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The guide is based on: a) experiences of research projects in several countries in Latin America and Africa; b) successful results of more than twenty business model case studies which have proved to work for small-scale producers; and, c) the growing literature around business models as a design/development tool to augment the effectiveness of business processes to fight poverty.

The suggested method was implemented in several countries in Latin America between June 2011 and May 2012. The present iteration of the guide has been tested in Colombia, Panama, Ecuador and Nicaragua. The authors appreciate the support of all participants in the process of testing and improving this guide in advance. Special thanks are due to the ACUA project funded by the International Fund for Agricultural Development (IFAD) in Colombia, Ecuador and Panama; Catholic Relief Services and the ACORDAR project staff in Nicaragua; and, Fundamerica in Colombia.

We invite both individuals and organizations to use this methodology to design and implement inclusive and sustainable business models linking small scale producers in developing countries to markets.

The current version of this guide is a prototype and, therefore, subject to improvement and change. All users who apply these methodological tools in their fieldwork should feel free to make the necessary adjustments and adaptations to this guide to make it as useful as possible according to their conditions and needs. The authors greatly appreciate any feedback from field practitioners for improved and strengthened iterations of this guide.

Let’s get started!
What’s in the TOOLKIT?

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THE GOAL OF THIS TOOLKIT is to build inclusive and sustainable TRADING RELATIONSHIPS linking small-scale producers to modern markets

The LINK methodology will help you understand the current functioning of the market chain and key business models, design innovations that empower producer groups to engage more effectively and buyers to act in ways more amenable to small holder farmers. At the end of the day, this method seeks to build bridges between the often disparate worlds of small holder farming in the developing world and emerging market opportunities both in the global south as well as developed economies.
INCLUSIVE BUSINESS

A profitable core business activity that also tangibly expands opportunities for the poor and disadvantaged in developing countries. (BIF 2011)

An economically profitable, environmentally and socially responsible entrepreneurial initiative. (WBCSD, SNV 2011)

Engage the poor as employees, suppliers, distributors, or consumers and expand their economic opportunities in a wide variety of ways. (BIF 2011)

Inclusive Business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. (UNDP 2008)

INCLUSIVE TRADING RELATIONSHIPS

Inclusive trading relationships are the result of business models that do not leave behind small holder farmers and in which the voices and needs of those actors in rural areas in developing countries are recognized.
MAPPING BUSINESS MODELS AND OTHER DEVELOPMENT APPROACHES

ECOSYSTEM CONTEXT
- suitability
- productivity
- sustainability
- adaptability

SOCIAL CONTEXT
- livelihood
- gender
- food security
- diversification

HOUSEHOLD SYSTEM

AGRICULTURAL SYSTEM

MARKET SYSTEM

VALUE CHAIN
- farmers
- intermediary
- processor exporter
- wholesaler importer
- manufacturer retailer
- service providers
- service providers

trading relationships

PARTNER NETWORK: allies, neutral, blockers

CONSUMER DEMAND

ECONOMIC ACTIVITY

INFORMAL NETWORKS
- NGO
- GOV.

LIVELIHOOD STRATEGY
What is needed at the household and agriculture system level to increase gains and reduce risk?

UPGRADING STRATEGY
What is needed at the farm and processing level to meet the product requirement? To include asset poor farmers?

BUSINESS MODEL
Is there a viable business model for the intermediary that supports the services needed for inclusive sourcing?

PRODUCT VALUE PROPOSITION
What are the key elements of the product value prop? Variety, quality, ethical story, etc.

INCLUSIVE AND DURABLE TRADING RELATIONSHIPS
Can we improve supply chain coordination? Market linkages? Fairness, transparency and risk? Access to services?

Source: Seville, Don. Sustainable Food Lab for Linking World Conference.
ELEMENTS FOR INCLUSIVE BUSINESS MODELS

Capable farmers (skills, capacity & organization)

Willing buyers (private sector policies)

Enabling environment (public / donor policies)

NEW BUSINESS MODELS FOR SUSTAINED TRADING RELATIONSHIPS

Adapted from www.regoverningmarkets.org by CIAT
AGRICULTURE HAS SPECIAL POWERS IN REDUCING POVERTY

SMALL-SCALE FARMERS, whose output supports a population of roughly 2.2 billion people, manage about 85% OF THE WORLD’S FARMS. Agriculture is a SOURCE OF LIVELIHOODS FOR AN ESTIMATED 86% OF RURAL PEOPLE (2.5 billion people) and PROVIDES JOBS FOR 1.3 BILLION smallholders and landless workers.

A more dynamic and inclusive agricultural sector could dramatically reduce rural poverty, helping countries meet the Millennium Development Goal of halving poverty and hunger by 2015. Cross-country econometric estimates show that overall GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country’s population as growth generated in nonagricultural sectors. Beyond its direct contribution to growth, a number of features specific to the sector enhance its contribution to pro-poor growth, including the concentration of the poor in the sector, the large size of its growth linkages to other sectors, and the positive externalities from assuring food security and reducing food prices.

Donors, business and civil society are in broad consensus on benefits of linking smallholders to modern markets. Sustainable development is increasingly being integrated into business practice to improve the quality and security raw material supply and to contribute to the Millennium Development Goals (MDGs).

Making business more inclusive for small-scale suppliers is a way to enhance corporate reputation, gain legitimacy in local markets and create ‘ethical’ products. Beyond these considerations, however, the authors of this guide sustain that inclusive business in an era of tightening global supplies and natural resource limitations is simply good business. Farmers gain access to markets, knowledge, technology and income while buyers are better able to source key raw materials, to their specifications at a competitive cost and, in some cases, maintain access to higher quality raw materials. As markets shift from buyer-driven to supply constrained, farmers will increasingly be able to choose from a number of ‘preferred buyers’ to sell their goods. Business models that are inclusive of smallholders, provide economic and social development opportunities and more effectively link actors in a coherent and traceable way constitute one way to adapt to a supply-constrained market.
Linking smallholders to dynamic markets provides an opportunity for more rapid poverty reduction but ensuring that investment delivers both commercially viable products and value to smallholder presents structural challenges. Decades of underinvestment mean that small-scale producers in low- and middle-income countries often operate in areas with inadequate infrastructure (roads, electricity, irrigation and wholesale markets). They lack access to skills and services (training, credit, inputs) and are highly dependent on favorable weather. High procurement costs associated with collecting, grading and bulking product from dispersed suppliers, along with problems of farmers ‘side selling’ to traders, require creative solutions to aggregating production and supplying the consistent quality that formal markets require. Due to these challenges, buyers have been biased towards the reliability and consistency of large farmers and suppliers.


Our goal is NOT to link the poorest farmers to the most demanding markets but to invest in moving farmers up and make markets more accessible.

1-2% are the commercial farmers (2% of farmers account for 50% of maize sales)

3-15% are regularly selling into markets

20-30% are occasionally connected to markers and are food buyers

40-50% are subsistence (e.g. maize), buy in food, and get most cash from off farm work.

Source: Nicholas Sitko, Michigan State University. Study presented at the Agro-Enterprise Learning Alliance for Southern and Eastern Africa.
INCLUSIVE INNOVATION

This toolkit will walk you through an innovation process based on a set of participatory tools adapted from value chain analysis, business model assessment, prototyping and related fields. The methodology is grounded in a set of emergent principles that have shown to be effective in supporting long-term sustainable trading relationships between small-holder farmers and formal markets. At the end of the process you will have succeeded in understanding the relationships between specific business models and the overall value chain; identified critical areas for improvement; designed, implemented, evaluated and improved innovation prototypes; built an improved business model; and, evaluated the effects of these changes on smallholder farm families and the business itself.
3 PERSPECTIVES

NGO

I have a mission to support small-farmers through service provision and coordination with buyers.

FARMER

I am looking to sell my product better to buyers.

BUYER

I am seeking to expand my supply chain to include small-holder farmers.
Sources of inclusive innovation

Value Chain

1. Farmers
2. Aggregation/Processing
3. Feedback/Adjustment
4. Markets

Market System

External Environment

PARTNER NETWORK

CHAIN ACTORS

UPGRADING STRATEGY

TRADING MODEL

LEAD FIRM MODEL
WHAT TOOLS CAN WE USE TO DETERMINE AREAS OF INNOVATION WITHIN MARKET CHAINS?

1. Value Chain
2. Business Model Canvas + Value Proposition
3. New Business Model Principles
4. Prototype Cycle
SOURCES OF INNOVATION: GUIDING QUESTIONS

Key Tools

1. VALUE CHAIN
   - Partner Assessment
   - Drivers Trends

2. BUSINESS MODEL
   - Biz Model Typology
   - Value Proposition

3. NBM PRINCIPLES
   - Change Strategy
   - Monitor + Evaluation

4. PROTOTYPE CYCLE

Supporting Activities

1. Partner
2. Drivers
3. Trends
4. Biz Model
5. Typology
6. Value
7. Proposition
8. Change
9. Strategy
10. Monitor
11. Evaluation

UPGRADING STRATEGY

- Are investments needed to meet product requirements or improve productivity? To include asset poor farmers?

LEAD FIRM

- What products, strategy, or purchasing practices can promote smallholder inclusion?

INTERMEDIARY

- Does the business model provide services and practices that support smallholder inclusion, benefits & risk mitigation?

PRODUCER

- What changes or support are needed to serve selected clients? Who are our allies?

PARTNER NETWORK

- Who else needs to be engaged as ally? Who might block change?

REVIEW COMMERCIAL RELATIONS

- Are the trading relationships inclusive, durable, and fair? Are there needs and opportunities around collaboration? Market linkages? Transparency and risk sharing? What services are needed by the farmers and the intermediary?

IMPACT ASSESSMENT

- "What would success look like? How will you track and share progress on business goals and livelihood gains as well as wider social and environmental changes?"
WHY USE THIS TOOLKIT?

Because it can help your organization facilitate a systematic learning process between actors from a selected market chain. It can help you discover new opportunities for innovation. It can help actors increase their competitiveness through the creation of effective solutions. Its market focus produces results that are economically viable and commercially sustainable. Its process of evaluation can help you design, test, validate and document innovation and the results of that innovation in terms of small-holder livelihoods. It can improve the inclusion and livelihood of small-holder producers.
Observations on the use of PARTICIPATORY METHODS

This guide is based on participatory methods adapted from the school of Participative Learning and Action (PLA). These methods, which include focus groups, mapping, visualizations, and other forms of facilitated reflection, seek to prioritize not only documented results, but also the process of application. Although a concrete result is generated at each stage in the process, i.e. A map, a matrix, a table etc., these products are not the central purpose of the exercise. Of equal importance and benefit to the participants is the time and space they have invested in analysis and reflection around the methodological tool. The discussion and agreements reached are generally more important than the final tangible results of the method.

The use of participatory methods in this guide encourages members to air their views and we aim to hear many voices speaking about a single market chain or business model. These points of view will be quite different – what a rural producers thinks is very different to what a city buyer thinks – but all the viewpoints have important information regarding the reality of the market chain or business model. To understand the market chain and the individual business models, their strengths and weaknesses, and the design of a shared strategy to build stable, durable and profitable trading relationships, requires listening to all voices equally. The role of the facilitator in this process is to systematize and document the information and present it back to the participants so that they can use this information to make more informed decisions on what to do together to improve their economic activity.
MARKET ORIENTATION
An inclusive business model is a business tool, designed to support enterprise activities that increase income and respond to market demands and opportunities. Before designing a strategy to improve trading relationships, the local facilitators should have a clear idea of the strengths, weaknesses, and potential for enterprise development in their local area and have up-to-date information on the existing market opportunities and the aim of the participants. Methods to gather this information can be found here:

WORKING WITH THE PRIVATE SECTOR
An additional objective is the identification and development of synergies among actors involved in the business model. The organization facilitating the process should involve representatives of all relevant actors to highlight their interdependence and the possibilities of improving their business activities. This does not mean that all actors participate at all times in the activities outlined in this guide. Most private sector representatives will not attend long workshops and therefore the process facilitator may need to interview some actors to capture their opinions and relay these ideas to the group in the analysis or design phases. In all cases, private sector representatives should review the analysis of the market chain and be key participants in the final design of the business model prototypes. Despite being less participative due to time constraints, these actors can often help (or hinder) any proposed change in the market chain, and therefore must be included.

COORDINATION AMONG DIFFERENT ACTORS TO IDENTIFY AND DEVELOP SYNERGIES
This methodology assumes that areas of common interest between diverse actors in the business model are not evident. For this reason, the methodology seeks to incorporate and motivate a range of actors to define common objectives and strategies, thus permitting a coordinated effort between them. In this approach, it is important to ensure that key actors are included in the process. The organization facilitating the process should have working relations with the key informants or actors in the private sector including enterprises, supermarkets local, and external traders and those offering business development services, etc. If this work is facilitated by a private firm, it may be useful to engage relevant local development actors as well as farmer groups in this process. This sometimes complicated, given time limitations and the need to develop rapport and trust. However, the ability to engage these actors is critical because of the information they manage regarding the market system, rural development issues, business model and market potential and possible paths for innovation and improvement.
Guidelines for adapting the process to LOCAL NEEDS

RESPECTING PEOPLE’S TIME, NEEDS, AND DIFFERENCES

Participant’s time is valuable and should not be wasted. In certain parts of this guide, it is better to separate actors so that their time is used most effectively. Traders for example are busy people and do not appreciate time spent discussing other peoples business that is not relevant to their area of activity. The facilitator should therefore evaluate whether certain actors are best interviewed within a mixed group, or interviewed separately.

As the method moves from more general themes at the level of the market chain to focus on the specific business model to be assessed and improved, it is critical to maintain the interest and momentum of the process with the participants. In some cases it may be necessary to gather additional information to assess the feasibility of proposed changes to the business model. Rather than stopping the entire group to conduct this assessment, the facilitation team may opt to identify one or two members of team (or external support actors) who can assist in this process.

Each working session for this workshop should be clearly structured with objectives, proposed activities and expected results. The use of participatory methods, noted for their flexibility, should not be seen as an excuse for inadequate workshop preparation or organization. At the end of each session, participants should feel that they have gained understanding and insight into their market chain and business model and are better able to communicate that information to peers and others. An indicator of a good workshop is when all participants can clearly explain the current status of the business model as well as concrete ways that it might be improved.

Finally, the process facilitation team should pay close attention to documenting and sharing results from this method early and often with participants and any other key stakeholders identified. These results need not be professionally designed but they should be complete, clear and readily understandable to all involved. For example, the analysis of the market chain might be communicated to all through a picture of the chain map with a short description of the key discussion points.

The responsibility for setting and keeping a good rhythm, level of participation and documentation process lies with the facilitation team. This team, while not a direct participant in the business model, is a critical element for the successful implementation of this method and should not be overlooked.
How to use the TOOL KIT?

All the proposed tools aim to enhance inclusiveness for small holder farmers by strengthening trading relationships and performance of the market chain as a interdependent system.

According to specific context, needs, budget and possible entry points, every tool kit “user” should apply their own best judgment when selecting, using and combining those tools in the way that results most beneficial to your purpose.

4 key tools:
They are called ‘key’ because they form the basic framework through which to start an innovation process from scratch and end with an iterative functioning action cycle that contributes to greater performance and benefit for small holder farmers in the business system.

2 add-on tools:
Add-on’s are designed to offer additional support or information to use when difficulties arise related to the innovation process as such.

Neither the 4 key tools nor the 2 add-on tools are obligatory or have to be implemented in the suggested manner. Our experience has shown this to be one way to achieve the desired outcome but please feel free to re-combine, add or skip over tools.

A prototype itself

This method is a prototype based on our best understanding of how to facilitate inclusive and sustained trading relationships between small holder farmers and their commercial partners. As such, users are invited to innovate around these approaches, adapt and improve them to their ends and add additional tools as needed.

How to read the roadmap

The next three pages show a visual overview of the field guide.

1. Guiding questions – what are the key questions that the guide will help you think through.
2. Purpose – what is the objective of each of the steps of the guide and what key questions will each step help you think through.
3. Roadmap – In addition to the key tools, what additional tools might be useful for a deeper understanding of market dynamics and the type of business model under study.

→ underlines the flow from one key tool to the next key tool

·······→ underlines possible points of view for a direct entry point

→→→ underlines the use of add-ons
ROADMAP: GUIDING QUESTIONS

1. VALUE CHAIN MAP
   - Key questions:
     - Who are key actors and what are their roles?
     - How do products, services and information flow through the chain?
     - Who are (potential) partners?
   - “I want to zoom in and focus on one critical business link.”

2. BUSINESS MODEL CANVAS
   - Key questions:
     - How can I understand the functioning of a specific set of connections in the value chain?
   - “I want to improve inclusiveness through innovation.”

3. NBM PRINCIPLES
   - Key questions:
     - How inclusive is the business?
     - How to identify areas for change?
   - “I want to evaluate the inclusiveness of my business.”

4. PROTOTYPE CYCLE
   - Key questions:
     - How can I move from theory to action?
     - How can I incorporate innovation ideas in a work plan?
   - “I need help with the implementation of an inclusive innovation.”

“I am looking for a participatory toolkit to enhance inclusiveness for small holder farmers.”

“I want to identify bottlenecks and opportunities.”

“"I am looking for a participatory toolkit to enhance inclusiveness for small holder farmers."”

“"I want to improve inclusiveness through innovation."”

“"I want to evaluate the inclusiveness of my business."”
ROADMAP: PURPOSE

1. Purpose: Understand the basic context in which the business is operating

Key questions:
Who are key actors and what are their roles?
How do products, services and information flow through the chain?
Who are (potential) partners?

 VALUE CHAIN MAP

2. Purpose:
(1) Analyze functioning of a specific organization including up and downstream connections
(2) Framework for a snapshot of today’s situation and tomorrow’s vision.

 BUSINESS MODEL CANVAS

Key questions:
How can I understand the functioning of a specific set of connections in the value chain?

3. Purpose:
Enhance efficiency within a context of social inclusion

Key questions:
How inclusive is the business?
How to identify areas for change?

NBM PRINCIPLES

4. Purpose:
Improve inclusiveness and performance through iterative up-scaling

Key questions:
How can I move from theory to action?
How can I incorporate innovation ideas in a work plan?

PROTOTYPE CYCLE

22
“I am looking for a participatory toolkit to enhance inclusiveness for small holder farmers.”

**KEY TOOL # 1: Value Chain Map**

Purpose: Understand the basic context in which the business is operating.

Key questions:
- Who are key actors and what are their roles?
- How do products, services and information flow through the chain?
- Who are (potential) partners?

“Who are key actors and what are their roles?”

“Who are (potential) partners?”

“I want to zoom in and focus on one critical business link.”

“Who are key actors and what are their roles?”

“I want to design a new business under inclusivity aspects.”

“I want to measure the inclusiveness of my business.”

“I am just looking for a baseline to identify bottlenecks and opportunities.”

“I need help in identifying critical points and opportunities.”

“I need help with the implementation of an inclusive innovation.”

“I want to improve inclusiveness through innovation.”

“I want to understand typical characteristics of inclusive business models.”

“I want to measure the inclusiveness of my business.”

“I want to design a new business under inclusivity aspects.”

“I want to zoom in and focus on one critical business link.”

“One critical business link.”

“I want to improve inclusiveness through innovation.”

“Drivers, trends and key implications.”

“I need help in identifying critical points and opportunities.”

Key questions:
- How can I move from theory to action?
- How can I incorporate innovation ideas in a work plan?

Purpose: Enhance efficiency within a wider social context.

“Key questions: How inclusive is the business? How to identify areas for change?”

“Purpose: I need help in identifying critical points and opportunities.”

“Key questions: How inclusive is the business? How to identify areas for change?”

“Key questions: How inclusive is the business? How to identify areas for change?”
KEY TOOL #1
THE VALUE CHAIN MAP
I represent a producer organization...

“I am looking for a practical tool that I can explain to other members of my community”

“I want to know what part I play in the big picture”

“I want to understand what role the intermediary plays”

“I want to increase my competitiveness”

“I want to show other actors how important my input is for the chain”

I represent a company...

“We want to start sourcing from small holder producers”

“We want to find out if it is possible to source from small holder farmers”

“We are sourcing from small-holder producers already and want to improve our trading relationships”

“We don’t really know who the people behind the products we buy are”

I represent an NGO or development agency...

“We are looking for a participatory tool to visualize the entire chain from input supply to the final customer”

“We want to initiate an innovation process with the goal to enhance small holder inclusiveness”

“We are looking to identify critical entry points to improve the position of smallholder producers in the market system”

“There is no relevant information available and we start from scratch”

“We are looking for a tool that can be used both by producer organizations and by companies”

PERSPECTIVES

KEY TOOL #1
THE VALUE CHAIN MAP
WHAT IT CAN DO

Visualize the diverse roles and connections between participating actors in the chain and identify sources of innovation and improvement.

Provide information from a macro perspective about situation and context; help see the context and provide a systemic overview.

Trace product and information flows

Identify key actors and functional stages

Provide an entry point into upgrading processes at a systemic level

Complement a visual and actor orientated learning process

Show blockages, bottlenecks and disruptions in the market system

WHAT IT CAN’T DO

Provide a detailed revision of the inner workings of participating organizations

Function to its full potential without the active participation of key actors

Generate firm or organization specific processes of innovation

KEY QUESTIONS

What are the core processes in the value chain?
How is the chain organized?
Who are the key actors?
How do products, payments, services and information flow through the chain?
Who are key partners?
What are the external influences that affect the performance of the chain?

GOALS

Define relationships and interconnections

Understand the flow of products, services, information and payment

Enhance communication between different actors

Identify entry points or key leverage points to improve the value chain

PROFILE

KEY TOOL #1
THE VALUE CHAIN MAP
THE CONCEPT

“A value chain is a connected series of organizations, resources and knowledge streams involved in the creation and delivery of value to the end customer”
THREE LEVELS OF VALUE CHAIN MAPPING

A. CORE PROCESSES
Understand how the different business links function together as a system

B. PARTNER NETWORK
Identify and assess the relationship, leverage points, capacities and resources of partners including support services and stakeholders

C. EXTERNAL INFLUENCES
Understand the context it which the system operates
A. THE CORE PROCESSES OF THE VALUE CHAIN

Mapping the Value Chain is one possible starting point for the inclusion of smallholder producers. It is especially helpful when starting from scratch and when participants do not share the same level of information about market chain and the context in which it is embedded.

A visual map of the Value Chain facilitates an understanding of the system’s dynamics and has the capacity to reveal:

- Key actors involved in the chain, boundaries of the system, inter-relationships and functional roles.
- Flow of goods, services, payments and information along the chain.
- Linkage points, gaps or blockages between actors.

Common stages in the context of agricultural small holder producers include activities of preproduction, production, post harvest, processing, selling and retailing, but can be subdivided further if required.
Map the value chain’s core processes

What are the core processes in the value chain?
Who are the actors involved in the processes and what do they do?
What are the flows of product, payments, information and knowledge in the value chain?
What is the volume of products, the number of actors and jobs
Where does the product or service originate and where does it go?
What types of relationships and linkage exist?
How do products, payments, information and knowledge flow through the chain?

1. IDENTIFY FUNCTIONAL STAGES OF THE VALUE CHAIN INCLUDING KEY ACTORS AND THEIR ROLES
Discuss with the group the functional stages of the value chain from the beginning to the end. Identify which actors are involved in the different stages of the process and what their role is. Write the information on individual paper cards and group connected cards spatially together. During the discussion, capture key words to add to the labeled paper card.

2. DRAW INTERCONNECTIONS AND FLOWS INTERVIEW THE MAP
Ask the actors to define their interconnections in reference to flow of product, payment, communication and knowledge. Also think of non-sequenced interconnections e.g. producer – trader. Visualize the relations among the actors by drawing connective lines on the value chain map.

3. INTERVIEW THE MAP
Once the basic structure of the value chain is clear and the participants have gained a basic understanding of how the different stages of the value chain connect to one another, more detailed information can be added to the value chain map. The key questions can be used to elicit additional information.
The PARTNER NETWORK is included in the market chain’s wider vision and its purpose is to **support**, **intervene** or **assist** the different links of the chain and facilitate the development of the business. Partners are external actors or organizations (public or private) that are not included in the value chain’s core stages but occupy a critical role in the functioning of the business and enable the chain to operate efficiently. Usually a value chain is supported by public or private sector partners that deliver a number of business support services at critical point of the core stages (production, post-harvest and marketing). In chains that do not function efficiently, it is probable that partners are missing or not working in an effective fashion.
Map the value chain’s partner network

Start a group discussion by introducing the following key questions. Capture the key discussion outcomes on paper cards and stick them to the functional stages of the core process where they belong to.

1. IDENTIFY PARTNERS AND STAKEHOLDERS
   - Who in each link of the market chain supports the business?
   - How do they support the chain?
   - What services do they offer?
   - Are services missing? Who could provide the missing services?
   - Who is an ally, neutral or a blocker?

2. HIGHLIGHT LEVERAGE POINTS
   - What are each stakeholder’s domains of influence, interests, strengths and relative power to either support or block change?
   - What is each stakeholders relative power and how is it being used?
   - What are the key relationships in the system? Are they working well or not?

3. UNVEIL MOTIVES AND INCENTIVES
   - What are each stakeholder’s capacities and resources?
   - What incentives could motivate a change process?
   - Options or tactics to maximize incentives and enable change?
   - Additional partners needed to address challenges?

Sources of market information:
The sources of primary information on the value chain are the actors themselves. Access to this information may be limited as partners will not be able to fully participate in the workshops because of their business activities or interests. This is where market information gathered through a market survey is critical.

Check Section 6 of the following link for guidance on this topic: [http://webapp.ciat.cgiar.org/agroempresas/pdf/good_practice_guide_4/complete_guide.pdf](http://webapp.ciat.cgiar.org/agroempresas/pdf/good_practice_guide_4/complete_guide.pdf)
C. THE EXTERNAL INFLUENCES

Value chains do not exist in a vacuum. They are part of a larger socioeconomic systems and institutions in a country. These institutions may be formal (i.e. legislation or laws) or informal (i.e. cultural practices) and operate at diverse scales. These larger systems can facilitate, limit or be neutral to the development of the value chain. It is especially important to assess how formal and informal institutions effect the participation of the poor, women, ethnic minorities and other often excluded members of society.

exercise #3

Map the value chain’s external influences

Introduce the five external forces through the following key questions and select with the participants what areas are relevant for the context of their specific value chain. Capture key information on paper cards and stick to the existing value chain map.

**ECONOMIC**
- What macro-economic forces affect the value chain performance? (e.g. Global market conditions, exchange rates)
- What micro-economical forces affect the value chain performance? (e.g. infrastructure access, credit accessibility, land tenure)
- What socio-economical forces affect the value chain performance? (e.g. income, land tenure, housing, healthcare, life quality)

**POLITICAL LEGAL**
- How do laws, regulations, standards or taxes influence the value chain and the selected market?
- How do private sector standards and business practices influence the value chain and the selected market?
- How do other policies influence the value chain? (Pricing policies, consumer policies, etc.)

**SOCIO-CULTURAL**
- What are the cultural, religious, demographic, educational and ethnic circumstances of the value chain actors and partners?
- How do values, beliefs, attitudes and lifestyle influence consumer preferences, business practices and producer organizations?

**ENVIRONMENTAL**
- How does climate change and variability influence the value chain?
- How does the chain relate to key environmental functions (e.g. water access, soil health) and do these support or inhibit the development of the chain.

**TECHNOLOGICAL**
- Is technology available for the value chain actors and its partners?
- Is the use of technology desired or possible?
- How do the costs and availability of technology affect the value chain?
- Is technology developed and available locally for the chain or does it come from external sources?

Sources of market information:
Same as for the partner network, it might be necessary to gather secondary information through a market survey. Check Section 6 of the following link for guidance on this topic:

CASE EXAMPLES

Strawberry Chain, Mexico
Cocoa Case, Ecuador

KEY TOOL #1
THE VALUE CHAIN
Your value chain map can look like this...
STRAWBERRY CHAIN, MEXICO

KEY TOOL #2
THE BUSINESS MODEL CANVAS
WHAT IT CAN DO

Facilitate a grounded dialog between farmers, development and business actors and, as a result, a clearer idea on how business processes can support social development and vice versa.

Provide a rapid picture of an organization’s business model for analysis.

Highlight bottlenecks and (financial) imbalances

Identify areas for innovation or improvement

Present complex business issues in an easy and accessible fashion

Help enhance business thinking at the farm level

WHAT IT CAN’T DO

It complements, but does not replace, existing work on value chains, competitiveness and sub-sector development.

The business model constitutes an additional tool that can support our growing rural enterprise development toolkit. As with the other tools, it is possible to misuse this approach or apply it superficially.

The business model constitutes an additional tool that can support our growing rural enterprise development toolkit. As with the other tools, it is possible to misuse this approach or apply it superficially.

KEY QUESTIONS

How does my organization or business function?

Is the existing business model viable?

Does the business model provide the services needed for inclusive sourcing?

Can changes to my business models improve the inclusion of smallholder farmers?

Is farm level upgrading feasible and can the additional costs be absorbed by the producers?

Can the intermediary bear the costs of the services and investments needed for inclusivity?

Can the value proposition to the final buyer support the additional costs and complexity of a smallholder inclusive supply chain?

KEY TOOL #2
THE BM CANVAS

GOALS

Assess how a key business in the value chain functions

Develop a shared language to describe and assess a business model

Create a baseline for the development of innovations in the business model

PROFILE
I represent a producer organization...

“We need stable and fair partnerships with our customers”

“We want to become a competitive partner in the trading chain”

“We are just about to start a business partnership with a new customer”

“We are looking for new ways to present our organization”

“We want to improve our performance”

“We want to start product or process innovation”

I represent a company...

“We need a more comprehensive review of our business to help us to avoid typical problems of small holder sourcing”

“We want to innovate through the inclusion of small holder producers as a new supplier base.”

I represent an NGO or development agency...

“We are market facilitators”

“We want to dive into the different actor’s business models”

“We want to learn new tools to strengthen our market approach”

“We want to identify ways that business can promote improved trade as well as social inclusion and poverty reduction for the poor”
THE CONCEPT

IN THEORY AND PRACTICE

“A business model describes the rational of how an individual firm creates, captures and delivers value”

Alexander Osterwalder

KEY TOOL #2
THE BUSINESS MODEL CANVAS
<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Resources</td>
<td>Channels</td>
<td>Core Structure</td>
<td>Revenue Streams</td>
<td></td>
</tr>
</tbody>
</table>

Efficiency  

Value
THE CLASSIC BUSINESS MODEL CANVAS

4 AREAS
9 BLOCKS

HOW?
WHAT?
WHO?

HOW MUCH?

Adapted from: www.businessmodelgeneracion.com

Osterwalder, 2010
THE CLASSIC BUSINESS MODEL CANVAS

4 AREAS

9 BLOCKS

Key activities
Value proposition
Customer relationship
Customers
Partners
Key Resources
Channels
Cost structure
Revenue Streams

Adapted from: www.businessmodelgeneracion.com

Osterwalder, 2010
NINE BUILDING BLOCKS

1. **Customer Segments**
   An organization serves one or several Customer Segments.

2. **Value Propositions**
   It seeks to solve customer problems and satisfy customer needs with value propositions.

3. **Channels**
   Value propositions are delivered to customers through communication, distribution, and sales channels.

4. **Customer Relationships**
   Customer relationships are established and maintained with each Customer Segment.

5. **Revenue Streams**
   Revenue streams result from value propositions successfully offered to customers.

6. **Key Resources**
   Key resources are the assets required to offer and deliver the previously described elements.

7. **Key Activities**
   ... by performing a number of Key Activities.

8. **Key Partnerships**
   Some activities are outsourced and some resources are acquired outside the enterprise.

9. **Cost Structure**
   The business model elements result in the cost structure.
Customers are at the core of the business model because, without them, no business can survive. It is important to understand the needs of the customers or customer segments to determine how to best satisfy those needs. For small holder producers the customers are often unknown which makes it even more important to invest time to understand their needs and preferences. In the case of farmer organizations, customer segments can be different types of buyers. (A customer segment can be the focus of inclusive businesses but this toolkit rather focuses on the inclusion of small holders as a supplier base.)

KEY QUESTIONS
Who are our customers?
For whom are we creating value?
Who do we sell our products or services to?
Who are our most important customers or customer groups?

ADDITIONAL QUESTIONS
How do we identify our customers’ needs?
How do we respond to our customer’s needs?
How do we go about acquiring new customers?

Grouping customers in segments?
Defining customer segments makes sense if:
- Customer’s needs justify a distinct product or service
- Customers are reached through different distribution channels
- Customers require different types of relationships
- Customers have substantially different profitability
- Customers are willing to pay for different products or services

Typical Customer Segments are:
- Mass market (i.e. wholesale markets)
- Segmented market (i.e. distribution to a range of clients based on different quality standards)
- Niche market (i.e. clients focused on a specific quality)
- Diversified market (i.e. diverse products for different clients)
The value proposition and cost management structures underpin the success of any business model. The value proposition is the reason why customers choose your product or service over another. To identify the value proposition for each customer or customer segment, consider the problem or need your product or service satisfies. In the context of small holder inclusion, business models beyond a mere economic value are needed. The value opposition should offer a solid combination of economic, social and environmental value to both downstream (to whom you sell to) and upstream (to whom you buy from) actors.

**KEY QUESTIONS**
- What value does the organization offer to the customer?
- What bundles of products and services are we offering to each customer segment?
- Which customer need is this satisfying?
- What value does the organization offer to upstream links e.g. supplier base?
- What social and environmental value does the organization offer?
- Which one of our customer’s problems are we helping to solve?
- Does the company deliver additional value towards suppliers?

**THE DOUBLE-FACING VALUE PROPOSITION**
In the case of inclusive business models, it is important to look at the value proposition from at least two perspectives, (1) from the producer’s point of view and (2) from the customer’s perspective. Inclusive business models should be responsive to the realities of smallholder production as well as to market demands. For modern agri-food chains, almost all value propositions for buyers are built on high standards for food quality and safety, year-round availability, and, sometimes, lower prices, communicated to consumers through brands.

See case example: Cuatro Pinos, Guatemala

**What creates value for a buyer?**
- Quality of supply
- Reliable supply
- Social license to operate
- Brand/Customer Story
- Compliance with food safety standards

**What creates value for a small holder?**
- Stable and consistent demand
- Service provision
- Training, education
- Credit, financing
- Contracts
BLOCK #3: CHANNELS

Channels refer to how the business reaches and interfaces with its customers. In the case of agricultural products, the sales channel often is equivalent to the logistics supply chain, which transfers the product between the producer and the final customer. This section analyzes the tools (physical or virtual) that are used to reach the customer during the 5 different stages of the buying process.

KEY DISCUSSION QUESTIONS
Through which channels is the product or service delivered?
Through which channels is the value proposition communicated?
How are our channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES
1. Awareness:
   How do we raise awareness about our products and services?
2. Evaluation:
   How do we help customers evaluate our value proposition?
3. Purchase:
   How do we help customers purchase specific products and services?
4. Delivery:
   How do we deliver our value proposition to customers?
5. After sales:
   How do we provide post-purchase customer support?

TYPES OF CHANNELS:
Own Channels:
- Sales Team (direct)
- Web site, offices, phone (direct)
- Own stores (indirect)
Partner Channels:
- Partner stores (indirect)
- Wholesalers (indirect)
A business model must also describe the type of relationship it wants to establish with each Customer Segment in order to deliver the product or value proposition to a customer. Relationships can range from personal to automated. Consider the following aspects:

- The channel of communication
- The consistency of the communication
- The cost of maintaining the communication
- The potential to differentiate our company through a distinct customer relationship or customer service.

**KEY QUESTIONS**

Does our business manage customer relationships?
How do we manage customer relations?
What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?

**ADDITIONAL QUESTIONS**

How are customer relationships integrated with the rest of our business model?
How costly are they?
Do we spend too much effort on relationships with unprofitable customers?
Could we invest in more profitable customers?

**MOTIVATIONS**

- Acquire new customers
- Maintain existing customers
- Increase sales

**CATEGORIES**

- Personal assistance
- Automated Services
- Dedicated Personal Assistance
- Communities
- Self-Service
- Co-creation
BLOCK #5: REVENUE STREAMS

A company's revenue stream is made up of the following elements:

A VALUE PROPOSITION that reaches a CUSTOMER (segment) through a certain CHANNEL supported by a distinct type of RELATIONSHIP.

KEY QUESTIONS
What are the revenue streams generated by the value proposition?
For what value are our customers really willing to pay?
How do we create income? For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each stream contribute to overall revenues?
How stable is our income stream?

PRICING MECHANISMS:
There are different kinds of pricing mechanisms that may be employed in a business model. These can be divided into fixed pricing and dynamic pricing mechanisms.

Fixed pricing describes predefined prices based on static variables. Forms of fixed pricing include:
• List Price: Fixed prices for individual products or services.
• Product feature dependent price: Price depends on the quality of the product or service
• Customer segment dependent price: Price depends on the type and characteristic of a customer group
• Volume dependent price: Price as a function of the quantity purchased.

Dynamic pricing describes prices that change based on market conditions,
• Negotiation (bargaining): Price is negotiated
• Yield Management: Price depends on inventory and time of purchase
• Real-time-Market: Prices is based on supply and demand
• Auctions: Price determined by outcome of competitive bidding
An organization's **KEY RESOURCES** describe those physical, intellectual, financial or human resources that are essential to create and sustain the value proposition, deliver it to the market, establish customer relationships and generate income.

**KEY QUESTIONS**
What Key Resources are needed to sustain:
...our value proposition?
...our distribution channels?
...our customer relationships?
...our revenue streams?

**ADDITIONAL QUESTIONS**
Are the key resources available to all participants in the business?
How are these resources allocated and distributed?
Who assumes the risk for the procurement of these resources?
What are the rewards attached to these risks?

**TYPES OF RESOURCES**
Physical: infrastructure, machinery, equipment, technology, warehouse
Human and knowledge-based: skills, ability, know-how, employees, partners
Intellectual Property: brand patents, copyrights, data
Financial: Cash flow, access to credit, savings, insurance.
Social: Relationships, unions, community, cultural assets.
An organization’s **KEY ACTIVITIES** are crucial for the business to successfully function. Like key resources, they are required to create and sustain a Value Proposition, reach markets, maintain customer relationships, and earn revenues.

**KEY DISCUSSION QUESTIONS**
What key activities are needed to sustain:
- our value propositions?
- our distribution channels?
- our customer relationships?
- our revenue streams?

**ADDITIONAL QUESTIONS:**
In what part or parts of the chain are the key activities carried out?
Who is responsible for these activities? What are the risks and incentives involved?

**CATEGORIES**
- Production
- Processing
- Marketing
- Logistics Management
- Producer Networks
- Quality assurance
- Problem Solving
Only very few business models can operate without a support network of **KEY PARTNERS**.

Partners can be divided into two groups:

- **DIRECT PARTNERS** with whom the company operates its core business model (e.g. producers, transporters, input suppliers, etc.)
- **INDIRECT PARTNERS** who support or facilitate the development of the business model (e.g. financial institutions, research centers, universities, NGOs, public sector agencies, local governments, etc.)

**KEY QUESTIONS**
- Who are our key partners?
- Who are our key suppliers?
- Which key resources are we acquiring from partners?
- Which key activities do partners perform?
- Are our partners satisfied with our goods or service?
- How dependent is our business on our partner’s support?

**MOTIVATIONS**
- Optimization and economy
- Reduction of risk and uncertainty
- Acquisition of specific resources
- Acquisition of specific activities
- Access to specific knowledge or technologies
BLOCK #9: COST STRUCTURE

The business model’s cost structure describes the costs incurred for the creation and delivery of a value proposition, maintaining customer relationships and generating income. Those costs are easy to determine once the key resources and key activities are identified.

KEY QUESTIONS

What are the most important costs inherent in our business model?
Which key resources are most expensive? How much do they cost?
Which key activities are most expensive? How much do they cost?
How much does it cost to maintain the value proposition?

SIMPLE CHARACTERISTICS OF A COST STRUCTURE:

Fixed Costs: Cost that remains the same despite of the volume of goods or services produced (e.g. salaries, rents, and utilities)
Variable costs: Cost that vary proportionally with the volume of goods or services produce
Economies of scale: Cost advantages that a business enjoys as its output expands (e.g. lower bulk purchase rate)
Economies of scope: Cost advantages that a business enjoys due to larger scope of operations.

TIPS ON COST STRUCTURES IN SMALL HOLDER AGRICULTURAL SYSTEMS:

A major challenge in applying a business model approach to small holder agriculture is the general lack of cost data, specifically at the farm level. This gap can be addressed in many ways. In our experience, one of the most effective ways to generate reasonable cost data is through the use of farmer focus groups who, with the help of a facilitator, develop a crop cycle timeline from planting to harvest and on-farm post-harvest activities. For each activity identified, farmers are asked for the cost either in time or in cash. At the end of the exercise, all activities are converted to a cash value and summed to arrive at a clear estimate of costs. A group approach for this effort is useful as it provides social control and on-the-fly data checking between peers to control for outliers. It also allows for discussion about the activities implemented and can help highlight potential areas for efficiency gains or cost savings. To be effective, this exercise should be conducted with more than one farmer focus group and the results compared.
THE TRIPLE BOTTOM LINE

Social inclusion and poverty reduction requires business models beyond profit with a social and environmental dimension.

The term triple bottom line was first coined by John Elkington in 1994, to highlight the fact that companies not only create economic but also social and environmental impacts and therefore carry responsibility “not just on the economic value they add but also on the environmental and social value they add” (Elkington 1994).

There are a wide range of social and environmental impacts to measure. The most popular global sustainability frameworks outlining social category indicators and guidelines (Miller, 2007) include the Global Reporting Initiative (GRI), the United Nation Commission on Sustainable Development Framework (UNCSD) and the Wuppertal Sustainability Indicators. We do not attempt to introduce general social and environmental measuring tools but highlight: (1) the need for companies to measure beyond the their business’ profitability; (2) the space where those measurement can be included in the business model; and, (3) the need to incorporate specific guidelines on small holder inclusion into any social measurement framework used by a company.

The New Business Model Principles (Key tool 3) will help you identify whether the business model generates benefits beyond profit in the context of small holder inclusion and if so in which areas the benefits occur. Based on this understanding, a reasonable monitoring framework can be developed.
### ASKING THE RIGHT QUESTIONS

#### KEY PARTNERS
- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources are we acquiring from partners?
- Which Key Activities do partners perform?
- Are our partners satisfied with our goods or service?
- How dependent is our business on our partner's support?

#### KEY ACTIVITIES
- What Key Activities do our Value Propositions require?
- Our distribution channels?
- Our customer relationships?
- Our revenue streams?
- In what part of the chain are the key activities carried out?
- Who is responsible for these activities? What are the risks and incentives involved?

#### KEY RESOURCES
- What Key Resources do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue Streams?
- How are the key resources available to all actors in the chain?
- How are these resources allocated and distributed?
- Who assumes the risk for the procurement of these resources?
- What are the rewards attached to these risks?

#### VALUE PROPOSITION
- What value does the company deliver to the customer?
- Which customer need is this satisfying?
- What bundles of products and services are we offering to each customer segment?
- Which one of our customer’s problems are we helping to solve?

#### CUSTOMER RELATIONSHIPS
- Does our business manage customer relationships?
- What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
- Which ones have we established?
- How are they integrated with the rest of our business model?
- How costly are they?
- Do we spend too much effort on relationships with unprofitable customers?
- Could we invest in more profitable customers?

#### CUSTOMER SEGMENTS
- Who are the customers or customer segments?
- For whom are we creating value? Who do we sell our products to or services to?
- Who are our most important customers or customer groups?
- Can we identify our customers’ needs?
- How do we respond to our customer’s needs?
- Describe the relationship with our customers?
- How do we go about acquiring new customers?

#### CHANNELS
- Through which Channels is the product or service delivered?
- Through which Channels is the value proposition communicated?
- How are our Channels integrated?
- Which ones work best?
- Which ones are most cost-efficient?
- How are we integrating them with customer routines?

#### COST STRUCTURE
- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive? How much do they cost?
- Which Key Activities are most expensive? How much do they cost?
- How much does it cost to maintain the value proposition?

#### REVENUE STREAM
- For what value are our customers really willing to pay?
- How do we create income? For what do they currently pay?
- How are they currently paying?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues?
- How stable is our income stream?

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Adapted from: [www.businessmodelgeneracion.com](http://www.businessmodelgeneracion.com)

Osterwalder, 2010
exercise #4

Build the Business Model Canvas

**HOW DOES THE CURRENT BUSINESS MODEL WORK?**

**STEP 1: INTRODUCE THE CONCEPT**
Introduce the general framework of the business model canvas by briefly describing the 9 blocks of the business model (as shown on page 6). Make sure that you have the canvas framework ready to fill each block with information.

**STEP 2: ANALYZE EACH BLOCK**
Dive into each of the blocks using the suggested key questions to facilitate a group discussion. Keep group discussion focused on the current state of the business model as participants tend to jump into what they would like to see rather than what is actually happening. Gather the information on paper cards and place them in the respective block on the business model canvas.

**STEP 3: REVIEW THE BUSINESS MODEL**
Ask one or several participants to sum up the business canvas in their own words. Open the floor for discussion with other participants to see if there is agreement with the business model canvas as developed.

In-depth analysis to understand the current functioning of the business and to discover opportunities to improve small holder inclusion

**TIP**
Present theory of each block using key questions to guide the discussion

Make sure you have prepared the canvas framework on the wall before you start explaining the exercise as this will help the participants follow your explanations.
WHAT ARE STRENGTH AND WEAKNESSES OF MY BUSINESS MODEL?

STEP 1: REVIEW THE BUSINESS MODEL
Ask one or several participants to sum-up the information from the business model canvas.

STEP 2: CHECK THE BALANCE
The simplest way to get an idea about the health of the business model is to review the balance between revenue stream and cost structure:

Do revenue streams exceed costs?
Is sufficient profit generated to consider the business to be “attractive”?

A closer look at some key figures will tell you in more detail how the business model is performing in terms of profitability and efficiency:

Profit margin: How profitable is the business model?
What is the ratio between profit and “sunk” costs (=cost effectiveness)?
What is the ratio of profit to revenue?

STEP 2: STEP AWAY AND BRAINSTORM POSITIVE AND NEGATIVE POINTS
Brainstorm in small groups the strengths and weaknesses of the business model. The assessment base can be the business model as a system or each business model block. Use plus and minus signs or different colored paper cards to underline positive or negative nature of the identified points. Locate strengths and weaknesses originating from the environment around the canvas, and indicate the cause of the mentioned effect. Discuss the results in plenary and note the results of the discussion.

The Business Model Canvas can be further evaluated applying a standard SWOT analysis (Strengths, Weaknesses, Opportunity and Threats)

TIP

Some financial key figures:

Gross profit equals sales revenue minus cost of goods sold.

Net profit margin = Income / Revenue * 100

Break-even point = the sales volumes in in units or currency, in which total income equals total production costs. This is the point where an organization neither profits nor looses money.
exercise #6

Visioning

STEP 1: Review the current business model *(developed in exercise #4)*

STEP 2: Build one or more future business models that incorporate the discussion in exercise #5

- What do we want our business model to be in the future?
- How would the proposed business model function?
- What blocks will change?
- What key elements within each block will change?

STEP 3: Bridge today’s and tomorrow business model

The “gaps” that exist between the two business models highlight possible areas of change and innovation for your business model. Discuss and prioritize the most critical interventions that have to be undertaken in order to achieve the vision. This information can be fed into an action plan e.g. **Key tool # 4 Prototype cycle**.

TIP

This exercise is useful to explore how improvements might be made to the business model with special emphasis on small holder inclusion.

There is no need to arrive at one future business model. Rather the exercise can be used to explore different possible business models.

Invite the participants to explore both minor changes in the existing business model as well as radical changes.
INCLUSION STRATEGIES FOR NEW BUSINESS MODELS

Foster the formation of farmers’ groups, associations and cooperatives for better market access including relevant legal measures and capacity building (skills, financial management)

Form and organize commodity associations

Develop new models of partnership between farmers and modern markets

Build and develop the value chain infrastructure procurement centers in production regions, warehouse, packaging, transport etc including in remote areas

Re-vitalize the role and functions of extension agents including technical services geared to modern markets, production planning and good agricultural practice

Improve transportation infrastructure for small-farmer competitive

Increase understanding of product quality along the value chain – share knowledge of market requirements

Develop financial credit mechanisms that support farmers and farmer groups and that support farmer groups linkages to modern supply chain

Develop new models of farming including contract farming

Strengthen support to production technology and research (including diversification and niche products), new markets including understanding quality- modernize farming methods

Address critical constraints to production e.g. water policy and water management and technology, land and land access

From Value Chains to the Business Models

The value chain map is the **high level view** on the system and the business model canvas the **close-up** on one organization with a 360° view.
THE CHAIN WIDE BUSINESS MODEL

In a multi stakeholder process, especially with long trading chains, it is likely that an analysis of one individual business model does not sufficiently represent trading partners located up and downstream in the chain. Depending on the focus of the analysis, two different options of business model integration can be considered:

LINKED BUSINESS MODELS
The logic of this method is that, in a value chain, your customer is another's supplier. Understanding these linkages is critical for the quality of trade relationships and are the focus of this exercise. Here we aim to highlight the individual needs of each actor and how the interlinked trade partners are responding to those needs.

SYSTEM-WIDE BUSINESS MODEL
A system-wide business model integrates the value chain into one business model canvas with a slightly adapted layout. This exercise is only useful if the supply chain can be considered a “value” chain, in the sense that there is significant cohesion and collaboration between chain actors. A system-wide business model implies that one specific value chain has been selected (even though the same organizations offers different products) and that all actors share a common vision.
Customer or supplier? - A question of perspective.

<table>
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??  ??
A two stages business model can represent direct trade from producer to retailer.

TWO STAGE BUSINESS MODEL

Business Model B

Business Model A
MUTLI STAGE BUSINESS MODEL

Business Model A

Business Model B

Business Model C
Incorporate the multi-actor view of the value chain into the Business Model Canvas concept.

Build a Linked Business Model

After building the individual Business Model Canvas for each relevant (group of) actor(s), the individual business models can be stitched together to form a chain.

**STEP 1: Identify Trade linkages**
Recall the order of the Value chain’s core processes and make sure that the relevant information about all the business models is available in their individual form. If the business models are not available in a handy format ask each (group) of actors to copy their business model on a large piece of paper, leaving in blank the block of customers and partners.

**STEP 2: Connect business models**
In a trading relation, two independent organizations intersect on the outside blocks of the business model canvas. The relevant blocks are “customers” (including B2B activities) and the “partners” (including suppliers). In this exercise it is important to focus on the specific links that are established between two or more consecutive actors in the chain.

This exercise focuses on the “double value proposition” where a business model offers distinct forms of value when facing customers (downstream) or suppliers (upstream). Identify and highlight the different needs and the corresponding response by each organization. Gaps between existing needs and the value proposition causes instability along the chain and may help highlight potential areas for innovation.

TIP
It's useful to have previously finished a Value chain analysis as described in Key tool 1.

See Case example Cuatro Pinos in Guatemala to find out more about the “Double value proposition”
CASE EXAMPLES

Alianza Hortofrutícola del Sur, Colombia
Chiyangua, Colombia
APROCA, Ecuador
Double facing value proposition
The innovative business proposal of the social intermediary Allianza Hortofruticola ALSUR aims to connect producer organizations with a portfolio of 25 products of fresh fruits and vegetables to customers (mainly urban supermarket in Cali region) lead by a shared goal to develop stable and lucrative business processes and specialized channels that contribute to an improvement of livelihood.
In order to respond better to both stakeholder groups, Allianza Hortofruticola ALSUR, developed a specific value proposition for supplier and for customers taking into account their individual needs.

Business mission:
• Establish direct partnerships between rural producers groups and customers in different market channels
• Improve income levels and assets of producers through stable trade schemes and long term relationships
• Provision of business development strategies (growth strategies, market penetration and development strategies, product development)

Key figures:
In 2012, ALSUR works with 155 partner producers organized in 8 farmer organizations Asocofradia, Asofruit, Renacer Agroecologico, Aproborca, Coophsur, Grupo Asociativo San Jose, Asaais, Asociacion san Felipe Grupo Asociativo Yakupacha. For top-up supply ALSUR works with 22 additional producers. In 20011, ALSUR traded 25 tons per week with an annual sales volume of US$ 603,799.
The customer facing Business Model Canvas of Alianza Hortofrutícola del Sur (Colombia)

**Key Partners**
- 11 different producer organizations
- Input suppliers
- Transport providers
- Local partners
- Public partners
- National and International Donors

**Key Processes**
- Risk management: Risk fund and insurance
- Technical assistance
- Quality control (producers/ client relations)
- Sales projections, planting schedules tied to input provision, credit, harvesting, deliveries, payment, permanent communication

**Value Propositions**
- Permanent supply of a wide range of high quality of fresh products (vegetables and fruits) at competitive prices based on client needs.
- What makes us different?
  - Quality, consistency, competitive prices
  - Capacity to innovate for new products based on client demand
  - Small farmer participation: improved livelihoods for rural communities.

**Customer Relationships**
- Personalized attention (calls and visits)
- Service portfolio, web page and corporate image
- Permanent dialogue about new opportunities with clients

**Customer Segments**
- Chain supermarkets
- Independent supermarkets
- Institutional markets
- Wet markets (second and third quality)

**Key Resources**
- Physical: Packing sheds, warehouses and office
- Human: Honest management and quality control staff
- Financial: Working capital
- Others: Software for production, planning and sales

**Channels**
- Packing sheds in production areas
- Warehouses in Cali and Pasto
- Direct delivery to clients

**Cost Structure**
- Staff (management, warehouse & quality control)
- Rent for warehouses and offices in Pasto and Cali
- Financial costs: working capital, insurance fees, service fees

**Revenue Streams**
- Gross margin over sales price
The farmer facing Business Model Canvas of Alianza Hortofrutícola del Sur (Colombia)

Key Partners
- 11 different producer organizations
- Input suppliers
- Transport providers
- Local partners
- Public partners
- National and International Donors

Key Processes
- Risk management: Risk fund and insurance
- Technical assistance
- Quality control (producers/client relations)
- Sales projections, planting schedules tied to input provision, credit, harvesting, deliveries, payment, permanent communication

Value Propositions
- Stable market with guaranteed and transparent purchase of a wide range of FFV products at a competitive price.

What makes us different?
- Stable purchase prices with risk coverage (guaranteed payment through risk management fund)
- Transparent and professional selection, treatment and payment of producers
- Permanent TA
- Credit access, input access
- Possibility of becoming a shareholder in the company

Customer Relationships
- Personalized attention to resolve doubts through permanent meetings and telephone queries
- Supply of TA, market information, applied research and new product development to develop differentiated, higher value products based on client demand

Customer Segments
- Organized business groups (or willing to organize) of small-scale farm families working in vegetable or fruit products

Key Resources
- Physical: Packing sheds, warehouses and office
- Human: Honest management and quality control staff
- Financial: Working capital
- Others: Software for production, planning and sales

Channels
- Packing sheds in production areas
- Producer organizations

Cost Structure
- Staff (management, warehouse & quality control)
- Rent for warehouses and offices in Pasto and Cali
- Financial costs: working capital, insurance fees, service fees

Revenue Streams
- Gross margin over sales price
Case Example – Cuatro Pinos, Guatemala

BACKGROUND - Contract agriculture with input and service provision

Cuatro Pinos is a successful Cooperative with nearly 30 years of experience in the vegetable export business. The cooperative has evolved into what can be termed a “social intermediary” that performs a vital role in linking farmers to international markets. Cuatro Pinos manages a diverse portfolio of vegetables supplied by approximately 7,000 smallholder farmers organized into more than 140 farmer groups including cooperatives, associations, lead farmer informal groups and NGO-led firms. Recently the Cooperative has succeeded in opening large markets for several products in the US and has achieved an annual growth rate of 50% in vegetable exports over the past three years. Much of its success is can be explained through attractive value propositions to both smallholder farmers and buyer markets. For both groups, Cuatro Pinos offers a low-risk, high return way of engaging with the other through supply chain coordination, transparent chain governance, market linkages and critically, access to services.

TWO PERSPECTIVES - THE DOUBLE FACING VALUE PROPOSITION.

Value Proposition for producers

| Technical support, input provision and formal contracts | Cuatro Pinos manages its purchasing from small holders through formal contracts, specifying quantity, quality and a production schedule as well as providing a fixed price for the product. This fixed price contract has been shown to consistently return 7–10 per cent above the spot price market. Additionally Cuatro Pinos provides in-kind credit for seeds and inputs, technical assistance, insurance and marketing services. Recently the Cooperative has also accessed government supported weather insurance to help cover crop-related risks. |

Value Proposition for buyers

| Reliable supply and Quality | To ensure supply, scalability, and product quality, Cuatro Pinos identifies existing farmer groups in favorable environmental niches, works with them to test production schemes and then contracts those that show an ability to meet quantity and quality targets. The cooperative is the only farmer organization in Guatemala that has had both farm and processing level GlobalGAP certification as well as an on-site pesticide residue lab. |
Case Example – Chiyangua, Colombia

Chiyangua was founded in 1994 in Guapi, a small village on Colombian’s pacific coast line and is the result of the local effort of a group of men and women, concerned with conservation of traditional ethnical aspects of afro Colombian culture. Chiyangua put farmer women in the centre of their activities.

Aromatic plants and condiments have always been a traditional part of afro Colombian culture but with the time Chiyangua observed that the traditional plants such as long leaved coriander more and more disappeared from local dishes and were replaced by artificial food enhancers that were introduced to the remote village by the city people.

This concerning development was the beginning of a countermovement of the local promotion to enhance the consumption and use of traditional herbs and spices in food and beverages. In addition, Chiyangua initiated their aromatic plant production program for female farmers in the region. Supported by national and international grants, Chiyangua introduced to farmers an innovative production system adapted to the flood afflicted region. Women in the Guapi region started the production of aromatic plants on elevated patched (2x10m) constructed of wood. This production system has an initial cost of US$ 100 and can deliver a monthly income of up to US$ 200 with the advantage that aromatic plants are relatively low time consuming and allow the women to dedicate themselves to other income activates.

Chiyangua is locally well known and a very respected organization in the community mainly providing inputs (seeds, know-how) and technical assistance to currently 84 female farmers.
Business Model Canvas of Chiyangua, Colombia

Key Partners
- FIDA
- CIAT
- ACUA
- SENA (National education services)

Key Activities
- Technical Assistance (95% of time)
- Event catering
- Production of a traditional medicinal drink “Toma Seca”

Value Propositions
- Improving livelihoods of rural female small holder producers of aromatic and medicinal plants
- Free services for women farmers in the region: - Technical assistance - Organisation of daily sales at the local market

Customer Relationships
- Very personalized relationship

Customer Segments
- Women farmers of aromatic and medicinal plants living in rural areas of the Guapi municipality (Colombian Pacific Coast)

Key Resources
- Technical Know how
- Access to Land
- Local reputation

Channels
- Farm visits
- Workshops
- Information events

Cost Structure
- Personnel costs
- Transport costs for farm visits
- Administrative infrastructure

Revenue Streams
- Grants by Partners
- Sales services (event catering)
- Product Sales (Toma Seca)

Needs:
- Access to new markets
- Increase sales volume
- Increase income
Evaluation of Business Model Canvas of Chiyangua, Colombia

**Key Partners**
- FIDA
- CIAT
- ACUA
- SENA (National education services)

**Key Activities**
- Technical Assistance (85% of time)
- Project administration and grant writing
- Event catering
- Production of a traditional medicinal drink "Toma Seca"

**Value Propositions**
- Improving livelihoods of rural female small holder producers of aromatic and medicinal plants
- Free services for women farmers in the region: Technical assistance - Organisation of daily sales at the local market
- POSITIVE: Value proposition perfectly responds to the needs of the clients (beneficiaries) which is a key argument for donors.
- POSITIVE: There is enough land available for future production up-scale

**Customer Relationships**
- Very personalized relationship
- POSITIVE: Strong relationship to beneficiaries based on trust and loyalty

**Customer Segments**
- Women farmers of aromatic and medicinal plants living in rural areas of the Guapi municipality (Colombian Pacific Coast)
- Needs:
  - Access to new markets
  - Increase sales volume
  - Increase income

**Key Resources**
- Technical Know how
- Access to Land
- POSITIVE: Chiyangua is very well respected in the community
- POSITIVE reputation

**Channels**
- Farm visits
- Workshops
- Information events

**Cost Structure**
- Personnel costs
- Transport costs for farm visits
- Administrative infrastructure

**Revenue Streams**
- Grants by Partners
- Sales services (event catering)
- Product Sales (Toma Seca)

**Negatives**
- NEGATIVE: Clients do not contribute to revenue stream
- NEGATIVE: Chiyangua is highly dependent on grants of partners
- NEGATIVE: Chiyangua does not generate enough income to assume costs for future innovation process.
APROCA is a small holder cocoa producer organization with 100 direct members and four sister organizations (total 400 cocoa growers) located in the north-west of Ecuador’s Pacific coast. The association buys the finely selected national variety of cocoa from its members in form of mucilaginous pulp (called “baba”) which is then fermented, dried and selected on-site with quality standards to meet the high customer requirements. The traditional production procedures (on farm and post harvest) guaranty chemical free high quality cocoa.

APROCA’s work aims to strengthen the cocoa chain and the associated cocoa farmers by promoting community work, gender equality and the use of traditional afro-Ecuadorian knowledge and practices. APROCA and its 4 sister associations offer a gourmet Cacao that is certified by FAIR TRADE and the USDA Organic label.

The association manages to pay prices higher than the regional market prices to the associated farmers and additionally provides technical assistance embedded in a continuous quality improvement process.

APROCA has a yearly sales volume of about 900 quintals of dried cocoa, whereof 40% goes to the export market.
Business Model of APROCA, Ecuador

**Partners**
- Technical assistance for producers
- Project management with partner of international cooperation
- Marketing

**Key activities**
- APROCA support associated farmers in improving their livelihood
- APROCA= Registered brand
- Unique characteristics in terms of Cocoa quality and environmental conditions
- Process transparency and product traceability

**Value proposition**
- Clients pay an appropriate price for the product
- Payments do not always happen on the due date
- Intense customer care

**Relations**
- Without contracts
  - Pacari
  - CacaoYere
  - Cofina
- With contracts
  - Transmar
- What do clients demand?
  - High Quality
  - Constant quantity
  - Certifications
  - Fixed prices

**Channels**
- International and national Chocolate fairs
- Existing clients visit APROCA “headquarter”
- Communication via mobile phone and internet page

**Key resources**
- Partners provide support for:
  - Production
  - Infrastructure
  - Organization
  - Marketing
  - Financial
- Technical equipment and infrastructure
- Know-how

**Cost structure**
- Raw material
- Transport
- Fermentation
- Drying process
- Cost for human resources is partly assumed by partners
- Break even point: 2500 xy/year

**Revenue structure**
- Sales margin on Cocoa
- Grants by partners
KEY TOOL #3
THE BUSINESS MODEL
PRINCIPLES
GOAL

Provide a set of design and evaluation principles for business models that promote the sustained participation of smallholder farmers.

KEY QUESTIONS

How inclusive is our business model?
What are the options for better inclusion of small holder farmers?
Which strategies are appropriate under what conditions?
Where should we focus efforts on innovation in our business model?

PROFILE

KEY TOOL #3
THE NBM PRINCIPLES

WHAT IT CAN DO

• Focus the business model analysis on areas that are critical to the sustained inclusion of small holder farmers.
• Assess the performance of the business model in themes that are critical to the sustained inclusion of small holder farmers.
• Help identify possible areas of innovation and improvement in the selected business model.
• Provide inputs for the design of an improved business model for the engagement of small holder farmers.

WHAT IT CAN’T DO

The New Business Model principles are not a magic bullet to achieve smallholder inclusion.

These principles should not be taken as a check-list but rather as guideposts to assess and improve business models.

The principles will not give you a specific answer; they will help you assess and think through solutions relevant to your business model.
I represent an NGO or development agency...

“How can we assure that small scale farmers, women, day laborers and other members of the rural poor will get a fair deal from this business model?”

“What are the critical aspects of the business model where we should focus our attention to guarantee a social return?”

“What is our role as an NGO is designing, testing and supporting more inclusive business approaches, what are our entry points and our exit strategies?”

“How can we assess the inclusiveness of an existing business model and promote improvements that are beneficial to the rural poor, especially women?”

“How should we focus our resources to develop a sustained commercial relationship that helps the rural poor move out of poverty?”

I represent a company...

“We want to enhance our chance of success in sourcing from small scale producers”

“What market considerations, skills and business linkages do we need to ensure to achieve farmer engagement and performance?”

“What is our responsibility, what is the farmer’s responsibility and what are shared responsibilities in business model?”

“How can we source from small holder farmers in a sustained fashion under strict quality standards while achieving measurable development impact?”

“How can we make working with small scale farmers good business?”

I represent a producer association...

“I would like my buyers to better understand my situation as a small farmer”

“How can the needs of small farmers be taken into account as part of a business model?”

“I am willing to collaborate with other chain actors but need to make sure that the results are favorable for all of us”

“How can we assure that this is a good business for all the participants?”

I represent a company...

“We want to enhance our chance of success in sourcing from small scale producers”

“What market considerations, skills and business linkages do we need to ensure to achieve farmer engagement and performance?”

“What is our responsibility, what is the farmer’s responsibility and what are shared responsibilities in business model?”

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“What is our role as an NGO is designing, testing and supporting more inclusive business approaches, what are our entry points and our exit strategies?”

“How can we assess the inclusiveness of an existing business model and promote improvements that are beneficial to the rural poor, especially women?”

“How should we focus our resources to develop a sustained commercial relationship that helps the rural poor move out of poverty?”
“The new business model principles are signposts for inclusive and durable trading relationships”
THE NEW BUSINESS MODEL PRINCIPLES highlight a range of critical success factors to improve the inclusiveness, fairness, durability and financial sustainability of trading relationships between small farmers and downstream agribusiness (processors, exporters and retailers). These principles are emergent in the sense that they are drawn from a range of case studies conducted on successful examples of inclusive business in Africa, Asia and Latin America. The studies did not examine failed attempts at linkages nor did they seek to develop a series of normative check-lists that must be achieved in order to develop an inclusive business model. Rather these principles should be taken as sign posts that indicate issues and/or topics where care should be exercised when constructing an inclusive business model that links small holder farmers with modern markets. Not all principles will be present in all cases and quite often one or several will be of critical importance while others may be of lesser importance or missing entirely. We suggest that these ideas be applied as design principles accompanied with a large dose of common sense, innovation and adaptation to make them useful to local conditions.

HOW TO USE THE PRINCIPLES?

The Business Model Principles are designed to be used as critical success factors to guide the process of assessing a business model and selecting areas of change. In the business model analysis, these principles act as lenses to help us review critical aspects of our business model, prioritize among them and select promising areas for innovation and improvement. These principles are not normative but should be used to deepen the analysis and discussion about how to improve the business model under review or design.

WHY USE THIS TOOL
The new Business Model Principles can help design solutions for small-scale farmers that are...

**DURABLE** - promote long-term, stable trading relationships

**EQUITABLE** - increase market access for smallholders with an equitable balance of risk, responsibilities and benefits

**EFFICIENT** - improve financial sustainability and

**EFFECTIVE** - strengthen purchaser access to consistent supplies

**ADAPTABLE** - enable flexibility to respond to changing market, social and environmental conditions

**CREDIBLE** - offer real benefits in the form of stable commercial relations that can be tracked and reported on

The application of these principles is designed to be flexible. As a result we ask that practitioners apply their best judgment to these principles. This means you are required to think about what each principle means in your context and not merely copy other models.
The resolution of problems, in both the commercial and social performance of new business models requires all or most chain actors **set shared goals for collaboration.** The development of a systemic view of the chain recognizes and values the interdependence of the actors. Reaching and implementing agreement often involves identifying one or more **champions along the chain** to lead the process.

For farmers and their organizations, market linkages should provide a **stable market** with clear quality, volume and price signals as well as access to key services (Principle 4). These linkages must contribute to improved livelihoods. For buyers, solutions must provide a **consistent supply** of safe, quality products at a competitive price.

The achievement of both producer and buyer goals in practice requires the delivering social and commercial value up and down the chain.

Fair and transparent governance refers to the establishment and enforcement of **clear and consistent grades and standards, clear commitments** to buy and sell certain volumes of certain grade products at certain times, and equitable processes of **risk management.**

Mutually **recognized interdependency** between chain actors is key. Shared commercial risk and insurance against failure are frequently cited as the cement of successful relationships.

One of the special challenges faced by small-scale producers is access to services such as finance, market information, and best agronomic practices that could improve quality, yields, food safety, and environment performance.

Successful solutions enable smallholders to **access credit, knowledge, technology,** and develop incentives that encourage producers to invest in their own production based on market needs.

New business models **promote innovation** by multiple actors along the chain in **products and services** as well as the **processes** that underpin both.

Innovations should be done ‘**with**’ **smallholder farmers,** rather than ‘for’ them. Inclusive access to innovation provides a means to remain competitive in dynamic markets; build the commercial value of goods and services; and, share innovation gains among partners all of which builds business durability.

The business axiom states that you cannot manage what you do not measure. Our sixth principle is to incorporate **tailored indicators and monitoring plans** to assess the health of the on-going trading relationship as a for-profit business and also its effectiveness as a vehicle for community development.

**Constant monitoring of the health of the trading relationship reduces the risk the minor problems will destroy the business.**
**THE NBM PRINCIPLES - KEY QUESTIONS**

1. **CHAIN WIDE COLLABORATION**
   - Are the commercial and social goals to clear to all actors in the chain?
   - Is there opportunity for co-investment or shared decision making in the chain?
   - Are there structures in place for collaboration or shared problem solving?
   - Are there one or more champions who will lead or facilitate the process of collaboration?

2. **NEW MARKET LINKAGES**
   - How easy or difficult is it to buy (find product) and sell (find buyer) products in this chain?
   - How are sellers linked to buyers? Are linkages stable or constantly changing?
   - Do buyers know where their product comes from?
   - Do farmers know where their product is consumed?

3. **FAIR AND TRANSPARENT GOVERNANCE**
   - Are standards, processes and prices clear and consistent across the chain?
   - Are production, financial and commercial risks understood and shared proportionately along the chain?
   - Do buyers know where their product comes from?
   - Do farmers know where their product is consumed?

4. **EQUITABLE ACCESS TO SERVICES**
   - Do all actors have timely access to market information?
   - Do all actors have access to information on quality standards?
   - Do all actors have access to financial and technical support services?
   - Are there examples of service provision that go beyond basic production services?

5. **INCLUSIVE INNOVATION**
   - Is there evidence of product or process innovation?
   - If so, who participates and why?
   - If innovation is evident, who gains from the results? Are there profit-sharing mechanisms in place?
   - Is innovation encouraged among all actors in the chain?
   - What are the incentives or disincentives for innovation?

6. **MEASUREMENT OF OUTCOMES**
   - Are commercial and developmental goals and indicators known and shared along the chain?
   - What systems are in place to effectively measure or analyze indicators?
   - How does the chain deal with difficulties and crisis management?
   - Do improvements to chain activities benefit all members in the chain? Why or why not?
PRINCIPLE #1: Chain wide collaboration

SHARED GOALS
Do actors in the system pull the same way?

The development of a systemic view of the chain stretches the usual boundaries of the business model, which has focused on the individual firm and its internal processes, to one of chain-wide processes involving multiple actors. A collaborative partner network is vital for perishable commodities such as fresh vegetables, dairy and meat, which require traceability and have higher food safety risk profiles. But collaboration is also key to upgrading a commodity chain in terms of quality, sustainability or small holder inclusion. This is increasingly visible in the growing number of certified products, such as organics, Rainforest Alliance, Fairtrade and other certification-based systems. Where critical elements of the supply chain add strong incentives for articulation, such as food safety or quality, this creates an even stronger collaboration vehicle for identification and resolution of problems.

IDENTIFIED CHAMPION OR CHAMPIONS
Who is leading the process of collaboration?

The term ‘collaboration’ should not be used to gloss over the fact that chain stakeholders may not have an interest in increasing transparency and collaboration, or that the interests of smallholders differ from those of intermediaries and lead firms. Reaching and implementing agreement often involves identifying one or more champions to lead the process. These champions may be from the lead firm, from a dedicated wholesaler, from a facilitating NGO, or a motivated farmer, or co-operative manager and might be a single individual or a group of people. Effective facilitation often requires building a group of champions drawn from different groups along the chain.

KEY QUESTIONS

Are the commercial and developmental goals to clear to all actors in the chain?

Is there opportunity for co-investment and shared decision making in the chain?

Are there structures in place for collaboration or shared problem solving?

Are there one or more champions who will lead or facilitate the process of co-innovation?
PRINCIPLE #2: New market linkages

PARTNER NETWORKS

How can small-scale suppliers compete?

Partner networks, with co-investment and knowledge-sharing between producers, suppliers, processors and retailers, are usually built around a small number of large-scale preferred suppliers. New business models must therefore build on market linkages that put small-scale suppliers on par with, or above, the competitiveness of large-scale suppliers. In practice this means that the buyer interacts with the small farmer organizations in the same way they would interact with a large supplier.

For farmers and their organizations, these linkages should provide a stable market with clear quality, volume and price signals as well as access to production support (like to Principle 4) and contribute to improved livelihoods. For buyers, these linkages must provide a consistent supply of safe, quality products at a competitive price and with low transaction costs.

At its simplest, chain linkage can achieve direct trade between end customer and primary producer, but the high level of transaction costs in direct market linkages can be justified only for the most exclusive ‘boutique’ products and brands.

Where direct collaboration is not feasible or scalable, adapted business models are called for. From the producer side, group organization increases farmers’ incentives to cooperate to compete as one single supplier, by restricting their opportunistic behavior and by mutual control. This type of collective action saves costs for quality and quantity verification and testing.

Business models can take many forms and be led by different members of the chain. At the level of food manufacturers and retailers, this principle could include a commitment to seek out these organizations of small-scale producers – or for market-oriented NGOs, a commitment to assist in facilitating farmers to develop organizations where none currently exist.

At the level of trading, new models can comprise the upgrading of existing formal or informal intermediaries, or the establishment of new trading organizations to new ‘double specialized business intermediaries’ with an integrated development mission in addition to a clear business objective such as Hariyali Kisaan Bazaar (see case example in Principle 4), and even a ‘franchisable’ social trader model.

KEY QUESTIONS

- How easy or difficult is it to buy (find products) and sell (find buyer) products in this chain?
- How are sellers linked to buyers? Are linkages stable or constantly changing?
- Do buyers know where their product comes from?
- Do farmers know where their product is consumed?
PRINCIPLE #2: New market linkages

**Case example: Normin Coop**

Farmers of the Northern Mindanao Vegetable Producers’ Association, NorminVeggies, are able to successfully participate in dynamic vegetable chains primarily because of the organizational structure they chose in order to respond to the market challenges. This involves a marketing corporation, Normincorp, which gives them the capacity needed for each development in the supply chain. Normincorp’s formation signified a new development in marketing for small farmers. While established as a stock corporation, Normincorp functions more like a cooperative and has a social enterprise character. It was a set up and operated with keen business sense but also with full empathy for the small farmers. As market facilitator, Normincorp saw to it that production was programmed by farmer clusters with their respective cluster leaders, according to marketing plans, that quality farm and postharvest management could be done by each farmer in the cluster, and that coordination could be provided for the sequence of activities that include order taking, out shipment logistics, billing/charging, and collection and remittance to the farmers.

Normicorp supplies multiple market outlets – exports, supermarkets, hotels, wholesale and local markets – spreading risks and ensuring an outlet for all products. For these services, Normincorp earns a market facilitation fee based on the value of the sale and uses the income to cover the marketing management overhead.


**Case Example: Lead farmer networks with Hortifrutti Honduras**

Hortifrutti is the specialized wholesaler for fresh fruit and vegetable for Wal-Mart in Central America. The company works with a variety of suppliers for vegetables in Honduras and Nicaragua, often purchasing product from existing farmer cooperatives. However, it has experienced significant difficulties with these farmer organizations in terms of lengthy decision making processes. As a result, Hortifrutti Honduras has developed and promoted a ‘lead farmer’ model of organization through which it identifies and builds the capacity of farmers who can meet its quality needs in a consistent fashion. After demonstrating such capacity, lead farmers receive larger and larger orders for product or new products and are invited to work with neighbouring farmers to meet this demand. Lead farmers provide access to technology, technical assistance and market access to their network of neighbours as part of a bundle of production and marketing services. The cost of these services is recouped via the sales margin to Hortifrutti. The expansion of this model depends on the identification of new lead farmers. Early results indicate that it is low-cost, scalable and sustainable.

PRINCIPLE #3: Fair and transparent governance

TRANSPARENT AND CONSISTENT RULES
Does everyone understand the rules of the game?

Governance refers to the setting, monitoring and enforcement of formal and informal rules along the chain. Rules pertain to terms of trade, including price setting, payment terms, grades and standards and regularity of delivery, often referred to as buying conditions. Specifically, fair and transparent governance refers to the establishment and enforcement of clear and consistent grades and standards, clear commitments to buy and sell certain volumes of certain grade products at certain times, and equitable processes of risk management.

Mutually recognized interdependency between chain actors appears key. Shared commercial risk and insurance against failure are frequently cited as the cement of successful relationships. This can be achieved formally or informally, but the guarantees must be transparent in ways that enable the chain to be regularly monitored and rules enforced through an agreed facilitator, chain self-regulation or other mechanisms down and up the chain.

Accountability can be achieved through mechanisms such as co-development, management and consistent application of standards, use of contracts to enhance predictability and transparency for producers, improved forecasting and planning, clear, consistent and known guidelines for pricing, such as quality grades, among others.

New business models also seek to make incentives transparent and assist in their accrual to the actors responsible for positive change. Examples from different models include incentives for meeting or exceeding quality and quantity goals, contracts that leverage access to credit, access to reasonably priced inputs, etc. The key issue here is the need to align incentives with outcomes.

While it is not constructive to over-regulate chain activities and/or governance, it is important to have a minimum level of common understanding on which to base decision making.

KEY QUESTIONS

- Are standards, processes, and prices clear and consistent across the chain?
- Are production, financial and commercial risks understood and shared proportionately along the chain?
- Is there evidence of formal or informal contract adherence? If so, why? If not, under what conditions do contracts break down?
PRINCIPLE #3: Fair and transparent governance

Case example: Shared risk management between Los Angeles Salad and Cuatro Pinos cooperative

The business of export vegetables is inherently risky. Losses due to damaged product from shipping or other factors are commonplace and often the result of difficulties beyond the control of chain members. In recognition of this fact, the exporter (Cuatro Pinos cooperative) and wholesaler (LA Salad) for a smallholder French bean chain developed a novel way to manage this risk. Through an informal agreement, 10% of the value of each box of French beans sold is placed into a settlement account. This account is jointly managed by the cooperative and the wholesaler in the US. Funds in this account are used to write off damaged product, invest in technical assistance on food safety and new product development, and for unforeseen circumstances. Both parties have agreed that first use of these funds is to guarantee payment to farmers, with other expenses taking secondary consideration. In the 2005-2006 production season, nearly US $230,000 were used to write off loans issued to farmers who lost their crops in Hurricane Stan. This fund is a novel way to plan for, and respond to, risks inherent to the export of fresh produce and is a good example of shared risk management.

Find out more about Cuatro Pinos in the section ‘Case examples’ or http://www.cuatropinos.com.gt/

PRINCIPLE #4: Equitable access to services

ACCESS TO PRODUCTION RELATED SERVICES AND MARKET INFORMATION

Access to services is a key ingredient to sustain smallholder participation in an evolving market place. Services such as finance, market information, and best practices can improve quality, yields, food safety, and environment performance and are especially critical for smallholder farmers.

The double specialized intermediary

The need for service providers that can meet the rigorous food safety demands of formal buyers and also meet the service needs of farmers has led to the development of a new generation of private sector intermediaries that can bridge the two worlds of smallholder farmers and formal companies. These double specialized intermediaries can use their skills to improve or build supply chains that enable smallholders to access credit, knowledge, technology, and develop incentives that encourage producers to invest in their own production based on market needs.

The role of the partners

Finance, information and technology can be provided by the ‘downstream’ buyer, or by an agent of the buyer, by an NGO or NGO-business partnership, or by a commercial arm of a producer organization, or by the producer organization itself. Due to the combination of commercial and social goals, new business models that seek sustainable development frequently require additional inputs of non-chain actors such as NGOs. To support the position of less endowed chain actors, the NGO often plays a catalytic or convening role, identifying opportunities for smallholders and making investments in bringing chain actors together to discuss and agree on common commercial and social goals. Normally, this role is temporary and should be designed with clear exist strategies to avoid shocks to the system when development funding dries up.

Sharing risk and rewards

New business models seek configurations, which place more emphasis on a greater role for intermediary service providers that share risk and are financially matched with the product value and type of supply chain. For farmers with small landholdings, a contract can be used as guarantee for loans; there are a growing number of finance providers, who are prepared to provide cash flow credit to smallholders who have secure contracts in place.

KEY QUESTIONS

• Do all actors have timely access to market information?
• Do all actors have access to information on quality standards?
• Do all actors have access to financial and technical support services?
• Are there examples of service provision that goes beyond basic production services?
Case Example: Hariyali Kisaan Bazaar

A new generation of commercial intermediary in India is demonstrating that service provision can itself be a profitable part of a business model focused on inclusive growth. The rural retailer, Hariyali Kisaan Bazaar, which is part of the DSCL conglomerate, sells agri-inputs and consumer goods through its chain of centres, which also serve as a common platform for providers of financial services, health services, etc. The Haryali centres are procurement hubs for farm outputs, providing buyback and warehousing, and thus creating multiple revenue streams based on transparent and effective participation in input as well as output value chains. Each Hariyali store has a catchment radius of 20 to 25 km, comprising about 15-20,000 farming families. They aim to provide producers with ‘urban amenities in rural areas,’ easy availability of quality products at ‘city-like’ fair prices and, through IT, provide commodity prices and commodity futures, as well as ATM access and weather forecasts. On the procurement side, they create linkages between producers and processors, exporters and retailers.

PRINCIPLE #5: Inclusive innovation

INNOVATION IN PRODUCTS AND SERVICES
How can we grow the value of goods and services from the chain?

Effective new business models promote collaborative innovation by multiple actors along the chain in products and services as well as the processes that underpin both. Important innovations in supply chains range from new products, development of best practices, development of standards, to development of new supply chain organizational structures to entering new markets or servicing more efficiently existing clients.

Too many development interventions are done ‘for’ smallholder farmers, rather than ‘with’ them, failing to consult and incorporate perspectives and needs throughout the chain. By way of example, it is one of the enduring ironies of sustainable development that compliance with some certification schemes introduced into the market in the name of ‘sustainability’ are proportionately much more costly for smallholders, thus magnifying existing inequalities in the rural economy.

Innovation is important because it links directly to differentiation in the marketplace which is a prime driver for maintaining a competitive position by retail firms and, indirectly, the business model. Traditionally, product and process innovation has occurred in-house with the lead firm dominating the process and reaping the benefits. However, the entire chain can be engaged to achieve even greater gains in product and process innovation than those available to the lead firm in the chain. This is especially critical when the innovation goals include complex demands such as triple bottom line People-Planet- Profit gains or are based on product life-cycle analysis.

A systemic approach to innovation allows greater understanding of the interdependencies between actors as well as shared access to the potential returns on coordination and joint activities. The end result is an improvement in the competitive position of the chain as a whole rather than the accruement of additional value to one member or subset of members in the chain.

A chain that can grow the value of the goods and services it provides, is capable of having more constructive discussions about how to adequately share those values among participants than one whose goods and services are static or declining in the market. Effective business models fully engage all actors in the system to improve performance and are willing to share gains in a proportional way.

KEY QUESTIONS
• Is there evidence of product or process innovation? If so, who participates and why?
• If innovation is evident, who gains from the results? Are there profit-sharing mechanisms in place?
• Is innovation encouraged among all actors in the chain?
• What are the incentives or disincentives for innovation?
PRINCIPLE #5: Inclusive innovation

Case example: Gestores de Innovación en Agroindustria

In Colombia, the Centro Internacional de Agriculture Tropical, (CIAT) has worked to develop chain-wide innovation methods that work with representatives along a chain. The process entitled GIAR, Gestores de Innovación en Agroindustria Rural or ‘Leaders in Rural Agro-Industrial Innovation,’ is a toolbox designed to build a team of partners who focus on unmet market opportunities in a specific chain and then work to identify and provide solutions to critical bottlenecks in the market chain to take advantage of the identified opportunities. The team is responsible for providing innovation and solutions that market chain partners can use to upgrade their position in the market. Success in this area is critical where market forces tend to favor procurement towards those who can afford to innovate.

Case Example: Farmer-led innovation in the Allenblackia chain in West Africa

Unilever has been developing a commercial supply chain for seeds from the Allenblackia tree in West Africa since 2001. One of the major limitations to scaling up the supply base had been the time needed for seed germination. As the Financial Times reported in September 2008, a surprising source of innovation helped resolve this problem. Scientists from Ghana's Forestry Research Institute had been working to find a faster method of germination for the seeds of the Allenblackia tree. But it was not until the team met a farmer who was using plastic bags for seed germination that part of the solution emerged. Meanwhile, another farmer had found that removing the husks of the seeds also hastened germination.

"We combined the two and, within three weeks, the roots were growing,” says Samuel Henneh, operations manager at Novel Development, which is developing the new oil supply chain. "That success story was caused by two farmers. So now we don’t joke with the farmers - we behave as if we know nothing and we ask them to tell us their stories.”

The source of this breakthrough reveals the importance of learning from all partners including the beneficiaries for companies involved in pro-poor commercial initiatives.

http://www.ft.com/reports/busanddev2008
PRINCIPLE #5: Inclusive innovation

Case example: Del Cabo, Mexico

Del Cabo was established in 1985 to bridge the gap between small producers in Mexico and the need for fresh, organic produce in the United States. Today Del Cabo is a network of over 500 farmers in the US and Mexico. Del Cabo offers a full line of warm weather vegetable crops for the US market.

Del Cabo has a strong chain-wide innovation. This occurs both on the farm side (innovating new crops and varieties for farmers dealing with a range of issues including legal, environmental, economic, etc) and on the consumer side (identifying gaps in the market, the need for new and improved products through sales information, etc.).

Innovation occurs as a response to specific problems or issues with Del Cabo farmers: (i) Del Cabo’s breeding program identifies and cultivates new crops and varieties for consumers and producers alike; (ii) research by Del Cabo agronomists to identify common issues and points of innovation, facilitate farmer knowledge to be utilized throughout the chain and within other groups; and, (iii) biological pest management integrates new knowledge with producer groups and make recommendations for crops with the goal is to eliminate the need for any kind of spraying.


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PRINCIPLE #6: Measurement of outcomes

TAILORED INDICATORS AND MONITORING PLANS

What should be measured, by whom and for whom?

Incorporating tailored indicators and monitoring plans helps to assess the health of the trading relationship as a for-profit business and also its effects as a vehicle for community development.

The 6th principle proposes measuring the effectiveness of the business model for all involved in a continuous fashion. This need not be complex – regular communications, meetings and visits are valid mechanisms – but should clearly focus on identifying and responding early to issues and problems before they threaten the trading relationship. On the flip side, these tools can also help to identify and take advantage of emerging opportunities either in chain upgrading, new product development or new market engagement.

The inclusive process measurements that involves chain actors can itself become a driver of much closer collaboration (Principle 1) and a chain wide learning experience. Examples of inclusive process include regular, joint review of market trends and strategies to maintain or improve market position and joint development of plans to upgrade product quality and quantities based on market conditions. Once the trading relationship is functioning in a stable manner, we can begin to assess the effects of this relationship on broader development issues such as smallholder livelihoods or even community development.

The simplest measure, the number of farmers linked to a new market, is only one part of the story. Linking small-scale producers to markets does not automatically lead to development and improved livelihoods, although many claims in CSR and business development reports would suggest otherwise. A slightly more complete level of measurement is a simple cost-benefit analysis to assure that participation in the chain is profitable for all, including small-scale producers. But measurement of ‘sustainable trading relationships’ would most effectively probe a step further. Improvements in producer income from specialization for high-value markets may be obtained at the expense of the resilience of the household economy, long-term food security, the position of women in the household, or environmental resilience. So, measures of food security, gender relations and environmental aspects are additional dimensions for measurement in areas where these are important issues. This information, especially well-documented evidence that shows developmental impact, has a market value for the buyers (i.e. CSR reports).

It is insufficient however to only measure what is happening in the chain. Rather, a new business model requires both measurement and action on what is found by those measurements. Actions may be positive – i.e. scaling up good experiences – or more focused on problem solving – how can practices improve – but the critical factor is that the effects of the chain are measured, the results shared openly with chain actors and decisions on how to improve taken in a collective fashion.

KEY QUESTIONS

• Are commercial and developmental goals and indicators known and shared along the chain?
• What systems are in place to effectively measure or analyze indicators?
• How does the chain deal with difficulties and crisis management?
• Do improvements to chain activities benefit all members of the chain? Why or why not?
PRINCIPLE #6: Measurement of outcomes

Case Example: SABMiller Smallholder Agriculture Programme

The brewery company SABMiller has made a commitment to supporting local farming communities in a number of countries where it operates: South Africa, India, Uganda, Zambia and Tanzania, using in-sourcing and out-sourcing models and hybrid ‘partnership’ models. A hybrid partnership is defined as specific activities outsourced to suppliers under close control and supervision. SABMiller also appreciated the need to evaluate socio-economic benefits of its smallholder programmes, if scaling up was to be successful. Through external reviews it could measure the income benefits to farmers producing sorghum in Eagle Lager’s value chain and measure the number of farming families and dependents. Participating farmers reported more stable prices and a more stable, long-term market compared to other local crops. But external evaluation also could show where SABMiller could improve performance; where payments to farmers were delayed, or there were mismatches in supply and demand leading to stockpiling and big variations in orders from year to year (especially where lack of irrigation leads to big variation in harvests), or where the outsourcing company was reverting to supply from large commercial farms.

Sources: Business Linkages: Lessons, Opportunities, and Challenges. IFC

Case Example: Cuatro Pinos, Guatemala

Beyond the specific decisions made to-date regarding the French bean chain in Guatemala, the process of working with supply chain actors to assess the sustainability of their systems shows promise on several fronts. First, increasing the visibility to all actors of their interdependence and need for collective action has been a positive outcome. Greater knowledge of the reach of each actor’s decisions, while not in itself a guarantee of better decisions, helps generate more informed dialogue about options and highlights the tradeoffs between short-term pressures and long-term business sustainability. Second, increased access to shared information supports more creative problem solving. Again while not a cure for all ills, this information permits actors to better understand the causes of difficulties and work together to identify solutions. Finally, a process through which actors are shown their own system but not provided with ready made solutions – of which few exist – seems effective in promoting generative learning at the individual and collective level and thus not only better solutions but better relationships and, finally, a stronger supply chain.

“Going into this project I really did not know what to expect. Being a buyer, we usually are just concerned with finding great quality products that we can sell at a value. By working with everyone, I have come to appreciate that with our increased volume in beans, many people in Guatemala are finding ways to improve their lives. Today I see a bag of French Beans are more than just French Beans in a bag. It is about a quality of life we are offering.”
Dale Hollingsworth – Buyer, Fresh Foods.

Source: Lundy, 2007; Sustainable Food Lab Innovations for Healthy Value Chains
### NBM PRINCIPLES SCORECARD

<table>
<thead>
<tr>
<th>Principle 1: Chain wide collaboration</th>
<th>Principle 2: Market linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal information flow processes between actors are defined</td>
<td>The trading relationships are profitable for all actors</td>
</tr>
<tr>
<td>Informal information flow processes exist between actors</td>
<td>Each link adds (social or commercial) value to the product</td>
</tr>
<tr>
<td>Actors along the chain have the same vision and follow the corresponding goals</td>
<td>Producers generate a stable income from their products</td>
</tr>
<tr>
<td>Social and commercial goals are aligned among the actors</td>
<td>Actors have the capacity to identify new market opportunities</td>
</tr>
<tr>
<td>The chain can be described as a collaborative partner network</td>
<td>Actors rapidly react to changing market conditions</td>
</tr>
<tr>
<td>Problems along the chain are easily identified</td>
<td>Complementary markets are reached for 2nd and other products</td>
</tr>
<tr>
<td>Chain actors are able to react rapidly to upcoming problems</td>
<td>Intermediaries respond to needs of both, suppliers and buyers, through tailored double value proposition</td>
</tr>
<tr>
<td>Interdependencies of actors along the chain are recognized and valued</td>
<td>Up-stream actors are familiar with the product delivered to the final customer</td>
</tr>
<tr>
<td>Processes are set chain-wide and are not restricted on one individual actors</td>
<td>Intermediaries deliver social and commercial value to suppliers and buyers</td>
</tr>
<tr>
<td>Chain wide incentives are created to enhance collaborative behavior</td>
<td>Farmers are formally or informally organized</td>
</tr>
<tr>
<td>Champions, leading the collaboration process are identified in different parts of the chain or business model are identified</td>
<td>The procurement system is stable</td>
</tr>
<tr>
<td>Principle 3: Fair and transparent governance</td>
<td>Principle 4: Equitable access to services</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>Grades and production standards are consistent and known by all actors</td>
<td>Technical assistance for production is available</td>
</tr>
<tr>
<td>Price structure is transparent</td>
<td>Production and post-harvest technology is available</td>
</tr>
<tr>
<td>Producers know the quality requirements to receive top prices</td>
<td>Transportation services are accessible for</td>
</tr>
<tr>
<td>Incentives are transparent and aligned with outcomes</td>
<td>Small holders have access to financial services</td>
</tr>
<tr>
<td>There are clear commitments to buy and sell certain volumes, of certain grade products, at certain times</td>
<td>Financial services are used by small holder farmers</td>
</tr>
<tr>
<td>Equitable processes of production risk sharing are established</td>
<td>Financial services are affordable for small holders</td>
</tr>
<tr>
<td>Equitable processes of commercial and financial risk sharing are established</td>
<td>Input supply and dealer models are established</td>
</tr>
<tr>
<td>Risks do not fall disproportionately on one actor or group of actors</td>
<td>Services are provided by double specialized intermediaries</td>
</tr>
<tr>
<td>Risk sharing models include formal and informal insurance schemes</td>
<td>Production related credit providers take into account soft collateral (contract, organization, potential)</td>
</tr>
<tr>
<td>Trading terms are clear to all actors</td>
<td>All producers have timely access to market information</td>
</tr>
<tr>
<td>Buying conditions are clear to all actors</td>
<td>All producers have access to information to quality standards</td>
</tr>
<tr>
<td>Formal or informal contracts are concluded with producers</td>
<td></td>
</tr>
</tbody>
</table>
### Principle 5: Inclusive Innovation

| Returns from innovation are shared fairly among actors | 0 1 2 3 4 5 |
| Innovation is promoted by multiple actors including producers | 0 1 2 3 4 5 |
| Innovation s are clearly aligned with market opportunities | 0 1 2 3 4 5 |
| Continued product and process improvement | 0 1 2 3 4 5 |
| The perspective and needs of smallholder farmers is incorporated in the innovation process | 0 1 2 3 4 5 |
| Farmers led innovation processes are encouraged | 0 1 2 3 4 5 |
| Co-dependency is recognized | 0 1 2 3 4 5 |
| Innovation happens regularly and in a systemic approach | 0 1 2 3 4 5 |
| Plans to upgrade product quality and quantity are developed jointly | 0 1 2 3 4 5 |

### Principle 6: Measurements of outcomes

| Formal and informal feedback mechanisms are established within and in-between (groups of) actors | 0 1 2 3 4 5 |
| Decisions are based on assessment | 0 1 2 3 4 5 |
| Measurements are as simple and cost-neutral as possible | 0 1 2 3 4 5 |
| Measurements are designed and tested jointly | 0 1 2 3 4 5 |
| The end user and the purpose of the measured information is clear to all involved | 0 1 2 3 4 5 |
| Participants have a role in guiding what information is collected | 0 1 2 3 4 5 |
| The generated information is shared and discussed along the chain | 0 1 2 3 4 5 |
| Key economic and performance indicators are known and shared along the chain | 0 1 2 3 4 5 |
| Measurements lead to rapid action | 0 1 2 3 4 5 |
| Feedback loops: Regular and consistent evaluation and feedback processes are set in place | 0 1 2 3 4 5 |
| Feedback loops: Tailored indicators and monitoring plans are established to assess the trading relationships | 0 1 2 3 4 5 |
| Feedback loops: Market trends and market position are jointly reviewed on a regular base | 0 1 2 3 4 5 |
| Deep dive: Social and environmental factors are included in the evaluation | 0 1 2 3 4 5 |
Assess the inclusivity of your business model

**STEP 1: Introduce the concept of the New Business Model Principles**
These principles point to innovations that improve the efficiency of the chain in a way that is inclusive, durable, equitable, effective, adaptive and credible.
Start this exercise by discussing key questions, practical guidelines and case examples that are presented in this section. You can add on other principles that rise from the context of your organization.

**STEP 2: Compare your performance against each principle**
The evaluation of your organization or value chain under inclusivity aspects, will help to identify innovation areas.

*The New Business Model Principles Scorecard* is designed to

1. Facilitate the measure an organization (or chain of organization) inclusivity
2. To show precise activities that can have the potential to enhance the inclusivity process.

Hand out an evaluation form to each actor or make the list visible to all and rank in plenary. Calculate the average of all scores for each principle and visualize the group’s result in a spider diagram.

Another option to measure performance is a free ranking only guided by the indicated key questions. This method requires a high understanding of the concept of the New Business Model Principles. It is recommended to include a brief explanation for the motives behind the taken decision which will help to avoid misunderstandings and delivers important insights in how to improve performance.
Assess the inclusivity of your business model

**STEP 3: Interpret results**
Discuss the group’s result in plenary and brainstorm about the reasons behind each ranking result.

*Why did we score this factor this way?*
*What does this tell us about our business model?*
*What areas reflect strengths and what areas reflect weaknesses? Why?*

**STEP 4: Prioritize and prepare for action**
Discuss with the group where to focus immediate action. Especially in the beginning, try not to focus on too many areas but rather choose one as a pilot and then repeat the innovation process in other areas after progress is observed and participants gain confidence in how to improve the business model.

If a consensus cannot be reached in a plenary discussion or through direct voting, you can use a decision matrix including criteria such as: implementation costs, expenditure of time for implementation, dependence on external actors for implementation, etc..

*What aspects of our business model do we want to improve?*
*Where we want to start the innovation process?*
*Do key actors agree on this innovation area? Who is missing out and why?*
*What incentives are needed to guarantee the participation of key actors in the innovation process?*

When selecting areas for business model innovation, keep in mind:
- Time and funding constraints: we need to be realistic about what it is feasible to accomplish within given time / budget limits.
- Power relationships are a key constraint for new business models. Sometimes it is easier to start with a relatively small innovation to dispel distrust and/or fear prior to moving towards more transformative change.
- Alignment around a key, shared market goal or objective or, on the flip side, common threat can help promote collaboration.

While noting that...
- Trading relationships will always, by necessity, be a site of tension even when strongly collaborative. That’s where innovation comes from.
- More important than designing a perfect solution is to start moving forward and learning together.
Assess the inclusivity of your business model

A simple table can capture the scores and is especially handy when each participant ranks individually.

<table>
<thead>
<tr>
<th>NBM principles</th>
<th>How are we now?</th>
<th>Why did we decide on this score?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: Collaboration between the chain actors</td>
<td>●●●●●</td>
<td></td>
</tr>
<tr>
<td>Principle 2: New market linkages</td>
<td>●●●●●</td>
<td></td>
</tr>
<tr>
<td>Principle 3: Fair and transparent consistent governance</td>
<td>●●●●●</td>
<td></td>
</tr>
<tr>
<td>Principle 4: Equitable access to services</td>
<td>●●●●●</td>
<td></td>
</tr>
<tr>
<td>Principle 5: Inclusive innovation</td>
<td>●●●●●</td>
<td></td>
</tr>
<tr>
<td>Principle 6: Measurement of outcomes</td>
<td>●●●●●</td>
<td></td>
</tr>
</tbody>
</table>
exercise #8

Assess the inclusivity of your business model

The Spider diagram is a useful form of presentation for a group’s result after an individual ranking through the scorecard, or a direct ranking in plenary.
Possible ways to rank options...

- **A: Low-hanging fruit**
- **B: Strategic changes**
- **C: Transformational changes**

- **Hard to Implement (+time & investment)**
- **Low level of change**
- **High level of change**

- **Easy to Implement (-time & investment)**
CASE EXAMPLES

Cuatro Pinos, Guatemala
Intelligentsia Coffee, US
HKB, India
CASE EXAMPLE: Cuatro Pinos, Guatemala

Two Producer organizations

Cooperative members
562 families

Non-Cooperative members
> 5000 families

Raw product flow

Agronomist support

Technical assistance

Fixed price contracts

Health and education services

Cuatro Pinos Cooperative
Exporter of fresh vegetable

• Founded in 1979
• Co-owned by 562 families
• Sales volume in 2008: 14 mio. US$
• 1200 women in packing and sorting

Business Mission:
• Increase family incomes
• Organize small producers into cooperative model
• Provide programs of social service to rural families

LA SALAD Wholesaler

Product flow

Investment

Technical assistance

Product development

Risk sharing fund
Principle # 1: Chain-wide collaboration

Supply chain coordination, based principally on sales projections and actual sales data, flows from buyers back to the Cooperative and from there to diverse farmer organizations. In the US, the wholesaler LA Salad also plays a role. Based on projected sales, Cuatro Pinos develops production plans with partner organizations.

This system functions in a relatively informal manner with market information relayed to Cuatro Pinos either via e-mail or fax but often via phone calls (with LA Salad for example). From there Cuatro Pinos formalizes the process with the development of production plans and contracts with associated producers and producer associations.

Principle # 2: Market linkages

Cuatro pinos is the aggregating and contracting agent with the international buyers. It provides key systemic services both to buyers (i.e. quality and consistency guarantees) as well as to farmer organizations. Effective mechanism to recruit additional growers (clear value proposition) combined with willingness to work with broad range of farmer organizations has enabled them to provide market access for a large number of farmers.

Principle # 3: Fair and transparent governance

Chain governance from Cuatro Pinos back to producer organizations and individual producers is clear, based on production plans and backed with formal contracts. Recently these contracts have included weather-insurance coverage subsidized partially by the Guatemalan State.

Discussions regarding product quality are still relatively common (suggesting clarity is still an issue)

Full transition to GlobalGAP is driven through the provision of price incentives to farmers who gain and maintain certification

Shared risk fund (between Cuatro Pinos and LA Salad) that allows the Cooperative to guarantee payment to farmers even when product is not sold due to problems at the port of entry or logistics.

Principle # 4: Equitable access to services

Access to inputs on credit. The cooperative secures loans from commercial banks. Once the loan is received, the Cooperative provides credit to producers based on the production schedule (planting and harvest times) and projected volumes. The credit is discounted from product received and the producer receives the balance.

Provision offer technical assistance through training and support of local extension agents and/or lead farmers linked to producer associations.
Agricultural **insurance to cover the weather risks** that farmers face (purchased as a block, invisible to the farmer)

**Partner in development:** During the 2005-2006 production season, the Cooperative successfully accessed 1.5m US in public sector funds for investment in supplier organizations including packing sheds, irrigation facilities and rural housing

Currently the coop is developing a **food security and nutrition program**

**Extensive social services** for members (health, education, etc)

New foundation to support **social services to non-members** funded by a small percentage of the profits of each member of the French bean supply chain which during its first full year of operation (2008) generated US $ 60,000

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**Principle # 5: Inclusive innovation**

The central point of innovation in this case is the nexus between Cuatro Pinos, LA Salad and Wegman’s in the US. Wegman’s and LA Salad **identify potential niches** for new products and/or new presentations of existing products and transmit this information to Cuatro Pinos. Cuatro Pinos then employs field staff to engage with smallholder farmers to test and adapt production systems to the market needs. Once the production systems are capable of meeting market needs in terms of quality, the systems are rolled out to a wider number of farmers based on the sales projections received from the final client.

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**Principle # 6: Measurement of outcomes**

Measurement of outcomes occurs within Cuatro Pinos following the cooperative model (**yearly meetings, internal accounting and collective decision-making**). The system works well for cooperative members and is complemented with informal feedback activities – basically on-going visits and phone calls – with non-cooperative member organizations.

Recent **household nutrition surveys** show troubling rates of malnourishment in 20% of coop member families who are relatively better off than non-member suppliers so clearly market linkages (including credit) are not enough to solve poverty on their own.
CASE EXAMPLE: Intelligentsia Coffee, US

Two Supplier Groups
40% are small scale farmers

Coops with processing capacity

Farms with individual processing capacity

"A direct trade model"

Green coffee

Transparency contract and quality pricing premium

On farm quality assessment

Intelligentsia Coffee
Coffee roasting company with own coffee shops in three cities

- Started in 1995
- 30 m US$ sales/year

Buying philosophy is driven by intrinsic quality. They believe that to get such coffees they need to work closely with producers. Farmers that don’t get paid well for their work don’t change management, and those who don’t respect their land and the people who work on the farm face a constant uphill battle to produce quality.
**Principle # 1: Chain-wide collaboration**

The principal mechanism is direct travel by Intelligentsia staff for **face to face strategy meetings** two or three months before the harvest to outline the business goals with all partners. Besides the pre-harvest strategy meeting, Intelligentsia staff attempts to also visit source during the harvest to monitor quality, and post-harvest to review, evaluate and celebrate success.

A new mechanism that is being implemented is the **annual "Extraordinary Coffee Workshop"** in which Intelligentsia brings together farmers from different coffee origins to discuss issues related to quality, market trends and other relevant issues.

**Principle # 2: Market linkages**

Intelligentsia provides **direct link to the final customer** and **directly identifies high quality producers**. The quality based business model requires Intelligentsia to make considerable up front investment to identify marketable products.

Intelligentsia's quality based business model requires **consumer integration** for its success. **Consumer education** about coffee production and sourcing processes and about coffee quality has a high priority for the firm.

**Principle # 3: Fair and transparent governance**

**Transparency contract that defines and documents pricing, responsibilities, costs and profit across the chain** of custody. All the trade participants must agree to transparent disclosure of financial deliveries back to the individual farmers.

**Long term contracts**: Contracts in the first and second year of the business relationship are for one year. In the third year, given measurable success and tangible confidence, multiple year contracts (up to 3 years) are designed.

**Pricing premium and clear pricing structure**: The verifiable price in the Direct Trade Model to the grower or the local coop, not simply the exporter, must be at least 25% above the Fairtrade price. The **Intelligentsia Tiered Pricing System** establishes a sustainable base price and ensures there is a clear, tangible link between cup quality and coffee value.

The entire payments are made at the time of export.

**Quality is measured through cupping**. Cupping results are communicated to and discussed with farmers during the post harvest field visits. Producers are often able to double their income within a few harvests. A number of actual examples show base prices that have grown threefold.

**Information management**: Intelligentsia has created a system that allows producers access to the same information as the millers and exporters (see [www.cropster.org](http://www.cropster.org)).
Principle # 4: Equitable access to services

Access to expert **taste testing** and access to **results database**. Support on obtaining **pre-harvest financing** (through root capital).

---

Principle # 5: Inclusive innovation

Interestingly, Intelligentsia observes that the incentive structures of the Tiered Pricing System triggers innovations, mainly based on the understanding by growers that they can influence quality. Most innovations tend to come out of medium sized farms.

Intelligentsia actively engages farmers in discussions about how they might improve cup quality. In some cases experiments in fermentation or drying are conducted with growers to assess their effects on cup quality. When successful, Intelligentsia may offer the coffee as a micro-lot and share the additional profits with the farmer or cooperative involved.

---

Principle # 6: Measurement of outcomes

Intelligentsia has implemented an interesting way to ensure that the **premiums paid are actually reaching producers**. Individual growers are deploying a **peer control system**: during the pre-harvest meetings it is clarified what individual farmers will receive. Then, communication channels between Intelligentsia and individual farmers are set up. Producers use these channels in case that their cooperative or the intermediary is not disbursing premiums as agreed upon I the contract.

In some cases where coops are much larger, Intelligentsia also makes use of certification schemes such as Rainforest Alliance and UTZ to track payments. Interestingly these certifications are not communicated to the final clients.
CASE EXAMPLE: Hariyali Kisaan Bazaar – India

“specialized intermediary hub”

HARIYALI KISAAN BAZAAR

“prosperity in agriculture and farmers market”

Chain of 75 set up in 2007, now 300 stores.

Mission: affordable inputs and link to market with buyback scheme

HKB procures from 10,000 farmers and 2000 dairy (2009). HKB select the farmers it wants to work with. Farmers also approach HKB directly themselves.

Grains delivered direct to hub

Technical assistance

Inputs

Produce & Dairy pick up service

DSCL Fertilizer and input company

Commodity markets, specialty buyers, etc

LARGE FARMERS

Seed purchases

SMALL HOLDER FARMERS

HKB procure from 10,000 farmers and 2000 dairy (2009). HKB select the farmers it wants to work with. Farmers also approach HKB directly themselves.
Principle # 1: Chain-wide collaboration

Problems are voiced mainly through farmers’ visits to the outlets and their communications with agronomists. The IT system logs farmers’ enquiries, so that problems are stored and can be fed back to centre. Gupta explains that “we always try and understand problems from the farmer’s side – through our agronomists and the questions farmers ask in our retail stores”

Principle # 2: Market linkages

HKB has a ‘buy-back’ scheme that serves as a link between small-scale farmers and markets. HKB also procure grains and basic crops from small-scale farmers in order to “move them up the value chain”. Farmers produce seeds for HKB, which HKB then sells at its outlet. HKB processes the seeds and sell them under its own label.

HKB aggregate the produce for the farmers. It is collected from the farm level or from approximately 500 metres away from farmers’ fields at the village level.

Principle # 3: Fair and transparent governance

Pricing, information about pricing and timely payment are all vital for establishing trust. If farmers are offered lower buy-back they will go elsewhere. Information is provided to farmers at a number of outlets. Mobile phones are also used to announce bonuses and premiums to farmers for good quality seed, for example, pre-season. Farmers are also made aware of the support price, which allows them to plan ahead and make decisions more effectively. Written agreements are in place for farmers but “contracts are not enforceable”. A mutual understanding or agreement is far more powerful
### Principle # 4: Equitable access to services

<table>
<thead>
<tr>
<th>Inputs/retailing/household goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical advisory available at hub and through targeted group seminars (not one on one at field)</td>
</tr>
<tr>
<td>Credit or facilitation of credit (through partner bank)</td>
</tr>
<tr>
<td>Insurance – crop insurance and life insurance (need to probe more about crop insurance).</td>
</tr>
<tr>
<td>Market linkages – seed production (which has now expanded significantly), dairy, grain.</td>
</tr>
<tr>
<td>Fuelling stations with transparent pricing (cooking gas) are also at the outlets, as are demonstration plots for training purposes.</td>
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</tbody>
</table>

### Principle # 5: Inclusive innovation

HKB prides itself on high quality seed production. There is a degree of collaboration in order to ensure this high quality is met. Farmers, for example, are given foundation seed to maximise quality and HKB has control of the input material they give to farmers to ensure that genetic purity is maintained. Because of this, rejection rates of seeds sold to HKB by farmers are very low. Gupta approximates that 90-95% of seeds are bought back from the farmers. For seed HKB offers tech services to farmers to help them meet quality standards and have a continuous engagement and dialogue with farmers.

### Principle # 6: Measurement of outcomes

‘In general, Gupta and Chhabra evaluated an outlet’s success based on the percentage of total agri-input market that HKB was able to capture in each outlet’s catchment area.'
Sustainable Harvest is a specialty coffee importer that uses the *Relationship Coffee model* to bring partners together in a sustainable supply chain that serves everyone involved — from the farmer to the final consumer. This approach builds direct, transparent market linkages for coffee growers while investing in training and management systems to improve their ability to produce high quality coffee.

**Let’s Talk Coffee** is an annual event held by Sustainable Harvest and its partners along the value chain that brings together hundreds of coffee roasters and growers for direct conversations in an innovative and transparent forum.

In an industry where it is often difficult for partners to meet face-to-face, Let’s Talk Coffee provides a unique platform for business partners to create and maintain open lines of communication, humanizing their business relationships and bringing the Relationship Coffee model to life.

Participants gather to gain an understanding of collective, practical actions that can be taken to ensure a future of specialty coffee. This year's program focused on price risk management, quality calibration, and farmer income diversification.

In 2012, the event counted **379 participants** including producer organizations, coffee roasters, non-profit organizations and financial institutions from **22 countries**.

A direct result and benefit of the Let’s talk coffee forum are **11 million pounds of coffee sales** that were negotiated during meetings at the event.

*Sustainable Harvest’s annually organized gathering of value chain actors is an example on how a lead-firm fosters direct communication, facilitates negotiation between distant chain actors, provides access to critical information that matters especially to small coffee growers and encourages chain actors to take mutual action.*

http://www.sustainableharvest.com/relationship-coffee/let/
KEY TOOL #4
THE PROTOTYPE CYCLE
**WHAT IT CAN DO**

Provide a framework to move from the analysis of the current business model to a process of iterative design-testing-evaluation to improve specific areas of the business model.

Facilitate practical, learn-by-doing cycles that permit rapid testing and learning to achieve faster results.

Identify ways to measure progress towards an improved business model, highlight what is working well and what is not working well and assist in reaching scalable improvements.

Encourage the engagement of all members of the business model in dialog and testing of improvements.

---

**WHAT IT CAN’T DO**

Design a perfect solution to improve your business model right away. The prototype cycle is designed as an iterative learning process. Learning will occur as we move forward towards our goals. Trying new things is inherently risky with failure as possible, and not undesirable, outcome. This tool does not guarantee success but rather a process in which to ‘fail forward’.
I represent a producer association...

“How can we achieve greater yields with lower input use while still meeting the quality standards of our buyers?”

“How can we improve the communication with our buyers so that they better understand both our service needs and potential to help them grow the business?”

“Our farmers are constantly experimenting but none of these experiments are done in collaboration with our buyers. How can we learn to learn together?”

I represent a company...

“How can we meet the recent sustainability targets set by our corporate headquarters while at the same time engaging and expanding our smallholder sourcing program?”

“How can we develop novel products and stories that will help us differentiate ourselves in an increasingly competitive marketplace?”

“Supplies are tight for our quality specs for this product. Smallholder farmers might be a good option to diversify our supply base. What can we do to make our company attractive as a preferred buyer for smallholder farmers?”

I represent an NGO or development agency...

“How can we move beyond value chain and business model analysis to really achieve change that benefits smallholder farmers in our target region with their buyers?”

“Now we have an idea what needs to change, but how do we go about facilitating changes in a practical way that leads to lasting change?”

“Both the farmers and the buyers know that the business model needs to be improved but aren’t clear on how to do this. We would like to facilitate this process but don’t know how”

PERSPECTIVES

KEY TOOL #4
THE PROTOTYPE CYCLE
The prototype cycle is an iterative learning process to be continuously tested and improved on the fly.
“Success is not defined by sudden innovation or airtight plans, but the ability to execute more effectively in the face of unforeseeable obstacles and difficulties.”

- Toyota Kata

Source: Rother, Mike. Toyota KATA: Managing People for Improvement, Adaptiveness and Superior Results.
NOW WHAT?
HOW DO WE NAVIGATE THROUGH UNCLEAR TERRITORY AND OBSTACLES?
THE RAPID PROTOTYPE CYCLE

THE PROTOTYPE CYCLE METHODOLOGY ADDRESSES THESE CHALLENGES:

MISSION AND VALUE PROPOSITION
Why we are here?
What do we offer and do well?

STRATEGY AND GOAL
Where we are going?
What are we aiming for?

MEANS
What do we need to get the work done?

MEASUREMENT
How do we tell we are doing well?

CORRECTION
How do we remediate, repair and improve?
Exercise #9

Identify key areas for intervention

STEP 1: Identify areas for innovation
Starting from the diagnostic information of previous exercises such as the Value Chain Map, the Business Model Canvas or the New Business Model Principles Scorecard, the group is now asked to identify specific areas where to develop a set of interventions through a prototype cycle.
A general question is put to the group to initiate discussion: e.g.
Where do we want to improve?
Where did we identify opportunities?
Each participant writes down the up to 3 ideas (can be less, depending on group size). The ideas are shared among all participants and common ideas are sought as grouped together. At his point, if any of the group members have additional ideas that are not adequately represented in the emerging list; these can be shared and incorporated if necessary.
The result should be a list, not yet prioritized, of key areas of intervention, clearly defined and written in a common language.

STEP 2: Prioritize
Once the key areas of intervention have been identified and defined, the working group needs to rank them by importance, feasibility, and impact potential. Often all the issues seems to be important and, as a result, we don’t know where to begin.
• When “Importance” is the prioritizing criteria, a pair wise ranking matrix can be helpful. Each areas of change is placed both on the vertical and horizontal axis. Each pair of ideas is compare only once, so the bottom half of the matrix is not used. Each pair of option is then compared to decide which is more important to develop first. Keep track of the number of times each idea ends up as best.
• When “Required resources” is the main prioritizing criteria, try a matrix placing all the areas of change on the vertical axis and locate next to each area the required resources. Then tag if those resources are available or not.

This exercise is not necessary if you have already identified one or more areas of innovation through the New Business Model Principle Radar Diagram in KEY TOOL #3.
Define a change strategy

**STEP 1: Baseline diagnostic**
*Where are we today?*
*Where do we start?*
*What key elements do we wish to improve?*

For each innovation area, formulate a brief diagnostic statement that summarizes the essence of the current situation. Write out each statement on a separate piece of paper and locate it on the left side of a wall. The baseline statement is underlined by the current state of the business model canvas.

**STEP 2: Vision statement**
*What is the desired outcome? What will success look like?*
*What do we plan to achieve?*
*How will the key elements identified above change?*
*What will be different in terms of knowledge, attitudes and practices?*

For each area of change, formulate a brief vision for a desired future state using the guiding questions above. Write out the vision statement on a piece of paper that locate on the right hand side of a wall in line with its respective baseline diagnosis.

Be sure to note the resulting discussion including any comments, questions, suggestions or conflicts as they occur throughout this process.

Outline the strategy of change on a macro level.

*Note that each statement emphasizes only one specific area for innovation at a time. But if inter-connections between different areas of change become visible at this point, cluster the paper cards and or note their relation with other areas of change.*

*A vision is a short statement that describes a desired future. The vision’s language is energizing and motivating to enhance participation of the crucial actors.*

At this level of planning, the key actions can be simply described as ‘milestones’ and will be further broken down when designing the prototype cycle.
Define a change strategy

**STEP 4: Translate the vision into your business model canvas**

Based on your current business model (baseline), use the instructions on how to build an business model canvas from Key tool #2 and build a potential future business model canvas. You will be answering the following questions:

*How do we want our business model to look like in the future?*
*How does our improved business model function?*
*What blocks will change?*
*What key elements within each block will change?*

**BASELINE**

**VISION**

**STEP 5: Areas for change – Link today’s and tomorrow business model**

The “gaps” that exist between the two business models indicate possible areas of change and innovation for your business model. You will need to answer the following questions:

*What key actions are needed to reach the desired outcome?*
*What actors need to participate and how should they participate?*

First pick one area of change to start with and draw a line from the baseline to the vision poster. Then list key actions (milestones) that are crucial in order to reach the desired outcome. For each crucial action name actors that will be involved and describe briefly what their role will be. One actor can be involved with many actions but be sure to involve everybody. Then discuss the key challenges that might come up along the pathway. Finally write the information on separate paper cards and locate them in a logical order along the line.
Define a change strategy

1. **Baseline Diagnosis:**
   - Where will we start?
   - What existing factors do we hope to change/improve?

2. **Vision:**
   - What do we plan to achieve?

3. **Steps:**
   - What actions do we need to take to reach our desired outcome?

4. **Indicators:**
   - How will we know we’ve achieved our goals?
   - What key elements will change?
After having defined the baseline and the vision, you now can take a closer look and think about the steps and activities that are necessary within each innovation area, their timelines, responsibilities, progress indicators and required resources.

**STEP 1: Get activities within each innovation area in a logical path.**
Focus on the set of activities that have to be implemented. Bring activities in a logical sequence (steps) and define respective progress indicators. Try to answer the following questions:
- What actions do we need to take to reach the desired outcome?
- How do these activities fit together and connect with each other?
- Which are prerequisites for others?
- Which function in parallel?
- How will we know that we achieved our goal? What indicators help measuring progress?

**STEP 2: Review connections between innovation pathways.**
- How do the different innovation pathways connect?
- Which are prerequisites for each other and which function in parallel?
- What sequential arrangement is best in order to leverage early gains for deeper change?

**STEP 3: Build a work plan**
Now construct an action plan with a timetable, showing clear responsibilities for planned activities along with resource needs.
- What needs to be done? By whom? By when?
- How much does it cost?
- When will we evaluate results?

**STEP 4: Describe expected changes in your Business Model**
What blocks or elements of your business model will be influences by the innovation pathway?
- How is each block or element expected to change over time?
- What overall effect will this change have on you cost structure and income stream?
exercise # 11

Prepare for action

**PATHWAY FOR EACH INNOVATION AREA ON A MICRO LEVEL**

Baseline

- **Baseline Diagnosis:** Where are we now?
- **How do the actions fit together?**
- **Are any activities prerequisites for others?**
- **Do activities need to work in parallel?**
- **How many actions can we reasonably do in 6 months?**

Evaluation Point

- **What are the expected changes?**

Times:
- Baseline
- 2 mo.
- 4 mo.
- 6 mo.
exercise # 11

Prepare for action

**SUM OF INNOVATION PATHWAYS**

1. **BASELINE:**
   What is the current condition?

2. **DESIRED OUTCOME:**
   What are the expected results?

3. **STEPS:**
   What action is required?
   What are the desired process characteristics and metrics?

4. **PRIORITIZE PATHWAY:**
   How do these elements connect? Which are prerequisites for others? Which function in parallel?

5. **INDICATORS:**
   How will key elements change? How will we know we’ve achieved our goals?
exercise # 11

Prepare for action

THE PROTOTYPE WORKPLAN

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>RESOURCE</th>
<th># DAYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task 1</td>
<td>Name 1</td>
<td>10</td>
</tr>
<tr>
<td>Task 2A</td>
<td>Name 3</td>
<td>30</td>
</tr>
<tr>
<td>Task 2B</td>
<td>Name 2</td>
<td>4</td>
</tr>
<tr>
<td>Task 3</td>
<td>Name 2</td>
<td>40</td>
</tr>
<tr>
<td>Task 4A</td>
<td>Name 3</td>
<td>10</td>
</tr>
<tr>
<td>Task 4B</td>
<td>Name 4</td>
<td>10</td>
</tr>
<tr>
<td>Task 4C</td>
<td>Name 6</td>
<td>4</td>
</tr>
<tr>
<td>Task 5</td>
<td>Name 7</td>
<td>30</td>
</tr>
<tr>
<td>Task 6</td>
<td>Name 8</td>
<td>45</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Name 9</td>
<td>4</td>
</tr>
</tbody>
</table>

TOTAL EXPENSE

- $2,000
- 4,000
- 800
- 5,000
- 200
- 1,000
- 1,000
- 5,000

WHAT NEEDS TO BE DONE?

BY WHOM?

TIMELINE?

EXPECTED OUTPUTS?

BUDGET?

EVALUATION AND LEARNING ACTIVITIES

OUTCOME JOURNAL

- Expected changes
- Description of change
- Contributing factors and actors
- Sources of evidence
- Unanticipated change
- Lessons/Reactions

EVALUATION AND MONITORING PLAN

- Progress markers
- Evaluation markers
- Monitoring Plan
OUTCOME MONITORING measures how an intervention influences behavior, relationships and activities of the key actors involved in the intervention through a set a graduated indicators. The collected information is reported in an outcome journal.

The central concept of outcome monitoring is that development is achieved through changes in behavior, actions, relationships, and activities of people, groups, and organizations with which an intervention works directly. Outcome monitoring does not belittle the importance of changes in state (i.e. income increase) but instead argues that for each changes in state there are correlating changes in behavior. If an innovation pathway’s goal is to increase income for small holder producers, then what behavioral or organizational changes are required in order to achieve this objective?

This change is described as the “outcome challenge” and refers to how the behavior, relationships, activities, or actions of an individual, group, or institution will change if the program is extremely successful. Outcome challenges are phrased in a way that emphasizes behavioral change. To bring about this change, is described as the “challenge”.

The progress of meeting this challenge is measured with three graduated markers that represent a set of graduated indicators of change. The idea behind the graduated progress markers is that you will be able to trace what has been accomplished, while being reminded of what still needs to be achieved.

PROGRESS MARKERS ARE GENERALLY FRAMED: WHO, IS DOING WHAT, HOW?

EXPECT TO SEE Refers to the minimal change that the innovation pathway should bring about. “Expect to see” changes are relatively easy to achieve and often represent initial changes in the behavior, actions, activities, or relationships of the value chain actors.

LIKE TO SEE Refers to a more complex change and involves a deeper learning experience.

LOVE TO SEE Represents a profound and transformative change in organization, structure and behavior and should be sufficiently high and can derive directly from the objective.

FEEDBACK LOOPS: Regular checks of planned against actual results based on the innovation pathway’s action plan

The process of plan-do-check-act leads the group through an iterative process that allows the action plan to evolve and develop or hone skills. Measuring progress can happen on different levels. In the rapid learning cycle, we especially need timely feedback during the implementation process in order to benefit from the lessons learnt. The most straightforward way to establish a M&E plan, especially for periodically mid-intervention evaluations, is to base evaluation on the innovation action plan developed previously. In this plan, the group defined key activities, steps, responsibilities, dates and budgets.

Revisit each innovation pathway periodically to assess how successfully this activity has been carried out and what the results are.

The group assesses each innovation pathway in four areas:
- results achieved
- lessons learned: what worked well and what worked less well
- changes that need to be made to the work pan based on the results to date
- level of satisfaction with the progress made to date

Source: Outcome mapping - Buildind learning and reflection into development programs, Earl, Carden, Smutylo (2001)
Prepare the outcome monitoring plan

**STEP 1: Describe outcome challenge for the objective within each innovation pathway**
Encourage the group to think about how they can intentionally contribute to the most profound transformation possible. To bring about those changes represents the “challenge”.

**STEP 2: Set graduated progress markers for each innovation pathway**
Review each innovation pathway (baseline, objective, steps, responsibilities etc.) with the group and think about the changes in behavior, activities and relationships that represent minimal changes as well as changes that represent a deep transformational change. All the ideas are collected on individual paper cards and pinned to the wall.

*How can we know when we are moving towards the desired outcome?*

*What milestones will mark the transformation process?*

Next, select the cards that require minimal changes (expect to see), the ones that require a more complex changes (like to see) and the ones that deep transformational changes (love to see). Ideas that are mention double are eliminated and complimentary ideas can be grouped together.

*What changes would you expect to see achieved?*

*What changes would you like to see achieved?*

*What changes would you love to see achieved?*

*Ideally there should be no more than 15 progress markers in the list, otherwise the data collection will be too difficult.*

In the end the groups reviews each innovation pathway and the selected progress markers in order to make sure that all participants agree and that there are no elements missing. It is important that the progress markers capture the change of the major milestones.

Source: Outcome mapping - Building learning and reflection into development programs, Earl, Carden, Smutylo (2001)
Prepare outcome monitoring plan

**STEP 3: Prepare the monitoring plan**
The progress of the innovation pathway will be measured periodically during implementation or after the activities have been implemented. Either way, it is important that the process of collecting is well organized.
The following questions may help you to build a table for monitoring a plan, with indicators in the rows:

*How will use the information?*
*What is the purpose of the information?*
*When is the information needed?*
*How often will the information be collected?*
*Who will collect the information?*
*How will the information be collected?*

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</table>
Prepare outcome monitoring plan

**PROJECT OBJECTIVES:**

**INDICATORS:**

**DATA COLLECTION**

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Baseline Data Needed</th>
<th>Who is Involved</th>
<th>Tools &amp; Methods</th>
<th>How Often</th>
<th>Added Info Needed</th>
</tr>
</thead>
</table>

**DATA ANALYSIS AND USE**

<table>
<thead>
<tr>
<th>How Often</th>
<th>Who is Involved</th>
<th>Source of the Information</th>
<th>Who Gets the Information</th>
<th>How is the Data Analyzed</th>
<th>How is the Info to be Used</th>
</tr>
</thead>
</table>

- Define indicators that are practical and important to the stakeholders.
- Units of measure?
- When does this information need to be collected and at what scale?
- Who is responsible for collecting, analyzing, and utilizing the information?
Monitoring through rapid feedback loops

Key Questions:
What did we achieve so far?
Are we satisfied with the results?
What should be keep doing?
What should we drop in the future?
What do we need to change in order to improve?
What obstacles are preventing us from achieving the target?
How can we overcome the obstacle(s)?
What changes do we have to incorporate in the work plan?

STEP 1: Each person or group of people responsible for an innovation pathway presents a short summary of work in this area focusing in results achieved, lessons learned (positive and negative), and changes that need to be made based on results up to now. A summary of this information then is discusses with the rest of the group.

STEP 2: Assess the level of satisfaction of the group with each activity. This information is written on a flip chart prior to advancing to the next activity. The progress markers from the previous exercise can deliver a helpful input.

How well are we doing?
Are we satisfied with the progress to date?

STEP 3: Once the activity has been reviewed and the level of satisfaction assessed, the group decides on what changes need to be made to the existing action plan in terms of activities, steps, dates, budgets, responsibilities or any other aspects. These changes are then noted and incorporated into innovation pathway.

What should we continue doing? What should be give up?
What activities should we add?

When designing a monitoring plan keep in mind the following things:

• Keep the system as simple and straightforward as possible.
• Base the system where possible, on existing information that can be analyzed in new ways.
• Incorporate the evaluation plan into existing data gathering exercises.
• Resist the temptation to gather “interesting” information on a wide range of activities.
• Be systematic in data collection and analysis and make use of locally relevant tools for understanding results.

Record progress based on the action plan.
Implementation

NOW, TAKE A STEP!

It matters more that you take a step rather than trying to determine what is “the right” first step to take. As you move forward the learning process begins and you will see further.

The trick is understanding your processes and improving processes step by step toward an appropriate target condition so you can reach your desired outcome.

At this stage in the process the diagnose and planning is complete and the groups need to take the plunge into their new business ventures. As with all planning, implementation often leads to the arrival of unexpected challenges that need to be dealt with by the group and the facilitator as they arise. Success at this stage will depend in the leadership of the group and the commitment of the team to take on these new challenges and deal with them pragmatically.

Adapted from Rother, Mike. Toyota KATA: Managing People for Improvement, Adaptiveness and Superior Results.
Rapid cycles = Faster learning

Evaluation and overall reflection:
What did we learn?

EVALUATE: COMPARE ACTUAL OUTCOME WITH EXPECTED OUTCOME.

Rapid cycles are adapted PDCA cycles (Plan, Do, Check, Act) an iterative management method for control and continuous improvement. http://en.wikipedia.org/wiki/PDCA
EVALUATION – ASSESS THE EFFECTIVENESS OF THE STRATEGY

After one prototype cycle including its various innovation pathways, has come to an end, it is important to find out how the wider context has changed.

Evaluation can happen on different levels. At this stage we suggest to translate the achieved results back into the VALUE CHAIN, and BUSINESS MODEL and conduct a rapid analysis the impact on LIVELIHOOD of small holder producers.

PLAN
DESIGN
TEST
CHECK
ADJUST
IMPLEMENT
MEASURE RESULTS
EVALUATE
DOCUMENT
REFLECT ON CHANGES

EXPAND?

OVERALL, WHAT HAVE WE LEARNED?

TEST A NEW PROTOTYPE

SHOULD WE EXPAND? OR TEST A NEW INNOVATION?
WHAT HAVE WE LEARNED?

What changed?

What worked?

Did we achieve greater inclusion?

What can be improved?

Innovation area tested

Is the business model more profitable, feasible, desirable to your customer?

Are the trading relationships more equitable, durable?

Improve existing innovation area or explore new areas.
How do the changes achieved impact the business model, the livelihoods of smallholder producers and the wider value chain?
Possible evaluation factors within the different spheres

Some possible factors to take into account of a monitoring and evaluation system are set out below with their respective sources of information. This list does not intend to be complete or unique; it should be used as input for the design if a system that responds to users needs.

**IN THE BUSINESS MODEL:**

**General Performance**

*Effectiveness:* The degree to which a system accomplishes what it should accomplish.

*Efficiency:* The degree to which the system utilized the correct things.

*Quality:* The degree to which a system conforms to requirements, specifications, or expectations.

*Profitability:* The relationship between total revenues (or in some cases, budget) and total costs (or in some cases, actual expenses).

*Innovation:* How well the organization does at coming up with new, better, more functional products or services.

*Productivity:* The relationship between the outputs generated from a system and the inputs provided to create those outputs.

*Cost structure and income stream:* Here both the reduction of overall cost or increase of income and the form of the cost or income: the stability and predictability are of importance.

**THE BUSINESS MODEL IN THE MARKET:**

**Market penetration and position**

What is the market participation of products of the business model?

Is the participation of the products increasing, stable, or declining?

In the same way, the segment of the market where the product is sold can be researched.

Do the products or services from the business model reach a segment that is highly profitable, or only slightly profitable?

Has this changed as a result of the strategy?

**Sales volume**

Evolution of total volume of sales measures in for instance tons.

**Sales value**

Value of sales of the market chain measured in constant currency.

**Product differentiation:**

Results from strategies to differentiate the market chain’s products in a specific market and this gain a competitive advantage.
How do the change strategy and resulting innovation pathways contribute to the generation of livelihoods, and how to these contributions evolve? Are those who benefit from the market chain women or men? What population or income groups benefit the most or the least from improvements in the market chain? Why?

Diversification of income sources and income stability during the year
How market chain activities affect the income diversity and security of the target population during the year?

Use of added income of the market chain?
How does the target population use added income generated by the market chain? Who decides upon the use of the added income generated by the market chain?

Employment generation
How does the market chain contribute to temporary or permanent employment generation disaggregated by gender, ethnicity, or age. Who from within the community gains most of these opportunities?

Participation in the local economy
How does the relative importance of the market chain change over time in relation to other economic activities in the local economy.

Participation of income from the business model in overall livelihood strategies of the target population
Evolution of the percentage of the target population’s income originating from the activities related to the business model. This measurement can include the sale of products, employment, or reduction of purchases as a result of the strategy to increase competitiveness. While income gains are positive, it is critical to avoid over dependence on any one activity or business model.

Notes on evaluating small holder livelihoods:
1. This highly simplified list should always be applied in a gender differentiated fashion to account for diverse impacts in women and men. In some cases, it may also make sense to differentiate by ethnicity or age.
2. Many far more formal and robust evaluation approaches exist. If resources are available to implement and make use of data from such approaches, this initial list can be greatly expanded. See for example http://www.thecosa.org/
3. In some cases, the above list might be complemented or even replaces by tools such as the Pathway Out of Poverty Index™ (PPI™) developed by the Grameen Foundation (http://progressoutofpoverty.org/)
Possible evaluation factors within the different spheres

The business model normally forms part of a larger value chain. Changes in the business model have many possible implications in the value chain. Two we have found most useful are: (a) how do changes in the business model effect the wider chain (i.e. spillover effects); and, (b) how do changes in the business model differentiate it vis a vis the wider chain. The following incomplete list of potential groups of indicators may be useful to track these implications.

**WITHIN THE VALUE CHAIN**

**Production costs:**
Evolution of production costs in the market chain’s different links. Are cost stable, increasing or declining?

**Yields per unit:**
Evolution of the yields, or productivity per unit, invested or employed in the market chain. For example, production per hectare planted or quantity of cheese produces per liter of milk.

**Value of final product:**
Evolution of the commercial value (in constant currency) of the final product or products in the market chain. Is the value of the product increasing, stable or declining?

**Profitability:**
Evolution of the products gross or net profit for the market chain. Profit can be calculated in each in as an easy way to identify which actors capture a greater percentage of the benefits. Are overall profits increasing, stable or declining?

**Distribution of benefits:**
How does the distribution of final product or products along the value chain and amongst diverse actors evolve over time? Who retains the most value, and how does this distribution change over time? This indicator is of special interest in projects focused towards poverty reduction.

**Improvement of market chain products and efficiencies:**
There are various ways of improving a market chain. Kaplinsky and Morris (2001) identified four key trajectories.

**Process improvement:**
Increases in the efficiency in internal processes both in individual enterprises, and between enterprises in the market chain. Examples in the market chain are the frequent and timely delivery of products with the required quality as well as the ability of service providers to support market led/enterprise innovations.

**Product improvement:**
Introduction of new products or improvements in existing products more quickly than by rivals. This implies changes in the processes of developing countries within and between enterprises.

**Functional improvement:**
Increases in the added value by means of changes in the activities managed with in an enterprise (for example taking responsibility for quality within the market chain) or moving the focus of activities to different links of the market chain (for example, from production, to marketing).

**Market chain improvement:**
The market chain passes from a basic product to a processed on of greater value.
CASE EXAMPLE

HIVOS and ECOM, Kenya
Bottom-up quality by Hivos and ECOM in Kenya

Hivos is a humanitarian Institute for Development Cooperation with the mission to contribute to a fair, free and sustainable world. Hivos has more than 20 years of experience in the coffee sector, spending more than 2 million EUR a year to improve sustainability.

Together with the Kenyan non profit organization SMS Limited (Sustainable Management Services), Hivos developed the Leverage Quality Improvement (LQI) model. It is a bottom-up approach that heavily relies on the farmers to improve their situation by empowering them to do so. Few smallholder farmers manage to be significant more productive average with higher grade crops. Those farmers can act as examples to others.

Farmers are organized groups of 50. They select a male and a female promoter farmer on criteria such as being an opinion leader, being a native farmer, being available for training and being to read and write in English. The promoter farmers are trained on agricultural practices and record keeping and supported to train their group. This train-to-trainer element makes the model highly effective and cost efficient, requiring limited resources for training and support and scales to tens of thousands of smallholder farmers. The promoter farmers are integrated in a continuous improvement process with actors in the value chain. Based on ISO quality approach the actors go through a plan-do-check-act cycle with regular meetings, reporting, and prices assurance with independent auditing. This process ensures that realistic, attainable goals are set that lifts the chain up to a higher quality level in every cycle. Farmers witness benefits materialize in the short term and stay committed to the process over time.

Leveraged Quality Improvement (LQI) model benefits all actors in the value chain. The most direct benefit are seen by the farmers. These benefits include:

- **INCREASED YIELD**: The application of farming best practices leads to an increase of yield per starting directly after implementation.
- **INCREASED CROP GRADES**: The application of best practices and information gathering and feedback from actors in the value chain leads to increases in crop grades.
- **INCOME INCREASE**: Farmers income increases as a result of higher volume and higher prices for higher grades, Higher volumes make farmers less vulnerable to price drops.

**Results of the first pilot**

SMS Limited and Hivos started the first pilot in the Nyeri region in Kenya in 2006. total investment was approximately EUR 295k (or ca. 45 EUR per farmer including investment in cash and in kind). Hivos provided 75% of financing and knowledge and expertise through consulting work. SMS provided technology, training and local project management.

By starting with 11,768 farmers in 4 cooperatives, the project reached a total of 58,435 farmer family members and the results were convincing. After 3 years, average yield per tree had more than tripled from 1kg to 3.5 kg and the average share of premium grades increased by 26% to 85% resulting in increased income by 69%.

Other results are increased trust, information and efficiency in the value chain, additional income for promoter farmers, creation of stable farmer groups, autonomous problem solving and improvement in the value chain through the plan-do-check-act cycle.
Add-on #1
DRIVERS, TRENDS and KEY IMPLICATIONS
GOALS

Explore which trends and drivers favor or limit the value chain causing opportunities or challenges.

KEY QUESTIONS

What are the key factors at international, national and local level that drive changes in markets?
As a result of these drivers, what trends do we see in the market today?
Are those trends certain or uncertain?
In which direction do those drivers effect the market?
Which business links are especially influenced by these trends?
What are the key issues and limitation that result for the value chain?
What opportunities result for each main actor or the entire business system from current trends?

WHAT IT CAN DO

Help surface and understand forces that affect the development and dynamics of the market system but that are primarily beyond the direct control of the actors.

Provide participatory tools to demystify the implications, both positive and negative, of drivers and their resultant trends and thus incorporate them into strategies and planning processes.

Identify differentiated implications of key drivers and trends for different actors in the market system, especially the rural poor, women and small holder farm families. This allows the development of tailored strategies to take advantage of or minimize the effects of the driver and trend on selected populations.

WHAT IT CAN’T DO

Predict the future in a precise way
Weight the drivers or trends by probability in a statistically valid manner
Remove all unknowns that have implications for small holder agriculture

ADD-ON TOOL #1
DRIVERS, TRENDS and KEY IMPLICATIONS

PROFILE

GOALS

Explore which trends and drivers favor or limit the value chain causing opportunities or challenges.
Drivers are factors that create changes, while trends are the direction of change caused by drivers.
DRIVERS, TRENDS and KEY IMPLICATIONS

After picturing your market chain, partner network and external influences as a rather static snapshot (Key Tool #1), we now seek to animate the system by including pushing and pulling forces, defined as key drivers and trends, and converting the static picture into a dynamic system.

The interplay between drivers and trends is comparable to the domino effect. Drivers are factors that create changes, while trends are the direction of change caused by drivers.

Looking at key drivers, analyzing the trends created and combining both with the value chain map, will help to anticipate the challenges and opportunities for chain actors and stakeholders. Knowing if those drivers and trends operate in favor of or against your business system and the upcoming change process assists in planning activities.

How do markets drivers and trends affect the different actors in the market chain?

- The evaluation of key implications seeks to highlight those areas that are positively influenced by current drivers and trends inasmuch they may become an opportunity and facilitate the upcoming change process.
- The other purpose is to emphasize areas that are negatively influenced by drivers and trends inasmuch they may present limitations, high risk or other challenges for the value chain and hamper the change process in general.

Modern agri-food systems are exposed to a range of drivers at a global and domestic scale. The identification of the trends created and their implications for chain actors and stakeholders is especially important in terms of small holder inclusion, and an useful task before designing a change strategy (Step 4).

Examples of DRIVERS:
Changes in consumer demand
Globalization
Income growth
Population growth
Urbanization
Trade liberalization
Technology

Examples of TRENDS:
Increasing trade of high value foods
Rising consumer awareness in food quality and safety
Domination of modern retailers in the supply chain.
Increasing importance of food labels, certification and standards
Rise in contract farming
Increasing focus on sustainability in business and farming

How do markets drivers and trends affect the different actors in the market chain?

- The evaluation of key implications seeks to highlight those areas that are positively influences by current drivers and trends inasmuch they may become an opportunity and facilitate the upcoming change process.
- The other purpose is to emphasize areas that are negatively influences by drivers and trends inasmuch they may present limitations, high risk or other challenges for the value chain and hamper the change process in general.

**Example of CHALLENGES FOR ACTORS**
- High consumer quality demands and preference
- Lack of a conducive public policy environment that is supportive of small-scale producers in the market including at municipality level
- Farmers have weak bargaining position in the markets and or producers organizations are too weak to engage with modern markets
- Imbalance of market information
- Farmer quantities are small and non continuous in supply? Need to improve productivity and lower production costs including high cost of inputs
- Failure in the credit market to meet small-scale producers needs including dependency on traditional credit

**Examples of OPPORTUNITIES FOR ACTORS**

- Co-Investment in “upgrading”
- Adapting supply chain structure & relationships
- Adapting buying practices and product proposition

- Farmers → Traders / aggregators → Processor / Exporter → Wholesaler / Importer → Food manufacturer / retailer
Drivers, Trends and Challenges in the diary value chain in India

**Key Drivers:**
- Rising income - diet diversification
- Increasing population
- Quality consciousness
- Trade liberalization
- Comparative/competitive advantage
- Instruments for poverty alleviation
- Export opportunities/import threats
- Government policies and incentives
- Large vegetarian population

**Trends:**
- Scaling up - big to small
- Exports and imports increasing
- Increasing domestic market size
- World prices increasing
- Entry of private players
- Increasing share of organized sector
- Increasing emphasis on food safety and quality

**Chain Actor:**

**Producers (small):**
- Access to market, technology, credit, inputs and services
- Lack of bargaining power
- Competition (large farms, imports)

**Middlemen:**
- Livelihood loss
- Recovery of losses

**Processors:**
- Competition (global, local)
- Access to technologies, capital and markets
- Supply of raw materials

**Wholesalers and retailers:**
- Competition with modern chains
- Logistics and supply chain management

**Supermarkets:**
- Raw material supplier (quality, quantity and prices)

**Consumers:**
- Food safety
- Prices
- Consistent availability

ADD ON #2

THE BUSINESS MODEL TYPOLOGIES
GOAL

Understand characteristics of inclusive business models that are typical for small-holder inclusion depending on the structure of the chain and entry point of negotiation.

KEY QUESTIONS

What options of small holder inclusion can be driven by producers, intermediaries or the lead-firm?
What limitations and benefits result for the actors involved?
What are implications of traditional dominated value chains?

PROFILE

WHAT IT CAN DO

Offer mechanisms to understand the position of small-scale producers, SME’s and buyers within a particular market chain
Help identify points of leverage for greater efficiency and market inclusion
Understand the drivers and implications of typical organization and trading relationships
Understanding the entry points, limitations and options for change within inclusive business models
Help see patterns and understand how other business models with similar characteristics have been used to drive small holder inclusion.

WHAT IT CAN’T DO

Guarantee a shift in the existing power structure
Provide specific examples of all possible business models that you might encounter
THE CONCEPT

IN THEORY AND PRACTICE

“Business Model Typologies distinguish the value chain dynamics by the force who is driving the small holder inclusion process”
To understand TYPICAL ORGANIZATION and TRADING RELATIONSHIPS for improved chain coordination within inclusive business models, we discuss various business TYPOLOGIES, their key implications, challenges, and innovation opportunities within each type.

This section highlights some of the characteristics of inclusive business models that are typical for small-holder producers depending on the structure of the chain and entry point of negotiation. A typology driver or entry point into the value-chain relates to the point of negotiation or services offered for the entire business model. These negotiations drive the function of the business and are areas where significant improvement can occur. Typology drivers fall under three basic categories:

- **PRODUCER-DRIVEN**: Farmers producers → traders intermediary → processor exporter → wholesaler importer → manufacturer retailer. Co-investment in upgrading
- **INTERMEDIARY-DRIVEN**: Adapting supply chain structure & relationship
- **BUYER-DRIVEN**: Adapting buying practices & product proposition
Implications of a traditional dominated market chain

The agri-food sector is traditionally built on an exclusively consumer facing value proposition, high standard in food quality and safety, low prices and reliability of supply. This value proposition is often achieved despite the typical challenges faced by small holders such as numerous and widely dispersed production units with diversified livelihoods, low access to services, limited finance and information and operating in an informal economy. What are the implications of these typical market chains dominated by buyers and traders?

**Buyers** usually want a supply base of large volumes, standardized procedures and minimal management requirements and because many business models have low flexibility, interventions must have low transaction costs that do not compromise on quality, safety and legality. The main leverage point for change is at the level of the buyer or first tier supplier or category managers, therefore workable solutions should be at least cost and risk neutral.

In an intermediary dominated supply chain, actors such as, **processors**, **transporters**, or **wholesalers** tend to have a great **power over decision and implementation and governance** and **hold critical information** about both upstream and downstream activities.

---

*Note: Diagrams for Producer, Intermediary, and Lead-firm are provided to illustrate the market chains.*
Implications of an traditional dominated market chain

How does the power structure of different models affect the innovation process?

- Decision making
- Negotiation
- Implementation
- Governance
- Information
- Prices
- Facilitation

BUYER-DRIVEN

PRODUCER-DRIVEN

INTERMEDIARY-DRIVEN
Towards more inclusive business alternatives

The integrating of small holder producer into value chains can have different entry points and model drivers depending on the structure of the supply chain.

**Producer Business Model**

**WHO?**
Farmer owned businesses (cooperatives, associations, corporations, etc.)

**WHY?**
- Market participation
- Stable market position
- Generate sustained income flows

**HOW?**
1. Professionalize as an autonomous economic organization
2. Economically associate with your buyer, trader or processor.

**Intermediary Business Model**

**WHO?**
New generation intermediary (processors, exporters, service providers, wholesalers, traders or a combination of trade actors.)

**WHY?**
To balance both the needs of small scale farmers and the realities of modern markets in terms of quality and volume.

**HOW?**
1. Intermediary organizes production
2. “Social intermediary”

**Lead-firm Business Model**

**WHO?**
Consumer or retail brands

**WHY?**
- Assure supply, safety and quality
- Corporate social responsibility
- License to operate

**HOW?**
1. Lead firm organizes production
2. Contract farming
3. Direct trade
Towards more inclusive business alternatives

**“Ethical agent”**

An ethical agent engages both sides of the chain in the venture and enables a dialogue, whilst simultaneously recognizing the abilities of this supply base and the demands of the buyer.

**An ethical agent’s PROFILE:**

- Ethical agents need to have a chain-wide oversight and reach
- Ethical agents need to understand the model and network of the supplier, as well as the support and upgrading to service a formalized buyer
- The agents and upstream chain actors need to develop a competitive product with a unique selling point.
- Ethical agents often add value without handing the product
- Ethical agents should have both, commercial and development skills
- An ethical agents is not the only supplementary actor needed in an inclusive business
- Interventions that use ethical agents need to plan in an exit strategy

**LIMITATIONS:**

- Costs: May require additional funding or subsidy
- Role of NGO is unclear.
- Still have to convince buyers or private actors of necessity

Ethical agents play a mediation role facilitating the process of chain collaboration to get a product or service to market. Agents possess the skills, knowledge and/or relationships necessary to play this role. They are usually industry experts who understand the particular market peculiarity of the sector they are operating in. Agents utilize their networks within the sector to garner information, establish trust and build new links between actors in the industry – strong relationships with key contacts is crucial. Ethical agents further have a strong motivation to ensure a positive development impact within these new market relationships. Although agents do not handle the product they are likely to add value and assume some risk. Threats to the agent are likely to be reputational or relationship-based, given the risks involved in getting a competitive product to market and keeping it there.

Source: Buxton, Vorley, Homer & van Bragt, The role of ethical agents
Towards more inclusive business alternatives

<table>
<thead>
<tr>
<th><strong>What are incentives for small holder inclusion?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOR SMALLHOLDER PRODUCERS</strong></td>
</tr>
<tr>
<td>• Increased resilience (e.g. secure and stable markets provided by modern markets)</td>
</tr>
<tr>
<td>• Revenue growth stemming from increasing access to premiums for high quality, certified products and increased productivity thanks to better agricultural practices</td>
</tr>
<tr>
<td>• Other incentives include: Geographical location (proximity to buyers), membership to an association, access to water and irrigation infrastructure, access to inputs, risk management option and credit, access to information and connection to exporters.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>What are challenges for small holder inclusion?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOR BUSINESS SIDE</strong> (intermediaries, lead firm)</td>
</tr>
<tr>
<td>• Through secured supply increase productivity, react to consumer’s pressure, reduce operational/reputational risk, brand differentiation, attract new customers</td>
</tr>
<tr>
<td>• Provide transparency and consistency of supply</td>
</tr>
<tr>
<td>• Take full advantage of processing facilities and sunk costs in infrastructure.</td>
</tr>
</tbody>
</table>

Smallholders will be included or excluded in the value chain depending of their ability to undertake the necessary technological, managerial and organizational changes. What is keeping them from reaching their full potential?

- Limited knowledge and skills
- Lack of access to adequate financing
- Lack of market information
- Ineffective regulation
- Poor infrastructure

Companies have to adapt their corporate culture to the need of smallholder farmers.

What is preventing companies in moving closer to farmers?

- Unrealistic expectation on time to reach scale
- Lack of access to adequate financing
- Difficulty in adapting the initial business model to new geographies ad scales of operation
- Lack of appropriate partners in new geographies
- Lack of internal buy-in within the firm
- Short term cost against long term benefits

Jenkins, Ishikawa (2012), Scaling up inclusive Business
Wegner, Wageningen UR Centre of Development innovation
Unilever Sustainability statement “Why inclusiveness matters for our business?”
Towards more inclusive business alternatives

**A KEY STRATEGY: ORGANIZATION OF PRODUCTION**

The organization of production to overcome the costs associated with dispersion of products, diseconomies of scale, poor access to information technology and finance, inconsistent volume and quality, lack of traceability, and management of risk. Production may be organized by the producers themselves, by the end customer companies, or by an intermediary (wholesaler, trader, exporter) or by an external agent such as an NGO.

<table>
<thead>
<tr>
<th>TYPE</th>
<th>DRIVERS</th>
<th>OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCER-DRIVEN</td>
<td>Small scale producers themselves, Large farmers</td>
<td>New markets, Higher prices, Stabilize market position, Extra supply volumes</td>
</tr>
<tr>
<td>INTERMEDIARY-DRIVEN</td>
<td>Processors, Wholesalers, Exporters</td>
<td>Assure supply, Supply more discerning customers</td>
</tr>
<tr>
<td>LEAD FIRM-DRIVEN</td>
<td>Retail brand, Consumer brand</td>
<td>Assure supply</td>
</tr>
<tr>
<td>ETHICAL AGENT-DRIVEN</td>
<td>NGO, External consultant</td>
<td>Make markets work for the poor, Regional development</td>
</tr>
</tbody>
</table>

Source: Business models that are inclusive of smallholder farmers, Vorley, Lundy, MacGregor
Towards more inclusive business alternatives

OTHER STRATEGIES: How can producers drive the small holder inclusion process?

**Professionalize as an autonomous economic organization**

**STRATEGY:**
Producers organize supply and intermediation is integrated into producers business model, cooperation, mutual control.

**LIMITATIONS**
High transaction costs
Weak management capacity
Low-level customer information

**BENEFITS**
Reduced costs for quality and quantity verification and testing.
Improved negotiation
Improved resilience and adaptability.
Build leadership capacity and trust
Restrict opportunistic behavior

**Economically associate with downstream actors (trader, wholesaler, retailer)**

**STRATEGY:**
Outgrowing
Contract farming
Lead farmer models
Trader-organized production

**LIMITATIONS**
Low-level of information on consumer, high transaction costs.

**BENEFITS**
Strengthened chain relations.
Build leadership capacity
Contracts and incentives prevent side selling.
Impose quality control

Source: Business models that are inclusive of smallholder farmers, Vorley, Lundy, MacGregor
Towards smallholder inclusion

Possible strategies for intermediary-driven smallholder inclusion processes

<table>
<thead>
<tr>
<th>Intermediary organizes production</th>
<th>Exporters directly contract with producers or out-growers</th>
<th>Global partnerships</th>
<th>New generation intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGY:</td>
<td>STRATEGY</td>
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<tr>
<td>Professionalize through</td>
<td>Contracts</td>
<td>Partnerships with</td>
<td>Double-facing business</td>
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<tr>
<td>technical upgrading of production</td>
<td></td>
<td>a more sophisticated</td>
<td>model: coordinates chain</td>
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<tr>
<td>network</td>
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<td>global intermediary</td>
<td>servicing producers,</td>
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<tr>
<td>LIMITATIONS</td>
<td>LIMITATIONS</td>
<td>LIMITATIONS</td>
<td>procurement, servicing</td>
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<tr>
<td>Organizing direct procurement can</td>
<td>Binding contracts when market prices exceed contract</td>
<td>Binding contracts</td>
<td>customers</td>
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<tr>
<td>have high transaction costs,</td>
<td>price. Low transparency</td>
<td>exceeding contract</td>
<td>Low flexibility, commercial</td>
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<td>mixed results</td>
<td></td>
<td>price. Low transparency</td>
<td>viability, needs to remain</td>
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<td>Weak management</td>
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<td>Weak management</td>
<td>cost and risk neutral</td>
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<tr>
<td>capacity, high risk</td>
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<td>capacity, high risk</td>
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<td>BENEFITS</td>
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<td>Little vertical</td>
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<td>Efficiencies in the chain to</td>
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<td>linkages</td>
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<td>benefit processing or retailing</td>
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<td>Little incentive to</td>
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<td></td>
<td></td>
<td>innovate</td>
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<td></td>
<td>BENEFITS</td>
<td>BENEFITS</td>
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<td></td>
<td>Contracts remove risk of periodic shortages and</td>
<td>Logistical support</td>
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<td></td>
<td>volatile prices, land access and tenure</td>
<td>Increased efficiency</td>
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<td>Incentives for</td>
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<td>product/process</td>
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<td>upgrading and technical</td>
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<td></td>
<td>services</td>
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<td>Linkages to buyers</td>
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<td>Market information</td>
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Intermediary organizes production

Exporters directly contract with producers or out-growers

Global partnerships

New generation intermediary
Towards smallholder inclusion

**Possible strategies for lead firm-driven smallholder inclusion processes**

<table>
<thead>
<tr>
<th>Adaption of terms and/or standards</th>
<th>Certification program</th>
<th>Lead firm organizes production</th>
<th>Engagement with suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGY</strong> Preferential procurement from small holders Adapted procurement standards (smaller volumes, timely payment etc.) Provision of monitoring systems to facilitate communication and measurement</td>
<td><strong>STRATEGY</strong> Coordination, information sharing, upgrading</td>
<td><strong>STRATEGY</strong> From supply push to demand pull</td>
<td><strong>STRATEGY</strong> First-tier suppliers lead program development with others</td>
</tr>
<tr>
<td><strong>LIMITATIONS</strong> Can compromise bulk buying</td>
<td><strong>LIMITATIONS</strong> High license fee suitable for limited number of products Recurrent costs Issue of dependence: Does not necessarily build technical capacity Modest livelihood impacts</td>
<td><strong>LIMITATIONS</strong> High transaction costs only justify a lead-firm organized production for high value products Technically and logistically demanding</td>
<td><strong>LIMITATIONS</strong> Must have low transaction costs Must not compromise quality, safety, legality</td>
</tr>
<tr>
<td><strong>BENEFITS</strong> Easy to implement for lead firm</td>
<td><strong>BENEFITS</strong> Private sector investment in productivity Management Service provision Improves information flow Traceability Measurement Strong brand recognition Potential gains in agricultural productivity &amp; environmental mgt.</td>
<td><strong>BENEFITS</strong> Direct influence on production practices and on farm management Potential access to high quality products that others cannot secure</td>
<td><strong>BENEFITS</strong> Inclusion of small holders, assured supply, Easy to implement for the lead firm</td>
</tr>
</tbody>
</table>
CASE EXAMPLES

LEAD FIRM-DRIVEN

CASE EXAMPLE: A lead Farmer Network - Hortifruti in Central America

Hortifruti is the specialized wholesaler for fresh fruit and vegetable for Wal-Mart in Central America. Hortifruti works with a variety of suppliers for vegetables in Honduras and Nicaragua and often purchases product from existing farmer cooperatives. However they have experienced significant difficulties with these RPOs in terms of lengthy decision-making processes. As a result, Hortifruti Honduras has developed and promoted a ‘lead farmer’ model of organization through which they identify and build the capacity of farmers who can meet their quality needs in a consistent fashion. After demonstrating such capacity, lead farmers receive larger orders for product or new products and are invited to work with neighboring farmers to meet this demand. The lead farmer provides access to technology, technical assistance and market access as embedded services. The cost of these services is then recouped via the sales margin. The expansion of this model is organic and depends on the identification of new lead farmers. It is low-cost, easily scalable and sustainable.


INTERMEDIARY-DRIVEN

CASE EXAMPLE: A market facilitator - Normincorp in the Philippines

Farmers of the Northern Mindanao Vegetable Producers’ Association, NorminVeggies, are able to successfully participate in dynamic vegetable chains primarily because of the organizational structure they chose in order to respond to the market challenges. This involves a marketing corporation, Normincorp, which gives them the capacity needed for each development in the supply chain. Normincorp’s formation signified a new development in marketing for small farmers. While established as a stock corporation, Normincorp functions more like a cooperative and has a social enterprise character. It was a set up and operated with keen business sense but also with full empathy for the small farmers. As market facilitator, Normincorp saw to it that production was programmed by farmer clusters with their respective cluster leaders, according to marketing plans, that quality farm and postharvest management could be done by each farmer in the cluster, and that coordination could be provided for the sequence of activities that include order taking, outshipment logistics, billing/charging, and collection and remittance to the farmers. Normicorp supplies multiple market outlets – exports, supermarkets, hotels, wholesale and local markets – spreading risks and ensuring an outlet for all products. For these services, Normincorp earns a market facilitation fee based on the value of the sale and uses the income to cover the marketing management overhead.


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CASE EXAMPLE: Cuatro Pinos, Guatemala

Cuatro Pinos is a successful cooperative with nearly 30 years of experience in the vegetable export business. Recently the cooperative has succeeded in opening large markets for several fresh vegetable products in the US through an alliance with a specialised wholesaler and several retailers. Existing demand significantly outstrips the capacity of cooperative members, requiring the integration of new producers, organisations and geographies. To achieve this, Cuatro Pinos identifies existing farmer groups, including associations, cooperatives and lead farmer networks, in favourable environmental niches. It works with them to test production schemes and then contracts those that show an ability to meet quantity and quality targets. The cooperative signs a legally binding contract with the producer group, which specifies quantity, quality and a production schedule as well as providing a fixed annual price for the product. Credit in the form of inputs and technical assistance is provided. This is later discounted from the first few product deliveries. Cuatro Pinos provides business and organisational support to its partner organizations to increase their efficiency and access additional funding from diverse sources for development activities. In 2006, Cuatro Pinos partners successfully raised US$ 1.7 million for investments in irrigation, packing sheds, education and housing. Through this model Cuatro Pinos has achieved an annual growth rate of 50 per cent in vegetable exports over the past three years and expanded from 560 member producers to a network of more than 2,000 families. Nearly all the new producers in the network are from regions with higher than national-average poverty levels and with limited access to land.
CASE EXAMPLES

Fresh flowers business in Kenya supported by an ETHICAL AGENT

Wilmar Agro Limited, is a Kenyan company which aggregates flowers from 2500 contracted smallholder growers for the Dutch flower auctions, using a highly inclusive out grower scheme. Although a profit-driven business, the business owner had a strong social mission and was investing in his growers’ wellbeing with a network of dedicated extension agents, bank accounts for each grower, and monthly producer group meetings.

Flower growing is relatively high value and, by comparison with flowers grown under cover on an industrial scale, the “summer” flowers grown within a smallholder farmers system are relatively low risk and low cost. Smallholder growers need to dedicate just a quarter on an acre of their farm to flower growing in order to reap the equivalent of more than two acres of tea, the next most profitable cash crop. For these reasons, an increasing number of farmers had been keen to start growing flowers.

Wilmar’s development was, however, limited by their market. The Dutch auctions established prices based on supply and demand – more growers and more volumes inevitably meant lower prices for all. Wilmar needed new markets. At this time ASDA, a UK supermarket chain, became interested in a trading relationship with Wilmar.

This relationship was supported by three ethical agents: One retail expert, one flower value chain expert, and IIED, responsible for ensuring that commercial decisions also considered the grower’s livelihood. To make the shift from supplying wholesale to supplying retail, an SME aggregator/supplier like Wilmar must decide to innovate in both products and processes. Although Wilmar had built a strong capability to supply auction markets, the company did not have the full capabilities needed to supply the retail market. This became evident in the 15-week pilot in 2010. While very successful in getting products into the stores and getting a consumer response, supply was hampered by a lack of systems and process to properly manage volume, quality and communication. With no product calendars, availability checks or full quality control, products did not always arrive on time, in the right volume, or with consistent quality and maturity.

At each stage of the project, the ethical agents intervened to help align business models. Their main points of intervention were:

- Developing a unique product offer that was commercially viable and compatible with the smallholder-based business model of the SME fairly sharing risks and reward and reflecting the business models of each.
- Increasing the capacities of the SME to respond to the business model of the retailer, with a long-term view towards exit of the ethical agents.

Specific interventions by the ethical agent specialized in flower supply chain:

- Managing transparency in communication
- Engaging in trust-building and relationship-building activities between buyer and supplier
- Providing access to market information that would otherwise be out of reach or prohibitively expensive
- Development of systems and logistics
- Identifying skills gaps and working to solve them internally

Wilmar set up another company called Africa Flowers to supply retail clients directly. This was an important way of ensuring staff and systems were dedicated to this new market. In essence, this is the same business – with many staff drawn from Wilmar, and initially with the same business model. With the support of ‘ethical agents’, Wilmar and the huge US cash-and-carry retailer Sam’s Club have succeeded in aligning their business models to the extent that Wilmar supplied innovative flower products to over 100 US Sam’s Club stores starting in July 2011.
Typical business model of an autonomous producer organization

**Producer organizations: THE BASICS**

To compete in coordinated quality markets, production from multiple small farms must appear to a buyer as that of one large farm.

Procurement from small-scale producers is plagued by high transaction costs. Related to demands of quality, safety/integrity/legalit[y, reliability (incl. side-selling), standards for wage labour..

If not selling a standard bulk commodity, “linking worlds” will only work with organised producers (not necessarily into groups).

The majority of small-scale producers are not formally organised into economic units.
Reasons small holders have difficulties in reaching formal markets

Key Partners
- Input suppliers
- Non-members (for top-up supply)

Key Activities
- Membership services
- Negotiation with intermediaries
- Storage
- Market risk management
- Cut off village traders
- Provision of inputs
- Provision of credit
- Provision of information

Weak management and capacity leadership

Key Resources
- Buying power
- Infrastructure (storage, grading, processing, transport)

Value Propositions
- To members:
  - Better price for products
  - Stable income
  - More secure markets
  - Value added
  - Cheaper and/or higher quality inputs (chemicals, seeds etc.)
  - Solidarity / Bargaining power

- To customers:
  - Aggregated volumes of products
  - Reliability and quality

Customer Relationships
- Informal
  - Weak chain relationships

Customer Segments
- Mass market?
- Niche market?
- Low level of information about customers

Channels
- To intermediaries
  - For larger POs: direct trade to wholesaler or exporter

Cost Structure
- High transaction costs
  - High transaction costs to build leadership, trust, and discipline (to impose quality, to prevent side-selling)
- Political interference
- Infrastructure

Revenue Streams
- Sales of products
- Sales of services (e.g. Transportation)
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