

## LYNEMOUTH COMMUNITY TRUST

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Date established	1999
Region	North East
Employees	3 in the social enterprise
Structure	Company limited by guarantee
Annabel Jackson Associates Ltd role	We evaluated the Rural Community Enterprise Challenge Fund for the Esmee Fairbairn Progress between November 2007 and July 2011

### 1.1 Background on the Trust

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Lynemouth Community Trust operated employment training programmes and a café.

### 1.2 The social enterprise

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Lynemouth Community Trust was already running a fudge business to take advantage of unused capacity in the café. The fudge business was working at capacity, producing 300-400 boxes a week. However, one of the users in the building, the library, was contracting, which gave more space for food production. The Trust chose chocolate because of the potential to charge higher prices than fudge through an upmarket product.

Opening of the chocolate factory was delayed from Xmas 2008 to October 2009 because the Trust spent additional time on planning to ensure it was confident to start.

### 1.3 Planned capacity building

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The specific organisational development aims identified in the baseline evaluation were:

- Ensuring values are understood and shared across the organisation.
- Being more strategic.
- Increasing understanding of competition.
- Increasing ownership of the strategy by the community.
- Developing marketing.
- Strengthening strategic partnerships.
- Reaching new markets.
- Widening representation and skills of the board.
- Developing new reporting mechanisms for the trading subsidiary.
- Increasing delegation from the executive.
- Succession planning.
- Increasing customer service culture.

- Increasing profitability.
- Improving the status/profile of the organisation.
- Improving capital planning.

## 1.4 Support

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As well as the mentoring and group sessions, support through the DTA included:

- The Trust has participated in two DTA Cultivating Enterprise programmes (stage 2 grants and business support) to set up a payroll business and expand its café into outside catering.
- The Trust worked with the DTA regional office on stage 1 bid to Community Builders on a potential wind turbine project, which was not successful.

Beyond the Rural Community Enterprise Challenge Fund:

- The Trust employed a marketing company to advise on the branding for the chocolate products.
- The Trust gained Future Jobs Fund money to take on an additional member of staff to increase capacity in the chocolate factory.
- The Trust received funding through the Modernisation Fund to revise its financial systems.
- The Trust employed a consultant to carry out governance training.
- The Trust organised VAT training from Seahouses Development Trust and shared a finance officer with the Trust.

## 1.5 Progress

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The Trust has set up a new trading arm to allow a wider spatial remit. The EF funding allowed Andrew Gooding, the Trust Manager, to concentrate on social enterprise such that it now makes up about 80% of his time. The café manager, Dawn Whatt, moved over to manage the chocolate enterprise and Andrew has delegated more. For example individual managers decide how much stock to buy and organise the bookings.

The Trust spent considerable time developing the product. Andrew and Dawn attended chocolate training in Manchester, with a private business, Slattery's Patisserie and Chocolatier. Purchase of equipment was delayed as Andrew researched the options because exchange rate changes meant that the budget lost 1/3<sup>rd</sup> of its value. This care was worthwhile. The product is of a high quality. For example Easter eggs are hand painted with some having eye catching edible glitter.

The Trust carefully researched the competition. During the planning stage two small suppliers set up, although Andrew emphasised that "This is not perceived as a negative as it forced us to 'raise our game'". Competition has continued to grow. A number of chocolate shops have opened in the nearby market towns, which has reduced the scope for wholesale marketing. Some former customers have extended their supply chain backwards into manufacturing. Supplying shops was not always economic because of the low quantities purchased and the high distribution costs of driving to these dispersed locations. These developments meant that the

Trust has had to concentrate on building the retail rather than the wholesale market. At the moment 70% of sales are to farmers' markets. In addition, the Trust has defined a niche for personalised products, for example, colour matching chocolate or presentation to match wedding design and is building relationships with group holiday organisations, restaurants and hotels. It has learnt the value of relationships: that demonstrating consistent quality and flexibility makes purchasers prefer its products over new suppliers that emerge. Demonstration events to Women's Institutes and other organisations are very successful, with good sales on the day and strong referral. Publicity for the chocolate business has raised the profile of the Trust and Andrew believes it has helped them to win recent other contracts.

At the end of September 2010, the Trust had a total income of £193,429. Earned income was £171,554 compared to a target of £152,600. Although the Trust has met its sales targets, marketing has not been plain sailing. The Trust bought into a sales and marketing service, sharing a sales person with four other social enterprises in the area, which did not cover its costs. In retrospect this was predictable as the other three enterprises were in quite different markets. The branding chosen, Kenspeckle, (a Northumberland term for 'easily recognised') has strengths and weaknesses. On the one hand, the name is a good conversation starter; on the other hand Andrew is a little weary of being asked if his name is Ken! The branding relates to Northumberland rather than Lynemouth since the latter was felt to potentially counter the image of quality. The marketing brochure says: "Kenspeckle is an independent artisan band of confectioners based in Northumberland, a place of wild contrasts, and it's this diversity which makes the people so individual and the Northumbrian confectionary so unique."

Andrew recently attended a Meet the Buyer event, which could lead to orders of 5,000 units, and is considering the economics given that this is mass production rather than the mass customisation model they have adopted. So far the Trust has priced on a cost plus basis, which might need finessing to fully exploit the market opportunities. The Trust has been slow in developing its website and has yet to exploit online sales opportunities. A lot of initial interest comes from the website, but there is work in following all of these up. The Trust also needs to improve its record of sales leads.

The Trust has group sessions for staff to discuss selling techniques and identify gaps in the markets. For example, one member of staff suggested that there was a gap in the market for sales to grandparents at farmers markets, so the Trust started selling lollipops.

The Trust has strengthened its board. It has recruited two other trustees, a former head of regeneration and a local chemist and is recruiting more. It has changed the layout of agendas to clearly distinguish items for information and items for decision. Overall, the board is more strategic. The amount of time spent on strategic issues has increased from about one third to three quarters.

The success of the chocolate business has made the organisation more confident. It took a fair amount of persuasion to get the board to accept the initial project because they were venturing into the unknown, but that has changed. The Trust led three bids (for LEADER programme administration and two employability projects), with seven other development trusts, and was delighted to win all of them, a value of some £461,955. The projects will pay quarterly in arrears and the trustees felt confident in raising the working capital through a loan. The Trust has strengthened its systems. It changed its accountancy to a service run by another development

trust. The change-over exposed weaknesses in its previous financial information which have been corrected.

The Trust has exploited synergies between different sides of its operation. For example, it is running chocolate experience days with dinner, which bring in income for the café. The chocolate enterprise pays the Trust for training in food safety and basic skills. Income from the trading company was £400,000 for 2010-2011, with £90,000 profit to the Trust, plus income from training provided and rent charged.

## 1.6 Lessons

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Andrew suggests the lessons are:

“You need extra capacity to take on something new when you are still doing your day job, especially when it is new.” Although the Trust had expertise in food preparation, moving to manufacturing is different. The learning curve has been steeper than expected. For example, the Trust did not foresee the change in exchange rates.

The Trust has learnt many detailed lessons about the chocolate business. It wanted to source produce locally but apart from small items like honey and chilli this has been difficult. Packaging has been difficult to source and it has taken time and ingenuity to keep the cost down. For example the chocolates are packaged in ice cream pots and the Easter eggs are packaged in tissue paper in egg boxes.

Regulations have not been a problem, but the Trust’s desire to work well with Trading Standards has resulted in some very long labels/lists of ingredients, and some changes in recipes to avoid the products looking too processed.

The Trust has learnt about the benefits of loan finance.

It is important for businesses to realise that they need to continually innovate to ensure they are ahead of the market. This means understanding and managing risk.

## 1.7 Conclusion

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The chocolate business is established and has built up a network of retail outlets. The product is of an exceptionally high quality which makes the Trust confident and proud, with strong spinoffs for other functions in the Trust.

The case study illustrates the enormous amount of learning in setting up a new business, even if it is apparently similar: fudge to chocolate. The manufacturing processes are strongly different and the market structures and appropriate tactics again extremely different. What is striking in the case study is the depth of learning required and the need for an attention to detail.