

BUSINESS MODELS to Enhance Farmers' Access to Markets for High-Value Certified Products

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Background

Aim of the study: comparative appraisal of business models (BM) that enhance small-scale farmers' inclusiveness in 3 markets for high-value certified products (HVCP) with specific quality attributes.

Methodology: Literature review on the definition of BM, case study review, and elaboration of conceptual framework.

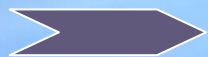
3 markets under study, covering 3 regions:

- Organic certified products (*6 cases*)
- Good Agricultural Practices (GAP) certified products (*3 cases*)
- Products with geographical indication (*8 cases*)

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Defining the concept

- A hard to define concept
- A definition coming from the private sector: e-business
- Two authors finally reaching consensus: Shafer et al (2005) & Osterwalder (2002)
- A proposal for definition:



A Business Model is a tool describing the way a business operates, through a conceptual framework, including:

- **Strategic Choices: marketing and structural**
- **Value Network: network of partners**
- **Creation of Value: assets and social capital**
- **Capture of Value: financial aspects**

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The hypothesis

- Participation in markets for HVCP represents a good income generation opportunity for small farmers. However, in order for them to access these markets, there is a need for specific BM.
- These BM may be different for each certified product, but they have points in common. It is possible to learn from each BM in order to identify success factors at the farmer level.

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Conceptual framework

Strategic Choices

- Target market/positioning
- Choice of certification scheme
- Quality Management System
- Participation and involvement in a producer organisation
- Labels and communication
- Diversification options

Value Network

- Solid relations with consumers
- Strategic partner for implementation
- Governance of the value chain
- Technical assistance /capacity building providers
- Importance of social network
- Development agencies intervention
- Business enabling environment

Value Creation

- Attributes adding value
- Resources used
- Technical skills
- Planning and management skills

Value Capture

- Price premium
- Revenue streams
- Cost of compliance to standards
- Cost of participation in a producer organisation
- Cost of certification
- Transaction costs

Lemon of Pica, Chile

Strategic Choices

- **Target market:** preparation of cocktails, restaurants, bars and hotels in Santiago and other large urban areas
- **Competition:** cheaper “imitations” in supermarkets
- **Certification scheme:** Applying for a Denomination of Origin.
- **Producer organisation:** 1 cooperative representing 1/3 of production is the primary beneficiary of the project. The other producers are left out of the process for now.
- **Label:** private logo developed by the cooperative.
- **Diversification options:** other fruits sold undifferentiated in regional market, Iquique.

Value Network

- **Customer info:** market study undertaken by project leaders.
- **Governance:** supermarkets make producers compete on price, overlooking the difference in quality. The new direct channel set up by the cooperative members provides better prices and better bargaining power.
- **Strategic partner:** Development project led by Spanish Development Agency and partners and financed by Fundación para la Innovación Agraria.
- **Capacity building:** organisation of the cooperative, setting up of the trade centre and new distribution channel.
- **Enabling environment:** Civil action only to protect a product from imitation. No legal framework for control and sanction.

Value Creation

- **Attributes adding value:** climatic conditions of the oasis and traditional know-how of producers.
- **Resources used:** depending on level of mechanisation of production.
- **Technical skills:** different levels of production systems, traditional and mechanised
- **Planning and management skills:** Poor, even for coop members. Threat to sustainability according to producers themselves.

Value Capture

- **Price premium:** increased selling price in Santiago due to the recognition of the premium quality
- **Revenue streams:** only for members of the cooperative, selling in Santiago
- **Costs:** for certification and compliance to standards are not available
- **Transaction costs:** higher for members of the cooperative, due to new marketing channel that they have established themselves

Chivito (baby goat) Criollo del Norte Neuquino, Argentina

Strategic Choices

- Target market: local market, but extending to neighbouring regions with tourism potential
- Certification scheme: Applying for a Denomination of Origin, following a participatory process/ protocol based on current resources. ICS + eventually third party certification.
- % of production sold certified: only cooperative members
- **Producer organisation: no formal organization exists**
- Promotion: logo design contest in local schools, fairs and cultural events
- Diversification options: cashmere wool (unexplored potential)

Value Network

- Customer info: information-sharing between producers and marketing intermediaries enhanced through participatory process .
- Governance: local retailers can play a role in promoting the product as high-value. Some retailers have started to differentiate the meat based on origin.
- **Strategic partner: INTA and marketing intermediaries involved in certification process.**
- Capacity building providers: local institutions; further support needed.
- Enabling environment: Poor support for regulation, protection and implementation.

Value Creation

- Attributes adding value: Specific breed of goat, and specific breeding conditions, such as seasonal migration. Cashmere wool. Only artisanal production allowed.
- **Resources used: family labour, ancestral know-how.**
- Technical skills: traditional know-how is crucial and well managed by producers
- Planning and management skills: very poor.

Value Capture

- Price premium: none achieved so far.
- Revenue streams: unknown; new activities not yet in place.
- Costs: certification and compliance costs not available, but should be reasonable as the standards were set by the producers themselves
- **Transaction costs: investment for upgrading logistics needed**

Queso (Cheese)Turrialba, Costa Rica

Strategic Choices

- Target market: National market, urban hubs and supermarkets.
- **Competition: Risk of becoming a generic name. External attempts to register the name.**
- Certification scheme: Applying for a Denomination of Origin. Participatory process through workshops.
- Producer organisation: ASOPRAO will present the DO application. Committee of producers and local representatives responsible for managing and controlling the DO.
- Promotion: Fair (Feria del Queso Turrialba)
- Diversification options: link with agritourism (through a regional development project)

Value Network

- Customer info: Market study as part of initial research
- **Strategic partner: Study initiated by CNP to develop a GI. Interest from local municipalities.**
- Capacity building providers: local institutions; further support needed
- Enabling environment: The CNP commissioned a study as part of the public sector's will to develop GI.

Value Creation

- Attributes adding value: Widespread consumption. Traditional production system (100 years old).
- **Resources used: family labour, pastures available all year round, ancestral know-how.**
- Technical skills: Implementation of quality and safety measures for processing the product. Need to improve quality control skills

Value Capture

- Price premium: Study suggests a price increase driven by higher costs, not market expectations.
- **Costs: for compliance with quality and safety systems**

Coffee of Colombia

Strategic Choices

- **Target market: Export market. Current markets, where image building was invested: USA, Japan and Europe**
- **Competition: Bad quality imitations risking to damage the global reputation.**
- **Certification scheme: Denomination of Origin. FNC partnered with Government to register the name and protect it internationally.**
- **Producer organisation: FNC. National Federation of producers.**
- **Branding: Juan Valdez, own brand stores, logo and affiliation with roasters.**
- **Diversification options: Potential link with agritourism (UNESCO Cultural Landscape), and other certification schemes (Fair-trade, organic)**

Value Network

- **Customer info: worldwide market study commissioned by FNC.**
- **Governance: The initiative can be considered as an attempt to turn around the bargaining synergies. The FNC seems to be well connected.**
- **Strategic partner: FNC and its network of cooperatives acting locally. In place for 80 years. Partnerships with the governmental institution for Intellectual Property, CENICAFE.**
- **Enabling environment: government support.**

Value Creation

- **Attributes adding value: The quality of the product and traditional know-how. A National Federation keeping up with consumer trends around the world (Special quality programmes).**
- **Resources used: family labour, hand-picking part of the specifications. Tight control of quality by FNC.**

Value Capture

- **Price premium: Higher rates on world markets: bonus. Price premium in Juan Valdez shops.**
- **Costs: certification and compliance costs are not available, but should be reasonable as standards were set by the producers themselves, taking into account traditional methods.**

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Success factors

- Market clearly identified
- Having well organized producers is key for sustainability

Strategic choices

Create value

- Capacity building for managing the GI in the long run
- Incorporation of new quality systems to increase chance of successful market access

- Involvement of marketing intermediaries and retailers in the process
- Participatory process
- Institutional support at all levels

Value Network

Capture value

- Group certification and other cost-efficient schemes

Public sector

- Long-term capacity building
- Farmer empowerment
- Most farmers of the region involved

Public sector driven

Private sector

- Poor connections with retailer
- Vague market access options
- Uncertain price premium



- Short-term capacity building
- Dependence of farmers
- Limited information-sharing

Capacity building

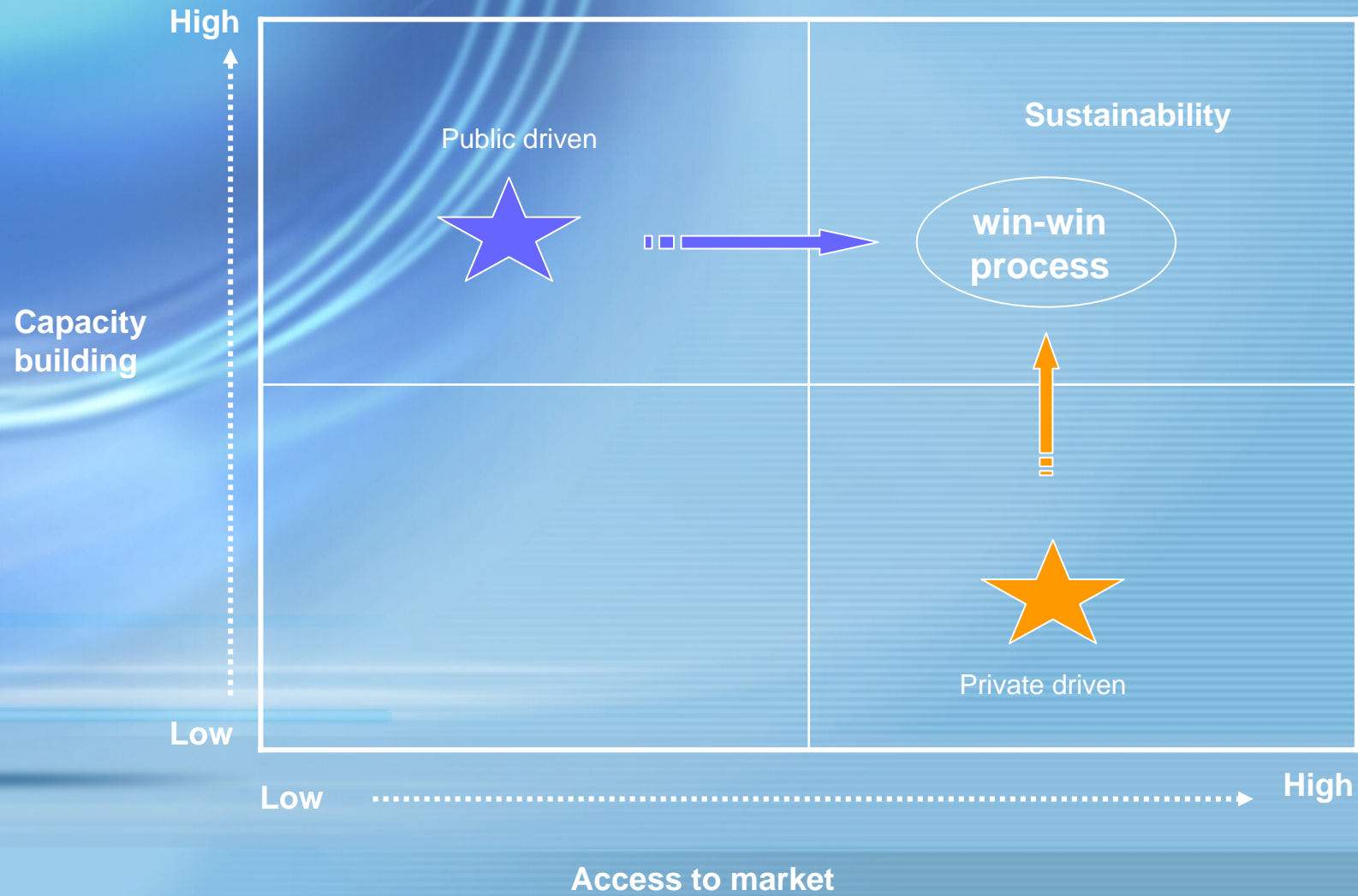
Market driven

- Performance of markets
- Market access secured
- Price premium known in advance

Market performance



Drivers for the certification process



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Question for debate

How to get the right mix of public and private sector efforts to achieve:

- Long-term capacity building
- Farmer empowerment
- Information-sharing
- Supply-driven

FARMERS

- Performance on markets
- Price premium
- Income redistribution
- Bargaining power

Capacity building

Auto-control/ Verification/Innovations

Market performance

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Thank you !!!!!