

SDM: ACOM Vietnam

Case owner: **Atlantic Commodities Vietnam Ltd. (ACOM)**

Location: **Vietnam**

Commodity: **Coffee**

Services:



Farmer training



Planting material



Certification management



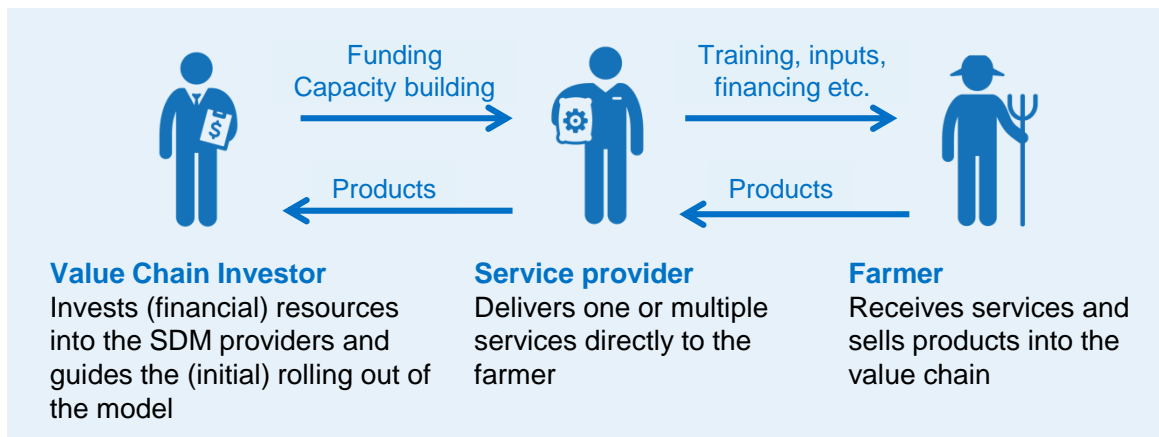
Soil samples & fertilizer reco.



Introducing Service Delivery Models

Service Delivery Models (SDMs) are supply chain structures which provide services such as training, access to inputs and information to farmers required to increase their performance and sustainability.

SDMs aim to achieve or further either economic, social or environmental sustainability in a supply chain.



Focus of this study

- 1 **Map variety of SDMs** by different companies in different sectors and geographies; on their objectives, structure and organization, types of services, and delivery approach.
- 2 **Aggregate data** from the individual case studies collected into the database
- 3 **Analyze the economic sustainability** of the SDMs at the level of the farmer, service provider and VCI
- 4 **Extract lessons learned** on topics such as key success factors, risks, scalability, and cost-effectiveness

Purpose of the study and benefits to supply chain



- Design more cost-effective SDMs, through better insights into what works in which cases



- Gain insights into how to design and implement more cost-effective SDMs

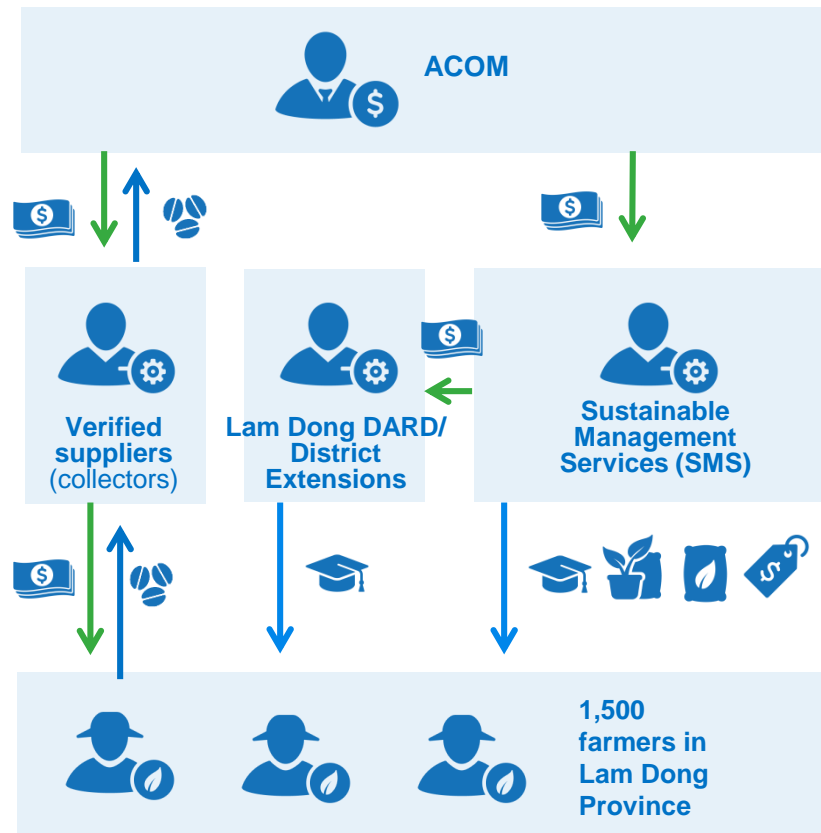


- More efficient services delivery and impact generation (better livelihoods, higher productivity, etc.)
- More transparency on whom to work with



- Benefit from strategic learning trajectory within and across sectors, based on a unifying methodology
- Opportunity to join learning platform

The ACOM SDM objectives and structure



Legend ← Flow of goods and services → Cash flow

ACOM was established in 2002 as a subsidiary of Ecom, one of the world's top three merchants of coffee.

Objectives of ACOM's SDM:

- to improve farm productivity and product quality, leading to lower costs and higher income for the farmer
- to increase trust and loyalty among farmers in the SDM program in order to increase its coffee trade volumes from the farmers in the program

General SDM information:

Location: Lam Dong province

Duration: from 2013 to 2015

Scale: 1,500 farmers

Client: Mondelez (Coffee Made Happy program)










Funding: Mondelez invests via volume-based fees on the purchased coffee. IDH is a co-funder

SDM operator: Sustainable Management Services (SMS)

Services provided to the farmers:

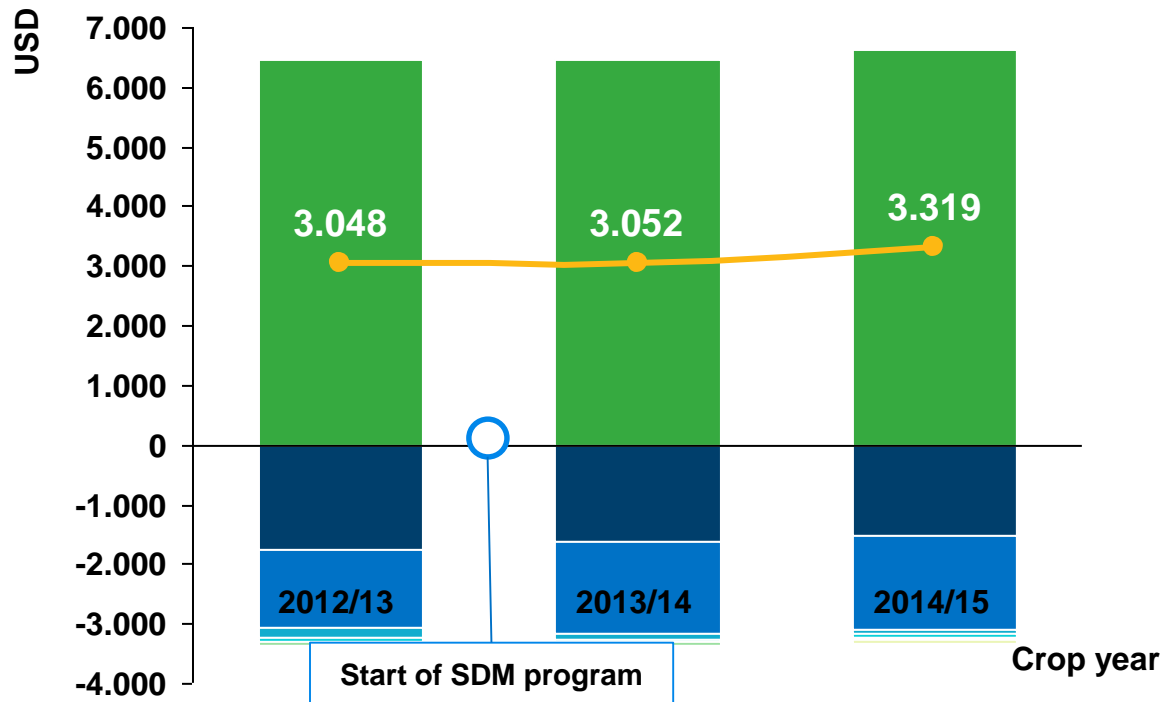
1. Farmer training in good agricultural practices, record keeping and business planning;
2. Provision of coffee seedlings and scions for grafting, as well as shade trees;
3. Soil testing and fertilizer recommendations
4. 4C verification training and management

Types of services delivered within the SDM

		Service Delivery Operators		Value Chain Investors
		SMS	Others	
 <p>Farmer Training</p>		<ul style="list-style-type: none"> A team of SMS agronomists trains over 1,500 farmers in basic and advanced modules. 		  
 <p>Planting material</p>	<ul style="list-style-type: none"> Provision of coffee seedlings and shade trees from the nursery, as well as coffee scions from the scion garden. 	<ul style="list-style-type: none"> District extensions services: are hired by SMS in case the number of farmers to be trained surpasses SMS' own training capacity. ISM: trains the trainers, i.e. the SMS agronomists and district extension services. 	<ul style="list-style-type: none"> Lam Dong DARD: Authorizes the type of planting material that is distributed (as well as the entire SDM program). 	<ul style="list-style-type: none"> Provide funding for the SDM operations ACOM & Mondelez: procure coffee from SDM farmers
 <p>Certification services</p>	<ul style="list-style-type: none"> Organize 4C verification information and training sessions ACOM/SMS FTC is a licensed 4C Unit and runs the Internal Control System 	<ul style="list-style-type: none"> External auditors (re)verify the farmers and the 4C Unit (ACOM/SMS FTC) once every three years. 		
 <p>Soil testing & fertilizer reco.</p>	<ul style="list-style-type: none"> SMS takes representative soil samples in the various regions to be tested by an external lab and come up with fertilizer recommendations 	<ul style="list-style-type: none"> An external lab is paid to do the actual analysis of the soil samples. 		

The SDM's economic sustainability at farmer level

Individual farmer (1 ha coffee farm)
before and after entering the SDM program*



- Profit for farmer
- Revenue from coffee beans
- Cost of fertilizers
- Cost of labor
- Cost of irrigation
- Cost of pest and disease control
- Cost of equipment
- Other costs

*Presented data are averages of a total of 43 Vietnamese farmers tracked over time by the SMS team

- SMS has monitored data of 43 farmers before and during the SDM, allowing for valuable insights into the effect of the SDM on the average farmer P&L per ha of coffee farm (see graph).
- The graph shows an increase of nearly 10% of profit per ha of coffee farming two years after entering the SDM program.

Main revenue drivers

- The coffee revenue is calculated by multiplying the total production volumes with the selling prices reported by farmers for each crop year. Productivity increased with 6% since the start of the SDM. The positive impact on farmer income was however tempered by a decrease of 3% in selling prices over these years.

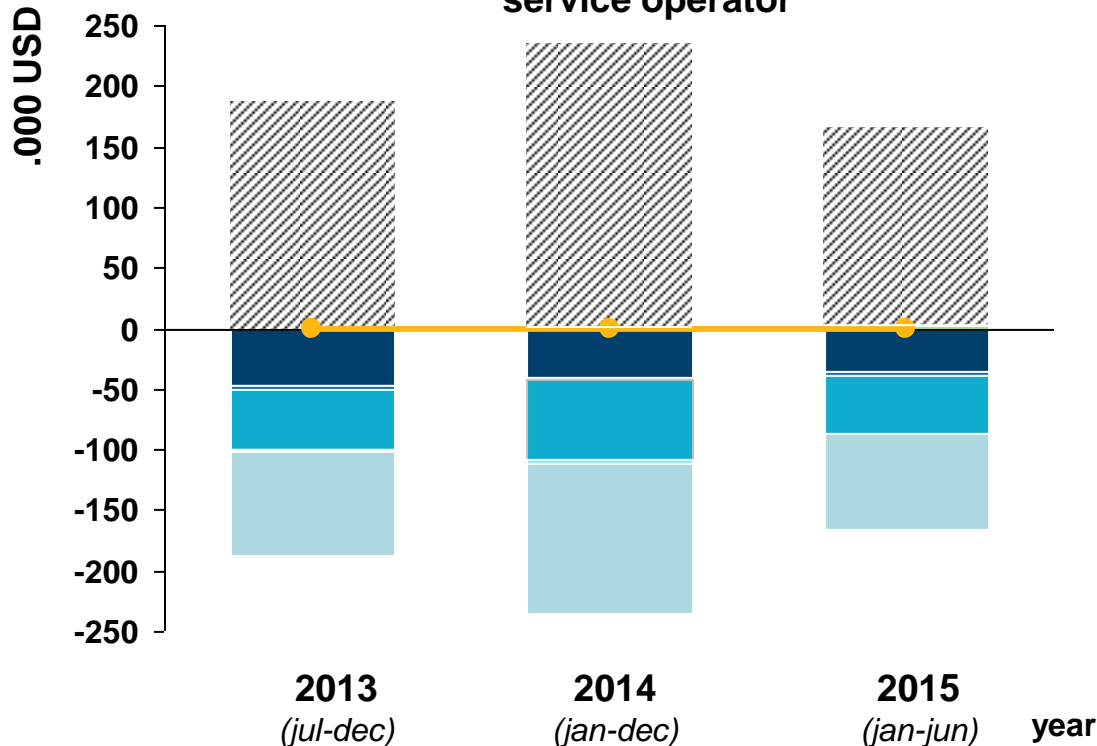
Main cost drivers

- The two biggest cost components for the Vietnamese coffee farmers are fertilizers (on average \$1.600/ha/yr) and labor (on average \$1.500/ha/yr).
- Total costs of farming decreased by more than 2% over the course of the SDM program: the volumes/costs of agro-inputs bought reduced by 20%, however labor costs increased by 18%.

The SDM's economic sustainability at service operator level

Sustainability Management Services (SMS) P&L

Cost and revenues for SMS as the SDM service operator



- Profit for SMS (service provider)
- ▨ Revenue Program Fees*
- Cost Training
- Cost Planting Material
- Cost 4C verification
- Cost Soil Testing
- Cost Overhead
- Revenue Planting Material

- The graph presents actual program costs of SMS made for the second half of 2013 (program start) until the first half of 2015 (time of data collection). Only 2014 presents the cost for the whole year.

Main revenue drivers

- SMS receives the vast share of its income from program fees paid by roasters and donors to cover the costs of the SDM. The graph does not present actual program fees received, but sets the amount to exactly balance out the costs made.
- A negligible part of the income comes from the subsidized fees paid by farmers for the planting material provided by SMS.

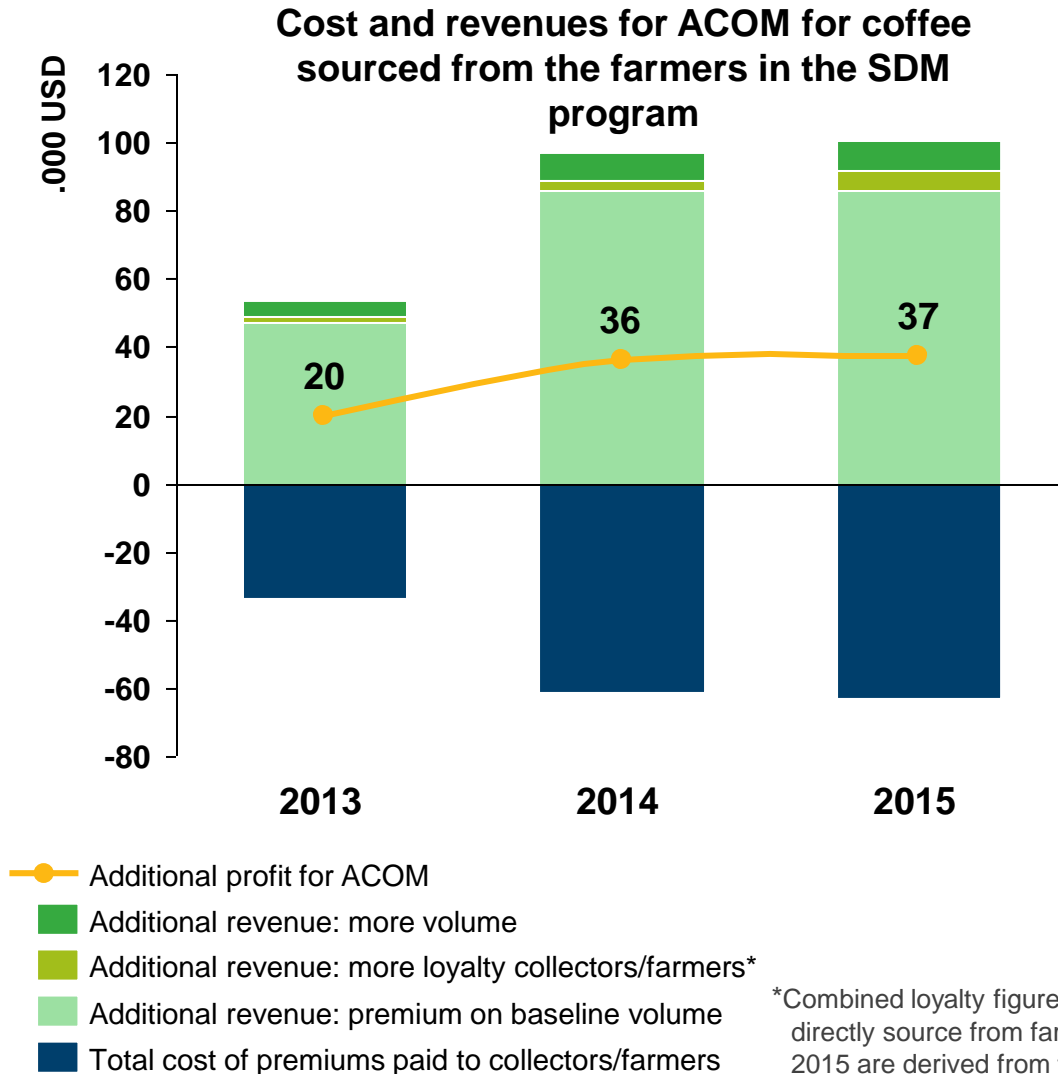
Main cost drivers

- The three largest cost components for SMS are the overhead (staffing, logistics, building maintenance and administration), the costs of 4C verification (ICS manager salary, annual internal audits, and external verification), and farmer training (training farmers and trainers, and operational costs of FTC demo farm)

* SMS' income from program fees is set at exactly the height of their net costs (which are based on real data) in order for the profits to be zero.

The SDM's economic sustainability at VCI level

ACOM Vietnam P&L for coffee sourced from the farmers in the SDM program



- The graph shows ACOM's additional revenues and costs related to the coffee sourced from farmers in the SDM program (874 in 2013; 1,588 in 2014/15).

Main revenue drivers

- The additional revenue stream for ACOM is made out of the premiums received for 4C compliant coffee coming from the SDM (30 USD/ton).
- ACOM also benefits from the production increase of SDM farmers, resulting in higher trade volumes sold with premiums.
- Increased farmer loyalty has a positive effect on trade flows and therefore revenue. SMS data from trade receipts show an increase in the loyalty of farmers and collectors from 31% in 2014 to 33% in 2015*.

Main cost drivers

- ACOM's costs are the total of premiums paid out to collectors and farmers (each receiving ~10 USD/ton). Net profit for ACOM per traded ton of 4C compliant coffee lies around 10 USD.

*Combined loyalty figures of farmers and collectors: ACOM (a foreign buyer) cannot directly source from farmers due to government regulation. Loyalty data from 2014-2015 are derived from trade receipts; baseline loyalty was estimated at 30%.

Conclusions and lessons learned

Key drivers of success



- The SDM's data-driven and needs-based approach is key to its success and cost-efficiency:
 - insights into cost-benefit relations is key to apply better practices
 - Farmer Field Books and Receipt Notes are an invaluable source of information
- Adoption rates of the SDM training practices are high among the farmers (~87%).

Key risks



- The premiums paid for 4C compliant coffee are a main revenue source for the SDM.
- Within the next ten years more than 70% of Vietnamese coffee plantations will reach their replacement age. Replanting is key to maintain productivity

Key factors in replication of the model



- ACOM/SMS and the ECOM Group in general got on board early with regard to farmer (big) data collection and management.
- Local mindset is key: business-minded attitude of Vietnamese farmers and the wide-spread access and use of agro-inputs in the country were enablers for adoption.
- A needs-based approach contributes to efficient implementation

Impact on objectives



Increased farmer income

- Productivity of SDM farmers increased with 6%.
- Farmer profits per ha increased by nearly 10% two years after entering in the program.



Increased farmer loyalty

- Building loyalty and trust relationships with Vietnamese farmers and collectors remains a large challenge.
- There was a slight increase in loyalty last year, however, figures tend to be erratic.
- Loyalty development should be tracked for a longer period of time.



Iris van der Velden

Manager Innovation Finance

+31 (0)30 230 7854

vanderVelden@idhsustainabletrade.com



Bart Vollaard

Consultant

+31 (0)30 234 8218

bart.vollaard@newforesight.com

