ValueLinks Module 5

Business linkages

ValueLinks 2.0

1. Setting boundaries
   - Scope of value chain development

2. Chain analysis and strategy
   - Value chain analysis
   - Value chain strategies

3. Programs and projects

4. Solutions for improving the value chain

5. VC upgrading solutions
   - Business models
   - Business linkages
   - Services
   - VC Financing

6. Quality and standards
   - Policy instruments
Forging vertical and horizontal business linkages

Contents

1 Fostering horizontal linkages - associations & alliances
2 Brokering vertical linkages at the micro level - contracts
3 Business matchmaking at the meso level

Horizontal business linkages

The coordination between different chain operators is at the core of the value chain concept

Vertical business linkages - between operators of various stages of the value chain
  - especially those between suppliers and buyers

Horizontal collaboration between operators working at the same stage
  - particularly important from a pro-poor perspective as linked with market access for MSME, women
Horizontal business linkages

Cooperating to achieve commercial advantages

Farmers and microenterprises no longer operate independently
→ The producer cooperative becomes the enterprise through which business transactions are made.

Advantages of horizontal linkages

Speeding up business development
- Multiplies contacts
- Facilitates exchange and learning
- Reduces uncertainty, reassures decision-making

Overcoming the scale problem
- Cheaper procurement of inputs
- Easier access to information and services
- Market access (associating may even be a precondition)
- Facilitates investment in larger scale operations
Horizontal networks of enterprises

Cooperating to exercise political influence

Big associations and business organizations start playing a political role defending the interests of the industry.

Types of cooperative solutions in value chains

<table>
<thead>
<tr>
<th>Cooperative solution</th>
<th>Legal status</th>
<th>Organization</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal groups</td>
<td>Informal</td>
<td>Self-organized</td>
<td>No partnerships</td>
</tr>
<tr>
<td>Producer groups guided by NGOs</td>
<td>Informal</td>
<td>Organized by a partner</td>
<td>Integrated into a social enterprise</td>
</tr>
<tr>
<td>Producer groups contracted by private companies</td>
<td>Informal groups or formal cooperatives</td>
<td>Self-organized, some-times with support from off-taker</td>
<td>Partner in commercial contractual arrangement</td>
</tr>
<tr>
<td>Formal cooperatives with collective enterprises</td>
<td>Formal</td>
<td>Self-organized</td>
<td>Flexible</td>
</tr>
</tbody>
</table>
Preconditions for promoting associations

Principle: A net benefit from cooperating!!
- Members need to have common interests, similar resources and needs
- There has to be a clear requirement from the buyer side
- Economies of scale by cooperating
- Actual and visible success in relatively short time

Checklist to assess the viability of existing associations in an entry situation of promotion
- Date of foundation of association, availability of statutes
- Number of members and its evolution, last General Assembly
- Objective of the association and benefits for members
- The most important project or service to promote members

Supporting commercial associations

Business operations
- Market information and support to contracting
- Internal operations to achieve economies of scale in purchase of inputs and/or in relations with buyers
- Organizing access to services

Managerial capacity
- Professional training on technical and management issues

Organisational and social development
- Legal advice for institutionalization
- Internal and external communication
- Coordination and networking
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Contractual arrangements

Different forms of contractual arrangements

- Contract production/contract farming
- Outgrower schemes
- Regular order placement to suppliers/
  Preferred supplier arrangements
- Forward contracting
- Arms-length transactions

Degree of coordination increases
Strategic option: “Making markets work”

Connecting and coordinating the operators ...

Volume ↑

Markets →
- Traders
- Retailers
- Logistic Centres, Industry
- Primary producers
- Providers of specific inputs

Income ↑

New markets

Coordinated investment, contract arrangements accompanying public support

Vertical business linkages

Volume ↑

Overseas Buyers →
- Exporter
- Industrial Company
- Primary Producer
- Specific Input provider

Access to new markets

Traceability, quality management

Contract farming

Improved access to input supply
Advantages of vertical linkages

Reducing transaction cost
- Building trust, so as to reduce cost of control
- Reducing uncertainty and information costs
- Facilitating planning

“Systemic competitiveness”
- Value chain benefits: Product quality, compliance with market requirements
- Formation of economic clusters
- More efficient production and marketing

Contract farming – vertically integrated VC – Poultry India

Wholesale/retail
Processing
Broiler production
Input supply

Local consumers

Distribution
Slaughterhouses/Meat processors
Hatcheries
Feed mills
Parent farms

Broiler
Day-old chicken

Contract farmers
Cooperation between big and small enterprises

**Big firms cooperate because...**
- it enhances their flexibility and reduces the time for responding to orders
- it reduces their costs (lower inventories, better possibilities for adjusting to different scales of production)

**Small firms cooperate because...**
- it’s often their main buyer
- it provides access to bigger markets and thus facilitates growth (e.g. for exporting)
- it allows them to specialize in particular activities
- it facilitates learning and growth

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Facilitating linkages for business groups

**Major instruments of business matchmaking**

- Facilitating participation in trade fairs
- Organising exhibitions
- Organizing business delegations to importing countries
- Organizing buyer/seller meetings
- Operating electronic B2B platforms

Institutionalising linkages

**Capacity development instead of doing!**

Facilitators should focus on developing matchmaking services through improving the capacity of the ones normally offering these services, namely market institutions like business associations or public support service providers.
Facilitating participation in trade fairs

- Joint national booths comprising several exhibitors, organised by one organisation
- Cost share with exhibitors 2/3 – 1/3
- Embedded in pre-fair and post-fair promotion activities

Organising trade fairs and exhibitions

- Organisation of international trade fairs
- Organisation of local exhibitions

Capacity building of associations

B-2-B delegations

- Visits of key importers
- Invitation of buyers to visit supply countries
- Before/after trade fair participations

National Portals

- Information about producers and traders
- Links to member websites
- Provision of information
The VC actors are connected by business linkages. *Vertical* linkages are the commercial relations between operators at different stages of the VC; *horizontal* linkages connect operators in the same VC stage.

Improving vertical linkages: The right type of contracting depends on the need to coordinate the value chain. Often, small enterprises can only be integrated in the VC, if they become partners in an “inclusive business model”, such as contract farming, in which buyers have reliable access to raw material and farmers get market access.

Improving horizontal business linkages: Horizontal cooperation is necessary to overcome the scale problem of microenterprises. The cooperation of primary producers enables them more efficient input supply and/or improved market access. Cooperation models range from informal groups to formal cooperatives. Capacity building includes strengthening their organizational structure and management.

Another VC solution is the development of matchmaking services to be provided by industry organizations. They include organization of trade fairs and trade fair participation, B2B delegations, and online information portals.