



# Shortening the marketing chain & empowering people for their own development

Third Annual SUCCESS Alliance Regional Conference

## "Strengthening the Smallholder Link in the Value Chain"

Ho Chi Minh City, Vietnam

October 31 – November 3, 2006



# Commercial Strategy (Ecuador)

## Objectives

- To organize farmer field school (FFS) participant producers in order to consolidate their cocoa supply.
- To improve the quality of the cocoa.
- To help producers obtain a better percentage of international prices.

# SPECIFIC OBJECTIVES

- To motivate producers to:
  - Work in groups
  - Apply what they learned in the FFS program
  - Fulfill their obligations/commitments
- To strengthen organizations:
  - Train to implement a commercialization system
  - Think about planning, not to depend on projects
- To facilitate access to new market alternatives:
  - Establish direct linkages between farmers and buyers, train farmers to become client driven
  - Certified cocoa (RAF, FLO, Organic)
  - Conventional cocoa (natural cocoa), new buyers.

# HOW IT WORKS

The commercial strategy is based on working with the FFS.

- Each FFS is a potential organization, in which we will implement a:

## **Community Buying Point**

- This point receives the fresh cocoa where it is weighed, qualified, and paid for,
- Start the post-harvest treatment,
- When the post-harvest process ends, cocoa must be moved to: Post Harvest Center

# HOW IT WORKS

## Post-Harvest Center

- Is managed by a 2<sup>nd</sup> tier organization,
- Cocoa is placed into a fermentation box (if necessary) or drier until the post harvest process is complete.
- The principal activity of this Center is to produce “dry and clean” Cocoa.
- Then the cocoa can be sold to:
  - 3<sup>rd</sup> tier Association
  - Buyer (big middle man) or exporter
  - Direct buying contract with Processor (local or international)

# IMPORTANT ASPECTS

- Elements of a Community Buying Center
  - Scale
  - Calculator
  - Register book (to keep track)
  - Money
  - “Marquesina” → Solar drier (mandatory)
  - Estimated investment: less than \$350
- Post-Harvest Center
  - Has the same elements, but on a large scale
  - Estimated investment: less than \$25,000

# IMPORTANT ASPECTS

- PURCHASE:
  - Only fresh cocoa will come to the Community Buying point
  - Cocoa must be free of trash and monilia
  - Each community will set a day of the week for harvesting (mandatory)
  - Person in charge of the buying point is chosen based on merit

# IMPORTANT ASPECTS

- By gathering fresh cocoa, producers will receive more benefits:
  - They receive immediate payment
  - They don't invest time in the post-harvest process, don't require direct investment in post-harvest infrastructure.
  - Risk of damage in the product is decreased due to less handling.
- By gathering fresh cocoa exclusively:
  - Avoid qualification problems
  - More control of the post-harvest process
  - Ensure the quality of final product

# IMPORTANT ASPECTS

- Cacao moisture % chart

Name	% Water	Lb. for 1qq	Price \$ 60/ qq	\$ to Earn
Fresh	62 %	262 lb.	\$ 0,23/lb.	\$ 60,2
Partially Dry	45 %	180 lb.	\$ 0,33/lb.	\$ 59,4
Dry "0"	9 %	109 lb.	\$ 0,54/lb.	\$ 58,8
Dry - Dry	7 %	100	\$ 0,60/lb.	\$ 60,00

# **EXPERIENCE FROM MANABI PROVINCE**

**IMPLEMENTING A  
COMMERCIALIZATION PROCESS  
SHORTENING THE  
MARKETING CHAIN**

# The Place

- Manabi Province is located in the middle of Ecuador's Coast
- It is the 3<sup>rd</sup> most populous province and 2<sup>nd</sup> in production of cocoa
- More than 70% are poor people,
- Rural infrastructure is poor or inexistent.

# CONTEXT

- We identified
  - 23 Cantons
  - more than 100 communities
  - 33 middle men in the area
    - 19 bought less than 4 MT per week
  - 2 exporters with buying points
  - There are not many Farmers' Associations,
  - Farmers usually work alone.

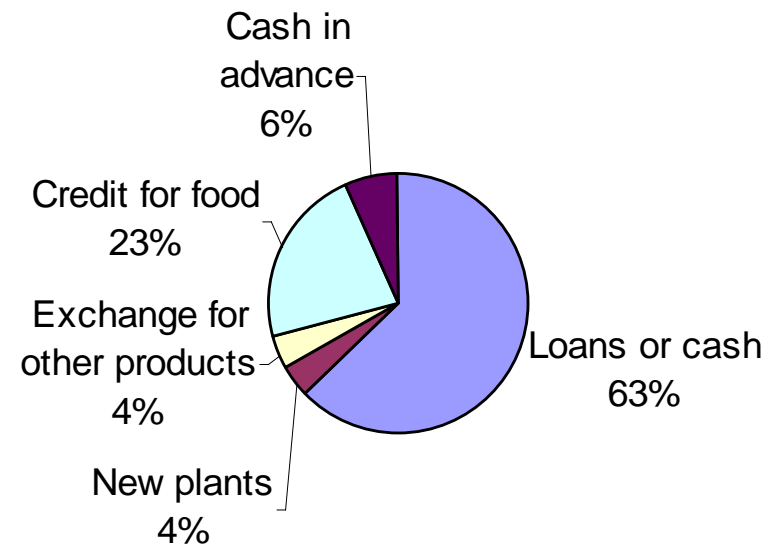
# CONTEXT

- Communities we work with are isolated from the Province's commercial centers
- People use horses and mules to transport themselves, food, and agricultural products such as cocoa
- The price of cocoa per qq (100 pounds) is frequently the lowest price in the country
- Price is proportional to distance from the big city

# CONTEXT

- Middle men exploit farmers
- They buy and sell products and get profits in two ways
- 70% of middle men “give benefits” to farmers
  - Loans
  - Credit for food
- These “benefits” are in exchange for producers’ future production

## BENEFITS



# Middlemen exploit farmers in two ways:

- The commercial chain has more than 6 links in the chain.
  - Price difference from a small town (nearest market to the community) could be \$2 - 3
  - Price difference from Portoviejo (provincial capital) could be \$15
  - Price difference from Guayaquil (principal market) could be as much as \$40/per qq
- Cocoa quality determination method
  - Based on the humidity level of the beans, can discount 1- 2 %
  - By manipulating scales, they discount 2 – 3 pounds per qq (100 pounds)
  - They pay lower prices by questioning the cocoa quality, \$ 1 or 2 per qq

# THE STORY

- A group of farmers, decide to form an Association.
- They established working capital of \$5,000 by “taxing” their members’ cocoa
- They implement a community buying point in the central park of a small town called Flavio Alfaro
- They use a simple platform scale, calculator, notebook, and their working capital,
- They have been working 8 weeks,
- More than 40 farmers are selling their cocoa each week,
- The project facilitated contact with an exporter and they sell their cocoa directly

# RESULTS

- Established direct relationship with exporter – nearly doubled sale price
  - Worked well for 3 weeks with 1<sup>st</sup> exporter
  - In 4<sup>th</sup> week they have problems with the exporter
  - They identified another commercialization channel
  - After 9 weeks, positive outcomes overall.
- Total qq 230.75
  - T. usd (buying) 16,724.16
  - T. usd (selling) 17,560.47
  - Expenses 250.86
  - Balance 585.35
  - Weeks 9
  - Transactions 296
  - Previous price 35 - 38
  - Average price 72.48
  - Average transactions 33 per week.

# Lessons Learned

- Farmers learn to work together through FFS
- The system regulates prices in the influence zone, now middlemen pay more.
- Exporters pay attention to small farmer associations when they have volume
- By working together, problems can be solved more easily
- Prices are better when farmers sell in volume

