Business models that can involve small farmers

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What are business models?

A *business model* is the way by which a business creates and captures value within a market network of producers, suppliers and consumers, or, in short, "what a company does and how it makes money from doing it".

Purpose of the presentation

- to focus specifically on business models that improve the sustainability of trading relationships between small farmers on one hand and downstream agribusiness (processors, exporters and retailers) on the other.

Why would companies want to work with smallholders?

- Consistent supply through diversified supplier base
- Overcoming shortages or by-passing monopoly suppliers
- Community goodwill
- Freshness of produce
- Comparative advantage with some crops
- Alternative supply mechanisms, e.g. plantations, may be politically unacceptable or constrained by land shortages

What are the disadvantages?

- High transaction costs
- Risks
- Traceability
- Small farmer unreliability
- Lack of technical skills
- Side selling; pole vaulting, etc.

Emerging Models

Type	Driver	Objective
Producer-driven	Small-scale producers themselves	• new markets • higher market price • stabilize market position
	Large farmers	• extra supply volumes
Buyer-driven	Processors Exporters Traders Retailers	• assure supply and quality
Intermediary-driven	Traders, wholesalers and other traditional market actors	• supply more discerning customers
	NGOs and other support agencies	• ‘make markets work for the poor’

Producer-driven models

- Specific marketing cooperatives are rare
- Other coops have poor track record
- Reluctance of agribusiness to work with coops
- Coops need professional management but this requires large scale operations
- May not compare well with alternative of strengthening skills of specialised intermediaries working with smaller farmer groups
- Isolated examples of successful lead farmers
- “Normincorp in Mindanao” model

Normincorp, Mindanao

- set up by farmers of the Northern Mindanao Vegetable Producers' Association
- established as a stock corporation, Normincorp functions more like a cooperative and has a social enterprise character
- production programmed by farmer clusters with their respective cluster leaders
- coordination provided by Normincorp for order taking, shipment logistics, billing/charging, collection and remittance to the farmers.
- Normincorp earns a market facilitation fee based on value of the sale
- Normincorp is not a trading company but a market facilitator linking the farmer through his or her cluster directly to the buyer.

Buyer-driven models

- Aim to “cut out the middleman” and guarantee supply
- Some promising cases in horticulture of buyers working directly with farmers
  - Hortifruti, Honduras
  - Carrefour, China
  - Supermarkets, South Africa
- Numerous contract farming examples for export crops
- Widely used in the seed industry
- Some experiences with food crops

Hortifruti, Honduras

- the specialized F & V wholesaler for Wal-Mart
- had experienced significant difficulties with farmer organizations
- now identifies and builds the capacity of farmers who can meet its needs
- lead farmers receive larger and larger orders as they perform and are invited to work with neighbouring farmers to meet this demand
- lead farmers provide access to technology, technical assistance and market access to their neighbours
- expansion of this model depends on the identification of new lead farmers.
- early results indicate that it is a low-cost, scaleable and sustainable approach

But buyer-driven models

- can have high transaction costs in dealing with individual farmers
- may require significant “on-the-ground” presence of company staff or agents
- can suffer from “side-selling” etc.
- may demand “exclusivity”
- often require farmers to make changes just to stay in the market

Cotton in Zambia

- Dunavant
  - Supplies inputs on credit through independent distributors, who are also responsible for buying the crop and obtaining credit repayment
- Cargill
  - Supplies inputs on credit through company staff. All farmers have number and production and repayment performance closely monitored through central computer

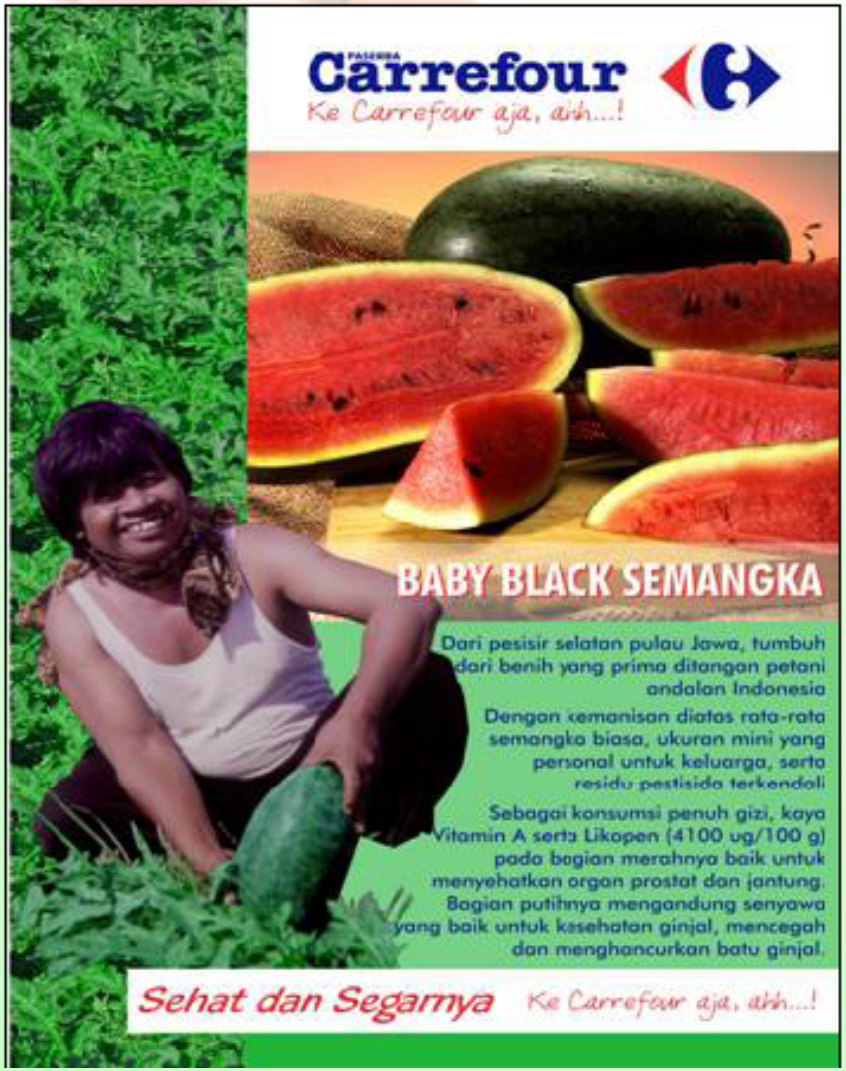
But neither method works well when there are competing buyers

Models driven by intermediaries

- can avoid high transaction costs
- in Asia supermarkets tending to procure through established wholesalers and other intermediaries
- upgrading by traditional traders
  - HCM City
- specialised intermediaries to supply supermarkets beginning to develop (e.g. Bimandiri in Indonesia)
  - close links with farmers
  - sharing of information (including on costs and prices)
  - input support

Bimandiri, Indonesia

- an example of a specialized intermediary
- supplier of vegetables and fruits mainly to Carrefour
- encourages farmers to cooperate in groups and works with those groups on the basis of agreed quantities
- supplies technical assistance and credit, in order to assure quality standards and consistent volumes
- transparent negotiated producer prices.


Carrefour
Ke Carrefour aja, ahh...!
BABY BLACK SEMANGKA
Dari pesisir selatan pulau Jawa, tumbuh dari benih yang prima ditangan petani andalan Indonesia
Dengan kemanisan diatas rata-rata semangka biasa, ukuran mini yang personal untuk keluarga, serta residu pestisida terkendali
Sebagai konsumsi penuh gizi, kaya Vitamin A serta Likopen (4100 ug/100 g) pada bagian merahnya baik untuk menyehatkan organ prostat dan jantung. Bagian putihnya mengandung senyawa yang baik untuk kesehatan ginjal, mencegah dan menghancurkan batu ginjal.
Sehat dan Segarnya
Ke Carrefour aja, ahh...!


SILAHKAN COBA

How can companies work successfully with small farmers?

- Direct relationships with farmers can be costly and time-consuming. Companies could therefore:
  - cultivate efficient intermediaries, including those set up through producers' own initiatives, rather than seek to eliminate them from the chain.

How can companies work successfully with small farmers? (2)

- Explore innovative ways of avoiding side selling:
  - Flexible pricing models
  - Extension staff “on the ground”
  - Using farmer leaders
  - Group organization for extension delivery and bulking
  - Contract adjustment
  - Trial and error

Postobon, Colombia

- annual contracts to smallholder blackberry farmers contained two market-condition related clauses:
  1. In times of high market prices, producers were allowed to sell up to 20 percent of their total volume to other buyers
  2. In times of low market prices, Postobon was allowed to purchase up to 20 percent of its total volume from non-contracted suppliers.
- agreements explicitly recognized the pressure for opportunistic behaviour and identified mechanisms to manage them.

Vegpro, Kenya

- in 2007 Vegpro was purchasing snow peas from 3,500 smallholder farmers organized into 50 self-help groups
- had paid farmers a fixed year-round price that exceeded the average market price over the course of the year
- when the market price was below the fixed price, farmers sold to Vegpro, including uncertified produce from their neighbours
- when the market price rose, farmers would side-sell to local traders
- Vegpro reduced side-selling by employing field supervisors and switching from annual fixed prices to weekly prices set in relation to the market price.

Thank you!

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