

# SUNRISE 2.0

Sustainable Food Lab summit 2014

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Sunrise



# Content

- **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*

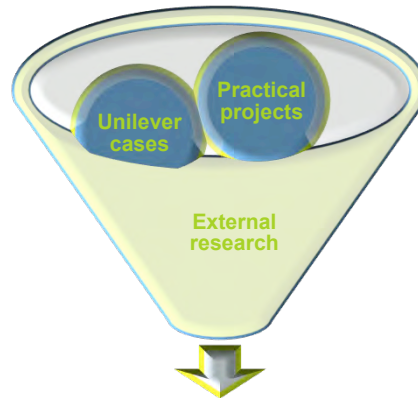
## **Objectives**

*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*

# The learning bit:

**Experimented with setting up new supply chains, looked in depth at three Unilever supply chains already sourcing from smallholders, carried out research on what others are doing to identify common success factors**



**Guidance for procurement**

Enhancing smallholder livelihoods through inclusive business – guidance for engaging suppliers

May 2014



Sunrise

Unilever Oxfam

# Practical Projects

**Based on vegetables for dehydration and use in the Knorr products. Feasibility and selection took us to Tanzania and Azerbaijan**

**Insight:**

**Greenfield' new developments with local partners are not a resource effective scalable model for future value chain development given Unilever and Oxfam ambitions for Sunrise**

## **Commercial issues**

*Side selling is can be a key issue if alternative markets exist for raw material*

*International standard processing is limited outside developed countries*

***Need for constant supplies requires a mix of large and small scale suppliers***

*Industrial scale plant investment not viable solely based on Unilever volumes*

## **Development issues**

*Processed markets represent a lower value, commoditised offer relative to fresh markets, for smallholders, unless graded prices or seasonal average price exists*

*Commercial 'drivers' are gender blind, resulting in unequal opportunities for women unless adapted*

***Creating income gains with acceptable risks for smallholders requires a mix of accessible markets***

***To reach marginalised producers requires household and market system investment***

# Unilever cases

## Tea in Kenya, tomatoes in India and black soy beans in Indonesia

### Common factors emerging from the cases :

- Financial arrangements that allow smallholders to participate without having to rely heavily on credit from external providers, primarily because of quick payment and pre-payment for their crops
- Transparent pre-harvest price negotiations and guarantor role of buyer
- Partnership models that provide extension services, training and inputs directly to farmers
- Internal structures within Unilever that see procurement, supplier development and sustainability functions working hand in hand
- Key role for leadership in generating commitment and trust, and bringing together the actors needed to succeed with a fragmented supply base

**Critically there has also been a commercial basis for Unilever engagement; a development opportunity for government and NGO agencies and a market opportunity for suppliers, farmers and input providers. = MUTUAL BENEFIT**

# 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

# Guidance : Purpose

**Support buyers and suppliers on how to improve their impact on the livelihoods of smallholder farmers by:**

- Creating a common language
- Orienting companies to the basic risks, strategic options, and common success factors

**Which should help buyers and suppliers explore opportunities to:**

- Reach more smallholders by expanding or developing new sourcing arrangements
- Improve outcomes in existing sourcing arrangements by developing programs that increase benefits and impact and improve commercial performance
- Recognize and support existing effective programs and find opportunities for shared value

**And ultimately to make sensible decisions about if and when investing in smallholder sourcing is a good choice for the specific context being looked at.**



# Guidance aims to cover

- Business case for smallholder engagement: **Why companies are working on inclusive business models with smallholders**
- How can a lead firm like Unilever contribute to enhancing livelihoods: **The link between sourcing and livelihoods**
- Overview of smallholder sourcing: providing basic background on issues and general strategies and examples
- **What Unilever can do to support Suppliers: Overview of the support Unilever can bring to table**
- **Exploring Options with Suppliers: Organized questions to support discussions with suppliers to understand current programs and explore new opportunities**

# Where the lead firm can engage:

- **Business growth** through stability in volumes and contracts - may be as a part of Partner to Win (supplier engagement programme)
- **Co-investment** in building farmer capacity to improve quality and yields
- **Support to bring in financing** to expand smallholder finance & credit
- **Support to bring in public sector funding** partners to co-invest in smallholder development
- **Provision of measurement tools** to track progress and tell the story in ways that build the suppliers and our brands
- **Providing leadership** and access to expertise

# Exploring options: guidance for procurement

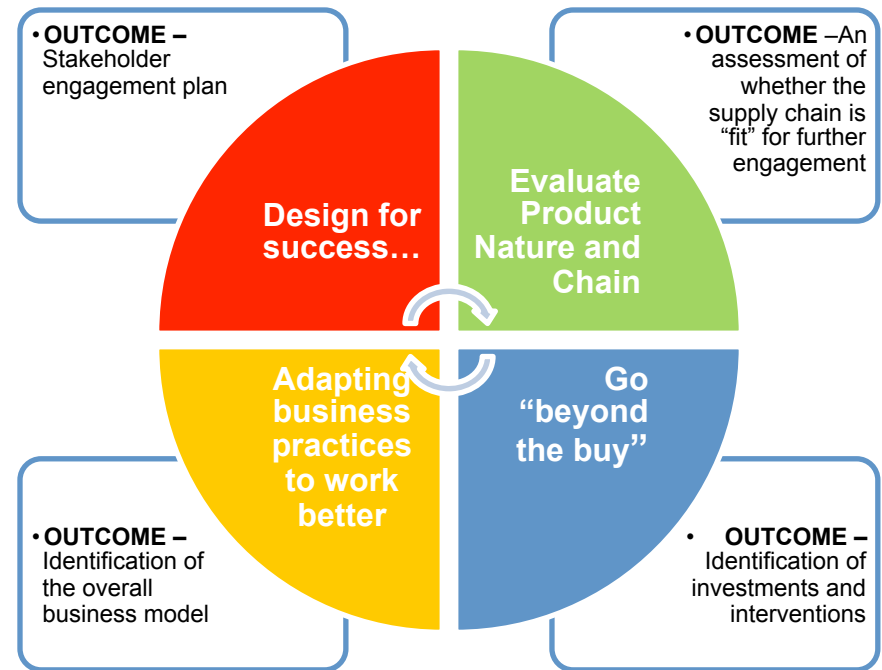
Is there a good opportunity here with a specific supplier?

**Evaluate the product nature and specific supply chain** to assess the “fit” for expanded engagement with smallholders and the business case for investment for Unilever and the partner supplier

What investments might be needed to **Go Beyond the Buy** for business success and positive livelihood impact? Here you may be clarifying the structure of a current program and looking for opportunities to expand or increase impact, or mapping out the primary needs in a new situation. What can Unilever do support investments if they are needed?

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?

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 program for success**?



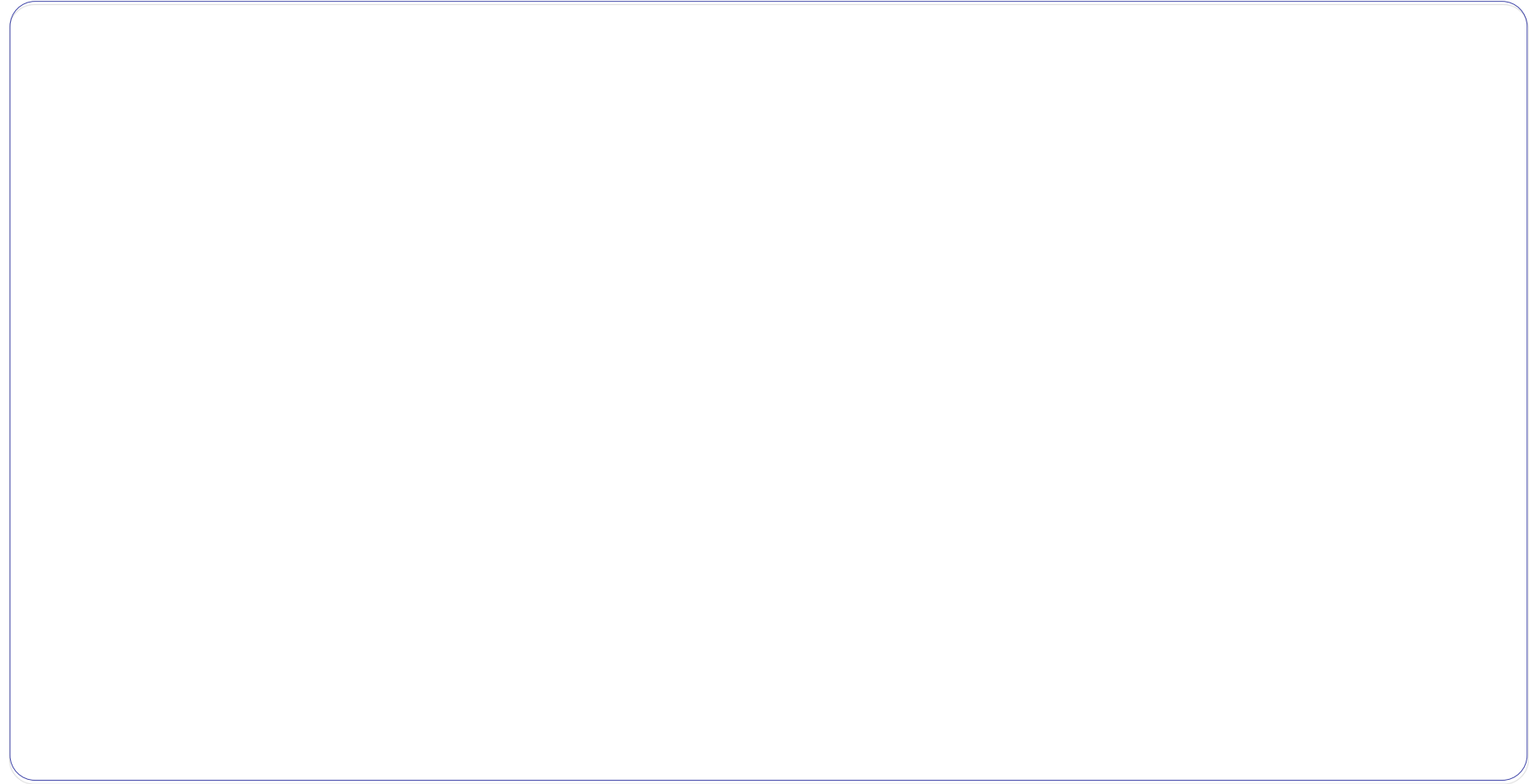
Factor	Key Elements for Success	Key questions	Getting started	Resources
<p><b>Evaluate Product Nature and Chain Structure for Opportunities</b></p>	<ul style="list-style-type: none"> <li>A clear commercial rationale <i>Brand opportunity</i> <i>Reputation</i> <i>Securing Supply</i></li> <li>Understanding of the opportunity for the farmers based on their needs and farming systems.</li> <li>Assessment of the potential benefits for farmers and company</li> <li>Knowledge of the key gaps requiring investment</li> </ul>	<ul style="list-style-type: none"> <li>What are the specific <b>business needs / opportunity</b>? More supply? Better quality, better loyalty? Reducing risk?</li> <li>What does the current supply chain look like?</li> <li>What engagement has there been to date? Transaction based or relationship based procurement?</li> <li>For the farmers, does the cash crop fit well within their farming system? Are there social or agronomic needs that can be addressed? What are the risks to the farmers? To the supply chain?</li> <li>What is needed for this crop to be profitable and attractive to farmers? E.g. productivity, quality, variety, etc.</li> <li>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)?</li> <li>What are the main risks for farmers, suppliers and Unilever with this crop and supply chain?</li> </ul>	<ul style="list-style-type: none"> <li>Define the need as a business case for Unilever and the supplier</li> <li>Carry out a desk top value chain mapping based on information available</li> <li>If needed, conduct a participatory field assessment</li> <li>Evaluate business case and the value proposition for partners to ensure that this is a good supply chain to invest further in smallholder programs</li> </ul>	<p><b>Quick and Quality field assessment tool:</b> This is a guide for a quick participatory process with the local stakeholders to evaluate opportunities.</p>

**OUTCOME FROM THIS STEP – A clear understanding of how the value chain works, Unilever’s role in it, who the key actors are, what the opportunities and barriers are for Unilever to drive to further or better inclusion. An assessment of whether the supply 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**

Factor	Key Elements for success	Key questions	Getting started	Resources
<p><b>Go “beyond the buy” – identifying investments and interventions required</b></p>	<ul style="list-style-type: none"> <li>• A strategy that ensures conditions for farmers to succeed through business services and a good farmer value proposition.</li> <li>• This may include putting in place on going services, or short-term investments to address identified productivity and quality gaps.</li> </ul> <p>May include:</p> <ul style="list-style-type: none"> <li>• Access to credit</li> <li>• Access to technical assistance</li> <li>• Access to affordable inputs</li> <li>• Training on agronomic and business skills</li> <li>• Assets to support value added processing</li> <li>• Service provision opportunities</li> <li>• Engagement of women</li> </ul>	<ul style="list-style-type: none"> <li>• Are there specific “<b>upgrades</b>” needed for farmers to meet the quality and productivity needed for success?</li> <li>• What <b>on-going services</b> are needed for the farmers to continuously improve? Are creative models needed to reach unorganized farmers?</li> <li>• Are <b>new business skills</b> needed at the farmer or farmer group level?</li> <li>• What are the opportunities for increased <b>value addition</b> for the farmers? E.g. additional processing, support businesses such as compost production or seedling production, etc.</li> <li>• What are the opportunities to support <b>engagement of women</b>? In production, accessing services, or in support businesses?</li> <li>• Are there opportunities in addition to the crop focused work to improve livelihoods through improved environment (e.g. soil), diversification, nutrition, improved key household assets?</li> </ul>	<ul style="list-style-type: none"> <li>• Write down the investments needed for the trade to be successful -- upgrading, services, etc.</li> <li>• Write opportunities to additional livelihood improvement— women’s engagement, value add, etc.</li> <li>• Prioritise the list</li> <li>• Identify where Unilever has capability to support (based on the what Unilever can do to support suppliers list)</li> <li>• Identify how this support could be delivered, including what partnerships might be required</li> </ul>	<p>Case studies, EL team or trusted advisors</p> <p>Enabling environment check list</p> <p>LINK value chain methodology for participatory design with farmers and local business partners.</p>

**OUTCOME FROM THIS STEP – Identification of investments and interventions required. Outline programme of how to implement them**

# What does this look like in reality?



# Key enablers – 5 interconnected success factors

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