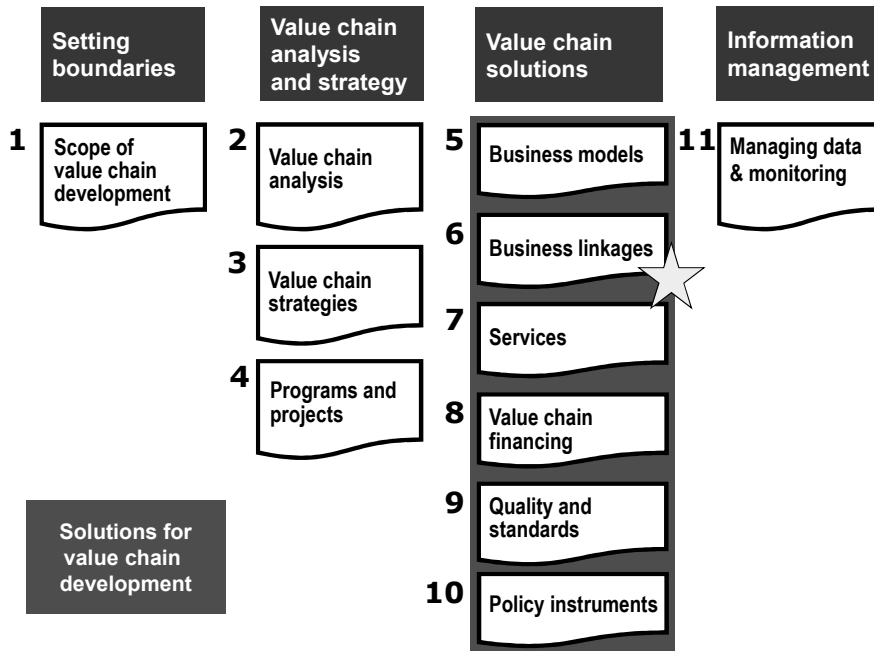




ValueLinks Module 6 Business linkages

Structure of ValueLinks 2.0





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

Horizontal collaboration between operators working at the same stage

- particularly important from a pro-poor perspective as linked with market access for MSME, women

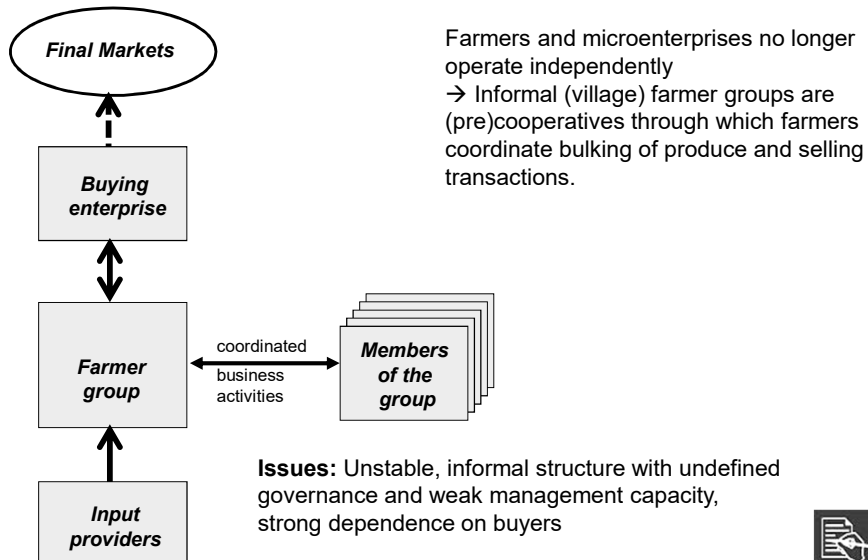
- 1 Vertical business linkages - between operators of various stages of the value chain

- especially those between suppliers and buyers



Informal cooperation

Cooperating to gain commercial advantages and engage in contract farming



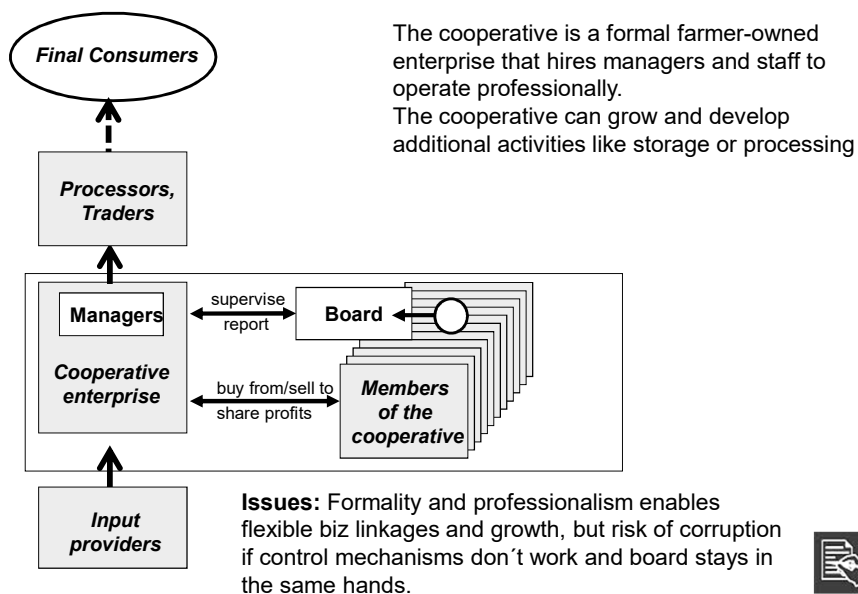
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Formal cooperation

Cooperating to build a farmer-owned business



1

6



Advantages of horizontal cooperation

1

Economies of scale and lower costs

- Economies of scale in production, processing, marketing
- Sharing resources and equipment
- Better prices for supplies and improved sales prices
- Easier access to supplies, information and services

Improved business models

- Access to buyers and ability to comply with buyer requirements
- Possibility to specialize in particular business activities
- Balancing different capacities and competences within the cooperative

Countervailing market power

- Better bargaining power negotiating terms with buyers and suppliers

Social benefits

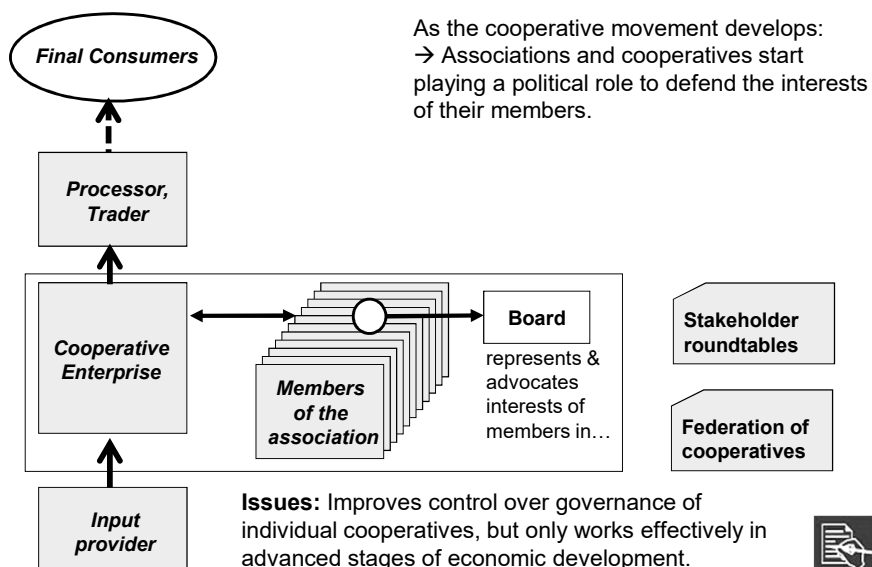
- Social exchange and learning
- Reducing uncertainty and reassuring decision-making

7



Political influence

Cooperating to have political influence



1

8



Preconditions for promoting associations

1

- Principle: A net benefit from cooperating!!
- Economies of scale by cooperating should be feasible
- Tangible benefits and visible success in relatively short time
- A clear requirement from the buyer side is helpful
- Coherence with existing social structures and traditions is important
- Members should have common interests, similar resources and needs

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Supporting cooperatives

1

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

Cooperatives should not be promoted in an isolated way. They should be embedded in decentralized cooperative multi-layer control, regulation and support structures

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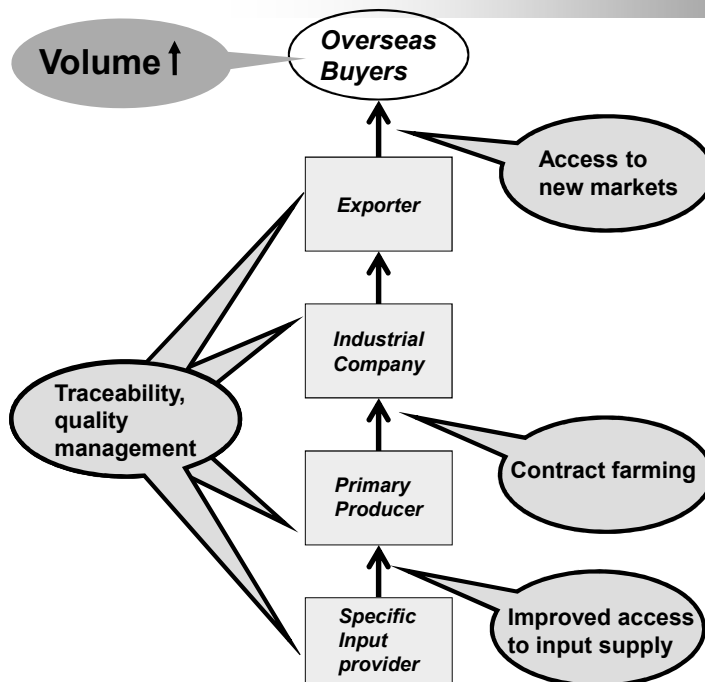


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Vertical business linkages



Contractual arrangements

Different forms of contractual arrangements



2



Degree of coordination increases



Contract production/contract farming

Outgrower schemes

*Regular order placement to suppliers/
Preferred supplier arrangements*

Forward contracting

Arms-length transactions

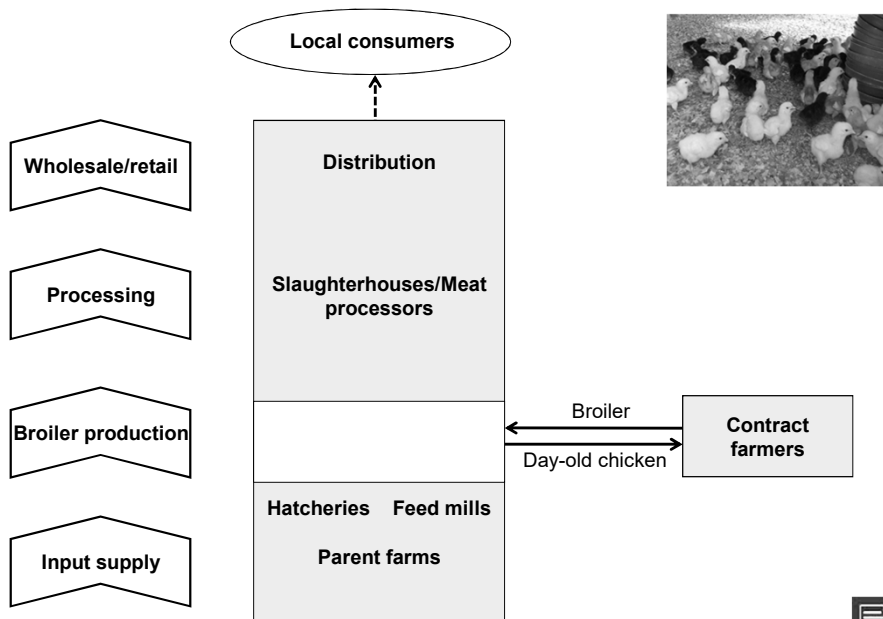
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Contract farming, vertically integrated VC



2



14



Cooperation between big and small enterprises

Big firms cooperate because...

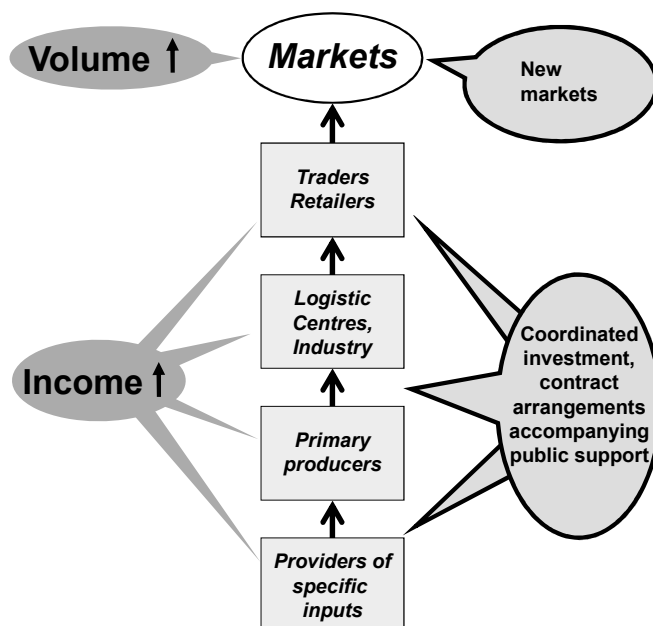
- it enhances their flexibility and reduces the time for responding to orders
- it reduces their costs (lower inventories, better possibilities for adjusting to different scales of production)

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



Strategic option: "Making markets work"





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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



3

Capacity development instead of doing!

Facilitators should focus on promoting matchmaking services provided by meso level actors like business associations or public support service providers



Facilitating participation in trade fairs



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



3

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Capacity building of associations



B-2-B delegations

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



Web portals

- Information about producers and traders
- Links to member websites
- Provision of information



3

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