Building inclusive value chains

Helping producers at the base of the economic pyramid to access supermarket value chains

Agricultural value chains in Bangladesh, as in many countries, are complex, with a number of channels through which product travels from the farmer to the consumer, and a variety of different organisations in the value chain.

This document aims to provide some suggestions for organisations that act as market facilitators with the aim of helping bottom of the pyramid (BOP) fresh producers to access the supply chains of supermarkets. These market facilitators are not themselves for-profit actors in the value chain. They are usually NGOs or donor funded projects.

The suggestions are the result of a Business Innovation Facility (BIF) project, which investigated the capabilities of small to medium enterprises (SMEs) supplying perishable food products to a well-known supermarket chain in Bangladesh. SMEs were assessed against a set of criteria which reflected the requirements of both the supermarket chain and the actions necessary to create and improve opportunities for low income groups such as producers and employees.

Insights from the project mainly focussed on the relationship between the SMEs and the supermarket; however a number of lessons were also learned about interactions between BOP producers and their customers (the SME suppliers and the supermarket chain itself). The objective is for organisations to use some of these lessons when educating BOP producers, to encourage them to take action, adapt their own processes and/or products and, ultimately, be successful in securing business from these more formal organisations in the value chain.
The document focuses on three main areas of supermarket supply chains:

1. **Demand in the market** – This section outlines the importance of understanding the demand in the market for the product. Producers should get to know their customers and not assume that they know what they want. There are many examples of situations where money or effort has been wasted, because it was invested in the wrong thing.

2. **Farmers’ ability to supply** – The examples in this section focus on the producer themselves, and draw from the requirements and challenges identified on the Business Innovation Facility project. The objective of these lessons is to educate the producer on what they can change in their own business, to make them more attractive to the customers along the value chain.

3. **Getting the product to market** – This section suggests some areas where it could be useful to educate producers on the path that their product takes once it leaves their hands.

The following is a sample value chain from Bangladesh:

- **Farmer**
- **Middle man**
- **Local/Reginal market/bazaar/cold storage**
- **Trader**
- **Dhaka: Wholesale market**
- **Middle man**
- **SME supplier**
- **SME supplier as a farmer**
- **Supermarket**
- **Consumer**
- **Bazaar/Street vendors**
- **Consumer**
The term ‘value chain’ and ‘supply chain’ refer to the same thing, although for this paper ‘value chain’ is used to mean all of the channels through which consumers access fresh produce, and ‘supply chain’ is only the elements of the value chain which supply produce to the supermarket.

Feedback from the Business Innovation Facility project indicated that producers are not sufficiently aware of the entire value chain, nor many links in the chain beyond their own immediate buyers. Market facilitators can educate farmers about the way that supply chains work and their main features.

One of the main features of supermarket supply chains that market facilitators and farmers should be aware of is that the vast majority of supermarkets buy their fresh product from other companies. In Bangladesh these are usually SMEs, and these companies are referred to ‘SME suppliers’.

Some other important features that have been observed of these value chains are:
- Complex, multi-level supply chains with many routes for products to reach destination
- Lack of market transparency and of long term contracting or vertical integration
- Harmful chemicals and preservatives used at all levels of supply chain e.g. Formalin in fish, Calcium Carbide and ethylene in fruit, with no education on the harmful impacts of using these chemicals
- Insufficient quality control in the supply chain
- Limited sources of information for farmers
- Few farmers’ associations and a lack of collaboration between farmers
- Lacking infrastructure for harvesting, transportation, storage, and deteriorating road and rail networks
- Little awareness of supply chain best practices resulting in waste

1. Demand for the products in the market

There are several different components that make up the demand for a producer’s product.

The consumer
Producers should be aware of the demand for their current product (or a new one depending on the situation). There is a benefit from the farmer being part of these conversations first hand, as it would help them to build a picture of who they are actually supplying to at the end of the value chain.

An example of how consumer research could affect farmers is the size of vegetable preferred by consumers. Consumers have preferred a larger type of a certain type of vegetable as it had a better texture and taste. Not only was this preferred by consumers, but the retailer paid a premium, as they knew that the larger vegetable had a better chance of selling than the smaller ones. Being aware of this would be value to producers in a formal value chain. Other areas which could affect demand could be appropriate packaging, portion size, taste and colour.

The supermarket
Whilst the supermarket retailer is far removed from the small farmer, they ultimately dictate the demand requirements in the supply chain,
along with ultimate consumer. The requirements that they place on their SME suppliers will have a direct effect on the requirements placed on the BOP producer. Understanding this is extremely important in order to be successful in the value chain and provide relevant and attractive products and services.

From the experience on the Business Innovation Facility project, there are some specific ‘focus areas’ that a retailer is looking for from its suppliers and its products. Retailers want to be able to buy sufficient volumes of fresh produce and also be flexible on their demand at the last minute. Producers and suppliers need to have the flexibility to scale up and down at short notice and also the capacity to support consistently increasing orders, as the supermarkets continue to grow. There is also a focus on quality of products, and this will vary in detail depending on the brand and focus of the supermarket. Some supermarkets focus on high quality, premium products with a goal of supplying high quality products or products with a price premium such as organically produced food. Farmers who are able to provide products that are of better quality than that available in bazaars at a competitive price are generally seen as attractive.

“Quality” for the retailer means, at a minimum, no harmful chemicals, or harmful levels of chemicals used on the products. Alongside this is the ability to prove that this is the case.

Other ‘requirements’ that are seen as particularly important are the ability to trace products right back to their source and transparency at every level of the supply chain. A producer should be able to tell their customer where all of their inputs have come from. Production should also be safe and hygienic. The presence or absence of these basic requirements will have a big effect on whether a producer can participate in supermarket supply chains or not.

Understanding the supermarket’s product portfolio and position in the market will be a guide as to how easy or difficult it is going to be to tap into a particular value chain.

Producers may also benefit from understanding how the supermarket chooses the SMEs that supply its products. A ‘cluster approach’ is becoming more popular, where a supermarket chooses two suppliers per product per store from the nearby area (e.g. a 5km radius). This may have implications for the producer on where they locate and how they will work with the SME suppliers as well. Supermarkets are also more frequently using farmers’ associations, as a way to source from farmers directly.

**The SME Supplier**

The most immediate customer to the producer that makes up the ‘demand market’ is the SME supplier. In many cases, there are multiple layers between the producer and the SME supplier. However, moving towards a shorter chain between the farmer and the SME supplier will increase the transparency of the supply chain, which is an important requirement from the retailer. It will also improve the situation for the producer as a smaller amount of the product value is taken out by ‘middle men’.

A more direct link to the SME supplier means a bigger say in the price of the product, and the opportunity to be nearer to the information required to make good decisions about what price to sell product, compared with a multi-echelon supply chain, where BOP producers rely on middle men who are prone to providing inaccurate information on market price to achieve bigger margins.

In order to start and continue to work effectively with these SME suppliers, it is essential to understand them. They are looking for suppliers who

---

**HELPFUL TIP**

Educate farmers on the tools and techniques to use to both avoid these chemicals and prove that they have not been used. Support producers by sourcing appropriate testing kits and helping producers to market their beneficial processes to customers.

---

**HELPFUL TIP**

Help producers to look at their own processes and products and identify what can be adapted to make them more relevant to the supermarket that they seek to supply to. Then support producers to market these ‘benefits’ to their own direct customers, probably the supermarket’s SME supplier.

---

**HELPFUL TIP**

Support small farmers to have effective conversations with SME suppliers. Organisations could play a role in setting up meetings, locating suppliers, coaching producers on how to have conversations and what to say, accompanying meetings and providing feedback afterwards.
they can rely on. They value practical experience and a focus on long-term trustworthy relationships. Their buying decisions are driven by what their customer requires of them, so quality, on-time delivery, appropriate temperature control of products throughout the entire value chain, ethical production and many other factors count, as well as price.

In terms of understanding SME suppliers, it may also be useful for producers to know where suppliers are located. Many are located within bazaars where rent is cheap and they are in the centre of the demand market. Others with their own premises are located on the outskirts of Dhaka. Depending on the product, some may locate near rivers or the coast (fish SMEs for instance).

As well as understanding requirements, it’s also important for BOP producers to be aware of the challenges that SME suppliers face in doing their own business. If producers can support SME suppliers in overcoming these challenges, they may have a greater chance of establishing business relationships and continuing them. For example, application of basic hygiene principles and more sophisticated product packing and handling can help to reduce waste and improve acceptance. Quality checking is often not carried out frequently enough, or not in all products and only for very few of the chemicals than can cause safety issues.

Payments from the supermarket to the SME supplier can often be delayed or incomplete. There are a variety of reasons for this and the severity of the issue differs considerably from retailer to retailer. Understanding that this is sometimes an issue, and being able to be flexible and considerate at these times, could enforce a positive relationship between the farmer and the SME supplier, and be a ‘selling point’ when trying to establish new relationships.

Longer-term volume and price agreements between BOP producers and SME suppliers can be very helpful to both (contract farming).

**Market trends**

As an overall consideration for BOP producers, knowing the trends in the market can help to farmers to improve current processes and plan for the future.

Supermarkets in Bangladesh are growing. All are at very different stages, with some having initial plans and others being in the middle of executing their growth strategy. Whilst for some of the more established supermarkets, there could be limited opportunities (the supply chain is already set up and working well to enable the growth), others who are in the earlier stages, will have excellent opportunities for the right producer who can demonstrate some of the requirements outlined above.

With growth in mind, supermarkets are also gearing up their own SME suppliers to be able to supply volume – which also has an impact on the producer.

Some quality focussed retailers aspire to sell ‘organic’ products, but even the most advanced are not there yet and are still trying to sort out the basics of providing quality produce.

The consumer is tending to move away from shopping in bazaars, and the supermarket is providing a more sophisticated experience – linking superior products to this strategy.

Retailers are starting to see the benefits of sourcing direct from the farmer and are setting up contract farming for some products. They are also using farmers’ associations / trading points as a way to tap into BOP producers.
2. Farmer’s ability to supply

Farmers can translate information about market demand into practical actions. For example – if it has been discovered that consumers do not like to buy large tomatoes – what does that mean for the farm? Is it about changing the seed type, altering the process to plant or harvest at a different time of year? What impact does that have on the amount of land that is used? Will the packaging farmers use have to change? Do farmers need to be trained to produce differently?

Basic business skills are also important for farmers seeking to access supermarket supply chains. SME suppliers place a lot of importance on trustworthy and honest relationships. For example; an organisation could create a scenario where an SME supplier has to choose between going into business with two BOP producers. One has had a long term track record of supplying on time, and has received the same price for their product each week. The second supplier also has a long track record of supplying, however last week he sold his product to a middle man at a higher price. The SME supplier has decided to continue business with the first supplier, and now the second supplier has lost his contract. This ‘side selling’ happens regularly, and suppliers can be ‘blacklisted’ for over a year by a retailer if they are caught doing this.

In order to be successful in formal value chains, it is important that producers are not vulnerable. One way in which they are extremely vulnerable is that they struggle to access information. They often rely on middle men to provide market information which is unreliable. Another way is to link producers with farmers’ associations or agricultural extension officers who can provide impartial information. No access to technology, often illiterate producers and incredibly complex supply chains make this a particularly difficult challenge.

Producers can also improve their ability to make educated decisions on fair price. Feedback from the BIF project indicated that even at SME level, where business skills are generally more advanced than at the BOP producer level – there was very little appreciation of costs and how this impacted profit. Often, SMEs recorded daily revenues, and some documented various costs. These were rarely tallied to understand the profit margin.

SME suppliers, as well as the retailers, are keen to work with producers who are protected against risk. A producer who can show that precautions have been taken to protect against risks such as extreme weather, illness and theft will be a more attractive option than a producer who may fail to supply product in the event of a disaster or emergency.

SME suppliers are encouraged by retailers to invest in their BOP producers to support them in up-skilling and providing the right products and services. Many suppliers do this, in the form of practical education on how to avoid using pesticides (using natural sources instead), prolonging shelf life, improved packaging and transportation. Often the SME suppliers have come from a background of being a BOP producer themselves, and have a wealth of practical and ‘technical’ experience.

HELPFUL TIP

Help farmers to identify new crops or varieties that are in demand and help them to understand changes required in their production system.

HELPFUL TIP

Educate producers on how their actions and business decisions can affect their acceptance in value chains. Illustrate that long term value is much more important than short term gain.

HELPFUL TIP

Work with retailers to organise ‘mic-ing’, which is the process of going into villages where farmers operate and making announcements about market price to ensure that the price that farmers are being paid is fair. This is currently done well at at least one well known non-food retailer in Bangladesh.

HELPFUL TIP

Provide basic tools to farmers to help them to calculate their break even points, so that producers are aware of what is an acceptable price for their product from a business perspective as opposed to what is prevailing in the market.

HELPFUL TIP

Encourage BOP producers to request help and learn from SME suppliers, or directly facilitate these learning opportunities between producers and suppliers.
3. Getting the product to market

Feedback from the Business Innovation Facility project indicated that producers are often not sufficiently aware of the entire value chain, nor many steps beyond their own immediate transaction and one or two beyond that. It is helpful to farmers to understand key features of the supply chain:

- Harmful chemicals and preservatives used at all levels of the supply chain e.g. Formalin in fish, Calcium Carbide and ethylene in fruit, and the negative impacts of using these chemicals
- The need for quality control in the supply chain
- Best practice in the supply chain that can reduce waste.

*HELPFUL TIP*

Ensure that farmers understand the different steps that the product will go through to get from (as an example) a living animal to prepared cuts of meat on the supermarket shelf.

Illustrate the time it takes at each stage of the chain, so that farmers are aware of lead times, and why they are required to supply at a certain time.

Encourage producers to think about the product lifecycle and the impact that their own business processes have on the ultimate shelf life of their product.

Conclusion – a final word from the authors…

“During the period when we were first developing a pipeline of projects for the Business Innovation Facility, we met a number of NGO representatives who related their experiences of supporting poor farmers in Bangladesh. Several different people had the same experience when attempting to create market linkages between the farmers and our client, the supermarket chain. They reported encouraging meetings with the supermarket staff, but then no subsequent progress or later sales.

Working with our client we began to understand some of the reasons why the NGOs had failed. Most obviously, they would have been better off having these discussion with the SME supplier who actually buy fresh produce and then supply the supermarket, not the supermarket itself which does not procure direct. ‘We hope it has been useful to share this and the other lessons described in this paper.’”
Additional resources:

In order to help companies implement strategies to strengthen the capabilities of their supplier, the Business Innovation Facility has produced further information and tools. They have been generated from real-life experience and work on a project with a well-known supermarket chain in Bangladesh. They can all be found at: http://bit.ly/building-supplier-capability

They include:

Supplier Capability Building Tool:
- Easy to use, excel tool
- Guidance – how to use the tool
- Guidance on communicating your plans to your suppliers
- Template for results/scoring
- Template for reporting results

Checklist: From Farmer to Supermarket – this Checklist looks at three areas – demand, supply and process – where producers can take action and adapt their own processes and/or products so that they successfully secure and maintain business from supermarkets. It is aimed at the producers themselves, and also at the NGOs and other organisations who support them.

Spotlight: Building supply chain capability: The benefits
This Spotlight outlines the benefits of building supply chains capability – to the company, the supplier and the wider community.

For more general information on inclusive supply chains go to the ‘know how’ section on the Practitioner Hub on Inclusive Business: http://businessinnovationfacility.org/page/know-how-inclusive-supply-chains

About the authors:

Tom Harrison is a member of the international team that is delivering the Business Innovation Facility. He has worked closely with the Country Manager and Business Innovation Facility consultants in Bangladesh to develop and deliver a pipeline of projects.

Emma Wardle is a management consultant at Accenture. She worked with Agora in Bangladesh from November 2011 to February 2012 as part of the Business Innovation Facility support for this project. Emma has in-depth experience in change management, training, stakeholder engagement, capability and impact assessment.

Accenture Development Partnerships is a group within Accenture designed to operate on a not-for-profit basis to channel Accenture's strategic business, technology and project management expertise to organizations in the international development sector – helping these organizations achieve their social and economic development goals. It is part of the management alliance for the Business Innovation Facility. Accenture Development Partnerships: www.accenture.com/adp.

The Business Innovation Facility supports companies as they develop and implement inclusive businesses. Inclusive business is profitable, core business activity that also expands opportunities for people at the base of the economic pyramid: either as producers, suppliers, employees, distributors, or consumers of affordable goods and services.

For further information and to join the discussion on inclusive business, go to: Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

The Business Innovation Facility (BIF) is a pilot project funded by the UK Department for International Development (DFID). It is managed for DFID by PricewaterhouseCoopers LLP in alliance with the International Business Leaders Forum and Accenture Development Partnerships. It works in collaboration with Imani Development, Intellecap, Renaissance Consultants Ltd, The Convention on Business Integrity and Challenges Worldwide.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP and the other entities managing BIF (as listed above) do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. The views presented in this publication are those of the author(s) and do not necessarily represent the views of BIF, its managers, funders or project partners.

We welcome feedback on our publications – please contact us at enquiries@businessinnovationfacility.org