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Walmart and Small Producers from the Developing World: Linking Demand with Supply

“Walmart’s purchase order has the potential to be a valuable economic development asset, as much as development aid or philanthropy, if we can figure out how to incorporate small producers from the developing world into our supply chains,” Kathleen McLaughlin said. “Not only could we help enhance the capabilities and livelihoods of these small producers, we could do so sustainably through our business, providing our customers access to new and high quality products.”

McLaughlin, chief sustainability officer at Walmart, and her team faced an important challenge — how to incorporate these small producers, including smallholder farmers and women-owned artisan enterprises, into the company’s supply chain. For years, the company had been sourcing most of the fresh food sold in its stores around the world from local producers and was interested in extending its supplier network to even the smallest-scale farmers. In addition, the company had an e-commerce platform, Walmart.com, which the company leveraged to connect its customers with producers from around the globe who made handicrafts. In both cases, the company had the dual goals of building the capabilities of these producers to enable them to participate directly in formal retail supply chains, and engaging them, when possible, as Walmart suppliers in particular.

To address this opportunity, Walmart had two programs that specifically targeted local producers.ⁱ The Direct Farm program, which worked with farmers in developing countries to source fresh fruits and vegetables for Walmart’s local stores, had launched smallholder development programs in different countries that aimed to increase the capacity of small and medium-sized farmers. The Empowering Women Together (EWT) program

i Both the Direct Farm and EWT programs sourced products from small producers in developed countries. However, for the purposes of this case we focused on those issues affecting sourcing from small producers in the developing world.

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This case was prepared exclusively as the basis for class discussion and is not intended to illustrate either effective or ineffective handling of a situation. The case should not be considered criticism or endorsement and should not be used as a source of primary data.

sourced unique, hand-made apparel, jewelry, home goods, and food products made by small, women-owned and women-empowering enterprises and offered these products to Walmart's online customers.

In both programs, Walmart was working with small and medium producers from the developing world who had primarily sold their products in informal local markets and had little or no prior experience in accessing a global retailer's supply chain.

While Walmart had a longer track record of sourcing from small and medium-sized producers through its Direct Farm program than it did sourcing from small and micro enterprises through EWT, both initiatives faced substantial challenges in order to be considered successful. To date, neither program had fully achieved the dual goal of building local producer capability and developing a scalable network of viable steady suppliers for the company.

McLaughlin wondered if some modifications could be made to these programs to enhance their ability to work with these producers from the developing world, and whether lessons learned by Walmart could be useful to other retailers attempting to engage such producers.¹ To explore these issues more deeply, she invited two colleagues to join her for a strategy session. Kara Valikai, senior manager for women's economic empowerment for Walmart, was there to share her experience running the EWT program over the past two years. Chris Cochran, senior manager for food sustainability for Walmart, could share his knowledge of the Direct Farm model, which he had supported for the past 5 years.

"Okay," McLaughlin said, "Let's review the successes and challenges of each of these programs and then explore how we might be able to do things differently in the future."

Walmart

Sam Walton founded Walmart in 1962 as a neighborhood discount store in Rogers, Arkansas, with the vision of offering the community a shopping destination for high quality products at the "Lowest Prices Anytime, Anywhere."² By the end of the 1970s, Walmart was publically traded on the New York Stock Exchange and generated revenues in excess of \$1 billion annually. In the '80s, Walmart experimented with new store formats and launched Sam's Club, a discount wholesale brand. It also combined grocery and general merchandise in its Supercenter stores. The opening of Walmart's first store in Mexico City in 1991 marked a new chapter for the company as it expanded into the global market. During the 1990s, Walmart established a retail presence in Canada, China, Brazil, Argentina, Puerto Rico, Germany, and the United Kingdom.³

Walmart launched its first e-commerce site in the United States in 2000. Its online platform, walmart.com, provided the company with the opportunity to change product offerings more quickly and place smaller orders with suppliers.

By 2016, just fifty years after Walmart's founding, it had grown into the largest retailer in the U.S. and the world's biggest private employer with over 2.2 million associates worldwide. In the same year, the company topped the Fortune 500 list of America's largest companies by revenue with net sales over \$482 billion. Globally, Walmart had over 11,500 retail outlets across 28 countries and digital retail operations in 11 countries, reaching approximately 260 million customers each week.⁴

The Walmart Foundation

The Walmart Foundation is a separately incorporated, non-profit organization funded solely by Walmart. In 2015, Walmart and the Walmart Foundation combined gave over \$320 million in cash contributions globally, \$34 million of which was outside the U.S. market.⁵ Initiatives funded by the Walmart Foundation often complement Walmart's goals, but are required to provide not more than an incidental benefit to Walmart and to serve charitable outcomes.

For example, the Foundation invested in programs to train 1 million farmers globally, 500,000 of whom were women. This training was implemented through a range of technical assistance partners such as TechnoServe and the One Acre Fund, and funding from the Walmart Foundation was used to help increase the reach and impact of existing programs. Farmers trained under these programs were under no obligation or influence to supply to Walmart as a result of participating in these programs. Walmart did not have any special access to training program participants.

Global Impact at Walmart

Beginning in 2005 with the company's highly effective response to Hurricane Katrina, Walmart increasingly focused on how its capabilities and talent could improve the lives of its customers, associates, and broader society.⁶ Walmart's Global Responsibility program activities focused on three key pillars: 1) opportunity, which aimed to increase economic opportunity for the company's associates and other stakeholders; 2) sustainability, which sought to enhance the sustainability of Walmart's operations and supply chains; and 3) community, which supported initiatives to strengthen local resilience and inclusion. As part of these activities, the company made a number of commitments to source from and train two key groups of small producers — smallholder farmers, and women-owned and women-empowering enterprises.

In 2010, Walmart announced commitments focused on smallholder farmers as part of its sustainability pillar, including:⁷

- Sell \$1 billion of goods sourced from 1 million small and medium-sized farmers in emerging markets by the end of 2015.
- Train 1 million farmers and farm workers by the end of 2016, half of which should be women.
- Increase incomes of farmers by at least 10% by the end of 2015.

In 2011 Walmart designed and committed to the Women's Economic Empowerment Initiative. This five-year commitment set out public goals to broaden the scope of women who are economically impacted by Walmart's value chain. There are three primary pillars in the initiative:⁸

- Increase opportunity for women entrepreneurs: Source \$20 billion from women-owned businesses in the United States over five years. Double its sourcing from women-owned businesses in international markets. Launch an e-commerce platform designed to give small women-owned and women-empowering enterprises access to customers.
- Provide training to 1 million women in farming, factory, and retail in countries around the world.
- For Walmart's largest suppliers, track the diverse makeup of their teams that work with Walmart.

To achieve its sourcing goals as part of its global responsibility commitments, Walmart introduced a range of initiatives to integrate small and medium producers into its global supply chain. The company did this with the belief that it could help lift individuals and communities out of poverty, help meet the basic needs of the world's growing population, and create value for the company. Of particular interest were two

efforts to engage small and medium producers in developing countries. One leveraged Walmart's existing Direct Farm program to train small and medium-sized farmers, a group that was generally not part of formal retail supply chains. The other was Empowering Women Together, which was part of the Women's Economic Empowerment Initiative and focused on sourcing handicrafts and other locally made products. While Walmart sought for both programs to be self-sustainable, the company recognized that there would be an extended learning period involved.

Direct Farm

In 2006 Walmart acquired the Central American Retail Holding Company (CARHCO) with stores in Costa Rica, Guatemala, El Salvador, Honduras, and Nicaragua. The acquisition gave Walmart a presence in Central America, and introduced the retailer to a unique local sourcing model for fresh fruits and vegetables known as Direct Farm. The model was established in 1972 by Corporación de Supermercados Unidos S.A. (CSU), which was acquired by the CARHCO group in 2000.⁹

The Direct Farm program's primary goal was to create a lower cost, higher quality, and more stable supply of fresh fruits and vegetables. This was achieved by forming direct relationships with local growers, rather than through central sourcing via markets or intermediaries. This resulted in fresher produce and lower prices that could be passed on to the consumer, while it helped to build the economic capacity of local farmers. While the Direct Farm program was primarily intended to develop direct relationships with farmers of any size, reaching the smaller-sized farmers proved challenging but necessary in emerging markets where small and medium-sized farmers make up a significant portion of domestic produce supply. As a result, a number of Direct Farm programs around the world had the added goal of including small and medium farmers in their procurement. This was intended to improve the livelihoods of these farmers by creating market access opportunities.

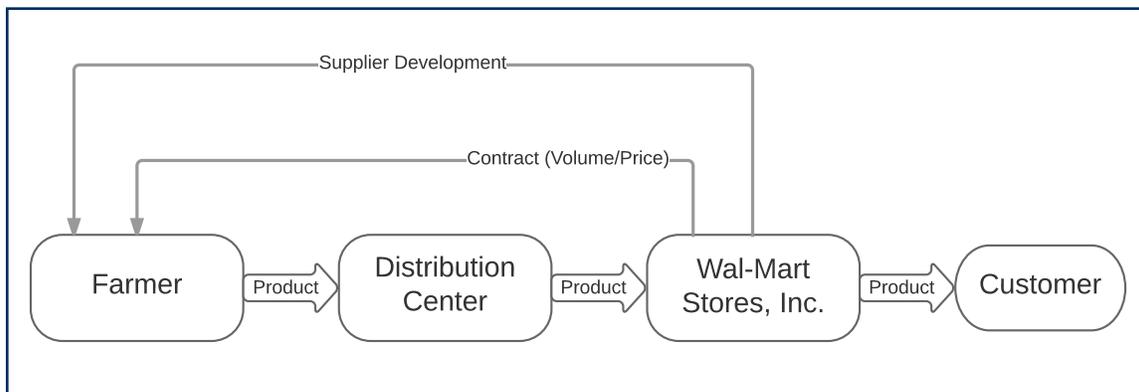
The definitions of small and medium-sized farmers vary depending on the context, but generally small farmers are defined as having less than two hectares (almost five acres) of land and medium farmers have between two and ten hectares. Small and medium farmers may rely heavily on family labor and grow a combination of subsistence and cash crops.

In 2010, Walmart expanded the Direct Farm program, which had exclusively operated in its Central American sites since the acquisition of CARHCO. New programs were launched in India, China, Mexico, and Brazil, in part to help the retailer achieve its goal to sell \$1 billion in produce sourced from one million small and medium farmers.¹⁰ The program provided training in sustainable farming practices and Walmart agreed to purchase a set amount of produce at an agreed-upon price directly from the farmers if they met quality and delivery requirements. By sourcing directly from farmers, Walmart also gained insight into how the products were grown and could provide quality and origin assurance to its customers. Farmers would deliver the products to distribution centers, either individually or as part of a co-operative or farmer group. In some instances, farmers delivered produce directly to the store.

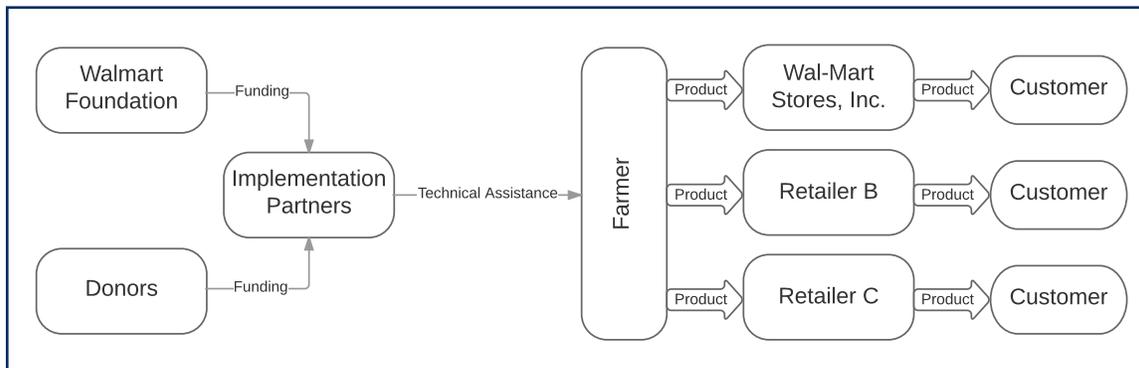
Walmart had mixed success in integrating small and medium farmers into its supply chain. The company was most successful in countries, as Chris Cochran explained, "where Walmart was committed to the direct farm model of sourcing, rather than ad hoc broker purchases; where Walmart created organizational capabilities to deal with small and medium farmers, including dedicated supplier development teams charged with developing small and medium farmers and forming partnership with governments and non-governmental organizations; and where small and medium farmers produce a significant portion of supply, making it a business necessity for Walmart to work with them."

Furthermore, Walmart felt that transformational change in these markets — change that improved the livelihoods of small and medium farmers and reduced sourcing risk for Walmart as well as other retailers — would happen only if investments were made to support the whole system that these farmers operated within. As a result, the Walmart Foundation invested philanthropic capital for precisely this purpose, and supported initiatives that built the overall capacity, productivity, and resilience of farmers, especially smallholder farmers, whether or not they ever became Walmart suppliers.

In doing so, the Walmart Foundation worked with a variety of partners in different countries to support smallholder farmers. These partners included development organizations, such as the United States Agency for International Development (USAID),ⁱⁱ which provided market information and access as well as financial and other resources; technical experts that provided agronomic advice, such as TechnoServe; and capacity-building organizations, such as Fintrac¹¹ (see **Exhibits 1** and **2**). These efforts engaged a large number of smallholder farmers through different training and capacity-building programs across multiple countries. However, in cases where the funding came from the Walmart Foundation, it was not expected that many of these smallholder farmers would end up supplying Walmart. While programs in some countries demonstrated more success than others, purchasing from small and medium farmers continued to represent a modest proportion of Walmart’s overall supply of fresh fruits and vegetables.

Exhibit 1**Direct Farm Business Model, Adapted to Smallholder Farmers**

Source: Authors

Exhibit 2**Supporting Smallholder Farmers through Walmart Foundation**

Source: Authors

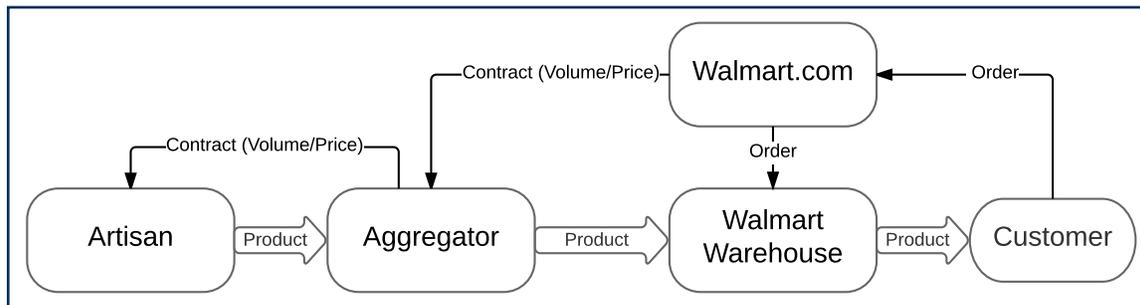
ii USAID is responsible for programming and managing the U.S. government’s foreign aid budget.

Empowering Women Together (EWT)

EWT was launched as an e-commerce destination within the existing walmart.com platform. This program, part of the Women’s Economic Empowerment Initiative, was an experiment to see whether small, women-owned and women-empowering enterprises in Africa, Asia, and North and Latin America could be incubated through access to the Walmart consumer base. Designed to overcome the demand-side barriers to growth that women-owned and women-empowering enterprises faced, the model also built on Walmart’s commitments to source from these enterprises. Walmart anticipated that successful women-owned and women-empowering enterprises would generate important benefits for their communities, especially children. This was due to the widely held belief that putting money into the hands of women, especially in the developing world, would lead to increased spending on nutrition, health care, and education for their families.¹²

As in the Direct Farm model, Walmart engaged third-party organizations to support women-owned and women-empowering enterprises around the world (see **Exhibit 3**). These intermediaries supplied formal retailers with a portfolio of products sourced from small women-owned and women-empowering enterprises. They also helped these enterprises to design products, communicate with buyers, build organizational capacity, monitor production, and assist with logistics. The intermediaries (also known as aggregators) also provided short-term financing in some instances to ensure that enterprises were able to supply to Walmart. In some cases, these intermediaries also absorbed losses associated with items that failed to meet quality standards.¹³

Exhibit 3
EWT Business Model



Source: Authors

In partnership with these intermediary organizations, the EWT program provided women with a collaborative and customized experience in engaging with a large retailer, from product development and production to shipping and standards. The products offered were based on the existing output of these enterprises and the range of products they were capable of producing. The women-owned and women-empowering enterprises included in the EWT program were selected from the intermediaries’ existing portfolios and networks.

Walmart worked with these producers and their intermediary partners to design products they believed could sell on walmart.com. Once delivered to the intermediary in the U.S., the products were packaged and labeled, shipped to Walmart, and stored at a warehouse in San Bruno, California. From there, the products were shipped directly to customers ordering online. In some instances, primarily for seasonal campaigns, Walmart displayed products in select stores to create greater awareness for the products and the program.

Results: Direct Farm

While the Direct Farm program had been successful in increasing sourcing through large and medium farmers, the efforts to engage more smallholder farmers had a modest impact. Although a large number of smallholder farmers took part in supplier development training focused on capacity-building, only a small proportion became long-term suppliers for Walmart. That is, while Direct Farm resulted in valuable capacity development for many farmers the program did not translate into a new and robust source of supply for the company. The results achieved through the Direct Farm model also varied by country, in part because of differences in the emphasis on small and medium farmers. Some Direct Farm programs included small and medium farmers exclusively and some were open to farmers of all sizes. In all cases, however, these programs incorporated a fairly similar suite of targeted support and investment aimed at improving the farmers' capabilities and their access to global supply chains. Across these programs, this approach offered some important benefits and vexing challenges.

Engaging New Partners

Partner organizations were critical to Walmart's success in reaching and training smallholder farmers. In some cases, these partners also helped farmers set up institutions such as NGOs, co-operatives, and associations that made it easier for them to engage with formal retailers. Depending on the specific program, the funding for these partners may have come from Walmart, the Walmart Foundation, or external funders. The partners focused on building the capacity of farmers to sell not just to Walmart, but to any buyer.

In Mexico, for example, Walmart sought to address key sourcing needs for the business while actively addressing some of the challenges facing smallholder farmers. Between its inception in 2011 and 2015, in partnership with TechnoServe, the Direct Farm program provided agronomy training to 4,000 farmers who were below the poverty line.

Exploring New Sources of Funding

Walmart found that investing in smallholder farmers was costly. For one thing, Walmart needed to ensure it had the internal capability to address the unique challenges of working with smallholder farmers. Additionally, the company and the Foundation saw a need to engage partners that provided training and technical assistance to farmers. Consequently, to help strengthen the smallholder farming sector overall, the Walmart Foundation and other development agencies worked on programs to enhance the livelihoods of smallholder farmers.

In some instances, partners such as USAID also provided support to offset the costs associated with farmer development initiatives. However, these funding partners often prioritized the poorest and most isolated smallholder farmers. These farmers, often located in nearly inaccessible regions with poor transport infrastructure and underdeveloped ecosystems of supporting organizations, generally were the most difficult to work with for retailers such as Walmart.

In Guatemala, for example, Walmart worked with USAID's Feed the Future program to help create market opportunities for smallholder farmers. However, the farmers who needed the most support from this development program were located in the remote highlands. Further, these farmers typically emphasized staple crops like grains and produced limited amounts of fruits and vegetables. The resulting low volumes and high transportation costs significantly limited the opportunity to link such farmers to the retail channels offered by Walmart or other retailers. Staple crops are typically purchased by food manufacturers, not retailers like Walmart.

Building a New Business Model

Small and medium farmers generally sold their marketable crops to brokers or other intermediaries who would purchase produce at the farm gate. However, these intermediaries paid farmers low prices and charged retailers high prices. The Direct Farm model reduced the number of middlemen and allowed both the farmers and Walmart to capture more of the value being created.

This model meant that small and medium farmers had to be more connected with and engaged in the sourcing process, including planning production cycles to match the needs of formal retailers (e.g. variety of products and harvesting times), processing and packaging preferences, and delivering the products that meet specific quality and other standards. While the Direct Farm model worked well for larger farmers with greater resources and capabilities, small and medium farmers needed more support to effectively engage with formal retail channels.

In South Africa, Walmart's local entity, Massmart, began a supplier development fund that invested in building the capacity of smallholder farmers and developing necessary supply chain infrastructure. This included purchasing farm equipment and financing a facility for processing and packaging fresh produce that was managed by a non-governmental organization formed by the farmers. Massmart found that enabling smallholder farmers to compete in the South African market through capacity-building and infrastructure development took significant investment, partly due to the large commercial farms that dominated the agriculture sector. During a trial period, only two of nine product lines were found to be feasible sources.

Building Business Capabilities

As discussed above, small and medium farmers often required agronomic training to produce products that were of high quality and that met retailers' standards in terms of size or other variables. In addition, farmers had to have the ability to engage with Walmart from a business perspective. This meant managing business transactions, paying taxes, agreeing on a crop mix and delivery schedule, planning production cycles to coincide with consumer demand, communicating effectively with the buyer, and engaging the necessary service providers to gain access to the necessary agricultural inputs, transport facilities, and other supporting services.

Managing Logistics

The high cost of engaging small and medium farmers was compounded by the fact that these farmers were often located far from Walmart's stores and distribution centers. Such farmers faced large challenges in transporting fresh products while maintaining quality, especially in areas where transport infrastructure was limited. Larger farmers could overcome this barrier by making investments in refrigerated trucks. Many small and medium farmers, with the support of partners such as TechnoServe, joined or formed co-operatives that aimed to achieve some of the same economies of scale enjoyed by larger farmers by aggregating supply and investing in shared processing and transportation infrastructure.

Walmart demonstrated that, while still challenging, it was possible to source from small and medium farmers that were relatively close to a Walmart store or distribution center. However, the company found that beyond a certain distance, the challenges were often too great.

For example, Walmart Brazil would typically work with farmers who were no farther than 100 kilometers from the nearest store. Sourcing from more remote farmers added logistics costs that increased the price of the produce to more than what the consumer was willing to pay.

Enhancing Participation of Women

Women farmers were represented in many of the Direct Farm programs in a similar proportion to the general farming population. However, in many cases this meant that female participation was as low as 10%-15%. While women entrepreneurs in many sectors faced similar problems of access to credit, or being taken advantage of in business negotiations, women farmers are particularly disadvantaged by land tenure traditions.

In Mexico, for example, women have historically not been able to hold land title. This meant that the Direct Farm program was able to set gender inclusion targets related only to women who worked on farms in some capacity, rather than being the recognized leader of the enterprise.

Outcome

Despite significant investments in and impact on developing the capacity of small and medium farmers, Walmart still faced challenges to incorporating them into its business model as long-term suppliers. While the Direct Farm model worked well for engaging large farmers, and was expanding in a number of countries, small and medium farmers in the Direct Farm model were meeting only a small proportion of Walmart's sourcing needs. For example, while Walmart Mexico sourced 30 million pesos' (approximately \$1.6 millionⁱⁱⁱ) worth of produce from smallholder farmers as part of its Direct Farm program during 2011-2015, this represented a small percentage of the company's fresh produce needs. Other programs were discontinued due to the high cost of engaging farmers with little return on this investment generated through actual sourcing transactions involving these farmers.

Results: EWT

The EWT program was launched with the intention of providing access to markets that women-owned and women-empowering artisan enterprises could not have penetrated otherwise. While some of the products sourced through the program sold well, many did not and ultimately were subject to deep discounts. Except for the engagements with North American artisans, in particular, these efforts proved largely unsuccessful. Women-owned and women-empowering artisan enterprises in South America, Africa, and Asia struggled to meet Walmart's expectations on a number of dimensions, including product consistency, delivery, communication, and the ability to pass Walmart's supplier audit.

Engaging New Partners

Identifying and engaging small women-owned and women-empowering organizations in developing countries was challenging, and Walmart relied on intermediary organizations to provide access. These intermediaries had networks of women-owned and women-empowering enterprises, understood their capacity to meet formal retail demands, and were well placed to build the capacity of these enterprises. In limited situations, these intermediaries also provided better payment terms or loans to suppliers to smooth out working capital constraints, or support investments required to meet supplier standards.

In some cases, these intermediaries played a very hands-on role in areas such as logistics, product design, and packaging. This could involve, for example, receiving shipments in the U.S. and packaging and labeling them, removing units that didn't meet quality standards, and shipping the acceptable units to Walmart. In other cases, the intermediaries provided short-term financing to producers to overcome working capital shortages, and assisted producers with the logistics of obtaining raw materials and exporting finished items.

ⁱⁱⁱ Exchange rate was 1 USD = 18.91 Mexican Peso as of August 4, 2016.

Exploring New Sources of Funding

While the EWT program was not expected to be profitable in the early stages, it was intended to eventually become a self-sustaining initiative. Walmart understood that the EWT would require substantial learning in the early stages to develop the capabilities needed to engage with both intermediaries and artisan enterprises. As the goal was to build a new network of suppliers specifically for Walmart, the company funded the EWT program with no support from the Walmart Foundation.

Building a New Business Model

All Walmart suppliers are required to pass a supplier audit before supplying to Walmart. Through the audits Walmart seeks to determine the extent to which its suppliers protect workers and the environment in certain fundamental areas (e.g., basic sanitation, fire safety and evacuation, pay and working hours, forced and child labor, and environmental discharges and permits). Global companies such as Walmart set responsible sourcing standards as fundamental requirements for doing business and the standards were designed to apply universally.

Typically, Walmart's suppliers are expected to cover the costs of these audits. For the EWT program, however, Walmart paid for all of the associated expenses of hiring local firms to carry out these audits. While Walmart covered the cost of any required compliance audits, the costs of any changes necessary to meet these standards were the responsibility of the suppliers.

Additionally, these enterprises struggled to meet Walmart's supplier standards. These standards were designed to assess larger organizations accustomed to dealing with the formal retail supply chain. How these standards were applied was not contextualized for small producers in the developing world. This created challenges for both Walmart and the women-owned and women-empowering artisan enterprises.¹⁴

For example, Walmart's audit process revealed that Katchy Collections, a Kenya-based fashion accessories brand, needed to make some changes to meet the standards. Women workers that had been paid on a piecework basis had to transition to at least a minimum hourly wage with regular hours on site at the production facility. They were required to adapt to a more formal work schedule, with productivity targets, and structured breaks and leave. While this meant the women's incomes increased, they were not used to an approach that restricted their flexibility to balance work and family responsibilities such as child care. Furthermore, the standards prohibited children from being present in the workplace, a provision designed to diminish the risk that production facilities would use underage labor. However, children in the workplace was a common practice in rural areas, and meant that the women now needed to seek childcare services. The supplier standards also imposed constraints on how the women worked. Women who had worked in the traditional way by sitting on the floor were expected to use chairs, stools or benches.¹⁵

Building Business Capabilities

The small women-owned and women-empowering enterprises that participated in EWT faced many difficulties in integrating with formal retail channels, especially those serving Western markets. Intermediaries played an important role in overcoming these challenges. Not only did they provide formal retailers with a portfolio of products from many small suppliers, they provided advice and support in product design, communicating and negotiating with retailers, packaging, marketing, and logistics.

Another challenge these enterprises faced was in designing and producing products that would appeal to Western consumers, which sometimes meant using new and unfamiliar materials. While Walmart and the intermediaries worked with the enterprises on the design of products, the enterprises still found it difficult

to develop and produce acceptable fashion products for Walmart's e-commerce customers. The lead time needed to design and produce these items was sometimes so long that the relevant trend had passed by the time the items were ready to be marketed.

Katchy Collections, for example, was given an order for Christmas angels. This was not a product that the artisans had experience making and it required them to work with unfamiliar materials and processes. The individual components were purchased and cut as planned; however, the glue used to assemble the products caused allergic reactions among the workers. The enterprise was unable to find an acceptable alternative in time and the order had to be canceled, since it was not possible to deliver the items to Walmart in time for the Christmas season.¹⁶

Managing Logistics

EWT suppliers in developing countries were geographically remote from the Western markets they were serving in their relationship with Walmart. This meant that the logistics of shipping finished products was expensive, and often meant suppliers had to engage in export and customs processes that were unfamiliar to them. In most cases, shipments were too small to be shipped by sea and had to be sent by air, which was much more expensive. However, production delays would sometimes necessitate shipping products by air in order to meet delivery deadlines. These additional costs were absorbed by the intermediaries, which had a significant impact on the aggregators' margin and ability to operate sustainably.¹⁷

The EWT program had also committed to absorbing the cost of unsold or unacceptable items. Normally these would be charged back to the supplier. However, Walmart felt that the enterprises should not be penalized in these situations because of the negative impact that it could have on the enterprises and the women who worked for them.

For example, Katchy Collections shipped a batch of horn bracelets to the intermediary it worked with as part of its relationship with Walmart. The intermediary rejected some of the items because of size variations (due in part to the variable nature of the raw material — cow horns) and other quality concerns. Some of the bracelets, for example, were too large to stay on and some were so small they would not fit an adult's arm. The acceptable-sized bracelets were then shipped to Walmart where still more were rejected for other quality reasons. Ultimately, both Walmart and the intermediary absorbed the losses associated with these rejected products.¹⁸

Enhancing Participation of Women

A key goal for the EWT program was to engage and empower women. Women entrepreneurs in developing countries, however, faced a number of barriers related to the broader context and culture. While lack of access to credit was a barrier for all small producers, it disproportionately affected women. In many countries, for example, property was required as collateral to secure commercial financing. However, traditional inheritance norms often prevented women from holding land titles or deeds that were needed to meet these criteria.

Katchy Collections was unable to secure commercial financing to cover its working capital needs, which often meant delays in paying employees. In Kenya, banks would only accept a land title to secure a loan. Inheritance laws, however, typically ensured that property passed only to male heirs, and only 1% of the land in the country was owned by women. Even if a woman was able to secure a loan, she often needed a male relative to co-sign the agreement.¹⁹

Outcome

Overcoming these challenges proved difficult for Walmart and its partners. After intensive efforts to develop ongoing supplier relationships, EWT typically had only between one and three shipments with each of the women-empowering organizations it worked with in developing countries. While some products from these suppliers sold well, the biggest hurdle faced by the program was that overall demand was weak. Two years after its inception, the program was ended and none of the relationships with small suppliers in developing countries were continued.

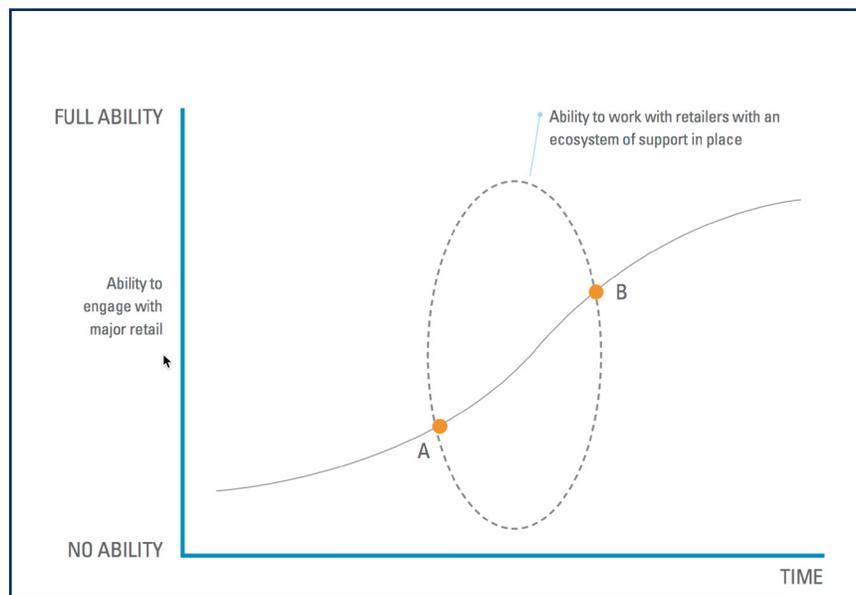
Lessons Learned

While the Direct Farm and EWT programs had different designs, there were a number of similarities in the lessons learned during their implementation. These included learnings about small and medium producer capabilities, global standards, partnership development, and funding requirements.

Supplier Development

Walmart found that not all producers can be incorporated into supplier development programs like Direct Farm and EWT. Small producers varied substantially in their capabilities to engage with formal retail supply chains. Upon reflection, Walmart identified a number of distinct stages of supplier development. The Supplier Development Curve (see **Exhibit 4**) is a visual representation of these stages and the associated implications. Prior to point A on the curve, producers were deemed too limited to integrate successfully without substantial investment in the overall ecosystem of support for small producers. Long-term assistance in the form of finance, basic business skills, access to mentors, and access to other resources was key to help move a business to point A. Between point A and point B, producers could be integrated, but typically required some support in terms of capacity building, improved terms, or investments in the supporting ecosystem. Beyond point B, producers had reached the level where they required no special assistance to work with retailers like Walmart. Examples of the latter were the large farmers in the Direct Farm program.

Exhibit 4
Supplier Development Curve



Source: London, T., L. Scott, and C. Fay. (2016). *Incorporating Small Producers into Formal Retail Supply Chains*.²⁰ Based on an initial diagram provided by Kathleen McLaughlin.

Global Supplier Standards

Globally, Walmart expected all of its suppliers to meet a minimum set of supplier standards that ensured goods were sourced responsibly. These expectations were often difficult for small producers in developing countries to meet without significant support and investment. As a result, Walmart found that a single global standard for suppliers had limitations. While standards are required to manage a variety of risks in the supply chain, how these standards were evaluated and applied would benefit from contextualization for producers operating in the developing world. Thus, Walmart was faced with a delicate trade-off: Creating variations in supplier standards could introduce risks to responsible sourcing, while applying a single standard in every context would continue to make it difficult to engage small producers.

Partnership Development

Beyond the challenge of engaging producers with limited capabilities, Walmart also encountered an undeveloped market environment. To supply Walmart, these producers needed to overcome deficiencies in communications, transport, and logistics infrastructure, as well as challenges in aggregating supply and a lack of familiarity with the expectations of Walmart's customers. Small producers had to have the ability to meet minimum order sizes, appropriately package and label their products, and communicate with the retailer effectively, including through electronic channels.

Overcoming these issues required substantial engagement from a variety of supporting organizations. Walmart found that the barriers to integrating small producers were often systemic in nature and addressing them required coordinated efforts from actors across multiple sectors. While cross-sector engagement was necessary, it was also complex and costly to execute. A wide set of partners can bring together the resources needed to address gaps in the market and develop the institutions and infrastructure to support small producers, but these efforts are challenging to organize and costly to fund. The increased complexity can mean that it takes longer to make progress, and partners must work together despite differences in organizational incentives and motives.

Funding

External funding could help to overcome some of these limitations, but funding partners also needed to achieve their missions and priorities. Often this meant engaging with the poorest small producers, who were in need of the most assistance and were the most challenging to integrate into formal retail supply chains. If the funding came from Walmart Foundation, then this support could provide not more than an incidental benefit to Walmart.

Impact

These programs, whether funded internally or externally, helped Walmart to meet its global responsibility commitments. For example, Walmart and the Walmart Foundation – mainly through philanthropy – trained 1 million farmers, including 500,000 women farmers.^{iv} In the process, they also provided significant financial support to implementing partners such as One Acre Fund and Mercy Corps. However, the number of smallholder producers engaged as suppliers through the Direct Farm program represented a small percentage of Walmart's total sourcing needs in these categories. The EWT program also did not generate a new set of regular suppliers for Walmart's e-commerce platform. While these supplier development programs provided a collaboration model that had the potential to benefit a wide group of stakeholders, sustainability and scale remained elusive.

^{iv} Approximately 40,000 men and 17,000 women were trained as part of business-led initiatives in Kenya and Mexico.

Looking Ahead

As McLaughlin, Valikai and Cochran reflected on the successes, challenges and lessons learned in the Direct Farm and EWT programs, they realized even more fully that engaging the world's smallest producers in formal retail supply chains was a challenging prospect. To build producer capacity so they could become reliable suppliers to Walmart and other large retailers required considerable investment of time and financial resources, flexibility to adapt to realities on the ground, and collaboration across multiple sectors. How could Walmart apply the lessons it had learned in its own business and philanthropic efforts, and what could others learn from Walmart's experiences?

McLaughlin knew that figuring this out could have substantial benefits for Walmart, the small producers and the global food system, by increasing livelihoods of small producers and helping to increase the supply of locally sourced food. Additionally, increasing customer interest in environmental and social sustainability meant that Walmart customers increasingly valued company efforts to support local producers.

"We've had some modest success," said McLaughlin. "But there have been many difficulties. The question now is — should we stop these efforts, or continue investing in these programs? If we continue, how might we improve these initiatives so they work better for very small producers and make sense for Walmart to support? Let's explore this more deeply and see what the options are for us."

Endnotes

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- ¹⁹ Scott, Steinfield, and Dolan.
- ²⁰ London, Scott, and Fay.



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