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BRIEFING PAPER

ENGAGING END-MARKET BUYERS IN VALUE CHAIN DEVELOPMENT

INTRODUCTION

End-market buyers are an integral part of a value chain. By simply placing an order or providing feedback on a proposed design or service, they influence its development. But if linkages to these buyers are limited or dysfunctional, or do not exist in a particular market, how can development practitioners facilitate buyer involvement? This briefing paper offers practical recommendations for engaging end-market buyers in the development and implementation of strategies for improved value chain competitiveness.

WHY ENGAGE END-MARKET BUYERS?

Value chain development ideally begins and ends with the market, whether that market is domestic, regional or global. The demand for a particular product informs supply, which in turn adapts to meet demand and thereby compete in the marketplace. For supply-side actors, the process of identifying opportunities and the requirements of a target market involves a combination of skills and resources that center around engaging end-market buyers. Secondary research provides important information about trends, trade data and procedures, but contact with buyers is necessary for understanding the context and nuances of various markets. One customer base may favor over-sized décor in brilliant colors while another prefers a natural look with indigenous accents—and still another might not yet find current trends appealing. For practitioners, ongoing buyer engagement is essential to ensuring that a project adopts and maintains a strong market orientation. As the inevitable shifts in the competitive landscape occur, corresponding adjustments in an industry's strategies must be made.

In addition to market information, experienced buyers often recognize a product source's weaknesses and potential competitive advantages in multiple channels and niches, and can help identify and prioritize the constraints and necessary upgrades to leverage those advantages. Their perspective often differs from that of

supply-side actors who may be less aware of emerging opportunities and threats. From selecting value chains with growth potential to conducting a value chain analysis, benchmarking competitors, developing an industry strategy, designing interventions to meet market demands, and assessing impact and sustainability, the input of end-market buyers is not only helpful, but vital. In implementation, buyer involvement can greatly elevate the credibility of practitioners seeking to foster buy-in from local stakeholders.

IDENTIFYING THE RIGHT BUYERS

The end-market buyers who can provide valuable input for developing an industry strategy may not be the same buyers who ultimately choose to transact with that industry. For information gathering, it is important to access as many retailers and wholesalers as possible that exhibit an interest in similar product, and to refrain from filtering out those deemed inappropriate for a particular producer group. While a discount retailer may not seem the ideal customer, its buyers may possess uncommon knowledge about promising niche markets or competitive threats that can significantly impact the direction taken in an industry strategy. Buyers of all types (as well as sales agents, industry experts and other end-market actors) play an important role in confirming and updating secondary research, localizing trend information, explaining requirements and providing referrals to other individuals with pertinent information,

END-MARKET BUYER

Within a value chain there can be a series of buyers, from local traders and processors to retailers and final consumers.

International transactions may also involve exporters, importers and distributors. For this brief, we define end-market buyer as the destination market entity that purchases in volume for subsequent resale in smaller quantities, usually to individual retailers or directly to final consumers.

including often unseen actors such as merchandising assistants and specialized intermediaries.

CONQUERING BUYER RELUCTANCE

Farmers in Huánuco, Peru have traditionally grown potatoes for local consumption, selling them at very low prices. But Huánuco's unique climate and high elevation enables production when it is not possible in other regions. Recognizing this advantage, Chemonics' PRA project began to facilitate a transition to industrial production. A meeting with Frito Lay was arranged based on the quality of a sample sent to its buyers and the project's involvement. Frito Lay had to be persuaded that a large enough base of quality producers existed for future growth, and that the farmers were sufficiently organized to ship orders on-time. A relationship was then built on successful transactions and growing profitability, each delivery increasing Frito Lay's confidence and commitment to purchase. Today small-scale producers in Huánuco have signed contracts with a number of potato chip companies including Frito Lay, generating more than \$1.6 million in sales. Not only are the farmers able to sell at higher prices, but many have significantly expanded their farms and production capacity.

Identifying potential customers is more challenging, requiring industry experience in the target market and an in-depth assessment of the products and supply chain. Guided by a strategy for competitiveness, success typically depends on suppliers matching their value proposition (unique set of benefits on offer) with the requirements of prospective buyers in terms of design, quality, price, quantity, delivery, etc. A discount retailer may in fact pay a higher price than a high-end wholesaler by virtue of having eliminated layers of middlemen. However, disinterest in visiting a supplier's country (or proxy location if safety is a concern), delayed responses, and a singular fixation on low prices to the exclusion of other attributes often signify a poor match. Arduous contract terms or a track record of penalties and delayed payments can also be red flags.

OBTAINING A RESPONSE

There are a number of approaches to encouraging a response from an end-market buyer, and much depends on the industry, location (a buyer's office versus a trade show where time is in short supply, for example) and type of request. Not surprisingly, the most effective is a pre-existing relationship. However, relying solely on

connections not only limits who can contact buyers, but also risks an incomplete and misleading picture of the marketplace. Given that successful buyers are often inundated with requests, the key to eliciting a response is employing an approach that stands out from the crowd. Experience suggests that many end-market buyers initially welcome the opportunity to contribute to a good cause and willingly share their knowledge with development practitioners, especially if the time commitment is reasonable, communicated in advance, and adaptable to their schedules.

Buyers for large companies tend to be less responsive to the suggestion of a potential commercial relationship, whereas smaller firms more often view a request for input as a possible business opportunity. Likewise, buyers for smaller firms are more likely to respond to financial incentives, such as subsidized trips to a particular country. In the tourism industry, free travel is standard fare for engaging agents and operators. In all instances, thorough research and preparation is fundamental to piquing a buyer's interest and extracting high-value information. Familiarity with the marketplace, global trends and a buyer's specific business are essential.

BEYOND ADVICE

Progressing beyond an initial survey, interview or country visit entails identifying legitimate commercial value for a buyer's business. Since companies focus their time and resources where there is a potential for profit, practitioners are increasingly employing a commercial approach to engaging end-market buyers. What will bring them to the table in a way that supports an industry's strategy for long-term competitiveness? Whether the constraint may be organizing small producers, communicating specifications, meeting quality requirements, trusting in deliverability, navigating local regulations and business practices, or simply presentation of product and competency, technical assistance to upgrade the skills and capacity of value chain actors has proven effective at removing barriers. Without technical assistance, most buyers are unwilling to enter into a relationship with producers that present such challenges. While many buyers will consider an opportunity if a reasonable return on investment can be demonstrated, few are interested in a proposition where the financial risks outweigh potential rewards. This includes concerns over protecting intellectual property rights. Success often depends on helping to mitigate those risks.

Managing expectations on both sides is also crucial. The horizon for establishing a viable relationship is usually expressed in years, not months. While the swift completion of small transactions can help build trust on both sides and provide incentive for greater commitments, obtaining sizeable, recurring orders typically requires time and patience. It is not uncommon to find a buyer taking three years to fully engage a producer group after countless exchanges, or a supply chain needing several years of upgrades to become sufficiently reliable and competitive. As many wholesale importers note, such extended time-frames are encountered by vendors in developed economies as well.

Besides writing orders, end-market buyers can play a role in value chain development in many ways. Starbucks' direct technical assistance via farmer support centers is perhaps more than most companies are willing to undertake, but practitioners emphasize that there are less demanding ways to contribute, including providing production financing and/or inputs, assisting with transport logistics, and offering greater flexibility with deadlines. An important lesson learned, however, is to avoid appealing for compassion and generosity, an approach that more often leads to a one-time "sympathy purchase" (or referral to the office of public relations) than to a test order with intent to build a new relationship.

SUSTAINING ENGAGEMENT

The foundation of enduring commercial relationships is profitability for all partners. Given the nature of consumerism and global competition, this translates into continuous improvements in design, quality and efficiency regardless of whether the product is vegetables, home furnishings or eco-tours. In addition to competitive pricing and reliable delivery, the marketplace demands constant innovation—a key part of any strategy for competitiveness. For many small suppliers, this is perhaps the most challenging aspect of sustaining access, particularly understanding and integrating trends in foreign markets. Researching potential clients, generating new ideas, producing and shipping samples, and accepting that perhaps one in ten—or fewer—might go into production is far easier for a large enterprise to practice. In many industries, building the capacity of small and medium firms to similarly innovate is essential to sustaining buyer interest (see text box, top right).

Experience also underscores the importance of hassle-free transactions. The basic tenets of good business apply

INNOVATION MATTERS MOST

In 2002 Noeleen Heyzer, Executive Director UNIFEM, visited Rwanda and was struck by the beauty of the traditional woven baskets. Working with entrepreneur Willa Shalit, a for-profit partnership was born with Macy's which launched a modest collection in 2005 selling 30,000 baskets for \$150,000. The partners soon recognized that the collection would have a limited lifespan without innovation. The following year Macy's introduced several new products, each inspired by a traditional Rwandan design but exploring new functions. While these novel applications of a centuries-old craft may have been unfamiliar to the weavers, they helped grow the collections' revenues to \$1.5 million by 2007, nearly a third of which is retained by the weavers. Today it is a successful commercial relationship driven as much by ongoing product development as the tragic and compelling story of Rwanda's renewal. "We create and recreate samples *ad nauseam*... if you don't improve and change the product, you'll lose the market." - Jim Heynen, Managing Director, Fair Winds Trading Inc.

equally to all sources of products and services: respond promptly to inquiries, communicate problems early, promise only what can be delivered, meet obligations, be honest, and whenever possible, exceed expectations. In today's international markets, suppliers need also to be able to communicate effectively online, in the language of a buyer. Globalization has intensified competition in the marketplace, but more often than not, a reliable partner still trumps a modest reduction in price. It also helps to offer one-stop capability that includes labeling and packaging—a service that contributes to China's manufacturing success.

Thus projects can greatly impact the durability of new market linkages by promoting good business practices and inter-firm cooperation throughout a value chain, as well as government policies that reduce barriers to trade (see text box below). Most important, practitioners emphasize the need for a clear exit strategy that leaves behind a well-functioning value chain. The dependency of one or more key actors on external support can place an entire network of linkages at risk.

NEGATIVE IMPACT

Not all buyers are equal. Where one might steer a value chain toward an opportunity that is mutually rewarding, another can unintentionally lead it down a path of

BAD POLICY IMPACTS ENGAGEMENT

Importing from small producers in Ethiopia necessitates faith. Government policy requires foreign buyers to transfer full payment to an exporter's bank account before approval is given to ship. Other documentation can delay an order for days while the requisite stamps and signatures are obtained, adding to the cost and hassle of buying Ethiopian goods. Moreover, such regulations are a disincentive for new linkages as few buyers are comfortable with 100 percent advances, particularly at the start of a supplier relationship. "It's not export friendly... other places are much easier to import from," notes Ellen Dorsch, owner of Creative Women. Among countries cited as creating the greatest regulatory barriers to trade, Brazil ranks highly for the slow and costly process of shipping goods across states. Some buyers simply opt out, forgoing appealing products in favor of the ease of conducting business elsewhere.

increasing competition and dwindling profit margins. Information and advice from any single source requires verification through additional research. Ideally, the viewpoints of both demand- and supply-side actors, as well as industry experts, are obtained through a comprehensive value chain analysis, from which emerge optimal market positioning and a strategy for achieving and sustaining competitiveness.

More than demanding payment and delivery terms, or exceedingly complex specifications, the action deemed most detrimental to value chain development is a broken promise. End-market buyers who renege on commitments to purchase or provide assistance not only disrupt project plans, but also weaken stakeholder buy-in. By working with multiple buyers in multiple market channels, and performing due diligence prior to engagement, projects can diminish the occurrence and impact of failed linkages.

CONCLUSION

Engaging end-market buyers is essential throughout the value chain development program cycle, from selection and analysis to strategy, implementation and impact assessment. Many are willing to volunteer advice, but most buyers have limited time and resources—and are

under pressure to earn a profit. Thus the key to sustained engagement is presenting a winning proposition: distinctive product, reliable quality, attractive prices, easy transactions and dependable delivery. For practitioners, facilitating value chain development that leads to greater industry competitiveness is a challenge that should thus begin, and end, with the successful engagement of end-market buyers.

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