



LINK METHODOLOGY

A Participatory Guide to Business Models that Link Smallholders to Markets

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1. Models. 2. Small enterprises. 3. Small scale farming. 4. Trade. 5. Markets. 6. Agricultural sector. 7. Sustainable livelihoods. 8. Stakeholders. 9. Farmers. 10. Participatory research. 11. Innovation adoption. 12. Networks. 13. Developing countries.

AGROVOC Descriptors in Spanish:

1. Modelos. 2. Empresas pequeñas. 3. Pequeñas explotaciones. 4. Comercio. 5. Mercados. 6. Sector agrario. 7. Medios de vida sostenibles. 8. Agentes interesados. 9. Agricultores. 10. Investigación participativa. 11. Adopción de innovaciones. 12. Redes. 13. Países en desarrollo.

AGRIS Subject Category: E20 Organization, administration, and management of agricultural enterprises or farms / Organización, administración y manejo de empresas agrícolas o fincas

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The LINK Methodology was developed as part of the New Business Models for Sustainable Trading Relationships Project managed by the Sustainable Food Lab in collaboration with Catholic Relief Services (CRS), the International Center for Tropical Agriculture (CIAT), the International Institute for Environment and Development (IIED) and Rainforest Alliance (RA). This project was supported by a grant from the Bill and Melinda Gates Foundation.

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, Fundamerca 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!

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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)

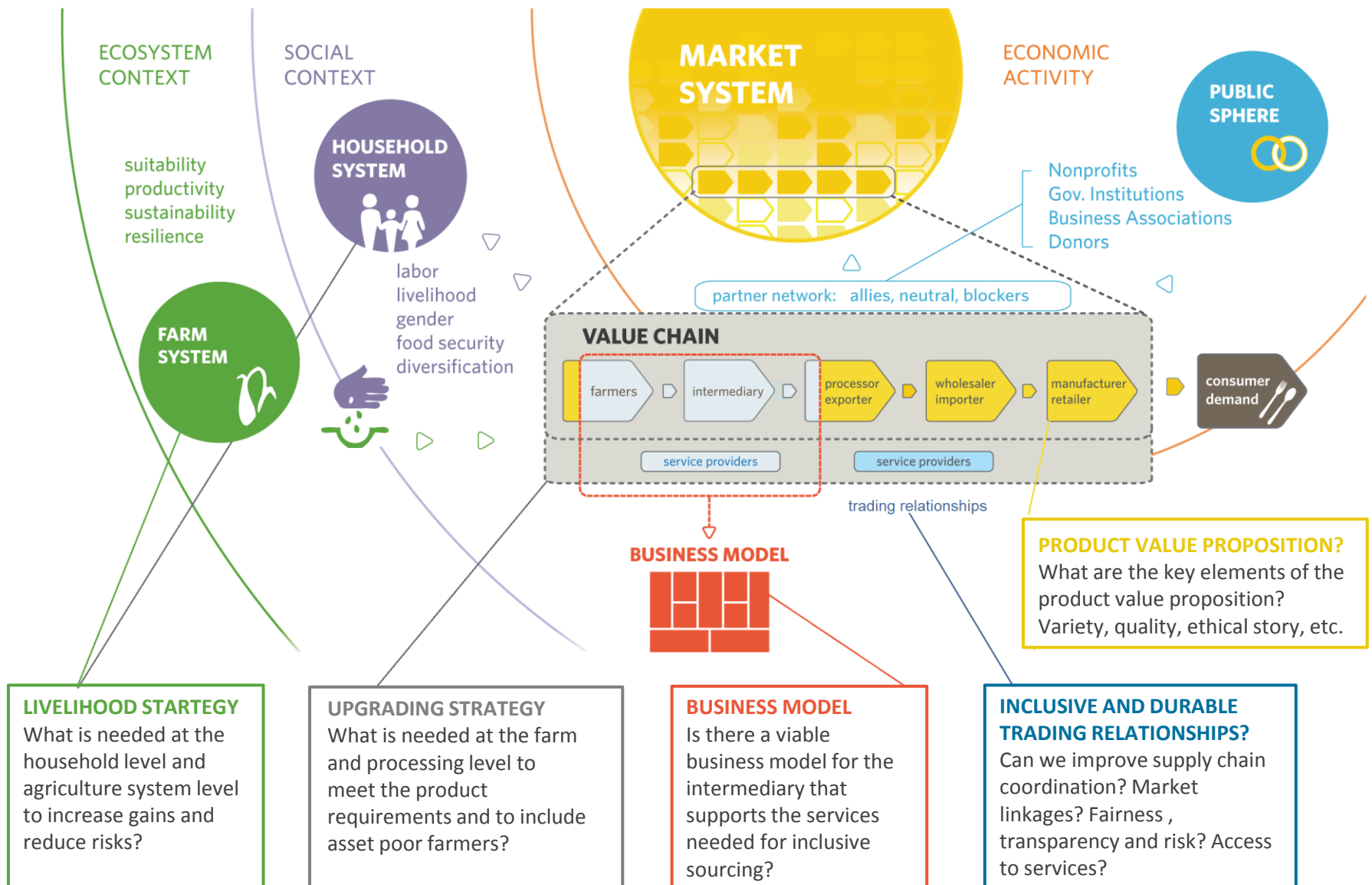
Engage the poor as employees, **suppliers**, distributors, or consumers and expand their economic opportunities in a wide variety of ways. (BIF 2011)

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)

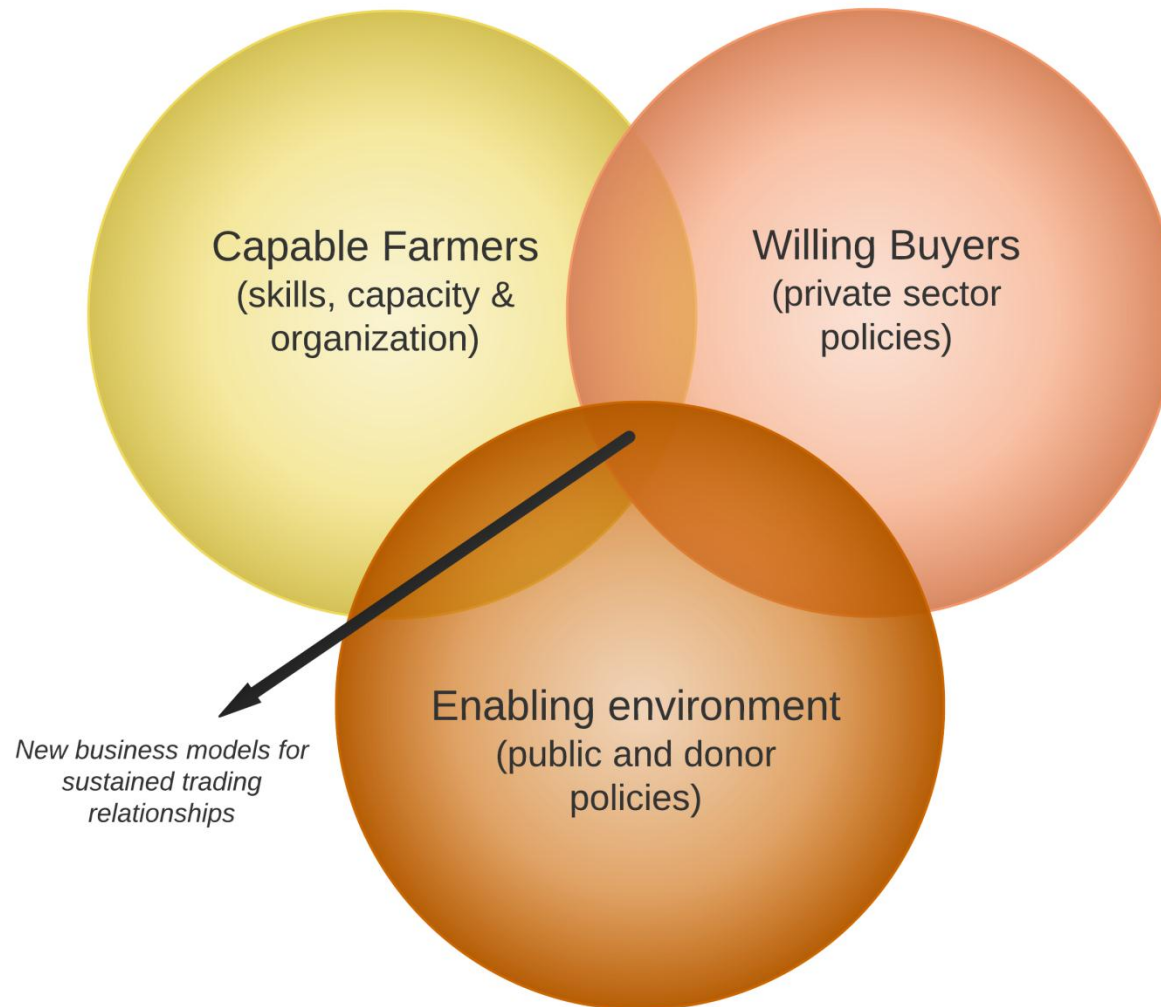
INCLUSIVE TRADING RELATIONSHIPS

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 AMONGST OTHER DEVELOPMENT APPROACHES



ELEMENTS FOR INCLUSIVE BUSINESS MODELS



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, businesses, and civil society are in broad consensus on benefits of linking smallholders to modern markets. Sustainable development is increasingly being integrated into business' practices to improve the quality and security of 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.

CHALLENGES TO LINKING WORLDS

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 SERVICES** (training, credit, inputs) and are highly dependent on favorable weather. **HIGH PROCUREMENT COSTS** associated with collecting, grading and bulking products 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.

Singh, S. 2008. 'Marketing channels and their implications for smallholder farmers in India.' In: McCullough, E., P. Pingali, and K. Stamoulis (eds.) The transformation of agri-food systems: globalisation, supply chains and smallholder famers. Earthscan: London.

World Bank. The World Development Report. 2008. http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1171488994713/3455847-1192738003272/Brief_AgPovRedctn_web.pdf

Ligon, Ethan, and Elisabeth Sadoulet. 2007. "Estimating the Effects of Aggregate Agricultural Growth on the Distribution of Expenditures." Background paper for the WDR 2008.

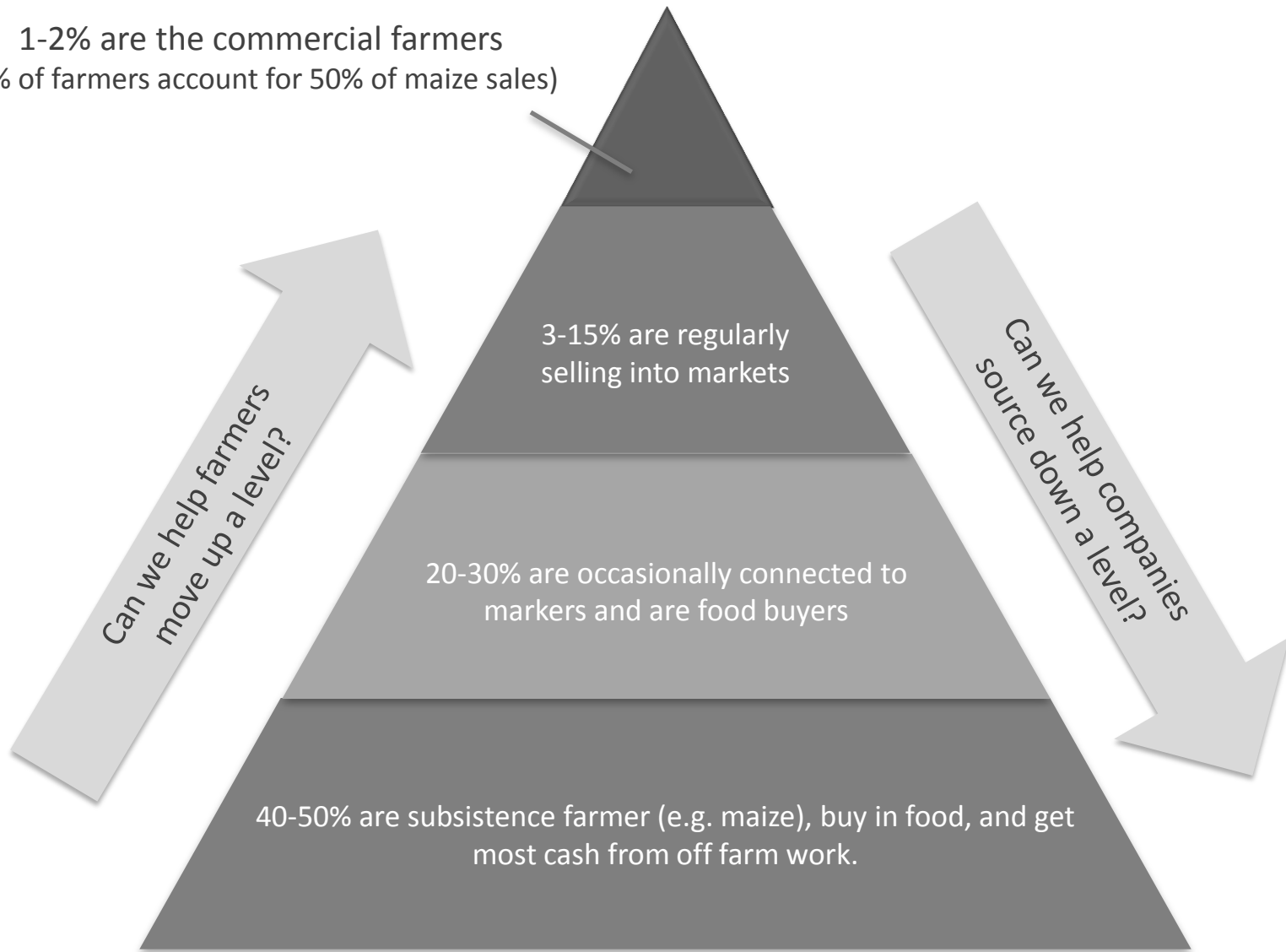
Byerlee, D. et. al, "Agriculture, Rural Development, and Pro-poor Growth." The World Bank. 2005.

Seville, D., Buxton, A., Vorley, B. "Under what conditions are value chains effective tools for pro-poor development? 2010.

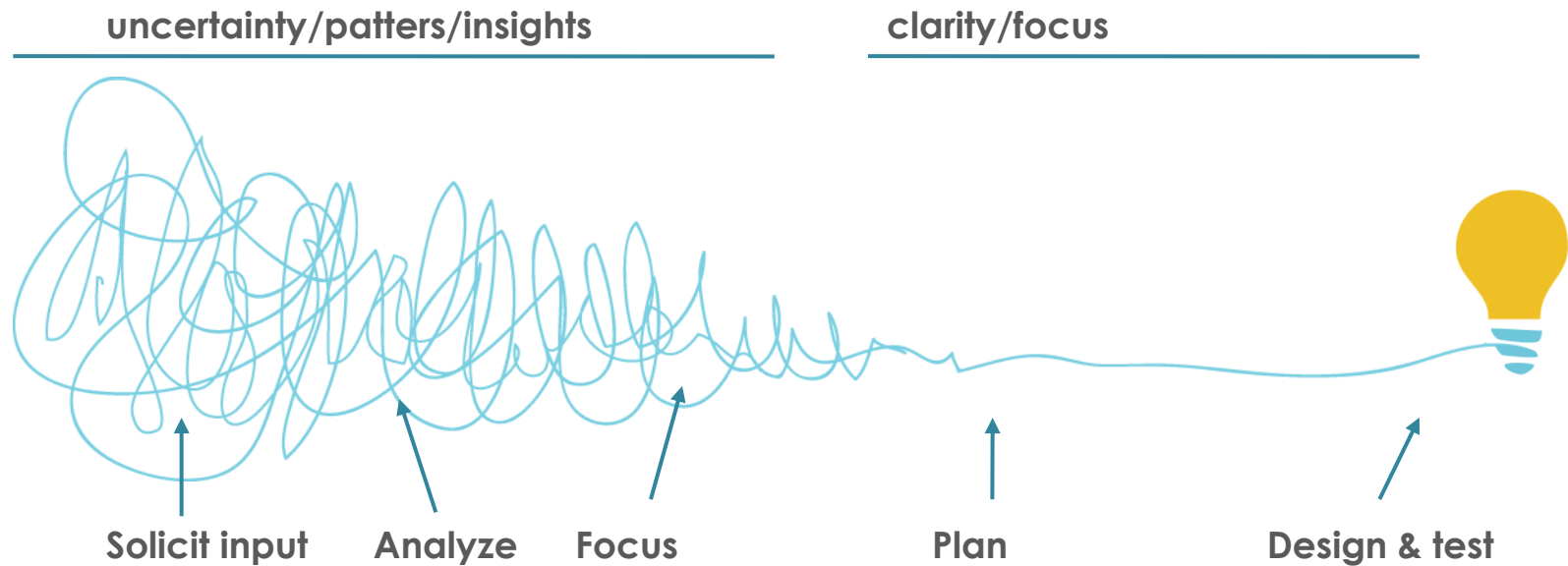


Our goal is NOT to link the poorest farmers to the most demanding markets but to invest in moving farmers up and make markets more accessible

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



THE PATH TO 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

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

NGO

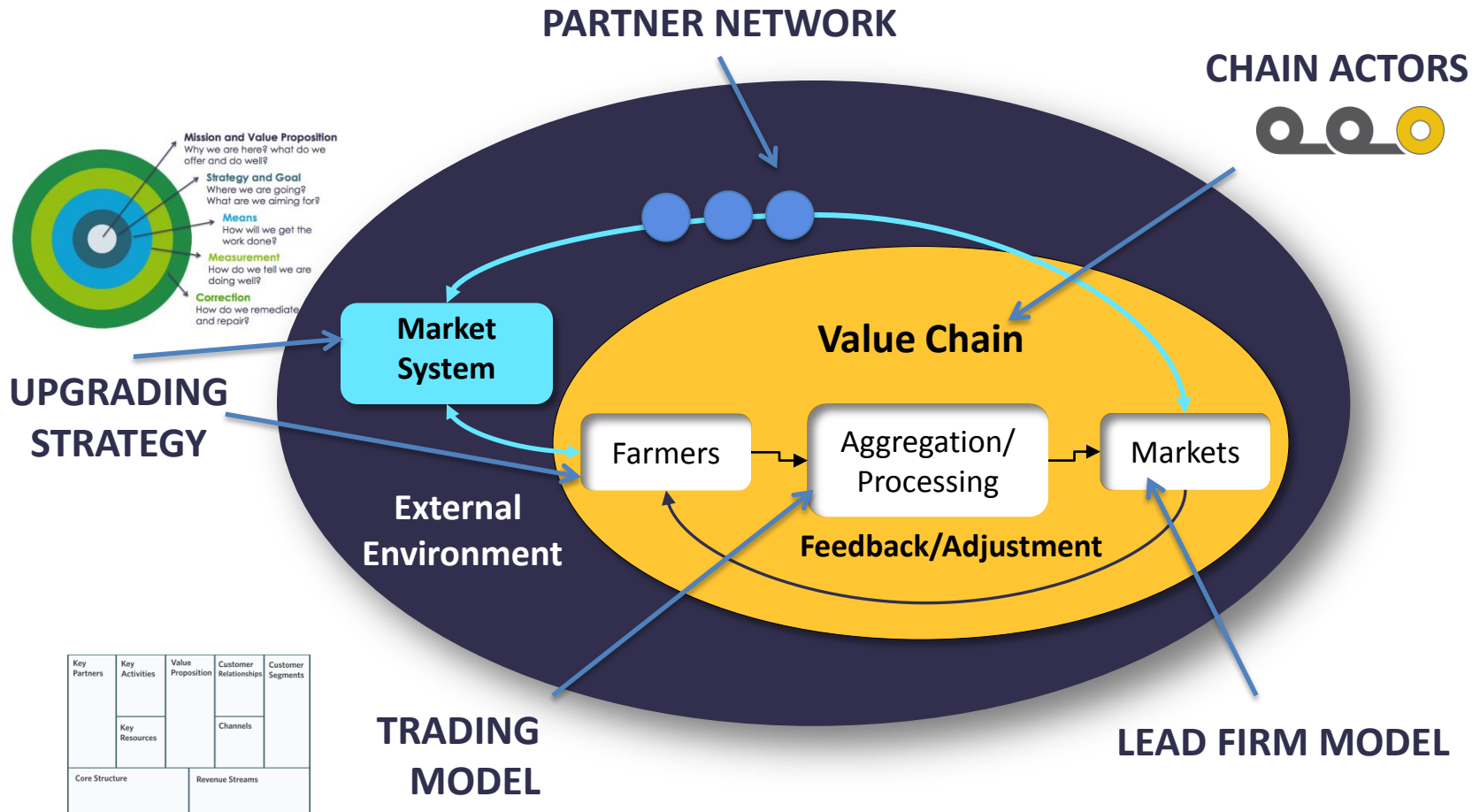
"I am looking to sell my product better to buyers"

FARMER

"I am seeking to expand my supply chain to include small-holder farmers"

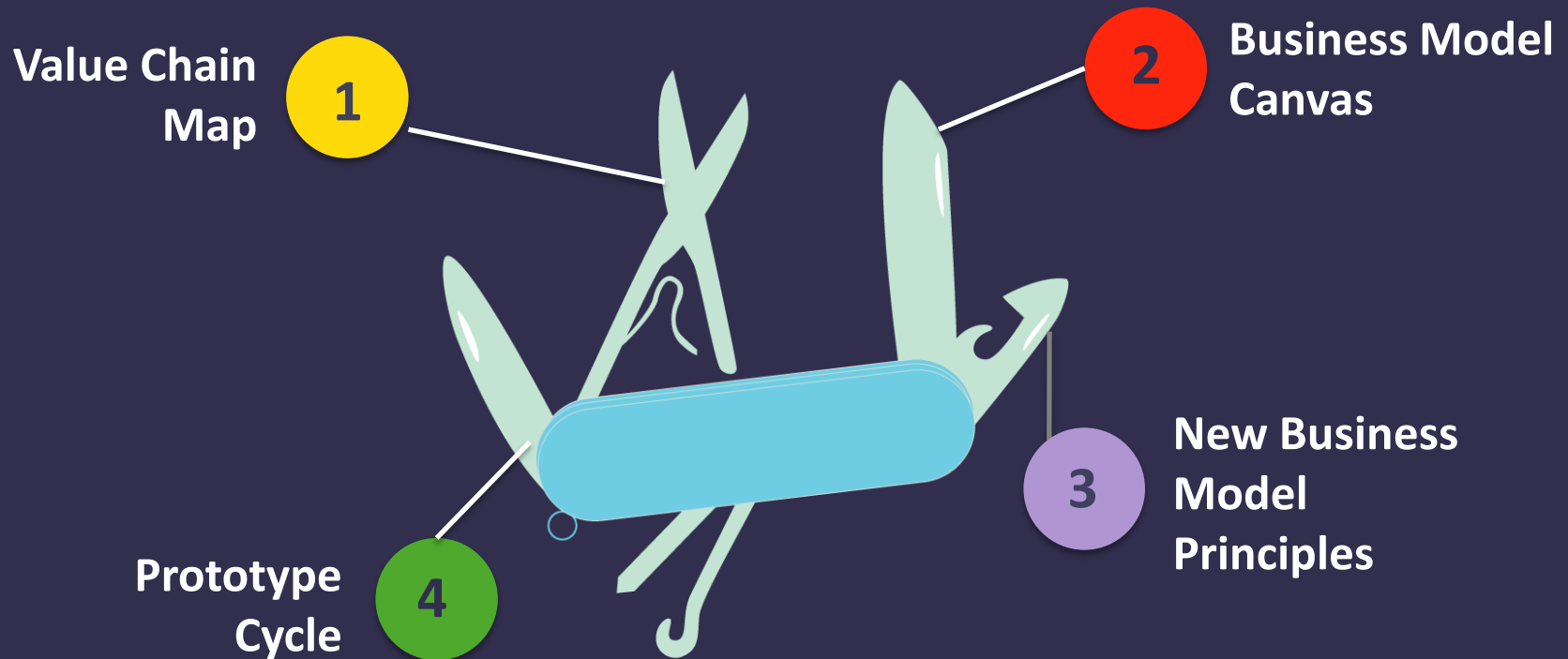
BUYER

Sources of inclusive innovation



WHAT TOOLS CAN WE USE

TO DETERMINE AREAS OF INNOVATION WITHIN MARKET CHAINS?





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 prototype cycle can help you **design, test, validate and document innovation** and the results of that innovation.

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.



Guidelines for adapting the process to **LOCAL NEEDS**

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 workshops participants. Methods to gather this information can be found here:

<http://dapa.ciat.cgiar.org/wp-content/uploads/2012/10/Good-Practice-Guide-2.pdf>

<http://dapa.ciat.cgiar.org/wp-content/uploads/2012/10/Good-Practice-Guide-3.pdf>

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 the 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 following page shows a visual overview of the LINK Methodology.

- **Key questions:** The critical questions that this guide aims to help you answer
- **Purpose:** The intended result of each key tool
- **Add-on’s:** Complementary information that might be useful, in addition to the key tools, to gain a deeper understanding of market dynamics and the type of business model under study.

 *highlights the flow from one key tool to the next key tool*

 *highlights possible direct entry points*

 *suggests the use of the Add-ons*

Roadmap

"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 happening

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 am just looking for a baseline to identify bottlenecks and opportunities"

"I want to zoom in and focus on one important business link"

KEY TOOL # 2: Business Model Canvas

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.

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

ADD-ON # 1:
Drivers, trends and key implications
"I need help in identifying critical points and opportunities"
"I don't know where to focus the BM Analysis"

"I have got an inclusive innovation idea and just need help with the implementation"

ADD-ON # 2:
NBM Typologies
"I want to understand typical characteristics of inclusive businesses"

"I want to measure the inclusiveness of my business"

"I want to improve inclusiveness through innovation"

KEY TOOL # 4: Prototype Cycle

Purpose:
Improve inclusiveness and performance through rotative up-scaling

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 TOOL # 3: NBM PRINCIPLES

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

"I want to design a new business under inclusivity aspects"



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 are the people behind the products that we buy"

PERSPECTIVES

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"

KEY TOOL #1 THE VALUE CHAIN MAP



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

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?

PROFILE

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 and provide a systemic overview

Trace product and information flows

Identify key actors and functional stages

Support 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

THE CONCEPT

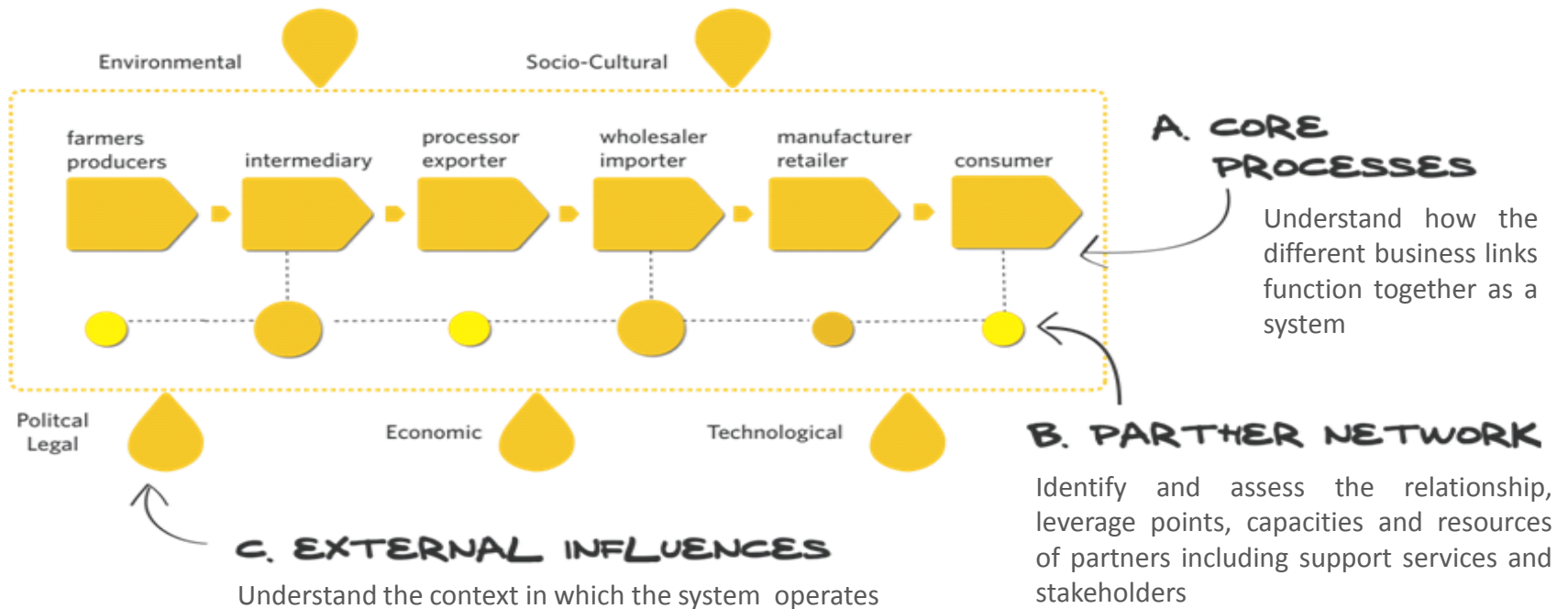
IN THEORY
AND PRACTICE

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

KEY TOOL #1

THE VALUE CHAIN

THREE LEVELS OF VALUE CHAIN MAPPING



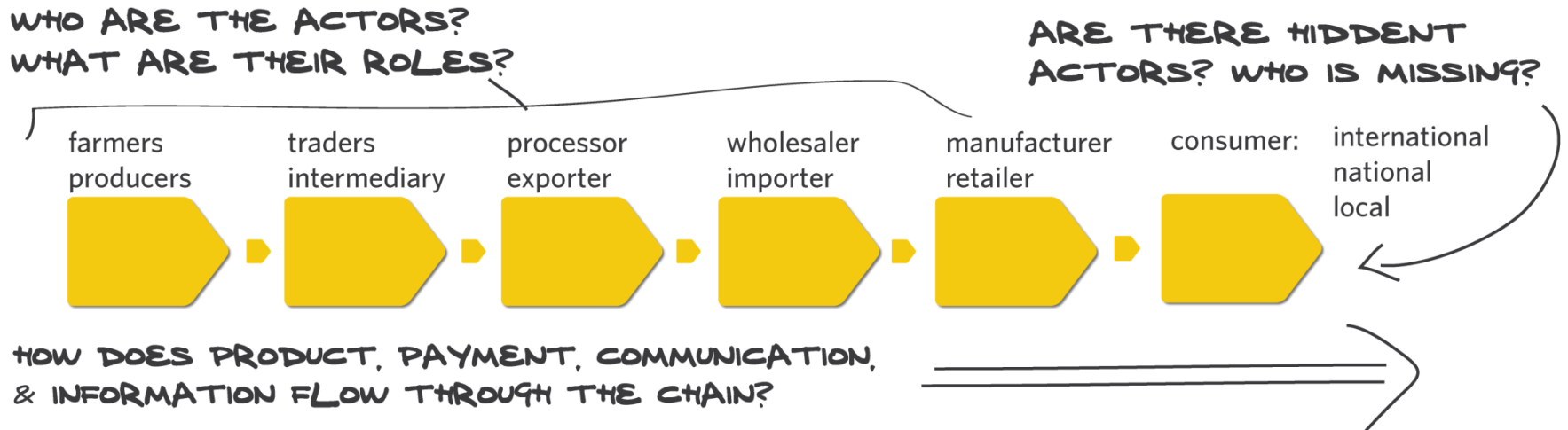
A. THE CORE PROCESSES OF THE VALUE CHAIN

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.



exercise # 1



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 is the volume of products, the number of actors and jobs

Where does the product or service originate from and where does it go?

What interests do the different actors pursue?

What is the key actor's relative power?

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 cards.

2. DRAW INTERCONNECTIONS AND FLOWS

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.

Visualize flow of products, payments, information and knowledge and the role that different actors play within the chain.

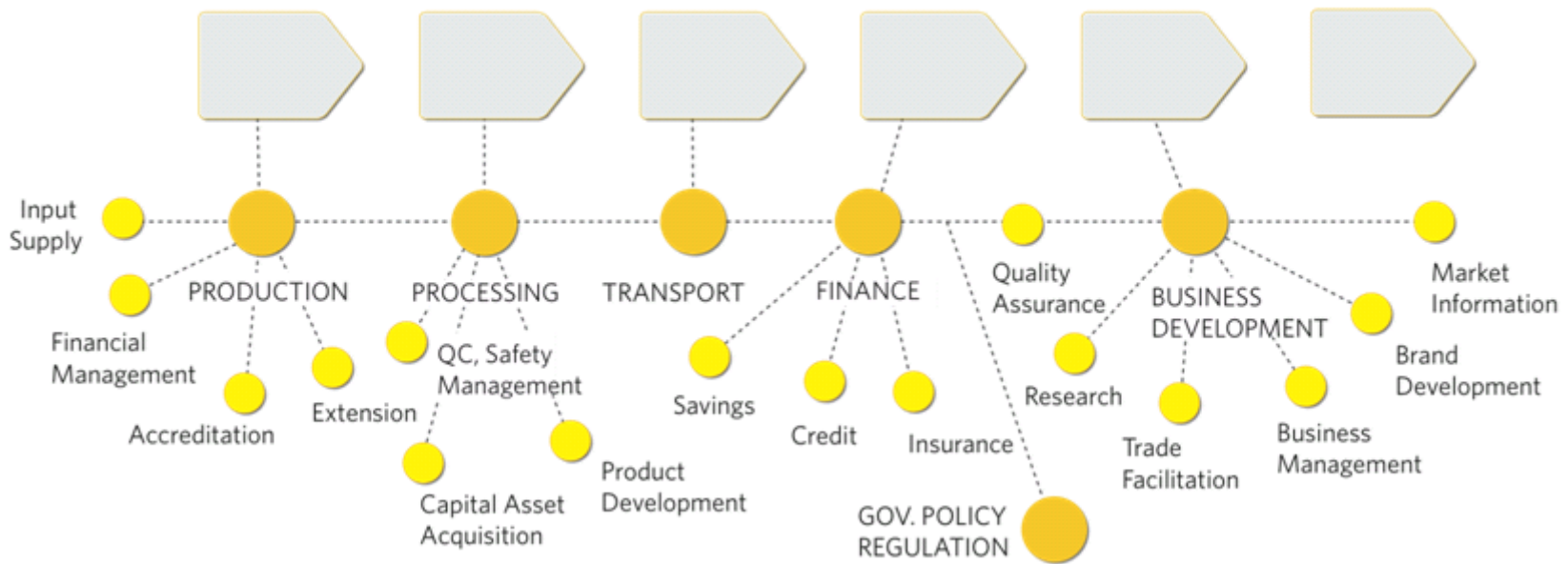


You can begin the process by identifying first key actors or key functions in the chain. Once these are identified, participants can then identify how products, payments, services, information and knowledge moves between them.

B. THE PARTNER NETWORK

Including support services and stakeholders

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 points 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.



exercise # 2



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 stakeholder's 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?

Are additional partners needed to address challenges?

Identify existing partners who are ready to commit to action and potential partners who have the capacity to be engaged in the change process



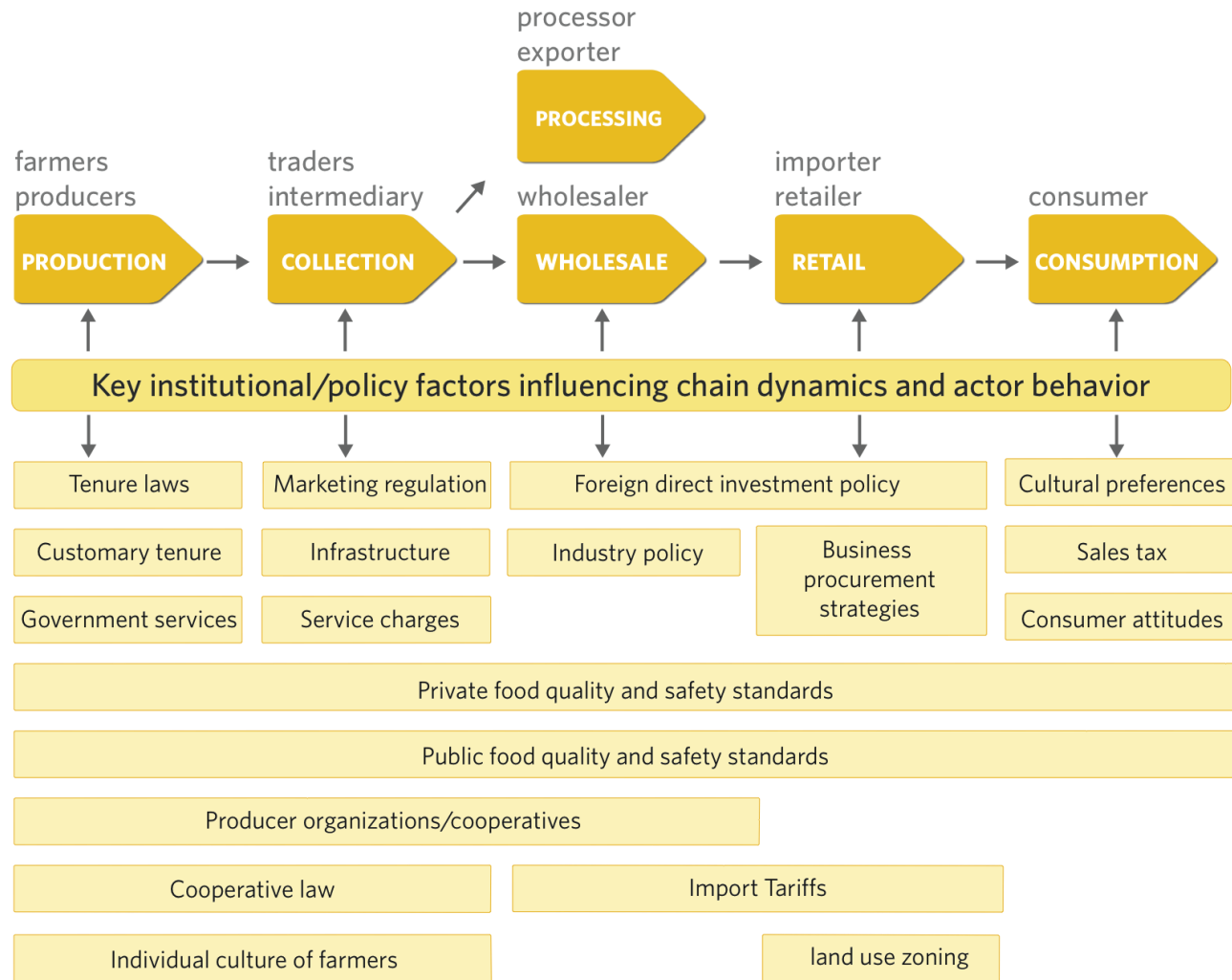
Sources of market information:

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 becomes critical.

Check Section 6 of the following link for guidance on this topic:
<http://dapa.ciat.cgiar.org/wp-content/uploads/2012/10/Good-Practice-Guide-4.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?

Understand the five external forces that can influence the value chain's activities.



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:
<http://dapa.ciat.cgiar.org/wp-content/uploads/2012/10/Good-Practice-Guide-4.pdf>

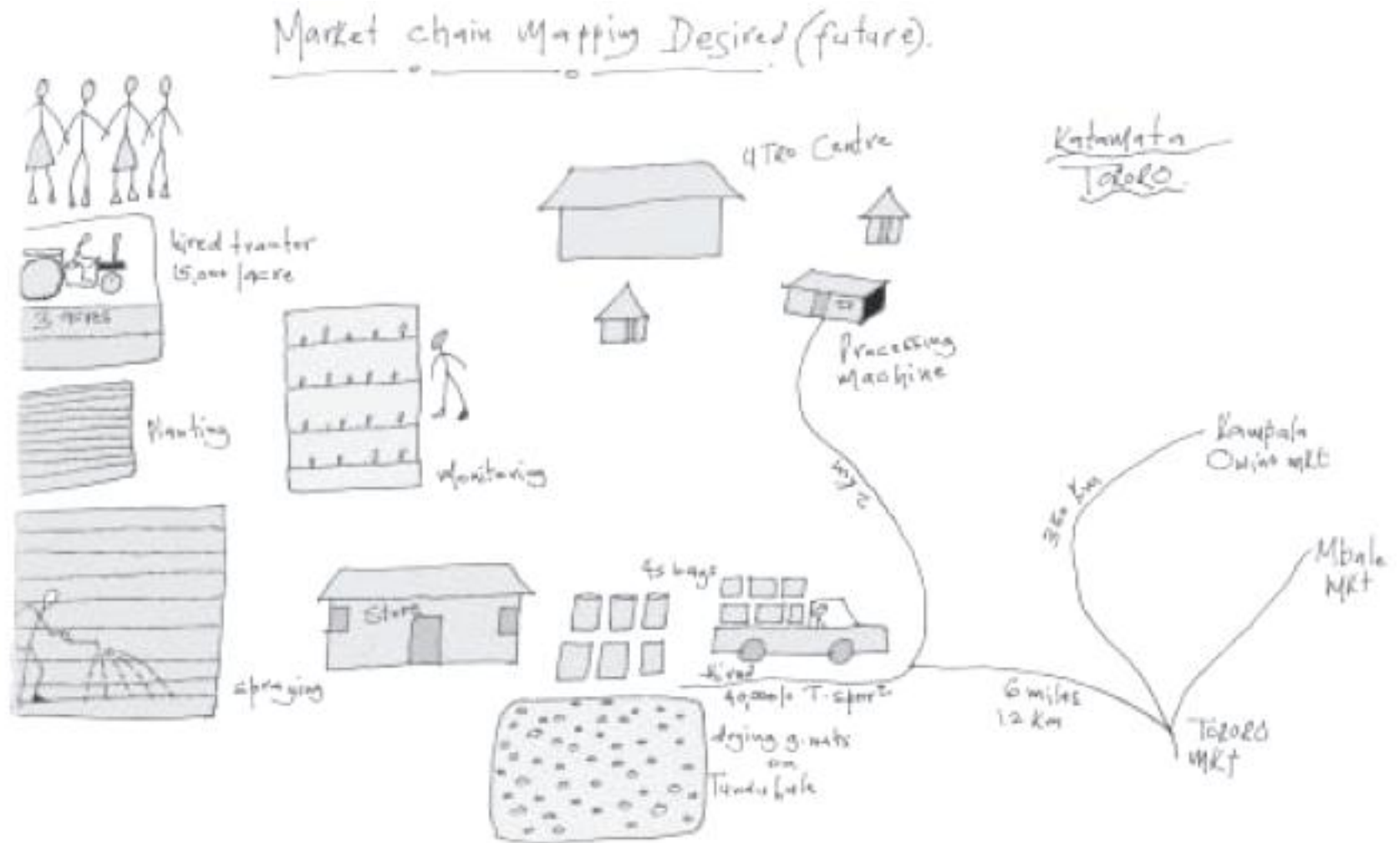
CASE EXAMPLES

Strawberry Chain,
Mexico

KEY TOOL #1

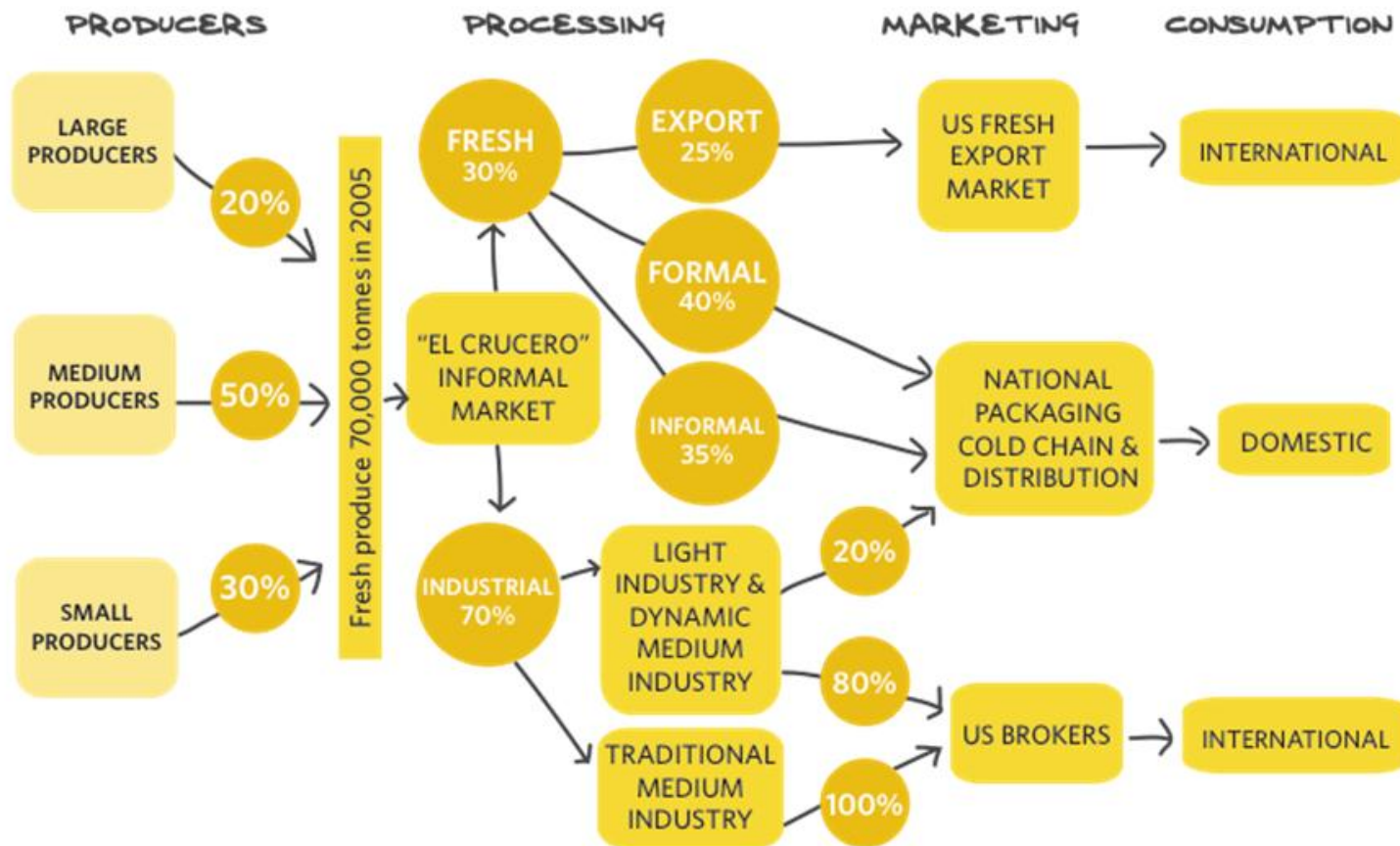
THE VALUE CHAIN

Your value chain map can look like this...

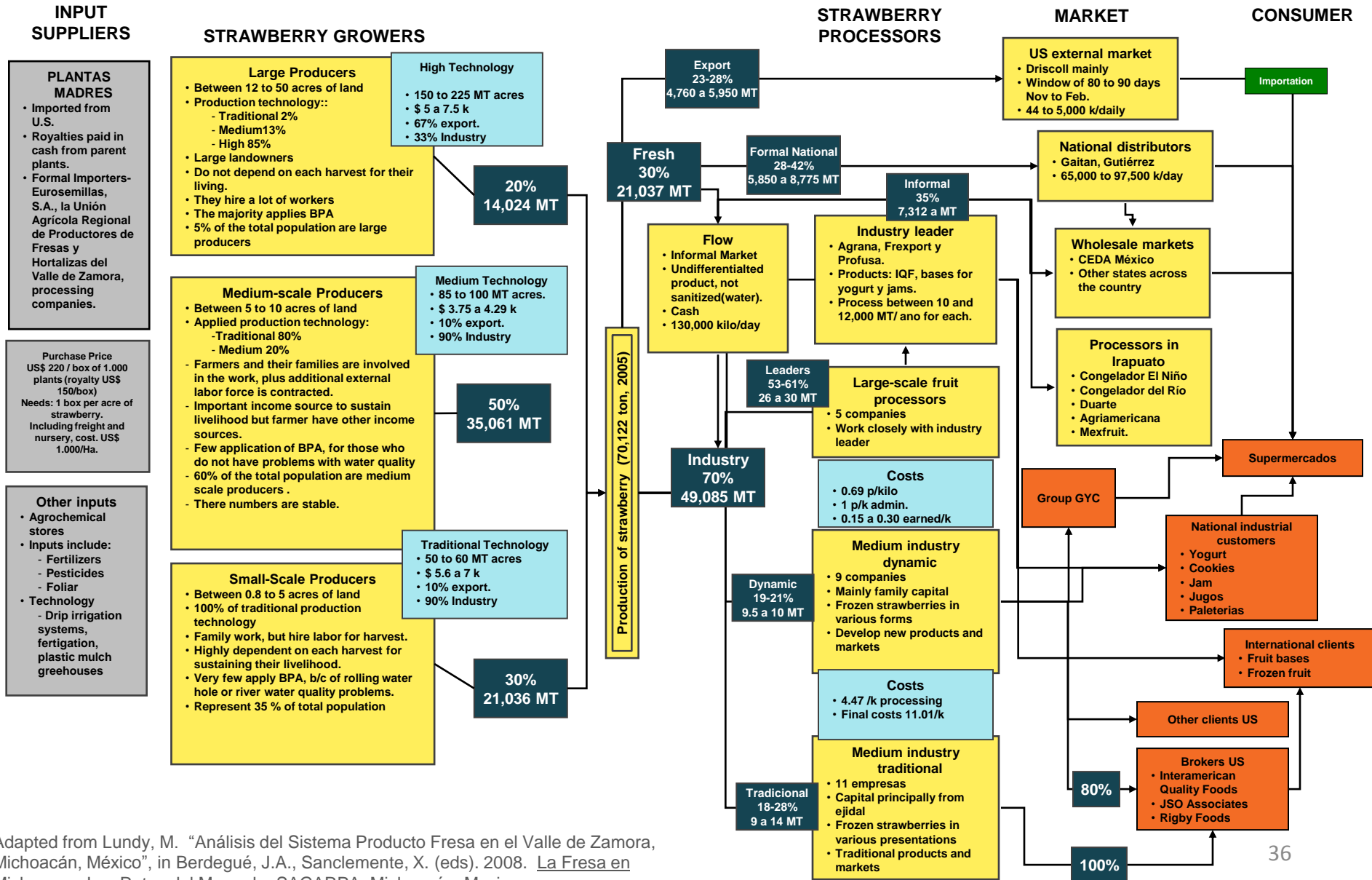


Or like this...

STRAWBERRY CHAIN, MEXICO



Or even like this one!



Adapted from Lundy, M. "Análisis del Sistema Producto Fresa en el Valle de Zamora, Michoacán, México", in Berdegué, J.A., Sanclemente, X. (eds). 2008. *La Fresa en Michoacan: Los Retos del Mercado*. SAGARPA, Michoacán, Mexico.



KEY TOOL #2

THE BUSINESS MODEL

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

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 model 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?

PROFILE

KEY TOOL #2 THE BM 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.

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 innovating in terms of products and/or processes"

I represent a company...

"We need a more comprehensive review of our business practices to help avoid typical problems occurring when sourcing from smallholders"

"We want to innovate through the inclusion of smallholder producers as a new supplier base."

PERSPECTIVES

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"

KEY TOOL #2 THE BM CANVAS



THE CONCEPT

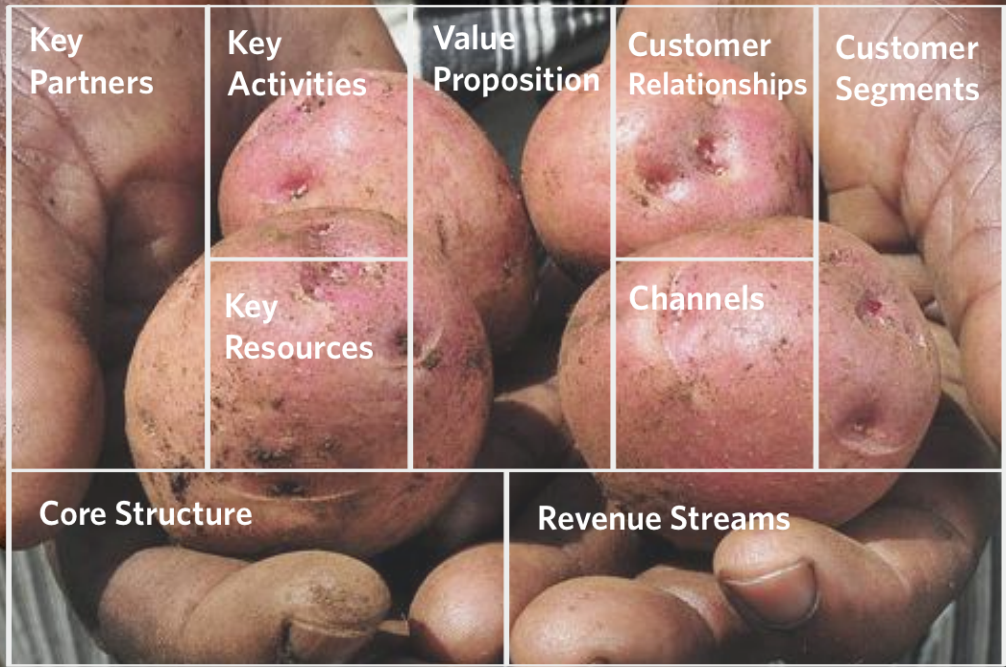
IN THEORY
AND PRACTICE

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

Alexander Osterwalder

KEY TOOL #2

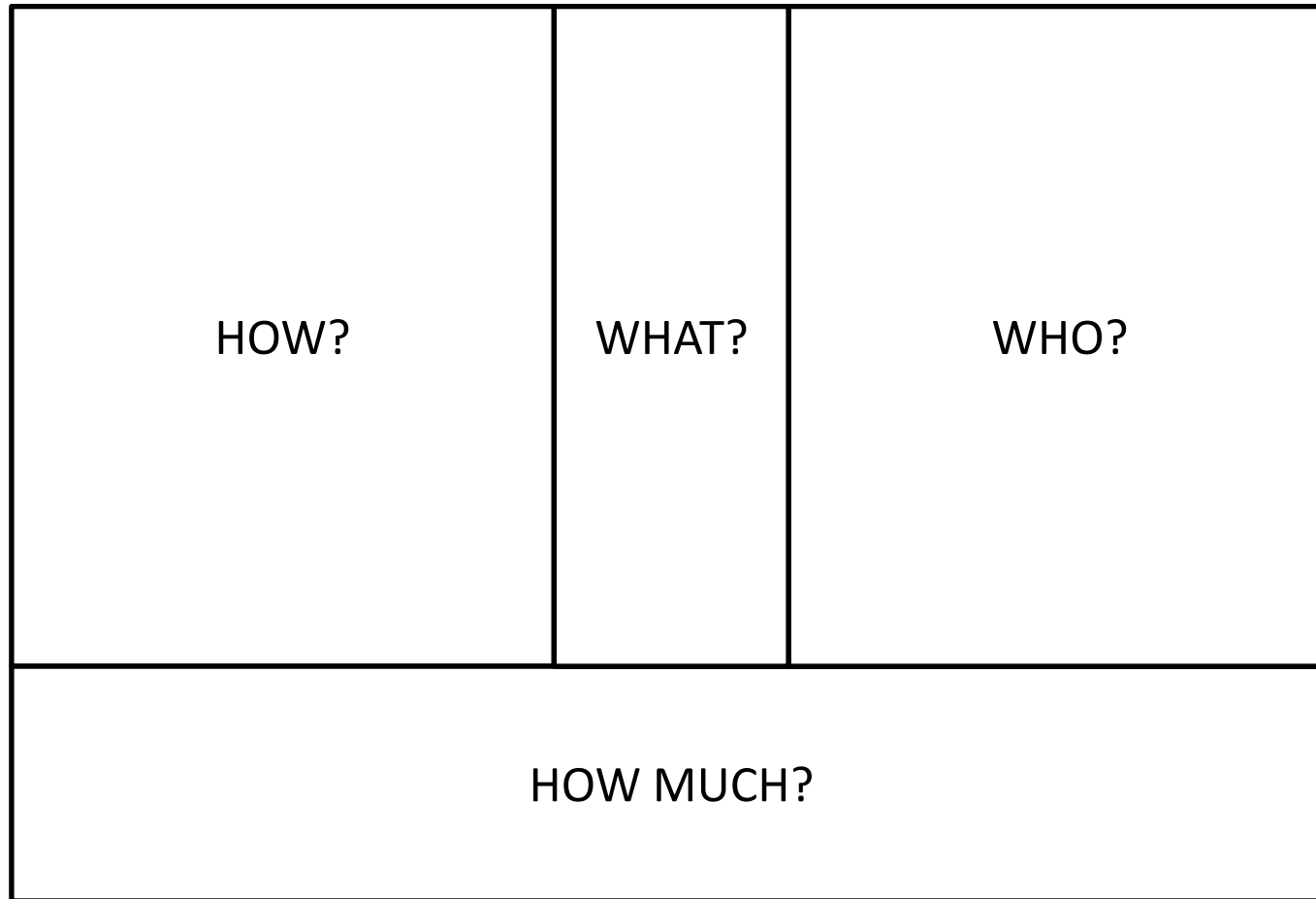
THE BUSINESS MODEL
CANVAS



EFFICIENCY

VALUE

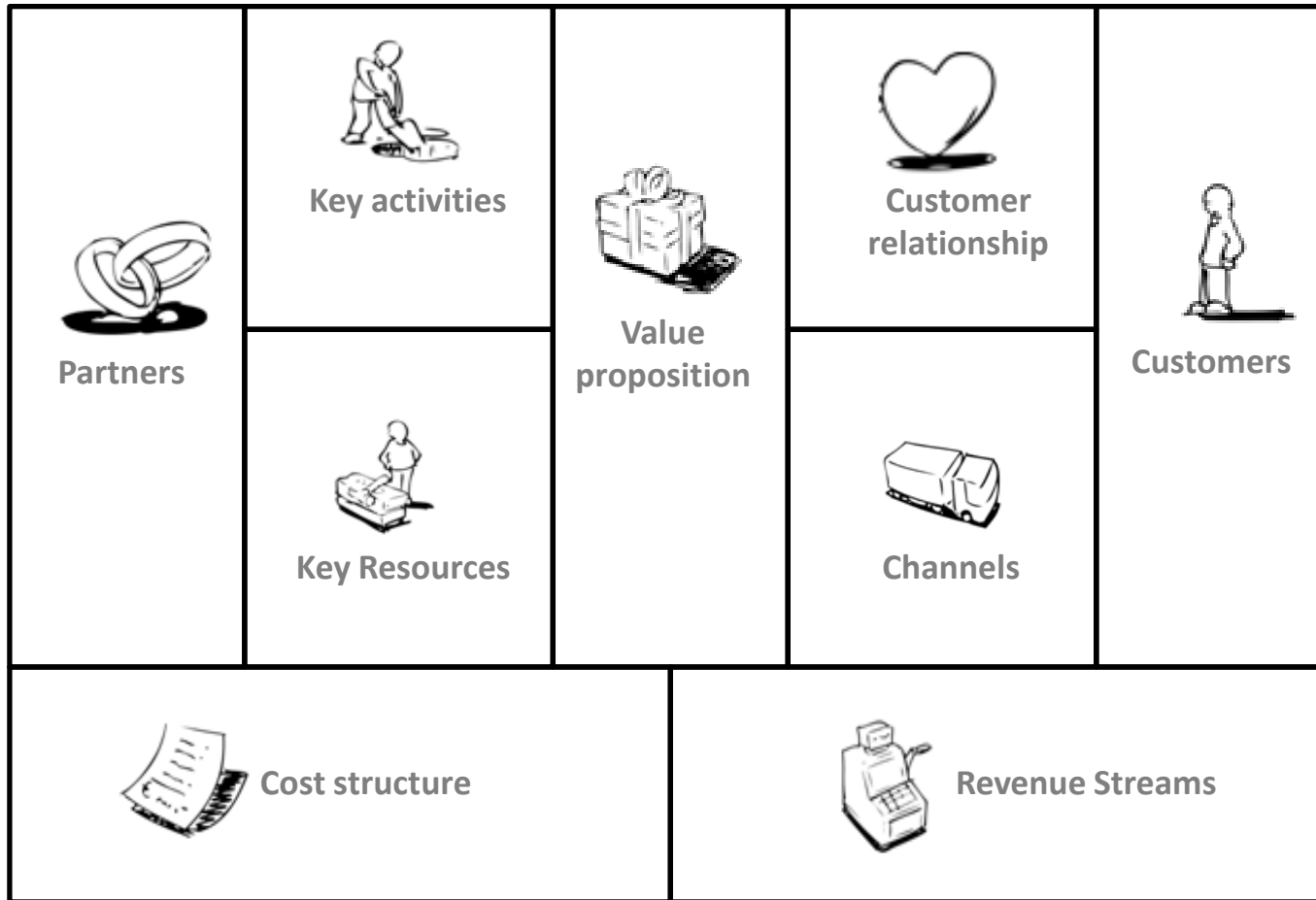
THE BUSINESS MODEL CANVAS



4 AREAS

9 BLOCKS

THE BUSINESS MODEL CANVAS



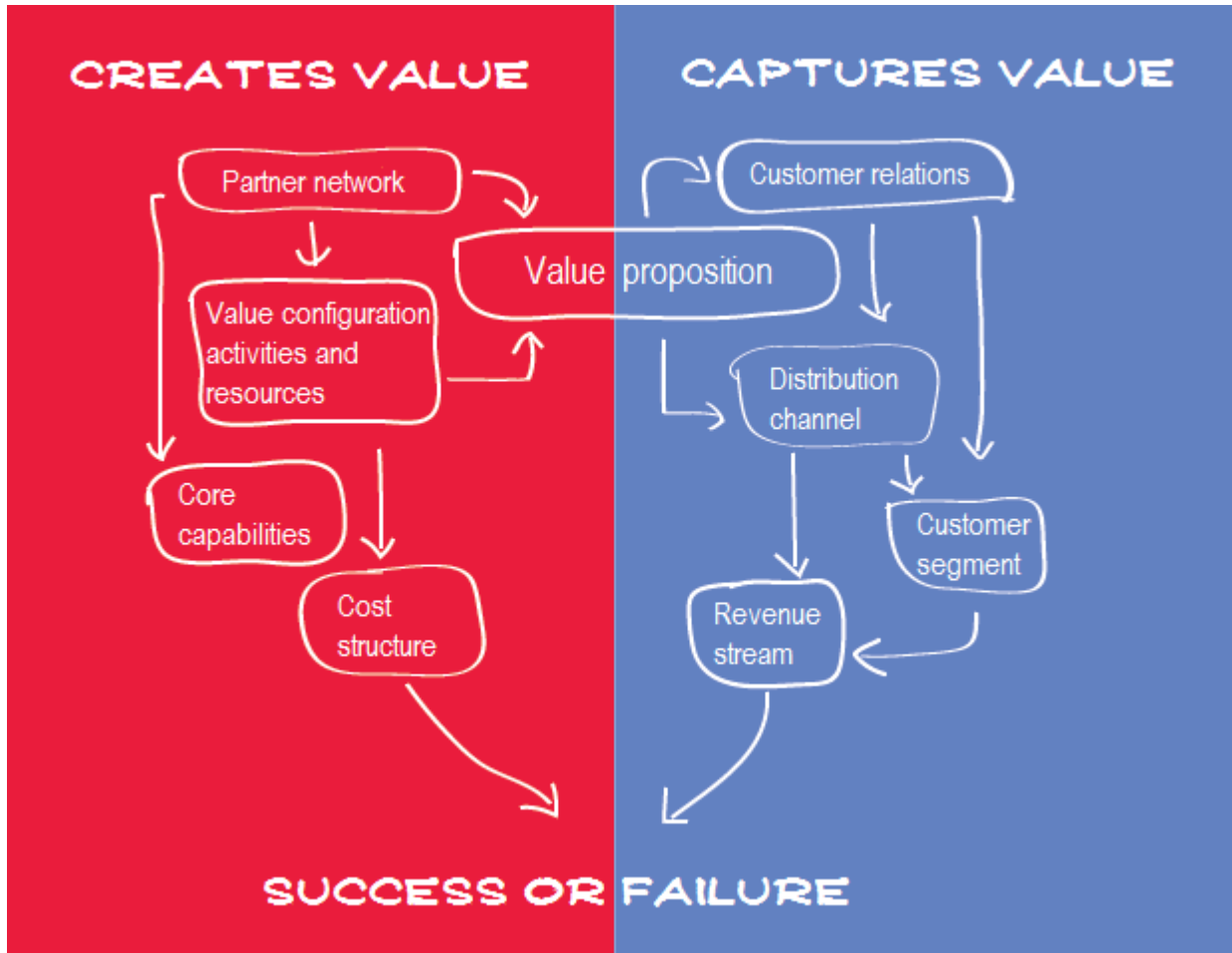
4 AREAS

9 BLOCKS

ADAPTING BUSINESS MODELS

THE PRODUCTION SIDE:

comprises the set of activities, mechanisms and relationships for providing a good or service, in other words for creating value. The partner network -- the supply chain and its coordination -- is a vitally important source of competitive advantage.



THE MARKETING SIDE:

comprises the set of activities, mechanisms and relationships for selling that good or service, or in other words for capturing value. Broadly speaking, the production side is associated with costs while the marketing side generates revenues, though marketing also entails costs.

NINE BUILDING BLOCKS



1 Customer Segments

An organization serves one or several Customer Segments.



4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.



7 Key Activities

... by performing a number of Key Activities.



2 Value Propositions

It seeks to solve customer problems and satisfy customer needs with value propositions.



5 Revenue Streams

Revenue streams result from value propositions successfully offered to customers.



8 Key Partnerships

Some activities are outsourced and some resources are acquired outside the enterprise.



3 Channels

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



6 Key Resources

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



9 Cost Structure

The business model elements result in the cost structure.

BLOCK #1: CUSTOMERS



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)

BLOCK #2: VALUE PROPOSITION



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 that your product or service satisfies. In the context of small holder inclusion, business models beyond a mere economic value are needed. The value proposition should offer a solid combination of economic, social and environmental value to both downstream (whom you sell to) and upstream (whom you buy from) actors.

KEY QUESTIONS



- What value do we 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 do we offer to upstream links e.g. supplier base?
- What social and environmental value do we offer?
- Which one of the 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



DOUBLE-FACING VALUE PROPOSITION FOR INCLUSIVE BUSINESS MODELS

CLIENT-FACING

Is there assurance of supply, safety and quality? Do the products tell a story? Support the brand? Differentiate your client in the marketplace?

FARMER-FACING

What products, strategies, activities or purchasing practices can promote smallholder inclusion? Are we a preferred buyer?

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)

BLOCK #4: CUSTOMER RELATIONSHIPS



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. 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 companies' **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

BLOCK #6: KEY RESOURCES



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?

What Key Resources are needed to sustain our distribution channels?

What Key Resources are needed to sustain our customer relationships?

What Key Resources are needed to sustain 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.

BLOCK #7: KEY ACTIVITIES



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 QUESTIONS

What key activities are need to sustain our value propositions?

What key activities are need to sustain our distribution channels?

What key activities are need to sustain our customer relationships?

What key activities are need to sustain 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



BLOCK #8: KEY PARTNERS

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 STUCTURES 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.

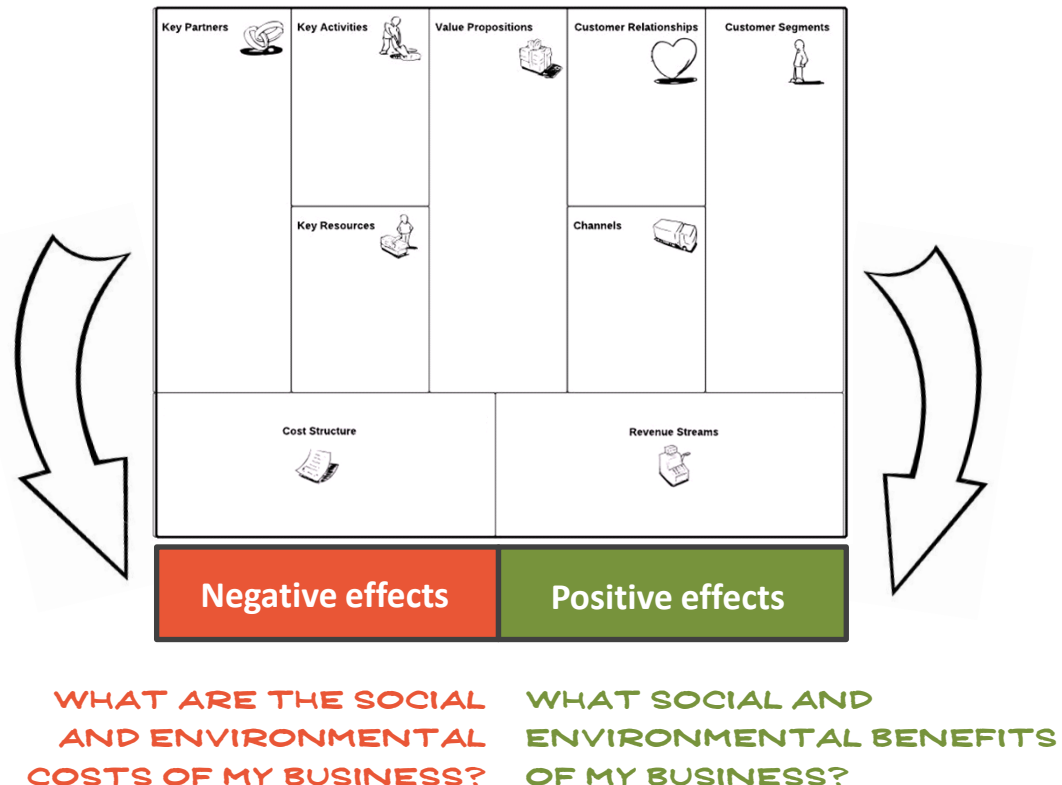
THE TRIPLE BOTTOM LINE

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 business’ profitability; (2) the space where those measurement can be included in the business model; and, (3) the need to incorporate specific indicators 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.



KEY QUESTIONS - OVERVIEW

<p>KEY PARTNERS</p> <ul style="list-style-type: none"> • 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? 	<p>KEY ACTIVITIES</p> <ul style="list-style-type: none"> • 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? 	<p>VALUE PROPOSITION</p> <ul style="list-style-type: none"> • 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? 	<p>CUSTOMER RELATIONSHIPS</p> <ul style="list-style-type: none"> • 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? 	<p>CUSTOMER SEGMENTS</p> <ul style="list-style-type: none"> • 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?
<p>COST STRUCTURE</p> <ul style="list-style-type: none"> • 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? 		<p>REVENUE STREAM</p> <ul style="list-style-type: none"> • 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? 		

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 nine blocks of the business model.

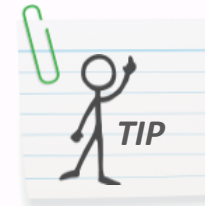
STEP 2: ANALYZE EACH BLOCK

Dive into each of the blocks using the suggested key questions to facilitate a group discussion. Keep the 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 blocks 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



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

Make sure you have prepared the canvas framework on the wall or on the floor before you start explaining the exercise as this will help the participants follow your explanations.

exercise # 5



Simple Business Model Evaluation

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:

Gross Profit margin: How profitable is the business model?

What is the ratio between profit and “sunk” costs (=cost efficiency) ?

What is the ratio of profit to revenue?

How many products have to be sold to make a profit?

STEP 3: STEP AWAY AND BRAINSTORM POSITIVE AND NEGATIVE POINTS

Brainstorm in small groups about the strengths and weaknesses of the business model. For this you can either look at the business model as a whole or at each of the nine business model blocks. Highlight strengths and weaknesses by using plus and minus signs, different colored paper cards or other signs that can be easily associated with positive and negative aspects.

Locate strengths and weaknesses originating from the business' environment around the canvas, and indicate the cause or driver of the mentioned effect. (Add-on #1 can be a helpful to identify Drivers, Trends and key implications).

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)

Check the general performance of your business model.

Some basic financial key figures:

The Gross Profit Margin is an indicator for the financial health of a business and shows how much of each \$ of sales, the business retains. This means, the higher the percentage, the more money is left of expenses or profit.

$$\begin{aligned} \text{Gross profit margin (\%)} \\ &= \frac{\text{Gross profit}}{\text{Income}} * 100 \end{aligned}$$

Break-even point = number of produced units at which income and expenses are exactly equal, thus where an organization neither profits nor loses money. The break even analysis is critical for any business owner, because you will know exactly when you begin to make a profit.

$$\begin{aligned} \text{Number of units} \\ &= \frac{\text{total fixed costs}}{(\text{unit selling price} - \text{variable unit price})} \end{aligned}$$

Fixed Costs

Fixed costs are paid whether or not you make any sales. Fixed costs do not vary in proportion to sales or production. *E.g. Rent, salaries, accountancy costs, most marketing costs.*

Variable costs

Variable costs vary directly with the volume of sales or production. *E.g. Raw materials, Shipping charges.*

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 results of the discussion from exercise #5

What do we want our business model to be in the future?

How would the proposed business model function?

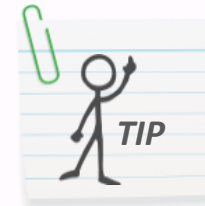
What blocks will change?

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 a action plan e.g. **Key tool # 4 Prototype cycle**.

Set a vision, motivate the team and canalize action to reach the target.



This exercise is useful to explore how improvements can be made in 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 **infrastructure** of **procurement centers**, warehouse, packaging, transport 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

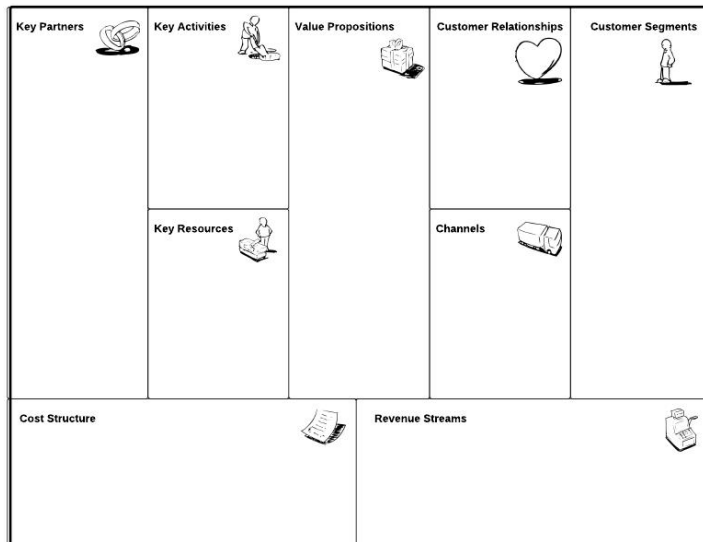
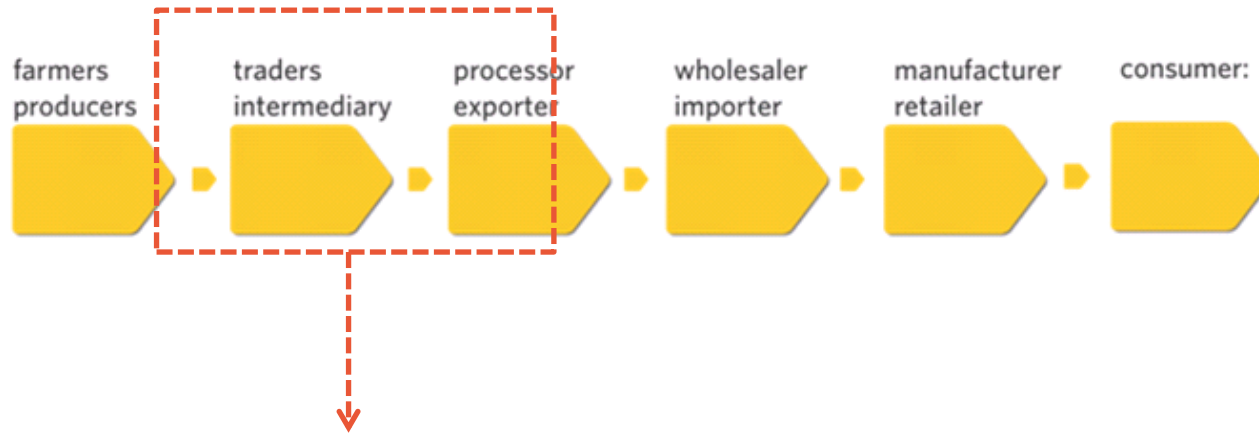
Develop **financial credit mechanisms** that support farmers and farmer groups and that support farmer groups linkages to modern supply chain

Develop **new models** of farming including **contract farming**

Strengthen support to **production technology** and **research** (including diversification and niche products) - 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.

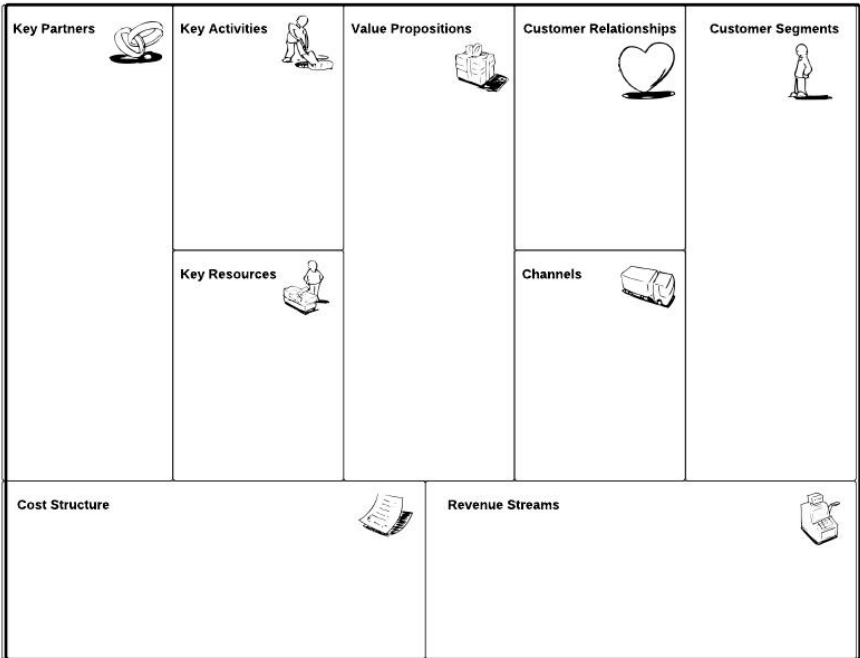


SYSTEM-WIDE BUSINESS MODEL

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.

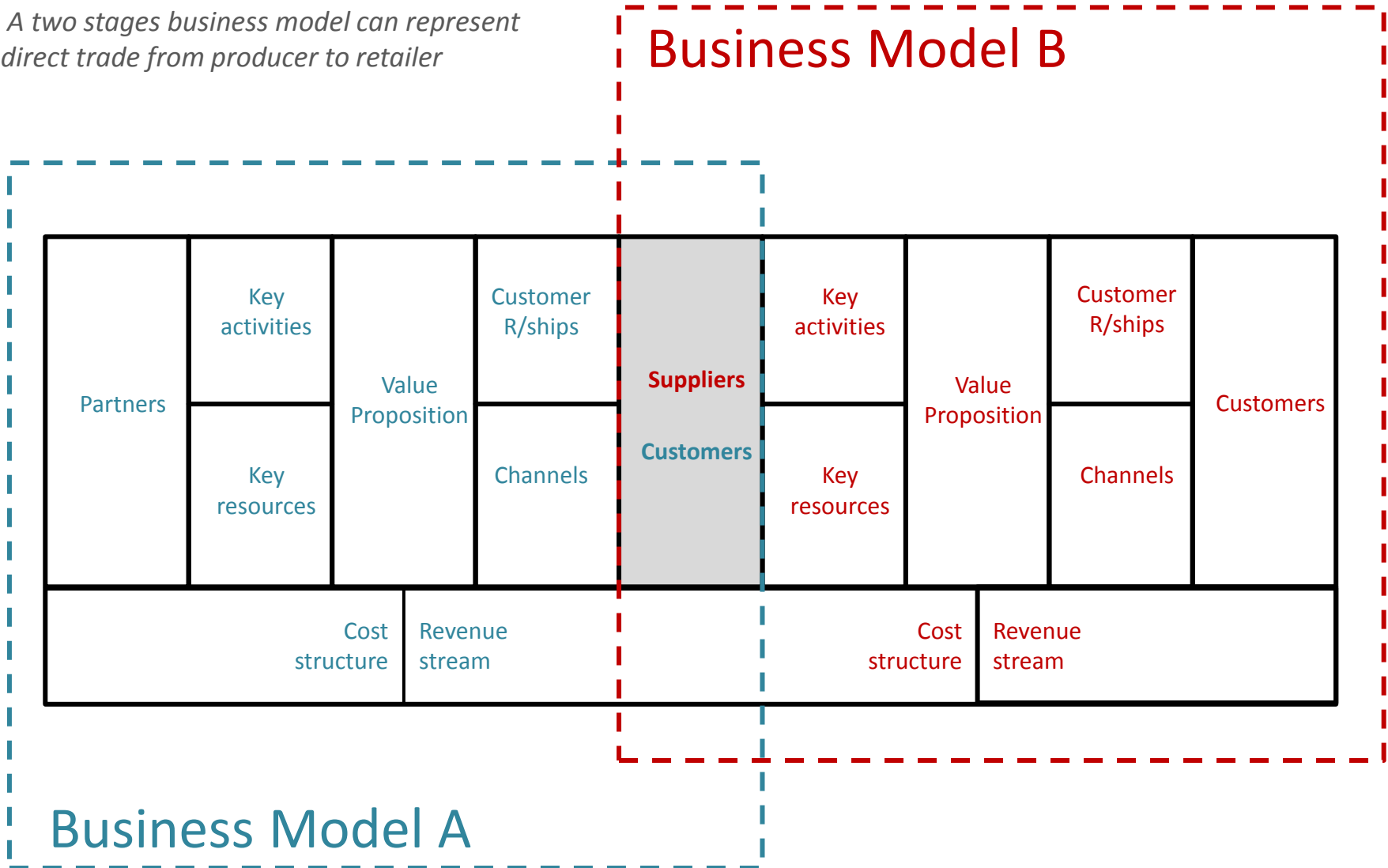
BUSINESS MODEL CHAINS

Customer or supplier? - A question of perspective.

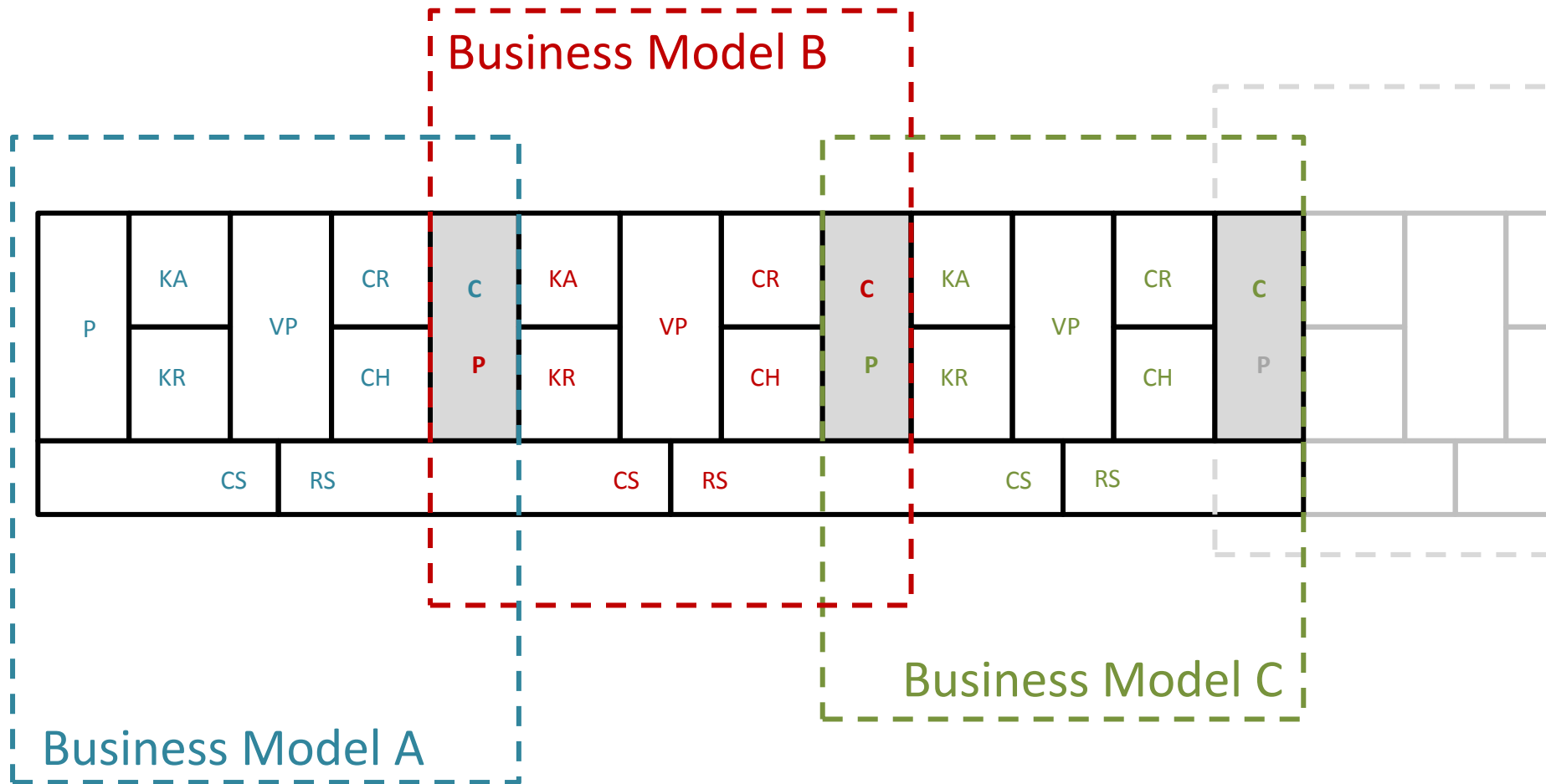


TWO STAGE BUSINESS MODEL

A two stages business model can represent direct trade from producer to retailer



MUTLI STAGE BUSINESS MODEL



exercise # 7



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

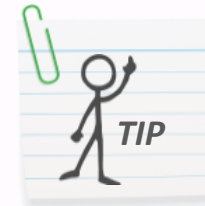
Recall the order of the Value chain's core processes and make sure that the relevant information about all the business models is available in their individual form. If the business models are not available in a handy format from former exercises, ask each (group) of actors to copy their business model 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 the "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 when facing suppliers (upstream). Identify and highlight the individual needs (social and commercial) of each actor and how the respective trading partner responds to those needs. Gaps between existing needs and the value proposition causes instability along the chain and may present a potential area for change.

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



Its 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

Cuatro Pinos, Guatemala

Chiyangua, Colombia

APROCA, Ecuador

KEY TOOL #2

THE BUSINESS MODEL CANVAS

Case Example – Alianza Hortofruticola ALSUR, Colombia

Double facing value proposition

The innovative business proposal of the social intermediary Alianza 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, Alianza Hortofruticola ALSUR, developed a specific value proposition for supplier and for customers taking into account their individual needs.

Business mission:

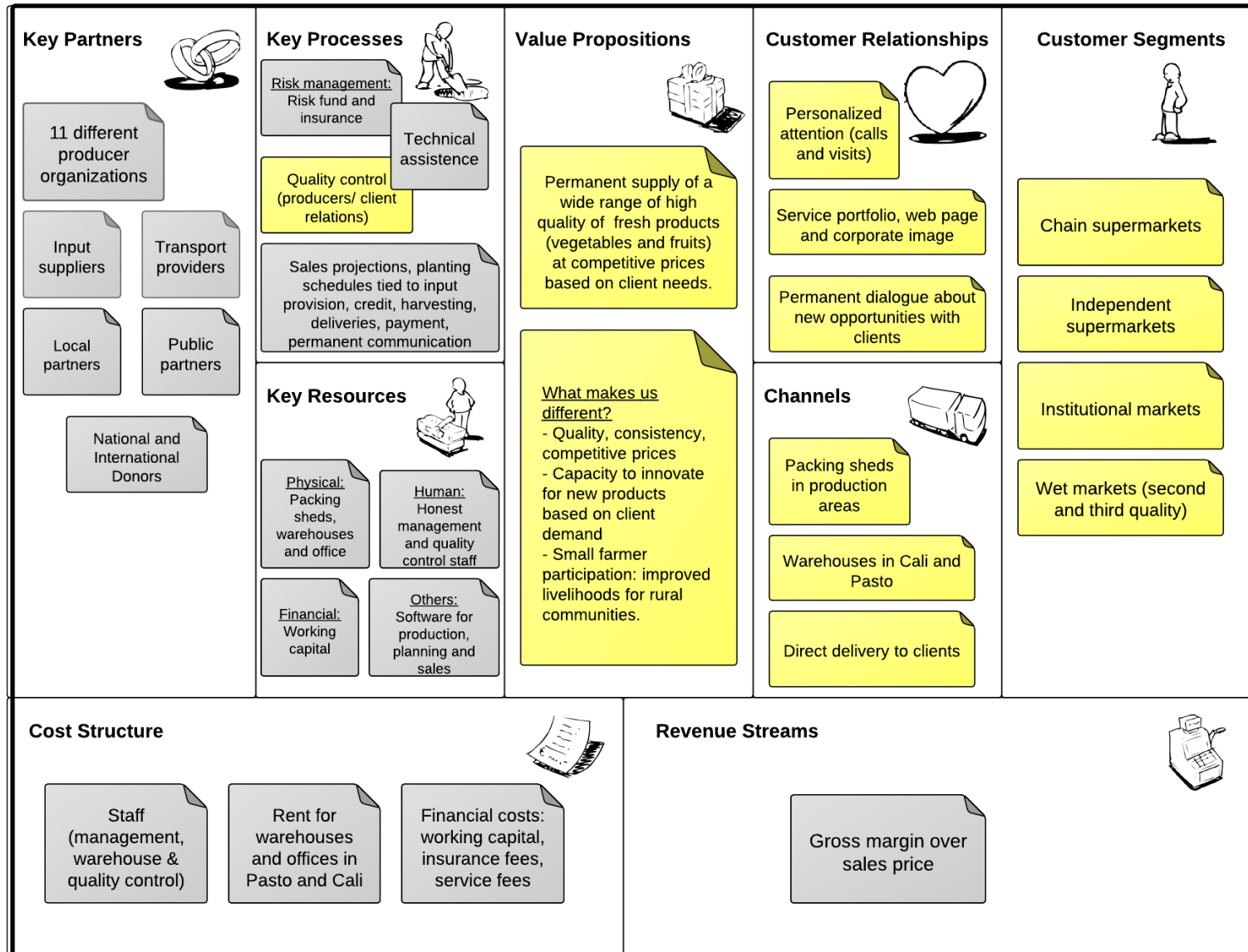
- Establish direct partnerships between rural producers groups and customers in different market channels
- Improve income levels and assets of producers through stable trade schemes and long term relationships
- Provision of business development strategies (growth strategies, market penetration and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

Key figures:

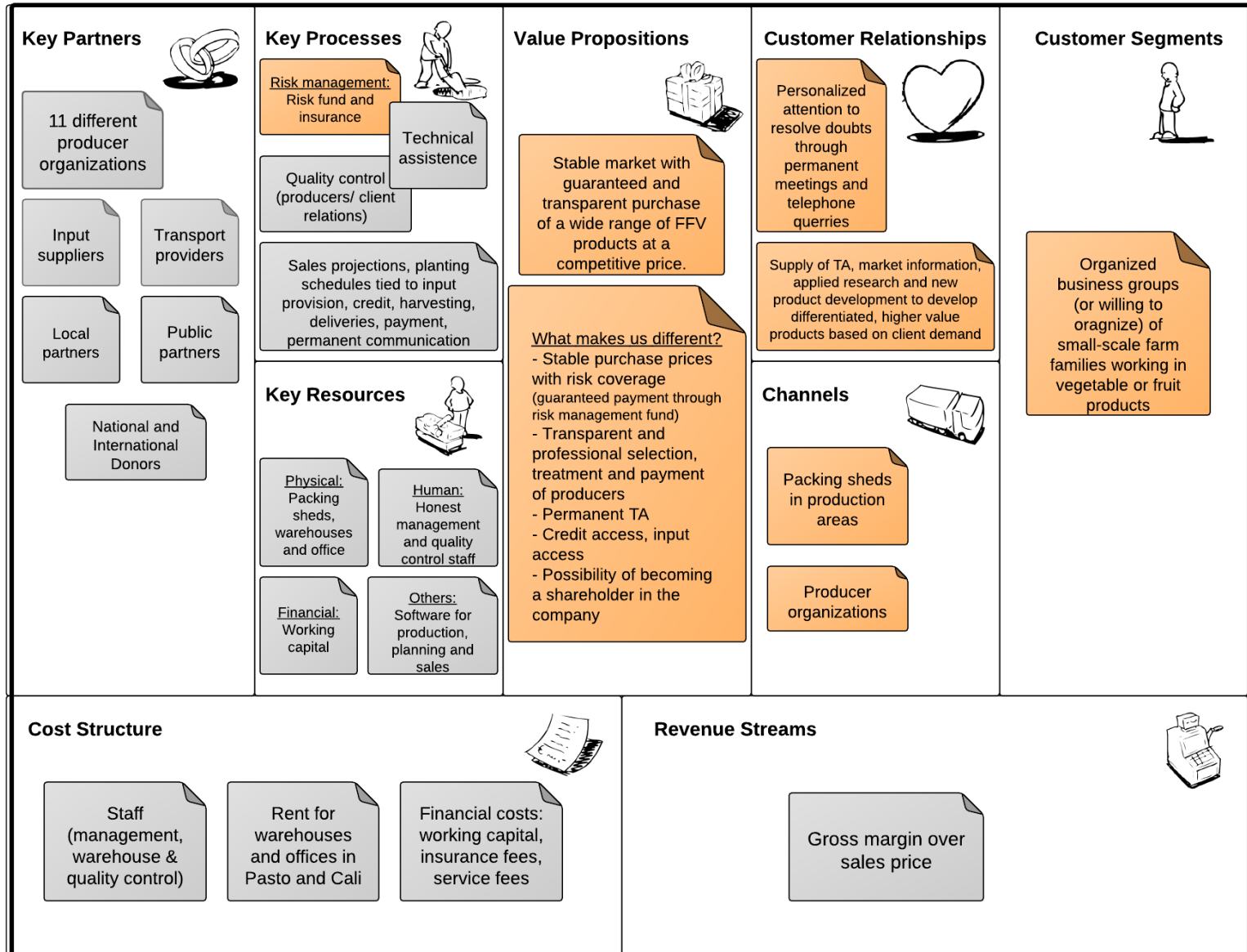
In 2012, ALSUR works with 155 partner producers organized in 8 farmer organizations Asocofradia, Asofruit, Renacer Agroecologico, Aprorborca, Coophsur, Grupo Asociativo San Jose, Asaais, Asociacion san Felipe Grupo Asociativo Yakupacha. For top-up supply ALSUR works with 22 additional producers. In 2011, 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)



The farmer facing Business Model Canvas of Alianza Hortofrutícola del Sur (Colombia)



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 supplier and buyer through supply chain coordination, transparent chain governance, stable 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.

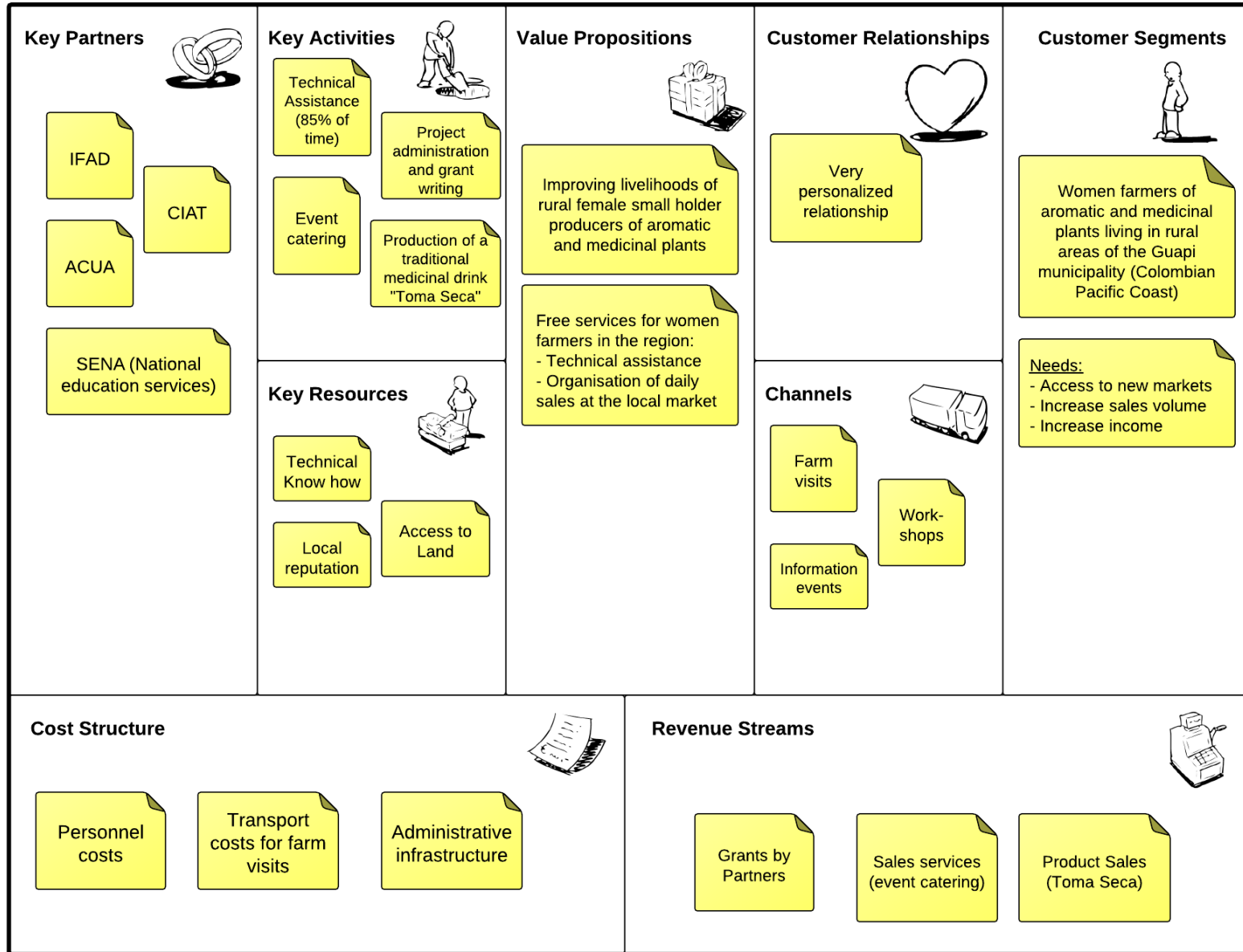
Aromatic plants and condiments have always been a traditional part of afro Colombian culture but with the time Chiyangua observed that the traditional plants such as long leaved coriander more and more disappeared from local dishes and were replaced by artificial food enhancers that were introduced to 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 in elevated beets (2x10m) made 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.

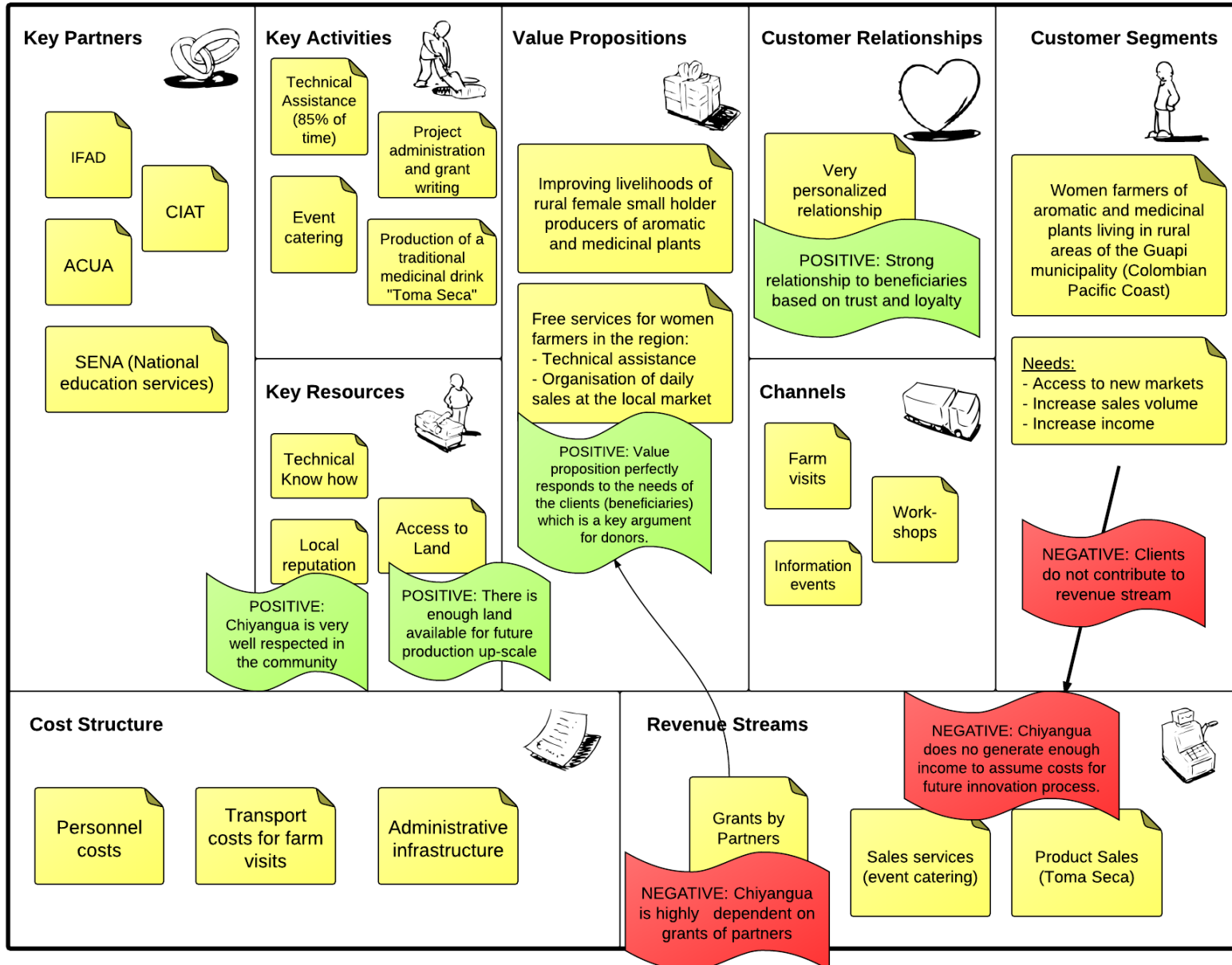
Chiyangua is locally well known and a very respected organization in the community mainly providing inputs (seeds, know-how) and technical assistance to currently 84 female farmers.



Business Model Canvas of Chiyangua, Colombia



Evaluation of Business Model Canvas of Chiyangua, Colombia



Case Example - APROCA, Ecuador

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.

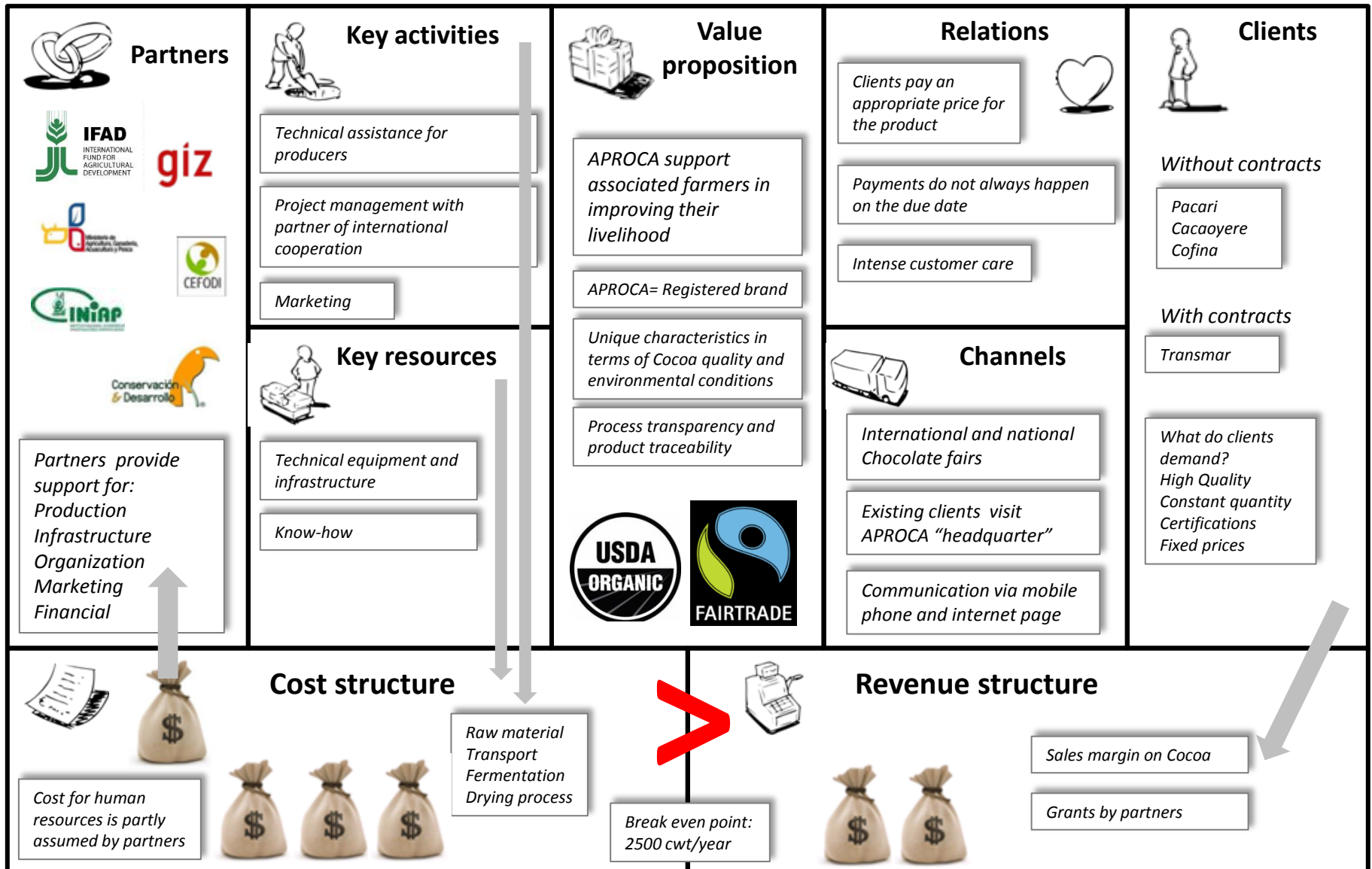
APROCA's work aims to strengthen the cocoa chain and the associated cocoa farmers by promoting community work, gender equality and the use of traditional afro-Ecuadorian knowledge and practices. APROCA and its 4 sister associations offer a gourmet Cacao that is certified by FAIR TRADE and the USDA Organic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





KEY TOOL #3

THE BUSINESS MODEL

PRINCIPLES

GOAL

Promote the sustained participation of smallholder farmers through a set of design and evaluation principles for business models.

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'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.

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.

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?"

"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?"

PERSPECTIVES

KEY TOOL #3 THE NBM PRINCIPLES

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?"

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



THE CONCEPT

IN THEORY
AND PRACTICE

The new business model principles are signposts for inclusive and durable trading relationships.

KEY TOOL #3

THE NEW BUSINESS
MODEL PRINCIPLES

WHY NBM PRINCIPLES AND HOW TO USE THEM?

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

EFFECTIVE - strengthen purchaser access to consistent supplies

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

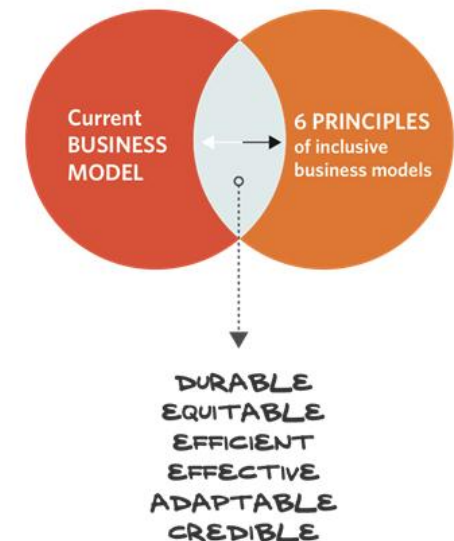
CREDIBLE - offer real benefits in the form of stable commercial relations that can be tracked and reported on

The application of these principles is designed to be flexible. As a result we ask that practitioners apply 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.

Small-scale producers and farmers face a number of limiting factors which make them less attractive to work with in a modern agri-food system. These include low and inconsistent production volumes, limited planning skills and opportunities, dispersed production, incipient business organization, limited capacity to upgrade and meet formal market requirements, poor access to information, technology and finance, and high transaction costs.

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.

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.

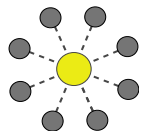


THE NBM PRINCIPLES - AN OVERVIEW



1. CHAIN WIDE COLLABORATION

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.



2. NEW MARKET LINKAGES

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.



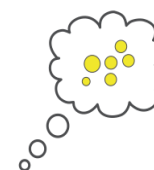
3. FAIR AND TRANSPARENT GOVERNANCE

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 a key criteria. Shared commercial risk and insurance against failure are frequently cited as the cement of successful relationships.



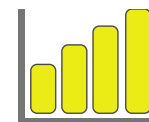
4. EQUITABLE ACCESS TO SERVICES

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.



5. INCLUSIVE INNOVATION

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.



6. MEASUREMENT OF OUTCOMES

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



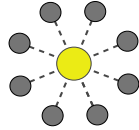
1. CHAIN WIDE COLLABORATION

Are the goals 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 the process of co-innovation?



2. NEW MARKET LINKAGES

How easy or difficult is it to buy (find product) and sell (find buyer) 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, prices clear and consistent across the chain?

Are risks (production, commercial, financial) understood and shared proportionately along the chain?

Do all actors have access to information on quality standards?

Is there evidence of formal or informal contract adherence? If so, why? If not, under what conditions do contracts break down?

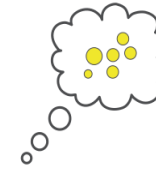


4. EQUITABLE ACCESS TO SERVICES

Do all actors have timely access to market information?

Do all actors have access to financial and technical support services?

Are there examples of service provision that goes beyond basic production services?



5. INCLUSIVE INNOVATION

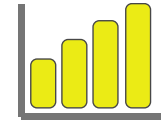
Is there evidence of product or process innovation?

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?



6. MEASUREMENT OF OUTCOMES

Are economic 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?

Are there feedback loops in place to guarantee effective chain-wide management and decision-making?

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 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: Effective 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. Inclusive 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 as he would interact with large suppliers.

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 (link 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 in order to incorporate them into the supplier base – or for market-oriented NGOs, a commitment to assist in facilitating farmers to develop organizations where none currently exist.

At the level of trading the principle could comprise the establishment of new trading organizations as '**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), or 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: Effective market linkages

Case example: Market Facilitator NorminVeggies, 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. The association formed marketing clusters, based on farmer's capability, interest and capitalization. They follow a quality assurance plan for each product, have training for good agricultural practices, and designated lead farmers to act as quality managers and coaches. Small farmers are clustered with independent farmers who help jumpstart quality production. Benefits and accountability for quality are shared with all the cluster members. Products are traceable to the farm and farmer who supplied each pack or crate of produce. Farmers maintain ownership of their own products up to the institutional market and therefore have a greater participation in the chain. NormiVeggies supplies multiple market outlets – exports, supermarkets, hotels, wholesale and local markets – spreading risks and ensuring an outlet for all products. For these services, NorminVeggies earns a market facilitation fee based on the value of the sale and uses the income to cover the marketing management overhead.

Source: Sylvia D. Concepcion, Larry Digal , Joan C. Uy (2007). Innovative Practice Philippines: The case of NorminVeggies in the Philippines.
http://www.regoverningmarkets.org/en/resources/se_asia/innovative_practice_philippines_the_case_of_norminveggies_in_the_philippines



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, 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 exporting vegetables is inherently risky. Losses due to damaged products 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/>

Source: Lundy, M. 2006. *Assessing smallholder participation in the French bean chain in Guatemala: The Juan Francisco Project. Supply chain assessment carried out under the umbrella of the Rural Livelihoods Program of the Sustainable Food Laboratory* (<http://www.sustainablefoodlab.org>).

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 exit strategies to avoid shocks to the system when development funding dries up.

Sharing risk and rewards

New business models seek configurations in which intermediaries provide access to additional technical and financial services and share risks with smallholder farmers. For farmers with small landholdings, a contract can be used as a 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?

PRINCIPLES #4: Equitable access to 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 Hariyali 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.

Sources: Bell, D.E., Sanghavi, N., Fuller, V. and Shelman, M. (2007). *Hariyali Kisaan Bazaar: A Rural Business Initiative. Harvard Business School Case Study, November 2007.*



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 accrual 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 Agricultura 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 Allanblackia chain in West Africa*

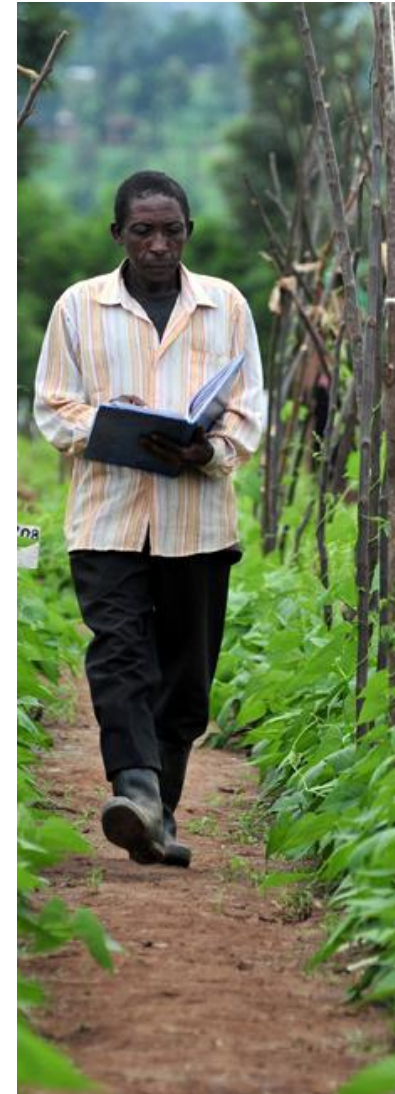
Unilever has been developing a commercial supply chain for seeds from the Allanblackia tree in West Africa since 2001. One of the major limitations to scaling up the supply base had been the time needed for seed germination. As the Financial Times reported in September 2008, a surprising source of innovation 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 Allanblackia 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.

Source: Murray, S. 2008. Hard-nosed benefits for a different kind of investor. Business and Development section. The Financial Times. September 25. <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 makes recommendations for crops with the goal to eliminate the need for any kind of spraying.



Source: Ricketts, K. 2009. Del Cabo New Business Model Study, CIAT, Cali, Colombia: 12 p.

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 has not to 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 Corporate Social Responsibility (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

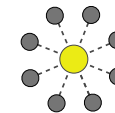
New Business Model Principles SCORECARD

Principle 1: Chain wide collaboration



#	Scoring criteria	Does not apply at all	Fully applies
1	Formal or informal flow processes between actors are defined	0 1 2 3 4 5	
2	Actors along the chain have the same vision and follow the corresponding goals	0 1 2 3 4 5	
3	Commercial goals are aligned among the actors	0 1 2 3 4 5	
4	Social goals are aligned among the actors	0 1 2 3 4 5	
5	The chain can be described as a collaborative partner network	0 1 2 3 4 5	
6	Problems along the chain are easily identified	0 1 2 3 4 5	
7	Chain actors are able to react rapidly to upcoming problems	0 1 2 3 4 5	
8	Interdependencies of actors along the chain are recognized and valued	0 1 2 3 4 5	
9	Processes are set chain-wide and are not restricted on one individual actors	0 1 2 3 4 5	
10	Chain wide incentives are created to enhance collaborative behavior	0 1 2 3 4 5	
11	Champions, leading the collaboration process are identified in different parts of the chain or business model are identified	0 1 2 3 4 5	
12	It is possible for the actors in the chain to participate in decision making processes	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 1: Chain wide collaboration			

Principle 2: Effective market linkages



#	Scoring criteria	Does not apply at all	Fully applies
1	Trading relations are stable	0 1 2 3 4 5	
2	The trading relationships are profitable for all actors	0 1 2 3 4 5	
3	Each link adds (social or commercial) value to the product	0 1 2 3 4 5	
4	Producers generate a stable income from their products	0 1 2 3 4 5	
5	Actors have the capacity to identify new market opportunities	0 1 2 3 4 5	
6	Actors rapidly react to changing market conditions	0 1 2 3 4 5	
7	Intermediaries respond to needs of both, suppliers and buyers, through a tailored double value proposition	0 1 2 3 4 5	
8	Up-stream actors are familiar with the product delivered to the final customer	0 1 2 3 4 5	
9	Down-stream actors are familiar with the production system	0 1 2 3 4 5	
10	Intermediaries deliver social and commercial value to suppliers and buyers	0 1 2 3 4 5	
11	Farmers are formally or informally organized	0 1 2 3 4 5	
12	The procurement system is stable	0 1 2 3 4 5	
13	Complementary markets are reached for 2 nd and other products	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 2: Effective market linkages			

New Business Model Principles SCORECARD

Principle 3: Fair and transparent governance



#	Scoring criteria	Does not apply at all	Fully applies
1	Grades and production standards are consistent and known by all actors	0 1 2 3 4 5	
2	The price formation in each link of the chain is known by all actors	0 1 2 3 4 5	
3	Producers know the quality requirements to receive top prices	0 1 2 3 4 5	
4	Incentives are transparent and aligned with outcomes	0 1 2 3 4 5	
5	There are clear commitments to buy and sell certain volumes, of certain grade, at certain times	0 1 2 3 4 5	
6	Risk sharing models include formal and informal insurance schemes	0 1 2 3 4 5	
7	Equitable processes of production risk sharing are established	0 1 2 3 4 5	
8	Equitable processes of commercial risk sharing are established	0 1 2 3 4 5	
9	Risks do not fall disproportionately on one actor or group of actors	0 1 2 3 4 5	
10	Trading terms are clear to all actors	0 1 2 3 4 5	
11	Buying conditions are clear to all actors	0 1 2 3 4 5	
12	Formal or informal contracts are concluded with producers	0 1 2 3 4 5	
13	Mechanisms are in place to ensure that fair prices are established	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 3: Fair & transparent governance		0 1 2 3 4 5	

Principle 4: Equitable access to services



#	Scoring criteria	Does not apply at all	Fully applies
1	Technical assistance for production is available	0 1 2 3 4 5	
2	Production and post-harvest technology is available	0 1 2 3 4 5	
3	Transportation services are accessible	0 1 2 3 4 5	
4	Small holders have access to financial services	0 1 2 3 4 5	
5	Financial services are used by small holder farmers	0 1 2 3 4 5	
6	Financial services are affordable for small holders	0 1 2 3 4 5	
7	Input supply and dealer models are established	0 1 2 3 4 5	
8	Services are provided by double specialized intermediaries	0 1 2 3 4 5	
9	Production related credit providers take into account soft collateral (contract, organization, potential)	0 1 2 3 4 5	
10	All producers have timely access to market information	0 1 2 3 4 5	
11	All producers have access to information on quality standards	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 4: Equitable access to services		0 1 2 3 4 5	

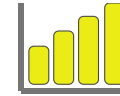
New Business Model Principles SCORECARD

Principle 5 : Inclusive Innovation



#	Scoring criteria	Does not apply at all	Fully applies
1	Innovation is promoted by multiple actors including producers	0 1 2 3 4 5	
2	Innovations are clearly aligned with market opportunities	0 1 2 3 4 5	
3	Continued product and process improvement takes place	0 1 2 3 4 5	
4	The value chain actors are able to respond to market tendencies	0 1 2 3 4 5	
5	The perspective and needs of smallholder farmers is incorporated in the innovation process	0 1 2 3 4 5	
6	Farmers led innovation processes are encouraged	0 1 2 3 4 5	
7	Innovation happens regularly and in a systemic approach	0 1 2 3 4 5	
8	Plans to upgrade product quality and quantity are developed jointly	0 1 2 3 4 5	
9	Returns from innovation are shared fairly among actors	0 1 2 3 4 5	
10	Development interventions are rather done <u>with</u> smallholder farmers, than for them	0 1 2 3 4 5	
11	The value chain is characterized by the development of a differentiated value proposition	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 5: Inclusive innovation		0 1 2 3 4 5	

Principle 6: Measurements of outcomes



#	Scoring criteria	Does not apply at all	Fully applies
1	Formal and informal feedback mechanisms are established within and in-between (groups of) actors	0 1 2 3 4 5	
2	Decisions are based on assessment	0 1 2 3 4 5	
3	Measurements are as simple and cost-neutral as possible	0 1 2 3 4 5	
4	Measurements are designed and tested jointly	0 1 2 3 4 5	
5	The end user and the purpose of the measured information is clear to all	0 1 2 3 4 5	
6	Participants have a role in guiding what information is collected	0 1 2 3 4 5	
7	The generated information is shared and discussed along the chain	0 1 2 3 4 5	
8	Key economic and performance indicators are known and shared along the chain	0 1 2 3 4 5	
9	Measurements lead to rapid action	0 1 2 3 4 5	
10	Regular and consistent evaluation and feedback processes are set in place	0 1 2 3 4 5	
11	Tailored indicators and monitoring plans are established to assess the trading relationships	0 1 2 3 4 5	
12	Market trends and market position are jointly reviewed on a regular base	0 1 2 3 4 5	
13	Social and environmental factors are included in the evaluation	0 1 2 3 4 5	
Average Score		0 1 2 3 4 5	
P. # 6: Measurement of outcomes		0 1 2 3 4 5	

exercise # 8



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 organizations (or chain of organization) inclusivity
- (2) to show precise activities that can have the potential to enhance the inclusivity process.

Through six different ranking levels from 0-5 you are invited to evaluate your organization's performance. There exist different ranking options:

Plenary ranking: Make the scorecard visible to all and agree on a group score for each criteria through a plenary discussion. Calculate the score for each principle by calculating the average of all criteria. Visualize the group's result in a spider diagram.

Individual ranking: Hand out a scorecard to each participant. Every participant completes the form individually. Participants then calculate their individual score for each principle. This score is later added up with the other participants scores and an average is calculated which is visualized in a spider diagram.

Free ranking: 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.

Check how the existing business model performs under the criteria of inclusivity and identify areas of innovation.



The new business model principles are not a magic bullet nor a check-list for effective small holder inclusion.

You need to apply your own best judgment when using the principles considering your situation and wider context.

Not all principles will be applicable in all situations and some may be much more or less important depending on your context.

exercise # 8



Assess the inclusivity of your business model

STEP 3: Interpret results

Discuss the results in plenary and brainstorm about the reasons behind the group's ranking result.

Why did we score the principle 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.

exercise # 8



Assess the inclusivity of your business model

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

NBM principles	How are we now?	Why did we decide on this score?
<u>Principle 1</u> : Collaboration between the chain actors	 0 1 2 3 4 5	
<u>Principle 2</u> : New market linkages	 0 1 2 3 4 5	
<u>Principle 3</u> : Fair and transparent consistent governance	 0 1 2 3 4 5	
<u>Principle 4</u> : Equitable access to services	 0 1 2 3 4 5	
<u>Principle 5</u> : Inclusive innovation	 0 1 2 3 4 5	
<u>Principle 6</u> : Measurement of outcomes	 0 1 2 3 4 5	

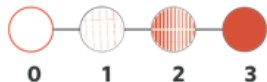
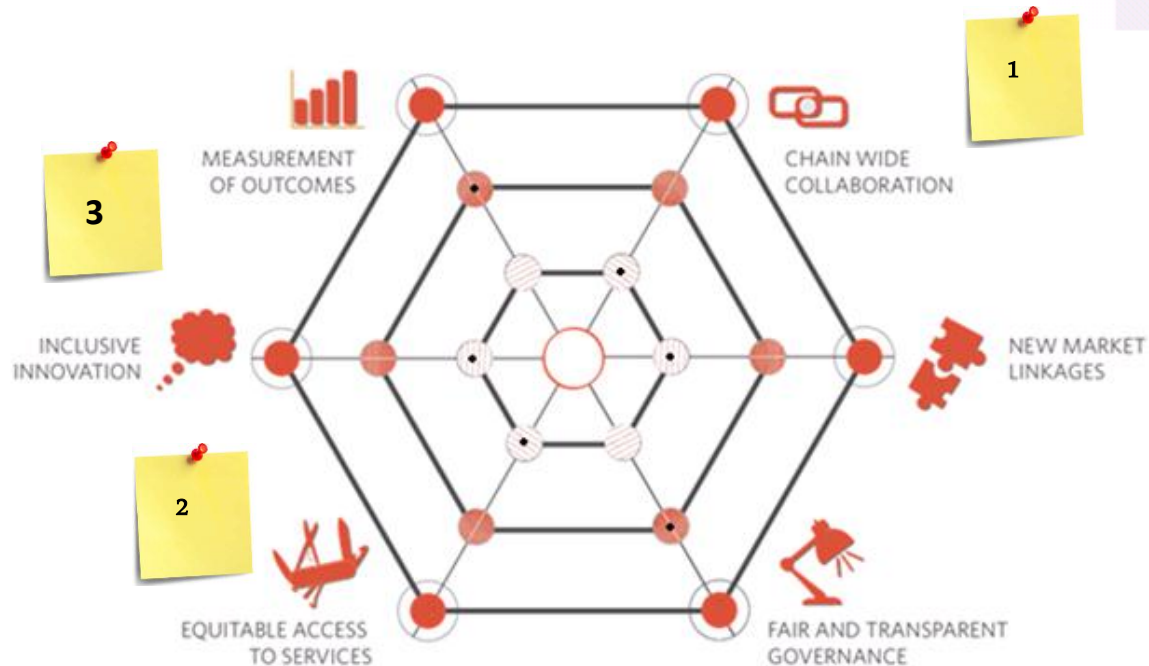
exercise #8



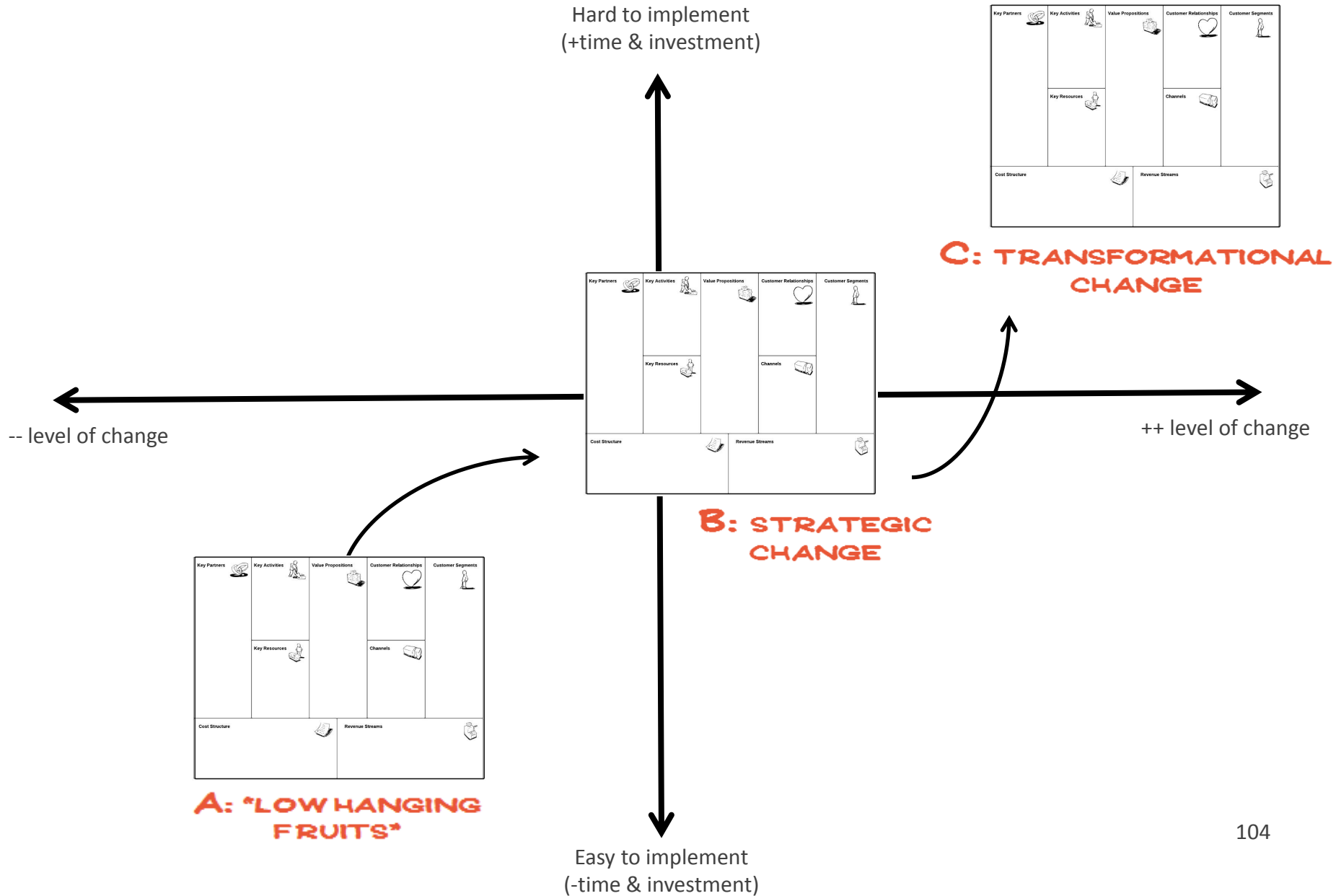
Assess the inclusivity of your business model

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.

Check how the existing business model performs under the criteria of inclusivity.



Possible ways to RANK OPTIONS



CASE EXAMPLES

Cuatro Pinos, Guatemala

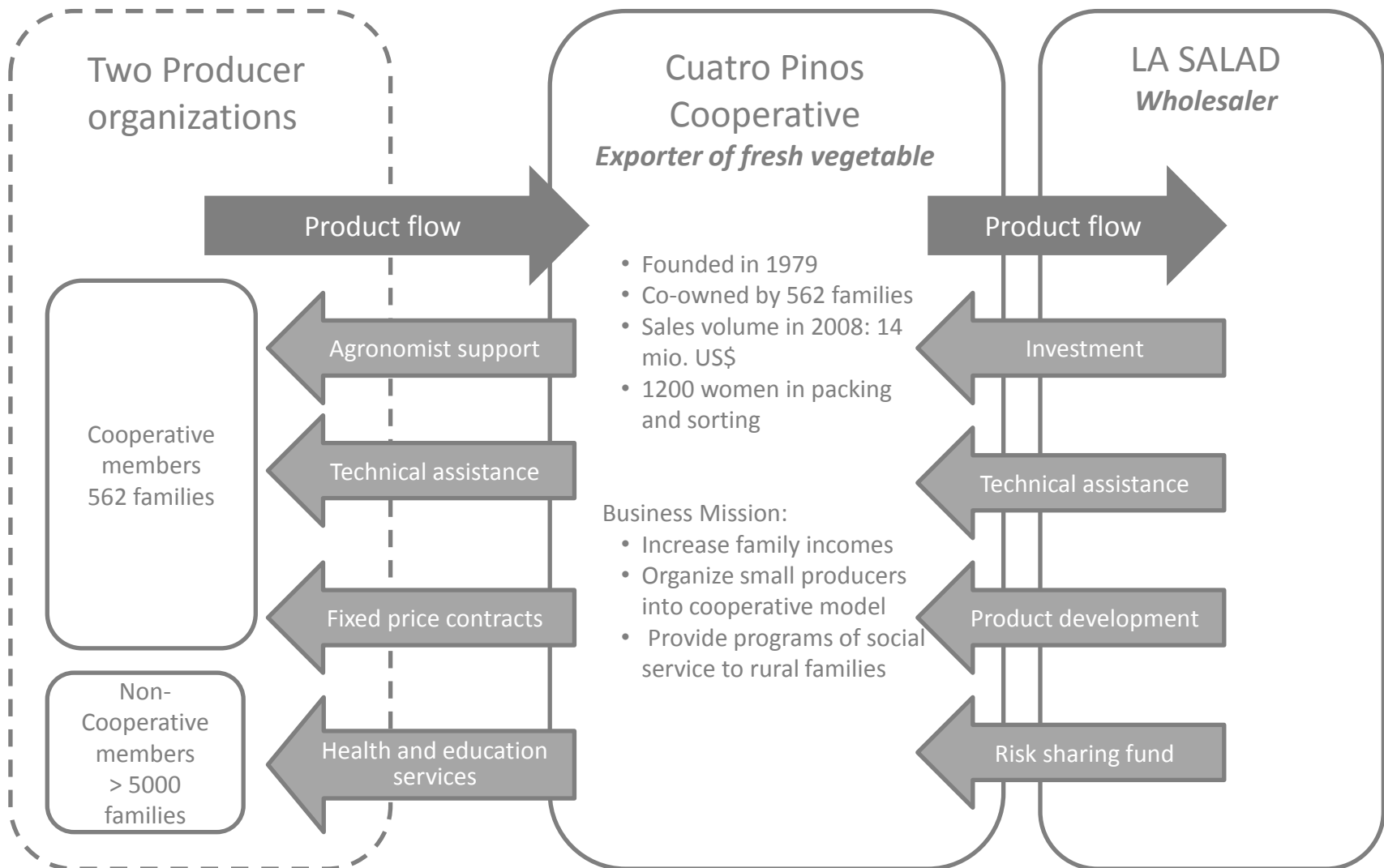
Intelligentsia Coffee, US

HKB, India

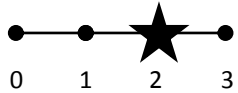
KEY TOOL #3

THE NBM PRINCIPLES

CASE EXAMPLE: Cuatro Pinos, Guatemala



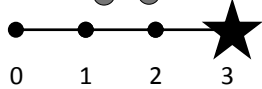
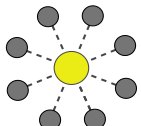
Principle # 1: Chain-wide collaboration



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.

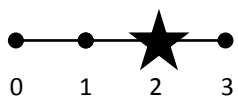
Principle # 2: Effective market linkages



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

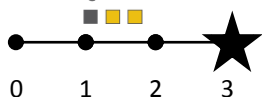


Chain governance from Cuatro Pinos back to producer organizations and individual producers is clear, based on **production plans and backed with formal contracts**. Recently these contracts have included weather-insurance coverage subsidized partially by the Guatemalan State.

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 the 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)

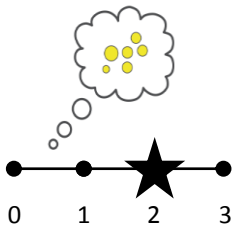
Partner in development: During the 2005-2006 production season, the Cooperative successfully accessed 1.5m US in public sector funds for investment in supplier organizations including packing sheds, irrigation facilities and rural housing

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

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

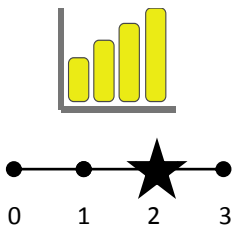
New foundation to support **social services to non-members** funded by a small percentage of the profits of each member of the French bean supply chain which during its first full year of operation (2008) generated US \$ 60,000

Principle # 5: Inclusive innovation



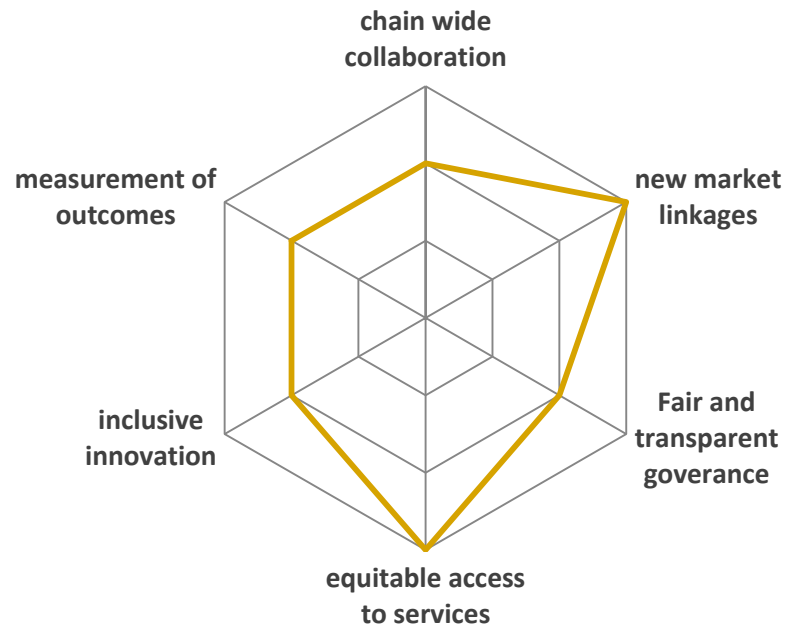
The central point of innovation in this case is the nexus between Cuatro Pinos, LA Salad and Wegman's in the US. Wegman's and LA Salad **identify potential niches** for new products and/or new presentations of existing products and transmit this information to Cuatro Pinos. Cuatro Pinos then employs 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.

Principle # 6: Measurement of outcomes

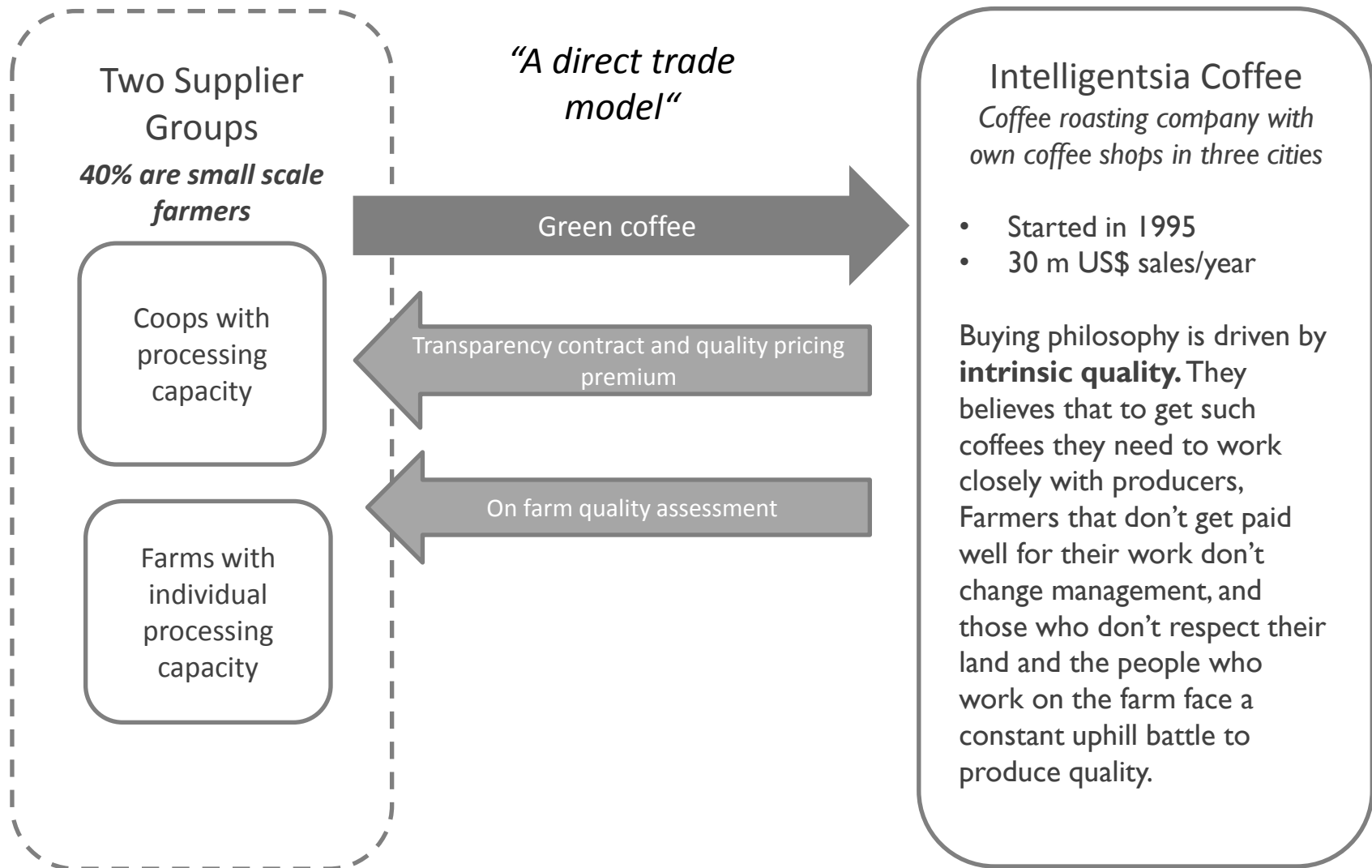


Measurement of outcomes occurs within Cuatro Pinos following the cooperative model (**yearly meetings, internal accounting and collective decision-making**). The system works well for cooperative members and is complemented with informal feedback activities – basically on-going visits and phone calls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

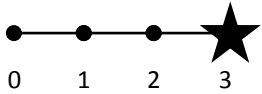
Recent **household nutrition surveys** show troubling rates of malnourishment in 20% of coop member families who are relatively better off than non-member suppliers so clearly market linkages (including credit) are not enough to solve poverty on their own.



CASE EXAMPLE: Intelligentsia Coffee, US



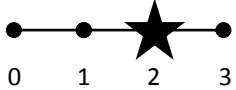
Principle # 1: Chain-wide collaboration



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.

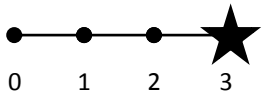
Principle # 2: Effective market linkages



Intelligentsia provides **direct links 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.

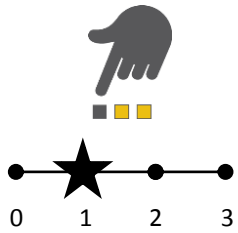
Pricing premium and clear pricing structure: The verifiable price in the *Direct Trade* Model to the grower or the local coop, not simply the exporter, must be at least 25% above the Fairtrade price. The *Intelligentsia Tiered Pricing System* establishes a sustainable base price and ensures there is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

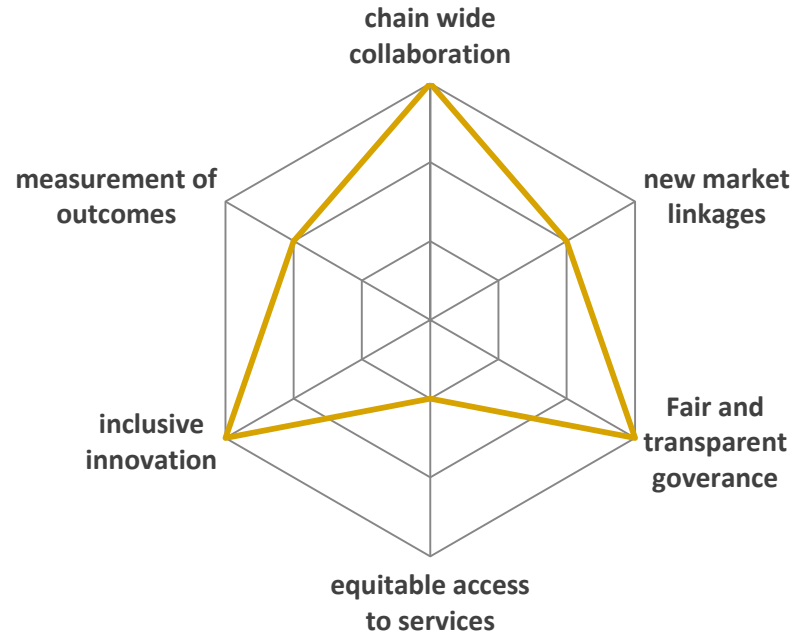
Information management: Intelligentsia has created a system that allows producers access to the same information as the millers and exporters (see www.cropster.org)

Principle # 4: Equitable access to services

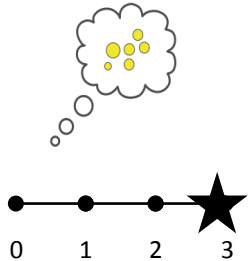


Access to expert **taste testing** and access to **results database**.

Support on obtaining **pre-harvest financing** (through root capital).



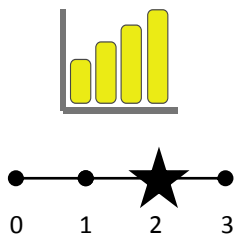
Principle # 5: Inclusive innovation



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.

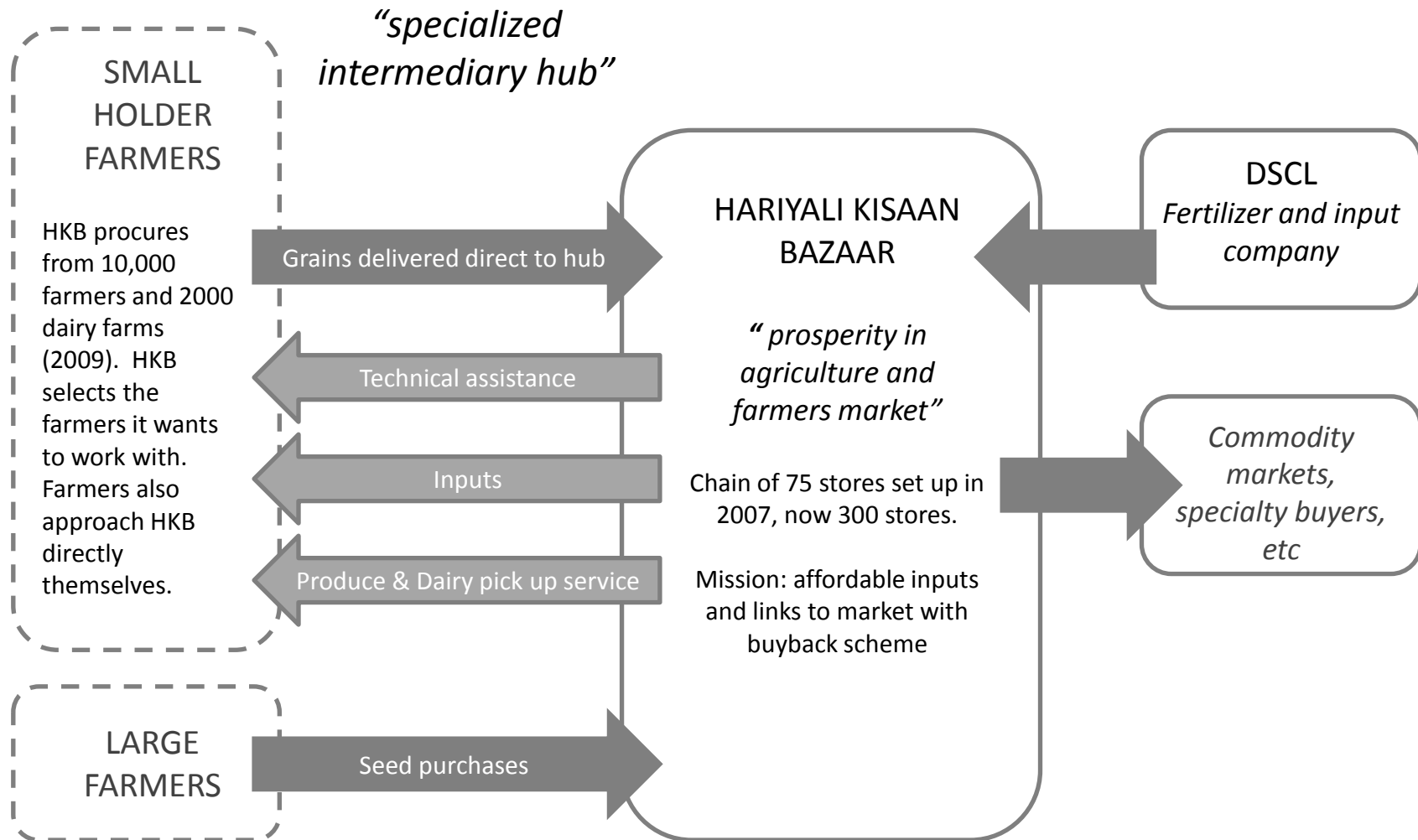
Principle # 6: Measurement of outcomes



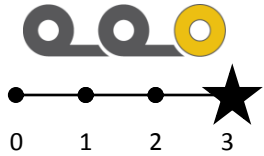
Intelligentsia has implemented an interesting way to ensure that the **premiums paid are actually reaching producers**. Individual growers are deploying a **peer control system**: during the pre-harvest meetings it is clarified what individual farmers will receive. Then, communication channels between 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 in 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

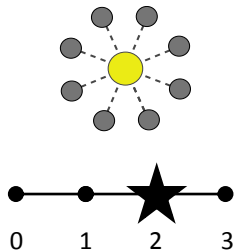


Principle # 1: Chain-wide collaboration



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. Rajesh Gupta, president of Hariyali Kisaan Bazaar 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"

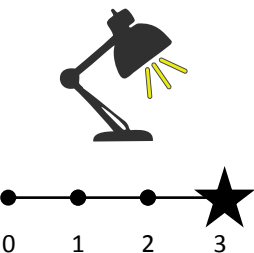
Principle # 2: Effective market linkages



HKB has a **'buy-back' scheme** that serves as a link between small-scale farmers and markets. HKB also procures 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.

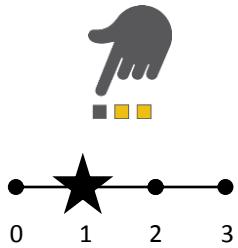
HKB aggregate the produce for the farmers. It is collected from the farm level or from approximately 500 metres away from farmers' fields at the village level.

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



Inputs/retailing/household goods

Technical advisory available at hub and through targeted group seminars (not one on one at field)

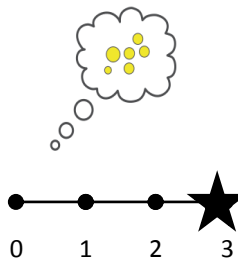
Credit or facilitation of credit (through partner bank)

Insurance – crop insurance and life insurance (need to probe more about crop insurance).

Market linkages – seed production (which has now expanded significantly), dairy, grain.

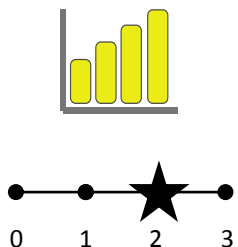
Fuelling stations with transparent pricing (cooking gas) are also at the outlets, as are demonstration plots for training purposes.

Principle # 5: Inclusive innovation

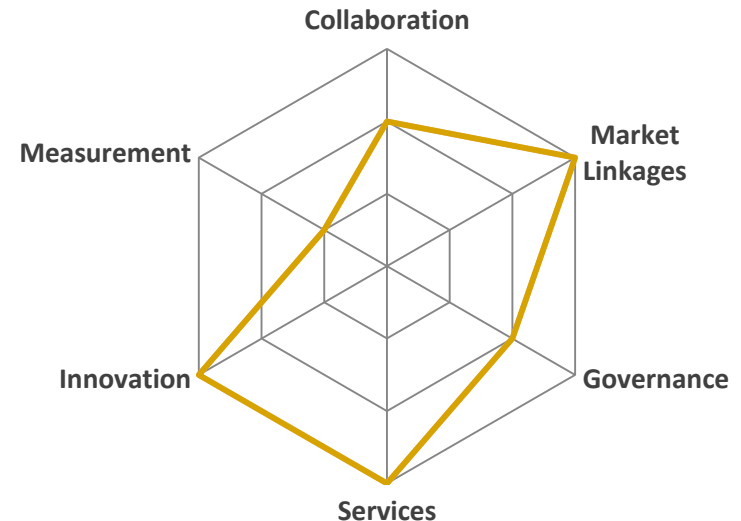


HKB prides itself on high quality seed production. There is a degree of collaboration in order to ensure this high quality is met. Farmers, for example, are given foundation seed to maximise quality and HKB has control of the input material they give to farmers to ensure that genetic purity is maintained. 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 (head of retail operations), 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.



CASE EXAMPLE: Sustainable Harvest, US



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

GOAL

Design, test and evaluate one or more innovation paths and learn what works and what does not. Scale up what proved to be successful and redesign where problems occurred.

KEY QUESTIONS

- Where is our business model today?
- Where do we want our business model to be in the future?
- What has to change?
- What would progress look like and how can we measure it?
- What worked, what did not and how can we improve?

PROFILE

KEY TOOL #4 THE PROTOTYPE CYCLE

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. This tool does not guarantee success but rather a process in which to 'fail forward'.

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.

I represent a producer association...

“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 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 specifications 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?”

PERSPECTIVES

KEY TOOL #4 THE PROTOTYPE CYCLE

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”




THE CONCEPT

IN THEORY
AND PRACTICE

“The prototype cycle is an iterative learning process to be continuously tested and improved on the fly”

KEY TOOL #4

THE PROTOTYPE CYCLE

A worker wearing a tan hard hat with a green leaf logo, safety glasses, a white respirator mask, and black gloves is shown from the chest up. He is holding a large quantity of white, flake-like material in his gloved hands, pouring it into a blue container. The background shows palm trees and a building with a corrugated metal roof under a clear sky.

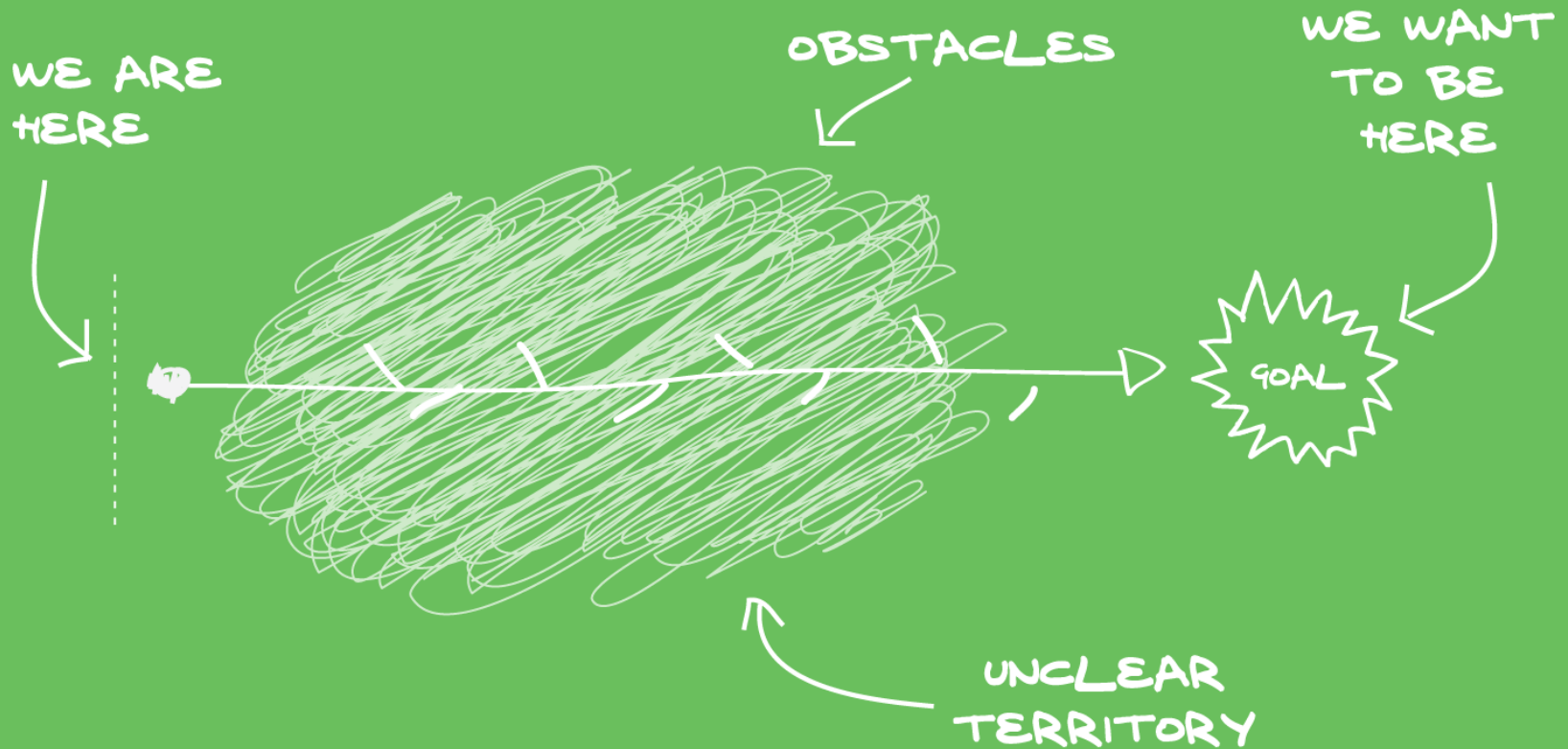
A LEARNING MODEL FOR CONTINUOUS IMPROVEMENT

“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.”

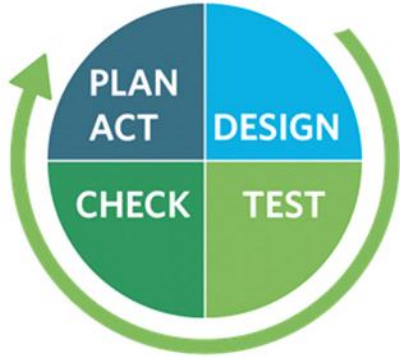
- Toyota Kata

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

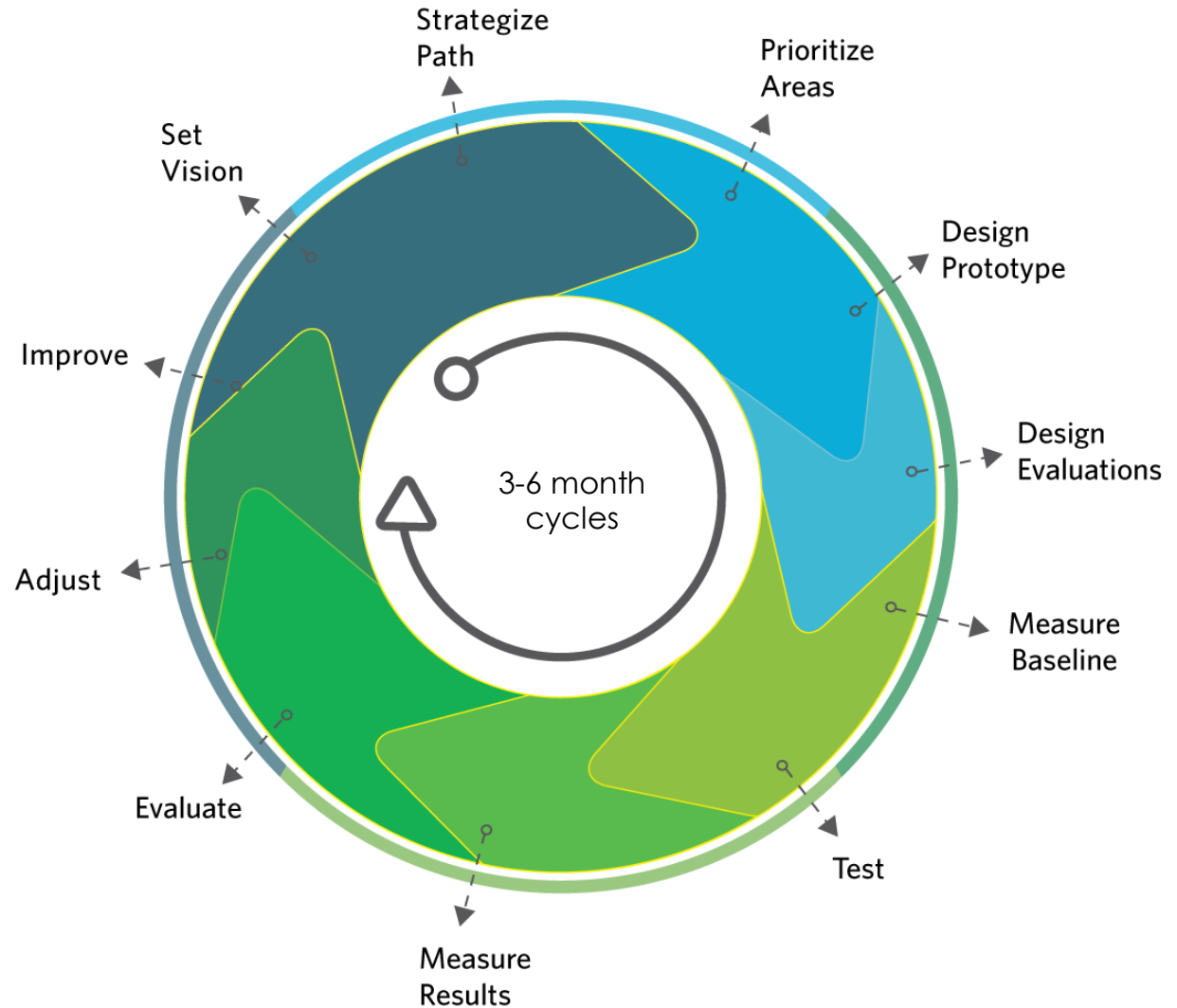
What do we need to get the work done?

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 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, impact potential and/or required resources. 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.

Generate a large number of ideas and possible concepts on where to focus the prototype cycle.

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.

exercise # 10



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 you 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 through out 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

exercise #10



Define a change strategy

Outline the strategy of change on a macro level.

STEP 4: Translate the vision into you 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.

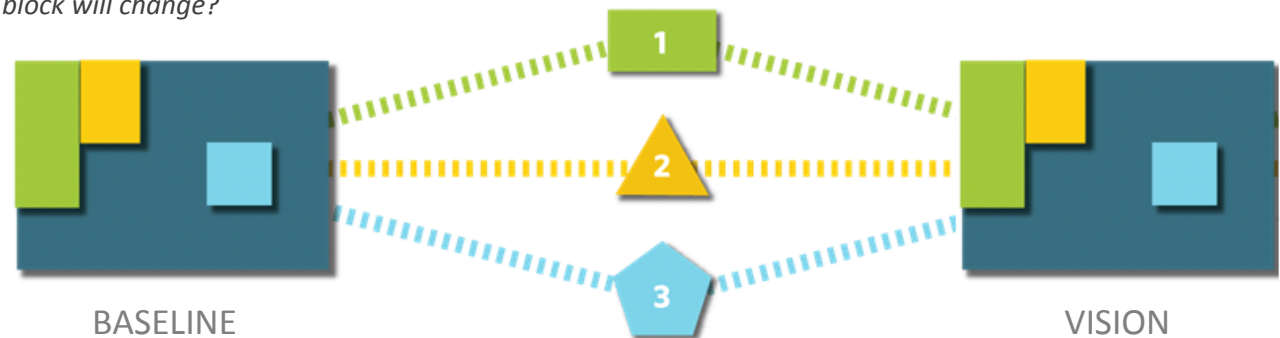
You will be answering the following questions:

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?



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.

exercise # 10



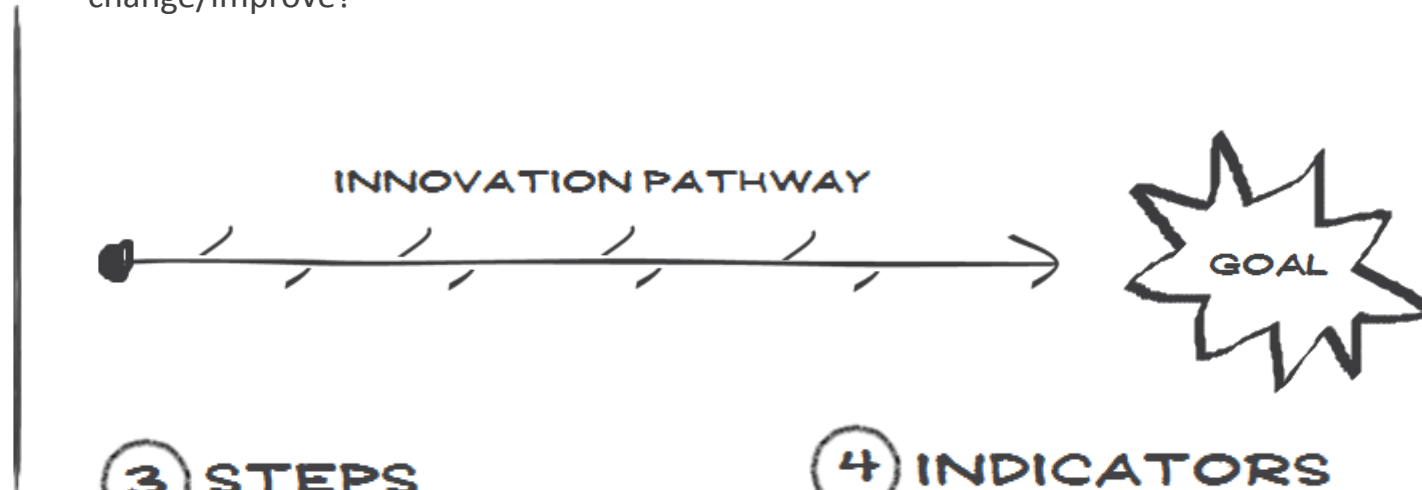
Define a change strategy

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?

exercise #11



Prepare for action

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 (innovation pathway)

Focus on the set of activities that has to be implemented within each innovation area. Bring activities in a logical sequence (steps). Repeat for each innovation area.

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?

STEP 2: Review connections between innovation pathways.

If you have identified more than one innovation area, you will have to create an action plan for each innovation area. Activities defined in each pathway may interconnect with activities of another innovation area's pathway.

How do the different innovation pathways connect?

Which pathway(s) is/are prerequisite(s) 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, clear responsibilities for planned activities along with resource needs, budget and progress indicators.

What needs to be done? By whom? By when?

How much does it cost?

How will we know that we achieved our goal? When will we evaluate results? What indicators help measuring progress?

STEP 4: Describe expected changes in your Business Model

What blocks or elements of your business model will be influenced by the innovation pathway?

How is each block or element expected to change over time?

What overall effect will this change have on your cost structure and income stream?

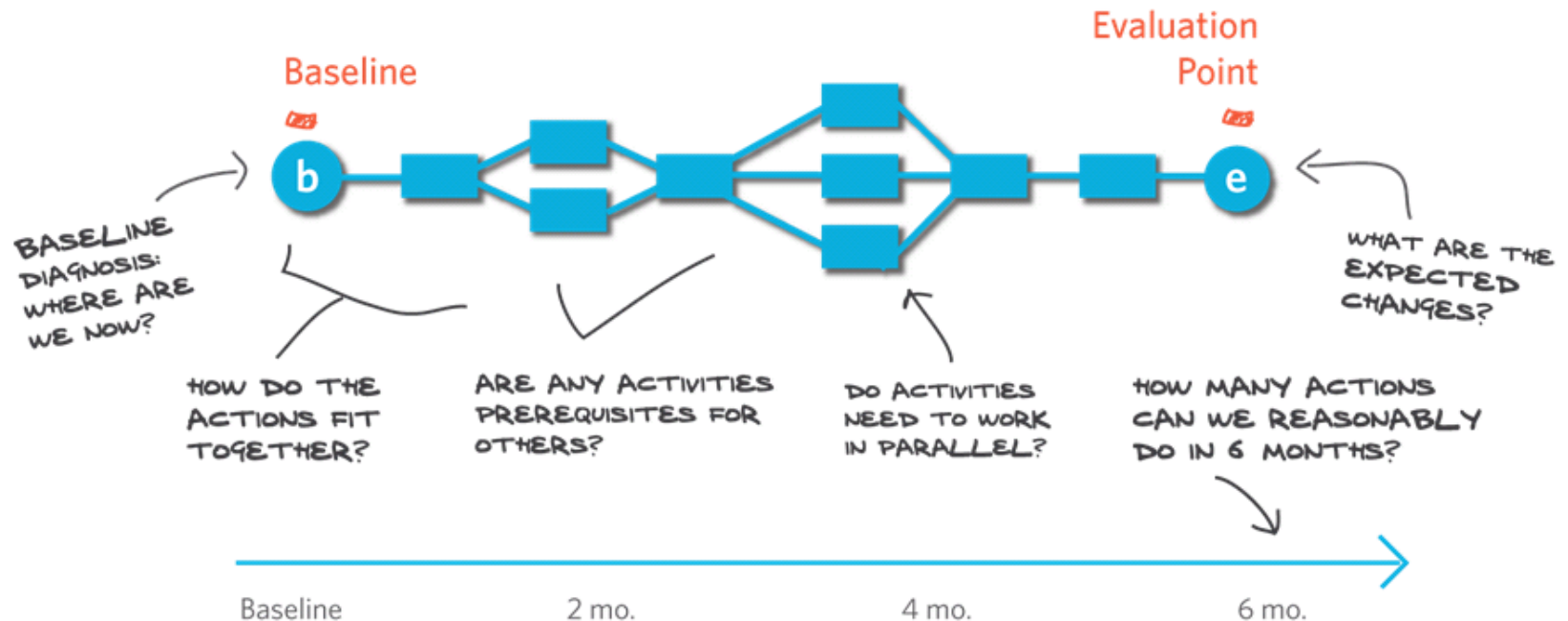
Write an action plan including activities timetable, responsibilities and budget.

exercise # 11



Prepare for action

PATHWAY FOR EACH INNOVATION AREA ON A MICRO LEVEL



exercise # 11



Prepare for action

SUM OF INNOVATION PATHWAYS

① BASELINE:

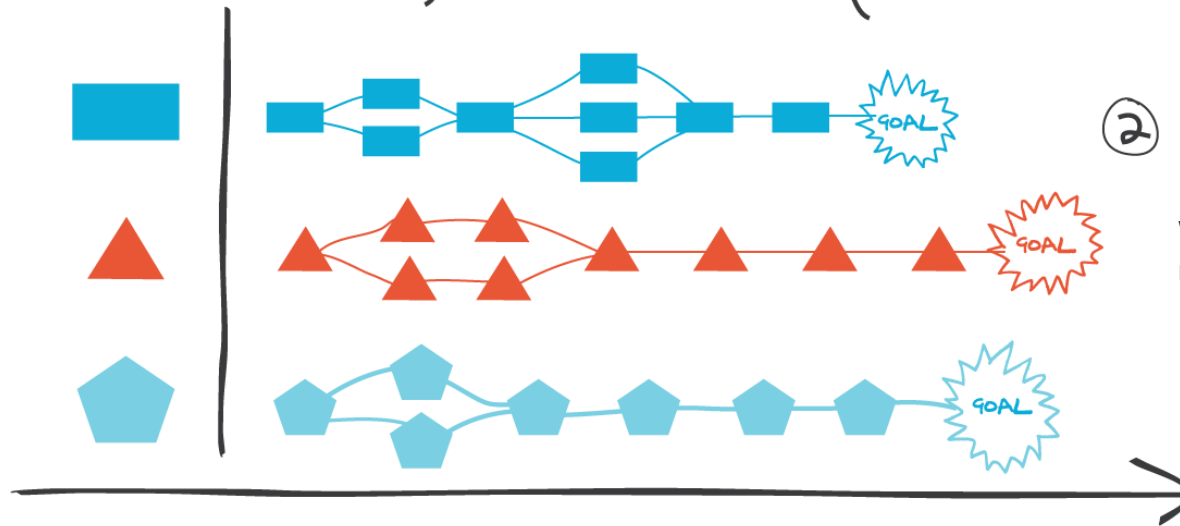
What is the current condition?

③ STEPS:

What action is required?
What are the desired process characteristics and metrics?

② DESIRED OUTCOME:

What are the expected results?



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



ACTIVITY	RESOURCE	# DAYS		TOTAL EXPENSE
Task 1	Name 1	10		\$2,000
Task 2A	Name 3	30		4,000
Task 2B	Name 2	4		800
Task 3	Name 2	40		5,000
Task 4A	Name 3	10		200
Task 4B	Name 4	10		1,000
Task 4C	Name 6	4		0
Task 5	Name 7	30		1,000
Task 6	Name 8	45		0
Evaluation	Name 9	4		5,000

WHAT NEEDS TO BE DONE?
 BY WHOM?
 TIMELINE?

EXPECTED OUTPUTS?
 BUDGET?

EVALUATION AND LEARNING ACTIVITIES

EVALUATION AND MONITORING PLAN	
Progress markers	
Evaluation markers	
Monitoring Plan	

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

MONITORING – TRACKING PROGRESS

After having identified areas of innovation and having built a specific action plan for each innovation area, we are now moving on to the implementation phase and need assessment that helps to reveal if we are on the right track or not.

OUTCOME MONITORING measures how an intervention influences behavior, relationships and activities of the key actors involved in the intervention through a set of 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 plan based on the results to date
- level of satisfaction with the progress made to date

exercise #12



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 what changes in behavior, activities and relationships that represent minimal changes as well as what changes 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 to 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.

Measuring change by
tailored and
graduated progress
indicators

PROGRESS INDICATORS

Outcome Challenge:
Description of ideal changes in the
behavior, relationships, activities
and actions of stakeholders.

What changes would you:
Expect to see:
(Early response, reactive)

Like to see:
(Active learning)

Love to see:
(Profound change)

exercise # 12



Prepare outcome monitoring plan

STEP 3: Prepare the monitoring plan

The progress of the innovation pathway will be measure 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 monitoring plan, with the indicators in the rows:

Who will use the information?

What is the purpose of the information?

When is the information needed?

Who will collect the information?

How often will the information be collected?

How will the information be collected?

WHO WILL USE THE INFO?	PURPOSE OF THE INFO?	WHEN IS THE INFO NEEDED?	WHO WILL COLLECT THE INFO?	HOW OFTEN WILL IT BE COLLECTED?	HOW WILL IT BE COLLECTED?

Measuring change by tailored and graduated progress indicators

exercise # 12



Prepare outcome monitoring plan

PROJECT OBJECTIVES:

INDICATORS:

DEFINE INDICATORS THAT
ARE PRACTICAL AND IMPORTANT
TO THE STAKEHOLDERS.

UNITS OF MEASURE?

DATA COLLECTION					
Source of Information	Baseline Data Needed	Who is Involved	Tools & Methods	How Often	Added Info Needed

DATA ANALYSIS AND USE					
How Often	Who is Involved	Source of the Information	Who Gets the Information	How is the Data Analyzed	How is the Info to be Used

WHEN DOES THIS
INFORMATION NEED
TO BE COLLECTED
AND AT WHAT SCALE?

WHO IS RESPONSIBLE FOR
COLLECTING, ANALYZING &
UTILIZING THE INFORMATION?

exercise # 13



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. This information then is discussed 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?*

Record progress based on the action plan.

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.
- Be systematic in data collection and analysis and make use of locally relevant tools for understanding results.

Implementation

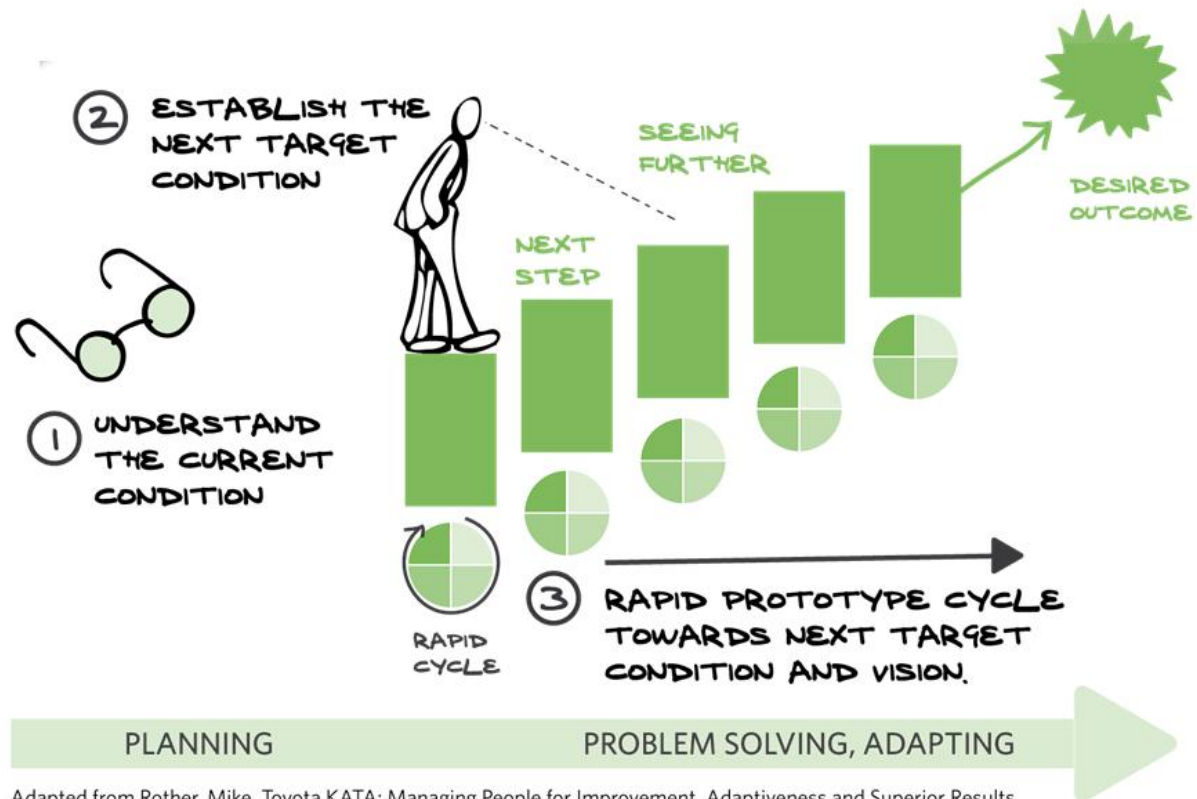
NOW, TAKE A STEP!

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 improving processes step by step towards 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.



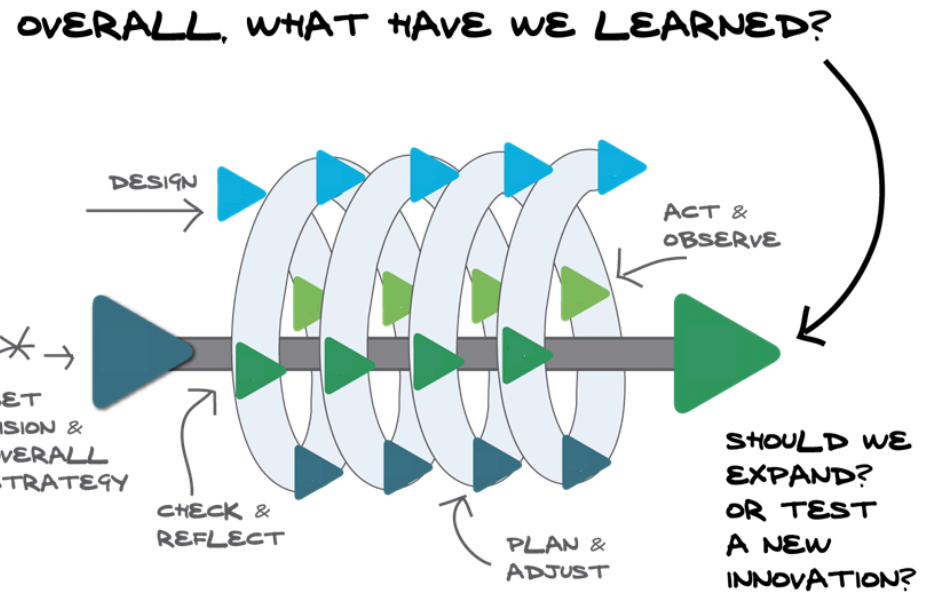
Adapted from Rother, Mike. Toyota KATA: Managing People for Improvement, Adaptiveness and Superior Results.

EVALUATION – ASSESS THE EFFECTIVENESS OF THE STRATEGY

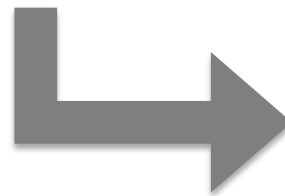
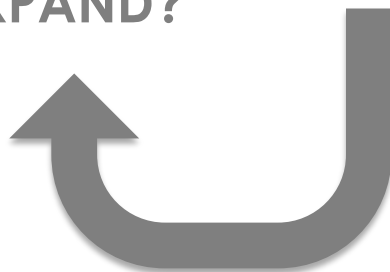
After one prototype cycle including its various innovation pathways, has come to an end, it is important to find out how the wider context has changed.

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

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



EXPAND?



TEST A NEW
PROTOTYPE

WHAT HAVE WE LEARNED?

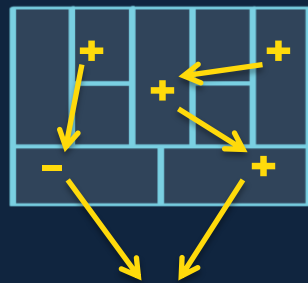
What changed?



Innovation area tested



What worked?



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



Did we achieve greater inclusion?



Are the trading relationships more equitable, durable?

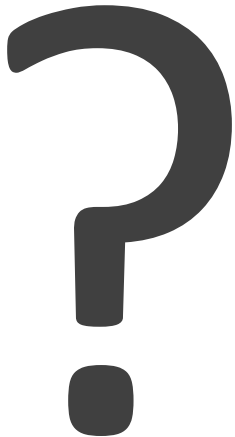
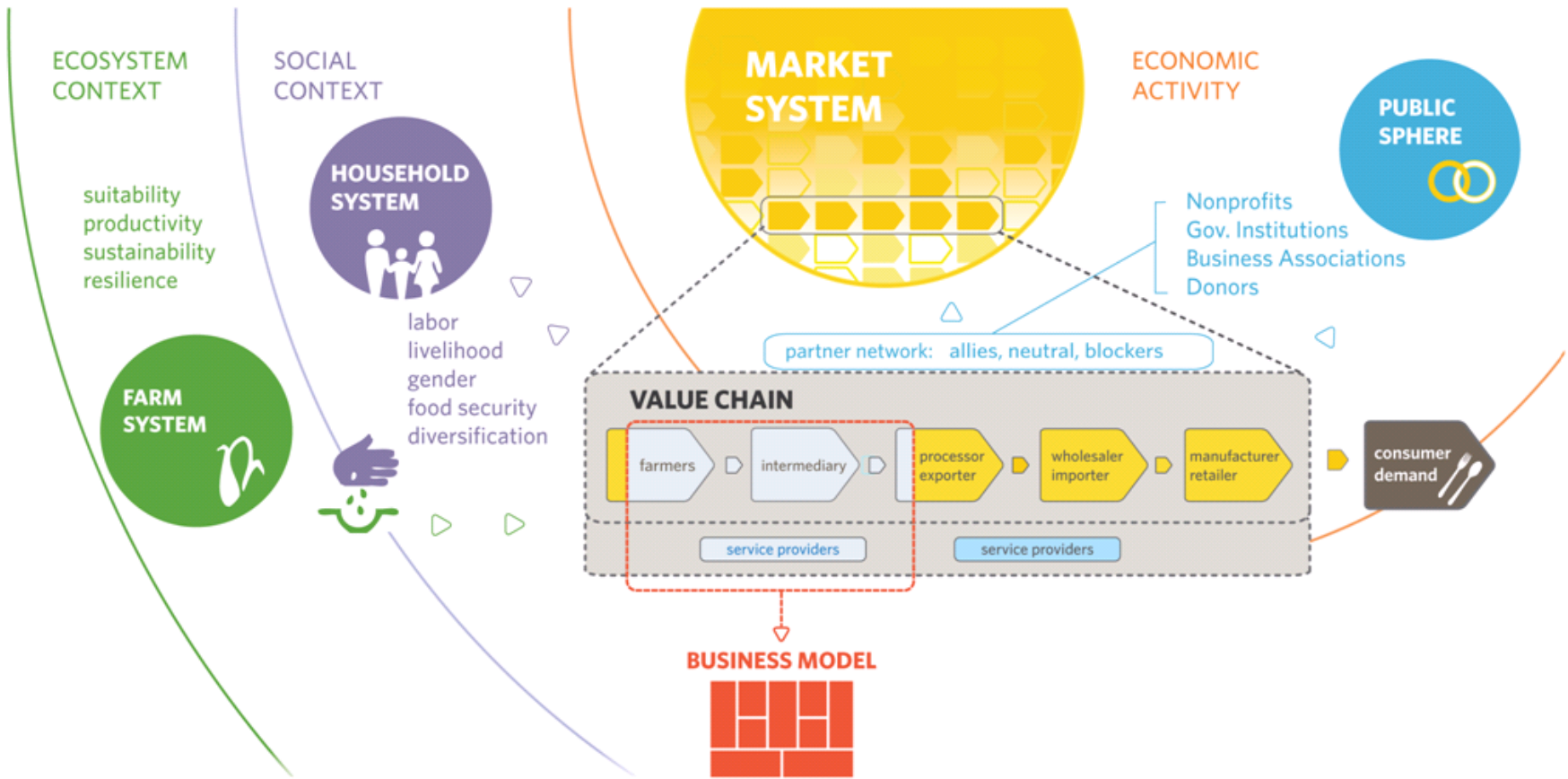


What can be improved?



Improve existing innovation area or explore new areas.





HOW DO THE CHANGES ACHIEVED IMPACT THE **BUSINESS MODEL**, THE **LIVELIHOODS** OF SMALL HOLDER 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 of 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 utilizes the things correctly.

*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.

Possible evaluation factors within the different spheres

IN SMALL HOLDER LIVELIHOODS

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

How does the percentage of the target population's income originating from the activities related to the business model evolve? 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: (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 their products and services vis a vis competitors. 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.

1. 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.

2. 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.

3. Functional improvement:

Increases in the added value by means of changes in the activities managed within 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)

4. Market chain improvement:

The market chain passes from the basic product to a processed one of greater value.

CASE EXAMPLE

HIVOS and ECOM,
Kenya

KEY TOOL #4

THE PROTOTYPE CYCLE

Bottom-up quality by Hivos and ECOM in Kenya

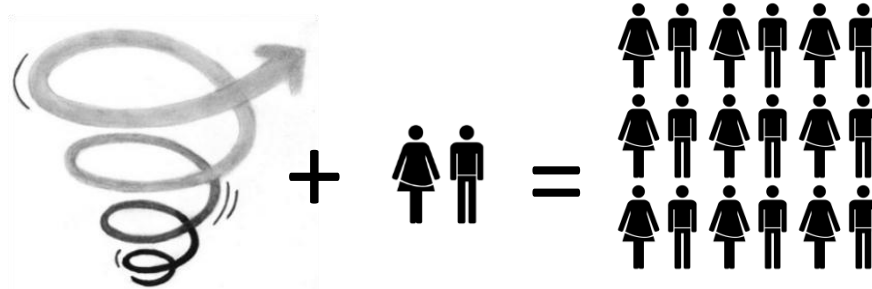
Hivos is a Dutch development organization guided by humanist values. Hivos mission is to contribute to a fair, free and sustainable world. Hivos has more than 20 years of experience in the coffee sector, spending more than 2 million EUR a year to improve sustainability.

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 in 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 able 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 in the short term and stay committed to the process over time.

The 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 sales volume and higher prices for higher grades. Higher sales 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 295.000 (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 an increased level of trust, information and efficiency in the value chain as well as 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 & KEY IMPLICATIONS



GOALS

Explore which trends and drivers act in favor for or limit the value chain by leading to opportunities or challenges.

KEY QUESTIONS

What are the key factors that drive changes in markets, at international, national and local level?

In which direction do those drivers effect the market?

As a result of these drivers, what trends do we see in the market today?

Are those trends certain or uncertain?

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

PROFILE

Add-on #1 DRIVERS, TRENDS & KEY IMPLICATIONS

WHAT IT CAN DO

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

THE CONCEPT

IN THEORY
AND PRACTICE

Drivers are factors that create changes, while trends are the direction of change caused by drivers.

KEY TOOL #1
DRIVERS, TRENDS &
KEY IMPLICATIONS

DRIVERS, TRENDS & 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.**

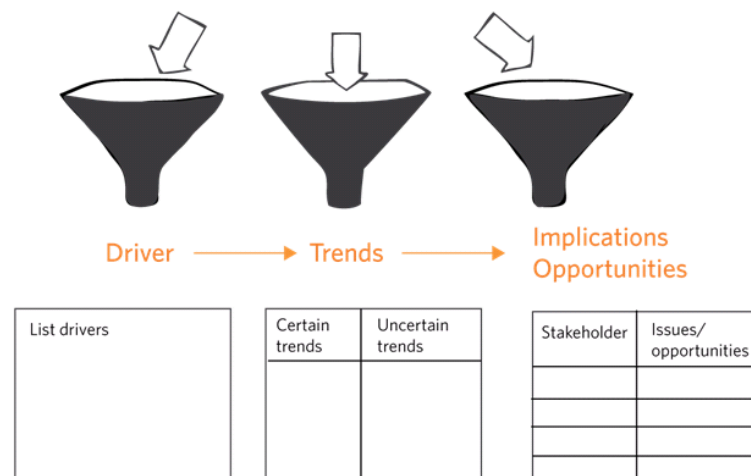
Looking at key drivers, analyzing the trends created and combining both with the value chain map, will help to anticipate the challenges and opportunities for chain actors and stakeholders. Knowing if those drivers and trends operate in favor of or against your business system and the upcoming change process assists the planning of 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 insofar 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 constitutes a useful task before designing a change strategy (Key Tool # 4: The Prototype Cycle)

Research, surveys, interviews
workshop brainstorming



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

DRIVERS, TRENDS & KEY IMPLICATIONS

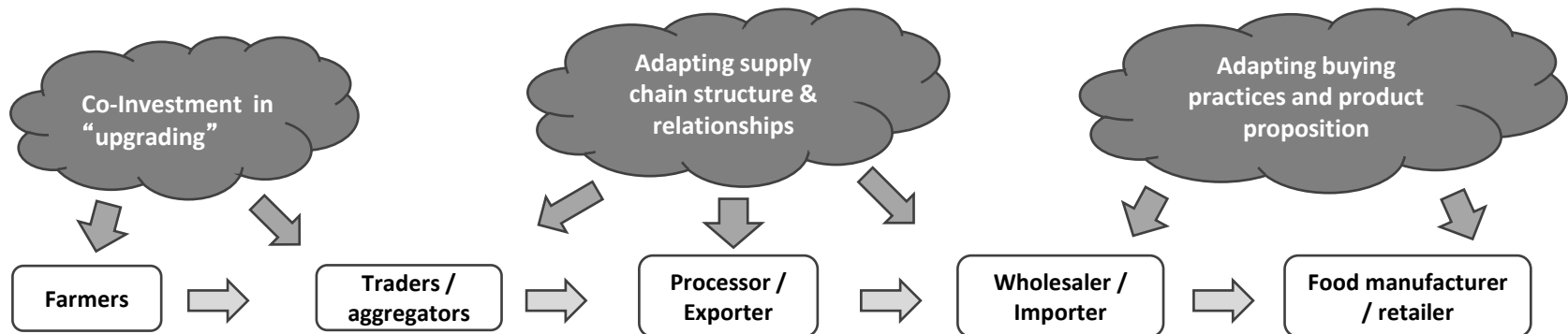
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Example of CHALLENGES FOR ACTORS

- 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 occupy a 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



DRIVERS, TRENDS & KEY IMPLICATIONS

Drivers, Trends and Challenges in the dairy 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)

Middlemen

Processors

*Wholesalers and
retailers*

Supermarkets

Consumers

Challenges:

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

*Livelihood loss
Recovery of losses*

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

*Competition with modern chains
Logistics and supply chain management*

Raw material supplier (quality, quantity and prices)

*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

Add-on #2 THE BUSINESS MODEL TYPOLOGIES

WHAT IT CAN DO

Offer mechanisms to understand the position of small-scale producers, of small and medium sized enterprises (SME's) and of buyers within a particular market chain

Assist in identifying points of leverage for greater efficiency and market inclusion

Help understand the drivers and implications of typical organization and trading relationships

Help understand 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”

Add ON #2

THE BUSINESS MODEL
TYPOLOGIES

BM TYPOLOGIES: OVERVIEW

To understand TYPICAL ORGANIZATION and TRADING RELATIONSHIPS 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.

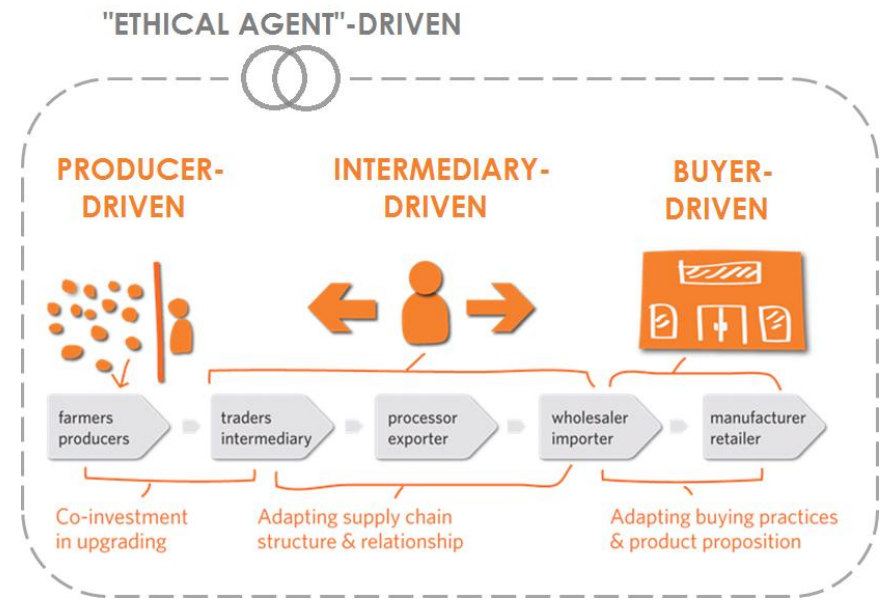
Where market linkages are initiated by existing actors, they tend to build on informal structures in which traders or farmer-traders play a critical role not only to connect farmers to markets but also as *de facto* service providers. In many cases the trader is a member of the rural community and has specialized knowledge, information, assets and contacts to facilitate not only commercial ties but also social support in times of crisis. Informal linkage models are common throughout the world but little understood.

A more traditional approach is small-farmer organization induced by external agents or a combination of external actors and small farmers. Processes of induced organizations start from the assumption that existing market linkages are not effective either in terms of their functioning or in terms of equity and that new skills and knowledge need to be developed to facilitate favourable market linkages for smallholder farmers. These interventions are often led by development organizations and supported by donors, although examples of private sectors initiatives of induced organization, such as contract farming and outgrower schemes, also exist. Of critical importance is a clear and consistent focus on the business case for the intervention as well as a timeline after which external support will cease.

Regardless or not the model selected is based on existing actors and skills or is induces, these module can be grouped depending the entry point of negotiation.

Existing models tend to fall into four general categories:

- Those that are driven by producer
- Those that are driven by buyers
- Those that are driven by intermediation
- Those driven by an ethical agent



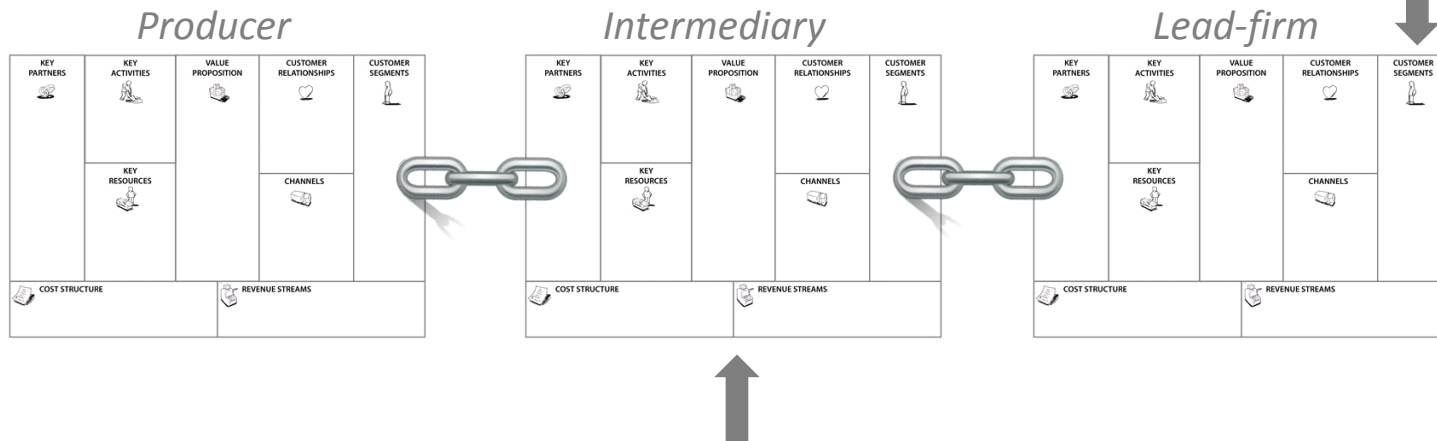
Implications of a traditional dominated market chain

The agri-food sector is traditionally built on an exclusively consumer facing value proposition, high standards 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?

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

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

The **lead firm** usually seeks a stable 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 low cost and risk neutral. In view of lower transaction costs, and the possibility of more effective capacity transfer, private companies often prefer to work with organized farmers rather than individuals, despite the increased bargaining power that groups can enjoy.

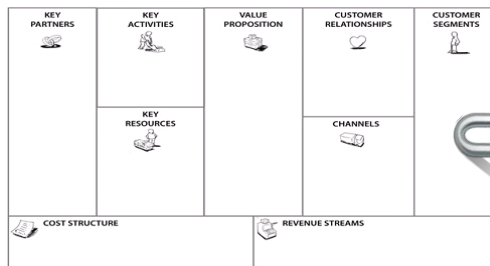


In an intermediary dominated supply chain, actors such as, **processors, transporters, or wholesalers** tend to have a great **power over decision and implementation and governance** and **hold critical information** about both upstream and downstream activities. Despite the attractions of “cutting out the middleman” organizing direct procurement can have high transaction costs for private players, and have mixed outcomes. Given these costs, a business model that works with chain intermediaries, either traditional or new, can offer the opportunity to be profitable in highly competitive, price sensitive markets.

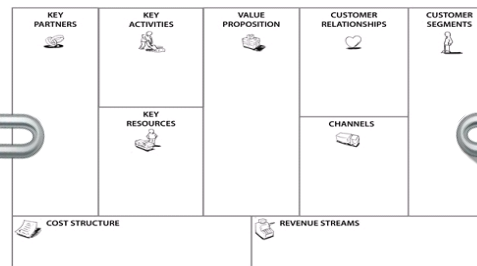
Towards more inclusive business alternatives

Integrating small holder producers into value chains can have different entry points and the drivers of the chosen model depend on the structure of the supply chain.

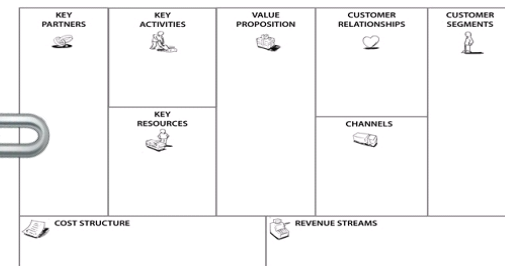
Producer Business Model



Intermediary Business Model



Lead-firm Business Model



PRODUCER-DRIVEN SMALLHOLDER INCLUSION

WHO?

Farmer owned businesses (cooperatives, associations, corporations, etc.)

WHY?

Market participation
Stable market position
Generate sustained income flows

HOW?

- (1) Professionalize as an autonomous organization
- (2) Economically associate with your buyer, trader or processor.

INTERMEDIARY-DRIVEN SMALLHOLDER INCLUSION

WHO?

New generation intermediary (processors, exporters, service providers, wholesalers, traders or a combination of trade actors) with a strong interest in forward and backward integration.

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 DRIVEN SMALLHOLDER INCLUSION

WHO?

Consumer or retail brands

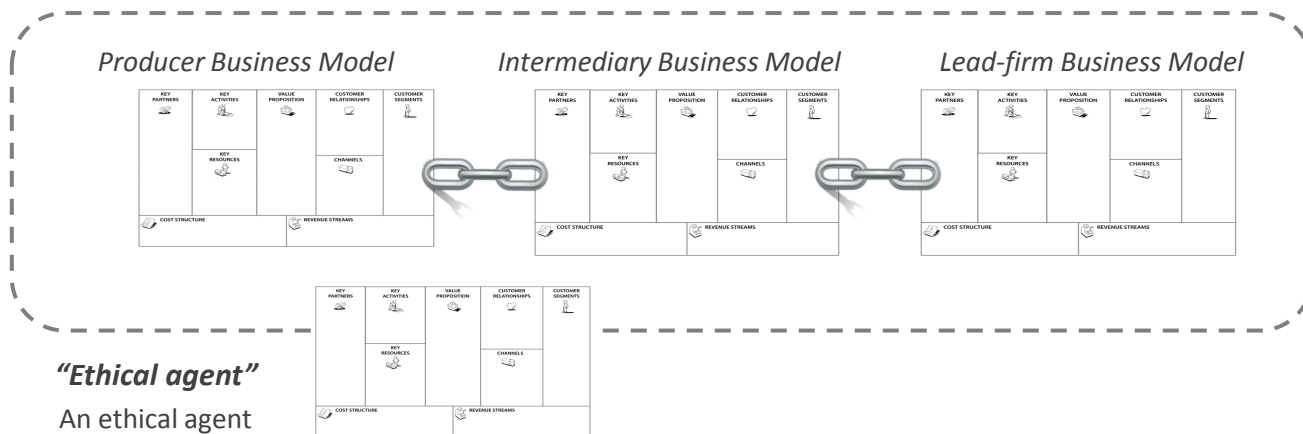
WHY?

Assure supply, safety and quality
Corporate social responsibility
License to operate

HOW?

- (1) Backward integration: 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 the 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 that may be necessary to supply to a more formalized and demanding buyer
- The agents and upstream chain actors need to develop a competitive product
- An effective ethical agent is creative in finding solutions to problems
- Ethical agents often add value without handing the product (e.g. resolving day-to-day issues, talking to actors regularly, meeting them face-to-face, and establishing critical) routines, tools and methodologies
- Ethical agents should have both, commercial and development skills
- An ethical agents is not the only supplementary actor needed in an inclusive business chain
- 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.

Towards more inclusive business alternatives

What are **incentives** for small holder inclusion?

What are **challenges** for small holder inclusion?

FOR SMALLHOLDER PRODUCERS

- Increased resilience (e.g. secure and stable markets provided by modern markets)
- Revenue growth stemming from increasing access to premiums for high quality, certified products and increased productivity thanks to better agricultural practices
- 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.

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

FOR BUSINESS SIDE
(intermediaries, lead firm)

- Through secured supply increase productivity, react to consumer's pressure, reduce operational/reputational risk.
- Brand differentiation, attract new customers
- Provide transparency and consistency of supply
- Take full advantage of processing facilities and sunk costs in 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 and 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

Towards more inclusive business alternatives

A KEY STRATEGY: ORGANIZATION OF PRODUCTION

The organization of production is crucial 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.

TYPE	DRIVERS	OBJECTIVES
PRODUCER-DRIVEN	Small scale producers themselves	New markets, Higher prices for products, Stabilize market position
	Large farmers	Extra supply volumes
INTERMEDIARY-DRIVEN	Processors, Wholesalers or Exporters	Assure supply Supply more discerning customers
LEAD FIRM-DRIVEN	Retail or consumer brand	Assure supply
ETHICAL AGENT-DRIVEN	NGO External consultant	Make markets work for the poor Regional development



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

LIMITATIONS

High transaction costs
Weak management capacity
Low-level customer information

BENEFITS

Reduced costs for quality and quantity verification
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

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

Certification program

STRATEGY

Coordination, information sharing, upgrading

LIMITATIONS

High license fee suitable for limited number of products
Recurrent costs
Favors producers with assets
Issue of dependence: Does not necessarily build technical capacity
Modest livelihood impacts

BENEFITS

Private sector investment in productivity
Improved management
Service provision
Improved information flow
Improved traceability
Facilitates measurement
Strong brand recognition
Potential gains in agricultural productivity & environmental mgt.

Towards smallholder inclusion

Possible strategies for intermediary-driven smallholder inclusion processes

Intermediary organizes production

STRATEGY

Professionalize through technical upgrading of production network

LIMITATIONS

Organizing direct procurement can have high transaction costs, mixed results, weak management capacity, high risk

BENEFITS

Efficiencies in the chain to benefit processing or retailing

Exporters directly contract with producers or out-growers

STRATEGY

Contracts

LIMITATIONS

Binding contracts when market prices exceed contract price
Low transparency
Weak management capacity
High risk
Little vertical linkages
Little incentive to innovate

BENEFITS

Contracts remove risk of periodic shortages and volatile prices

Global partnerships

STRATEGY

Partnerships with a more sophisticated global intermediary

LIMITATIONS

Inflexible operating procedures
Non-negotiable grades and standards
Lack of transactional transparency

BENEFITS

Logistical support
Increased efficiency
Incentives for product/process upgrading and technical services
Linkages to buyers
Market information

New generation intermediary

STRATEGY

Double-facing business model

LIMITATIONS:

Low flexibility, commercial viability, needs to remain cost and risk neutral

BENEFITS

Two-way flow of information
Certification with traceability
Institutional capacity development

Towards smallholder inclusion

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

Adaption of terms and/or standards

STRATEGY

Preferential procurement from small holders
Adapted procurement standards (smaller volumes, timely payment etc.)
Provision of monitoring systems to facilitate communication and measurement

LIMITATIONS

Can compromise bulk buying

BENEFITS

Easy to implement for lead firm

Lead firm organizes production

STRATEGY

From supply push to demand pull

LIMITATIONS

High transaction costs only justify a lead-firm organized production for high value products
Technically and logistically demanding

BENEFITS

Direct influence on production practices and on farm management
Potential access to high quality products that others cannot secure

Engagement with suppliers

STRATEGY

First-tier suppliers lead program development

LIMITATIONS

Must have low transaction costs
Must not compromise quality, safety, legality

BENEFITS

Assured supply
Easy to implement for the lead firm

CASE EXAMPLE: Intermediary-driven



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 its 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.

Lundy, M. (2007). New Forms of Collective Action by Small-Scale Growers. Input for the World Development Report 2008. Santiago, Chile: Rimisp. (<http://www.rimisp.org/getdoc.php?docid=9855>).

CASE EXAMPLE: Producer driven

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.

Lundy, 2007



CASE EXAMPLE: Ethical Agent-driven

Fresh flowers business in Kenya

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 processes 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:

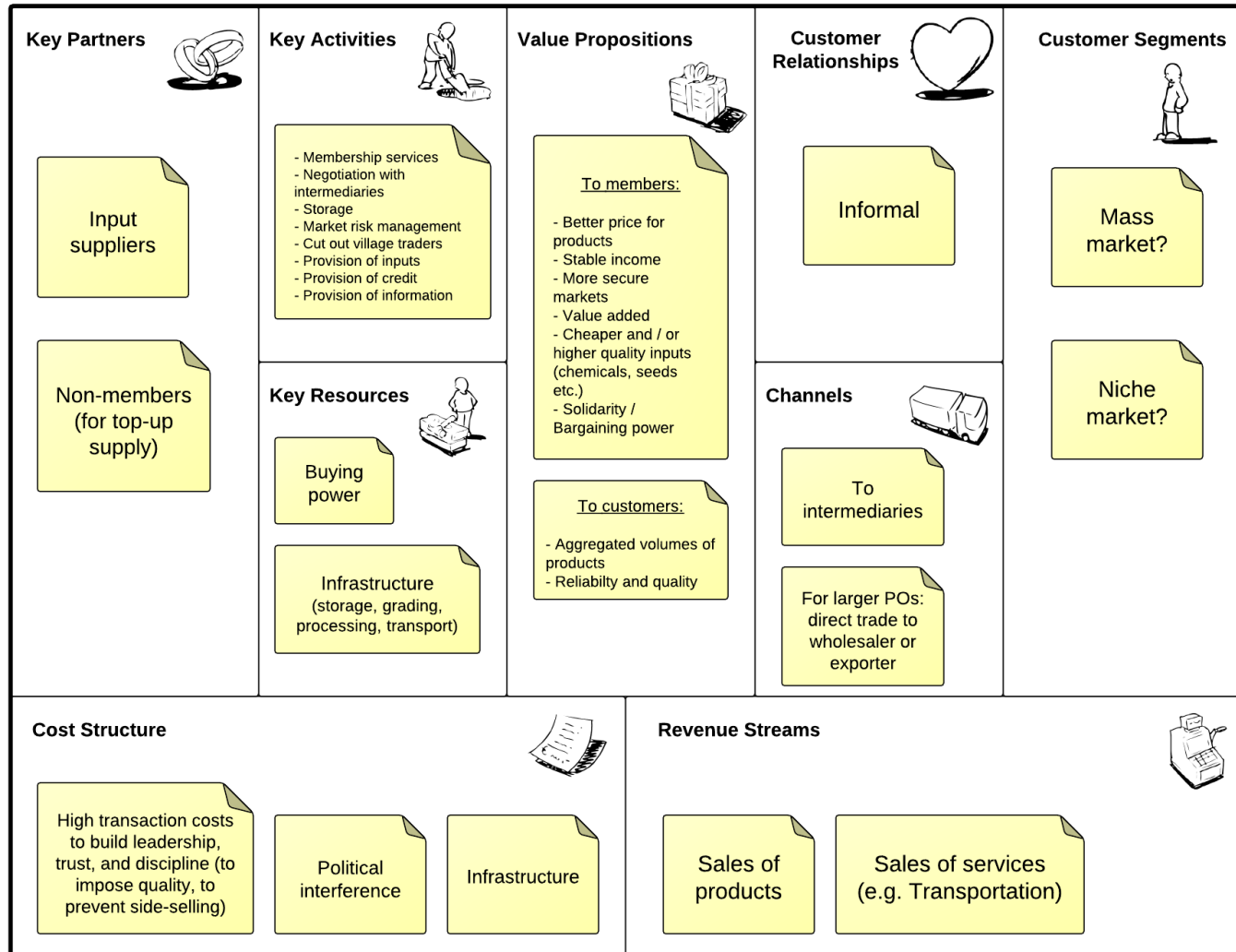
- Developing a unique product offer that was commercially viable and compatible with the smallholder-based business model of SME fairly sharing risks and rewards and reflecting the business models of each.
- Increasing the capacities of the SME to respond to the business model of the retailer, with a 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**

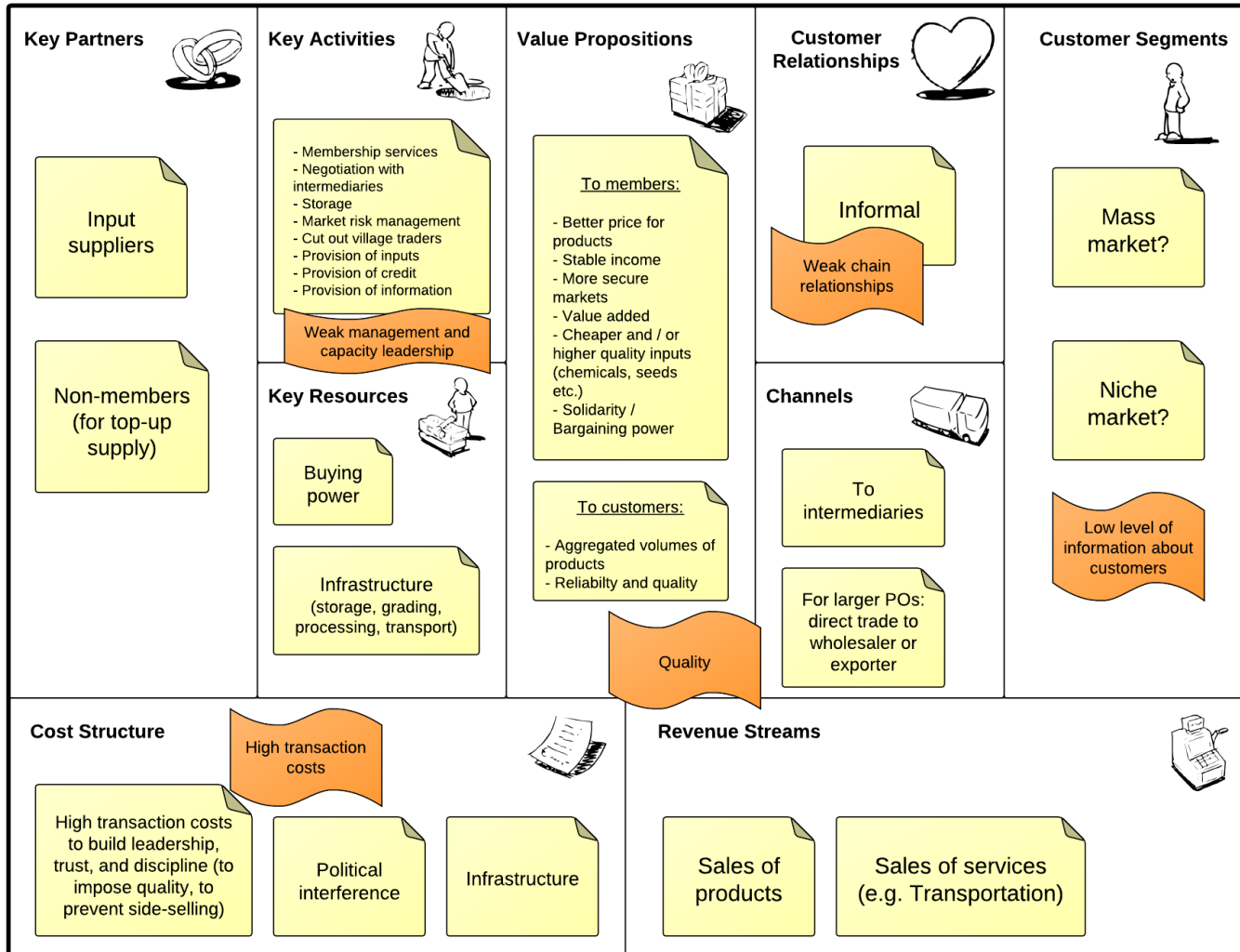
Procurement from small-scale producers is plagued by high **transaction costs**.

Related to demands of quality, safety, integrity, legality, reliability (incl. side-selling), standards for wage labour.

If not selling a standard bulk commodity, linking smallholders with modern markets will only work with **organised producers**

The majority of small-scale producers are **not formally organised** into economic units

Reasons small holders have difficulties in reaching formal markets



This approach is, however,

NOT A MAGIC BULLET...

- **IT COMPLEMENTS**, but does not replace, existing work on value chains, competitiveness and sub-sector development.
- It constitutes **an additional set of methods** and tools 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.



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