Mondragon, in English) is famous for its employee-owned industries. The first cooperative in Arrasate was founded in 1956. Since then, other cooperatives to have been established in the Basque Country include a bank, a hospital and medical service, a social security organization and a technical college, as well as agricultural and housing cooperatives. During the 1990s, about 20,000 Basques were employed by local, employee-owned cooperatives.

Government

Although Paris centralized decision-making away from Isparralde, the Basques in Spain historically enjoyed democratic self-government. In 1939, however, Franco wiped out the special privileges of the Basques.

In 1994, the party in power in the Hegoalde was the *Partido Nacionalista Vasco* (PNV). Reflecting the idiosyncrasy of the Basque Country, the PNV had a very strong business orientation. To move the Basques out of the world recession, the government implemented a variety of programmes including the provision of financial aid and tax reduction to entrepreneurs establishing new ventures.

Specifically, the local government provides: training courses for entrepreneurs; legal information on administrative procedures involved in setting up a business and obtaining government assistance; preparation of market surveys; an annual business plan contest with cash prizes; and financial aid such as incentives for each new job created.

The Basque government has an agreement with local banks, to assist entrepreneurs, regardless of nationality. Both locals and foreigners starting up a new venture may borrow 70% of their capital requirements, at a subsidized interest rate. The loan is financed by the banks, at the MIBOR rate, plus half a percentage point. (MIBOR is the Madrid equivalent to the London LIBOR). However, the entrepreneur only pays the difference between MIBOR and 6%, with the government subsidizing the difference. For example, in 1994, MIBOR was 8%, resulting in loans of MIBOR plus one-half percent, *i.e.*, 8.5%. The government would pay 6%, and the entrepreneur was only responsible for 2.5%. The maximum amount of loan which could be subsidized under this scheme is 175 million pesetas (approximately \$1,250,000 U.S., in 1994); consequently, the small and medium-sized business sector was favoured.

Taxation

Since the Middle Ages, the Basques of Spain have had a constitution known as the *fueros*. Each new king would swear to uphold the *fueros* in exchange for loyalty from the Basques. As a result of these constitutional provisions, the local Basque government has the exclusive right to collect all taxes in Hegoalde, except customs duties and taxes on petroleum products and tobacco. No other local government in Spain has such autonomy. Once all the taxes are collected, Madrid receives an annual quota, and the Basque government can dispose of the balance as it pleases.

To stimulate the business environment, in 1993, the Basque government set a corporation tax for newly established entrepreneurs, at zero, for a period of ten years. This was most welcomed by entrepreneurs. Yet, the central government of Spain decided to challenge this move on the premise that it would prejudice neighbouring regions where entrepreneurship is less prevalent and the environment is less conducive to entrepreneurial activity.

Goats and Sheep

Goats and sheep are similar in oestrus cycle (19 to 20 days), and gestation period (approximately 140 days). They are both most fertile in the autumn, and they are both easily handled. Yet, goats have substantially higher weaning rates than do sheep; goats also have fewer kidding problems. Unlike sheep, goats do not require crutching nor mulesing; neither are goats subject to flystrike (which does affect sheep).

Another factor which contributes to the attractiveness of goats is the fact that they are browsers, meaning that they enjoy weeds and thistles, making them highly compatible with sheep and cattle (both of which avoid weeds). A problem with goats, however, is the fact that they require stockproof fencing.

Like sheep, goats are raised for fibre, meat and milk; in the case of goats,

cashmere and mohair add to their value. (Cashmere⁶ is the winter under-hair of any goat, while mohair is a premium fibre produced by Angora goats, primarily in South Africa, Turkey and the United States.)

The goat industry has remained relatively small because of its learning curve and related capital costs. In Australia, however, the Tasmanian Agricultural Development Plan offers incentives to interested investors.

Assignment

1. Make a detailed expansion offer to Aline and Pascal.
2. Prepare a detailed international marketing plan for the expanded operation proposed in Assignment 1.
3. As a consultant to Aline and Pascal, make a counter-offer to the proposal of Assignment 1.

⁶The world's largest cashmere buyer is Dawson International P.L.C. of Scotland, while chief producers are in China, India, Iran and Mongolia.

