

SUNRISE

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www.oxfam.org.uk/sunrise

Sunrise



Intro and background

- **Research and thinking on what a lead firm can do to achieve better livelihoods for smallholder farmers**
- **What the above means for putting together guidance for procurement operations on sourcing from smallholders and engaging suppliers on this**

Goal

The goal of Sunrise is to learn how to do business with smallholders in a way that it improves their livelihoods

Objectives

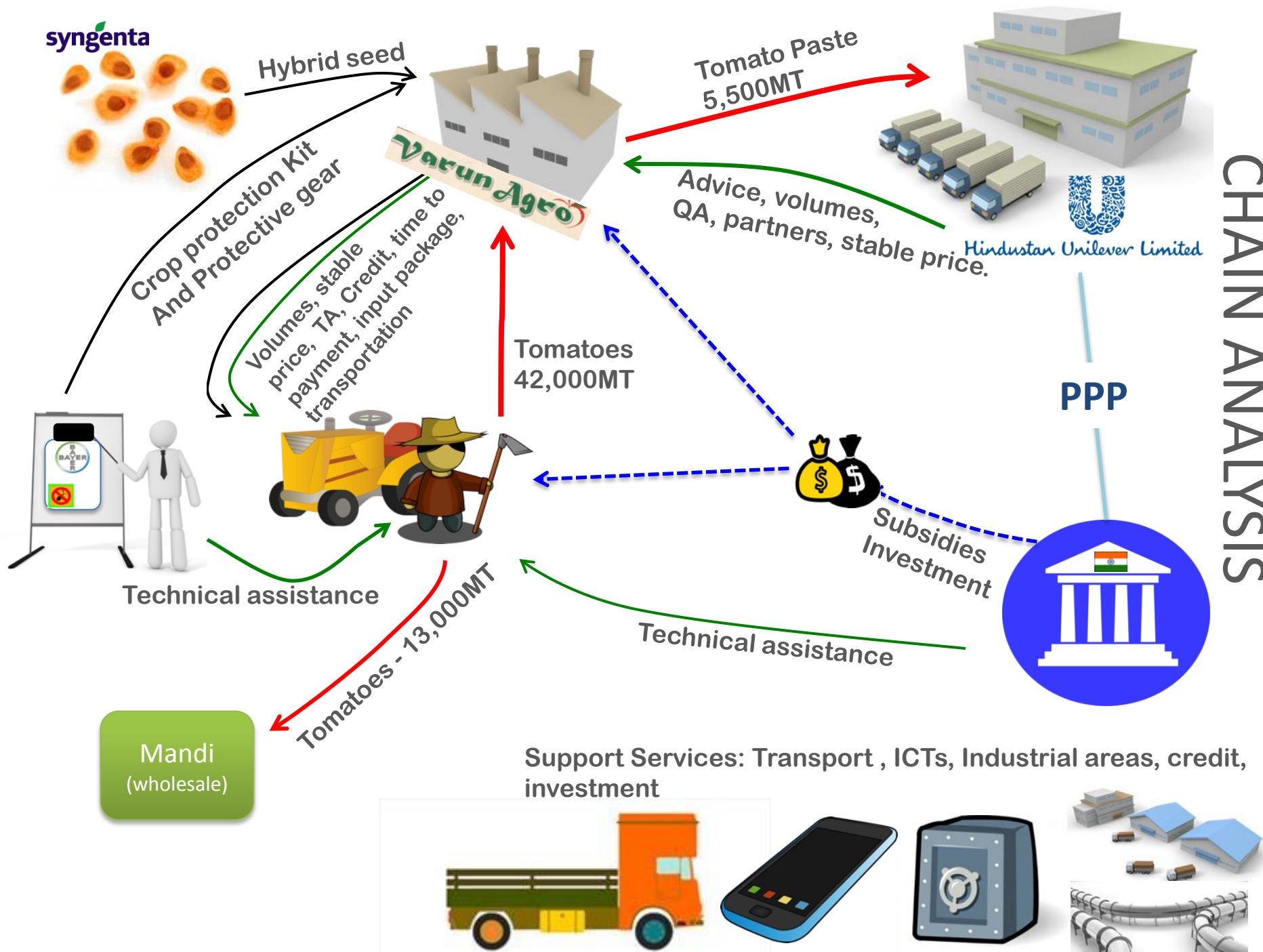
To understand the roles, functions and power dynamics in supply chains currently sourcing from smallholders

To use the outputs from this to deliver tools and guidance applicable to Unilever procurement, other similar companies and their suppliers that can improve smallholder livelihoods

Unilever cases

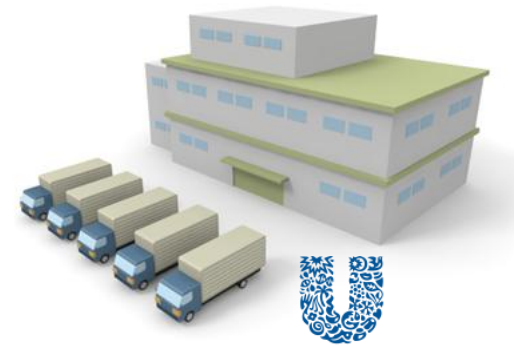
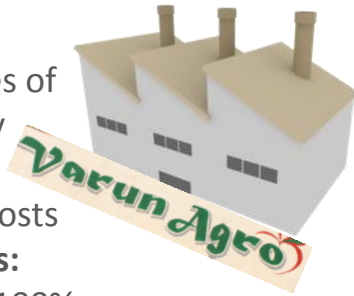
- Used LINK as a basis for creating a common methodology among research partners looking at Unilever cases and cases external to Unilever
- Built in extra dimension on gender
- Did not use the prototype cycle as we were focussed on analysing what was there and not on how to improve it

CHAIN ANALYSIS



Varun Agro:

To HUL: Delivery of large volumes of sustainably sourced, high-quality tomato paste with lower transportation and transaction costs compared to imports. **To farmers:** Commitment to purchase up to 100% of produce that meets quality standards at pre-set price, while facilitating access to other services, inputs, information, and training.



Hindustan Unilever Limited

Hindustan Unilever:

To consumers: High-quality, affordable domestically and sustainably sourced Kissan ketchups. **To Varun Agro:** Commitment to absorb up to 100% of production of sustainably sourced tomato paste at pre-negotiated prices, while providing support in terms of risk-sharing, access to finance, and international exposure.



Bayer Crop Science:

Solution-based approach improves the economic and agronomic performance of farmers and procuring companies, as well as the compliance to health and safety standards in crop protection.



Smallholders:

Consistent delivery of significant volumes of high-quality and residue free tomatoes. Ease of communication and providing lead points of contact for partners.



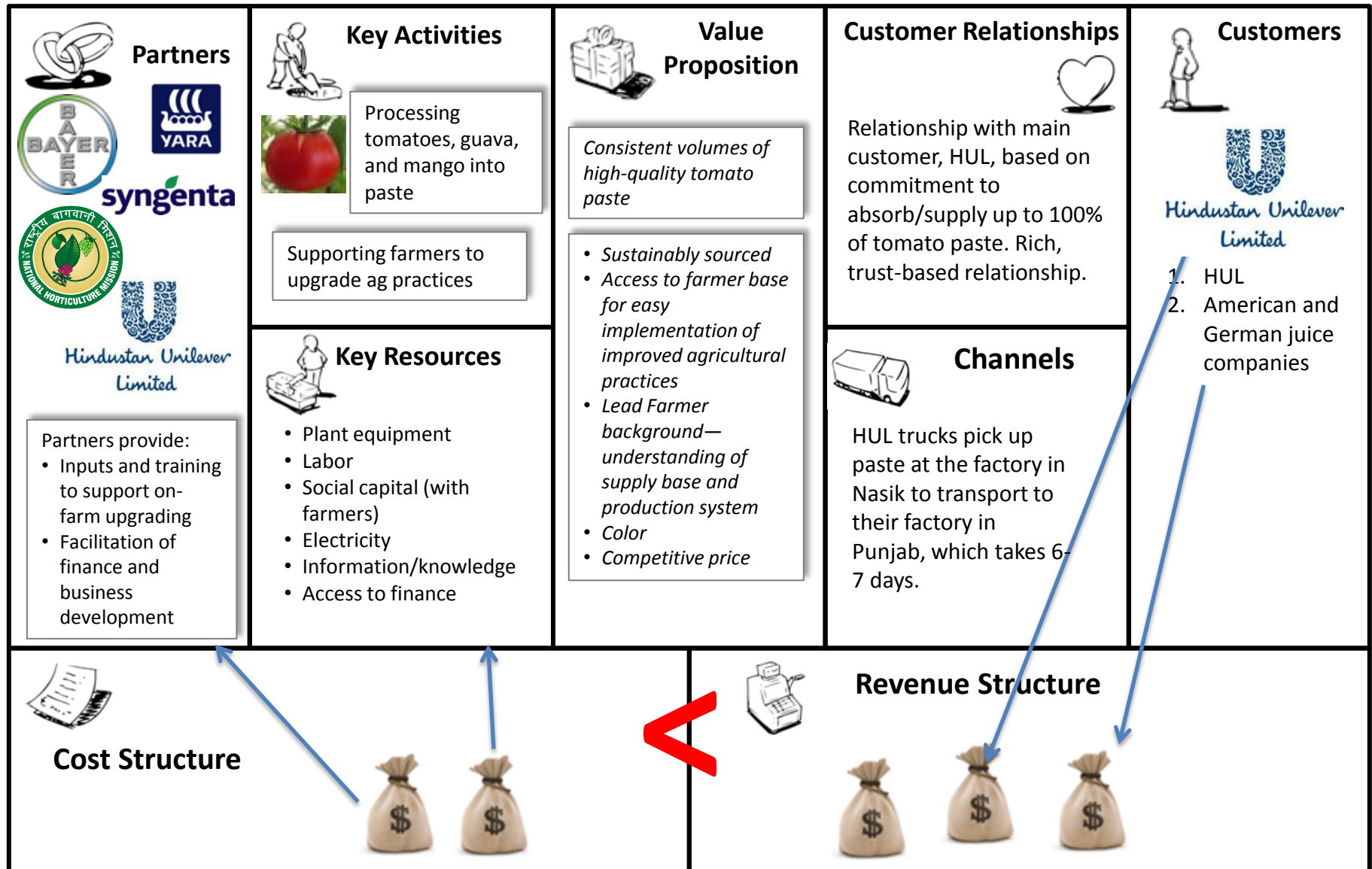
Government of Maharashtra

To farmers: Support innovation that can increase value addition capacity and returns to farmers.

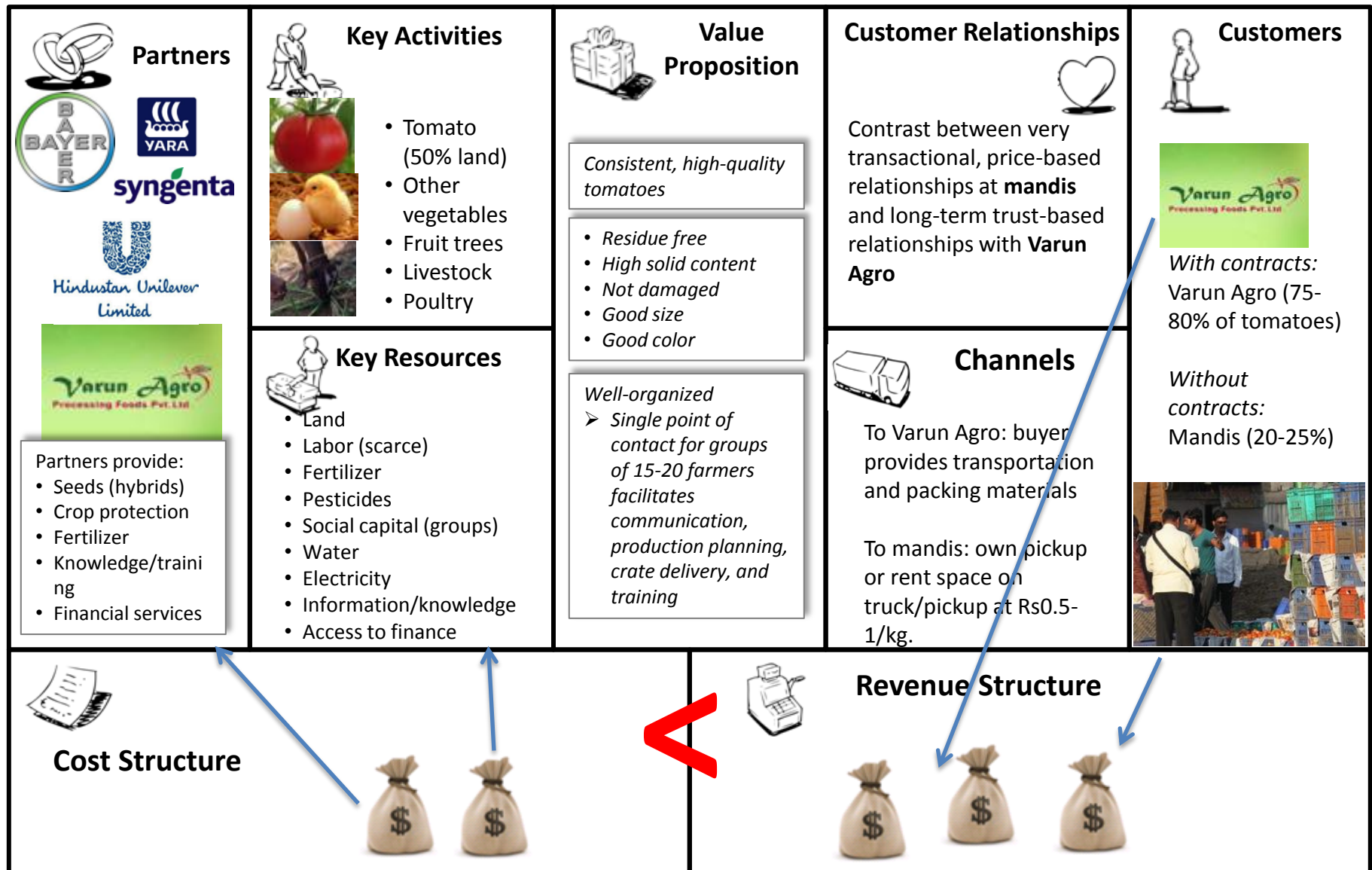
To Companies: Commitment to build a conducive agrifood value addition SME sector able to reach 80 billion USD annual sales by 2018, improving companies confidence to invest in SHF

VALUE PROPOSITIONS

BUSINESS MODEL OF VARUN AGRO



BUSINESS MODEL OF SMALL-SCALE TOMATO FARMERS IN NASIK



INPUTS FOR GUIDES

Buyers:

1. Build trust and risk sharing into long-term trading relationships with suppliers.
2. Identify opportunities and resolve problems jointly.
3. Seek out driven entrepreneurs with local connections.
4. Interact and communicate frequently with all partners in the supply chain.
5. Look for a combination of soft and technical skills in hiring sustainability staff.

Suppliers:

1. Re-think your role in the chain.
2. Build a network of service providers
3. Help to reduce risk for producers.
4. Create proximity to farmers
5. Demonstrate a reduction in transaction costs for buyers.

NGO Guide.

1. Support marginal producers
2. Advocate policies that enable direct linkages.
3. Support government transparency and efficiency.

KEY LEVERAGE POINTS

Where Unilever and its suppliers can effect positive change for smallholder producer livelihoods

1. Payment terms.
2. Bringing on other partners.
3. Organizing smallholders to access other services.
4. Recruitment and staffing.

Incentive structures and support mechanisms within Unilever

1. Teams dedicated to operationalizing the USLP.
2. Supply development and procurement working together.
3. Alignment of procurement goals with sustainability.
4. High-level support keeps staff motivated.

External research

What can lead firms do to influence the trading relationship between primary producers and their direct buyers? and what does it take for such approaches to succeed?

Assumptions:

- **Lead firms** are rarely, if ever, in a direct trading relationship with smallholders; the relationship is mediated by one or more levels of **trader** and **supplier**. It is their actions that will make or break attempts at inclusive business.
- By adapting aspects of **procurement**, **lead firms** can **support suppliers** to trade with **smallholders**
- And in doing so lead firms and suppliers can reconcile **inclusion** of smallholders with **commercial drivers**

Key enablers – 5 interconnected success factors

1	A clear business strategy for inclusive procurement
2	Alignment of the lead firm's procurement practice with strategy
3	A relationship-based procurement model
4	Tailoring the approach to product and supply chain structure
5	Pilots that are implemented with a view to scale and mainstream business



Success factors for lead firms to shape inclusive procurement

Bill Vorley and Jodie Thorpe

Issue Paper
September 2014

Sustainable markets

Keywords:
Smallholders, value chains, inclusive
business, producer organisations



Where the lead firm can engage

Business growth – Where suppliers are willing to invest time, resources and effort into developing smallholder-based supply, there are opportunities for business in terms of volumes purchased and contract lengths.

Value chain optimisation - As a global business with links to many different input partners, Unilever and its suppliers can assist in optimising value chain operations to the benefit of the whole value chain.

Capacity building – Through targeted co-investment in training to cover Good Agricultural Practices and business management there are opportunities to drive productivity at the farm level and through producer organisations. This can take out cost and risk from smallholder procurement.

Access to finance - Where there is a clear business case, Unilever will consider direct investment into a supply chain to the benefit of the business, supplier and smallholders.

Access to best practice - The establishment of an Enhancing Livelihoods Team means there is now a central resource bringing together learning on what has (or has not) worked elsewhere.

Access to expertise – Unilever have an extensive network that gives access to expertise beyond Unilever on smallholders and social impact, including NGOs, research organisations and technical experts.

Providing leadership – Unilever want to be the leader in the area of smallholder sourcing and development. This is a commitment from the top down and will be communicated to suppliers.

ENHANCING THE LIVELIHOODS OF SMALLHOLDER FARMERS

ENGAGING OUR SUPPLIERS
A GUIDE FOR PROCUREMENT TEAMS



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FRAMEWORK AND TOOLS FOR ASSESSING OPPORTUNITIES FOR SUPPLIER ENGAGEMENT

The rest of this guide focuses on questions to ask and tools to use when looking at smallholder interventions.

The summary that follows sets out a number of factors to consider for the successful inclusion or development of smallholder producers. For each factor there are a number of key questions to ask and tools to use to help answer them.

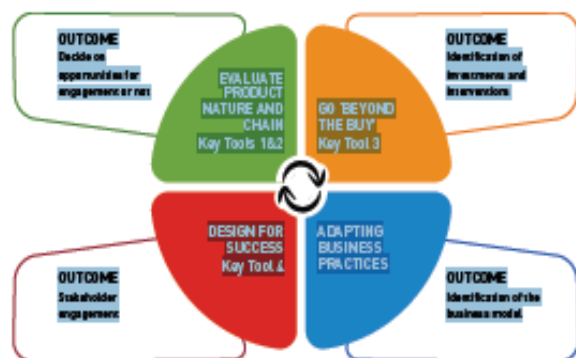
Having worked through the first factor, the end result should be an informed view on the opportunities for and barriers to inclusion/further inclusion, and a recommendation on whether or not to engage with the supplier on this issue. If the recommendation is no engagement then no further action is required.

If the recommendation is to take it further, then discussions can begin with business partners and the supplier around options for engaging with smallholders. At this point, internal expertise can be very helpful in setting up and guiding engagements.

The slide deck accompanying this guide provides tools¹ to help you understand the value chain in question and the options for interventions. The level of interaction with, and involvement of, the supplier and other partners will depend on your relationships with them. When designing a programme, it is of course preferable to have the supplier on board from the start.

SUMMARY OF STEPS TO ASSESS OPPORTUNITIES FOR SUPPLIER ENGAGEMENT

1. Is there a good opportunity with a specific supplier/ crop/country of origin? Evaluate the product nature and specific value chain to assess the 'fit' for expanded engagement with smallholders and the business case for investment by Unilever and the partner supplier.
2. What investments might be needed to go 'beyond the buy' for business success and positive livelihoods impact? Here you may be clarifying the structure of a current programme and looking for opportunities to expand it or increase its impact, or mapping out the primary needs in a new situation. What can Unilever do to support investments if they are needed?
3. How can business practices be adapted to work better for smallholders? How are trading practices structured to support transparency, stability, and good relationships between the buyer and smallholders? What else could be done?
4. If there is a good case to proceed, and you have a sense of the investments, interventions and business practices that could work, how do you design the programme for success?



¹ These tools have been adapted from LINK methodology developed by CIAT. CIAT has worked with us to develop the tool specifically for Unilever under the joint Sunrise project with Octans.

SCOPE THE OPPORTUNITY:

EVALUATE PRODUCT NATURE AND VALUE CHAIN FOR OPPORTUNITIES

Effective strategies for investing in smallholders are highly dependent on the nature of the crop, the market context, and the needs and motivations of the farmers. For suppliers that have existing programmes with smallholders, the goal is to understand the context and the business case for the companies and the farmers. When considering new opportunities, fieldwork may be desirable to quickly assess and evaluate the situation.

FACTOR	KEY ELEMENTS FOR SUCCESS	KEY QUESTIONS	GETTING STARTED	RESOURCES
EVALUATE PRODUCT NATURE AND VALUE CHAIN STRUCTURE FOR OPPORTUNITIES	<ul style="list-style-type: none"> - A clear commercial rationale, e.g. based on: <ul style="list-style-type: none"> - product brand opportunity - reputation - securing supply - Understanding of the opportunity for the farmers, based on their needs and farming systems - Assessment of the potential benefits for farmers, suppliers and Unilever - Knowledge of the key gaps requiring investment 	<ul style="list-style-type: none"> - What are the specific business needs/ opportunities? More supply? Better quality? Greater loyalty? Reduced risk? - What does the current value chain look like? - What engagement has there been to date? Transaction-based or relationship-based procurement? - For the farmers, does the cash crop fit well within their farming system? Are there social or agronomic needs that can be addressed? How are the farmers currently organised? - What is needed for this crop to be profitable and attractive to farmers? E.g. productivity, quality, variety? - Are there specific business requirements for volume, quality, cost, variety etc. that need to be met? Can they be realistically met (even after investments to address gaps)? - What are the main risks for farmers, suppliers and Unilever with this crop and value chain? 	<ul style="list-style-type: none"> - Define the need as a business case for Unilever and the supplier - Carry out a desktop value chain mapping based on the information available - If needed, commission a participatory field assessment - Evaluate the business case and the value proposition for farmers to ensure that this is a good value chain to invest in smallholder programmes 	<ul style="list-style-type: none"> - Enhancing Livelihoods Toolkit – Tool 1 - Joint discussion between Unilever actors and external advisors as necessary

OUTCOME FROM THIS STEP – A clear understanding of how the value chain works, Unilever's role in it, who are the key actors, and what are the opportunities/barriers for Unilever to drive further or better inclusion. An assessment of whether the value chain is 'fit' for further engagement and investment with smallholders, and whether there is a good enough business case to proceed with more detailed design and scoping.

CONTENTS



Toolkit overview

Tool 1 – The value chain map

Tool 2 – The business model canvas

Tool 3 – The New Business Model Principles

Tool 4 – The prototype cycle

Toolkit overview

"I am looking at how Unilever and its suppliers can enhance inclusiveness for small holder farmers in a particular value chain."

Purpose:
Improve inclusiveness and performance

TOOL 4: Prototype Cycle

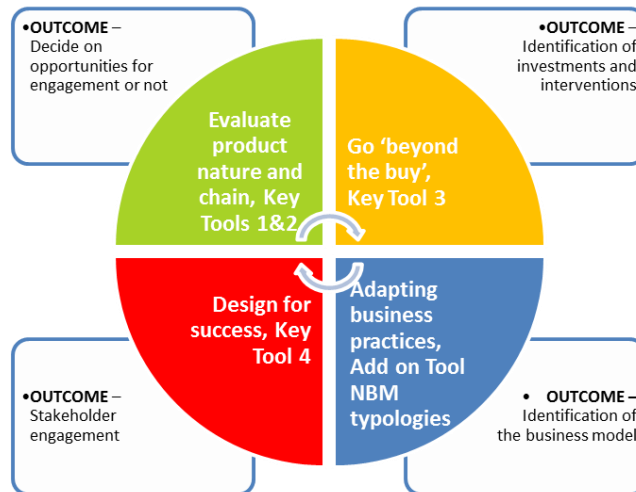
Key questions:
How can I move from theory to action?
How can I incorporate ideas in a work plan?

TOOL 1: Value Chain Map

Purpose:
Understand the basic context in which the business is happening

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

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



"I want to improve inclusiveness"

Purpose:
Enhance efficiency within a wider social context

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"

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.

TOOL 2: Business Model Canvas

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

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

"I want to understand how inclusive the supply chain is"

Leading and inspiring others:

- Working with NGOs like Oxfam and Solidaridad to improve smallholder livelihoods
- Leading and participating in multi-stakeholder forums and partnerships e.g. RSPO, SAI Platform, Consumer Goods Forum



- Joining up thinking and strategy at a corporate, functional and operational level (SF2)

To conclude

Oxfam want to leverage this research and experience to help Unilever be a more effective partner on smallholder development – recognising that it is at the supplier farmer interface that is crucial for implementation

The aim is to become the buyer of choice by developing trading relationships that matter by delivering mutual benefit for the business of smallholders, suppliers and lead firms

To translate this in to action lead firms need to know and understand the impact of their purchasing behaviour across the supply network – whether this be on smallholders, workers, women, communities or the environment