

JANUARY 2012

OVERVIEW

IIED Sustainable Markets Group

Project name:

New Business Models for Sustainable Trading Relationships (NBMSTR)
www.linkingworlds.org

Project leader:

Bill Vorley and Abbi Buxton

Time frame:

January 2008 to December 2011

Cost:

Approximately US\$1,000,000 for IIED's flowers value chain project, which is part of a larger programme with other value chain projects.

Objective:

To identify the characteristics of business models and trading relationships that allow smallholders growing high-value agricultural products to access modern retail markets.

PROJECT SUMMARY

Small-scale farmers can secure better, livelihoods by selling high-value produce to modern retail giants. But high demands of retail markets impose added risks. Through a project funded by the Gates Foundation, IIED, the Sustainable Food Lab and commercial experts worked with Wilmar Agro Limited – a Kenyan flower exporter already committed to a pro-poor approach – to pilot a new business model for supplying US and UK retailers. Almost €20,000 in smallholder bouquets were sold in ASDA supermarkets; and, in 42 weeks of sales, almost 600,000 stems, with an export value of more than US\$150,000, have been sold in Sam's Club supermarkets. When Wilmar had problems fulfilling fixed supply contracts, the team helped the exporter adapt products and processes to smooth the transition to new markets.

THEORY OF CHANGE

This project was a proof of concept: can 'new' business models link small-scale farmers with demanding modern retail markets that are highly punitive and exclude suppliers who don't meet their requirements? Can these models reap

Linking smallholders to modern markets

How can small-scale farmers get high-value produce onto the shelves of retail giants?

In 2008, Wilfred Kamami's family-run business was already challenging the model of Kenyan flower exports from huge commercial farms. Wilmar Agro Limited exports cut flowers from 4,000 smallholder growers to the Dutch auction market. Once a farmer himself, Kamami invests in his growers, by enabling access to bank accounts for each grower, by using transparent pricing and payment models, and through technical support for sustainable production of flowers on mixed smallholder farms.

This inclusive business model was attracting farmers across Kenya, for whom high value cash crops can secure a livelihood on small, subdivided farm holdings. But business growth was limited by the wholesale market. With prices based on supply and demand, more growers and more volumes meant lower prices. Kamami needed to sidestep the Dutch auction's monopoly and take more direct routes to flower supermarkets in order to expand his business.

IIED set out to support Kamami in finding those routes. In a pilot project for the New Business Models for Sustainable Trading Relationships programme, Wilmar supplied (and continues to supply) flowers from small-scale Kenyan growers directly to UK and US supermarkets. Consultant Steve Homer, a longtime IIED collaborator with substantial commercial experience in selling smallholder products to retailers, was the project's commercial partner. Homer in turn contracted William van Bragt, who has long worked in the flower

industry. Homer, van Bragt and IIED together served a role we call 'ethical agents' – enabling collaboration along supply chains and improving poor producers' lives by injecting knowledge, building relationships and aligning interests, rather than handling the product.

Working with Wilmar, Rainforest Alliance and Walmart's UK subsidiary, ASDA, the IIED team developed the first smallholder flower bouquets with the Rainforest Alliance sustainability certification.

In 2010, the Kenyan bouquets hit ASDA shelves and consumer shopping bags. But Wilmar soon had problems supplying flowers that consistently met the retailer's exacting requirements. After 15 weeks, ASDA ended the pilot project.

It was clear that satisfying supermarket buyers is a big jump from supplying the auction market. The bouquet business demanded specific varieties and volumes, in the right ratios, on schedule, all at uniform length and maturity – and with enough smallholder content to get the Rainforest Alliance sticker. The team was learning about the stark transition from supplying the Dutch auctions – a 'push' market where the company sends a relatively undifferentiated product at wholesale volumes to meet minimal requirements – to a retail 'pull' market that tolerates no deviation from pre-agreed volumes and specifications.

To smooth this transition, Wilmar could use the support of ethical agents to help adapt products and processes for the new

rewards and reduce risks for the farmer? Many smallholders in Kenya and elsewhere are engaged in paternalistic contract-farming schemes to export fresh produce. The NBMSTR project sought to trial alternative, more inclusive schemes that incorporate access to key services for producers and ensure fair governance, collaboration and sharing of risks and rewards across the value chain. This doesn't mean removing the middlemen or abolishing contract farming schemes. Rather, it means ensuring that these business models embody inclusive characteristics. In the flowers project, Wilmar already operated a highly inclusive outgrower model. The aim was to maintain this while supplying retailers directly rather than through the Dutch auction markets wholesale, supplying innovative products, and giving farmers a higher and more stable income.

KEY LESSONS LEARNT & INNOVATIONS

- 'Ethical agents' who combine commercial expertise and an understanding of development issues can catalyse collaboration along supply chains from poor producers to large retailers. Such agents add value through knowledge and relationships but they do not handle the product.
- 'Push' markets, which consume undifferentiated products with minimum specification, contrast starkly with 'pull' markets demanding highly specific orders. Transitioning from push to pull markets is challenging for producers and exporters, and requires careful planning and capacity building.
- Commercial or development projects that intervene in value chains and propose new business models must be able to progress by trial and error. Flexible strategies that respond to changing buyer demands and new learning at the supplier end are essential.

PARTNERS' VIEW

Wilmar is not the same company it was at the beginning of this project. We have a new vision and are flying ever higher thanks to all the stakeholders participating in the NBMSTR project.

Wilfred Kamami
Wilmar Agro Limited

IIED SUSTAINABLE MARKETS GROUP

The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The group brings together IIED's work on market governance, business models, market failure, consumption, investment and the economics of climate change.



Photo: Abbi Buxton

Kenyan smallholders have been supplying flowers to Sam's Club supermarkets after 'ethical agents' helped them negotiate flexible terms.

'pull' markets while being conscious of the impacts on the business and smallholders. First, IIED and van Bragt renegotiated the Rainforest Alliance certification standard. Now bouquets were allowed to contain fewer smallholder-grown flowers, allowing for substitution when smallholder production was unable to meet the requirements. The team also arranged for Wilmar to sell bunches of single flower varieties, which could be packed in Kenya to add value locally. Drawn by the ASDA pilot, the US retailer Sam's Club, another Walmart subsidiary, began purchasing these certified 'consumer bunches' as well as a limited number of bouquets.

The innovation in products meant that Wilmar's capabilities could better match their customers' needs, with smallholder growers supplying the same or greater volumes. The ethical agents worked with Sam's Club to finetune the bouquets to the capacity of the supplier, while helping Wilmar strengthen their systems and communications. With the product and process improvements, Wilmar has been supplying 100 Sam's Club stores since July 2011.

The ethical agents provided support and opened doors at many levels of the supply chain. Their commercial knowledge and connections enabled Homer and van Bragt to create new retail opportunities, build Wilmar's capacity, negotiate terms of supply, and encourage flexibility from the buyer. Ethical agents — with their network of relationships and 'insider' knowledge — were crucial in engaging retailers, cultivating their interest in a new business opportunity that is more

than corporate social responsibility. In negotiations over the Rainforest Alliance certification, IIED could credibly communicate how inflexible certification was hurting growers, while van Bragt described expectations at the retail end of the chain. IIED also introduced systems to monitor the fairness of trading relationships along the chain. At the end of the project, the agents could step back knowing a commercially viable supply chain was in place.

Going forward, IIED will apply lessons from this project to a variety of other efforts to link small-scale producers with demanding formal markets — in agriculture, textiles, energy, mining and payments for ecosystem services. Different as these sectors are, understanding the network support and expertise needed to succeed in more demanding or formal markets is key.

In the four years of the project, the IIED team has revised strategies again and again. We moved from bouquets to single varieties; from niche supply of development products to mainstream supply of innovative products; and from 'off the shelf' certification to tailored, flexible certification. Had we kept to a rigid plan, we couldn't have responded to unexpected challenges and opportunities. For any project testing new business models, flexibility is key to success.

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