MARCH '09

Fact Sheet

University of Stellenbosch
The BOP Learning Lab

SAB Miller – Integrating smallholder farmers into the supply chain of an MNC

From a business perspective, increasing economic opportunity at the Base of the Pyramid (BOP) is most often designed around three basic models : sourcing from, distributing through, or selling to the lower income segments. Many of our recent factsheets were variations of the « selling to » model, including for example Danone, Massmart, Sanlam or Vodacom, which have all approached the BOP by customising and innovating their products to make them more affordable and relevant to a low income customer base. The « sourcing from » approach, for its part, involves integrating the BOP into a company's value chain by entering into partnerships with local suppliers from within the lower income segments, most often SMMEs (Small, Medium and Micro-entreprises). This approach makes particular sense for many firms involved in the food and beverage sectors, since agriculture is often the core economic activity of many at the base of the economic pyramid. Integrating the BOP into its value chain in a profitable way is also often referred to as so-called « inclusive business models » by the UNDP (United Nations Development Programme). [1]

This factsheet will look at how SAB Miller, one of the largest brewers in the world, is rolling out variations of this model in different parts of the world. This approach is crucial in integrating local communities, very often in rural areas, brining welcome relief to impoverished rural areas. Such initiatives not only aim to satisfy basic needs at the BOP, they also aim to lay the foundations of economic upliftment and social transformation.

1. Corporate ID and key figures[2]

SABMiller's origins go back to Johannesburg in 1895. It quickly came to dominate the South African beer market, and today still holds a local market share of 95 %. Its brand names include Castle Lager, Hansa Pilsener, Black Label and Sterling Light. Over the last 20 years, it has expanded agressively outside South Africa's borders and through a series of mergers and acquisitions, mainly in the developing world and emerging markets, it has grown into one of the world's top three brewers. SABMiller is today one of South Africa's major global companies, and the only significant South African MNC (multinational corporation) not active in mining and resources. Its experience in developing and emerging markets make it a very relevant example in the context of reaching the BoP markets.

Having been active in emerging markets for decades, SAB Miller has long been aware of sustainable development issues. Even for a multinational corporation, its experience is truly global, with operations quite evenly spread in both developed and developing countries, on five continents (see key figures). It has developed what it sees as a coherent set of 10 sustainable development priorities, with strong social and environmental components[3] :

- Encouraging responsible drinking
- Reducing its carbon footprint
- Making more beer with less water
- Working towards zero-waste operations

1 WBCSD/Ethical Corporation, "Sourcing, small and local, February 23, 2009. http://www.wbcsd.org/Plugins/DocSearch/details.asp?ObjectId=MzM0OTc
2 See also our first factsheet on SABMiller's taverner programme, BOP Factsheet, June 08.
3 REDDY Sulona, SAB Sustainable Development Manager, BOP Presentation on 5 February 2009, Cape Town.

Some Key figures for 2008[4]:

Number of Employees worldwide :	69,000
Estimated number of indirect jobs linked to SAB's activities :	660,000
Number of direct employees in Africa :	16,500
Sales :	USD 23.8 billion
Proportion of income generated in emerging markets :	80%
Number of brands owned :	200
Geographical distribution of earnings :	
Latin America :	25%
Africa and Asia :	14%
South Africa :	27%
North America :	11%
Europe :	23%
Number of breweries worldwide :	139
Amount spent by SABMiller on suppliers in 2008 :	USD 10 billion
Farmers engaged in smallholder programmes :	10,500

- Respecting human rights
- Benefiting communities
- Packaging and recycling
- Building supply chains that reflect its values and commitments
- Contributing to the reduction HIV / Aids
- Pledging transparency in its reporting

Integrating the BOP into its value chain is therefore a direct translation of its stated sustainable development priorities, and SABMIller seems determined to make significant progress in this field, as is evidenced by its annual report and its Enterprise Development report published in December 2008.

2. Background information – Agriculture and agribusiness as one of the key sectors for the BOP in Africa

Agriculture remains by far the dominant economic activity on the African continent. According to research by the World Bank, the agricultural sector accounts for one third (32 per cent) of Gross Domestic Product (GDP) and two thirds (65%) of employment.[5] Unsurprisingly, therefore, there is much focus on agriculture as the key sector for achieving the Millenium Development Goal (MDG) of halving poverty by 2015.

However, very low productivity, coupled with increasing scarcity of land, means that a major overhaul of the agricultural sector is needed to make the sector a significant engine of economic growth. Yields need to be drastically increased and much downstream investment is required, most notably in terms of infrastructure and transport. The benefits, however, of boosting agriculture are potentially huge for the BOP : one of the key findings of the World Bank's 2008 Development report is that GDP growth originating in agriculture is about four times more effective in raising incomes of extremely poor people than GDP growth originating elsewhere. [6]

Agribusiness, referring to here as the involvement of business in the agricultural sector, can have an important role to play in the economic development, employment and foreign exchange of many developing countries. As outlined by the International Finance Corporation (IFC), the World Bank's financing arm, Sub-Saharan Africa's agribusiness sector faces numerous challenges, including limited mechanisation and capacity and a plethora of small-sized plots. In this context, MNC's active in the food and beverage industry have a potentially very important role to play in integrating local small producers into their value chains. While there are challenges, not least to reach economies of scale and ensure consistent quality of produce, there are also many advantages in keeping supply chains as local as possible. Not only does it cut transport and logistics costs, it also enhances a businesses's contribution to the development of the communities in which it operates. It is with this approach in mind that SABMiller has been, not just in Africa but also in other parts of the developing world, sought to experiment, consolidate and then expand the integration of smallholder farmers into its supply chain.

3. SAB's small holder farmers model

Among its ten sustainable development priorities, SABMiller sees Enterprise Development in supply chains as one of three areas in which it sees an opportunity to be a global leader. Its programme to encourage enterprise development in its value chains is organised around three main channels : Supporting smallholder farmers, supporting local suppliers of raw materials, and developing entrepreneurship in local communities.
In this factsheet we will focus on the first channel, namely supporting smallholder farmers.

A. A concerted effort across different key SABMiller markets

Since much of its expansion over the last decade or two was made through acquisitions of local breweries, SABMiller has a unique combination of local and global expertise in emerging markets. While many issues and problematics are common to all emerging markets, local drivers of change differ widely. In South Africa for example, the policy of BBBEE (Broad-based Black Economic Empowerment) forms the regulatory and political background to encouraging the integration of smallholder farmers in supply chains. In Tanzania, by contrast, the main driver of the same approach is the need to generate savings on import costs in the face of uncertain commodity prices and limited foreign exchange. The end result, though, is similar, in that it is encouraging MNC's to design innovative ways in which they can conduct business sustainably in partnership with lower income segments.

4 SABMiller, 2008 Enterprise Development Report, and Annual report 2008
5 WORLD BANK, « Factsheet – The World Bank and agriculture in Africa », http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21935583~pagePK:146736~piPK:146830~theSitePK:258644,00.html
6 WORLD BANK, « World Development report 2008, Agriculture for development », Washington DC, 2009

Currently, SABMiller's smallholder support programme is focused on South Africa, Zambia, Uganda, Tanzania and India. It is also, increasingly, implementing the programme in Latin America, another of its key markets. In a matter of eight years, the number of smallholder farmers involved in SABMiller programmes has risen from 62 (in South Africa) to an estimated 16,800, including 5,800 in Uganda and 2,700 in Zambia. [8]

The programmes vary from one country to another, but there are common elements eveywhere. SABMiller's approach is to incentivise farmers to grow a particular crop such as barley or sorghum, for example by paying farmers at a pre-negotiated rate, usually a premium over the prevailing market rates. The programme gained momentum in Uganda, when SABMiller's local subsidiary, Nile Breweries, entered into a partnership with local seed brokers to create long-term partnerships with sorghum farmers. The success of the programme enabled it to be replicated in Zambia and Tanzania. In all three countries, SAB Miller is partnering with local and international NGO's, (such as CARE International), grain dealers, and farmers' cooperatives. The NGO's are involved in providing technical training and advice to the farmers. In India, where the programme was initiated in 2005, SABMiller also involved the state government of Rajasthan, highlighting what CK Prahalad calls the interconnectedness between the main four actors of a comprehensive BOP approach : government/civil society, BOP consumers /entrepreneurs, development and aid organisations (NGOs), and private enterprise. [9]

B. Socio-economic benefits

The socio economic benefits have been measurable in all markets concerned. Everywhere the programme was implemented, smallholder farmers have benefited in the form of increased incomes, job creation, and increased security in the form of crop insurance for example.

Perhaps the main long-term benefit of the programme is that farmers involved can, in many instances, move away from survivalist farming to small scale commercial farming, able to use their land as collateral, and to purchase basic farming equipment, which in turn increases yields and productivity. There is significant additional leverage in the form of the employment of seasonal labour, most notably in Uganda where up to 40,000 extra people receive a temporary income thanks to the programme. SABMiller estimates that the average supplemental income is about USD 250 per farmer/year, over and above their subsistence farming and based on an average production of about 1.4 tonnes of sorghum each year. [10]

The programmes are also customised in each country in order to address the most pressing local issues. In South Africa and Uganda, SABMiller provides benefits beyond income and jobs, for example in the form of interest-free loans, and knowledge transfer: technical and business training, such as improving farming techniques and bookkeeping. In India, each farming collective is assigned two professional agriculturists, who pay fortnightly visits to the member farmers and provide them with on-site « consulting services » and recommendations on the most efficient farming methods. SABMiller reports that around 5000 farmers outside the scheme have also benefited from this knowledge transfer service.

C. Business benefits for SABMiller

The main benefit of the smallholder farmers programme for SABMiller is the long-term securing of its market share and its intrinsical interest in the prosperity and well-being of its customer base at the BOP. In that sense, the programme is an investment with high potential future returns in terms of profits and growth. The business benefits, according to SABMiller's own calculations, far exceed its costs. [11]

In a more immediate way, the scheme is helped by a number of government incentives, notably in Uganda and Zambia where, as a result of sourcing from local farmers, SABMiller qualifies for lower excise rates: one third of the normal rate of 60% in Uganda, and half the normal rate of 75% in Zambia. This preferential rate enables the company to have an edge over its competitors in terms of cost and pricing, a crucial factor in a very price-conscious low-income market. In fact, lowering the excise rate has paradoxically actually increased revenue on the Ugandan government's side, because a new market segment was created as sales soared in volume. This resulted in additional excise revenues and VAT of a total of USD 11.6 million for the Ugandan Treasury. [12]

Another key business benefit is reputational, as SABMiller is explicitly positioning itself as the brewer of choice for emerging markets, compared to its main, rich-country based competitors Anheuser Busch and Ambev. Supporting local farmers, in cooperation with different categories of local and international stakeholders, gives substance to SABMiller's stated commitments and sends a very strong positive signal to governments and SABMiller's customer base.

4. Challenges and learnings

Even if the benefits of « sourcing from » the BOP are quantifiable in the case of SABMiller, the model is also presented with some tough challenges, both in business terms (stock management and potential market distortion, and from an ideological perspective (creating a form of dependancy on an MNC).

- Stock management – the risk of encouraging overproduction

From a business perspective, the basic model of paying farmers a premium rate over and above commercial rates carries a certain amount of risk for the enterprise. SABMiller may find itself in a delicate situation vis-à-vis smallholder farmers if it has committed to higher than market prices for sorghum or barley, by unwittingly encouraging overproduction and / or artificially creating price fluctuations. It has in fact experienced this situation in Uganda, and as a result SABMiller is looking into possible solutions to this dilemma : it may involve such measures as selective distribution of seeds to limit harvests, and identifying specific communities for long term relationships. Such measures, however, present other challenges, such as the creation of an unhealthy dependent relationship between an MNC and the « community » it is sponsoring (see below).

7 SABMiller, 2008 Enterprise Development Report, p6
8 Ibid., p7
9 CK PRAHALAD, « The Fortune at the bottom of the Pyramid », Wharton School publishing, 2006, p2
10 SABMiller, 2008 Enterprise Development Report, p8
11 Ibid. p9
12 Ibid. p 9

- Potential market distortions

Related to the first challenge, the premium-over-market-rates model can have some unplanned distorting effects on the open market of basic agricultural products. Farmers may, for example, decide to switch production to potentially more lucrative sorghum and barley, possibly resulting in shortages (and therefore price increases) of other crops. It is therefore important, in this regard, for stakeholders (including local and national regulators) to balance the interests of direct beneficiaries of preferential procurement programmes against the interests of the community at large, and mitigate the potentially distortionary effects with compensatory measures and incentives.

- Dependancy of beneficiaries on MNCs

From a more ideological perspective, MNC-sponsored socio-economic development programmes do not always escape controversy. Some activists, political leaders and NGOs can be quick to point out that in the absence of proper public oversight, MNCs can be tempted to develop a lopsided relationship with specific communities, in which the balance of power is firmly in the hands of business, as it can easily withdraw benefits and programmes if the beneficiaries become too demanding. From a reputational perspective, it is extremely important for an MNC such as SABMiller to be fully transparent in the manner in which it manages its sourcing from models in order to avoid such damage. This implies acceptance of public scrutiny and openness to criticism. In the long run, the truth is that MNCs efforts should always be one part only of a coherent, holistic approach to socio-economic development. Businesses cannot and should not substitute for governments in terms of agricultural policies, providing incentives and training for example, and providing too much of it, even with the best of intentions, might have the net effect of crowding out government measures.

5. Conclusion

As highlighted by the World Bank Report for 2008, agriculture has unique potential as an instrument for economic development, and this is even more true in sub-Saharan Africa, where poverty is still endemic, than elsewhere in the developing world. Assuming that some fundamental preconditions are in place (basic macro-economic stability, minimum levels of good governance and socio-economic fundamentals), MNCs, acting as economic multipliers, can make huge contributions to improving the livelihoods of the poor[14]. SABMiller's smallholder programme is a very good example of how this can be done locally by a global corporation, and still replicate and adapt it different countries across two continents. Of course, there are limitations to what can be achieved by the private sector on its own. SABMiller itself insists on the fact that the best results, defined here as the best balance between business benefits and socio-economic benefits, seem to have been achieved when it had moderate levels of general oversight of the programme, and maximum involvement from the three main other stakeholders : NGOs, the beneficiaries in the BOP, and the authorities (i.e. government). In many ways, despite the challenges, the results are quantifiable, and so far very encouraging. The « sourcing from » model holds much promise for the socio-economic progress of the BOP.

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14 WORLD BANK, op. cit., p19

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