

1 ■ The Role of the Food & Beverage Sector in Expanding Economic Opportunity

The food & beverage industry has a unique role in expanding economic opportunity because it is universal to human life and health. The industry operates at multiple levels of society: families grow crops for their own consumption, communities trade fresh produce and home-processed goods, local companies transform domestic crops for local markets, and international corporations purchase commodities globally to deliver products across geographies.

In this diverse landscape, billions of people grow, transform, and sell food, particularly in developing countries where agriculture dominates all other economic sectors. Yet a vast share of these workers cannot both satisfy their immediate consumption needs and earn sufficient income from food markets to improve their lives. This paper provides insight into how pioneering large firms are breaking this dilemma and building economic opportunity around food & beverage value chains.

1.1 The Advantage of Large Firms

By tackling specific barriers in a few locations around the world, large companies are demonstrating that progress can be made: people can turn their work into incremental gains in income and improved standards of living. Unsurprisingly, companies' interventions reflect their own business models and span agricultural production of raw materials, food processing, and distribution and marketing activities. By changing the conditions in this “field to mouth” value chain, large companies help provide stability and opportunity to thousands of people.

Such changes target the critical pre-conditions to economic opportunity. They create inclusive business models with emphasis on global or local markets, build the human and physical capital of the poor to participate effectively in food & beverage value chains, and work to overcome the adverse institutional and policy factors, among others, that prevent food & beverage value chains from fulfilling their promise of value distribution.

While such interventions are by no means the prerogative of large international firms, such firms do have advantages in taking action:

- **Knowledge of demand market.** Large companies understand both domestic and international markets, the nature of demand for foodstuffs, and therefore the ‘bar’ that the poor must clear to market their goods (not least to companies' own purchasing departments). In many of the cases reviewed, a recurring objective is to raise the crop quality of small-scale farms, which are challenged to keep up with ever-rising standards for crop production.
- **Span across the value chain.** Additionally, the major firms in this sector operate or strongly influence entire value chains from growers to consumers. That reach is particularly powerful for creating economic

opportunity because large companies can either link poor producers to the rest of the world or strengthen local cycles of wealth creation by mobilizing growers, producers, distributors, and consumers.

- **Resources and credibility.** Not least, large companies have the weight to confront legacy approaches to production and vested interests in supply chains and the reputation to be credible partners to a wide variety of allies sharing complementary objectives. Together, they can afford to invest for the long term and infuse patient capital into transformative initiatives.

1.2 Learning from Existing Research

Food & beverage companies expand economic opportunity in many ways, in both rich and poor regions of the world. A number of studies have highlighted the contribution of the industry in creating both economic and social value.^{1,2,3,4} From revenues generated by the industry worldwide, a large portion of value flows to:

- farmers involved in raw materials production
- local food processing or manufacturing capital investments
- both direct and indirect labor
- governments as taxes
- local and global investors as dividends

More specifically focused on a low-income context, Unilever and Oxfam's landmark study on the socio-economic impacts of the Unilever value chain in Indonesia demonstrated how far this value distribution can go: while the company employs 5,000 people in that country, an estimated 300,000 additional jobs are supported both upstream in food production and downstream in distribution.⁵ Similarly, in a December 2006 Harvard Business Review article, Michael Porter and Mark Kramer highlighted the "shared value" created for both Nestlé and local communities as a result of the company's long-term investment in developing milk districts in India and Pakistan. This investment has ensured a growing source of quality supply to the local dairy market, income growth to farmers, and significant associated gains in communities' access to education and health.⁶

1.3 Learning from Case Studies

The role of large firms and of their partners in expanding economic opportunity can take a variety of forms. The emerging Indian retail giant, Reliance, is reaching into the country's own rural agricultural supply chain to provide quality foods for its stores. Nestlé is linking the economic engine of its milk supply chain in Pakistan with an initiative to support thousands of women entrepreneurs trained in livestock care. Coca-Cola Sabco, an East African bottling company, is creating hundreds of micro-businesses to improve product distribution. Whether the long-term vision is about developing local markets or global supply chains, the different scenarios all have one thing in common: they focus on the ability of poor communities to create and capture more of the value from their labor.

These cases are still exceptions, albeit formidable ones. Multinationals generally do not purchase from micro farms, but from larger, more efficient agricultural producers or trading companies that aggregate and sell food commodities. And the typical strategy for entering developing countries is not to employ and serve the poorest

of society. In fact, because of advances in food manufacturing, packaging, and marketing, the only customer segments that large firms can serve profitably with legacy business models are the wealthy few in urban centers. To produce at equal quality and at prices affordable for Bangladesh's poor, Danone Grameen, for example, had to shed a number of technologies involved in the company's mainstream approach to manufacturing, instead using more labor-intensive processes.

Increasing the number and scale of such initiatives requires new approaches that stretch 'business as usual' practices. The case studies reviewed for this report provide insight into the necessity of collaboration. All but one assign specific roles to cross-sector partners in growing inclusive business models, building the human and physical capital of the poor, and improving enabling institutions and policies. But for these efforts to lead to sustained social and economic gains also requires consideration of other dimensions: creative strategies must be developed to secure, diversify, or multiply sources of income, to protect the environment, and to scale up individual success stories to levels where vast impact can be achieved.

Finally, in comparing all the case studies, a powerful dilemma emerges regarding how best to expand economic opportunity: Are the poor better served by connecting poor producing regions to high-purchasing-power international markets, where larger margins offer more value for redistribution, or by progressively scaling up local businesses operating on extremely thin margins? Perhaps the simple answer is both are required.

1.4 Methodology

This report applies the results of primary and secondary research to a number of case studies to draw lessons on strategies for expanding economic opportunity in the food & beverage sector. Primary research consisted of telephone interviews with 19 experts representing large multinational or national corporations (see List of Companies Interviewed). Secondary research included a review of relevant reports, studies, and articles from a range of sources for each case study.

Findings are divided into three primary sections. Section 2 provides an overview of the business case for engagement in expanding economic opportunity in developing countries. It focuses on the motivation for intervention at global or local levels. Section 3 presents a framework developed by the authors to depict the range of strategies companies are using to tackle barriers to economic opportunity, with particular emphasis on the division of labor emerging between partners. Section 4 outlines key lessons – and concerns – for the industry in engaging in expanding economic opportunity. Finally, Section 5 provides case studies profiling the economic opportunity strategies employed by a number of different companies.