



**INCORPORATING SMALL PRODUCERS
INTO FORMAL RETAIL SUPPLY CHAINS**
SOURCING READINESS CHECKLIST
2016

LSteinfeld/Bentley University



WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN



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PRODUCT

Perishability/Seasonality Characteristics

Does the product have an extended useful life that is not substantially constrained by perishability or seasonality?

Artisan

Is the product designed to be independent of short-term fashions or trends? Can the product remain at a constant price over the long term without being discounted?

Smallholder

Does the product have a long shelf life?
Can it be stored easily without degradation?

YES: Non-perishable items may have greater tolerance for delays in the supply chain. It may also be possible to source these items from producers that are further removed from the point of sale.

NO: Provide producers with sufficient notice to plan production cycles to ensure predictable delivery at the optimal time to capture sales. Invest in building the supply chain infrastructure to meet timeliness and quality goals.

Premium/Specialty Product

Is this a premium or specialty product with a high margin?

Artisan

Is the product differentiated from mass produced alternatives in terms of aesthetics, artistic content? Are consumers willing to pay a premium for this?

Smallholder

Is the product naturally higher margin (for example berry fruit)? Does the product meet niche market requirements that attract higher margins such as fair trade or organic?

YES: Focus on planning production cycles, improving product handling and logistics to maximize yield, identify opportunities for market diversification if the producer has excess production.

NO: Investigate opportunities to support the sustainability of the enterprise, potentially via investments in value-add processing infrastructure, product diversification, etc.

Inputs and Materials

Does the product require easily accessible and low cost inputs?

Artisan

Are the raw materials required for production readily available in a usable form?

Smallholder

Are input prices stable? Does the crop make efficient use of natural resources such as land and water?

YES: Small producers will likely be able to produce the product without significant exposure to risk. However, scaling up production may still require acquiring inputs in greater quantities than the producer is used to, which may require support.

NO: Small producers may be taking on substantial risk in order to secure inputs. Retailers should consider supporting risk mitigation strategies such as trade financing, crop insurance, etc. Retailers should consider gradually scaling order sizes to allow the producer to identify new sources of supply of inputs and develop new supplier relationships.

PRODUCT

Processing and Packaging

Can the product be sold with little or no additional processing or packaging?

Artisan

Is the product produced by hand without specialized machinery or tools? Are inputs available in a usable form with little or no processing required?

Smallholder

Can the crop be planted, grown and harvested by hand or without the use of complex machinery? Can the product be sold without packaging or processing?

YES: Small producers may still require assistance in scaling up production of labor intensive products, particularly when it comes to costing labor and incorporating this into price negotiations. An independent partner with both business and technical expertise may be helpful in these situations.

NO: Retailers should encourage the formation of co-operatives or associations that can provide facilities for a large number of farmers to make use of mechanization where needed. Retailers may need to partner with organizations that can provide both the financing and technical expertise to do this effectively.

MARKETS

Quality Standards

Is there flexibility in the acceptable quality standards?

Artisan

Can the supplier control the quality of production enough to match standard sizes and colors? Does the supplier have sufficient access to markets for materials and willingness to learn new craft skills?

Smallholder

Can the product be graded according to quality? Are there viable markets for different quality levels?

YES: Small producers may still require assistance in finding alternative markets for products that don't meet quality standards and to perform quality checks prior to shipping.

NO: Retailers may need to be flexible initially to allow for the steep learning curve involved in producing items to exacting specifications. Provision of templates that can aid production or allow individual artisans to quality check their work may be helpful both in engendering individual ownership of quality and identifying products that don't meet this standard prior to shipping. Financial incentives (i.e. discounting or non-acceptance of product) may be necessary to encourage behavior change on the part of small producers to meet exacting requirements.

MARKETS

Transparency and Traceability Expectations

Is product traceability required for regulatory reasons, or is transparency into the supply chain something that adds value for the customer?

Artisan

Does the customer gain additional benefit from knowledge of how the product was made, where, and by whom?

Smallholder

Is the product required to be traceable back to an individual farm for health and safety reasons? Are the conditions under which a product is produced of interest and value to the customer?

YES: Support small producers in developing the ability to capture and report information about the product and its production process. Ensure that aggregators, if they are involved in the supply chain, provide this same level of data to the retailer and customer.

NO: Retailers should voluntarily monitor the production process in order to proactively manage any reputational risks.

Order Size

Can the product be produced in quantities greater than a retailer's minimum order size?

Artisan

Can the product be sourced directly from a single supplier in sufficient quantities with low transaction cost?

Smallholder

Can the product be grown in quantities sufficient to supply a single store or meet other minimum viable quantities? Does the product have a high turnover rate and consistent demand, which would require small quantities and frequent buying cycles?

YES: Direct relationships with producers can be considered, however, aggregation may offer additional economies of scope and other benefits to a retailer.

NO: Retailers should encourage the formation of associations or cooperatives to facilitate the aggregation of products into quantities that meet minimum volumes. Aggregators may be an alternative means to secure this volume, with the potential added benefit of providing a broad portfolio of products. Reducing transaction costs by using online channels or other methods to reduce minimum order size may also be effective strategies.

Demand Predictability

Is demand for the product predictable over time?

Artisan

Can production cycles be planned in advance to ensure availability of raw materials and labor? Over time, does predictable demand raise the priority of craft work?

Smallholder

Can predictable demand contribute to planning of production with the retailer to guarantee price and volume commitments? Can this offset the risk of side selling?

YES: Retailers should work with small producers to plan production to ensure availability of inputs, and to allow for consistent levels of supply across multiple suppliers if necessary.

NO: Retailers may need to support small producers with investments in facilitating greater access to capital, such as reducing payment terms, or investments in more efficient supply chain infrastructure.

SUPPLIERS

Geographic Location

Is the supplier located close to the point of sale?

Artisan

Can the product be sourced locally, with minimal logistics costs? Can the product be delivered direct to stores or distribution centers? Is the supplier familiar with the market being served in terms of preferences, trends, etc.?

Smallholder

Can the product be delivered to stores immediately after harvesting? Is the appropriate supply chain infrastructure in place in terms of transport, refrigeration, etc.?

YES: Suppliers may be more suitable for sourcing products that are particularly time sensitive such as fresh fruits, and may be more capable of meeting short lead times.

NO: Retailers should aim to place orders in sufficient time to allow for any potential delays in the supply chain. Retailers may also explore the opportunities to make investments in improved supply chain infrastructure that can overcome location constraints.

Production Capabilities

Does the supplier have the capabilities to implement best practices for production, processing and packaging?

Artisan

Does the enterprise have the ability to use updated design and production techniques? Are they familiar with retail packaging and labeling requirements?

Smallholder

Does the smallholder have the technical knowledge to produce new crops? Can they engage in simple preparation and packaging?

YES: Producers may be able to respond quite quickly to new design or product requirements and packaging needs. However, they may still require support to scale up these practices predictably.

NO: Invest in sampling or test runs before attempting scale to ensure the producer becomes familiar with managing new inputs, new suppliers, new production processes and handling the final product.

Business Capabilities

Does the supplier have the ability to manage business activities as the enterprise grows?

Artisan

Is the enterprise used to engaging in export and logistics? Do they have the ability to gather market intelligence, design products that meet customer preferences?

Smallholder

Do farmers already have the capabilities to monitor and record compliance with environmental best practices? Do they have access to information about market prices?

YES: Small producers that are able to perform the full scope of business operations may still require support to scale these up.

NO: Retailers should invest in building the business capacity of the producer as well as the technical capacity, and should seek partners that can provide the financial support this requires.

SUPPLIERS

Access to Working Capital

Does the supplier have access to sufficient working capital?

Artisan

Does the supplier have access to the collateral required to access commercial lending? If the enterprise is women-owned, do women have equal access to capital in this context?

Smallholder

Is banking infrastructure available in rural locations where smallholders are located? Are there supporting organizations such as co-operatives that can assist with access to finance?

YES: Retailers may be able to support the further growth and sustainability of small producers through improved credit terms.

NO: Retailers may need to support small producers with investments in facilitating greater access to capital, such as reducing payment terms, or work with partners to improve the enabling environment for small producers.

Resilience

Does the supplier have experience with diverse markets, buyers and products?

Artisan

Does the enterprise supply multiple buyers and can it provide ongoing and substantial employment to artisans to ensure craft work is prioritized?

Smallholder

Can the smallholder access a variety of markets for products that may differ in quality or grade?

YES: Focus on enabling small producers to maximize economies of scale and scope to increase their sustainability.

NO: Encourage small producers to seek out additional markets, and invest in exploring new and complementary product lines.

Audit Viable

Is the supplier capable of passing required audits?

Artisan

Do production conditions meet minimum standards for suppliers? Are there contextual limitations that should be taken into account?

Smallholder

Do smallholders meet existing mandatory regulations with respect to the production of food items?

YES: Focus on helping producers to scale their operations and improve the sustainability of their enterprises.

NO: Retailers should ensure that audit requirements are appropriate for the context and may need to consider tiered or progressive audits to allow small producers to meet these standards over time.

ECOSYSTEM

Competitive Environment

Are there a relatively limited number of competitive product suppliers in the market?

Artisan

Are there opportunities for artisan enterprises to capture niche markets or compete with existing players?

Smallholder

Are smallholders protected from cheaper imports? Can they compete in niche markets like organic or Fair Trade?

YES: Focus on building the skills of the producer and capacity to scale in other areas such as business operations, logistics, etc.

NO: Retailers should ensure the value that small producers add can be captured by supporting voluntary certifications for niche markets.

Infrastructure

Does the level of supply chain infrastructure support direct engagement with small producers?

Artisan

Are artisan groups or co-operatives in place to aggregate supply? Is it cost effective to transport goods to the point of sale?

Smallholder

Are there pack houses and storage facilities that are accessible to smallholder farmers? Is the appropriate transportation and technology available to ensure products arrive in peak condition? Are there farmer groups or co-operatives in place?

YES: Retailers will likely be able to transition to more direct relationships with producers. These relationships may still require some time to develop and to ensure that they support the growth of smallholder farmers as well as providing viable sourcing solutions.

NO: Retailers may need to work with partners to build the supply chain infrastructure to allow more direct engagement with small producers, and to allow them to capture more value within the value chain.

Service Providers

Are capital providers and other suppliers of services accessible to small producers?

Artisan

Is there a robust landscape of service providers that can provide inputs such as capital? Are there aggregators that can facilitate market access? Are there outsourcing partners that can add value to products?

Smallholder

Is there a robust network of input suppliers for seeds, fertilizers, etc? Does banking infrastructure extend into rural areas in order to serve smallholder farmers?

YES: Support small producers with forward contracts or other mechanisms to facilitate cost effective access to capital and other services.

NO: Retailers may need to reduce payment terms to ease capital constraints on small producers. Retailers should also work with partners to improve the enabling environment for small producers.

ECOSYSTEM

Partner Organizations

Does the ecosystem contain a sufficient number of non-profits, cooperatives and government agencies that offer low- or no-cost support to small producers?

Artisan

Are there supporting organizations that help build capacity of artisan enterprises and promote trade in new markets?

Smallholder

Are sources of technical capacity building, agricultural extension services and other support accessible to smallholder farmers?

YES: Retailers should seek partners in the public and private spheres to assist in building the capacity of small producers and increasing the impact of retailers' programs.

NO: Retailers should explore ways to grow the partner ecosystem in order to create an environment that is supportive of small producers.