



Avocado in Vietnam: value chain development beyond donor support

Prepared by:

Fresh Studio

Date:

April, 2010

Authors:

S.C.O. Wertheim-Heck^{ab}, P. Quaedackers^c, Nguyen Trung Anh^b, M.S. van Wijk^b,

^a Wageningen University, The Environmental Policy Group, The Netherlands

^b Fresh Studio Innovations Asia Ltd., Vietnam

^c Copenhagen Business School, Centre for Business and Development Studies

Contents

1.	Introduction	5
1.1	VCG literature in relation to the case under study	5
1.1.1	Global value vs. local value chains for pro-poor development.....	5
1.1.2	International lead firm vs. local lead firm	5
1.1.3	The role of the retail in relation to a new product introduction.....	6
1.2	Donor practices: Short term impact vs. long term business sustainability.....	7
1.3	The VC development facilitator.....	8
2.	Case study – Avocado Value Chain Development in Vietnam	9
2.1	Methodology	9
2.2	Background.....	9
2.3	Participatory value chain analysis	11
2.4	Focus beyond farmers	13
2.4.1	Farmers.....	13
2.4.2	Collectors.....	13
2.4.3	Traders.....	14
2.4.4	Modern urban sales channels:	15
2.5	The identification of a traditional trader as ‘lead firm’	15
2.6	Incorporation of the consumer perspective.....	17
2.7	Step by step approach.....	18
2.8	Results	20
2.9	Recommendations for further research.....	21
3.	References	23

List of figures

Figure 1 - Schedule of steps taken in the Avocado Chain Analysis.....12

Abstract

Numerous initiatives implemented by international donors in Vietnam aiming for elevation of rural communities out of poverty, predominantly focus on farmers. Unfortunately many of the initiatives have difficulties in realizing sustainable businesses. This paper describes how the development of an avocado value chain in Vietnam became an engine for rural growth, which sustained beyond donor support. It describes a VC development approach in which: (1) the focus was on the domestic market of Vietnam, (2) the lead firm was not a MNC, but a small local trader, (3) the commodity chain involved a new product introduction that required demand creation, where the retail sector didn't act as chain integrator, (4) and choices were made that put preference on long term sustainable business building rather than short term all-inclusiveness and significant income gains. Ingredients for success have been: participatory chain analysis, focus beyond farmers, participatory stakeholder selection, incorporation of consumers and a step by step approach with achievable goals and small pilots.

Keywords

Local value chain, small-scale local lead firm, new product introduction, consumers, sustainable business building

1. Introduction

1.1 VCG literature in relation to the case under study

1.1.1 Global value vs. local value chains for pro-poor development

One of the results of globalisation is the rapid increase of global supply networks that give multinational companies (MNCs) the opportunity to source products and components from developing countries. (Perez-Aleman & Sandilands, 2008). By linking up to global value chains, producers in developing countries can diversify their markets and generate new sources of income to improve their living conditions. Also in agriculture the trend of globalizing markets is sustained, with western supermarkets organizing global value chains in order to ensure a steady, high-quality supply (Dolan & Humphrey, 2004). Many people in developing countries live and work in rural areas, so global agricultural value chains offer a great opportunity to serve new markets and reduce poverty. International development interventions are therefore increasingly focused on value chain development, international expansion and smallholder inclusion.

A large part of global value chain (GVC) literature suggests that linking local communities to *global* networks offers a wide range of development opportunities.

Corresponding author: 48B, Alley 29, Vong Thi Str., Tay Ho Dist., Hanoi, Vietnam;
Tel.: +84 (0)904496402; e-mail: sigrid.wertheim@freshstudio.vn ; www.freshstudio.vn

However, less literature is available on value chain development outcomes within the *domestic* market of developing countries. The case presented in this paper illustrates that value chain interventions can also be successful within a local context. The rapid economic development of countries like Vietnam, with a rapid process of urbanization and rising income levels, offers potential for domestic pro-poor development in linking rural communities with the domestic urban market; creating new market opportunities for producers, traders and retailers to the benefit of the domestic consumers.

1.1.2 International lead firm vs. local lead firm

In linking developing markets with globalizing networks, much emphasis is put on the importance of lead firms. Usually these are MNCs with high financial, intellectual and technical capacity. (Kaplinsky, 2004; Altenburg, 2006; Perez-Aleman & Sandilands, 2008), A famous distinction in GVC literature is that of buyer- and producer-driven chains, that defines the type of governance structure that is used to coordinate international economic activities (Gereffi & Korzeniewicz, 1994; Gereffi, Humphrey & Sturgeon, 2005). Agriculture value chains are usually buyer-driven, 'in which retailers, marketers and branded

manufacturers play the pivotal roles in setting up decentralized production networks' (Bair & Gereffi, 2003). In contrast, much less literature is available on value chain development within local/regional markets, in which the lead firm is not a MNC but a local firm. The case described in this paper presents such an alternative type of lead firm. Not a MNC but a small-scale local trader, without the commonly required financial, intellectual and technical resources, acted as a successful chain integrator.

1.1.3 The role of the retail in relation to a new product introduction

In the food sector of NICs retailers commonly take up their role as lead firm and chain integrator to secure stable and high quality supply of local products. Especially with regard to fresh produce modern retail channels become increasingly involved in the sourcing of their products as perishable fresh produce is preferably sourced 'close to home' and the local agricultural sector often lacks the professionalism needed to deliver consistent quality and volume supplies. With regard to fresh produce the retail naturally focuses on the basic commodities that are highly demanded by local end-consumers (Reardon, 2005). By linking local rural communities with modern supermarkets, retail development can be considered a driver in rural economic growth (Reardon, 2006). Thus far however, no literature was found that discusses pro-poor value chain development in relation to new product introductions in developing countries. The case described in this paper presented a particular challenge as it concerned the development of a domestic value chain along the introduction of a to consumers largely unknown fresh fruit in the Vietnamese market. Since no real market demand for the commodity under study yet existed, supermarkets did not play the role of chain integrator. They appeared to be largely risk avoidant. A local trader that solely depended on the trade in avocados appeared to be the lead firm willing to invest time effort and money in professionalizing the avocado supply chain. In order to be able to realize market access, this trader was however depending on supermarket integration. In realising the participation of modern retailers two actions were undertaken: involve retail channels in VCD from the start; and incorporate end-consumers in the market access design to realize a demand pull for the retail.

To summarize, the case presented in this paper differs from the generally discussed global buyerdriven commodity chain concept on three aspects. Firstly, this paper presents a successful VC development project within the *domestic* market of Vietnam. Secondly, not a MNC but a *local small-scale traditional trader* without large financial and technical resources acted as lead firm. And thirdly, supermarkets didn't play the role of chain integrator since the value chain was developed around a *new product introduction* instead of a highly demanded commodity.

1.2 Donor practices: Short term impact vs. long term business sustainability

There is little literature on NGO interventions in value chains. The literature that discusses this matter focuses strongly on impact, process and methodology, and only within the timeframe of the project (Altenburg, 2007, GTZ, 2008). The sustainability of the projects after they have finished is questionable. Looking at VC literature, lead firm selection seems to be highly important (Raikes, 2007), but this is not confirmed by the current literature regarding NGO VC development interventions.

Donor programs in general have a limited timeframe (2-3 years on average). Within that timeframe tangible results are expected. As donor projects are mainly being evaluated on short-term quantitative criteria (amount of poor included, income growth etc.), rather than long-term qualitative impact (business sustainability and gradual up-scaling), donor interventions consequently strive for inclusion of as much farmers and other rural stakeholders as possible.

Keeping the stakeholders 'on board' sometimes becomes an objective in itself. Only one report was found that evaluates various value chain development experiences in Asia that addresses '*the illusion of instant change*' (GTZ, 2008). GTZ elaborates on the issue that in order to realize sustainable results a longer term perspective is required as results evolve over time. However the long term consequences of donor interventions are generally not evaluated after a project has finished. Without a proper public evaluation the sustainability of a project is therefore unknown and questionable.

This case differs from the common donor VC development approach because while striving for rural economic growth, the intervention didn't automatically focus on multiple farmer inclusion. In this case the VC analysis pointed out that the focus of the VC development should be on the traders instead of the farmers, in order to realize sector development and consequently rural growth. Furthermore the case under research illustrates how a focused approach with proven dedicated stakeholders has resulted in the inclusion of multiple farmers a year after the project had ended.

1.3 The VC development facilitator

In its paper that highlights the main issues that development agencies need to consider when they engage in value chain development in rural areas, Roduner (2007) refers in relation to VCD to two types of facilitators: entrepreneurs with a commercial interest, also known as the lead firm, and development agencies. As discussed above, a lot of literature on the governance of value chains addresses the specific role of lead firms. Lead firms should be seen as the actor that organizes and develops the activities in a certain value chain. Less is known about the role of development agencies.

With the increasing involvement of NGOs, government institutions and other institutional actors (e.g. cooperatives, business associations) in business- and economic development, there is a need to better understand the role that these 'development facilitators' play in a value chain. The development facilitators usually have an intermediary, supporting function, and operate according to strong socio-economic principles. In terms of economic development this means that they support the weaker link in a value chain, attempting to increase its bargaining power.

This is why development facilitators often focus their attention to smallholder farmers, by stimulating cooperatives, developing production techniques and assisting to meet international quality standards (Perez-Aleman & Sandilands, 2008). There is space for interventions from development facilitators if the lead firm is not tightly coordinating the value chain; especially when, like in the case under study, the lead firm is a small-scale local trader that lacks the sufficient financial means, market power and know-how, to give guidance in the business building. However, donor interventions are usually not solely based on commercial considerations. Like mentioned above donor interventions seem to focus on short term impact and put less emphasis on longer term sustainable business building. This can be explained by the way donor programs are evaluated, but also by the usually less business oriented social background of donor actors. Therefore, the interventions might show positive effects in the short run, but long term sustainability from a business perspective can be difficult to achieve.

Besides the two types of facilitators as identified by Roduner, this case illustrates a third type of facilitator, the so called specialist organization. In this case the donor, GTZ, didn't undertake the facilitation of the VCD themselves but outsourced this to the agricultural consultancy firm Fresh Studio Innovations Asia Ltd. Fresh Studio was hired to lead in the analysis, planning and managing of the interventions. In the words of GTZ the role of the donor in this case was *"more a distant – an informed donor rather than a hands-on facilitator"*.

2. Case study – Avocado Value Chain Development in Vietnam

2.1 Methodology

The information on this case was obtained through: the design and facilitation of participatory value chain workshops; interviews with value chain stakeholders during and after the donor project ended; the design, implementation and monitoring of market interventions; and the analysis of financial and other market data to calculate profits and margins for all stakeholders involved. It needs mentioning that three authors of this paper were actively engaged in the process design and facilitation of the value chain development and as such had direct access to all sources of information related to the value chain development activities¹.

2.2 Background

Dak Lak, a province in the Central Highlands of Vietnam, is an important coffee production area. Many poor ethnic minorities are engaged in the coffee farming and the vulnerability of these poor farmers on coffee cultivation only in a time of decreasing coffee prices, urged for income diversification. Dak Lak area is also known for producing the best quality avocados of Vietnam and because avocado trees are mainly grown within coffee plantations to provide for shade, avocado was defined as a potential crop to stimulate rural development and to diversify the coffee dominated agricultural sector in Dak Lak. Further more the avocado was regarded important due to its high nutritional value. Increased avocado cultivation could potentially be beneficial in improving the quality poor diets of the local rural communities; children in particular.

As a professional avocado sector was non-existing two consecutive projects were formulated to professionalize the sector and turn it into an engine for rural growth. Firstly an Avocado Chain Analysis (ACA), 'Analysis of the Dak Lak avocado chain' (2006), was executed. Based upon the ACA an intervention plan was developed with the main avocado sector stakeholders, ranging from seedling producers to supermarket chains and consumers, to professionalize the avocado sector. The aim of the intervention plan was to create a professional value chain, in which the different chain actors cooperate to supply consistent quality avocados to modern urban sales channels across Vietnam. The intervention project ranged from a national consumer awareness campaign, the development of dedicated harvesting equipment, the formulation of post-harvest protocols

¹An extensive series of reports on this project is available through GTZ.

and GAPs, the design and implementation of training programs for farmers, collectors and traders, to the creation of the high quality avocado brand, DAKADO®.

In this paper both projects will be regarded as one big project. The project was funded by the German Ministry for Economic Cooperation and Development within the framework of the SME (Small and Medium Enterprise) Development Program of the Ministry of Planning and Investment and GTZ (Gesellschaft für Technische Zusammenarbeit).²

The project was executed by the following organizations: Centre for Science and Technology Application (CSTA) based in Buon Ma Thuot, Western Agriculture Science Institute (WASI) based in Buon Ma Thuot, the Department of Science and Technology of Dak Lak (DOSTE), the agricultural consultancy firm Fresh Studio Innovations Asia Ltd. with offices in Hanoi, Dalat and Ho Chi Minh City.

The project had to meet the following three objectives: (1) Creating a professional avocado chain, since no professional avocado sector yet existed; (2) Raising the avocado demand, because the avocado is relatively new and unknown in Vietnam and consumers are not familiar with its nutritional values and its uses; (3) Offering a high quality avocado brand. Bad quality avocados due to improper harvesting, packaging and transportation practices resulted in disappointing product experiences by end-consumers, there with hampering the market development. This paper describes how the project has resulted in a professional and profitable avocado chain. The paper concentrates on the following five ingredients for success:

1. A chain analysis and a selection of chain partners through participatory working sessions in which the main interventions were identified.
2. The focus beyond farmers; local collectors and traders appeared main influencers of product quality and early retail involvement appeared crucial in obtaining willingness for piloting product introduction
3. The identification of a traditional trader with the vision and willingness to invest as 'lead firm' in chain organization and quality assurance

² The focus of the SME program is on improving the business environment for private sector development and to enhance the market position of SMEs in selected sectors, specifically in provinces outside the major growth centres. See for more information: <http://www.smegtz.org.vn/>

4. The incorporation of consumers as stakeholders in the value chain has resulted in market driven incentives for retailers, trader, collectors and farmers in quality improvements.

5. The step by step project approach with realistic achievable goals and small pilots to gain confidence and trust among project partners under guidance of an external chain facilitator.³

2.3 Participatory value chain analysis

The project was characterized by a participatory and open structure from the start. Involvement of all interested entities was encouraged, but in return participants were requested active contributions to the project. Instead of meeting room discussions, the project very much focused on working on the job in multidisciplinary teams. The project started with a thorough chain analysis. The ACA incorporated the ideas and opinions about the avocado sector of 224 people, representing all actors in the chain, from farmers up until retail, therewith delivering a robust and accepted starting point for further activities. The overall aim of the ACA was, besides a deep understanding of the Dak Lak avocado sector, to: (1) identify the main stakeholders in the avocado supply chain, (2) create a joint vision with the main avocado stakeholders, (3) build relations with urban sales channels, (4) develop a market based intervention plan.

To create an understanding among all actors involved about the avocado supply chain, a sample of avocados was literally followed from the moment of harvesting until delivery to the final consumer. This meant the team had to be awake and work for more than 24 consecutive hours. 'Show casing on the job' brought a clear understanding to all actors about their interdependency in realizing their individual objectives.

In figure 1 the schedule is presented which was followed during the field work. This schedule assured that all the collected information was documented immediately, shared and cross checked among the different subgroups. This triangulation of information maximized the learning effect of the team members. Each subgroup had a different focus every day, so by presenting back to each other the full picture emerged for the whole team.

³ Fresh Studio Innovations ASIA was hired by GTZ to design and coordinate the value chain development process.

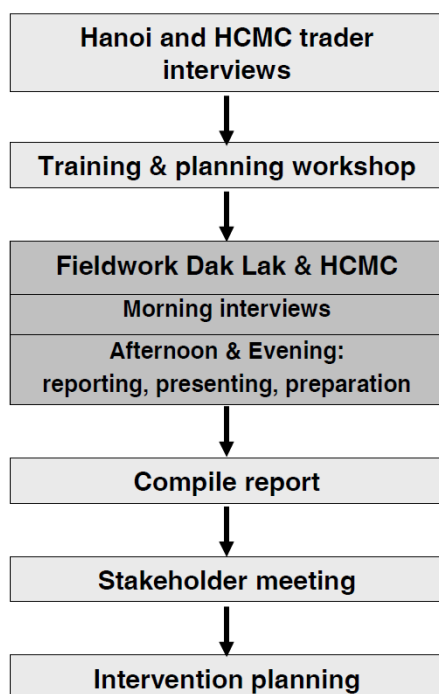


Figure 1 - Schedule of steps taken in the Avocado Chain Analysis

An important part of the ACA was the stakeholder meeting in which over 60 avocado chain stakeholders participated. In particular the participation of many private sector representatives, ranging from farmers and collectors to traders, wholesalers and retailers, has proven to be essential in the development of the avocado value chain.

Early involvement of modern urban sales channels resulted in the necessary incentive for quality improvements in the field. For small traders it is very difficult to negotiate and communicate with big urban sales channels. In this project already in the chain analysis modern retail and wholesale channels were invited to join the project. Herewith the urban sales channels on the one hand were acknowledged in their needs and on the other hand the project had assured a market perspective from the start.

Two important outputs of the stakeholder meeting were: (1) the realisation that a general avocado awareness campaign for end-consumers was required to realise the necessary market demand; (2) the largest supermarket chain in Vietnam, Saigon CO.OP Mart, immediately placed an order for avocados from one of the participating traders. This order enlarged the confidence to develop a professional avocado chain among all stakeholders in the avocado sector.

2.4 Focus beyond farmers

2.4.1 Farmers

Traditionally in rural development projects much focus is on the local farmers as local farmers are generally the key actor in improving product quality. However in the Vietnam avocado sector, farmers have limited interest in avocado cultivation. The average 'avocado farmer' is in fact a coffee farmer. On average farmers have about 5-100 avocado trees, that are mainly used as wind breaker around their coffee fields.

Although the large majority of the interviewed farmers expected that in the coming years the demand for avocado will increase and that prices will keep on going upwards, only few farmers have made serious investments and efforts to create avocado orchards. The main hurdles in professional avocado farming are that farmers do not dare to make avocado orchard investment decisions as they lack adequate market information: How stable are the prices? How large and consistent is the market for avocados? What variety is preferred by the market? Farmers are dependent on collectors, as their volumes are too small to develop a direct relation with a trader. Collectors harvest with multiple farmers and also trade other products than avocado; a reason for traders to prefer working with collectors instead of directly linking with farmers.

2.4.2 Collectors

Collectors play a crucial role in the avocado sector. They are responsible for harvesting the avocados from multiple farmers and transporting and selling them to traders. Collectors source directly from farmers. There are two different sourcing practices between collectors and farmers.

In the simplest system a collector approaches farmer to buy the avocados either per kilogram or a fee for the whole tree. Good collectors can estimate "with their eyes only" quite precisely what volume they can harvest from one tree. The second method is a deposit system, in which the collector gives the farmer a first payment several months or even one year before harvesting.

Collectors do this 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.

One of the most crucial skills a collector requires is to determine the right moment of harvesting. As avocados only start ripening after they are harvested, it is not easy to see if an avocado is ready to harvest or not. If an avocado is harvested too early it will never

develop into a well tasting ripe avocado. As such the collectors have a large impact on product quality.

In general collectors do not seem to have many large problems. The most important ones which they mentioned were the lack of sufficient working capital to place deposits and the lack of market information, especially the lack of price information in the final consumer market. A problem which was not perceived by the collectors themselves but which was easy to observe was the rough practices in avocado are harvesting and transportation. Collectors were largely unaware of the impact of their fruit handling on the final product quality. By shaking the trees, the fruits fall from 5-10 meters high on the ground, bruising the fruits, damage that only becomes apparent when avocados are ripening This seriously harms the competitiveness of the Dak Lak avocado sector.

2.4.3 Traders

Traders are mainly supplied by collectors. During the main, season large traders deal with about 50 different collectors per day. The relations between traders and collectors are based on spot buying without fixed contracts. However, most traders mentioned that they depend heavily on good relations with collectors to assure that they will also be supplied in periods of avocado shortage. Especially from good and regular collectors they hardly refuse to buy their produce even when they have already sourced enough that day. As such traders are heavily depending on the relations with their collectors in order to supply their customers with good quality produce.

However vice versa, the collectors are also depending on the traders for obtaining good and stable market prices from far away urban markets. Traders are the 'lifeline' for the collectors.

Traders sort and grade the avocados in different quality badges, a very time consuming activity that requires a lot of personal experience and skills, since there is no single avocado variety and the internal quality is difficult to judge from the outside. Although traders were identified as the most quality aware local stakeholders, their product handling was far from optimal. Bulk bags with avocados are turned upside down on dirty grounds, which bruise the avocados and speed up all kind of rotting processes. The main hurdles for future sector development mentioned by the local traders were the inconsistency in volume and quality supply by collectors, the weather sensitive market demand and the lack of direct links with modern urban sales channels.

Although collectors appeared to be the main influencers of product quality and sales channels crucial in providing quality improvement incentives, avocado business mindedness was mainly found with the traders who as spiders in the web, work on both

the agricultural and the market side of the avocado sector. As a result traders were defined as point of the departure for value chain development.

2.4.4 Modern urban sales channels:

The ACA clearly pointed at that due to the small scale businesses of all local actors involved, sector quality improvements needed a clear market incentive. In order to motivate the actors in quality improvements in their practices, they needed a substantial financial incentive. On the other hand the sales channels needed the sector to meet with their quality criteria. To break through this apparent 'catch-22' the advisors from Fresh Studio worked along with a local trader from collection all the way down to supplying urban sales channels at their back door. In doing this not only theoretical advice was provided, but by working on the job the advisors obtained a detailed understanding of practicalities and were therewith better positioned to develop actionable protocols to the satisfaction of both trader and modern urban sales channels.

A good example of breaking through the vicious reasoning of sales channels and traders were the product price strategy negotiations. Sales channels were sceptical about the willingness of consumers to pay a good price for a high quality avocado. In convincing them to try selling a high quality high value avocado a win-win product diversification strategy was developed: (1) cheap bulk avocados, (2) high quality premium priced avocados. This strategy minimized the sales risks for the sales channels and provided a sales opportunity for the trader to also sell its stock of avocados that didn't meet the DAKADO quality standard. Fresh Studio made a price proposal which allowed all actors to make a very good margin if they met the quality specifications. As such a sales success was an incentive for all actors in the chain from farmer up until supermarket to improve the avocado quality.

2.5 The identification of a traditional trader as 'lead firm'

The selection of one trader as lead-firm was not enforced by the project consultants, but resulted naturally. The open character of the project ensured all traders interested could join in, but as the project proceeded the requirements and investments (in time and materials) for participation increased. This gradual project intensification strategy ensured that all interested parties could get acquainted with the project, but also ensured that the business was only built with serious stakeholders. It appeared that only 2, out of 50 traders, were interested enough to actively join the project. Just before starting the actual business with modern sales channels, one of the two traders stepped out as he did not dare to invest in dedicated carton packaging. In the end only one trader was willing to take the risks to invest in new packaging materials and to work in a more professional way. To illustrate her dedication and serious business mindedness: The trader sold

her jewelry in order to be able to pre-finance the packaging materials. The trader was selected first, and from there on her existing network of collectors and farmers was professionalized. Several meetings were organized with her most regular collectors, after which eleven were willing to join the chain and to follow the product specifications and working process. Collectors and farmers could join on a voluntary basis but had to meet the following requirements. They had to participate in a training program on avocado cultivation, harvesting and post-harvest operations. They had to pass the exam at the end of the training course. They had to strictly follow the avocado maturity index, harvesting and handling procedures.

The selection of the right minded stakeholders has appeared vital in realizing sustainable business success. On the one hand, along the project many hurdles were met, that required perseverance and dedication. On the other hand, requiring serious efforts and investments (within reasonable limits) has prevented from falling into the trap of opportunistic opportunity catching.

It is not uncommon that donor funded projects suffer from opportunistic participant behaviour; as long as external financial means are provided for people are willing to go along, but as soon as donor support stops, people go back to their traditional practices. The selected trader, Thu Nhon company (TNC), has proven to be serious and dedicated and therewith succeeded in growing a large and profitable business that sustained beyond the donor support.

The importance of the selection of the trader as lead firm in the chain development is best illustrated by the implementation of the quality assurance system at the trader warehouse. In order to be able to receive higher margins by introducing in the market a high quality avocado brand it was essential to deliver consistent quality. Due to the scattered nature of the avocado sourcing and the resulting variation in avocado quality supply, clear quality criteria were developed that had to be met in order to be sold under the quality avocado brand DAKADO®.

Not all collectors immediately complied with the quality standards, but the trader hesitated in implementing the strict criteria, afraid of breaking the relation with her collectors. The project management however, insisted that the trader complied with the criteria, because quality compromises would ultimately jeopardize the newly established relations with urban sales channels. The trader convinced, followed the standards and as such had to refuse some product deliveries. One day a collector got so frustrated by the rejection of his produce that he burst out in anger and stopped supplying to the trader. The trader however persisted with her quality control and continued working with dedicated collectors only. A few days later the collector came back to say “sorry” and he asked to be

re-admitted to the DAKADO® supply team. This was a turning point in the relation of the trader with her collector network. From that moment on she understood her central role in the value chain and had gained enough confidence to take a lead in the further business development.

2.6 Incorporation of the consumer perspective

The market driven approach was not only depending on retail integration, but was also realized through thorough and ongoing consumer research, which has proven to be one of the key ingredients for success. As avocado is relatively new in Vietnam and consumers were not yet familiar with the product itself, the retail was hesitant in selling a premium priced quality product. As such the traditional 'marketing' system did not reward better cultivation, harvesting, packaging or transporting practices. To break to this stalemate the project started with an awareness campaign. Based on quick diagnostic research (desk research, point of sale observations, intercept interviews with consumers and expert interviews with supermarkets) the awareness campaign 'Discover the Magic' was developed to educate consumers about the virtuous of avocado, and seduce them to try and use avocado on a regular basis.

With the support of this campaign a large sales channel was prepared to buy the premium priced, better quality avocados offered by the project partners. The increased margins for retailers, trader, collectors and farmers were an enormous incentive for serious structural quality improvements and intensification of cooperation along the supply chain. Herewith a market incentive for the project stakeholders was created from the start.

The campaign was not only used to stimulate avocado sales, but also as a research instrument. A survey research was conducted to gain a better understanding of consumer knowledge and perceptions regarding avocado consumption and the impact of the in-store consumer communication. The survey, totalling 1920 interviews, was executed in both campaign and control stores and measurements were done one week before the start of the campaign and one week after. The research results were shared with all project participants to deliver guidance in demand driven product development and the results were used to develop a distinct brand positioning – 'DAKADO'.

The brand positioning, the communication concept and visuals were tested in four focus groups with supermarket consumers. The focus groups delivered a deeper understanding of the consumer attitudes towards fresh produce branding in general and concrete inputs on the DAKADO® brand positioning and communication. This approach assured the relevancy and attractiveness of the consumer communication on product and brand.

Consumer integration in the development of a high quality avocado supply chain didn't end with the brand communication. The website 'www.dakado.vn' was created where consumers can not only obtain information on product and brand, but where they are also invited to share their experiences and ideas. For this purpose a specific feedback form was developed. Through a traceability code on each fruit, each comment of a consumer can be traced back to a specific collector and tree, providing insights for ongoing quality improvements.

2.7 Step by step approach

The sustainable success of this project can importantly be explained by the fact that the whole value chain development was designed by a 'develop-and-experience' approach. The focus was on quick wins in quality improvements first, followed by small pilots. Small implementation pilots proved to deliver the necessary showcases in creating confidence and trust not only among the farmers, collectors and traders, but also among urban sales channels.

A good example of the effectiveness of showcasing in smaller pilots was the premium pricing of the higher quality avocados. Sales channels were very hesitant in buying the quality produce as prices were more than double compared to the bulk avocados on offer. Only one channel was willing to pilot the premium priced quality avocados when the sales would be supported by the avocado awareness campaign. Vietnamese value driven consumers embraced the quality product and sales and margins increased sharply. Although the volume was still limited the first sales pilot created access to many more modern sales channels. Besides the showcase effect of the sales pilots also the gradual step by step design in the development path has contributed to sustainable adaptation of newly introduced systems. Each step goals were set that were challenging though realistic and achievable. In following this process not only confidence was increased, but the gradual approach also provided for a steady learning curve. This can be illustrated with the below example on avocado sourcing:

Step 1: Creation of homogenous badges (2007)

At the start of the project there were many problems in sourcing high quality avocados. As the sector was dominated by scattered avocado trees in coffee plantations no single variety was cultivated and as such the avocados offered were far from homogenous. The first step in the project was therefore focused on the creation of homogenous badges. Based on personal skills and longtime avocado trade expertise, the trader sorted and graded the best quality avocado to be packed in homogenous badges.

Step 2: Tree inventory program (2007-2008)

The creation of homogenous badges proved a large market success and urban sales channels were eager to source more. However, the traders had difficulties in meeting the orders of the urban sales channels. Depending on daily spot buying from collectors, traders completely lacked information on volume supply. Under or over supply happened regularly. To create transparency in the avocado sourcing a database was developed that stores information per avocado tree; such as location, planting year, fruit quality, harvesting time, productivity etc.⁴ Information of almost 5,000 avocado trees spread over 7 districts of Dak Lak province was gathered and stored in the database.

With this tree management database, that has been made available to all project partners, it is easy to explore the year-round avocado sourcing enabling the prediction of the productivity of an avocado variety at a certain time in the year. Based on the analysis local traders can actively cooperate with farmers and collectors in making harvesting plans that meet the market demand and vice versa inform the market about the available avocado volumes.

Step 3: Farmer integration (2008)

The tree inventory enabled the trader to develop a harvesting plan and contract farmers directly that fit with her market demand. However getting farmers involved in the value chain was still challenging. Farmers were largely unprofessional and did not yet invest time or money in avocado production. Besides, contract based relations were a completely new way of doing business to both farmers and traders.

During the tree inventory program some farmers were identified that had many avocado trees and were seriously interested in avocado production. These farmers were approached by the project team that introduced the farmers to the avocado value chain development plan and to the system of contract based sales. When a farmer had obtained a better understanding of and was interested in joining the avocado chain, the match was made with the trader. One of the farmers approached had a few years earlier planted 200 avocado trees. When the trader visited the farm it was the first year the trees gave fruits but the quality was already promising. The trader was enthusiast about the farm and the farmer about the development of a dedicated quality avocado chain. A mutual agreement was reached and the first contractual business relation between a Dak Lak avocado trader and farmer was established.

⁴ A database management system MySQL was designed by Fresh Studio Vietnam and made available through the website <http://tree.dakado.vn>, developed on an open source PHP.

2.8 Results

The project that ended in 2008 has resulted in the first true fruit value chain of a Vietnam that sustains beyond the donor support. Early involvement of retail chains and building on consumer insights delivered improved sales and consequently resulted in the creation of confidence and trust among chain actors and a clear notion of interdependence.

The chain partners succeeded in creating the first traceable fruit in Vietnam, marketing this fruit under the high quality DAKADO® brand and therewith allowing price premiums of more than 40 percent to cover increased production costs and realizing higher profit margins for all actors involved (from retail to farmer). That consumers were willing to pay higher prices for premium fruits was an eye-opener for modern retail in Vietnam, as they always assumed Vietnamese consumers mostly cared about price when buying fruits.

Not only did the DAKADO® sales of the traditional trader increase (from 17 MT in '07 to 71MT in '09), but also the demand for her unbranded lower quality avocado went up (from 92MT in '07 to 171 MT in '09), delivering increased market opportunities for farmers and collectors beyond the DAKADO chain. Local partners got enormous confidence. Farmers started to invest in avocado production and the traditional trader invested in a truck and constructed the first avocado packinghouse of Vietnam.

3. Discussion: sustainable success: despite of or thanks to the differences?

The initial aim of this project was the development of the avocado sector in order to provide additional income to the poor Dak Lak farmers. The project did not prioritize the inclusion of a large numbers of farmers, which is typical for donor-funded development projects. Instead, the project focused on the development of a healthy business case that within the timeframe of only 2 years was able to continue business without donor support. Instead of immediately including many small farmers in the DAKADO® chain, the project provided a showcase that delivered confidence and trust for others to follow; creating a basis for sector development beyond donor support.

The thorough value chain analysis provided essential insights into the actual roles and responsibilities of different actors in the avocado value chain. Based on the factual practices, rather than assumptions, the value chain was initially created around a trader and her collector network. While in the initial phase of the intervention the group of stakeholders remained limited, the number of participants in the value chain has been expanding continuously. Due to strict quality criteria consumers trust the DAKADO® brand and are prepared to pay a premium price. As consumer awareness of avocado in general and DAKADO® in particular is increasing, more suppliers of high quality avocados need to

be contracted. The demand for high quality DAKADO® avocados has thus far been much higher than the supply. Due to increased margins for high-quality products, more collectors and farmers are now willing to invest time, effort and money in avocado quality improvements.

The creation of a successful professional avocado value chain has had large impacts on the rural communities. Both the awareness campaign and the free media attention due to the success of DAKADO® have stimulated the growth of the domestic avocado consumption and the awareness of Dak Lak as a sourcing area for high quality avocados. Not only did the sales of DAKADO® increase, the sales of bulk avocado increased even more. Even without direct involvement in the DAKADO® supply chain, farmers and collectors are benefiting from higher margins as a direct result of increased avocado demand. Besides direct financial benefits, the project has been actively stimulating the dissemination of avocado cultivation and post-harvest knowledge. Thirteen manuals have been developed that learn about the different aspects of avocado cultivation and DAKADO® VC presentations have been given on fairs and local sector conferences to disseminate the knowledge and experiences to other avocado traders, collectors and farmers.

Considering the fact that a professional avocado sector was non-existing in Vietnam and that the project has resulted in a profitable avocado value chain, the project can be considered a success. 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. Currently the local trader is signing cooperation contracts with 100 local farmers for the establishment of an Avocado Alliance. Moreover the newly created Vietnam avocado sector is attracting international attention and is seriously assessed for business investments.

2.9 Recommendations for further research

This paper presents a successful value chain donor intervention that differs from the main stream concepts as discussed in international VC governance literature on some fundamental points: local versus global perspective; small-scale local versus multinational lead firm; new product introduction versus commodity; long term business focus versus short term pro-poor impact. Since this paper describes a single case study only, it is interesting to conduct further research on local value chain development. This becomes even more important given the fact of the rapid economic development of the South East Asian region. Leveraging the growing purchasing power of consumers in densely populated NICs like Vietnam offers high potential for local and regional pro-poor value chain development.

This case also illustrates that it is essential to evaluate the VC intervention impact in the long run. It showed how a limited intervention during the project phase has resulted in a self-sustaining and growing inclusive business after the donor support was ended. The long-term intervention impact should be evaluated to inform effective, pro-poor development policy. It is advised to extend the impact evaluations to 1-2 years after a donor project was finished. Last but not least it might be interesting to further study the role and function of the VC development facilitator. What types of facilitators can be identified and in what type of cases and in what way do they contribute to the sustainable development of pro-poor value chain interventions?

3. References

- Altenburg, T., 2006. Governance Patterns in Value Chains and their Development Impact. *Eur. J. Dev. Res.* 18, 498-521.
- Altenburg, T., 2007, 'Donor approaches to supporting pro-poor value chains', Report prepared for the Donor Committee for Enterprise Development Working Group on Linkages and Value Chains, German Development Institute, 61 pp.
- Blair, J., and G. Gereffi, 2003. Local Clusters in Global Chains: The Causes and Consequences of Export Dynamism in Torreon's Blue Jeans Industry. *World Dev.* 29, 1885-1903.
- Dolan, C. and J. Humphrey, 2004. Changing governance patterns in the trade in fresh vegetables between Africa and the United Kingdom. *Environ. Plann. A.* 36, 491-509.
- Gereffi, G., and M. Korzeniewicz (editors), 1994. *Commodity Chains and Global Capitalism*. Greenwood Press: Westport/Connecticut, 338 pp.
- Gereffi, G., J. Humphrey, and T. Sturgeon, 2005. The governance of global value chains. *Rev. Int. Polit. Econ.* 12, 78-104.
- GTZ, 2008. GTZ's experience in value chain development in Asia: an external perspective. Discussion paper, GTZ Eschborn, 51 pp.
- Kaplinsky, R., 2004. Spreading the Gains from Globalization. *Probl. Econ. Transit.* 47, 74-115.
- Perez-Aleman, and P., M. Sandilands, 2008. Building Value at the Top and the Bottom of the Global Supply Chain: MNC-NGO Partnerships. *Calif. Manage. Rev.* 51, 24-49.
- Raikes, P., 2007. Global commodity chain analysis and the French filière approach: comparison and critique. *Econ. Soc.* 29, 390-417.
- Reardon, T., 2005. Retail Companies as Integrators of Value Chains in Developing Countries: Diffusion, Procurement System Change, and Trade Development Effects. Report GTZ Eschborn, 40 pp.
- Reardon 2006. The Supermarket Revolution in Developing Countries: Policies to Address Emerging Tensions Among Supermarkets, Suppliers and Traditional Retailers. *Eur. J. Dev. Res.* 18, 522-545.

Roduner, D., 2007. Donor Interventions in Value Chain Development. Swiss Center for Agricultural Extension and Rural Development (AGRIVEDA), VCRD CoP Berne, 22 pp.