

Business models to enhance farmers' access to markets for high-value certified products.

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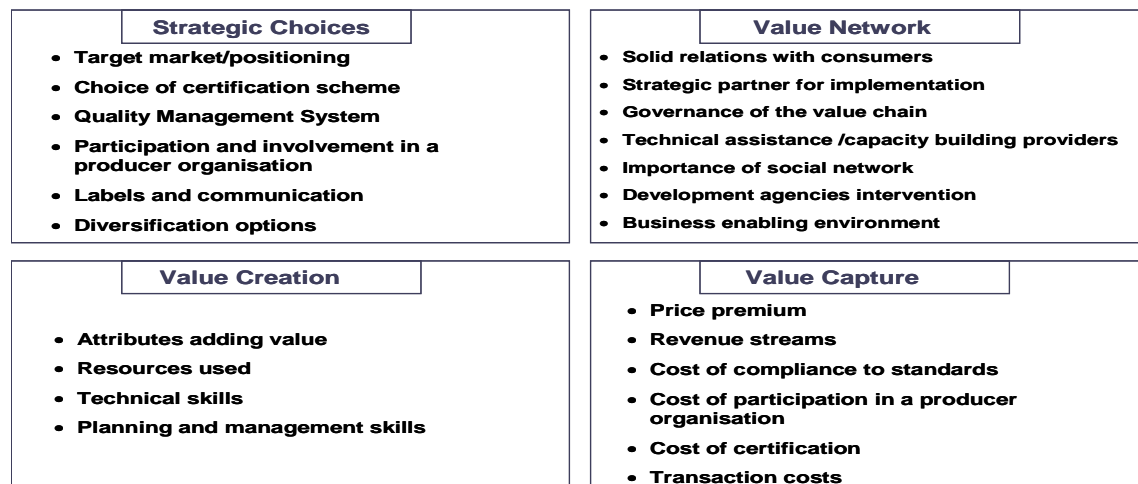
Focus area: Agribusiness strategies

Problem statement

High-Value Certified Products (HVCP) are agricultural and food products with specific quality attributes that might be certified under various schemes, such as organic production, good agricultural practices (GAP) and geographical indications (GI)¹, among other voluntary standards. Certification, as a guarantee of compliance with these standards, can facilitate the access of small farmers in developing countries to more lucrative markets. However, ensuring such compliance is challenging as it involves quality and safety assurance, brand complementation, product niche definition and shifts in chain coordination. In brief, it means changing the way farmers are doing business and calls for new models of producing and marketing high-value agricultural products.

Producers rarely see farming as a business, but in fact their agricultural activities can be approached through the frame of a Business Model (BM). A BM is a tool that can describe the way a business operates, looking at it through a certain framework composed of four building blocks, namely: i) strategic choices; ii) elements creating value; iii) value capture and income generation; and iv) actors and factors forming the value network around the farmers (see Figure 1). Markets for HVCP although lucrative, are more complex, thus requiring small farmers to adopt a more evolved BM.

Figure 1: A merged definition of BM adapted to small farmers entering HVCP markets:



Source: Own elaboration

¹ There are various legal tools for protecting origin-based products, but GIs in particular have been introduced as a regulatory tool within the trade-related aspects of intellectual property rights (TRIPS) agreement of the World Trade Organization.

Objectives

The Rural Infrastructure and Agro-Industries Division of FAO has conducted research on innovative BM and institutional arrangements in order to inform policy makers on how to enhance small farmers' access and permanence in differentiated markets that offer higher prices for HVCP. The present study has analysed and compared different experiences of farmers supplying markets for HVCP, taking as an example various case studies conducted by FAO on mainstream certification schemes, namely organic certification, GAP and GIs.

The focus on these certification schemes is justified by their growing economic importance on global markets and the opportunities they might offer to small farmers. The market for organic food has grown tremendously in the last decade, and it is now considered a global industry. In 2005, the market revenues for the organic food and drink products amounted to \$33.20 billion, with an annual market growth rate of 15.6%. GAP standards have risen in the past years, with the development of national GAP programmes (e.g. ChinaGAP, ChileGAP, KenyaGAP, VietnamGAP and MalaysiaGAP, among others) and the continued expansion of GlobalGAP, a private sector standard regarded as *de facto* mandatory in the European market and implemented in more than 80 countries. Likewise, an increased number of GIs has been registered in developing and emerging economies.

Procedures

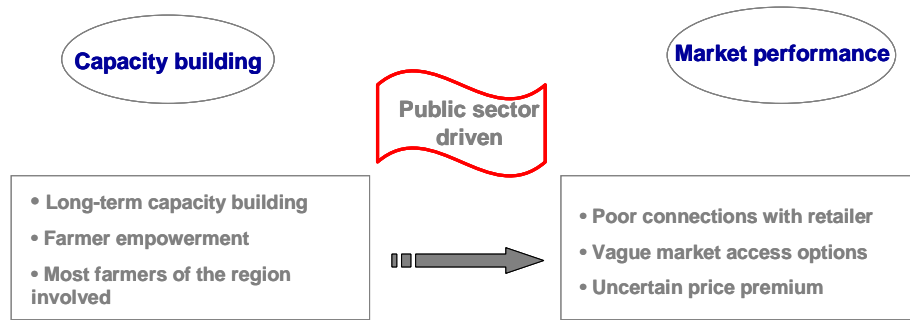
The paper opens with a review of the literature on the concept of BM. It puts forward an agreed definition and a conceptual framework for carrying out a comparative analysis of a selection of case studies on HVCP conducted by FAO. The case studies related to GAP certification refer to GAP national programmes developed in Kenya, Chile and Malaysia. The organic certification case studies focused mostly on the certification costs and managerial skills needed for farmers in developing countries. Finally, the GI case studies assessed the registration process of products with specific quality linked to origin in developing countries and its impacts on market access and rural development.

The comparative analysis of these case studies is organized around the four building blocks that form the framework illustrated in Figure 1, namely: i) strategic choices; ii) elements creating value; iii) value capture and income generation; and iv) actors and factors forming the value network around farmers.

Results

From the comparative analysis of the case studies, three main BM emerge. They differ in the actor driving the certification process, which in turn influences market performance and the approach to capacity building. The first model identifies a non-private entity as the initiator of the process, namely governmental bodies, international development agencies, non-governmental organizations (NGOs) and other institutions (See Figure 2). These public sector driven processes show efforts to provide long term capacity building, in that they tend to encourage farmer empowerment and try to include most farmers of a region in their project, so that the perspective is oriented toward long term development of farmers. However, performance on markets is more challenging as the connections with retailers are poor, market access is sometimes unrealistic and receiving a price premium is rarely assured.

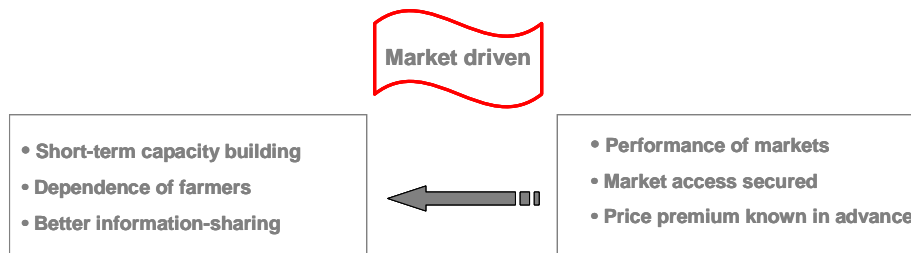
Figure 2: The public sector driven model



Source: Own elaboration

While in the second model, the process is driven by a private sector agent, such as processors, exporters or retailers (See Figure 3). In this model, it tends to function in the opposite way when the process is market driven and led by a company. The capacity building activities are centred on a particular set of skills relevant for the current project, farmers easily become dependant of the company and become more vulnerable when the company withdraws from the project, and information sharing is limited. On the other hand, the market access issues are more positive, as products reach their target market and maintain access to it (for the duration of the contract), and the price premium conditions are advantageous.

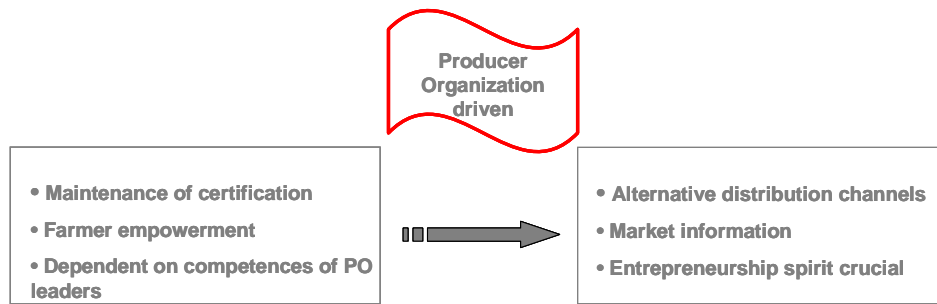
Figure 3: The market driven model



Source: Own elaboration.

The third model identifies producer organizations as drivers of a certification or registration process (See Figure 4). This model can have mixed results as the types and level of strength of producer organizations (POs) can vary to a great extent. When a PO drives a certification or registration process, the efficiency and performance of the organization among farmers is decisive for the BM, and the sustainability of the PO depends greatly on the degree of involvement and the organizational competences of its members. The main advantage of the model driven by a PO is its sustainability, as it usually takes the responsibility for maintaining the certificate with a long term perspective. In this model, farmers are usually more empowered. However, these systems rely mainly on a widespread network of producers already in place and an efficient management based on the leadership and initiative of a few, without which the model would not work.

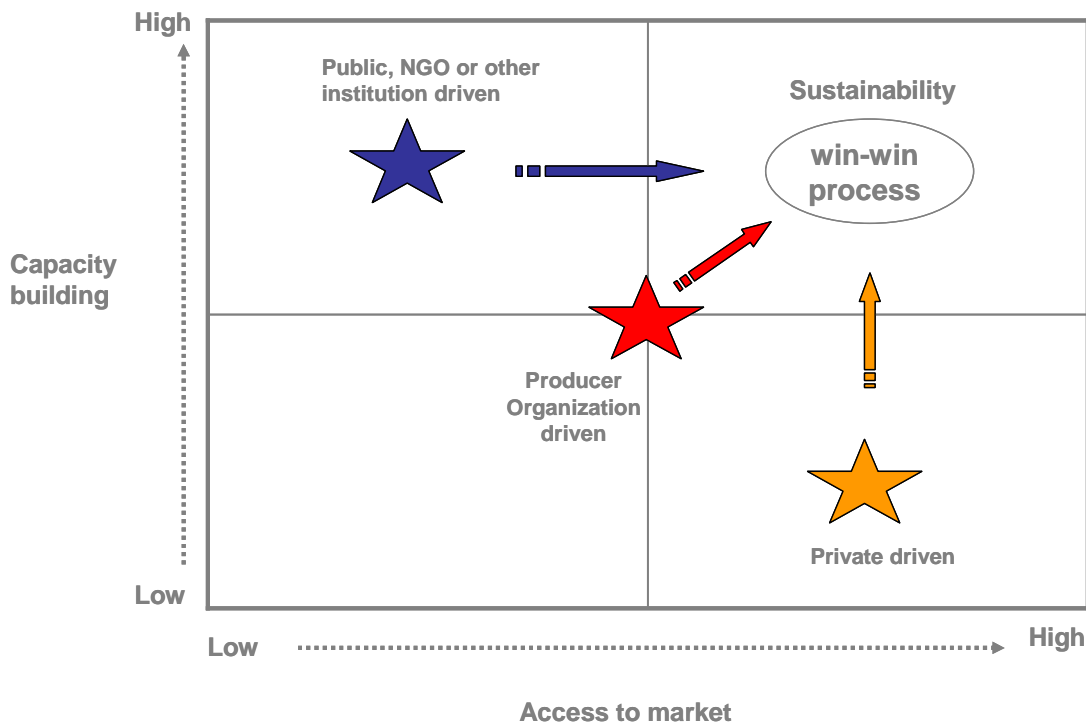
Figure 4: The producer organization driven model



Source: Own elaboration.

The characteristics of the three models are illustrated in Figure 5, a bi-dimensional matrix analysing capacity building and access to markets.

Figure 5: Matrix of the driver models



Source: Own elaboration.

Conclusions

The study concludes that the main challenge for stakeholders in HVCP chains is to reach a win-win situation based on these models, by achieving the right mix of public and private sector efforts to increase market performance, provide long-term capacity building and adequate certification control systems that ensure the sustainability of BM for small farmers.

The analysis of the case studies selected through the BM approach confirms that participation in markets for HVCP is, indeed, a suitable opportunity for farmers in developing countries. It also demonstrates that there are many common features across the three certification schemes, and that certain common success factors can be distinguished from the conceptual framework. Key strategic elements to formulate supportive policy to enhance small producers' participation in BM for markets for HVCP are highlighted below:

Strategic choice

- **Identifying a clear target market.** As the target market determines the type of standards and certification scheme to comply with, a market study is the entry point for the BM.
- **Performing producer organization.** In order to ensure sustainability of the BM in terms of income generation and lasting certification, enhancing organizational and managerial skills of the PO becomes relevant
- **Owning certification.** Although private-sector driven BMs have proved to be successful, increased ownership of the certification schemes by the PO will allow them to diversify market opportunities and reduce market risk. Further organizational, financial and business skills are needed to be in place.
- **Implementing sustainable quality management and control system (QM&CS).** Related to the above, a well established QM&CS remains as the basic requirement to get certification ownership and reduce marketing risk.
- **Better understanding and appropriation of standards.** Another key element in appropriating certification and the market linkages related is the understanding of the underlying principles behind the standards that need to be in place to avoid inefficiencies and non-conformity. Establishing and updating capacity building activities in this matter becomes fundamental.
- **Direct market promotion.** The participation in fairs, markets and contests provide producers opportunities to better understand consumers' preferences and market trends. To reach such participation, marketing skills of POs need to be enhanced.
- **Market diversification.** Associated to the previous point, producers may be linked to other market segments like agro-industry, tourism and consumers' networking in order to diversify their income generating activities. To reach such broader market opportunities, greater organisational structures and managerial skills are required.

Value Creation

- **Sustainable capacity building.** Achieving and maintaining certification could be problematic by producers, therefore capacity need to be built to sustain the certification system in the long-run. Either from the public or private sector, this capacity building required to be designed as a continuous learning process.
- **Clear understanding of adding-value attributes.** When targeting specific high-value product markets, producers must be aware of the specific attributes that add value and differentiate their products. Awareness raising campaigns for producers and consumers would help when building this understanding.

Value Capture encouragement

- **Capturing the adding value.** If producers are prompted to embark upon a certification process in order to get a price premium, a clear market linkage with buyers needs to be set-up in advance. Contract farming has been a mechanism to ensure transparent business linkages, when a mature relationship exists between sellers and buyers.
- **Cost-reduction through group certification options.** Group certification has proved to be a suitable option to reduce certification costs, in circumstances when producers are

well organized. Therefore an efficient organisation will be better positioned to reduce its own certification costs.

- **Understanding of cost-benefit.** If producers were aware of the real certification costs, they will be able to take better decision in managing their BM. Therefore, better understanding of cost-benefit ratio is required in building producers capabilities.

Value Network

- **Accessing market information.** Market information including for the certification requirements is another key element in improving negotiation skills of farmers. Public or private available market information systems would empower producers in the market place.
- **Encouraging participatory certification process.** Involving producers and other value chain stakeholders in the definition of certification procedures has proved to increase producers' confidence, skills and in general bargaining capabilities. GI, organic and GAP national schemes allowed this possibility, however the initiative should be generated by the producers' organization.
- **Linking with strategic partners.** Implementing win-win schemes with socially responsible business partners has shown to be advantageous for producers in many circumstances. Enabling environment that support this type of BM are required to increase partners confidence in terms of regulations, contract farming systems, market information flows, among others factors.