

Sourcing vegetables from developing countries

Getting fresh vegetables onto supermarket shelves is a competitive business. An estimated 38% of vegetables consumed in the UK are sourced from abroad. The physical length of this supply chain requires skilful management by talented buyers who must stay ahead of their competitors and second guess consumer demand every day of the year.

The following is a summary from a report called 'A fresh perspective' published by Traidcraft Exchange – the UK's only development charity specialising in making trade work for the poor. The report is part of the work of the Responsible Purchasing initiative to improve the purchasing practices of EU companies so that minimum human rights standards are realised by the workers and farmers in the developing countries involved in producing products.

Buyers must balance getting hold of reliable supplies at exactly the right volume, and in top condition, against the risk of costly wastage – for example, French beans and broad beans last no more than a week, even when refrigerated. In this challenging environment, buyers have a valid commercial goal of sourcing from suppliers who can respond flexibly to rising and falling demand, and who can offer high quality produce at optimum price. Meanwhile debate has sprung up over the environmental impact of food imports, and the call for corporate social responsibility is getting louder.

Sourcing success

A company's success depends on its suppliers. If their supply chains work well, buyers can enjoy greater confidence in food safety, a stable supply and excellent availability of produce. Trusting relationships in turn allow suppliers to invest in improving product quality, range, innovation and delivery methods.

But, there is also a flip side. There can be serious consequences if suppliers are put at risk, not only for the security of supply, but also for the supplier themselves,

their workers and their families. This is especially true in the vegetables sector, when so much produce is grown in developing countries.

There is growing evidence to show that the way in which UK companies source vegetables can directly improve, or damage, the livelihoods of people many thousands of miles away. In the worst cases, where suppliers are paid below the costs of production, producers may no longer be able to feed, shelter or clothe their families, or pay for medical costs. In today's culture of media scrutiny, the carefully built reputation of major companies and brands can be severely damaged overnight by negative reports.

It's not all doom and gloom though. The good news is that companies that are committed to positive, and responsible, buying practices will be rewarded.

The benefits include:

- Trusting and stable relationships with suppliers
- Improved security and quality of supply
- Greater consumer confidence
- Higher levels of investor confidence
- Lower reputational risk.

Some of these benefits are hard to measure. A non-financial metric is needed to assess the health of buyers' relationships with suppliers. Traditional incentives and targets need to be re-thought. But this is not beyond the capabilities of companies trading internationally today. Getting it right is a responsible choice – but it makes good business sense too.

Purchasing practices in 'Out of home' and retail sectors

Many UK buyers enjoy the benefits of highly sophisticated mechanisms to forecast demand. They can place, change or cancel orders from thousands of miles away, at the click of an email or by picking up the phone. But nature allows few shortcuts. In the country of origin it will always take months to grow the produce. How can buyers contribute to a better balance of risks, responsibilities, and benefits between the different parts of the supply chain?

At the moment the bulk of the business risk sits with the importer, exporter or farmer.

They decide to buy the seed, pay for inputs and grow the produce. But in fact the UK buyer may be better placed to bear that risk. The supplier must source the produce, aware that it may not all be needed. For a farmer the wrong decision may mean not able to go to school and no money for medical costs.

A fairer apportionment of risks and benefits is crucial. Good forecasting forms the backbone of good purchasing practice. Without it the consequences may be:

- Farmers paid below the cost of production
- Wastage, if produce is grown, transported and then dumped
- Unpredictable overtime for workers.

Increasing market concentration means that buyers are in a powerful position to influence the viability of supplier businesses – and thus the welfare of farmers overseas. The question is how much room for manoeuvre do buyers have?

The spectrum of vulnerability and opportunity

Farmers in the best positions...

Communication, planning and contracts

Have contracts with a buyer for at least one crop cycle.

The contract specifies:

- the volume and quality required
- the price
- sharing of risks and benefits when order volumes change

This allows farmers to plan ahead and invest in production with confidence. Do not face charges passed on by exporters when problems arise in UK.

Access to information

- Receive regular market information. Can voice experiences and opinions to their exporters
- Work in groups or cooperatives where information is shared and terms of trade are discussed
- Have access to information. Understand both risks and opportunities for their business. Can develop new ideas, innovate and produce their crop more efficiently. Are isolated - so do not hear any explanation for changes in prices offered or sudden drops in demand. This leads to poor relationships with the agents or the exporters they sell to. Suspect others of cheating them.

Meeting quality standards

- Are supported by their exporters to understand the different standards they must comply with
- Can comply with standards because their exporters are willing to invest in new equipment or facilities
- Are supported by their exporters to cover audit costs

The verification of rejected produce

Have any rejected produce returned to them so can check the quality for themselves, or an independent arbiter verifies the grading.

Farmers in the Worst Position...

Communication planning and contracts

- Sell produce to brokers or exporters with no contract or guarantee of continued trading. May have to accept lower prices than farmers with contracts
- Are likely to have fewer options and fewer assets. Are more vulnerable when the price or demand suddenly drops
- Unable to invest in their production
- Bear a high degree of risk, due to factors out of their control. For example, may bear the brunt of order or price changes as a result of unpredictable weather

Access to information

- Are isolated - so do not hear any explanation for changes in prices offered or sudden drops in demand. This leads to poor relationships with the agents or the exporters they sell to. Suspect others of cheating them
- Do not receive any information or training on the quality or safety standards they must meet

The verification of rejected produce

- Feel aggrieved because produce is rejected but not returned to them. If produce is returned, it may not be their own produce, which breeds distrust
- May bear brunt of disproportionately high charges (compared to their sale price) if their produce is rejected in the UK (Charges imposed by UK buyers are passed on to them by brokers or exporters.)

Meeting quality standards

- Cannot meet cost of new quality or safety standards. Find themselves forced to invest in facilities, which are of a higher standard than anything they enjoy in their own homes, e.g. sanitary facilities or waterproof chemical stores
- Find it difficult or impossible to obtain certification. May be pushed out of farming for export market altogether

How exporters describe responsible buying

A successful export business depends on meeting the specification of orders as exactly as possible. Tight delivery schedules make it difficult to be flexible and may directly result in longer, unpredictable working hours throughout the supply chain, which could have been avoided.

If buyers share accurate forecasts for their orders, exporters can confidently source only the quantity specified. When the forecast and final order vary substantially, suppliers bear the brunt of the risks and costs, particularly if they are penalised for not fulfilling the order 100 per cent. At present some suppliers grow and transport up to one quarter extra in case the final order is substantially higher than the forecast. This can result in much produce and money being wasted.

Damaging practices by buyers may include:

- Suppliers having to agree the value of a delivery only after the delivery has been made
- Suppliers being pressed for 'loyalty' donations when a retailer, or individual buyer, is about to miss their investor forecast or profit target

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- Invoices not being paid in full, or payments delayed 45-60 days after delivery
- Deductions taken from payments without agreement

What can UK buyers do?

So what can buyers do? The vital ingredient for improvement that was repeatedly identified in our research was trust. The fostering of trust between each level of the supply chain can build a virtuous circle. Its business benefits cannot be measured in the way that margins can be calculated, but it is undeniable that low levels of trust within the supply chain create a barrier to business performance.

When more stable relationships evolve, benefits are felt in the security, reliability, quality and timely delivery of produce – and real improvements can be experienced in the lives of producers. A new non-financial metric is needed to assess the health of buyers' relationships with suppliers.

A second interlinking factor is **commitment**. Improving working conditions throughout the supply chain requires investment both by buyers and by smallholder farmers themselves. This investment can only take place where there is a clear commitment by buyers to continued purchasing from supply chains involving smallholders, and to pricing structures that allow for investments.

Good practice also makes good business sense. Suppliers with better social practices frequently:

- Have better productivity
- Can supply better quality produce, and confidently meet food safety standards
- Offer a more stable and efficient supply of produce

In turn, buyers and their companies can enjoy:

- More trusting and stable relationships with their suppliers
- Greater consumer confidence. Ethical consumerism was worth £29.3 billion in the UK in 2005, up 11 per cent on the previous year
- Higher levels of investor confidence. Socially responsible investment is now worth more than £500 billion a year in the UK
- Lower reputational risk

We have identified five starting points for buyers:

1. Improve forecasting and planning
2. Use contracts and follow fair procedures
3. Share information and support mechanisms for two way communication
4. Be loyal to good suppliers, and recognise the role of smallholder farmers
5. Implement standards fairly

The ultimate goal should be to ensure that basic economic, social and labour rights are respected throughout the supply chain, and especially in developing countries, where supply chain partners are most vulnerable and have no social security net to fall back on in difficult times.

Of course, buyers cannot act alone. Company policies should encourage and guide their actions:

- Buyers need to advise their senior management of the consequences of their sourcing decisions on other parts of the supply chain
- Where changes need to be made, buyers should consider whether company policies and incentives could be changed, or whether industry-wide change is needed

- Companies can carry out a survey of their supply base to gauge the level of trust that their suppliers have with the company. They then have the necessary information to act

Improvement over a sustained period, rather than dropping suppliers if any risks or problems are identified. But if a supplier demonstrates an unwillingness to improve their operations over a reasonable period, buyers do have a responsibility to end the business relationship.

If you do just one thing differently... improve your forecasting and planning.

Farmers need to know what quantity of vegetables to plant, and when. Some dramatic changes to supply and demand cannot be easily foreseen, such as unseasonal weather. But other factors do lie within a buyer's control, and good practice can bring real benefits to farmers, workers and their families.

A full copy of this report can be downloaded from www.traidcraft.org.uk