CHEMONICS INTERNATIONAL INC.

COMPETITIVENESS IS OUR DECISION: THE DEVELOPMENT OF STRATEGIC MARKETS FOR THE "HORTOFRUTÍCULA" CLUSTER

by The Monitor Company

Legal and Institutional Reform IQC

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Submitted to:
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Submitted by:
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In Association with:
The Monitor Company

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Executive Summary: Competitiveness is our Decision

A. Background[1]

The Dominican Republic is a country in transition. Although the economy has performed well during the past few years, it remains a dual economy hampered by lagging social development, persistent inequities, price distortions, and an outdated regulatory and public sector framework. In order to ensure medium and long-term growth, the Dominican Republic (DR) needs to diversify and upgrade its economy by enhancing competitiveness through structural reforms and via an export push into strategic and higher value segments in both goods and services. The DR has long needed a common vision of priority issues, future markets, competitive realities, and the structural changes associated with the globalization process, especially in order to define the key roles of the public and private sector in the Dominican Republic. Over the past six months, such a vision has been developed, leading to the design of a national competitive strategy which defines a realistic and priority-based public and private-sector action plan to compete effectively in the global economy. The current challenge is to integrate priority private-sector groups into the competitive process.

Over the past two years, USAID/Dominican Republic has supported strategic initiatives to prepare the groundwork for a national competitiveness program. Activities have included the organization of national, regional, and sector forums to discuss the topic of competitiveness and its implications for the DR. In March 1999, USAID/ Dominican Republic hired Monitor Country Competitiveness (MCC) through Chemonics International Inc. to conduct a two-day strategy session for an estimated 20 Dominican public and private-sector leaders. The session, "Building the Competitive Advantages of the Dominican Republic," took place in Cambridge, Massachusetts, and resulted in increased enthusiasm for an ongoing competitiveness project in the DR. Among the requested follow-on activities was cluster-level work which would provide the opportunity to put competitiveness theory into practice.

In November 1999, USAID commissioned the program "A Competitive Strategy for the Dominican Republic." MCC was contracted to carry out the pilot cluster component of a larger project, that also included a national-level strategy design, a regional competitiveness diagnostic, and support to small and medium-sized entreprises. Each component of the project was to be developed by a different organization in cooperation and collaboration with other project components, with Chemonics International assuming overall coordination of the project.

B. Clusters: An Organizing Model of Competitiveness

In an increasingly globalized economy, striking differences have emerged in the economic performance both among countries and between regions within countries. As a result, many efforts have been made to understand the sources of economic prosperity and "competitiveness," and to explain and learn from the successes of some of the most advanced economies — such as Germany and Japan — which are characterized by high wages and strong currencies, yet hold limited natural resources.

One of the most compelling and comprehensive approaches to explaining competitiveness emerged from a five-year project of ten leading trading nations. The results of this project were described in *The Competitive Advantage of Nations*, a book authored by one of Monitor's

1 The views and interpretations in this are those of the authors and should not be attributed to the Agency for International Development (USAID)or Chemonics International, Inc.

founding directors, Michael Porter. This work provides one of the intellectual underpinnings of MCC's competitiveness work today. The Monitor Country Competitiveness group's mission has been to practice the lessons Porter learned and determine innovative ways to implement them in countries prepared to embrace change. During the past ten years, MCC has worked in over a dozen countries to disseminate state-of-the-art thinking on competitiveness and to identify new vehicles and methodologies for change creation. Much of MCC's work in this area is documented in the book *Plowing the Sea* by Michael Fairbanks and Stace Lindsay. The lessons embodied in Porter's work and in *Plowing the Sea* continue to guide the practice today.

Nations and regions are rarely competitive in isolated industries, but rather in entire clusters. A cluster includes all of the related and supporting industries which are involved in the production of a specific product. Cluster methodologies emphasize the inter-relationships among the many industries, suppliers, and businesses which must work together in order to produce and sell a given product.

Once a healthy cluster forms, it must continually become stronger. Aggressive rivalry in one industry spreads through spin-offs or diversification. Information flows freely and innovations spread rapidly via the relationships between customers and suppliers. These strong linkages are critical to the competitiveness of a region or a country. In a world of increasing global competition, the sources of competitive advantage are becoming increasingly localized and inter-connected, benefiting from the proximity of customers, suppliers, educational institutions, and rivals. Clusters boost localized economies because they involve hundreds of small and medium-sized companies, which sell "subcontracted" services at lower costs with improved flexibility. This flow of services encourages large companies to support the development and growth of small and medium sized-enterprises, which in turn will be the primary future source of employment in the DR.

MCC's experience in working with over three dozen clusters world-wide is that clusters in developing countries face a range of challenges, many of which can only be addressed through intensive work coordinated by skilled facilitators and strategy experts. Key cluster challenges include:

- Lack of detailed research on potential markets and customer needs
- High level of defensiveness between cluster constituents and public-sector leaders
- Debilitating lack of cooperation within the cluster, often within the supply chain itself
- Critical need for cutting-edge strategic thinking and techniques

C. Project Objectives

For the DR cluster project, MCC's objective was to provide critical assistance and strategic thinking to address these issues and to help the chosen cluster focus on the key steps and issues impacting current and future competitiveness and, in turn, prosperity for their workers and their country. The DR cluster project was never intended to be a study; rather, it was designed as an initiative to engage leaders in the cluster to adopt strategies which will improve the marketability of the specific cluster products and, in turn, generate wealth. Nonetheless, the central output of the DR cluster project is a comprehensive market and product analysis report, which includes a map of the current industry structure and challenges.

The chief goal of a competitiveness project is to develop a clear framework for change creation that fosters sustained wealth creation for all citizens in a country. In competitiveness projects such as the DR cluster project, the objective is to create a process to ensure actions are taken to build the enabling business environment. The typical process followed — which MCC adhered to in implmenting the DR cluster project — involves the formation of working groups to foster dissemination of the latest thinking on industry clusters and on building competitive advantages at the industry and firm level. This strategy is designed to in turn produce a cluster analysis which informs the competitiveness debate in the country in question and provide cluster members and others with a springboard for taking strategic action.

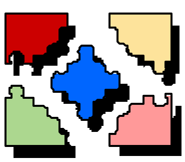
D. Chronology

Cluster Selection Process: Project Introduction and Solicitation of Applications

In November 1999, consultants from the various components of USAID's DR National Strategy Program gave introductory presentations in Santiago and Santo Domingo. In these presentations, MCC consultants discussed competitiveness theory, introduced the cluster project and explained the conditions for application. Throughout December 1999, MCC also met privately with leaders from principal industry groups to introduce the project and describe the application procedure.

Several industry groups expressed interest in the project, and in January 2000 the hortofrutícola (horticulture) cluster won the open competition to be the pilot cluster assisted under the USAID-sponsored competitiveness initiative. The cluster was selected by an independent group of Dominican public and private-sector leaders, who selected the hortfrutícola cluster based upon the following criteria: their demonstrated leadership, clear commitment to the process, willingness to collaborate, the social and economic importance of the cluster, and the contribution the cluster would make to national learning.

Change Decision Criteria



Change Potential Within the Cluster

Potential for Broad Impact in the Dominican Republic

- Is there a core group of **proactive leaders** in the industry?
- Is there a **commitment** to adopt new business practices to reach cluster goals?
- Does the cluster have a demonstrated ability to **collaborate** with other groups in order to solve problems and develop long-term projects?

- **Economic and social importance**
  - Contribution to GDP
  - Total production and sales levels, growth rates
  - Employment: number employed, salary levels, job creation potential
  - Export levels and export potential
- **Contribution to national learning**

Cluster Development: Creation of a Coalition of Leaders

The hortofrutícola cluster is comprised of producers and processors of products made from coconuts, mangos, cocoa, coffee and vívires[2]. Although the Dominican economy has seen robust growth over the last five years (6% CAGR, 1993-1998), growth in the overall agricultural sector has been limited, with growth of only 4 percent over the same time period. However, leaders of hortofrutícola industries, with total exports of over $200 million in 1998, believed that the particular products they produced had potential for significant export growth in high-value, non-commoditized markets, such as gourmet coffee, organic mangos, and ready-to-eat víveres products targeted at ethnic markets abroad. Further, this group had demonstrated leadership, organization, and commitment to the cluster process as shown by ongoing meetings to discuss competitiveness, including a day-long strategy session held in early December 1999, where over 70 participants identified key challenges facing their sector and prepared their application for the pilot cluster project.

Cluster Kickoff: Setting the Agenda for Cluster Development

On January 26, 2000, MCC invited key cluster participants, including processors, producers, government and association officials, and suppliers of support goods and services to the cluster kickoff. During this day-long workshop, consultants worked with industry leaders to help them diagnose the current status of their cluster and identify key areas of analysis and pilot projects that would help improve the group's competitive position, using tools such as Porter's five forces and diamond exercises. The MCC migration strategy framework, which was to form the underpinning of future cluster action plans, was also introduced.

Hortofrutícola leaders identified and prioritized critical projects, ranging from a mango export consortium to educational outreach to small coffee producers, all of which were crucial to the improvement of their strategic position. The group identified the Dominican emmigrant community as a key potential market, and asked MCC to assist them with market research into the needs, desires, and purchasing patterns of Dominican-American consumers of hortofrutícola products. Finally, 12 cluster working group leaders were selected and charged with the development of a comprehensive cluster strategy and the dissemination of that strategy to the cluster as a whole.

Insight Creation and Action Plan Development

From January 2000 through June 2000 the cluster working group met regularly on a weekly or bi-weekly basis, with sub-cluster working groups also convening to discuss individual pilot projects. Cluster working group meetings generally included feedback on MCC analysis, reports from subclusters on their action plans, and a discussion of cluster action items. The subsequent summary of findings is the result of MCC research in the field and the inputs and efforts of cluster leadership captured in a series of intensive strategy sessions.

Diffusion of Cluster Findings

From April 2000 through the present, MCC and cluster leaders have made a series of presentations to members of the broader agricultural sector and leaders of other industries that have demonstrated interest in the cluster development process.

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[2] Víveres are roots and tubers including bananas, plaintains, and yucca.

E. Summary of Findings

The Challenge for Dominican Agriculture

Despite recent growth in the Dominican Republic's economy, the country continues to be much poorer than many of its neighbors, and the growth of the agricultural sector significantly lags behind fast-growing segments. Environmental factors such as the impact of Hurricane George, a sharp and continuing decline in world commodity prices, and unsophisticated and inefficient production methods and distribution channels have all contributed to this decline.

Although the overall number of people living in poverty in the DR is on the decline, in agricultural areas more than 30 percent of the population lives below the poverty line, while nationwide the figure is approximately 20 percent. Environmentally unstable agricultural practices are failing to produce prosperity for impoverished farmers in the short term, and are causing long-term damage to the natural assets of the country in the long term. While growth in telecommunications and tourism (13% and 18% annually, respectively) far outpaces that of agriculture (4% annually), agriculture continues to remain an important source of jobs, accounting for approximately 15 percent of total employment.

Current Status of the Hortofrutícola Cluster

The hortofrutícola cluster is an important part of the Dominican agricultural sector. Exports of fresh and processed hortofrutícola products account for nearly half of the country's total agricultural exports, valued at US$200 million in 1998. In spite of the size of this market, the competitive environment in the DR for hortofrutícola products is weak due to poor strategic choices and underdeveloped sub-clusters. Examples of problems affecting the cluster include:

- Most hortofrutícola exports are exported as undifferentiated commodity products. In 1997-1998, 96 percent of coffee and 94 percent of cacao exports were sent abroad as untoasted beans. The prices for such products have historically followed erratic global price trends and been subject to inevitable real price decline over time.
- Dominican víveres farmers react directly to the highly variable market prices for their products, which in the case of yucca have fluctuated as much as 400 percent in the last 10 years. When prices go up, production increases the following year. The same pattern is seen when prices decrease. This one-year lag effect indicates a short-term strategic perspective.
- Little cooperation among cluster members and related and support industries exists. In the coconut sub-cluster, communication between producers and processors has been nonexistent, with both relying on intermediaries to convey needs and plans to one another.

Opportunities to Build Competitive Strategies

MCC has identified seven opportunities for strengthening both the competitive platform of clusters and the strategies of the individual firms comprising clusters, all of which are highly relevant to the hortofrutícola cluster.

One of the key opportunities is improving knowledge of customers and markets. Hortofrutícola producers have made little effort to study markets and understand the needs of customers in order to drive product innovation and reposition themselves in more attractive industries. The following are examples of unexploited opportunities that exist:

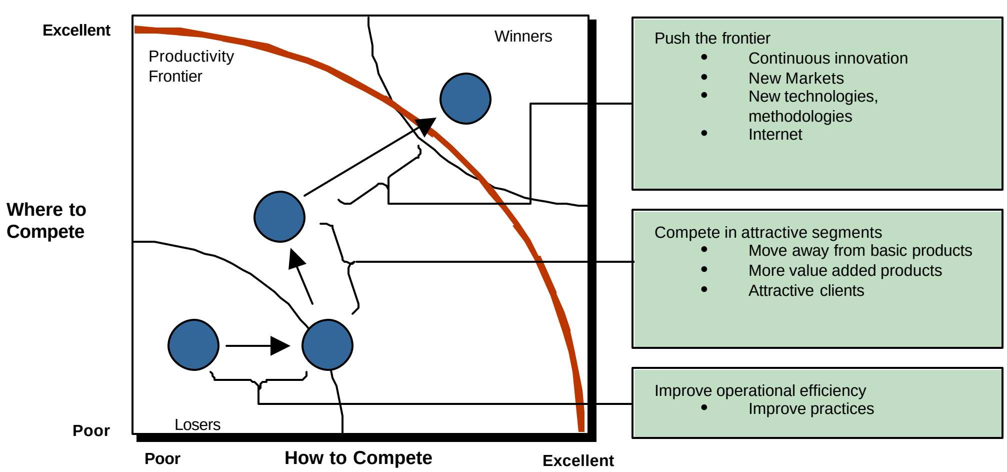
- MCC's market research confirmed the hypothesis that Dominican-American consumers are extremely loyal to Dominican products and represent an untapped opportunity for Dominican producers. For example, ready-to-eat Dominican products such as mangu and sancocho seem likely to find an eager Dominican-American public.
- Differentiated specialty coffee exports remain low despite high and increasing demand in the US — which is one of the Dominican coffee producers' key markets — while neighboring countries with very similar growing conditions, like Jamaica, sell superior quality specialty coffee for 12 times the value of commercial brands.

Dominicans also need to find ways to improve intra-cluster cooperation. For example:

- Cocoa producers receive lower-than-market-average prices for their beans because of poor processing. Due to poor communication and lack of training for the small producers that grow the majority of this crop, this product's value added is lost. Current initiatives to improve small-farmer training and instruction in organic certification will open up more attractive markets.
- Mango producers, who are actively pursuing a joint collection and export strategy, could cooperate to jointly market on the Internet, as South African mango growers have.

New technologies, particularly the Internet, have created innovative ways to take advantage of all seven opportunities identified by MCC to build competitiveness as market knowledge becomes widely available and the competitive environment becomes much more transparent and rapid. Disintermediation allows producers and exporters to create a more direct distribution channel to customers, communicate directly with their customers, and quickly learn about what their competitors are doing.

Case Examples: Migration Strategy for Yucca and for Coffee



Strategy is the combination of two decisions: where to compete (or in what segments of the market; the y-axis in the above graphic) and how to compete (or with what level of operational efficiency; the x-axis in the above graphic). Losing firms compete in basic product segments with little operational efficiency. Winning firms have chosen to compete in attractive segments with superior levels of operational efficiency.

To arrive at the productivity frontier, firms should have a short, medium and long-term migration strategy that takes into account the need to improve on both axes. During this migration, firms must keep in mind that improvement is cumulative, that the process is dynamic, and that some changes might occur simultaneously for some firms. Based upon this understanding, all sub-clusters comprising the hortofrutícula cluster devised migration strategies. Two sub-clusters — yucca and coffee — are highlighted below. Although the strategies identified for yucca and coffee are country-wide in scope, each company within the sub-clusters needs to define the particularities of its own migration strategy, which will lead to different visions of overall cluster goals.

Yucca

The yucca-production industry in the Dominican Republic is not competitive. Fresh yucca and yucca products are not well-positioned in attractive markets nor are they produced efficiently. However, even for this simple product a migration potential exists. Firms have potential to sell a Dominican-branded yucca to the Dominican immigrant community in the US if basic improvements are made to the quality of yucca produced and strategic alliances are formed with appropriate distributors. Ninety-six percent of Dominicans as well as 41 percent of Latinos surveyed in an MCC market analysis of US ethnic markets stated a preference for yucca from the DR, and 78 percent of Dominican-Americans showed regional preference for yucca from Moca/Cibao Valley. Further, innovative firms could introduce yucca products to cross-over markets as an alternative starch product available from the Caribbean.

Coffee

The DR coffee industry is currently positioned within the loser's circle. Dominicans are exporting low-grade commodity coffee because there is little internal focus on quality production. However, there is a growing market for specialty coffee. In the US alone the market for specialty coffee is growing at 10 percent annually. Dominicans will be well-positioned to serve this market once they improve the quality of coffee production and processing. Using the Internet, coffee exporters will be able to sell more personalized specialty coffee to more customers. Innovations in marketing and distribution can allow the Dominican coffee industry, along with other Dominican industries, to position themselves simultaneously to win in several niche markets.

F. Strategic Imperatives of the Hortofrutícula Cluster

Hortofrutícola Cluster Vision Statement

"To be a respected brand and the most reliable provider of high quality, environmentally sensitive hortofrutícola products in the region, thereby positioning ourselves in higher value, highly profitable market segments."

Hortofrutícola Cluster Imperatives

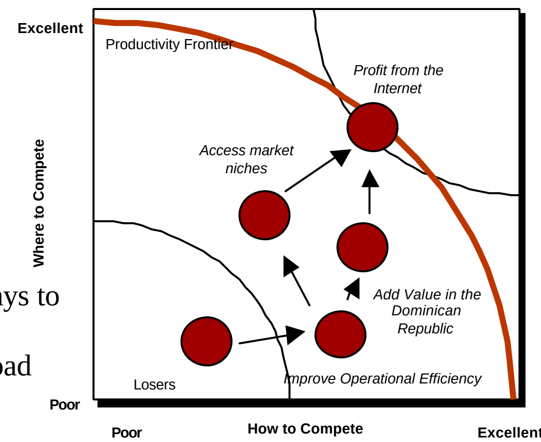
- Have a hortofrutícola platform oriented toward consumers, information, technology, productivity, and differentiation by means of continuous strategic learning
- Produce products of greater added value and industrial processing oriented toward exportation
- Be a reliable provider of high-quality products in specific segments or market niches

- Create a positive image of Dominican hortofrutícola products within the country as well as abroad
- Profit from the competitive advantage provided by the Dominican immigrant community in the US by developing relationships with those customers who find an added emotional value in our products

G. Action Plans for the Hortofrutícula Cluster and Sub-clusters

Each sub-cluster has developed a short, medium and long-term plan aligned with the hortofrutícola vision statement. Action plans for sub-clusters are based on reaching the productivity frontier and on a migration strategy toward more attractive market segments. Each sub-cluster plan includes recommendations for firms, associations, the hortofrutícola cluster as a whole, and, in some cases, for the government.

Cocoa Action Plan
Short-term: Improve Operational Efficiency
- Adopt entrepreneurial mentality
- Improve quality and operational efficiency
- Prioritize quality and efficiency for all to raise conciousness of their importance within the sector



Medium-term: Access Market Niches/Add Value in the Dominican Republic
- Constantly look for new market niches and ways to add value to products
- Promote an attractive image of DR cocoa abroad

Long-term: Profit from the Internet
- Create a virtual network to promote and sell globally, establishing distribution centers strategically placed for express deliveries
- Use more advanced technological sources in order to strengthen the sector's competitive position

Coffee Action Plan

Short-term: Improve Quality
- Reactivate the coffee industry
- Adopt entrepreneurial mentality
- Be a trained and knowledgeable cluster in terms of quality requirements
- Adopt quality/origin standards and specifications

Medium-term: Market Niches
- Be a leader in coffee promotion and marketing
- Sell to new segments and access new distribution channels
- Sell higher-margin coffee
- Develop long-term relationships with roasters
- Improve Dominican coffee image internationally
- Educate consumers and promote consumption of specialty coffees within the country

Long-term: Profit from the Internet/Sell to Small Roasters

- Be a leader in sales to roasters
- Be a leader in the use of the Internet for selling coffee
- Develop distribution channels according to the new virtual economy

Coconut Action Plan

Short-term: Strengthen the Cluster/Evaluate Potential Niches

- Strengthen the cluster: increase the number of active members and the trust among them
- Identify and investigate new derivatives and coconut sub-products and undertake profitability studies
- Adopt quality standards and specifications
- Improve the efficiency of the current distribution system and assure short-run production

Medium-term: Profit from the Niches

- Once the potential niches are identified:
  - Take advantage of profitable niches
  - Evaluate the profitability of investing in new plantations and investigate other options to assure availability of raw materials (coconuts) in the long run
  - Develop central warehouses and processing systems to take advantage of all the value in coconuts

Long-term: Global Leader in Coconut-Based Products

- Be a global leader in coconut-based products of high value
- Develop a brand for high-value coconut products
- Set a global example in the efficient and environmental use of raw material

Mango Migration Strategy

Short-term: Better Practices/European and Canadian Market

- Strengthen the cluster by increasing the number of active members and the trust among them
- Improve packaging efficiency
- Increase exports to European and Canadian markets
- Strengthen the mango producers consortium

Medium-term: New Products/US Market

- Produce processed mango products, if a treatment plant is profitable and feasible based on a US marketing study and a cost study
- Invest in treatment plants
- Promote the Dominican brand and Banilejo mangos in the US

Long-term: Continuous Market

- Develop a "Banilejos/Dominican" mango brand that is globally recognized as high quality, especially in attractive markets
- Be a global leader in processed mango products
- Be a global example of environmentally friendly mango production by means of organic techniques and reforestation projects

Víveres Action Plan

Short-term: Strengthen Cluster/Satisfy Basic Requirements
- Improve communication and strategic alliances among national/international producers, processors, and distributors
- Be aware of the basic needs of the US markets

Medium-term: Attractive Segments
- Promote the Dominican Label within the Dominican immigrant community in the US for fresh víveres
- Take advantage of the interest in easy-to-prepare and pre-cooked products of greater value than basic products
- Identify new market niches

Long-term: Continuous Innovation
- Be a global leader in terms of víveres products
- Reach other markets (gourmet/non-Latino/organic markets)
- Educate the new consumers and learn how to listen to and interpret their needs

H. Short-Term Cluster Successes

In order to achieve the hortofrutícola vision statement and act upon cluster imperatives, cluster leaders identified and carried out a series of targeted activities within four priority areas: the diffusion of competitiveness principles; the strengthening of the hortofrutícola brand; the support of pilot projects of individual companies and sub-clusters; and the maintenance of a strong cluster. Specific activities carried out within each of these areas is highlighted below.

Diffusion of competitiveness principles:
- More than 10 diffusion presentations outside the cluster, including presentations to the textile, apparel, and bakery sectors in Santiago and Santo Domingo
- Five final presentations in the following regions: Santo Domingo, Santiago, Jarabacoa, San Francisco de Macoris and Barahona
- Numerous television interviews, newspaper articles, and radio shows

Strengthen the hortofrutícola brand:
- Market research (quantitative and qualitative) about Dominican residents in the US
- Research of organic market

Support pilot projects of individual companies and sub-clusters:
- First specialty coffee seminar, with more than 120 participants from the sector
- First commercial encounter with producers, buyers, and processors of víveres in Moca, facilitated by the JAD (Junta Agroempresarial Dominicana)
- Analysis of the distribution chain and segmentation of distributors
- Creation of new products, such as organic chocolate ice cream and mango marmalade
- Investigation of, and first contacts with, new specialty product markets by individual entrepreneurs from the cluster leadership group
- Internet strategies developed by individual entrepreneurs

Maintain a strong cluster

- Two cluster launch workshops
- Thirteen private-sector leaders, including producers, processors, and exporters, actively participating in research, pilot projects, and cluster development
- Conjoint work with the principle agricultural association, the JAD , and two key NGOs, Caribbean Exports and CAMPE (Centro de Apoyo a los Micros y Pequeños Empresas)
- Biweekly/weekly meetings with the cluster leadership group for a five-month period

I. Next Steps: Action Plan Synopsis

	Short-term	*Medium-term*	*Long-term*
Diffusion of competitiveness principles	• Ongoing presentations of cluster learnings	• Continuous participation in networking meetings	• Presentation of "Dominican Seal" achievements • Continuous participation in networking meetings
Strengthen the hortofrutícola brand	• Design the "Dominican Seal" and the preliminary marketing material • Code of Ethics-establish norms for "Dominican Seal" participants	• Launch the "Dominican Seal" • Implement certification process for the "Dominican Seal" • Internet strategy for the "Dominican Seal"	• Internationally promote the "Dominican Seal" and the marketing plan • Implement requirements for the "Dominican Seal" and the Code of Ethics
Support pilot projects of individual companies and sub-clusters	• Meet with financial institutions	• Delegation to fairs: Organic, Dominican	• Establish a "Dominican Seal" web page
Maintain a strong cluster	• Follow-up plan–set up monthly meeting	• Increase the number of active participants according to the Code of Ethics	• Cluster evaluation of competitiveness and level of success

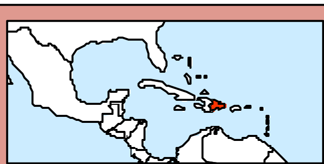
J. Conclusion and Next Steps

The enthusiasm, participation, and guidance of cluster leaders drove the success of this project. In order to solidify their gains and ensure ongoing activities, the hortofrutícola cluster leadership will need support in the implementation of its action plan. Reassuringly, cluster leaders have remained enthusiastic and committed to the project since MCC has departed the DR. Further, they have solicited the assistance of Caribbean Exports to help with project and logistical support. MCC has participated in two regular cluster meetings to help cluster members determine their overall branding strategy, and will meet with the cluster a final time at the end of September 2000 for an assessment of the progress toward medium-term action plan goals. Cluster members are slated to launch the Code of Ethics and Dominican Seal on schedule within the next month Although MCC's active involvement with the cluster concludes with the September 2000 meeting, a proposal for ongoing strategy sessions with the cluster, including two progress assessment to be performed in November 2000 and May 2001 has been developed to provide impetus for the cluster and a means for both the cluster and USAID to measure the ongoing success of the project.

Competitiveness is Our Decision: Developing Strategic Markets for the Hortofrutícola Cluster

Monitor Country Competitiveness

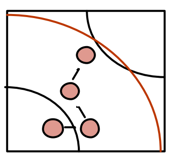
Competitiveness is Our Decision
Agenda



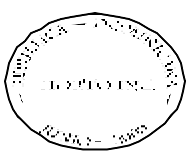
- **The Challenge for Agriculture in the Dominican Republic**

- Current Strategic Choices in Hortofrutícola

- Opportunities to Build Competitive Advantage

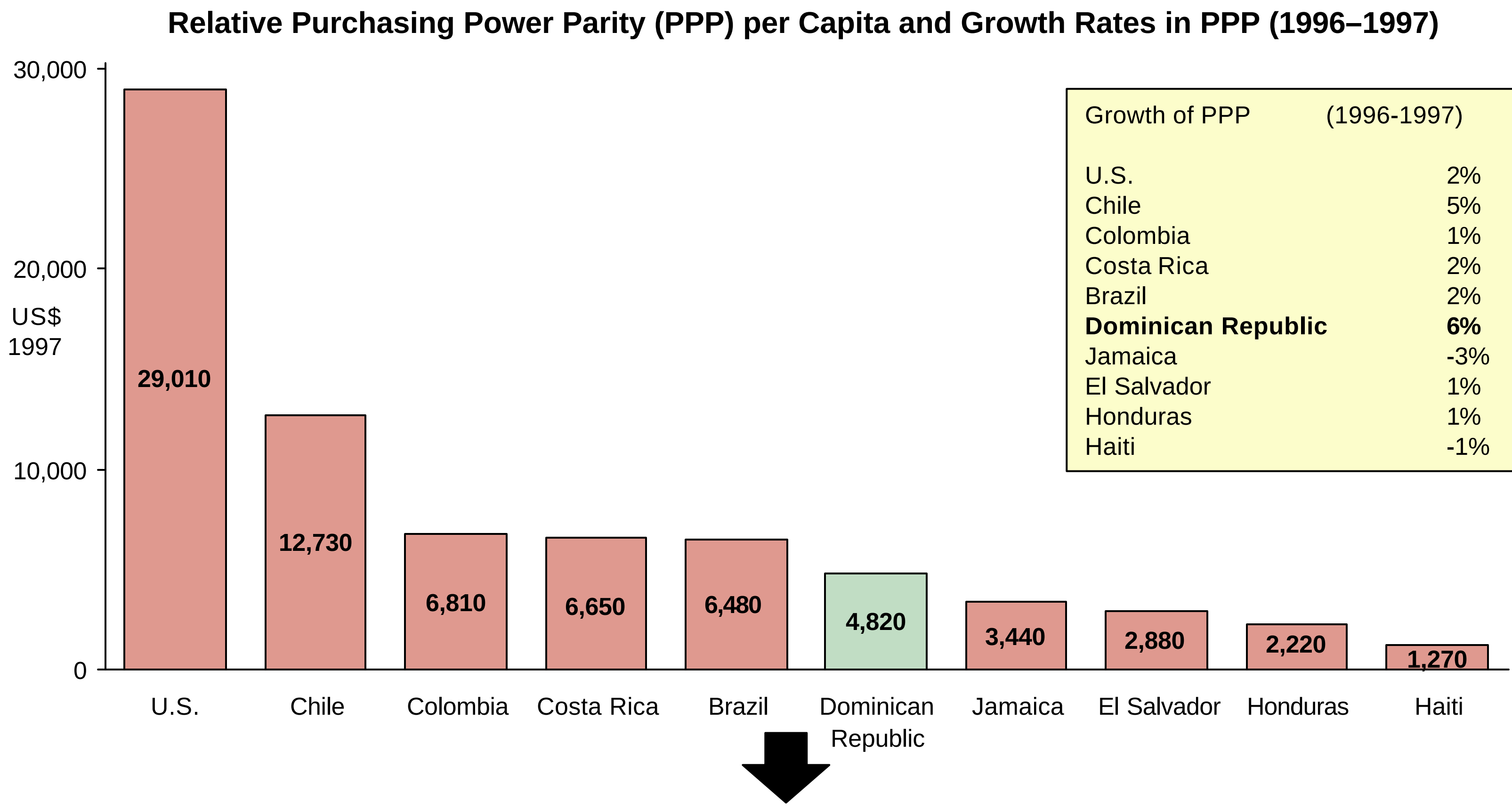


- Migration Strategies: The Cases of Yucca and Coffee



- Strategic Imperatives and Cluster Initiatives

The Challenge for Agriculture
Purchasing Power Parity



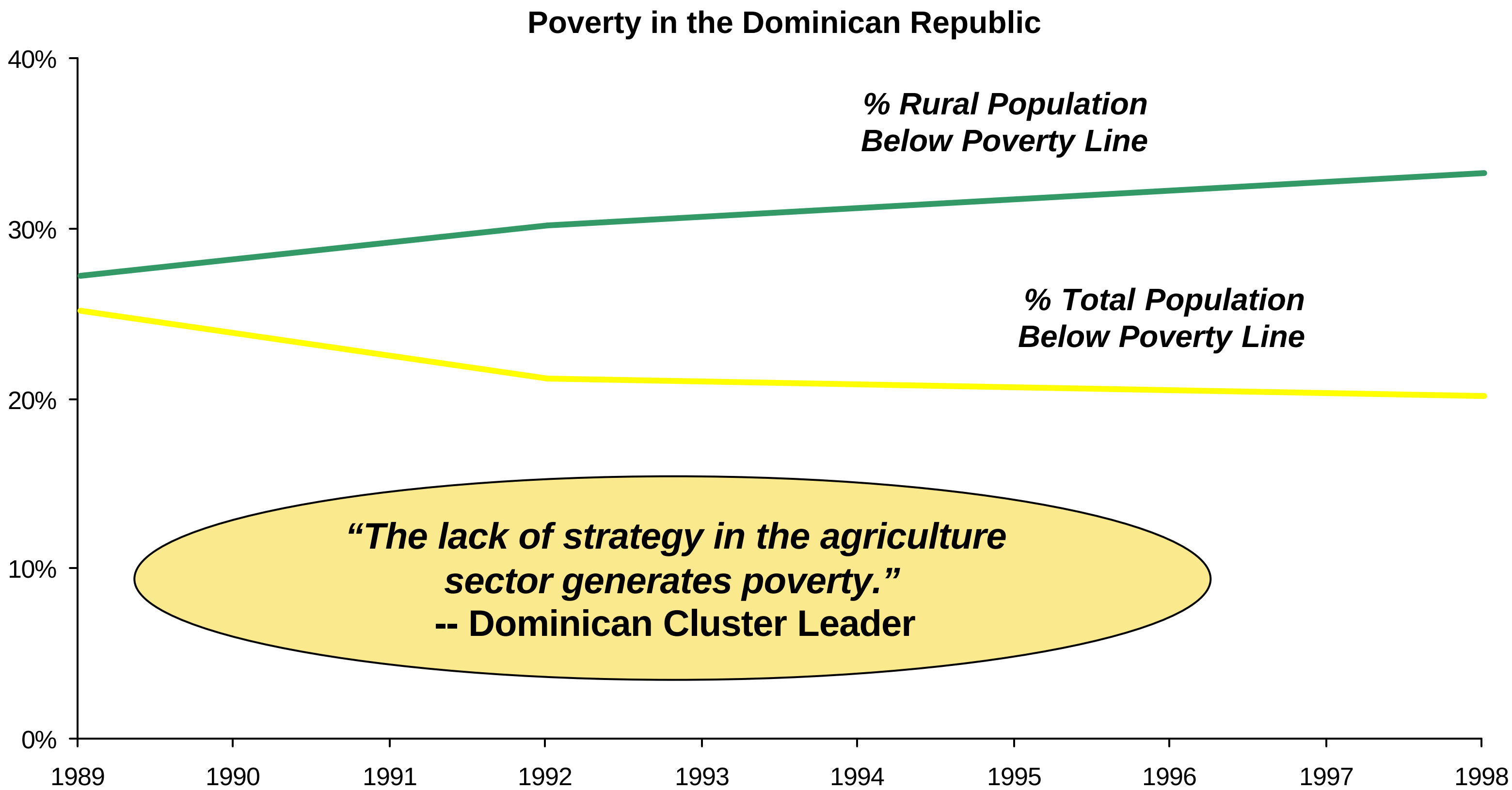
Growth of PPP	(1996-1997)
U.S.	2%
Chile	5%
Colombia	1%
Costa Rica	2%
Brazil	2%
Dominican Republic	**6%**
Jamaica	-3%
El Salvador	1%
Honduras	1%
Haiti	-1%

Although the Dominican Republic has recently experienced 6% growth in its PPP (a useful measure of a country's prosperity), the growth rate continues to be less than that of neighboring countries such as Brazil, Costa Rica, Colombia and Chile.

Note: Purchasing power parity is GNP per capita converted to US$ using purchasing power parity rates. Purchasing power parity rates are calculated as the number of units of a country's currency required to buy the same amounts of basic goods and services in the domestic market as $1 would buy in the United States.

SOURCE: World Bank, International Comparison Program database, 1999 CD-ROM

The Challenge for Agriculture
Poverty in Rural Areas



Current agricultural practices have not created prosperity in the impoverished rural areas of the country. Although the percentage of the total population in the Dominican Republic living in poverty decreased to 20% in 1998, poverty in rural areas has risen to 33%.

Note: National poverty line is based on the World Bank Country Poverty Assessment.
SOURCE: The World Bank, World Development Indicators

The Challenge for Agriculture
Preserving the Ecological Heritage

"Farmers are so desperate, impoverished, and uneducated that they slash and burn the forests to grow pigeon peas. Pigeon pea crops are not lucrative, and the plants have no roots to prevent the erosion that quickly wipes out the valuable topsoil. ***The hillsides of the Dominican Republic are becoming the useless desert landscape of Haiti."***

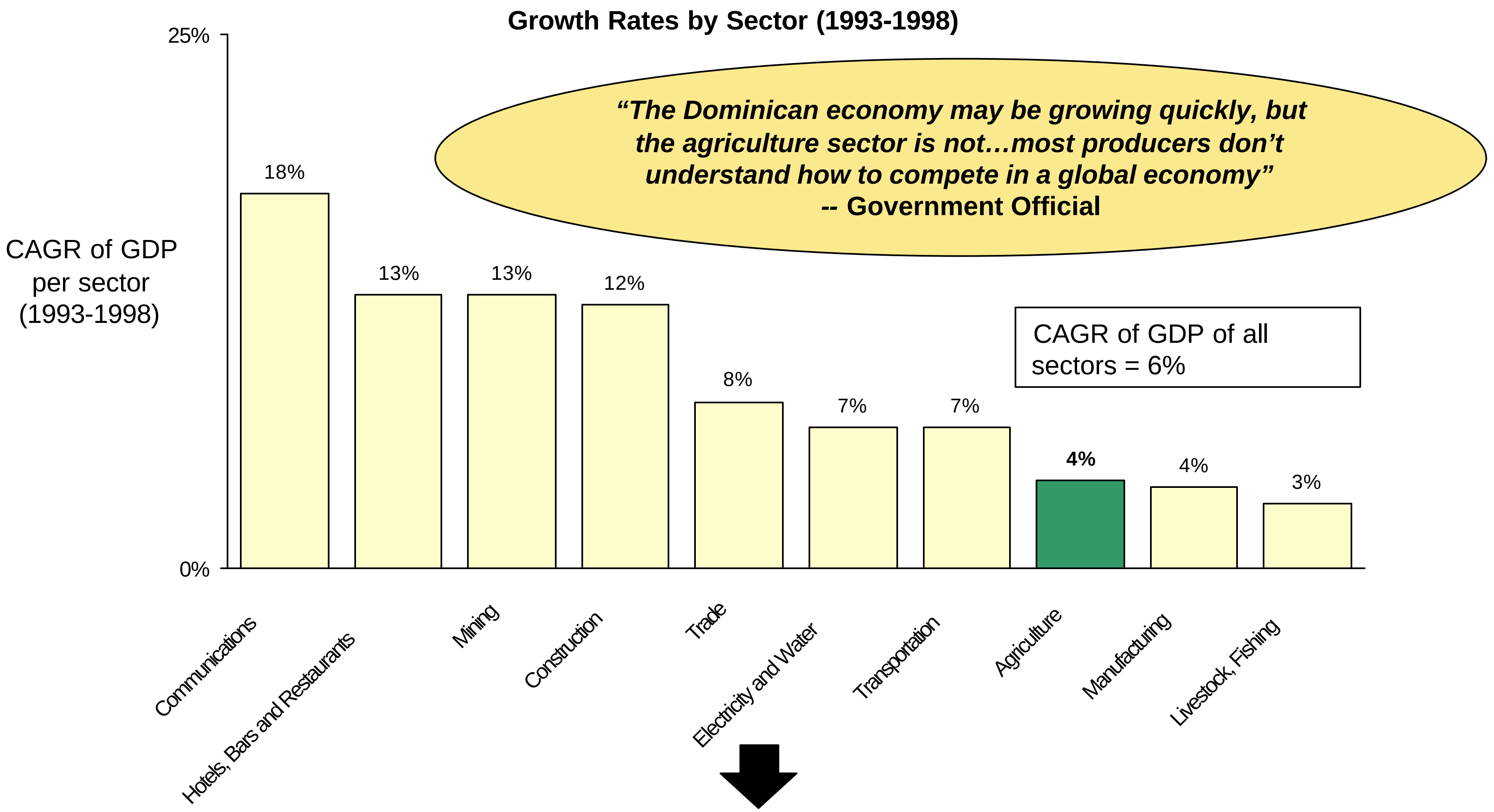
-- Dominican Coffee Exporter

- The Dominican Republic has deforested the country at a rate of 1.6% per year between 1990 and 1995
- Poor strategic environmental choices in agriculture have high externality costs:
  - loss of productive land (topsoil erosion)
  - water quality and water table damage
  - landslide damage
  - loss of environmentally friendly and organic niche markets for agricultural products
  - reduced tourism

Non-competitive and unsustainable agricultural practices, such as slash-and-burn farming, destroy economically valuable environment assets as well as the overall quality of life for the area's inhabitants.

SOURCE: Photo - Sierra de Neiba, the Dominican Republic, Virginia Heinsen de Freites, 1998

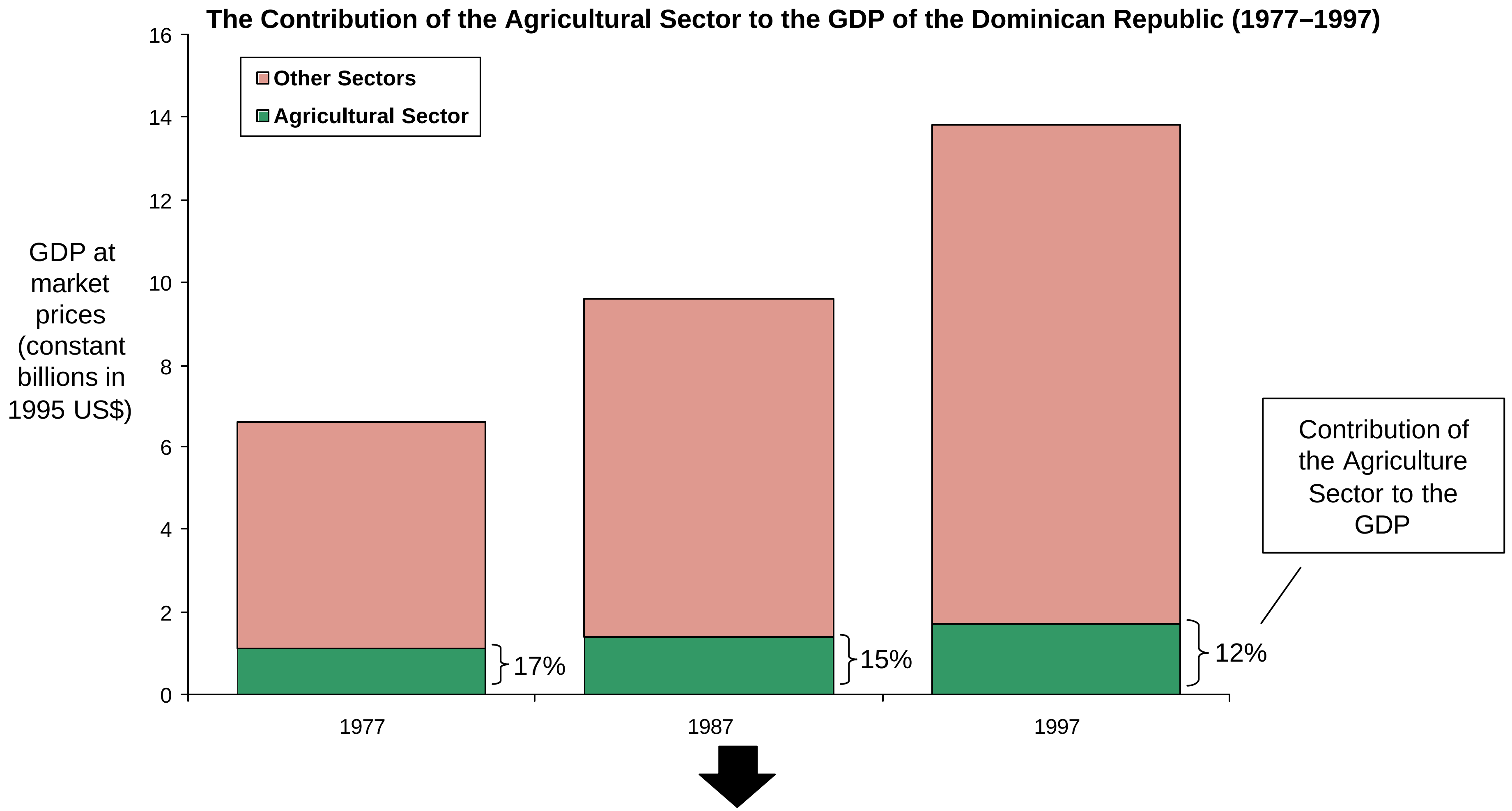
The Challenge for Agriculture
Sectorial Growth in the Dominican Economy



The Dominican agriculture sector, which has grown an average of 4% per year over the last five years, lags behind the 6% overall growth of the Dominican economy, and far behind the double-digit growth of sectors such as communications.

SOURCE: Central Bank of the Dominican Republic, Economic and Financial Brief, 1999

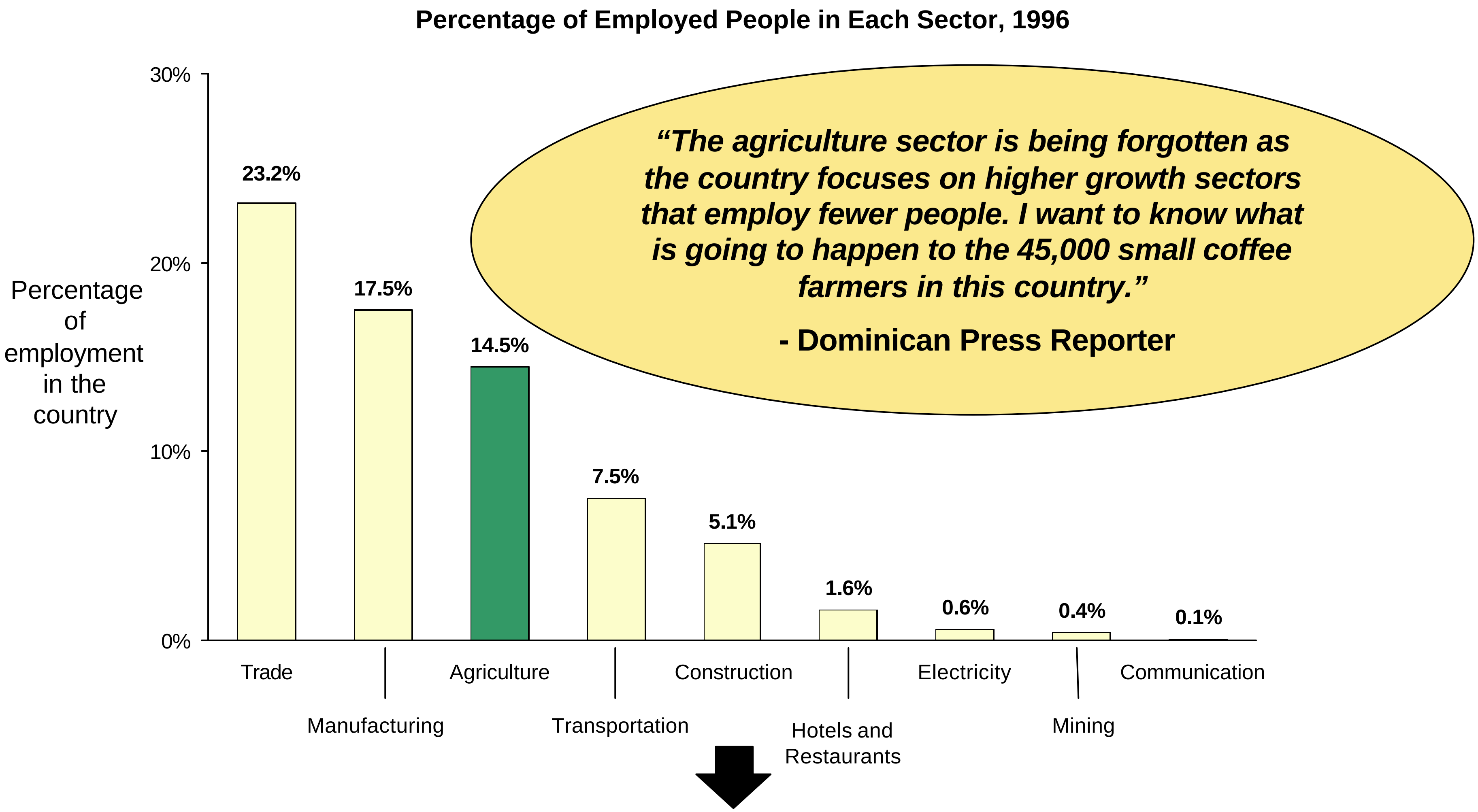
The Challenge for Agriculture
Contribution of the Agricultural Sector to the GDP



Although the contribution of the agriculture sector to the GDP between 1977 and 1997 decreased by 5% due to growth in other sectors of the economy, the agricultural sector still contributed 12% to the Dominican GDP in 1997.

SOURCE: World Bank national accounts data, and OECD national accounts data files, 1999 CD-ROM

The Challenge for Agriculture
Employment in the Agricultural Sector



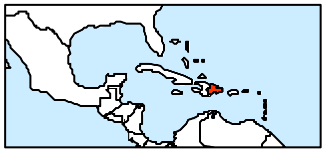
With 14.5% of the total formal employment, the agricultural sector was the third largest employer of the Dominican Republic in 1996.

Note: Employment percentage data from the Central Bank of the Dominican Republic is not available for 1997.
SOURCE: Data from the "Informe Económico", publication of the American Chamber of Commerce in the Dominican Republic

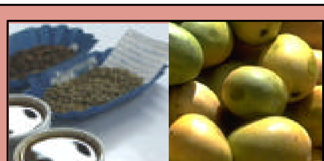
The Challenge for Agriculture
Summary

- Despite recent growth in the Dominican Republic's economy, the country continues to be much poorer than many of its neighbors, and growth in the agricultural sector significantly lags behind faster growing sectors.
- In the heart of agricultural areas, poverty levels already are above 30% and are rising rapidly.
- Environmentally unsustainable agricultural practices are not producing prosperity for impoverished farmers in the short term and are causing long term damage to the natural assets of the country.
- The agricultural sector may not show 18% or 13% annual growth, as the tourism and communications sectors have respectively, but the agriculture sector continues to employ approximately 15% of working Dominicans.

Competitiveness is Our Decision
Agenda

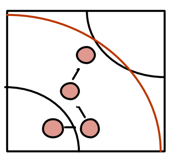


- **The Challenge for Agriculture in the Dominican Republic**

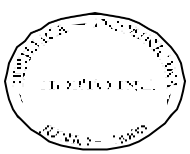


- Current Strategic Choices in Hortofrutícola
  - **Current status of the hortofrutícola cluster**
  - **Tools for understanding strategic choices**

- Opportunities to Build Competitive Advantage



- Migration Strategies: The Cases of Yucca and Coffee



- Strategic Imperatives and Cluster Initiatives

Current Status of the Hortofrutícola Cluster
What is a Cluster?

A *cluster* is a geographic concentration of related companies and institutions in a particular industrial field. In general, a cluster includes specialized providers, universities, industrial associations, governmental institutions and other organizations that provide entertainment, education, information, research and technical support.

– *Professor Michael E. Porter,*
Harvard University Business School

Current Status of the Hortofrutícola Cluster
What is the Hortofrutícola Cluster?

The hortofrutícola cluster consists of **business** and **organizations** involved in the following products and their derivatives:

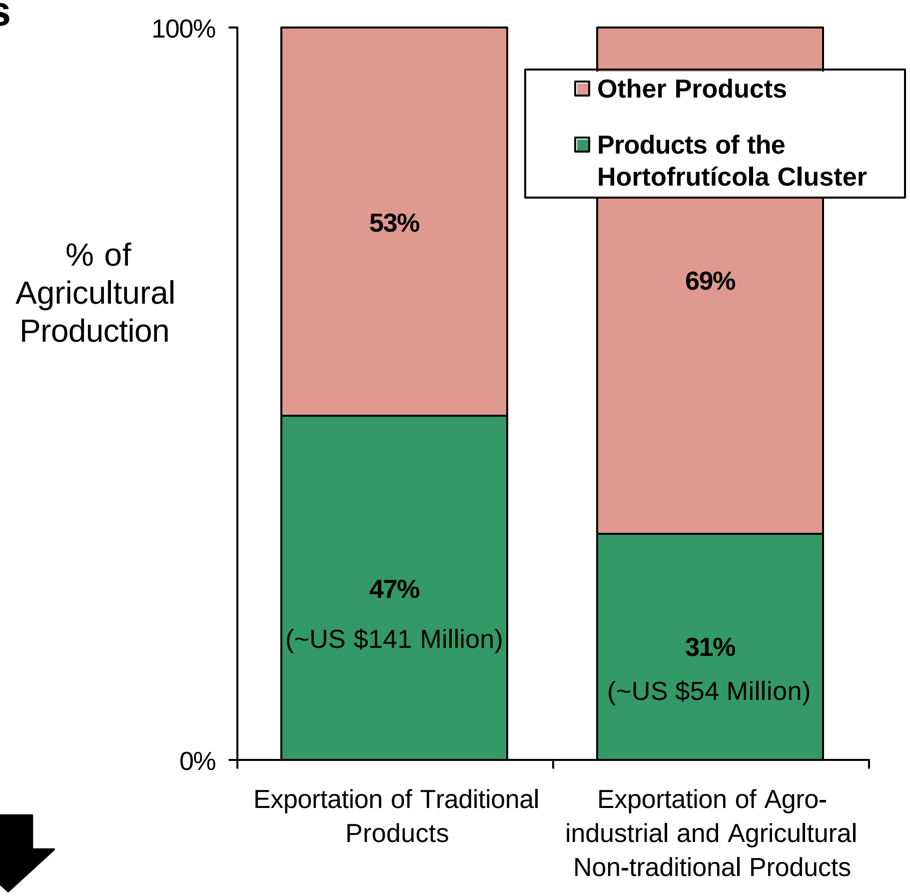
Traditional Export Products

- Cocoa
- Coffee

Non-traditional Export Products

- Coconut
- Mango
- Víveres

Exportation of Domestic Products in 1998



In 1998, the Dominican Republic exported nearly US $200 million in hortofrutícola products, equivalent to 47% of traditional product exports and 31% of non-traditional agro-industrial and agricultural product exports.

Note: According to Cedopex, traditional products include sugar, green coffee, tobacco leaves, and raw cocoa beans. Hortofrutícola cluster products include all coffee, cocoa, coconut, mango and víveres (yucca, yautía, ñame, sweet potato, plantain, and banana) products.

SOURCE: Cedopex, Monitor Country Competitiveness analysis

Current Status of the Hortofrutícola Cluster
Key Challenges

Avoid over-dependence on basic factors

*"We need to stop competing **based on price**. Too many agricultural producers **depend on cheap labor as their source of advantage,** this is a losing strategy."*

– Owner of a Sustainable Coffee Farm

Increase customer understanding

*"There are huge opportunities in niche markets overseas **but we have no knowledge of our customers' needs**…we all have brothers and sisters living in New York who want to buy Dominican products but don't have access to them."*

– Manager of a Leading Dominican Brand

Improve interfirm cooperation

*"One of the major challenges of the hortofrutícola cluster is a **basic lack of trust**. How can we cooperate when we have been lying to each other for so long"*

– Leader of Major Agricultural Sector

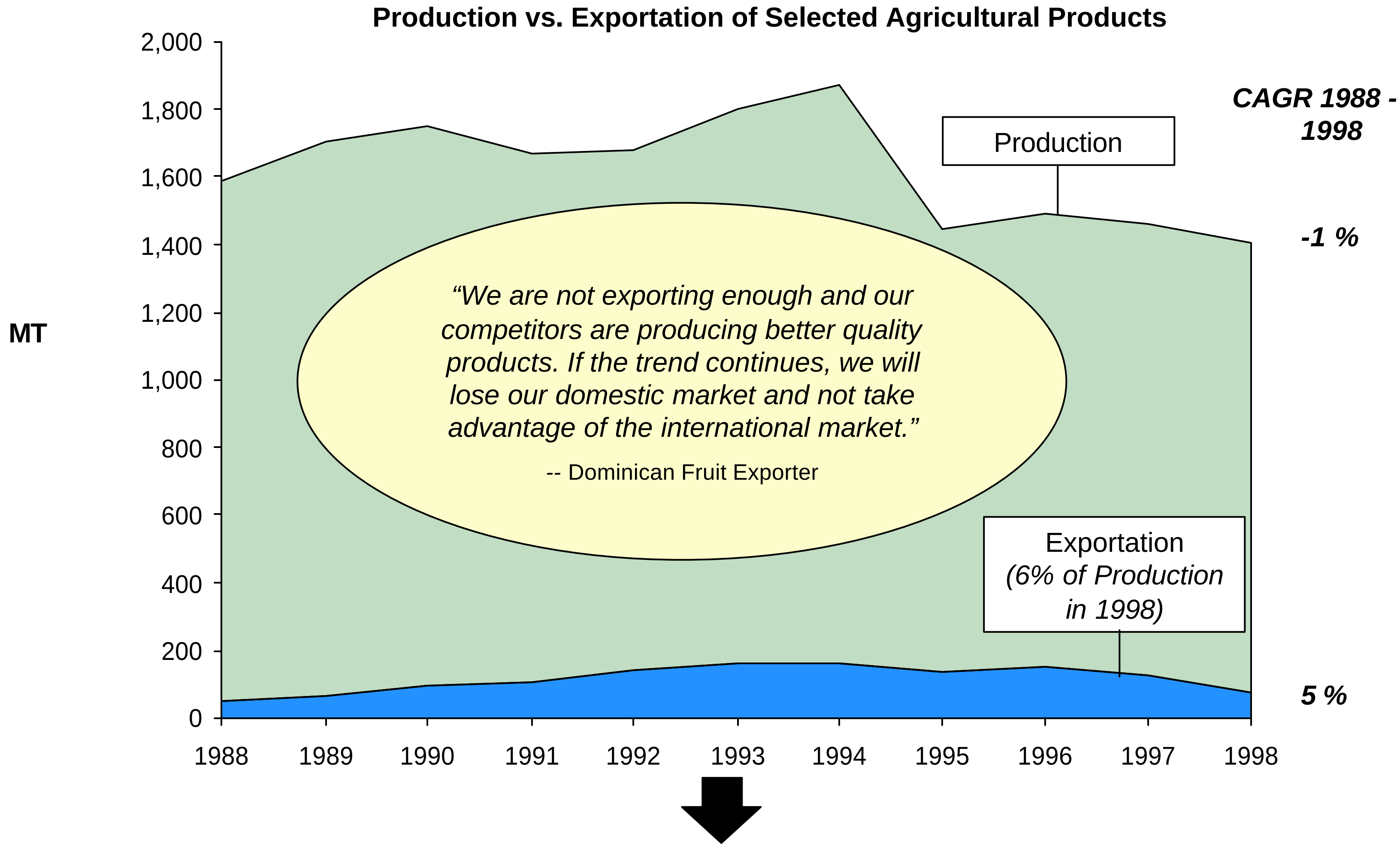
Avoid paternalism

"The hortofrutícola cluster needs to stop waiting for the government to provide favors and subsidies. We are not pro-active enough and this constantly places us on the defensive."

– Leading Exporter of Dominican Agricultural Products

SOURCE: Monitor Country Competitiveness interviews

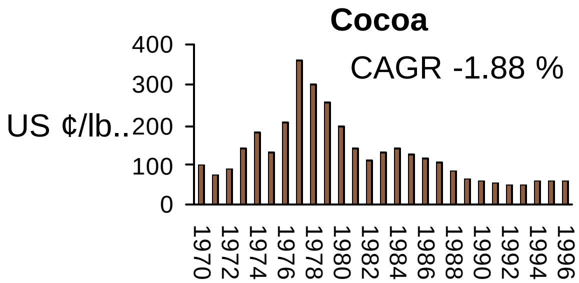
Current Status of the Hortofrutícola Cluster
Production vs. Exportation of Selected Products

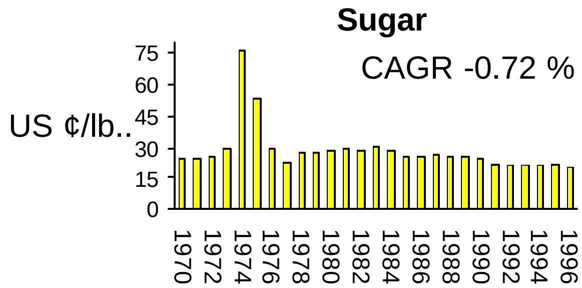


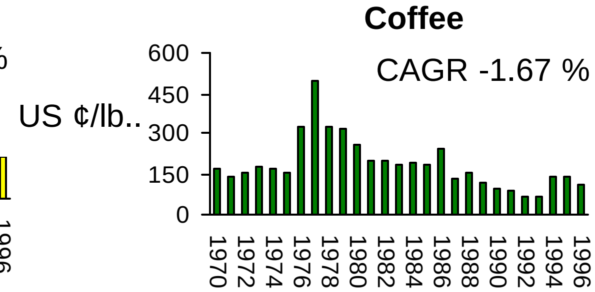
Over the last ten years, production of selected agricultural products decreased on average by 1% per year, while exports increased by 5% per year. However, exports are still only 6% of total production.

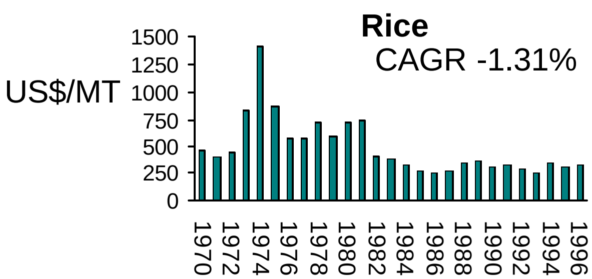
Note: Selected hortofrutícola products include avocado, banana, coconut, mango, grapefruit, papaya, pineapple and plantains.
SOURCE: FAOSTAT database, Monitor Country Competitiveness analysis

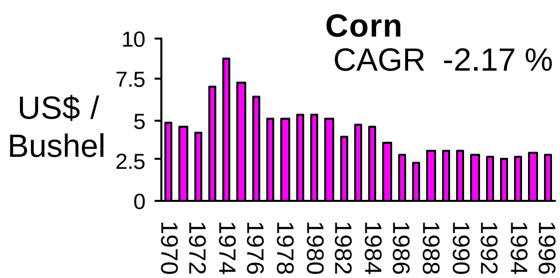
Current Status of the Hortofrutícola Cluster
Constant Prices of Basic Products

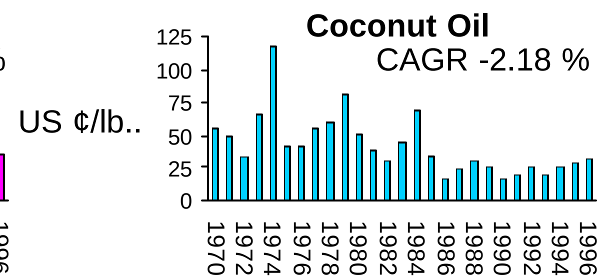










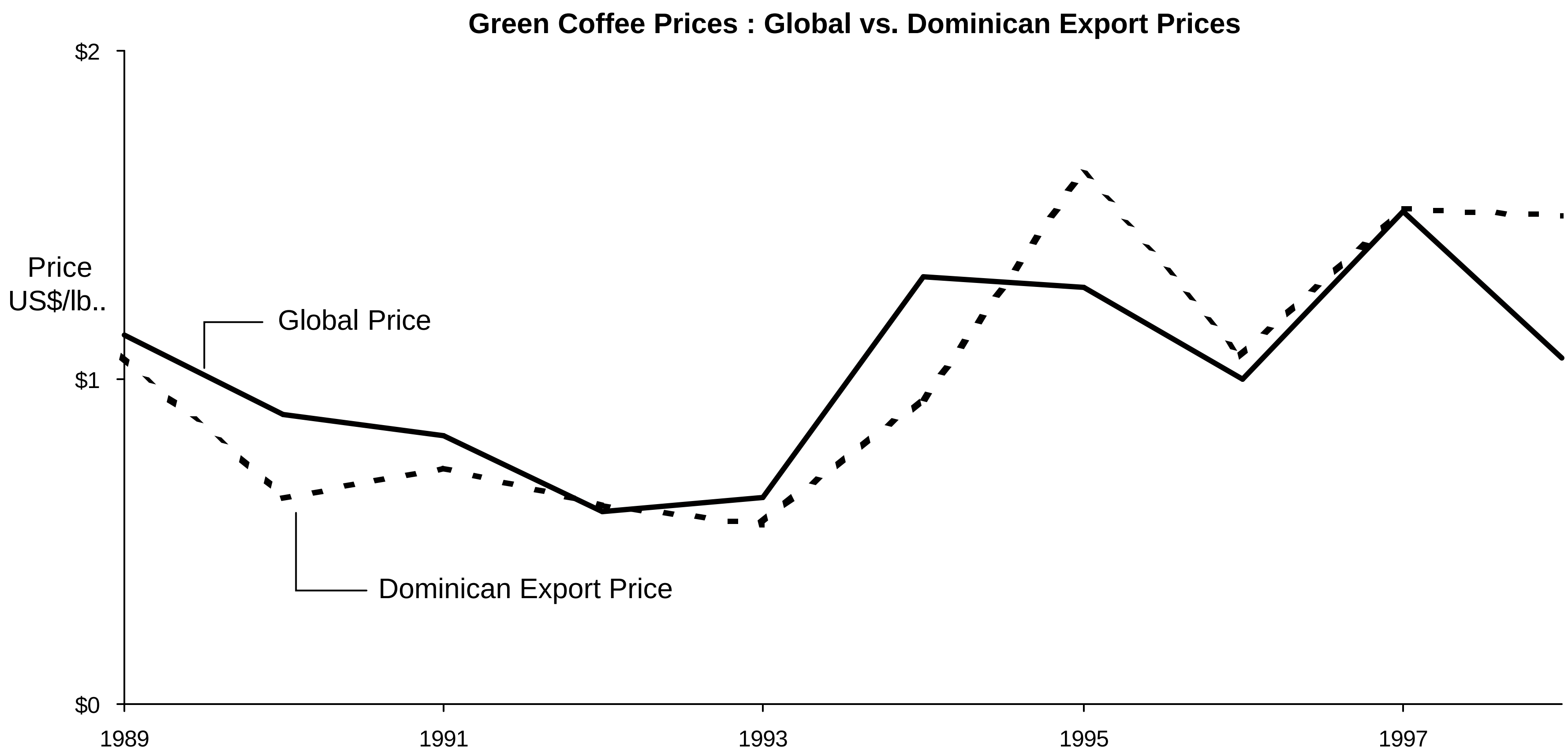


During the past three decades, all the prices in real terms of the basic products, such as those of the Dominican Republic have decreased. Coconut oil prices, for example, have declined by 2% annually since 1970.

Note: Data from 1996 corresponds to November of the same year.

SOURCE: Price data from IFS Yearbook 1996, IMF, and IFS of January 1997. Conversion of real prices calculated with deflator for US GDP from the US Department of Commerce, Economic and Statistics Administration, Bureau of Economic Analysis. Monitor Country Competitiveness analysis

Current Status of the Hortofrutícola Cluster
Basic Products Prices: Case of the Dominican Coffee

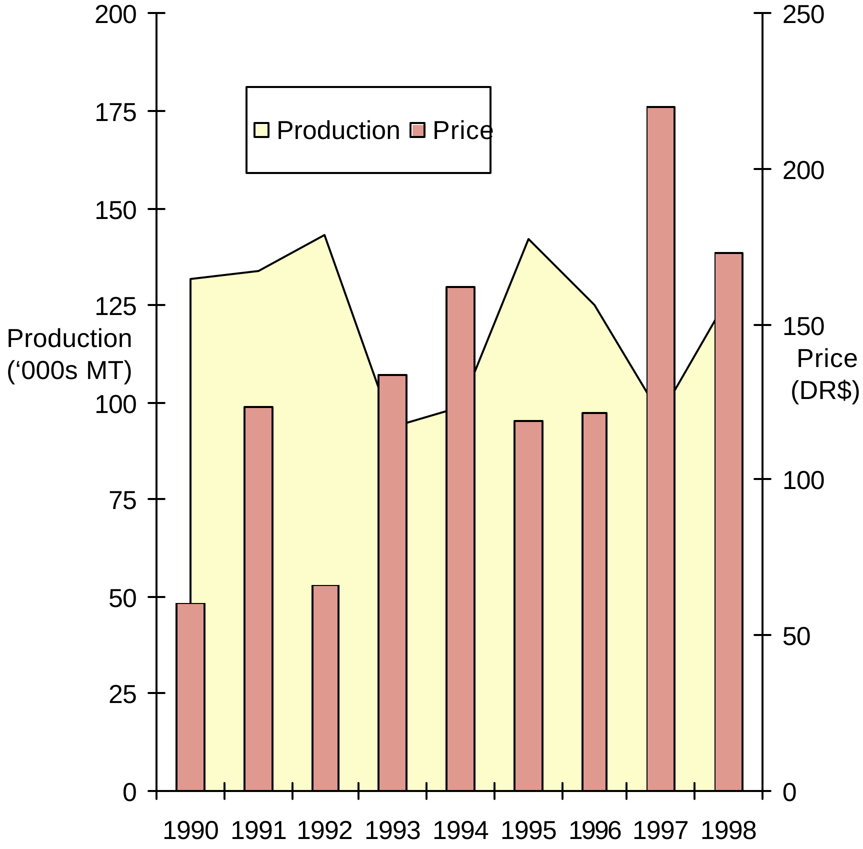


The Dominican Republic primarily exports green unprocessed coffee whose prices follow the global price trends of commodity coffee.

Note: Global coffee price estimation is based on the regular calendar year. The Dominican coffee price estimation is based on the agricultural calendar year (October-September).
SOURCES: FAOSTAT, CEDOPEX

Current Status of the Hortofrutícola Cluster
Price Instability: Case of Dominican Yucca

Production and Price of Yucca in the Dominican Republic



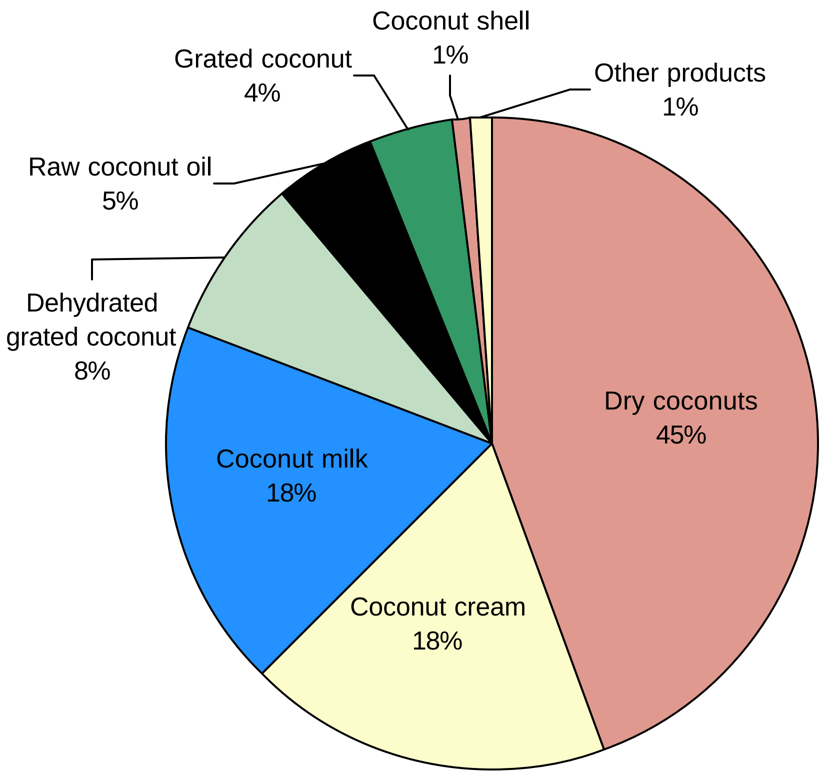
- *"We have tons of under-utilized capacity because we simply stop producing as soon as prices drop and plant when prices go up. It's a* ***reactive, non-strategic, vicious cycle*** *that results in constant market instability."*
  - Dominican Víveres Producer in Mocca
- *"The inconsistency of Dominican produce makes buyers view the Dominican Republic as* ***excess swing capacity*** *to be used only when there is a shortage of product on the international market."*
  - Large U.S. Produce Buyer/Distributor

Dominican víveres farmers react to the highly variable market prices, which in the case of yucca have fluctuated as much as 400% in the last 10 years. When prices go up, production increases the following year and vice versa. This lag effect indicates a short-term strategic perspective.

SOURCE: Agricultural Sector Diagnostic, Agricultural Secretary of State, March 1999

Current Status of the Hortofrutícola Cluster
Price Sensitivity - Case of Dominican Coconut Products

Dominican Exportation of Coconut Products, 1998



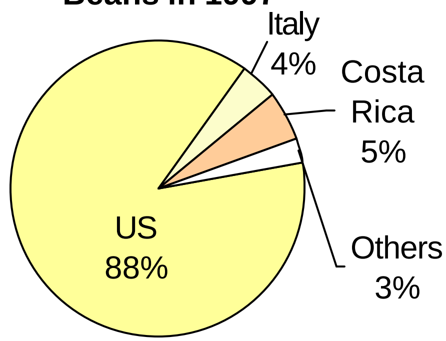
- *"The minute my buyer finds better prices for my processed coconut products, **he will buy from another country**"*
  - Dominican Coconut Processor
- *"Much of the area that used to be for coconut production is now much more valuable for tourism. If we do nothing, **production will plummet over the next 5+ years and prices for raw materials will go up**. We have to move to niches that aren't so price sensitive and that merit investment in long term supply."*
  - Dominican Coconut Exporter

The largest portion of coconut exports, 45%, are dry coconuts, followed by other coconut products that are only slightly processed.

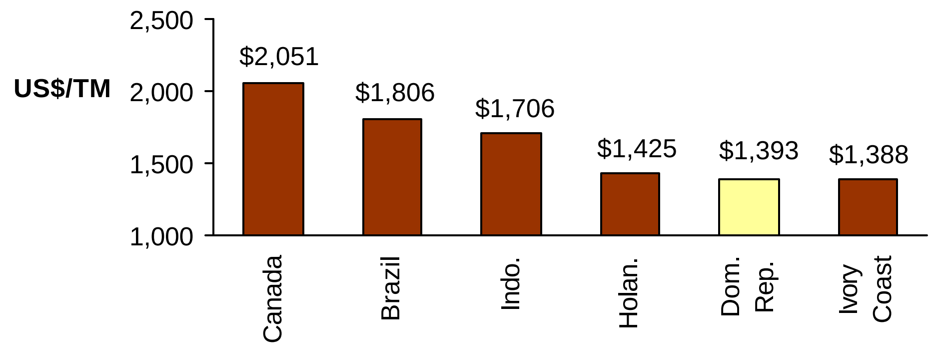
SOURCE: Agricultural Sector Diagnostic, Agricultural Secretary of State, March 1999. Percentages based in US dollars of exports FOB

Current Status of the Hortofrutícola Cluster
Competing on Price: Case of the Dominican Cocoa

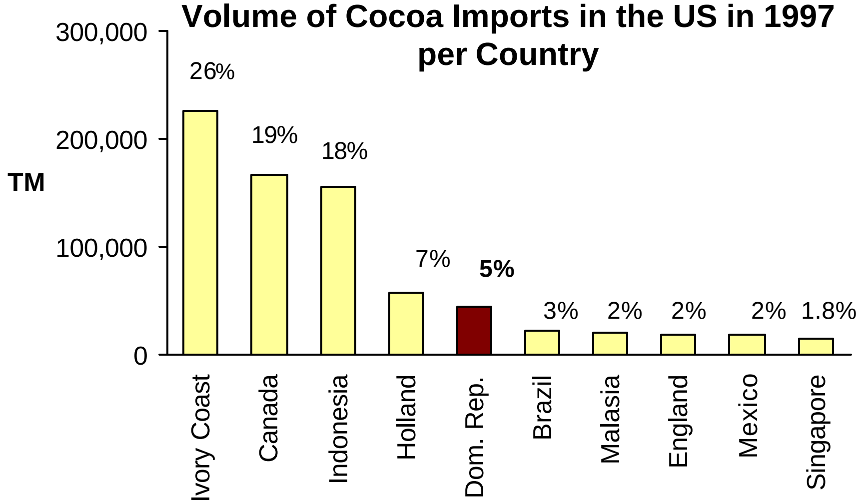
Export Destination of Dominican Cocoa Beans in 1997



Prices Paid in the US in 1997 for Cocoa and Cocoa sub-products by country



Volume of Cocoa Imports in the US in 1997 per Country



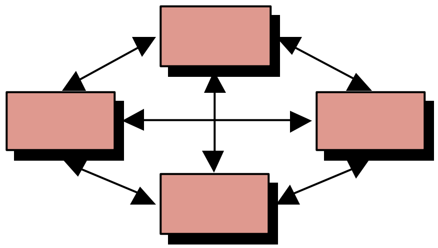
- 90% of the Dominican cocoa is exported as unprocessed cocoa beans
- Historically, more than 95% of total production has been low grade Sanchez beans, priced on average 20% lower than higher-quality Hispañola cocoa

Dominican producers export low-quality, low-priced cocoa beans, mostly to the US market. They have a 5% market share in the US, and compete against much bigger exporters such as the Ivory Coast in Africa, who also offer low-quality cocoa but hold 26% of US market share.

Note: Export figures from the DR include only cocoa beans, while import data from the US market includes also processed products.
SOURCE: USDA Dominican Republic Cocoa Annual Report 1999, CEDOPEX, FAOSTAT Database; U.S. Census Bureau

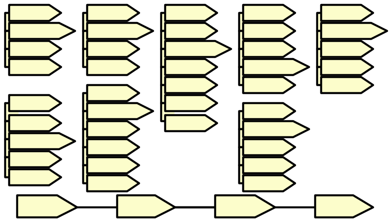
Tools for Understanding Strategic Choices
Business Questions

What is the business environment for the Hortofrutícola Cluster in the Dominican Republic?



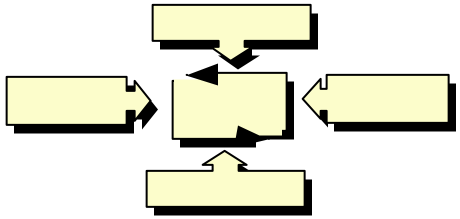
The Diamond

How well does the Hortofrutícola Cluster work together?



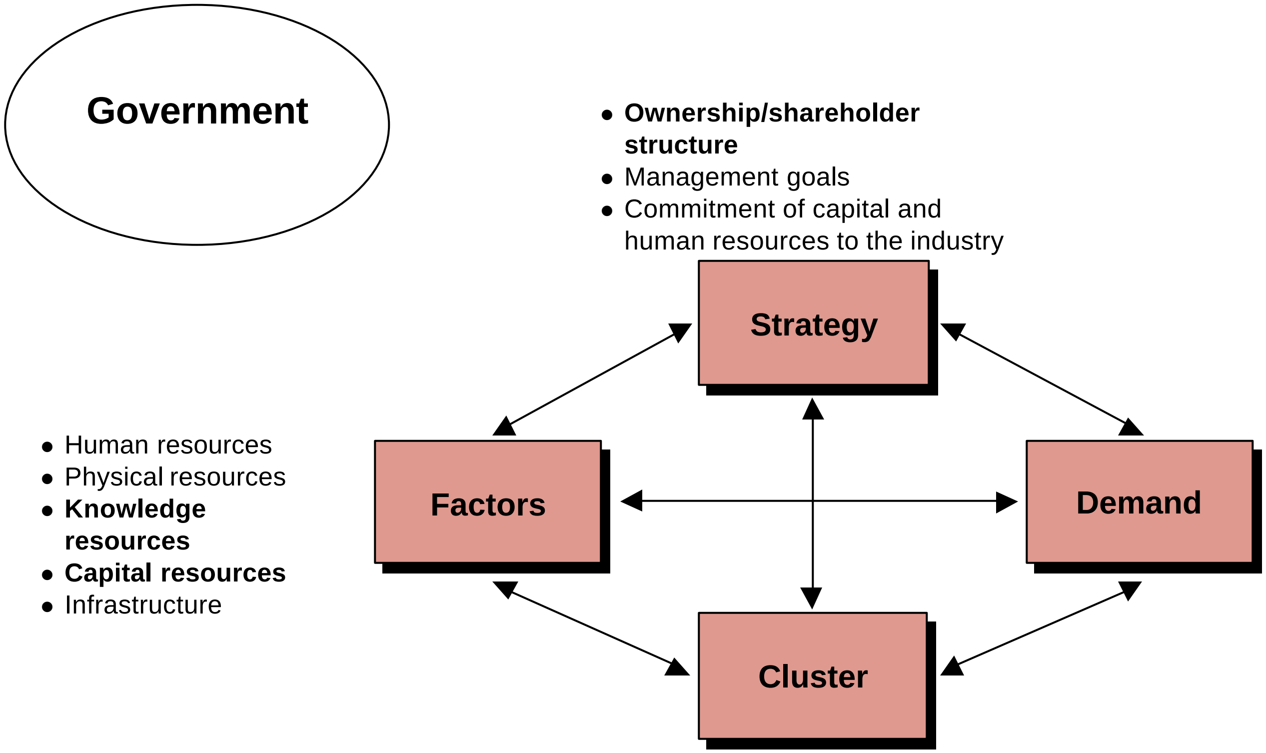
The Cluster Map

How attractive are the segments that the Hortofrutícola Cluster serves?



The Five Forces

Tools for Understanding Strategic Choices
Assessing the Business Environment - The Diamond



Strategy
- **Ownership/shareholder structure**
- Management goals
- Commitment of capital and human resources to the industry

Factors
- Human resources
- Physical resources
- **Knowledge resources**
- **Capital resources**
- Infrastructure

Demand
- Local demand
- **Sophistication of demanding segments**
- Anticipation of buyer needs
- Size of demanding customer segments

Cluster
- Presence of competitive industries
- **Presence of related industries in which firms can coordinate and share activities in their value chain**

The diamond is a framework to assess the competitive platform of a country.

SOURCE: Michael Porter, *Competitive Advantage of Nations*

Tools for Understanding Strategic Choices
National Platform of the Dominican Hortofrutícola Cluster

Strategy, Structure and Rivalry - *WEAK*

- **Weak image of the product abroad - "Our shipments of Dominican Yautia weighs much less than they should." - US Distributor**
- Lack of investment in coffee, cocoa and coconut fields has decreased the quality
- Lack of technical production and processing capabilities
- Export cocoa and coffee beans to the international market via intermediaries
- The DR does not export products to market niches (78% of Dominican yucca consumers in NY prefer their yucca from Mocca/Cibao, however Dominican producers are not exporting to these niches)

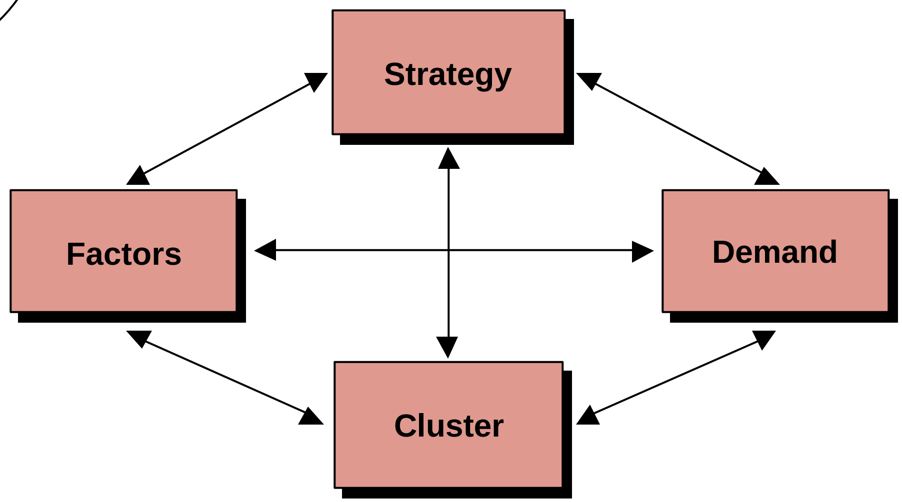
Government - *WEAK*

- Tradition of interventionism
- Barriers to exports have had adverse results for the industry

Factors - *MODERATE*

+ Natural resources
+ Appropriate land and climate for cultivation of organic products
+ Strategic location with regard to the US market
+ **Cheap labor (average salary US$120/month)**

- Lack of infrastructure, scarcity of community roads
- Low capitalization
- **Deforestation at 1.5% per year between 1990-95**



Demand - *MODERATE*

- Local buyers are not demanding
+ **More than 94% of Dominicans in the US consume hortofrutícola products**
- Underexploited opportunity in the tourism market (coffee tourism)
+ High demand for exotic, fresh and organic fruit in Europe and the US

The Cluster - *MODERATE*

+ **Enthusiasm for cooperation and shared learning within the sector. "The hortofrutícola cluster is coming together to create a brand strategy for Horto Inc." - Cluster Leader**
+ Packaging material produced in the DR

± Some research institutions available, but a lack of mechanisms to institutionalize knowledge

- "We can't export our mangos to the US because of the fruit flies -- we must work together to develop a treatment plant and become certified." - Mango Producers
- Lack of certification or standardization within the industry
- Weak relationships with support clusters such as transportation and financial institutions
- No link with universities for research and information gathering

The competitive environment in the Dominican Republic for hortofrutícola is weak, in part due to poor strategy and underdeveloped clusters.

SOURCE: Monitor Country Competitiveness Research

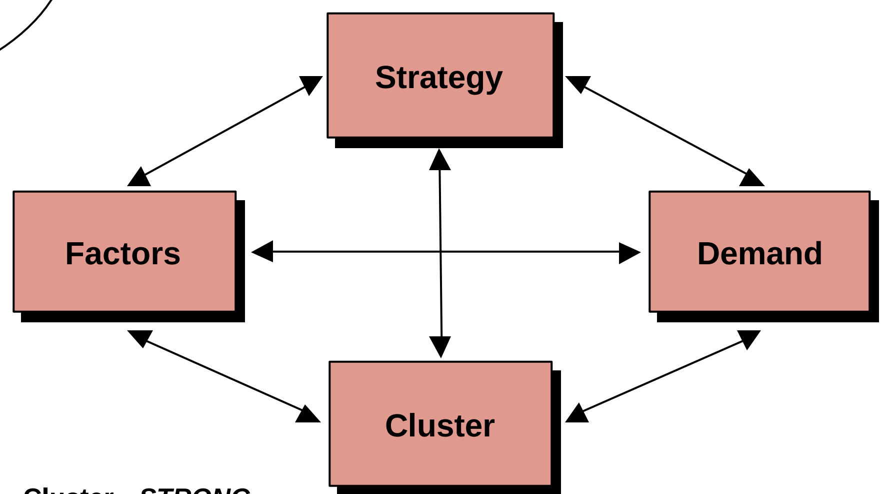
Tools for Understanding Strategic Choices
National Platform of the Chilean Hortofrutícola Cluster

<u>Government - *STRONG*</u>

+Efficient information systems
+Clear incentives for private initiatives
+Availability of loans for technology and research development

<u>Strategy, Structure and Rivalry - *STRONG*</u>

± Few capable export houses, but with a very strong and healthy rivalry
+ Product diversification
+ **Investment in technology and research to improve productivity (specially the export houses that share with their providers)**
+ Presence in foreign markets with offices of their own (especially large exporters)
+ Continuous attempts to look for new markets in the far east



<u>Factors- *MODERATE TO STRONG*</u>

+ Appropriate climate for opposing season products (shorter than Peru)
+ **Availability of moderately priced labor (with an annual salary increase less than US$ 250)**
- Far from the big market in the northern hemisphere, closer to Asia
+ Availability of trained labor (Univ. Agraria)
+ High quality transportation infrastructure (many private initiatives)

<u>Demand - *MODERATE*</u>

+ **Improved image of Chilean products**
+ **High demand for new, fresh and organic exotic fruits in Europe and the US**
- Increase of the demand in South American markets
- Internal demand has increased and is more demanding due to higher standards of living

<u>Cluster - *STRONG*</u>

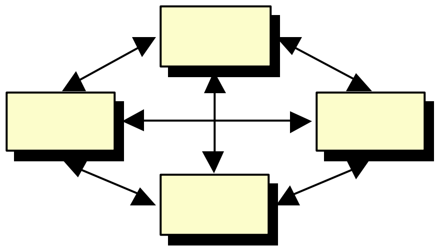
± Some imported machinery but generally acquired in Chile
+ Imported fertilizer but at a low cost
+ **Package materials produced in Chile**
+ Development of seeds in the country
+ **High cooperation among producers**
+ Product certification before shipment
+ High frequency of shipments and low prices due to volume
+ **Availability of capital to invest in technology with long term loans of 8% to 9% interest in US dollars**

The competitive environment in Chile for tropical fruit is strong thanks to a well-developed cluster and strong demand.

SOURCE: Monitor Country Competitiveness interviews, The Chilean Agricultural Sector - Policies and Results, Ministry of Agriculture of Chile

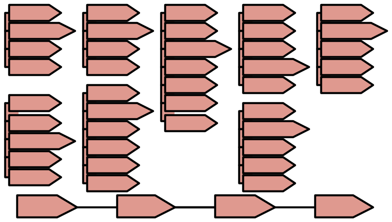
Tools for Understanding Strategic Choices
Business Questions

What is the business environment for the Hortofrutícola Cluster in the Dominican Republic?



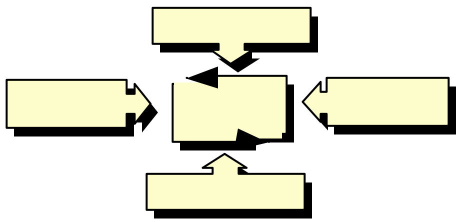
The Diamond

How well does the Hortofrutícola Cluster work together?



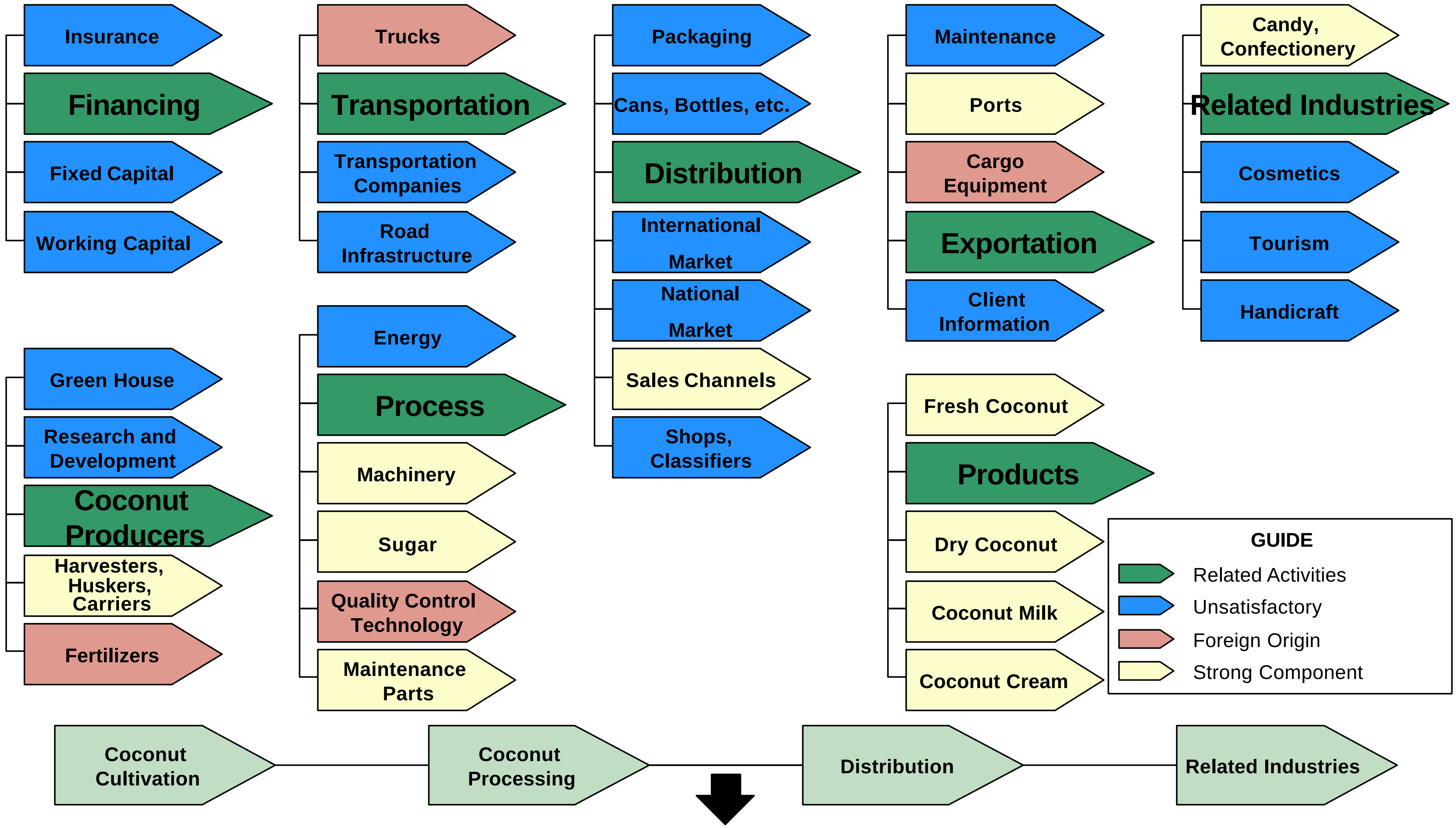
The Cluster Map

How attractive are the segments that the Hortofrutícola Cluster serves?



The Five Forces

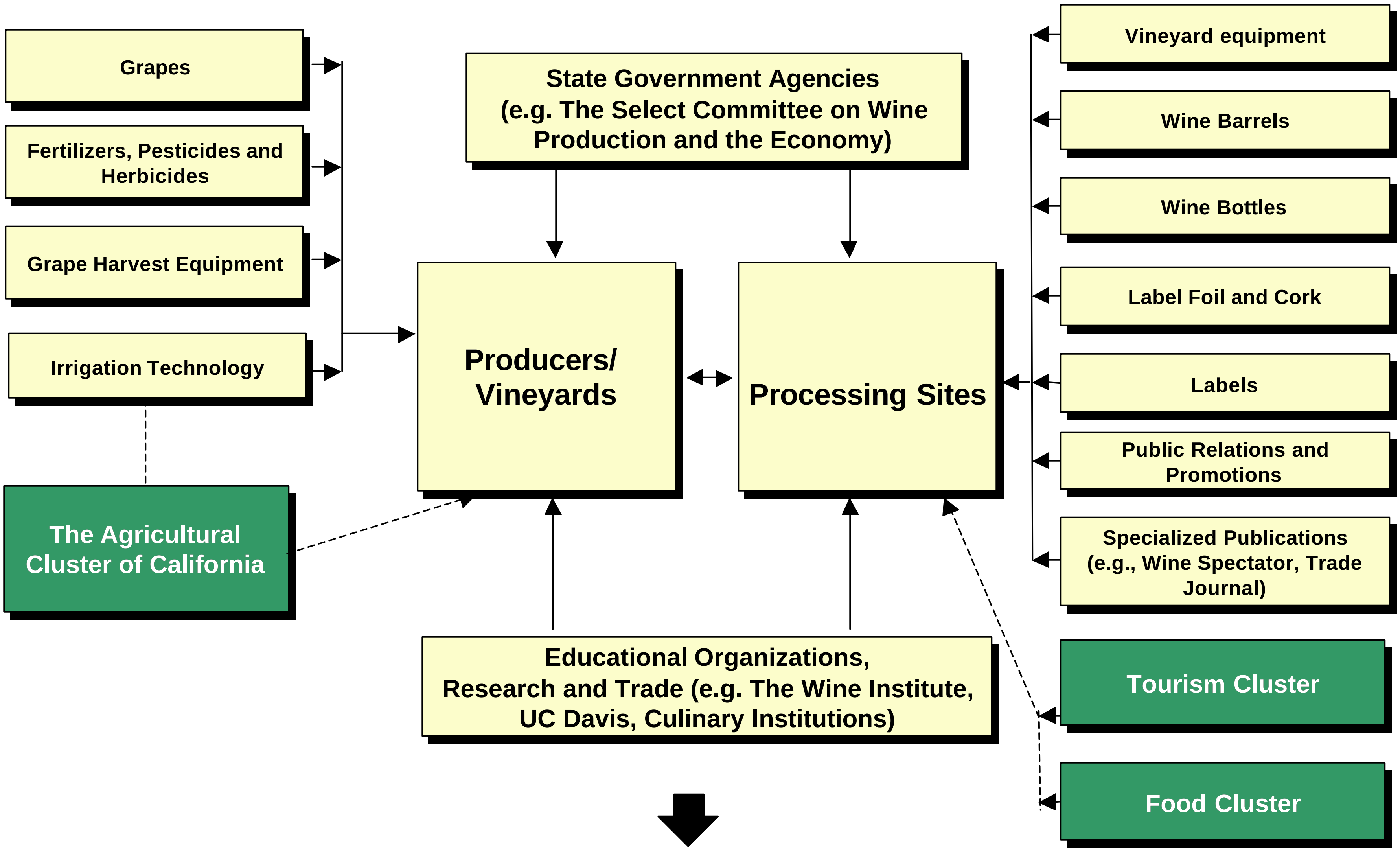
Tools for Understanding Strategic Choices
Cluster Map: Case of the Dominican Coconut



The coconut cluster is weak, particularly in the following areas: financing, transportation, distribution, and relationships with related industries.

SOURCE: Monitor Country Competitiveness analysis, interviews with the hortofrutícola cluster

Tools for Understanding Strategic Choices
Cluster Map: Case of California Wine

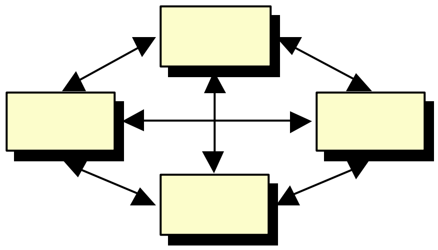


The California wine cluster is strong and well-developed.

SOURCE: Research from the Office of Michael Porter, Harvard University, based on research from MBA students of 1997. California Wine Institute, internet research, California State Legislature

Tools for Understanding Strategic Choices
Business Questions

What is the business environment for the Hortofrutícola Cluster in the Dominican Republic?



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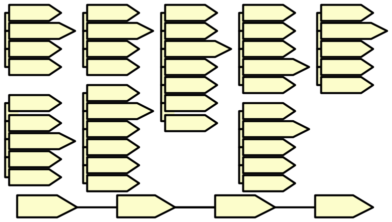

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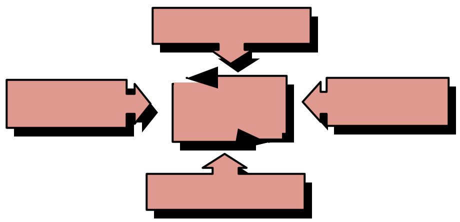


The Five Forces

Tools for Understanding Strategic Choices
The Five Forces

Entry Barriers

- **Economies of scale**
- Proprietary product differences
- Brand Identity
- Switching costs
- **Capital requirements**
- Distribution access
- Absolute cost advantages
  - Proprietary learning curve
  - Access to necessary inputs
  - Proprietary low-cost product design
- Government policy
- Expected retaliation

Threat of New Participants

Supplier Power

Rivalry among Competitors

Buyer Power

Determinants of Supplier Power

- Differentiation of inputs
- Switching cost of suppliers and firms in the industry
- Presence of substitute inputs
- **Supplier concentration**
- **Importance of volume to supplier**
- Cost relative to total purchases in the industry
- Impact of inputs on cost or differentiation
- Thread of forward integration relative to thread of backward integration by firms in the industry

Determinants of Rivalry

- **Industry growth**
- Intermittent capacity
- Product differences
- Brand identity
- Cost of switching
- Diversity of competitors
- Concentration and balance
- Informational complexity
- Corporate stakes
- **Exit barriers**

Determinants of Buyer Power

Intrinsic Leverage

- Buyer concentration vs.. firm concentration
- Buyer volume
- **Buyer switching cost relative to firm switching cost**
- **Buyer information**
- Ability to integrate backward
- Substitute products

Price Sensitivity

- Price/total purchases
- Product differences
- Brand identity
- Impact on quality performance
- Buyer profits
- Decision makers' incentives

Threat of New Products

Determinants of Substitution Threads

- Relative price performance of substitutes
- Switching cost
- **Buyer propensity to substitute**

The five forces is a tool to evaluate strategic position, segment attractiveness, and understand how the wealth of a given product is divided among the five competing groups.

SOURCE: Michael Porter, *Competitive Advantage of Nations*

Tools for Understanding Strategic Choices
Commercial Green Coffee

- The industry is highly subsidized by multilateral and local government
- **Approximately 50 countries in the world have the necessary climate conditions to produce coffee**
- The investment return is given in the middle term, which discourages the poorest farmers
- Aggressive expansion plans developed in Brazil and Colombia
- Low barriers of entry due to moderate investment in the purchase of harvest and processing equipment

Threat of New Participants
Moderate

Supplier Power
Moderate

- Frequently imported processing and classification machinery and expensive import tariffs
- Insufficient information about available fertilizers and pesticides
- Imported fertilizers are generally very expensive
- **Scarcity and inconsistency of energy and water provision**

Rivalry among Competitors
High

- **The nature of the product promotes a fierce price competition**
- The importance of coffee exportation in many under developed countries requires total participation at any cost
- The coffee legacy leads to business decisions based on tradition, not on earnings
- Installed over-capacity in terms of benefits

Buyer Power
High

- The cyclical behavior of coffee prices results in a shifting balance of power between suppliers and buyers
- **10 countries control approximately 80% of the coffee in the world**
- 60% of the coffee trade is controlled by ten companies
- **In the majority of developed markets, 3 competitors control 60% of the market**

Threat of New Products
Moderate/High

- **The consumption of bottled water and beverages has significantly increased in many developed markets, especially in the US**
- **The consumption of commercial coffee is growing at 2 to 3% while the growth in the consumption of other coffee beverages is between 10-20%**
- Competitors are innovating to create new and different derivative products of coffee (gourmet, organic)

The commercial green coffee segment of the coffee market is unattractive with many competitors, low barriers to entry, and high bargaining power of buyers.

SOURCE: Monitor Country Competitiveness analysis

Tools for Understanding Strategic Choices
Organic Coffee

- Complex barriers to trade include relationships with the intermediaries, who have effective networks
- Highly sensitive segments to brand results in high market cost
- **Specialized distribution via the internet remove barriers to trade (Café Meseta)**
- Access to distribution channels create opportunities to vertically integrate
- **Only approximately 15 of the countries are "certified" organic**
- Coffee producing countries with economies of scale constitute a substantial threat (e.g. Colombia, who has decided to enter the market)

Threat of New Participants

Moderate

Moderate

Supplier Power

High/Moderate

Rivalry among Competitors

Moderate

Buyer Power

- Input costs such as pesticides are reduced
- **Opportunities for forward integration of the product processing, packaging and delivery allow the supplier to have focused strategies**
- Availability of favorable land conditions
- Cost of labor is relatively cheap
- Few specialized packaging suppliers prevent price competition

- **The organic segment of the specialized coffee market is growing twice as fast as the specialized market in general (20% per year)**
- With the introduction of internet, there is a great diversity of competitors who compete for micro-niches (e.g. organic coffee grown regionally)
- The ability to exploit direct channels of distribution to the consumer allows the organic coffee suppliers to capture more value
- The low costs of switching from commercial to organic coffee makes the entry more possible

- The demand for certified organic coffee exceeds the supply
- Low client loyalty signifies that the client could be demanding and could easily change its provider (via internet)
- Information about the providers is easily accessible on the internet. Gifts and/or rewards for service are greater than ever
- **Organic coffee consumers are demanding better quality for a lower price while companies (Meseta) transfer captured value back to the consumer. (The price for organic coffee has fallen between 1997-99 from US$ 12 to US$ 9 per pound)**
- **Organic coffee buyers cite the "story" of the coffee as one of their critical decision factors**

Threat of New Products

High/Moderate

- **Reduction of the general consumption of coffee (-2% annually) in favor of beverages such as bottled water and ice tea show the propensity of consumers to substitute**
- Growth of healthy food and beverage market provide a range of substitutes for organic coffee (organic teas and herbal beverages)

Although the five forces for organic coffee are more attractive than those of commercial coffee, competition in organic coffee is also very strong.

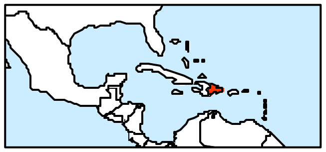
SOURCE: "Arabica International", a work done by the students of the International Consulting Workshop at Georgetown University, taught by Kaia Miller from Monitor Country Competitiveness

Current Status of the Hortofrutícola Cluster
Summary

- The Hortofrutícola Cluster is an important part of the Dominican agricultural sector that accounts for close to half of the agricultural exports of the country, a total of US$ 200 million dollars in 1998. Key products in the cluster include: cocoa, coffee, coconut, mango and víveres

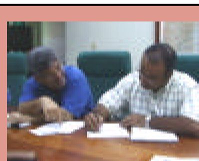
- The Hortofrutícola Cluster has made many poor strategic choices. These choices include exporting commodity products whose prices have been falling consistently over time, and making short-term reactionary decisions in response to the price fluctuations of basic agricultural products that only exacerbate price instability. Furthermore, the majority of hortofrutícola products have little value added to them and depend on inexpensive raw materials

Competitiveness is our Decision
Agenda

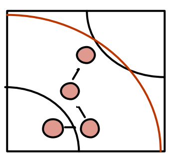


- The Challenge for Agriculture in the Dominican Republic

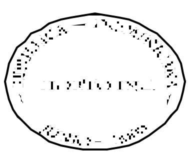
- Current Strategic Choices in Hortofrutícola



- **Opportunities to Build Competitive Advantage**



- Migration Strategies: The Cases of Yucca and Coffee



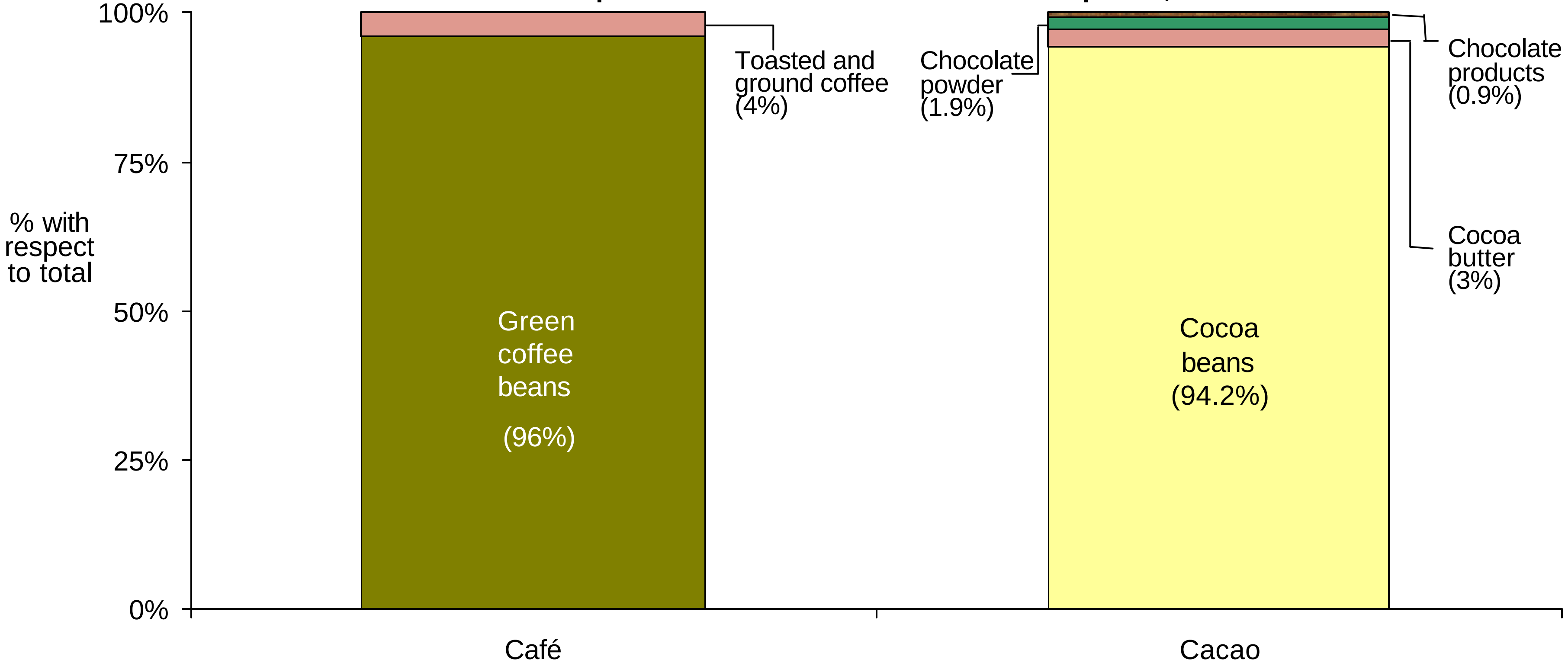
- Strategic Imperatives and Cluster Initiatives

Opportunities to Build Competitive Strategies
Seven Opportunities

1. Avoid overdependence on basic factors
2. Improve understanding of relative position
3. Study opportunities for forward integration
4. Increase customer knowledge
5. Improve interfirm cooperation
6. Avoid defensiveness by improving productive communication
7. Avoid paternalism

Avoid Overdependence on Basic Factors
Processing Level of Selected Products

Selected Exported Products in the Dominican Republic, 1997-1998



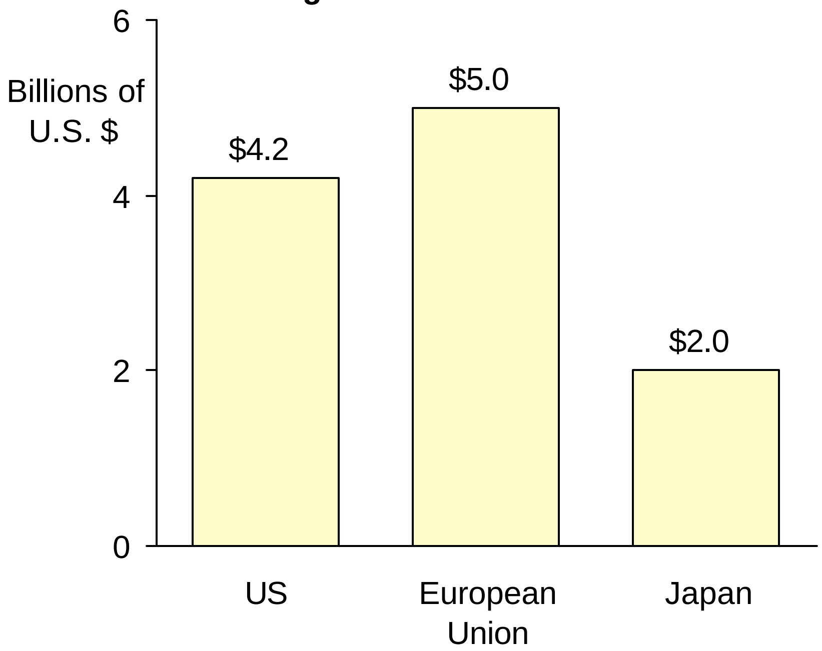
More than 90% of coffee and cocoa exports are in bean form, without processing or differentiation.

SOURCE: *FAS-USDA, GAIN Reports #DR9011*. *FAOSTAT database*. Monitor Country Competitiveness analysis

Avoid Overdependence on Basic Factors
Opportunity in Organic Products

"The prices of organic cocoa are much more stable, and we are receiving ***double the price*** *per bag"*
-Dominican Producer

Organic Product Sales in 1997

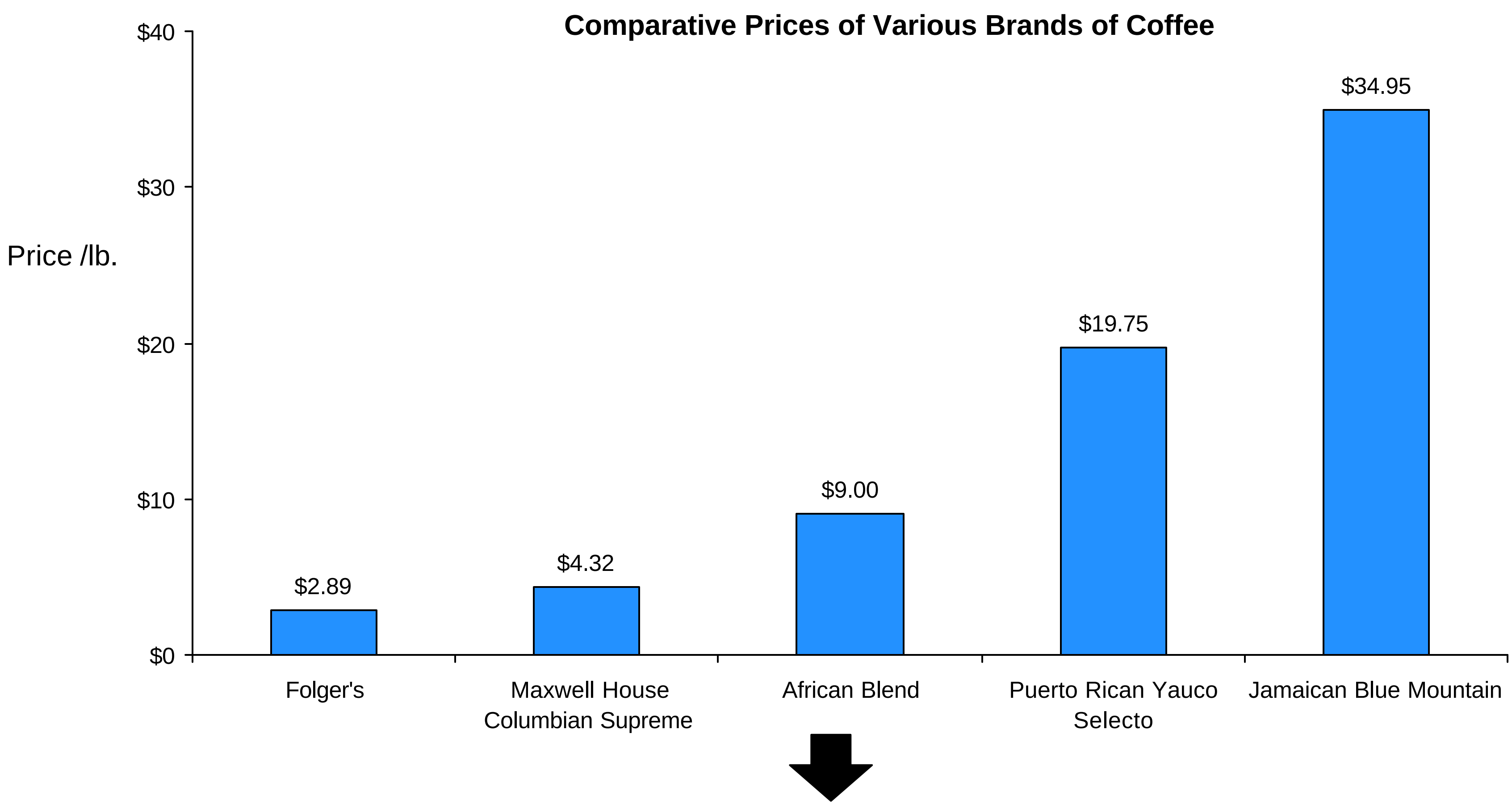


- The demand for organic products in the US and the European Union has increased by a rate of 20% annually in the last 7 years
- Some of the large buyers of organic cocoa estimated the following purchase rewards or additional value:
  - *Organic Commodity Project Inc (OCP):* additional purchase value in the range of US$100 to US$500 per MT, depending on the cocoa grain quality
  - *Rapunzel Chocolate:* additional value of 30%
  - *Organic Fair Trade Labeling Organization:* has a minimum price base of US$1,950 per MT

Some Dominican cocoa producers and exporters are taking advantage of the opportunity that organic products present.

SOURCE: "Organic Agriculture World-Wide", Helga Willer and Minou Yussefi, sponsored by BIOFACH and with collaboration with IFOAM, Feb. 2000. OTA, citing the following report: Roger Blobaum, 1997, "The Economics of Organic Grain and Soybean Production in the Midwestern United States", Monitor Country Competitiveness interviews with OCP, Rapunzel and the Organic Fair Trade Labeling Organization

Avoid Overdependence on Basic Factors
Commercial and Gourmet Coffee



The Dominican Republic primarily exports green unprocessed coffee, which follows the global price trend of commodity coffee. Neighboring countries, like Jamaica sell, superior quality specialty coffee for 12 times the value of commercial brands.

Note: The global coffee price estimation was based on the regular calendar year, the Dominican coffee price estimation was based on the agricultural calendar year (October-September)

SOURCE: FAOSTAT, CEDOPEX, www.roasting.com, www.priceline.com, www.peapod.com, www.asksimon.com

Avoid Overdependence on Basic Factors
Range of Product Choices - Cocoa and its Derivatives

Cocoa Industry

Cocoa Products

Cocoa

Cocoa beans

Cocoa derivative products

Cocoa butter
Cocoa paste
Chocolate powder
Fresh cocoa juice

Derivatives of fresh cocoa

Alcoholic beverages
— Wine
— Brandy
— Gin
— Other liquors

Edible products derived from cocoa

Chocolate products
Baking chocolate
Marmelade
Non-alcoholic beverages
Variety of chocolate-covered products
Instant cocoa
Jelly
Macaroons
Cookies
Milk
Ice cream
Chocolate cream mix
Chocolate butter
Pastries
Nutritious breakfast products

Technical Uses of Cocoa

In the fabrication of medicine

For:
— Alopecia
— Dieretics
— Parasites
— Burns
— Fever
— Cough
— Malaria
— Rheumatism
— Blood pressure
— Others

Soaps
Cosmetics
Facial cream
Bath soap
Laundry soap
Tabacco
Suppository encasement
Hemorroide capsule encasement
Hands softening salve
Lip balm
Other balms
Industrial alcohol:
— Sterilizing alcohol
— Laboratory alcohol
Potasium hydrate

From cocoa pod ashes

Soaps
Fertilizers

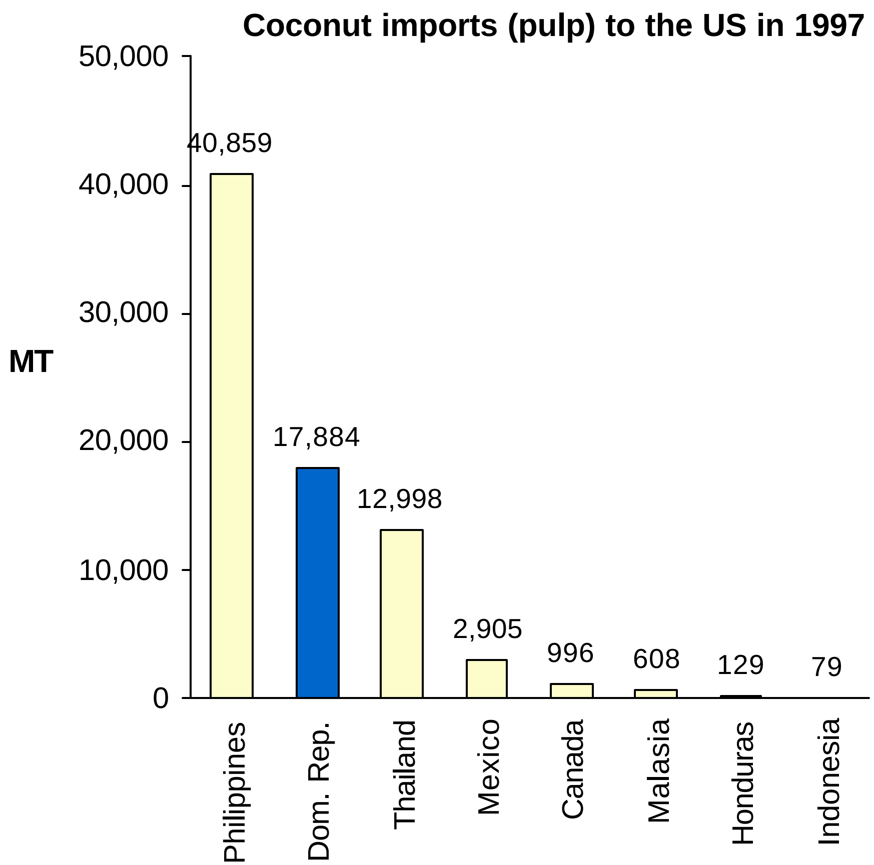
From the pod

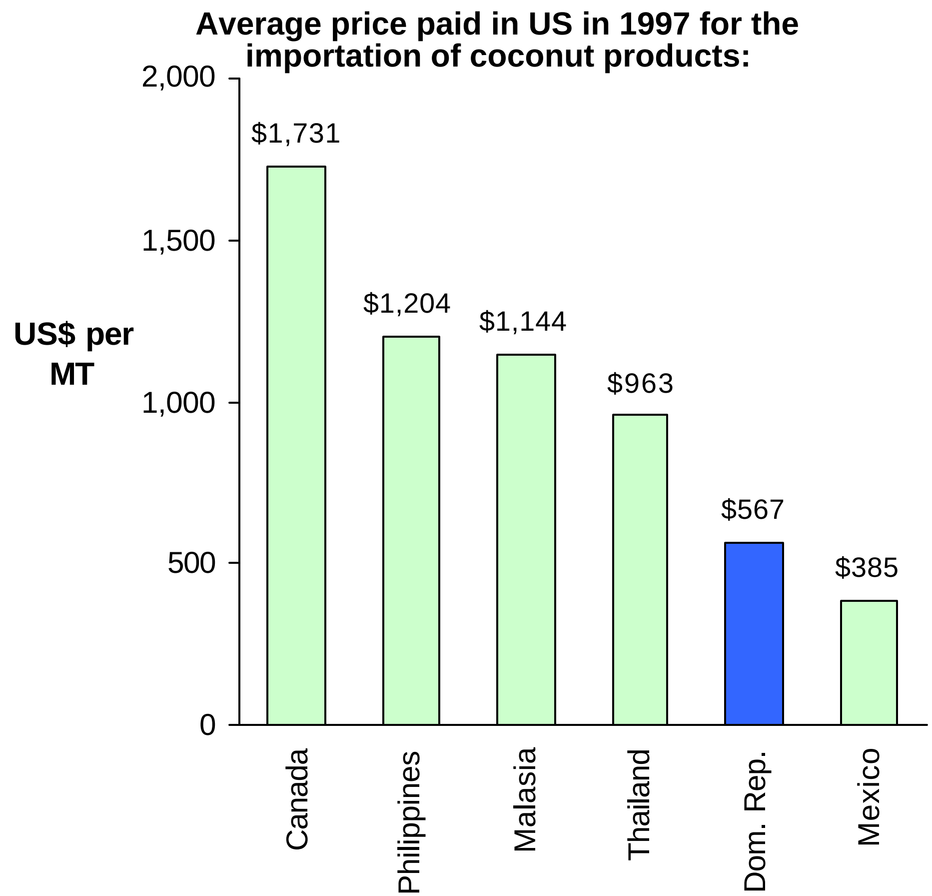
Animal feed: hens, hogs, sheeps, rabbits, horses

Although the prices of raw cocoa are decreasing, there are more than 60 cocoa derivative products. Dominicans are exporting only grain cocoa and its basic derivatives like cocoa butter.

SOURCE: International Cocoa Organization, ICCO (www.icco.org/); Botanical.com

Improve Understanding of Relative Position
Relative Prices of Dominican Coconut in the US



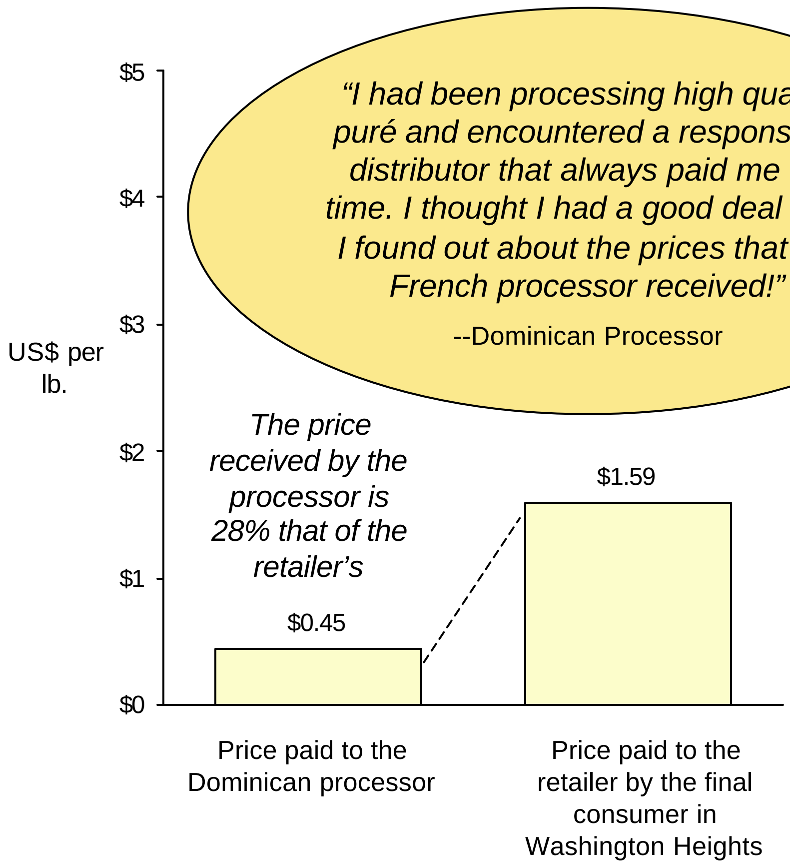


The Dominican Republic is one of the largest suppliers of coconut pulp for the US, with 23% of the market. However, the price received is less than half (47%) of the price received by the Philippinos, the largest supplier, and 57% of the price received by Thailand. Coconut from the Dominican Republic is positioned as a basic, low-cost product.

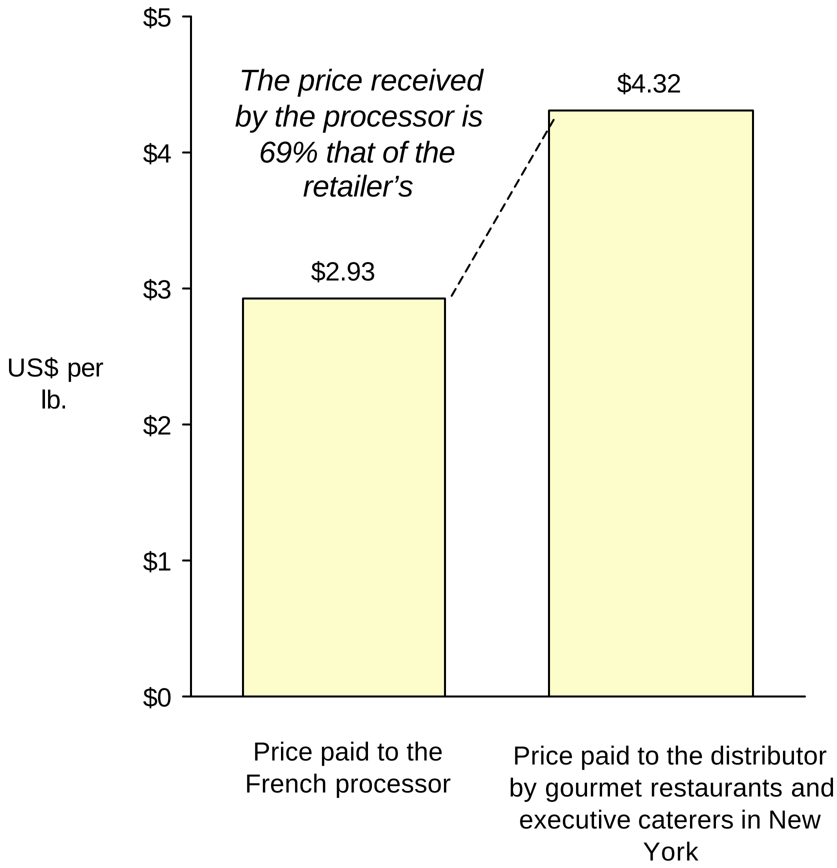
SOURCE: USDA Economic Research Service

Improve Understanding of Relative Position
Relative Cost of Frozen Papaya Puree

Price received for Dominican papaya puree in the Latin markets of Washington Heights, New York



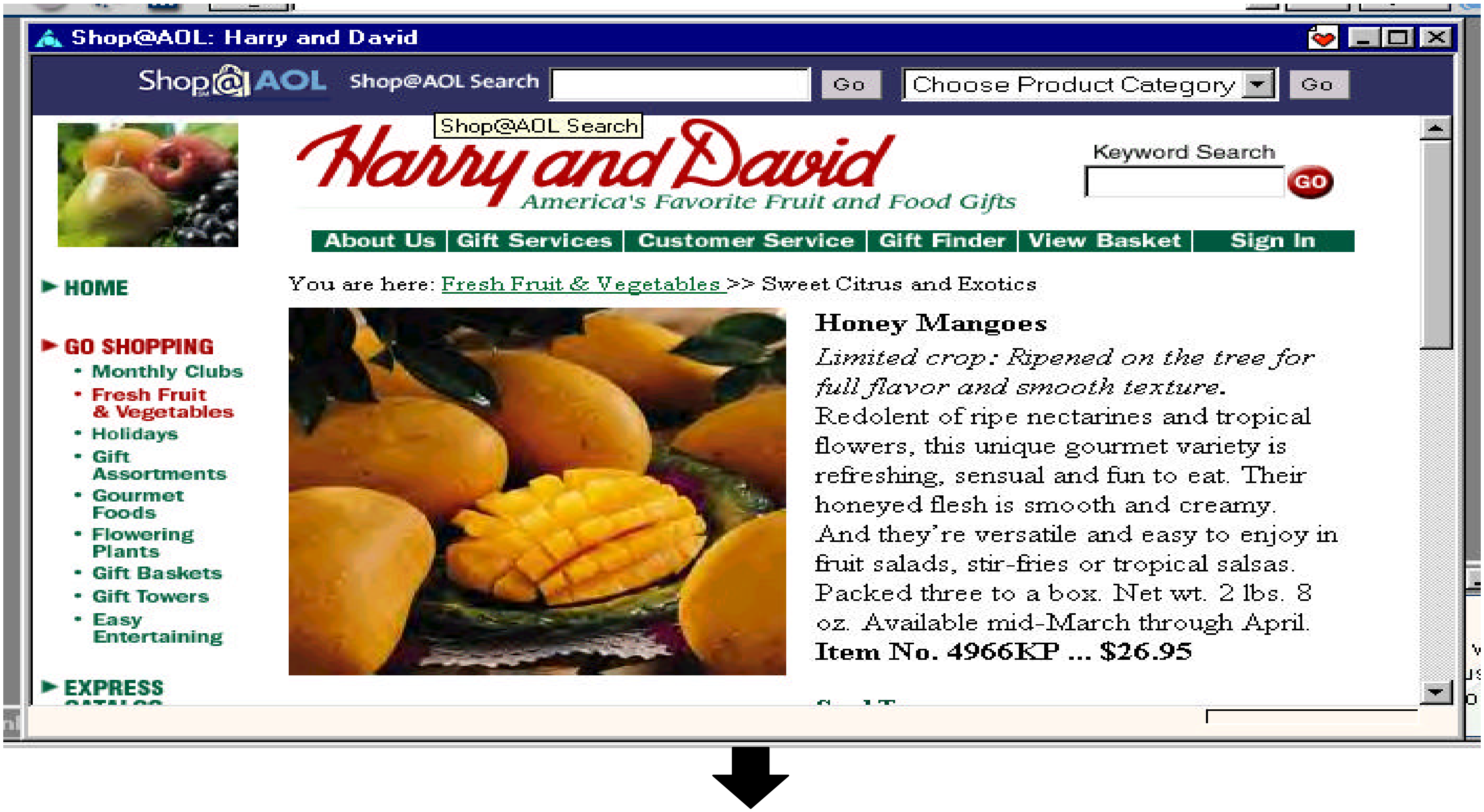
Price received for french papaya puree in New York gourmet shops



Selling to the gourmet consumer market, the French processor receives 6.5 times the price that the Dominican processor received selling to the ethnic market.

SOURCE: Prices from a mid-sized supermarket in Washington Heights and from a Dominican processor. Estimated prices by *DeChoix Specialty Foods*

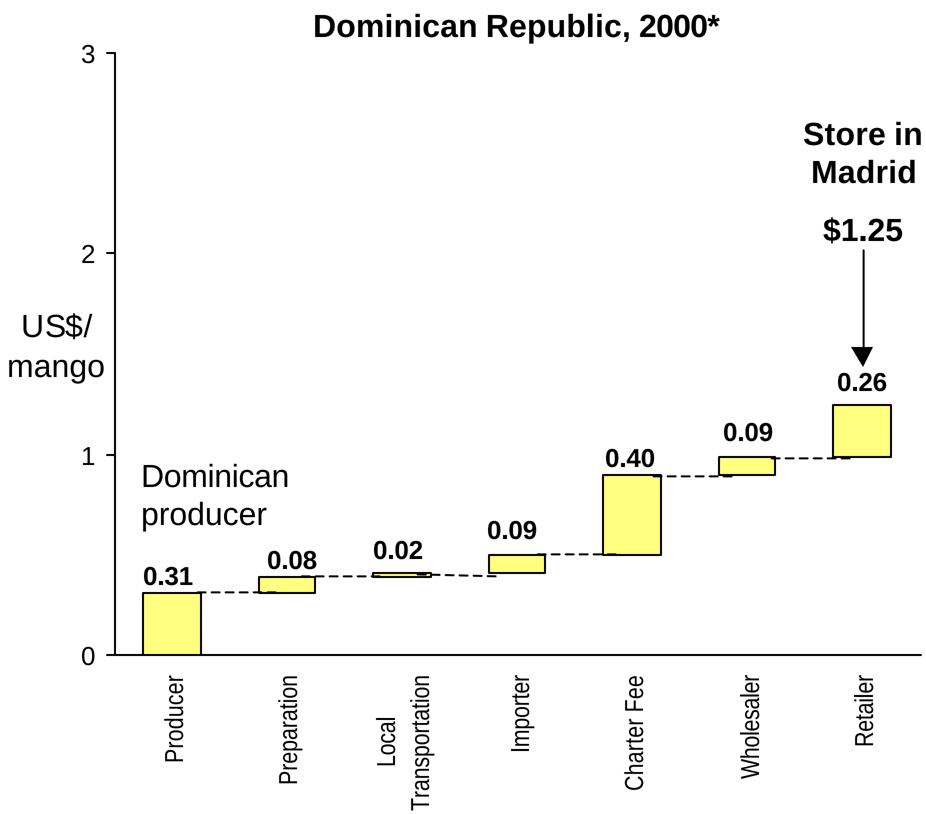
Study Opportunities for Forward Integration
9 Dollar Mangos on the Internet

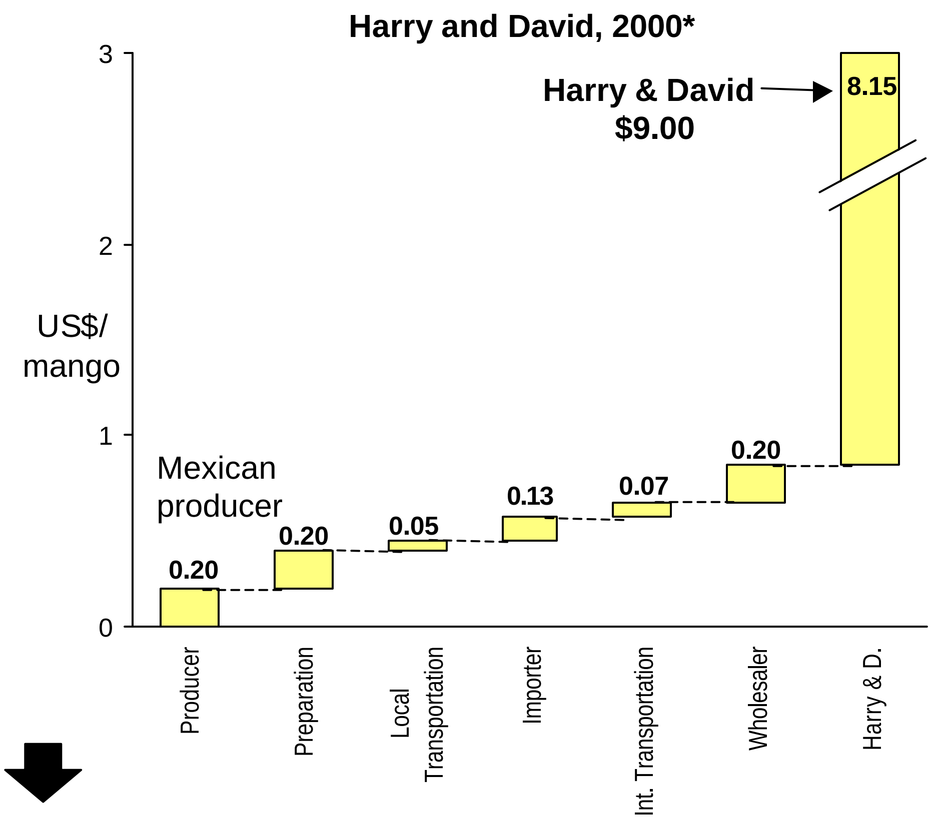


Harry and David successfully capture value by tailoring their product to a demanding clientele and selling over the Internet .

SOURCE: www.harryanddavid.com

Study Opportunities for Forward Integration
The Mango Value Chain





In the Harry and David value chain, the greatest value is captured at the end of the chain, by the retailer. The consumer pays 7 times more than what they would pay in a typical store or supermarket while other participants within the value chain obtain equivalent income.

Note: Purchasing average values, first trimester 2000. **The Dominican Republic**: (a) the consumer price was taken based on the price of the mango per kilogram at a popular store in downtown Madrid, April 2000, the price could be greater at a specialized store; (b) the values are **not** net margins; (c) purchase average of three producers and one exporter; (d) it was assumed that the distributor margin was 10%, which is reasonable in this industry; (e) some prices were estimated based on kilograms, calculating the weight of each mango to be half a kilo. **Harry and David**: (a) the values were estimated based on the price of mango exportation from Mexico to the US, with land transportation from Oaxaca to Oregon; (b) it was assumed that the wholesaler margin was 30% due to the fact that he had to select the best mango for Harry and David; (c) the cost of transportation included the customs fees in Mexico ($200) and in the US ($150). Taking into account that the cost of preparation in Mexico is greater, since it already includes the hidrothermic treatment. The local transportation cost in Mexico is greater due to greater distances.

SOURCE: Monitor Country Competitiveness analysis and interviews

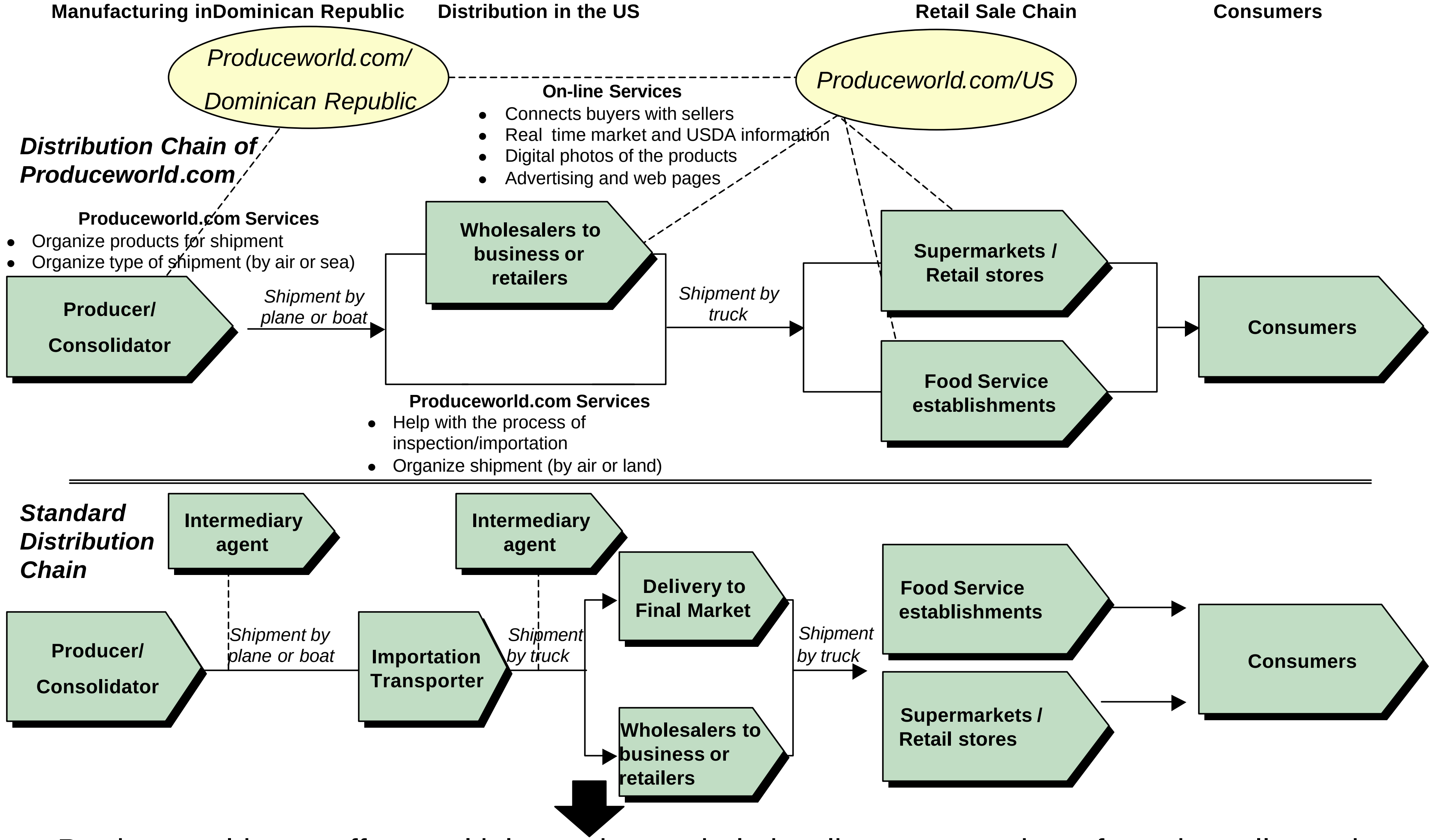
Study Opportunities for Forward Integration
Produceworld.com

The front page of Produceworld.com allows the producers to access a variety of information and reach new buyers.

The Internet offers new ways to directly connect with retailers or end consumers.

SOURCE: www.produceworld.com

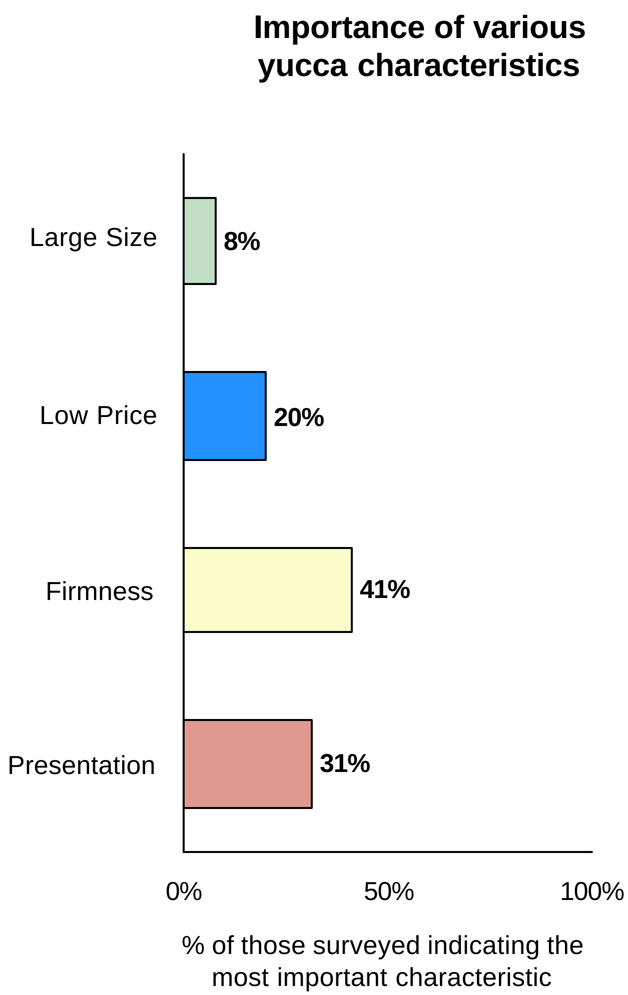
Study Opportunities for Forward Integration
Virtual vs. Physical Distribution Chain

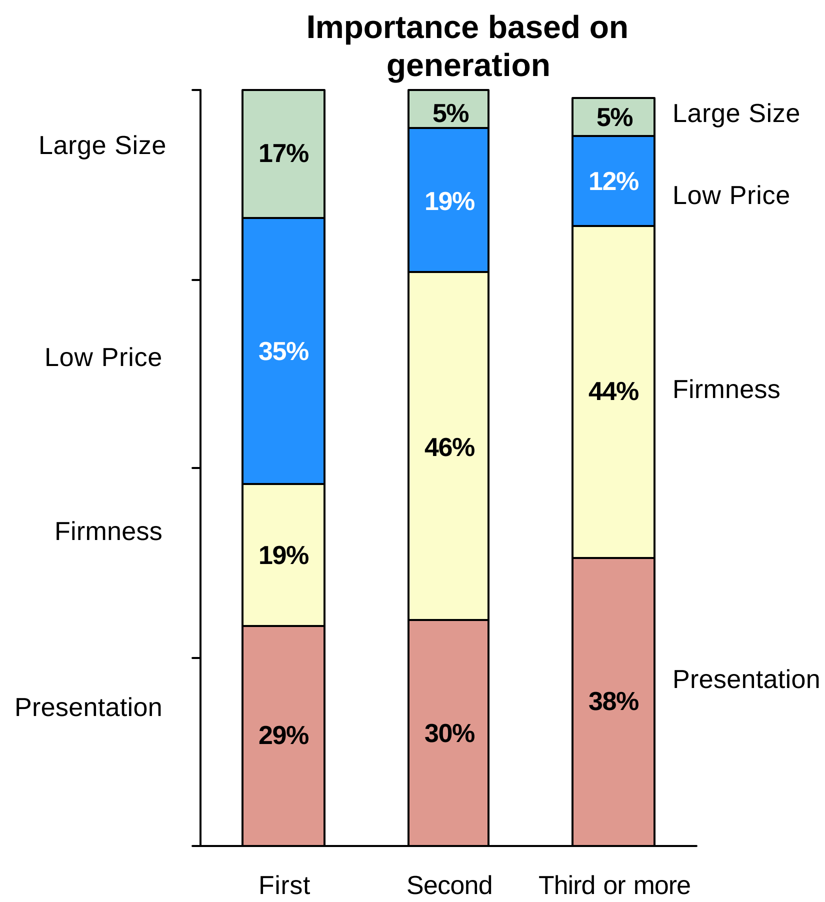


Produceworld.com offers multiple services to help its clients get products from the seller to the buyer.

SOURCE: Monitor Country Competitiveness analysis; *Business 2.0*

Increase Customer Knowledge
Segmentation of the Dominican Market in the US

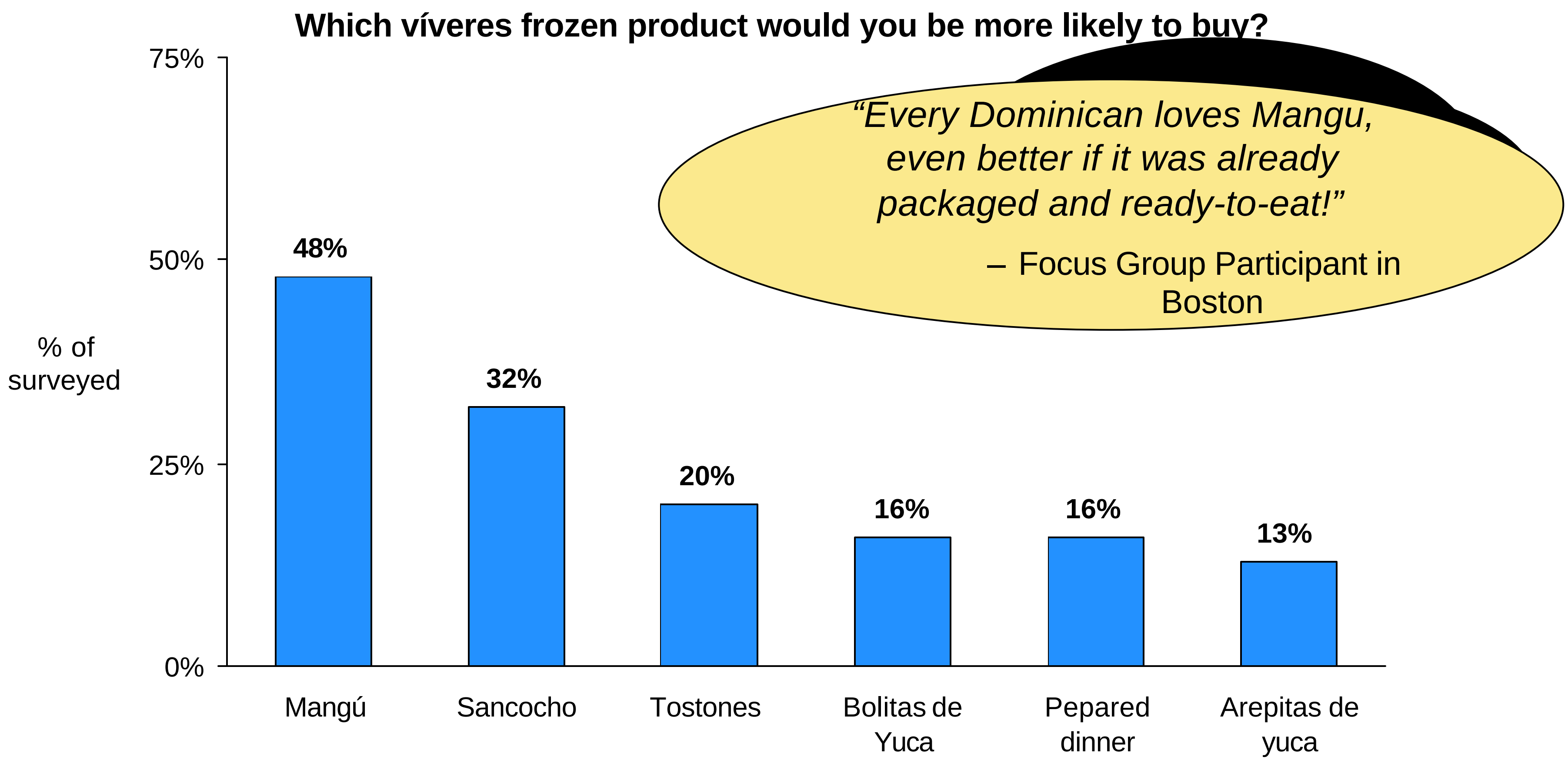




For the Dominican market, firmness and presentation are the most important factors. Price is a significant criteria only to those who have just arrived in the US.

SOURCE: Survey of the Dominican and Latin market in NY and Boston administered by Monitor Country Competitiveness. N = 447, Dominican segment = 396. The surveys were administered to those responsible for the family shopping in 12 medium-sized markets and supermarkets, March - April 2000

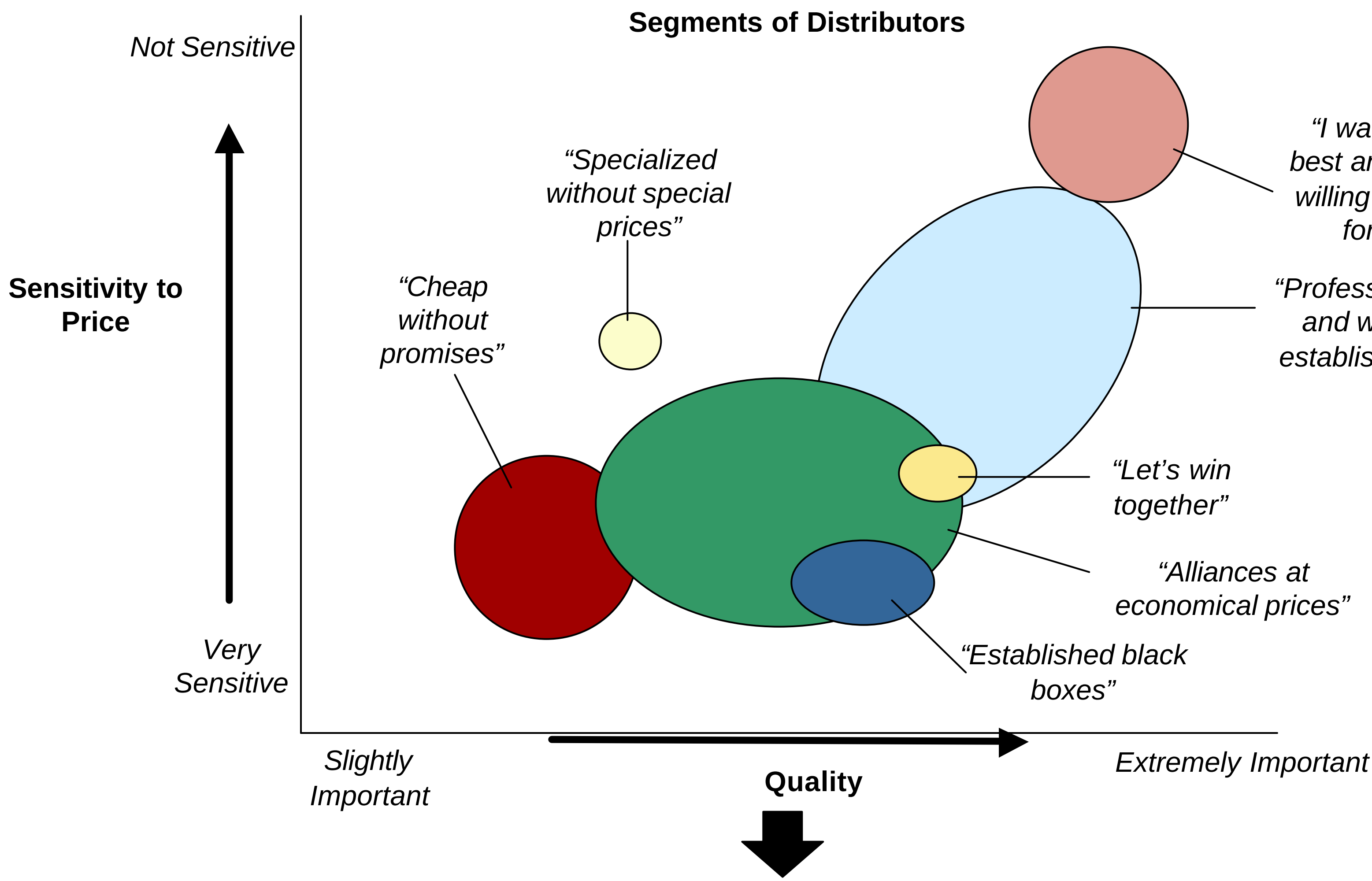
Increase Customer Knowledge
Preference for Processed Dominican Products



Mangú and sancocho are the most preferred in terms of easy-to-prepare products.

SOURCE: Survey of the Dominican and Latin market in NY and Boston administered by Monitor Country Competitiveness. N = 447, Dominican segment = 396. The surveys were administered to those responsible for the family shopping in 12 shopping centers, including medium-sized markets and supermarkets, during March- April 2000

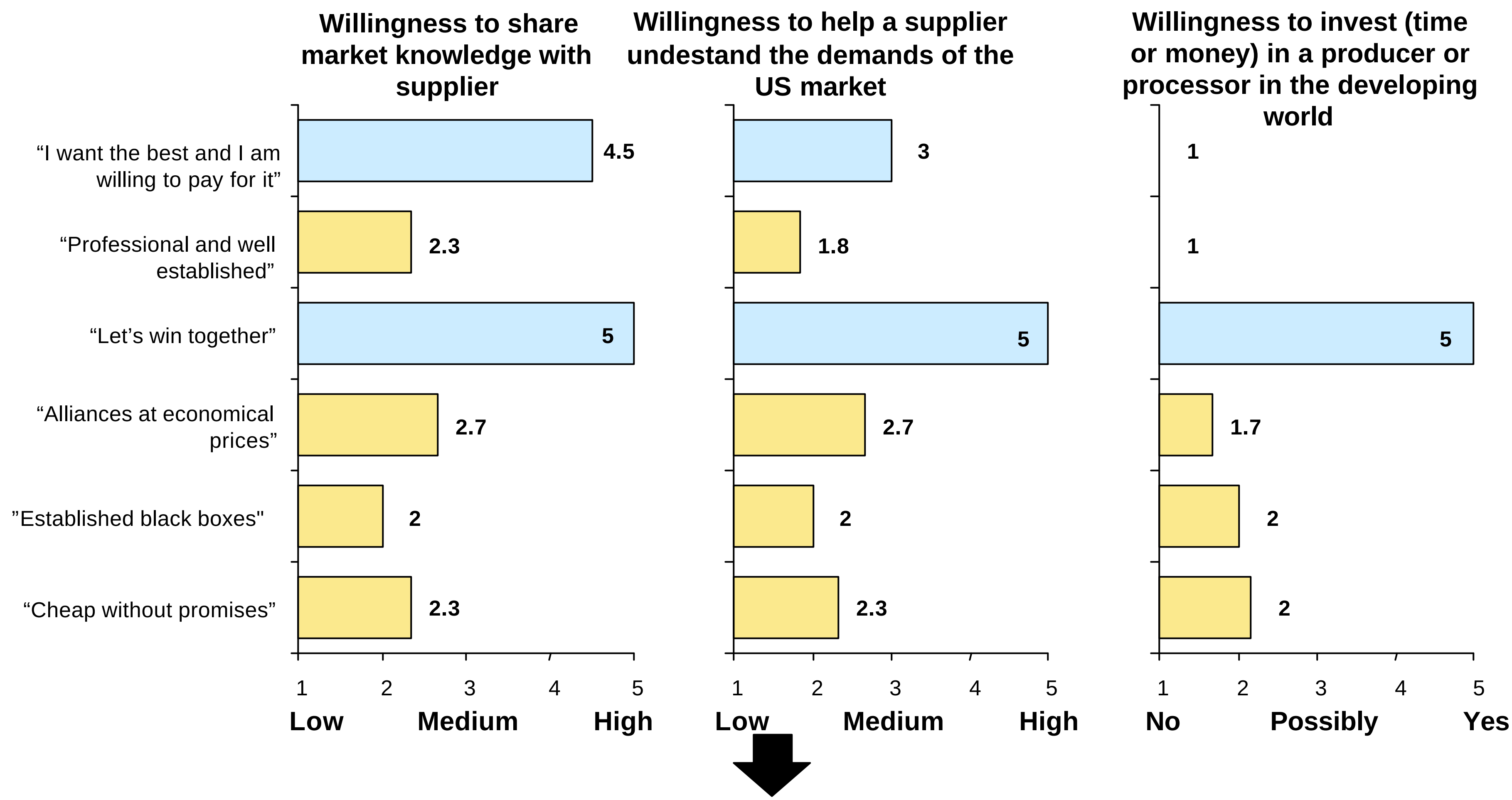
Improve Customer Knowledge
Distributor Segmentation: Price vs. Quality



Distributors of fresh and processed products in the US can be segmented as customers, with some segments more attractive than others.

SOURCE: Distributor interviews by Monitor Country Competitiveness, April 2000. The segmentation of the distributors is based on n=16 distributors in the US and additional interviews of associations, supermarket owners and Dominican exporters. The segmentation illustrates the diversity of potential distribution channels for selected hortofrutícola products. The sample is not statistically representative.

Improve Customer Knowledge
Potential for Strategic Alliances with Distributors



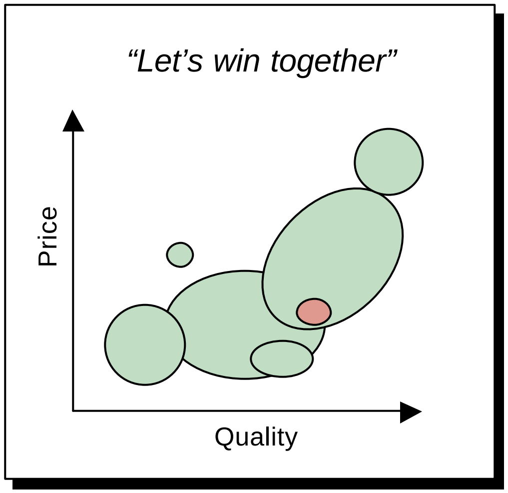
The segment “I want the best and I am willing to pay for it” as well as “Let’s win together” are willing to share client knowledge. However, the segment of “I want the best and I am willing to pay for it” is not willing to invest in procesors or producers in the developing world.

SOURCE: Distributor interviews by Monitor Country Competitiveness, April 2000. The segmentation of the distributors is based on n=16 distributors in the US and additional interviews of associations, supermarket owners and Dominican exporters. The segmentation illustrates the diversity of potential distribution channels for selected hortofrutícola products. The sample is not statistically representative.

Improve Interfirm Cooperation
"Let's Win Together"

Characteristics

- Fresh produce distributors
- See economic opportunity in educating and investing in producers
- Interested in strategic alliances to create win-win situations



Comments from the Segment

- *"Because I truly believe in the potential of the Dominican Agricultural produce, I have worked for 6 months and invested thousands of dollars in a project with pineapple producers. I had to educate them about the demands and quality standards of the North American market, but now I am now receiving the benefits."*

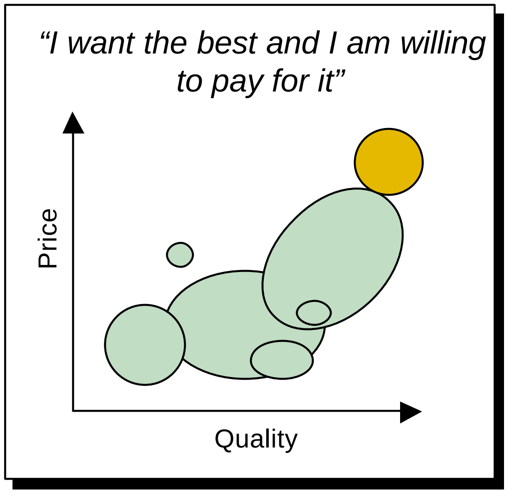
Although the "Let's win together" segment is very price sensitive, working together with them allows the producers to learn how to improve their operational efficiency.

SOURCE: Entrevistas de distribuidores por Monitor Country Competitiveness, Abril 2000

Improve Cooperation Among Firms - Strategic Alliances
“I want the best and I am willing to pay for it”

Characteristics

- Purchase the highest quality processed products
- Price insensitive
- Constantly looking for interesting product concepts - trade fairs, customer suggestions, direct solicitations



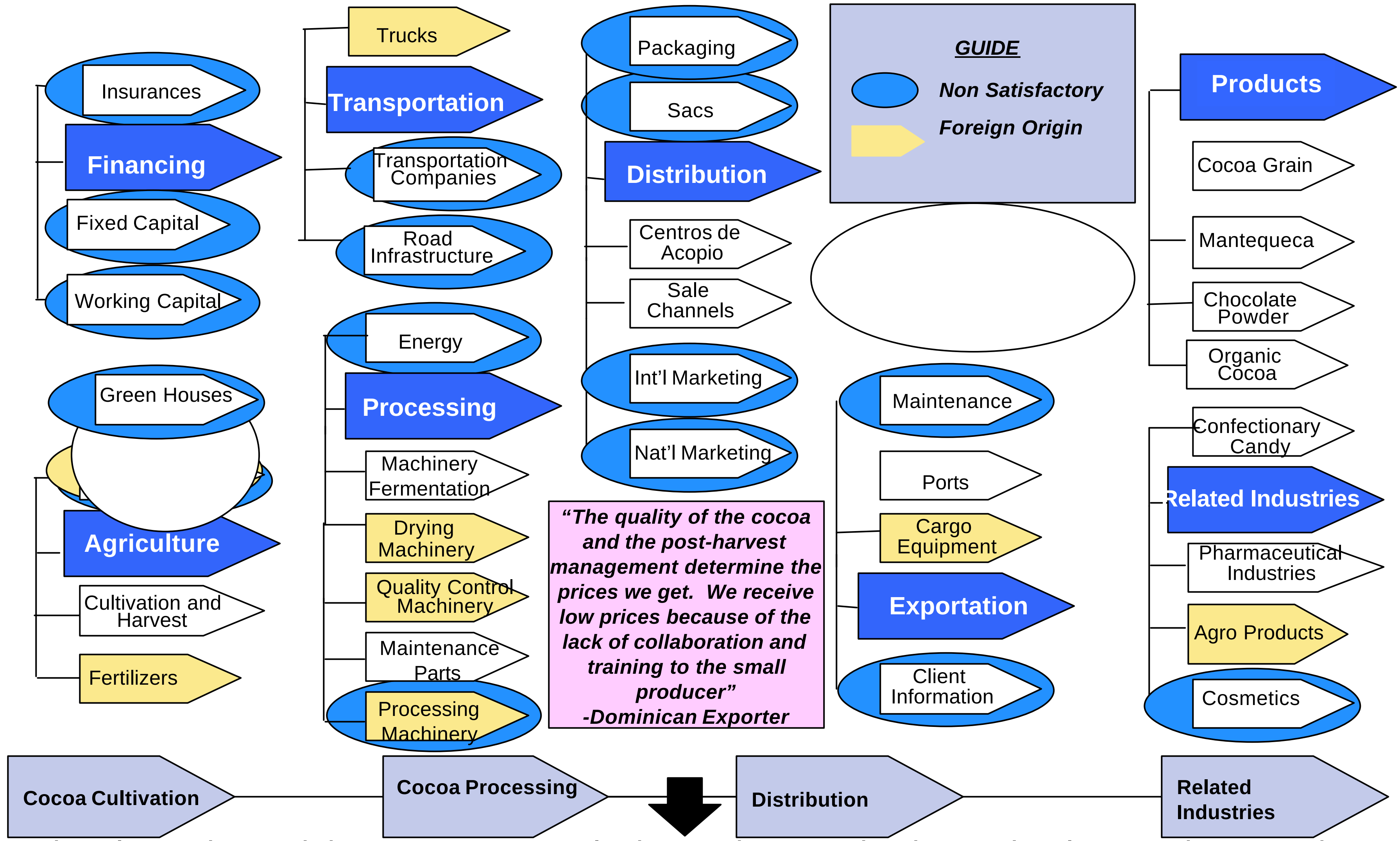
Comments from the Segment

- *“Highest quality is everything above and beyond price”*
- *“We want to work with suppliers who want to improve sales and grow relationships -- suppliers that understand the market for their products and have a real knowledge of their final consumer”*
- *“We look for strategic alliances with suppliers -- some relationships have gone on for 20-30 years”*

Producers and processors must create and maintain quality products and services that would allow them to serve this segment of distributors, which is price insensitive and wants long-term relationships.

SOURCE: Monitor Country Competitiveness interviews with distributors, April 2000

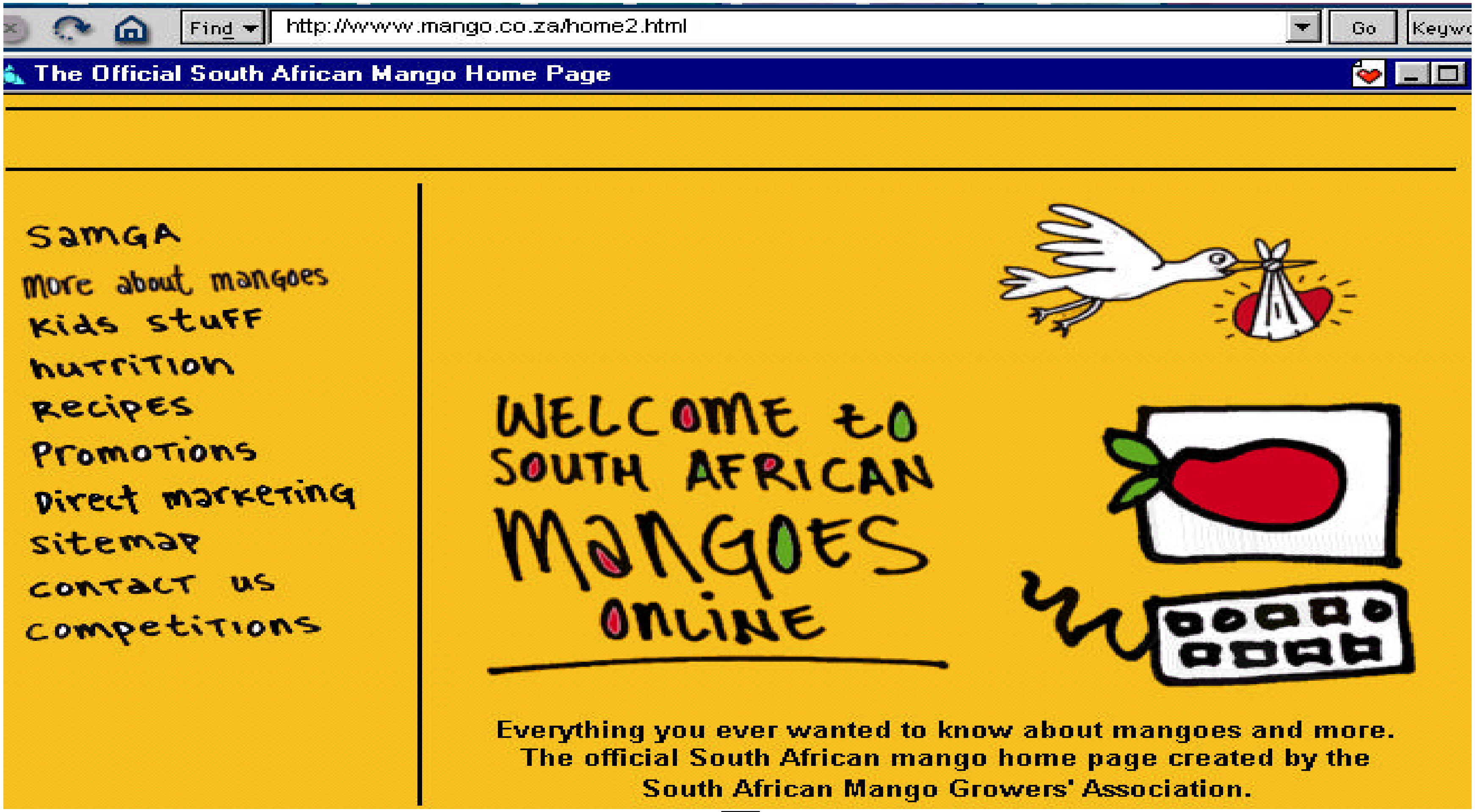
Improve Interfirm Cooperation
The Cocoa Cluster: Related and Supporting Industries



The cluster is weak in many areas. It lacks modern production technology and processing equipment, and adequate distribution and marketing mechanisms. Most importantly, there is an obvious lack of cooperation throughout of the cluster.

SOURCE: Entrevistas de Monitor Country Competitiveness

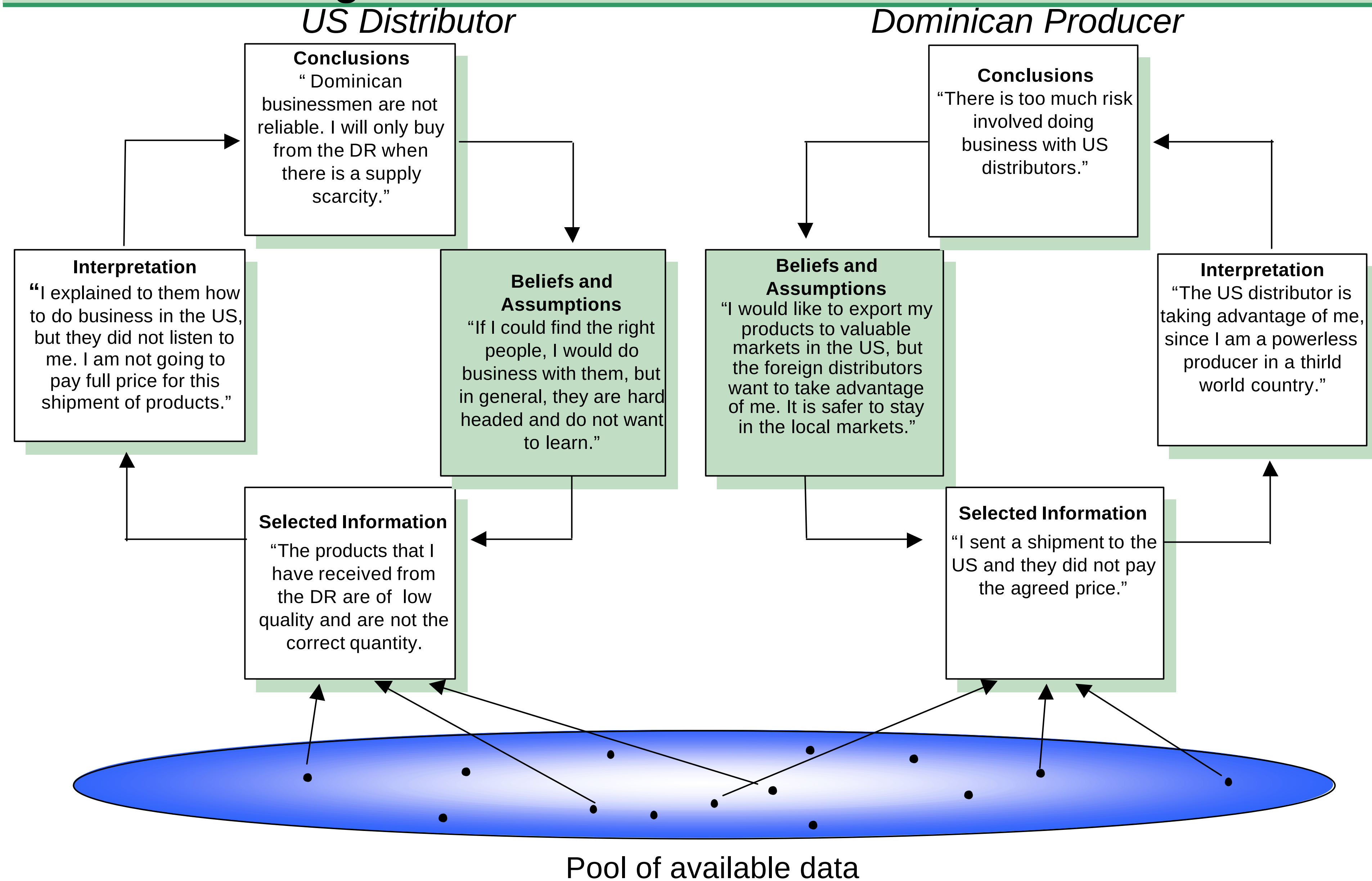
Improve Interfirm Cooperation
Mango Producers Promote and Sell on the Internet



The Mango Producers Association of South Africa have jointly united to promote mangos. One advantage of this joint promotion is that every producer is concerned about maintaining a uniform level of quality.

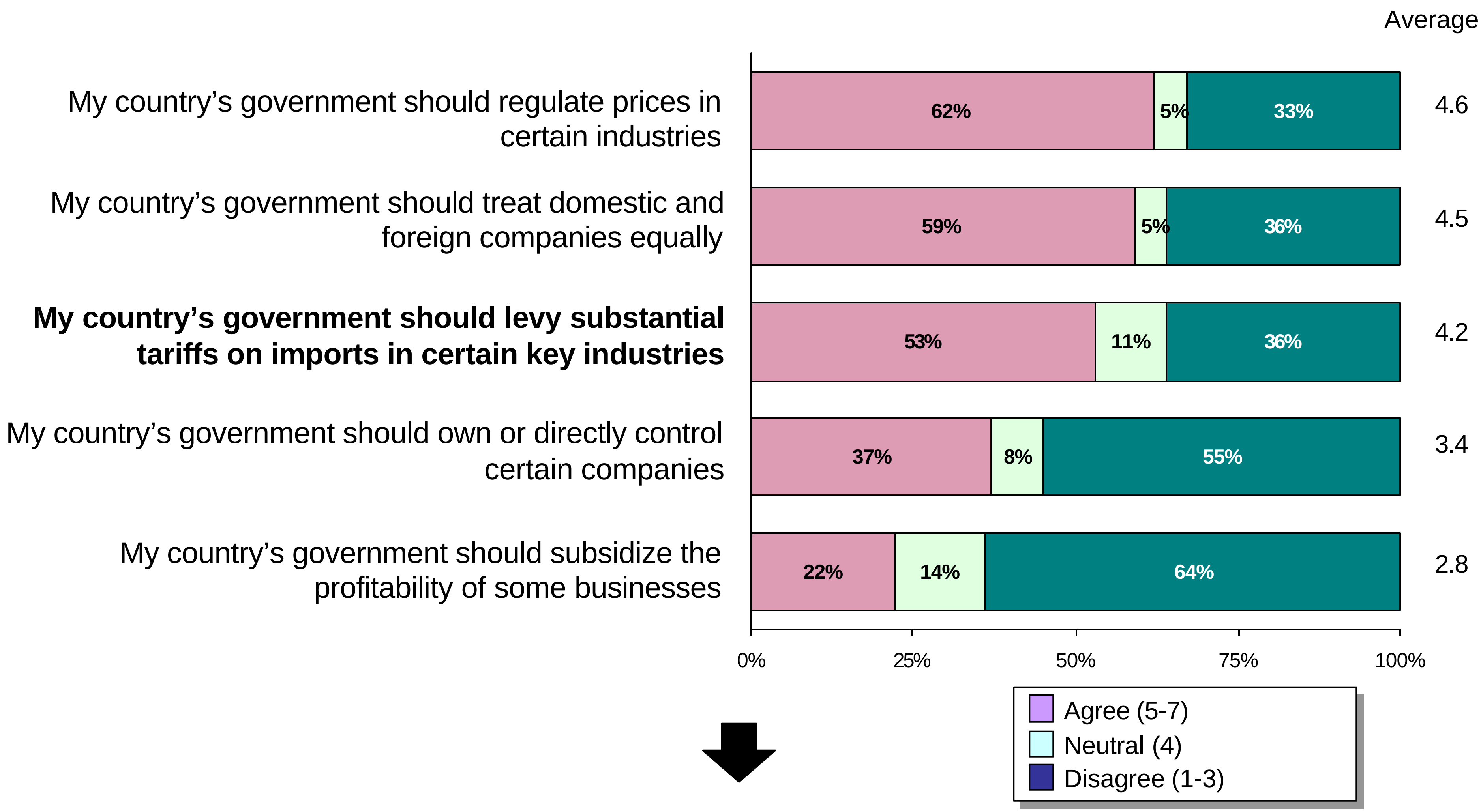
SOURCE: www.mango.co.za

Avoid Defensiveness by Improving Productive Communication Need for Strategic Alliances



SOURCE: Monitor Country Competitiveness analysis and Interviews

Avoid Paternalism
Mental Models: Role of Government



62% of the respondents would like the government to control prices in certain industries. Although only 22% would like actual subsidies, the majority would like some type of government protection in certain industries.

SOURCE: Monitor Competitiveness and Prosperity Survey, Administered in the Dominican Republic in April 2000

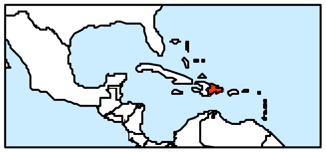
Opportunities for Building Competitive Advantages

- There are seven key opportunities for strengthening both the competitive platform of the cluster as well as the strategies of the individual firms in that cluster.

- There are few efforts among producers to study markets and understand the needs of customers, in order to drive product innovation in hortofrutícola and reposition themselves in more attractive industries. One key opportunity is improving knowledge of customers and markets. There have been few efforts among hortofrutícola producers to study markets and understand the needs of customers. This knowledge drives product innovation and allows them to reposition themselves in more attractive industries. For example:
  - US Dominican consumers are extremely loyal to Dominican products and represent an untapped opportunity for Dominican producers. For example, ready-to-eat Dominican products such as mangu and sancocho seem likely to find an eager Dominican public.
  - Differentiated specialty coffee exports remain low despite high and increasing demand in the US, while neighboring countries with very similar growing conditions, like Jamaica, sell superior quality specialty coffee for 12 times the value of commercial brands.
- Dominicans need to find ways to improve cooperation within the cluster. For example:
  - Cocoa producers receive lower-than-market-average prices for their beans because of poor processing. Due to poor communication and lack of training for the small producers that grow the majority of this crop, the value of this product is lost.
  - Mango producers, who are actively pursuing a joint collection and export strategy, could cooperate to jointly market on the Internet.

- New technologies, particularly the Internet, have created new ways to take advantage of all seven opportunities to build competitiveness as market knowledge becomeswidely available and the competitive environment becomes much more transparent and rapid. Disintermediation allows producers and exporters to create a more direct distribution channel to customers, communicate directly with their customers, and quickly learn about what their competitors are doing.

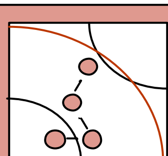
Competitiveness is Our Decision
Agenda



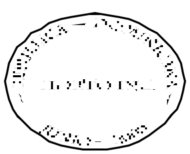
- The Challenge for Agriculture in the Dominican Republic

- Current Strategic Choices in Hortofrutícola

- Opportunities to Build Competitive Advantage



- **Migration Strategies: The Cases of Yucca and Coffee**
  - **Introduction to Migration Strategies**
  - **The Case of Dominican Yucca**
  - **The Case of Dominican Coffee**



- Strategic Imperatives and Cluster Initiatives

Introduction to Migration Strategies
Clarifying Competitiveness and the New Global Environment

The Old Paradigm	The New Paradigm
• Slow, Physical Market	• Rapid and Virtual Market
• Protected Markets	• Globalization and Competitiveness
• Macroeconomic Focus	• Microeconomic Focus
• Importance of Access to Leaders	• Business Productivity and Competitiveness
• Rigid and Hierarchic Organizations	• Flexible and Meritocratic Organizations
• Dependence on Foreign Aid and Business Partners	• Innovation
• Dependence on Basic Factors	✓ • **Migration Strategies**

The Two Components of Strategy

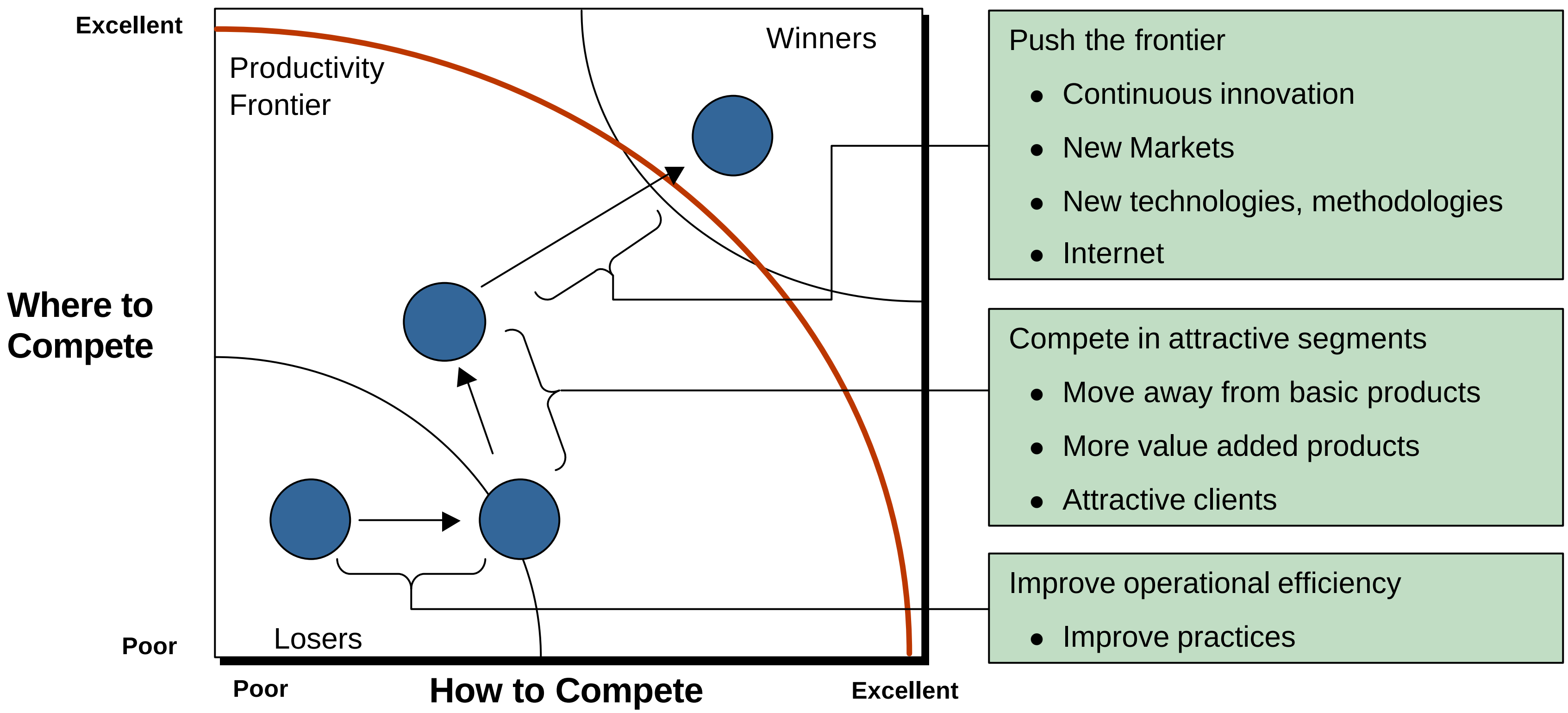
Strategy consists of two components:

Where to Compete

and

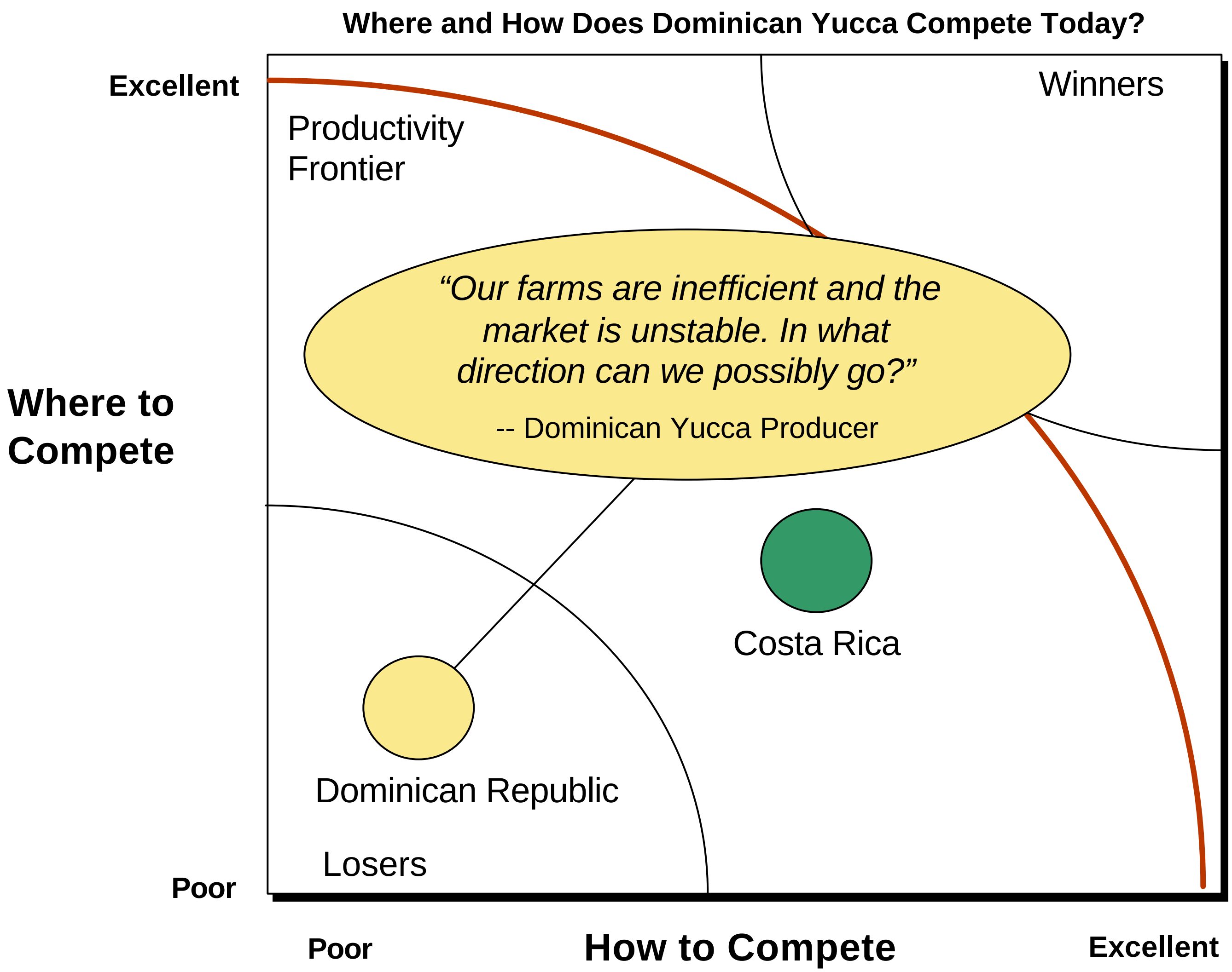
How to Compete

Introduction to Migration Strategies
Where to Compete and How to Compete?

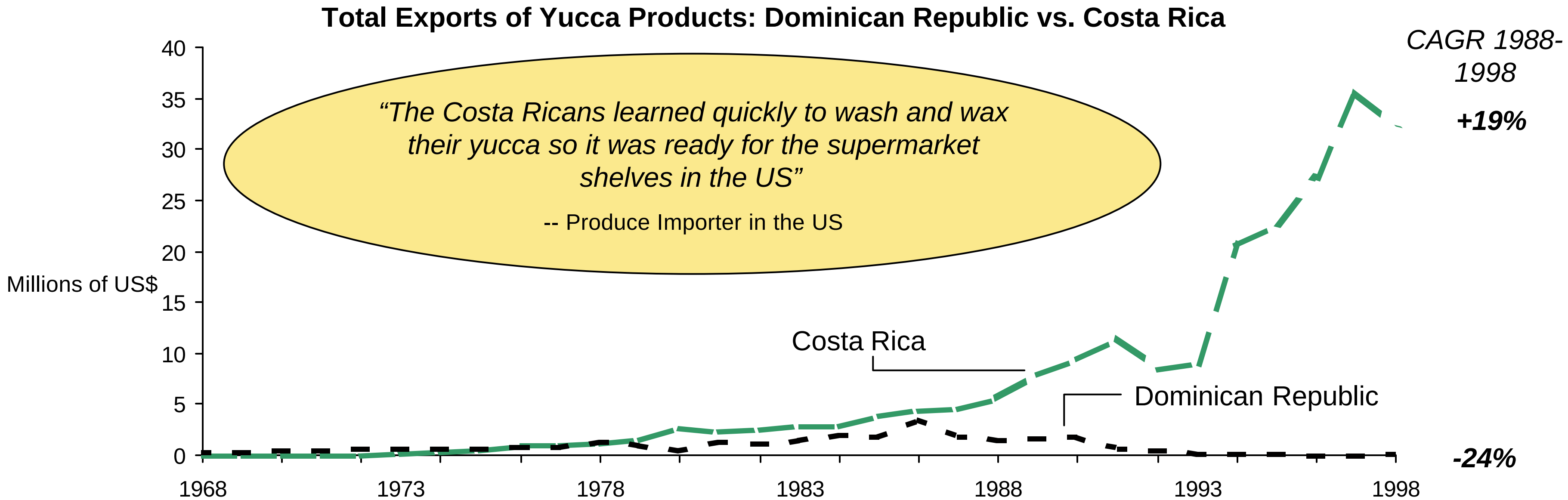


- The improvement is cumulative
- The process is dynamic: changes can occur in multiple levels simultaneously for some companies
- Every company needs to define its own migration strategy

Case of Dominican Yucca
Potential Migration Path



Case of Dominican Yucca
Current Situation



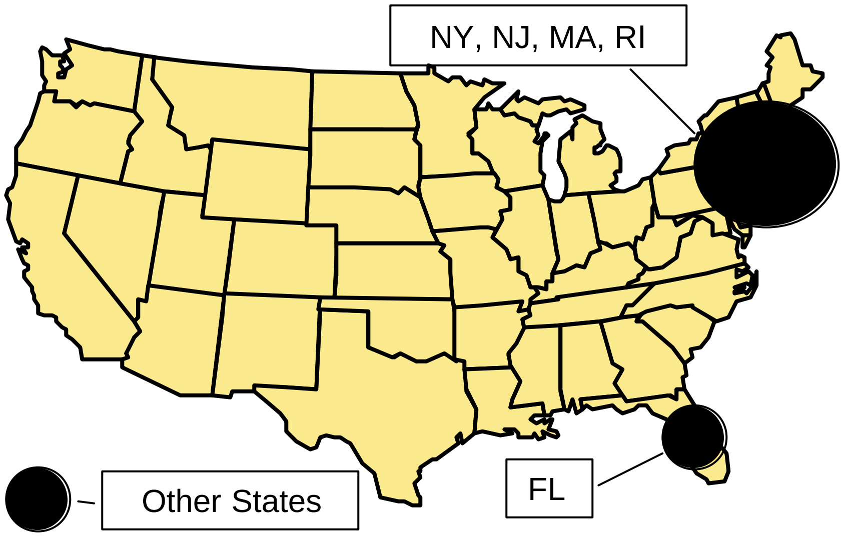
- As recently as the late 1980's the Dominican government periodically imposed restrictions on víveres exports in an attempt to guarantee food supply for local consumption
- With bans on exports now lifted, Dominican producers and exporters have not yet competed in the export markets in which Costa Rica has grown rapidly

Even with the elimination of government restrictions impeding exports, Dominican yucca exports are negligible while Costa Rica has increased its yucca exports by 20% annually over the last 10 years.

SOURCE: FAOSTAT database,"Cassava Equivalent" export figures. Monitor Country Competitiveness interviews

Case of Dominican Yucca
Potential Niche Market - Immigrant Community in the US

Dominican Population in the US
(% per region)



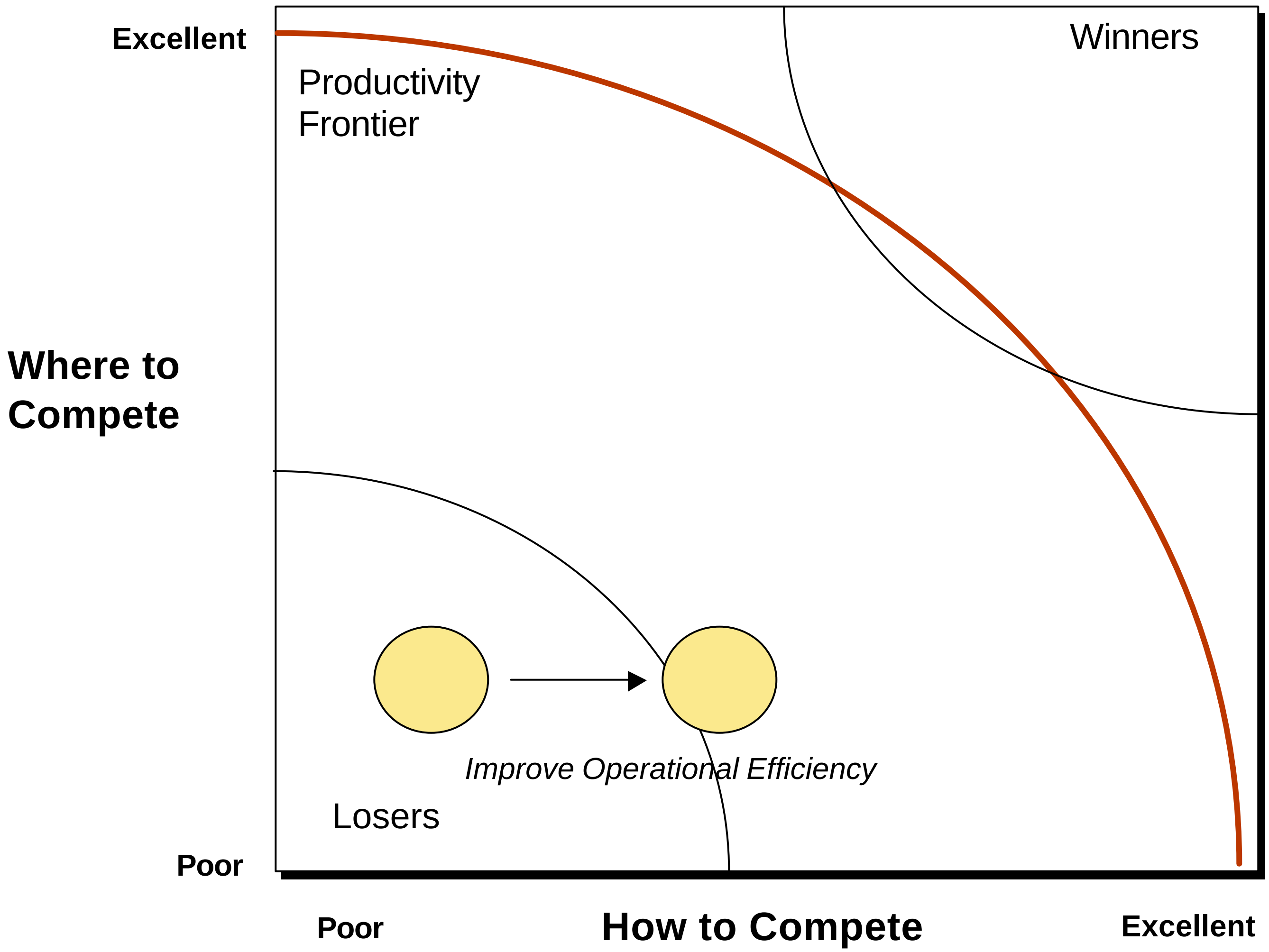
Total Dominican Population ~1,000,000

- *"If the Dominican Agriculture Sector thinks in the long-term, it can compete in attractive and growing markets. There are many Dominicans in the US interested in Dominican products."*
  - –New York Produce Distributor
- *"Dominican yucca has a flavor and texture different than yucca from other countries. Dominicans want yucca from their home country."*
  - –Dominican Focus Group Participant in Boston

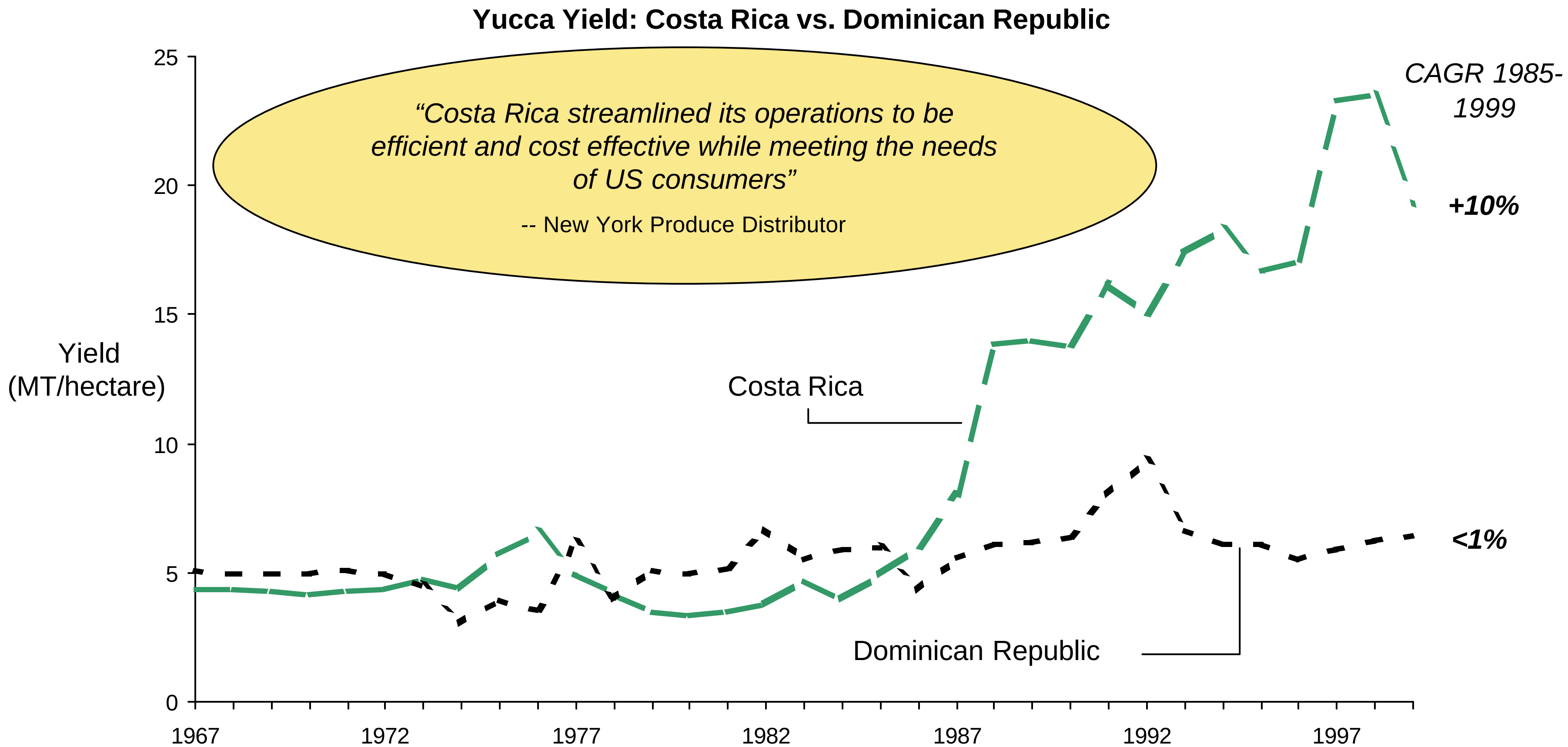
Although fresh yucca is a basic agricultural product, preliminary data led the hortofrutícola cluster to hypothesize that the Dominican immigrant community in the Northeast of the US, with approximately 870,000 consumers, could be an attractive segment based on its preference for Dominican yucca.

Note: There are Dominicans resident in almost all US states, however, in this diagram only those states with a Latino population of greater than 1% are highlighted, in order to better show the areas with the greatest Dominican populations.
SOURCE: U.S. Census Bureau, 1990 Census. Monitor Country Competitiveness calculations and analysis.

Case of Dominican Yucca
Potential Migration Path



Case of Dominican Yucca
The Need for Operational Efficiency



The Dominican Republic produces 5 metric tons per hectare of yucca, roughly the same as it did in the 1960s, while Costa Rica has improved its yield by 10% a year since 1985.

SOURCE: FAOSTAT database

Case of the Dominican Yucca
Cluster Response

Impressions of Dominican Producers

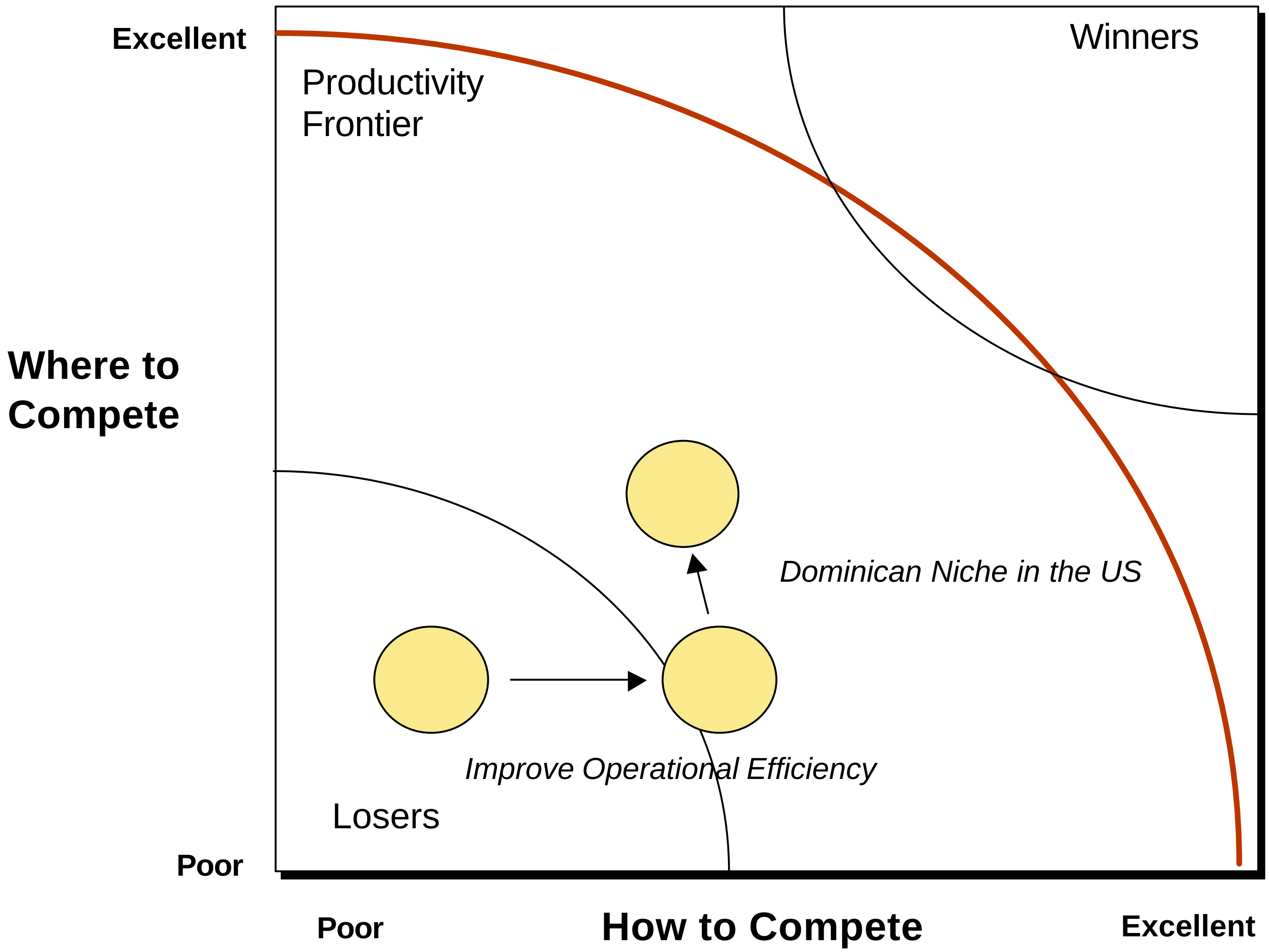
- *"Most Dominican víveres farms produce inconsistently and inefficiently. I estimate that on average they are* ***producing only 30% of their potential****. They are far behind operational best practices"*
  - Large Produce Buyer/Distributor in NY
- *"Many Dominican víveres arrive dirty in a bag -- I have to take them out, clean them and put them in a box.* ***There are simple activities that the Dominican are not doing****"*
  - Large Distributor to Supermarket Chains in the US

Dominican Plans for Improvement

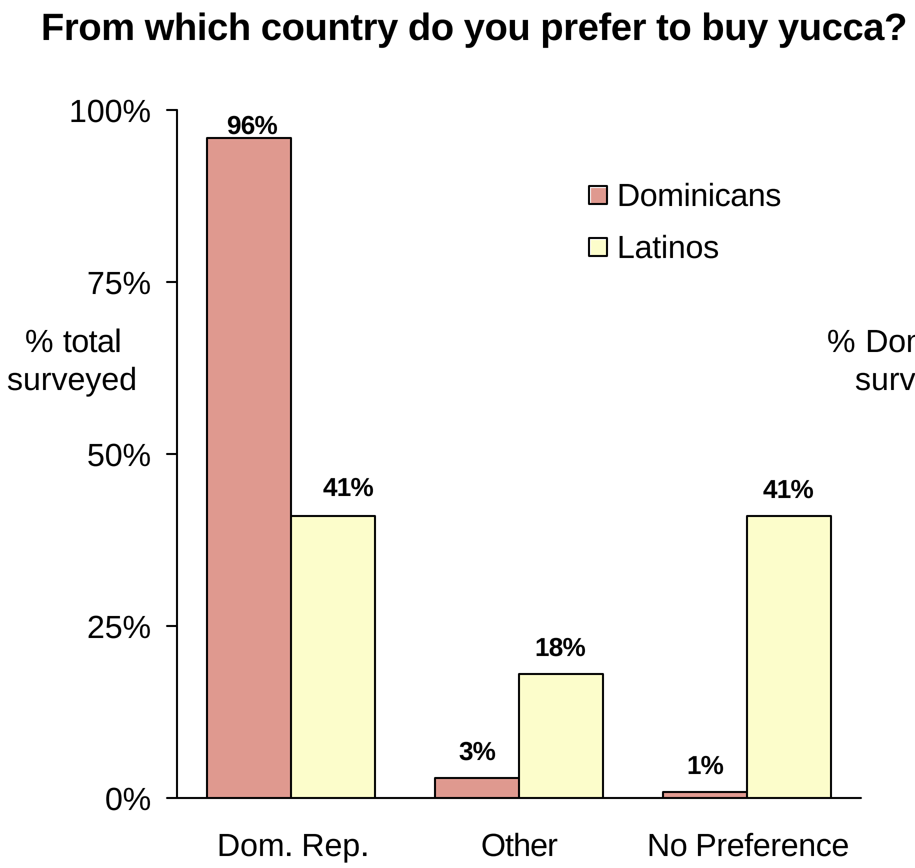
- *"By working more closely as a cluster we can form alliances to* ***learn about the best production practices and eliminate inefficiencies*** *in the distribution chain. We have already held a commercial fair so supermarket buyers and víveres producers could meet face-to-face."*
  - –Cluster Leader
- *"We need to* ***break the US produce buyer's stereotype about the inconsistency and poor quality*** *of Dominican products. We need to eliminate the "Dominican dozen" [10 instead of 12] and the "Dominican quintal" [90 lbs. instead of 100 lbs.]"*
  - –Cluster Leader

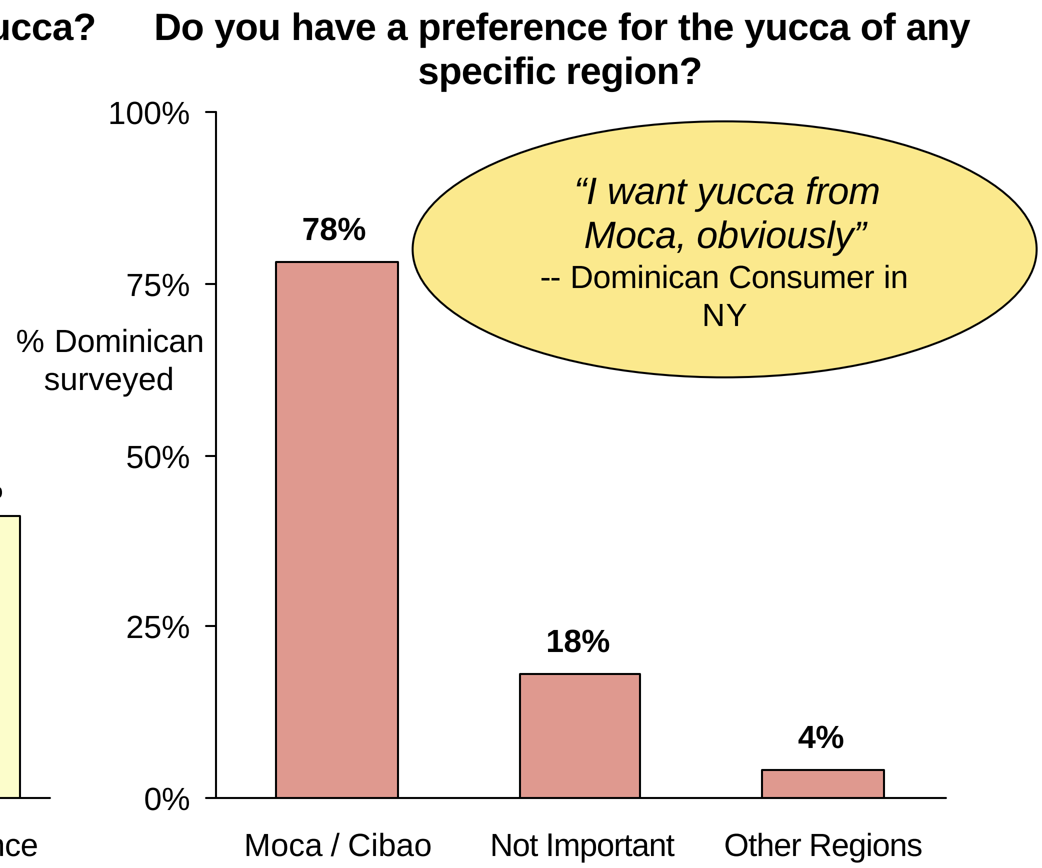
Cluster leadership has recognized the need to address operational efficiency and promote improvement throughout the industry.

Case of the Dominican Yucca
Potential Migration Path



Case of Dominican Yucca
Preference for Dominican Yucca

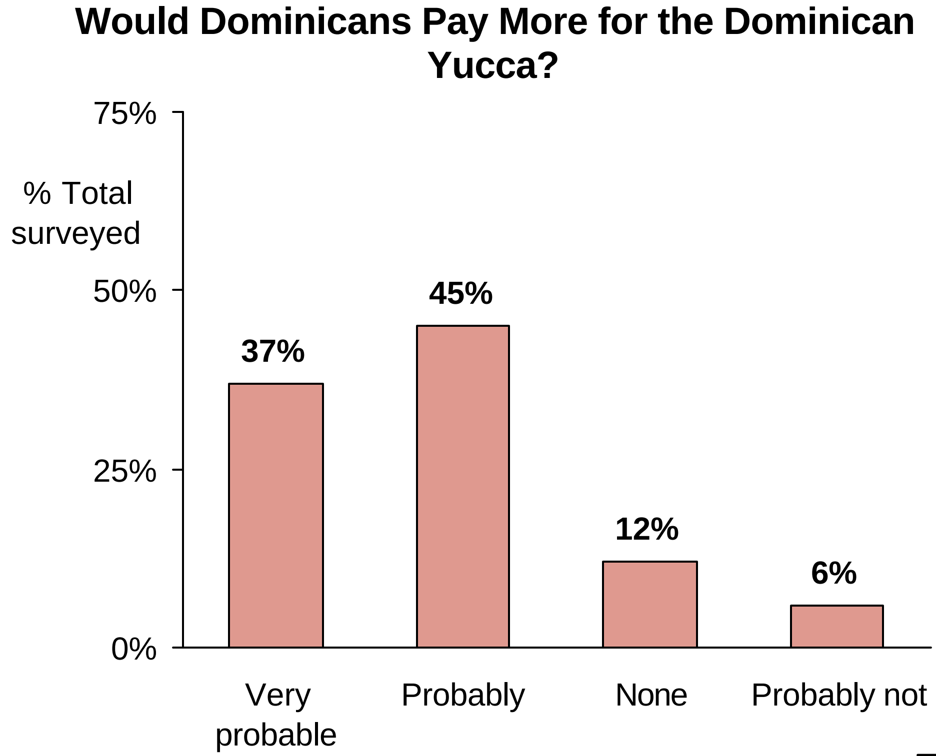




96% of Dominicans as well as 41% of Latinos surveyed prefer yucca from the Dominican Republic. 78% of Dominicans show regional preference for yucca from Moca/Cibao Valley.

SOURCE: Survey of the Dominican and Latin market in NY and Boston administered by Monitor Country Competitiveness. N = 447, Dominican segment = 396. The surveys were administered to those responsible for the family shopping in 12 shopping centers, including medium-sized markets and supermarkets, during March- April 2000

Case of Dominican Yucca
Would Dominicans Pay More for the Dominican Yucca?



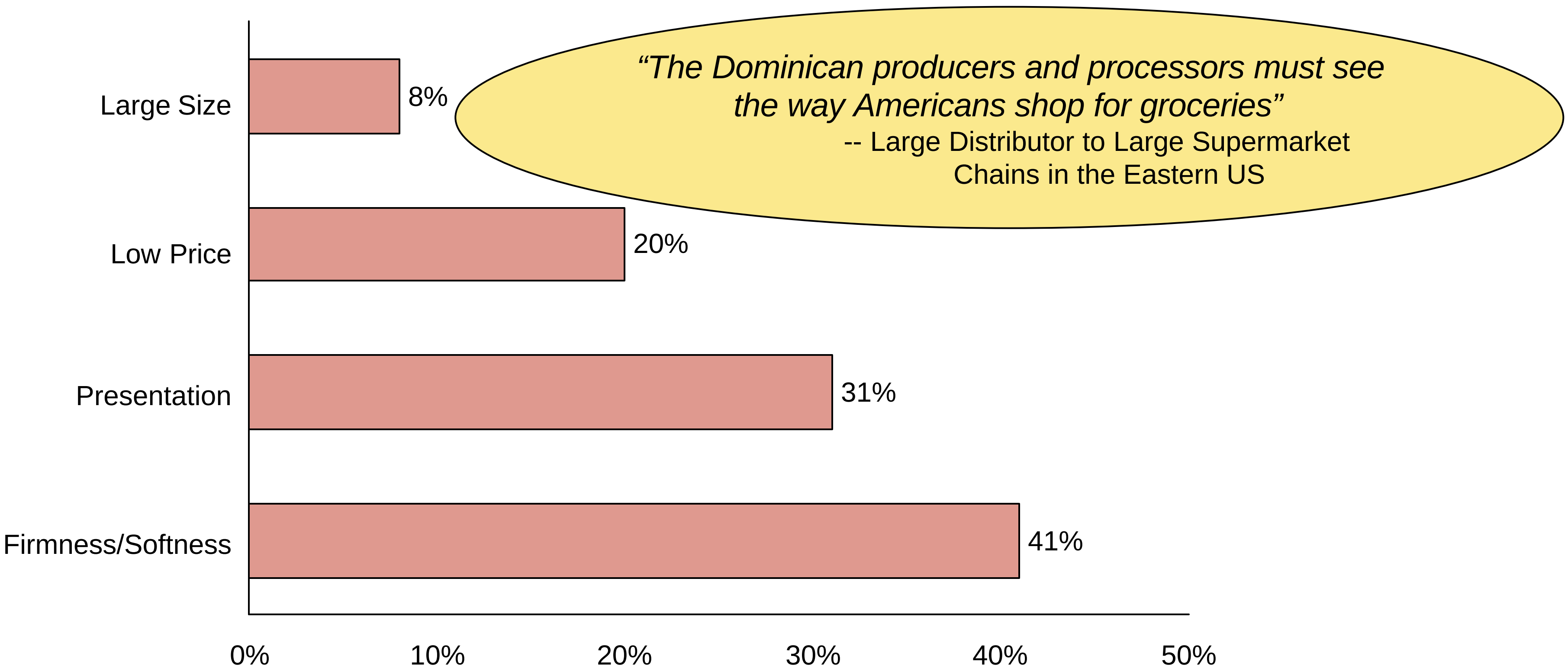
- *"I would like to focus more on the Dominican market, but the prices of Dominican products still have to be competitive. I bet I could sell more yucca if it was Dominican yucca, maybe even for a few cents more, but you have to remember that **it is a price sensitive product**."*
  - NY Distributor to supermarkets in principly Dominican Areas
- *"Perhaps Dominican consumers would buy more yucca if it was from the Dominican Republic, but **we cannot charge higher prices if other Latinos apart from the Dominicans are buying the same yucca"***
  - Distributor of Fresh Agricultural Ethnic Products in Boston

82% of Dominican consumers interviewed said they were likely to pay more for Dominican yucca. Distributors in the US are willing to work toward targeting this market, however, fresh yucca remains a relatively basic product and is price sensitive.

Note: The question "Would you pay more?" is considered a potentially leading survey question that only suggests a willingness to pay more for a product. Conjoint analysis or market testing is required to appropriately test consumers true actions and willingness to pay.
SOURCE: Survey of the Dominican and Latin market in NY and Boston administered by Monitor Country Competitiveness. N = 447, Dominican segment = 396. The surveys were administered to those responsible for the family shopping in 12 shopping centers, including medium-sized markets and supermarkets, during March- April 2000

Case of Dominican Yucca
Meeting Client Needs

Importance of Various Yucca Characteristics

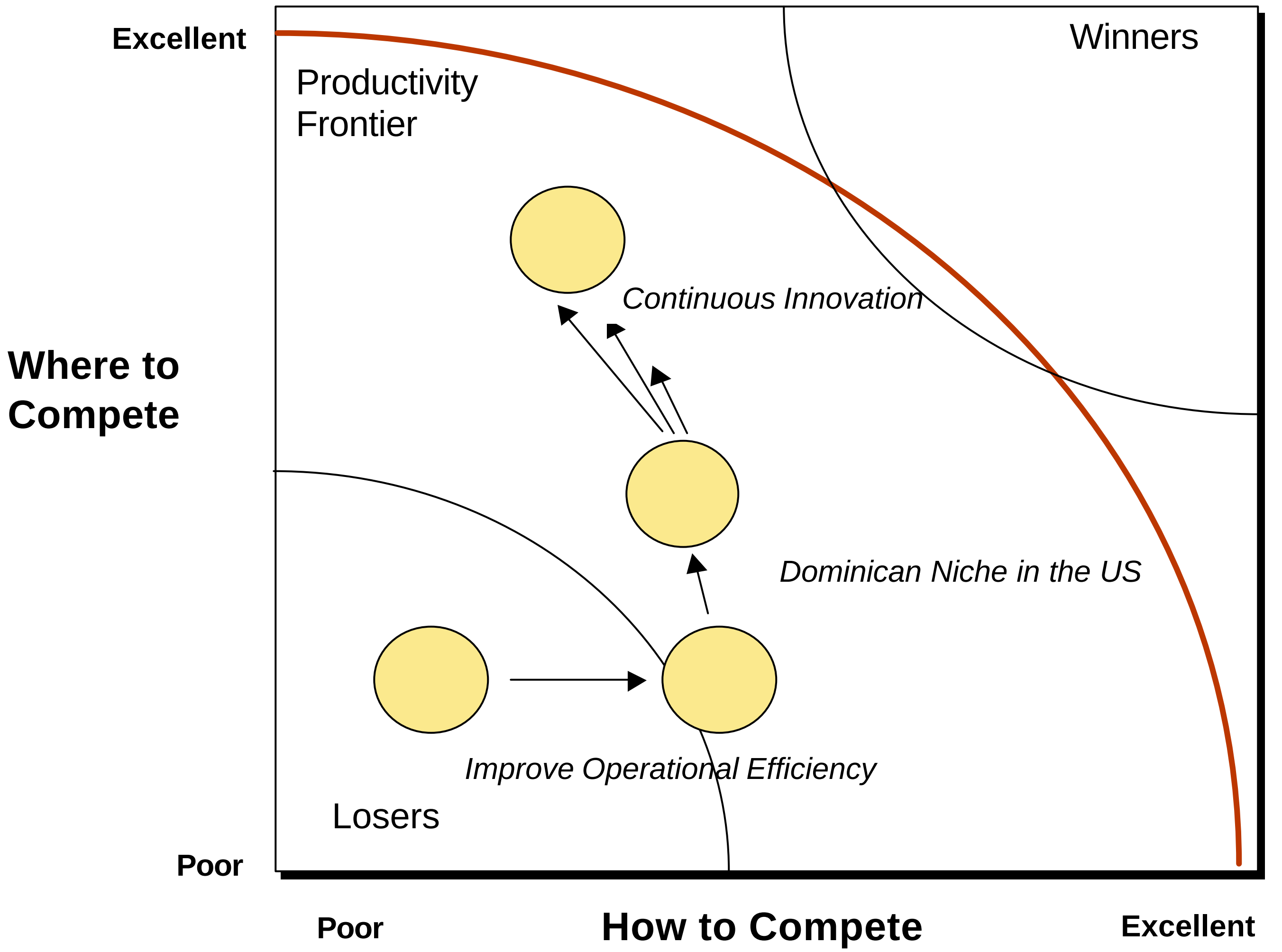


% of those surveyed indicating the most important characteristic

For the Dominican market in the US, the most important characteristics of the yucca are firmness/softness and presentation.

SOURCE: Survey of the Dominican and Latin market in NY and Boston administered by Monitor Country Competitiveness. N = 447, Dominican segment = 396. The surveys were administered to those responsible for the family shopping in 12 shopping centers, including medium-sized markets and supermarkets, during March- April 2000.

Case of the Dominican Yucca
Potential Migration Path



Case of the Dominican Yucca
Continuous Innovation

Article Explaining Yucca Preparation in *<u>Gourmet Magazine</u>*, April, 2000

the yuca mash

Odds are you've had yuca (pronounced "*yoo*-ka") before. Often referred to as cassava or manioc, it's the basis for tapioca—long used as a pie-filling thickener and to make the pudding that people either love or loathe. Fresh yuca has an appealing texture—similar to that of potato—when cooked and mashed (see page 112).

Peeling yuca is simple. First, cut it into roughly three-inch lengths and make a lengthwise slit through the waxy bark and the thin pink layer underneath. (Some people use a sturdy Y-peeler for this next step, but we usually stick with the knife.) Loosen the two layers by prying them away from the flesh with the knife. Holding the knife wedged between the layers and the flesh, continue to pry and peel in the same way.

You can find yuca at Latino markets and many

supermarkets. Choose tubers that are free of mold, soft spots, or an ammonia-like smell. When you cut into the flesh, it should be pure white, with no black veins. Because fresh yuca spoils quickly, use it within a few days or peel it and keep it in the freezer. (Frozen, peeled pieces are also available in the freezer sections of many supermarkets.) —*J.D.L.*

- *"The most sucessful ethnic products are those that "cross-over" into the non-ethics markets. Look at who eats mexican food -- not just Mexicans!"*
  - Specialty Food Distributor to Major US Supermarket Chains

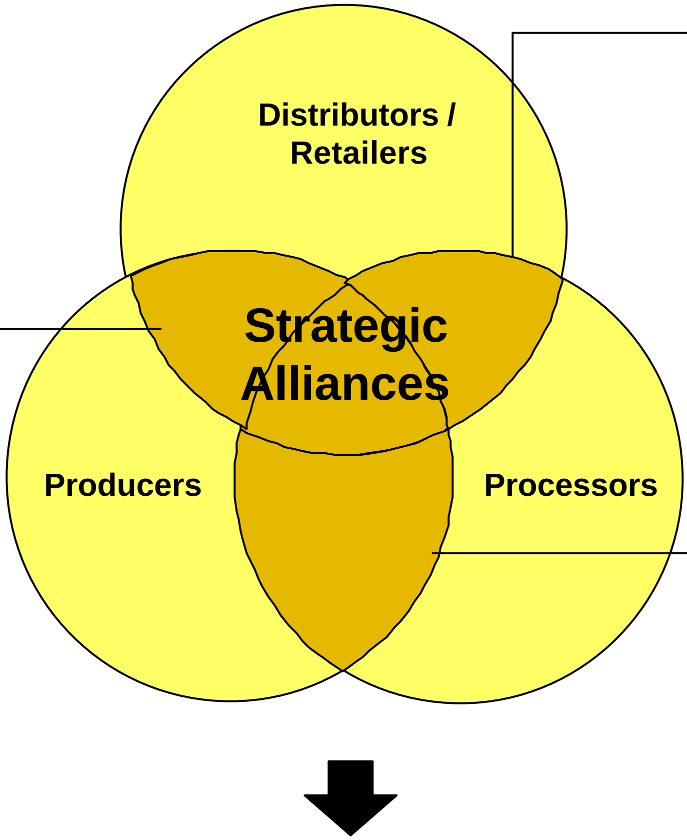
- The Dominican víveres cluster identified the following future migration opportunities
  - Easy-to-prepare processed víveres products
  - Gourmet/specialty food markets
  - Restaurants and food service
  - Organic markets

Multiple potential steps exist for yucca and other víveres products in new markets. Gourmet consumers, for example, are always looking to experiment with new food products.

SOURCE: Condé Nast Publications Inc., "Gourmet - The Magazine of Good Living," p. 146, April 2000

Case of Dominican Yucca
Strategic Alliances Within the Cluster

- Dominican producers and their clients
  - Share information about quality, size and packaging
  - Coordinate the supply in order to anticipate and satisfy the demand
  - Do a forward integration in order to acquire knowledge about final consumers

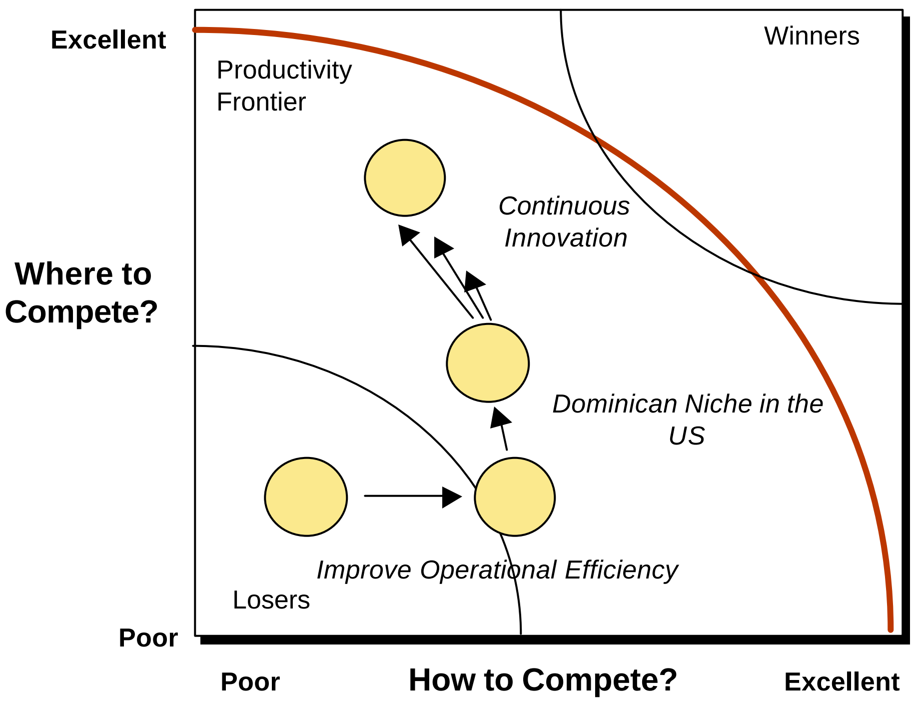


- Dominican processors and their clients
  - Share information about consumer needs
  - Explore opportunities in order to create and commercialize new products

- Dominican processors and producers
  - Eliminate inefficiencies in the input chain between producers and processors
  - Help processors avoid the supply scarcity and allow producers to predict the demand

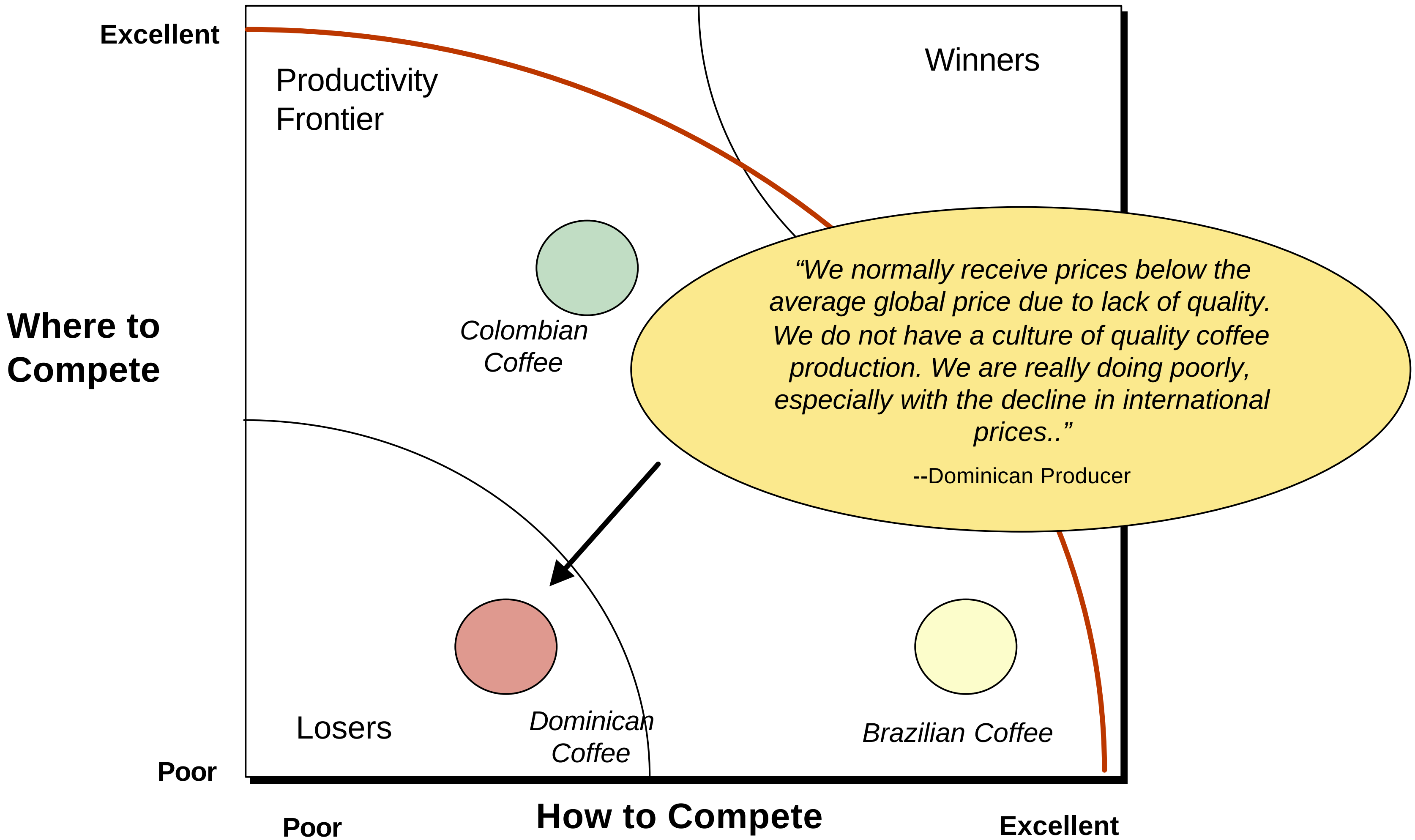
Strategic alliances within the cluster encourage better operational efficiency and market knowledge.

Case of Dominican Yucca
Potential Migration Path - Summary



- Dominican yucca producers are inefficiently producing yucca and selling it to local, less demanding markets
- Firms have potential to sell a Dominican branded yucca to the Dominican immigrant community in the US if basic improvements are made to the quality of yucca produced and strategic alliances are formed with appropriate distributors
- The Dominican niche market for fresh yucca is only a starting point. The víveres cluster must continue to pursue attractive new products and market segments such as “the ready-to-eat” or the gourmet consumers in order to move closer to the productivity frontier

Case of Dominican Coffee
Potential Migration Path

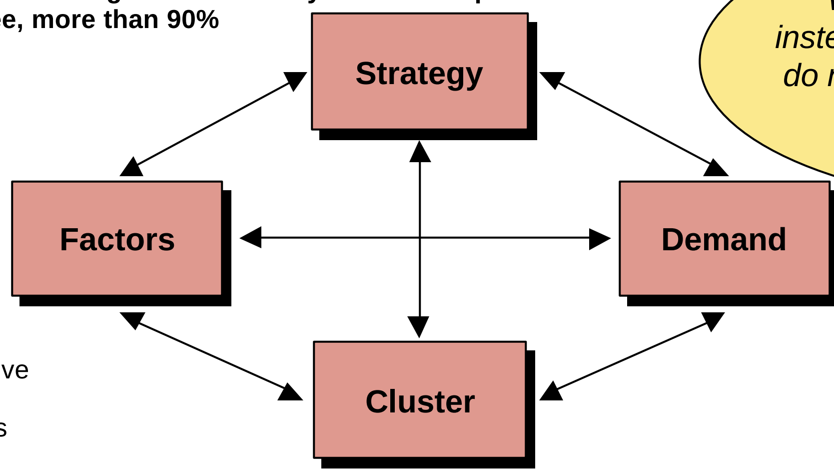


Case of Dominican Coffee
The Dominican Coffee Diamond

Strategy, Structure and Competitiveness - *WEAK*

+ Worldwide recognition of the potential that some Dominican coffees have, especially the “Barahona” and the “Pico Duarte” coffee
– Lack of focus in the creation of a local market
– **Scarce incentives to improve quality within the internal chain**
– **Practically unknown worldwide image of the country as a coffee producer**
– **Focus on commercial coffee, more than 90%**

“We have always paid by weight instead of quality--the small producers do not have any incentive to produce quality coffee.”
-Dominican Exporter



Factors - *MODERATE*

+ Favorable natural conditions and a healthy environment
+ Cheap labor
– Lack of social infrastructure in productive zones
– Poor road system in montainous zones
– Low capitalization of the sector

Demand - *MODERATE*

+ Local consumption growth of an annual rate of 6.4% in the last ten years
– Local buyers do not pay for quality
+ Growth and development of niches such as gourmet and organic coffee

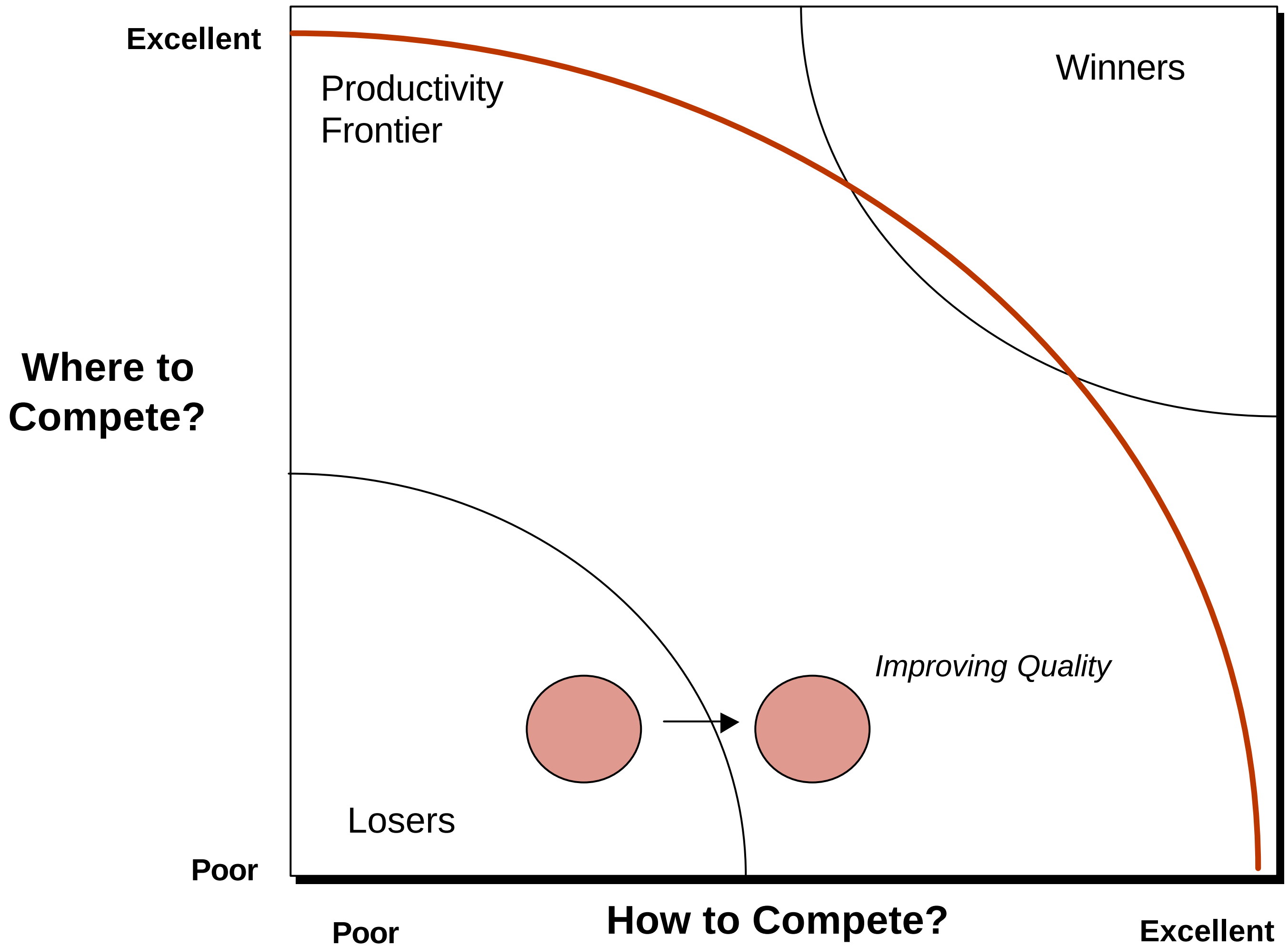
The Cluster - *MODERATE*

+ The new institute CODOCafé has potential as a concertation entity
– Excesive state presence
+ Strong and influential associations
+ Membership in international organizations (OIC, Promecafé, Lomé IV)
+ Sophisticated machinery for exportation
– **Lack of research institutions**
– **Lack of local technology for production and processing**
– **Lack of education and communication among the 45,000 producers**

The Dominican coffee industry is weak in terms of strategy--with better and more cooperation, the cluster could help the industry have a better business environment. There are scarce incentives and mechanisms to encourage quality coffee production within the cluster.

SOURCE: The Coffee Cluster, the Dominican Coffee Commission, Monitor Country Competitiveness analysis

Case of Dominican Coffee
Potential Migration Path: Improving Quality



Case of Dominican Coffee
Steps in Quality Coffee Processing

Improving coffee quality requires cooperation and communication at every stage of the production process.

SOURCE: Anacafe, El Salvador "Arabica International", a work done by the students of the International Consulting Workshop at Georgetown University, taught by Kaia Miller from Monitor Country Competitiveness

Case of Dominican Coffee
Selected Examples of Operational Efficiency Improvements

Shade management

Procafé Sur: Since 1995, Procafé has educated small producers about the benefits of shade grown coffee for the environment, has helped them find funds to purchase and plant the proper types of trees to grow shade-grown coffee, and has trained them in the proper maintenance of the trees to achieve maximum yield and environmental impact.

Ripening of the coffee beans, disease control

Integrated Management Program of the Brocca: The Secretary of Agriculture has coordinated the nationwide efforts of producers, exporters, NGOs and coffee associations to successfully combat the brocca pest, which has attacked Dominican coffee plantations since 1995. The program includes the installation of 4 testing laboratories in key regions and the massive educational campaign to teach small producers simple steps which control the spread of the disease.

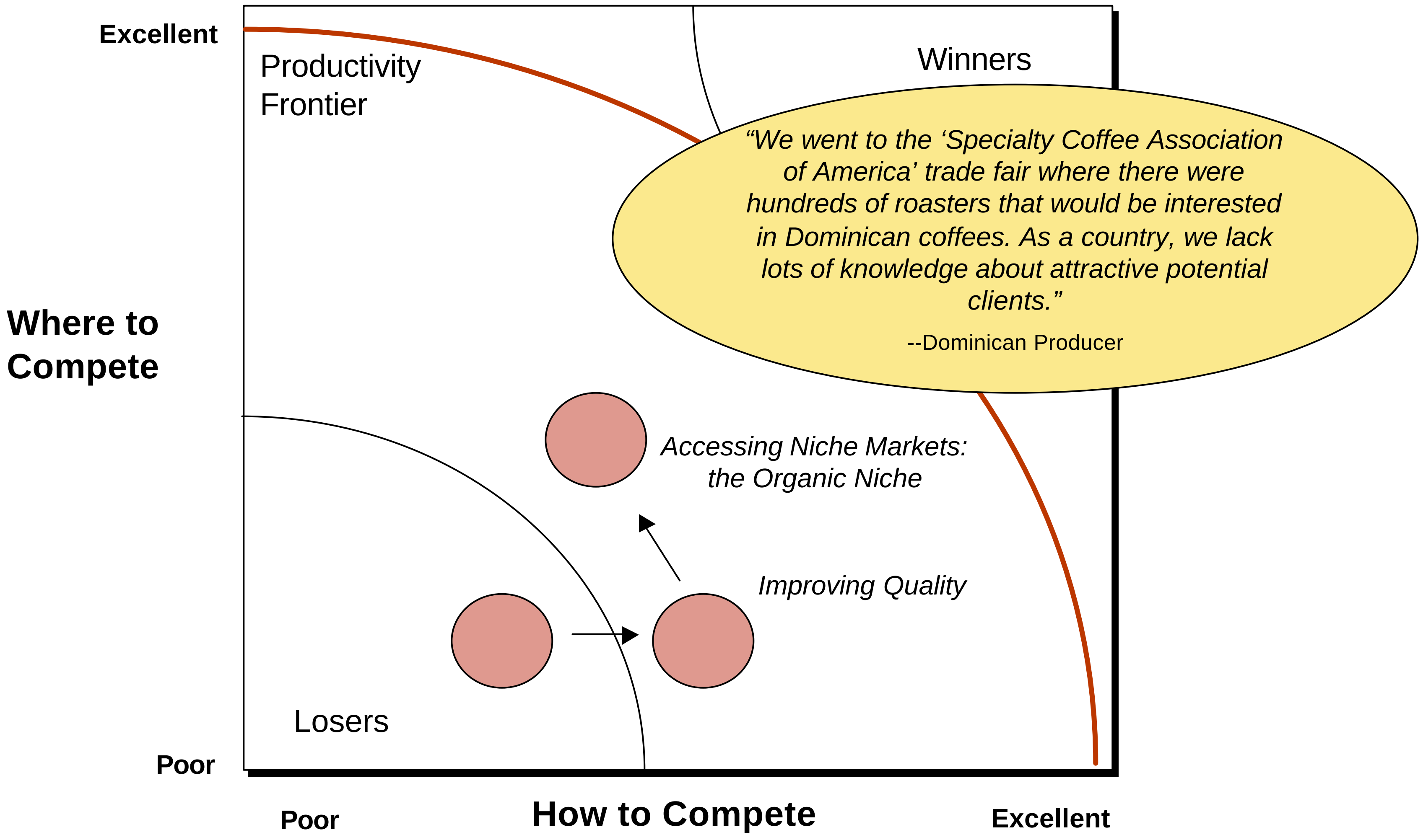
Harvesting or hand-picking of the berry

Fundoccafé: Offers free, interactive seminars weekly on quality coffee for all members of the cluster, from coffee pickers to consumers, where they teach everyone from coffee farm employees to owners about proper bean selection when harvesting.

Some cluster members are already working on improving operational efficiency.

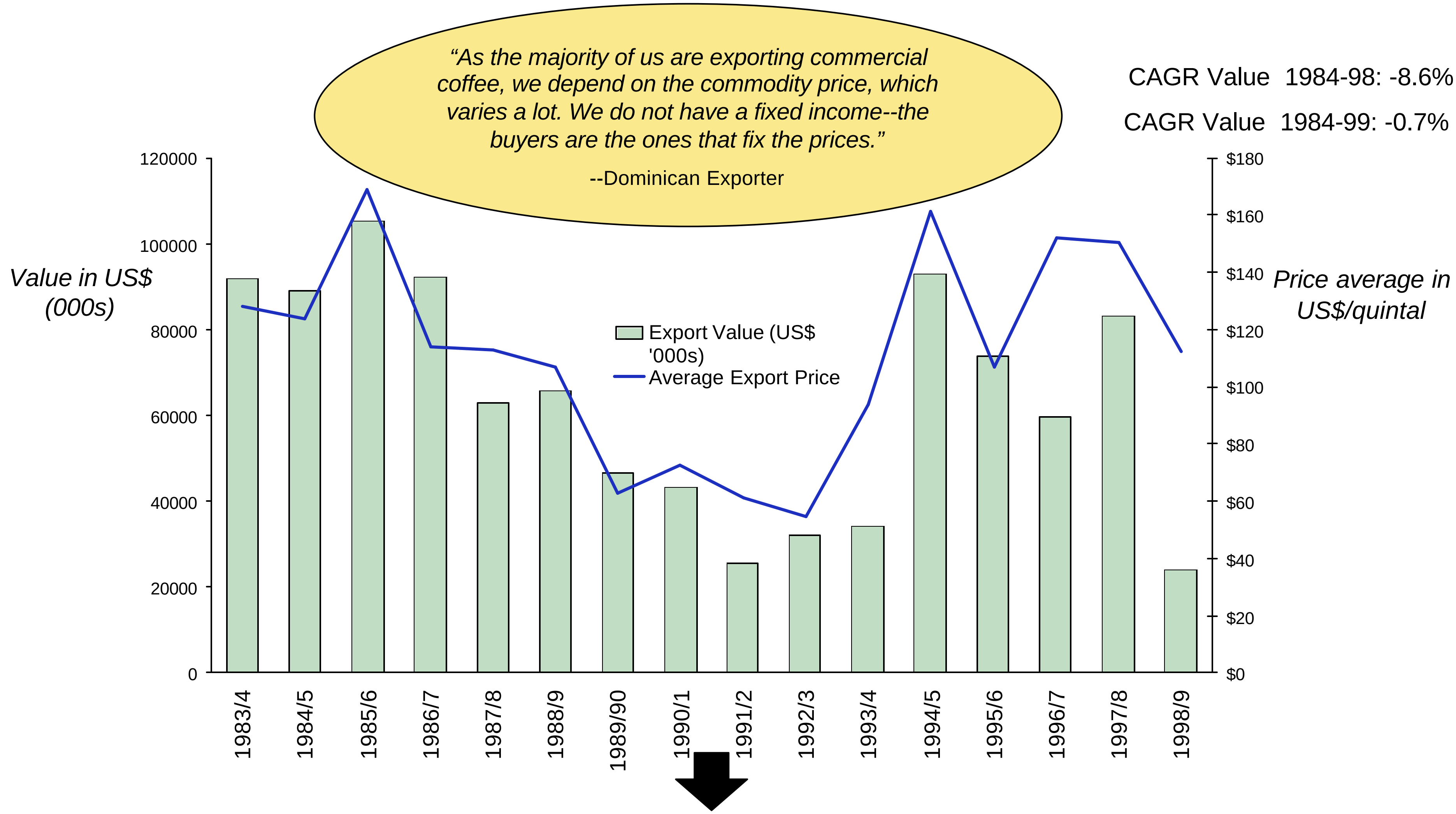
SOURCE: Monitor Country Competitiveness interviews

Case of Dominican Coffee
Potential Migration Path: The Organic Niche



Case of Dominican Coffee
Value and Volume of Exports

Total Value and Average Price of Dominican Coffee Exports 1984-1999



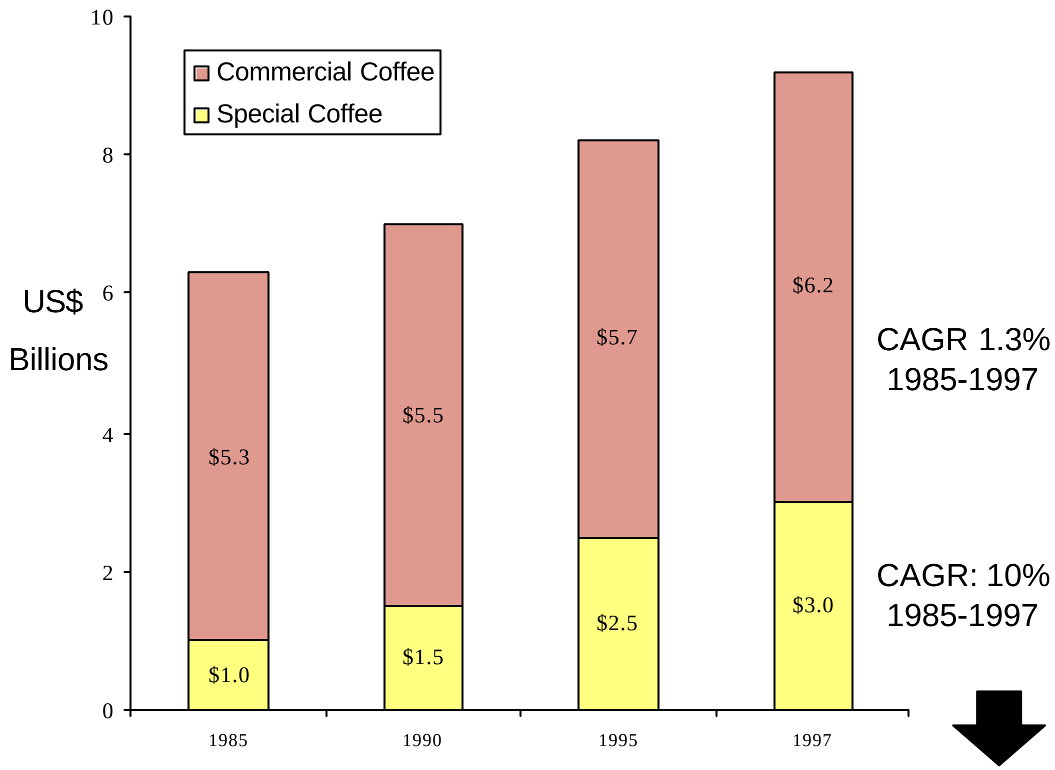
Dominican coffee prices vary greatly from year to year. Since most Dominican coffee is a commodity product of varying quality with scarce differentiation, Dominican coffee producers do not have control over price.

Note: Figures reported in terms of coffee calendar year

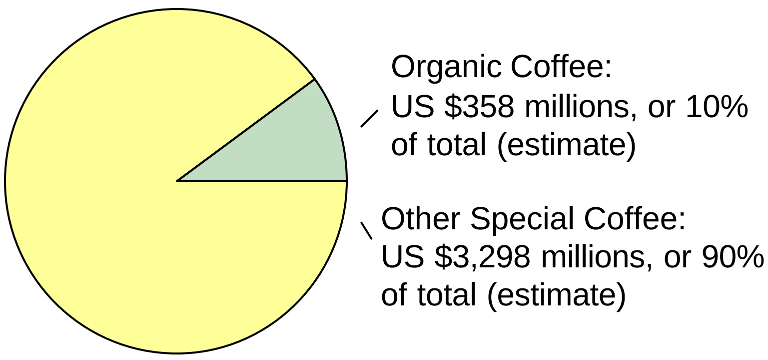
SOURCE: The Coffee Commission , Monitor Country Competitiveness analysis

Case of Dominican Coffee
Opportunity: Specialty Coffees and the Organic Niche

Breakout of the US market (billions)



US specialty coffee consumption, 2000 (projected)



"Organic food consumers generally pay an additional 20%"

-International Expert on Organic Products

The specialty coffee market has grown 10% annually in the last twelve years, while the market for commercial coffee has only grown 1.3%. The organic niche represents an opportunity within specialty coffee, thanks to the premium that consumers are willing to pay.

SOURCE: "Arabica International", a work done by the International Consulting Workshop students at Georgetown University, taught by Kaia Miller from Monitor Country Competitiveness; "Organic Agriculture World-Wide", Helga Willer and Minou Yussefi, sponsored by BIOFACH in collaboration with IFOAM, Feb. 2000; "The International Market for Organic Food", Peter Twyford - Jones & Robert Doolan, Rural Industry Business Services, Department of Primary Industries, Queensland, January 1998. Monitor Country Competitiveness analysis

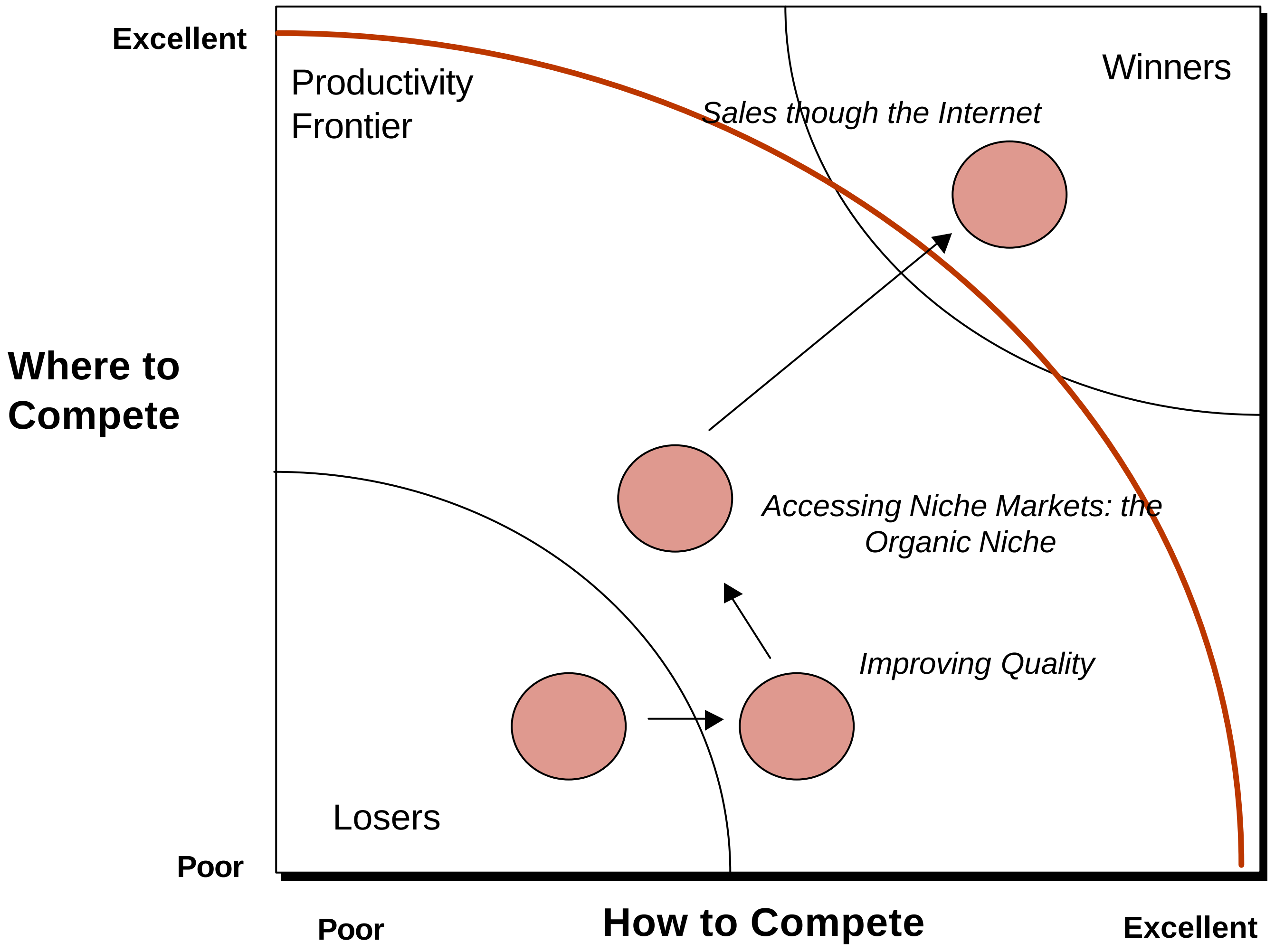
Case of Dominican Coffee
Requirements for Organic Coffee Production

Characteristics of Organic Coffee		Characteristics of the Coffee Industry in the Dominican Republic
100% arabica beans required	→	98% of production is arabica
No synthetic fertilizers	→	44% natural production
Labor intensive	→	Inexpensive labor
Mainly shade-grown	→	97% shade-grown
Organic certification required	→	Certification available with *BSC-OKO Garantie*
Mainly small scale production	→	65-70% of coffee farms are less than 200 tareas in size

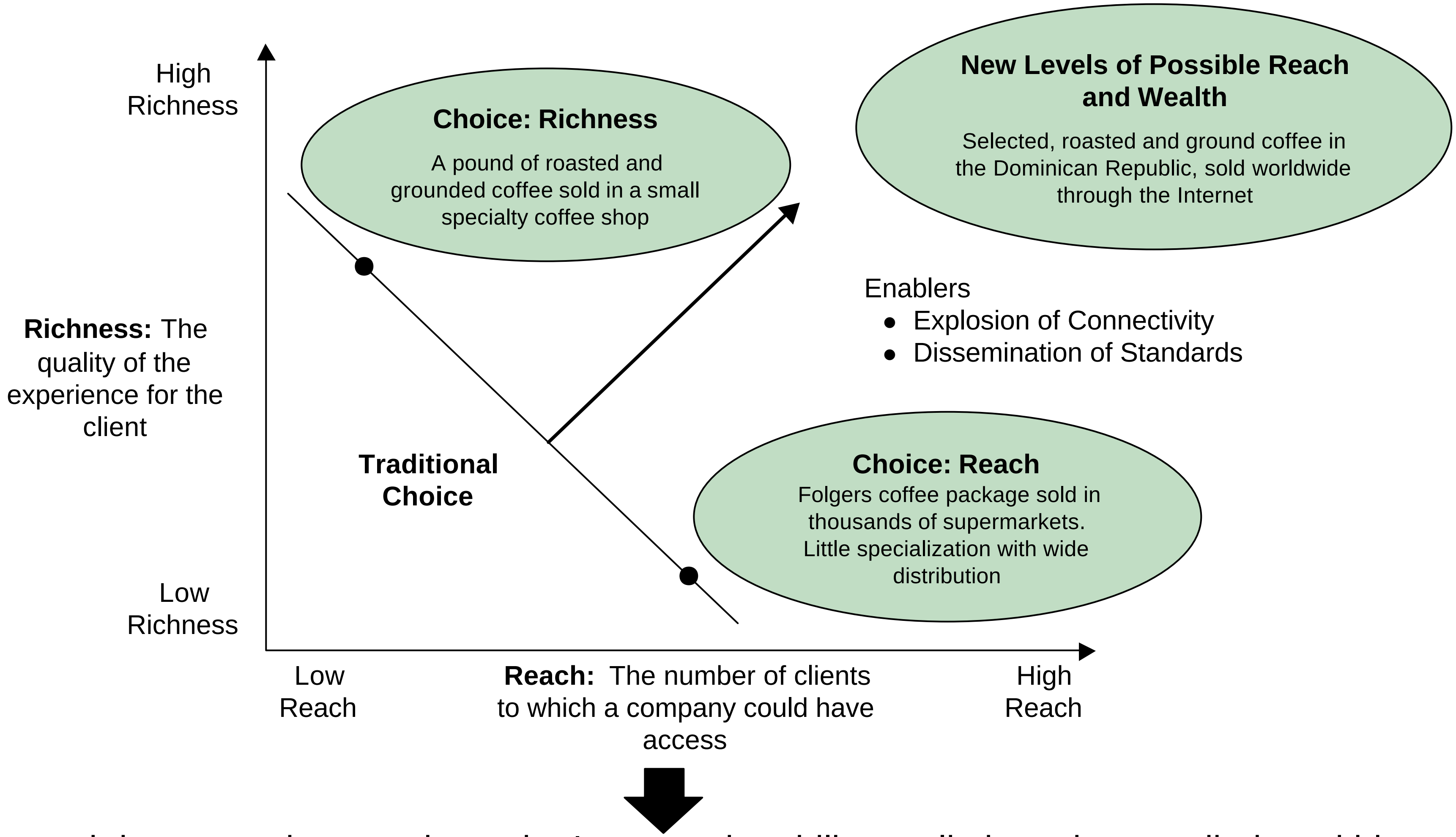
Coffee cultivation in the Dominican Republic meets the requirements to produce organic coffee. Organic coffee represents an opportunity for the Dominican Republic to increase its presence in the specialty coffee market.

SOURCE: "Arabica International", a work done by the students of the International Consulting Workshop at Georgetown University, taught by Kaia Miller from Monitor Country Competitiveness

Case of Dominican Coffee
Expanding the Productivity Frontier



Case of Dominican Coffee
Impact of the Internet: Simultaneous Richness and Reach



With growth in transactions made on the Internet, the ability to eliminate intermediaries within the distribution chain, and the opportunity to provide distinctive experiences for many clients in different physical locations, companies are afforded unprecedented levels of richness and reach.

SOURCE: Philip B. Evans and Thomas S. Wurster, *Blown to Bits*, 2000, Monitor Country Competitiveness analysis.

Case of Dominican Coffee
The Internet is Changing How People Do Business

Creates New Opportunities

- Increases convenience and options for consumers
- Widens the market reach for business and leads to fair revenues in goods and services
- Allows the development of new business models

Eliminates Barriers

- Provides access to information to all network members
- Overcomes physical and virtual isolation
- Allows individuals to better inform themselves about governmental processes and policies

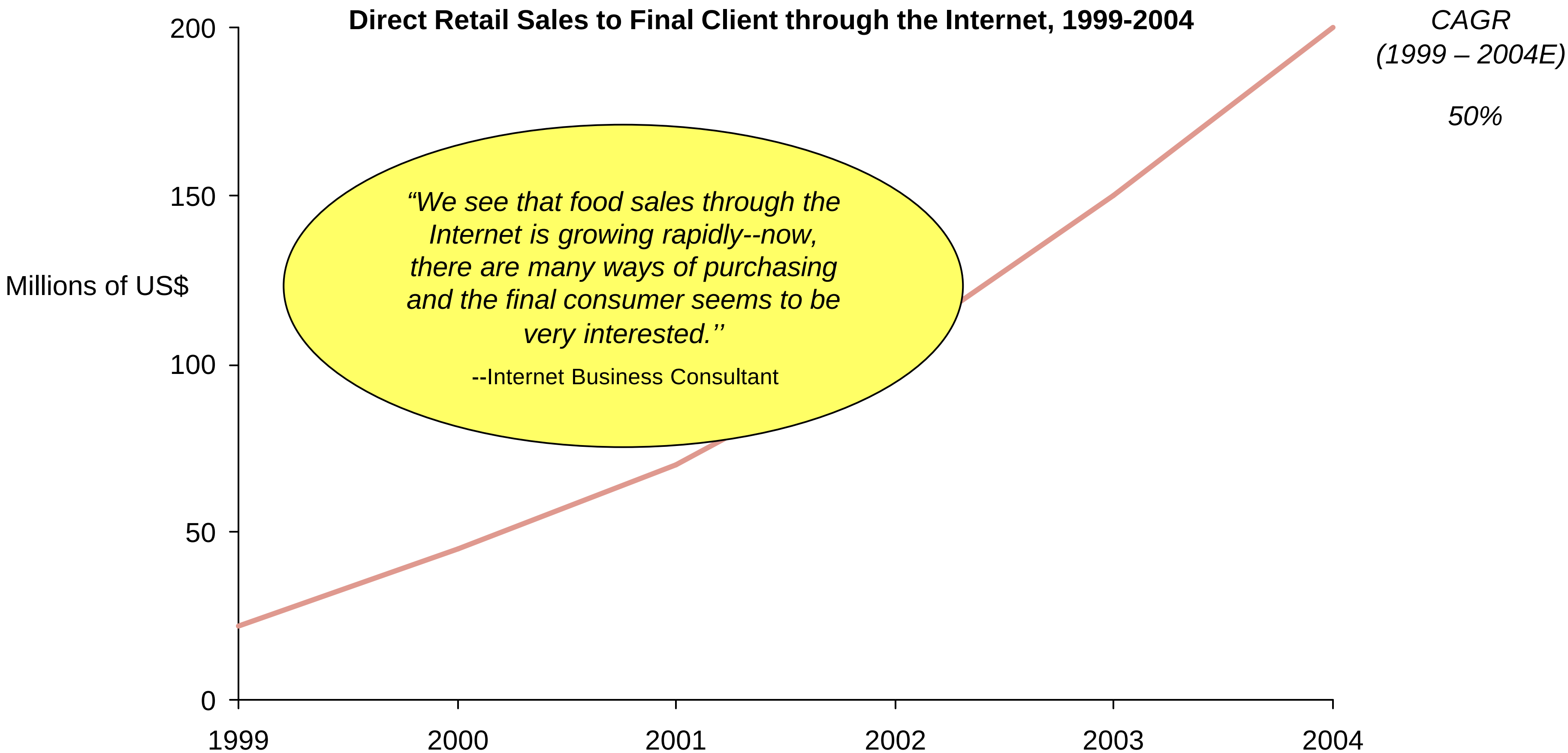
Promotes Efficiency

- Simplifies delivery of goods and services
- Increases operational transparency
- Reduces transaction costs

The Internet separates the real sources of value and rewards those who provide them. There are many ways--and not only through sales to final clients--in which the coffee sector can profit from the Internet.

SOURCE: *Readiness for the Networked World: A Guide for Developing Countries*, Center for International Development at Harvard University

Case of Dominican Coffee
Growth of Internet Retail Sales



Retail sales by Internet are increasing by 50% annually. Dominican coffee cultivators have an opportunity to take advantage of this growth in Internet sales through strategic alliances, existing virtual shops or by creating their own web pages.

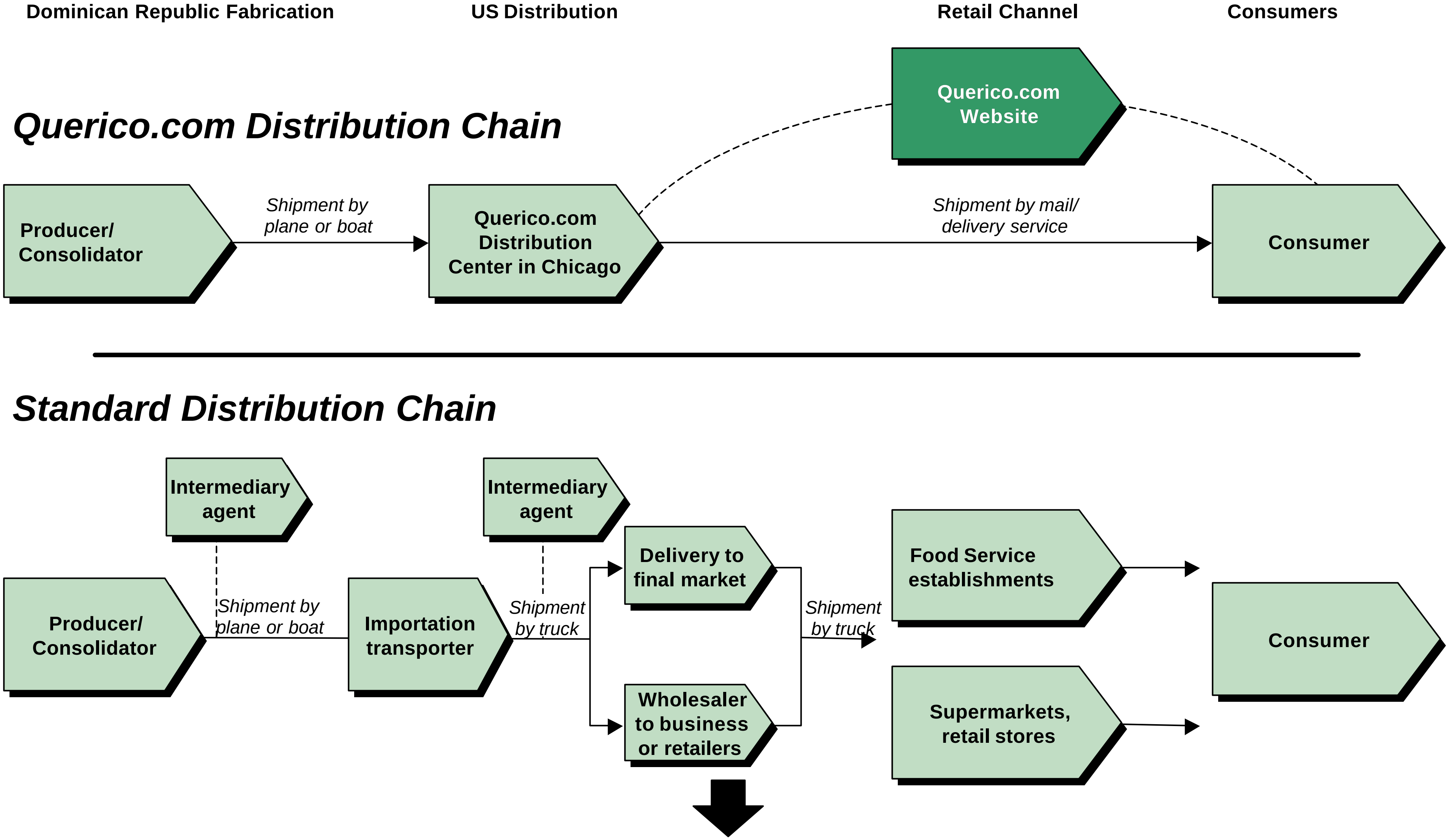
Note: 2000 - 2004 estimates
SOURCE: *Forester Research*

Case of Dominican Coffee
Migration Strategy and the Internet: Querico.com

Virtual stores such as “Querico.com” allow Dominican exporters to forge new, more efficient distribution channels which access the immigrant, Latino and crossover communities without consideration of geographic focus.

SOURCE: www.querico.com

Case of Dominican Coffee
Querico.com: Eliminating Intermediaries



The Querico.com platform has simplified the distribution channel, eliminating some intermediaries to reach final clients.

SOURCE: Monitor Country Competitiveness interviews; *Business 2.0*

Case of Dominican Coffee
RFMeseta.com from Costa Rica: Creating an Experience

By double clicking on the product, the clients obtain information about the product, including the description of the coffee taste, place were was grown and cultivated.

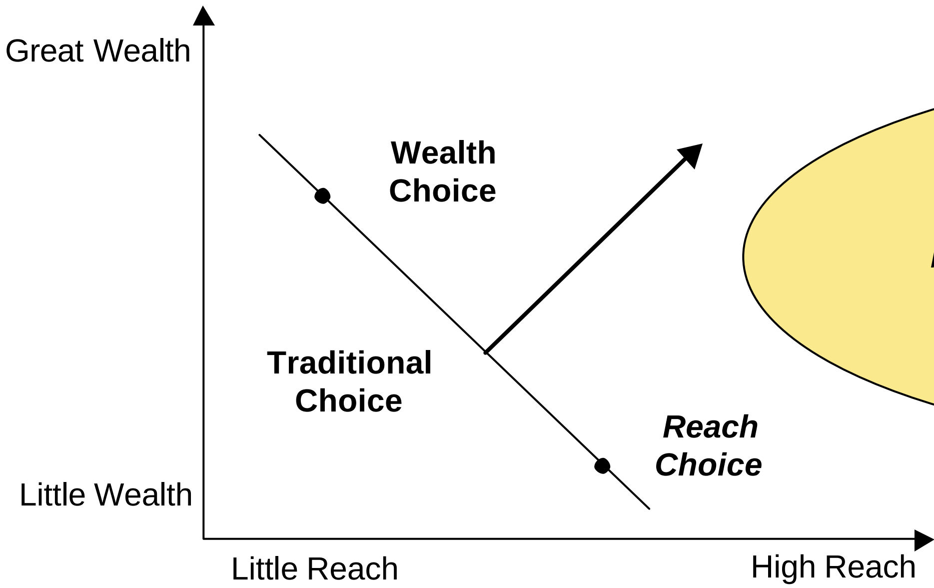
Differentiation Strategy: Link to Tourism

- Directly sell to tourists interested in agro-tourism that visit the coffee roasters in Costa Rica
- Each package has an internet address for future purchases upon the return of tourists to their country
- The website has alliances with Costa Rican travel agencies and tourist attractions

Using their web page to share the company's history and the special conditions under which it is grown, Meseta differentiates their product from others with added emotional value, especially for those who have visited the country.

SOURCE: www.rfmeseta.com

Case of Dominican Coffee
Migration Strategy and the Internet: Richness and Reach

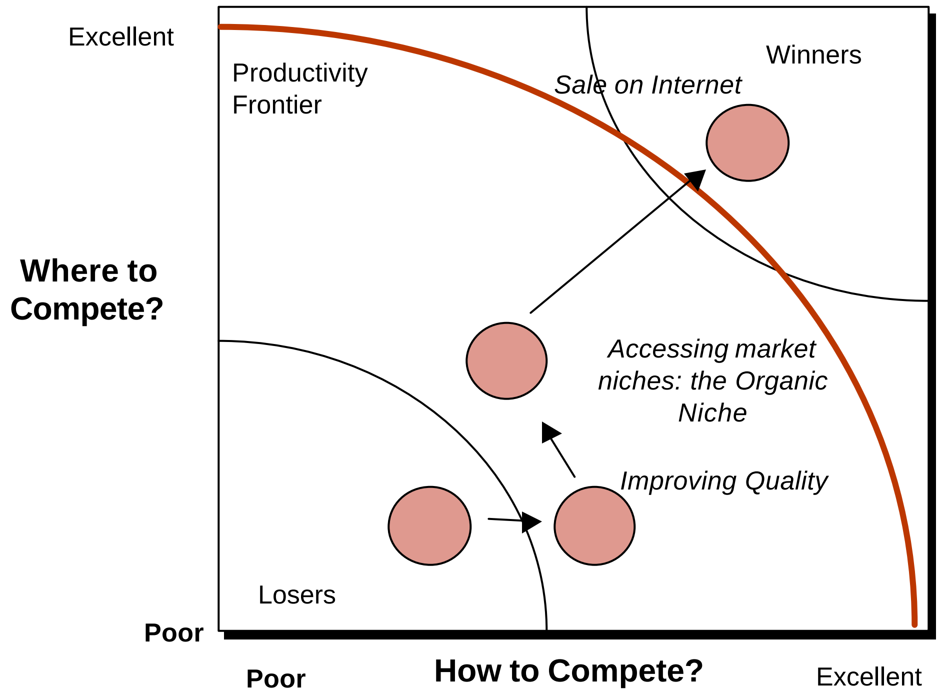


> *"The world is changing rapidly and dramatically. National borders are coming down, costs of communication are falling, but most importantly, business competition is moving from the "**physical marketplace**" to the "**virtual marketplace**."*
>
> --Michael Fairbanks, Founder, Monitor Country Competitiveness

- Today, companies are no longer forced to make the trade-off between the "wealth" of their product and the "reach" in their markets. The Internet allows more customized products to be sold to more customers. The Internet creates several key opportunities for those striving to thrive in the new economy:
  - **Strategic disintermediation**
  - **"Segment of one"** customized marketing and distribution to create unique customer experiences
  - Fast response to customers by means of forward integration
  - Brand positioning
- Dominican coffee **can compete** in the new economy:
  - There are attractive niches such as organic, **shade grown and sustainable**
  - The core product for these markets is the same, but innovations in marketing and distribution can allow Dominicans to **position themselves simultaneously to win** in several of these niches.

SOURCE: Philip B. Evans y Thomas S. Wurster, *Blown to Bits*, 2000

Case of Dominican Coffee
Potential Migration Path - Summary



- Dominican coffee growers, processors and exporters are producing low-grade coffee due to a lack of strategy, cooperation and communication within the cluster. The cluster must work together to educate everyone involved in quality coffee production.
- With improved quality, Dominicans can take advantage of the growing, lucrative market for specialty coffee, and migrate from the slow-growing, unstable commodity coffee market. Due to the type of production (shade grown, small farms, etc.), Dominican coffee growers and exporters are especially well positioned to pursue opportunities in the organic market.
- The world of commerce is changing rapidly. The internet allows more customized and personalized specialty coffee to be sold to more customers. Innovations in marketing and distribution allow Dominicans to position themselves simultaneously to win in several niche markets.

Migration Strategy Summary

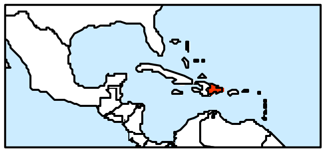
- Strategy is the combination of two decisions: where to compete (or in what segments of the market) and how to compete (or with what level of operational efficiency). Losing firms compete in basic product segments with little operational efficiency. Winning firms have chosen to compete in attractive segments with superior levels of operational efficiency.

- To get to the productivity frontier, firms should have a short, medium and long term migration strategy that takes into account the need to improve on both axes, keeping in mind that improvement is cumulative, the process is dynamic, and some changes might occur simultaneously for some firms. Although these yucca and coffee strategies are country-wide, each company needs to define its own migration strategy, and some will have different visions of their goals.

- Production of yucca in the Dominican Republic is not a competitive industry. Fresh yucca and yucca products are not well positioned in attractive markets nor are they produced efficiently. However, even for this simple product there is potential for migration. Fresh yucca can be branded and targeted to the Dominican immigrant community in the United States to diminish commodity price pressures. Innovative firms can introduce yucca products to cross-over markets and introduce yucca to consumers as a new gourmet starch product available from the Caribbean.

- The coffee industry in the Dominican Republic is currently in the loser's circle. Dominicans are exporting low-grade commodity coffee because there is little internal focus on quality production. However, there is a growing market for specialty coffee, which Dominicans will be well-positioned to serve once they improve the quality of coffee production and processing. Using the Internet, coffee exporters will be able to sell more personalized specialty coffee to more customers. Innovations in marketing and distribution can allow the Dominican coffee industry, along with other Dominican industries, to position themselves simultaneously to win in several niche markets.

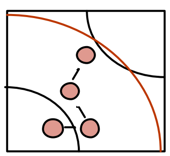
Competitiveness is our Decision
Agenda



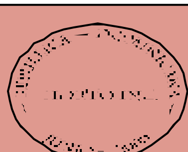
- The Challenge for Agriculture in the Dominican Republic

- Current Strategic Choices in Hortofrutícola

- Opportunities to Build Competitive Advantage



- Migration Strategies: The Cases of Yucca and Coffee



- **Strategic Imperatives and Cluster Initiatives**
  - The Hortofrutícola Cluster
  - Sub-Clusters

Hortofrutícola Cluster
Vision

Vision

To be a respected brand and the most reliable provider of high quality, environmentally sensitive hortofrutícola products in the region, thereby positioning ourselves in higher value, highly profitable market segments.

Action Plan for the Cluster

Maintain a strong cluster

↓

Spread the principles of competitiveness

Strengthen the hortofrutícola brand

Support pilot projects of individual companies and sub-clusters

Action Plan for the Cluster
Short term wins to date

Maintain a strong cluster

- 2 meetings with the cluster to launch the project
- 13 private sector leaders, including producers, processors and exporters, actively participating in research, pilot projects and the cluster development
- Conjoint work with the principle agricultural association, the JAD (Junta Agroempresarial Dominicana) and local NGOs Caribbean Exports and CAMPE (Centro de Apoyo a los Micros y Pequeños Empresas)
- Weekly/biweekly meetings with the cluster leaders group for a 5 month period

Spread the principles of competitiveness

- 8 diffusion presentations outside the cluster, including presentations to the textile, apparel and bakery sectors in Santiago and Santo Domingo
- 6 final presentations in the following regions: Santo Domingo, Santiago, Jarabacoa, San Juan de la Maguana, San Francisco de Macoris and Barahona
- Numerous television interviews, newspaper articles and radio shows

Strengthen the hortofrutícola brand

- Market research (quantitative and qualitative) about the Dominican residents in the US
- Research of organic market

Support pilot projects of individual companies and sub-clusters

- First specialty coffee seminar, with more than 120 participants from the sector
- First commercial encounter with producers, buyers and processors of víveres in Moca, facilitated by JAD
- Analysis of the distribution chain and segmentation of distributors
- Creation of new products, such as organic chocolate ice cream and mango marmalade--initiatives encouraged by the cluster
- Investigation of, and first contacts with, new specialty product markets, by individual entrepreneurs in the cluster leadership group
- Internet strategies developed by individual entrepreneurs

Action Plan for the Cluster Synopsis

	Short-term	*Medium-term*	*Long-term*
Maintain a strong cluster	• Follow-up plan–set up monthly meeting	• Increase the number of active participants according to the Code of Ethics	• Cluster evaluation of competitiveness and level of success
Spread the principles of competitiveness	• Presentations of the cluster learnings: Barahona, Jarabacoa, San Francisco de Macoris, San Juan de la Maguana, Santiago, Santo Domingo	• Continuous participation in networking meetings	• Presentation of "Dominican Seal" achievements • Continuous participation in networking meetings
Strengthen the hortofrutícola brand	• Design the "Dominican Seal" and the preliminary marketing material • Code of Ethics–establish norms for "Dominican Label" participants	• Launch the "Dominican Seal" • Implement certification process for the "Dominican Seal" • Internet strategy for the "Dominican Seal"	• Internationally promote the "Dominican Seal" and the marketing plan • Implement requirements for the "Dominican Seal" and the Code of Ethics
Support pilot projects of individual companies and sub-clusters	• Meet with financial institutions	• Delegation to fairs: Organic, Dominican	• Establish a "Dominican Seal" web page

Action Plan for the Cluster
Short-term: 0–60 days

	Action	***Responsible***
Maintain a strong cluster	• Follow-up plan–establish monthly meetings	• Mario Velázquez, Taina Mora - Caribbean Export, JAD
Spread the principles of competitiveness	• Presentations of the cluster learnings: Barahona, Jarabacoa, San Francisco de Macoris, San Juan de la Maguana, Santiago, Santo Domingo • Continuous participation in networking meetings	• Cluster Leaders, Jaime Moreno, Monitor George Mansfield, JAD
Strengthen the hortofrutícola brand	• Design the “Dominican Seal” and the preliminary marketing materials • Investigate recognized international certification processes for the “Dominican Seal” products. Investigate certification laboratories in universities and JAD, as well as ways of strengthening them. Meet with public health authorities • Code of Ethics–establish norms for participants in the “Dominican Seal”–investigate norms utilized for other labels at the international level	• Jaime Moreno, Mario Velázquez, Juan Vicini, Caribbean Export • Silverio Confesor, George Mansfield, Isidoro De la Rosa (organic certification), JAD, INDOTEC, Department of Health • Virginia Heinsen de Freites, Frank Díaz, Isidoro de la Rosa, George Mansfield
Support pilot projects of individual companies and sub-clusters	• Meet with financial institutions — training sessions to learn more about financing solicitation	• Caribbean Export, Jaime Moreno

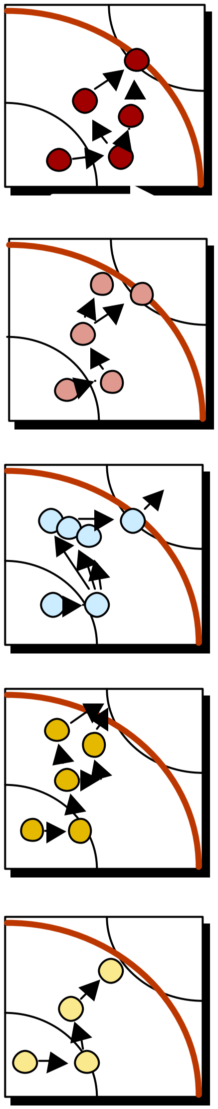
Action Plan for the Cluster
Medium-term: 60-120 days

	Action	*Responsible*
Maintain a strong cluster	• Increase the number of active participants according to the Code of Ethics	• Cluster Leaders, Mario Velázquez
Spread the principles of competitiveness	• Continuous participation in networking meetings	• George Mansfield, JAD
Strengthen the hortofrutícola brand	• Launch the “Dominican Seal” • Implement certification processes for the “Dominican Seal” in conjunction with laboratories and the national and international health authorities • Publish the Code of Ethics required for the “Dominican Seal” participants • Develop Internet strategy for the “Dominican Label”	• Caribbean Export, Cluster Leaders, Jaime Moreno, Mario Velázquez • Silverio Confesor, George Mansfield, Isidoro de la Rosa • Virginia Heinsen de Freites, Frank Díaz, Isidoro de la Rosa, George Mansfield • Jaime Moreno, George Mansfield
Support pilot projects of individual companies and sub-clusters	• Delegation to fairs: Organic and Dominican	• Caribbean Export, Isidoro de la Rosa

Action Plan for the Cluster
Long-term: 120-180 days

	Action	*Responsible*
Maintain a strong cluster	• Competitiveness and success evaluation of the cluster	• Cluster Leaders, Mario Velázquez
Spread the principles of competitiveness	• Disseminate "Dominican Seal" achievements • Continuous participation in networking meetings	• Cluster Leaders • George Mansfield, JAD
Strengthen the hortofrutícola brand	• Internationally promote "Dominican Seal" and the marketing plan • Implement "Dominican Label" and Code of Ethics requirements	• Cluster Leaders • Caribbean Export, Certification Organizations
Support pilot projects of individual companies and sub-clusters	• Establish a Hortofrutícola/"Dominican Seal" web page to share information regarding the label and the strategy points	• Cluster Leaders

Sub-clusters
Migration Strategies



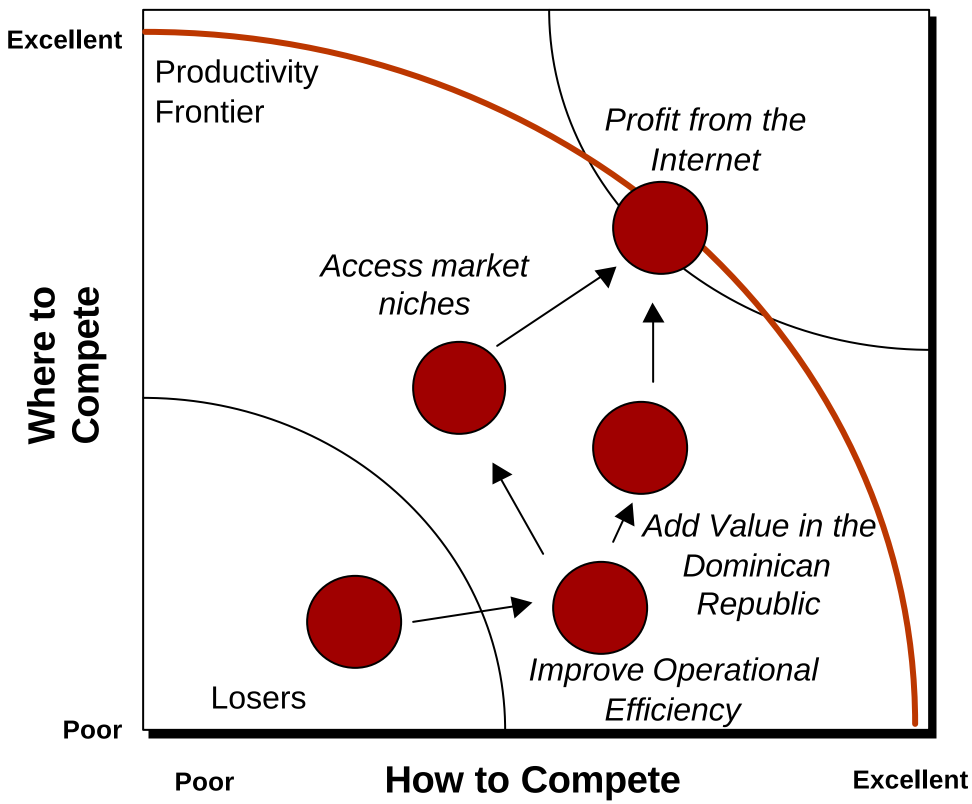
Action Plans for the Subclusters

Each sub-cluster has developed a short, medium and long-term plan aligned with the hortofrutícola vision

Action plans for sub-clusters are based on the productivity frontier and on a migration strategy toward new attractive market segments

Each sub-cluster plan includes recommendations for firms, associations, the hortofrutícola cluster and in some cases, for the government

Cocoa Strategic Choices
Summary: Migration Strategy



Short-term: Improve Operational Efficiency

- Adopt entrepreneurial mentality
- Improve quality and operational efficiency
- Prioritize quality and efficiency for all to raise conciousness of their importance within the sector

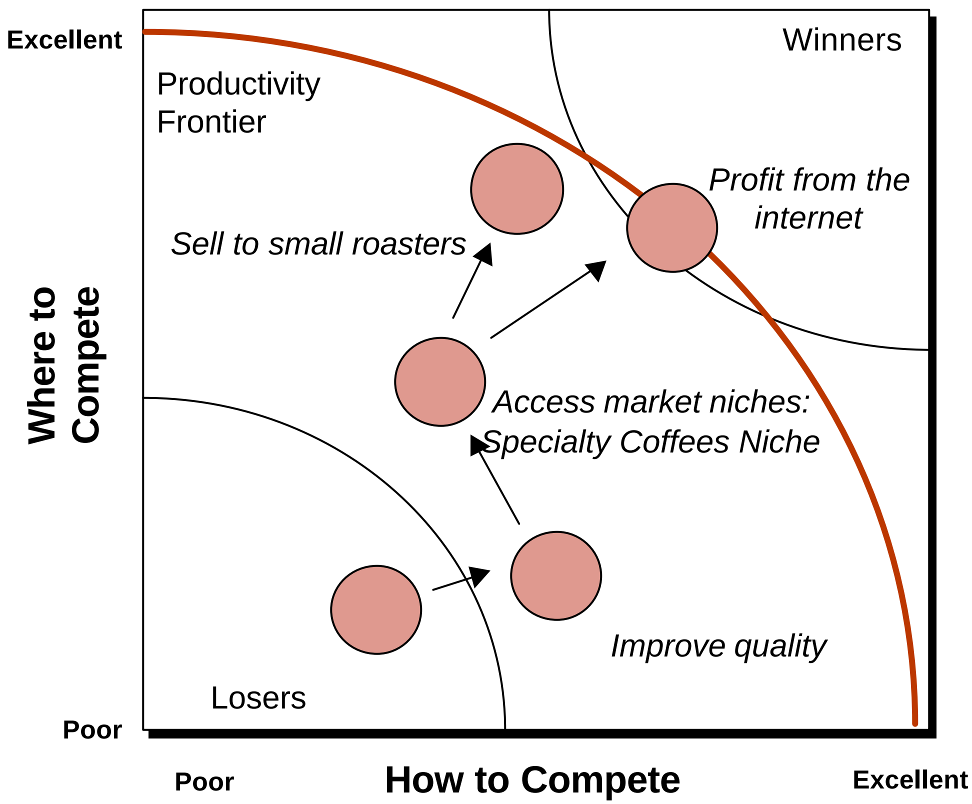
Medium-term: Access Market Niches/ Add Value in the Dominican Republic

- Constantly look for new market niches and ways to add value to products
- Promote an attractive image of Dominican cocoa

Long-term: Profit from the Internet

- Create a virtual network to promote and sell globally, establishing distribution centers strategically placed for express deliveries
- Use more advanced technological sources in order to strengthen the sector's competitive position

Coffee Strategic Choices
Summary: Migration Strategy

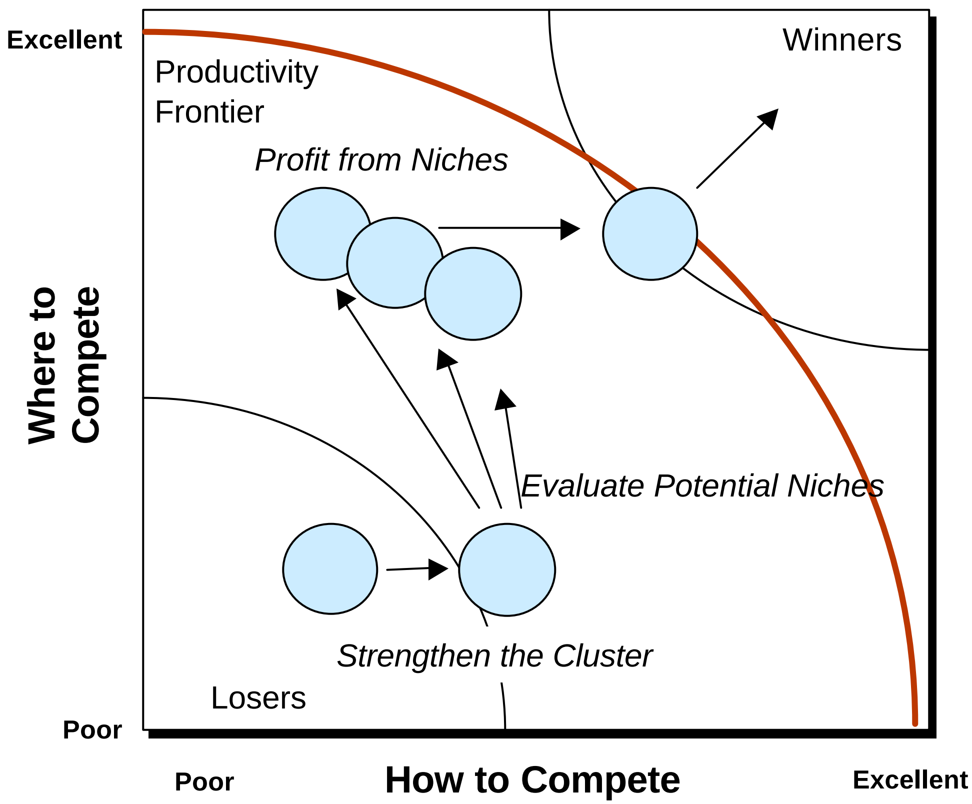


Short-term: Improve Quality
- Reactivate the coffee industry
- Adopt entrepreneurial mentality
- Be a trained and knowledgeable cluster in terms of quality requirements
- Adopt quality/origin standards and specifications

Medium-term: Market Niches
- Be a leader in coffee promotion and marketing
- Sell to new segments and access new distribution channels
- Sell higher margin coffee
- Develop long-term relationships with roasters
- Improve Dominican coffee image internationally
- Educate consumers and promote consumption of specialty coffees within the country

Long-term: Profit from the Internet/Sell to Small Roasters
- Be a leader in sales to roasters
- Be a leader in the use of the Internet for selling coffee
- Develop distribution channels according to the new virtual economy

Coconut Strategic Choices
Summary: Migration Strategy



Short-term: Strengthen the Cluster/Evaluate Potential Niches

- Strengthen the cluster: increase the number of active members and the trust among them
- Identify and investigate new derivatives and coconut sub-products and undertake profitability studies
- Adopt quality standards and specifications
- Improve the efficiency of the current distribution system and assure short- run production

Medium-term: Profit from Niches

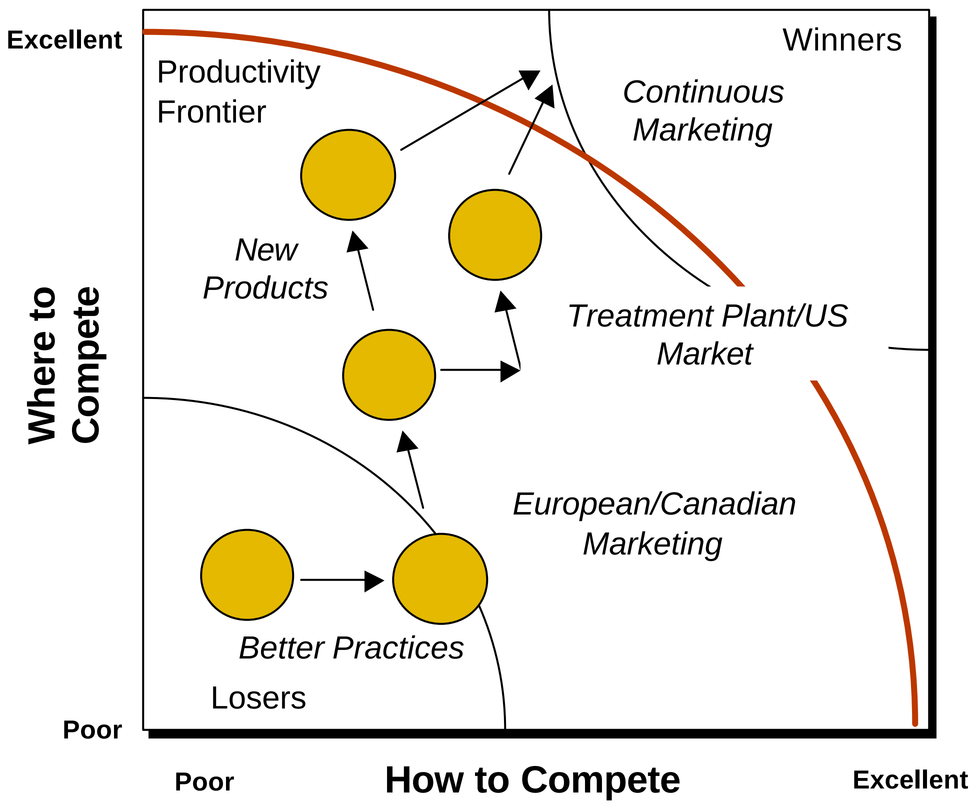
Once the potential niches are identified:

- Take advantage of profitable niches
- Evaluate the profitability of investing in new plantations and investigate other options to assure availability of raw materials (coconuts) in the long run
- Develop central warehouses and processing systems to take advantage of all the value in coconuts

Long-term: Global Leader in Coconut-Based Products

- Be a global leader in coconut-based products of high value
- Develop a brand for high-value coconut products
- Set a global example in the efficient and environmental use of raw material

Mango Strategic Choices
Summary: Migration Strategy



Short-term: Better Practices/European and Canadian Market

- Strengthen the cluster : increase the number of active members and the trust among them
- Improve packaging efficiency
- Increase exports to European and Canadian markets
- Strengthen the mango producers' consortium

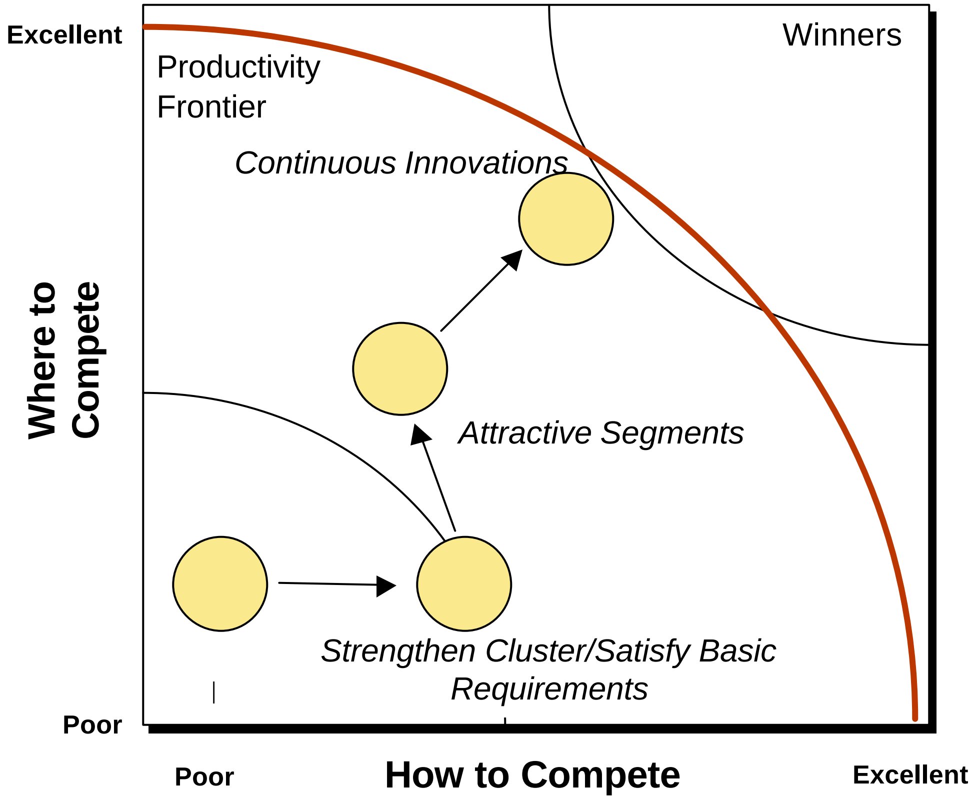
Medium-term: New Products/US Market

- Produce processed mango products, if the treatment plant is profitable and feasible (based on a US marketing study and a cost study)
- Invest in treatment plants
- Promote the Dominican brand and Banilejo mangos in the US

Long-term: Continuous Market

- Develop a "Banilejos/Dominican" mango brand that is globally recognized as high quality, especially in attractive markets
- Be a global leader in mango processed products
- Be a global example of environmentally friendly mango production by means of organic techniques and reforestation projects.

Víveres Strategic Choices
Summary: Migration Strategy



Short-term: Strengthen Cluster/Satisfy Basic Requirements

- Improve communication and strategic alliances among national/international producers, processors and distributors
- Be aware of the basic needs of the US market

Medium-term: Attractive Segments

- Promote the Dominican Label within the Dominican immigrant community in the US for fresh víveres
- Take advantage of the interest in easy-to-prepare and pre-cooked products of greater value than the basic products
- Identify new market niches

Long-term: Continuous Innovations

- Be a global leader in terms of víveres products
- Reach other markets (gourmet/non-Latinos/organic markets)
- Educate the new consumers and learn how to listen and interpret their needs

Hortofrutícola Cluster
Strategic Imperatives

Imperatives

- *Have a hortofrutícola platform oriented toward consumers, information, technology, productivity and differentiation by means of continuous strategic learning*
- *Produce products of greater added value and industrial processing oriented toward exportation*
- *Be a reliable provider of high quality products in specific segments, or market niches*
- *Create a positive image of the Dominican hortofrutícola products within the country as well as abroad*
- *Profit from the competitive advantage provided by our Dominican immigrant community in the US, by developing relationships with those customers who find an added emotional value in our products*

Competitiveness is Our Decision

The Hortofrutícola Cluster Project was funded by the United States Agency for International Development as a response to the private sector's request for assistance. The project is a component of a larger initiative called the Competitiveness Strategy for the Dominican Republic, which also includes a national level strategy design, a regional competitiveness diagnostic and support to small and medium-sized enterprises.

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