

Diageo: Enabling Supply Chain Linkages in Cameroon



“By developing our business in a sustainable way, we create value for our shareholders and economic advantage for the communities within which we work.”

-Paul Walsh
Chief Executive Officer, Diageo

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Initiative Description

In 2008, Diageo joined the Business Call to Action with its commitment to develop its sorghum agricultural value chain in Cameroon by providing technical assistance and training to farmers. This initiative promotes economic growth and opportunities in rural Cameroon and provides a sustainable source of local grains for use in Diageo's products.

Diageo's goals:

- Promote sustainable livelihoods for up to 10,000 smallholder sorghum farming families
- Maximize the use of locally grown sorghum used in the brewing process and create new market access for farmers
- Develop storage and transport infrastructure

Business Model

In 2007, malting barley prices soared on the world market due to a combination of bad harvests and high demand. For Diageo, the maker of Guinness brand beer, the barley price hike seriously impacted their business in Africa. Barley generally does not thrive under the continent's climatic conditions, so the majority of the grain has to be imported. An alternative to the expensive imported barley was found in sorghum, a hardy grain well that grows well in Africa. In Cameroon, Diageo saw the advantage of investing in the local sorghum supply chain as a way to insulate its local brewer from unexpected increases in commodity prices and reduce the overall price of raw materials.

Diageo had already had some success with grain import substitution programs in Uganda, Ghana, Kenya, Equatorial Guinea, Sierra Leone, and most notably, Nigeria. Drawing upon these experiences, Diageo, in collaboration with its Douala-based brewer, Guinness Cameroun SA (GCSA), developed the Cameroon Sorghum Project to support the development of the local sorghum supply chain.

Launched in 2008, the Cameroon Sorghum Project provides smallholder sorghum farmers in the main sorghum-growing regions in northern Cameroon with access to improved variety seeds and agricultural inputs, hands-on agronomic training and advice, and support in the development of storage and transport infrastructure. Farmers participate in training sessions to learn about inexpensive but sustainable techniques of improving soil fertility and water absorption, preventing soil erosion, and controlling pests and disease. In addition, GCSA is working to develop long-term storage and transport systems to facilitate the movement of sorghum from the north to Cameroon's capital Douala.

Diageo's initiative aims to stimulate demand for sorghum and to create a sustainable source of income for the farmers, farm hands, transport owners, and warehouse workers who support the sorghum agricultural value chain. For the company, it benefits from a stable, secure source of sorghum for beer. By adopting flexible supply chains that allows for substitution of locally grown sorghum for expensive imported malting barley, the company will benefit by optimizing its cost of goods as well as strengthening its relationship with the government and local communities.

How it Works:

Diageo's local brewer, GCSA, modeled Cameroon's sorghum farming initiative on similar initiatives in other parts of Africa. Since the 1990s, Diageo had been promoting the localization of grain supply chains in Africa. The success of these programs served to encourage the local brewer of the benefits of investing in sorghum cultivation in Cameroon.

In 2009, GCSA launched the Cameroon Sorghum Project with \$250,000 in funding from its Corporate Social Responsibility budget. The African Enterprise Challenge Fund, which aims to support private sector-led initiatives in Africa that positively impact local communities and the environment, later matched this funding to support field training activities

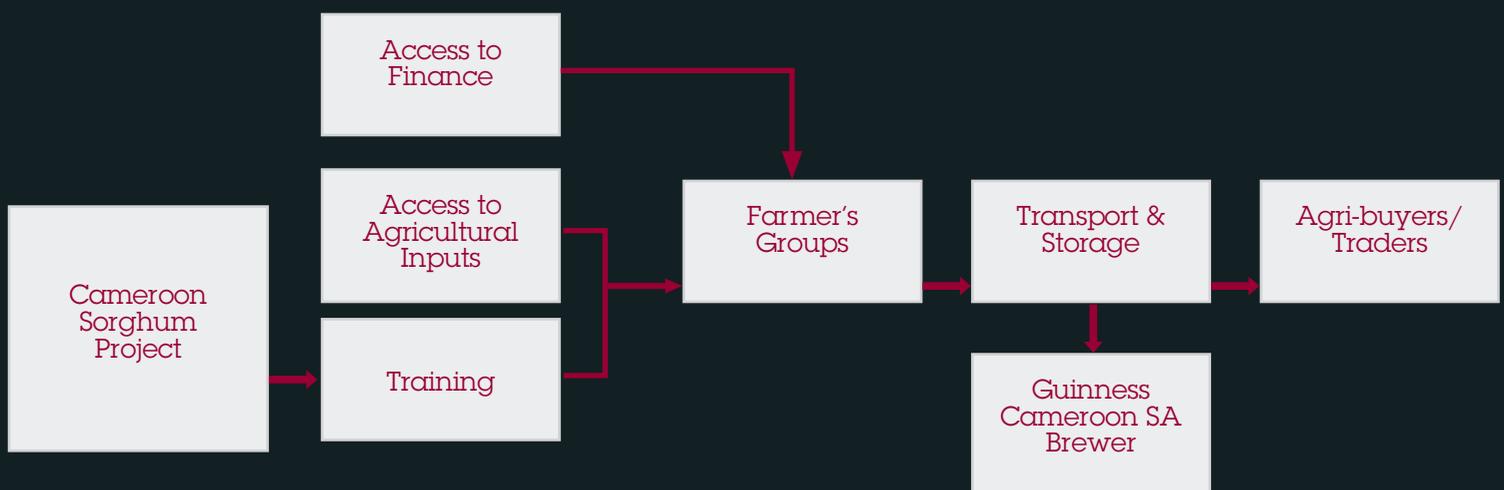
and internal management of the initiative.

To implement the program, GCSA partnered with Winrock International, a non-governmental organization (NGO), to identify and collaborate with producer groups which have the capacity or the potential to begin production of sorghum varieties with improved agricultural and commercial value; learn and adopt improved production techniques; negotiate and manage relations with GCSA; and provide high-quality sorghum. Winrock works with farmer groups to ensure that they have the technical and organisational capacity to produce enough sorghum for the GCSA, without limiting supply for local consumption.

Winrock is working with farmer federations and local banks to secure access to credit for sorghum farmers. By securing access to credit, farmers will be able to purchase higher-quality seeds and inputs which will improve farmer's yields and income.

GCSA has a dedicated staff member to facilitate communications with suppliers, represent the company during negotiations with farmer co-cooperatives or federations, verify sorghum quality at time of purchase, and serve as the main contact for sorghum-related matters.

Diageo's Cameroon Sorghum Project Business Model



Results Achieved

Diageo has committed, through its Business Call to Action pledge, to maximize the use of locally grown sorghum at its Cameroon brewing operations.

Business Impact

Diageo's \$250,000 investment in the Cameroon Sorghum Project is driven by core business interests. By investing in local sorghum production in Cameroon, Diageo's brewer GCSA hopes to reduce costs from uncompetitive barley prices from world markets and ensure a long-term supply of grain for beer production.

GCSA currently imports roughly 16,000 tonnes of barley annually to produce beer at its Cameroon brewing operations. At the end of the 2010-growing season, GCSA expects to purchase 240 tonnes of locally grown sorghum. In 2011, this figure is expected to rise to 700 tonnes. By 2015, the brewer will have in place a substitution system that uses locally procured sorghum instead of imported barley and ensures a sustainable market for sorghum. As farmer yields and grain quality improve, the price of sorghum will become more competitive and easier to procure.

GCSA also believes its relationship with the Cameroon government has improved because of its investment in this initiative. The company is considered a trusted partner, investing in the long-term economic growth and development of Cameroon's sorghum farmers.



Development Impact

Diageo's investment in Cameroon's sorghum value chain provides farmers with a sustainable livelihood and a place in the beer manufacturer's supply chain. This initiative is on target to meet Millennium Development Goal 1, focused on reducing poverty and hunger by providing low-income populations with economic growth and development opportunities.

In the 2009 growing season, 1,190 farmers representing 97 farmer co-operative groups participated in agriculture training sessions. Of those who participated in the training, 67 percent were women. In total, the farmers managed 1,124 hectares of sorghum, 20 percent of which was a higher-quality variety of sorghum. The improved variety is regarded as a valued-added product that is more suited to the local climate and may attract higher prices in the local market from end users such as the food sector in Cameroon, as well as to GCSA.

In 2010, GCSA expects to train 1,500 farmers and provide 500 with credit to aid agronomical inputs such as fertilizers. GCSA estimates that production will increase from 0.8 metric tons per hectare (MT/ha) to 2.8 MT/ha, resulting in a total increased production of 900 MT, and an average net income increase of \$120 per trainee.

As this was the first year of training, it was expected that the 2009 production season would generally be devoted to gaining farmer confidence, and demonstrating the efficacy and financial viability of the improved variety and techniques. During an impact assessment conducted in May 2010, farmers reported that they have already seen noticeable increases in their sorghum yields as a result of the training and that they are aware of the higher local market value of growing higher-quality sorghum compared to the traditional sorghum varieties.

Diageo is the world's leading premium drinks business with a collection of beverage alcohol brands across spirits, wine and beer categories. Diageo is a global company, employing over 22,000 people worldwide with offices in around 80 countries.

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Key Success Factors

Core Business Focus

Diageo's Business Call to Action initiative is driven by core business interests at the country-level by the local brewer. By investing in local sorghum farmers as a substitute to importing grain, the brewer is insulating itself from fluctuations on the world market of barley while securing the supply of grain its needs for its products. Through this initiative, GCSA is reducing the costs of raw inputs in the long term and developing closer relationships with the government.

Flexibility of the Program

Diageo is fully committed to making the sorghum cultivation project a success. In order to achieve the desired outcomes, the beer maker has ensured that its systems and processes are flexible to fit the needs of the farmers. For example, when it became apparent that the GCSA's procurement and payment processes were not appropriate to respond to farmers' expectations in terms of payment terms, the brewer managed to work out a specific procurement process to accommodate the farmers.

Partnerships

Crucial to the success of this program are the partners with various organizations. By collaborating with Winrock International, an NGO with experience delivering agricultural training programs and engaging with farmer co-operatives, the program has been able to achieve the desired outcomes.

Next Steps and Spin Off Effects

Diageo is committed to expanding the reach of the Cameroon Sorghum Project. Just one year into the training program, the company is assessing how many farmers have experienced higher yields and are using improved variety seeds. The company will use the results of this assessment to determine how it will expand the program in the future.

Refine Procurement Processes

The volatility of world barley prices and increased competition from subsidized European farmers has impacted the price of barley, making it significantly cheaper than locally produced sorghum. Combined with unusual growing patterns of the seed variant that made it initially difficult to fix sorghum prices and quantities before the planting season, and the limited brewing capacity of Guinness, this restricted the amount of sorghum purchased by the company.

Furthermore, GCSA's internal procurement processes were not favorable for the farmers as there is a mandatory wait period between delivery of the sorghum and payment to the farmers. For the smallholder farmers that GCSA works with, this situation was untenable as they could not wait for payment. GCSA is developing a payment system that suits the needs of these farmers.

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