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One Buyer at a Time

By James T. Riordan

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International development organizations spend lots of money and effort building the capacity of small businesses. Yet they often fail to ask whether people want the businesses' goods and services. As these stories from Peru show, successful programs start with real buyers who are willing to buy real products.

One Buyer at a Time

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east of the Andes Mountains, approximately 35,000 Shipibo-Conibo Indians live in the lowland jungles of central Peru. Many of them reside in remote villages that lack electricity, roads, indoor plumbing, and other basic infrastructure. Like so many other native people around the world, the Shipibo-Conibo are caught between two worlds. They are no longer able or willing to live the old way, but they often lack the resources and skills to adopt the ways of the developed world.

One skill that the Shipibo-Conibo do have that the developed world values is their ability to produce strikingly beautiful ceramics. Traditionally, the women molded each piece by hand, fired it, and then used their own hair to paint intricate designs on it. But the tribe had never produced large volumes of ceramics of uniform quality, and so traders who could sell the ceramics in broader markets were reluctant to turn to the women as suppliers.

American Trading, an export company based in Lima, Peru's capital city, decided to take a new approach. Betting that it could develop a reliable supply of Shipibo-Conibo ceramics, the firm contacted Pier 1 Imports to see whether there was any demand for them. After American Trading badgered the retailer for some time, Pier 1 ordered 25,000 pieces in 2001.

There was no way that the Shipibo-Conibo could produce that many high-quality pieces on schedule using their traditional prac-

PHOTOGRAPH BY MARTIN CCORISAPRA

Near the Ucayali River in Peru, a Shipibo-Conibo Indian woman paints a traditional design on a ceramic urn. In 2001, Pier 1 placed an order for 25,000 pieces of Shipibo-Conibo pottery, jump-starting a new industry in the impoverished area.

To meet demand for their unique pottery, Shipibo-Conibo villagers created four small businesses.

tices. To fill the order, American Trading would have to organize potters, train artisans in mass production techniques, institute quality control methods, and clear other business hurdles. Although the company had money to invest in building capacity among the villagers, it was afraid that it would never turn a profit if it had to pay the full cost. The barriers were so great that the company was actually considering turning Pier 1 down, despite all the work it had put into obtaining the order.

Worried and unsure of what to do, American Trading approached USAID's Poverty Reduction and Alleviation (PRA) project in Peru to see if it could help. Seeing the opportunity to bring money and jobs to a region of Peru that desperately needed them, PRA agreed to help American Trading solve the business problems jeopardizing the deal. At the time, I headed PRA, which is managed by Chemonics International Inc., a Washington, D.C.-based international development firm.

PRA helped pay for a skilled technician who trained the local artisans in mass production techniques, monitored production day to day, and helped exercise quality control. After many twists and turns, American Trading filled the order for 25,000 pieces of pottery in 2002.

For villagers, the most immediate impact of the project was money. About 200 people from the village of San Francisco – mostly women – worked directly in the operation, and 200 others benefited indirectly from ancillary employment. The long-term impact of the contract was just as important. The villagers formed four small businesses that could respond expeditiously and without subsidy to future ceramics orders.

This story demonstrates the power of the demand-driven approach to international development. By a demand-driven approach, I don't mean an abstract economic principle. I'm referring to demand in its most concrete form – a real order from a real customer. With the order for 25,000 ceramic pieces from Pier 1 in hand, everyone had an incentive to succeed: money on the table.

One could have tried to develop the same production capacity among the Shipibo-Conibo before securing the Pier 1 order. Indeed, that's an approach that international development agencies have taken in various parts of the world. But there would have been fewer incentives for all parties to perform. And if an actual order for such a large number of pieces had never materialized, all of their effort would have been for naught.

Since 2003, I have helped instill a demand-driven approach in a wide variety of business support programs around the world. Gauze in Armenia, poultry in Azerbaijan, embroidery in Bolivia, skirts in Dominica, decorative stones in Kosovo, gemstones in Madagascar, blueberries in Mongolia, and wood molding in Paraguay are just a handful of the businesses affected. The demand-driven approach can even be applied to fields other than international development (see sidebar on theater on p. 52).

The Meaning of Demand-Driven

Today, nearly every international development organization claims to be demand-driven, and the term "demand-driven" has become a mantra. But despite the rhetoric, most international development practice remains very much supply-push, not demand-driven. Instead of identifying demand first and then figuring out how to respond to its peculiar requirements, too many international development organizations first build supply capacity and then try to drum up demand for the products – too often unsuccessfully.

Many development organizations begin by asking their clients what they need. When the organization responds to those needs – with grants of machinery and equipment, for example – they often justify their actions as demand-driven because they are responding to the "demands" of their clients. But by themselves, those grants bear no relation to real demand for the additional goods and services that their clients will now produce.

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What is even more sobering is that many international development organizations do not appreciate the differences between the two approaches. They believe they are taking a demand-driven approach when they are actually taking a supply-push one. To illustrate the point, I have taken three statements from respected international development organizations that claim their approach is demand-driven. Please play along with me as I ask, *Is the approach demand-driven?*

> **Example #1: Peru, 2002**
> "In the highlands there are a number of market 'niche' opportunities. … Among the specific niche products are fruits and vegetables, traditional cereals (quinoa and kañihua), tubers (maca), condiments (oregano and anise), fish products, and handicrafts (ceramics and weavings). Developing markets for these products can have a big impact on the local economy."

On first glance, you might think that this approach is demand-driven because the phrase "market 'niche' opportunities" *sounds* like there is a market already in place, just waiting for supply. But a closer read reveals that it is indeed supply-push: People living in Peru's highlands simply have a bevy of goods that they can produce. But that does not mean that donors, the government, contractors, and nongovernmental organizations (NGOs) should promote them. If the suppliers in question – typically poor small farmers – cannot sell what they produce, who bears the cost? Not the donors, government, contractors, and NGOs, but instead the small farmers themselves, who can least afford the risk.

> **Example #2: Madagascar, 2003**
> "A few private companies in Madagascar offer a range of business services but they appear expensive, and as such are rarely used by small- and medium-sized agribusinesses. In identifying commercial solutions … , the contractor will develop private-sector suppliers. … This can be done in building local capacity for commercial service provision to ensure sustainable impacts."

Again, this approach seems like it could be demand-driven. You might infer that small and medium agribusinesses would like to receive business development services if there were more supplied. But if you look closer, you will find that this is mere supposition. In fact, few companies in Madagascar are willing to buy business development services.

> **Example #3: Azerbaijan, 2005**
> "Many food processors are only working three to six months out of the year [to process fruit]. … There is a need for cold storage to store more product."

KEYS TO DEMAND-DRIVEN THINKING

Market Chain, Not Supply Chain

In far too many instances, people think about business transactions from the perspective of a supply chain rather than a market chain. Although goods do flow from supplier to buyer, the starting point for any transaction is the buyer, not the supplier. Supply-push thinking leads people to try to sell what they produce, whereas demand-driven thinking leads them to produce what they can sell.

Demand Means a Name and Address

Traditional market studies collect detailed statistical information on supply and demand. But real demand is a buyer with a name and an address. Those buyers are often found in places that economic development organizations overlook. Development organizations want to help small- and medium-sized enterprises and so often turn to them first, but it is typically larger firms that want their goods and services and can place real orders.

Foster Trust, Transaction by Transaction

People usually take trust for granted in the developed world, but in many other parts of the globe social norms and the rule of law are not strong enough for people to trust each other. That often makes business transactions difficult. Honest brokers can help bridge long-standing prejudices, but only after lots of legwork and time spent sharing the local drink – whether that's tea, raki, or yerba mate.

Solve *La Problemática* by Solving *El Problema*

Economic development organizations often want to solve *la problemática* – the gamut of interrelated problems – when it makes more sense to solve *el problema* – the specific problem of a specific situation. In practice, development takes place step by step as companies and communities engage in real transactions and learn by doing.

Once more, the answer is no, this is not a demand-driven approach. Yes, there is a need – the need for cold storage. But the client's need for cold storage is not the same as the market's demand for processed fruit. Cold storage is only a way of increasing supply. Demand-driven means there is a customer who is both able and willing to pay. If such a customer existed, then there would be a *real* need for more cold storage. At this point, it's not clear if customers are demanding more processed fruit.

Misperceptions about what demand-driven means extend even to our business lexicon. Consider the following definition of the term "marketing":

mar•ket•ing, noun

1a: the act or process of selling or purchasing in a market
1b: the process or technique of promoting, selling, and distributing a product or service
2: an aggregate of functions involved in moving goods from producer to consumer

Merriam-Webster's Collegiate Dictionary, Eleventh Edition

Many people assume that marketing is a demand-driven approach to business. But once again, somewhat counterintuitively, most marketing is actually supply-push.

In common parlance, marketing means taking a product already in hand and finding somebody to buy it – that is, starting with supply and finding demand. Marketing is, of course, a well-established business discipline. Mature companies commonly invest in advertising and promotional campaigns to create consumer demand. If a company is well capitalized and knows what it is getting into, such a strategy is fine. But to ask poor producers in developing countries to assume that risk is quite another matter.

Market Chain, Not Supply Chain

To understand the demand-driven approach, one must distinguish between what *direction* goods flow and what *starts* goods flowing in the first place. Although goods flow from the supplier to the buyer, the starting point for the transaction is the buyer, not the supplier. Supply-push thinking leads people to try to *sell what they produce*, while demand-driven thinking leads them to *produce what they can sell*.

Most businesspeople use the phrase "supply chain" to describe the process of creating goods and delivering them to the market. Although this term accurately describes the flow of goods from suppliers to buyers, it does not capture the fact that the starting point of the transaction is buyers, who communicate their demands to suppliers. To emphasize the importance and power of the market's demands, I propose replacing the term "supply chain" with "market chain."

The diagram at right illustrates a market chain. Unlike supply chains, market chains start with real buyers who are willing to pay for a product. International development projects, like PRA's support of Shipibo-Conibo ceramic production, work best when they respond to demands from known buyers. That is why the large arrow in the center of the diagram points downward: Problems at the top of the diagram, with the buyers, must be addressed before proceeding to the bottom, the suppliers. In the end, PRA, like other international development organizations, still spends most of its budget helping clients increase their production, but we do so *only after* we know that there is a buyer for the supply in question. Market chains also usually include connector firms, like American Trading, which act as mediators between buyers and suppliers.

Demand Means a Name and Address

When PRA began operating in Peru it kept elements of conventional approaches. Instead of focusing single-mindedly on getting orders from real buyers, it commissioned 11 traditional market studies, none of which was particularly helpful. The typical market study collects detailed information on supply – for example, the kinds of pineapples growing in the jungles of Peru, the types of farming there, and how much can be harvested. It also provides statistical information on demand from

Field of Dreams by EDWARD A. MARTENSON

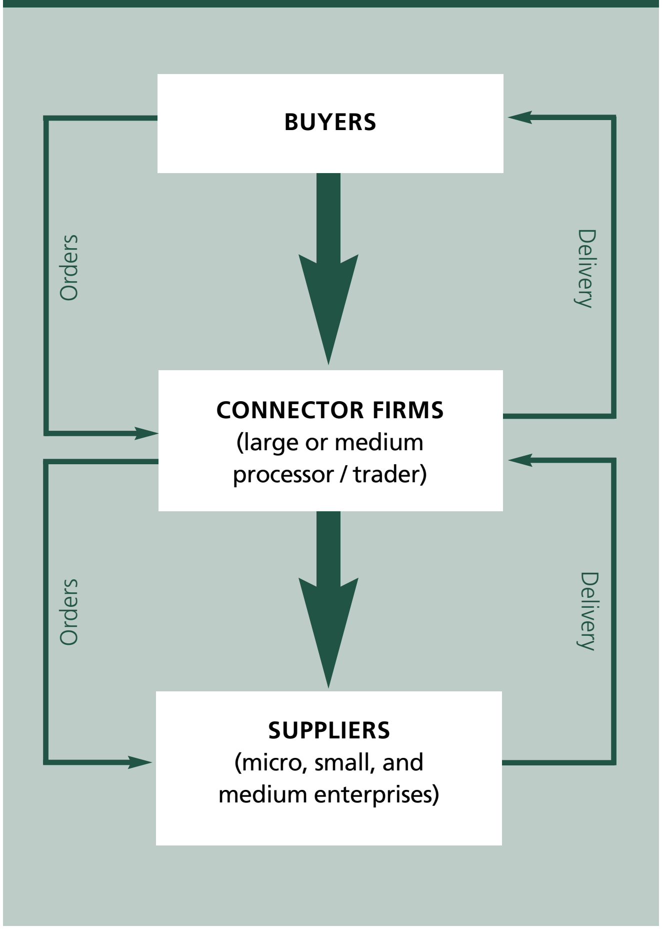
In building capacity, arts agencies often ignore demand in ways that are remarkably similar to the international development agencies that James Riordan describes in his article. After more than 10 years at National Arts Strategies working with hundreds of arts organizations – including theaters, opera houses, museums, and children's choirs – I have seen this countless times. Most arts executives would say they have been guilty of this at one time or another, but it's not limited to them. The tendency is shared by their funders, board members, and expert consultants, too.

Not all instances of focusing on supply in the arts arise from ignoring demand. Many well-established arts organizations build excess capacity – often in the form of large buildings designed by famous architects – because of a mixture of artistic quality considerations and civic pride (witness the growing trend toward expensive "signature" architecture). Yet in many cases, particularly with less-established organizations, Riordan's critique of supply-push thinking holds true.

Arts grantmakers and consultants often use the term "capacity building" to describe programs that help less-established arts organizations grow into larger, more stable, and less vulnerable organizations. Capacity-build-

MARKET CHAIN

Unlike supply chains, market chains highlight the first link in demand-driven development: the buyers.



international agricultural sources, pointing out, for example, that "demand for pineapples has been increasing 3 percent per year in Brazil." What the typical market study doesn't include is *concrete* demand – which companies actually buy pineapple and in what quantities.

While PRA was conducting its market studies, it scored its first real success – one that entailed finding a real buyer for a real supplier. Our organization had recently opened an office in La Merced and was canvassing the city for business prospects when we met Teresa Romero. Romero was a small-scale entrepreneur who owned several trucks. She bought pineapples from growers in the jungle area of eastern Peru, trucked them westward over the Andes, and resold them – at rock-bottom prices – in the wholesale market of Lima.

Meanwhile, back at our office in Lima, a PRA staffer knew the president of Nutreina, a large pineapple canning company based in the coastal city of Pisco, south of Lima. Nutreina imported its pineapples from Ecuador, hundreds of expensive miles to the north.

PRA introduced Nutreina to Romero, and the two formed a mutually beneficial business partnership. Teresa Romero was not only able to sell her pineapples at a higher price in a secure market, but was also able to pass along some of the windfall to the pineapple growers. Nutreina, in turn, paid less for pineapples than it did when it bought them from Ecuador.

Finding buyers with real names and addresses does not come easily to development organizations, because they are usually looking in the wrong places. Many development staffers want to help small- and medium-sized enterprises, and so shy away from dealing with large firms. But it is the larger firms – processors and traders like Nutreina – that want the goods and services of small and medium enterprises. By focusing on the

ing programs may involve hiring a professional staff, creating more sophisticated development and marketing departments, acquiring a nice facility, or doing more or better performances. There is some logic to these efforts, because arts organizations that have yet to reach scale typically are stressful, insecure places, and increased capacity seems like one way of helping an organization gain more control over its future.

But when building capacity, arts organizations too often ignore demand. Most capacity-building efforts increase the supply of art: Theaters can create a second company for touring; orchestras can employ more musicians and contract for more services, and then present a second subscription series; and museums can mount more – and more elaborate – exhibits. The problem with this approach is that when embarking on these expansions of "capacity," we don't always know whether a community of ticket buyers and patrons is ready to use it. Yes, the organization has the capacity for producing more art, but once a major grantmaker finishes the capacity-building program and turns to help the next arts group, it's not always clear whether the capacity-enhanced organization is sustainable.

This is exactly what is ironic: A lot of capacity building is advertised under the goal of "sustainability," yet the outcome of these efforts often produces the opposite effect. Because we grow these organizations to the point where the amount and type of work they can supply exceeds what their community is demanding, we set them up to fall short of expectations.

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demands of 219 larger businesses in Peru, PRA has been able to find markets for the goods of more than 42,000 small businesses, growers, and other producers.

Foster Trust, Transaction by Transaction

Most economic theory assumes that partners in a business transaction trust each other. Buyers trust that the beef their grocery store sells will not be contaminated. Connector firms trust that the grocery store will pay for the beef they deliver. And ranchers trust that connector firms will honor their contracts to purchase the beef that they have raised. Indeed, in the developed world we can usually take trust for granted, because most people know and act according to the social norms governing business relationships. And when norms fail, laws and law enforcement make sure that we honor our contracts and agreements.

But in many communities around the world, social norms and the rule of law are not strong enough for people to trust each other, and many economic transactions that we take for granted in the United States or Europe are much more difficult to carry out. Large buyers and small sellers – processing factories and isolated farm communities, for example – often hold especially deep prejudices against one another.

TALK BACK: What are your reactions to this article? Post your comments at **www.ssireview.org.**

Take, for example, Piscifactoría de los Andes, a trout processing company in Huancayo, Peru, and SAIS Tupac Amaru, a large farm that lies almost next door. Although Piscifactoría could sell up to three times more than what its ponds produce, the company was hesitant to source from third parties. For its part, the SAIS, a hacienda that the Peruvian government had turned over to small farmers in the 1970s, had once produced high-quality trout, but its ponds had deteriorated over the years.

By the time PRA came along in 2001, the SAIS was bankrupt and profoundly suspicious of overtures from outsiders, and Piscifactoría had dismissed working with the SAIS as a losing proposition. In short, there was a complete lack of trust between the two parties. To put it in stereotypes common in colloquial English, the SAIS regarded Piscifactoría as a "fat cat" waiting to rip them off, while Piscifactoría saw the small farmers as "lazy slobs" whom they could not count on to deliver enough high-quality fish on time.

PRA recognized that an alliance between the two would not only make more money for Piscifactoría, but would also provide jobs for poor SAIS farmers as well. But to wed supply to demand, PRA had to play the role of honest broker.

PRA assigned a facilitator who spent almost a year nurturing trust between the two groups, breaking down preconceptions and convincing them to join together in a business relationship. People came to refer to him as the human pingpong ball because he bounced back and forth between the two groups so many times. In the end, Piscifactoría agreed to invest $70,000 in rehabilitating the SAIS's ponds and to furnish raw materials and technical assistance. For its part, the SAIS agreed to abide by the company's technical direction and sell trout to Piscifactoría at a mutually beneficial price.

Workers at the Piscifactoría de los Andes plant process trout in Huancayo, Peru. Piscifactoría and a neighboring trout farm, the SAIS, overcame their mutual distrust and are now business partners. Trust is lacking in much of the developing world.

PHOTOGRAPH COURTESY OF USAID POVERTY REDUCTION AND ALLEVIATION PROJECT

Piscifactoría has sourced from the SAIS for a number of years now. Despite periodic hiccups, the experience with SAIS Tupac Amaru has made Piscifactoría a believer in the value of outsourcing production to third parties. Applying that model, it has now expanded en masse to three new regions of Peru, expanding sales by $5.8 million and creating 550 jobs.

An independent group that evaluated PRA as a whole concluded: "[W]hat is most lacking to the successful forging of the marketing link along the value chain is trust between the parties to a deal. The long history of mutual deception between buyer and seller has left an attitude of mutual distrust that is extremely difficult to overcome. In fact, the evidence of this investigation suggests that the role of the ESC [PRA's Economic Service Center] adviser as a 'moral guarantor' of the performance of the parties to a deal is as important as any technical or informational input."[1]

We have similarly concluded that, of all the work that PRA does, building trust is arguably our most important and far-reaching contribution. As a rule, it takes time – as little as a few weeks, but sometimes months – for business facilitators to develop the trust required to build smooth working relationships with clients. Moreover, they do not build trust by parachuting in and out of capital cities. Most successful facilitators spend considerable time with clients in informal settings drinking the local beverage of choice – be it tea in Afghanistan, raki in Albania, beer in Peru, or yerba mate in Paraguay. Business facilitators who sit in their offices waiting for clients to come to them may never engender enough trust to be effective.

Solve *La Problemática* by Solving *El Problema*

The demand-driven process I am describing may seem too small and piecemeal to achieve the grand goals that most development organizations seek. Connecting Teresa Romero with a pineapple canning company, for example, seems to fall far short of transforming entire communities and regions. But as my final example illustrates, those who want to solve *la problemática* – the vast gamut of all interrelated problems – are often most successful when they first solve *el problema* – the specific problem of a specific situation.

For almost a half century, Peru has invested hefty sums of money in large irrigation schemes to water the fertile lands on its dry Pacific coast. Meanwhile, in the country's eastern jungle, the Ucayali River recedes once every year, leaving approximately 100,000 hectares of rich riverbed exposed for four months. In Egypt, the Nile River's similar ebb and flow gave rise to one of history's greatest civilizations. But in Peru, no one had taken advantage of the Ucayali's seasonal patterns.

In 2001, two Peruvian export companies asked PRA to help them grow beans on the exposed Ucayali riverbed. Both companies had buyers to purchase the beans, and were looking for land to grow more beans. Although the Ucayali River was a logical choice, they had no experience in riverbed production and were reluctant to jump in alone. Given the project's potential to expand sales and jobs, PRA decided to give the companies a hand.

Under an agreement with the two companies, PRA brought in a consultant with experience in riverbed farming, and shared the costs of the companies' technical supervision of small growers. For their part, the two companies paid for the seeds and supervised the entire operation. In the first year, the two companies planted 1,600 hectares – an area about one-quarter the size of Manhattan. This activity boosted demand for labor and raised wages 30 percent, which dramatically reduced poverty in the region.

After the initial success of the bean operation, other companies, including San Fernando, a major poultry company, decided to grow corn for feed. Corn turned out to be more profitable than beans, and so another set of investors, farmers, and ancillary industries entered the area.

Today, five companies grow crops on more than 5,000 hectares of the Ucayali riverbed, attracting seed, fertilizer, and machinery companies as well. Interestingly, rather than giving the two initial companies a monopoly, PRA's investment has ultimately attracted competitors, copycat investors, and support industries.

This example also illustrates that the best people to provide technical assistance to small growers are their buyers. Why? Because they have a commercial interest in the quantity, quality, and timeliness of the product.

In contrast to this bottom-up approach, international development organizations often create top-down master strategies that can be so encompassing that practitioners have little idea where to start. It's a relatively straightforward task to create a laundry list of all the problems that face a given marketplace, and only slightly harder to create an elaborate taxonomy to classify those problems. But it's impossible to try to solve all of a client's or sector's problems at once. In practice, development takes place step by step as companies and communities engage in transactions and learn by doing.

Businesses certainly share problems, and sometimes collective action is necessary to resolve them. But development projects are most effective when they start with the individual business, because individual businesses – not products, sectors, industries, clusters, or projects – make productive investments. The best way to get the chain reaction of development going is one buyer at a time. □

1 Schmaedick, Gerald, Michael Glover, Antonio Tacchino, Iván Mifflin, Pedro Flores, and Renso Martínez. 2003. "A Qualitative Assessment of the Poverty Reduction and Alleviation Program of USAID/Peru: January 2003." Washington, D.C.: Checchi & Co. International Consulting.