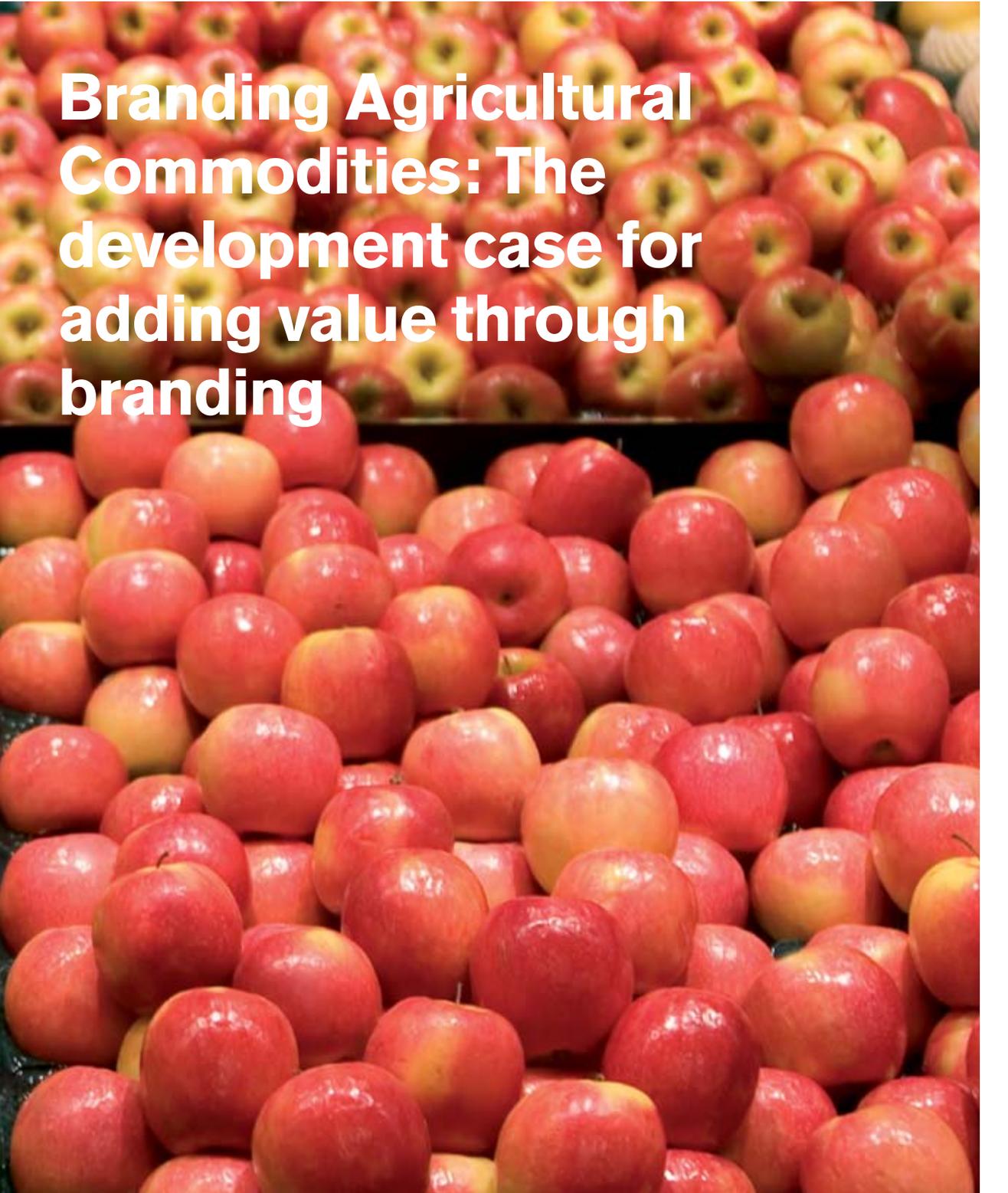


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Sustainable Trading  
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**Author:**  
*Chris Docherty*



# **Branding Agricultural Commodities: The development case for adding value through branding**

This paper is part of a publication series generated by the New Business Models for Sustainable Trading Relationships project. The partners in the four-year project – the Sustainable Food Laboratory, Rainforest Alliance, the International Institute for Environment and Development, the International Center for Tropical Agriculture, and Catholic Relief Services – are working together to develop, pilot, and learn from new business models of trading relationships between small-scale producers and formal markets. By working in partnership with business and looking across a diversity of crop types and market requirements – fresh horticulture, processed vegetables, pulses, certified coffee and cocoa – the collaboration aims to synthesize learning about how to increase access, benefits, and stability for small-scale producers while generating consistent and reliable supplies for buyers.

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# Branding Agricultural Commodities: The development case for adding value through branding

## Table of contents

<i>Executive summary</i> _____	2	<b>4. Recommendations</b> _____	27
<i>The case for commodity branding</i> _____	2	4.1 <i>Engaging consumers: Use expertise from other categories to develop commodity brands that are genuinely distinct</i> _____	27
<i>How commodity branding works</i> _____	2	4.2 <i>Developing products: Use outsourcing to gain competitive advantage and circumvent quality or standards constraints</i> _____	29
<i>Recommendations</i> _____	3	4.3 <i>Expanding markets: Create a portfolio of brands for a variety of markets and channels</i> _____	30
<b>1. The case for commodity branding</b> _____	4	4.4 <i>Managing resources: Invest in branding that fits producers' appetite for risk and sources of funding</i> _____	32
1.1 <i>How commodities drive development</i> _____	4	4.5 <i>Maximizing infrastructure: Build on existing organizations, using third parties to fill expertise gaps</i> _____	34
1.2 <i>Problems with commodities: the value trap</i> _____	5	<b>Conclusion</b> _____	37
1.3 <i>Inequity and opportunities in the buyer-powered market</i> _____	6	<b>Selected bibliography</b> _____	38
1.4 <i>A consumer-focused approach to commodity chains</i> _____	10	<b>References</b> _____	39
<b>2. How commodity branding works</b> _____	12		
2.1 <i>Four product brand types</i> _____	12		
2.2 <i>Circumventing the barriers to branding</i> _____	17		
<b>3. Case studies: Barbados sugar and Namibian beef</b> _____	22		
3.1 <i>Branding Barbados sugar</i> _____	22		
3.2 <i>Branding Namibian Beef</i> _____	24		
3.3 <i>Common lessons</i> _____	26		

# Executive summary

## The case for commodity branding

Agricultural commodities matter to development. Commodity products such as sugar, coffee or beef contribute to over half of total employment and more than a quarter of GDP in developing countries, where over 1 billion farmers derive at least part of their income from them. As most of these farmers are smallholders, raising the value of commodities can do much to reduce poverty.

Unfortunately, the trend has been the opposite. Modern food chains place increasing importance on branding, distribution and services, rather than on farmers' traditional role in supplying produce to wholesale markets. As a result, primary producers of agricultural commodities have been capturing less and less of the total value of their products. At the same time, power has become concentrated in the hands of a small number of buyers – the major supermarket chains and manufacturers who dominate the global food market.

By branding commodities, producer countries and organizations can reverse this growing imbalance. Branding creates consumer demand, giving producers leverage in negotiations with large buyers. Two case studies from the developing world show the potential rewards: branding of Barbados sugar will capture over US\$1 million in added value for producers in 2012 alone, while a Namibian beef brand is delivering price premiums to farmers worth US\$25 million per annum.

The strategy of branding agricultural commodities is neither new nor the preserve of mature states; successful cases show it is within the reach of countries and producer groups with limited resources. Commodities are physically simple and easily transported, and with the recent expansion of outsourcing in sophisticated retail

and industrial markets, complicated operations and in-country marketing experts are not required to add value to products. Yet many institutions and farmer advocates assume that branding is too complex, expensive and risky to serve as a development strategy.

This paper examines the potential for branding agricultural commodities in developing countries. We look at how producers in these countries can exploit the same commercial marketing principles and supply chain innovations commonly used in the mature markets of the developed world.

## How commodity branding works

Branding is not just glossy advertising. A brand comprises all that distinguishes one product or service from similar competitors – from advertising and packaging to provenance and ethics. For basic commodity products, it may seem unlikely that consumers will recognize such distinctions, but the task is little different from branding many other consumer products. There is no more physical variation between brands of mineral water, for example, than types of sugar or beef.

To distinguish one commodity product from another, branding efforts must combine marketing expertise, an efficient supply chain, financial resources and effective organization. Brands should be seen as an integral part of making supply chains sustainable and profitable. This means abandoning a classic mindset about commodities: upon successful branding, commodities' core value lies not in the physical products but in the brand – intellectual property owned in the country of origin.

## Recommendations

In the developing world, efforts to brand agricultural commodities must overcome a series of constraints to reach markets, meet international standards and satisfy the expectations of buyers. Countries also need mechanisms to encourage private investment in branding while ensuring that producers benefit.

These barriers can be circumvented through a focused, strategic approach. The building blocks of branding are consumers, products, markets, resources and infrastructure, and commodity branding strategies in developing countries should address each of these five elements:

- Appeal to *consumers* by developing branded products that communicate meaningful differences from competitors.
- Develop *products* around the core strengths of the country or company. Gain competitive advantage by using outsourcing to circumvent internal weaknesses and external constraints.
- Target diverse *markets*, including domestic, regional and export markets; and offer a portfolio of brands, including niche and mainstream products.
- Make the most of limited *resources* by attracting seed funding and investing in branding that fits producers' appetite for risk.
- Build on the *infrastructure* of existing organizations and use third-party facilitators to fill gaps in expertise.

By carefully leveraging these building blocks, countries and companies can create globally competitive brands with long-term added value, bringing development benefits to farmers and the communities that depend on them.

*“By branding commodities, producer countries can reverse the growing imbalance in power between them and the major supermarket chains and manufacturers.”*

# 1

# The case for commodity branding

## KEY MESSAGES

- *Agricultural commodities such as sugar, coffee and beef are major income sources for developing economies as a whole, and small-scale farmers in particular. But a handful of large retailers and global manufacturers are using their dominance to collect an increasing portion of the total value of these products, at the expense of producers.*
- *Establishing effective agricultural brands can gain farmers in developing countries a competitive advantage in these ‘buyer-driven’ global markets. Brands distinguish one product from another in the minds of consumers, giving producers leverage with buyers and allowing them to succeed against much larger competitors in mature markets.*

## Defining ‘brand’ and ‘commodity’

*Brands have been defined variously as ‘the public image of a business, product or individual’,<sup>1</sup> ‘a reason to choose’,<sup>2</sup> the ‘intersection of promise and expectation’<sup>3</sup> and even ‘love marks’.<sup>4</sup> Similarly, definitions of commodities range from the very simple, ‘a raw material that can be bought and sold’,<sup>5</sup> to the ideological, ‘capital is commodities’,<sup>6</sup> to the more complex, ‘a good for which there is demand, but which is supplied without qualitative difference across a market’.<sup>7</sup>*

*In this paper we deliberately take a narrow approach to a complex field and confine ourselves to product brands that are proprietary through intellectual property such as trademarks. When discussing commodities, we include agricultural products such as sugar, bananas, cocoa, cotton, beef and milk while excluding manufactured goods with multiple ingredients such as chocolate.<sup>8</sup>*

*In brief, the definitions used here are:*

**Brand:** *Intellectual property that distinguishes one product from another.*

**Commodity:** *Primary agricultural product typically traded in bulk with minimal processing.*

Agricultural commodities play an important role in development. But traditional commodity trading, based on exporting produce in bulk at low prices, limits how much of the profits from these products flows to producers in developing countries. In this section we explore how a non-traditional approach – based on marketing and supply-chain principles commonly used by large multinational companies to develop profitable agricultural brands in mature markets – can help small-scale farmers to compete in the global economy.

## 1.1 How commodities drive development

Of 141 developing states, 95 depend on commodities for at least half of their export earnings,<sup>9</sup> including the majority of Landlocked Developing Countries and Small Island Developing States. In 2000 the seven main tropical commodities – sugar, cotton, coffee, tea, rubber, cocoa and tobacco – accounted for 61 per cent of all agricultural exports from Least Developed Countries.<sup>10</sup>

Beyond sheer scale, commodity chains are important to developing economies because of the widespread participation of small-scale farmers. More than 1 billion of the 2.5 billion people engaged in agriculture in the developing world derive a significant portion of their income from export commodities, partly enabled by well-established supply chains, trade practices, standards, distribution and markets that lower both the costs and the risks of participation for smallholders.<sup>11</sup> Most of the world's poor live in rural areas where production of agricultural commodities is the main source of income. Over half of all Africans, for instance, live in rural areas where commodities represent the single largest source of income,<sup>12</sup> and 60–70 per cent of these rural people are classified as 'poor'. Generating greater value from agricultural commodities can therefore be one of the most effective means of alleviating rural poverty:<sup>13</sup> the rate of growth in the total revenue generated by commodities is strongly correlated with the rate of overall poverty reduction.<sup>14</sup>

## 1.2 Problems with commodities: the value trap

Commodity markets have historically been dominated by bulk trading of products such as sugar, cotton or beef – all undifferentiated, easily substituted primary products sourced from multiple locations. Although these supply chains have facilitated the participation of smallholders, they have also been characterized by high volatility, long-term downwards price trends and concentration of buying power (Fig. 1). Moreover, the value of the commodities is increasingly being shifted away from developing-world farmers and businesses. Today's markets are developing a 'value trap' that transfers income downstream in the supply chain.

### **Jargon buster**

**Brand:** *Intellectual property that distinguishes one product from another.*

**Category:** *A set of products that have strong shared characteristics. In supermarkets, products are managed by categories (e.g. the sugar or coffee category), and each category includes a series of competing and complimentary products.*

**Commodity:** *Primary agricultural product typically traded in bulk with minimal processing.*

**Downstream:** *'Downstream' business activities deliver a product to the point of sale. These typically include sales, marketing, processing, packing and distribution activities.*

**Intellectual property:** *A legal device that allows ownership of a brand (e.g. a trademark)*

**Marketing:** *The process and activities that contribute to the image and sales of a brand.*

**Margin:** *The profit, normally defined as a percentage of the sale price, that is made when selling a product.*

**Premium:** *A 'premium brand' is typically a product that consumers perceive to be superior in some way to similar competitors. This usually results a higher price (a 'price premium').*

**Outsourcing:** *The contracting of a company's operations or services to third parties.*

**Promotion:** *An activity that promotes the sales of a product.*

**Supply chain:** *The chain of activities involved in physically moving a product from the primary producer to the end customer.*

**Upstream:** *'Upstream' business activities result in the production of a product. These typically include harvesting and primary manufacturing and quality-control processes.*

**Value chain:** *The chain of activities involved in adding monetary value to a product from the primary producer to the end customer.*



Chiquita logo ©fragglerrawker @flickr

Between 1995 and 2005, rice, palm oil, sugar, cocoa and coffee prices fell by up to 50 per cent before sharply recovering in 2009. This volatility has been exacerbated by the dominance of a few companies; for example, Chiquita, Dole and Del Monte represent 59 per cent of total global sales in the banana market. Multinationals like these have driven down profit margins for upstream primary producers, exporters and processors in the developing world while maximizing corporate profitability through marketing, sales and distribution – downstream activities in mature markets. Even though bananas need minimal downstream processing, less than 12 per cent of their total retail value goes to producing countries and only 2 per cent to farmers.<sup>15</sup> Similar patterns are repeated for a host of other commodities:

- **Cocoa:** The portion of retail value captured by developing countries, measured as the export value of cocoa beans, cocoa products and chocolate, declined from around 60 per cent in 1970–72 to 28 per cent in 1998–2000.<sup>16</sup>
- **Coffee:** the percentage of total retail value paid to coffee growers and producers declined from 27 per cent in 1971–1980 to 6 per cent in 1989–1995.

- **Cane sugar:** Major EU sugar companies purchase sugar from producers in the African, Caribbean and Pacific (ACP) group of states at US\$603 per tonne and sell it to retailers for more than US\$1,783 per tonne,<sup>17</sup> with less than 28 per cent of total retail value captured in the developing world, down from 39 per cent in 2008.

The value captured from these products by dominant commodity companies demonstrates the power of branding and scale. Although the raw numbers mask costs for back-office operations, packing, sales, marketing, distribution and quality control, they still reflect significant value added by branded downstream operations. Thanks to this reliable added value, after typically more than a century of trading, commodity companies such as Tate & Lyle and General Mills are cornerstones of consumer markets, while those like ADM and Cargill lead the business-to-business sector.

### 1.3 Inequity and opportunities in the buyer-powered market

The trend away from traditional commodity trading toward ‘buyer-driven’ value chains controlled by large retail, food service or manufacturing firms has had serious implications for the livelihoods of the rural poor. As global retailers such as Walmart and Tesco become increasingly dominant, the quality and traceability standards they impose on suppliers are making it more costly and complicated to enter the global food chain.<sup>18</sup>



Tesco © aleutia @ flickr



Walmart © Walmart Stores @ flickr

Large buyers also leverage their purchasing power, expertise and resources to drive down prices and negotiate trading terms that minimize buyers' risks. On a global scale, 'vertical integration' business models, in which one multinational company physically controls all stages of the supply chain from ownership of farms through to distribution in mature markets, have been replaced with 'vertical coordination' – the use of supply agreements with independent farmers, transferring the risk of production from the multinational to producers.

There is a growing gap between smallholder farming in developing countries on one side and large-scale agribusiness on the other, with most smaller, family-scale enterprises left as residual suppliers to bulk commodity or wholesale markets.<sup>19</sup> In this situation, a relatively small number of buyers drive fierce competition among a large number of suppliers in the developing world, with the result that value is transferred to the end consumer in mature markets. This is best

illustrated by the UK retail market, where five supermarkets control 72 per cent of all retail sales and have aggressively passed on procurement-driven cost savings in order to increase their market share.

But the buyer-powered market also represents a significant opportunity for increasingly disenfranchised producers in the developing world. There is a crucial difference between buyer-driven and bulk commodity chains: for buyers such as the dominant supermarket chains, the end consumer is king. This can prompt a single-minded focus on price in undifferentiated product categories such as bananas, where retail prices have fallen from US\$1.69/kg in 2001 to US\$0.92/kg in 2011, in order to generate footfall. But it also means that producers can rectify some of the imbalances in these chains if they can persuade end consumers that their product is distinctive enough to displace established competitors on supermarket shelves or attract a price premium. The key to this is branding.

**Figure 1: The supply chain bottleneck in Europe**



*In the supply chain for agricultural products sold in European supermarkets, the bottleneck is a small number of buying desks. Power is therefore concentrated with these buyers. Source: ref. 20.*

**What's in a brand?**

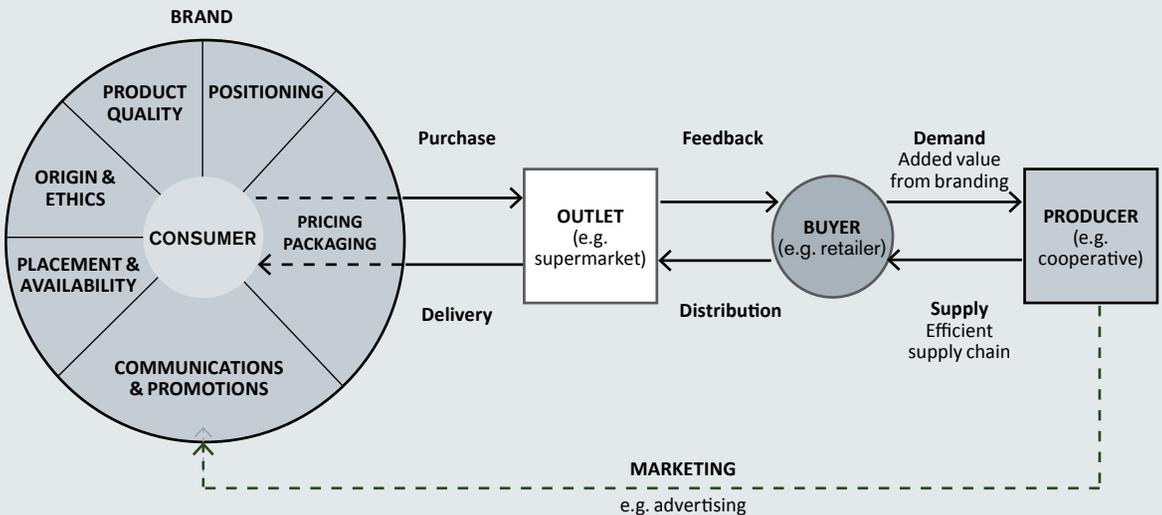
A brand is not simply the slick ads seen on TV, online or in magazines (that's advertising), it is not packaging or logo (that's design), and it is not articles or blogs about the brand (that's public relations). A brand, as we define it, is everything that distinguishes one product from another.

Under this broad definition, brands range from the very basic to the sophisticated: cattle brands, for example, have changed very little from their first use in ancient Egypt to simply denote ownership,<sup>21</sup> whereas the Pink Lady apple brand is the result of complex Intellectual property and supply chain strategies.<sup>22</sup> Fundamentally, however, there is little difference between simple and complex branding.<sup>23</sup> The brands on those Egyptian cattle thousands of years ago and the sticker on a Pink Lady apple today have similar potential to add to, or detract from, the product's perceived value. They trigger various associations in different consumers, including ownership, trust, reputation and quality. In ancient Egypt this would depend on

whether the consumer knew the estate or temple that owned the cattle, how the owner treated the animals, whether that owner had a reputation for honesty, the number of cattle kept and the estate's social prestige. Similarly, an individual's reaction to a Pink Lady apple – including the decision whether to choose, and pay more for, a Pink Lady over the other apples on the shelf – will depend on whether that person knows something about the product, has tried it before or has a positive image of the brand, as well as on how other people see it.

All these factors make up more than a mark on a domesticated animal or piece of fruit; they form a brand that strongly affects how people see fairly simple products and distinguish between them. The aspects of a brand that set it apart from others include product quality, consistency and origin, packaging, supply chain, management, ethics, pricing and the marketing disciplines that support the branding process. Typically, the brand owner creates this package of unique traits in order to generate value for a business or organization. This process is illustrated in Figure 2.

**Figure 2: How brands influence consumers**



The circle at left shows the six main factors that distinguish a brand in consumers' minds. By taking control of these factors and marketing them, producer countries or organizations can bypass buyers and influence consumers directly (dotted arrow) – resulting in purchase by consumers, leverage with buyers and added value for producers.

### Why brands matter

*Ownership of a brand, through intellectual property such as trademarks or similar legal devices, can have enormous value. This value is commercial in nature, allowing the brand owner to persuade customers to buy larger volumes or pay more than they would for competing products, but is also increasingly seen as a long-term asset on a company's balance sheet and as an integral part of its reputation.*

*Although techniques of brand valuation are varied and often complex, one of the more rigorous means, pioneered by the global research group Milward Brown, combines an organization's financial performance with quantitative consumer research that determines how consumers distinguish between brands.<sup>24</sup> By this measure, the value of the world's top 100 brands appreciated by 17 per cent to a total value of US\$2.4 trillion in 2011. The largest food and drink brand on the list, Coca Cola, is in sixth place and worth more than US\$73 billion<sup>25</sup> — a value larger than the total annual GDP of 131 individual countries, and more than that of the poorest 44 countries combined.<sup>26</sup> Even in traditional commodity categories such as sugar, the Tate & Lyle brand was worth US\$1.5 billion in 2010, representing 32 per cent of the company's total market capitalization and a significant multiple of its physical assets.<sup>27</sup>*

*“Branding is seen as a long-term asset on a company's balance sheet and as an integral part of its reputation.”*



Tate and Lyle © clagnut @ flickr

*But this value equation has a negative counterpart. Although brands can undeniably be good for their owners, questions have been raised as to how good they are for society at large. Naomi Klein, in her book *No Logo*,<sup>28</sup> argues that global brands generate net negative social equity through outsourcing to unregulated free-trade zones and unethical consumer targeting. Ultimately, however, brands are very much a creation of the companies or institutions that own them. Just as there are undoubtedly unethical companies, there are many strongly ethical ones whose brands assist in their social or environmental impact. Here we seek to demonstrate that branding can make positive commercial and ethical contributions to the commodity sector.*

### 1.4 A consumer-focused approach to commodity chains

Producers in the developing world can rebalance value chains by applying the same principles of branding and supply chain management used by agribusiness in mature markets. In this way, farmers can retain more of the value generated by their agricultural commodities and ensure effective control over their supply chains.

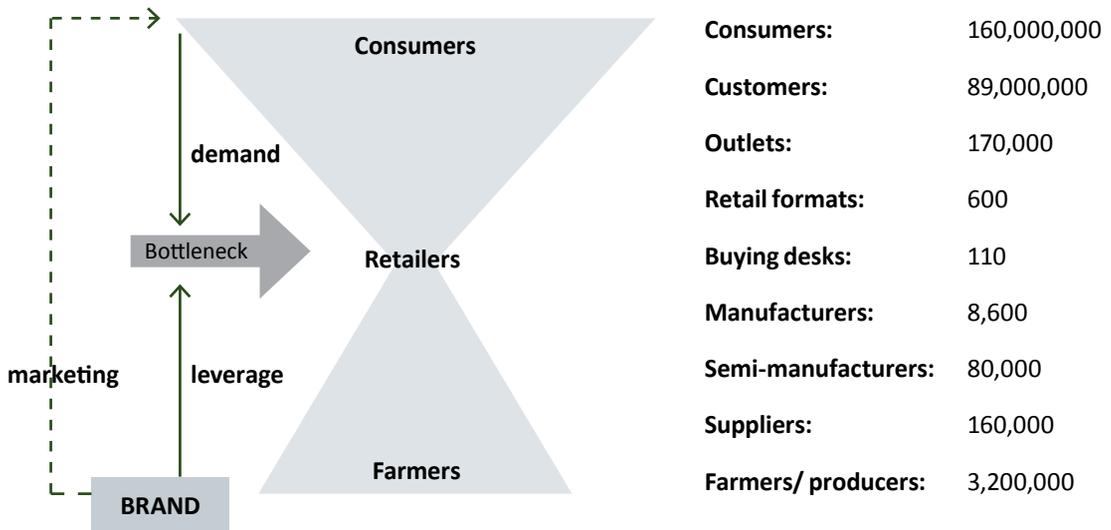
Even in global commodity chains where large buyers are at an advantage, end consumers ultimately hold the power over how value is distributed. Although the sheer scale of large retail chains affects consumer behavior, the chains survive in a highly competitive environment primarily by tracking evolving consumer trends and responding rapidly – often investing

considerable sums in the process. In 2009, Tesco spent US\$235 million to relaunch its 15-million-member loyalty card, through which the company both measures and rewards specific consumer behavior.<sup>30</sup> By connecting with this same consumer base through branded products, suppliers can gain much-needed leverage (Fig. 3).

Two trends associated with the move from commodity to buyer-driven value chains offer opportunities for producers to appeal to consumers and gain negotiating power with buyers.

- **Demand for authenticity.** Consumers in mature markets, and increasingly in developing ones, are becoming more sophisticated and looking for 'provenance, authenticity, quality ingredients and seasonality of food'.<sup>31</sup>

Figure 3: Circumventing the buyer bottleneck through branding



When producers circumvent the buyer bottleneck (Fig. 1) by developing a brand and marketing it to consumers (dotted arrow), the resulting consumer demand and producer leverage both apply pressure on buyers. Adapted from ref. 29.

Developing-world producers are well-placed to deliver distinctive products that meet these consumer needs.

- **Outsourcing of downstream activities.**

Outsourcing is no longer restricted to classic upstream activities; it increasingly covers downstream elements, including packing, distribution, sales and marketing. With downstream outsourcing well-established in mature markets, developing-world producers can add value to their products and circumvent capacity constraints without high capital or personnel investment, by contracting out expertise and physical production in secondary processing, marketing or sales.

Given the physical simplicity of commodities and their ease of storage and distribution, branding them does not typically require the sorts of complex and expensive changes in supply chains and quality standards that are necessary in other, more processed or perishable, sectors. But there are other important constraints on commodity brands, and in the next section we explore how to address them.

## 2.

# How commodity branding works

### KEY MESSAGES

- *Commodity brands represent potentially valuable intellectual property, which can be owned by companies, countries, producer collectives or certification bodies.*
- *The four types of product brand – producer, varietal, geographical and certification brands – vary in ownership and how they are used to create an advantage for the brand owner.*
- *Five perceived barriers have limited the branding of agricultural commodities in the developing world: consumers who do not distinguish between physically similar commodity products, products that cannot meet export standards, markets uninterested in smallholder produce, and gaps in resources and infrastructure. But successful cases show that all these barriers can be circumvented.*

Product brands come in four types, and the elements of successful branding efforts in developing countries can be divided into five building blocks. Here we explore these fundamentals and review examples of how they have been used to build profitable, sustainable brands.

### 2.1 Four product brand types

Developing-world producers and the institutions that support them can draw lessons from cases in which companies have added value to agricultural commodities through branding. Here we focus on product brands rather than service brands, aimed at consumers rather than businesses, and we look at four common types of product brands (Fig. 4).<sup>32</sup>

#### 2.1.1 Producer brands

Chiquita bananas are a good example of how the brand of a traditional private-sector producer has evolved the agricultural commodity sector. The company Chiquita Inc. owns the character Miss Chiquita as a trademark (registered in 1944<sup>33</sup>), which distinguishes its bananas from those of other suppliers and adds value both at the retail

level and as a business-to-business device. Net sales of Chiquita bananas were US\$1.9 billion in 2010, just over a quarter of the world market, driven by innovative branding and supported by strong domestic distribution and an integrated supply chain.<sup>34</sup>

Branded Chiquita bananas sell for higher prices than those of their competitors in most retail markets even though there is little physical difference between their products and those from other producers – a single banana variety, Cavendish, dominates the category. This price premium in part reflects the rescue of a brand that in 1992 was tarnished by labor, social and environmental issues affecting primary producers.<sup>35</sup> Since then, Chiquita has built ethical credentials through participation in the Better Banana Initiative and work with the Rainforest Alliance, and has undertaken innovative marketing to differentiate its products. Thus, Chiquita now stands out in an industry where producers typically do little more than apply simple labels advertising a company logo.

Fruit is not the only sector where producers are taking innovative approaches to commodity branding. Indeed, producer brands have been

Figure 4: Four common product brand types

	Purpose	Examples	Ownership	Legal device
Producer brands	Distinguish between different products and their producers	<ul style="list-style-type: none"> <li>• Chiquita bananas</li> <li>• Jablum coffee</li> <li>• Plantation Reserve sugar</li> </ul>	Typically primary producers or processors	Trademark
Varietal brands	Distinguish between different varieties of product type	<ul style="list-style-type: none"> <li>• Pink Lady apples</li> <li>• Tenderstem broccoli</li> <li>• Zespri kiwi fruit</li> </ul>	Typically the owner of the variety in question	Trademark with associated patent
Geographical brands	Distinguish products through their geographical origins	<ul style="list-style-type: none"> <li>• Darjeeling tea</li> <li>• Champagne</li> <li>• Idaho potatoes</li> </ul>	Typically public sector bodies or regional associations	Geographical Indicator or Appellation of Origin
Certification brands	Distinguish products through ethical or social standards	<ul style="list-style-type: none"> <li>• FairTrade</li> <li>• Rainforest Alliance</li> <li>• Organic</li> </ul>	Typically certification bodies	Trademark

successful in categories seldom associated with branding. Bolthouse Farms, a 35,000-tonne-per-annum US carrot producer, has reversed a long-term sales decline in key US markets by selling 'baby' carrots in snack food-style foil packs with cartoon images aimed at children.<sup>36</sup> The Rooster Potatoes produced by Albert Bartlett Ltd. are delivered to UK consumers in branded packages to raise the product above regular loose potatoes; the brand is valued at US\$47 million.<sup>37</sup> Arla, a Scandinavian milk producer, has developed Cravendale filtered milk into a US\$107 million UK brand, sold for up to US\$0.28 more per liter than competitors.<sup>38</sup> Similarly, Florette has established itself as one of the few branded offers in the salad category, with sales of US\$525 million in 2010 and growth of 5 per cent above the



Cravendale © adav @ flickr

Florette © myfruit.it @ flickr



overall market.<sup>39</sup> These examples echo the experience of traditional commodity players such as Tate & Lyle, Cadbury and many tea and coffee companies, who have established profitable branded offers across mature markets.

### 2.1.2 Varietal brands

Varietal brands share many of the characteristics of producer brands but work in slightly different ways to distinguish between products in agricultural commodity categories. The case of Pink Lady apples serves to highlight these differences.

Pink lady © iainsimmons @ flickr



'Pink Lady' is the brand name for a patented apple variety, Cripps Pink, established through natural breeding techniques in Australia. In 2010 the brand had a share of almost 9 per cent of the UK apple market and was worth over US\$85 million in sales at an average retail price premium of 38 per cent above unbranded apple varieties.<sup>40</sup> Although the effect of branding is similar to those of producer brands discussed above, neither the variety nor the brand is owned by producers. The brand and variety owner allows production and branding under license (producers pay a levy to the owner) and imposes strict quality standards.

The benefit to producers is an established market for their products at a premium price, with the brand owner ensuring that Pink Lady is marketed effectively and supported by strong product and supply chain management. This outsourced approach delivers differentiated products to market while circumventing classic problems with export markets and global supply chains.

Tenderstem broccoli © Geoblogs @ flickr



Pink Lady has therefore been called 'the benchmark for branded agriculture and food'.<sup>41</sup> 'Jazz' and 'Sundowner' branded apples, 'Zespri' kiwi fruit and 'Tenderstem' broccoli follow a similarly successful supply chain and marketing model.

### 2.1.3 Geographical brands

A 'geographical indicator' is a branding tool that gives a product an 'assurance of distinctiveness attributable to its origin in a defined geographical area'.<sup>42</sup> Whereas Chiquita bananas are sourced from multiple countries, and Pink Lady apples grown under license around the world, geographical indicators are defined by a single location. The case of Darjeeling tea illustrates the key advantage of these indicators – that brand ownership is registered to the country of origin.

The Darjeeling region of India produces a unique tea product primarily due to geographical and climatic factors, including high humidity and rainfall, elevated cultivation, specific soil types and steep drainage gradients, but also due to the widespread use of traditional processing methods. Almost three-quarters of Darjeeling tea is exported, with a value of US\$30 million per year. Registration of Darjeeling as a geographical indicator has led to more effective policing of the use of the term through Compumark, an intellectual property monitoring agency, but also generates a license fee for producers payable by the packer, which varies by country of export.<sup>43</sup>

The fact that Darjeeling tea is physically different from other teas helps the brand, but is not critical. Although Champagne is registered as a geographical indicator and has acquired obvious value – exports were worth US\$2.57 billion in 2010<sup>44</sup> – almost identical grapes and methods are used in other parts of the world to produce much less valuable sparkling wines that, nonetheless, often surpass 'real' champagne in blind tests.<sup>45</sup>

From Idaho potatoes to Stilton cheese, there is clear value in geographical indicators.<sup>46</sup> But almost 90 per cent of the 10,000-plus products registered with one of three types of geographical indicators under Article 22 of the World Trade Organization's Agreement of Trade Related Intellectual Property Rights (TRIPS)<sup>47</sup> are from mature markets. The exceptions, including Darjeeling tea and Jamaican Blue Mountain coffee, demonstrate the potential value of geographical brands. These indicators are most effective, however, when consumers in export

markets already have some awareness of the product's origin and positive associations with it; in this case, the brand will still require ongoing professional management to remain commercially relevant and sustainable in the long term.

### 2.1.4 Certification brands

Although not traditionally classed as brands, ethical and social certification marks such as Fairtrade and Rainforest Alliance have become so widespread and sophisticated that they often behave in much the same way as the producer brands outlined above. The main certification brands are large and increasingly valuable intellectual properties in their own right: US\$4.3 billion of Fairtrade certified products were sold in 2009 alongside US\$12 billion of their Rainforest Alliance equivalents,<sup>48</sup> while sustainable coffee sales (those certified as 4C, UTZ, Rainforest Alliance, Fairtrade or Organic) made up 392,000 tonnes, or nearly 10 per cent, of the world market in the same year.<sup>49</sup>

A key distinction from producer brands is that certification is most often used to add an ethical dimension to an existing product brand. The link between Chiquita and Rainforest Alliance is a good example of this,<sup>50</sup> as is the widespread use of the Fairtrade mark on Tate & Lyle sugar.<sup>51</sup>



Fairtrade logo © Tony Choccolonely @ flickr

Increasingly, however, producers who are unwilling or unable to invest in building a brand are looking to add value to their products by selling them to intermediaries and retailers under these labels – bananas in UK supermarkets, for example, might have a Fairtrade sticker but no other form of brand identification. This helps to distinguish a more expensive but ethical product from an almost identical generic competitor and is

attractive to producers because some sort of price or social premium is typically built into the certification model. It also represents an opportunity for supermarkets to raise the value of their own branded products (such as generic Tesco bananas) by adding an ethical dimension to their brand while retaining the freedom to source from multiple producers – and the associated buying power.

### Water: the ultimate branded commodity?



Evian © San Francisco Fred @ flickr

*The exponential growth in brands of bottled water offers a challenge to the argument that physically similar, easily substituted agricultural commodities present very little opportunity for niche branding.*

*As journalist Charles Fishman writes, the continuing success of water brands provides the developed world with ‘twenty or thirty varieties of something for which there is no actual variety’.<sup>52</sup>*

*Effective marketing for Perrier starting in the 1970s made the entire category of bottled water not just acceptable but desirable over the next 40 years, creating a global industry worth more than US\$60 billion, with sales of 115 billion liters in 2008.<sup>53</sup>*

*And despite a clearly negative environmental and social impact, Evian, the best-known water brand today, has a turnover of more than US\$750 million based on a retail price of US\$1.42 per liter – more than 710 times the average cost of tap water.<sup>54</sup>*

*Given that there is no obvious physical difference between bottled water products, the impact of brands in the water industry suggests traditional agricultural commodities are equally ripe for branding.*



Perrier © Nestle @ flickr

## 2.2 Circumventing the barriers to branding

If brands generate clear commercial value and leverage with buyers in an environment that is increasingly unfavorable to developing producers, and have been applied effectively to a range of commodities, why are they not more widespread? Policymakers and development institutions typically point to several apparent problems with branding of agricultural commodities, primarily related to producers' limited capacity to pursue branding strategies<sup>55</sup> In this section we discuss the most common explanations for the fact that commodity producers seldom take a consumer-led approach, and show how these perceived barriers can be circumvented.

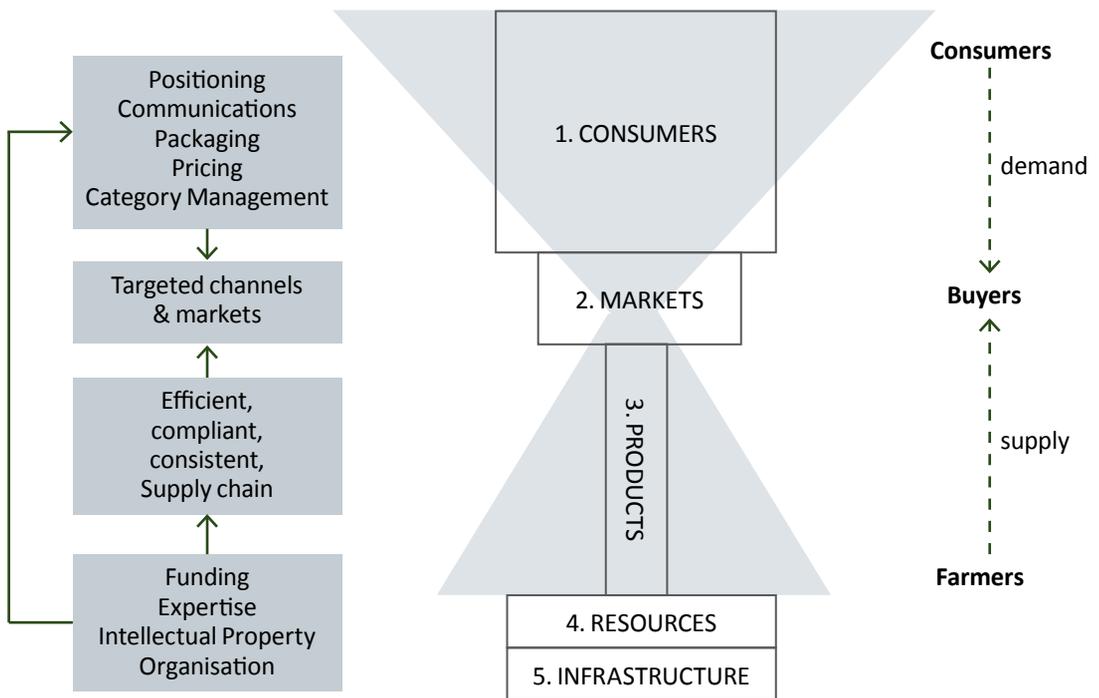
Concerns about commodity branding in developing countries point to five areas – consumers, markets, products, resources and infrastructure (Fig. 5) – as do the solutions developed by successful brands.

### 2.2.1 Consumers

*The barrier: Commodities do not represent a sustainable branding opportunity because of their physical similarity with competing products and the expertise gaps in producer countries.*

To succeed, brands must convince consumers that the product is special – distinct in some way from similar competing products. Many development professionals assume that basic

Figure 5: The building blocks of branding



Effective branding requires basic infrastructure at the producer level, including clear intellectual property ownership and organizational capacity; the human and financial resources to carry it out; a supply chain to deliver products effectively to targeted markets; and consumer demand at the point of sale.

commodity products cannot be profitably branded, given that they can easily be substituted by competitors' offerings and that high levels of marketing expertise and experience in new product development are required to build attractive brands that compete profitably with established global players.

*The solution: Use expertise from other categories to develop commodity brands that are genuinely distinct.*

The commodity categories of highly competitive markets are typically defined by a lack of

consumer interest in the differences between different products or brands. It therefore requires a creative approach to offer customers something genuinely distinct. All the products described in section 2.1 – including bottled water – deliver clear benefits to end customers regardless of physical product differentiation. Marketing expertise is needed to identify and communicate these benefits, and supply chain expertise to deliver them consistently. But the successes of beers and other beverages from developing states show that such expertise is available to producers in these countries.

### **The case of beer: marketing successes from developing countries**



Red Stripe bottle © Nicholas Laughlin @ flickr

*Consumers in mature markets are sophisticated, while competitors and retailers are typically aggressive – and there are real capacity issues in developing states, as evidenced by the limited number of cocoa or sugar brands from these countries on the shelves of supermarkets in the EU and US. But a cursory review of beers manufactured, branded and exported from developing states, including Least Developed Countries in Africa, provides a counterpoint. These number in the hundreds, and typically dominate the domestic market, often in competition with international brands such as*

*Heineken, as well as providing an export revenue stream, with exports sold primarily to the diaspora from each country. In principle there is little difference between branding and exporting beer versus any other locally produced product, despite some peculiarities in the acceptance of beverage brands by mature market.<sup>56</sup>*

*A good example is Red Stripe beer in Jamaica, manufactured by local beverage company Desnoes & Geddes, which produced more than one million cases annually prior to their acquisition in 1993 by Guinness (now Diageo). Other similar cases include Jose Cuervo tequila from Mexico, Mount Gay rum from Barbados, and Fiji Water. One factor in these successes is in ease of transportation, non-perishability, relatively good market access and a niche audience. Nevertheless, they show that branding expertise and export development is not restricted to mature markets and could be applied to commodity categories.*



Fiji water bottle © Chase Lindberg @ flickr

### 2.2.2 Products

*The barrier: Products from developing-world producers will not be of consistent quality or will fail to meet export standards.*

The governance and processing required to boost the value of branded products is expensive and requires expertise in procurement, purchasing and supply chain development, as well as an ability to manage suppliers over time. To gain access to markets and acceptance from buyers, producers also need to offer a consistent supply and comply with export market standards.

*The solution: Use outsourcing to gain competitive advantage and circumvent quality or standards constraints*

Even where a physical product is not fundamentally different from competitors, it still needs to be clearly distinctive through packaging, availability, origin, consistency, quality, ethics, positioning or services. The successful brands described above are all supported by an efficient supply chain that is commercially viable at all levels from producer through to exporter, importer, wholesaler, distributor, customer and end consumer, that effectively conforms to appropriate regulations in export markets and that consistently delivers on brand claims.

From a development perspective, the advantage of focusing on traditional agricultural commodities is that relatively little additional processing or quality control is needed to meet consumer expectations and regulatory requirements in mature markets. Tate & Lyle, for example, brand, package and retail raw cane sugar in the UK domestic market with little more than a quality-controlled packing operation. This is mirrored in Cadbury's production of branded cocoa powder, which is simply roasted, pressed, ground and packaged cocoa.<sup>57</sup> Outsourcing is now commonplace in downstream activities such as quality control, secondary processing, manufacturing of packaging, and supply-chain management. As a result, producers from the developing world can replicate the types of operations seen at Tate & Lyle and Cadbury if they

intelligently outsource some of their supply chain. Outsourcing has the potential to circumvent classic capacity constraints and ensure that imported products conform to standards such as ISO 9002 and British Retail Consortium (BRC) accreditation without the need for large investments in capital or personnel. The result could be a much more level playing field.

### 2.2.3 Markets

*The barrier: Buyers will not purchase commodity brands from the developing world in sufficient volume to make a difference.*

Regardless of their potential value to the consumer, producer-branded commodities are hampered by competition with much larger multinational companies and the difficulty of engaging with major buyers in retail, food service or manufacturing channels. Although branded agricultural commodities are already sold in large volumes by existing importers and processors, there are real market limits. Direct branded sales through retail stores account for a relatively small part of commodity markets; in the UK sugar market, they represent less than 25 per cent of the total, with the remainder in food service (e.g. restaurants) and ingredients (e.g. manufacturers) channels, where products are typically not branded to the end consumer.<sup>58</sup> In addition, the dominance of large retailers and their own-label brands means that 38 per cent of food is now sold under these labels.<sup>59</sup>

*The solution: Create a portfolio of brands for appropriate markets and channels.*

Branding of a commodity need not be restricted to export or retail markets, and in fact it can help producers to access alternative channels for their goods. Although this paper does not focus on business-to-business brands, we note that brands offering quality, provenance, service or other attributes backed by an effective supply chain can cut out middlemen and enter those segments of industrial markets that are not driven purely by price. Upscale restaurant chains are interested in

new products and tastes, ingredient branding is becoming more widespread<sup>60</sup> (e.g. a pizza 'made with Sunblush tomatoes'), and premium variants of supermarket own-label brands (e.g. Tesco Finest) will pay more for high-quality products.

Nevertheless, it is difficult to generate a critical mass of volume sales in markets with well-established, well-financed competitors, so producers need to think strategically about introducing their brands. New brands typically start by considering the needs of their business on one hand and of their potential customers on the other, and work toward aligning these to deliver something distinctive to the market. Simply replicating the offers of existing, much larger incumbents is not a realistic option for developing-country brands.

There is always a risk, however, that a brand strategy targeting a distinctive audience or set of needs will become a small, niche operation without the volumes to make a substantial difference to industries in producer countries. This risk varies by market, and it can be hedged with a portfolio approach similar to that followed by existing commodity brands, mixing niche-margin products with mainstream ones that generate large volumes.

#### 2.2.4 Resources

*The barrier: Lack of financing in developing countries prevents effective development, launch or management of brands.*

Building strong downstream branded operations is both expensive and risky, requiring substantial ongoing financing. It can take years of brand-building to generate a profit; many companies spend large sums on developing and launching a new product, only to fail when they are not prepared for long-term investments in communications, design and promotional activity. It has been argued that investment in infrastructure and processing offers better and more secure returns.

*The solution: Invest in branding that fits producers' appetite for risk and sources of funding.*

In the examples above of successful commodity branding, building a brand has required both up-front and ongoing investment. Because branding is risky, seed funding from development institutions, foundations or the public sector is crucial to encourage private-sector partners to get involved. And as various branding strategies carry different risks and rewards, matching these to producers' needs is another critical consideration. Using a certification brand such as Fairtrade, for example, typically requires substantially less investment than establishing a proprietary producer brand.

Funding and professional management are needed to establish strong relationships with consumers, customers, partners and the distribution chain, as well as for regular innovation to stay ahead of the competition. But these same examples show it can be done in developing countries, with returns that represent an attractive alternative to traditional supply chains.

#### 2.2.5 Infrastructure

*The barrier: Brand development is not a priority in developing countries and has limited potential to impact smallholders.*

For states and communities struggling with basic needs such as safe water, sufficient food, infrastructure and health care, branding a product that has been sold in the same way for decades may simply not be a priority. Even where this is not true, without clear organization and transparent mechanisms to pass on the benefits of added value to farmers, branding could boost overall economic activity but fail to alleviate poverty.

*The solution: Build on existing organizations, using third parties to fill expertise gaps.*

Branding initiatives can often draw support from the long-established supply infrastructure of traditional commodity industries – but they also

rely on several other basic systems, not all of which can be outsourced. These include a relatively stable business environment and legal system that ensures the security of both physical and intellectual property, good telecommunications and internet links, a reliable supply of raw materials, access to a labor force with the necessary skills, and consistent taxation policies.

Still, most countries do possess sufficient infrastructure to brand their commodities. The fact that brands exist in, and are exported from, almost all countries in the world – even if ownership of the brands in question is often by mature market companies – shows that this basic infrastructure is in place. Branding programs may, however, need help from third-party facilitators such as development institutions to ensure the branded products find a profitable niche and that primary producers benefit from this. Facilitators can help in-country organizations realize the key benefit common to branded supply chains through a variety of models, they allow producers to capture a larger portion of the total retail value of their product.

Other barriers to commodity branding are driven by classic mindsets about commodities, a traditional approach to capacity constraints and a belief that consumer-led branding operations in commodity sectors require significant expenditure and risk with little potential for real rewards. We argue throughout this paper that many of these traditional assumptions are fundamentally mistaken. Branding as a means of ensuring that a product is distinctive and owned by producers can add measurable value to agricultural commodities if approached from a consumer-driven commercial perspective. This is best demonstrated by the results from two specific commodity brands.

# 3.

## Case studies: Barbados sugar and Namibian beef

### KEY MESSAGES

- *Branding of Barbados sugar has offset a disadvantage in production costs and will capture over US\$1 million in added value in 2012 alone. A Namibian beef brand overcame compliance costs and now delivers price premiums to farmers worth US\$25 million per annum.*
- *Common factors in their success included aggressive outsourcing; a multi-channel, multi-product portfolio approach to branding; diversification into local, regional and export markets; public-sector support; and a foundation in existing organizations.*
- *The core value of these companies lies not in their physical products but in their intellectual property – their branding. This provides leverage in negotiations with buyers and long-term value to the companies and the communities that depend on them.*

To see how the building blocks of branding come together in practice, we will look in depth at two branded commodities that have brought substantial rewards to producers: sugar in Barbados and beef in Namibia.

### 3.1 Branding Barbados sugar

Although not as important as it once was, sugar in Barbados remains key to foreign exchange earnings, rural employment and the environment. As in other small island developing states, however, the small scale of production and high relative wages mean that Barbados sugar cannot compete on price in the world market. The industry has incurred significant losses in recent years, exacerbated by the reduction in EU price subsidies from 2004, after the World Trade Organization challenged the EU's preferential trade agreements with African, Caribbean and Pacific (ACP) states.<sup>61</sup>

To reverse these losses, the West Indies Sugar & Trading Company Ltd. (WISTCO) was established in 2007 as a partnership between the government of Barbados and the private sector, with a mission to 'build a sustainable business that

supports the Barbados sugar industry through the development of a portfolio of sugar brands for profitable export'. The company pays producers more than double the typical Fairtrade price for selected large-crystal cane sugar.<sup>62</sup> Prices paid to the nationalized sugar company are determined on a 'cost plus' basis, with farmers receiving a fixed percentage of revenue, to ensure that every link in the supply chain is sustainable.

Despite paying high prices, WISTCO profits from every tonne of sugar sold. The key is effective branding, which lets the company pass on the high costs of production through premium pricing in upscale stores. In the mass market, its outsourced business model reduces downstream costs and cuts out traditional intermediaries in



West Indies Sugar Logo © The West Indies Sugar & Trading Company Ltd, Barbados



Plantation Reserve product range © The West Indies Sugar & Trading Company Ltd, Barbados

order to ensure commercial viability. In 2012, WISTCO will purchase almost two-thirds of the food-grade raw cane sugar produced in Barbados – with most of the remainder going to the domestic market – and will deliver over US\$1 million in added value to the industry.<sup>63</sup>

WISTCO has applied private-sector marketing principles to a commodity category in which innovation and brand management have otherwise been limited. The resulting portfolio of brands, under the Plantation Reserve and Plantation Traditional trademarks, have been well received by media, consumers and trade partners. Their retail distribution comprises over 1,400 UK stores, including Waitrose supermarkets and Harrods, and over 200 more stores across the EU and the Caribbean – where the company markets its products to the 500,000 annual tourists from Europe.<sup>64</sup>

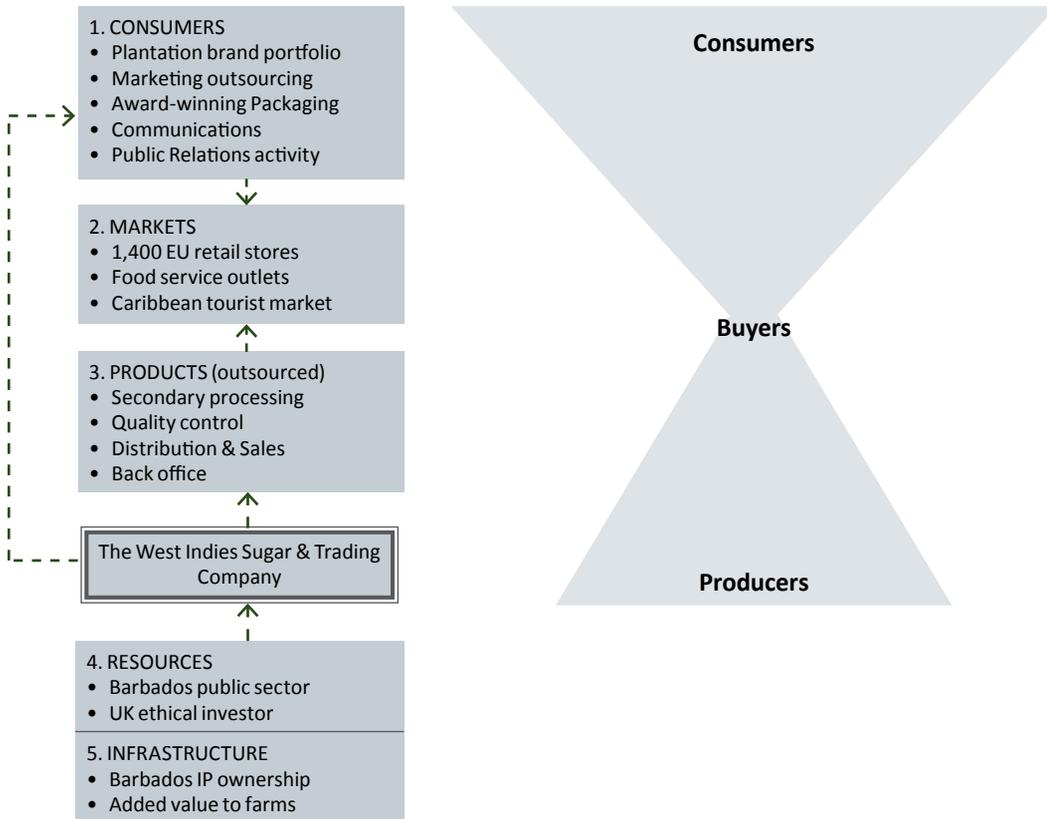
To establish a branded supply chain with minimal investment, and to circumvent classic constraints on market access, quality standards and downstream capacity, WISTCO was established on the basis of three operating principles:

1. *Outsource everything* not related to core activities in consumer marketing and supplier management.
2. *Do things differently* to give the company and Barbados sugar a competitive advantage.
3. *Act responsibly* to ensure all operations are socially and environmentally sustainable.

Outsourcing, in particular, sets WISTCO's business model apart. Operations that many businesses consider central, such as quality control and packaging, are done by third parties in the EU (Fig. 6).<sup>65</sup> This has allowed WISTCO to ensure cost efficiency, compete with much larger players, comply with EU and retailer quality standards (including ISO9002, HACCP and BRC accreditation), fill gaps in expertise (such as knowledge of UK sales and logistics), limit fixed costs and flexibly rescale its activities depending on market conditions. WISTCO relies heavily on outsourcing because it understands that the company's value lies not in products but in the intellectual property that provides leverage with buyers.

But the case of Barbados sugar also reveals limits to the benefits of branding. Although WISTCO will more than double its sales in 2012, it has taken almost four years to reach a point where branded products have started to make a noticeable difference throughout the sector – and the sugar industry in Barbados remains heavily indebted.<sup>66</sup> Although effective branding

**Figure 6: Branding of Barbados sugar by the West Indies Sugar & Trading Co.**



*The boxes at left show the building blocks used to develop an effective Barbados sugar brand in the context of a buyer-driven global market ('bottleneck' at right, see Fig. 2). These include solid infrastructure based on intellectual property ownership, resources from both the Barbados public sector and UK investors, and establishment of WISTCO as an entity that manages the development of a consumer brand and outsourced supply chain in order to get products to market.*

supported by efficient supply chains can help to meet development objectives, branding alone will not provide a comprehensive solution to an industry's structural problems.<sup>67</sup>

### 3.2 Branding Namibian Beef

Producer branding in the Namibian beef sector is an interesting counterpart to the case of Barbados sugar, offering several parallels. The

Namibian beef industry has historically relied on profitable exports of prepared beef carcasses to European markets under EU-ACP quota arrangements. But the industry came under pressure from 2000, when the EU switched from domestic price support – which kept EU pricing above that of the rest of the world – to direct aid payments. Beef prices fell by 36 per cent between 2000 and 2002, and despite a recent rebound in prices and ongoing declines in EU beef

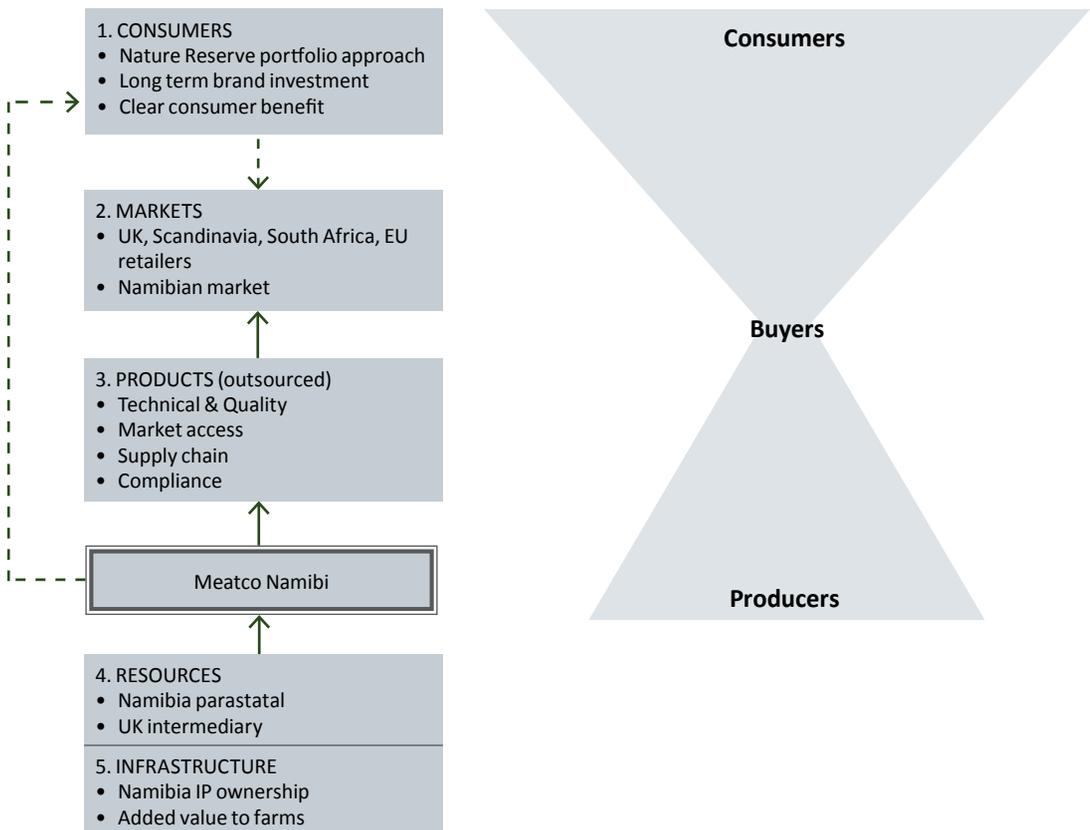
production, price volatility is likely to continue in the medium term.<sup>88</sup>

This stress has been worsened by Euro exchange rate issues as well as increasingly onerous food safety controls. Namibian programs to ensure compliance with EU standards for sanitation, food safety and animal welfare, including the relatively sophisticated Farm Assurance Namibia (FAN) scheme, are expensive and likely to increase in complexity and cost over time. The impact of these requirements on smaller developing-world

markets has been so great that that countries such as Swaziland can no longer profitably export beef to the EU.

Given these changes, Namibian beef exporters recognized that they would not be able to compete on price against larger countries that can exploit economies of scale, such as Brazil and Argentina. Instead, in 2008 Namibia's largest processor and exporter of beef, Meatco, launched a proprietary brand, 'Nature's Reserve' (Fig. 7).

**Figure 7: Branding of Namibian beef by Meatco**



The approach in Namibia was similar to that taken in Barbados (Fig. 6), with effective consumer branding by a local company generating pull in multiple markets, backed by an effective product supply chain and sufficient infrastructure and resources to ensure success.

Branding allowed Meatco to leverage the public and private-sector investments made to comply with EU quality standards, applying them to a range of distinct, added-value products. The Nature's Reserve brand has taken a portfolio approach, offering a selection of grades based on a good-better-best model (Choice, Select and Finest grades); the different grades meet customer requirements by market, sector and cut.

The focus was not only extracting higher prices from existing markets but also diversifying into new export markets. Meatco has expanded from a base of EU buyers to relationships with other developed economies such as Norway, and large regional markets including South Africa.

Long-term institutional initiatives, including FAN, played a part in establishing Nature's Reserve as a premium brand in a highly competitive category dominated by retailer own-label products. But as in the case of Barbados sugar, another important move was outsourcing key elements of the supply chain and brand management.<sup>69</sup> For Meatco, the core of the business is a good rearing environment for cattle and basic traceability of the meat products and the company outsources other activities. In this way Meatco has acquired world-class expertise in positioning, sustainable development, market access, retailer entry, and ongoing technical and quality assurance.

The brand has entered major supermarkets in the UK, Scandinavia, Western Europe and South Africa. In total, the premium that Nature's Reserve beef generates, above prices received by comparable farmers, amounts to US\$25 million per annum. As important is the establishment of South Africa as a strong alternative export market, absorbing 29.5 per cent of production in comparison to the EU's 39.6 per cent, as well as the development of a strong domestic market. This market expansion has diversified revenue streams and provides an effective hedge against future problems complying with standards in export countries.<sup>70</sup>

### 3.3 Common lessons

Whereas WISTCO has sought to rectify a disadvantage in production costs for the Barbados sugar industry, the branding of Namibian beef was driven more by the need to offset the costs of compliance with export standards. But the two cases offer common lessons, including the following:

- Outsourcing is an important tool that allows developing-world producers to circumvent capacity constraints and do well against much larger competitors through an effective, efficient, compliant supply chain.
- Sustainable value comes from building proprietary intellectual property in the country of origin.
- With a portfolio approach, industries can balance production of large volumes of generic commodities with smaller volumes of high-margin branded products to ensure overall profitability.
- Commodity exporters can hedge against risks by balancing domestic, regional and international markets.
- A long-term commitment to innovate and invest in branding is also needed; support for this commitment often comes from the public sector when strategic industries are involved.
- There is potential to build on existing organizational structures, including public-private partnerships such as WISTCO, in order to deliver branded products.

These lessons form the basis for a series of recommendations for the effective establishment of commodity brands in developing economies.

# 4.

## Recommendations

### KEY MESSAGES

*The building blocks of branding are consumers, products, markets, local resources and infrastructure. Countries and organizations looking to develop agricultural commodity brands for the benefit of developing world producers should:*

- Appeal to *consumers* by developing branded products that communicate meaningful differences from competitors.
- Develop *products* around the core strengths of the country or company, using outsourcing to circumvent internal weaknesses and external constraints.
- Target diverse *markets* including domestic, regional and export, with a portfolio of brands, including niche and mainstream products.
- Make the most of limited *resources* by analyzing risks and attracting seed funding.
- Build on the *infrastructure* of existing organizations and exploit the expertise of third-party facilitators.

Our recommendations for producer countries and organizations correspond to the five building blocks of branding described in section 2.2. They do not represent a one-size-fits-all solution to the entrenched problems surrounding traditional agricultural commodity chains in developing countries; no such generic solution is possible, as geographical contexts, products and expertise vary widely. Branding, therefore, should be viewed as simply one of a series of ways in which countries and industries can increase incomes and reduce poverty within wider country and institutional strategies.

### **4.1 Engaging consumers: Use expertise from other categories to develop commodity brands that are genuinely distinct**

Mature export markets are characterized by intense competition, few buyers, sophisticated consumers and complex supply chains. Faced with undifferentiated commodity products, consumers are typically less interested in spending time making a buying decision than when shopping for food in other more developed categories. On average, 28 per cent of US consumers are 'actively disengaged' from the products they use – that is, they have no loyalty to the brands they are purchasing beyond functional factors such as convenience and price. In less developed commodity categories this rises to as much as 64 per cent.<sup>71</sup>

Figure 8: Creating distinctive commodity brands: potential positioning routes

		Benefit	
		Functional	Emotional
Differentiator	Product	Taste	Provenance
	Process	Quality Standards	Social Responsibility
	Consumer	Usage	Exclusivity

Using sugar as an example, this table lists benefits that could, in theory, differentiate a commodity from competitors. These are divided into functional (tangible) and emotional (intangible) benefits. Shading highlights the main marketing messages used for Barbados sugar – provenance and usage.

Thus, unless a brand is clearly and convincingly distinct from alternative products, it will not succeed against much larger established competitors. Such differentiation requires expert understanding of consumers, markets, channels and products – and the creativity to translate this into an innovative brand in language that persuades consumers. Figure 8 analyzes the attributes that can differentiate a commodity from competitors.

In the case of Barbados sugar, the brand was positioned around the slogan 'Barbados Cane Sugar for Cooks', evoking the functional benefit of usage – this sugar was distinctively suited for use in cooking – along with the more emotional quality of provenance. This targeted a growing segment of consumers interested in both cooking from

scratch and the origin of their ingredients – a consumer group that competing sugar brands were not catering to. This positioning was translated into appropriate packaging, using symbols such as wooden spoons to appeal to cooks; pricing at a significant premium above white sugar; placement only in retailers where the target segment shop regularly; and relevant promotion, for instance through offers of holidays to the 'taste of Barbados' food festival.

Such complex, multifaceted brand-building is a specialist field, requiring significant commercial experience. Just as the West Indies Sugar & Trading Company outsourced its physical supply chain, the intellectual property was developed through third-party contractors, including agencies for advertising, design, public relations

and consumer research. It was this base of management and branding expertise that allowed WISTCO to make the most of its outsourced suppliers, overcome classic capacity constraints and create a highly distinctive brand that sold the equivalent of 2.4 million retail bags in 2011.

A large and growing literature offers in-depth information on the art and craft of building distinctive brands: see the Bibliography for further reading.

## **4.2 Developing products: Use outsourcing to gain competitive advantage and circumvent quality or standards constraints**

The use of outsourcing by producers from developing countries may be fairly new, but it has been used in mature markets for centuries as a means of circumventing both shortages of expertise and limits on physical capacity. Regardless of the industry or product, businesses outsource supply chain links or management tasks that do not add real value to the organization.<sup>72</sup> Given developing countries' knowledge gaps and other capacity constraints explored above, the question of what represents core value and what to outsource is critical in any discussion of branding commodity products.

This approach avoids the limitations of traditional means for adding value to commodities. Classically, the key tool for boosting commodities' value would be investments in increased processing capability at the source. Foreign direct investment in agricultural processing facilities has been high since the 1970s as multinationals have sought efficiencies in less regulated markets with lower labor costs<sup>73</sup> and higher potential future growth. But this has not typically applied to commodity sectors; instead, demand trends for commodities have concentrated physical added value towards the mature market end of the supply chain. A typical example is coffee, where dominant coffee roasters based in mature markets capture much of the final product's value.

Developing a brand demands a different mindset, starting with outsourcing that focuses producers on their core competencies. In the case of Barbados sugar, a traditional solution to packaging product for export markets would have been to invest in a packing facility, which would raise the product's value and create jobs in Barbados. But this would have been capital intensive, requiring construction of clean rooms to international standards, recruitment of skilled employees with associated quality and safety training, and audits by multiple certification bodies. Even if the time and cost involved had not provided a disincentive, in-country processing would have added unnecessary costs. Unless a country has a clear competitive advantage in the physical processing involved (in this case packing) and can efficiently build and maintain the processing plant, the facility will be underutilized and unprofitable.<sup>74</sup>

Contracting an existing manufacturer, co-packer or processor – either close to the producer country or to its end market – can limit such fixed costs, provide greater operational efficiencies through specialization and allow the flexibility for volumes and formats to vary with demand. Outsourcing also frees resources to support the area with real potential to add value in export markets, namely the company's intellectual, rather than physical, property.

Outsourcing has its own costs: it requires a degree of expertise to find and contract appropriate partners and ensure quality, and it represents some loss of control for a company. But the gains may be enormous for companies and countries with well-defined capacity gaps. Strategic outsourcing can go well beyond the physical processes traditionally contracted out by procurement managers in global companies; it is possible to circumvent knowledge gaps of all kinds. If marketing expertise is lacking, the largest global advertising agencies have offices in over 90 countries worldwide and can manage complex branding projects.<sup>75</sup> If the problem is a limited understanding of supply chains and pricing in mature markets, or sales into large retailers, there are agents and distributors who

constantly look to source and sell interesting new products.

Using these agencies and similar systems, developing countries and their companies need to establish what they do well and outsource the rest. This represents the only way to ensure competitiveness and circumvent the barriers to branding agricultural commodities.

### 4.3 Expanding markets: Create a portfolio of brands for a variety of markets and channels

#### 4.3.1 Portfolio management

In their paper 'How to Brand Sand', Hill, McGrath and Dayal show that, although it is indeed possible to brand a product as basic as sand, success depends on understanding that not all customers will be interested in, or prepared to pay more for, a branded commodity. This applies equally to agricultural products.

A useful model comes from classic thinking on portfolio management for fast-moving consumer goods. Companies marketing these goods divide their customers into three groups: the 'Gold Standard', who want something more than just the cheapest price and who represent between 5 and 25 per cent of a market; 'Potentials', who make up 30–45 per cent of a market and are occasionally willing to try an innovative product if there are clear benefits; and the remaining 'Incorrigibles', who are focused almost exclusively on price.<sup>76</sup> For traditional agricultural commodities, incorrigibles can make up substantially more than half of the market and should not be targeted by any branding strategy. But commodity markets are typically large enough that, for most developing-country producers, even securing a tiny portion of branded sales within a large mature market is enough to raise profits substantially. The Pareto or 80–20 principle applies as much, if not more, to commodities as to more complex categories: 80 per cent of margin comes from 20 per cent of customers. For branding strategies, that 20 per cent is critical.

The approach of one of the worlds largest retailers, Tesco, shows the value of appealing to a variety of consumer groups. Tesco recognized in the 1990s that it was losing a significant revenue stream by selling its own-label products only to Incorrigibles, or price-sensitive consumers. It established a second brand, 'Tesco Finest', which provides premium variants of its price-competitive 'Tesco Value' products, sourced for quality. In 2008, Tesco Finest became the UK's biggest grocery brand with sales of US\$1.8 billion and growth of 6.3 per cent in 2011.<sup>77</sup>



Tesco value © go @ flickr

Barbados sugar and Namibian beef likewise used a portfolio approach to branding, rather than relying solely on products with high added value. The organizations building the brands recognized that although a portion of customers will pay for defined additional benefits, the majority are simply interested in a reasonably good product at a competitive price. Luxury niche branding makes headlines, but in basic commodity markets it does not offer the scale needed to help producer industries, and cannot even attract enough consumers to generate substantial profits for an individual company.

For Barbados sugar, an ultra-premium tin, sold as a gift item in the duty-free channel across the Caribbean and in UK department stores such as Harrods, is less important as a revenue stream than as a marketing tool to encourage new customers to try the brand. The Plantation Traditional line, aimed at the mass market, is a

low-margin product that provides the volumes required to both support the sugar industry and cover the company's fixed costs. And Plantation Reserve, aimed at Gold Standard customers through upscale supermarkets such as Waitrose, rounds out the portfolio to deliver overall profitability.<sup>78</sup>

Namibian beef mirrors the pattern: Nature's Reserve Finest is aimed at the top end of the market, with free-range, grass-fed beef from 230- to 280-kilogram carcasses typically destined for export; this contrasts with the standard Nature's Reserve Choice beef from animals of grades B and C.<sup>79</sup> In short, effective portfolio management means that branded commodities need not be limited to a small niche.

#### 4.3.2 Domestic markets

Just as companies should look beyond Gold Standard consumers, domestic and regional markets in developing countries are as important, if not more so, as the 'high value' export markets that are often the focus of development studies. Although developed countries represent very large, potentially profitable markets, they are also highly competitive environments that add complexity, cost and risk to basic commodity products. And when hidden costs such as standards compliance, export, secondary processing, quality control and retailer listing fees are factored in, doing business in these countries can be less profitable than serving markets closer to home.

It is telling that in 2008, developing countries bought more than half of US food exports, with US\$6.4 billion in sales to Africa alone.<sup>80</sup> If US companies find it profitable to export branded food products to Africa, there clearly is an opportunity for locally owned brands to compete. A country that buys more domestic brands not only reduces foreign exchange outflows by replacing costly imports with domestic production, but also generates long-term value in country. Where simple primary packaging or processing facilities exist, successful domestic brands channel more value to commodity

producers, who would otherwise export in bulk at low prices.

Several experiences in branding for local markets are outlined in the Royal Tropical Institute's paper 'Branding for development',<sup>81</sup> and these examples show what innovative local brands can do for farmers. In particular, the branding of 'Dakado' avocados and 'Than Ha Thieu' lychees for local markets in Vietnam has significantly benefitted primary producers. In the case of lychees, fluctuations in raw lychee prices prompted a regional cooperative to develop a labeling and intellectual property strategy that has helped to secure sales, through distributors, of branded produce into supermarket chains, with an average price premium of US\$0.15 per lychee in comparison to unbranded varieties. In the Daklak region of Vietnam, rising prices have turned avocados from a peripheral crop into a commercial one. A supply chain and branding exercise has allowed producers to enter the retail market through traders, with substantial price increases estimated at US\$0.19 per kilogram.<sup>82</sup>

For more mainstream agricultural commodities, the opportunities are even greater. Before 2008 there was no local sugar, branded or otherwise, on the shelves of Barbados supermarkets, despite relatively high margins for retail sugar sales. The gap was filled by branded imports from other sugar-producing countries, including the US, Guyana, Mauritius and the UK (through Tate & Lyle). Today, the Caribbean region, including Barbados, accounts for 10.8 per cent of WISTCO's sales but a significantly larger percentage of its total profits, mainly through high-value revenues from the regional tourism market. In Namibia, Meatco's branding strategy has successfully captured a portion of the relatively sophisticated South African market, and these customers now represent almost a third of sales and absorb over 12 per cent of total production.<sup>83</sup> Given the reduced costs and compliance requirements associated with domestic and regional markets, a strong case can be made to focus on branding commodities for these markets, if only as a defensive strategy against foreign imports prior to exploring larger but more competitive export opportunities.

Moreover, the rapid spread of supermarkets in the developing world will amplify the potential gains from domestic and regional branding. Chains such as Shoprite and Massmart now represent between 15 per cent and 65 per cent of retail food sales in southern and eastern Africa, for example, and resemble more mature retail markets such as Argentina.<sup>84</sup> Driven by urbanization and the expansion of the African middle class, who now exceed 131 million people, supermarket growth has transformed domestic markets and changed the stores' image from luxury niche to mass-market merchandisers. This is a historic opportunity for local producers to access domestic markets through established supply chains – but these producers will need more professional management, branding and associated resources to extract the maximum possible value from a large base of retail customers.

#### **4.4 Managing resources: Invest in branding that fits producers' appetite for risk and sources of funding**

In developing countries where resources like funding, infrastructure and expertise are scarce, strategy is all the more crucial for complex commercial enterprises. The key ingredients include effective management of stakeholders, partners and suppliers; an appetite to take risks; and, above all, willingness to pursue tangible action rather than academic studies. Although countries, industries, products and their associated supply chains are highly diverse, there are two approaches common to successful developing-world commodity brands like Plantation Reserve sugar or Nature's Reserve beef: they adopted a brand strategy appropriate to producers' needs and risk profiles and attracted seed funding from the public and development sectors.

##### **4.4.1 Different brands, different risks**

The four types of brands – producer, varietal, geographical and certification brands – carry different risk profiles, with corresponding potential rewards (Fig. 9). The type of brand that producers look to develop should be based firmly on the level of risk they are willing to accept –, the level of marketing expertise and the resources they can call upon to mitigate this risk.

- **Producer and varietal brands** can be owned by the producers themselves (or by patent holders in the case of varietal brands) and therefore offer the highest potential financial returns. But this is balanced by the significant risks associated with developing proprietary intellectual property. For every four new product brands that enter development, only one typically makes it to market, and of these, at least one in three fails to achieve commercial success.<sup>85</sup> Although the risk can be mitigated through effective planning, research and management, it should be carefully considered in the planning of any branding exercise.
- **Geographical brands** are owned by regional associations or similar public-sector bodies or cooperatives. This spreads and dilutes the risk of developing regional brands, but it also limits the potential value of these brands to individual producers or producer collectives. Under collective ownership, quality standards and brand management can be weak; their effectiveness depends almost exclusively on the competence of the certification body. For every globally recognized geographical indicator such as champagne or Darjeeling, there are many more with relatively limited consumer awareness and therefore a lower commercial value— for example, Papantla vanilla from Mexico, or Kashubian garden strawberries from Poland.
- **Certification brands** are typically owned by EU- or US-based labeling organizations<sup>86</sup> that invest significant resources in building consumer and buyer demand for certified products. This provides a ready-made audience that substantially reduces the risks of brand-building and the associated needs for

Figure 9: Risk-reward profile for different branding types

		Reward		
		HIGH	MEDIUM	LOW
Risk	HIGH	producer brands varietal brands		
	MEDIUM		geographical brands	
	LOW			certification brands

expertise, funding and strong organizations. The benefits are obvious, particularly for smallholders who lack the resources to develop producer brands. But the financial gains from such branding are substantially less – and falling as the number of standards grows. In the UK alone there are currently more than 80 separate ethical certification marks, meaning less impact on consumers for each mark.

#### 4.4.2 Certification

If branding is based on adding distinctiveness to a product, a generic certification such as Fairtrade has most value as a complement to, rather than replacement for, producer brands. This is not to ignore the positive role of social and ethical standards in bringing many of the issues discussed in this paper to the attention of mature-market consumers. But with the

mainstreaming of marks such as Fairtrade and Rainforest Alliance, and the growing sophistication of markets and branding, branding strategies increasingly need to go beyond simple certification marks.

The costs and benefits of certification have been covered in some detail by others.<sup>87</sup> The below two examples show how certification can work in the context of branding: bananas in the Windward Islands, and the Cafédirect coffee brand.

The Windward Islands banana industry, like its counterparts in other small island developing states, cannot compete on price with much larger global operations. With unit production costs more than three times those of producers such as Ecuador,<sup>88</sup> the industry has historically only been viable due to preferential EU-ACP trade arrangements. As these trading partnerships declined, producers on the islands became some of the first to achieve Fairtrade and Organic

status. This has enabled market access, distribution through some of the UK's largest retail chains, and both a commercial and social premium that has raised profits for producers.

But the Windward Islands case also illustrates the limitations of certification brands in an increasingly competitive global market. Bananas from lower-cost producers, including Ecuador and the Dominican Republic, are now also Fairtrade and Organic certified, and are available to UK buyers at a significant discount compared to those from the Windwards.<sup>89</sup> With no way to distinguish between certified bananas from different countries, buyers are choosing the cheapest. This pushes prices down, with serious implications for the island farmers who have invested heavily in relatively costly certification and auditing. Because the Windward Islands did not establish a producer banana brand and instead relied purely on certification, producers gained short-term benefits but face a highly uncertain future.

A more flexible approach to certification is that of Cafédirect, a company that built a strong, competitive producer brand in the UK on the basis of 100 per cent Fairtrade certification. Established in 1991 by four UK NGOs to respond to a collapse in coffee prices in 1989, Cafédirect is now the fifth largest coffee brand in the UK market, with a turnover of US\$34 million in 2007, and its producers have received added value of more than US\$1.57 million above market prices.<sup>90</sup>

But Cafédirect is now moving away from its roots in the Fairtrade mark, toward positioning that more strongly emphasizes product quality. The company's 2010 annual report highlights the long-term challenges from the mainstreaming of certification: 'The ongoing adoption of the Fairtrade and other ethical labels by mainstream competitor brands and supermarket own-label products continued to make the competitive landscape difficult'.<sup>91</sup> It is evident that developing, owning and maintaining a producer brand has been valuable for Cafédirect, but also difficult in a competitive marketplace dominated by supermarkets and larger companies. Although this sort of producer branding represents an ideal,

it does entail costs, risks and expertise requirements that are sometimes out of the question for small farmers.

#### 4.4.3 Funding

The development of premium products and brands requires significant investment, has a high risk profile and delivers medium-term, rather than immediate, financial returns. As such, seed funding and participation from the public sector is critical, although the organizations should be managed on a private-sector basis.

The problem for developing countries is that, although donors, international organizations, investors and development banks typically offer substantial funds for studies, seminars and consultancies, when it comes to actually implementing innovative approaches to branding agricultural commodities, very little support is available. There are some excellent exceptions, including the Africa Enterprise Challenge Fund<sup>92</sup> and its counterpart in the Caribbean,<sup>93</sup> which provide matching funds for private-sector sustainable development initiatives. But in general, because commodity branding projects require sustained investment over time as well as significant up-front investment, use a non-traditional business model, carry fairly high risks and fall between the public and private sectors, there is a substantial gap in available financing – despite the clear potential to benefit producers and reduce poverty on a significant scale.

### 4.5 Maximizing infrastructure: Build on existing organizations, using third parties to fill expertise gaps

Whether the branded commodity is sugar, beef, beer or cotton the branding efforts discussed here have required both effective organizations – such as the state-supported WISTCO and Meatco – and help from external facilitators to capture competitive markets and consumers. There is a central role for individuals or small teams, often with a private-sector background,

who can identify resources and direct them to creating and delivering brands.

#### 4.5.1 Working with organizations

One advantage that traditional commodity sectors have in comparison to more recent horticulture or agri-processing industries is that the supply chain structures established over decades have typically fostered private, public-sector or cooperative organizations that represent farmers, processors and exporters. These organizations can provide structure and resources for sustainable branded development. There are many examples of public-private partnerships and state-owned enterprises that play this role, from the Fiji Sugar Corporation and the Barbados Agricultural Management Company (producing sugar from Fiji and Barbados) to Meatco (Namibian beef), Winfresh (Windward bananas),<sup>94</sup> the Ghana Cocoa Board<sup>95</sup> and the Tanzania Cotton Board.<sup>96</sup>

The downside to the established, often bureaucratic institutions developed around traditional bulk commodity chains is that they can be highly resistant to innovation and unable to compete against fast-moving private-sector competitors in mature markets. Solutions will vary by country and by industry, but the experience of organizations like Meatco and the West Indies Sugar & Trading Company has proven that new approaches can overcome inertia and competitive disadvantages— almost always with private-sector investment and involvement complementing government support.

The branding initiatives for both Namibian beef and Barbados sugar were based on existing state-owned organizations – the Barbados Agricultural Management Company (BAMC) in Barbados and Meatco in Namibia. In Barbados, the government, through BAMC, invested in creating WISTCO; in Namibia, Meatco was already in place, supported by government shareholders and a UK subsidiary, and it promoted branded exports directly. The two companies involve and are responsible to both the public and private sectors, but they each use a

corporate entity for governance, sales, funding, institutional assistance and, crucially, the ownership of intellectual property.

Moreover, both bodies have boards with strong representation of primary producers. This points to another key lesson: as organizations interact with different stakeholders, farmers, in particular, need to be firmly engaged. They should understand how branding can increase incomes as well as how they, as producers, can contribute to a brand's success.

To this end, both Meatco and WISTCO use transparent mechanisms to deliver added value to primary producers – through a fixed percentage of revenues in the case of BAMC, and through price premiums to farmers in the case of Meatco. Thus, the financial benefits of branding are returned to producers through a single body where they have representation – a body that also holds long-term value through intellectual property. Building on or modifying existing organizational structures can facilitate this transfer of benefits to farmers, co-opt current relationships with industry, and provide a strong foundation for funding and governance.

#### 4.5.2 The role of facilitators

Given all the issues discussed here – from choosing the appropriate type of brand to transparently rewarding farmers – the bottom line is that building an international brand backed by a sustainable value chain is often complex and risky. The complexity can be managed and the risk mitigated only with specialist knowledge, market access, industry contacts and a focused approach. Producers and companies can acquire these through strong partnerships with NGOs, existing businesses, agents or intermediaries who facilitate skills development and access to networks in the developed world. The basic principle is similar to that of outsourcing: doing everything in-house is rarely efficient, particularly in capacity-constrained developing markets. At least four types of facilitators can speed brand development and reduce its costs:

- **Non-governmental organizations.**

Solidaridad is one of a number of international NGOs involved in creating fair, sustainable supply chains. Solidaridad typically establishes commercial partnerships, often with large multinational stakeholders, that meet development objectives and bring large benefits to producers – and it is highly active in commodity markets, including cotton, cocoa, tea and palm oil.<sup>97</sup> Another organization, the Sustainable Food Lab, specifically aims to accelerate the shift of developing-country brands ‘from niche to mainstream’ in global food chains. Their New Business Model projects include a Fine Flavour Cocoa initiative in Ghana with the backing of Hershey’s and Scharffen Berger.<sup>98</sup>

- **Research organizations.** The International Institute for Environment and Development (IIED) is an example of a research organization that plays a practical facilitation role, partly through research and partly through participation in programs such as the New Business Model project which looks to trial new approaches to sustainable supply chains including adding value through branding.<sup>99</sup>

- **Ethical agents.** Ethical agents typically apply commercial expertise to help link producers and markets in innovative, sustainable and ethical ways. Windward Strategic, a company that specializes in branding commodity

products backed by sustainable supply chains, was instrumental in establishing the West Indies Sugar & Trading Company, in which it remains a shareholder; it is now helping a range of other developing-world producer groups to establish commodity brands.<sup>100</sup> A specialist in beef supply chain management and associated marketing, played a similar role in the establishment of branded Namibian beef. The Shell Foundation’s ‘Trading Up’ program is a series of initiatives with similar objectives. It includes the Better Trading Company, which sources ethical horticultural and agricultural products from Africa – albeit with less emphasis on branding, specifically.<sup>101</sup>

- **Development agencies.** Although initiatives such as the All ACP Agricultural Commodities Programme and Focus on Agricultural Commodities (FACT) in the Pacific have made some headway,<sup>102</sup> most development agencies have given little consideration to branding agricultural commodities. Notable exceptions include the German agency GIZ, which played a significant role in some of the domestic-market brand development cases we have highlighted;<sup>103</sup> in addition, organizations such as the UK Department for International Development (DFID) and the US Agency for International Development (USAID) are becoming increasingly commercial in their outlook.

# Conclusion

In 1974, the Financial Times surveyed the new market for UK bottled mineral water and concluded that 'cranks and foreigners' were its only possible customers. They generously conceded their mistake ten years later, calling Perrier 'one of the great icons of the day'.<sup>104</sup> It would be a mistake to write off the potential for branding agricultural commodities in a similar way.

We have argued that there is nothing new in using branding to add value to primary agricultural products for the benefit of producers. This is not an academic or theoretical proposal. Commodity brands, supported by the sort of supply chain and intellectual property practices that are common in the private sector, are already helping to meet development objectives by capturing a larger portion of revenues for producers in the developing world.

Given the capacity constraints in both emerging markets and the institutions that support them, however, such non-traditional initiatives require partnerships between the local public and private sectors for financing and management. This should not be controversial, given the proven economic and social benefits and the potential for producers to gain leverage and renegotiate commercial relationships in commodity supply chains where they are currently at a disadvantage. But it does require a firm focus on action rather than studies, reports or technical assistance; a positive attitude toward risk and innovation; and a search for practical solutions to multiple gaps in capacity. Ultimately, there are always reasons not to brand commodities from the developing world, but many more to do so.

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