A Crowding In Case Study from Uganda:
The How and Why of Firms Copying Business Models Introduced by Market Facilitators

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Introduction: What is "crowding in" and why is it relevant?

Market facilitation is about more than helping target firms; it is about creating systemic change. Therefore it is important to ask if other market actors are also changing their behavior, reflecting the behavior change of the firms market facilitators work with directly, "target firms." This process is called "crowding in."

This case study addresses the following questions posed about a market facilitation intervention in Uganda: to what extent is crowding in happening in the markets that the market facilitation project is targeting? How and why is this crowding in happening? What are the challenges to crowding in? And how can market facilitators use this information to further the process of crowding in?

Description of the Market Facilitation Project in this Case Study

The market facilitation project in question targeted three different value chains. Two value chains involved commodities, and the intervention targeted traders of these commodities. Market facilitators encouraged them to work with farmers--providing training and access to equipment to improve the quality of farmer produce, and subsequently offering farmers higher prices. The incentive for traders to do so with that they in turn would receive higher prices at resale of these commodities to larger buyers. In the third supply chain retailers of supplies were targeted and encouraged to conduct village outreach via agents to collect orders and provide information and training to farmers, with the expectation that this would increase retailers' profits but also improve farmer production and profits.

Methodology

My research into the crowding in of business models by firms not directly targeted by the project (nontarget firms) took place over two weeks in March and April of 2013. I visited three districts and their environs in Uganda. In total I spoke to 9 firms that have been targeted by the project, and 9 nontarget firms.

My research relied on interviews with key informants—firm owners or managers.

I posed a series of questions to owners and managers of firms in relatively short interviews, asking them questions about their business models and the means by which they share information about them or learn about new ones. These questions resulted in qualitative rather than quantitative data. I then analyzed my notes from these interviews to uncover similarities and patterns in responses that suggested common processes through which crowding in happens.

1) To what extent is crowding in happening?

Based on my research I can conclude that crowding in is happening in markets that project is targeting. However, the process of crowding in is by no means linear. Simply because a nontarget firm sees a target firm's behavior change is not a guarantee that they will go on to replicate its business models perfectly. There are multiple channels through which non-target firms learn from target firms, and the processes of learning and copying the new business models are not perfect. In some cases this proves a challenge to effective crowding in, but in other cases may be an opportunity for innovation on the project's business models.

Is it mimicry or learning?

It is important first to determine whether firms who are appearing to copy target firms are learning or simply mimicking what they see. This is essential because mimicry, or "herding" as it is also known, is not sustainable. An example of mimicry would be if a stockist were copying the Village Agent Retail Model without any articulated reason for doing. Perhaps they hold a misplaced belief that doing so would secure them support from an aid organization. Subsequently, when they do not get what they were hoping for, they will desist in this behavior.

However *learning* is a sustainable means of achieving behavior change because, according to the McKinsey influence model,[1] understanding is essential to achieving behavior change. In all interviews nontarget firms demonstrated learning. These firms were able to articulate clear reasons for wanting to copy the project's business models. For example, two firms expressed interest in the village outreach model because of understanding that it would increase farmer and loyalty and sales.

Copying or original ideas?

There were three examples of three nontarget firms who claimed to have had original ideas to conduct farmer outreach, aspects of which were very similar to

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[1] See page 21 of "Driving Organizational Change: Taking the Value Chain Approach from Principles to Practice," Mina Shahid, Engineers Without Borders Canada, 2012, <http://microlinks.kdid.org/sites/microlinks/files/resource/files/breakfast71_ppt_presentation_final.pdf>

the project's models. Originally these firms were misidentified as copying firms. There is still some confusion as to how many of these ideas were original--it is possible that some of the ideas did originate from project target firms, but that the copying firms did not want to admit this or had forgotten. Regardless of the difficulty in attributing the cause of change, it is indicative of broader systemic change if an idea is occurring in different places simultaneously, and seemingly independently in the same market.

Imperfect copying or adaptation?

As noted earlier, copying by nontarget firms is not perfect. There were numerous examples of firms adopting some, but not all of the project's business models, and omitting or changing some of the aspects of the models that they did adopt.

Some of these changes may be positive, and provide opportunities to change the project's models for the better. For example one copying firm has adopted the some parts of the village outreach model, but selects all of the village agents himself, rather than asking the community to elect agents, as is recommended by market facilitators. He may have introduced an adapted and improved model by appointing agents he trusted.

However, some of these changes may be negative. There is an example of a copying trader who improves the quality of his product himself after he buys it from farmers, rather than asking the farmers to do this, which is what the project promotes. He may be making more work for himself because of an inadequate understanding of the model.

Potential for more crowding in

Multiple nontarget firms are asking for more information, more details about the business models. Two firms want to know more about the village outreach model they commit to it fully.

2) How is learning happening?

It is important to recognize the channels through which learning is happening. Much of the research suggested information is being transmitted directly from target firms to nontarget firms.

Proximity and the demonstration effect

In the cases of the two commodity value chains, traders were operating in very close quarters, and in most cases could see the actions of their fellow traders. This enabled a demonstration effect. A demonstration effect is an effect on the behavior of individuals caused by observation of the actions of others and their consequences.

For example, a nontarget firm manager said that he and his employer witnessed congestion in terms of the numbers of farmers taking their produce to the target firm's factory. This enabled them to recognize an increase in the target firm's business and an opportunity to take some of that business away from the target firm by offering the same services as their competitor.

Examples of the demonstration effect also occurred in cases where non-target firms witnessed customer loyalty to target firms. A copying trader experienced difficulty buying from farmers in the village because they claimed they already had intentions of selling their produce to a target firm.

In the case of one copying firm owner, he witnessed a powerful example of customer loyalty while visiting a target firm's store. A farmer entered the store of the target firm requesting a certain product, but was told that it was not in stock. Rather than going on to another store in town, the farmer said that he would return when it was in stock. This prompted the visiting firm owner to ask why the farmer was so loyal, and so the target firm's manager explained how this relationship had been fostered through the village outreach model.

Personal and professional networks

Information is also shared through social networks: friendships and professional connections. For example, there were strong bonds between traders. The owner of a copying firm called the owner of the target firm his "brother." They were not blood brothers, but this was an indication of strong personal ties between them.

There are also strong working relationships through which information is being shared. One of the copying firm owners is a former employee of a target firm. And one trading target firm is also an aggregator, and so provided quality-improvement training to his agents. The agents are also traders in their own right, and have gone on to use their training in their business transactions that are separate from those with the target firm.

There was also an example of a very active branch of a national trade association in one region through which information about the models is being shared. One target firm said that he was sharing his experiences with others during an association meeting.

Stakeholder meetings

These meetings, organized by the market facilitators and local government, are serving the purpose of bringing together target firms and non-target firms, and giving target firms a platform to share their experiences. There were examples of non-target firms posing questions about the project business models in each of the district meeting.

There was also one example of cross sectoral learning at a district meeting, in which a trading target firm asked a supplier target firm for more details about the village outreach model. This is because the trader is interested in getting his farmers access to quality supplies to improve the quality of the produce that they sell to him.

Learning from sources other than target firms

Non-target firms are also learning about the sorts of business models being promoted by the project through information sources other than target firms. For example, there is a cooperative of traders that was advised by a national cooperative organization to improve the quality of their product. However the nontarget firm who is a member of this cooperative said that they did not receive training about quality improvement from this organization, rather that training came later from a project target firm.

Similarly, another nontarget firm was also introduced to the idea of improved quality of product before learning about new business models from a target firm, when a buyer rejected his wares because of its poor quality.

There is also an example of learning *between* nontarget firms. A firm owner runs a radio program that encourages other supply firms to engage in farmer outreach, similar to the project model. This firm owner, of a nontarget firm, says that another supplier is copying his outreach model based learning from the radio program.

3) Why is this learning happening?

In crowding in, it is important to address the motivations of various actors, and ask why target firms are interested in sharing the information they have gained, and why target firms want to learn and adopt these new business models.

Why target firms want to share

Target firms list a variety of reasons for wanting to share their experiences using the project's business models:

Improve the industry

One of the most common reasons for sharing given by firms in the commodity value chains is that they want to improve the quality of these products in the region, and often in Uganda as a whole. They have an expressed interest in improving their industry.

Cooperation

Several target firms also expressed an interest in cooperating with others in their industry, this being the motivation for sharing information about the project. For example, the manager of one target firm in said that firms in his sector always need to collaborate, as is the case when they put in an order to a supplier and they need to bulk order collectively. The idea of not sharing information was considered an unacceptable, selfish act. There was only one instance in these interviews in which a target firm admitted it would not share information: this was in the case of a trading target firm--the manager said they would share information about improving product quality, but often would not share specific market opportunities with their competitors.

Social Development

Target firms also seem to be interested in the community development and poverty reduction aspects of the project's business models. There was an example from each value chain of the target firm saying it was interested in sharing because these models improved the status of farmers. In the case of commodities, farmers would get higher prices for their produce, and in the case of supplies, farmers would get access to better information and better quality supplies. The manager of one target firm described the models as being win-win for firms and farmers.

Pride

Lastly, one target firm said that he wanted to share his experiences with other firms because he is proud to be a source of knowledge for them.

Why do non-target firms want to learn and adopt?

Below are some of the reasons given by nontarget firms:

Profit and Improved Competitiveness

The first reason given by most copying firms is that they want to increase farmer loyalty and thereby increase their profits. This reasoning held true for all three sectors. In the case of commodities, nontarget firms also wanted to copy in order to receive higher prices for their products from large, quality conscious buyers.

There were also two examples of copying firms wanting to adopt the project's models to be better able to compete with target firms. These firms saw themselves as being disadvantaged by not using the project's business models.

Social Development

Most copying firms also expressed an interest in these models because of the benefits they would have for farmers. However, it was only two nontarget firms, that prioritized this objective and for whom it served as the chief motivation for them engaging/in intending to engage in farmer outreach.

4) Challenges to learning and adoption

Non-target firms faced challenges both in terms of learning about the project's models and adopting them.

Lack of Information

Two firms with the intention of copying the models said that before they were to do so, they wanted documents outlining the details of the project's business models.

Imperfect Copying

Several firms were copying or intending to copy in such a way that indicated that either they were not entirely familiar with all aspects of the project's models, or were but chose to not copy all parts of the model. One copying firm's owner intended to do all of the farmer outreach herself, rather than employing agents to assist in this activity. This is not a challenge if it is a positive adaptation, but is if it is resulting from a lack of knowledge.

Free rider effect

Another challenge to adoption is the free rider effect, in which a would-be adopter waits to see the outcome of adoption for the early adopter. Only when they see a positive outcome will they also adopt the new behavior. There were instances of the effect in one of the commodity value chains where two potential copying firms were only interested in using new technologies if they could see the target firm earning a profit from doing so first. This is a positive sign of copying firms' intention to learn, but it does slow the process of crowding in.

Lack of capital

Those firms who were copying or interested in copying often said that a lack of capital was preventing them from adopting some or all of the project's business models. One firm said she wants start up capital for transport and supplies to begin farmer outreach. Traders said they lacked capital to purchase equipment for assessing product quality. Another firm interested in copying said he lacked capital to secure the flow of products from large suppliers.

5) How can a market facilitator use this information to promote crowding in?

The following are highlights from discussions on the topic of crowding in with the staff of the project being researched and staff of a new market facilitation project following presentations on these findings:

How many firms and which firms should market facilitators work with?

Should market facilitators only be working with the early adopters a.k.a. target firms, or can facilitators work with other interested firms? Some firms might not have been interested in a new business model when first approached, but become interested six months later. However, facilitators should consider the merits of intensive facilitation with a few firms versus broad facilitation with many firms. Late adopters may need to prove their interest by "catching up" to target firms before market facilitators will work with them. The point was also raised that some target firms may fail to progress past a certain point with market facilitation. Therefore selection criteria could be used to determine which firms to work with initially.

If the point of market facilitation is not to link nontarget firms to market facilitators, then market facilitators should be facilitating links between target and nontarget firms. Facilitators can make introductions and facilitate business-to-business meetings, allowing even more time for discussion between firms than in district stakeholder meetings.

Information sharing

If market facilitators cannot provide broad support, who are the actors to provide late adopters with the information they need? Market facilitators can identify these actors, such as associations. Facilitators can also consider how this information might be shared, e.g. in a handbook or on a website.

Market facilitators can/should also work to expose the activities of the self-selecting target firms. This may involve getting target firms in the press, on the radio, or highlighting activities to nontarget firms through other methods. Some firms are interested in the celebrity status that comes from TV appearances, but they may not be considering its effectiveness compared to other means of outreach.

Target firms may feel pride in sharing what they've gained, but there might be a risk that their rise in status alienates other firms and/or makes them feel inferior. Can market facilitators identify a firm who will share information without making the receiver of this information feel inferior?

In regions where there is more competition is there a danger that target firms will not share information with non-target firms?

Crowding Out?

Are market facilitators prepared to deal with the “crowding out” of unsuccessful uncompetitive terms as a result of this market intervention?