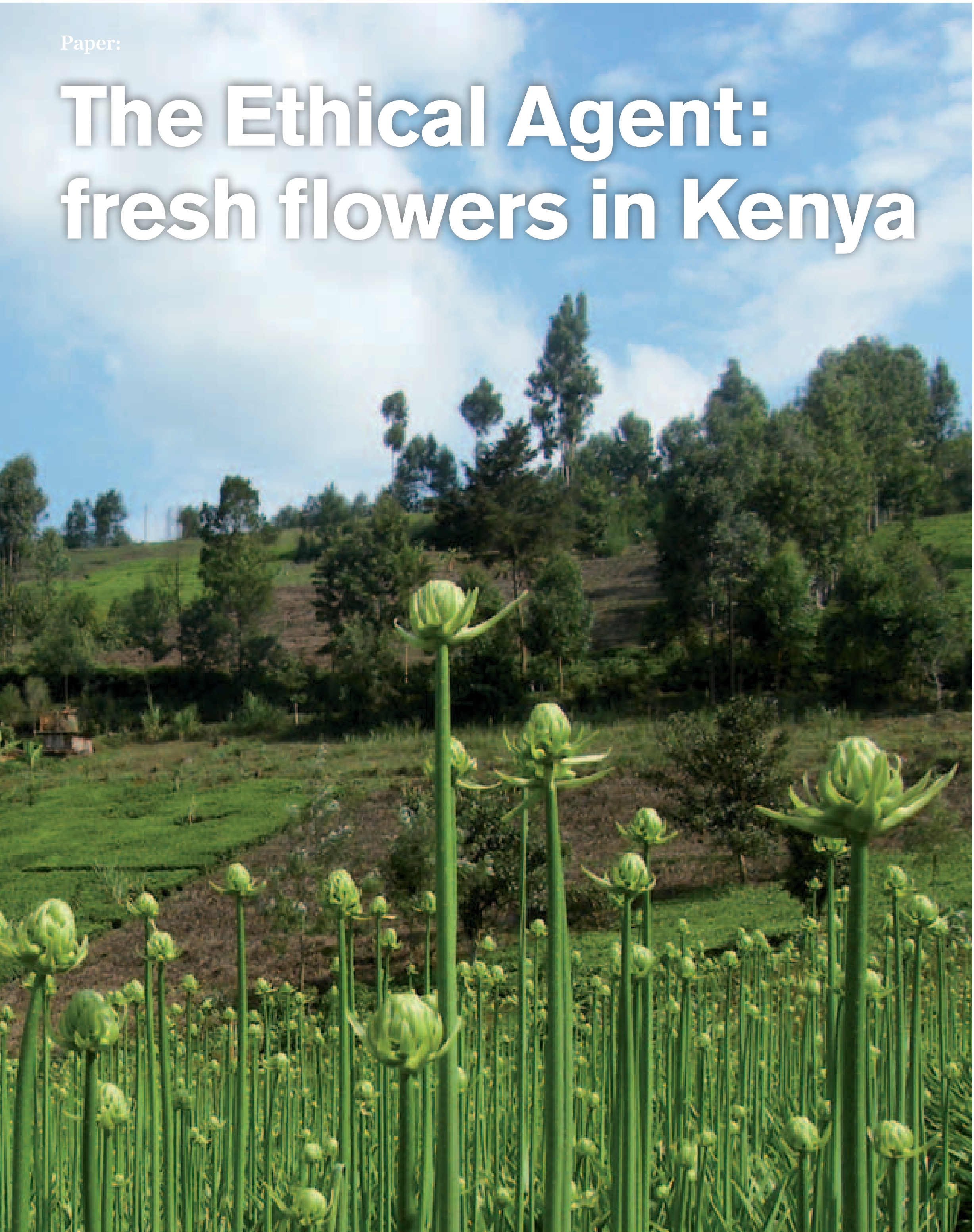
Project:
New Business Models for Sustainable Trading Relationships

Series:
Case Study Series

Authors:
Abbi Buxton and Bill Vorley

Paper:

The Ethical Agent: fresh flowers in Kenya



This paper is part of a publication series generated by the New Business Models for Sustainable Trading Relationships project. The partners in the four-year project – the Sustainable Food Laboratory, Rainforest Alliance, the International Institute for Environment and Development, the International Center for Tropical Agriculture, and Catholic Relief Services – are working together to develop, pilot, and learn from new business models of trading relationships between small-scale producers and formal markets. By working in partnership with business and looking across a diversity of crop types and market requirements – fresh horticulture, processed vegetables, pulses, certified coffee and cocoa – the collaboration aims to synthesize learning about how to increase access, benefits, and stability for small-scale producers while generating consistent and reliable supplies for buyers.

The trading relationships tool and survey discussed in this paper was developed in collaboration with Kent Business School, Oxfam and Unilever. The full citation for that work can be found in the References section.

For further information see:
www.sustainablefoodlab.org/projects/ag-and-development and
http://www.linkingworlds.org/

Please contact Abbi Buxton at abbi.buxton@iied.org if you have any questions or comments.

ISBN 978-1-84369-864-7

Available to download at www.iied.org/pubs

Abbi Buxton is a researcher for the International Institute for Environment and Development. abbi.buxton@iied.org

Bill Vorley is a principal researcher for the International Institute for Environment and Development. bill.vorley@iied.org

The Ethical Agent: fresh flowers in Kenya

Table of contents

Acronyms and abbreviations

CSR	Corporate social responsibility
IIED	International Institute for Environment and Development
NGO	Nongovernmental organization
RA	Rainforest Alliance
SAN	Sustainable Agriculture Network
SME	Small and medium sized enterprises

Executive summary

The Kenyan Fresh Flowers project was a pilot study investigating whether small or medium sized enterprises (SMEs) working with small-scale farmers could sell direct to modern retailers such as UK or US supermarkets. Working with an existing Kenyan SME, Wilmar, which already had a track record in supplying flowers for the wholesale export market, IIED used an 'ethical agent' model to support the development of a value chain capable of opening this higher risk, higher reward market to small growers and suppliers.

An ethical agent is ideally a person, or team of people, with both development and commercial experience. They work both upstream and downstream in the supply chain, building relationships with all the actors along the chain, with the ultimate goals of improving livelihoods for the producers and their families and ensuring a commercially viable supply chain. In this case study, the agent worked at all levels of the fresh flower value chain, but particularly at the interface between the SME and the retailer:

- Providing a network of contacts and relationships to help the SME break into the market.
- Developing a product that was commercially appealing while telling a 'development story'.
- Improving information flow and removing information blockages.
- Mentoring and capacity building within the SME to give it the long-term ability to supply overseas supermarkets with rigorous demands for producers.
- Increasing the ability of the SME to add value to the product and to develop new products.
- Liaising with certification bodies to strike the right balance between rigour and flexibility.
- Aligning the business and institutions along and around the chain.
- Ensuring that the balance of risks and rewards for producers, supplier and retailers is beneficial to all parties.
- Monitoring of the health of the trading relationships along the chain.

The experience highlights the importance of trial and error in market development design. The initial pilot, selling Rainforest Alliance certified bouquets to the UK retailer ASDA, was suspended after a number of problems with maintaining reliable supplies. However, the ethical agents found a new buyer in the US, Sam's Club, and developed a product that was less risky for both producers and suppliers while still offering higher value. Although it has not yet been possible to measure any impact on the livelihoods of the growers, the SME continues to supply Sam's Club and the future looks promising.

Several lessons have been learned:

- Developing-country SMEs and small-scale farmers face huge challenges and risks in aligning their businesses with modern supermarkets, even when they are experienced in supplying wholesale markets.
- A lack of networks and commercial relationships, but also a lack of understanding of consumer markets, particularly export markets, make it hard for SMEs to put what market information they have to commercial use.
- Ethical agents can play a vital role but need both industry knowledge and expertise in export market chains and networks, as well as knowledge about the needs of low-income households in developing countries.
- Although this intervention was supported by development project funds, it could offer a commercial model for aligning the business processes of smallholders, SME suppliers and modern retailers.
- Ethical agents can provide the appropriate support and business model so that entry into export markets can offer developing country SMEs an opportunity to diversify their markets, upgrade their capacities and improve income streams.

1 Introduction

In 2009 Wilfred Kamami, once a farmer himself, was already a unique success story in Kenyan agriculture. Kamami had established a family-run business, Wilmar Agro Limited, with 2,500 contracted small-scale growers exporting cut flowers to the Dutch auction markets. Although a profit-driven business, Wilmar had a strong social mission and was investing in its growers' well-being, with a network of dedicated extension agents, bank accounts for each grower, and monthly producer group meetings. Kamami not only cared about his growers, but also recognized that they were the heart of his business.

Kamami's commercial success meant his grower base was expanding as farmers from across the region saw the potential for profits from converting just a small area of their land to flowers. The Wilmar business was, however, limited by its market. The Dutch auctions establish prices based on supply and demand – more growers and more volumes inevitably mean lower prices for all. Kamami needed new markets, and given the Dutch auctions' monopoly on the commodity flower trade, these needed to be directly linked to supermarkets.

This raised a number of questions: How does a developing country SME like Wilmar, with experience supplying an undifferentiated product to a wholesale market, move to supplying directly to a demanding, high-value, high-specification supermarket? How does the SME even assess the capabilities its business would need to engage in more demanding markets as well as the time and resources needed to make that transition? How does it engage both sides of the chain in the venture and enable a dialogue, while simultaneously recognizing the abilities of its supply base and the demands of the buyer? How does it develop a product with a unique selling point (USP) and then ensure that the product can be supplied to order, week after week? If the SME is successful in the new market, how does it ensure that commercial success translates into better livelihoods for the growers? And how can development actors such as nongovernmental organizations (NGOs), with limited industry expertise and connections, best support this process?

In 2009, as part of the New Business Models for Sustainable Trade project (Box 1), IIED set out to answer these questions through a pilot project to help Wilmar build the capacity necessary to sell small-scale growers' flowers to UK supermarkets. The idea was to develop a model for bringing small-scale growers into demanding retail markets, and to build the capacity of the SME and growers to manage the new supply chain themselves. The aim was to develop a new supply chain that could operate commercially without further 'developmental' support. Although what follows is a development story, it is also an intriguing commercial story about the role of the 'ethical agent' (Box 2) as a go-between for small-scale growers and actors in formalized markets.

Box 1: The New Business Models project

This case study is part of a publication series generated by the New Business Models for Sustainable Trading Relationships project. The partners in this four-year collaboration (2008–2012) – the Sustainable Food Laboratory, Rainforest Alliance, the International Institute for Environment and Development, the International Center for Tropical Agriculture, and Catholic Relief Services – worked together to develop, pilot and learn from new business models to facilitate trade between small-scale producers and formal markets. The collaboration has involved private sector partners in four value chains: (1) fine flavor cocoa in Ghana, (2) certified cocoa in Ghana and Côte d'Ivoire, (3) outdoor smallholder flowers in Kenya, and (4) dried beans in Ethiopia. By working in partnership with business and across a diversity of crop types and market requirements, the collaboration aims to synthesize knowledge about how to increase access, benefits and stability for small-scale producers while generating consistent and reliable supplies for buyers.

More on the New Business Models principles and framework can be found in the paper "Think Big, Go Small: adapting business models to incorporate smallholders into supply chains" available at www.linkingworlds.org and http://www.oxfam.org/en/policy/think-big-go-small

2 Growing flowers in Kenya

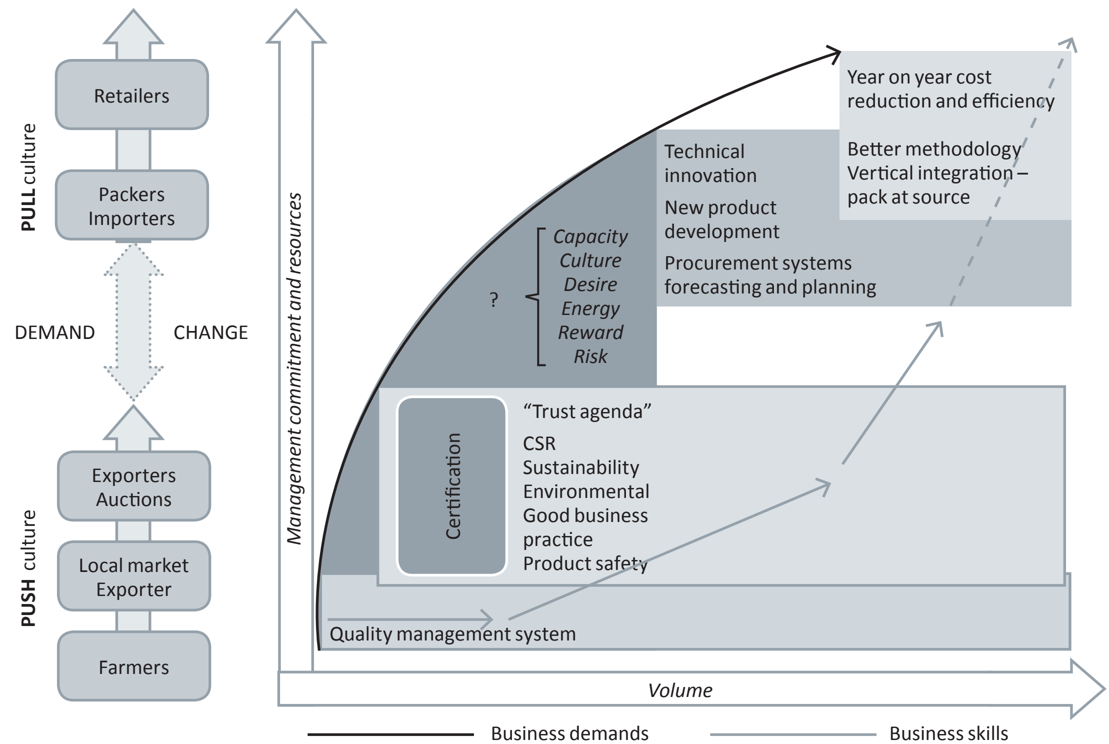
Flowers are an interesting (and controversial) product in a developing country context. Flower growing is relatively high value and, by comparison with flowers grown under cover on an industrial scale, the out-of-season ('summer') flowers grown within a small-scale farming system are relatively low risk and low cost. Small growers need to dedicate just a quarter of an acre (0.1ha) of their farm to flower growing in order to reap the equivalent rewards of more than two acres of tea, the next most profitable cash crop. At the time this project started, tea and coffee had been falling in value – and flowers offered a quicker return on investment than commodities that only yield a return after some years. Flowers also offered a good opportunity for a second household income for women. For these reasons, an increasing number of farmers in the areas where Wilmar worked had been keen to start growing flowers.

Kenya's success in supplying horticultural products into supermarkets in the UK has been well documented. Its good soils, weather, institutions and infrastructure put Kenya in the top league of global high-value agriculture exporters, with horticulture (including flowers) ranked second to tea among Kenyan export earners. But the sector has been facing a number of obstacles. Agricultural production is sharply divided between huge commercial estates and small-scale family farms. The latter face significant challenges as holdings are subdivided over generations, meaning that to sustain a family each farm needs to supplement food crops with high-value cash crops.

The Kenyan small-scale farming sector has proven its ability to produce high-specification fresh vegetables and flowers for European retailers. Kenyan small-scale farmers have been able to meet stringent quality standards for vegetable products. The dominant model has been one of top-down 'outgrower' relationships with farmers under contract to large exporters. Small-scale farmers have very little involvement in the highly lucrative flower export sector, which is dominated by estate-scale production by grower-export companies. The space for SME exporters in this lucrative sector has also been constrained. To be acceptable to the market, small-scale farm produce must look as if it comes from one farm, with consistent quality and availability. That requires organization, aggregation of supply and quality control.

This had been achieved by Wilmar, which had managed to aggregate out-of-season flowers from small-scale growers for the Dutch flower auctions through an innovative outgrower scheme. Wilmar's business model has long been inclusive and supportive of small-scale growers. Wilmar operates a network of extension agents providing technical advice, low-volume input supply, contracts, and weekly payments through bank accounts (set up primarily to create access for single or widowed women). In sourcing from small-scale farmers for the auction market, Wilmar had facilitated group formation and natural resource management (including water harvesting and composting systems for food-security crops). Wilmar works with Fintrac, a local technical support NGO, under the USAID-funded Kenya Horticulture

Figure 1: Moving from a push to pull market (developed by Steve Homer and William van Bragt)



Development Program (now Kenya Horticulture Competitiveness Program) to make investments at the production level for supply to the auction. An IIED survey of growers in November 2010 showed growers had high levels of trust in the integrity and security of the business. This is also supported in the baseline results of the trading relationships survey outlined in Section 7.

Although Wilmar had built up experience in exporting significant quantities of flowers to the Dutch auctions, selling to supermarkets was a very different proposition. Auctions are a 'push' market where Wilmar was able to sell what its outgrowers produced in any given week. But supermarkets are a 'pull' market and demand orders be filled consistently and tolerate no deviations from agreed volumes and specifications. For Wilmar, supplying to supermarkets would mean a challenging transition from a push business model to a pull business model (Figure 1).

'Pull' businesses need to have the systems in place to manage the product volumes and quality levels necessary to meet set retail orders. At an early stage of the transition from push to pull business, the supplier must be able to offer buyers products that meet a variety of standards and certifications for traceability, product safety and quality, and (in certain markets) sustainability. This allows them to build a trading relationship based on guarantees of the integrity of the product and its source. In order to supply retail directly (via packers and importers), they have to be able to offer customers ongoing technical innovation and new product development, and have the necessary procurement systems in place for forecasting and planning that allow for effective communications and sales with the buyers. Beyond that, mainstream suppliers to supermarkets need the management commitment, capacities, resources and volumes to offer year-on-year cost reductions and efficiencies, improved methodologies and the ability for greater vertical integration in the chain, such as adding more value at source by taking on packing or similar activities.

'Pull' businesses offer suppliers greater income security with set, recurring orders; the potential to add value to the product, building on the closer ties between producer and consumer; and the possibility of greater investment through the value chain to further develop the product and producer.

To make the shift from supplying wholesale to supplying retail, an SME aggregator/supplier like Wilmar must decide to innovate in both products and processes. The company needs to take into account its capacity to upgrade, whether it is willing to supply more demanding buyers, and the trade-offs between potential increased reward and potential increased risk.

Trading with supermarkets is not always a highly profitable option once all the extra costs and risks are factored in. Despite a stated willingness to open their business to produce from developing countries, beyond a short honeymoon period most supermarkets are extremely unwilling to adapt their operating procedures to the real restrictions faced by small-scale farmers and SMEs. The retailer expects the supplier to make all the necessary adaptations to its business model. If Wilmar was to be successful in supplying supermarkets over the long term, it had to innovate, develop new products and make continual cost reductions and efficiencies. Although the currency in agricultural value chains is a high-quality product with a unique selling point, the route into the system is knowledge, expertise, connections and networks. Making those connections is not easy for small-scale farmers, developing country SMEs or development actors and NGOs.

How could Wilmar achieve this within such a business environment? How could these two worlds be brought together? The New Business Models project decided that the role of an ethical agent as coach, mediator and communicator would be vital during the transition phase to ensure the agreed terms of supply reflected a fair distribution of these risks and rewards across the chain. This market challenge, and the role played by the ethical agent within it, is the focus of this case study.

Wilfred Kamami and a grower inspecting the trial plots © Abbi Buxton

3
The flower team

The research into new inclusive business models for smallholder export in Kenya was started by a team led by the International Institute for Environment and Development (IIED) – a research institute based in the UK that positions itself as a 'think and do tank'. IIED had been working with commercial partners to link the worlds of small-scale producers and of modern business by gathering rich data on learning and policy advice. IIED's commercial partner Steve Homer had worked with IIED for many years on various projects, so the team knew each other well. This proved fundamental to facilitating frank discussions on the sometimes conflicting aims of commercial success and pro-poor development.

Homer brought in William van Bragt, a commercial flower-chain consultant with 20 years' expertise in the flower industry. While Homer had good knowledge of retail strategies for getting a product to market, van Bragt's expertise was in the day-to-day management of flower supply chains. Homer and van Bragt used their expertise and knowledge of the flower value chain to align Wilmar's business model with the 'pull' models of supermarkets. As their expertise was primarily in the commercial sector, IIED took charge of the development side of the story and conducted a number of household-level studies that looked at key livelihood metrics and measured the nature of key trading relationships (including the perceived fairness of communications, distribution of benefits, use of information and decision-making processes). IIED paid special attention to producer livelihoods and incomes, natural resource management and the social position of women.

Homer and van Bragt served as ethical agents (Box 2) on the commercial side, and liaised with IIED to ensure their work was compatible with the development goals of the project. They did this through quarterly meetings and weekly phone calls. IIED's role was to ensure that commercial decisions also considered the livelihood implications for the flower growers, along with any environmental impacts. Thus IIED, Homer and van Bragt worked together as ethical agents for the project.

Box 2: What are ethical agents?

Ethical agents play a mediation role, facilitating collaboration up and down the value chain to get a product or service to market. They have to possess the skills, knowledge and/or relationships necessary to play this role. They are usually industry experts who understand the particular idiosyncrasies of the sector they are operating in.

Agents use their networks within the sector to garner information, establish trust and build new links between actors in the industry – strong relationships with key contacts are crucial. Ethical agents also have the skills and motivation to ensure a positive development impact within these new market relationships. Although agents do not handle the product, they are likely to add value and assume some risk. Agents are likely to face threats to their reputation or relationships, given the risks involved in getting a competitive product to market and keeping it there.

Ethical agents are distinct from 'facilitators' who tend to focus on one part of the chain. In development interventions, this focus is often at production level. Agents should be distinguished by their ability to work throughout the chain without handling the product and to combine commercial and development objectives.

This term was first used by The Shell Foundation in their paper 'Fresh: Creating new pathways to ethical sourcing' (available at www.shellfoundation.org/download/pdfs/shellfoundation_fresh.pdf) exploring their partnership with Marks & Spencer (a UK based retailer) and highlighting the importance of ethical agents in bridging the gap between major retailers and small scale developing country producers.

This project created the following team of ethical agents:

> *Bill Vorley: a Principal Researcher in the Sustainable Markets Group at IIED. His research interests are the position of small and family-scale producers in markets, and the role of business in sustainable development.*
>
> *Steve Homer: an expert in commercial outreach, private standards consultancy and final market linkage for food projects of all sizes, he worked in commercial horticulture for over 25 years, setting up and developing supply chains to retailers and manufacturers both in Europe and developing countries.*
>
> *William van Bragt: a specialist in project management, bringing new supply sources to companies that are willing to think differently about sourcing policies. Starting over 25 years ago in the family export business in the Netherlands, he has worked with flower growers, importers, exporters and supermarkets.*
>
> *Abbi Buxton: a Researcher in the Sustainable Markets Group at IIED. Her research areas are in business models, value chains and connecting small-scale producers to markets with expertise in piloting and researching new value chains with smallholders, monitoring and evaluation design and implementation, and applied development research and analysis.*

4

Project implementation and the role of the ethical agents

The first year of the project was about establishing the chain that would connect smallholders to retailers. An opening in the supermarket sector was provided in May 2008 when Andy Bond, then CEO of ASDA (a UK subsidiary of Walmart), pledged to source an additional £30 million worth of fresh produce from African farmers over the next five years. This was part of the company's commitment to the Millennium Development Goals. The team had an existing relationship with Chris Brown, Head of Ethical and Sustainable Sourcing for ASDA, and the team asked Brown to consider the possibility of sourcing flowers from Africa. ASDA wanted products with a unique selling point and preferably Rainforest Alliance certification. It wanted a good development story, with products that would fit within its existing buying model.

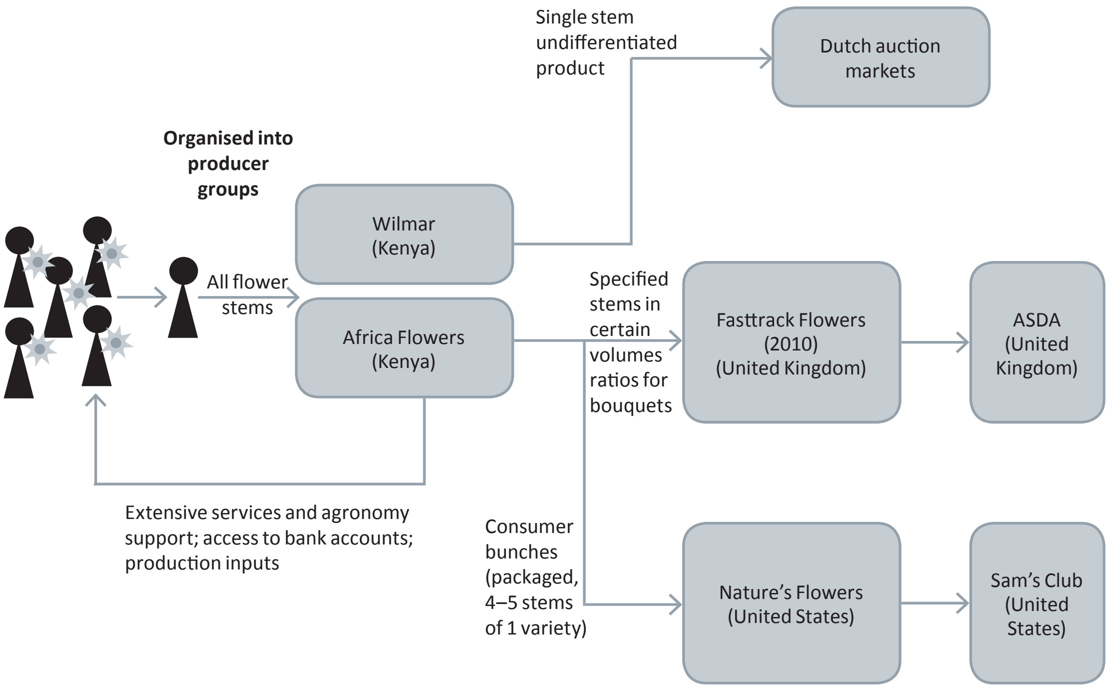
Originally ASDA was interested in wildflowers (following Marks & Spencer's success with a South African Protea bouquet) but Homer's connections and knowledge of the Kenyan flower industry led the supermarket to consider flowers from small-scale Kenyan growers. Wilmar was quickly identified as a promising local partner. At the time, Kamami had contracts with over 2,500 small farmers and, as described above, already operated a fair and inclusive business model. The project would therefore only have to establish the new links to market, building on the solid commercial and development model already in place, and align this model with that of a demanding retailer.

"The 2010 pilot period faced some significant challenges and identified some key lessons."

The new trading relationship between ASDA and Wilmar began in late 2009. A new company, Africa Flowers, was established by Wilmar to supply retail clients direct and began selling Rainforest Alliance certified bouquets to ASDA in May 2010 through a UK-based importer, Fastrack Flowers, which had a longstanding relationship with ASDA (Figure 2; see Annex for a description of the business model adopted by Africa Flowers in the ASDA pilot). The small farmer flower bouquets were sold in ASDA for a pilot period of 15 weeks, generating total sales of over £15,000 for Africa Flowers. However, this 2010 pilot period faced some significant challenges and identified some key lessons. Although Wilmar had built good expertise for supplying auction markets, the company did not have the full capabilities it needed to supply the retail market.

Getting the product onto the shelves was a significant achievement in itself. However, supply was hampered by a lack of systems and processes to properly manage volume, quality and communication. With no product calendars, availability checks or full quality control, products did not always arrive on time, in the right volume, or with consistent quality and maturity. The 2010 pilot showed that, without upgrading its

Figure 2: SME aggregator/supplier relationship chart



products and processes, Wilmar would not survive as a supplier under normal, more demanding, commercial conditions.

Changes were made to the ASDA pilot model in response to those challenges, to achieve a better sharing of risk and reward for all actors in the chain. The pilot generated interest from other retailers keen to trial new supply from small-scale farmers in Africa. And Wilmar began supplying 'consumer bunches' to Sam's Club in the US in April 2011, through the US-based importer Natures Flowers, which it continues to do (see Annex for a more detailed description of the Africa Flower's business model in supplying Sam's Club).

At each stage of the project, the ethical agents intervened to help align business models. Their main goals were:

1. Developing a unique product that was commercially viable and compatible with the SME's small-scale farmer-based business model – as well as sharing risks and rewards fairly to achieve both business and development gains.
2. Increasing the capacity of the SME to respond to the business model of the retailer, and to be able, eventually, to work independently of the ethical agents.

These two goals, and how they were tackled, are described in the sections that follow.

5 Developing a unique product

Once the chain actors had been identified, it was necessary to develop a commercially viable product with a unique selling point. Although the sustainable sourcing manager at ASDA was the primary link into the project, the project had to also convince ASDA's technical manager and flower buyer of the business case for this new supply chain. The flowers on offer from the Kenyan growers were not unique to that region or to those growers – the buyer could source them elsewhere – so it was important to identify a unique development story that would contribute to increased sales or higher margins. Translating the development and livelihoods message into the succinct language of retail sales was a sensitive and often contentious issue. The ethical agents who had the networks, expertise and relationships on both sides of the chain worked to bring together the key actors in the supermarket and the SME.

The team made significant investment in 2009, the first year of the project, developing the commercial proposition and planning the pilot. Van Bragt and Homer set up a design session with a flower designer and met with ASDA's technical manager and buyer. Van Bragt organized design meetings to help all parties understand the ASDA buyer's preferences for bouquet composition and the commercial requirements.

Both ASDA and later Sam's Club requested that the flowers be certified by the Rainforest Alliance (RA) and bear the RA certification mark. This was a major part of ensuring the uniqueness of the product – providing independent verification of the product's social and environmental credentials. The composition of the bouquet, achieving Rainforest Alliance certification and writing a 'development story' to be printed on the bouquet sleeve, all helped to meet ASDA's needs.

The project flew Kamami himself from Kenya to the UK for the third and final design day. His presence and ability to reassure the ASDA buyer and technical manager of the technical aspects of small-scale production (e.g. pesticide and water use), as well as the positive gender and development aspects of flower growing, was an important part of relationship-building in these early stages of supply.

From this design session, four bouquets were selected, each with at least 70 percent of its flowers grown by small-scale growers, in line with Rainforest Alliance requirements. The designs were based on an understanding of the volumes and availability of existing flower production within Africa Flowers' contracted grower system. It was agreed that every bouquet was to run at specific times throughout the year in line with the seasonal availability of different flowers. Instead of pricing the bouquets at £5 and £8, as previously discussed, it became clear that a price point of £10 was needed so the designer could use more stems and give the bouquets more volume and individuality. In particular, it allowed higher-value roses and other varieties to be added to the bouquet. These were not available in Africa Flowers' network, but were needed to improve the perceived value of the bouquet to the consumer. Following this meeting, it was agreed that ASDA would pilot the bouquets in the first half of 2010 – a major milestone for the project.

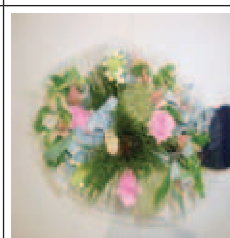
The pilot began in May 2010 with media promotion and the statement that these were the 'first Rainforest Alliance certified smallholder flowers in the world'.

Alice Muiruri, Director of Africa Flowers, in ASDA with the Rainforest Alliance bouquets © ASDA

The ethical agents had not, however, foreseen the reality of how these new product demands would interact with Africa Flowers' business model. In the early stages of the project, they had not adequately matched the product offered to the retailer with what Africa Flowers was able to deliver. The bouquet design was based not only on the assumption that certain varieties and volumes would be available, but also that they could be delivered at the same length and maturity and in the ratios required for the bouquets (Figure 3). In addition, the requirement that 70 percent of the bouquet stems be sourced from RA-certified growers meant that if those growers were unable to supply stems that met the specifications, it was not possible to substitute others from elsewhere to get the bouquets to market. Although Africa Flowers' systems were well suited to supplying the 'push' auction market, which is inherently flexible in taking a greater range of product specifications, they were not yet suited to meeting these more demanding and specific requirements. The additional production and market risks were borne by the growers and Africa Flowers. Failure to fully deliver on the commercial side of the product proposition led to the suspension of the ASDA pilot after 15 weeks.

This failure can be attributed in part to the failure of the ethical agents to balance their interventions both upstream and downstream in the supply chain. They did not spend enough time at the beginning of the project understanding Africa Flowers' business model and what it was able to deliver. The ethical agents failed to fully appreciate the transition involved for Africa Flowers to move from supplying an auction market to supplying a retail market.

Figure 3: Rainforest bouquet product proposition

MIX 1 *~80% RA Compliance*	*3 x Papyrus* *3 x Ammi* *2 x Scabiosa (Dry)* *2 x Rudbeckia* *2 x Eucalyptus cinerea or Gunni* *3 x Spray Rose*	
MIX 2 *~ 75% RA Compliance*	*1 x Bird of Paradise* *3 x Agapanthus* *3 x Carthamus* *3 x Eryngium* *2 x Eucalyptus cinerea or Gunni*	
MIX 3 *~80% RA Compliance*	*2 x Ammi* *2 x Papyrus* *3 x Rose Pink 3 x 2* *2 x Eucalyptus cinerea or Gunni* *1 x Tuberosa* *2 x Ornithogalum* *3 x Alstroemeria Pink*	
MIX 4 *~80% RA Compliance*	*3 x Ammi* *3 x Papyrus* *3 x Rose Red 3 x 2* *2 x Eucalyptus cinerea or Gunni* *3 x Hypericum* *3 x Rudbeckia*	

Product differentiation and design were crucial to project success but following the pilot with ASDA it became clear that more thought was needed on how this translated into viable and durable supply from Africa Flowers to retailers. Even more than offering a differentiated product, it was necessary to offer a mainstream product that could give Africa Flowers and the growers a consistent and reliable income – the development aims of the project.

In late 2010, Sam's Club, a US subsidiary of Walmart, expressed interest in Africa Flowers. By then, a number of changes had been made to the product and business model to reflect the lessons learned, including:

- identifying new products that achieved a fairer share of risks and rewards based on the business models of the actors in the chain

- adapting the Rainforest Alliance certification to allow greater flexibility in supply
- introducing product innovation to increase its applicability to the UK consumer market.

All of these changes were further intended to ensure a positive development impact on the growers, with more consistent sourcing and more secure relationships with the retail market (meaning increased prices and stability).

Once the ethical agents had come to fully understand the Africa Flowers business model, coupled with their extensive understanding and knowledge of the retail market and any flexibility therein, their role was crucial to developing new product lines that properly reflected the needs and capabilities of each business in the chain. The new products helped the transition from supplying a wholesale 'push' market to supplying a retail 'pull' market.

Adapting the business model/product proposition

For Sam's Club, two new products were developed:

- Bunches consisting of three to four stems of a single variety
- Bouquets packed at source in Kenya in partnership with medium-scale rose growers

Packing in the US would have added substantial costs to the initial shipments, leading to uncompetitive pricing (unlike the UK market, the US market was accustomed to receiving bouquets already packed). It was therefore necessary to bring the packing to the Kenyan side. Single variety bunches reduced market risks and added value in Kenya. Once this supply had been proven over a number of weeks, Africa Flowers could consider producing packed-at-source bouquets, which had higher technical requirements but also higher value.

Additionally, the project considered alternative models, for example, whether to supply ASDA (which continues to be interested) during the UK's low season, so as not to compete with bouquets from British growers. And Africa Flowers could supply the supermarket with single stems of varieties it had readily available for incorporation into existing bouquet lines. This high-volume, low-risk and mainstream product proposition would increase income security for the growers and strengthen the relationship between Africa Flowers and ASDA.

Adapting product certification

The Rainforest Alliance requirements led to a number of operational difficulties. The Sustainable Agriculture Network (SAN) standards used by RA were not originally designed to accommodate composite bouquets – they had been based on single-component bunches in South America. This required RA to adopt a percentage rule in order for the whole product to be regarded as certified. Initially, this requirement was that 70 percent of the stems within each bouquet had to be from RA-certified small-scale flower growers. This inflexible requirement meant that when Africa Flowers was unable to supply one variety (e.g. Carthamus) due to shortfalls in production, all the participating growers suffered because the entire bouquet could no longer be certified. In addition to the impact on small-scale growers, this requirement led to frustrations for the UK suppliers and retailers, as the company could not meet planned supermarket orders. Lack of continuity on the shelves was a significant hindrance to strong sales.

At the end of 2010, van Bragt and IIED team member Abbi Buxton negotiated with RA a reduction of the certification requirement to 40 percent over the short term but rising to 100 percent over four years – thus lowering the initial barrier, but offering a commitment to gradually increase the percentage. Although in most cases the numbers of stems in the bouquet design still meet the 70 percent requirement, this change has made the product proposition more flexible. If Africa Flowers is unable to meet the full specification for the bouquets, it can substitute the particular stem with those from non-certified suppliers among Africa Flowers' outgrowers. This allows all the actors in the chain to better manage the risks of sourcing supply from small-scale growers.

A lower percentage requirement for multi-variety bouquets allowed the price of the final bouquets to be lowered. And allowing the inclusion of different, non-certified flowers also made the bouquets more appealing. The resulting increase in sales gave the smallholder farmers the opportunity to expand their range of products, diversify their markets, minimize risk and increase their income. It was Buxton and van Bragt's relationship with RA that allowed them to begin these discussions. Further, van Bragt's knowledge of what was expected by the retailer (consistent supply along with RA certification and marketing), and Buxton's understanding of the negative impacts of the certification's inflexibility on grower livelihoods, brought credibility to the discussions and helped RA appreciate the importance of the changes.

"Making the transition to a long term relationship with retailers required new product development and innovation."

New product development/innovation

As described above, making the transition to a long-term relationship with retailers required new product development and innovation. Early in the project, IIED secured a commitment from ASDA to 'co-invest' in the production of new varieties of flowers. Given his knowledge of the market needs and his network of seed and input suppliers, van Bragt was able to bring these new varieties to Africa Flowers.

Van Bragt worked with the ASDA technical manager and buyer to understand what they needed from new varieties, and he worked with Africa Flowers to understand the varieties that would work best in their climate and soils. Following this, van Bragt organized field trials by using his networks of seed and input providers to source products at a good price, working with the growers to understand the best growing conditions, and contributing his knowledge of production practices with the new varieties. The funding from ASDA and the project covered the costs of the new varieties and paid a stipend to the growers who were trialing them and therefore sharing in the risks of the pilot.

Van Bragt's understanding of the particular business models of retail and of Africa Flowers meant he was uniquely placed to mediate the needs and capabilities of both – ensuring the new varieties suited the smallholder cropping system and that this innovation did not place unfair risk on the growers and Africa Flowers while ensuring they reflected the needs of the UK consumer market in color and varieties.

Flower grower with trials of sunflowers (*Helianthus annuus*) for the retail market © Abbi Buxton

6 Building capacity to supply the retail market

As described above, Wilmar's business model for sourcing from small-scale growers and supplying the 'push' auction market was already strong. It was in building their capacity to supply the 'pull' retail markets that the knowledge and skills of the ethical agent were applied.

As Africa Flowers increasingly grew to understand the market, van Bragt began to encourage a direct relationship between Africa Flowers and its retail clients, allowing them to communicate their needs to each other so that the ethical agent would no longer be needed. That role was complemented by the development expertise provided by IIED and by Steve Homer's extensive knowledge of retail markets.

Managing 'transparency' in communications

The biggest challenge for Africa Flowers in its relationship with the UK-based packer Fastrack Flowers and ASDA was learning to respond promptly to emails and requests and to offer solutions when problems arose. Van Bragt helped Africa Flowers ensure that when communicating a problem it could always offer some solution – which might not have been what the buyer originally wanted but nevertheless provided an alternative to ensure supply. Frequent communications and clear goal setting by van Bragt helped the Africa Flowers' team recognize the importance of this, and in turn communicate better with retailers. Being copied in on emails also allowed van Bragt to identify a number of mistakes or issues before they were taken any further. For example, Africa Flowers once neglected to add freight costs into its price calculations even though this was requested by the commercial partner of Sam's Club. Because it had not clearly stated this on the quote the commercial partner had assumed it was included.

Other misunderstandings regarding specifications were discovered too late, which led to numerous problems during the commercial pilot of the flower project. Africa Flowers was accustomed to supplying to a market where the specifications were quite low and making the transition to a highly specified product took time. The company sent many shipments in which the flowers were not of the right maturity, length or quality. Van Bragt worked through these issues with Africa Flowers, ensuring that the company understood what was required, a process that took six to eight weeks to get right. In this way, van Bragt added value to the trading relations without actually handling the product – a key role of the ethical agent.

Building trust and relationships between buyer and supplier

The ethical agents acted as brokers for difficult messages and mediated between parties in the supply chain. They took time to meet face-to-face and to reflect cultural sensitivities in communicating in different contexts, and they managed expectations, protecting growers from the early skepticism of potential buyers and explaining to potential buyers why production changes were not easy. Understanding the corporate culture involved in purchasing, the buyers' mindset – which was to question why they should bother with small-scale farmers

– and the pressures that buyers are under, Van Bragt and Homer were also able to filter out the 'noise' of initial challenges in the supply chain, which allowed more important challenges to be prioritized.

Presenting the buyers with a finished product, a selling proposition, and an offer of guaranteed supply was crucial.

Van Bragt in particular was involved in daily communications with Africa Flowers, and spent time in Kenya and on the phone building a relationship of trust with its management team. Key to building this trust was his ability to talk the language of business, and the flower business in particular. This relationship was particularly important when considering new product development, innovation and new retailers – which had inherent risks for the Africa Flowers business. The management team's confidence in van Bragt meant they were willing to adopt new activities (such as packing at source) and make necessary changes to their processes in line with his advice.

Providing access to market information

The ethical agents organized three UK trips for different members of the Africa Flowers team to learn about British retail markets. For this, van Bragt's expertise was crucial in explaining the display of flowers on the shop floor, the distribution of colors and the different price points. Van Bragt also analyzed the flower market. This analysis was used as the basis for negotiating the terms of supply and price paid for individual stems, to identify gaps in the market, and to ensure that any new retail products had secondary outlets such as the Dutch auction. He also introduced Africa Flowers to buyers and corporate social responsibility (CSR) managers in the UK and the US.

Developing systems and logistics

Van Bragt helped Africa Flowers create product calendars showing availability and volumes of each flower variety. He also helped develop a transparent price quotation system stating product, specification, volumes, packaging, payment terms, time validity of quote and other relevant information. In addition he oversaw packing of the consumer bunches, suggested efficiency improvements, and helped procure and ship planting material from Europe for the farmers.

Building skills

It became clear during the project that Africa Flowers would need a staff member dedicated to managing relationships with the new retail business – someone who would be able to communicate issues and opportunities at the production level to the retail end. Africa Flowers promoted an individual within the company, Mercy Kinthuiri, into this role. Africa Flowers and Fintrac shared the salary costs, while IIED paid van Bragt's in mentoring and supporting Mercy in her new role, teaching her the specific skills of retail account management. This mentoring program culminated in a trip to the UK where she met with the buyers of two major retailers and led discussions on current and future supply.

7 Monitoring development impact

It is important to monitor the impacts of development interventions to ensure a positive socio-economic impact across the chain, to understand failures, and to assess potential for replication and scaling. Linking small-scale producers to modern markets with support from ethical agents is not an end in itself. These interventions only make sense if the trading relationship is viewed as fair and beneficial from all sides. Simple tools for assessing the fairness of trading relationships can be a useful supplement to assessing the impacts of development interventions, such as the one described here.

In this project, IIED went beyond the household-level survey typical of development interventions to develop a methodology for assessing the health of the trading relationships throughout the chain. Together with Oxfam, Unilever and Kent Business School, IIED developed a survey tool to assess the perceived fairness of trading relationships. It assessed distribution of benefits, communication between partners, use and exchange of information, and decision-making processes. This survey requires far fewer resources to implement than a household survey and aims to provide more regular information that it useful in supply chain management and relents to assessing the impact of value chain interventions.

To establish a baseline, the survey was undertaken at each node in the chain, i.e. from grower to Wilmar, Wilmar to grower, Wilmar to retailer, retailer to Wilmar and so on. It will be important to continue to implement this survey to monitor changes against the baseline. The nature of the survey means that it can be employed as a supply chain management tool by the actors within the chain and therefore be implemented by those actors on a regular basis to assess progress and identify potential issues. (See further reference at the end of the document.)

Trading relationships survey: baseline results and analysis

The Trading Relationship Survey was undertaken across the flower value chain in January 2012. This data represents a baseline of information collected on the relationship between growers and Wilmar supplying the Dutch auction. As such, this does not represent impact data for the flowers project and new value chain development for retail markets. A follow up survey should be undertaken in the future to monitor changes and improvements.

The results are shown here for the flower producer to Wilmar relationships, and vice versa.

Classification

(red)	Strongly disagree (–1 to –2)
(light red)	Disagree (0 to –1)
(yellow)	Neither agree nor disagree (0.0)
(light green)	Agree (0 to 1)
(green)	Strongly agree (1 to 2)

Asterisk marks are used on statements that have been reversed from a negative to a positive statement to allow for color coded analysis.

Overall results for relationships between flower growers and Wilmar

Sustainable trading relationship fairness measures	Flower growers to Wilmar	Wilmar to flower growers
Fairness in distribution of benefits	0.52	1.80
Fairness of decision making-processes	0.40	1.00
Fairness of exchange and use of information	0.72	1.00
Fairness of communication between individuals	1.58	1.00
Commitment to the trading relationship	–0.02	1.00
Relationship mean score	**0.64**	**1.16**

The analysis shows that although both parties agree that the trading relationship is fair, Wilmar perceives it to be slightly fairer than the flower growers. This is particularly for the distribution of benefits. Wilmar's commitment to the trading relationship is also stronger than the growers, where there was on average (slight) disagreement with the statements.

The analysis below is of the detailed responses of the growers to statements on their relationship with Wilmar.

Distribution of benefits

These statements consider perceptions of trading relationships in terms of profit sharing and the division of reward between parties.

	Statement	Mean Score (Item)
Fairness in distribution of benefits	1. Wilmar does not take advantage of their bargaining position to secure a better deal from me	0.48
	2. Wilmar recognises that we both need to benefit from doing business with each other	0.65
	3. I am satisfied with the timing of payment offered by Wilmar	1.50
	4. I am satisfied with the method of payment offered by Wilmar	1.53
	5. I am fairly rewarded for meeting the requirements of Wilmar	−0.04
	6. I am satisfied with the profit I make from my business with Wilmar	−0.16
	7. The profit I make from my business with Wilmar is fair given the time and effort I spend meeting their requirements	−0.38
	8. The profit I make from my business with Wilmar is fair given the financial costs I incur in meeting their requirements	−0.39
	9.* The price premium I receive from Wilmar for exceeding the minimum quality standards reflects the time and effort it takes to improve the quality of Flowers	0.99
	10.* The price premium I receive from Wilmar for exceeding the minimum quality standards adequately compensate for the additional financial costs associated with improving the quality of Flowers	1.01

There were a number of negative responses on statements of price and profit. The comments in response to these statements reflect a disconnect between quality and specification as perceived by the growers with regard to price and quality:

> *"I have never been rewarded at any time whether I produce good quality or not, it's all the same."*
>
> *"Sometimes Wilmar rejects some of my best flowers even when I have done my best, only because of the height being unsatisfactory by a few centimeters."*
>
> *"So far I have not seen anyone being rewarded. All times are the same whether you meet the requirements or not."*

The comments also show that growers would like to see more profit from their flowers given the time and resources invested, which sometimes results in a loss (particularly in the low season).

Decision making processes

Studies have shown that it is not only the outcomes of a decision on benefits that affects perceptions of fairness but also the process by which decisions are made. The results of the grower survey showed broad agreement that decision making processes were fair – indicating the strength of grower inclusion in Wilmar's business model. The exception to this is for decisions on price. Here the results are conflicting as they show that growers are happy with the way the price is determined, but they do not understand how it is done.

	Statement	**Mean Score (Item)**
Fairness of decision making-processes	1. I have sufficient opportunities to express my views to Wilmar	0.90
	2.* I am able to influence decisions taken by Wilmar that might affect my business	0.23
	3. Wilmar will sometimes change decisions that might affect my business, in response to my suggestions or concerns	0.36
	4. When making requests of me Wilmar always ensures they are aware of the challenges I face	0.55
	5. When making requests of me Wilmar always ensures they understand the challenges I face	0.24
	6. Wilmar is consistent in the way they treat me	1.00
	7. I have good understanding of the way Wilmar determines the price I receive for Flowers	–0.93
	8.* I am happy with the way Wilmar determines the price I receive for Flowers	0.84

The reasons given for not understanding the way in which the price is determined include:

> *"The only explanation they give us is that the [Kenyan] shilling is weak and they don't tell us what that means."*

> *"We only know the price after selling the flowers through the receipts they issue. They only tell us that the market is poor, I don't know what that means."*

> *"I would rather Wilmar informed me of the prices prior to collection date and also the expected grade to allow me to prepare accordingly."*

> *"I am not happy with the way they do it because sometimes they buy our flowers at a throw away price. They should set some constant prices for different grades."*

Communication between individuals

An important aspect of fairness in trading relationship is the interpersonal relations between supplier and buyer. This was shown to be particularly strong in the perceptions of communication between growers and their relationship with Wilmar – another indicator of the strength of Wilmar's existing business model.

	Statement	Mean Score (Item)
Fairness of communication between individuals	1. Wilmar always treats me politely	1.56
	2. Wilmar never uses threatening language when communicating with me	1.59
	3. Wilmar always treats me with respect	1.58

Use and exchange of information

The way that information is used and shared is another important part of interpersonal relations and the fairness of the trading relationships.

	Statement	Mean Score (Item)
Fairness of exchange and use of information	1.* Wilmar is always honest when explaining decisions that might affect my business	0.04
	2. Wilmar provides me with all the information I need to produce Flowers according to their requirements	1.76
	3. Wilmar always provides valid reasons for any changes they make to decisions that might affect my business.	0.35

An analysis of the responses showed that negative responses with regards to the statement 'Wilmar is always honest when explaining decisions that might affect my business are related to price. Growers are unclear as to whether they are being given full market information on the price of flowers:

> *"Those who access the internet claim that flower prices are very high yet Wilmar offers so little."*

> *"They are not honest because they buy our flowers at a very low price and explain that the market is poor yet there are brokers who buy the same flowers at higher prices."*

This relates to the point further below that growers feel they have limited access to market information.

Commitment to the trading relationship

These statements assess the perception of loyalty and obligation to the trading relationships with Wilmar.

	Statement	Mean Score (Item)
Commitment to the trading relationship	1. I expect my relationship with Wilmar will continue for a long time	1.21
	2. I would like to strengthen my relationship with Wilmar in the future	1.30
	3.* I am willing to invest financially to develop my business with Wilmar	–0.78
	4.* I am willing to devote time and effort to develop my business with Wilmar	–0.80
	5. I share the same ethical values as Wilmar	0.57
	6. The commercial goals of Wilmar are compatible with mine	0.38
	7. I would have no difficulty replacing my business with Wilmar because there are a plenty of alternatives	–0.25
	8. I would not want to lose my business with Wilmar because I have made a significant financial investment in order to supply them	–0.05
	9. I would not want to lose my business with Wilmar because I have invested a significant amount of time and effort in developing a relationship with them	–0.06
	10. I would not want to lose my business with Wilmar because of the financial investment I would have to make in order to replace them	0.14
	11. I willingly do "whatever it takes" to satisfy the demands of Wilmar	–1.35
	12.* Wilmar occasionally makes exceptional demands of me with which I am willing to comply	–0.56

Here the results show clear room for improvement in the health of trading relationships (while appreciating that even longstanding trading relationships can be sources of contestation and tension). The negative scores on commitment to the trading relationship are a result of statements asking growers if they would be willing to invest – financially or otherwise – in developing the relationship. Although growers strongly agree that they expect their relationship with Wilmar to continue for a long time and would like to strengthen their relationships, the analysis shows that the growers would have to make more profit on their flowers to be able to reinvest in production:

> *"If they change prices I am more than willing to invest even more so as to make good profit."*

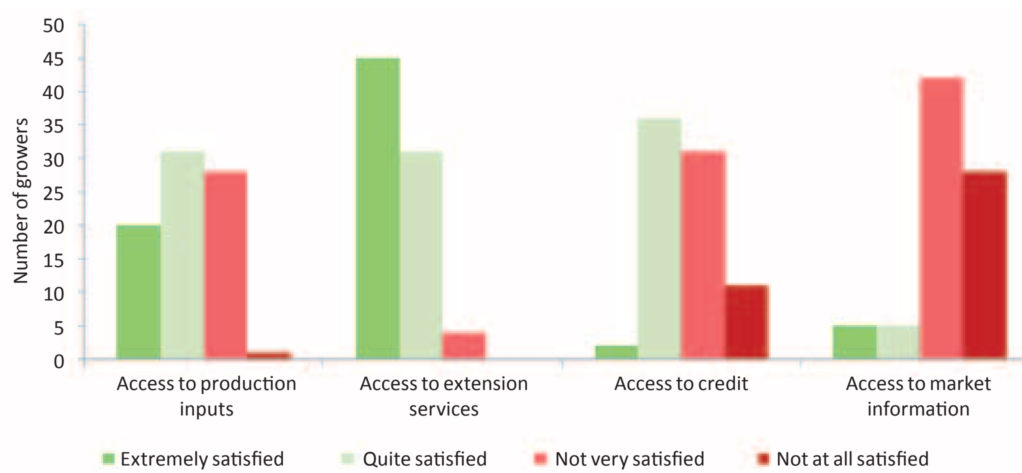
> *"If the grading is fair and the prices are good, I would be willing to invest more in my flower farming business."*

Positive responses on commitment are based largely on the consistency of purchase:

> *"Wilmer is reliable customer, and they pay us not like those brothers who denied us our money so I would not neglect Wilmar that easily."*
>
> *"Wilmar is reliable than brokers since they always stick to agreements we make like collecting and paying."*
>
> *"I don't think I can sell my flowers to other customers. Wilmar is the only reliable one."*
>
> *"... he is a good customer, he buys my flowers always and even collects them from our shed. He is very good the only negative thing is the poor prices."*

Access to inputs and services

Poor and small-scale producers often need support in accessing key services and inputs in order to participate fully in inclusive and beneficial trading relationships.



The results show that it is in access to market information that growers are least satisfied. Many growers commented that they received no market information, in particular on price. A large number of growers are not satisfied with access to credit too. Comments on access to credit requested that Wilmar provide loans to growers to support investment in production.

Access to extension services and production inputs were broadly considered satisfactory. Negative comments on production inputs were related to the costs of fertilizers being too high.

Disaggregated data

The survey results were disaggregated according to gender, age and number of years selling to Wilmar. The differences in results were found to be statistically insignificant indicating that there is no difference in the way that growers are treated according to age, gender or length of relationship.

Concluding remarks

The perception of the fairness in the trading relationship between flower growers in Kenya and Wilmar are broadly good. The biggest issue is around price – both in the way it is determined and the amount. This New Business Models project aimed to address issues of price inconsistency by giving farmers a stable retail price and increasing, on average, the amount received from retail markets as compared to auction markets. How these affect perceptions will have to be monitored over time, and once the retail market has stabilized. Wilmar also needs to consider the way in which it communicates price and pricing decisions to growers as this may help address more negative perceptions. See further Box 3 on examples of the types of actions Wilmar might take based on the survey results.

Future analyses should analyze (1) difference in perceptions over time and (2) results against other smallholder supply chains.

Further data is available on the fairness of the trading relationship at all the points in the chain. This is not included here as the information is commercially sensitive, currently represents baseline information and does not reflect the impact of this project. Please contact Abbi Buxton (abbi.buxton@iied.org) for further information.

Box 3: Examples of the types of actions stimulated by the survey

Some of the issues arising from the survey will require relatively simple or straightforward action, such as:

- *Improving communication of the way in which price is determined including discussing in detail the way prices are set at monthly producer meetings*

Other actions will require greater investment, for example:

- *Enabling access to regular market information*
- *Offering training on understanding and interpreting market information*
- *Monitoring grower profits and investments to ensure a positive contribution of flowers to household income*
- *Reviewing the way in which credit and loans are provided to growers*

8 Conclusions

The previous sections describe a wide array of activities that the ethical agents engaged in to link the worlds of developing country smallholders and modern retail. From this experience, we can draw a number of conclusions about the responsibilities and characteristics of ethical agents for potential application to other chains and other sectors. These lessons highlight the importance of the ethical agent role but also the importance of trial and error in market development design:

- **Ethical agents need to have chain-wide oversight and reach**

  Interventions to enable small-scale growers to access high-value markets are usually premised on upstream investments in the chain, upgrading production at the producer level. NGOs taking on a facilitation role tend to work in the producer country to ensure that farmers are trained appropriately – for example to ensure compliance with standards. But this case study shows that not only must the agent understand and work along the entire chain, they must also work with associated institutions such as standards and certification bodies. After all, the SME (in this case Africa Flowers) knows about production and producers; the real value of ethical agents is in their links to the 'pull' side of the chain.

  In building the capacity of the SME to deal with the demands of the direct market, the agents found a middle ground where they were acting not only for Africa Flowers, but also for the customer by resolving issues for both.

  But it is important to recognize the limitations of the ethical agent. The ethical agents in this case could only operate as far as the buyer. They had no influence in rolling out the product in store. Distribution and in-store marketing can be crucial success factors, but ASDA was unable to change its distribution model for this product and as such did not target 'ethical consumers' nor strongly differentiate the product on the shelves. By contrast, Sam's Club was more willing to co-develop the product into a profitable one for both parties – investing time in redesigning the bouquet for increased sales, increasing and changing the number of stores in which the product was sold, and having 'point of sale' information on the development story of the product – demonstrating the importance of some flexibility at the buyer/retail end for projects such as these.

- **Ethical agents need to be upfront about risk**

  The agent must get to know the supplier's business model and network in order to help it appreciate the degree of upgrading that may be needed to supply a more demanding buyer. The agent should also help suppliers to weigh benefits and costs before investing resources. This risk calculation is an essential first step, as producers, SMEs and NGOs are often inclined to overstate the benefits of trade with modern retail markets and understate the risks and investments required. As described above, this was a lesson learned during this project and initially led to setbacks in the ASDA pilot. Once learned, however, this understanding led to both product and process innovation and to a new supply to Sam's Club that has been far more successful, highlighting the importance of being flexible and creative. This should also prompt a discussion for development policymakers and practitioners on whether, and under what conditions, high risk/high reward projects are appropriate within the particular development context, given the uncertainties involved in entering new markets and in bringing new products to small growers and SMEs.

- **The importance of a competitive and unique product**

  Although retailers will demonstrate some flexibility to accommodate production from small-scale producers, ultimately the product must be commercially viable and fit into standard business systems. The seller must make a clear 'business case' to the buyer. Where Africa Flowers was concerned, the ethical agents played an important role in developing a commercially viable product (and then a development message), taking it to the retailer, and ensuring that the SME could deliver it.

  An effective agent also needs to be creative in finding tailored solutions to specific problems. An example is the consumer bunches developed for Sam's Club. High labor costs in the US and competition from Colombia led van Bragt, Sam's Club and Africa Flowers to work together to develop consumer bunches as a new product from Africa Flowers. By packing in Kenya and sending a completely finished product to the US, which could go directly into stores, the agent helped create a more competitive product and ensured more work and income was retained in Kenya.

- **Ethical agents can add value in intangible ways**

  By taking on some operational aspects of the project management role such as resolving day-to-day issues, talking to actors regularly, meeting them face-to-face, and establishing critical routines, tools and methodologies, ethical agents add value to the product and supply chain. It is crucial for an ethical agent to understand each of the business models in the chain and how the value in each is created, captured and distributed. With that knowledge, agents can appropriately apply their expertise, make connections with new players, and properly align systems of value creation. In most cases, this is done without handling the product and involves intangible inputs of knowledge, information and their own professional networks. In order to do this, it is crucial for ethical agents to have built relationships of trust with the actors in the chain.

- **Ethical agents should blend commercial and development skills**

  It is rare for one person to have the full commercial and development expertise and knowledge needed to perform the role of the ethical agent. Commercial actors with years of experience in the retail industry are invaluable, but are unlikely to have full knowledge of the impact on livelihoods and the environment. The special element of this project was the use of several ethical agents, each with their own expertise: IIED specialized in the development aspect while the others focused on the commercial..

- **Improved livelihoods require complementary activities**

  The 'vertical interventions' by ethical agents up and down the value chain do not necessarily reach far enough to make positive improvements in a broader range of livelihood concerns. For this, it is often necessary to do more at the production level to tackle a broader range of social, environmental and economic concerns.

  In this project, Fintrac, a local NGO, had been working with Wilmar through the Kenyan Horticulture Development Program on the production side to make the investments needed for supply to the auction market (such as shade netting, drip irrigation systems and the establishment of producer groups). Fintrac has recently begun working on a food security program for the flower growers, which involves composting, maize growing and water harvesting – all necessary supplements to the value chain intervention.

- **Monitoring of trading relationships is important**

  Linking small-scale producers to modern markets is not an end in itself. Relatively simple health checks of trading relationships can be a useful supplement to and assessment of market linkage activities.

- **An exit strategy is essential**

  Ideally, an ethical agent should not add permanent costs to a value chain. By working with existing chain actors, and having the right exit strategy, the agent can reduce their role over time to a small recurrent consultancy fee that the chain itself, rather than development agencies, can cover. This is particularly important for ethical agents funded by development activities, which are often characterized by short-term, project-based interventions.

  Securing a commercially viable exit plan is a critical necessity when applying an ethical agent approach. A key role of agents is to institute the necessary systems, processes, skills and relationships to ensure long-term commercial sustainability. With Africa Flowers, this included mentoring and coaching the new business development manager. It also included ensuring that the agents' business contacts were handed over correctly and in person – recognizing that the personal element of such relationships is of tremendous importance. For example, IIED introduced Africa Flowers to a Kenya-based agricultural investment fund that is keen to invest in the business in the future – potentially providing the capital needed to expand and upgrade their capabilities.

This project has not been able to demonstrate measureable improvements in growers' livelihoods. The progress made has come late in the project's life, so it has not been possible to follow up the baseline data collected at the beginning of the project. However, it may be possible to collect this data in the future. Key questions for analysis will be the impact of income stability on farmer's livelihoods, whether being in the chain market is increasing incomes, the impact of certification on growers' farms and livelihoods, and the nature of the trading relationships between the growers and Africa Flowers (and other relationships along the chain).

Africa Flowers continues to supply consumer bunches to Sam's Club and is in discussions with a number of UK retailers. The project has officially ended, though the ethical agents continue to be in touch with Africa Flowers and provide advice where necessary.

The role of ethical agents should be considered key in sourcing between modern markets and small-scale producers and SMEs. There are few staff in retail headquarters that are able to dedicate the necessary time and resources to sourcing more produce from these farmers, and ensuring this is done in a way that is fair and benefits poor producers. To proceed beyond a few pilots, companies need to be serious about working with agents to ensure positive development and commercial outcomes from new value chain development.

Annex

The business model has been developed by Alexander Osterwalder for business model design and analysis (see further http://www.businessmodelgeneration.com/canvas/). It has been used here to describe the Wilmar business model (above the dotted line) and the Africa Flowers business model (below the dotted line).

Key partners	Key activities	Value proposition	Customer relationships	Customer segment
• Small-scale flower growers and groups • Kenya Horticulture Competitiveness Program (support provided by Fintrac) --------------------- In addition to the above: • Ethical agents – William van Bragt, Steve Homer and IIED • Rainforest Alliance	Keeping a highly demanding outgrower scheme running across wide area, to supply quality blooms to export market, including: • aggregation • transportation • provision of inputs • access to credit and bank accounts • market linkage • product development • planning of production (what and when) • agronomy advice • contracting for fixed volumes from the growers and accepting the below market risk --------------------- In addition to the above: • packing bunches at source (in Thika HQ, Kenya) – including labeling • preparing for yearly certification audits • product development for retail markets • customer relationship management for retail buyers	Supply of quality 'summer' flowers at bulk volume, year round --------------------- Rainforest Alliance certified small-scale grower bouquets and packed-at-source consumer bunches (single variety) A development story – a unique product in a saturated market Access for buyers to 4000 plus farmers Fixed price to buyers with uniform product	Undifferentiated relationships with the Dutch auction markets --------------------- Direct relationships with both the US/UK importer and the retailer	Dutch auction for flowers --------------------- Retail supermarkets in the US and UK
	Key resources		**Channels**	
	• Smallholder flower outgrower network --------------------- • Smallholder flower outgrower network		Cargo plane to the Netherlands (after which project is distributed across Europe) --------------------- Cargo plane to the UK or US importers direct	

Cost	Revenue
All the costs of keeping a highly demanding outgrower scheme running across geographically dispersed area including: agronomists, transport to the farm gate, organization and regular producer meetings, below export cost return risk on contracted volumes The costs of supplying quality blooms to export market including: transport, grading, packing house, salaries of packers and officer workers --------------------- Certification High reject rates and wastage (although some of these blooms continue to be sent to the auction market)	Auction price – highly variable – determined by supply and demand of the global flower market --------------------- Pre agreed and constant prices based on negotiation of terms of trade between SME and retailer (initially with support of the ethical agent)

New Business Models publications

Boodhna, A. 2011. *Sourcing Gender: gender productivity and sustainable sourcing strategies.* New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London. Available at http://pubs.iied.org/16027IIED.html

Buxton, A. and Vorley, B. 2012. *Smallholder Flowers from Kenya: the role of ethical agents.* New Business Models for Sustainable Trading Relationships Case Study Series, IIED, London. Available at http://pubs.iied.org/16037IIED.html

Daniels, S., Laderach, P. and Paschall, M. 2012. *Fine Flavor Cocoa in Ghana: reaching high value markets.* New Business Models for Sustainable Trading Relationships Case Study Series, IIED, London. Available at http://pubs.iied.org/16036IIED.html

Docherty, C. 2012. *Branding Agricultural Commodities: the development case for adding value through branding.* New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London. Available at http://pubs.iied.org/16509IIED.html

Fearne, A., Yawson, D., Buxton, A. and Tait, J. 2012. *Measuring Fairness in Buyer-Supplier Relationships: a methodology guide for supply chains involving smallholders in developing countries.* New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London. Available at http://pubs.iied.org/16042IIED.html

Ferris, S. 2012. *Information and communication technologies for development.* New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London. Available at http://pubs.iied.org/16510IIED.html

Ferris, S., Paschall, M., Seville, D., Legesse Dadi and Gure Kumssa. 2012. *Dried Beans in Ethiopia: increasing food security through trade*. New Business Models for Sustainable Trading Relationships Case Study Series, IIED, London. Available at http://pubs.iied.org/16035IIED.html

Paschall, M. and Seville, D. 2012. *Certified Cocoa: scaling up farmer participation in West Africa.* New Business Models for Sustainable Trading Relationships Case Study Series, IIED, London. Available at http://pubs.iied.org/16034IIED.html

Robbins, P. 2011. *Commodity exchanges and smallholders in Africa.* New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London. Available at http://pubs.iied.org/16028IIED.html

Vorley, B., Ferris, S., Seville, D. and Lundy, M. 2009. *Linking Worlds: new business models for sustainable trading relations between smallholders and formalized markets*. Paper prepared as part of the 'New Business Models for Sustainable Trading Relations' project. February. IIED, London. Available at http://sustainablefood.org/images/stories/pdf/nbm%20linking%20worlds%20.pdf

Contact:
Abbi Buxton
abbi.buxton@iied.org