



# TRANSFORMING A MARKET THROUGH SEED INTERVENTIONS

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# Background

- From 2011 to 2012, Action for Enterprise (AFE) received funding from the Katalyst project to implement a market development program focused on the vegetable sector in Bangladesh.

# Objectives

The objectives of the program (based on value chain analysis) included:

- promote access to affordable, high quality vegetable seed for small-scale and marginalized farmers
  - *identified through value chain analysis as a **market-based solution (MBS)** that could address the targeted farmers' constraints and improve their productivity and income*
  
- generate systemic changes in the vegetable seed market

# Summary of Approach

- Using a value chain facilitation approach, AFE program identified private sector seed companies as market actors with commercial incentives to provide this MBS to farmers.
- Then invited the companies to propose initiatives they could undertake to provide marginalized farmers with greater commercial access to quality vegetable seed.
- Two seed companies proposed initiatives to produce and market low-cost “mini-packets” of hybrid vegetable seed.

# What is a Vegetable Seed “Mini-Packet?”

- Small sized packets appropriate for small and marginal farmers
  - Roughly 20% of farmers cultivate less than 1 acre of land
  - Appropriate for between 1 and 50 decimals of land (50 decimals = half acre)
  - Costs on average \$0.25 USD
- Differentiated from traditional commercial packets
  - Appropriate for more than 1 acre of land
  - Costs at least \$1.00 USD

# Summary of Approach

- AFE agreed to provide the companies with technical and financial support to support their initiatives which, if successful, would result in increased yields, income, and food security for the farmers.
- The seed companies had strong incentives for carrying out these initiatives
  - Developing an “untapped” market of small and marginal farmers (bottom of the pyramid)
  - Allowing farmers (including larger farmers) to experiment with new varieties, improving sales of regular-sized packets in the future



# Summary of Approach

- The initiatives proved very successful, resulting not only in strong sales and increased farmer income, but also in the “crowding-in” of other seed companies who began to produce and sell mini-packets.
- A key component of this program’s success was that it asked the private sector to propose its own initiatives to develop the targeted market-based solution.
- This process helped to ensure success and sustainability as the proposed initiatives were based on: 1) the companies’ intimate knowledge of the vegetable seed sector; 2) commercial incentives, and; 3) company ownership and buy-in.

# Expressions of Interest

- The process of soliciting initiatives from the vegetable seed companies began with the publication of a request for “expressions of interest” (EOI) from vegetable seed companies.
- The request for EOIs included an overview of the program, eligibility criteria, and information on how interested companies could contact AFE Bangladesh to express their interest.

# Request for Expressions of Interest

(page 13 in Manual)



ACTION FOR ENTERPRISE

## REQUEST FOR EXPRESSION OF INTEREST FROM VEGETABLE SEED PRODUCING COMPANIES

Action for Enterprise (AFE) is a non-profit International Development Organization working in the Agriculture sector of Bangladesh for the last 8 years. AFE promotes economic growth by collaborating with the private sector companies to leverage resources and maximize impact to rural producers, laborers, and companies. In 2010 AFE is implementing a program to support vegetable seed producing companies to improve and/or expand their production/procurement, processing and marketing operations. Vegetable seed work may include the following: cabbage, cauliflower, tomato, brinjal/eggplant, chili, cucumber, okra, yard long bean, bitter gourd, ash gourd, ridge gourd, and bottle gourd. The opportunity to benefit from technical support from AFE is open to vegetable seed producing companies which meet the following criteria:

- Have existing vegetable seed production, processing and marketing facilities/infrastructures in Bangladesh
- Carry out or are willing to invest in R & D for varietal research, trial and development
- Have an existing marketing network and yet an interest to expand to new areas
- Have the willingness to expand and strengthen the vegetable seed distribution networks to reach the farmers in remote rural areas through retailers or mobile seed vendors
- Have the financial capacity and interest to invest in supply chain development, including the expansion of contract farming of vegetable seed and/or services provided to contract farmers
- Have the capacity to formulate and implement strategies for increasing market share, especially in untapped areas
- Must intend to expand future sales of vegetable seed in at least one of the following areas: North Bengal districts, Jessore, Comilla, and Mymensingh.

Interested seed firms/enterprises are requested to send an Expression of Interest (1-3 pages) elaborating on their future interests in expanding and/or improving their vegetable seed business along with the **profile and background** of the company to: Action for Enterprise at [infobd@actionforenterprise.org](mailto:infobd@actionforenterprise.org). Hard copies are also acceptable, though not required. Inquires can be directed at 02-8817277. The last date of submission is the **26<sup>th</sup> August, 2010**. Only companies which meet the above mentioned criteria will be contacted by AFE.

# Invitation for Applications

*(page 8 in Appendices of Manual)*

After vetting EOIs AFE program invited seed companies to submit an application to propose initiatives they would like to undertake

## Invitation for Application

- ✓ invites Lead Firms (LFs) to propose THEIR initiatives to build competitiveness and upgrade MSMEs *(a better process than having the Development Organization (DO) come up with the initiatives)*
- ✓ provides LFs with criteria and parameters of DO collaboration
- ✓ stipulates that DO willing to cost share LF capacity building but not fixed assets or personnel
- ✓ negotiations and discussions done by carefully going through applications with LFs to discuss and negotiate strategy, timing, technical support and cost shares
- ✓ not a competitive process but an opportunity for LFs to submit ideas, analysis and solicit LF input for DO facilitation activities

# Facilitation of LF Initiatives

- Ten companies submitted applications proposing various initiatives
  - Two were interested in marketing mini-packets targeting small and marginal farmers
- The companies' primary incentive for investing in mini-packets was an interest in selling to a large untapped market of small and marginal farmers. The companies were also interested in selling the mini-packets to larger farmers for trial purposes.

# Facilitation of LF Initiatives

- Joint review of company applications
  - Helped them to refine and clarify their proposed initiatives
- Strategic planning sessions
  - Participatory process involving company staff
  - Focused on strategic planning and development of business plan for company initiatives
  - Used question guides and budget spreadsheets
  - Ensured that AFE staff remained in the role of the facilitator

# Facilitation of LF Initiatives

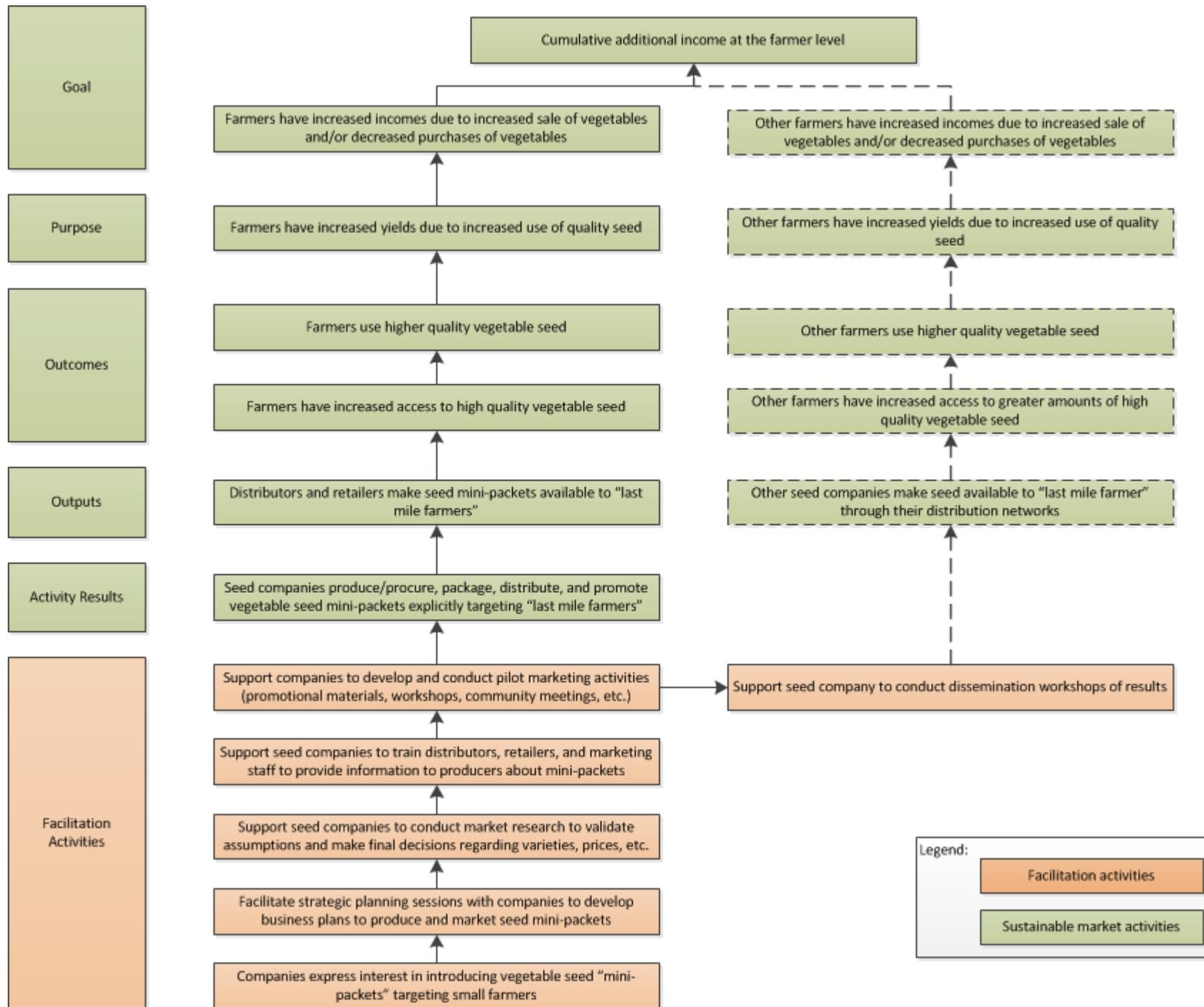
- Developed a question guide to help guide the companies through a strategic and business planning exercise for production/marketing of mini packets to small and marginal producers *(page 25 in Appendices of manual and other handouts)*
  - A comprehensive set of questions to use with companies during planning sessions which cover all aspects of business and marketing plan for the mini packets.
  
- Objective was for companies to have a better understanding of the technical and financial feasibility of introducing the new product(s)
  - Technical questions also guided the companies to develop projected profit and loss financial statements

## Component 1: Question Guide

1. Description of the new product
2. Market perceptions
3. Target market
4. Pricing
5. Publicity and advertising
6. Organization and personnel
7. Fixed costs
8. Indirect costs
9. Customer preferences
10. Competition
11. Enabling environment
12. SWOT analysis

## Component 2: The Spreadsheet

1. 5 Year Profit and Loss Statement
2. Year 1 Profit and Loss Statement
3. Publicity and advertising
4. Organization and personnel
5. Depreciation costs
6. Overhead costs
7. Revenue Growth Projections



# Agreements with Companies

- **Memo of Understanding (MOU)** *(page 14 in appendices of manual)*
  - broad understanding of the purpose and objectives of collaboration
  
- **Addendums to MOU** *(page 17 in appendices of manual)*
  - describes specific activities along with associated responsibilities, technical support, cost share, etc.
  - there may be several addendums to an MOU with a LF; each one for a specific initiative or activity

# Memorandum of Understanding (MOU)

## ➤ Components

- Objective
- General Terms
- Confidentiality
- Legal liabilities
- Addendums/Supplements
- Additional Provisions

➤ See Example MOU in Tools Manual

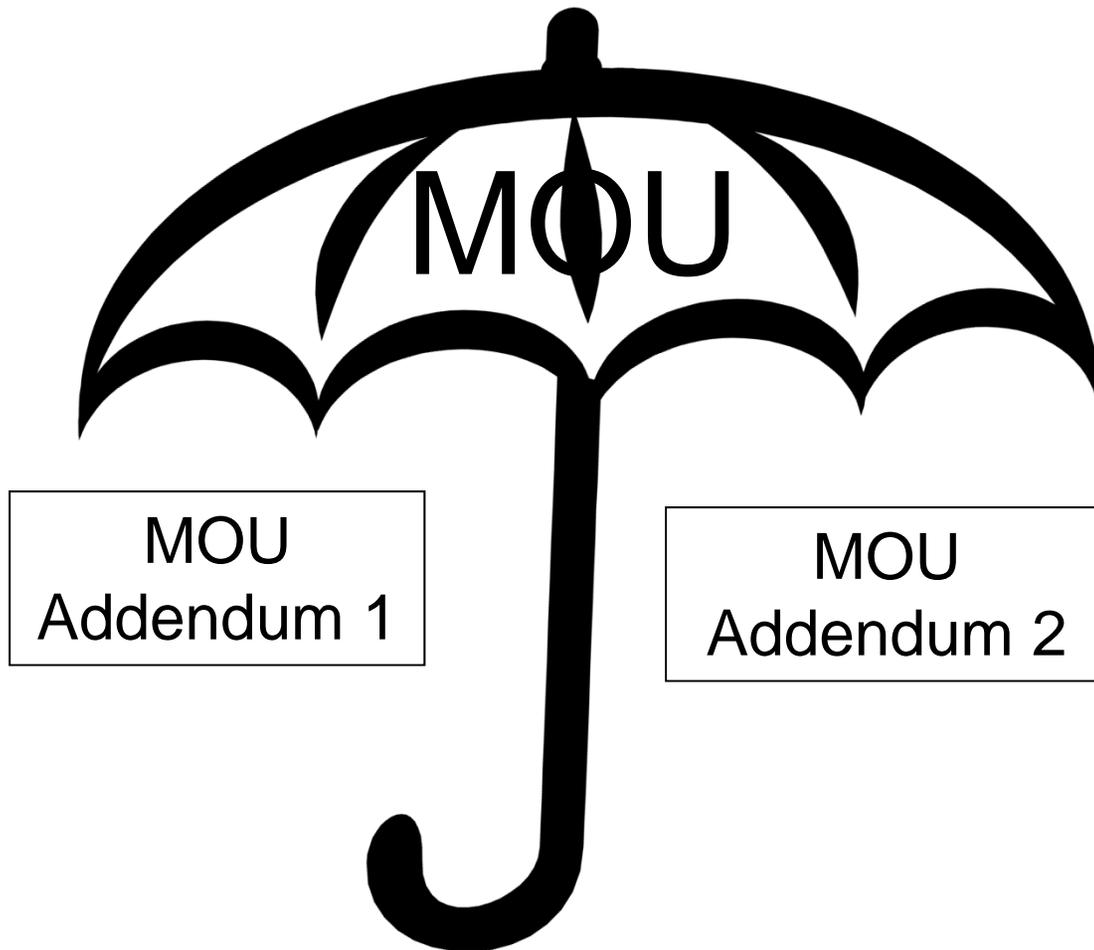
# MOU Addendum

## ➤ Components

- Activities to be undertaken
- Relationships among parties
- Financial Responsibilities
- Timeframe and milestones of events/workplan
- Monitoring procedures and rights
- Reimbursement modalities

See Example MOU Addendum in Tools Manual

# Lead Firm MOU and MOU Addendums



## What are advantages of having general MOU followed by more detailed Addendums?

- Signing a general MOU shows commitment without allocating resources yet
- MOUs can show progress to donors (while LF interventions are developing)
- Addendums allow and encourage flexibility
  - allows “incremental approach”: learning takes place and trust develops with LF as program progresses
- Development program is not locked into long term agreement for specific activities

# Agreements with Seed Companies

- Companies agreed to pilot sales of mini-packets in six districts
  - Each company in three different districts
  
- Companies agreed to carry out the following activities:
  - Preparation of mini-packets
  - Identification of participants in the distribution network
  - Development of a new distribution network targeting small and marginal farmers
  - Product launch and promotional activities
  - Collect and report sales data
  - Review of progress and planning for future seasons

# AFE Responsibilities under Agreements

- Provision of technical support including:
  - Business planning exercises
  - Reviewing and providing feedback for preparatory activities
  - Reviewing the selection of third-party service providers
  - Monitoring activities using checklists
  - Attending, monitoring, and providing feedback for promotional activities
  
- Cost share financial support for:
  - Design of new packaging
  - Training of existing retailers, distributors, and marketing staff
  - Selection and capacity building of new distribution network
  - Product launch and promotional activities
  - Market surveys
  
- AFE also conducted research at the household level to learn\*:
  - Are small and marginal farmers purchasing mini-packets
  - If so, what benefit, if any, do they have as a result

*[\*this was done outside of agreements with companies and for benefit of AFE and donor]*

# Adaptations during Implementation

- Each company had developed their own strategies:
  - Different branding strategies
  - Developing different types of new distribution networks
- Unforeseen circumstances forced changes in both companies' approaches to implementation
- Due to strong demand from retailers created by initial promotional activities, both companies decided to market and distribute mini-packets:
  - through existing distribution channels
  - nationwide, instead of just in the pilot districts

# Adaptations after Implementation

- One company suspended mini-packet related activities due to external factors unrelated to the initiative
- The other company redesigned its mini-packet to further differentiate it from existing packets
  - During the pilot some unscrupulous actors were adding low quality seed to mini-packets and selling them at the full packet price
- After the pilot period, AFE provided technical and financial support to redesign the mini-packet

# Monitoring and Results

- Monitoring was difficult and time consuming
  - Neither AFE nor the companies knew exactly who the customers of the mini-packets were
- AFE and Katalyst conducted three assessments

# Monitoring and Results

## ➤ **1<sup>st</sup> assessment**

- Relied on referrals from retailers
- Found to be biased towards larger and more established farmers

## ➤ **2<sup>nd</sup> and 3<sup>rd</sup> assessments**

- Hired market research firm
- Local enumerators spent full day at different points of sale of the four week peak sales period
- Collected name of every farmer who purchased mini-packets
- These farmers were randomly selected for interviews
- Comparison group was created by interviewing neighboring farmers

# Qualitative Assessment

- Conducted by AFE and FHI360 one year after the project
- 2 components
  - Ethnographic assessment of market actors
  - Qualitative assessment of farmers
- Focus on identifying
  - Identifying systemic changes (if any) in the market system
  - Whether mini-packets have changed farming practices as well as any household social and economic outcomes

# Quantitative Results

- Companies sold over 2,200,000 mini-packets between Sept 2011 and Feb 2013
- Three quarters of purchasing household fell below upper poverty line
- On average purchasing households generated \$16.70 in additional benefit per season
- Generated an estimated cumulative benefit of \$8,700,000 in increased household income during this time
- Most households also increased consumption of vegetables

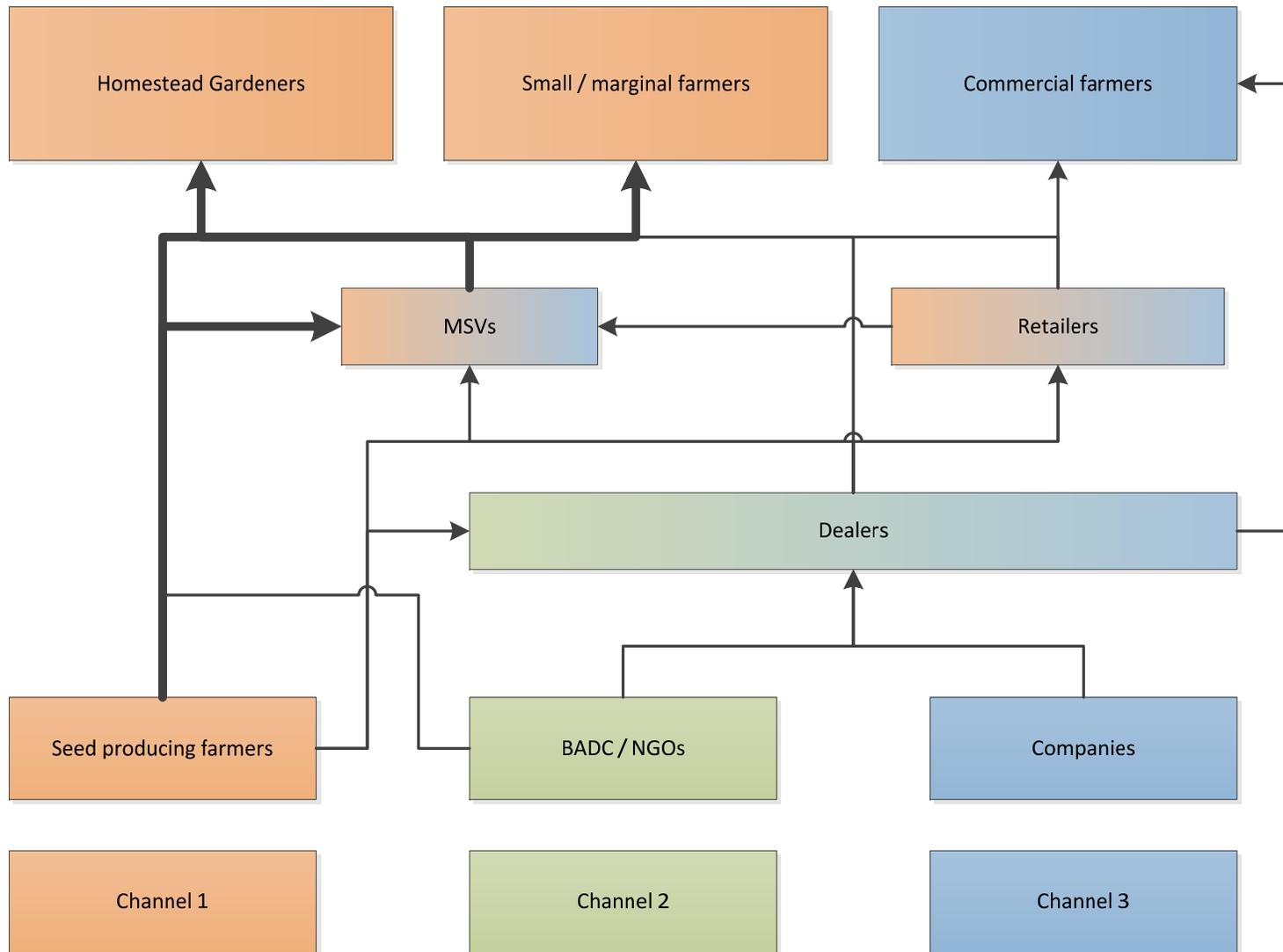
# Qualitative Results

- Increased sales of high quality seed
  - Mini-packet AND regular packet sales increased
  - Total sales of one company increased by 10%
  
- New markets have been “tapped”
  - Small and marginal farmers are being explicitly targeted by companies
  - Companies successfully used mini-packets to introduce their brands to new geographic areas, including remote rural areas
  - “Crowding in” of new seed companies who have started marketing mini-packets, each with their own strategies to do so
  - “Crowding out” of some dealers, retailers, and mobile seed vendors by development organizations distributing subsidized mini-packets

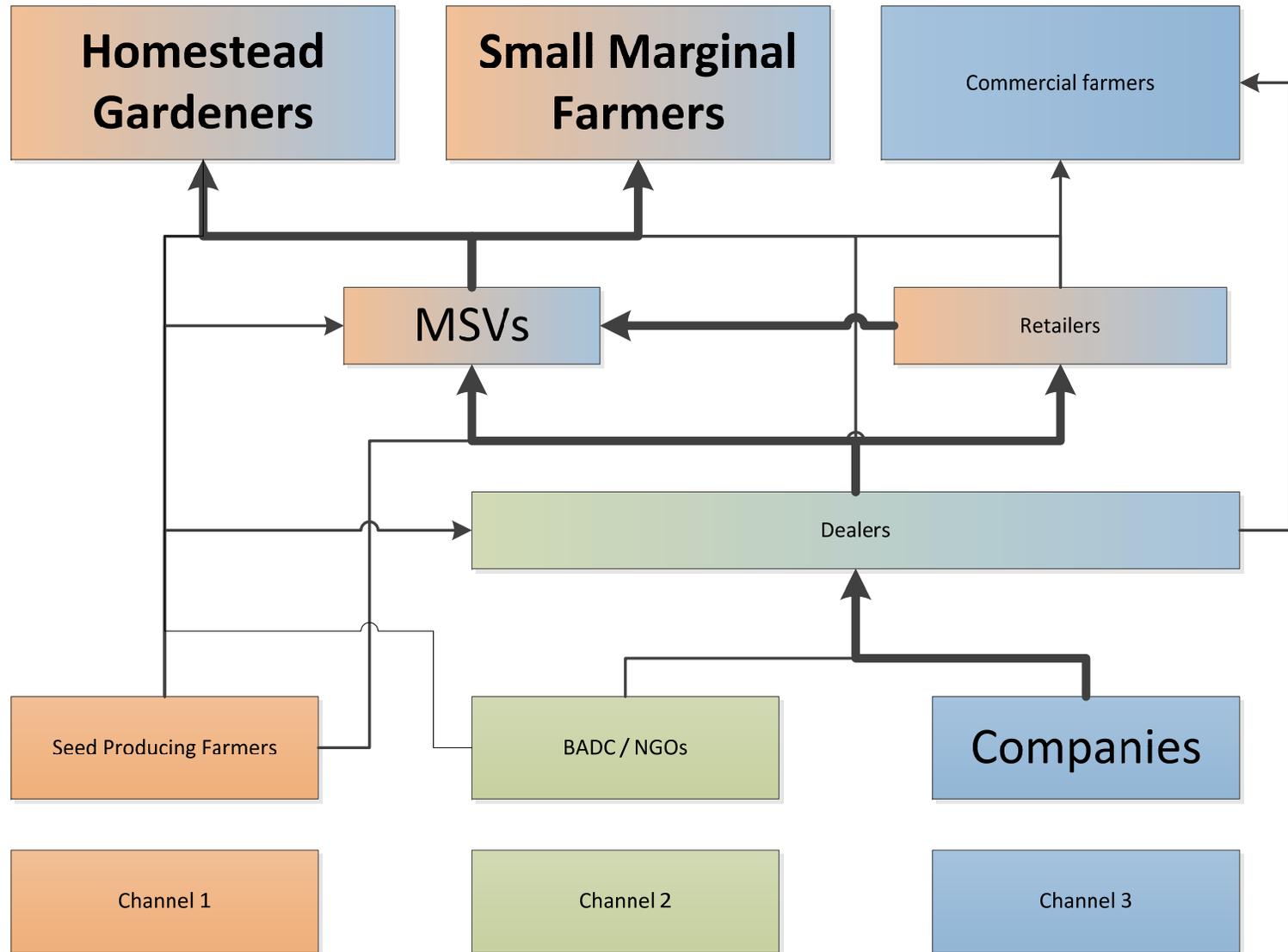
# Observed Systemic Changes

- Company adaptation
- Increased sales of all seed
- Trend towards packaged seed
- Tapping new markets
- Expansion of rural distribution networks
- Printing maximum retail prices
- Reduced rates of packet cutting
- “Crowding in”
- “Crowding out”
- Potential for mini-packets of other agro-inputs

# Market System Before Mini-Packets



# Market System After Mini-Packets



# Lessons Learned

- It is possible to:
  - Effectively target small and marginal farmers through private sector led initiatives
  - Generate systemic change through working with private sector companies
  
- Important to solicit ideas from the private sector and promote their initiatives
  - Avoid “market engineering”