

BIG vs. SMALL

Big Buyers and Small Farmers: No shared understanding and a threat to business.

You work for a company that sells or uses products that originated on a small farm in a developing country. This is your issue.

Current buying models have adverse effects on small farmers that are not intended or realised. Big Buyers crush small farmers unintentionally.

The threat to business is that stakeholders will perceive that rich companies avoid their responsibility for poor farmers affected by their buying. Would Big Buyers consider the needs of small farmers if they knew they were there? To understand and manage this issue, we need to measure it and agree definitions.

The challenge is to include this important issue in the corporate agenda and to understand its impact. The opportunity is to communicate clear management information using shared and agreed terminology.

An unfair contest

For good sport you need evenly matched contestants. You don't match a heavyweight with a flyweight. In business today and every day there is a contest that defines bad sport. Big Buyers against small farmers.

These food chains that link the world's poorest with the richest are managed by decent people. They have children and pets and give generously to charities. The giant cares.

What makes the contest particularly sad is that the giant doesn't even realise the other side is in the contest! When the inevitable end arrives and the fate of the small farmer is confirmed... the giant walks on, oblivious. The contest needs to be better understood because oblivion can be changed into active knowledge.



Risk management and retailer standards

Buyers have a simple life. They have two essentials of margin and profit and have great market choice. Farmers also have a simple life. They have two essentials of yield and quality and have limited market choice. They can either consume their own products or sell them.

Buyers assess the risk of their supply chains for availability, cost stability and safety. No matter how they assess, size matters. Risks include illegal pesticide residues and contamination with pathogens such as E Coli. The biggest product recall in UK history was the Sudan 1 scandal. It cost business over £100 million. The criminal origin of the problem was illegal batch dyeing of spices at small and uncertified processing companies in developing countries.

This leads to the current trend for weaker economic players to be marginalized and adversely affects rural economic development. Apparently small changes can have profound detrimental effects.

Risk assessment by retailers has resulted in the collaborative development of private standards. For farmers everywhere this means that in addition to achieving legislative requirements, certification may also be needed.

Voluntary retailer standards involving certification (such as Eurepgap) are now well established in global supply chains. There's no price premium and no added value through a logo. They go beyond the law and international standards to make specified best practice a requirement.

The certified farmer will realise higher margins through efficiency savings resulting from the disciplines of the system. Certification also shows equivalence across countries and continents. The standards create and maintain the level playing field. However, the certified farmer has no guaranteed market and has incurred considerable costs. Standards are now successful and effective shared risk management tools for the retailers.



Small farmers invest in standards for market access. The buyer will not consider this. The economics of the global market place say that a product that is equivalent in quality should be bought where it is cheapest. This means supply chains change with no business concept of 'conspicuous incentives' for certified farmers, whatever their size.

The global debate on market access

The World Trade Organisation and UNCTAD are actively considering and debating private standards. The OECD has recognised that increasing market requirements by member countries are undermining efforts of developing countries to join high value export supply chains. They have researched and issued key reports.

The European Commission funded a project on the effects of private standards on small farmers. This year Commissioner Mariann Fischler Boel said they "would conduct quantitative research into the economics of food quality schemes, especially covering the impact on farm income and rural development..." They also fund the important and productive COLEACP Pesticide Improvement Programme, specifically seeking to help small producers in Africa, the Caribbean and the Pacific.

There is a global programme run by the International Institute for International Development (IIED) called 'Regoverning Markets' funded by DFID, USAID and many others. This has looked at the inclusion of small scale producers in local and regional markets. Its programme will end with an important conference early in 2008. Also, there are many NGO's that are actively engaged.

Governments, NGO's and consumers are all actively interested in the issue. Business, however, is not proactively reacting to the issue or the threat.



Seize the opportunity

Small farmers in developing countries need help to achieve their potential. The global debate is not insisting that they must be in export chains or paid to achieve inappropriate standards. Instead it seems to be coming down to the following key issues:

- Lets understand the technical issues and provide support
- Lets understand how local markets can be improved
- Lets encourage and nurture cooperation between small farmers
- Lets identify and share successful business models

I would like to add

- Let's find out how to measure the contribution of small farmers to supply chains

Because this global debate involves governments, the possibility of future legislation must be considered a reality. If business was better prepared and more informed then it can identify, understand and debate the issue. This is an opportunity to stabilize the supply chain and to improve the links between small farmers, exporters, manufacturers and retailers.

The participation of small farmers in supply chains is crucial. Responsible Business must respond to the challenge, find the small farmers and help them trade.

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