Procurement & Supply Chain

Inclusive Business Analysis Module

June 2024

idh
transforming markets

About

Developed by IDH

https://www.idhsustainabletrade.com/

To ensure you are referencing the latest version, please visit the FarmFit Insight Hub

https://farmfitinsightshub.org/resources or the IDH Community on Zenodo https://zenodo.org/communities/idh

Disclaimer

Although every effort has been made to ensure that the content of this publication is up-to-date and accurate, errors and omissions may occur. The information is provided on an “as is” basis and is not intended as a substitute for the reader’s own due diligence and inquiry. IDH does not guarantee or warrant that the information is complete or free of error and accepts no liability for any damage whatsoever arising from any decision or action taken or refrained from in reliance thereon, nor for any inadvertent misrepresentation made or implied.

In this deck

This document includes the theory, guidelines and tools for you to apply the **procurement & supply chain module** within an Inclusive Business analysis. It assumes you are familiar with the broader methodology, including the Learning Framework, Indicators and Inclusive Business Analysis Financial Model and Case Report. This deck covers below building blocks:

1 **Objectives & How-to-guidance**

Why implement this module? When to implement it and how?

2 **Learning questions**

What do we want to learn about procurement in relation to business model performance and objectives?

3 **Theory**

What theories underpin this module? What are the key concepts you need to understand on procurement?

4 **Qualitative assessment**

What questions do we ask to assess and score the business model's performance on procurement?

5 **Case Report**

How do we report on procurement (both contextually and quantitatively) and provide actionable recommendations?

6 **Quantitative deep-dive(s)**

What practices and innovations on procurement can we analyze quantitatively in a deep-dive?

7 **Indicators**

What are the procurement data points we must collect of every business model to answer our learning questions?

8 **Farmer survey**

What questions do we ask to collect farmer level data on procurement?

9 **Annex** Scope and purpose of our modular Inclusive Business Analysis approach

01

Objectives & How-to-guidance

Objectives

By applying the procurement & supply chain module as part of the Inclusive Business analysis, we seek to:

1

Generate practical guidance for stakeholders that are looking to optimize procurement and supply chain practices

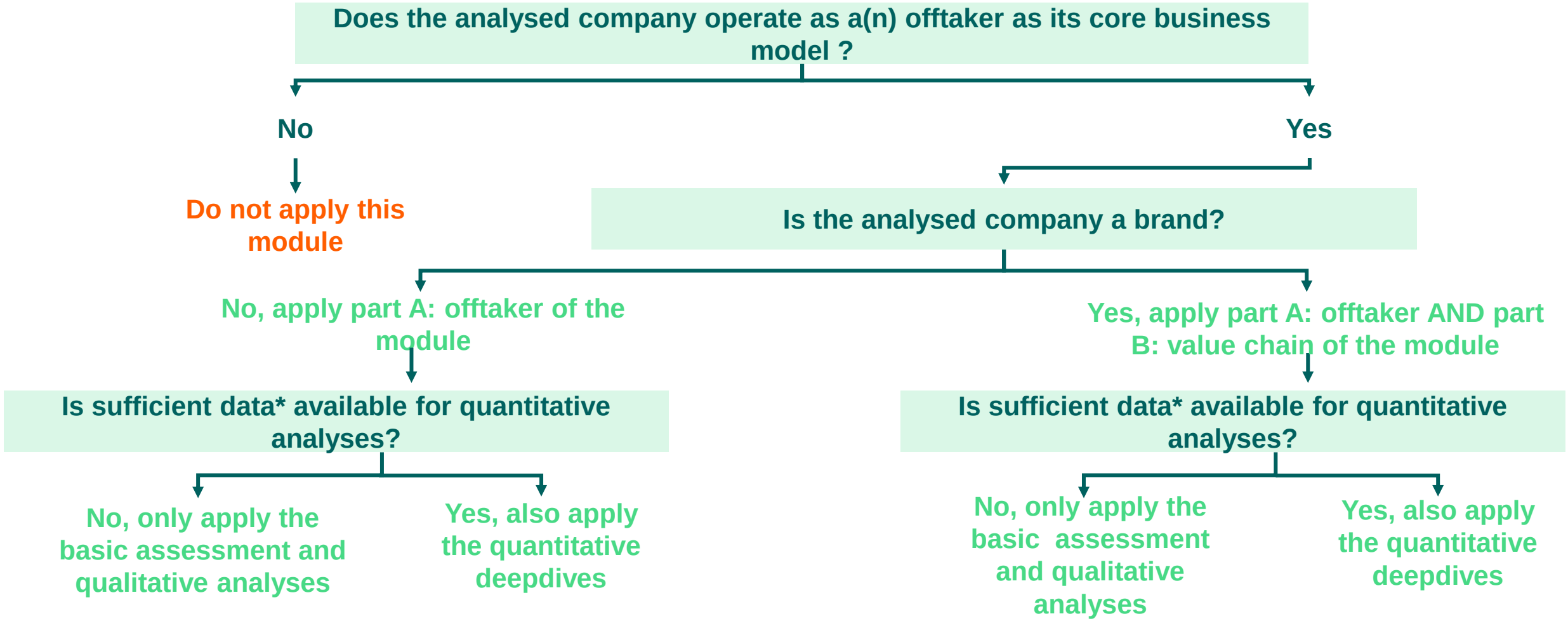
2

Articulate the business case for companies to optimize procurement and supply chain practices

3

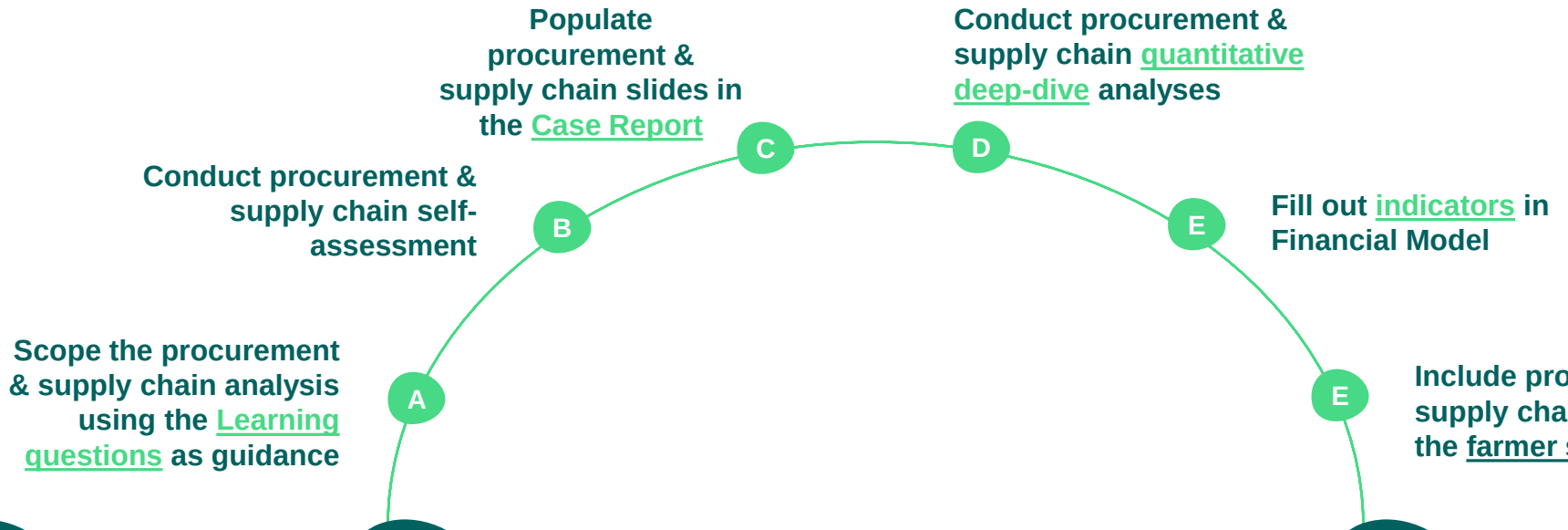
Highlight the impact case for farmers

When to conduct the procurement & supply chain module?



**Note: the minimum data requirements for this analysis are: 1. Company interview on business model and financials; 2. Company data on sourcing volumes, quality levels, farm-gate price, FOB price, sourcing channels*

How to conduct the procurement & supply chain module?



1 Attend training and read this deck

2 Start Inclusive Business analysis

3 Write up report and recommendations

4 Share data and insights with Intelligence Center

02

Learning questions

Learning questions

The procurement & supply chain module is designed to generate qualitative and quantitative evidence to answer below overarching questions

1. **How do procurement and supply chain practices drive inclusive, commercially viable and sustainable agricultural development?**
2. **How and to what extent do procurement and supply chain practices improve farmer income and resilience?**
3. **How and to what extent do procurement and supply chain practices improve business performance (efficiency, revenue generation and profitability)?**
4. **How and to what extent do procurement and supply chain practices reduce company risks (market risks, operational risks, credit risks, reputational risks)?**
5. **What are the key trade-offs between farmer impact and company performance?**
6. **How are value, cost and risk distributed across a value chain and what are the key levers to alter that in favour of more equitable sourcing relationships with farmers?**
7. **What is the relationship between service delivery cost and company profitability?**
8. **How can the integration of sustainability and procurement departments foster inclusive business growth?**

Learning questions (for full value chain analysis)

The procurement & supply chain module is designed to generate qualitative and quantitative evidence to answer below overarching questions

1. **How are value, cost and risk distributed across a value chain and what are the key levers to alter that in favour of more equitable sourcing relationships with farmers?**

2. **What are the factors that determine business performance of (mid-stream) suppliers?**

3. **What additional support and incentives are needed for upstream and midstream actors to carry out more sustainable production and procurement practices?**

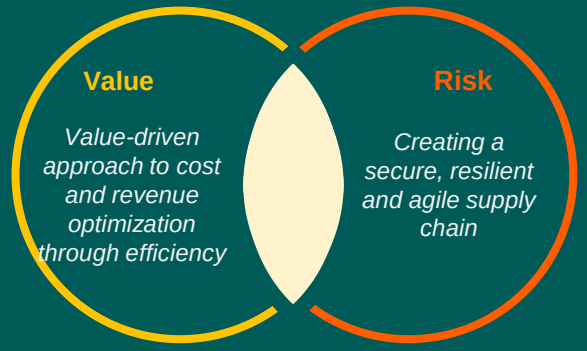
4. **How and to what extent do downstream procurement and supply chain practices improve business performance (efficiency, revenue generation and profitability) across the value chain?**

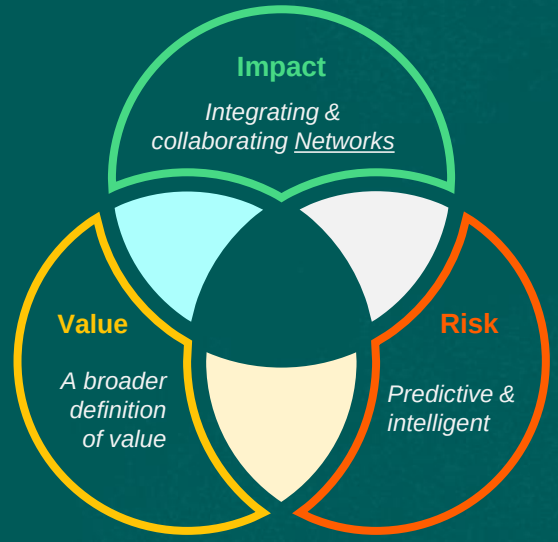
03

Theory

Theory | The nature of procurement has changed over the years to encompass broader goals

① **Traditional Procurement** → ② **Strategic Procurement** → ③ **Sustainable Procurement**





Key Characteristics

- **Process-driven approach** to procurement focused on efficiency
- Limited involvement **in product development and innovation**
- Manual ways of working with **minimal use of technology**

Key Characteristics

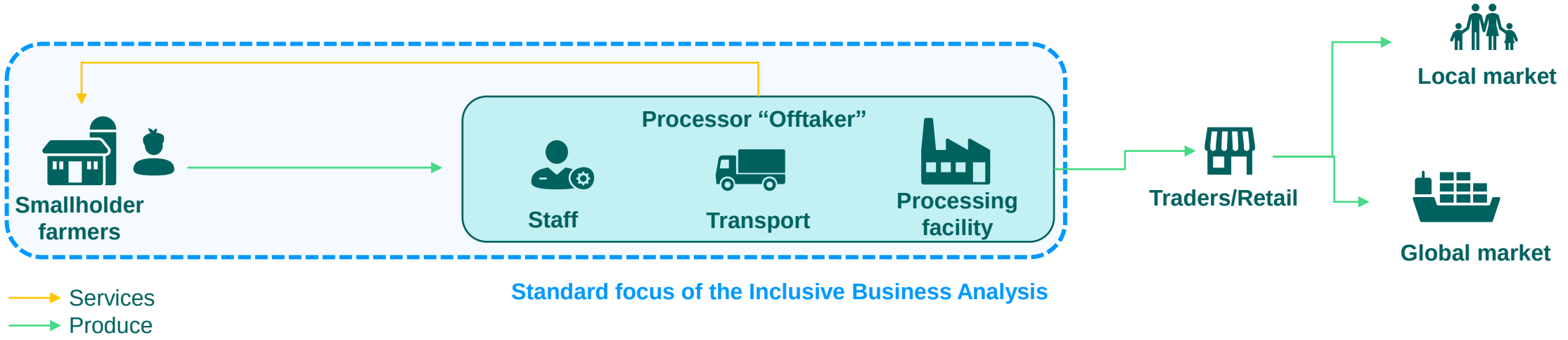
- External impacts (financial crises, Covid-19 etc.) spur increased focus on supply chain **risk management & resilience**
- Increased **use of data** to create visibility on supply chains
- Emphasis on **strategic sourcing to drive longer term value, quality & innovation**

Key Characteristics

- Procurement as the **catalyst for transformative change**
- More consumer and regulatory pressure
- Ensuring volume and enhancing sales growth and **sustainability performance**
- **Better coordination and collaboration** between procurement and sustainability departments

Source: Adapted from IDH sustainable procurement study 2024

Theory | In Agri-Food sectors, sustainable procurement extends across the supply chain



Upstream | **Midstream** | **Downstream**

Production	*Sourcing*	*Contracting & Pricing*	*Logistics**	*Processing**	*Marketing**	*Retail*	*Consumption & Disposal*

Traditional Scope of Procurement

How the scope can be extended to Sustainable Procurement

Service delivery
(training & information, Input provision, labor & equipment, finance)

*definitions can be found here

Non-exhaustive

Theory | In this module we focus on practices from sourcing through to marketing

Sourcing

Supplier relationship management
- Sustainability targets
- Supplier sustainability assessment
- Farmer Segmentation
- Preferential Sourcing

Products Specification
- Quality and Variety planning
- Crop(s) volumes planning
- Environmental attributes

Traceability and Compliance
- Supply chain traceability
- Data management

Contracting & Pricing

Contract management
- Simple contract terminology
- Long-term contracts
- Direct farmer contracting program

Pricing
- Negotiations practices
- Pricing mechanism
- Certification / Quality Premiums
- Performance Based (& Cash) Incentives
- Public Pricing disclosure

Payment management
- Shorter payment terms
- Pre-payments, Partial and Milestone payments
- Payment channel

Logistics

Inbound logistics
- Aggregation centres
- Aggregation (farm-to-factory) transport
- Quality control

Storage
- Weighing station
- Warehousing & conditions control

Outbound logistics
- Distribution transport
- Export taxes

Processing

Drying/Milling/ Roasting
- Equipment & infrastructure investments
- Water, Electricity
- Product design (R&D)

Packaging
- Equipment & infrastructure investment
- Water, Electricity
- Product design (R&D)

Natural resource management
- Sustainable water management
- Energy efficiency/ renewable energy use

Marketing

Primary market
- Buyer pricing mechanism
- Sales channels
- Market research & development

Consumer engagement
- Advertisement
- Promotion

Legend: Processes | Practices

Source: adapted from Adapted from IDH sustainable procurement study (2024), IDH farmfit procurement module (2024),

Go to index

Theory | Procurement is intrinsically linked to other drivers that affect business and impact performance

Service Delivery

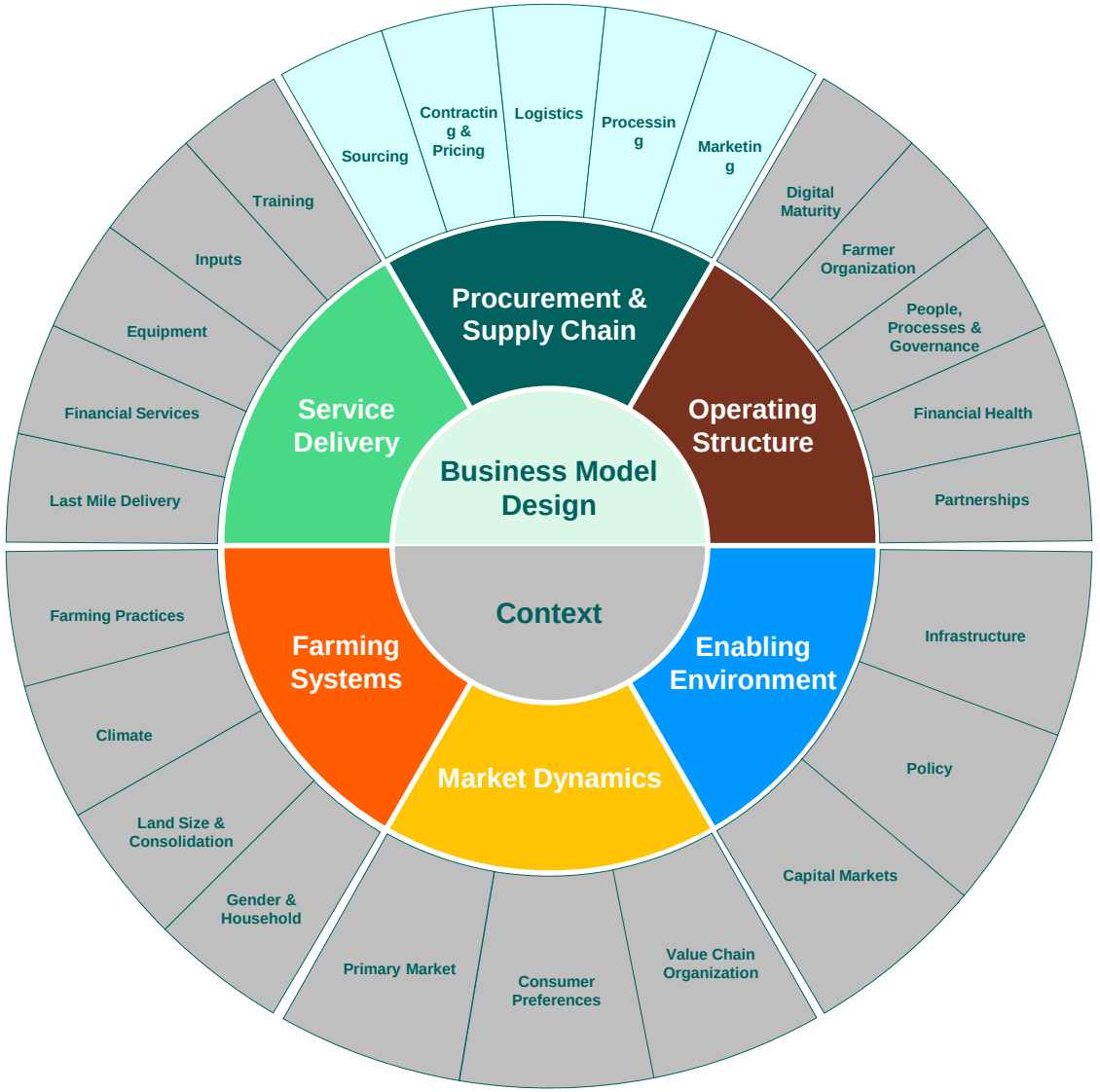
Upstream investments in **Service Delivery** can provide farmers with the means to improve the **quantity, quality, consistency of produce –** Mid-stream and downstream procurement professionals should **align service delivery with procurement needs**

Farming Systems

Procurement practices create **incentives for farmers to change their practices –** In an era of growing sustainability and compliance needs, procurement practices should create **positive incentives to drive change**

Market Dynamics

The dynamics of **output markets can dictate the incentives** for supply chain actors to pursue different procurement practices **–** A company's willingness to adjust practices is often linked by their **market influence** and level of **sustainability ambition**



Operating Structure

The **capabilities** and **governance** of supply chain actors involved in procurement influences the practices they implement **– Intermediaries (Agri-SMEs, farmer organizations) will often need support** to carry out more sophisticated procurement practices

Enabling Environment

Policy and **infrastructure** significantly influence the **socio-environmental need** and **commercial viability** of different procurement practices – **Increasing regulations** are mandating a change towards more sustainable procurement practices

Why Sustainable Procurement? | Sustainable procurement bridges impact and a strong business case

In our work we take a holistic view on the impact created and the principles that guide our work, therefore the principles on Sustainable Procurement we use can be categorized into three groups:

Enabling Environment

- **Equitable distribution** of value, risk and cost
- **Data, traceability & transparency** to inform decision-making
- **Deeper and longer-term** supply chain **relationships to secure supply**

Business Case

- **Manage Risks** throughout the supply chain
- **Improve or Protect Reputation** towards stakeholders
- **Increase Revenues** from consumer markets
- **Boost Efficiency** of operations
- **Improve Internal Governance**

Impact Case

- **Better farmer Income** (More, Stable, Equitable Income)
- **Better Environment** (Water usage, GHG Emissions, Soil, Carbon)
- **Better Jobs** (Fair Remuneration, Working Conditions, Employee Representation)
- **Better Gender Equity**

*definitions can be found here and here

Source: adapted from IDH procurement framework November 2023, IDH farmfit procurement module (2024), ISO 20400 – Sustainable procurement (2017)

Why Sustainable Procurement? | Companies have different objectives and incentives to pursue sustainable procurement (1/3)

Companies have different motivations for implementing sustainable procurement practices depending on their position in the value chain, their size, and the context in which they operate.

Before recommending potential practices, first the incentives for sustainability should be understood and analysed, within the context of what is feasible and what are the impact areas of the company.

Business objective	Incentives	Explanation	Potential issues/challenges addressed
Manage risk	**Reputational risk management**	Sustainability issues can influence brand value and reputation, market share, market capitalization, legal exposures, price volatility and access to supply, financial liabilities, moral/ethical exposures and the risks associated with operating licences	• Child labor, forced labor • Food safety issues • Illegal waste dumping, deforestation, environmental disaster • Unfair wages, Unfair prices
	Security of supply chains	Securing sourcing volumes, avoiding disruptions due to product recall, financial penalties or supplier failure, implementing continual improvement processes, avoiding depletion of resources	• Production delays • Food safety issues • Crop failure
	Compliance with legislation and regulation	Compliance with legislation throughout entire supply chains	• Corruption, bribery • Discrimination • Food safety issues • Unfair wages, Unfair prices • Unfair working conditions, Safety, health

Source: adapted from ISO 20400 – Sustainable procurement (2017)

Why Sustainable Procurement? | Companies have different objectives and incentives to pursue sustainable procurement (2/3)

Business objective	Incentives	Explanation	Potential issues/challenges addressed
Improve revenue	**Supplier commitment**	paying attention to sustainability issues can lead to improved or new supplier relationships, leading to a higher supplier contribution to organizational objectives	• Child labor, forced labor • Unfair wages, Unfair prices
	Competitive advantage	offering goods or services considering a sustainable value proposition in competitive markets can be a differentiator	• deforestation, biodiversity loss • Child labor, forced labor • Unfair wages, Unfair prices
	Innovation	using sustainable procurement to stimulate innovation from the supply chains in order to gain greater shared value and to generate new markets	• environmental disaster, deforestation, biodiversity loss • Food waste • Water usage
Protect or improve market reputation	**Customer and consumer expectations**	responding to sustainability expectations, such as safety, environmental benefits and universal design throughout the supply chains	• Child labor, forced labor • Food safety issues • Illegal waste dumping, deforestation, environmental disaster
	stakeholder expectations	responding to increasing stakeholder expectations to take account of environmental and social factors, e.g. in order to maintain a societal license to operate and improve scores from rating agencies and attract investment	• Child labor, forced labor • Food safety issues • Illegal waste dumping, deforestation, environmental disaster • Unfair wages, Unfair prices

Source: adapted from ISO 20400 – Sustainable procurement (2017)

Why Sustainable Procurement? | Companies have different objectives and incentives to pursue sustainable procurement (3/3)

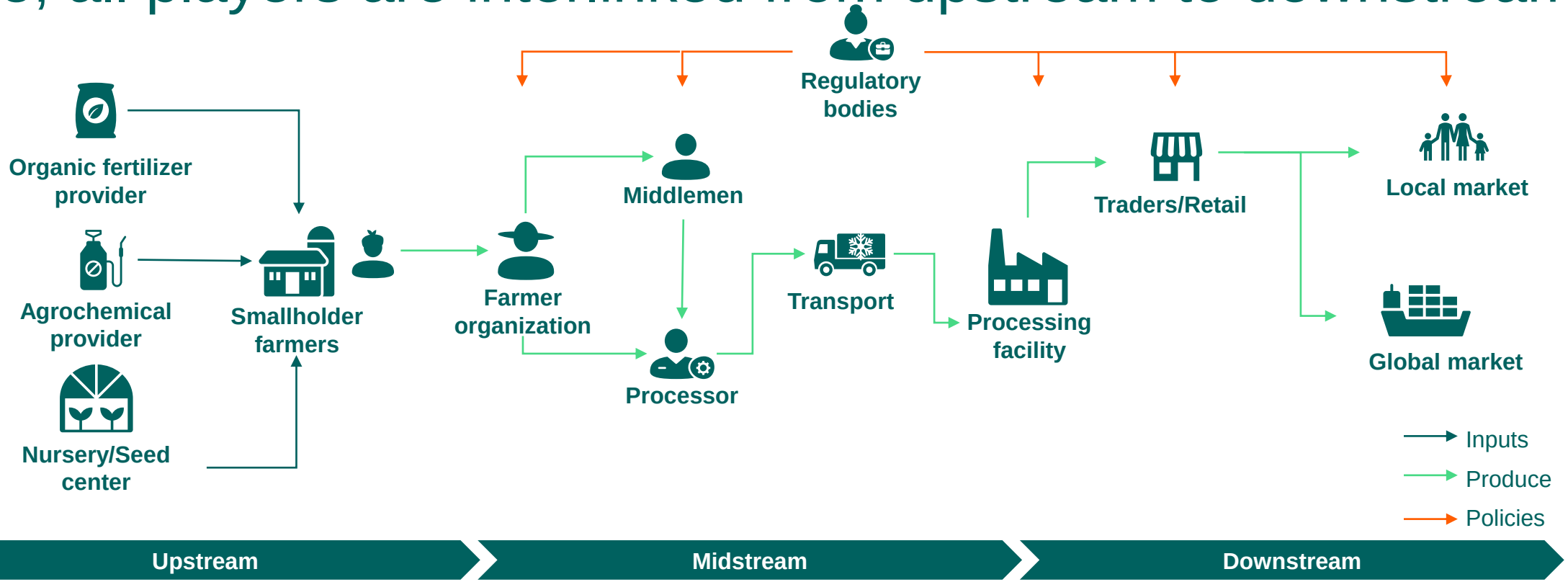
Business objective	Incentives	Explanation	Potential issues/challenges addressed
Boost efficiency	**Cost optimization**	assessing more comprehensive life cycle cost to optimize use of resources can lead to cost savings, reduced environmental impacts, economies of scales and improved return on investment	• Food waste • Water usage • CO2 emissions
	Employee engagement	paying attention to sustainability issues, including promotion of living wage/income, can lead to greater productivity and attract, motivate and retain talent	• Unfair working conditions, Safety, Health • Unfair wages
Improve governance	**Personal leadership aims**	committed leadership from key people in the organization can promote sustainable practices including sustainable procurement	
	Organizational ethics	paying attention to sustainability issues can enhance the ethical behaviour of the organization and increase alignment with the organization's culture and values	• Unfair working conditions, Safety, Health • Unfair wages, Unfair prices • Human rights issues • Illegal waste dumping, deforestation, environmental disaster

Source: adapted from ISO 20400 – Sustainable procurement (2017)

Definitions

Term	Definition
Procurement	“Procurement is the acquisition of inputs, or resources, for the firm. This is how a company obtains raw materials, thus, it includes finding and negotiating prices with suppliers and vendors.” Porter’s value chain (1985)
Sustainable procurement	“procurement that has the most positive environmental, social and economic impacts possible over the entire life cycle” Note 1 to entry: Sustainable procurement involves the sustainability aspects related to the goods or services and to the suppliers along the supply chains. Note 2 to entry: Sustainable procurement contributes to the achievement of organizational sustainability objectives and goals and to sustainable development in general. ISO 20400 – Sustainable procurement (2017)
Sourcing	“The process of identifying and assessing the suppliers and vendors” as part of the definition on procurement defined above
Contracting & Pricing	“The process of negotiating prices and payments” as part of the definition on procurement defined above
Logistics	“The core process that deals with the movement and management of both the people and resources required to keep products flowing from manufacturers to end customers. There are three types of logistics: 1) inbound logistics (The process of moving raw materials or components from suppliers to manufacturers), 2) outbound logistics (the movement of completed or finished products and other goods to the next stage of the supply chain) and 3) reverse logistics (the process of returning goods back through the supply chain from customers and end users back to fulfilment centres, distribution centres, retailers and manufacturers). Logistics also includes storage and warehousing.” ASCM (2024)
Processing	“Procedures required for converting raw materials or resources into a finished product or service” Porter’s value chain (1985)
Marketing	“Strategies to enhance visibility and target appropriate customers—such as advertising, promotion, and pricing” Porter’s value chain (1985)

Value chain | No actor within a food production chain operates alone, all players are interlinked from upstream to downstream



The terms upstream and downstream in a value chain (or business model) use the metaphor of a river.

Upstream production refers to all the activities needed to gather the materials required to create a product, whereas the **downstream** process includes activities that take place after the product are finalised, which takes place **midstream**.

Further reading

Frameworks

- Porter’s value chain (1985)
- ISO 20400 – Sustainable procurement (2017)

Thought-provoking articles and papers

- Procurement Practices Principles: A DISCO position paper 2024
- Procurement: 1st steppingstone to integrated sustainability?
- Blog: prices and profits for all businesses
- Blog: sourcing decisions on price should be a function of value and risk

04

Qualitative Assessment

Sustainable procurement| Assessment

Objective: IDH has created a comprehensive and value chain-agnostic assessment in line with the Farmfit Inclusive business learning framework. This assessment enables you to review practices currently taken by the company and to discuss further improvements to practices across the value chain. Discuss the first findings with the relevant partners within the company (sourcing director, sustainability lead, etc). Use the results to fill the Assessment case report slides.

Instruction
The 4 steps are linked to templates that can be used when conducting the self-assessment

How:

1 Map current practices

- Map current practices as part of the offtaker analysis
- Map the value chain

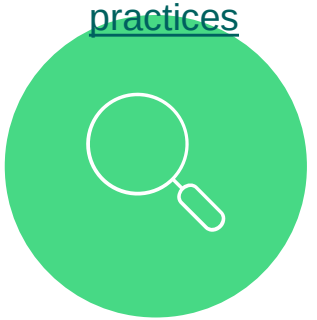
2 Assess incentives for sustainable procurement

- Understand the company's key objectives and incentives for focusing on sustainable procurement
- Highlight the key challenges the company might face

3 Add filters in the library of sustainable procurement practices

- Understand the company's position in the value chain and business
- Understand which social or environmental impact it wants to generate and when
- Understand the company's resources (human, time, financial)

4 Identify and propose potential sustainable procurement practices



- Filter the library on Sustainable Procurement practices based on the outcomes from Step 2 and 3
- Review which practices would be most relevant for the company based on outcome from Step 1 and discuss findings with the company

Source: IDH sustainable procurement study 2024, Farmfit Inclusive Business Learning Framework 2024

[Example] Practices in Sourcing| [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Sourcing 	**Supplier relationship management**	• The company implements an ad-hoc approach when it comes to sourcing from smallholder farmers and providing their outreach services	• The farmer base should be analyzed on specific key characteristics such as region, production, quality, land size, gender, age, professionalism etc to develop a **segmentation strategy**. Farmer engagement can then be driven by this strategy
	Products specification	• The company sources **90% of produce volumes** from suppliers through conventional channels • The company sources 70% of grade A **quality** and 30% of grade B quality	• The company should define their produce sourcing strategy, specifying **criteria for buying** from Supplier 1 and conventional channels respectively
	Traceability & Compliance	• No traceability in place	• Build a dedicated and traceable supply chain by investing in a **Farmer Information Management System** that can be used to track farmers, produce and processes

When: If the offtaker module is applied

Why: This provides an overview of which practices are currently being implemented or could be done in the future on all the aspects of a company's operations (sourcing, contracting & pricing, logistics, processing, marketing)

How: Pre-fill the left column on current practices and discuss with the company all activities within the company's operations, with a specific focus on the sustainable procurement practices. Next, assess what is already being done and what might be interesting/feasible to further do in the future, using the Sustainable Procurement Practices Library. Fill out the right column with the suggested practices to explors. Indicate with a green star which practices are analyzed in a qualitative or quantitative deepdive and link to those slides in the report

[Example] **Practices in Contracting & Pricing** [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Contracting & Pricing 	**Contract management**	• No written contracts in place between T1 and T2 suppliers • Pricing method only set at Tier 1	• **Long-term contracts** are signed with all farmers for a minimum duration of 1 year. Well-performing farmers have the possibility to be offered multi-year contracts
	Pricing	• Farmers are being paid a farm-gate price based on the prevailing market price. • Certified organic farmers receive a fixed premium in-kind	• The company specifies the **pricing method in the contract**. The farmers will be paid a **fixed minimum farm-gate price**, which has been calculated based on the average cost of production, when the market price goes below this threshold to reduce the impact on farmers
	Payment management	• Currently it is unclear to farmers when they will receive payment for their produce. It typically is between 2-4 weeks after delivery, however there have been instances where the farmers waited 3 months.	• The company commits to a **payment term of 2 weeks after collection** in the contract, which provides the farmers with more clarity on what to expect as well as more security

When: If the offtaker module is applied

Why: This provides an overview of which practices are currently being implemented or could be done in the future on all the aspects of a company's operations (sourcing, contracting & pricing, logistics, processing, marketing)

How: Pre-fill the left column on current practices and discuss with the company all activities within the company's operations, with a specific focus on the sustainable procurement practices. Next, assess what is already being done and what might be interesting/feasible to further do in the future, using the Sustainable Procurement Practices Library. Fill out the right column with the suggested practices to explors. Indicate with a green star which practices are analyzed in a qualitative or quantitative deepdive and link to those slides in the report

[Example] Practices in Logistics| [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Logistics 	Inbound logistics	• Farmers currently hire their own transport to deliver their goods to the factory, which is costly and limits sourcing reach of the company	• **Provide affordable finance for 3 local aggregation centers**, run by local coops and equipped with a portable weighing scale, closer to the main farmer sourcing regions will increase sourcing reach
	Storage	• The company rents warehouses which is costly and does not allow them to optimize their sourcing timing reducing revenues by higher transport costs and higher quality losses	• The company will look into **the investment of their own resources** to support the construction of their own warehouse • This warehouse will be equipped with a **weighing scale** that can also be used by third parties, thus creating an extra source of revenue for the company
	Outbound logistics	• No ownership of trucks	• The company will look into **the investment of their own refrigerated truck** as a means to better preserve produce quality during transportation

When: If the offtaker module is applied

Why: This provides an overview of which practices are currently being implemented or could be done in the future on all the aspects of a company's operations (sourcing, contracting & pricing, logistics, processing, marketing)

How: Pre-fill the left column on current practices and discuss with the company all activities within the company's operations, with a specific focus on the sustainable procurement practices. Next, assess what is already being done and what might be interesting/feasible to further do in the future, using the Sustainable Procurement Practices Library. Fill out the right column with the suggested practices to explors. Indicate with a green star which practices are analyzed in a qualitative or quantitative deepdive and link to those slides in the report

[Example] **Practices in Processing|** [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Processing	**Drying/Milling/ Roasting**	• The processing capacity is limited to 12 MT/day due to limitations in the drying and slicing sections, while the company has an ability to source from more than 6,000 farmers	• The company should invest in an **additional processing line** that increases the capacity to 20 MT/day, allowing the company to increase their farmer base and reduce processing inefficiencies
	Packaging	• Market research found that the main consumer is individual and thus the current packaging is too large for a single user	• The company will explore a **second packaging line** (design and materials) to address this new market need
	Natural resource management	• High electricity costs and high use of fuel wood	• **The company will invest in cleaner, more energy efficient sources** such as solar panels and biogas . Such investments may help shield the company from irregular power supply from the grid

When: If the offtaker module is applied

Why: This provides an overview of which practices are currently being implemented or could be done in the future on all the aspects of a company's operations (sourcing, contracting & pricing, logistics, processing, marketing)

How: Pre-fill the left column on current practices and discuss with the company all activities within the company's operations, with a specific focus on the sustainable procurement practices. Next, assess what is already being done and what might be interesting/feasible to further do in the future, using the Sustainable Procurement Practices Library. Fill out the right column with the suggested practices to explors. Indicate with a green star which practices are analyzed in a qualitative or quantitative deepdive and link to those slides in the report

[Example] **Practices in Marketing|** [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Marketing 	**Primary market**	• The company currently sells nearly 90% of their produce at the auction	• The company should look into **diversifying their buyers**, by selling only lower quality grades at the auction and organic premium quality grades to **private buyers**
	Consumer engagement	• No advertisement campaign to the local market	• The company should invest in marketing to the **local market through radio and billboard commercials** to increase local market share and stimulate local market demand

When: If the offtaker module is applied

Why: This provides an overview of which practices are currently being implemented or could be done in the future on all the aspects of a company's operations (sourcing, contracting & pricing, logistics, processing, marketing)

How: Pre-fill the left column on current practices and discuss with the company all activities within the company's operations, with a specific focus on the sustainable procurement practices. Next, assess what is already being done and what might be interesting/feasible to further do in the future, using the Sustainable Procurement Practices Library. Fill out the right column with the suggested practices to explors. Indicate with a green star which practices are analyzed in a qualitative or quantitative deepdive and link to those slides in the report

[Example] Key Sustainability Challenges and Incentives

Use slides on the incentives for sustainable procurement to understand the company's main business challenges and objectives.

Sustainability Challenges		
Impact Area	**Magnitude**	**Challenges**
Better Income (More, Stable, Equitable)	**High / Med / Low**	• Add text
Better Jobs (Fair Remuneration, Working Conditions, Employee Representation)	**High / Med / Low**	• Add text
Better Environment (Water, Soils, GHG Emissions, Climate)	**High / Med / Low**	• Add text
Gender (Equity, Equality)	**High / Med / Low**	• Add text

Incentives for Sustainable Procurement		
Impact Area	**Priority**	**Challenges**
Manage Risks	**High / Med / Low**	• Add text
Improve/Protect Reputation	**High / Med / Low**	• Add text
Increase Revenues	**High / Med / Low**	• Add text
Boost Efficiency	**High / Med / Low**	• Add text
Improve Governance	**High / Med / Low**	• Add text

Go to index

Sustainable procurement practices library| A tool that can be used to identify new recommendations on procurement practices

Below is a screenshot of the Excel library* that provides guidance for the analyst to assess the company and supply chain and get to a list of top 10 procurement practices which are most relevant for the case. The different practices can then be evaluated further to understand which ones lie within the sphere of control of the company and leads to the expected impact. The respective practices can be further analysed in qualitative or quantitative deepdives in the Case Report.

Question	Select answer	Definitions
In which area do you seek to have impact?	Farmer Income	
What is your position in the supply chain?	Trader	
How is the market formality of your supply chain best described?	Informal-Small	
How is the total value addition to the product in your supply chain best described?	Intermediate Enhancement	
What is the size of your business?	Small-scale Enterprise	

Top procurement practices	Relevance score	Income Impact	Environmental Impact	Implementation Time 1 = High // 5 = Low	Implementation Cost / Effort 1 = High // 5 = Low	Aggregated Ease of Implementation	Intervention Definition	Enabling Conditions	Business Rationale Cost, Revenue, Risk	F I
Shorter Payment Periods	22	4	1	4	4	4	Definition: Shorter Payr	To successfully enable and imp	1. Cost Perspective Shorter payı	1
Direct Cash Incentives	22	5	1	2	2	2	Definition:Direct Cash Ir	To effectively implement Direc	1. Cost Perspective Direct cash i	1
Simple Contract Terminology	21	3	1	4	1	2.5	Definition: Simple Cont	Enabling Simple Contract Termi	1. Cost Efficiency:Simplifying co	1
Pricing Methods	21	5	2	1	3	2	Definition: In sustainabl	Enabling effective pricing meth	1. Cost Management:Fair compı	1
Buyer Incentives	21	4	1	4	4	4	Defintion: Buyer incenti	Effective implementation of bu	1. CostBy incentivizing buyers t	1
Partial Payments and Milestone Payments	21	5	2	3	3	3	Definition: Partial Paym	To effectively implement Partia	1. Cost Perspective Partial and r	1
Buyer Sustainability Targets	21	4	3	5	5	5	Definition: Buyer Sustai	To effectively implement Buyer	1. Cost Perspective Incorporatir	1
Business procurement requirements planning	21	4	1	3	4	3.5	Definition: Business prc	To implement effective Busine	1. Cost PerspectiveOptimized R	1
Energy efficiency/renewable energy use	21	5	5	5	4	4.5	The adoption of practic	1. Enabling Conditions for Ener	1. Cost Perspective:Operational	1
Long-Term Contracts	20	4	3	1	2	1.5	Definition: Long-term cı	Enabling conditions for the effe	1. Cost Efficiency:Stability in far	1

**Note: The use of the library as is, is temporary as not all practices for procurement and supply chain have been included to this library. This will be updated in due course.*

Source: IDH sustainable procurement study 2024

How to use the library

1. First, select which impact area the company wants to focus on: farmer income and/or environment guidance

2. Next, answer 4 key factors specifying the supply chain and business: Position within the supply chain, size of the business, market formality and value addition of the produce

3. The dashboard will automatically show which top 10 practices are most relevant for the company within the current context. This is based on an automated calculation on the total relevance score per practice based on the factors and impact areas selected.

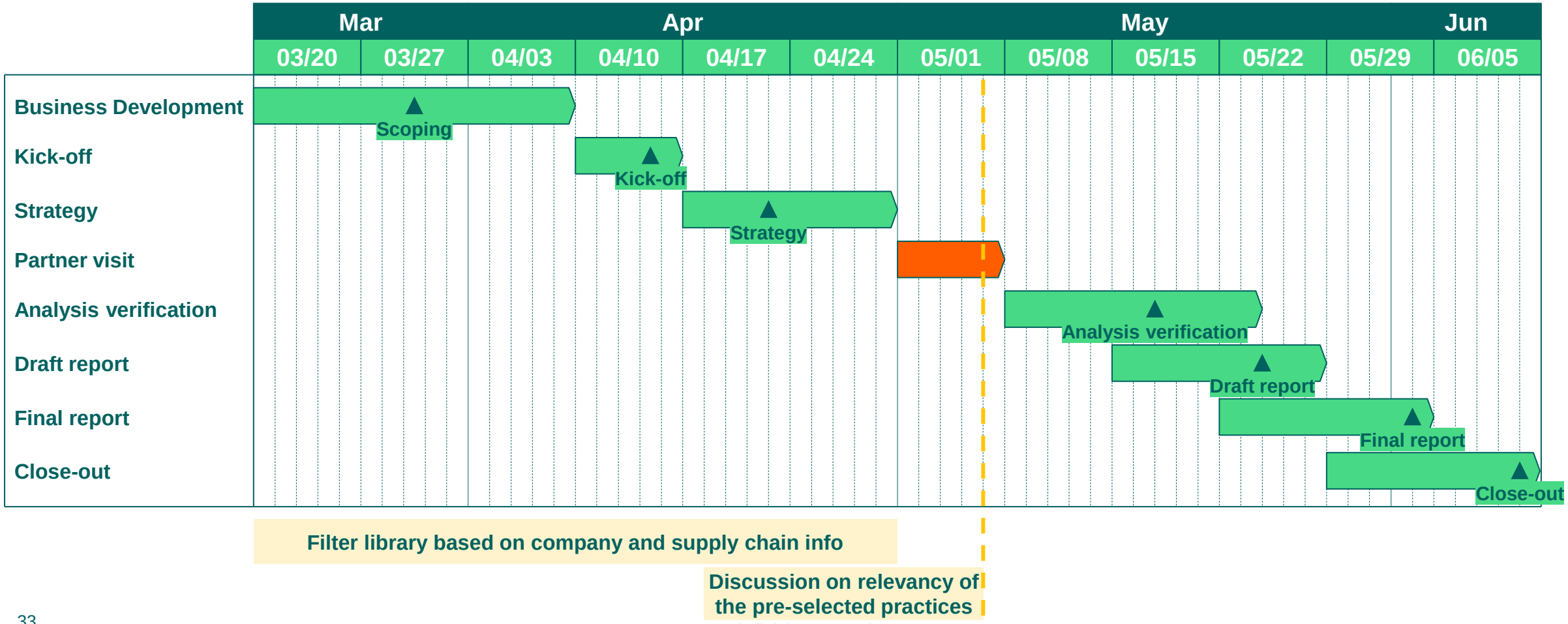
4. Filter and prioritize the top 10 recommended practices based on the key incentives for the company for changing their own practices as well as in the rest of the value chain, the company's resources and timeline of expected impact.

5. Use the list of case studies as evidence base and/or contextualization of certain practices listed in the sustainable procurement library.

Source: IDH sustainable procurement study 2024

When to conduct the assessment & discussion

This shows a sample timeline of an Inclusive Business analysis. It is advised to filter the library as you discuss scoping, kick-off and strategy on an ad-hoc basis. Then, have a dedicated discussion (1 hour) with the company during the site visit.



05

Case Report

Part A: Offtaker analysis

Non-exhaustive

Case Report

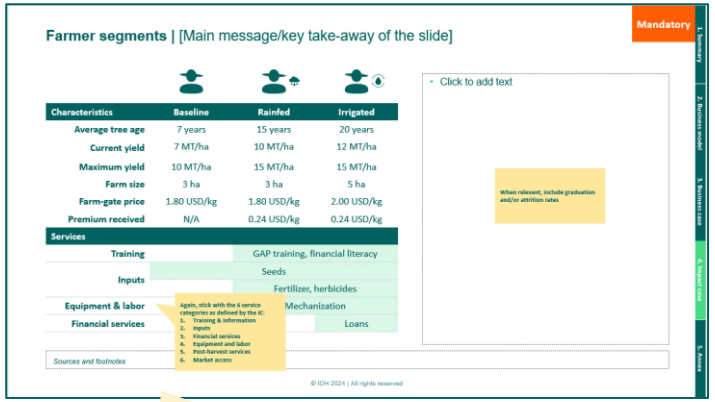
This section includes key analyses performed on procurement & supply chain as reported on in the Inclusive Business Case Report. Each analysis slide comes with guidance on how to use it.

	Slide	Included	Purpose
CORE report slides	Recommendations	Mandatory	**To summarize the key opportunities for improvement** that were identified as part of this module and to **provide actionable recommendations** for the company on how to close/diminish any existing gaps based on the assessment, context scans and deep-dive analyses
	Farmer segments	Mandatory	**To highlight the characteristics of different suppliers** in terms of productivity, quality and other produce specifications
MODULE specific report slide	Value chain	Optional	**To indicate the relationships between different actors within the value chain**, their challenges and opportunities in **terms of sustainable procurement practices**
	Procurement part of organogram	Optional	**To highlight the role of staff involved in sustainable procurement** within the wider picture of organizational structure, roles and responsibilities.
	Procurement assessment	Mandatory	**To assess the current sustainable procurement practices** for the company and to recommend **future practices** to be implemented by the company. Only one template slide is listed here, the other activities as part of the procurement assessment can be found under the qualitative assessment section.
	Sourcing channels comparison	Optional	**To assess the benefits and challenges of different sourcing channels** (purchasing directly from smallholder farmers, farmer groups or middlemen or aggregators)
	Sales channels comparison	Optional	**To assess the benefits and challenges of different sales channels** (direct sales, auction sales, etc)

Go to index

When using this module you should reflect on sustainable procurement in the following slides of the core report

Instruction
Answer the learning questions of the analysis and provide actionable recommendations based on the procurement assessment and quantitative deepdive analyses



Instruction
Indicate how procurement practices relate to different segments of farmers. This can also show what additional services the different segments should receive

Mandatory

[Example] **Recommendations |** [Main message/key take-away of the slide]

We have identified recommendations that Company X can explore across the highlighted opportunity pathways:

Pathway	Recommendations	Supporting observations
How can better procurement practices by Company X increase farmer incomes?	• **Increasing share of direct sales*** allows Company X to diversify its product mix while giving buyers more direct control over their sourcing, unlocking benefits to farmers • **Agreeing on how value is distri** direct sales channels can incentiv • **More granular insights and inc outputs** (quality, grade, volumes tailored services and preferential • **Define optimal contracting leng** depending on buyer objectives, to • **Explore joint development** of other products and service offering based on shared R&D and data collection (incl. certification data). More engagement on **consumer insights** will support Company X in product development • **Define a strategy and seek partners to unlock co-investment in additional value chain** access to markets and services for farmers is essential to diversify and increase farm income • **Define a balanced mix of premiums** that incentive appropriate outcomes and behaviours in an efficient way	• Direct sales can save up to 0.05 $/kg costs, while unlocking the ability to pay premiums, direct contracting, and ensuring higher price stability • Company X collects some data on factories but lacks comprehensive data on farmers which can provide buyers insights. • Company X has existing R&D supporting innovations and service design for farmers which can be shared with buyers. • Certification schemes and premiums are in place with various levels of effectiveness. Company Y' premium payments lead to an increase in profitability of 0.02 $/kg. Supporting factories to improve quality has the potential to increase farmer incomes further through quality premiums.

Instruction
Answer the learning questions of the analysis and provide actionable recommendations based on the procurement assessment and quantitative deepdive analyses

[Example] **Farmer segments |** [Main message/key take-away of the slide]

Mandatory



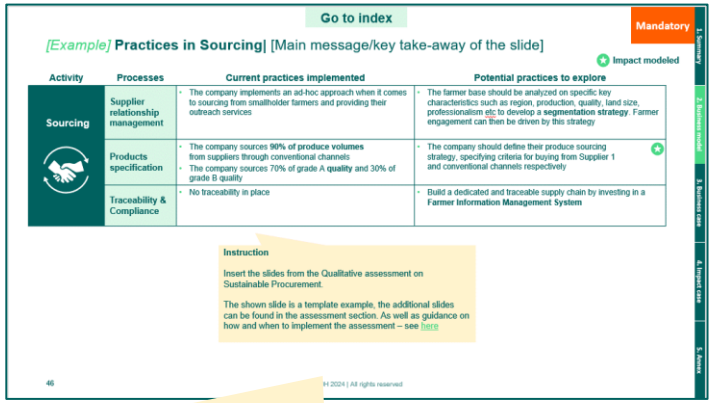
Characteristics	Baseline	Rainfed	Irrigated
Average tree age	7 years	15 years	20 years
Current yield	7 MT/ha	10 MT/ha	12 MT/ha
Maximum yield	10 MT/ha	15 MT/ha	15 MT/ha
Farm size	3 ha	3 ha	5 ha
Farm-gate price	1.80 USD/kg	1.80 USD/kg	2.00 USD/kg
Premium received	N/A	0.24 USD/kg	0.24 USD/kg
Services			
Training		GAP training, financial literacy	
Inputs		Seeds	
		Fertilizer, herbicides	
Equipment & labor		Mechanization	
Financial services			Loans

When relevant, include graduation and/or attrition rates

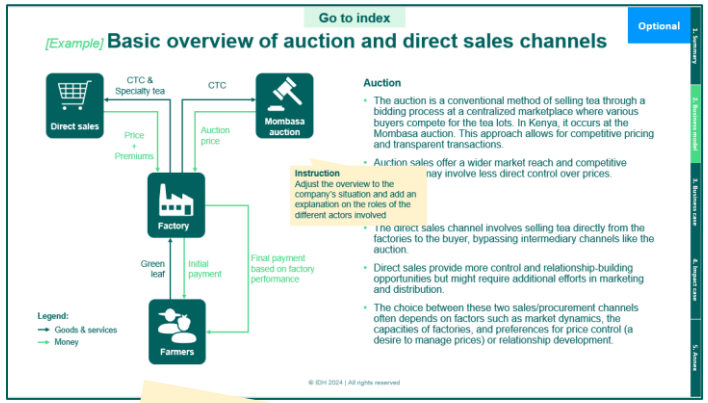
Again, stick with the 6 service categories as defined by the IC:

1. Training & information
2. Inputs
3. Financial services
4. Equipment and labor
5. Post-harvest services
6. Market access

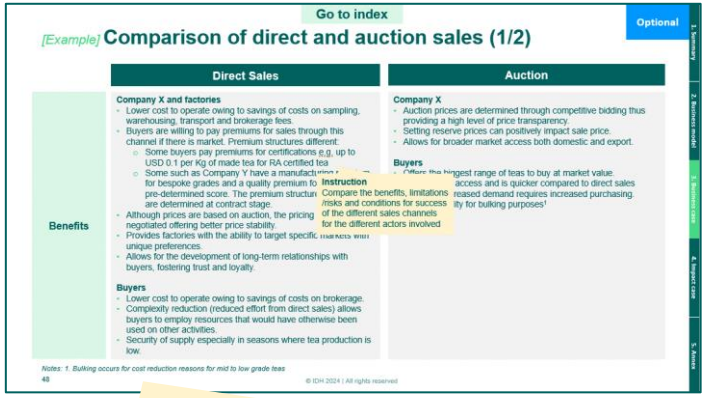
When using this module you should assess which of the following slides developed specifically for the procurement & supply chain module contribute to the analyses and discussion in the case report



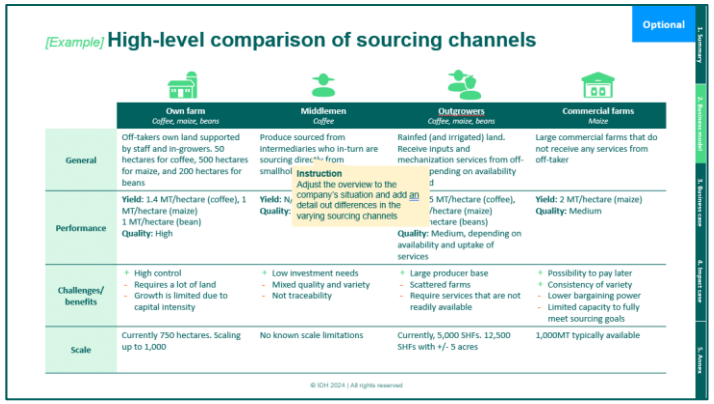
Instruction
Complete the qualitative assessment on sustainable procurement practices



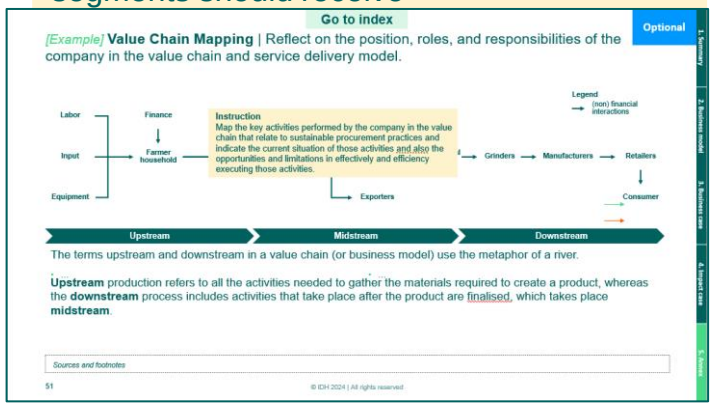
Instruction
Indicate how procurement practices relate to different segments of farmers. This can also show what additional services the different segments should receive



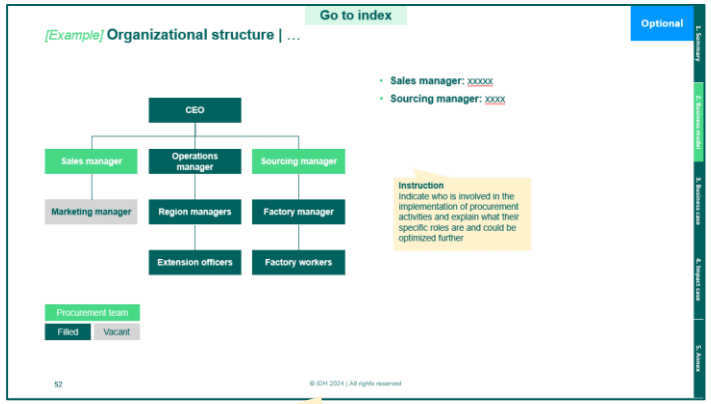
Instruction
Compare the benefits, limitations /risks and conditions for success of the different sales channels for the different actors involved



Instruction



Instruction



Instruction

[Example] Practices in Sourcing| [Main message/key take-away of the slide]

Impact modeled

Activity	Processes	Current practices implemented	Potential practices to explore
Sourcing 	**Supplier relationship management**	• The company implements an ad-hoc approach when it comes to sourcing from smallholder farmers and providing their outreach services	• The farmer base should be analyzed on specific key characteristics such as region, production, quality, land size, professionalism etc to develop a **segmentation strategy**. Farmer engagement can then be driven by this strategy
	Products specification	• The company sources **90% of produce volumes** from suppliers through conventional channels • The company sources 70% of grade A **quality** and 30% of grade B quality	• The company should define their produce sourcing strategy, specifying criteria for buying from Supplier 1 and conventional channels respectively
	Traceability & Compliance	• No traceability in place	• Build a dedicated and traceable supply chain by investing in a **Farmer Information Management System**

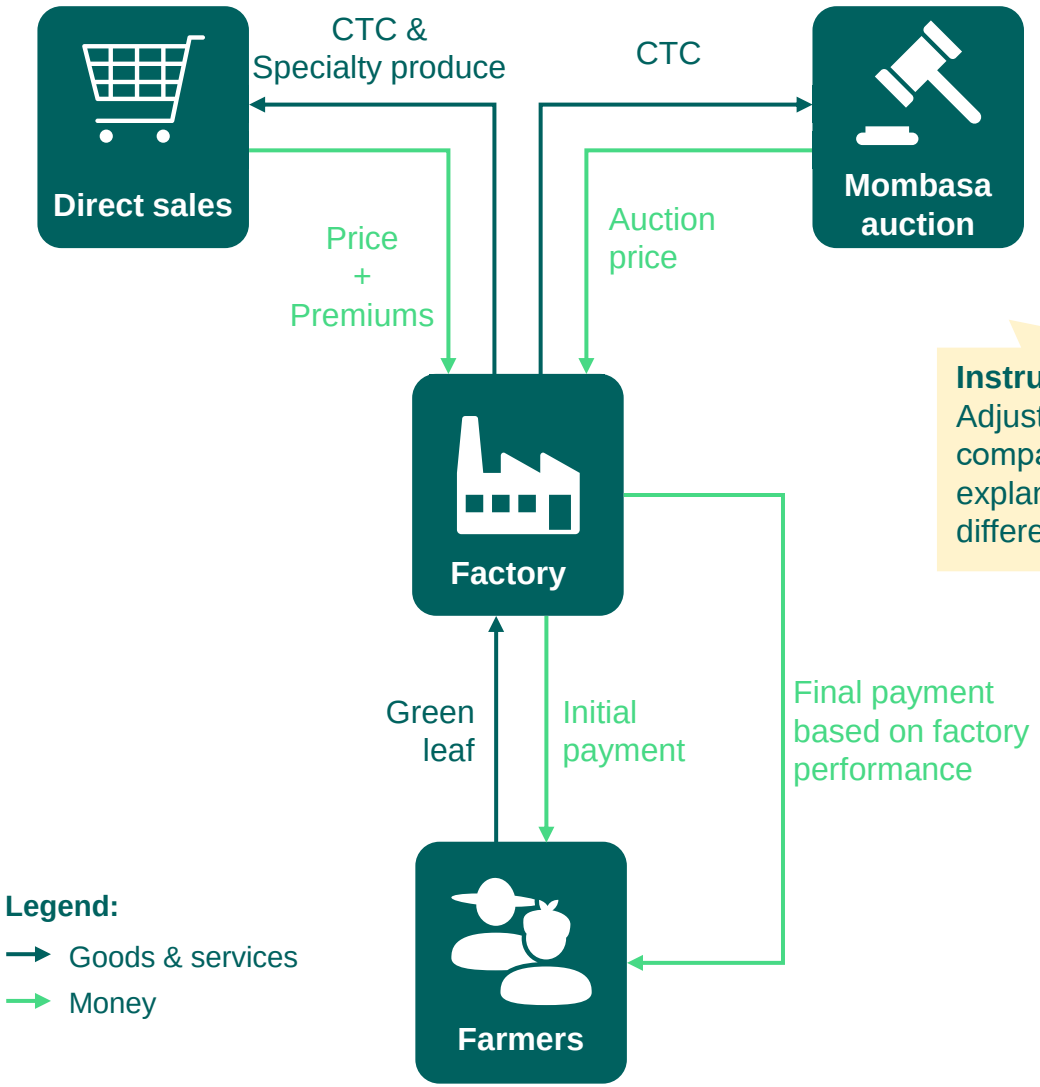
Instruction

Insert the slides from the Qualitative assessment on Sustainable Procurement.

The shown slide is a template example, the additional slides can be found in the assessment section. As well as guidance on how and when to implement the assessment – see here

Optional

[Example] Basic overview of auction and direct sales channels



Instruction
Adjust the overview to the company's situation and add an explanation on the roles of the different actors involved

Auction

- The auction is a conventional method of selling final produce through a bidding process at a centralized marketplace where various buyers compete for the lots. In Kenya, it occurs at the Mombasa auction. This approach allows for competitive pricing and transparent transactions.
- Auction sales offer a wider market reach and competitive ...nay involve less direct control over prices.

- The direct sales channel involves selling final produce directly from the factories to the buyer, bypassing intermediary channels like the auction.
- Direct sales provide more control and relationship-building opportunities but might require additional efforts in marketing and distribution.
- The choice between these two sales/procurement channels often depends on factors such as market dynamics, the capacities of factories, and preferences for price control (a desire to manage prices) or relationship development.

[Example] Comparison of direct and auction sales (1/2)

	Direct Sales	Auction

Benefits	**Company X and factories**
	• Lower cost to operate owing to savings of costs on sampling, warehousing, transport and brokerage fees.
	• Buyers are willing to pay premiums for sales through this channel if there is market. Premium structures different:
	  ○ Some buyers pay premiums for certifications e.g. up to USD XX per Kg of final produce for certified produce
	  ○ Some such as Company Y have a manufacturing premium for bespoke grades and a quality premium for achieving a pre-determined score. The premium structure and levels are determined at contract stage.
	• Although prices are based on auction, the pricing mechanism is negotiated offering better price stability.
	• Provides factories with the ability to target specific markets with unique preferences.
	• Allows for the development of long-term relationships with buyers, fostering trust and loyalty.
	
	Buyers
	• Lower cost to operate owing to savings of costs on brokerage.
	• Complexity reduction (reduced effort from direct sales) allows buyers to employ resources that would have otherwise been used on other activities.
	• Security of supply especially in seasons where production is low.
		Company X
		• Auction prices are determined through competitive bidding thus providing a high level of price transparency.
		• Setting reserve prices can positively impact sale price.
		• Allows for broader market access both domestic and export.
		
		Buyers
		• Offers the biggest range of produce to buy at market value.
		• Offers easier access and is quicker compared to direct sales channel if increased demand requires increased purchasing.
		• Allows flexibility for bulking purposes[1]

Instruction
Compare the benefits, limitations /risks and conditions for success of the different sales channels for the different actors involved

Notes: 1. Bulking occurs for cost reduction reasons for mid to low grade teas

Optional

[Example] Comparison of direct and auction sales (2/2)

	Direct Sales	Auction
Limitations / Risks	**Company X** • Managing direct sales channels requires investment in marketing, negotiation, and customer relationship management • Long-term contracts or commitments with buyers might limit flexibility and hinder adaptation to changing market conditions or opportunities **Buyers** • Frequent changes in regulation in the tea sector term commitments • Loss in flexibility in accessing similar quality and bulking purposes • Requires coordination with more actors within the lengthening the process • Necessitates trust-based relationships with Company X leadership	**Company X** • Prices at auctions can be volatile due to competitive bidding, leading to uncertainty in revenue generation for factories. • Auctions involve transaction costs such as warehousing, transport and brokerage fees which impact overall profitability of factories. • Reliance on auctions as the primary sales channel could make ulnerable to market dynamics and changes in buyer oduct visibility ntrol over product characteristics • Difficulty in following up on CSDD, HRDD and other regulatory compliances.
Conditions for success	• Stable regulatory environment that allows for longer term commitment • Effective management at both Company X MS and factory level for contract negotiation purposes • Open and transparent communication with buyers regarding product quality, pricing, and terms is essential for sustained partnerships • Collaborative quality calibration and continuous improvement through investment.	• Producing high quality tea is essential to attract competitive bids • Consistency of supply at the auction is crucial as inconsistent supply can deter buyers looking for reliability • Access to up-to-date market information and trends to adapt auction offerings to buyer preferences and market demands

Instruction
Compare the benefits, limitations /risks and conditions for success of the different sales channels for the different actors involved

Optional

[Example] High-level comparison of sourcing channels




	Own farm *Coffee, maize, beans*	Middlemen *Coffee*	Outgrowers *Coffee, maize, beans*	Commercial farms *Maize*
General	Off-takers own land supported by staff and in-growers. 50 hectares for coffee, 500 hectares for maize, and 200 hectares for beans	Produce sourced from intermediaries who in-turn are sourcing direc[illegible] from smallhol[illegible]	Rainfed (and irrigated) land. Receive inputs and mechanization services from off- [illegible]pending on availability [illegible]d	Large commercial farms that do not receive any services from off-taker
Performance	**Yield**: 1.4 MT/hectare (coffee), 1 MT/hectare (maize) 1 MT/hectare (bean) **Quality**: High	**Yield**: N/ **Quality**:	[illegible]5 MT/hectare (coffee), [illegible]/hectare (maize) [illegible]ectare (beans) **Quality**: Medium, depending on availability and uptake of services	**Yield**: 2 MT/hectare (maize) **Quality:** Medium
Challenges/ benefits	+ High control - Requires a lot of land - Growth is limited due to capital intensity	+ Low investment needs - Mixed quality and variety - Not traceability	+ Large producer base - Scattered farms - Require services that are not readily available	+ Possibility to pay later + Consistency of variety - Lower bargaining power - Limited capacity to fully meet sourcing goals
Scale	Currently 750 hectares. Scaling up to 1,000	No known scale limitations	Currently, 5,000 SHFs. 12,500 SHFs with +/- 5 acres	1,000MT typically available

Instruction
Adjust the overview to the company's situation and add an detail out differences in the varying sourcing channels

Optional

[Example] **Value Chain Mapping |** Reflect on the position, roles, and responsibilities of the company in the value chain and service delivery model.

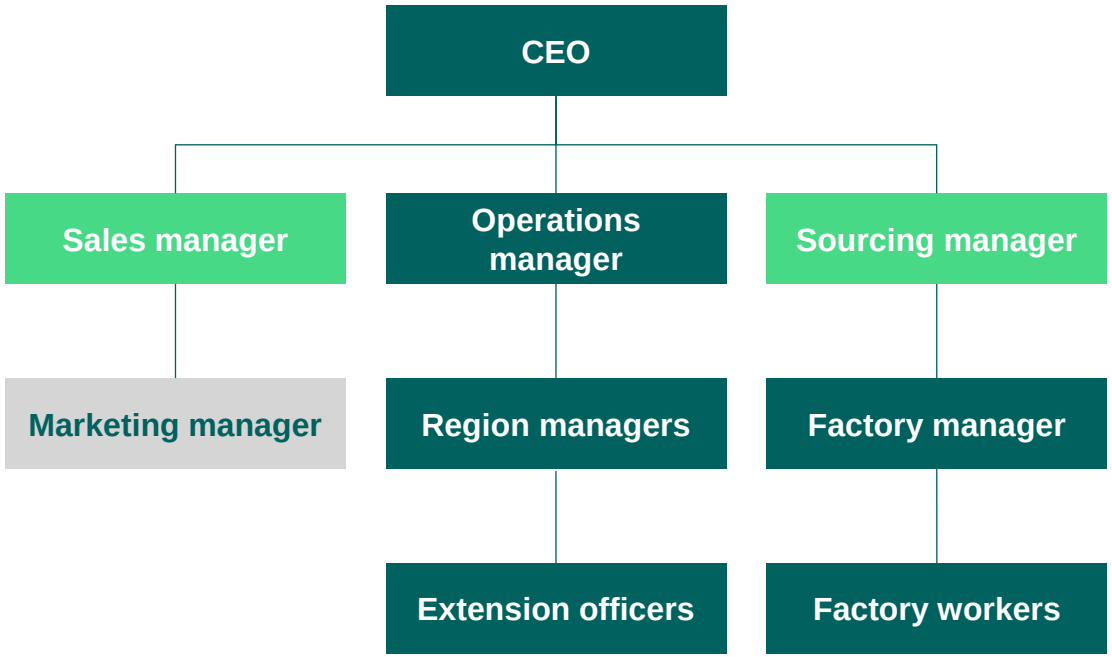
- Challenges encountered upstream
- Typical activities that take place upstream
- Recent changes that could lead to new opportunities upstream

- …xxx

- …xxx

Optional

[Example] Organizational structure | …



Procurement team

Filled | Vacant

- **Sales manager:** xxxxx
- **Sourcing manager:** xxxx

Instruction
Indicate who is involved in the implementation of procurement activities and explain what their specific roles are and could be optimized further

Part B: Value chain analysis

Non-exhaustive
Fill for Downstream Actor/ Brand

Case Report

This section includes the key analysis performed on procurement & supply chain as reported on in the Inclusive Business Case Report.

	Slide	Included	Purpose
CORE report slides	Recommendations	Mandatory	**To summarize the key opportunities for improvement** that were identified as part of this module and to **provide actionable recommendations** for the company on how to close/diminish any existing gaps based on the assessment, context scans and deep-dive analyses
MODULE specific slides	Value chain	Mandatory	**To indicate the relationships between different actors within the value chain**, their challenges and opportunities in **terms of sustainable procurement practices**
	Procurement assessment	Mandatory	**To assess the current sustainable procurement practices** implemented in the value chain and to recommend **future practices** the company can incentivize other actors to implement across the value chain on top of what they do themselves. Only one template slide is listed here, the other activities as part of the procurement assessment can be found under the qualitative assessment section.
	Assessment of intermediaries	Optional	**To assess the resources and capacity of other actors in the value chain** in their delivery of services and sustainable procurement. To provide recommendations how the company can support them to improve.

Mandatory

[Example] **Recommendations |** [Main message/key take-away of the slide]

We have identified recommendations that Company X can explore across the highlighted opportunity pathways:

Pathway	Recommendations	Supporting observations
How can better procurement practices by Company X increase farmer incomes?	• **Increasing share of direct sales*** allows Company X to diversify its product mix while giving buyers more direct control over their sourcing, unlocking benefits to farmers • **Agreeing on how value is distri** direct sales channels can incentiv • **More granular insights and inc outputs** (quality, grade, volumes tailored services and preferential • **Define optimal contracting leng** depending on buyer objectives, to • **Explore joint development** of other products and service offering based on shared R&D and data collection (incl. certification data). More engagement on **consumer insights** will support Company X in product development • **Define a strategy and seek partners to unlock co-investment in additional value chain** access to markets and services for farmers is essential to diversify and increase farm income • **Define a balanced mix of premiums** that incentive appropriate outcomes and behaviours in an efficient way	• Direct sales can save up to 0.05 $/kg costs, while unlocking the ability to pay premiums, direct contracting, and ensuring higher price stability • Company X collects some data on factories but lacks comprehensive data on farmers which can provide buyers insights. • Company X has existing R&D supporting innovations and service design for farmers which can be shared with buyers. • Certification schemes and premiums are in place with various levels of effectiveness. Company Y' premium payments lead to an increase in profitability of 0.02 $/kg. Supporting factories to improve quality has the potential to increase farmer incomes further through quality premiums.

Instruction
Answer the learning questions of the analysis and provide actionable recommendations based on the procurement assessment and quantitative deepdive analyses

Mandatory

[Example] **Value Chain Mapping |** Reflect on the position, roles, and responsibilities of the company in the value chain and service delivery model.

- Challenges encountered upstream
- Typical activities that take place upstream
- Recent changes that could lead to new opportunities upstream

- …xxx

- …xxx

Mandatory

Fill for Downstream Actor/ Brand

Impact modeled

[Example] **Practices in Sourcing|** [Main message/key take-away of the slide]

Activity	Processes	Current practices implemented	Practices to explore
Sourcing 	**Supplier relationship management**	• The company implements an ad-hoc approach when it comes to sourcing from smallholder farmers and providing their outreach services	• The farmer base should be analyzed on specific key characteristics such as region, production, quality, land size, professionalism etc to develop a **segmentation strategy**. Farmer engagement can then be driven by this strategy
	Products specification	• The company sources **all their produce from 3 different** suppliers • The company sources 70% of grade A **quality from supply A, 30% of grade A from supplier B and most of grade B from supplier C**	• The company should define their produce sourcing strategy, specifying criteria for buying from Supplier 1, 2 and 3 respectively and align their pricing strategy
	Traceability & Compliance	• No traceability in place	• Build a dedicated and traceable supply chain by investing in a **Farmer Information Management System**

Instruction

Insert the slides from the Qualitative assessment on Sustainable Procurement.

The shown slide is a template example, the additional slides can be found in the assessment section. As well as guidance on how and when to implement the assessment – see here

Optional

Fill for Downstream Actor/ Brand

[Example] **Intermediary Company X|** [Main message/key take-away of the slide]

Dimension	Activity/Innovation	Assessment on Capabilities, Opportunities and Motivation (COM) on implementation	Support from Value chain partner
Governance and legal structure	• Vision • Leadership • Organizational structure	• Do they have the right capabilities? • Is there an opportunity to improve? • What is their incentive to improve?	• Necessary: • Optional:
Human resources	• Staff • Policies		
Financial management and internal control systems	• Planning/budgeting • Accounting systems		
Organizational management	• Operating procedures • Monitoring and evaluation • infrastructure • ICT systems		
Farmer base management	• Farm services • Last-mile delivery mechanism, channels • Payment channels		

Instruction

Assess the organizational capacity of the company to understand how they operate in general and at farm-level, to assess whether they need additional support to increase capacity, scale service delivery, to address challenges or engage in new opportunities (capacity building, investments in additional staff, pre-financing)

Assess how this support could be facilitated from downstream support (e.g., finding new partners/service providers, direct upstream investments in service delivery [e.g., setting up demo plots])

06

Quantitative deep-dive analyses

Part A: Offtaker analysis

Non-exhaustive

Case Report

This section includes the key analysis performed on procurement & supply chain as reported on in the Inclusive Business Case Report.

	Slide	Included	Purpose
	Deep-dive data requirements	n/a	**To get a sense of the main data points required** for the quantitative deepdive analyses
CORE slides	SDM operator P&L (incl procurement, logistics, processing and marketing)	**Mandatory**	**To assess the company's profitability with regarding to procurement and service delivery** to smallholder farmers. To highlight the main cost and revenues sources.
MODULE specific slides	Sourcing efficiency	**Mandatory**	**To assess the company's sourcing efficiency** over time in comparison with its **service delivery efficiency**. To highlight the main ways for improvement such as changing sourcing channels, optimizing yields, investing in collection centers
	Company sensitivity analysis	**Mandatory**	**To analyse the sensitivity of the company's profitability** from changes in different key factors such as loyalty and market prices.
	Farmer sensitivity analysis	**Mandatory**	**To analyse the sensitivity of farmer's income** from changes in different premium opportunities
	Factory performance	**Optional**	**To assess the impact** of improvements made at company/factory level **on farmer income**
	Reduced energy costs	**Optional**	**To assess the impact** of energy-efficient improvements made at factory level **on company profitability**
	Sales channel profitability	**Optional**	**To assess the impact** of different sales channels **on company profitability**
	Premiums	**Optional**	**To assess the impact** of premiums **on farmer income**

Go to index

Non-exhaustive

Deep-dive data requirements

Objective: Assess a particular Procurement, Logistics, Processing or Marketing practice using a Cost-Benefit Analysis (CBA). Use on of the following example slides.
Criteria: Determine with the company which innovation(s) from the Assessment could be interesting to explore quantitatively in a deep-dive
Methodology: Gather data as for any CBA. The most difficult part is to estimate the impact from these practices on company and farmer performance and profitability. Doing a deep-dive is fully dependent on having access to good quality data points on these practices.

	Costs	Benefits
Contracting & Pricing	• Price paid to farmers • Premium paid to farmers • Volumes sourced • Volumes lost due to quality • Farmers numbers and loyalty	• Fee for access to market • Improvement in quality • Improvement in consistency/loyalty • Improvement in quantity

Logistics	• Costs of Aggregation and distribution
	  • CAPEX (equipment & vehicles)
	  • OPEX (energy, staff)
	  • Overhead
	• Taxes and fees
	• Cost of storage
	  • CAPEX (equipment & vehicles)
	  • OPEX (energy, staff)
	  • Overhead
		• Transportation fees
		• Storage fees
		• Improvement in quality
		• Improvement in consistency/loyalty
		• Improvement in quantity

Processing	• Costs of factory
	  • CAPEX (equipment, infrastructure)
	  • OPEX (energy, water, staff)
	  • Overhead
		• Processing fees
		• Quality testing fees
		• Improvement in quality (value addition)
		• Fees from disposal of byproduct

Marketing

Costs

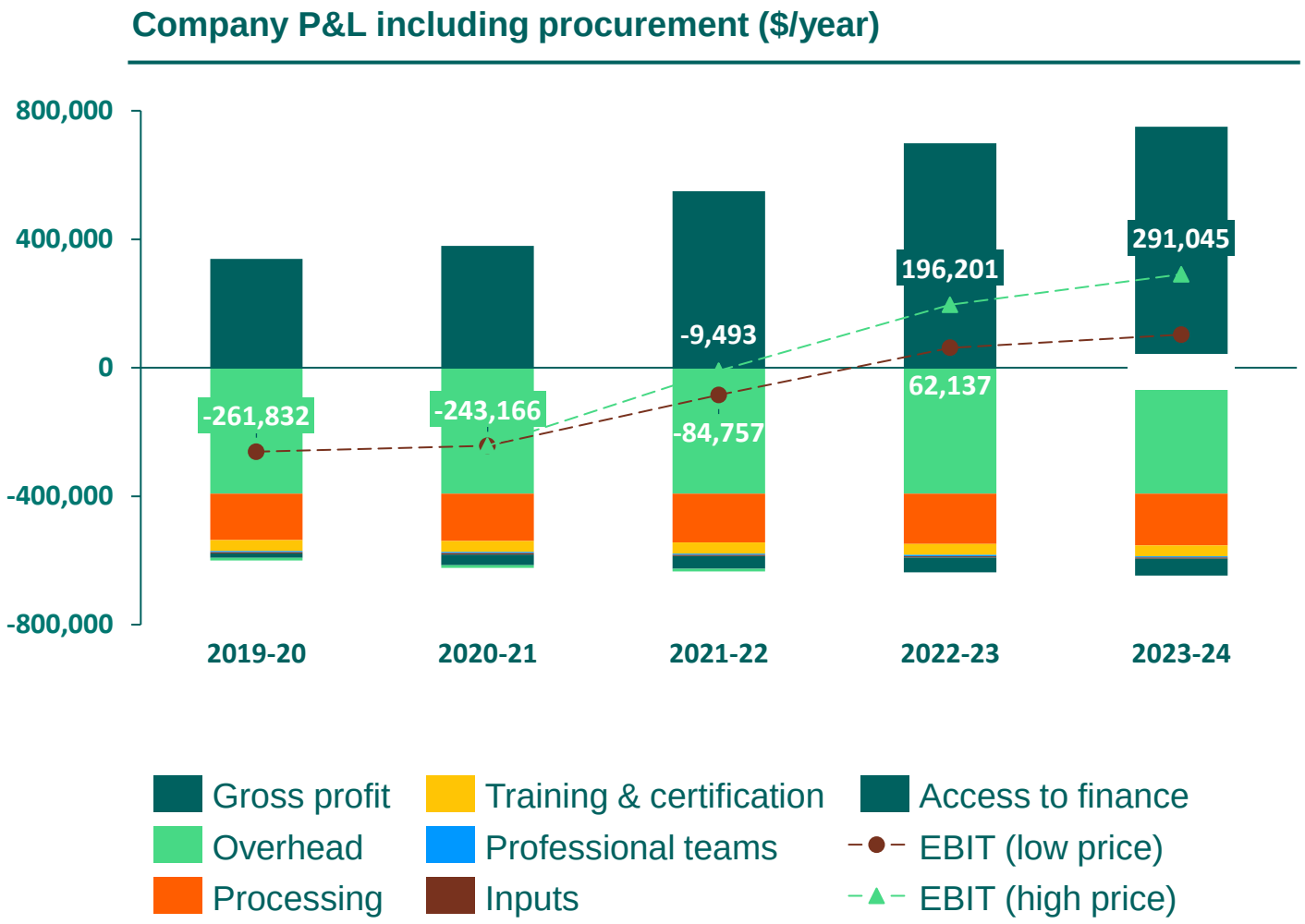
- Promotion costs
- Marketing fees
- Staff costs

Benefits

- Price paid by buyers
- Premium paid by buyers
- Volumes sold
- Quality sold

[Example: Company Profit & Loss including procurement]

Company Y | SDM profitability can be achieved in 2022 but only if volumes increase more than projected



- Company Y [illegible] investments
  Profitability is [illegible] improve produ[illegible] receiving high[illegible]
- For company [illegible] by 2023/24 key elements must be in place:
  - Quality enhancing service packages (composting, pruning, harvesting, processing tool) are effective and affordable for farmers
  - Mutual beneficial contracts with farmers willing to sell cherry directly to company Y.
  - Properly managed and maintained washing stations able to deliver projected volumes of quality produce for both blenders and microlots Strong relationships with roasters enabling company Y to receive better prices.
- Gross profits includes raw materials, hand sorting, shipping and direct marketing costs. Gross margins are between 47% and 53%
- Overhead (61%) includes salaries, office, utilities, and admin
- Processing (25%) includes depreciation and maintenance of the P&G and Washing Stations
- Services cost mainly consist of staff salaries, materials and finance costs (e.g. tools, seedlings)

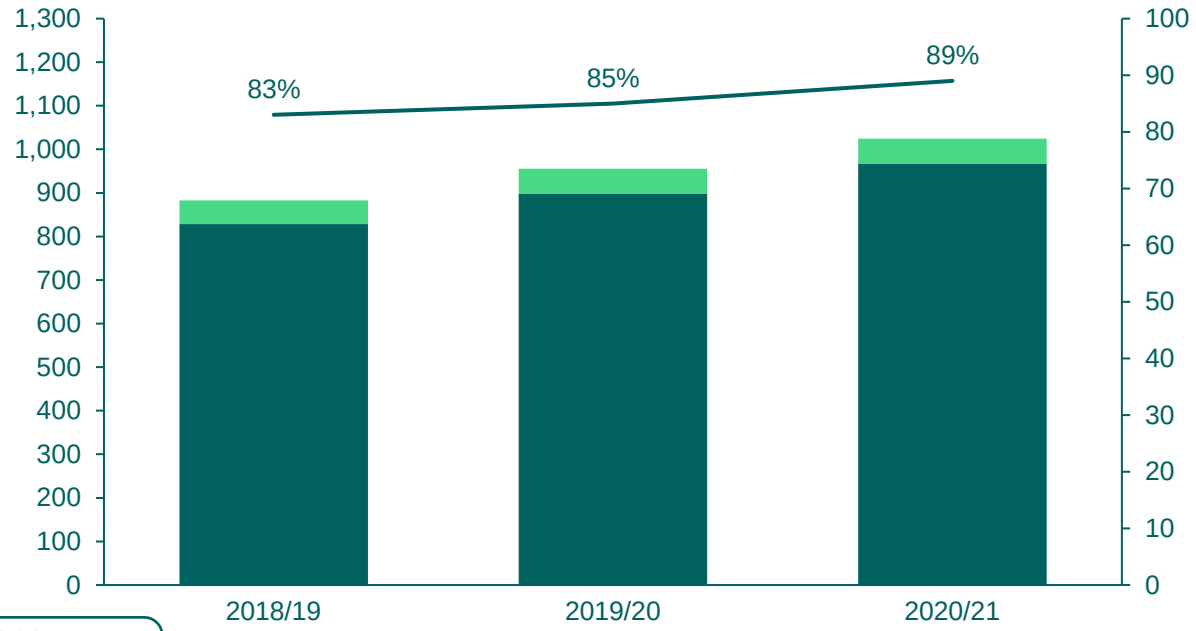
Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

[Example: Sourcing efficiency (1/4)]

Company Y | SDM profitability can be achieved in 2020 but only if volumes increase more than projected

Sourcing volumes (USD) and sourcing efficiency (USD/MT) over time



	2018/19	2019/20	2020/21
Sourcing efficiency (Total sourcing cost $/MT sourced)	6	19	21
Sourcing Efficiency to Company X ($/MT sold to Company X)	6	20	22
Service efficiency (Service delivery cost $/MT sourced)	10	15	15

Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

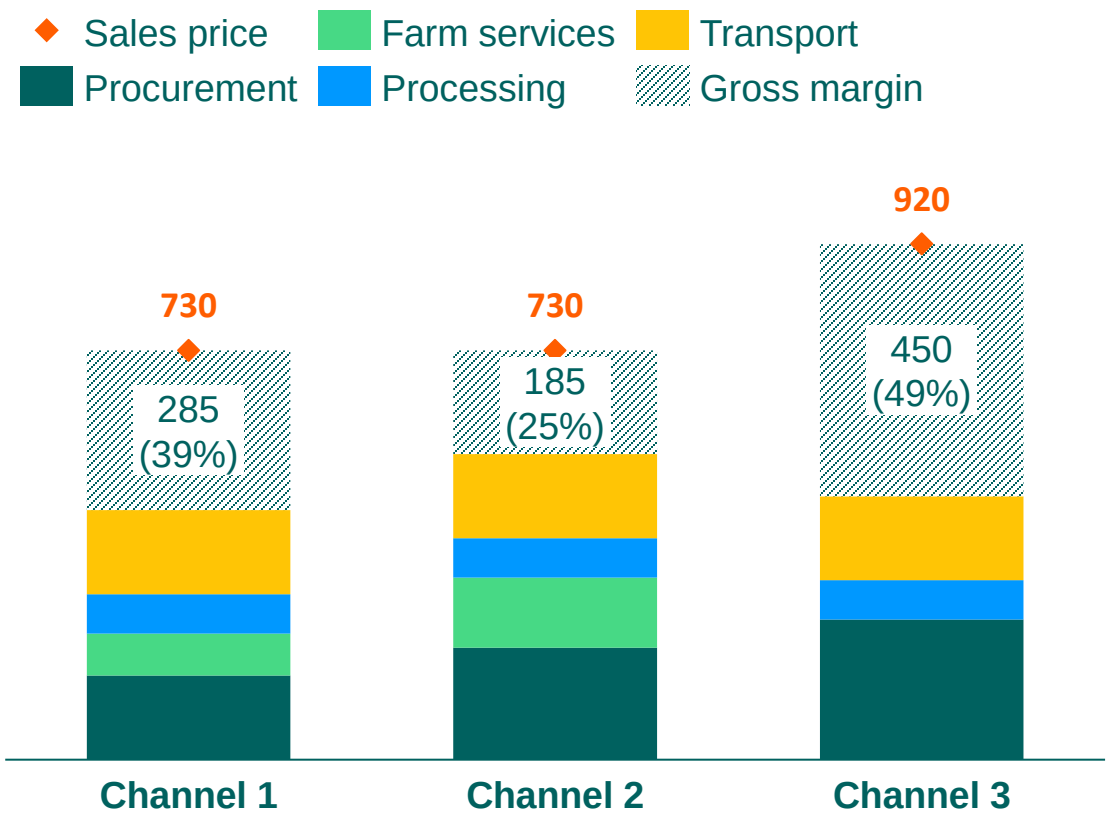
- From a long-term sustainability perspective, Company Y needs to source 5.1MT per farmer (3.9MT/farmer was sourced in 2018/19.
- Sourcing more effectively, either through increasing loyalty or farm productivity has a significant impact on profitability as suppliers receive an above-market premium from Company X for MRL-compliant produce.
- The produce that fails residue sampling is ineligible for receiving a premium, while supplier pricing and market demand can influence the amount Company X decides to buy from each supplier. The higher the proportion sold to Company X, the lower the breakeven volume per farmer. Company Y's low non-compliance allows it to sell 94% of the volume sourced to Company X

Sources: Supplier interviews; Premium composition data; CDC training contracts; Project financial report; Pesticide testing data

[Example: Sourcing efficiency (2/4)]

Sourcing unit economics | [Main message/key take-away of the slide]

Sourcing channel gross margin (USD/MT)



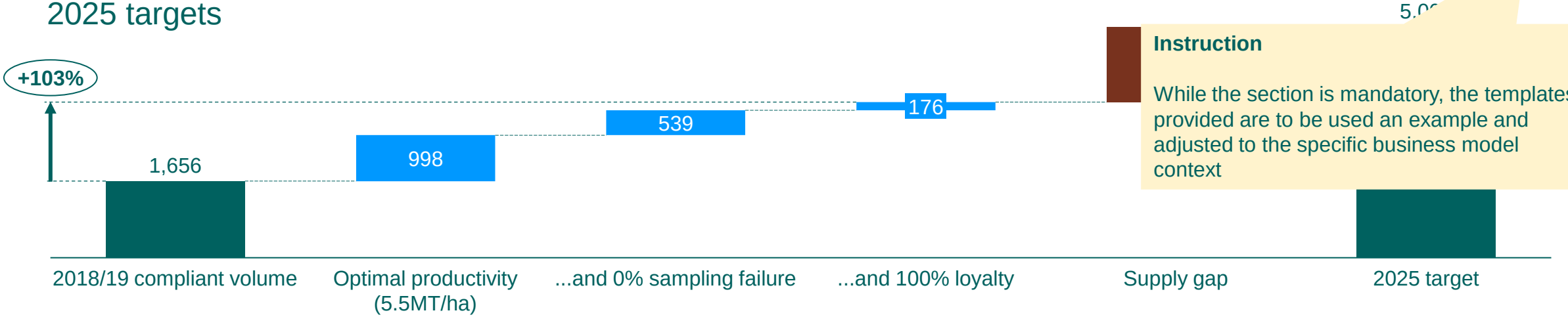
- Text
- Xxxx

Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

[Example: Sourcing efficiency (3/4)]

Achieving scale | Suppliers can increase the value from each farmer but will require more farmers to reach 2025 targets



Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

- 2025 targets represent a significant increase on current sourcing levels, with the supplier unable to reach the target with their existing base of farmers. Nevertheless, there remains a lot of value that can be still captured from the current farmers
- The supply gap figures in this graph suggest that Company Z needs at least 119 more farmers if they are to reach 2025 targets
- However, determining additional farmers using supply gap values is cautioned as it is unlikely that productivity, compliance and loyalty can all be maximized
- While yields of 5.5MT/ha have already been obtained by few farmers, achieving this across the board would be difficult
- However, results in other producing countries demonstrate that 0% sampling failures are attainable if behaviors change sufficiently
- Currently loyalty is high for Company Z, but 100% loyalty is a particular challenge since much of side-selling is driven by the fact that farmers purchase inputs on credit from local collectors and repay those loans using the main crop. Adding input provision to the SDM would be essential to maximizing loyalty
- As an aside, land sizes are seen as fixed in this analysis but can be influenced by the SDM. Farmers that benefit sufficiently from the SDM may switch part of their other land to the main crop, whilst if the gains from the SDM are minimal, farmers could switch away from the main crop, an incident that could be accelerated during disease outbreaks

Sources: Management interviews; Premium composition data; CDC training contracts; Project financial report; Pesticide testing data

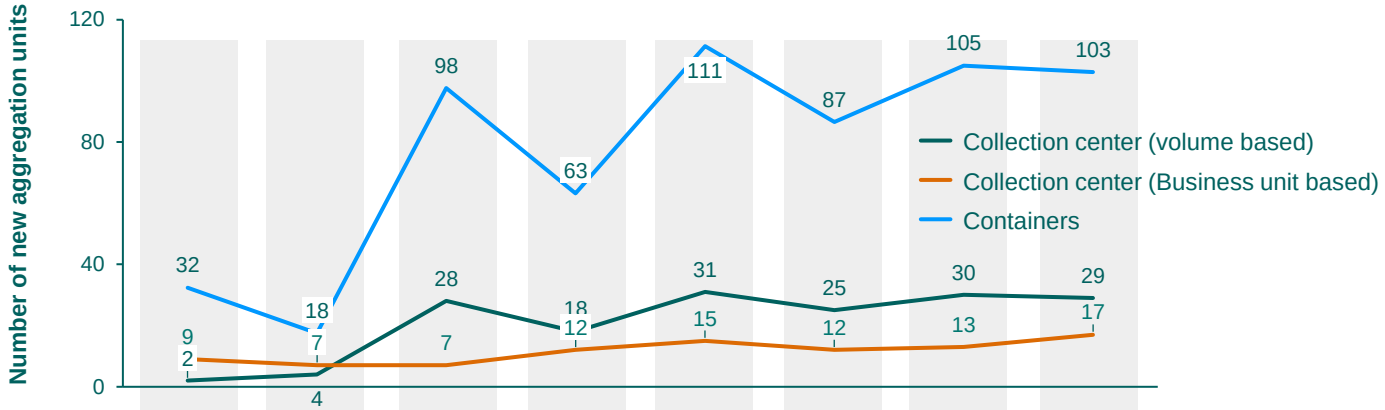
[Example: Sourcing efficiency (4/4)]

Collection centers| As number of farmers and average yields increase, it becomes crucial to design a proper aggregation strategy

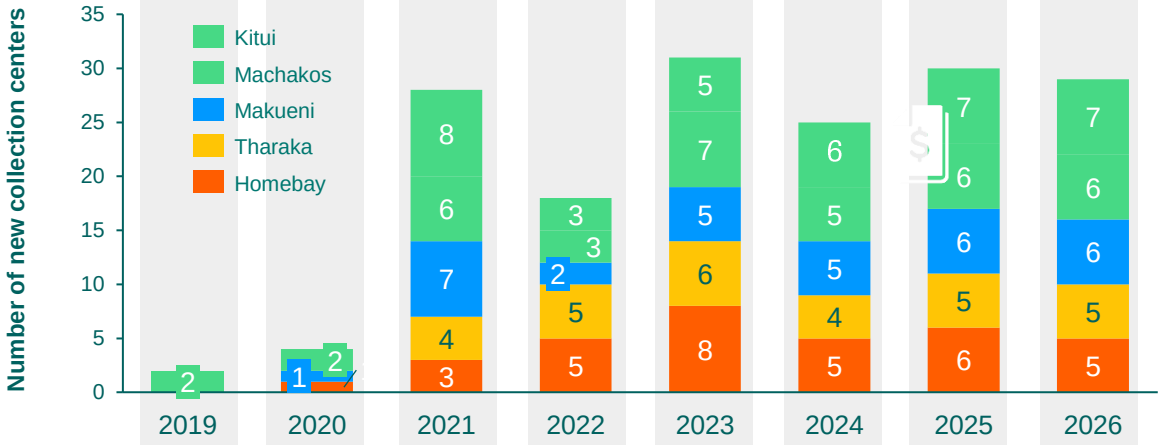
Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

Number of new aggregation units needed per year*



Optimal distribution of new collection centers (based on volumes) per year*



- Compa... on the ... busines...
- By building a collection center for each of business unit, Company Y is able to cover the total volume produced up to 2020 (based on current volume predictions). As yield per farmer increases due to higher adoption of GAP and use of high-quality inputs, a collection center at assumed capacity will not be able to handle the volume produced by one farmer business unit.
- One strategy to effectively cover the whole supply is to allocate collection centers according to the expected production volumes in a specific county over time. However, a major risk for this strategy is a potential unnecessary capital investment in case assumed increased yields and loyalty rates are not met.

* The numbers on the above graphs are not the cumulative figures of aggregation units and collection centers, but rather the amount of new ones that needs to be added each year.

[Example: Loyalty sensitivity]

Sensitivity analysis | Loyalty significantly impacts on the profitability of the business model

Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

SDM net income (million KES), for varying loyalty rates and prices

Varying buyer prices (%) →

Loyalty rates (%) ↓

	+0%	+5%	+10%	+15%	+20%
20%	5 *(-5)*	7 *(-3)*	9 *(-1)*	12 *(+2)*	15 *(+5)*
40%	6 *(-4)*	9 *(-1)*	11 *(+1)*	13 *(+3)*	16 *(+6)*
60%	7 *(-3)*	10 *(0)*	12 *(+2)*	15 *(+5)*	17 *(+7)*
80%	9 *(-1)*	11 *(+1)*	13 *(+3)*	16 *(+6)*	18 *(+8)*
85%	10	12 *(+2)*	15 *(+5)*	17 *(+7)*	19 *(+9)*
100%	11 *(+1)*	13 *(+3)*	16 *(+8)*	18 *(+8)*	21 *(+11)*

Current assumption

- Th
  lo
  co
  C
  ensure farmer service delivery is optimized.
- Xxxx

[Example: Market price sensitivity]

Sensitivity analysis | The economic viability of the company is largely dependent on the ability to receive higher prices for its high-quality coffee

Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

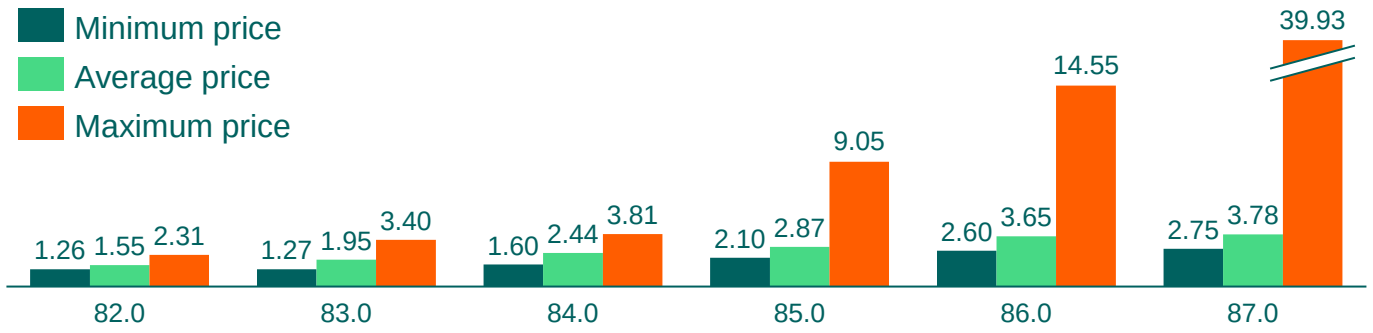
Return on Investment (%, EBIT, over total investment of five years)

For combinations of current prices (2019/20) and price increases (year-on-year)

Current price ($/lbs)		Price increase (%, year-on-year)				
Microlots	*Blenders*	0%	1%	2%	3%	4%
3.04	1.84	**-51%**	**-47%**	**-44%**	**-40%**	**-36%**
3.34	2.14	**-31%**	**-27%**	**-23%**	**-19%**	**-14%**
3.64	2.44	**-11%**	**-6%**	**-2%**	**3%**	**7%**
3.94	2.74	**9%**	**14%**	**19%**	**24%**	**29%**
4.24	3.04	**29%**	**34%**	**40%**	**45%**	**51%**

Global specialty coffee FOB prices ($/lbs)

For different levels of quality (cupping score)



- Under
  makin
  ROI o
- Assun
  need to increase prices with at least 3% y-o-y, to 4.10 and 2.75 $/lbs, to make a positive ROI
- These prices, required for a sustainable SDM, are already at the high end of the minimum and average price ranges shown to the right
- As such, while it is critical for company Y to achieve these high levels of quality through their processing activities, it is as important to tell their story and build good relationships with roasters to be able to push prices beyond the average and into the higher specialty prices ranges

**Discount rate is set to 0%, as with all cash-flows throughout this report; ** SCA trade data 2017/18, minimum and average prices of sample per cupping score*

[Example: Farmer income impact]

Sensitivity analysis | Farmer incomes can be increased with $15 by increasing the share of direct sa[illegible] to 20%, and with another $24 for every $0.05 premium per kg of made tea

Farmer tea income* (USD) for different share of volumes yielding premiums

Volumes attracting quality premium (%) →

Volumes attracting manufacturing premium(%) ↑ ↓

	0%	5%	10%	15%	20%
0%	5	7 (+2)	10 (+5)	12 (+7)	15 (+10)
5%	6 (+1)	9 (+4)	11 (+6)	13 (+8)	16 (+11)
10%	7 (+2)	10 (+5)	12 (+7)	15 (+10)	[illegible]
15%	9 (+3)	11 (+6)	13 (+8)	16 (+11)	[illegible]
20%	10 (+5)	12 (+7)	15 (+10)	17 (+12)	[illegible]
25%	11 (+6)	13 (+8)	16 (+11)	18 (+13)	[illegible]
30%	12 (+7)	15 (+10)	17 (+13)	19 (+14)	22 (+17)

Instruction

While the section is mandatory, the templates provided are to be used an example and adjusted to the specific business model context

Instruction

Different variables can be used to test the sensitivity of the business model on farmer income. Other examples are post-harvest loss, yield rates, FOB price rates

- Pre[illegible] incr[illegible] requiring additional investments
- The table on the left shows the effect on farmer income of increasing the share of volumes which attract both quality and manufacturing premiums.
- If factories achieve their quality targets on 20% of their volumes, this will increase [illegible].
- [illegible]espoke TMF grade [illegible]ny Y on 30% of [illegible] increase farmer
- [illegible] ent a higher potential for increasing farmer incomes; however, their utilization has been limited thus far due to failure to meet the specified standards of quality

** This analysis assumes that all premiums will trickle down to farmers one on one, since farmer incomes are a direct result of factory profitability, and premiums directly increase profitability without any additional costs. In practice, this might not be exactly one on one.*

[Example: Factory Performance]

Factory performance | Multiple pathways exist to improve factory profitability. Their combined effect only increases factory performance by 34%

Energy efficiency

+$26

Shifting to alternative energy sources and more efficient machinery can reduce processing costs

Farmer scale

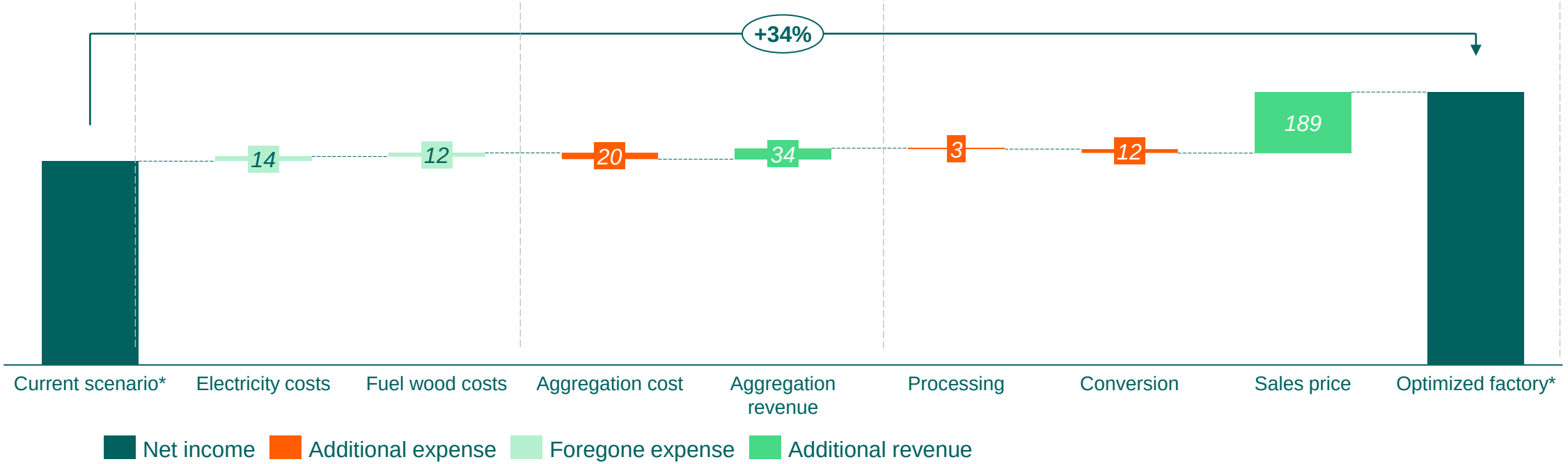
+$14

Shifting to direct aggregation leads to lower costs

Specialty produce

+$174

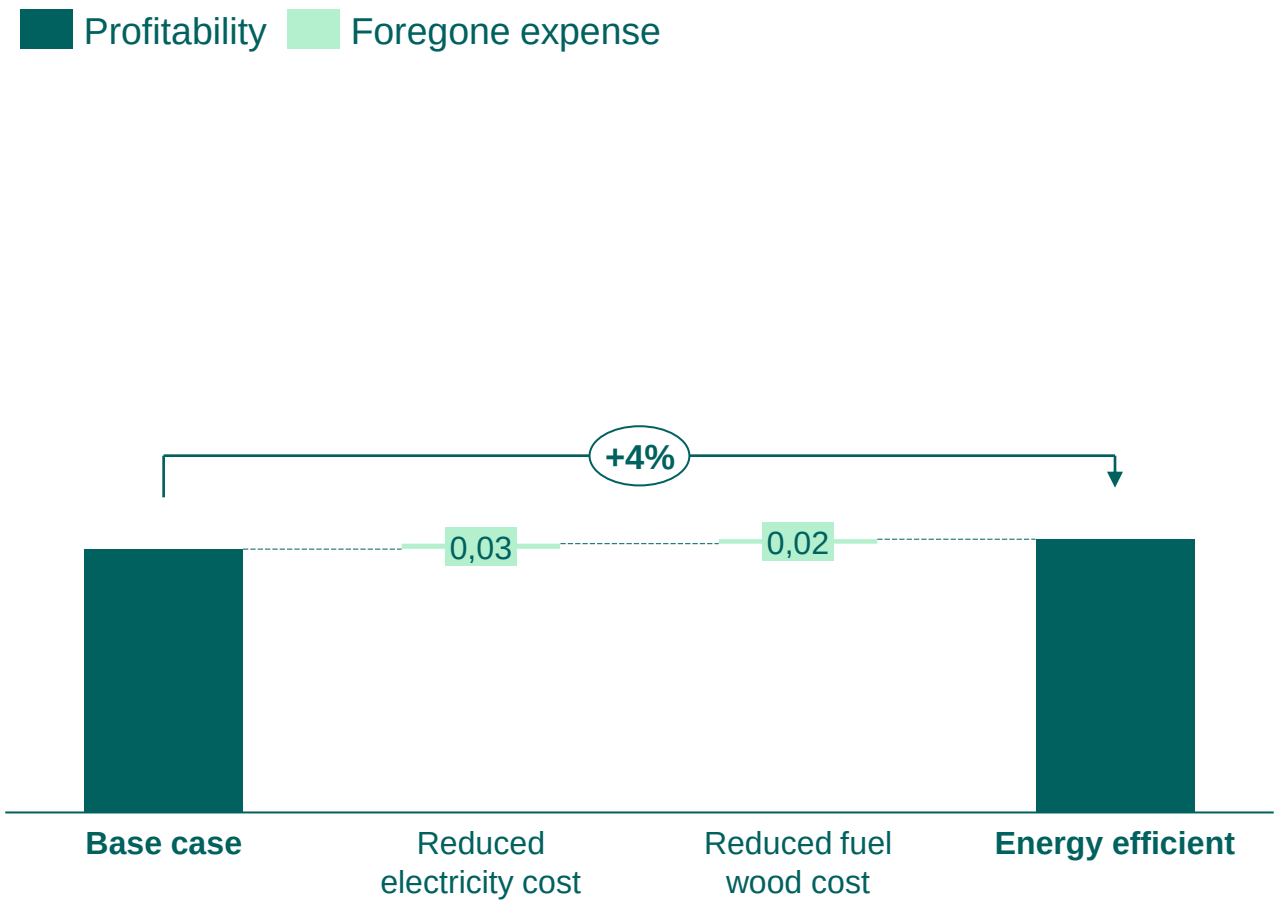
Shifting to more specialty produce (20%) comes with higher processing costs and lower conversion, but this is more than offset by higher sales prices



[Example: Sustainability strategy & target setting]

Reduced energy costs | Energy costs make up 55% of processing costs. Alternative energy sources and machinery can cut these costs in half, increasing profitability with 0.06 $/kg (4%)

Effect of reduced energy costs on profitability* (USD/kg final produce)



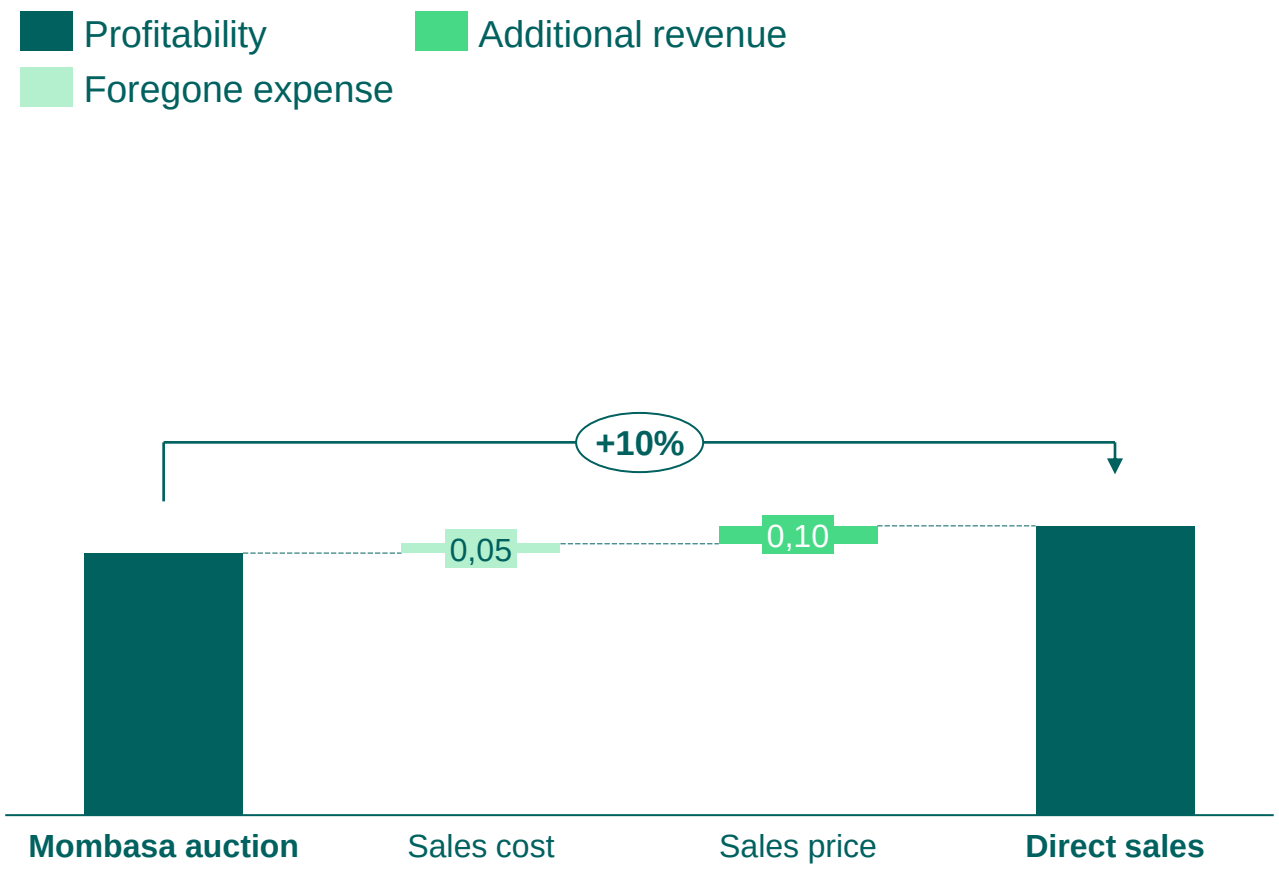
- Although the sensitivity analysis showed that a reduction in processing costs is not the most efficient lever to improve profitability, it is still worthwhile to explore alternative, cheaper energy sources and more energy efficient machinery, since electricity and fuel wood make up 55% of all processing costs
- One of the advantages of pursuing this, is that this will be applicable for all factories that Company X works with
- Factories are expected to be able to cut energy costs in half, thereby increasing the profitability of the final produce with 0.06 $/kg on average. The actual effect will differ significantly from factory to factory, since large differences exist between factories in terms of energy efficiency, mainly determined by the age of the current machinery

** Due to a lack of available data, this analysis does not take any investments into account that might be required to reduce the energy costs*

[Example: Strategic/Responsible sourcing]

Sales channel profitability | The effect of direct sales on profitability is limited with 0.15 $/kg (10%), but it is worthwhile pursuing since it requires low effort and enables additional premiums

Effect of sales channel on profitability (USD/kg final produce)



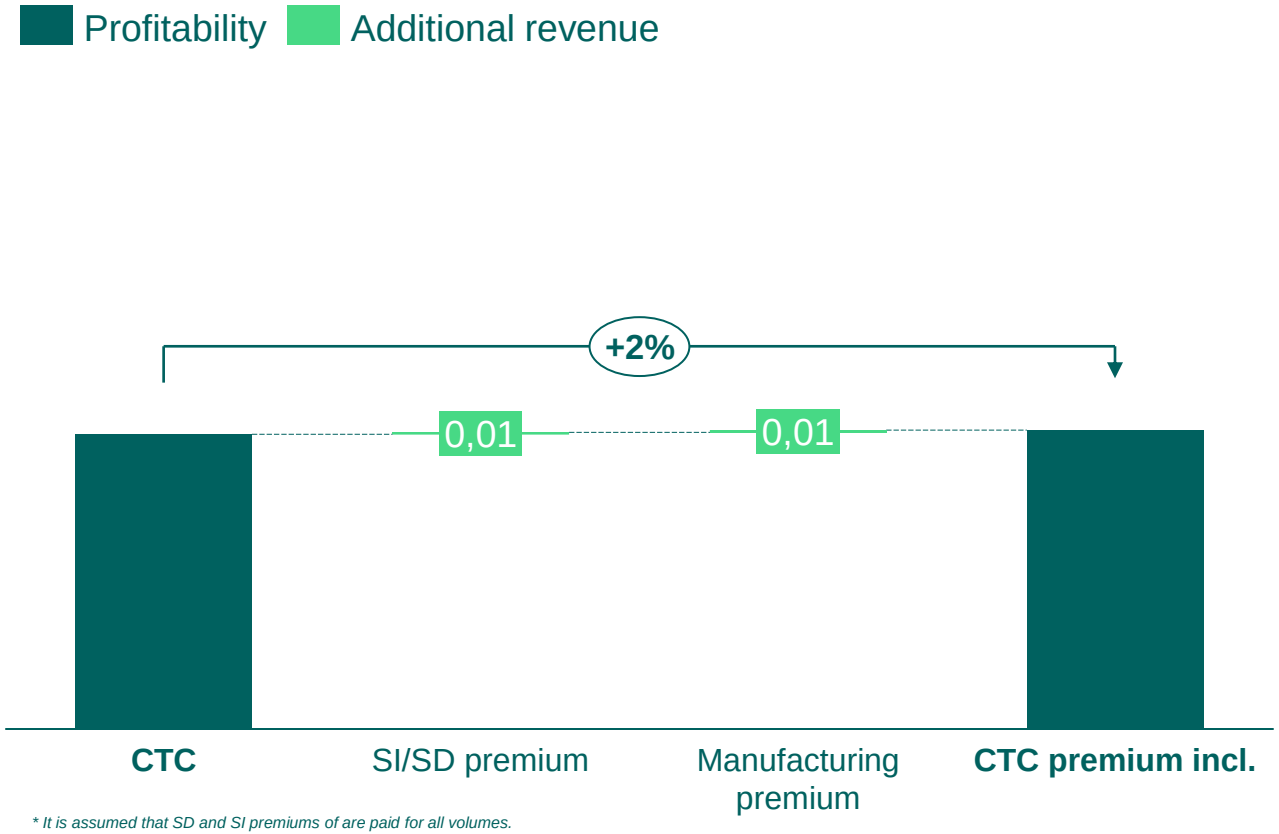
- Since the ban on direct sales have been lifted, factories are actively pursuing the direct sales channel as opposed to the Mombasa auction, since this channel has lower costs and higher prices
- Although the direct effects in terms of profitability are relatively low (0.15 $/kg), the direct sales channel also opens up possibilities to receive certain premiums, which further increases profitability
- Additionally, shifting sales channels is relatively easy to realize, and requires no additional investments or changes in processing
- Company X wants to sell a minimum of 80% of their final produce through the Mombasa auction to allow for accurate price-setting. Therefore, a maximum of 20% of volumes can be sold through direct sales

** Not all factories are FairTrade certified, and therefore not all factories are eligible for FairTrade premiums.*

[Example: Responsible sourcing]

Premiums | On average, the Company Y manufacturing and quality premium structure is expected to increase profitability with 0.02 $/kg (13%)

Effect of premiums* on profitability (USD/kg final produce)



- Occasionally, premiums are paid on top of the base sales price. These can be based on meeting certain criteria (bespoke grades) or certifications, or can be voluntary social premiums to improve farmer incomes (Living Income premium)
- Although the premiums received by factories is declining, buyers are willing to pay other quality or social premiums*
- In line with Rainforest Alliance's shared responsibility module, Company Y pays Sustainable Differential (SD) and Sustainability Investment (SI) premiums of 0.01 $/MT and 0.01 $/kg respectively.*
- Company Y also pays a standard manufacturing premium of 0.05 $/kg for all bespoke grades and an additional quality premium of 0.10 $/kg for meeting the pre-determined quality criteria.**

** It is assumed that SD and SI premiums of are paid for all volumes.*

*** Only 25% of volumes sold by Company X attracted manufacturing premiums. Quality premiums were paid on negligible volumes.*

**** This analysis assumes that all premiums will trickle down to farmers one on one, since farmer incomes are a direct result of factory profitability, and premiums directly increase profitability without any additional costs. In practice, this might not be exactly one on one. More assumptions can be found in the annex.*

Part B: Value chain analysis

Non-exhaustive

Case Report

This section includes the key analysis performed on procurement & supply chain as reported on in the Inclusive Business Case Report.

	Slide	Included	Purpose
MODULE specific slides	Supplier comparison and benchmarking	Optional	**To assess the impact created at which costs** from the different approaches of the suppliers
	Value, Cost and Risk comparison	Optional	**To assess the value, cost and risk distribution across suppliers/actors** in the value chain to understand which support can be provided to further optimize .

[Example: Responsible/strategic sourcing]

Supplier Overview | Each of the three suppliers operate at different levels of farmer engagement

	Company Y	Company Z	Company A
Farmer engagement model	Medium	High	Low
SDM employees (# FTE)	5.7	10.1	2.8
Average number of farmers	210	245	177
Farmers per FTE	3	24	63
Average expenses per farmer (USD)			914
Average net income/cost per farmer (USD)			92
Average net income/cost per MT sourced (USD)			17
Average net income/cost per MT sold to Company X (USD)	16	31	18
Average premium paid to farmer (USD)	81	86	45
Starting SDM farmer yield (MT/ha)	2.6	3.3	2.5
Average volume delivered per farmer (MT)	3.9	9.2	4.7
Volume delivered per farmer (MT) for sub-SDM breakeven	5.1	7.9	5.5
Average pepper farm size (ha)	1.6	2.5	1.9
Pre-shipment sampling failure rate (%)	6%	16%	11%

Instruction
List the key values on which you want to compare the suppliers on in terms of sustainable procurement and assess their meaning from the perspective of the main company

- Company Z operates with the highest level of farmer engagement since they have the most staff dedicated to the business models and the highest investment per farmer, thus facilitating the highest level of interaction and support to farmers
- There is a clear relationship between farmer engagement and farm productivity – Company Z's farmers have the highest yields whereas Company A, who has the lightest-touch farmer engagement model, has the lowest yielding farmers
- However, the relationship between farmer engagement and non-compliance is more complicated, with Company Z's farmers having the highest pre-shipment sampling failures.
- In this analysis, the improvement of on-farm outcomes outweighs the cost of increased farmer engagement, resulting in Company Z having the most profitable business model. Approaches to optimizing farmer engagement can include hiring local extension staff, sufficient staff training to improve effectiveness of extension services and better integrating Farmforce as a tool for interacting with farmers

[Example: strategic relationship management]

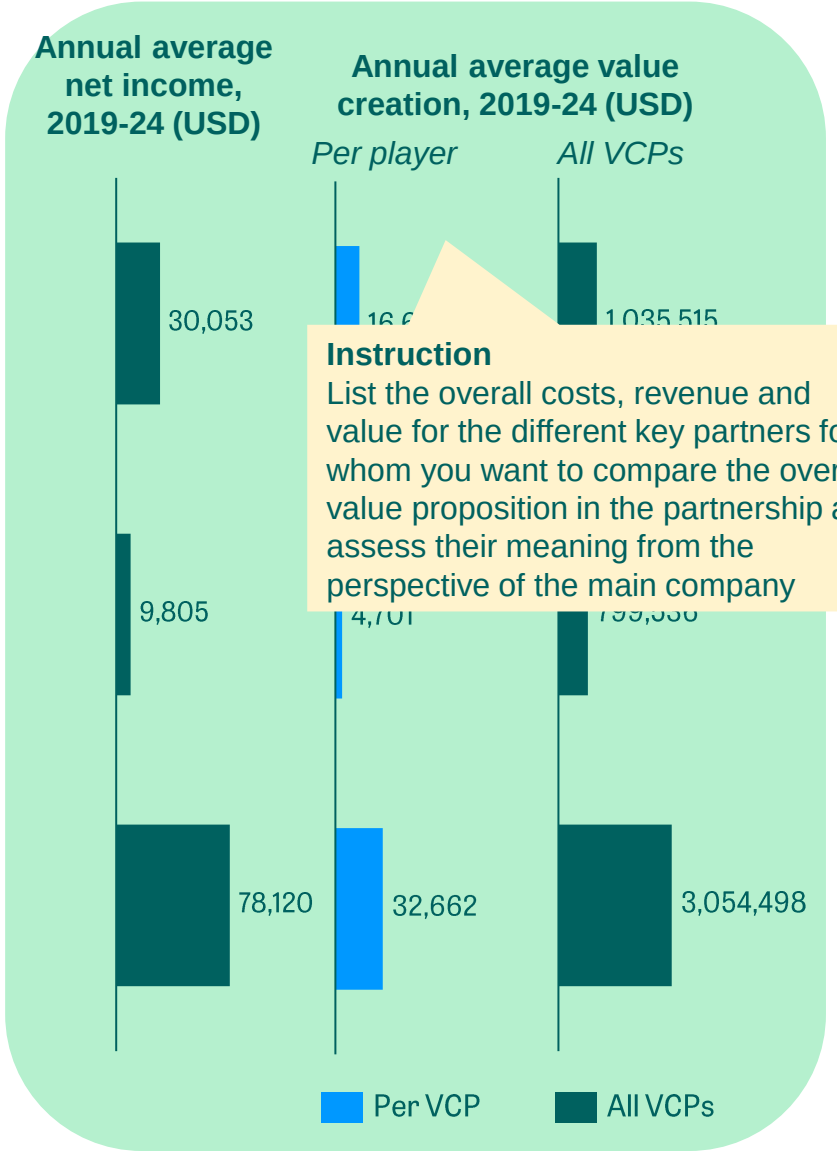
Value proposition | Company Y offers a compelling value proposition to its value chain partners

Value chain actor

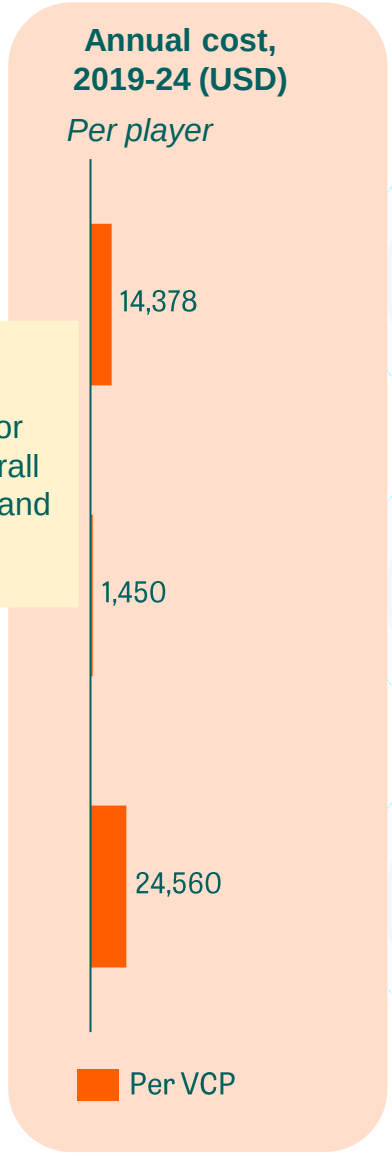
INPUT PROVIDER

AGGREGATOR

BUYER



Instruction
List the overall costs, revenue and value for the different key partners for whom you want to compare the overall value proposition in the partnership and assess their meaning from the perspective of the main company



Drivers of value creation

- More clients
- Returning customers
- Larger ticket per sale
- Lower wastage
- Higher number of trades
- Steady business
- Steady business
- Higher volumes
- Quality premiums

07

Indicators

Indicators | Business Performance Indicators

This section mentions indicators that can be used to measure the performance at business level

Business Objective	Indicator	Definition	Source	Ideal Frequency
Boost Efficiency	**(Net) service delivery cost per farmer**	Service delivery expenses (training, inputs, finance, equipment & labour) per farmer per year. Can be expressed gross or net (taking into account payments)	IBAs	Baseline, Endline
	(Net) service delivery cost as a % of sourcing	Service delivery expenses (training, inputs, finance, equipment & labour) per farmer per year expressed as a percentage of sourcing value	IBAs	Baseline, Endline
	Sourcing Efficiency	Service delivery costs per each MT of produce sourced. Note, only comparable with similar crops	IBAs	Baseline, Endline
Increase revenues	**All-in return on service delivery investment**	Net income from service payments and procurement profits as a percentage of service delivery expenses	IBAs	Baseline, Endline
	% sourced volumes lost due to quality	Proportion of volumes sourced from smallholder farmers not meeting quality requirements	KPIs	Annual
	Increased in quality	Degree of increase in quality for volumes sourced from smallholders	IBAs	Annual
Manage risks	**Post-harvest losses at farm-gate**	Average proportion of farmers' crop lost after harvest	IBAs, Surveys	Annual
	Loyalty rate	The average percentage of farmers' production that is sold to the off-taker	IBAs, KPIs	Baseline, Endline
	Contracted loyalty rate	The average percentage of contractual amounts that are sold to the off-taker	IBAs, KPIs	Annual
	% of sourcing volumes that are traceable	The percentage of sourced volumes that can be traced back to individual farms	KPIs	Annual

Note: To ensure standardization of the KPIs used we have specific calculations for each indicator. These can be provided by Farmfit Intelligence upon request.

Indicators | Impact Performance Indicators

This section mentions indicators that can be used to measure impact performance

Business Objective	Indicator	Definition	Source	Ideal Frequency
Better Income	**Household Living income gap**	Gap between net household incomes of farmers compared to the country's living income benchmark	IBA, KPIs, Surveys	Annual
	Farmer net household income versus baseline	Change in average farm profitability (net income of all crops and off farm activities) of smallholder engaged versus counterfactual	IBA, KPIs, Surveys	Baseline, Endline
	Farmer net household income increase	Change in average farm profitability (net income of all crops and off farm activities) over course of intervention	IBA, KPIs, Surveys	Annual
	Yield average annual rate of change	Compound annual growth rate in the average yield of smallholders engaged over course of intervention	IBA, KPIs, Surveys	Baseline, Endline
	Value distribution to farm level	Percentage of the FOB price represented by farm-gate price. Note, may need adjustments based on value addition processes	IBAs	Baseline, Endline
Better Environment	**% of farmers losing more than half their crop in any year over past 5 years**	Proportion of farmers that report losing more than half their crop in any year over the last 5 years	Farmer Survey	Baseline, Endline
	Average annual crop loss due to climate change impacts	The average annual percentage of crop lost due to climate change impacts for smallholder farmers	Farmer Survey, Geodata	Annual
Better Jobs	**Percentage of workers earning a living wage**	The proportion of workers employed at a company that are earning a living wage	Salary Matrix	Annual
Gender	**Gender income gap at farm level**	Ratio of the net farming income of men to women of smallholders engaged	Farmer Survey	Baseline, Endline

Indicators | Business Model Design Indicators

This section mentions indicators that can be used to categorize how a business engages with smallholders

Indicator	Definition	Source	Ideal Frequency
Pricing Model	Pricing model used to determine the price of produce at farmgate. ***Options:*** Market price – Fixed price by off-taker – Fixed price set by government – Fixed minimum price set by off-taker	IBA	Baseline, Endline
Premium Model	The model used to attach premiums to farmgate prices. ***Options:*** None, Based on quality, Based on certification, Both	IBA	Baseline, Endline
Sourcing Contract	Official off-take agreement of the SDM operator with the farmer	IBA	Baseline, Endline
Contract Length	Average contract length if an off-take contract is in place. **Options:** None, Season, Multi-Season < 2 years, Multi-Season > 2 years,	IBA	Baseline, Endline
Farmer Segmentation	Specifies whether farmers are segmented for the purposes of service delivery and procurement	IBA	Baseline, Endline
Farmer Organization Segmentation	Specifies whether farmer organizations are segmented for the purposes of service delivery and procurement	IBA	Baseline, Endline
Last Mile Delivery Mechanism	Specifies which actors are involved in the last mile delivery of services. ***Options (choose multiple):*** Agents – Formal Farmer Groups – Informal Farmer Groups – Lead Farmers – Company Staff – Partners	IBA	Baseline, Endline
Service Offering	Specifies which services are offered. ***Options (choose multiple):*** Training, Inputs, Finance, Equipment & Labour, Post-Harvest Services	IBA	Baseline, Endline
Size of Business in Value Chain	Denotes size of the business based on employees and turnover. ***Options:*** Small-scale enterprise – Medium-scale Enterprise – Large-scale Enterprise – Mega-scale Enterprise	IBA	Baseline, Endline
Total Value Addition through Life Cycle	Encompasses the degree to which produce is transformed throughout the supply chain. ***Options:*** Basic Processing – Immediate Enhancement – High Differentiation	IBA	Baseline, Endline
Payment Mode	Specifies how farmers typically are paid after purchase. ***Options:*** Prefinanced, Cash on delivery/pickup, Within 30 day, Beyond 30 days)	IBA	Baseline, Endline
Degree of Supplier Diversification	Level of diversification of an off-takers suppliers. ***Options:*** Low – Medium - High	IBA	Baseline, Endline

Indicators | Contextual Indicators

This section mentions indicators that provide useful contextual information for aggregate analyses

Indicator	Definition	Source	Ideal Frequency
Primary Markets	Primary markets where the crop is destined - i.e. where the final processed good is sold. Can also determine proportions to different markets. ***Options:*** National – Regional – Intercontinental	IBA, KPIs	Annual
Value Chain Organization	Level of organization and intermediation of the value chain. Value chain organization can also be seen as a sign of formality. ***Options***: Tight – Loose	IBA	Baseline, Endline
Perishability	The level of perishability of the crop (a perishable good is one that decays quickly unless some intervention is made to prolong the length of the good e.g. use of a cold room). ***Options***: Yes - No	IBA, KPIs,	Annual
Target Group	Describes how the main target group of farmers are engaged for service delivery and procurement. ***Options***: Formal farmer groups – Informal farmer groups – Not organized	IBA	Baseline, Endline
Average Farm Size	The average land size of farmers. Can further disaggregate to be specific on which crop	IBA, Farmer Survey	Baseline, Endline
% of Land Ownership	Proportion of farmers that report owning their plot of land	Farmer Survey	Baseline, Endline
National Production Volatility	Volatility in national annual crop production over the past five years	FAOSTAT	Annual
% of Area Cultivated under Irrigation	Percentage of agricultural land in a country that is irrigated	FAOSTAT	Annual

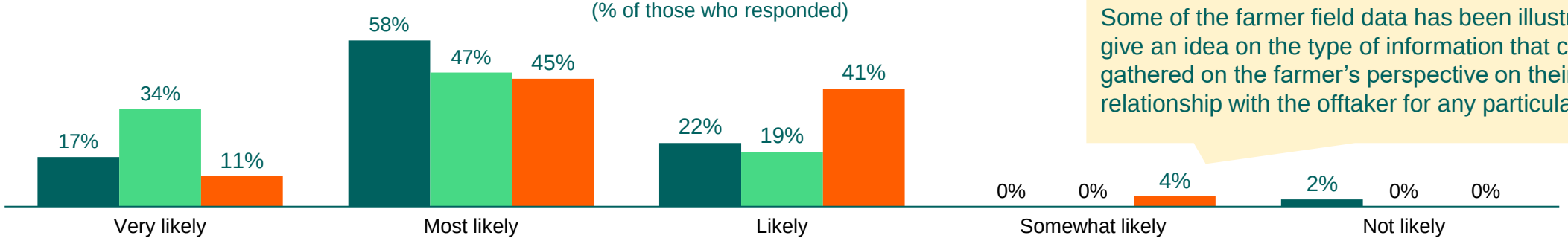
08

Farmer survey

Farmer survey

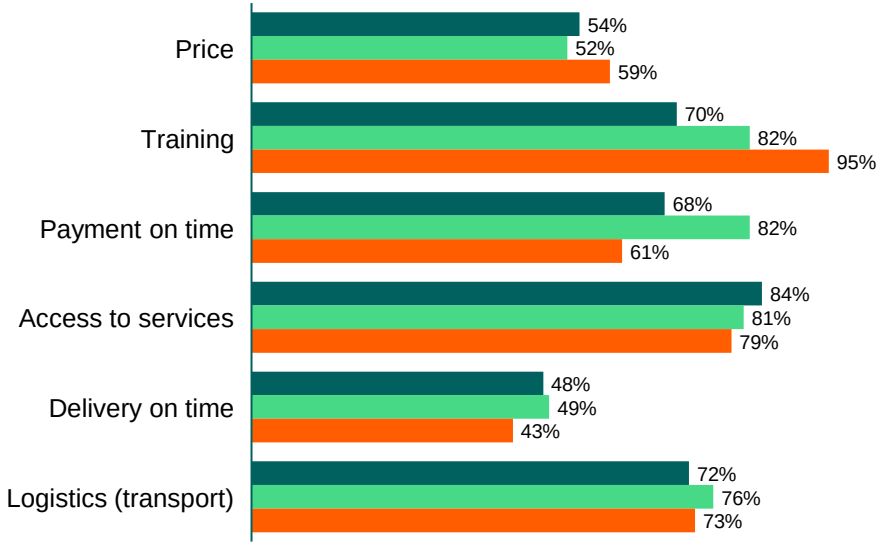
This section mentions both questions that could be collected during primary data collection if the procurement & supply chain module with a focus on the value chain comparison is applied as part of the Inclusive Business analysis.

How likely are you to recommend the supplier to others?
(% of those who responded)



Instruction
Some of the farmer field data has been illustrated here to give an idea on the type of information that can be gathered on the farmer's perspective on their procurement relationship with the offtaker for any particular crop.

Reasons for recommending supplier to other farmers
(% of those who would recommended)



Implications for Company X & suppliers

- Farmers generally have favorable views on suppliers, though the most positive views are for Company Y whereas farmers were least positive towards Company Z. This may reflect the high level of interaction that Company Z's farmers have with extension staff versus the substantially lower level of interaction between Company Z's farmers and extension workers. Alternatively, it could represent the higher yields that Company Y's farmers have been able to obtain.
- Timely payments, access to services and logistics were cited as common factors for recommending each supplier
- However, farmers were less enthusiastic about timely deliver/pick-up and price. The latter is probably symptomatic of declining market prices which farmers may inaccurately attribute to suppliers

80

09

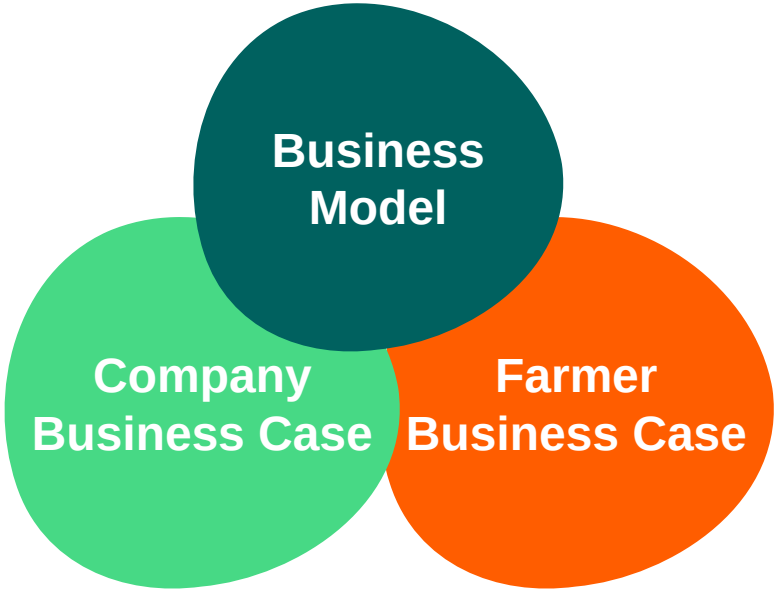
Annex

IDH Inclusive Business Analysis

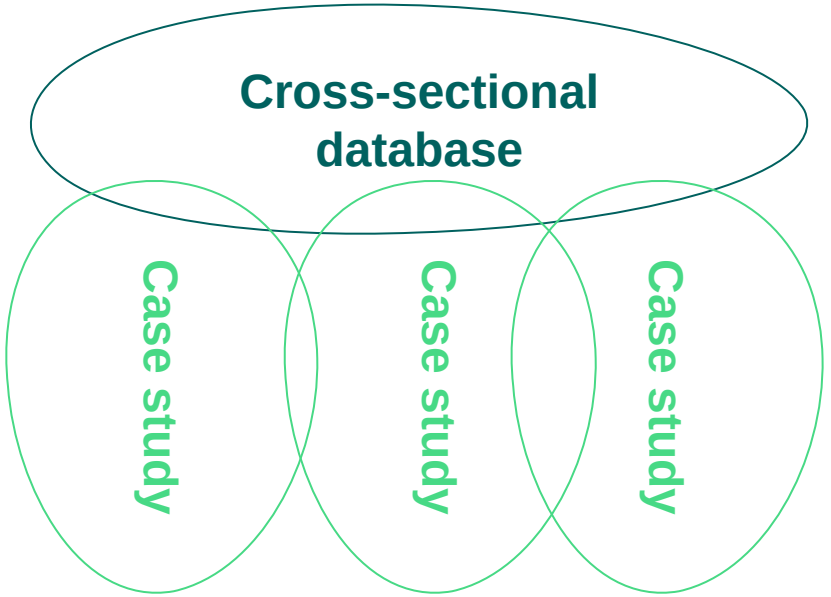
offers practical, data-informed insights to **innovate, build and scale** business models towards resilient viable, inclusive value chains.

Scope and study approach

- The Inclusive Business analysis is a business model analysis focusing on the interaction between company and smallholder farmer business case
- Builds on both industry-standard, and tailor-made frameworks and tools: e.g., Business Model Canvas (Osterwalder), P&L, Digital Maturity assessment (KPMG)



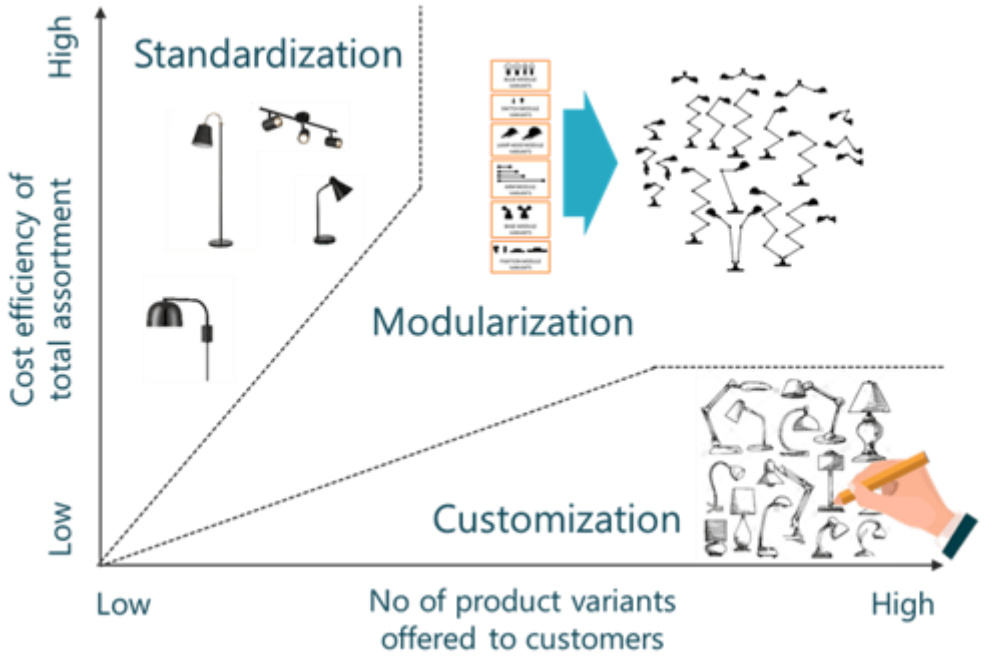
- Aggregates wide range of contextual, operational, financial, and agroeconomic data, both qualitative and quantitative
- **Goes broad and deep**: combines cross-sectional data collection with a case study approach*



**A cross-sectional study is a type of research design in which you collect data from many different individuals at a single point in time*
A case study is used to generate an in-depth, multi-faceted understanding of a complex issue in its real-life context

Modularity

Modularity is a design principle that subdivides a product into smaller parts called modules, which can be independently created, modified, replaced, or exchanged with other modules or between different systems.



Due to its modularity the Inclusive Business analysis can:

- Assess a wide range of different companies, value chains and sustainability issues
- Provide insights to different audiences: program and investment managers
- Generate in-depth case study and aggregate benchmarking insights

Modules

We currently have 13 content modules within three categories (greyed out are still to be finalized)