



INCORPORATING SMALL PRODUCERS INTO FORMAL RETAIL SUPPLY CHAINS

EXECUTIVE SUMMARY

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A more complete understanding of the global economy's complex interconnectedness with social and environmental systems has emerged among both corporate leaders and policy makers. The challenges of the near future will demand an integrated response, in which business systems must be engaged to form more sustainable and equitable arrangements for exchange and provision. Major global corporations must take a leadership role by innovating solutions and then sharing the lessons learned.

This paper examines Walmart's efforts to engage small producers in large-scale retail in two arenas: the first, a series of efforts over the past ten years to engage small producers in Walmart's agricultural supply chain; the second endeavored to sell the handicrafts made by women-owned businesses in developing countries through Walmart's online consumer marketing.

Though these efforts met with some success, there were also obstacles found. The problems were often systemic in nature and thus the necessary solutions would demand an ecosystem response involving multiple sectors and, probably, several types of commercial support. Thus, another intention of this report is to draw attention to the need to engage multiple partnerships in a coordinated fashion—and to encourage other private sector entities to join in this important work.

The two initiatives we report here were intended to achieve the overriding socioeconomic objective by engaging with the existing Walmart business infrastructure. However, experience demonstrated that some suppliers have not yet achieved a level of reliable production that makes it possible to engage fruitfully in transactions with a global retailer, while others would be able to do so, if only certain systemic hurdles could be overcome. This report will describe the ecosystem needed, but will also provide guidelines and a checklist that will allow retailers to assess whether a given supplier meets the conditions necessary to do business under existing circumstances.

Performance Dimensions and Influencing Factors

To understand what influenced the success of the artisan and smallholder farmer sourcing programs, we interviewed key Walmart staff, intermediaries, technical assistance partners, and small producers. To facilitate these interviews, we initially conducted background research on this topic and collected detailed information on the specific programs and the small producers engaged in them.

In our analysis, we focused on identifying and organizing a holistic set of influencing factors that affected the potential for successfully integrating small producers into global supply chains. In total, we found 18 influence factors that were components of four performance dimensions. The four performance dimensions are discussed below and the 18 influencing factors are presented in Figure 1.

- Product:** Attributes or characteristics of products that make them more or less suitable for sourcing from small producers
- Market:** Attributes of characteristics of the market demand for the product that influence the potential for success in sourcing from small producers
- Supplier:** Attributes or characteristics of small producers that make them more or less suitable as suppliers to formal retail
- Ecosystem:** Aspects of the supporting ecosystem that influence the potential for success in sourcing from small producers



Figure 1: Performance Factors

Assessing Performance

Formal retailers should consider each of these influencing factors when developing their own program to source from small producers. To facilitate this evaluation process, we have created the Sourcing Readiness Checklist. Using this checklist, organizations can consistently assess how each potential sourcing strategy scores across the 18 influencing factors that are associated with the four performance factors.

While the Sourcing Readiness Checklist reviews each of the 18 individual influencing factors, Figure 1 highlights how these factors are components of four performance dimensions. To assess the viability of an opportunity from a particular small producer sourcing strategy, retailers should evaluate the results across the four dimensions in aggregate. To do so, we recommend using the Sourcing Scenario Map, as shown in Figure 2.

A graphic tool, such as the Sourcing Scenario Map, is particularly useful when the objective is to assess a portfolio of attributes or dimensions. In this case, we have identified four dimensions, each of which has four to six influencing factors. The 'Optimal Sourcing Scenario', as presented in Figure 2, is when the answer to all 18 influencing factors is 'yes'. If small producers meet this level, they no longer require the support of programs that specifically target and support the development of small producers.

The Sourcing Readiness Checklist also allows for the definition of a 'Minimum Sourcing Scenario,' based on the assumption that any dimension scoring below 50% will result in a problematic situation for executing a formal retail strategy with small producers at that moment in time. The area between the minimum frontier and the optimal frontier could be considered the 'Supplier Development Space' where the sourcing scenario is viable, but investment is likely required to create a more sustainable, scalable outcome.

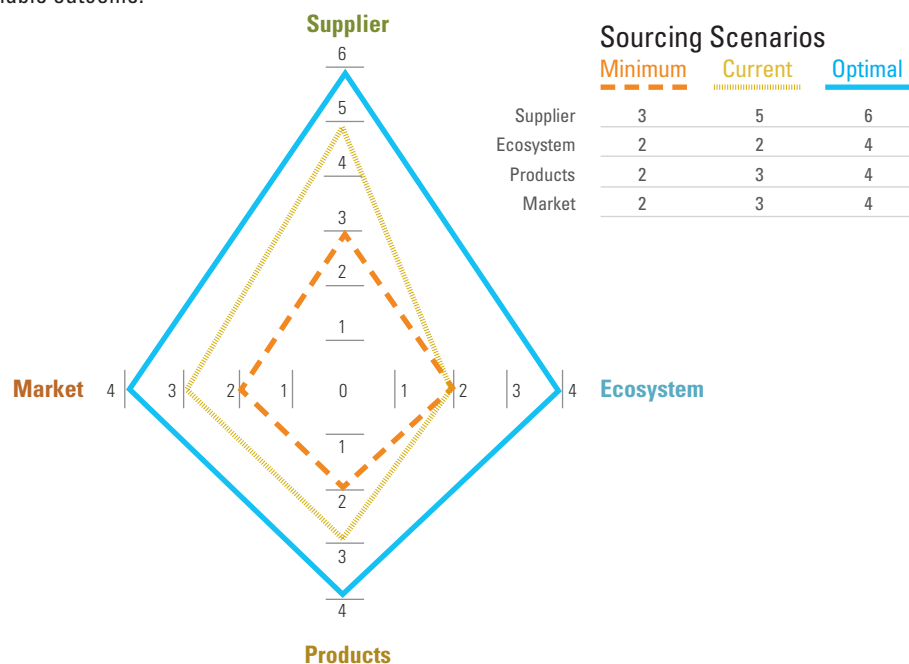


Figure 2: Sourcing Scenario Map

Taking Action

Very rarely, if ever, will the answer to all 18 factors be yes. The challenge then becomes understanding the viability of the current sourcing opportunity as compared to the Optimal and Minimal Sourcing Scenarios. Again, formal retail can use the Sourcing Readiness Checklist to conduct this analysis, with an example provided in Figure 2.

Retailers can then compare the Current Sourcing Scenario with the minimum and optional scenarios. A comparison to the Minimum Sourcing Strategy offers key insights into whether this proposed strategy is actually viable.

If the answer is yes, the retailer then must decide if it could and should make some investments to move the Current Sourcing Scenario closer to the Optimal Sourcing Scenario. Doing so will enhance the likelihood of success, but of course there is a cost to any investment decision. The source of these investments could be the retailer or a partner organization. These investments can focus on one or more of the following: market information, cash flow and capital, supply management, labor management, storage, logistics, branding, packaging and marketing, export expertise, IT instruction and support, and mentoring and networking.

While we provide a set of recommendations for action, retailers must assess how these investments, or other courses of action, will change the Current Sourcing Scenario and tailor their implementation to the specific context. Indeed, retailers should consider both the implications of their investments and their implementation plans.

Regardless of the retailer, or the sourcing scenario, managers must recognize that integrating small producers is challenging, and generally requires patience and a commitment to remain engaged over the long-term.

While challenging, formal retail can generate substantial benefits from incorporating small producers into their sourcing strategy. This allows these retailers to address changing consumer demands, manage reputational risk, and meet the needs of a rapidly growing global population. Improving productivity and market access opportunities for small producers, particularly smallholder farmers and women-owned artisan enterprises, also offers a powerful pathway to increasing incomes, empowering women, and improving the wellbeing of some of the poorest people on the planet.

