

# Strategic marketing perspective on small-scale vanilla producer organizations in Mexico

a comparative case study



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**To my beloved Montse.**

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## Strategic marketing perspective on small-scale vanilla producer organizations in Mexico: a comparative case study

### ABSTRACT

#### Purpose

Successful market integration of smallholders from developing and emerging countries in food chains depends on the development of sustainable competitive advantages grounded at farm level. The purpose of this research is to explore the strategies and underlying processes vanilla producer organizations in Mexico develop to overcome vulnerable market positions and create sustainable competitive advantages.

#### Design

The strategies and underlying process to develop sustainable competitive advantages were derived from an exploratory multiple case study of small-scale vanilla producer organizations in Mexico. Data was collected through a desk-research and a fieldwork. The fieldwork included field observation and semi-structured interviews ( $n=24$ ) with key-informants. Data triangulation was performed by interviewing academic experts ( $n=8$ ).

#### Findings

The results reveal three different strategies producer organizations initially engaged to overcome vulnerable positions and create market power: by size; by cutting out the middlemen; and by guaranteeing vanilla quality and biodiversity conservation. The first two strategies are oriented to address barriers producers face in a short-term. The latter strategy was long-term oriented by focusing on create sustainable competitive advantages. It is a long-term goal that takes time and requires flexibility and continuous improvements. Strong value propositions anchored in strategic resources at farm level have the potential to strength the market position of producer organizations.

#### Implications

This thesis provides valuable insights of the strategies and the underlying processes that producer organizations develop to create competitive advantages. It can help producer organizations and other actors involved in market integration of rural smallholders to achieve market integration objectives.

#### Originality/value

The originality of this thesis is to approach the market integration of smallholders in food chains under the scope of strategic marketing perspective at producer levels.

**Key-words:** strategic marketing; market integration; producer organizations; marketing systems; strategic resources; vanilla production.

## 1. INTRODUCTION

Global consumers habitually purchase products such as spices, coffee, tea, cocoa and other commodities coming from complex agri-food chains based on smallholder production of developing and emerging (D&E) countries. Despite the importance of small-scale producers at the base of these chains, they often capture only a small portion of the added value and live in a context of poverty (Beuchelt & Zeller, 2011). Successful integration of smallholders to regional and global food chains is a hope to support development and poverty alleviation in rural areas (World Bank, 2007). Aligned with this standpoint different initiatives at different levels have been dedicated to improve the process of market integration. Such opportunities have different levels of coordination among actors and stakeholders of the chains. At market-level, these initiatives include proper prices and coordinating mechanisms. At producer-level, producer organizations are an opportunity to increase competitiveness of smallholders.

### 1.1 Opportunities at market-level

#### 1.1.1 Proper Prices

Following consumer trend of market justice, *certificate schemes* and *downstream initiatives of multinational corporations* (MC) are attempts to offer proper prices to smallholders. *Certificate schemes* such as Fair Trade were envisaged as means to ensure that revenues flow to producers. To do so, certificate schemes establish standards for production and trade and employ tools like floor prices and social premium (Walton, 2010; Ruben, 2010). *Downstream initiatives* such as corporate social responsibility of MC also work for pro-poor development. MCs have joined codes-of-conduct or created voluntary standards regarding sourcing commodities from D&E countries (Kolk, 2005).

#### 1.1.2 Coordinating mechanisms

Coordinating mechanisms such as *commodity exchange* and *contract farming* are useful for producers to manage risks and consequently improve prices (Vercammen, 2011). *Commodity exchange* benefit producers by offering real time price information, facilitating physical trade and reducing transactional costs (Getnet et al., 2011). It also provides opportunities to transfer risks by price volatility mitigation through instruments like hedging and future contracts (World Bank, 2005; Pennings, 2010). *Contract farming* reduce price risks and marketing costs by specifying a price system and a market outlet before the harvest (Vorley & Fox, 2004; Maertens & Swinnen 2007).

A generic insight of these opportunities at market-level is that they depend on outsiders or downstream actors in the chains. Their implementation strongly relies on coordination among actors including governments, NGOs, donors, multinational corporations or downstream firms. Indeed, most of them require complex and multistakeholder approaches to be achieved and ultimately benefit smallholders.

## **1.2 Opportunities at producer level: producer organizations**

On the other hand, initiatives at producer-levels emphasize on the role of smallholders to improve their own market integration. Smallholders engage in producer organizations for joint efforts to better position themselves in the markets. Literature extensively emphasizes the role of producer organizations. In D&E countries institutions that regulate, support and connect smallholders to the markets are missing or not functioning properly. Alternative arrangements such as producer organizations fulfil these typical institutional gaps (Kolk, 2014). These compensatory structures are promises for smallholders to achieve competitiveness. Traditional functions of producer organizations are attenuate the disadvantages of smallness, increase bargain power and decrease transactional costs (Bijman, 2007a; Bijman, 2008; IFAD, 2015).

### **1.2.1 Value creation: a new economic function of producer organizations**

On top of traditional functions related to decreasing transaction costs and bargaining, it is foreseen that producer organizations in D&E countries have the opportunity to increase their incomes by fostering innovation and product quality at food chains (Bijman, 2007b). In this context, innovation is conceptualized as a process of technical or institutional change at farm and higher system levels that impacts on productivity, sustainability and poverty reduction (Röling, 2009). Indeed, game-theoretic models forecasted that the involvement of the producer organizations in innovation activity can change the nature of product differentiation and the structure of the market (Drivas & Giannakas, 2010). Although the value creation of producer organizations has been recognized as a potential to enhance incomes of smallholders, few studies have been dedicated to explore the process by which producer organizations from D&E countries engage to create new values as a marketing opportunity.

### **1.3 'Immiserising growth': the need of strategic resources**

This matter becomes more relevant because producers in D&E countries often face the risk of being jeopardized by more powerful actors and are inhibited to reap benefits from their value creation. Food chains often have dominant firms possessing competitive advantages related to trading, manufacturing,

branding and retailing that allow them to concentrate negotiation power. Dominant firms with excessive power concentration can influence what rural actors extract from the value created in the chain (Humphrey & Schmitz 2002; Vorley & Fox, 2004; Mcmichael, 2013). Moreover, price-wars at higher levels between retailers or supermarkets transfer profits to these firms with high negotiation power. This often has a downstream effect constricting revenues at the lower levels particularly in D&E countries (Kambewa, Ingenbleek & van Tilburg, 2008; Humphrey, 2006; Vorley & Fox, 2004).

The inclusion of smallholders that are unable to create strategic resources is not a sustainable strategy to escape from the poverty trap. Thus, unsuccessful inclusion results in the 'immiserising growth' (Kaplinsky, 2000), a condition where smallholders create more value and increase their economic activity but fail to extract value (Lutz, 2012).

To avoid having their value creation jeopardized, smallholders need to develop a strategic view to create sustainable competitive advantages that allow them to appropriate at least a reasonable part of the value created. These sustainable competitive advantages should be based in resources and capabilities at the farm level. Strategic resources and capabilities offer the possibility to defend their position in the market. In this sense, the question about smallholders' integration moves from 'why markets pay low prices to producers' to 'what producers can do to improve their position in the markets' (Lutz, 2010; 2012). To be economically successful for smallholders, new value creations need to be simultaneously accompanied by innovative marketing approaches (Bijman, 2007b).

Although the need of a strategic view at farm level is acknowledged, the contribution of strategic marketing to market integration is still limited. More specifically, it has been recognized that producers need strategic resources at farm level to defend their incomes (Lutz, 2010; 2012). However, the current literature does not indicate how these resources are deployed by producer organizations to build sustainable competitive advantages.

#### **1.4 Problem Statement**

Based on the foregoing discussion, the departing point of this thesis is that smallholders' value creation is often jeopardized due to power imbalances in food chains (Vorley & Fox, 2004). The development of a strategic view to build sustainable competitive advantages at farm level has being appointed as a potential way to defend their income (Lutz, 2010; 2012). Nonetheless, some questions remain unanswered: how these strategic resources are developed and deployed to build sustainable competitive advantages? Which strategies producer organizations have been developing to do so? How is this process characterized?

The contribution of this thesis is to approach the market integration of smallholders in food chains under the scope of the strategic marketing perspective at producer levels. To do so, I explore the strategies and underlying processes producer organizations in D&E countries use to create competitive advantages. The present work also aims to contribute to the discussion on the innovative role of producer organizations by exploring how they develop resources and capabilities at farm level which are basis to sustainable competitive advantages.

The empirical foundation of this research relies on small-scale vanilla producer organizations in Mexico. This study compares different strategies producer organizations in Mexico follow to develop sustainable competitive advantages.

### **1.5 Research Questions**

The objective of this research is to provide insights on the strategies and underlying processes vanilla producer organizations in Mexico develop to overcome vulnerable market positions and attain sustainable competitive advantages.

The general research question is:

- How vanilla producer organizations in Mexico facing vulnerable market positions create sustainable competitive advantages?

To answer this general research question, I formulated three specific research questions:

- Which strategies producer organizations develop to overcome vulnerable positions?
- Why are their outcomes different?
- How producer organizations develop strategic resources and capabilities at farm level?

### **1.6 Research Context**

In 2013, Mexico yielded 332,560 tons of green vanilla (SIACON-SAGARPA, 2014). Although it only represents 3.95% of global production in 2012 (FAOSTAT, 2015), vanilla has a long history as cultivated crop in Mexico. Traditional vanilla industry in Mexico is characterized by producers, processors, traders, exporters and sector institutions. It has a social importance since it is essential to maintain the livelihood of local population. Most of producers are part of autochthone minorities in poverty situation. Living in semi-subsistence systems, vanilla is an important alternative crop for them. Average farmer production is between 7-20kg of green vanilla per year (Barrera-Rodriguez, Santoyo-Cortes, del Moral & Cardenas, 2014). Vanilla producers started to organize themselves producer organizations in order to improve their market positions (Hernandez-Hernandez & Lubinsky, 2011; Hernandez-Hernandez, 2010). Although

the government has largely subsidized these organizations, they still have a fragile competitive position in the vanilla chain (Barrera-Rodriguez et al., 2014).

### 1.7 Thesis Outline

This thesis is structured in six chapters. In **Chapter 1** I introduced the problem statement and research questions of this thesis. In **Chapter 2** I expose the theoretical foundations. I focus on the functions of producer organizations on market integration and the underlying need to develop market-based resources at farm level. I argue that a combination of marketing strategy and marketing systems theory is useful to explore how these resources are developed. Then, in **Chapter 3** I present the method of a comparative case study rooted in four vanilla producer organizations in Mexico. In **Chapter 4** I analyse the key findings about the development path of each one of the four cases. By comparing the four cases, in **Chapter 5** I discuss the different strategies and the underlying processes producer organizations develop to create sustainable competitive advantages. Finally, in **Chapter 6** I present the implications of this study for marketing pro-poor development and the limitations that open opportunities for future research.

## 2. PRODUCER ORGANIZATIONS IN THE CONTEXT OF MARKET INTEGRATION

Since its foundation marketing has been a promise for development. Peter Drucker a major contributor to the marketing groundwork anticipated the importance of marketing as an “engine of economic development”. In D&E economies, it is through marketing development that latent economic energy is mobilized and economic integration becomes possible. Marketing “organizes economic efforts and energies to bring together resources, wants, and capacities, and so to convert a self-limiting static system into creative, self-generating organic growth” (Drucker, 1958, p. 255).

One of the marketing opportunities for pro-poor development is the integration of smallholders in agri-food chains of high-added value products (Layton & Grossbart, 2006; Ingenbleek & van Tilburg, 2009; Karnani, 2006; World Bank, 2007). Market integration is a hope to alleviate poverty and support development by revenues that flow back to smallholders, enabling them to raise their income. The logic behind market integration is basically seeing the poor as producers and buying from them (Karnani, 2006; Ingenbleek, 2010).

The remainder of this chapter is divided as follows: First, I introduce producer organizations as means to integrate markets. Second, I present their traditional economic function according agricultural economics literature. Third, I contextualize the new challenges and opportunities food chain poses to producer organizations’ innovations. Forth, I discuss strategic marketing as means to build sustainable competitive advantages. Finally, I introduce the marketing systems approach as a complementary tool to explore how producer organizations can identify key success factors and deploy strategic resources at the farm level.

### 2.1 Producer organization as means to integrate markets

Smallholders confront diverse challenges to integrate agri-food chains. Often living in areas where markets are not well developed and market support institutions are not present, smallholders face high transaction costs in accessing capital, market information, technical support and input/output markets. These market failures prevent smallholders from participating in markets (Van Tilburg, Trienekens, Ruben, & Van Boekel, 2007; Markelova et al., 2009; Poulton, Dorward, & Kydd, 2010). Overcome these market failures is one of the dominant economic arguments for the implementation of producer organizations (Bijman, 2007b). A producer organization is defined as a voluntary economic associative body, established by and for producers with democratic decision-making structure to promote their economic development. Then, the core objective of a producer organization is to enhance prosperity of

their members (Bijman, 2007a; 2008). Jointly, they may have better conditions to reduce transaction costs of accessing inputs and outputs, obtain market information, access new technologies and better integrate high value markets (Stockbridge, Dorward & Kydd, 2003; Van Tilburg et al., 2007; Ton, Bijman & Oorthuizen, 2007).

## **2.2 Traditional economic function of producer organizations**

To fulfil this objective, a producer organization performs an economic function on behalf of its members. As it is often the case in agriculture, many small producers supply products to a single or a few buyers in the region. It constitutes a profit-maximizing monopsony (or oligopsony) since buyers get output at a lower price than a competitive market would sustain, thereby making a profit on the difference between the prices. Producers are worse off, receiving low price for their output. In this scenario, the traditional role of producer organization consists in creating a countervailing power vis-à-vis their buyers (Bijman, 2007b). Producer organizations help to attenuate smallness of farmers and increase bargain power by operating in economies of scale (Bijman, 2008). Through enhanced economies of scale producer organizations are able to negotiate better terms of trade with buyers and intermediaries and increase bargaining options in market exchange (Barrett, 2008; Van Tilburg et al., 2007).

According to the agricultural economics literature, producer organizations increase producers' income in imperfect agricultural markets by the "competitive yardstick" effect (Sexton, 1990; Novkovic, 2008). The entry of producer organizations serve as a "competitive yardstick" by increasing the price it pays for output of its members. In case of an oligopsony, a cooperative paying higher price would force the investor-owned competitors to pay higher prices as well. Under the competition from producer organizations, other firms in the market are forced to increase their purchasing prices. Producer organizations therefore push the price in the market closer to the competitive price level. The economic benefit from cooperatives goes beyond the members since this effect increases incomes of non-members as well (Sexton, 1990; Novkovic, 2008).

## **2.3 New economic functions of producer organizations**

Producers face new challenges related to improving and guaranteeing quality. Particularly in international markets, chains are becoming increasingly sophisticated due to high standards of food safety, quality and delivery. Producer organizations have to acquire series of new capabilities and integrate multiple technical, organizational, financial and marketing innovations to meet better serve



downstream buyers in the chain (Kaganzi et al., 2009). Indeed, actors at different stages of the food chain have different expectations about quality attributes. Producer organizations should be able to comply with these demands among critical control points at different stages in the food chain (Van Tilburg et al., 2007).

While traditional economic functions of producer organizations continue to be important, producer organizations can engage in new economic functions in the context of the food chains. These new roles are more centered at value creation and innovation. For instance, by being at the interface between production and trade, producer organizations can communicate quality attributes that relates directly to production methods used at the farms (Bijman, 2007b; Kyriakopoulos, 2000). Indeed, some quality characteristics are difficult to the buyers to measure. By controlling production, producer organizations can obtain information from its members and transfer to other actors in the chain. Therefore, they can establish a reputation among buyers by transmitting product quality attributes (Bijman, 2007b).

#### **2.4 The need of resources at farm level**

The value chain is pro-poor when it enhances the capacity of smallholder to appropriate greater share of the returns accumulated along the chain (Peppelenbos & Verkuijl, 2007). Producer organizations are compelled to make efforts to fit in the chains, however it is not certain that producers will reap the benefits of it. Power concentration of upstream actors and aggressive competition at higher levels of the channel can squeeze the value creation and accentuate the vulnerable position of producers. Competitive pressures and power distribution may allow the value created at one link in the chain to be appropriated by another actor (Humphrey, 2006a; Sigué, 2012; Vorley & Fox, 2004).

Successful market integration depends on the development of sustainable competitive advantages at the farm level. Without strategic resources and capabilities at farm level, value created by smallholders can be appropriated by other actors in the chain or transferred to final consumers (Lutz, 2012).

Competitive advantages are based on strategic resources and capabilities with market value. Resource and capabilities have strategic value when they possess the resource-based attributes of rarity, inimitability, durability and non-substitution (Srivastava, Fahey & Christensen, 2001). In other words, resources and capabilities have strategic value when they cover at least some of these attributes and are needed to outperform the competition as defined from the customer's perspective. They create superior customer value or enable the firm to deliver value to customers in a more cost-effective way than competitors (Day, 1994). In the case of producers, buyers can only satisfy their customers by

buying from producers that hold resources and capabilities embedded in their products or farming systems (Hampton, Fromm & Nyhodo, 2007; Humphrey, 2006).

## 2.5 Strategic Marketing

Marketing strategy is a tool to make decisions regarding the delivery of superior customer value and counter threats that may jeopardize the value extraction (Nijssen & Frambach, 2001). A competitive advantage is sustainable when the strategic resources or capabilities of the producers are difficult to replicate by competitors. Market-based assets such as strategic resources and capabilities are employed by the firm to create sustaining customer-value and competitive advantage that ultimately lead to new value extraction and financial performance (Srivastava, Fahey & Christensen, 2001). Market-based assets reduce the volatility and vulnerability of cash flows and increasing the residual value of cash flows. In other words, market-based assets with strategic value enable the firm to sustain profitability (Srivastava, Shervani & Fahey, 1998). The challenge then is to identify which resources and capabilities may represent a customer-value for a particular market. To do so, firms can develop a marketing strategy to identify key success factors within the market as well as the organization's own position on the marketing system (Nijssen & Frambach, 2001).

## 2.6 Marketing systems as a complementary approach

It is through the marketing systems that producers access the markets. Changes in the marketing system lead to improvements in trade that impact the economic growth of the community (Layton, 2009; Hounhouigan et al., 2014). Then, marketing systems can be another avenue to explore how producers engage in collective actions to create competitive advantages.

A marketing system is a "network of individuals, groups and/or entities; embedded in a social matrix; linked directly or indirectly through sequential or shared participation in economic exchange; which jointly and/or collectively creates economic value with and for customers through the offer of; assortments of products, services, experiences and ideas; and that emerge in response to or anticipation of customer demand" (Layton, 2011, p. 259). Marketing systems have different levels of aggregation (Layton & Grossbart, 2006). At a *meso* level of analysis, producers integrate agri-food systems. By getting organized, producers sharing similar needs and objectives create new arrangements in the marketing system.

Marketing systems are dynamic, they adapt and evolve, sometimes cooperating and sometimes competing (Layton, 2011). Thus, producers can move from vulnerable to more sustainable positions in

the marketing system. However, since producers are embedded in a marketing system, a change of position leads to implications to other actors such as processors or buyers. This may affect the quality of interaction with them and the relation can shift from cooperation or coordination to competition. Therefore, a marketing system analysis serves to recognize the heterogeneity that composes the system in which producers are embedded.

A marketing system is composed of structural and functional elements which are: exchange logics and contexts, system flows and roles, networks, governance of transactions, assortments and intermediate and final customers (Layton, 2011, 2009). By changing these elements, marketing systems can evolve and develop. It sets in motion the specialization in labour and the development of broader assortments to fulfil consumers' wants and needs contributing to economic growth (Layton 2009, 2011).

Next, I will present the marketing system elements at the level of producers organizations in D&E countries:

**Exchange logics & contexts:** Producers organizations emerge to fulfil specific objectives of a group of producers. By gathering production of their members, producer organizations may change the exchange logics they have been operating by dismissing a current buyer in favour of others. Transaction settings may also shift from local buyers at harvest season to more distant and specialized settings such as national and international fairs, auctions or more sophisticated contexts such as the stock market. Financial exchange become more complex and a permanent activity since transactions may not occur only during harvest season anymore.

**System flows & roles:** Producers have to define the roles their organization will perform in the marketing system. They can execute different functions in the food chain from simple bargaining in behalf of members to processing or branding products. Several supporting economic flows must be developed to sustain these new roles. Cash flows become more complex and more dependent on information flows (Layton, 2011). New ways to reach customers and deliver values have to be developed. The logistics dimension becomes more important and a physical infrastructure is needed to transport, process, store and dispatch the harvest. Flows of ownership and possession of products and money between cooperative members of the organization have to be defined. As transactions shift towards more complex flows, risk increases and the producer organization is governed by emerging norms and new rules (Layton, 2011).

**Networks:** To successfully create a new position, producers need to establish direct and indirect relationships with actors that are horizontally or vertically located in the system. Producers can rely in

external actors to gain market access and gather market information (Ingenbleek & van Tilburg, 2009); as well as supportive organizations such as NGOs and government agencies (Markelova et al., 2009).

**Governance of transactions:** New value creation may not represent a straightforward benefit to direct upstream actors such as traders or middlemen. Producers getting organized may modify the way market power is concentrated and distributed. If producer groups incorporate roles that have been traditionally performed by upstream firms, former clients could become direct competitors or lead to potential chain conflicts (Humphrey, 2006).

**Assortments:** New value propositions can be new products or products with new standards of quality or credence attributes. Producers may change how products are sorted and processed to adjust accordingly to the markets they are now serving.

**Buyers:** Producers have to identify to whom the new value creations may represent benefits. Buyers can be at different network (horizontal/vertical) levels at the system. Buyers can be either business (e.g., other manufacturers) and/or end-consumers. In addition, end-consumers can be connected directly or indirectly through intermediaries.

To illustrate how marketing system elements can be applied to explore how producer organizations can create sustainable competitive advantages, the central case of this thesis is characterized in Table 1.

*Table 1.* Marketing systems elements applied to vanilla producer groups in Mexico (elaborated based on: Hernandez-Hernandez, 2010; Hernandez-Hernandez & Lubinsky, 2011).

Marketing system elements	Vanilla Producers in Mexico
Exchange logics & contexts	Which are the objectives of vanilla producers to engage in collective actions? How do vanilla producer organizations create value for their members? In which contexts they negotiate their collective products?
System flows & Roles	Which are the new roles vanilla producers assume? How are vanilla prices defined and negotiated? How do producers get information about markets and consumer preference? Which new flows were developed when producers create new organizations?
Networks	Who are their partners? What are the characteristics of these partners?
Governance of transactions	How local processors react to producers move? How is the relation with other actors in their value chain? Is there any governance council in the vanilla chain?
Assortments	How producers innovate in terms of products? Which strategic resources and capabilities are developed?
Buyers	Who are their new buyers/customers? Who benefits from the new value creations? Which market segments can benefit?

Marketing systems (Layton, 2011) is a tool to access the empirical data and better understand the context vanilla producers are in; the strategies they take to create competitive advantages; the process they develop by following their strategies; and the impact of their interventions in their marketing systems.

### 3. METHOD

#### 3.1 Study design

In order to explore how producer organizations from D&E countries can create sustainable competitive advantages this study entails an exploratory multiple case study. Since our interest is to understand the role of producer organizations in create producer value, the producer organizations compose our units of analysis. In order to compare them, a multiple case study (Yin, 2003) was selected as study design. This qualitative approach is particularly suitable to apprehend a phenomena in a broader context (de Vaus, 2011).

#### 3.2 Vanilla as an illustrative case context

I use vanilla cultivation in Mexico as an illustrative case context to explore how producer organizations from D&E countries can create sustainable competitive advantages. Aiming to select a context that was sufficiently insightful with respect to the research objective, I based this selection in three criteria:

1) **A high-value commodity produced in developing regions and consumed in advanced countries.**

Vanilla is a typical crop mainly produced in tropical regions in developing countries and consumed in advanced markets. Due to the large distance between production and consumption, the vanilla chain is long, multi-layered and complex.

2) **A non-perishable crop.** Being a non-perishable crop, vanilla has a high degree of predictability, mobility and storage of vanilla. This gives additional time for producers to search for better trade conditions. Perishables may result in a more complex situation since it requires access to transport, equipment, cold chains, technical expertise and faster access to market information.

3) **A case where producers have actively looked for opportunities to increase their incomes.** In Mexico, vanilla producer organizations have been comparatively able to organize themselves and become reasonably functional entities. Today they process 25% of the vanilla harvest in Mexico. It shows their capabilities to add value in the vanilla chain. However, they have not been fully successful to integrate markets and their profitability is still low. In general, these organizations have a fragile competitive position (Barrera-Rodriguez et al., 2014).

#### 3.3 Case Study Selection

I identified six Mexican producer organizations dedicated to vanilla. Table 2 presents a preliminary case selection based in relevant elements for collective action in marketing activities producer organization

characteristics; institutional arrangements; external environment; type of product and markets; and producer characteristics (Markelova et al., 2009).

Table 2. Elements for case study selection.

		Comercial. <b>Akih</b>	Consejo Nacional y Veracruzano de Vainilla ( <b>Quintse</b> )	Sociedad de Productores de Vainilla Tlilixochitl ( <b>Pacqui</b> )	Suame Titekijtok Tonantzin ( <b>Saski</b> )	A. Agrícola Local de productores de vainilla de <b>Primero de Mayo</b>	Productores Asociados de Vainilla del Totonacapan ( <b>PAVT</b> )
<b>Producer Organization Characteristics</b>	<b>Group Size</b>	135	1500 (700 active)	80	12	30	10
	<b>Group homogeneity</b>	high	medium	high	high	high	high
	<b>Group characteristics</b>	Exclusive for <i>chinantecos</i> farmers	60% <i>tononacos</i> farmers	<i>Tenek &amp; nahuat</i> ; women participation	Exclusive for women	Presence of <i>tononacos</i> farmers	Presence of <i>tononacos</i> farmers
	<b>Production Volume (green)</b>	2-3.5 (ton/year)	18-20 (ton/year)	4.5 (ton/year)	1.5 (ton/year)	2 (ton/year)	4 (ton/year)
<b>Institutional arrangements</b>	<b>Legal structure</b>	formal	formal	formal	formal	formal	formal
	<b>Ownership</b>	Free-membership & patronage	Free-membership	Free-membership	Voluntary shares & patronage	Free-membership	Voluntary shares & patronage
	<b>Control</b>	Founders as directors	Board members election	Board members election	Board members election	Board members election	Founders as directors
	<b>Benefit Allocation</b>	Proportionality to equity capital and production	Price maximization to members	Price maximization to members	Proportionality to equity capital	Price maximization to members	Proportionality to equity capital
<b>External environment</b>	<b>Location</b>	Chinantla, OAX	Papantla, VER	San Luis, SLP	Ayotoxco, PUE	1ro de Mayo, Papantla VER	Cuyuxquihui, Papantla VER
	<b>Potential of the area</b>	Low	Moderate	Medium	Medium	Medium	Medium
<b>Type of product and markets</b>	<b>Level of specialization</b>	high	high	high	high	high	high
	<b>Type of Market</b>	International	National	Regional	Regional	Regional	Regional
	<b>Market Position</b>	Strong	Medium	Medium	Weak	Weak	Weak
<b>Producer Characteristics</b>	<b>Farm characteristics</b>	<i>Ejido</i> <sup>1</sup> & <i>small farms</i> (> 5ha)	<i>Ejido &amp; small farms</i> (> 5ha)	Collective cultivation, <i>Ejido &amp; small farms</i> (> 5ha)	Collective cultivation (3ha)	<i>Ejido &amp; small farms</i> (> 3ha)	<i>Ejido &amp; small farms</i> (> 5ha)
	<b>Farm model</b>	Family, semi-subsistence <sup>2</sup>	Family, semi-subsistence	Family, semi-subsistence	Family, semi-subsistence	Family, semi-subsistence	Family, semi-subsistence
	<b>Cultivation system</b>	Traditional	Traditional/ Mesh shade/ Citric	Traditional/ Mesh shade	Traditional/ Mesh shade/ Citric	Traditional/ Mesh shade/ Citric	Traditional/ Mesh shade/ Citric

<sup>1</sup>System created after the Mexican Revolution which formalizes the agricultural use of communal land on which community members individually farm a specific parcel.

<sup>2</sup> Other products including beans, maize, honey, fruits (sapote, guava, papaya, avocado) and animals that are traded in local subsistence markets.

The elements *market position*, *group homogeneity* and *potential of the area* were described using categorical variables since they were based on qualitative data. Farmer livelihood and turn-over were not included since data was not available.

The preliminary exploration exposed that *group homogeneity, legal structure, specialization and producer characteristics* are similar for all assessed cases. Otherwise, *market position and production volume* presented the most variability among the producer organizations. These elements were further used to case screening (Figure 1).

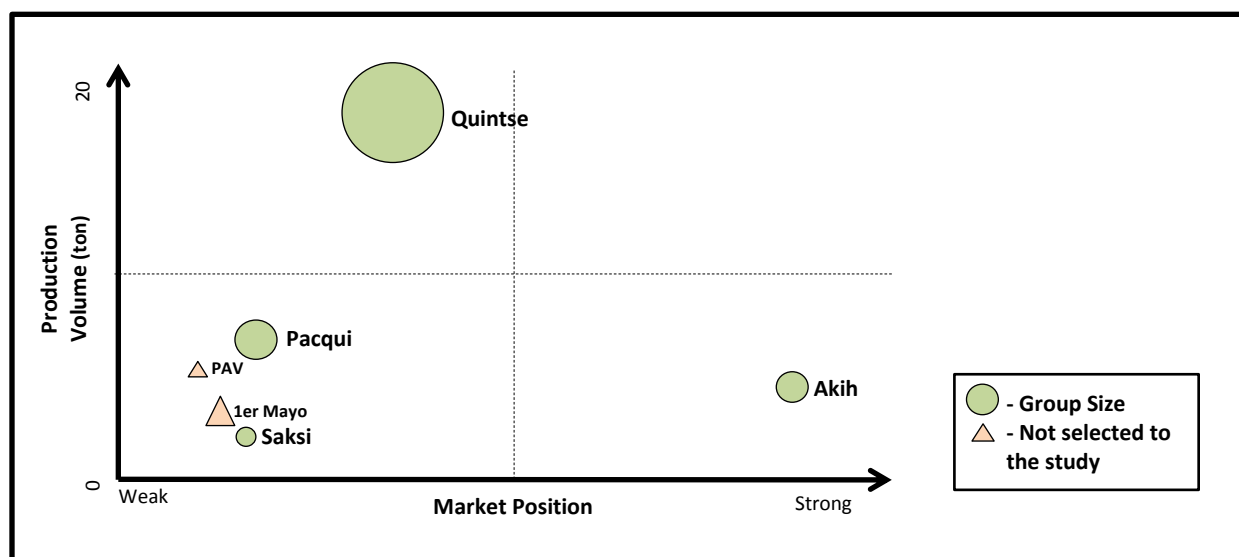


Figure 1. Producer Organization selection as function of their Production Volume and Market Position.

The case screening plot (Figure 1) highlights the strong market position of Akih in contrast with other small producer organizations with similar volume. Since Akih shows an outstanding market position it is selected as a point of reference to compare with other producer organizations. Then, to capture the majority of vanilla producer organizations holding weaker market positions, Saksi, Pacqui and Quintse were selected as typical cases. The selection of these four cases also covers the different arrangements the producer organizations have for ownership, control and benefit-allocation.

### 3.4 Data Collection

The first stage consisted in a desk-research to gather insights about the vanilla marketing system and producer organizations in Mexico. Secondary data included reports from public and non-governmental organizations, scientific papers; theses from Mexican universities; newspaper articles; websites of producer organizations, processors, traders and consumers.

The second stage entailed the fieldwork to obtain primary data. The fieldwork was performed between 20<sup>th</sup> October and 20<sup>th</sup> November of 2014 in four Mexican states where green vanilla is produced and



traded: Puebla and Veracruz (which forms the Totonacapan region and concentrates 90% of vanilla production in Mexico [Barrera-Rodriguez et al., 2014]); San Luis Potosi and Oaxaca (Figure 2).

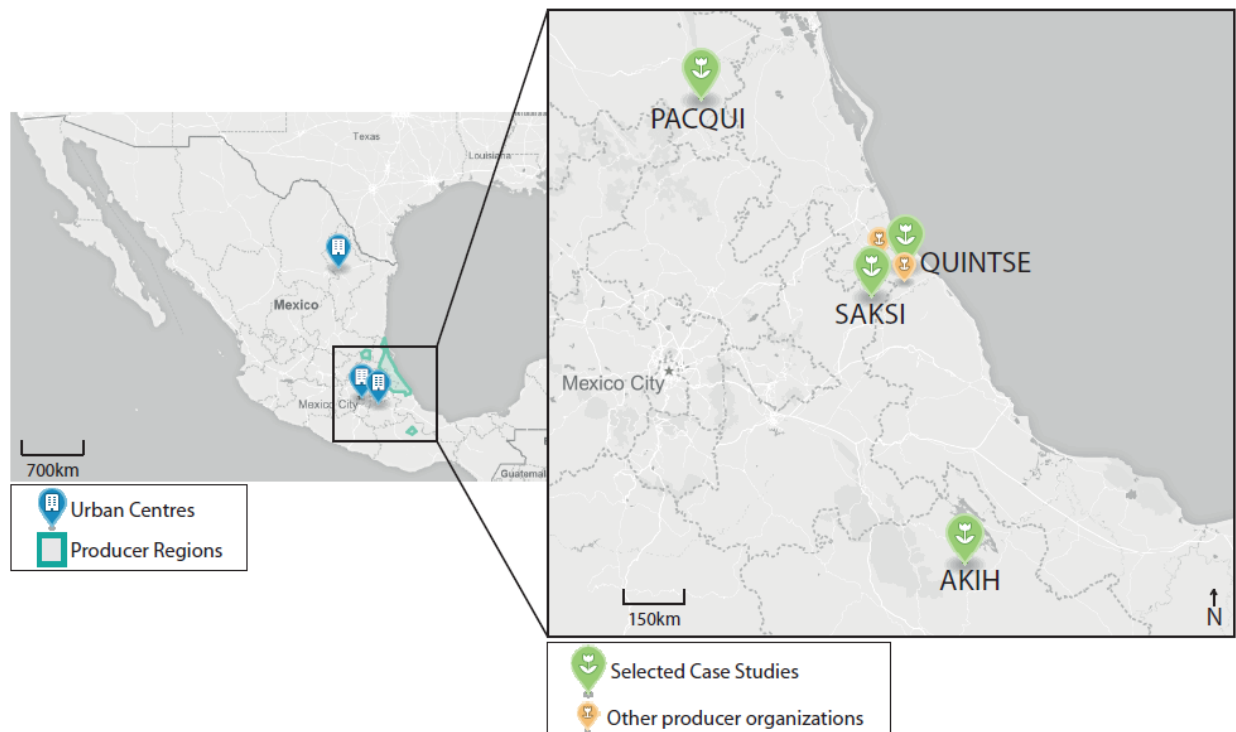


Figure 2. Research area (left) and selected case studies (right).

The data collection also included Mexico City, Monterrey and Puebla since these urban centres concentrate trade, governmental agencies, universities and consumers. The informants were selected by purposive and snowball sampling (Yin, 2003). Data collection methods involved direct field observations and in-depth semi-structured interviews. Semi-structured questions were formulated based on secondary data according the dimensions of marketing systems theory (Layton, 2011) (Appendix 1). Data collection was mostly face-to-face interviews; when unable to do so I conducted videoconferences through Skype™.

Critical informants ( $n = 24$ ) were: (1) vanilla producers and vanilla producer organizations; (2) processors, industrials, traders & exporters; (3) supportive public agencies; (4) non-governmental organizations; and (5) culinary chefs. The description of key informants is presented in Table 3.

Table 3. List of primary-data informants.

<b>(1) Producers Organizations</b>			
<b>Acronym</b>	<b>Name</b>	<b>Interviewed</b>	<b>Location</b>
<b>QUINTSE</b>	National & Veracruzana Vanilla Producers Council – Quintse	Tec Specialist, Council Secretary and 6 producer members	Papantla, VER
<b>AKIH</b>	Comercializadora Akih	Garcia, E. Director	Chinantla, OAX
<b>PACQUI</b>	Sociedad de Productores de Vainilla Tlilixochitl - Pacqui	Director & 1 producer member	San Luis Pot, SLP
<b>SAKSI</b>	Suame Titekijtok Tonantzin - Saski	Director & 3 producer members	Ayototxo, PUE
<b>(2) Not-associated producers</b>			
<b>PRDCR1</b>	Rancho 20 Soles	Degetau, R. Producer/owner	Papantla, VER
<b>PRDCR2</b>	Norma Vallejo	Former Producer	Papantla, VER
<b>PRDCR3</b>	Victor Vallejo	Former President of the Veracruzana Council of Vanilla Producers	Papantla, VER
<b>(3) Processors, Enterprise-Brands, Brands &amp; Industrials</b>			
<b>PRCSR1</b>	Rancho Santa Beatriz	Arrellano, C., Manager	Papantla, VER
<b>PRCSR2</b>	Gaya	Gaya, N., Director	Zamora, VER
<b>PRCSR3</b>	The Mexican Vanilla Plantation	Blas, D., Director	Tuxpan, VER
<b>BRND1</b>	Zanilli	Riano, A., Director	Monterrey, NL
<b>BRND2</b>	Orquidea Negra	Villareal, I., Director	Monterrey, NL
<b>BRND3</b>	D`Loci	Gaya, D., Director	Monterrey, NL
<b>BRND4</b>	La Vencedora	Canosa, G., Director	San Luis, SLP
<b>INDST1</b>	Aroma Vainilla	Corona, S., Director	Xalapa, VER
<b>(4) Public agencies and public-private association</b>			
<b>GOVRN1</b>	Municipal Representative (SAGARPA)	Vicente, A. Coordinator	Papantla, VER
<b>GOVRN2</b>	Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA)	Estrada, J. Commercial Promotion and Support to Exports	Mexico City
<b>GOVRN3</b>	National System of Phytogenetic Resources	González, R. Director	Mexico City
<b>ASSCN1</b>	Vanilla Marketing Product System council	Corona, A. Industry Delegate	Papantla, VER
<b>(5) Non-Governmental Organizations</b>			
<b>NGO1</b>	Impulso Organico Mexicano A.C.	Ortiz-Haro, J. Director	Mexico City
<b>NGO2</b>	Slow Food Mexico & C. America	Rocha, J. A., Director	Puebla, PUE
<b>INST1</b>	Promexico	Morales, M.	Puebla, PUE
<b>(6) Consumers</b>			
<b>CUSTM1</b>	Flor de Ajonjolí gourmet food	Hernandez, M.	Monterrey, NL
<b>CUSTM2</b>	Food Engineer	Kustos, M. Msc	Australia

To ensure the credibility and validity of the results, I performed a data triangulation by interviewing academic experts ( $n=8$ ) on vanilla related fields from Mexican universities and governmental agencies. The description of academic experts is presented in Table 4.

Table 4. List of expert informants to data triangulation.

<b>(7) Academic Specialists and Experts</b>			
<b>EXPR1</b>	Biologist, President of the Mexican Association of Orchidology, Professor at UNAM	Perez, E. PhD	Mexico City
<b>EXPR2</b>	Geneticist, General Coordinator of Vanilla MacroProject, Professor at COLPOS	Herrera Cabrera, B. E. PhD	Puebla, PUE
<b>EXPR3</b>	National Coordinator of Vanilla Net, SINAREFI, Professor at BUAP	Reyes, D. PhD	Puebla, PUE
<b>EXPR4</b>	Biologist, Orchids & Vanilla specialist, Professor at UV	Menchaca, R. PhD	Xalapa, VER
<b>EXPR5</b>	Vanilla Marketing Specialist, Professor at <i>UPAEP</i>	Botello, J. PhD	Puebla, PUE
<b>EXPR6</b>	Vanilla Marketing Specialist	Barrera, A. PhD	Puebla, PUE
<b>EXPR7</b>	Economist, Former President of International Coffee Council (LN)	Cantu Pena, F.	Mexico City
<b>EXPR8</b>	National Institute of Forestry, Agricultural and Livestock Research (INIFAP)	Hernandez-Hernandez, J. Ing. Vanilla production specialist	Martinez de la Torre, VER

### 3.5 Data Analysis

The data analysis was based on an analytic induction approach for theory building (de Vaus, 2011). The analysis progressed from individual cases seeking to systematically identify commonalities and differences and to higher levels of generalization (de Vaus, 2011). It consisted in a systematic and iterative examination of the strategic actions the four producer organizations took to better position in their marketing systems. To do so, after transcribed the interviews I analysed them through the software for qualitative data analysis ATLAS.ti ([www.atlasti.com](http://www.atlasti.com)). Next, key findings of each case follow below, and then I develop a theoretical discussion based on the comparison between the four cases.

## 4. RESULTS

Next I will present key findings of attempts to create better market positions of four producer organizations. First, I will introduce Quintse. As we can see in figure 2, Quintse has a high production volume and size. It is currently the biggest producer organization in Mexico. Second, Saksi and Pacqui will be presented together. The reason is that both producer organizations share very similarities besides low production volume. Both producer organizations emerged from smallholders' grass-root efforts. Finally, I will present Akih that also surged in very similar conditions as Pacqui and Saksi but achieved a very different market outcome by succeeding to unveil niche markets in developed countries.

### 4.1 Quintse: market power by size

Quintse was founded in the context of a new institutional setting. A new law determined the creation of national and regional value chain multistakeholders commissions to increase vertical coordination within food chains (Mexico, 2001). In 2005, a producer organization was created to represent the interests of producers next to the vanilla commission. The primary concern was to address low prices paid by processors for green vanilla. *“Four or five years ago the industry used to pay 1-1.65USD per kilo; it almost finished with vanilla in Mexico. That’s why we got organized”* [Quintse member].

Previous efforts to increase farmers' income based in production scale didn't work out. Traditional vanilla production system (*acahual*) is micro-scale, labour intensive and low productive. However, new cultivation systems using irrigation and mesh shade failed due to high investment and irregular productivity [EXPT6; EXPT8].

To achieve better exchange conditions with processors that integrates the commission, Quintse focused on enhance market power by grouping 1500 vanilla producers. Quintse stood as a countervailing power in the vanilla chain to negotiate with processors. At the Totonacapan region the higher number of atomized producers contrasted with a few processors characterizing an oligopsony. These upstream actors used to concentrate chain power and control over regional prices for green vanilla. Their plan was to address price by capturing production volume to operate through economies of scale: *“We decided to buy all green vanilla from members”* [Quintse technical specialist]. Nevertheless, producers faced resistance from processors to increase prices. Processors argue that low prices partially reflect poor quality standards (brooked or unripe green vanilla) and low homogeneity (ungraded).

Because the commission failed to foster proper vertical coordination, the board decided to change their role in the vanilla chain by forward upgrading. Instead of selling green vanilla to traditional processors

they decided to give a step further in the chain: *“Now we collect and process ourselves. We are autonomous; we don’t sell to other echelons”* [Quintse board]. To allocate benefits to members they maximized profits through price leverage: *“As producers, we establish the vanilla price. This is the biggest achievement of this organization”* [Quintse member].

Quintse fostered competition with IOFs to buy input. *“Our competitors are company X and Y (processors), but they are not vanilla producers”* [Quintse technical specialist]. Quintse achieved a competitive yardstick effect over price because the competition to buy green vanilla pushed processors to offer more competitive prices: *“Processors are pushed to pay better prices since the green vanilla offer is reduced”* [EXPRT8]. By Because Quintse create market barriers for processors to buy inputs; it creates governance issues in the chain. As said the Industry Commission Delegate in a local newspaper: *“Quintse just defined the initial price for this harvest in 100 pesos (6.61 USD)/ Kg of green vanilla. How they think we can compete with this price?”*

Roles of collecting and processing vanilla have been traditionally performed by investor-owned firms (IOFs) at the region. In the vanilla chain presented below (Figure 3), Quintse moved from the first role (producing) to upstream roles of collecting, drying, processing (branding) and trading (exporting).

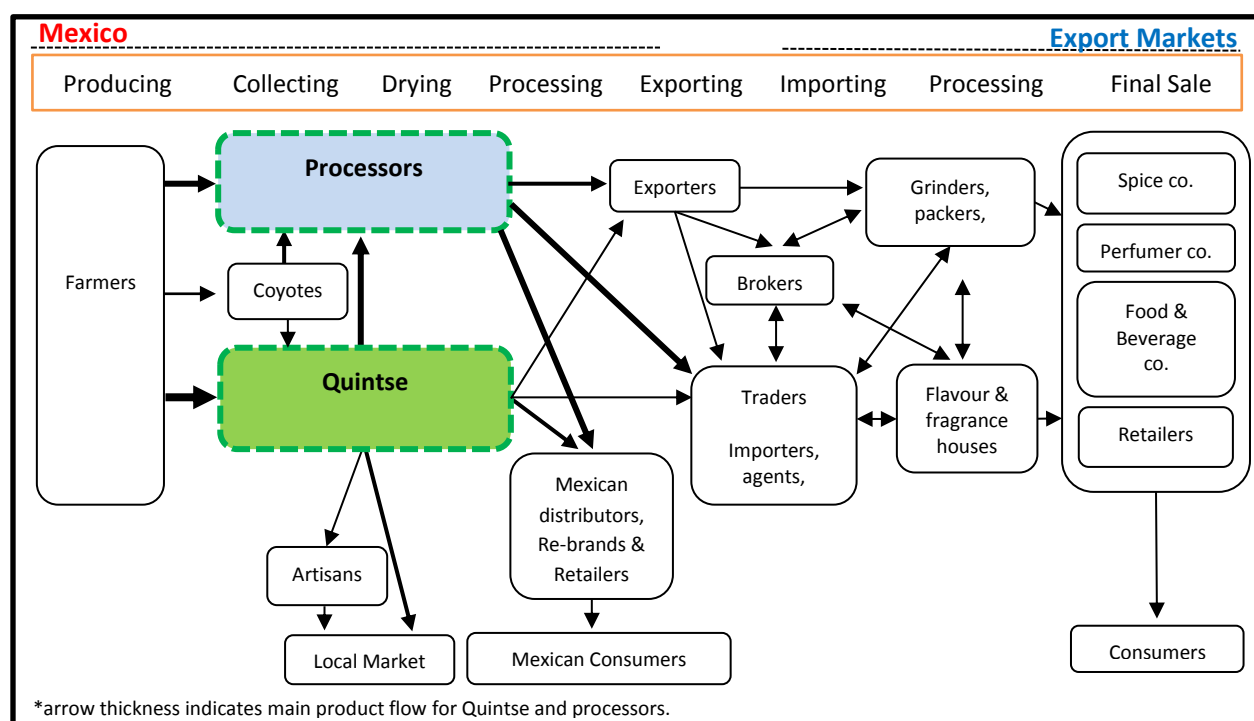


Figure 3. Traditional vanilla chain highlighting the roles and flows of Quintse and processors.

Quintse had to seek for financial support since it does not count with the required liquidity to afford members harvest each year. The producer organization faces difficulties to establish as a functional economic entity by its own means. To enable their operations they need financial support from the government: *“we need to get support from the government. It is difficult because we are already two years without support”* [Quintse technical specialist]. Eventually, it leads to political capture since government support goes hand in hand with their committed political support.

Their current bottleneck is to find wholesale buyers. At present, their products are sold regionally and have failed to meet market requirements preventing them to integrate more formal markets. Existing buyers are disperse and inconstant: *“We sell little by little”* [Quintse member]. Missing a reliable market outlet the achievements on price effect are threatened. Currently, Quintse have many competitive disadvantages compared to processors regarding quality, traceability and safety. Then, stocking and speculating is part of their strategy. Due to lack of market information, speculation has not been effective since it decreases the liquidity by keeping large quantities of vanilla stockpiled. Furthermore, without access to customer knowledge, their approach has being reactive to the marketing strategies of local IOFs which have access to more market information.

#### **4.2 Pacqui & Saksi: market power by cutting out the middlemen**

Pacqui and Saksi are presented together since they share many similarities. These producer organizations are the outcome of collective entrepreneurship of small vanilla producers groups. Additionally, both have low production capacities, are located in more remote areas and are less connected with the traditional chain.

These producers used to have *coyotes* (middlemen) as the only option to sell their small volumes of green vanilla. *Coyotes* travel the region buying from smallholders and reselling to processors from the Totonacapan region. They compromise harvests by pre-financing smallholders during periods of high labour demand or in special holydays for producer communities.

Aware about their dependency over the *coyote*, smallholders decided to interrupt this exchange logic by creating producer organizations. They were facing a decrease of vanilla production in their regions due to wages of low prices. Producer organizations were envisaged as potential solutions to keep vanilla cultivation: *“The problem was the commercialization. Producers were losing interest and abandoning the vanilla cultivation. We decided to gather vanilla because producers didn’t have a buyer”* [Saksi board]. They joined small shares to gather capital and engage in collective actions.

To acquire new capabilities and resources they extended their networks searching support from outsiders. They got supported by the government: *“the provincial government helped us with plants, irrigation and mesh-shade plantations”* [Pacqui president]. Additionally, they connected with a diversity of partners including universities, NGOs and CSR of Mexican companies: *“In 2007 we got this land, it was a wasteland. We built the innovation centre together with PROMEXICO and ADO Foundation”* [Saksi board]. To afford buying the green vanilla production from their members, they use savings from previous years but they also use external financing: *“We take credits from the bank, 2% rate of interest per year”* [Pacqui board].

They start to approach other organizations to balance the lack of technical capabilities. While Pacqui sought technical support from local government agencies, Saksi learnt from a processor: *“we partnered with a company to gather and process vanilla. We learnt as workers at the curing process, experiences that in the next year allowed us to make it by ourselves”* [Saksi board]. Additionally, partners were also sought to address lack of managerial skills: *“my support to Saksi relies on working with themes of entrepreneurial development, organizational structure, operation standards and control. Additionally, we are also working on product presentation and marketing”* [NGO2].

They diversify their assortments to increase their sales potential. These organizations sell cured vanilla to processors. Processors often face market inefficiencies they are forced to source processed vanilla from Pacqui and Saksi in order to honour large volume contracts with exporters. Around 50% of Pacqui processed vanilla is sold to a processor. Since the processor does not absorb the whole production, these producer organizations diversify their assortments by making derived products: *“Sometimes we have vanilla pods and we don’t have any buyer. So, we transform it to add value. We sell cured vanilla; from what is not sold we make other products”* [Saksi board].

Pacqui and Saksi have engaged in different strategies to sell their products. They have tried to develop a market selection by offering workshops and participating in regional fairs. Pacqui upskills potential buyers to use their products: *“we offer ice-cream making and handcraft workshops to unemployed people so they can source vanilla from us later on”* [Pacqui board]. Because they don’t have reliable access to consumer information they cannot develop further potential resources with market value: *“If at least we could identify a demand for organic vanilla, the process which is the most complicated part is already established.”* [Saksi board].

These organizations are captive suppliers of traditional processors. Up to this time, the demand of processors for cured vanilla greatly determines the options Pacqui and Saksi have to sell their products. Although it is important to acknowledge that these producers have benefited because they are

organized, more independent, can control their production, process and sales; and can extract more value out of their labour.

#### **4.3 Akih: market power by ensuring vanilla quality and biodiversity conservation**

Akih surged in very similar conditions as the latter two producer organizations. It also emerged from collective action of subsistence smallholders in very remote regions to escape from the middlemen. A small group of producers innovated by creating a series of self-imposed guidelines to guarantee vanilla quality and conserve the biodiversity of the regional forest. Currently, they manage all phases of vanilla production chain, from green vanilla production to processing and marketing on the national and international markets. It is one of the few Mexican producer organizations composed exclusively by indigenous people that succeed to build a reputation in sophisticated markets. Chinantla Vanilla resulted very attractive to gourmet segments in Europe, North America and Japan. Currently they have a diversified directory of customers with whom they trade directly.

During the 90's, vanilla cultivation was reintroduced in the Chinantla region in Oaxaca and small producer organizations surged. Producers from the National Valley, Oaxaca, used to commit their production to middlemen that further resell green vanilla to processors from the Totonacapan region. As well as the latter two cases, producers from Akih didn't participate in vanilla commercial transactions further than selling production to *coyotes*: *"In the specific context of indigenous actors on rural production there are few options. The alternative is to sell to the coyote with all its implications. This panorama is heart-breaking and disables the production and the efficient employment of our human resources"* [Akih director].

They changed the exchange logics by cutting the middlemen and taking an entrepreneurial action. It was an important footstep taken by these small producer communities: *"We just had one option, interrupt the intermediary circle and try to conquer the market, this ghost everybody talks about but few really know"* [Akih director]. To do so, they had to develop entrepreneurial capabilities: *"one of the most important challenges was to create a small entrepreneurial structure that enabled the commercialization of the vanilla. Establish a juridical figure with all the fiscal requirements was a great challenge too"* [Akih director]. Indeed, they compromised personal financial resources to initiate the operations of the producer organization: *"get sufficient capital to gather production and pay producers was a huge prowess. Peasants in general - and indigenous producers specifically - are not subject of bank credit neither entrepreneurial culture. Among some friends we collected some capital to deal with these problems, without any guarantee to redeeming this money"* [Akih director].



Then, Akih start exploring potential aspects among the aspects that determine their vanilla production that could differentiate their project. They developed a differentiation strategy in *“a scheme of nature conservation and communitarian leadership”* [Akih director]. It was followed by expanding their network as a promotion strategy: *“using any forum or public meeting to introduce our project, differentiating it from other projects”* [Akih director]. In 2000, Ten years after its foundation, the project called attention of the Slow Food, an international non-profit association based in Italy: *“coming across with Slow Food was casual. Or an outcome of the diffusion campaign of our project”* [Akih director]. Interested in *“good, clean and fair food”*, Slow Food objectives to link *“the pleasure of good food to a commitment to the environment & community”* (Slow Food, 2015). The differentiation created by Akih was in line with the scope and ideals of the movement.

Being a movement composed by an international network of consumers, chefs and food communities, Slow Food represented a strong source of customer knowledge. It was particularly importance because *“producers miss information about how to promote and offer their products”* [Akih director]. Slow Food fulfilled a tying-up role by creating opportunities for vanilla producers to meet potential buyers: *“we link producers to national and international buyers, support them with product design, marketing. We make invitations to food fairs, promoting them on the internet and social networks. We connect them with other communities to exchange experiences. Our role is simply link producers with consumers; we don’t buy nor sell their products”* [Slow Food coordinator]. Figure 4 illustrates the product flow from Akih to buyers highlighting the tying-up role of Slow Food.

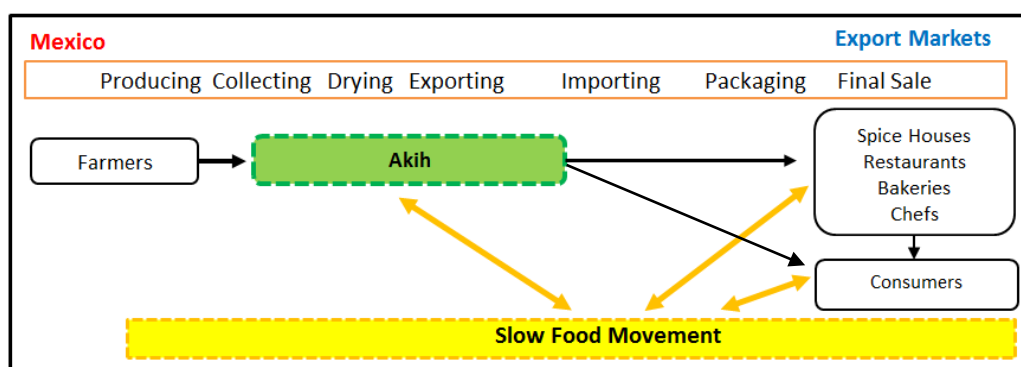


Figure 4. Akih chain highlighting the tying-up role of Slow Food.

Integrating a network where they could access customer knowledge, Akih helped their vanilla producers to better exploit the strategic potential of their resources and capabilities. They employed the *“good, clean and fair”* concept to refine their promise of value. They created credence attributes by grounding Chinantla Vanilla in communal action, forest conservation, and application of sustainable technologies:

*“the formula was basically respect the production according the value of indigenous people, a natural process from the sowing until the curing process and a well-served dose of sylvatic exoticism that results magic to the foreigners”* [Akih director]. In this process, they used insights about consumer perception on nature conservation and organic production to create values at the producer level: *“We give nature conservation courses to all our producer communities to develop ecological practices, avoid deforestation and fires, as well as to produce organic compost”* [Akih board]. They also standardized backward production to the traditional *acahual* since it use native trees as tutors aligning with nature conservation.

Through this actions, the project was further endorsed which increased the distinctiveness of Chinantla Vanilla. These intangible assets conferred a high level of legitimacy to Akih. It served as basis to build reputation among the consumer segments they were targeting: *“In 2000, we received a Biodiversity protection award in Bologna”* [Akih director]. Vanilla is thought to be originated at the Mexican area of Chinantla since there are at least five varieties and high genetic diversity. In 2004, Slow Food declared the Chinantla region as a Protected Sail for Vanilla Biodiversity. Later, the Mexican System of Phytogenetic Resources (SINAREFI) also recognized it. Based on these market-based assets at producer levels, Akih could endorse their value proposition. These acknowledgements legitimized the development and communication of these strategic resources. By doing so, the value proposition achieved resource-based attributes that turned Chinantla Vanilla very unique, rare and difficult to substitute. These strategic resources result to be market-valued since they were indispensable to achieve customer responsiveness of premium segments in sophisticated markets.

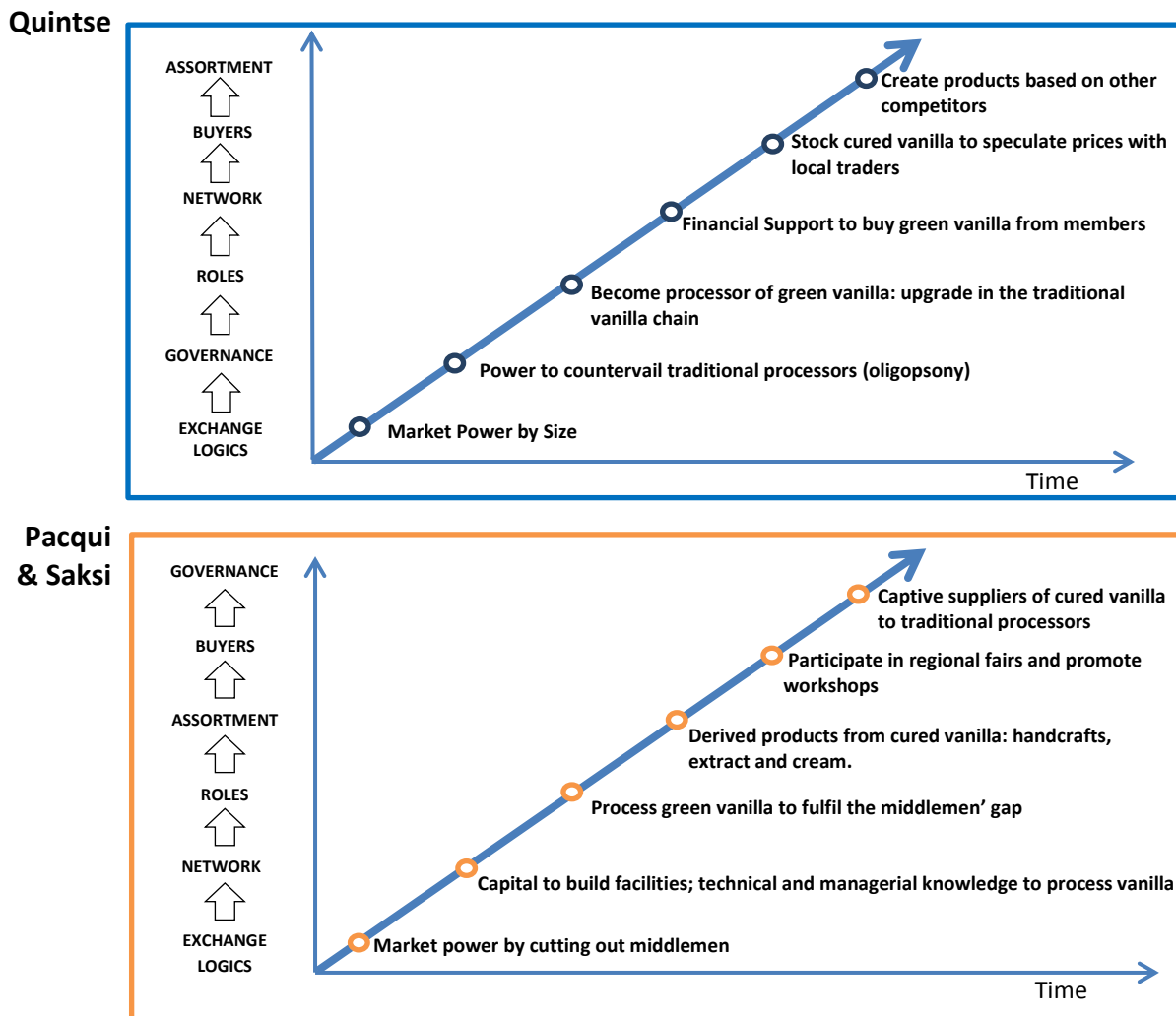
New transactional contexts were used communicate their legitimated promise of value: *“the fair Salone del Gusto was the scenario to promote our product to international consumers. I am convinced that this event was of major importance to develop and refine our strategy to position our product”* [Akih director]. By strengthening their value proposition, they achieved involvement of consumers in early stages of the production process. European buyers and academics often visit the plantations in Mexico to discover more about the production process. Crowdfunding was also used as a means to afford improvements in their facility centre. After aligning their value proposition to insights on consumer preferences they achieved consumer responsiveness: *“It called attention of different consumers from all over the world, especially Europeans. That’s the way our vanilla does not compete with others. We have clients in Australia, Canada. In Paris there is a vanilla boutique that reserves a special place for our vanilla”* [Akih director]. By uncovering a niche market, they finally achieved finance performance by extracting premium prices. Currently, Akih establish vanilla prices directly with European boutiques:

*“We destine our products to end-consumers and to gourmet artisans. We cannot sell all our production to only one buyer; we use this strategy to diversify our directory of clients. We established that we can sell only two to five kilos per buyer. This strategy has helped us to keep our first clients as well as increased the demand”* [Akih director].

Complementary interests, high interaction between actors and shared goals resulted in relational governance with partners and consumers: *“The dialogue established with consumers have continued at the plantations in Mexico and in the most distinguished tables in Europe”* [Akih director]. As a result of a direct contact with end-consumers, the role of the traders was minimized: *“We have requests from different agents that ask us to be distributors of our products. We do not despise them but we prefer to sell directly our products to people that know and value our vanilla”* [Akih director]. They developed the ability to distinguish a specific segment that value their products from a single buyer that could potentially prevent them to enjoy a position sustained on their relation with final consumers: *“The strategy of diversification of our client directory was another factor that helped us to break the dependency of middlemen and processors”* [Akih director].

### 5. CASE COMPARISON

I analysed the development paths of the four cases in accordance the marketing systems dimensions (Layton, 2009; 2011) presented in Chapter 2. The development over time of the marketing systems elements of these four cases is presented in Figure 5. The perpendicular arrows of these images describe the initial strategies and the further steps they undertook in the development processes.



(continued in page 37)

(continued from page 36)

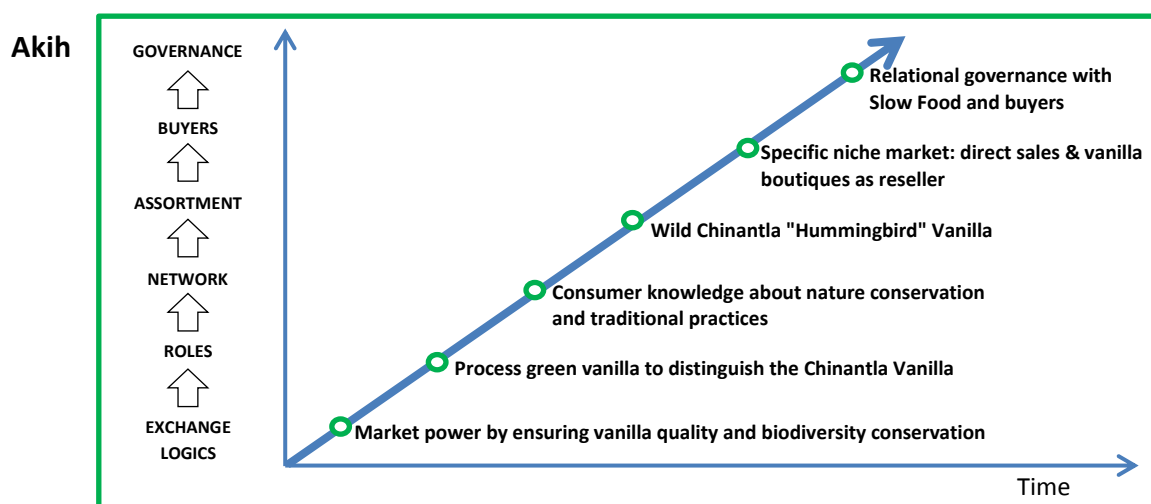


Figure 5. Development paths according Marketing Systems elements.

The three different strategies producer organizations initially followed to overcome vulnerable positions are: increase size, cutting out the middlemen and ensure quality and biodiversity conservation. The chosen initial strategies strongly determined the further steps in developing their marketing systems. Next, I will analyse why these strategies resulted in different outcomes. Then, taking Akih as a reference case given their achievement in creating competitive advantages, I explore how producer organizations develop strategic resources and capabilities at farm level.

### 5.1 Different strategies, different outcomes

Much in line with the traditional economic function of producer organizations presented in Chapter 2, Quintse created market power by aggregating vanilla producers. Quintse surged in a context of vertical coordination among multistakeholders. They attempted to solve bad remuneration by developing bargain power to trade with vanilla processors by using economies of scale in an oligopsony context. As expected by the theory, governance over transactions emerged in early stages of development because the producer organization stood as a countervailing power in the vanilla chain. By offering higher prices for inputs, they achieved a competitive yardstick effect on price behaviour. However, this case shows that changing prices do not necessarily reflect the development of underlying strategic resources that sustain competitive advantages. To be successful, Quintse strategy should be accompanied by additional capabilities that could create superior customer value or enable them to be more cost-effective in delivering value to their buyers (processors). Efforts were primarily focused on addressing imbalances of

power (governance). In contrast, the other cases primarily concentrate efforts in strengthening their roles or assortments.

Differently, Pacqui and Saksi surged from grass-root efforts of smallholders to address market failures. Large geographical distance between these smallholders and processors put them at the hedge of vanilla chain. These smallholders were increasingly dependent over the middlemen that used to operate through debt relationship: pre-financing and driving down prices by exploiting their lack of market information and small production volume. Despite their fragility, these small organizations started functioning as new marketing arrangements to transform market relations in favour of the smallholders. Pacqui and Saksi aimed to grow in market power by cutting out the middlemen. When holding weak ties with existing actors of the traditional chains, the *coyote* (middlemen) is the main link with the market. Interrupting *coyote* cycle left institutional gaps that connected smallholders with the market. The need to fulfil the gaps left by the *coyote* motivated these producer organizations to create new networks.

These two cases showed that producer organizations served as a knot to create better market access for smallholders. Less connected to the traditional chain, these grass-root producer organizations searched for support besides actors that could be vertically linked. They connected with alternative actors vertically and horizontally distributed in their marketing systems such as NGOs, buyers and governmental agencies. Through these connections they accessed capital and technical knowledge which lead them to develop alternatives to market their assortments.

The strategies of Quintse, Pacqui and Saksi were short/middle-term oriented. They were useful to achieve basic levels of improvement in their market positions. However, they were not strongly anchored in strategic resources and capabilities that could outperform competitors such as processors. In contrast, Akih followed a long-term process of developing resources at farm level. Indeed, Akih pursued an internal resource-development process to later benefit from financial performance.

## **5.2 The development of strategic resources and capabilities at farm level**

The case of Akih gives more insights about how producer organizations can create competitive advantages embedded in strategic resources at producer levels. Similarly to Pacqui and Saksi, Akih surged in a remote area, disconnected from the traditional vanilla chain and dependent on the middlemen. Nonetheless, these producers draw a different strategy to create market power. In an act of entrepreneurship, they enhanced potential resources with customer value at farm level.

To create a farmer-driven market innovation, producer organizations can actively search within their context for resources and capabilities that could have potential market value. In the case of Akih, the

disrupting point was when they systematically searched potential assets among the region that could differentiate their project from others. They innovate by embedding their value proposition in emerging social issues (i.e. community value, nature conservation).

Farmer-driven market innovation may not represent a straightforward benefit to usual buyers. In the case of Akih, the market value of its value creation was uncertain because it was not attractive for former buyers (middlemen), neither for processors of the vanilla chain. At this point it wasn't clear whether these resources had any of the key strategic attributes that are basis for competitive advantages. Through a communication campaign, Akih connected with customers that perceived market value in these resources. From the perspective of niche customers in advanced markets these resources offer a competitive advantage over other products.

New information flows emerge when producers achieve basic levels of market responsiveness because this opens opportunities to develop customer knowledge. Indeed, reliable access to sources of customer knowledge is essential to better recognize resources valued by customers. By developing customer knowledge, producer organizations can polish their value propositions by recognizing or developing strategic resources and capabilities at farm level.

Partners connected with the customer side are potential sources to develop customer knowledge. As in the case of Akih, Slow Food connected them with customer information. In the other cases, their partners were not strongly connected with the market thus these producer organizations had limited opportunities to recognize strategic resources. The customer connection allowed Akih to refine its value proposition aligning it with a specific segment. Learning customers fostered the development of strategic resources at the level of vanilla producers embedding value in their practices and in their region (i.e. wild product, traditional cultivation methods).

Actors with non-competitive roles may offer better opportunities to compromise without hinder producers from value extraction. Without conflicts of interest, Slow Food and Akih built a collaborative relationship based on trust and commitment. However, not all partners seek to ensure returns to producers. Akih learned to strategically recognize buyers who could potentially become an intermediary from consumers that appreciate the market-valued attributes of their product. By doing that, they were able to reap benefits from their strong value proposition and defend their income.

Besides protecting producers' income, a strong value proposition can decrease the dependency on financial support. Akih didn't need to rely heavily over government, donors or banks to access capital as the other three cases. By holding such a strong value proposition, Akih exploited alternative ways to capitalize by relying directly in targeted consumers (i.e. crowdfunding).

By embodying product innovation at the farm level, Akih built a reputation of “Chinantla Vanilla” as a sign of quality. This reputation links directly to producers from Chinantla where the actual value is created. The quality characteristics embedded in Chinantla vanilla are rare and difficult to competitors imitate, hence, are sources of competitive advantages.

### **5.3 Conclusions**

The process of developing strategic resources from a strategic marketing perspective influences the achievement of sustainable competitive advantages and thus the potential to overcome vulnerable market positions. Innovation and value creation at farm level may represent advantages over competitors. However, producers need to recognize which resources have market value from the targeted customers’ perspective. It may not represent a straightforward benefit to usual buyers. Value creation may be recognized by customers at different levels of the marketing system. The development of customer knowledge is essential to polish value propositions and better align with targeted customers. In this process, partners strongly connected with the consumer side represent an opportunity for producers to develop customer knowledge. Strong value propositions anchored in strategic resources at farm level have the potential to create reputation for the producer organization and its region. Producers need to learn to strategically distinguish among their buyers those that recognize and appreciate their value creations from those that can potentially hinder their value extraction.



## 6. IMPLICATIONS AND LIMITATIONS

In the context of market integration of smallholders in food chains, this research examines the process of producer organizations in D&E countries creating strategies to create competitive advantages. The comparison between four vanilla producer organizations in Mexico served as an illustrative case to explore how producers deploy strategic resources to create competitive advantages. The process of developing strategic resources from a strategic marketing perspective influences the achievement of sustainable competitive advantages, and thus the potential overcome vulnerable market positions. These insights can help producer organizations and other actors involved in market integration of rural smallholders to achieve market integration objectives.

This research offers insights about the process producer organizations create competitive advantages. This is not an effortless process for producers. It is a continuous process that takes time and need active commitment of producers. The development of sustainable competitive advantages is a long-term goal that requires flexibility and continuous improvements. Producers face many challenges in this process. They need to identify whether their creations have market value. It may not necessarily represent a value proposition to current buyers; pushing producers to extend their networks. If producers are able to develop customer knowledge they can better identify the market value of their resources. Partners with a tying-up role can connect producers to final consumers. Strong value propositions have the potential to create reputation for the producer organization and its region. The complexity of this process highlights the importance of developing a strategic view. A big gap separates producer organizations that are better able to distinguish the means from the goals of creating competitive advantages.

This study has four limitations that open opportunities for further research. The first limitation is that many conclusions are drawn upon one successful case which succeeds to penetrate a sophisticated market. Other successful cases can shed more light on the process to deploy strategic resources. Additionally, since it was an exploratory research further studies are therefore needed to draw more generalizable conclusions. Second, this study focused on vanilla. Future research may apply the analysis described here to other tropical products such as coffee and cocoa or even perishables such as tropical fruits. Third, this study was performed in Mexico, less integrated markets in less developed regions could lead to other findings. Forth, this study is grounded in an outside-in approach based on the marketing system theory. An organizational culture approach such as applied by Valk (2007) could also offer new insights by taking into consideration group processes.

Strategic marketing deserves more attention of pro-poor development researchers since it plays an important role in developing strategies to foster successful market integration of producers in the market.

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## 8. APPENDIX

### Appendix 1. Interview guides

Interview guides with open questions for each informant group: (1) producer organizations & cooperatives; (2) vanilla producers; (3) processors & enterprise-brands; (4) culinary chefs & consumers; (5) academics & experts; (6) NGOs & Public Organizations.

#### 1 Questions to Producer Organizations & Cooperatives

##### 1. Roles

- 1.1 Foundation: How the Producer Organization was created? What was the main objective? Which was the foundation context?
- 1.2 Who are the users of the producer organization?
- 1.3 The producer organization is exclusively dedicated to vanilla? Other fields/products? Which one?
- 1.4 Which are the main activities the company perform to commercialize vanilla? (I.e. production, dry process, extraction, storage, branding, selling, export).
- 1.5 Which are the main strengths and weaknesses of the Producer Organization?
- 1.6 What is the producer organization' role in the vanilla chain?

##### 2. Assortment

- 2.1 Which vanilla products or derived products do you offer? (I.e. green, cured, extract, powder, liqueurs)
- 2.2 Which characteristics are important to determine the quality of each product?
- 2.3 How do you establish the prices of your products?
- 2.4 Which are the subjacent resources used/developed to achieve these competitive advantages?
- 2.5 Does your brand have certification assets? Which one? (FDA, Fair trade, Organic, Kosher, chemical analysis, Halal, others?)
- 2.6 To whom these certifications are important? Why did you decided to implement these certifications programs?
- 2.7 How do you communicate these certifications and quality assets to your costumers?

##### 3. Buyers

- 3.1 To whom are your B2B industries are you targeting at?
- 3.2 Which strategy has been used to reach these targeted customers?
- 3.3 In which industries your clients are involved? (i.e. restaurant, perfume, ice-cream)
- 3.4 Who are your clients for each of your products? Are they nationals or foreigners?
- 3.5 Which is the frequency you sell to your costumers?
- 3.6 Which type of relation you try to establish with your clients?
- 3.7 Do you use contracts? Which type?
- 3.8 Which characteristics are important for each group of clients?
- 3.9 Who are your end-costumers?
- 3.10 Which strategy has been used to reach these targeted customers?
- 3.11 Which are their characteristics? Are they nationals or foreigners?
- 3.12 Which is the frequency you sell to your costumers?
- 3.13 Which type of relation you try to establish with your clients?
- 3.14 Which product characteristics are important to each consumer group?

##### 4. Network

- 4.1 Which are key-partners you have? What is their role? How you are supported?
- 4.2 Are they national or foreigners?
- 4.3 How competitive is your position?
- 4.4 Who are your competitors? (i.e. direct: other brands; indirect: synthetic substitutes)
- 4.5 Do you have competitors at different markets levels? For different products? Which are your main comparative advantages?

##### 5. Exchange Logics

- 5.1 How you distribute benefits among the members? (price-leverage; shares?)
- 5.2 What has been the main achievement of getting organized?
- 5.3 What has been the outcome of following these strategies?  
What is the benefit the Producer Organization offer to members?
- 5.4 Which are the main competitive advantages the producer organization have?
- 5.5 In your opinion, which is the position of Mexican vanilla in the international market?

5.6 Which are the main challenges/opportunities to vanilla production and commercialization?

5.7 Which is the strategy of your company in this scenario?

## **6. Governance**

6.1 How is the relationship with processors and traders?

## **2. Questions to Vanilla Producers**

### **1. Role**

1.1 Number of ha designated to vanilla plantation/number of plants?

1.2 Vanilla producer since?

1.3 Which plantation tutor system do you use?

1.4 Which type of vanilla you produce?

1.5 Which are your annual production average?

1.6 Do you also have other commercial cultures?

1.7 There is other people involved with the plantation?

1.8 Which activities are performed during vanilla production?

### **2. Assortment**

2.1 Which type of product is commercialized?

2.2 Which characteristics are important to define the quality of these products?

2.3 How the vanilla price is defined?

2.4 Which price did you get the last harvest?

### **3. Buyers**

3.1 To whom you usually sell your vanilla production?

3.2 Do you used to sell to the same buyer or it varies each harvest?

3.3 Your buyers are Mexican or foreigners?

3.4 The sell is based on contracts? Which type of contract?

3.5 Do you know what your do with your production?

### **4. Network**

4.1 Do you participate in any kind of producer's association? Which one? How do you participate?

4.2 Do you receive support to produce vanilla? Which one? From whom? In what the help consists?

4.3 Do you participate in any type of product certification? Which one? Why did you engaged in such a program?

4.4 Do you use credits to finance the plantation? Which type? From whom?

4.5 How do you get information about prices in the market?

### **5. Exchange Logics**

5.1 Which strategies you used to increase income from vanilla production? How do you believe it is possible to get more income from your production?

5.2 Which are the main challenges of producing vanilla?

## **3 Questions to Processors**

### **1. Role**

1.1 Which is the nature of the company?

1.2 Foundation: Which year the company was founded? Who founded the company? Where? Which were the main activities and purposes ate the foundation?

1.3 How many employees the company have?

1.4 Number of units?

1.5 The company is exclusively dedicated to vanilla? Other fields/products? Which one?

1.6 Which are the main activities the company perform to commercialize vanilla? (I.e. production, dry process, extraction, storage, branding, selling, export).

### **2. Assortment**

2.1 Which vanilla products or derived products do you offer? (I.e. green, cured, extract, powder, liqueurs)

2.2 Which characteristics are important to determine the quality of each product?

2.3 How do you establish the prices of your products?

2.4 Products are commercialized under a brand?

2.5 Do you also sell bucked products?

### **3. Buyers**

3.1 To whom are your B2B industries are you targeting at?

3.2 Which strategy has been used to reach these targeted customers?

3.3 In which industries your clients are involved? (I.e. restaurant, perfume, ice-cream)

- 3.4 Who are your clients for each of your products? Are they nationals or foreigners?
- 3.5 Which is the frequency you sell to your costumers?
- 3.6 Which type of relation you try to establish with your clients?
- 3.7 Do you use contracts? Which type?
- 3.8 Which characteristics are important for each group of clients?
- 3.9 Who are your end-costumers?
- 3.10 Which strategy has been used to reach these targeted customers?
- 3.11 Which are their characteristics? Are they nationals or foreigners?
- 3.12 Which is the frequency you sell to your costumers?
- 3.13 Which type of relation you try to establish with your clients?
- 3.14 Which product characteristics are important to each consumer group?

#### **4. Networks**

- 4.1 Which are key-partners you have? Which are their roles?
- 4.2 How do you get connected with final consumers?
- 4.3 Are they national or foreigners?
- 4.4 Who are your vanilla suppliers? Which criteria are used to establish your suppliers? How is your relation with your suppliers? Which are the benefits you offer to your suppliers? How price is negotiated?
- 4.5 How competitive is your position?
- 4.6 Who are your competitors? (i.e. direct: other brands; indirect: synthetic substitutes)
- 4.7 Do you have competitors at different markets levels? For different products? Which are your main comparative advantages?

#### **5. Exchange Logics**

- 5.1 Which are the main values the brand tries to communicate to customers?
- 5.2 Which are the subjacent resources used/developed to achieve these values?
- 5.3 Does your brand have certification assets? Which one? (FDA, Fair trade, Organic, Kosher, chemical analysis, Halal, others?)
- 5.4 To whom these certifications are important? Why did you decided to implement these certifications programs?
- 5.5 How do you communicate these certifications and quality assets to your costumers?

#### **7. Governance**

- 7.1 How is the relationship with producer organizations, processors and traders?

### **4 Questions for culinary chefs & consumers**

#### **1. Role**

- 1.1 Nationality:
- 1.2 Academic Degree obtained (Institution/Place/Date):
- 1.3 Current occupation:

#### **2. Assortment**

- 2.1 Which kind of natural vanilla-based products do you usually use? (ej. Beans, extract, powder)  
Where & how do you usually buy vanilla products?
- 2.2 How do you use vanilla in your kitchen?
- 2.3 What is the benefit of using it?
- 2.4 Which quality criteria do you use when evaluating vanilla?
- 2.5 Which vanilla brand do you usually buy? Why?
- 2.6 Which vanilla brand do you consider is the best brand? Why?
- 2.7 Is single-origin vanilla important for you?
- 2.8 Which single-origin vanilla do you like the most? Why?
- 2.9 What is your opinion about Mexican vanilla?
- 2.10 To whom natural vanilla may represent a benefit?

#### **3. Exchange Logics**

- 3.1 In your opinion, which is the position of the Mexican Vanilla in the international market?
- 3.2 How important is for you that vanilla producers receive a fair price for their products?
- 3.3 Do you consider it when evaluating vanilla options in the market?

### **5 Questions for Academics & Experts**

#### **1 Role of Producer Organizations**

- 1.1 In your opinion, which is the position of producer organizations in the vanilla chain?
- 1.2 Which are the main challenges they have?

#### **2. Exchange Logics, System Flows and Roles**

- 2.1 In your opinion, what could be done to improve their position?



- 2.2 In your opinion, how could Mexican vanilla producers ensure a better income from their crops?
- 2.3 What strategies can be useful for them to create long term competitive advantage? Why? Why not?
- 2.4 What are the main challenges and opportunities producer organizations have?

### **6 Questions for NGOs & Public Organizations**

#### **1. Role**

- 1.1 Organization Name:
- 1.2 Main focus of the organization:
- 1.3 Main activities of the organization:
- 1.4 Organization: public ( ) private ( ) NGO ( ) public-private ( )

#### **2. Network**

- 2.1 Which projects Mexican primary producers could engage?
- 2.2 How your organization is related to vanilla producers/system in Mexico?
- 2.3 Which projects have been developed?
- 2.4 Which are the main results?
- 2.5 Which are the main challenges faced developing the project?
- 2.6 Which opportunities do you envisaged for primary producers?

#### **3. Exchange Logics, System Flows and Roles**

- 3.1 In your opinion, what could be done to improve their position?
- 3.2 In your opinion, how could Mexican vanilla producers ensure a better income from their crops?
- 3.3 What strategies can be useful for them to create long term competitive advantage? Why? Why not?
- 3.4 What are the main challenges and opportunities producer organizations have?