summary PAPER

Branding Agricultural Commodities

The development case for adding value through branding

By Chris Docherty

Introduction

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 gross domestic product (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. This is shown in Figure 1 and illustrates the bottleneck confronting producers in the developing world when seeking access to major mature markets, and specifically the EU.

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 almost US$1 million in added value for producers in 2012 alone (West Indies Sugar & Trading Co Ltd 2011), while a Namibian beef brand is delivering price premiums to farmers worth US$25 million per annum (Goodison 2010).

Defining 'brand' and 'commodity'

Brands have been defined variously as 'the public image of a business, product or individual', "a reason to choose' the 'intersection of promise and expectation' and even 'love marks'. Similarly, definitions of commodities range from the very simple, 'a raw material that can be bought and sold' to the ideological, 'capital is commodities', to the more complex, 'a good for which there is demand, but which is supplied without qualitative difference across a market'.

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. 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.

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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: Grievink, 2003.

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.

A case of two commodities

The West Indies Sugar & Trading Company sells its branded Barbados sugar at a premium into more than 1,500 stores and manufacturers in major EU export markets. This has enabled it to overcome disadvantages in production costs and capture over US$1 million in added value for producers. Similarly, a Namibian beef brand, Nature's Reserve, has used a similar approach to overcome compliance costs through focused marketing and deliver 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.

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. The case of mineral water is the most obvious example of the potential for adding value to basic commodity products in the developing world.

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Figure 2: Different types of branding

	Purpose	Examples	Ownership	Legal device
Producer brands	Distinguish between different products and their producers	• Chiquita bananas • Jablum coffee • Plantation Reserve sugar	Typically primary producers or processors	Trademark
Varietal brands	Distinguish between different varieties of product type	• Pink Lady apples • Tenderstem broccoli • Zespri kiwi fruit	Typically the owner of the variety in question	Trademark with associated patent
Geographical brands	Distinguish products through their geographical origins	• Darjeeling tea • Champagne • Idaho potatoes	Typically public sector bodies or regional associations	Geographical Indicator or Appellation of Origin
Certification brands	Distinguish products through ethical or social standards	• FairTrade • Rainforest Alliance • Organic	Typically certification bodies	Trademark

This illustrates the main different types of brand with relevant commodity examples.

Producer brands: Allow consumers to distinguish between, often very similar, products. Chiquita bananas are a good example of how this has been done for a basic agricultural commodity.

Varietal brands: Allow consumers to distinguish new varieties of product from existing varieties. A good example of this is the Pink Lady brand (Cripps Pink).

Geographical brands: Allows consumers to distinguish products based on their specific origin. Darjeeling tea is a good example of a brand registered as a 'Geographical Indicator' (GI).

Certification brands: Allow producers to distinguish between products based on generic ethical, social or environmental standards. Fairtrade is a good example of a certification brand.

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 based around engaging consumers, developing distinctive products, targeting a range of markets, leveraging limited resources and building on existing infrastructure:

- **Engage consumers**
  Mature export markets are characterized by intense competition, few buyers, complex supply chains and sophisticated consumers for whom commodities represent a low interest purchase. Producers need to develop innovative, engaging commodity brands built on inherent strengths or points of difference and leveraging the marketing expertise of third parties where necessary.
- **Develop distinctive products**
  The use of outsourcing by producers from developing countries may be fairly new, but is commonplace in mature markets as a means of circumventing both shortages of expertise and limits on physical capacity. Producers need to develop products around the core strengths of their country or company and ensure competitive advantage by using outsourcing to circumvent internal weaknesses such as marketing or product development expertise and external constraints such as quality or export standards.
- **Target diverse markets**
  Although it is possible to brand almost any product, success depends on understanding that not all customers will be interested in, or prepared to pay more for a commodity brand. It is therefore critical that high value, but high cost, export markets are balanced by domestic and regional opportunities and that high margin, but low volume, premium brands are balanced by high volume mass-market products.
- **Leverage limited resources**
  In developing countries where funding, infrastructure and expertise can be scarce, a focused branding strategy is crucial for complex commercial enterprises. Producers invest in branding that fits their resources and appetite for risk. This ranges from high-risk/ high-reward producer brands to low-risk/ low-reward certification brands. Seed funding from the public sector may also be required in order to attract private sector investment and expertise.
- **Build on existing infrastructure**
  Whether the branded commodity is sugar, beef, beer or cotton branding requires both effective organization

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Water: the ultimate branded commodity?

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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' (Fishman 2011).

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 (Forsyth 2010).

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 (West Indies Sugar & Trading Co Ltd 2011).

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.

and assistance 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. Ideally, existing producer organisations should be used as a starting point with third party expertise from ethical agents, development agencies or NGO's as required to ensure success.

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.

Conclusion

This paper argues 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 position. 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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