Company: Grupo Nueva (Amanco)
Country: Guatemala
Sector: Primary
Project: Everybody benefits

Summary: Amanco Guatemala, one of the companies of Grupo Nueva, was the first to develop a business model addressed specifically at low-income markets. The project involved a drip irrigation system adapted to the requirements of small farmers, allowing them to increase their crop areas using the same quantity of water. The project got underway in early 2003, and a year and a half later the Nueva Group decided to convert this experience into a large-scale business throughout Latin America that would be profitable and allow the company to achieve a leading position in the low-income market segment.

Related links: http://www.gruponueva.com

“EVERYBODY BENEFITS”

Main characteristics of Grupo Nueva:
- A holding company made up of the Amanco and Masisa companies.
- In 2004 its turnover was 1,241 million USD, it had 16,100 employees, its production operations were based in 17 Latin American countries and its products were supplied to 29 countries.
- Amanco produces and sells fluid conduction systems and building materials, while Masisa produces and commercialises boards and wood products.

The “Todos ganamos” project initiative:
- The main objective proposed by Julio Moura, president and managing director of Grupo Nueva, was that 10% of its turnover should originate from the low-income market segment, and for this to increase to 15% by 2010. According to Moura, this represented “a new frontier of corporate responsibility”.

- There were two motives for entering this market: firstly from a moral perspective as three quarters of Guatemala’s population are poor. Secondly, from the business perspective that the future company client base was being created.

- In 2003, a competition was organised, in which employees were encouraged to come up with a business plan aimed at the low-income segment. The projects had to be business orientated, not philanthropical; they had to be innovative, viable
and consistent with the strategy of the company, and they also had to offer goods and services that would improve the quality of life of this segment of the population.

The characteristics of the new clients:

- The majority of small farmers in Guatemala make exclusive use of the natural rainfall cycle, which limits agricultural production to the rainy season; in other words, two annual harvests. Some farmers use rather archaic and poor quality irrigation systems, while a minority use sprinkler irrigation systems.

- In Guatemala there were 819,162 individual producers who cultivated their land as a sole activity. 87% of the poor population depended on agriculture as the main source of employment and only 3% of farmers received technical agricultural assistance. Small producers normally had plots of land of between 0.5 and 5 hectares. Their average annual income varied between 1,500 and 2,000 USD.

- An absence of financial products aimed at small farmers prevented them from making purchases on credit.

The initial steps of the pilot project:

- Work began on the pilot project at the end of 2003. Amanco designed a drip irrigation system that used water more efficiently. The system was called the “4 x 4 Irrigation Module” because it made it possible to produce during all four seasons of the year and obtain four annual harvests on any type of land. This system made it possible to integrate several product lines (tulip systems and latrines) within a single solution and sell them as a package. The product was designed taking into account the characteristics of each plot, the distance from the water source, the type of source and the type of crop, in order to increase the value chain.

The idea designed by the directors went beyond selling an irrigation system. The aims of the project were ambitious and included the following elements:

- To increase farming competitiveness through the cultivation of non-traditional products and the implantation of improved practices that conserve water and land resources.
- To increase Guatemala's presence in international markets by improving the quality of farming production, providing assistance in obtaining long-term contracts and by establishing joint ventures with purchaser companies in developed countries.
After one year in operation, the results were promising:

- 2,500 potential projects with a unitary value of 2,000 USD were detected, representing a total value of 5 million USD.
- The gross margin obtained from the sales to date was 31%. It was forecast that the average gross margin would be approximately 25%.
- In 2005, the aim was for sales to total 400,000 USD.
- Amanco estimated that for Latin America as a whole, by 2015 annual sales could total 14,000 irrigation systems with a total value of 28 million USD.
- The intangible benefits were also very important for Grupo Nueva. It had generated highly valuable know-how and the non-conventional strategic alliances were also an important acquired asset.
- The social impact was also positive. An increase in family income and, with regard to the conservation of natural resources, more efficient use of water was achieved, making it possible to extend the irrigation area using a smaller quantity of water.

The major challenge facing Amanco

- To extend the scope of the project and make it scalable. All the projects initiated by Grupo Nueva in the low-income segment would have to become large-scale projects that could be replicated throughout Latin America.
- In 2005 the projects of AAS (Amanco Agricultural Solutions) were replicated in Mexico and Brazil, thanks to the approval of an Inter-American Development Bank (IDB) credit in favour of Amanco for nearly one million dollars. Such funds would make it easier to extend the project. Agreements were also established with government funds and foundations, which provided direct loans or subsidies directly to farmers or cooperatives, who were able to use these to purchase Amanco products.

Business model

The business model of the "Todos ganamos" projects had to cover various aspects in order to be successful. It involved providing farmers with the necessary support to cultivate quality products with greater added value that would sell better in external markets. It also incorporated new farming practices (production techniques, quality standards, use of pesticides, hygiene practices, etc.) in accordance with international standards that would enable farmers to overcome audits and obtain export certificates. Furthermore, it was necessary to provide small farmers (SF) with access to credit in order for them to make the investments necessary to improve irrigation technology. In order to achieve these objectives, the participation of governments, financial entities, commercial enterprises and NGOs was required. Therefore, Amanco, apart from offering the technology, would have to act as an “integrator” of the various participants in the business model.

Joint ventures with such types of organisations have provided excellent opportunities for developing business activities that will allow Amanco to access new markets.
One of the key allies in the project is the commercial enterprise. This guarantees the farmer the sale of the production. It also allows Amanco to reach out to the small farmer, given that each commercial enterprise can bring together 100-300 small farmers. Otherwise it would be very costly to reach out to each one on an individual basis.

In the beginning, it also acted as a guarantor since Amanco granted the loan, yet it was the commercial enterprise that was responsible for repayment.

Therefore, although the final client is the farmer, Amanco directs its efforts towards locating commercial enterprises or farming associations that are able to bring together a large number of small farmers. It is important that the commercial enterprise understands the project and gets involved in it. If the commercial enterprise is interested in raising the technical level of the production, it is much easier to convince the farmer of the benefits of the irrigation system.

The commercial enterprise is responsible for purchasing the products of the small farmer at a competitive price and, after processing it and packaging them, sells them to the United States and Canada. Non-profit making organisations offer credit, technical assistance, and coordinate the efforts of small producers in order to make their production more profitable and improve their production capacity.

Another key aspect of the business model is funding. This has been one of the main challenges of the project, since the scalability and ability to replicate the business depended on funding. The aim was to obtain a stable source of funding that could be used to make loans to farmers in order for them to obtain Amanco irrigation systems.

They also established ties with government funds and foundations, such as Ashoka. In such cases, Amanco does not receive the loan, since these organisations grant their loans and subsidies directly to farmers and cooperatives, who in turn purchase the Amanco product.

No less important in the business model is adapting the technology, the irrigation systems, to the needs of farmers. The irrigation system is the traditional one, but with a variation; the lines of supply and distribution are portable. They are the mobile pipes that are normally used for extraction, but which were adapted for use as irrigation systems in the “Everybody Benefits” project.

The commercialisation of irrigation systems with these characteristics was a response to the needs of farmers and has increased their competitiveness, since they have been able to move beyond the tradition subsistence crops, and develop products for export.
Tradition business model of Amanco

- Amanco Production and Design
- Amanco Promotion
- Comm. Enterprise
- Final Client

Business model of the “Everybody Benefits” project

- Financial Institution (IDB)
- Amanco trusteeship
- Comm. enterprise
- Agricultural assoc.
- NGOs
- SF

1. Production and design
2. Promotion
3. Financial Institution (IDB)
4. SF
5. NGOs
6. SF
7. Amanco trusteeship
8. SF
9. SF
10. Comm. enterprise
11. Financial Institution (IDB)