



From Guatemala's local fresh food sector to EU and US markets: the Aj Ticonel/OPCION enterprise

This case study provides an example of how a specialised trading company for smallholders has been developed in tandem with a supporting NGO to help scale up the business model.

Background

Comercializadora Aj Ticonel (the Aj Ticonel Trading Company) was formed in 1999 and today trades with 2,500 smallholders, working with co-operatives of small-scale vegetable producers in the largely poor Central and Western Highland regions of Guatemala. The smallholders produce fresh, non-traditional salad and vegetable crops, which the company sells to domestic and international markets. The domestic supermarket chain Paíz accounts for 8 per cent of its business volume. The rest is sold on international markets, mainly to specialised wholesalers in the USA, the UK, and France, with the produce being distributed to supermarkets and restaurants.

The fresh produce consists of delicate crops such as mangetout peas, sugar snap peas, baby corn, French and yellow beans, zucchini, squashes and radicchio lettuce. Some of these crops are produced from October to June, some all year round. Most have short growing periods, which means that an integrated planning process for production and marketing is required to match production with demand. These are not products that the farmers have historically produced or marketed, but each year new, specialised salad or vegetable crops – such as miniature zucchini – have been introduced in response to client demand.

A local NGO, OPCION, was set up in 1999 at the same time as the AJ Ticonel business and, while remaining separate entities, the two organisations work closely together. OPCION works to improve the incomes of smallholders through training activities and mentoring and by facilitating their access to finance. It provides farmer groups with credit and free services that include technical assistance and extension services, planning and coaching in agricultural diversification, product development, and improved market access. OPCION has attracted funding for infrastructural development for remote communities, together with improved health and education services that have enabled new smallholders to become suppliers to AJ Ticonel.

OPCION and Aj Ticonel share a common business and social vision. Their business model was developed to maximise the creation of employment for smallholders and their families; to develop a niche market for specialised produce; and to reduce the risks inherent in a fast-moving market by creating a flexible production model. The business was formed out of a previous venture in non-traditional vegetables that had failed, but which had created marketing links with US wholesalers.

Key champions

The entrepreneurs behind the venture came from the local community and were involved in the previous failed venture. Consequently they adapted the business model to be responsive to the market and to maximise employment for smallholders within their community.

OPCION is an NGO that was funded by Oxfam GB, Oxfam America, and Oxfam Intermon (Spain), amongst other donors, from 1999 to 2003, to enable the development of the producer network and the distribution system. Ongoing finance is generated through the venture, with strategic support from ICCO and the Inter-American Foundation, and also through consultancy work and the sale of its services to other organisations. OPCION is responsible for negotiations regarding social processes; it represents the social interest of the enterprise and the strategy applied to small producers.

Aj Ticonel is a private limited trading company that undertakes the distribution and marketing of produce in Guatemalan, Central American, and international markets, thus ensuring the financial viability of the venture. The turnover of Aj Ticonel in 2008 was \$700,000.

How it works

When planning production, Aj Ticonel informs OPCION of the volumes that are needed, according to the orders received from clients. The NGO then draws up a production schedule with each producer group to create a detailed plan for sowing. This crop sowing scheme is defined according to the needs of the enterprise's most regular clients, and incorporates estimates for product losses and rejection. The company also informs the NGO about the standards demanded by clients in order to meet current market requirements. OPCION's technicians work alongside producers to meet these requirements, providing them with training and developing new products or new agricultural procedures, including training and investment in Good Agricultural Practices (GAP).

The producer groups do not have formal work contracts with the company, but they do negotiate detailed sowing plans. Although these co-operation agreements are not legally valid, they serve as a tacit contract between the producers and Aj Ticonel. The agreements outline the commitments of both the producers and the company in terms of the land to be cultivated, the quality standards required, the funding required for production, and the prices to be paid by Aj Ticonel.

The first step in producing the plans is for group members to decide amongst themselves what areas and products they want to sow, and then to make a proposal to OPCION. The NGO reviews the proposal and tells the producers whether or not it is feasible. OPCION is committed to providing the groups with any necessary materials and credit facilities for the amount of production that is agreed. As an NGO, OPCION can attract development finance to enable new producers to supply the enterprise through training on farm and crop management, improve roads for remote communities, and improve basic health.

The producers deliver their crops to four group-owned regional collection depots, where Aj Ticonel collects the produce three times a week. The company is in charge of transport, and manages quality control and product handling issues.

Post-intervention/innovation situation

A system of rewards builds confidence and loyalty among producers. Groups that deliver a significant amount of produce to the company are subsequently given a larger cultivation area

and easier access to credit and materials. Smallholder groups that sell their produce to intermediaries, however, lose access to the high-quality seeds, finance, and technical support that OPCION provides, and in future are treated as 'top-up' suppliers.

The essential factors that stand out in the functioning of the chain as a whole are transparency and trust. Clearly defined roles among partners are also important: the producers are responsible for the cultivated areas and for the quality and delivery of the crops; the company is responsible for overall strategy, specification of the products required, post-harvest operations, management, and marketing. Aj Ticonel maintains the prices agreed with producers, even if international prices fall or if produce has to be sold through lower-value marketing channels.

One positive proof of the sustainability of the model is the recent evolution of the business model to give producers a bigger role in the definition of strategy, with 30 per cent of the company's shares being transferred to the smallholders.

Business costs and returns

Producers who now work with Aj Ticonel previously cultivated corn, beans, and other traditional crops. When they began to work with the company, they typically set aside 30 per cent of their arable land for the production of corn and beans for family consumption, and used the rest of the land to grow non-traditional vegetable crops for sale.

In order to measure the costs and benefits for producers of working with Aj Ticonel, a comparison can be made between producers who sell to the company and those who sell to other companies and intermediaries. At a sales level, the biggest difference exists in the higher returns gained from trading with Aj Ticonel compared with selling to local traders. Producers who work for the company receive higher prices by being able to access directly higher-value international markets, rather than the normal market price available through local traders.

International markets for mini vegetable and peas are prone to large price fluctuations. These fluctuations are reflected in the price paid by the company to producers, but are 'smoothed' over the course of the year. Prices to producers may fluctuate or may be fixed (fixed prices are higher, and favour producers who sell all year round). This enables Aj Ticonel to maintain a consistent supply of quality produce, while the smallholders maintain a regular income. The main costs incurred by the company are for product grading, packaging, distribution, and certification of producer groups.

Social returns

Small-scale producers have undoubtedly benefited from improved incomes. Several factors have contributed, notably more profitable products, a triple harvest thanks to technical improvements, good prices from Aj Ticonel, quick payments to farmers (within 10–15 days), and credit loan facilities (with a 5 per cent interest rate per cropping cycle). In addition, the competitiveness of products has been improved through the certification of a large part of the regions' cultivated areas and by the introduction of new farming systems.

Simultaneously, non-financial benefits have been generated. Farmers have developed abilities to negotiate with businesses, have improved their knowledge of and access to markets, and have received training to meet high quality standards (e.g. GAP). Last but not least, farmers have managed to reduce risks. Indeed, product diversification has been made possible, for instance through income from remittances. Side benefits must also be noted: supporting projects from OPCION have targeted schools, basic health infrastructure, and roads and bridges, and have improved the living conditions of families.

How replicable and sustainable is the innovation?

The business model is designed to access higher-value, albeit less stable, international markets, due to a relatively low domestic demand for specialised or high-value crops in Guatemala. Replication will require similar ease of access to a high-value international market.

The innovation in the composition of the enterprise lies in having two differently structured organisations that can attract both commercial investment (through the trading company) and grants or subsidies (through the NGO). This enables the business to scale up rapidly to meet increases in market demand.

The strategies of supermarkets in Guatemala are still focused on dedicated suppliers, with low quality requirements, which means that the investments made by the company in improving product quality would be unprofitable in the domestic market. To manage the marketing risk borne by AJ Ticonel in a fast-moving international market, however, requires heavy investment in a production planning system, which has capacity limits and so potentially limits scale.

It is unclear whether there remain core business costs on services supplied by OPCION that are critical to AJ Ticonel's success but which the current business model could not fully bear.

Lessons for businesses

- Rapidly changing market demand for new produce requires adaptable production systems for intensively managed crops, which gives smallholders a competitive advantage.
- Creating a business model of this type can attract investment from a range of commercial and development sector investors.
- The enterprise shows innovation in the way that normally high-cost finance and production advice for smallholders can be delivered to remote areas at low cost.
- The issue of access to markets by low-income smallholders is inseparable from other challenges such as infrastructure and illiteracy among farmers, which have to be addressed concurrently.
- Crops in fast-moving fresh fruit and vegetable markets expose smallholders to risks of fluctuating incomes, but these can be evened out by means of variety and frequency of cropping.

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