

# Value Chain Development of Avocado in Vietnam

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**Rapid economic development, urbanisation and rising income levels, in Vietnam offer potential for pro-poor development, by creating new market opportunities for producers, traders and retailers. This article describes the process of value chain development, which involves all actors in the broad chain of avocado.<sup>1</sup>**

## The project

Dak Lak, a province in the Central Highlands of Vietnam, is an important coffee producing area. Many poor ethnic minorities are engaged in coffee farming. Their dependence on coffee cultivation only at a time of decreasing coffee prices made income diversification an urgent necessity. Dak Lak area is also known for producing the best quality avocados in Vietnam. Because avocado trees are grown within coffee plantations to provide shade, and because demand for avocado was growing, avocado was defined as a potential crop to diversify the coffee dominated agricultural sector in Dak Lak. Avocado was also considered because of its high nutritional value and its potential to improve the poor-quality diet of the local rural communities, and of children in particular. This product choice was made in cooperation with local research institutions and local farmers.

The aim of the intervention plan was to create a professional value chain for avocado, in which the different chain actors cooperate to supply consistent quality avocados to urban sales channels across Vietnam. The objectives were to: (1) create a professional avocado chain; (2) increase awareness of and demand for avocado (avocado is relatively unknown in Vietnam and consumers are not familiar with its nutritional values and its uses); (3) develop a high quality avocado brand.

## Participatory value chain analysis

The project started with a thorough chain analysis, incorporating the ideas and opinions about the avocado sector of all actors in the chain. Besides gaining an understanding of the Dak Lak avocado sector, this analysis aimed to identify the main stakeholders in the avocado supply chain, create a joint vision among these stakeholders on development, build relations with urban sales channels, and develop an intervention plan. To learn about and understand the entire chain, a sample of avocados was literally followed from the moment of harvesting until delivery to the final consumer. 'Show casing on the job' brought a clear understanding to all actors about their interdependency. All collected information was documented, shared and cross-checked with the different subgroups.



*Avocado farmer participating in the Dakado scheme*  
Photo: Fresh Studio Innovations Asia

An important part of the analysis was the stakeholder meeting, where findings were discussed with over 60 stakeholders in the avocado chain. The participation of many private sector representatives was essential, and the involvement of retail and wholesale actors was especially important: it meant that their role and needs were acknowledged, and it made it clear that the project had a strong market perspective. Important outputs of this stakeholder meeting were: (1) agreement that a general avocado awareness campaign for end-consumers was required; (2) the largest supermarket chain in Vietnam, Saigon CO.OP Mart, immediately placed an order for avocados from one of the participating traders.

## Avocado chain actors

Traditionally, rural development projects focus on farmers, as they are seen as key in improving product quality. However, in the Vietnam avocado sector, farmers have limited initial interest in avocado cultivation. The average 'avocado farmer' is in fact a coffee farmer, and only has a few avocado trees (ranging from 5-100), mainly used as a windbreak around the coffee fields. Although the large majority of the interviewed farmers expected that the demand for avocado would increase in the coming years, only a few had made serious investments and efforts to create avocado orchards. This is partly because farmers lack adequate market information and are dependent on collectors, as their volumes are too small to develop a direct relation with a trader.

**Collectors** buy avocados from different farmers, but also trade other products. They collect the avocado either by

payment (per kilogram or they pay a fee for the whole tree), or through a deposit system (a payment before harvesting, several months or even one year before). The latter system is used for trees which produce good quality avocados, or which produce during the off-season. In this way professional collectors develop a kind of “portfolio” of good avocado trees.

Collectors indicated that a lack of sufficient working capital to place deposits was a problem. They also mentioned their lack of market information, especially of the consumer market. In addition, researchers observed the negative impact of handling during harvesting and transportation as a problem for the quality of the avocado.

**Traders** in avocado mainly deal with collectors. During the main season, large traders can deal with 50 different collectors in a day, buying on the spot without fixed contracts. Most traders mentioned that they depend on good relations with the collectors. This is important, for instance, to ensure that they will also be supplied in periods of shortage. Good and regular collectors are hardly ever refused, even when the trader has already sourced enough that day. Conversely, the collectors depend on the traders for good and stable market prices.

The local traders regard lack of consistency in volume and quality supplied by collectors, the weather sensitive market demand, and the lack of direct links with urban sales channels as the main hurdles to future sector development. The traders who work on both the agricultural and the market side of the avocado sector were found to be the most avocado business minded. Therefore it was agreed that the development of the avocado value chain would start with these traders. The trader creates market access, which also benefits collectors and farmers, and would be an incentive to improve product quality. In addition, farmers and collectors need to develop a proper market perspective if they are to improve their role in the chain.

*Sales of premium Dakado avocados in a big supermarket chain*  
Photo: Fresh Studio Innovations Asia



Since avocado is relatively new in Vietnam, and **consumers** were not yet familiar with the product, **retailers** were initially hesitant about selling a premium priced quality product. To convince them, a product diversification strategy was developed, which consisted of selling cheap bulk avocados and high quality premium priced avocados. This strategy minimised the risks and provided an opportunity for traders to also sell their stock of avocados that did not meet the DAKADO quality standards. Fresh Studio made a price proposal, which allowed all actors to make a very good margin if they met quality specifications. This meant that sales success would be an incentive for all actors in the chain.

### Developing the chain

One trader emerged as the lead-actor: the firm that would organise and develop activities in the value chain. The gradual project intensification strategy ensured that all interested parties could get acquainted with the project, but it also ensured that only serious stakeholders actually joined the business – vital for sustainable business success. Only two out of the fifty traders were interested enough to actively join the project, and in the end only one trader was willing to take the risks to invest in it. Several meetings were organised with this trader’s most regular collectors and eventually eleven of them were willing to join the chain development and to follow the product specifications and working procedures. Involving the farmers in the value chain was challenging, since most of them had not yet invested time or money in avocado production, while contract based relations were a completely new way of doing business to both farmers and traders.

### Incorporating the consumer perspective

After a quick diagnostic survey (desk research, point of sale observations, intercept interviews with consumers and expert interviews with supermarkets), the awareness campaign ‘Discover the Magic’ was developed. This campaign aimed at informing consumers on the virtues of avocado, and at persuading them to try avocado and buy the product on a regular basis. In addition, the campaign was a research instrument, to gain a better understanding of consumer knowledge, perceptions on avocado consumption, and the impact of in-store consumer communication. The results were shared with all project participants to further guide “demand driven” product development, and were used to develop a distinct brand positioning – DAKADO. At the website [www.dakado.vn](http://www.dakado.vn) consumers can obtain information on product and brand, and are also invited to share their experiences and ideas.

### Step-by-step approach

The success and sustainability of this project is explained by the fact that the value chain development included all actors and was designed by a “develop-and-experience” approach. Small implementation pilots delivered showcases to create confidence and trust among the farmers, collectors and traders, and among the consumers. For instance, the steps taken in avocado sourcing were:

- 1) *The creation of a homogenous product (2007):* The sector was dominated by scattered avocado trees in coffee plan-

tations, hence no single variety was cultivated and different types of avocados were offered at the market. The trader sorted and graded the best quality avocado to be packed in homogenous batches.



*Dakado brand poster*

Photo: Fresh Studio Innovations Asia

2) *Tree inventory programme (2007-2008)*: The creation of homogenous batches proved a big market success and urban sales channels were eager to source more. Initially therefore, the traders had difficulties in meeting the orders, because the traders had no information at all on the day-to-day supply. As a result, under or over supply occurred regularly. Transparency was created by compiling a database that stores information per avocado tree, such as location, planting year, fruit quality, harvesting time and productivity. Information on almost 5,000 avocado trees, spread over 7 districts of Dak Lak province, was gathered and stored, and

has been made available to all project partners. Year-round avocado sourcing is now possible; local traders can actively cooperate with farmers and collectors in developing harvesting plans that meet market demand, and inform the marketers about the available avocado volumes.

3) *Farmer integration (2008)*: Farmers had not yet invested time or money in avocado production, and contract based relations needed to be developed, based on proper access to market information to understand what the real potential of their production is.

Training, knowledge dissemination and exchange between the different stakeholders was part of the chain development process as well. The stakeholders started to show real interest in becoming part of this exchange after the chain had proven to be successful on a small-scale.

## Results

The two-year project ended in 2008 and resulted in the first fruit value chain in Vietnam that has continued beyond the donor support period. The five ingredients for success were:

1. Participatory chain analysis and selection of chain partners.
2. A focus beyond farmers: local collectors and traders emerged as the main influencers of product quality, while early involvement of retailers turned out to be crucial.
3. The identification of a traditional trader with the vision and his willingness to invest as “lead firm” in chain organisation and quality assurance.
4. The incorporation of consumers as stakeholders in the value chain.
5. The step-by-step project approach with realistic, achievable goals and small pilots to gain confidence and trust among project partners.

Focusing solely on farmers is not always the best approach.



*Dakado chain actors visiting an avocado farmer*

Photo: Fresh Studio Innovations Asia

Rather it is essential to gain an understanding of the dynamics in the entire chain, as the long-term aim is to create a business that is beneficial to all stakeholders.

The chain partners succeeded in creating the first traceable fruit in Vietnam, marketing this fruit under the DAKADO® brand, thereby allowing price premiums of more than 40 per cent to cover increased production costs and realising higher profit margins for all actors involved (from retail to farmer). The fact that consumers were willing to pay higher prices for high quality fruits was an eye-opener for modern retailers in Vietnam, as they had always assumed Vietnamese consumers were first and foremost price conscious.

Not only did the DAKADO® sales of the traditional trader increase (from 17 MT in 2007 to 71 MT in 2009), but demand for the unbranded lower quality avocado also went up (from 92 MT in 2007 to 171 MT in 2009), providing increased market opportunities for farmers and collectors beyond the DAKADO chain. Farmers started to invest in avocado production and the traditional trader invested in a truck and built the first avocado warehouse in Vietnam.

The project initiated the development of a professional avocado sector that has become an engine for rural economic growth. The focus on quality rather than quantity has resulted in an agribusiness that is steadily growing. The local trader has signed cooperation contracts with 100 local farmers and together they have established the first Avocado Alliance in Vietnam.

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### Notes

- 1) This article is based on the research paper “Avocado in Vietnam: value chain development beyond donor support”, which was submitted for the Wageningen International Conference on Chain and Network Management, held in Wageningen, The Netherlands in May 2010. It describes the results of a project which was funded by the German Ministry for Economic Cooperation and Development and GTZ and was executed by the following organizations: Centre for Science and Technology Application (CSTA), Western Agriculture Science Institute (WASI), the Department of Science and Technology of Dak Lak (DOSTE) and the agricultural consultancy firm Fresh Studio Innovations Asia Ltd.