

Collective Action to Facilitate Small Farmer Participation in High-value Domestic Markets:

The Experience of CAISP
in São Paulo Brazil

Denise Mainville

Introduction

- Sao Paulo
 - City of 18 million
 - Most produce from green belt around city
- Rise of large retailers in SP
 - Economic stabilization and liberalization since early-mid 1990s
 - Estimates that supermarkets account for 50% of fresh produce sales in Brazil (about 30% in SP)
 - Aggressive efforts on part of large chains to increase market share
 - Expansion into smaller cities in interior of SP
 - Buy up smaller supermarkets
 - Imitation of alternative market formats (discount green grocer & fair)

Large Chains' Procurement Strategies

- Large chains seek to provide the best quality at the lowest cost
- Procurement strategies
 - Centralization of procurement
 - Purchases direct from growing region
 - Formal relations—use of supplier registries or contracts
 - Formal private grades & standards

Large Chains' Effects on Market

- Many smaller retailers undertake similar measures to keep up
- Net effect of large and smaller retailer efforts is shift in product flows from wholesale market to direct sales
- Producers see traditional markets eroding
- Must improve quality, enter new relationships with buyers, offer new services

Formation of the Cooperative

- *Cooperativa Agropecuária de Ibiúna--São Paulo* (CAISP) (Ibiuna SP Agricultural Cooperative)
- Formed 1995 in Ibiúna (2nd largest municipality for lettuce production in SP)
- Objective to increase producer and community welfare through
 - Better terms of sale and input purchase through collective negotiation
 - Synergies & joint investments to permit entry to higher-value markets
 - Professional marketing management that allows producers to focus on growing
 - Diversified clientele and reduced dependence on public wholesale market

Members

- 17 original members producing fresh produce
- Previously sold through public wholesale market, with some direct sales to retailers
- Diverse membership in terms of size and resources (1 – 20 ha., \$4k-50k annual sales)
- Homogeneous in terms of cultural factors
 - Ethnicity: Japanese origin
 - Age: 25-45 years
 - Gender: male
 - Reflective of SP's vegetable producing population
- Membership requirement
 - Demonstrated ability to participate consistent high-quality produce
 - Ability to work constructively & productively w/in cooperative framework
 - Prospective members tested through several seasons of contracted production

Clientele

	Number of buyers	Percent of sales
Supermarket/hypermarket chains	05	63%
Small and medium-sized supermarkets	16	34%
Discount green grocers	02	02%
Food service/Processors	02	01%
Total	25	100%

Selling to Large Chains: Trade Practices

- Registry or contract
- Food safety certification
- Centralized negotiation
- CAISP supplies price list for negotiation
- Negotiation: less on day-to-day prices which tend to be competitive, but numerous discounts & promotions
 - Coverage of spoilage and losses
 - Advertising and marketing costs
 - Fixed annual payments
 - Commercial partnership fees/discounts

Selling to Large Chains: Product & Service Requirements

- Compliance with written quality standards
- Minimum number of items
- Food safety certification
- Labeling & traceability
- Delivery
- Promotions
- In-store promoters

Selling to Large Chains: Cooperative Investments

- Product development, quality & labeling
 - Expand product line
 - Establish bar codes, nutritional tables, product identification, customer support numbers
 - Certification, testing for food safety
- Logistics
 - Electronic (internet) capabilities
 - Refrigerated transport
 - Plastic crates

Selling to Large Chains: Member Investments

- On-farm capacity, infrastructure, equipment
 - Machines, equipment
 - Packing sheds in good condition & hygienic
 - Better qualified labor
 - Vehicles for timely delivery to cooperative
 - Research into and adoption of new production techniques
 - Adoption of more productive and resistant plant varieties

Selling to Large Chains: Advantages

- Large volume of sales to few buyers (64% to 5 buyers)
- More stable prices & assured payment (default not a problem as it is with small retailers)
- Large volume & stable prices means more constant revenue flow
- Centralized negotiations easier

Selling to Large Chains: Advantages (continued)

- Access to new markets as large chains expand
- Product upgrading to sell to large chains improves access to other markets/buyers (e.g. food safety)
- Brand recognition & visibility—large chains promote brands, help sales elsewhere
- Broad product line
- Strong logistical structure

Selling to Large Chains: Disadvantages

- Long payment delay (50 days for large chains vs. 30 for smaller retailers)
- Chains have more bargaining power to negotiate prices, terms, conditions)
- High-maintenance relationships
- Large investment requirements (though with synergies & payoffs beyond sales to large chains)

Success Factors

- Diversified clientele
- Leveraged investments
- Select membership—producers have capacity & culture to succeed
- Prudent administrative strategies
- Focus on pleasing most demanding buyers
- Focus on business objectives, w/social benefits of coop as an outcome

Renewed Challenges

- Large chains
 - Increasingly reliant on contracts
 - Increasingly stringent food safety regulations
 - More demanding in negotiation wrt discounts, etc.
 - Causing reduction in number of suppliers with big rewards to those who stay
- Brazil's largest retailer
 - Switch to contracts from registry
 - Stringent food safety requirements
 - HACCP, GAPs, GMPs
 - Suppliers who comply qualify to sell under private brand

Renewed Challenges

- Going on two years...
 - 8 suppliers comply or close to compliance
 - 21 suppliers off supplier list
- CAISP
 - Near compliance with new standards
 - New central packing house
 - Effects on internal structure (participation, constitution of coop) unknown to date
 - Negotiation effects of qualifying to produce under private brand?

Conclusions

- Replicability: Cultural factors paramount
 - Brazil's history of cooperativism
 - Perception of neighbors as competitors, not colleagues
 - Cultural controls on opportunism weak, poor options for legal recourse

Collective Action to Facilitate Small Farmer Participation in High-value Domestic Markets:

The Experience of CAISP
in São Paulo Brazil

Denise Mainville

Product Line: Leafy Greens (2003)

Product	% of CAISP's sales
Conventionally produced, sold bulk	2%
Conventionally produced, sold bagged	82%
Organic	1%
Hydroponic	4%
Semi-processed	8%
Fresh-cut (sanitized)	3%
Total	100%

Operations

- At year-start, members collectively decide on quotas, free to market any additional product on their own
- Operational resources from 20% tax on sales
- Separate charges for transport & packaging (approximately 25%)
- Currently only bagging of lettuce conducted at coop level—all other v.a. at farm level, but construction of packing house underway