

## **Business aspects of setting up local certification bodies in emerging organic markets**

In most cases when certification bodies are established the people involved spend most of their energy into the technical aspects of certification, getting accreditation etc. All of that is important, but it is equally important to approach the certification from a service and business perspective. Certification bodies are more likely to fail because of poor service, poor finances or lousy management than because of bad forms or lack of adherence to a certain norm.

In the ideal cases certification bodies are established with a strategic plan and solid business plan. However, when starting up, key people normally don't understand the business well enough to actually develop a business plan, and to use an external consultant for doing it is pointless. Nevertheless, some fundamental business strategies need to be in place when starting. After a year or two the Board and the manager should develop the business plan further.

### ***Challenges and opportunities for organic certification bodies in developing markets***

#### ***New and not regulated sector***

The organic sector in majority of developing countries and around the world is not regulated. This also reflects the non-existent or infant stage of sector development and market in those countries. Local certification initiatives establishing themselves in new and unregulated developing country markets face the following conditions:

- The infant stage of sector development necessitates paying greater attention to production and market development than to quality assurance procedures.
- The infant stage of sector development necessitates confidence building for market acceptance.
- A small and weak local market may not attract private sector investment to support the development cost of an independent local CB.
- A small and weak local market cannot sustain high administrative overhead costs associated with ISO type third party structure and procedures and accreditation.
- The absence of regulation mean less bureaucracy to deal with.
- The absence of regulation necessitates the setting of private local standards and label scheme for market differentiation.
- There is little or no competition for domestic market certification. (Ong 2006)

### **The organic certification service**

Fundamental for a successful operation is to understand the market for the service, the nature of the service, the demand and the income that can be generated.

## ***The organic market***

Organic certification services the organic market. Therefore is the certification service completely dependent on the development of the organic markets. When setting up an organisation and when projecting the business you need to assess the various market segments

- the domestic market for organic products
- the export market for organic products

In most situation when the need for a certification body emerge there is already an organic export market serviced by foreign certification bodies, while the domestic market is little developed and most products sold are not certified. Those two markets are very different and need to be handled in different way. But in both cases it is important to first know that current volume of those markets and to make realistic projections of their future growth (for the coming 3-5 years). For the domestic market, the question is also if the domestic market will demand certification or not. When you have assessed the volume of the organic market, assess the value of that market and ask the question how much of the total value of the market can justifiably go to certification services and how much will go to you. Questions to ask:

- How high is the value of the organic production in the area?
- What is a reasonable share for the certification costs? (1%, 3%?)
- What is currently charged for the service
- If you calculate these factors, you will get an idea of the potential "market" (income) for organic certification services.
- After that you will have to determine your "market share": Are there other certification programmes, national or international? How large a proportion of the production will join your certification? Domestically and for export?

Apart from the existence of export market you also need to asses if there are producers ready to go for organic, are there special commercial or other initiatives (governments, donors) that are already targeting organic?

## ***What is your service offer?***

What is really certification service? Do you sell certificates? The right to use your mark? The access to foreign markets? As a matter of fact the service offer is quite different depending on your situation and the market for your operators.

The basic value of certification is the trust, the confidence, that your certification add to the product, i.e. the added value for the operator to be certified is that consumers are willing to buy the certified products for a higher price or more willingly than if they were not certified.

In the domestic market situation this is a very clear business proposition. It is the common interest of the operator and the certification body to enhance that added value, by promotion and information. The carrier of the added value is normally the certification mark. The main reason behind the outstanding market position of some certification bodies is that they have managed to charge their marks with a lot of value and consumer recognition.

In the scenario where your producers are exporting their products, they are normally selling to other companies that are certified by other bodies, and the end-consumer will not even know that the raw materials were certified by your organisation. In that perspective the value for your operator is mainly the certificate which gives him access to that export market. There is little purpose for you to market your organisation or your mark towards end consumers in

exporting countries. If the export market is regulated, the main aspect to consider is that your certification is legally accepted in that market. The second aspect is that the importers know you and have confidence in you. In many cases it is the importers that guide exporters which certification body they should select. Therefore, importers become a clear target for your confidence building activities. Thirdly, in some import markets private certification bodies and their mark has such a strong position that you would need their acceptance, i.e. they become a target group for your promotion, and you may wish to get into some bilateral cooperation with them.

Many emerging certification bodies start off with a partnership with a certification body located in the main export market. That can take many forms, but most of the time it means that you are providing an inspection service and maybe also business representation on their behalf. In that case they are your clients and not the operators that you inspect. The value you bring to your partner is local knowledge, a network and a timely and correct service.

To understand these different scenarios and what they mean in terms of service and promotion priorities is essential for a successful operation.

### ***Knowing the competition***

As for any other business it is crucial to know the competition. What do they offer, their pricing, their local staff, if any. Ask yourself, what would it take for their client to shift to your service instead. Understand that there are many factors apart from price that determines your competitive edge. The most obvious factor is about formal recognition in the major export markets. Timeliness and correctness are much valued by clients. Also some certification bodies have strong brands that inspire confidence by the buyer and the end consumers. Finally competing certification bodies may want to buy out your staff once you trained them.

### ***Offering multiple organic certification***

Many certification bodies are set up with the idea to offer one organic certification service. However, because of different requirements in different markets, they end up having to develop specific schemes for various organic certifications. E.g. a certification body in Europe may offer a special NOP programme in order to give their producer access to the US market; a certification body in Latin America offers certification both to their own national standards, to the NOP and to the EU regulation. Most things are the same in the various programmes, but certain details are different. However, the operators needs to know which kind of organic certification they want, and certification bodies should do their best to inform them about the options, and clarify the costs for the different options.

### ***Expanding the service further***

Many organic certification bodies offer also other certifications, e.g. EurepGap, HACCP, BRC, CSR, FSC just to mention a few. Similarly, certification bodies that were set up for other purposes venture into organic certification. There are some good reasons for this:

- many clients wants multiple certifications, and it is easier for them and also more economic if one certification body can offer multiple certifications
- the basics of operating a certification body and the procedures etc. are more or less the same for all certification services, so a certification body is likely to be able to use the same infrastructure and administration for multiple programmes.

However, there are also hurdles:

- the technical expertise needed for one programme differs quite a lot from the other. A qualified inspector can probably be trained to inspect to many different systems, but there is still a lot of training to be done, and there are special forms to be designed etc.
- most systems have its own procedures for how to get acceptance, e.g. the FSC has an own accreditation system, EurepGap demands ISO 65 Accreditation and registration with an agency in Europe. The procedures themselves and the costs involved may be prohibitive.
- A few systems maintain almost monopolies or qualifications procedures that makes it virtually impossible to get acceptance, e.g. the Fair Trade labelling system or Kosher and Halal certification.

It is of course nice to be able to offer your clients any certification they want, but reality shows that even for well-resourced international bodies it is virtually impossible to offer that. A new organic body easily becomes overstretched in trying to get into all these markets. One option is to enter a new market as an inspection service provider on behalf of another certification body, to gain experience and see how big business there is before committing too many resources into a certain field of certification.

### ***Look at the service from the process perspective***

Not only for quality management but also for the business management it is helpful to look at the service from a process perspective. Try to see your work as a production line. There are different stages. In each stage there is work, there are some inputs needed, there are timelines to be kept. Most of the costs in a certification organisation is labour input, other costs are rather small. By focussing the work hours needed you get a good view on your cost level and on your need for employees.

**Table showing steps in process, responsibility and time needed (example)**

<b>Step in process</b>	<b>Person in charge</b>	<b>Time per client</b>
Processing applications	Admin assistant	30 min
Registration of applications	Admin assistant	30 min
Financial management related to applications	Accountant	15 min
Assignment and instruction of inspectors	Certification Officer	1 h
Inspection	Inspector	6 h
Report writing	Inspector	3 h
Review of Inspection report, seeking clarification etc	Certification Officer	2 h
Certification decision making	Certification Officer	1 h
Communication of decisions, certificates, registration etc.	Admin Assistant	1,5 h

*NB: these are the same steps that you would work on when you develop all procedures involved. It is highly recommended to work on all this parallel, i.e. when you design your procedures you also try to estimate the time involvement. One reason to do this in parallel is that the procedures should not only be according to norms, they also need to be efficient. If some procedures involve too many steps and too many people involved they are likely to also be expensive to implement.*

There are many other things that could be classified as overheads that you can't relate to one individual client, e.g.

- Responses to general inquiries
- Promotion and marketing
- Development of the certification system
- Book keeping
- Reporting
- General office admin and maintenance
- Planning
- Staff training
- Issues relating to accreditation

After the initial set up you should be able to quantify how big proportion of the total work that is directly client related and therefore also income generating and how much is general overhead. Of course a lot of the overhead is very much needed and helps to develop your organisation or open up new markets, but if you spend too much on general overheads you are likely to offer a very expensive service. Maybe you can land on figures showing that 50 percent of the work involved is devoted to field inspections, 30 percent is direct client related certification administration and 20 percent is general overhead. If you do realise that you spend more than half of your work hours with general overhead things, or that the certification administration takes double the time spent on inspections your operation is likely inefficient.

### ***Costs for establishment - initial investment***

The direct costs for establishment of an organisation is normally quite small, normally only registration fees and some legal fees. Then you will most likely operate for a minimum of a year without almost no income and that means that all cost for office and staff during that period are investment costs. After a year or so some income may be generated but not likely sufficient to cover all your operating costs. Most likely you will also need some technical assistance e.g. for

- training of inspection staff
- training of certification staff
- development of documentation and quality system
- setting up a database
- setting up a web site
- legal issues
- guiding you through an accreditation process

In addition you probably want and need to make your organisation know by participation in some fairs and international events.

The initial accreditation can also be seen as an investment cost.

Example of costs to establish a local certification body, drawn from examples from Armenia (Boor 2006) Bosnia and Herzegovina and Uganda, Tanzania (author's own experience).

**Start up costs for the establishment of an organic certification body (example, Euro)**

Category	Year 1	Year 2	Year 3	Year 4
<b>Costs</b>				
Registration of organisation	1000			
Registration of mark	500			
Office running costs	5000-12000	5000-12000	5000-12000	5000-12000
Equipment	1000-2000	1000-2000	1000-3000	1000-3000
Costs for Board and Committees	1000-5000	1000-5000	1000-5000	1000-5000
Salaries of staff	8000-12000	12000-20000	15000-30000	15000-30000
Travel and transport	1000-6000	1000-6000	1000-6000	1000-6000
Training costs	20000-40000	20000-40000	5000-10000	2000
Technical assistance other	10000-30000	10000-30000	5000-20000	2000
Taxes	0-3000	0-3000	0-3000	0-3000
Accreditation costs	0	0	6000-25000	5000-18000
<b>Total costs</b>	<b>47500-111500</b>	<b>50000-118000</b>	<b>39000-114000</b>	<b>32000-81000</b>
Income	0	15000-20000	25000-45000	32000-65000
<b>Net Investment</b>	<b>47500-111500</b>	<b>35000-98000</b>	<b>14000-69000</b>	

The accumulated investment costs are thus in the range of 100 000 – 250 000 Euros.

Notes: The fourth year the body shall be able to stand on its own feet in most cases. In the scenarios above the organisations with the highest cost level is not likely to break even. Note also that the costs don't include the preparatory cost and time that normally comes before the establishment of the organisation. Travel costs for inspectors are not included in the calculations as they normally will correspond to an equal income. Costs for accreditation is calculated for IFOAM + one more accreditation (e.g NOP, ISO 65 or JAS).

It should be noted that there are many certification bodies in the world established with very little capital (less than 20 000 Euro). However most of them have been based on very substantial voluntary work, and initially they had a clear domestic market orientation, i.e.no costs for accreditation etc.

All in all there is a substantial investment to set up a domestic organic certification body.

**References:**

Boor, Birgitt (2006), Technical Notes – Economic Pre-conditions for the successful establishment of a local certification body, ITC, Geneva 2006, not published.

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