VBA Pre-Order System Business Case

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Description of the Businesses

Name: Klein Karoo (K2)

Market Actor Type: Input Manufacturer

Market System: Input Distribution

Size of Business: 2.5 million USD/Year

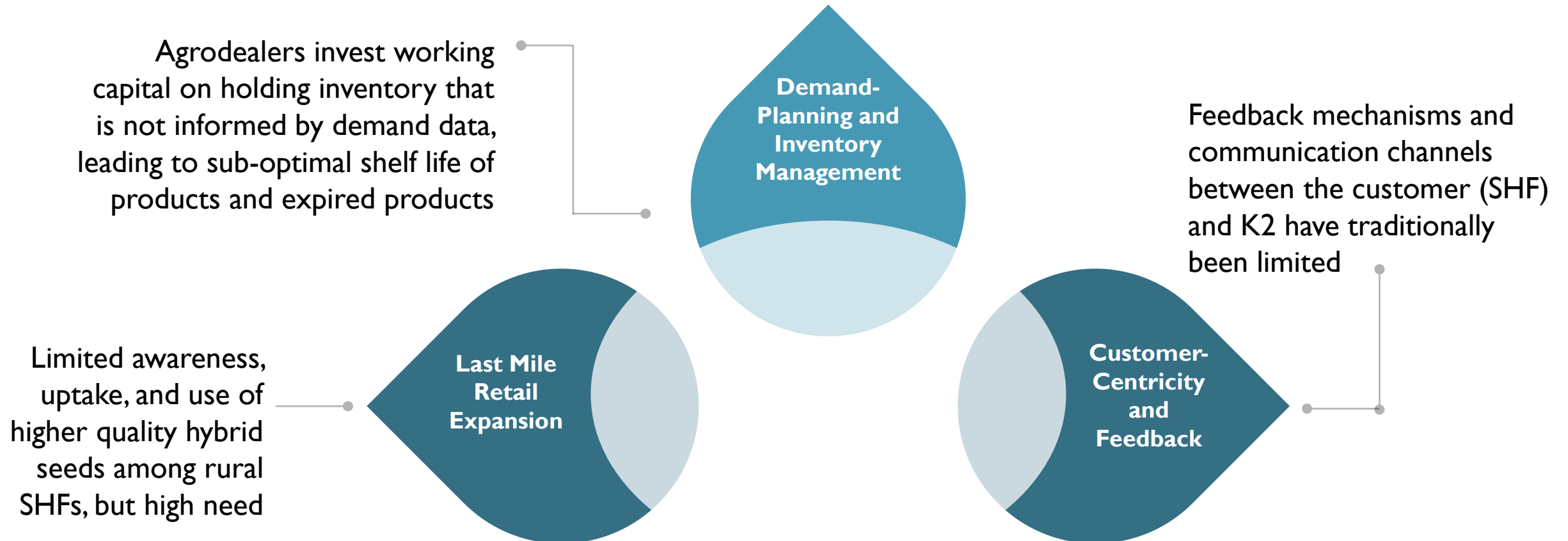**Regions Served:** Manica, Nampula, Tete, Maputo

Customer Types

- Agrodealers

- Village Based Agents (VBAs)

- Smallholder Farmers

Value Chains

Selling vegetable, cereal and oil seeds

Summary of the Opportunity

The input distribution market system traditionally has lacked last mile retail expansion, customer-centricity, and inventory management. Several business opportunities exist that can both address these constraints, and improve sustained profitability of input manufacturers and their partners (i.e. agrodealers).

Agrodealers invest working capital on holding inventory that is not informed by demand data, leading to sub-optimal shelf life of products and expired products

Demand-Planning and Inventory Management

Feedback mechanisms and communication channels between the customer (SHF) and K2 have traditionally been limited

Limited awareness, uptake, and use of higher quality hybrid seeds among rural SHFs, but high need

Last Mile Retail Expansion

Customer-Centricity and Feedback

Innovation Overview

Klein Karoo (K2) worked in partnership with FTF Inova to co-invest in establishing a pre-ordering system via the Village Based Agent (VBA) micro-distribution model

K2's Vision

Improve and expand the delivery of inputs to the last mile, by servicing the needs and preferences of smallholder farmers through a pre-ordering system managed by agrodealers and their VBAs.

Inova's Support

Technical assistance on introduction of new tactics to address K2's vision in the form of training and interns that helped to pilot the pre-order distribution model via VBAs.

K2 has now adopted the following tactics:

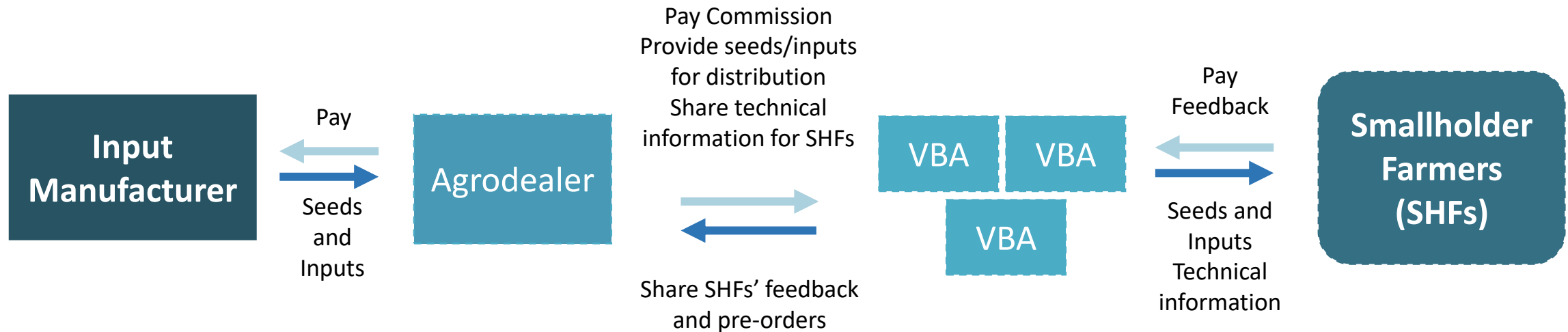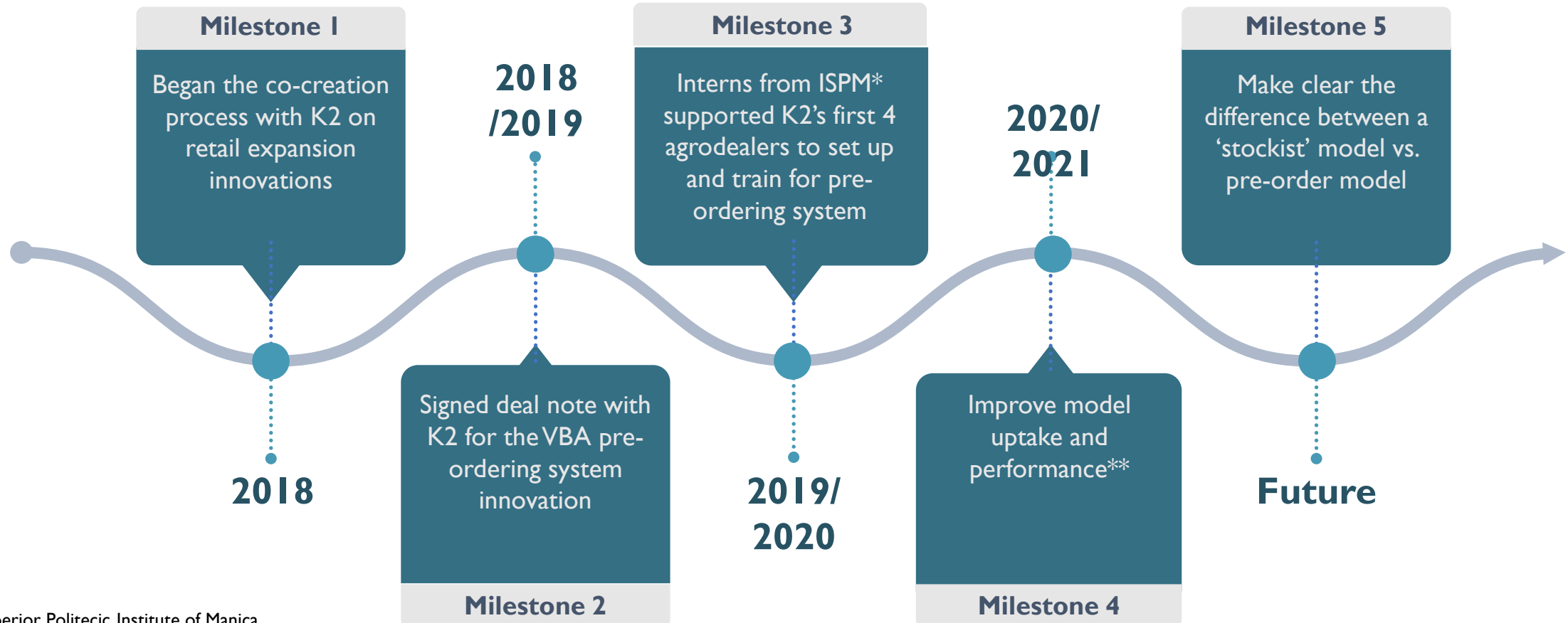**1** Supported Agrodealers to strengthen the use of Village Based Agents (VBAs)

2 Using a pull-distribution model to introduce a seed pre-ordering system for customers

3 Introduced performanced based indicators to evaluate agrodealers

Klein Karoo (K2) worked in partnership with FTF Inova to co-invest in establishing a pre-ordering system via the Village Based Agent (VBA) micro-distribution model

Value Proposition to Customers of the Innovation – Agrodealers

Customer Type:	Agrodealers
Customer Activities:	Retail store selling agriculture inputs and products to farmers
Size of Business:	$100-$3,000 USD/month Avg. 1 Employee

"Producers like products that we sell, mainly certified seeds. producers are no longer using local seeds and sales through VBA is to reach producers who are further away from the store."

"I'm happy with sales because there is a market, producers are always buying products. Next year I hope to open another store for the sale of inputs in Penharonga because the producers from there contacted me."

1

Increased last mile market presence with smallholder farmers

Agrodealers use this model to serve rural or remote smallholder farmers more effectively and the increased volume of sales increases their income

2

Increased supply and business from input suppliers

Increased market footprint and demonstrated expansion capacity invites further investment from input suppliers for a) increased supply or b) new co-investment opportunities

3

Improved customer-centricity, and therefore, more sustainable demand

Increased communication with smallholder farmers (information sharing and feedback capture) leads to improved product/services and therefore higher satisfaction and demand from smallholder farmers

Value Proposition to Customers of the Innovation – Village Based Agents

Customer Type: Village Based Agents (VBAs)

Customer Activities: VBAs are sales agents who order inputs from agrodealers and sell products to farmers

Size of Business: $100 to 300 USD/month

1 **Increased business and income**

Income flows through to VBAs through commissions

2 **Increased access to inputs themselves, as commission**

Most VBAs themselves are farmers, and benefit from increased access to inputs

3 **Skills development and experience as an entrepreneur**

This opportunity allows them to be entrepreneurs and build community relationships

Value Proposition to Customers of the Innovation – Smallholder farmers

Customer Type: Smallholder farmers (SHFs)

Customer Activities: Purchase vegetable, cereal, oil seeds from agrodealers and village-based agents

Size of Business: 2 hectares or less / farmer

1 — Timely access to inputs

Smallholder farmers access inputs when they need them, not too early nor late, by pre-ordering

2 — Strengthened communication channel

Farmers can communicate their feedback and receive information about inputs directly through the VBAs

3 — Improved affordability of inputs, sold by VBAs at agrodealer price

Smallholder farmers access inputs at affordable prices, as VBAs are expected to sell at agrodealer pricing

Financial Overview

The VBA model has proven to be a profitable investment for agrodealers
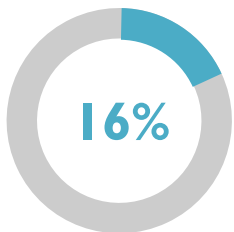
Key Data Points

$1.95 ROI
For every $1 of investment, agrodealers made $1.95 in profit

$0.66 Profit Margin
Every $1 in revenue generated, becomes $0.66 in profit

16% % of Total agrodealer sales from VBAs

Summary of Key Financial Metrics

ROI of the VBA model ranges from **$1.19 to $5.00**

Profit Margins of the VBA model range from **$0.54 to $0.85**

Key Drivers

Years of Experience
Agrodealers who have been in business longer understand their customers and the business better and have been more successful at implementing this model

Stronger Vision
Agrodealers with a stronger vision, investment and commitment, see higher ROI and profit margins

Operational Costs
VBA Commission (25.64%), Employee Wages (14.80%), VBA Transportation (20%) are the primary costs of this model, on average

*Simao's ROI of $2.97 and Profit Margin of $0.75 is higher than Amone's because he employs more VBAs, and 11 of his VBAs has his own shop too, plus Simao works with a producers' association
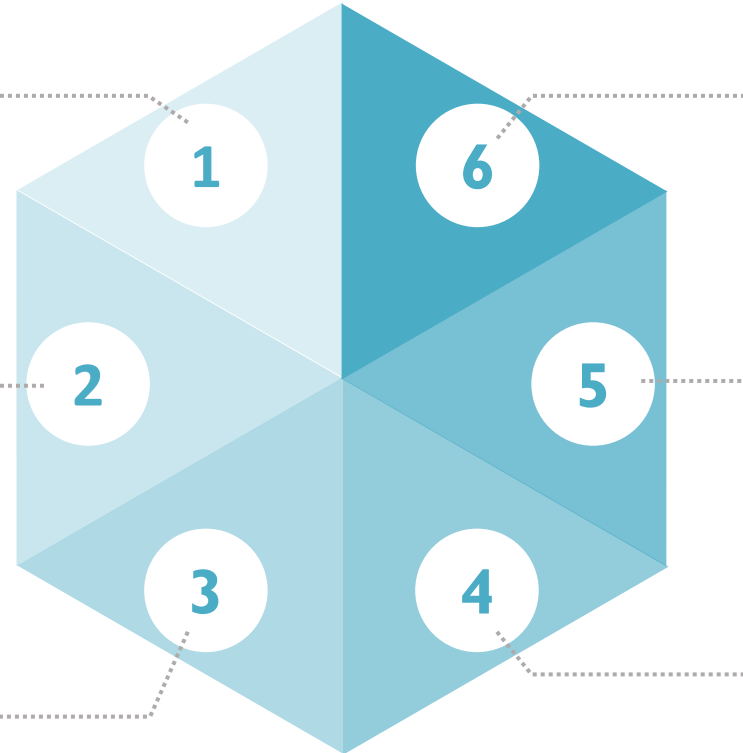
Recommendations and Way Forward

Opportunities

Invest in physical presence in field to adequately set up the model and improve understanding of the pre-order system — **1**

Improved monitoring and disaggregated data collection — **2**

Incentivize higher performing Agrodealers and VBAs — **3**

6 — Invest in having an officer that can manage and be accountable for implementing this model

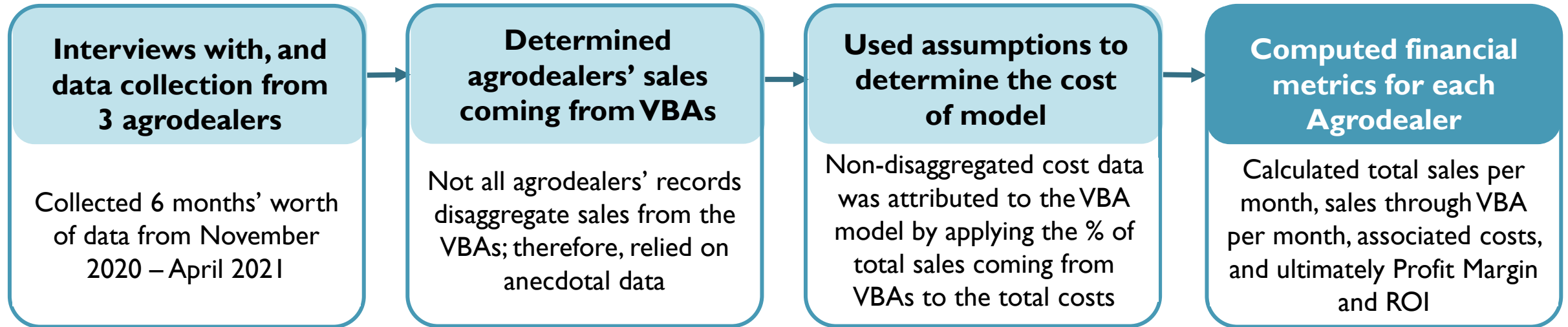**5** — Invest in improving the awareness and trust of SHFs in the model

4 — Co-invest with a strategic partner to share costs and improve efficiency of the model

Risks

Poor Inventory Management risks loss of trust and loyalty: Need to have enough stock to justify pre-orders from farmers

Methodology and Assumptions

Methodology

Interviews with, and data collection from 3 agrodealers	Determined agrodealers' sales coming from VBAs	Used assumptions to determine the cost of model	Computed financial metrics for each Agrodealer
Collected 6 months' worth of data from November 2020 – April 2021	Not all agrodealers' records disaggregate sales from the VBAs; therefore, relied on anecdotal data	Non-disaggregated cost data was attributed to the VBA model by applying the % of total sales coming from VBAs to the total costs	Calculated total sales per month, sales through VBA per month, associated costs, and ultimately Profit Margin and ROI

Key Assumptions and Calculations

% of total costs used to run this model is proportionate to the % of total Agrodealer sales coming from VBAs