

# Farm Enterprise Development Manual

A Training Manual On Farm Enterprise Development

Grace Ruto and Charles Odhong'



Vi Agroforestry

## **VI AGROFORESTRY**

Vi Agroforestry is a Swedish development organisation, fighting poverty and improving the environment through agroforestry. We do this together with smallholder farming families and farmers' organisations in the Lake Victoria basin in East Africa. The foundation of Vi Agroforestry's work is sustainable agriculture and agroforestry – growing trees alongside crops and livestock. It provides increased access to food, access to sustainable energy sources and more income. Sustainable agriculture contributes to the mitigation of climate change and protects against the negative effects of climate change. Since its inception in 1983, the organisation has helped planting over 100 million trees and improved the livelihoods for 1.8 million people.

## **DISCLAIMER**

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First edition

Published: 2016.

Front cover: Photo - Fred Mukasa Gwayambaddhe and Nalmbega Annet in Masaka, Uganda. Photography by Linda Andersson.

# Foreword and acknowledgement

**IN THE 21<sup>ST</sup> CENTURY, AGRICULTURE REMAINS FUNDAMENTAL** to economic growth, poverty alleviation, and environmental sustainability. Vi Agroforestry works with farmers and farmers' organisations to support mechanisms for upgrading of smallholder production systems and enhancing smallholder competitiveness through establishment of sustainable agro-enterprises that have high potential for generating income and employment thus contributing to better and more secure sources of livelihood.

**THIS MANUAL HAS BEEN DESIGNED TO FACILITATE TRAINING** of farmers in enterprise development, thereby enabling smallholder farmers to make the transformation from subsistence farming to farming as a business enterprise. The manual intends to provide farmers with the knowledge, attitude, and skills needed to sustainably evolve and grow their businesses to successful agro-enterprises. The manual covers basic concepts of entrepreneurship, core value chain principles, key business development services, how to successfully engage markets, financial management, and knowledge on business planning essentials for the success of an entrepreneur involved in farming business.

**THIS FARM ENTERPRISE DEVELOPMENT MANUAL** has been developed by Vi Agroforestry. Grace Ruto, Vi Agroforestry and Dr. Charles Odhong', Value chain consultant are appreciated for the process of developing and compiling this manual. The contribution and support of Vi Agroforestry Farm Enterprise Development focal persons at country level including Salima Mbaruku, Mary Celestine Atieno, Teddy Nakayenga, David Juma and Claude Rutayisire is also acknowledged and appreciated. We would also like to thank Linda Andersson for her guidance and support on this publication.

**KEY PILLARS OF SUCCESSFUL FARMERS' ORGANISATIONS** are rooted in sound business principles that enable farmers to improve their livelihoods and to improve the well-being of the greater community. As such, we hope that the manual will improve the ability of farmers and farmers' organisations to form business oriented producer organisations to improve their farming businesses, have sustainable enterprises, increase their income and bargaining power, gain access to new markets, access competitive business development services, achieve economies of scale, reduce economic risk, purchase in bulk and ultimately do so sustainably and thus achieve our vision "*A sustainable environment that enables people in poverty to improve their lives*".

Arne Andersson  
Regional Director  
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# Introduction to the study circle methodology

## LEARNING OBJECTIVES

1. Have an understanding of the study circle approach.
2. Understand the role of a study circle in continuous learning.
3. Feel motivated to join a study circle.
4. Develop a study plan.



Illustration: A study circle

## Objective of the study circle

The aim of the study circle is to ensure that farmers learn from each other through a dynamic and participatory process. A study circle involves interaction in which all participating farmers contribute.

## What is a study circle?

A study circle is a small group of people (normally between 7 – 12 participants) who during a certain time period repeatedly meet and carry out planned studies.

The critical success factors of a study circle are:

- The farmers' experiences and skills.
- A study plan or specially produced study reference material.
- A well-informed and trained facilitator who is responsible for moderating the study circle discussions.

### DISCUSSION POINTS

- a. Why did you join the study circle?
- b. Share individual expectations and discuss the ways in which the study circle will meet these expectations.

## Basic principles of the study circle methodology

The study circle is an active process that relates knowledge to action and social change, to development and creativity. The method can be described with some basic principles:

- Equality and democracy.
- Experiences and co-operation.
- The freedom of the study circle and its right to set its objectives.
- Study material.
- Continuity, planning and active participation.
- Change and action.
- Composition of groups.
- Gender and youth aspect.

### Equality and democracy

All the participating farmers in the study circle are considered equal. Every member should have an equal opportunity to share their experiences and learn from each other. The study circle leader's work is to inspire discussions in a relaxed manner.



Illustration: The study circle principles of equality and democracy.

### Experiences and co-operation

The discussion in the study circle must start from the farmers' experiences and knowledge. Participants should share their experiences and identify problems and solution that will generate new knowledge to the study circle.

The farmers assist each other instead of competing. They share the progress and setbacks of their joint work.

### The freedom of the study circle and its right to set its objectives

The study circle should be formed based on the participants' needs and wishes. The farmers of the study circle will be responsible for how they work and how the studies are carried out.

### Study material

The study circle's material should be available in advance and should be sufficient to cover all the sessions. The material should contain facts, highlight points for discussions and guidelines for the work in the study circle.

### Continuity, planning and active participation

Continuity means that studies have to be organised and planned. The objectives set or considered and approved by the farmers, imply that studies must follow some kind of a plan.



Illustration: Members of a study circle actively participating

### Change and action

The participants in the study circle must aspire to make a difference in their activities based on the lessons learnt from the discussions. When the farmers strive for change and action, the learning will be meaningful.

### Composition of groups

As farmers in a study circle must be actively involved in all the work of the study circle, it is important that they are small groups, about 7 – 12 farmers, including the study circle leader. It is necessary to have such small groups otherwise the intention with a study circle is lost.

When you start a study circle it is important to try to gather people who have by and large, common values and possess different experiences.

### Gender and youth aspect

It is important to involve women and youth in the study circle activities. This is because all members will benefit from sharing their knowledge with others and learn how to work better together in a group. The knowledge acquired will not only benefit the individuals and families participating, it will also strengthen the farmer group/organisation and accelerate realisation of collective goals.

## Selection of a study circle leader

The study circle leader should create and develop the learning processes that stimulate and encourage the farmers actively to look for knowledge.

This can be achieved by:

- Putting the farmers own development in focus and asking the right questions.
- Emphasising the development of dialogue between the farmers and, encouraging the farmers to discuss solutions and ask questions among each other.
- Developing the team spirit so the farmers feel secure.
- Strengthening the farmers' self-confidence.
- Applying a common view on the process of knowledge which allows the farmers to apply what they have learnt in everyday situations.
- Making different options clear.
- Encouraging co-operation among the farmers and prevent competition.

### DISCUSSION POINTS

- a. What should you consider when selecting your study circle leader?
- b. What are the responsibilities of a study circle leader?

## The study circle participants

The farmers should have a shared interest and looking for knowledge or solutions to their problems.

- All farmers as individuals have a responsibility to contribute and work actively in the group. In order for every participant to participate in all meetings, they must have decided on that assignment beforehand.
- All farmers share the responsibility for the end result of the studies.

### Responsibility of the participants

The participants should:

- Give priority to the study circle work.
- Keep the agreed time.
- Be prepared to contribute to the development of the study circle.
- Work actively in the group.

- Inform the study circle leader beforehand if one cannot participate in the coming meeting.
- Inform each other after the meeting if someone is coming late.
- Decide amongst yourselves who is briefing a participant who has not attended a meeting before the next meeting begins.
- Take their own notes.
- Share the responsibility for the result of the studies.

### DISCUSSION POINTS

- a. What is your responsibility as a study circle participant?
- b. What consideration should a study circle participant make before joining the study circle?

## Planning the studies

The topic is decided in the group or based on the knowledge required by the group. This ensures that the topic in a study circle always concerns every member of the group.

The meetings must be well planned and goals for the studies agreed upon. The study plan should show the different steps to ensure that the discussions are fruitful.

### Study circle assessment

At the end of the study circle, an assessment of the conclusions reached should be done to identify new knowledge and benefits gained from the work.

Farmers should discuss the following questions:

- How well did we succeed?
- Where did we face obstacles?
- What may have caused them?
- Which of our experiences can be valuable to other study circles?
- What is next? (A consideration for the future).

The farmers have to decide on how the observations and conclusions shall be compiled and presented.

# MODULE 1:

## Value chain development

### LEARNING OBJECTIVES

1. To introduce value chain concepts.
2. To explain the importance of value chain approach in agricultural enterprise development.
3. To understand the principles of value chain development.
4. To understand the key success factors in value chain development.

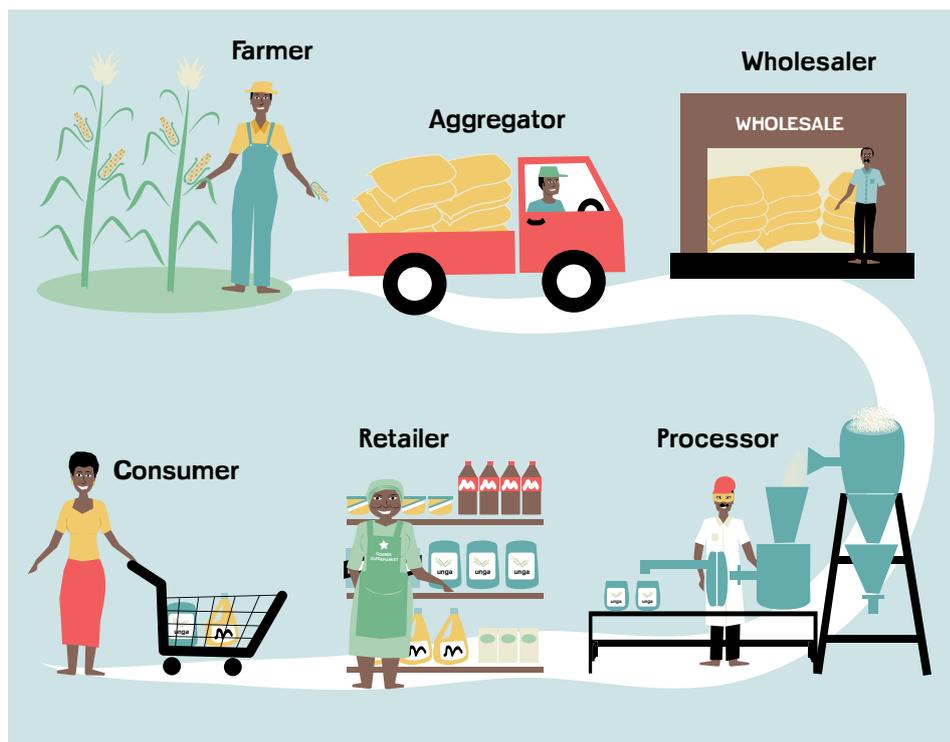


Illustration: Maize value chain actors

## What is a value chain?

A value chain refers to the entire system of production, processing and marketing of a particular product, from inception to the finished product. A value chain consists of a series of chain actors, linked together by flows of products, finance, information and services.

The term 'value chain' refers to the fact that value is added to preliminary products through combination with other resources (for example tools, manpower, knowledge and skills, other raw materials or preliminary products). As the product passes through several stages of the value chain, the value of the product increases. At each stage of the chain the value of the product goes up, because the product becomes more convenient for the consumer besides value, costs are added at each stage in the chain.



Illustration: The maize value chain

## DISCUSSION POINTS

- a. Who are the actors involved in getting farm produce from the farm gate to the final consumer?
- b. How does the farmer's role influence the flow of produce to the final consumer?

## Value chain development



Illustration: Consumer using the final product

## DISCUSSION POINTS

- a. How did the food get to the customer?
- b. Who was involved?
- c. What processes were involved in making the food appealing to the customer?

Value chain development is the process of working toward improving the efficiency of the actors in delivering the produce from the producer to the consumer. It is the deliberate act to strengthen mutually beneficial linkages among actors so that they work together to take advantage of market opportunities. This can be done by creating and building trust and by identifying common problems among actors in the chain and pursuing solutions that generate win-win outcomes.

#### DISCUSSION POINTS

- a. From the illustration on page 14, in what ways can you improve the efficiency of the processes involved in getting the food to the customer in the hotel?

### Value chain actors

The chain actors are the individuals or organisations that are involved in the production, marketing and consumption of a product. The linkages between actors can be represented as a chain showing those directly involved in moving a particular product from primary producer to final consumer. This can include both small and large-scale producers, input suppliers, traders, processors, transporters, wholesalers, retailers, and more.

#### EXAMPLE

**When a farmer sells a product to a trader, two things change hands: the product goes in one direction, and money goes in the other. Likewise, when a trader sells the product to the consumer, the product goes in one direction, and money goes in the other.**

**This exchange is repeated at each stage in the chain, forming two parallel flows, of produce and money. In addition, each of the actors may be prepared to invest in the chain and to support the other actors to make sure that it functions smoothly.**

**This gives rise to additional flows of finance between the different actors in the chain. These flows may go in either direction. Furthermore, the farmer and trader exchange information and provide services to each other.**

## Value chain supporters

Value chain supporters are individuals and institutions who offer essential services to support the value chain actors.

Chain supporters may provide various financial services to the chain actors. These supporters include moneylenders, savings and credit groups, micro-finance institutions, banks, crop and livestock insurance and so on. It is not just financial institutions that provide financial services.

*Example:*

- An input supplier may give a farmer a loan in the form of fertiliser, in return for repayment plus interest after harvest.
- Input supplier can also offer training to farmers on various aspects of production e.g. optimal use of fertiliser or suitable seeds for different areas or regions.

### DISCUSSION POINTS

- a. Who supports the farmers and traders in doing their businesses?

There are other value chain supporters who provide non-financial services to the chain actors, such as extension, transport services (deliveries, cold chains), warehousing (storage), Market information (prices, trends, buyers, suppliers), Quality assurance (monitoring and accreditation) and so on.

Value chain supporters include private companies, governmental bodies, NGOs, and so on.

## External environment

Critical factors and trends shape the value chain surrounding environment and operating conditions. These factors are constantly changing.

They include market demand (consumption trends – volumes, prices, quality expectations, tax and tariff regimes), technology, transport, changes in law and so on. It is important to understand the trends affecting the entire value chain and to examine the powers and interests that are driving change and the effect they have on the value chain.

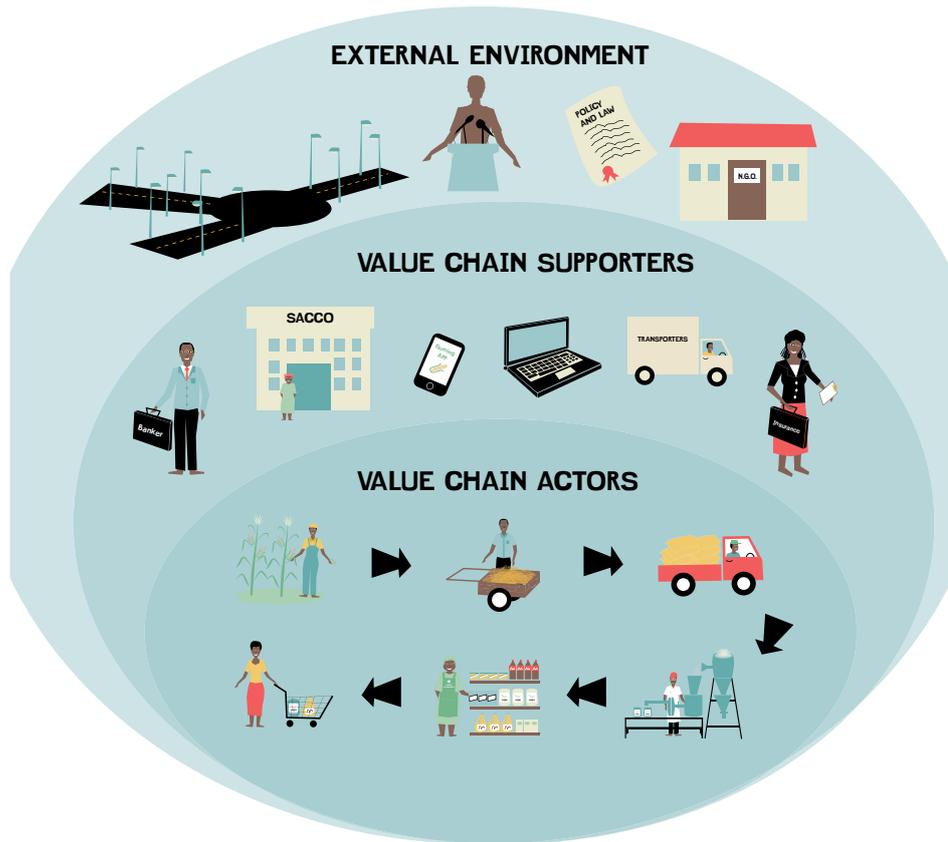


Illustration: The value chain actors, value chain supporters and external environment

### DISCUSSION POINTS

- a. What is my role as a farmer in the value chain?
- b. How can I as a farmer ensure that I play my role effectively?

## Value chain mapping

A value chain map is an illustration that shows how product flows from one person in the value chain to the next.

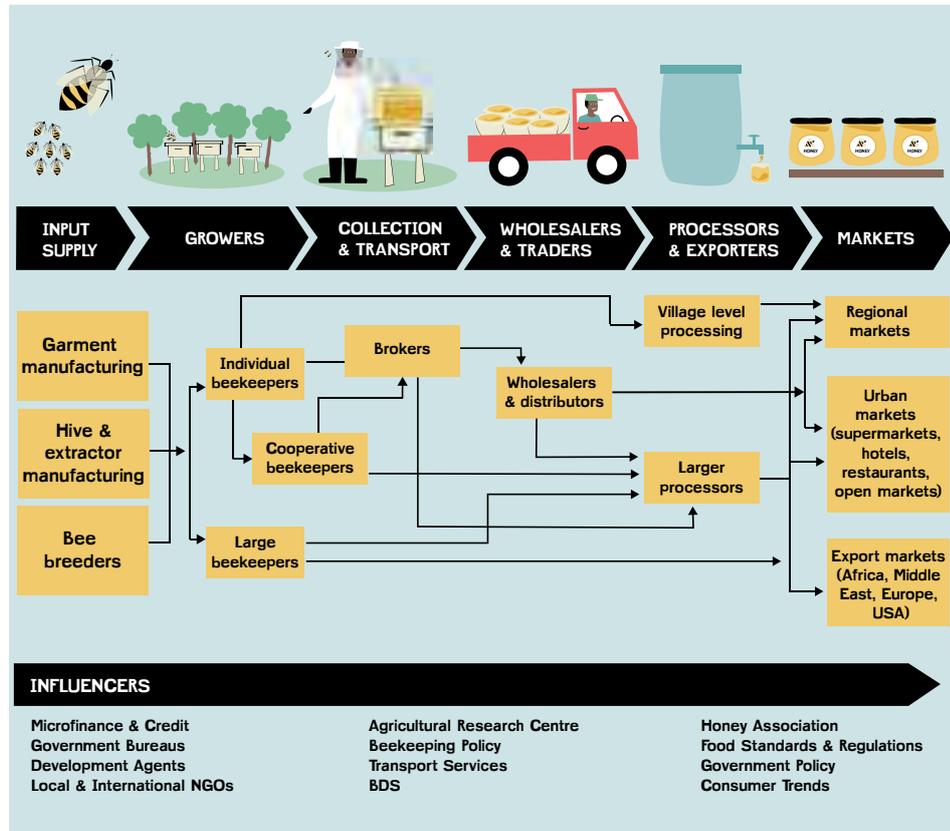


Illustration: Honey value chain

### DISCUSSION POINTS

- Draw how your produce moves from the farm to the final consumer.
- What is the importance of understanding the way the farm produce moves from the farm to the market?

## Importance of a value chain map

- Helps to understand the movement of product from farmer to the final consumer (i.e. the core transactions).
- Helps to identify and categorize key market players. It shows other organisations supporting the value chain (e.g. government, financial services, transporters etc.).
- It shows different market channels through which products and services reach the final customer. (E.g. number of competitors, size of market, type of support services, who controls the value chain, etc.).

### DISCUSSION POINTS

- a. Why should farmers use the value chain approach?

## Reasons for using the value chain approach

The four major drivers of change that trigger and promote value chain development in agribusiness are;

1. Supplying the market in a timely manner and at the lowest cost: ensures that products are available to the consumer when they want them, at the place they can access the product, at the right quality and at the best price.
2. The product delivered to the consumer must satisfy the consumer quality needs. The quality of the product enables the product to compete with similar products for other producer and provide the market edge required to develop sustainable businesses for farmer groups.
3. Identifying the product required by the market and supplying it to the consumers. Before making a decision to invest in a new or differentiated product there must be sufficient demand or market for the product.
4. Understanding the rules and regulation that govern production and marketing of the product. The relationship between different value chains actors also determine the environment in which a business operates. These relationships are often influenced by social, economic, political and cultural environment, which determines the nature and success of business transactions within the chain products and services.

The services offered by value chain supporters ensure the value chain operation move smoothly.

## Value chain analysis

A value chain analysis maps out and characterizes all the actors, services and institutions involved in getting agricultural products from the producer to the consumer. The analysis allows farmers to identify the strengths and weaknesses of each of the actors in the chain and decide on suitable actions that they can take to strengthen their participation in the market.

## Value chain selection

Value chain selection is a decision-making process to help farmers identify the enterprises that will yield the best returns for their investments. It is based on comparing different products and identifying the best among the many options available. Selection of a value chain should be conducted during the planning stages through prioritisation of a short-list of value chains in a particular area weighted and ranked against selection criteria.

### DISCUSSION POINTS

- a. Farmers should discuss the product they are producing for the market or the product they are interested in producing for the market.
- b. Why are the farmers interested in producing the products listed in the discussion?
- c. What factors did the farmers consider when making the selection?

## Benefits of understanding and applying the value chain approach

Value chain approach has significant rewards and benefits. The rewards of implementing a value chain approach are:

- It helps to identify constraints and common solution for the challenges.
- The relationship developed by the value chain actors reduces the transaction cost of doing business.
- The approach provide opportunity for innovation within the value chain.
- The feedback received from the value chain actors reduces the time to respond to changing customer demand, as a result of better communication with chain partners.
- The approach ensures more rewarding business relationships collaborative between all the value chain actors.
- It gives the farmer organisation a competitive edge when the value chain's products and processes are difficult to duplicate.

- It provides a unique way to manage risk because the buyers are assured of product quality, supply and safety through integrated systems from production to retail. Suppliers are more assured of a market and the benefits of economies of scale.
- It improves access to markets because every actor is sure of the next step and the channel of product flow.



Illustration: Benefits of using a value chain approach

## FOCUS ON SUPPLIER, BUYER AND CONSUMER

**It is important for farmers to identify and define their suppliers and their customers. Each business in the chain has suppliers and buyers as well as consumers at the end of the chain.**

### **Critical success factors of value chain approach**

There are several factors that contribute to the success of a value chain.

The factors that will increase the success of a value chain include:

- There must be a win-win situation for all the stakeholders involved. If this does not happen the other actor may reduce their participation or sabotage the value chain.
- There must be a formalized goal alignment among the value chain actors. The aim of all the actors must target the promotion and marketing of the agricultural product. The goals must be compelling to the producers, the leaders and all the value chain actors.
- The group leadership must have a clear vision and commit to achieving the vision.
- There must be Commitment and involvement from all the value chain actors.
- Careful selection of partners which include input suppliers (for nutrients, seed, pesticides etc.), buyers or processors. In some cases this may also include partnerships with other farmer organisation or groups.
- Value chain approach is dependent on the relationships built. There must therefore be cohesion and interdependence among the players.
- There must be trust and transparency among the value chain actors.
- Developing relationships with value chain partners is essential throughout the process as new partners or new products may be developed.

### DISCUSSION POINTS

- a. What will you do to ensure that the value chain selected will succeed over time?

## **VALUE CHAIN AND SUPPLY CHAIN**

**A value describes the full range of activities required to bring a product or service from conception, through the different phases of production, delivery to final consumers and final disposal after use. The most important part of the value chain is that the product changes values as it moves from one actor to the other. In other cases, the product changes from one form to another thus resulting to the increase in value.**

**A supply chain consists of series of activities in which a product or a material is simply transferred from a starting point to an end point. A supply chain is simply a transfer of a commodity from one stakeholder to another in a chained manner.**

**The value chain is the value addition at different stages of transfer. In different stages of value chain, different stakeholders add value to the product to increase the end product value.**

## MODULE 2:

# Business development in agribusiness

### LEARNING OBJECTIVES

1. To understand the steps for business development in agribusiness.
2. To explore the types of business development services supporting farming businesses.
3. To review the principles of good practice in developing partnerships.
4. To be able to develop and or review strategic plans.

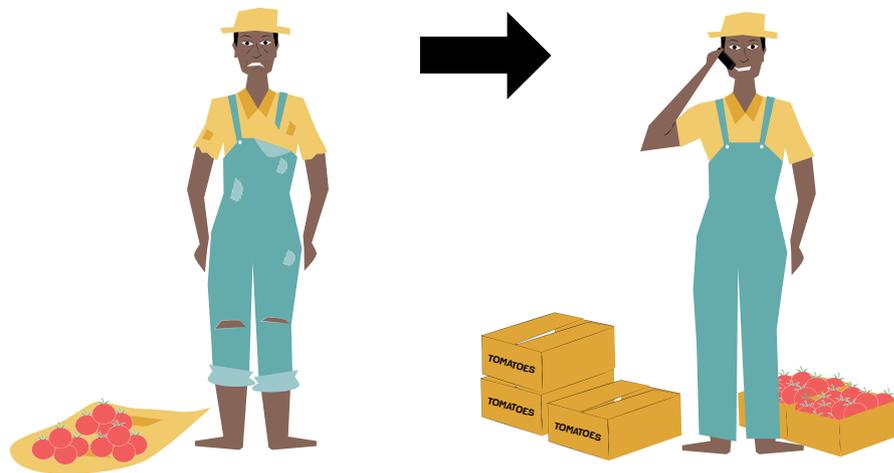


Illustration: Change from poor farming practices to better farming practices through business development

## Business development in agribusiness

Business is any form of commercial organisation involving either services or goods for the sole purpose of making profit.

Business development in agribusiness refers to process that are essential in the initiation, development and growth of an agricultural business.

### DISCUSSION POINTS

- a. What is a business?
- b. What types of businesses exist in the agricultural value chain?
- c. Why should farming be practiced as a business?
- d. What is required for a business to grow over time?

### Steps for business development

The process of developing a business should follow an orderly process. This process makes it possible to evaluate the business as it is developed to ensure its success.

The steps to follow include:

1. Identification and description of the business opportunity.
2. Business Planning.
3. Start-up/Implementation.
4. Organisation and coordination.
5. Evaluation.

#### 1. Identification and description of the business opportunity

The farmer must identify a business opportunity and be able to show how s/he will be able to explore the opportunity to make profits. The entrepreneur must ask the following questions to evaluate the opportunity.

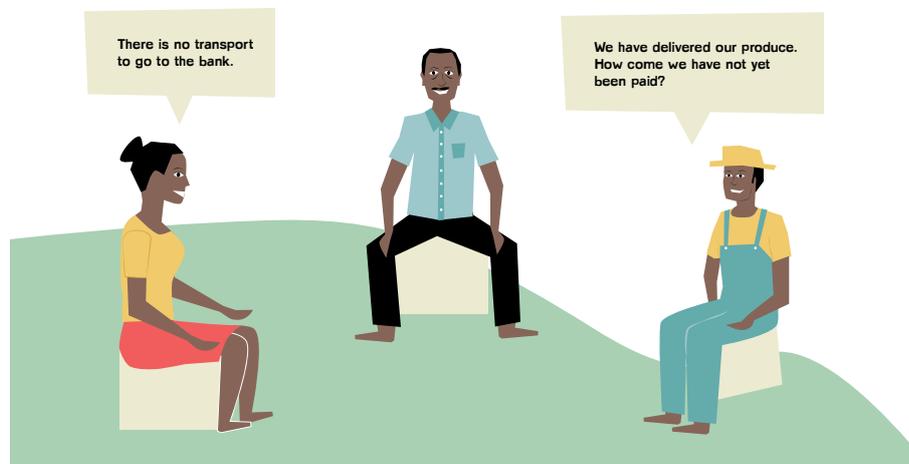


Illustration: The effects of poor planning

## DISCUSSION POINTS

The farmers should identify a business enterprise they are interested in and ask or discuss the following questions:

- a. Who is the customer and what product are they buying?
- b. How do the customers use the product (Why do they purchase it)?
- c. What do customers need that is currently not available?
- d. Is the need in the market growing?
- e. What changes are taking place that could affect purchasing choices?

## 2. Business planning

A business plan allows the entrepreneur to write down the business operation on paper. This will help to evaluate how the business is likely to perform before investing money and time.

## DISCUSSION POINTS

The farmers should discuss what is required to effectively plan for a new enterprise by asking the following questions:

- a. Where will the product come from?
- b. How much does it cost to produce it?
- c. Where will the product be sold?
- d. How will the product be delivered to the market?
- e. How much profit will be made from the product?
- f. Are there sufficient resources to produce and sell the product at a profit?

### 3. Start-up/Implementation

After planning for the business, the next stage is the implementation stage. Implementation simply means putting action on the business plan. During implementation prioritise important things.

Use information from the market to make decisions on the product. The implementation of the plan must begin from production. The second aspect will be to implement the marketing plan. Remember that implementation of all these processes require financing. Sufficient funds must be available to organise the production and marketing or any other activity that is involved in the process of ensuring the products get to the consumer.

### 4. Organisation and coordination

Organisation involves the coordination of all aspect of the business that is essential for it to succeed. This will include organisation of production and marketing through good leadership. Ensure that all the responsible staffs are available and are doing their work well.

### 5. Evaluation

Review the progress of the implementation to ensure that each part is going on well. Review of progress should be continuous. Every activity at every stage must be evaluated to check whether it is contributing to the overall goal.

## Farmer/producer organisation concept for agribusiness development

All producer groups should be business oriented and should strive at improving the organisation and management to bring benefit to their members.

The key function of the farmer/producer group is to create value for its members. This can only be done if an enterprise makes efficient use of these factors of production or economic resources and, in so doing, makes a product that satisfies the needs of the consumers that the enterprise is seeking to reach.

#### DISCUSSION POINTS

- a. What need to be done to ensure that businesses run by a group can grow and yield profits?
- b. Are the members of the farmer group business oriented?
- c. What does each member require to support the group business?

These five key steps are expounded further in subsequent modules.

## Principles for agribusiness development for producer

### DISCUSSION POINTS

- a. What factors does a farmer/producer group need to consider to ensure the group business grows and benefits all the members?

There are four basic principles that need to be evaluated when developing agribusiness for farmer/producer groups. These principles are:

#### 1. Capitalisation

The group must mobilise resources to ensure that they have access to resources to run the business. Group member should be able to provide resources in form of money, time and products to ensure that the business can run over time. The resources should be used to grow the business and benefit the members.

#### 2. Profitability

All the business by the producer group need must be able to generate profits. These profits can be used for two purposes:

- They can either be distributed amongst the members of the group in the form of dividends, or
- They can be re-invested in capital goods that will help the enterprise to increase its production, productivity and profitability.

#### 3. Competitiveness

The farmer/producer organisation must compete with others producing similar goods. Products must be of satisfactory quality in the target markets and they must reach the target market at the right time, in a suitable form and with prices and services similar to, or better than, those of its competitors.

#### 4. Self-sustainability (self-management)

Self-sustainability is the farmer/producer group's ability to use its own resources to sustain itself in the market. This requires good leadership within the group. All members are expected to participate in determining the leaders of the group. Selection of the leaders should be based on the leader ability to guide the organisations business well.

## Business Development Services (BDS)

Agricultural Business Development Services (BDS) are services that improve the performance of an agricultural enterprise. Business Development Services can help smallholder farmers to solve their problems by:

- Facilitating access to markets.
- Improving the availability of less expensive or higher quality inputs.
- Introducing new or improved technologies and products.
- Improving management and technical skills.
- Eliminating policy constraints.
- Helping enterprises access appropriate financing mechanisms.

### DISCUSSION POINTS

- a. Which services do farmer groups require for their business to succeed?
- b. What does the group need to do to ensure that they get these services? (List each service and discuss what is required to be able to get it).

*Type of business development services for smallholder farmers*

<p><b>MARKET ACCESS SERVICES</b></p>	<ul style="list-style-type: none"> <li>▪ Market information</li> <li>▪ Market linkages</li> <li>▪ Trade fairs and product exhibitions</li> <li>▪ Market research</li> <li>▪ Packaging</li> <li>▪ Advertising</li> </ul>
<p><b>INPUT SUPPLY SERVICES</b></p>	<ul style="list-style-type: none"> <li>▪ Linking farmers to input suppliers</li> <li>▪ Capacity to provide a regular supply of quality inputs</li> <li>▪ Capacity to offer discounts for bulk buying by farmer groups</li> <li>▪ Information on input supply sources</li> <li>▪ Advisory support on application of inputs</li> </ul>
<p><b>TECHNOLOGY AND PRODUCT DEVELOPMENT SERVICES</b></p>	<ul style="list-style-type: none"> <li>▪ Technology transfer</li> <li>▪ Linking farmers and technology suppliers</li> <li>▪ Facilitating technology procurement</li> <li>▪ Quality assurance programmes</li> </ul>
<p><b>TRAINING AND TECHNICAL ASSISTANCE:</b></p>	<ul style="list-style-type: none"> <li>▪ Production and postharvest extension support</li> <li>▪ Storage and warehousing</li> <li>▪ Transport and delivery</li> <li>▪ Business incubators</li> <li>▪ Value addition</li> </ul>
<p><b>POLICY AND ADVOCACY</b></p>	<ul style="list-style-type: none"> <li>▪ Training in policy advocacy</li> <li>▪ Analysis and communication of policy constraints and opportunities</li> </ul>
<p><b>ACCESS TO FINANCE</b></p>	<ul style="list-style-type: none"> <li>▪ Link farming businesses to banks and micro-finance institutions</li> <li>▪ Provide information on credit schemes and conditions</li> <li>▪ Encourage savings</li> <li>▪ Assistance in business planning for loan applications.</li> <li>▪ Capacity building on financial management</li> </ul>

## Principles of good practice in business development partnerships

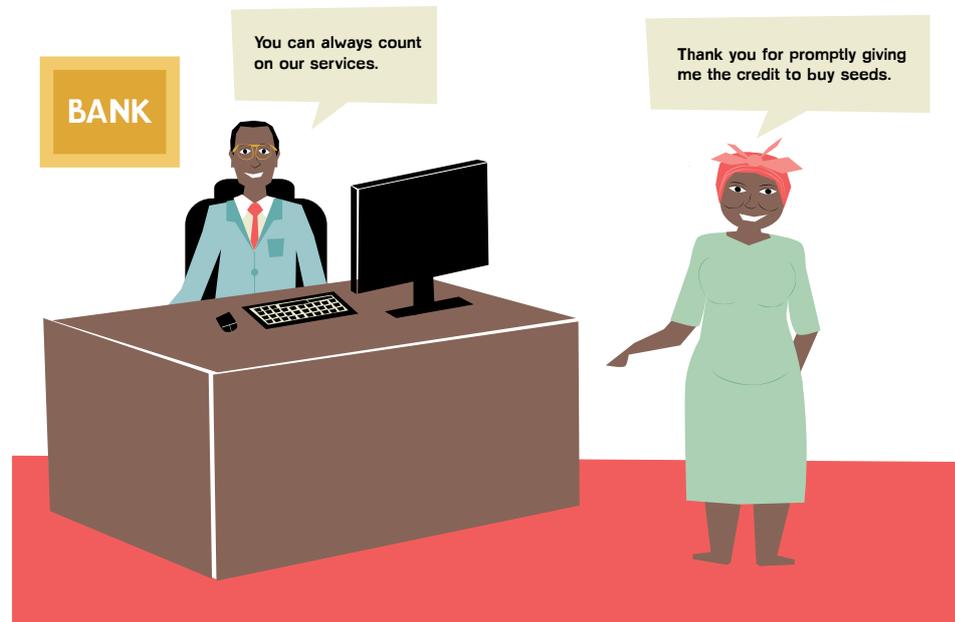


Illustration: Good relationships/partnerships are important

The business development services must be developed, negotiated and implemented in a way that benefits the farming enterprises as well as the service provider.

To achieve this objective, the services should meet the following criteria:

1. Demand Driven Services
2. Relevant
3. Participatory
4. Cost Recoverable
5. Sustainable

## 1. Demand driven services

Farmer group should determine well in advance the services they require to ensure that their agricultural enterprises thrive.

The farmer groups should not only respond to the demands of the services provider but must also assess what best suits their requirements. This consideration is important because different group require different services.

Members should participate in the process of decision making on the product and services required

### DISCUSSION POINTS

- a. Which services does the producer group require to run the group enterprise?
- b. What is the best way and or place to get the required services?

## 2. Relevant

Services must be relevant and address farmers' immediate needs for business growth.

*For example:*

Farmer group cannot ask for input to be supplied to them when the members do not have finances to purchase the seeds.

## 3. Participatory

Suppliers of the services must get to know their needs, challenges and opportunities. This will enable the BDS supplier to design their product or services based on the needs of the farmer.

In some farmer groups the decisions are made by the official without the approval of the members. In most cases such decisions if not supported by the group will lead to failure.

## 4. Cost recoverable

The cost of the services provided should be recovered from those who receive the services. The farmers and group should be willing to pay for the services rendered. This will also help to eliminate dependency on service provider.

## 5. Sustainable

The services should be structure in a way the focuses on future needs and the ability to meet such needs. Sustainability is a key component of offering BDS to smallholder farmers.

## Strategic planning for agribusiness development

Strategic planning is an organisational management activity that is used to set priorities, focus energy and resources, strengthen operations, and ensure that other stakeholders are working toward common goals.

### DISCUSSION POINTS

- a. Why is a strategy required in developing an agricultural business for the group?



Illustration: Strategic planning

All producer groups need to orient their business strategies towards the market in order to expand and consolidate their business. Market orientation is based on the principle of satisfying the needs of consumers.

It involves three main factors:

- Adding value (the plus factor which the enterprise assumes that customers expect from it).
- Meeting expectations.
- Achieving and maintaining a competitive advantage.

## Strategic planning process

Successful farmer organisations are defined by how they plan and execute their plans.

### DISCUSSION POINTS

The farmer group members should discuss these question based on the enterprises they are interested in developing.

- a. Where are we currently?
- b. What do we have to work with?
- c. Where do we want to be?
- d. How do we get there?

The steps involved in developing a strategic plan are described below:

- 1. Determine where the producer organisation is.** This involves a thorough evaluation of the status of the farmer organisation. For an accurate picture of where producer organisation is, they should have a clear understanding of:
  - The marketplace.
  - The competitors.
  - The organisation's capacity.
- 2. Identify what's important.** Focus on where that organisation is at the moment and the destination of the organisation over a given period of time. This sets the direction of the enterprise over the long term and clearly defines the mission (markets, customers, products, etc.) and vision (conceptualisation of what your organisation's future should or could be).
- 3. Define what must be achieved.** Define the expected objectives that clearly state what the organisation must achieve to address the priority issues. This may also involve identification of the resources available to ensure all the goals are achieved.

- 4. Determine who is accountable.** The strategies, action plans, and budgets are all steps in the process that effectively communicates how the organisation will allocate time, human capital, and money to address the priority issues and achieve the defined objectives.
- 5. Review the plan.** To ensure the plan performs as designed, the producer group must hold regularly scheduled formal reviews of the process and refine as necessary.

A strategic plan can help can help a farmer organisation to grow and plan for their growth. It will help keep the organisation in the right direction.

## MODULE 3:

# Enterprise analysis and selection

### LEARNING OBJECTIVES

1. Understand how to select enterprise(s) that are manageable and profitable.
2. To learn how to ensure proper utilisation of scarce resources for maximum production.



Illustration: Which crops should I grow?

## Which crops should I grow?

Agricultural enterprise analysis entails planning and evaluating the internal and external factors that affect the agricultural business.

When selecting an enterprise, it is important to base selection on the following criteria:

- The selected enterprise must be legally accepted.
- Have many commodities/products.
- The enterprise selected must be one which requires simple technology.
- The enterprise selected must be one which is most paying or profitable.
- The enterprise selected are socially accepted.
- The enterprise selected has potential for large volume production.
- Production and market calendar is well understood.
- Records available/local history on production or market trend on the selected enterprise.

Considerations in enterprise selection:

- Determine your goals.
- Inventory your resources available.
- Physical factors.
- Financial factors.
- Management factors.
- Develop a list of possible enterprises.
- Determine which enterprises are compatible with your resources.
- Growing considerations.
- Analyse compatibility among enterprises.
- Partial listing of enterprise possibilities for small farms.

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<b>DETERMINE YOUR GOALS</b>	<ul style="list-style-type: none"> <li>■ What is your primary reason for farming? To maximize income, to provide income for family members, or other reasons?</li> <li>■ What other activities are you involved in, and what are the priorities of these activities relative to the farm business?</li> <li>■ Do you want to devote full-time effort to the farm or would you prefer farming to be a part-time activity?</li> <li>■ How much are you willing to be restricted by time and capital demands of your farm business?</li> <li>■ Do you want to eventually transfer the ownership of the farm to a partner or family member?</li> <li>■ Is income from the farm and/or sale of the farm an important part of your retirement plan?</li> <li>■ What is the desired period between initial investment and cash returns?</li> <li>■ Do you want to learn new skills through self-study or formal training?</li> </ul>

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<b>INVENTORY YOUR RESOURCES</b>	<ul style="list-style-type: none"> <li>■ What resources are available? Availability of resources will ultimately limit your choice of enterprises simply because the resource requirements among enterprises vary.</li> <li>■ A list of resources typically includes land, labour and capital. Other factors to consider include climate, access to information, management skills, and markets.</li> <li>■ Consider your market potential carefully. If it is a product that has never been tried before in your area plan to take several years to get established. Be realistic about your cash flow situation and plan accordingly.</li> </ul>
<b>PHYSICAL FACTORS</b>	<p><b>Land</b></p> <ul style="list-style-type: none"> <li>■ How much land do you have available?</li> <li>■ What is the physical profile and topography of the land?</li> <li>■ What is the soil texture, drainage capability and nutrient levels?</li> <li>■ Which types of weeds are growing on the soil?</li> <li>■ Which other crops have been grown on the land?</li> </ul> <p><b>Climate</b></p> <ul style="list-style-type: none"> <li>■ What is the average rainfall in your area and when are the rainy periods?</li> <li>■ When are the first and last frost dates and how much have the actual dates varied historically?</li> <li>■ What are the high and low temperatures for your area and when do they occur?</li> <li>■ What is the average daily temperature?</li> <li>■ What is the day/night temperature variation?</li> <li>■ What is the direction and strength of winds?</li> </ul> <p><b>Irrigation water</b></p> <ul style="list-style-type: none"> <li>■ Where does your water come from and what is its cost?</li> <li>■ What is the water quality?</li> <li>■ Do you have water rights? Are you within an irrigation district?</li> <li>■ When is irrigation water available to you and in what amount?</li> <li>■ What type of irrigation system do you have?</li> <li>■ What are the differences in cost and efficiencies for alternative systems?</li> </ul> <p><b>Farm structures</b></p> <ul style="list-style-type: none"> <li>■ What type of buildings do you have on the property and what is their condition?</li> <li>■ Do you have structurally sound fences?</li> <li>■ If you feel you need additional buildings or fences, have you checked into the cost of their construction?</li> </ul> <p><b>Machinery and equipment</b></p> <ul style="list-style-type: none"> <li>■ What type of farm power machinery do you have?</li> <li>■ What farm implements do you have?</li> <li>■ What is your transportation equipment: truck, pick-up, or trailer? Consider capacity and efficiency.</li> <li>■ Have you considered leasing/renting some equipment?</li> <li>■ What are the possibilities of contracting with custom operators in your area?</li> </ul>

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<b>FINANCIAL FACTORS</b>	<ul style="list-style-type: none"> <li>■ How much capital are you willing/ able to invest?</li> <li>■ Are you able or willing to borrow capital?</li> <li>■ What is your cash flow situation?</li> <li>■ Is a high rate of return on your investment important to you?</li> <li>■ Are you willing to consider risky enterprises?</li> </ul>
<b>MANAGEMENT FACTORS</b>	<p><b>Personal skills</b></p> <ul style="list-style-type: none"> <li>■ Management skills: record keeping, personnel management, budgeting, familiarity with tax and other relevant laws – do you consider these to be adequate?</li> <li>■ What are your mechanical skills?</li> <li>■ Which are your knowledge strong points: plant physiology, animal health, pest management, greenhouse production, etc.?</li> <li>■ Would you prefer handling a diversified farm or would you prefer one or two major enterprises?</li> </ul> <p><b>Information access</b></p> <ul style="list-style-type: none"> <li>■ Are you familiar with the agricultural information delivery systems?</li> <li>■ Are you able to access the resources of these systems?</li> <li>■ Is sufficient information available for the enterprises in which you are interested?</li> <li>■ Are you willing to learn new skills if they are required?</li> </ul> <p><b>Labour factors</b></p> <ul style="list-style-type: none"> <li>■ What are your labour needs on a monthly basis?</li> <li>■ Are you planning to use mostly family or mostly hired labour?</li> <li>■ Have you checked out the regulations of your country?</li> <li>■ Have you considered the opportunity cost of using your own labour?</li> </ul> <p><b>Marketing factors</b></p> <ul style="list-style-type: none"> <li>■ Do you have a preferred marketing method? Broker, retailer, direct roadside stand, farmers market, cooperative, contract with processor?</li> <li>■ What is your proximity to various potential markets?</li> <li>■ Have you contacted potential markets for their advice on crop selection?</li> <li>■ How much time are you willing to spend marketing your products?</li> <li>■ Do you have cooling facilities for perishable products?</li> <li>■ Are you familiar with marketing regulations for the enterprises you are considering?</li> </ul>
<b>DEVELOP A LIST OF POSSIBLE ENTERPRISES</b>	<ul style="list-style-type: none"> <li>■ Which enterprises are predominant in your area?</li> <li>■ Are there enterprises which interest you that have been successful in other areas in similar soil and climate conditions (i.e., enterprises that have potential in your area but have not yet been established)?</li> <li>■ What crops or livestock have been raised on your land in the past?</li> <li>■ Which are the enterprise types with which you feel more personally compatible: livestock, field crops, orchard crops, small fruits, vegetables, ornamentals, growing transplants, raising seed</li> </ul>

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<p><b>DETERMINE WHICH ENTERPRISES ARE COMPATIBLE WITH YOUR RESOURCES</b></p>	<ul style="list-style-type: none"> <li>■ Carefully evaluate the potential for each of the enterprises on your list. This can be done by systematically comparing the resource needs for each enterprise to the resources available. Determining the resource requirements for each enterprise will probably require a good deal of homework. A good place to start is by talking to other growers in your area or elsewhere about their experience with the enterprise you are considering. Your county Cooperative Extension office is also a good place to start. Of course, there is nothing like a nearby library at a local college campus.</li> <li>■ To the extent possible, answer the following questions for each enterprise and check for compatibility to your resources as you go along. Also make note if the resources are not available but are obtainable should the enterprise be selected. An example would be specialized harvest equipment.</li> </ul>
<p><b>GROWING CONSIDERATIONS</b></p>	<p><b>General crop situation</b></p> <ul style="list-style-type: none"> <li>■ What is known about variety adaptability in your area?</li> <li>■ About the effects of spacing on yield and quality?</li> <li>■ What is your personal experience with the crop?</li> <li>■ What is the research base for the crop under consideration?</li> <li>■ Where else is the crop grown?</li> </ul> <p><b>Climatic requirements</b></p> <ul style="list-style-type: none"> <li>■ What is the crop's adaptability to the climate during the intended growth period?</li> <li>■ What is the crop's tolerance for rainfall, frost, high temperatures?</li> <li>■ How will the climatic conditions during the planned cropping period affect the physiology of the crop?</li> </ul> <p><b>Rotation considerations</b></p> <ul style="list-style-type: none"> <li>■ How does the crop fit into rotation with other crops planned?</li> <li>■ How much time from planting through total harvest period?</li> <li>■ What will be the effect of weed management practices used on the crop under consideration on following crops?</li> </ul> <p><b>Equipment requirements</b></p> <ul style="list-style-type: none"> <li>■ Is there a need for special materials or equipment (cultivation or harvesting equipment, storage facilities)?</li> <li>■ What will be their cost and availability?</li> </ul> <p><b>Irrigation</b></p> <ul style="list-style-type: none"> <li>■ How much water is needed?</li> <li>■ How often do you need to irrigate?</li> <li>■ What type of irrigation systems are recommended?</li> <li>■ Does the quality of water effect production?</li> </ul> <p><b>Pollination</b></p> <ul style="list-style-type: none"> <li>■ Pollination problems for fruiting crops need to be considered.</li> <li>■ How many hives will be needed?</li> <li>■ How will you determine hive quality?</li> <li>■ What will the rental cost be?</li> <li>■ What are the important pest problems for the crop?</li> <li>■ Are there control measures available which are registered for use?</li> <li>■ Are there varieties available which are resistant to important diseases of the crop?</li> <li>■ If so, do they have good yield and quality characteristics?</li> </ul>

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<p><b>GROWING CONSIDERATIONS (CONTINUED)</b></p>	<p><b>Pest management</b></p> <ul style="list-style-type: none"> <li>■ What are the important pest problems for the crop?</li> <li>■ Are there control measures available which are registered for use?</li> <li>■ Are there varieties available which are resistant to important diseases of the crop?</li> <li>■ If so, do they have good yield and quality characteristics?</li> </ul> <p><b>Labour requirements</b></p> <ul style="list-style-type: none"> <li>■ How many acres of the crop can you handle with the amount of labour that you have available?</li> <li>■ Would it be more economical to buy or rent labour-saving systems, i.e., Mechanical trans-planter versus hand planting, selective herbicide versus hand weeding, picking cars which carry several containers, etc.?</li> <li>■ Is seasonal labour available?</li> </ul> <p><b>Operation and investment capital</b></p> <ul style="list-style-type: none"> <li>■ How much money will need to be invested in growing the crop?</li> <li>■ Where will this capital be obtained?</li> <li>■ What will be the terms of any loans (length, interest, equity requirement, collateral)?</li> </ul> <p><b>Harvesting</b></p> <ul style="list-style-type: none"> <li>■ How many harvests are required to obtain an economic yield?</li> <li>■ How is the harvest interval affected by temperature?</li> <li>■ How long will it take with your available labour to harvest your planting each time?</li> <li>■ How is the crop packaged for market? What will be the cost of containers?</li> </ul> <p><b>Marketing</b></p> <ul style="list-style-type: none"> <li>■ Are you thoroughly familiar with the market quality standards for the crop?</li> <li>■ Have you studied the market history and market trends of the crop? (Crop selection should not be based only on recent high market prices.)</li> <li>■ Have you explored various types of market outlets?</li> </ul> <p><b>Profitability</b></p> <ul style="list-style-type: none"> <li>■ What are the total production costs?</li> <li>■ What kinds of yields can you expect?</li> <li>■ What is the expected gross and net income? What variation in net income can you expect?</li> <li>■ How does this crop compare to other crops? How does this crop compare to livestock returns?</li> </ul>
<p><b>ANALYSE COMPATIBILITY AMONG ENTERPRISES</b></p>	<ul style="list-style-type: none"> <li>■ Before making any final decisions, you must consider the relationships among enterprises. You may have enough labour to produce one enterprise as long as you don't also select another labour intensive enterprise.</li> <li>■ Obviously, the timing of the resource requirement can be as critical as the amount of the resource required. A monthly chart of resource needs for each enterprise may be helpful.</li> <li>■ Before making any final decisions, you must consider the relationships among enterprises. You may have enough labour to produce one enterprise as long as you don't also select another labour intensive enterprise.</li> </ul>

CONSIDERATION	REFLECTION QUESTIONS/POINTS
<p><b>ANALYSE COMPATIBILITY AMONG ENTERPRISES (CONTINUED)</b></p>	<ul style="list-style-type: none"> <li>■ Obviously, the timing of the resource requirement can be as critical as the amount of the resource required. A monthly chart of resource needs for each enterprise may be helpful.</li> <li>■ There are several advantages to having several enterprises within one farm business. First of all, you are reducing risk. The chances of production failure and/or poor prices are lower when spread out over several commodities. Your cash flow and profit will probably be less variable from year to year in a diversified operation.</li> <li>■ Next, diversification done correctly will mean spreading fixed costs out over more commodities. It will also mean using resources more evenly throughout the year. This may be helpful if you are relying on hired labour and can offer an employee work for a longer period of time.</li> <li>■ A range of products may increase your access to markets. Quite often a buyer is more interested in a grower that can supply a number of commodities rather than having to buy from a number of different growers.</li> <li>■ Finally, crop rotation and crop mix done properly have been shown to be effective methods of pest control and increasing soil fertility. These production practices include such things as inter-cropping, cover crops and green manure crops.</li> <li>■ After you have developed a final list go back and review your goals. Make sure that the long run and short run goals are going to be met with your plan. Do not be discouraged by how demanding this process is. Enterprise selection for a farm should not be any simpler than a major decision for any business. The effort put into research should be directly related to the amount of capital at risk and the potential rewards. Remember that playing what if on paper is always less risky and less time consuming than experimenting in the field when you are not well prepared.</li> </ul>

## Selecting an enterprise

Once a list of some possible enterprises is developed, it is good to compare them economically. Since the aim often is to get the highest possible profit from the resources available. It is good to compare the options before deciding on what enterprise to start with.

A simple analysis for looking at profitability is to calculate the gross margin for the potential enterprises. It is important to calculate gross margins in a consistent way for all enterprise in order to be able to compare them. Most often gross margins are calculated for one acre, during one year.

When calculating the gross income we only take into account the variable costs. Variable costs can be described as costs that will differ depending on the amount of output produced. For example to produce more beans (output) you need more seed, fertiliser, pesticides and you might have to hire machines for a longer time to prepare the soil. Other types of costs are fixed costs that do not change with the amount of output. It can for example

be renting a building and costs of the license for the enterprise. The input of family labour is most often treated as a fixed cost, and therefore here not included in the calculation of gross margin.

To calculate the gross margin, start with finding information on what inputs are needed (here only variable costs) and the gains from selling the product (output). Find out both quantities and the prices for the inputs and outputs. Add up all the outputs to know how much money you will gain from sales. Remember to do this per acre. Then add up all the inputs that are needed to produce the output for the land area (normally one acre). Then calculate the gross margin per acre by subtracting the costs from the gross income.

## Gross Margin

In this example we calculate the gross income for one season of growing beans. Calculation is based on acre.

*Example: Gross Margin for beans.*

PREDICTED OUTPUT	REVENUE – MONEY IN
Estimated Yield (kg/acre)	800
Expected price (RWF/kg)	1,500
<b>ENTERPRISE GROSS INCOME</b>	<b>1,200,000</b>
PREDICTED VARIABLE COSTS	EXPENSES – MONEY OUT
Labor (hired)	100,000
Tractor (hired)	75,000
Tools (hoe, machete)	15,000
Fertilisers	50,000
Pesticides	30,000
Curing/drying	70,000
Packing materials	8,000
Transport to market	80,000
<b>TOTAL VARIABLE COSTS</b>	<b>398,000</b>
<b>ENTERPRISE GROSS MARGIN PER ACRE</b> <b>(Enterprise gross income less total variable costs)</b>	<b>802,000</b>

Based on this example of *Gross margin* calculations we see that the profit of growing beans on one acre during one year is 802,000. If making the same calculation for other enterprises of interest, it is possible to compare this profit and make an informed decision on which one is best suitable for your farm and your needs.

## MODULE 4:

# Market development

### LEARNING OBJECTIVES

1. Understand the importance of effective marketing to smallholder enterprises.
2. To understand how to undertake simple but effective market research.
3. Be able to prepare a marketing plan.
4. Determine appropriate channels for distributing products to customers.



**FARM GATE**



**FARMER ORGANISATION  
COLLECTION CENTRE**



**WHOLESALE MARKET**



**RETAIL MARKET**

Illustration: Different markets

## Agricultural marketing

### Market

Market is the place where buying and selling of produce or services take place. At the market produce are handed over from one person to another. The person receiving the good then makes payment or commitment to pay for the goods.

### Marketing

Marketing is the process by which a farmer seeks to maximize the return from farm production by providing buyers what they want and supplying it at a profit. Marketing is about finding out what consumers need and then making a profit by satisfying those needs.

The activities commonly associated with marketing include cleaning, drying, sorting, grading and storage, as well as aspects like transport, processing, packaging, advertising, finding buyers and selling the product. Marketing does not begin only after the harvest, in order to sell at a profit, it is important to start thinking about markets well before planting.



Illustration: Marketing is about finding out what customers need, satisfying these needs, and making a profit.

## Market research and analysis

Market research is the process of investigating a market about a product which farmers want to sell so that the farmers can get the sales prospects of a product and how to achieve success with it. It is the set of activities necessary to obtain information on price trends, the buyers, quality wanted, quantity wanted and when product is required.

Having information about the market is an important part of the marketing process. Developing a marketing plan starts with analysing the market to see your market, your competition and consumer trends to be able to forecast potential sales volumes and prices.



Illustration: Conducting market research

*Issues to find out when conducting a market research*

<p><b>MARKET TRENDS (changes and developments in buying and selling in the market) AND REQUIREMENTS</b></p>	<ul style="list-style-type: none"> <li>■ What is the market size (measurement of the total volume of a given market) at the moment?</li> <li>■ Who are supplying that market?</li> <li>■ Is there a possibility for growth in the market?</li> <li>■ What factors are changes in buying and selling in the targeted market?</li> <li>■ What does the market require in terms of inputs, standard, from the farming business?</li> <li>■ What are the price changes in the market?</li> <li>■ What is influencing price changes in the market?</li> <li>■ Are there any special laws or regulations that apply to the value chain and any government policies or actions that will affect your entry to the market?</li> <li>■ What are the main distribution channels for the produce?</li> <li>■ Who controls the market? (Is it middlemen or distributors)?</li> </ul>
<p><b>CONSUMER REQUIREMENTS</b></p>	<ul style="list-style-type: none"> <li>■ Who are the current and potential buyers in your identified market?</li> <li>■ Where are your consumers located?</li> <li>■ How do the customers pay for the products?</li> <li>■ What do your customers need in terms of product features and quality?</li> <li>■ What are projected future demands and why?</li> <li>■ Is there sufficient demand for the product?</li> <li>■ Who makes the buying decision?</li> </ul>
<p><b>THE COMPETITORS</b></p>	<ul style="list-style-type: none"> <li>■ Who are the main competitors?</li> <li>■ Expected crop yields in the rest of the country?</li> <li>■ What are their strengths and weaknesses?</li> <li>■ What is their capacity in terms of volumes and quality?</li> <li>■ What are the prices offered by the competitors?</li> <li>■ Can you get an adequate share of the market by offering a better product or service than competitors?</li> </ul>
<p><b>THE FARMER/ PRODUCERS' SITUATION</b></p>	<ul style="list-style-type: none"> <li>■ What are your unique or different sales advantages?</li> <li>■ Can you get an adequate share of the market by offering a better product or service than competitors?</li> <li>■ Do the producers have what is required to access the targeted market?</li> <li>■ How best to grow, price, promote or distribute your product to your preferred market?</li> <li>■ What transport is available? Condition of the roads?</li> </ul>

Benefits of market research:

- Reduces risk of producing what is not wanted by consumers.
- Helps to identify the right packaging size.
- Informs on the right quality.
- Helps to inform on the quantities required.
- Informs on when the product is needed and who needs it.

What happens without market research? What are the risks?

- Consumers may not like the product or do not like the way it is packaged.
- The price which the producer wants maybe way too high than what consumers may afford.
- The price offered by buyers may be too low to cover production and marketing costs.
- The quality may be unacceptable.
- The quantity required may be lower than what is produced or quantity produced may be higher than what is what is required.
- The farming enterprise will incur losses.

What do we consider when analysing a market?

- *The product:* what do we have for sale?
- *Quality of product:* how good is the quality we have?
- *Volume of produce:* how much quantity do we have?
- *Price:* value that we attach to our product?
- *Promotion:* convincing and persuading buyers that your product is the best.

#### DISCUSSION POINTS

- a. What constraints do we face when marketing our produce?
- b. How do we negotiate with buyers at different levels of the value chain?

### Market planning

Market planning is essential for every agribusiness. Market planning is the process of analysing one or more potentially interesting marketplaces in order to determine the best way to compete in them. Marketing planning helps to develop products and services that meet the needs of the target market. Good marketing helps customers to understand why the product or service is better than or different from, the competition.

Developing a marketing plan requires research, time and commitment, but is a very valuable process that can greatly contribute to the business success of a farm enterprise.

A good marketing plan can help producers to reach their target audience, boost their customer base, and ultimately, increase their profits



Illustration: Market planning

### The marketing mix

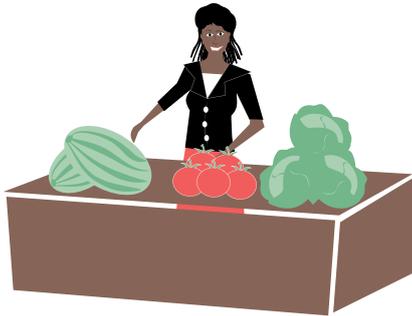
Marketing an agricultural product is about how the product is positioned to satisfy the market's needs. There are four critical elements in marketing your products and business. They are commonly referred to the market mix or the four P's of marketing. When developing a marketing plan, organise your ideas around the four Ps of Marketing.

- *Product:* What to produce?
- *Price:* At what price to sell?
- *Place:* Where to sell it?
- *Promotion:* How to promote the product?

### THE FOUR P'S OF MARKETING:

Product, Price,  
Place, Promotion

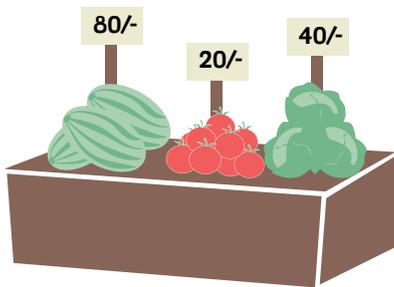
## PRODUCT



## PLACE



## PRICE



## PROMOTION



Illustration: Four P's of Marketing

### *The Marketing Mix: the 4 Ps*

MARKETING VARIABLE	DEFINITION	DECISIONS ON THE VARIABLE
<b>PRODUCT</b>	<p><b>What we sell to satisfy a customers' need or want.</b></p> <p>What product is going to be marketed?</p> <p>Is the product what the customer wants?</p> <p>What do customers want? (What will appeal to them)?</p>	<ul style="list-style-type: none"> <li>■ Selling in bulk or small quantities</li> <li>■ Variety of products offered</li> <li>■ Improving the quality of product</li> <li>■ Quality grading of products</li> <li>■ Packaging of products – types and sizes</li> <li>■ Marking or branding of products</li> <li>■ Raw, semi-processed, or processed products</li> <li>■ Consistency in availability of products</li> <li>■ Use of chemicals or organic manure</li> <li>■ Quality, sizes, characteristics</li> </ul>

MARKETING VARIABLE	DEFINITION	DECISIONS ON THE VARIABLE
<p><b>PRICE</b></p>	<p><b>The monetary value that a seller seeks from the buyer.</b></p> <p>What price will the product be offered on the market for?</p>	<ul style="list-style-type: none"> <li>■ Selling price compared to costs</li> <li>■ Profit considerations</li> <li>■ Timing (seasonal) considerations</li> <li>■ Level of supply and demand of products</li> <li>■ Market and competitor prices</li> <li>■ Consideration of payment terms and payment mode</li> <li>■ Discounts – quantity, cash, state of products</li> <li>■ Special prices to attract new customers</li> <li>■ Consideration of location of products</li> <li>■ Type of market and customer</li> <li>■ Relationship status</li> <li>■ Price list, discounts, price margins</li> </ul>
<p><b>PLACE</b></p>	<p><b>Deciding where to sell your products (popular market away from competition etc.)</b></p> <p><b>Distribution and marketing channel.</b></p> <p>Where is the product going to be marketed?</p>	<ul style="list-style-type: none"> <li>■ Sales points</li> <li>■ Location of products (home, market, customer's door)</li> <li>■ Direct or indirect sales</li> <li>■ Selling products through a middleman or wholesaler</li> <li>■ Selection of distributors/traders</li> <li>■ Selection of transport mode</li> <li>■ Storage decision</li> </ul>
<p><b>PROMOTION</b></p>	<p><b>Convincing or persuading the audience of the quality or features of the product or services offered by the group.</b></p> <p>How are people going to be informed that the product is available?</p>	<ul style="list-style-type: none"> <li>■ Advertising, personal sales, trade &amp; consumer promotions and public relations</li> <li>■ Public announcements (schools, meetings, etc.)</li> <li>■ Public notices (shops, schools, farms, etc.)</li> <li>■ Word of mouth</li> <li>■ Farm bill boards and sign posts</li> <li>■ Field days/exhibitions/shows</li> <li>■ Mobile phones</li> <li>■ Internet: email, social media</li> </ul>

## Developing a marketing strategy

A marketing strategy helps entrepreneurs to define the overall direction and goals for marketing their products. For a farm enterprise a marketing strategy shows how a farmer is going to deliver his/her products in ways that will satisfy target customers. It is important for farmers in a producer group to choose a marketing strategy that will help increase sales over time.

Farmers can consider trying to sell an **existing product** or develop **new products**. They can also consider serving an **existing market**, or trying to find **new markets** for their products.



Illustration: Marketing strategy the product/market matrix

	EXISTING PRODUCT	NEW PRODUCT
EXISTING MARKET	Existing Product, Existing Market	New product, Existing market
	<p><b>Market penetration, lowest risk.</b> Farmers can try to increase the sales of the products they already produce; in markets they already serve e.g. by selling more at lower price or improving product quality in order to sell more. It's considered low risk as the farmers are already familiar with both the product and the market.</p>	<p><b>Product development medium risk.</b> Farmers can grow and sell new products to serve an existing market. E.g. By asking an existing buyer what other products are in high demand. The farmers' risk is managed by the existing relationship with an existing buyer.</p>
NEW MARKET	Existing product, New market	New product, New market
	<p><b>Market development, medium risk.</b> Farmers can sell an existing product to a new market or different type of buyer E.g. A farmer can shift from selling in tomatoes in the informal open air market to targeting formal markets. The risk is minimised by the farmers' knowledge and experience in dealing with an existing product.</p>	<p><b>Diversification high risk.</b> Farmers can grow and sell a new product for a new market. It is the riskiest and most expensive strategy as it requires both developing a new product and stepping into an unknown market. Other risks include labour requirements, diseases, waste, etc.</p>

### Market information

Market information is information on the following items:

- Prices of produce by different buyers.
- Quantities wanted by buyers.
- Quality of produce.
- Volumes of commodities coming in and coming out.
- New crop varieties in market.
- Weather conditions in areas where produce is coming from.
- Seasonal tendencies like harvest or planting time.
- Prices of produce by different buyers.

There are different types of price information:

- Farm gate prices – usually on-farm purchases.
- Off lorry prices – offered by aggregators.
- Wholesale/processor prices for bulk purchases.
- Retail prices – prices offered to consumers.

Why is market information important?

- Helps farmers in making decisions on where and when to sell.
- Alerts farmers about the price to pay.
- Helps farmers negotiate prices. (Minimize cheating by buyers and margin available to other market chain actors).
- Helps farmers to decide what to do with their produce (sell or store).
- Give farmers an opportunity to choose what crops to grow for next season.
- Helps farmers to decide whether to grow crops out of season.
- Helps farmers to decide what form they want to sell their commodity (i.e. shelled, unshelled, processed).
- Enables farmers to know which crops have a higher demand than others.

How can smallholder farmers access market information?

- Radios.
- Newspapers.
- Extension officers.
- Village notice boards.
- Markets (asking traders and other buyers).
- Government agents for schools, hospitals.
- Neighbours, friends, people who visit the market.
- Traders (get to know what they are selling at).
- Transporters – Lorry drivers.
- Mobile telephones.
- Farmer information centres.
- Farmer representative groups e.g. Farmer Associations.
- Relatives in distant towns.

**Market intelligence:** Information relevant to a business' markets (farming enterprise); collected and analysed specifically for the purpose of accurate and informed decision making in choosing market opportunities, market penetration strategy and market development issues.

## DISCUSSION POINTS

- How do you know if a price offered by a trader for your commodity is the best price a trader can pay?
- How do you bargain with a trader?
- Among the various traders (vendors, middlemen, wholesalers and processors) in the market, which ones would you target as a collective marketing group and why?
- Why do prices go up or down?

### HIGH SUPPLY



### LOW SUPPLY



### HIGH DEMAND



### LOW DEMAND



Illustration: Marketing supply and demand

## Markets and prices

### Price

Price refers to the monetary value of a commodity that the seller receives when exchange takes place. There are different types of prices in markets: farm gate price and off-farm prices.

Why are prices important?

- Provide the incentive to produce for market or own consumption.
- Provide incentive to sell excess produce.
- Help farmers to check if they are making profits or losses in their farming enterprises.
- Inform producers to time their sales.
- Inform farmers on how to cost their produce.

### Pricing strategies

- *Pricing for profit:* Selling product above cost of production and delivery and marketing costs.
- *Pricing for value:* Selling more quantity by giving price breaks when volume of the product purchased increases. For instance \$4 each or 3 for \$10. This strategy 'pricing for value' can be used when selling to processors and it can also be used at day end when farmer does not want to take the produce back home.
- *Pricing against competition:* This is done through selling a differentiated product above market price by establishing good reputation for quality packaging, presentation and high quality products.
- *Loss leading:* Selling products at purposely low prices that are below cost of production, delivery and marketing costs (real value) to attract customers to buy other products at higher prices.

### Points to note

*Sellers' markets:* Very few buyers but plenty of sellers. There will be high supply and low demand. Prices will eventually fall as sellers outbid each other to attract buyers.

*Buyers' market:* There will be many buyers but very few sellers. Supply will be very low but demand will be very high. Prices will rise as buyers bid each other.

What determines a price?

- Interaction between demand and supply.
- Quality of the products (size, grade/quality, shape, colour, taste).
- Cost of production, the higher the input cost, the higher the asking price.
- Marketing costs.
- Cost of family labour involved in production and marketing.
- Price of product in other markets.

- Price of similar products.
- Location of produce (long distance to market increases transport and marketing costs).
- Personal preferences.
- Government regulations for instance price controls.
- Pricing strategy.

Why do prices fluctuate?

- Import or export of produce.
- Effect of rainfall patterns on yields.
- Location of market (cities versus rural areas).
- Changes in global supply and demand.
- Crop diseases.
- Food aid deliveries.
- Availability of credit.
- Economic conditions.
- Poor quality of commodities.
- When transport costs rise.
- Patterns of supply and demand.
- Seasonality.
- Value addition.

What can farmers do to benefit from price fluctuations?

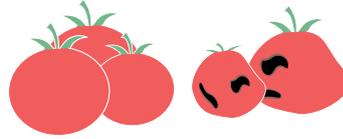
- Storage of product after bumper harvest.
- Value addition e.g. shelling groundnuts, roasting and packaging.
- Diversify crops (do not produce too much of a crop).
- Spread risk between food and cash crops.
- Avoid selling too much after harvest if you will have to buy the same crop at a higher price.
- Organise transport to produce markets that offer higher prices.
- Use different prices when calculating gross margins (do not use average prices).
- Spread production throughout the year.

### TYPE OF PRODUCT



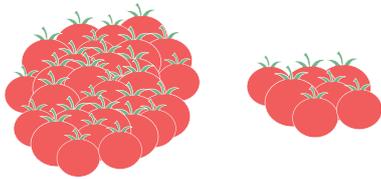
One kilogram of coffee fetches a higher price than a kilogram of maize

### PRODUCT QUALITY



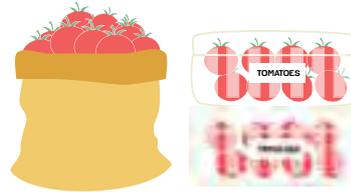
Good-quality, graded tomatoes fetch more than tomatoes that are many different sizes or are bruised

### PRODUCT QUANTITY



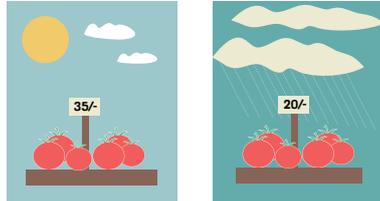
Farmers can generally get more per kilogram if they sell in bulk than if they sell small amounts. This is because buying in bulk reduces the trader's costs.

### PACKAGING



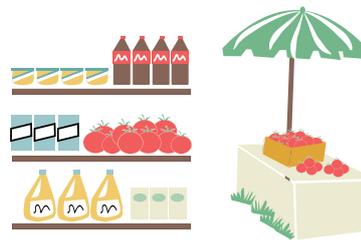
Produce that is attractively packaged and protected from damage fetches more than the same produce that is loose or is stuffed into over-full bags.

### TIMING OF SALE



Early vegetables will earn more than the same vegetables sold at the peak harvest time.

### PLACE OF SALE



Produce fetches more if it is sold in the city than in the local village market.

### PROCESSING



Processing a product adds value to it. For example, milling maize turns it into something consumers want (flour). That is why a kilogram of maize flour costs more than the same amount of grain.

### THE MARKETING ARRANGEMENTS



A contract may oblige a buyer to pay a certain price, regardless of whether the current market price is high or low.

Illustration: Factors affecting produce prices

## Accessing markets and marketing channels

When marketing a particular product, the producers must not only take into consideration how much it will cost them to produce it but also the costs of getting it to market.

Below are the different kinds of marketing channels

1. Farm gate marketing
2. Sales to local dealers
3. Export markets
4. Contract marketing
5. Co-operative (group) marketing

### 1. Farm gate marketing

Farm gate marketing is marketing done by the farmer at the place where the product is produced – from the “farm gate”. Consumers come to the farm to buy produce.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"><li>■ No transport costs</li><li>■ Can be marketed by the farming family, thus costs are reduced</li><li>■ Better suited to the smallholder farmer</li></ul>	<ul style="list-style-type: none"><li>■ Farmers must accept the local price for their produce which may be lower</li><li>■ Farm may not be well located to market the product</li><li>■ Once the local market's demand is supplied, the farmer has to look to more distant markets</li></ul>



Illustration: Farm gate marketing

## 2. Sales to local dealers

There are usually dealers in any area willing to buy produce directly from farmers. These may be merchants who sell to exporters or larger institutional buyers or to urban markets. In some cases, they may be acting as agents for a processor.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"><li>■ Produce can be delivered locally so transport is less</li><li>■ Larger volumes can be sold</li><li>■ Farmer does not have to spend time in marketing</li><li>■ Production can be of only one or a few commodities</li></ul>	<ul style="list-style-type: none"><li>■ Price will be less than direct sales to consumers as the dealer's profit margin and handling and transport costs will be reflected in lower prices offered</li></ul>



Illustration: Sales to local dealers

### 3. Export markets

Because of the complexity and risk of exporting produce, small farmers and small groups of farmers are advised to sell export produce through established exporters or traders rather than attempting to export them: A decision to supply to an export market will mean significant changes in the Farm Business.



Illustration: Export marketing

### 4. Contract marketing

The farmer markets directly to a buyer under a contract arrangement. Agreements may be formal i.e. a written contract or informal. The contract arrangement usually covers the quality requirements of the buyer as well as the quantity, timing, method of delivery and packaging.

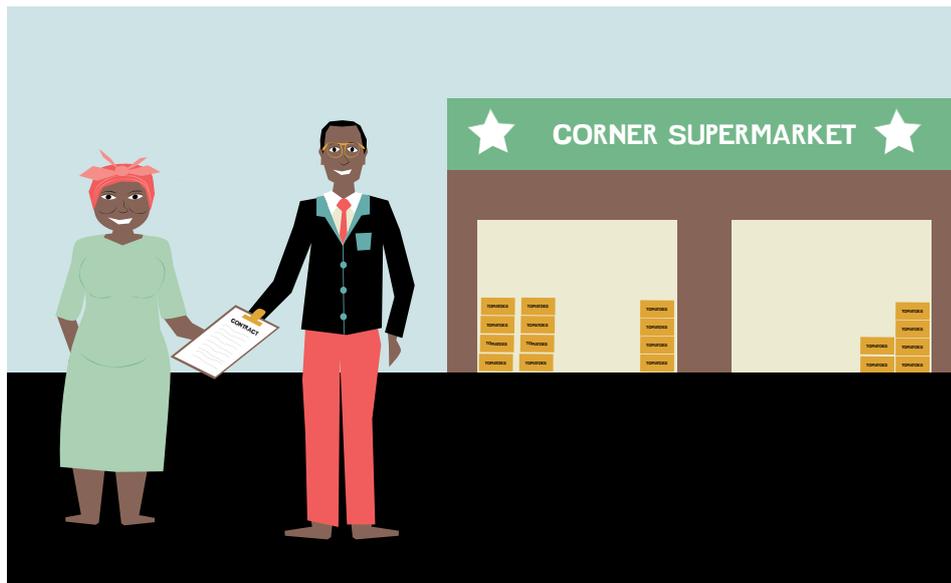


Illustration: Contract marketing

## 5. Co-operative (group) marketing

Co-operative (group) marketing by a number of farmers or a formal farmer marketing group may mean markets which an individual cannot supply can be supplied. If some post-harvest processing or packaging is required, then this can be done for a larger volume at a lower per unit cost.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"><li>■ Wider market opportunities</li><li>■ Lower costs per unit for post-harvest handling and transport</li><li>■ Lower marketing costs overall</li><li>■ Better prices and smaller price fluctuations;</li><li>■ Builds solidarity among farmers</li></ul>	<ul style="list-style-type: none"><li>■ Returns may only be as good as the management of the group/ co-operative</li><li>■ The farmer does not have as much say on final markets and prices</li><li>■ Constant supply is needed</li><li>■ Prices must be flexible</li></ul>



Illustration: Co-operative Marketing

## Collective marketing

Collective marketing involves the sharing of common resources and pooling of abilities which enables a group of smallholder farmers harness synergies thus servicing a certain market demand competitively.

### DISCUSSION POINTS

- a. What is the purpose of your collective marketing group?
- b. What are the benefits of marketing together?
- c. How do we resolve conflicts arising from group marketing in our farmers group?
- d. What other markets might the group investigate as potential buyers of your products?
- e. How can the group get better at acquiring market information?
- f. How do we manage group finances?



Illustration: Collective marketing

## Benefits of marketing as a group

### 1. Pooled skills and abilities

- *Bargaining power for inputs:* farmer groups can reduce the cost of doing business by pooling their resources and buying inputs together. This enables them access and benefit from quantity discounts and bargains for reduced prices, quality inputs – fertilisers, production tools, technology etc.
- *Bargaining power for markets:* farmer groups selling together can bargain on the basis of volumes supplied to get better prices from bulk buyers.
- *Ability to service a huge order:* Most of farmers selling individually also produce small volumes that are not often attractive to buyers. Thus through collective marketing, farmers' groups can schedule their production, bulk and service their market orders.

### 2. Common resources

- Common land: farmers can use the common opportunities such as land to get better returns.
- Receiving common training at reduced cost or at no cost e.g. on marketing and enterprise development
- Share common inputs and equipment that can be acquired for collective use e.g. joint value addition of products
- Share cost of marketing operations including:
  - Transportation from farms, bulking points or collection centres to other buyers.
  - Communication: marketing representatives communicate with buyers rather than every farmer calling buyers.
  - Share common facilities e.g. bulking facilities and stores.
  - Sharing duties and assignments among the group members.
  - Access of credit facility e.g. Village Savings & Credit Association (VSLA).

### 3. Servicing common market demand

Key issues that producers should put in consideration are:

- The volumes demanded by the market for the producer group.
- Producing common product(s): all producer group members must agree to produce or process similar products.
- Collective production and marketing system: e.g. marketing committee, bulking centre, joint production schedule, collective marketing plan and so on.

### 4. Maintained competitiveness

Maintained competitiveness of producer groups to achieve competitiveness and satisfy products buyers by:

- Ability to service and maintain consistency in supply to the market as a result of scheduled production and marketing.
- Minimization of risk i.e. lowered production as a result of unforeseen risks or poor planning shouldered.
- Ability to sell to buyers and eventually to consumers at lower cost as a result of common resources sharing.

## Challenges of marketing as a group

Despite the many benefits that collective marketing has. It is also important to note that there are challenges. Some of these challenges include;

- Decision making: decision making process is slow and it may be difficult for group to agree on some issues especially if there is distrust among members.
- Lack of trust, dishonesty and non-transparency especially on part of the marketing team may lead to conflicts.
- Requires safe collection and storage centres in accessible areas, which is not always possible or accessible.
- Returns may only be as good as the management of the group.
- The farmer does not have as much say on final markets and prices.

## Success through collaboration

### Key success factors to collective marketing

There are some factors that are critical for collective marketing to be successful. These factors include:

- *Group leadership*: the group must have dedicated and committed leadership with a clear vision to steer the group to achieve its objectives.
- *Members' participation*: members must actively participate in group activities e.g. attending meetings, production etc.
- *Trust among members*: members should trust each other and their leaders with emphasis on integrity and ethics.
- *Information*: the members must be well informed about the marketing activities of the group to enable them participate in decision making.
- *Laws to govern group activities*: the group must have clear and enforceable law to manage the members and the leadership.
- *Division of labour*: member or leader must have clearly defined roles in the management, promotion and marketing of the group products.
- *Record keeping*: there must be clear records to ensure the payment are made based on the supplied done by each member and to help the group grow through access to credit and other technical services.
- *Market information*: information on prevailing market trends are essential in decision making and planning purposes. This can also be achieved through market research.
- *Uniformity and high quality of group products* (variety, size, colour etc.).
- *Benefit sharing*: there must be transparent and equitable distribution of benefits.

## Developing linkages with market/buyer

Linkage refers to a physical connection between the producer and the ultimate consumer. Linkages also involve financial transactions - the selling and buying. Establishment of sustainable linkages requires information flow between the producer and the traders or consumers. This makes it possible for the producer to make the best decision in term of which markets to supply and the prices each market is offering.

Characteristics of all buyers:

- They all want continuity of supply.
- They demand certain product specifications i.e. quantity, grade, quality, packaging.
- They offer different payment terms.
- They also buy varying quantities depending on their position on the market chain.



Illustration: Developing linkages with market/buyer

What can the group do to target more buyers?

- Organise good grading of produce.
- Organise factory or market visits.
- Conduct market research before making the selling decision.
- Supply consistently to establish rapport with buyers.
- Bulk their produce and practice good post-harvest handling.
- Sell produce in breaks and not at once.

### **Activities to create market and business linkages**

There are a number of activities that farmers group can engage in to introduce their products to the traders and even to the final consumer. Some of these activities include;

- Organising farmer trader forums to discuss the business prospects with the farmers.
- Establishing linkages with processors or large consumers for direct sales.
- Exploring for opportunities with trader who may be interested in buying produce from the farmers.
- Ensuring that the farmer produce is visible to the trader and other consumers. This can be done by doing promotion or participating in exhibitions, field days etc.
- Providing information and negotiating support to farmers and farmer's groups.
- Obtaining names and contacts of important businesses such as suppliers of packaging, transport companies, market agents and traders and processing companies. Seek information on prices, packaging, comparative transport costs, and agencies with good reputations.

### **Negotiating with buyers**

Negotiating with buyers is a tactic that takes practice. The farmer is faced with the dilemma of asking for a higher price while trying to convince the buyer to buy his/her produce but is worried that the buyer may refuse to buy.

On the other hand, the buyer wants the lowest possible price for the purchase price. Informed negotiation by farmers/producers should be based on market information as to who are the buyers, what prices are they accepting, what quantities are needed, what are the weather conditions in the producing areas, what is the price trend and how is the availability of transport and its cost.

What buyers do during the price negotiation process:

- May not tell the farmers the correct market price of the product.
- Most of them claim that the quality is not up to standard.
- May threaten not to do business with the farmers unless if farmers agree to a lower price.

- May collude with other buyers in the area to offer a lower price to the farmers.
- Always pretend that they know many other farmers selling the product at a much cheaper price.

What weakens farmers' position in the price negotiation process?

- Inadequate market information on:
  - prices offered by other traders or quantity requirements.
  - market supply (quantities available for sale).
  - price trends.
  - weather conditions in other producing areas.
- Pressure to sell produce immediately.
- Fear of failing to sell and ending up dumping the product.
- Condition of product for instance if quality is deteriorating.

Strategies and tactics farmers can employ in negotiation include:

- *Attitude:* negotiation is about creating trust by listening in order to understand.
- *Information:* get the facts surrounding what you are negotiating about.
- *Time/deadline:* the greatest concessions occur at the last minute.
- *Competition:* describe your uniqueness and develop your options.
- *Legitimacy:* establish your background and expertise early.
- *Expert solutions:* use their expert to help you.
- *Power of limited authority:* establish your authority early and gain commitment to offering solutions.



Illustration: Farmer trader forums

## Value addition as a component of marketing

Value addition is one of the ways that many farmers use to try and increase the income from the farm.

Value-addition takes place when enhancement is added to a product or service by a producer before the product is offered to customers. For example milling maize grain into flour and packaging it for sale.

Reasons for developing value-added products:

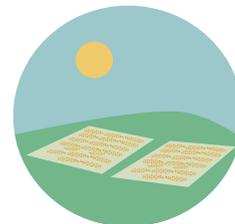
- Increase sales by creating product diversity.
- Stabilise income by allowing income creation during off-seasons.
- Increase the profitability of the agricultural enterprises.
- Provide opportunities for other groups or sectors to create income from the products.
- Provide an outlet for other creative talents.
- Make use of excess produce.

The value of farm products can be increased in endless ways. There are simple value addition practices and may include; cleaning and cooling, packaging and labelling, processing (grinding, hulling, extracting, drying, smoking or cooking), distributing, handcrafting, spinning, weaving, labelling, or packaging.

### Examples of value additions

#### 1. Drying and shelling or threshing

There are certain types of produce that have to be dry enough to be stored properly. Many traders will refuse to buy product that contains moisture, or will offer a lower price if it is more than a certain level. For example maize, sorghum, beans and other grains.



#### 2. Cleaning and sorting

Traders often pay a higher price if the produce does not contain foreign matter such as sand, straw, stones or empty grains. They will also pay more for produce that is sorted according to variety, size, colour, shape, amount of impurity, and ripeness.

The farmer picks out the straw and stones, and sieve the grain to remove sand and empty grains. Because this is labour-intensive, farmers will need to negotiate for buyers to pay a premium price.



Additionally, if farmers want to enter a new market, clean and sorted goods will give the buyer a positive signal. For example tomatoes can be sorted in terms of size, shape and colour.

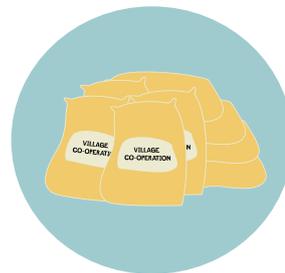
### 3. Bulking

Most traders find it time-consuming and expensive to negotiate with lots of farmers to buy a small amount of produce from each. A group of farmers through a producer group bring their sacks of products to a central point in the village, so they have enough to fill a pickup or truck. They negotiate with a bigger trader, who pays more per kilogram for the convenience of buying a single load. For many farmers this is one of the simplest and most effective ways of increasing the value of their goods.



### 4. Packaging

Most products need to be packaged if they are to be sold in a market. Packaging prevents the product from being damaged, contaminated or stolen. Standard-sized sacks or crates make it easy to keep track of how much produce there is. It is possible to label such packaging with the name of the farmers' group – though this is rarely done for low-value commodities.



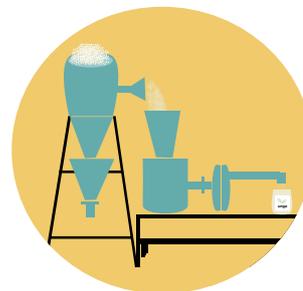
### 5. Storage

Prices are low immediately after harvest, so if possible, it is a good idea to store products until the price has recovered. Sometimes it is necessary to store for a few weeks until the price is right. The farmers monitor market prices to decide when to sell the grain to get a good price. For storage to be profitable, they must receive a price that is higher than the costs of storage, and that takes any losses into account.



### 6. Processing

It is possible to add value to many crops by processing them into other products. For example, milled rice fetches a higher price than paddy, cassava flour is worth more than roots, and meat is worth more than live animals.



## **Critical success factors**

Value added product should be considered as a new product and a thorough market research and analysis need to be conducted before engaging in value addition. No matter how you end up adding value to your farm products, the following factors are critical for success:

- Start small and grow naturally.
- Make decisions based on good records.
- Create a high-quality product.
- Follow demand-driven production.
- Get the whole group or partners involved.
- Keep informed on market requirements and trends.
- Plan for the future change and evaluate the business continuously.
- Capitalise adequately.

## MODULE 5:

# Business concepts and planning

### LEARNING OBJECTIVES

1. Expound on importance of engaging in farming as a business.
2. Reflect on the qualities of an entrepreneur.
3. Understand the business planning process.
4. Be able to develop business plans for farm enterprises.



Illustration: Farming as a business vs subsistence farming

## Farming as a business

A business is an activity that aims to earn a profit through providing a service or a product. Farming as a business is built on the principles of improving farm production to increase profits and/or ensure sustainability of farm output. Farming must therefore be done with the aim of earning profits for the farmer.

For the success of any farming business the following are required:

- Knowledge and skill required to grow crops and rear animals at a profit.
- Availability of production resources e.g. land, labour and capital.
- Marketing skill to deliver the product to the buyers.

### DISCUSSION POINTS

- a. What is the meaning of farming as a business?
- b. Why is it important for farmers to treat farming as a business?
- c. What are the requirements for a successful farming business?

## The importance of farming as a business

Treating farming as a business helps farmers to get the best out of their farms and their resources. Applying business methods, such as record keeping and cost-benefit analysis, to farming can greatly improve its efficiency.

The following are some benefits from taking a business approach to farming:

- Farm goals are defined, such as: Where is the business going? What needs to be done?
- When everyone involved with the farm (family members, extension workers, development agencies, etc.) understands the goals, they will work better together towards them.
- Valuable information is collected through record keeping, and used to make better decisions affecting the farm. For example, production records might show a reduction in output, and the farmer may decide to increase the number of banana plants or change his or her agronomic practices to improve yields; or sales records may show a loss over time, which the farmer can investigate and address, perhaps by changing planting dates in order to target times when prices are high in the market.

- Communication about the business is improved. For example, a farmer who has proper cash flow details about his or her farm can communicate better to other stakeholders such as loan officers about the viability of the farm to service a loan.
- An organised farming business is more likely to attract financial resources from multiple sources.

## Farmers as entrepreneurs

A farmer or farmer group must first and foremost look at the farming business as an investment opportunity. As an entrepreneur the farmer needs to:

- Produce for an identified market.
- Look for and identify the business opportunities in the environment and seize them.
- Be a creative leader always looking for opportunities to improve and expand the business.
- Analyse how to meet the unsatisfied market need.
- Take calculated risks and assume responsibility for both profits and losses.
- Looks for efficient and innovative ways to conduct business.
- Mobilises the necessary resources (money, materials, machinery, labour management, technology etc.) to implement the farming business.
- Find ways to make the business grow through innovations.
- Try new crops and cultivars, better animals' breeds, and alternative technologies to increase productivity, diversify production, and reduce risk – and to increase profits.
- Be more market oriented and have learned to take calculated risks to open or create new markets for their products.



Illustration: Farmer as an entrepreneur

## Business planning

### What's a business plan?

A business plan is a written summary of entrepreneur's proposed business, its operations and financial details, its marketing opportunities and strategy and background of business.



Illustration: Business planning and its importance

### Why a business plan?

- It forces an entrepreneur to think and plan the start-up of his business.
- It helps one determine major direction of own business and serves as a road map for launching of an enterprise.
- It provides one details of resources required.
- It indicates feasibility and viability of the business in terms of its profits and market.

### Understanding the business planning process

There are two factors that are essential when planning for a business. These are:

1. Record keeping
2. Business analysis

## 1. Record keeping

Accurate records are the ingredients that are used in the development of a business plan are accurate records. All the business activities of the producer group must be recorded. The important records required for business planning include:

- *Record of incomes and costs:* These are essential for evaluation of profit and losses of the group.
- *Record of prices:* The sales prices received for products can be prepared for specific crops throughout the year and so enabling the group to prepare produce for market when the best prices are likely and to negotiate better with buyers.
- *Records of yields obtained and total sales:* This should take into account the volume and the price for specific products in order to compare with previous years and make a forecast for future years.

### DISCUSSION POINTS

- a. Why is it important for a business to keep record?
- b. Which kind of records should a business keep?

## 2. Business analysis

The business analysis should be based on SWOT (Strengths, Weaknesses, Opportunities and Threats). It is the first step in recognizing the options and potential problems and in preparing a strategy to act.

SWOT analysis helps to identify actions that are essential for business growth and success.

### DISCUSSION POINTS

- a. Why do you need to analyse the group business?

*Strengths:* Strengths describe the positive attributes, tangible and intangible, internal to the group.

#### DISCUSSION POINTS

The producer group should discuss the strength of their group by answering the following questions:

- a. What is the group doing well?
- b. What internal resources are available? E.g. knowledge, capital, credit, existing customers or distribution channels.
- c. What advantages does the group have over the competition?

*Weaknesses:* Weaknesses are areas the group needs to enhance in order to compete with the competitor.

#### DISCUSSION POINTS

The producer group should discuss the weaknesses of their group by answering the following questions:

- a. What factors are within the group that makes the group not to have a competitive edge?
- b. What areas need improvement to accomplish the objectives or compete with the strongest competitor?
- c. What does the business lack (e.g. expertise or access to skills or technology)?
- d. Does the business have limited resources?
- e. Is the business in a poor location?

*Opportunities:* Opportunities are external attractive factors that can make the business to grow and make more profits.

#### DISCUSSION POINTS

The producer group should discuss the opportunities their group have by answering the following questions:

- a. What opportunities exist in the market or the environment that the business can benefit from?
- b. Is the perception of the business positive?
- c. Has there been recent market growth or have there been other changes in the market that create an opportunity?

*Threats:* Threats include external factors beyond the business control that could place the strategy or the business at risk. Contingency plan is required to address the threats.

#### DISCUSSION POINTS

The producer group should discuss the threats to their group by answering the following questions:

- a. Who are the existing or potential competitors?
- b. What factors beyond the control of the business could place the business at risk?
- c. Are there challenges created by an unfavorable trend or development that may lead to low profits?
- d. What situations might threaten marketing efforts?
- e. Has there been a significant change in supplier prices or the availability of raw materials?
- f. What about shifts in consumer behavior, the economy, or government regulations that could reduce the sales?
- g. Has a new product or technology been introduced that makes your products, equipment, or services obsolete?



Illustration: Farming SWOT

## Development of a business plan

A good business plan should generally have the following:

1. Executive summary
2. Objectives/goals of the group
3. Human resources planning
4. Market planning
5. Financial planning
6. Risks and assumptions

### 1. Executive summary

This is a summary of the main aspect of the business. The summary provides a brief overview of the product and its benefit to the consumer. It shows the investment requirements with potential returns.

The elements listed below can be highlighted in the Executive summary:

- Brief history of the business.
- A description of the product(s)/activities/services.
- Market.

- Marketing strategies.
- An assessment of the competition.
- Operations strategy.
- Financial needs and projections.
- Critical risks and analysis.

This should enable the reader to understand the business at a glance.

## 2. Objectives/goals of the group

The section describes how the farmer group would like to look like in the future. The key issues to address are:

- Vision of the group.
- Long-term goals set by the group.
- Key success factors.
- Strategy to use to achieve the groups objectives.

### DISCUSSION POINTS

The members should discuss the group's goal and objective by answering the following questions:

- a. What is the group vision?
- b. What are the group objectives?
- c. How will the objectives be achieved?
- d. What is the strategy for achieving the objectives?  
(Where are we now? Where do we want to go?  
How are we going to get there?)
- e. How much finance is needed and what are the sources of financing?

## 3. Human resources planning

Planning human resource involve determining how to identify, recruit, develop, promote and motivate key people and maintain a strong sense of collective.

## DISCUSSION POINTS

Discuss the following questions related to human resource planning:

- a. Who are the key people in the business?
- b. How experienced, skilled, educated and trained are they?
- c. How much will they be paid?
- d. What are the main strengths and weaknesses in the team?
- e. Who are the board of directors (if any)?
- f. How often should they meet and what should be their key tasks?

### 4. Market planning

The group should demonstrate the ability to identify, plan and penetrate the market. This should be based on available information. During this market planning process, the plan should generally cover the following:

- Product range or service.
- Quality requirements.
- Market trends.
- SWOT analysis of competitors.
- Strategy for entry and survival in the market.

### 5. Financial planning

Financial planning looks at the financial status, types and amount of funding required. On finances the group should consider:

- The amount of funds required.
- The uses of funds.
- Costs, revenue and profit projections which help set prices for products and services.

### 6. Risks and assumptions

Identify potential risk to the business and explore implications should they occur. Identify challenges that are critical to the success of your enterprise. Indicate how you can avoid or minimise them.

## Business plan outline

### 1. LOCATION/BUSINESS INTRODUCTION

Name of Business/ Agribusiness	
Name of Farmer/ Entrepreneur	
Business Type (Services/Trade/ Production)	
Contact information	
Physical Location	

### 1. WHY DO YOU THINK THIS IS SUITABLE BUSINESS FOR YOU?


### 3. WHO ARE YOUR CUSTOMERS?


### 4. WHAT IS YOUR MARKETING PLAN?


### 5. WHO ARE YOUR COMPETITORS?


### 6. HOW WILL YOU COMPETE WITH YOUR COMPETITORS?


**7. HOW WILL THE PUBLIC BENEFIT FROM YOUR BUSINESS?**


**8. WHAT WILL BE THE IMPACT OF YOUR BUSINESS ON ENVIRONMENT?**


**9. WHAT WILL BE THE LEGAL STATUS OF YOUR BUSINESS?**


**10. HOW YOUR BUSINESS WILL CONTRIBUTE IN OVERALL ECONOMY OF REGION/ COUNTRY?**


**11. WHAT WILL BE THE SPECIAL IN YOUR BUSINESS?**


**12. WHAT RESOURCES WILL BE REQUIRED FOR YOUR BUSINESS AND STATUS OF AVAILABILITY?**


**13. ANY OTHER MOTIVATIONAL STATEMENT OF YOUR BUSINESS?**


**A. INCOME FROM SALE OF PRODUCE**

SR NO.	DETAIL	UNIT (E.G. KG)	NUMBER OF UNITS	RATE PER UNIT \$	TOTAL \$
<b>TOTAL</b>					

**B. ASSETS DETAIL (Provide assets details for assets which will be used for more than 12 months)**

SR NO.	DETAIL	NUMBER OF UNITS	RATE PER UNIT \$	TOTAL \$	GUARANTEE LIFE (PERIOD)	DEPRECIATION	DISTRIBUTOR/ DEALER WITH ADDRESS
<b>TOTAL</b>							

**C. SALARIES (Fixed salaries, wages. Charge yourself and family members salary as well, skilled , unskilled labor, if unit is day than we can put per day rate)**

SR NO.	DETAIL	NUMBER OF UNITS	MONTHLY RATE \$	MONTHLY TOTAL \$	YEARLY TOTAL \$	REMARKS
<b>TOTAL</b>						

**D. INPUTS (Seed, fertilisers, etc.)**

SR NO.	DETAIL	NUMBER OF UNITS	RATE PER UNIT \$	TOTAL \$	DISTRIBUTOR/ DEALER WITH ADDRESS
<b>TOTAL</b>					

**E. MARKETING PLAN, GRADING, PACKING & PACKAGING ETC.**

SR NO.	DETAIL	NUMBER OF UNITS	RATE PER UNIT \$	TOTAL \$	SOURCE
<b>TOTAL</b>					

**F. OVERHEADS (All other expenses repeating every month etc.)**

SR NO.	DETAIL	NUMBER OF UNITS	RATE PER UNIT\$	YEARLY TOTAL \$	REMARKS
1	Depreciation Total from section "B"				
<b>TOTAL</b>					

**G. TOTAL REQUIRED CAPITAL TO START BUSINESS. (Totals from section B, C, D, E & F)**

B	C	D	E	F	TOTAL \$

**H. PROFIT CALCULATION**

DETAILS	TOTAL \$
<b>H1 INCOME</b> Total \$ from section "A"	
<b>H2 EXPENDITURE</b> Total \$ from section "C, D, E, F"	
<b>PROFIT (H1 - H2)</b> Subtract the expenditures (H2) from income (H1)	

**I. FINANCIAL RESOURCES**

SR NO.	DETAIL	AMOUNTS	REMARKS
<b>TOTAL</b>			

Signature Business Owner: \_\_\_\_\_

Signature Manager/staff member: \_\_\_\_\_

Date: \_\_\_\_\_

## MODULE 6:

# Financial management

### LEARNING OBJECTIVES

1. Understand the importance and objectives of financial management.
2. Understand importance of keeping financial records.
3. Be able to do financial planning.



Illustration: Financial management

## What is financial management?

Financial management is a process of making decision on how to acquire and utilise financial resources effectively with an objective of maximizing the profitability of a business.

- For success of a farmers group financial management is critical.
- It influences all important management decisions, financial and otherwise.
- It is impossible for a farmer group to succeed without good financial management.

### DISCUSSION POINTS

- a. What is financial management?
- b. Why financial management is important for farm enterprises?

## The role of financial management

The focus of financial management is to acquire adequate financial resources and proper use of the financial resources.

- Financial management for farmers' groups or associations requires well defined policies, rules and systems necessary to ensure proper and efficient use of financial resources.
- Finances in farmer groups should be managed with respect to all the various activities from receiving members' contribution, sourcing of inputs, marketing income.
- Appropriate steps should be taken when making decisions on how and where money is used. The members must as well factor issues like expected cash flows (how cash comes in and out of the business) and risks and consider ways in which finances can be applied to reduce any expected risk.

## DISCUSSION POINTS

- a. Does the group have rules that govern financial management?
- b. Why are the rules and regulation for financial management important?
- c. Are the rules that govern financial management being followed by the leaders? Are they being followed by individual members on their farm enterprises?

## Financial planning

The farmer organisation (as well as individual farmers) should work out a budget for all the operations to be undertaken and explain how the activities are to be financed.

- A budget should be done for all operations for the farmer group.
- The business plan should as well consider how the finances will be managed to by the group members.
- A basic understanding of finance enables a farmer to make strategic decisions to ensure efficient operations.
- Important financial records that farmers need to generate and understand for their business are balance sheet and profit and loss account.

All groups should have clear laws and rules to govern management of finances.

The financial plan is a key component of your business plan because the process of creating financial projections for your business revenues and expenses, cash flow, and financial.

## Budgeting

Budgeting is one of the tools for effective financial management and planning. It is also a simple tool, easily understood and widely used.



Illustration: Budgeting

### What is a budget?

A budget is a detailed physical and financial plan for the operation of an organisation for a certain period. Budgeting involves considering the resources to be used, the choice of enterprises to be pursued and a calculation of expected receipts, expenditures and net farm income. Each line of the budget should give:

- The description of the goods and services required.
- The prices of goods and services.
- The quantities which will either be bought or sold in a given period.
- The activity to which the total cost will be allocated.
- The activity to which the total cost will be allocated.

### DISCUSSION POINTS

- a. What is a budget?
- b. Why is it important for farmers' groups to draw a budget?

BUDGET		
	REVENUE	COST
Sales of crop	20,000	
<b>Production costs:</b>		
Seed		1,000
Fertiliser		4,000
Labour		3,000
<b>Marketing costs:</b>		
Packaging		1,000
Transport		1,200
Labour		600
<b>TOTAL</b>	<b>20,000</b>	<b>10,800</b>
<b>SURPLUS</b>		<b>9,200</b>

### Benefits of budgeting

Some of the several advantages of budgeting are:

- Budgeting assist entrepreneur farmer to select factors of production more wisely.
- As a planning tool, budgeting enables a farmer doing farming as a business to think more accurately, plan more carefully and completely. Through the process of budgeting, the farmer refines their ideas and is better able to make more accurate and better decisions.
- A well thought-out budget creates a good impression to other value chain actors and business development service providers and also gives the impression of a careful well thought out plan of one's production and finances e.g. banks offering credit to farmers
- A budget is a money saver because it is cheaper to make mistake on paper than in practice.
- Budgeting provides an excellent learning device for the farmer on how to organise and reorganise business enterprise on what to prioritise in resource allocation.
- Financial service providers like micro finance institutions use budgeting process as a basis for appraising the business of their clients (farmers included).
- Budgeting helps a farmers to determine when to borrow money and how much to borrow. It can also help in setting up repayment schedules.

## Cash flow statements

A cash flow statement shows the amount of money coming into and going out of your business over a period of time.

### DISCUSSION POINTS

- a. What is a cash flow statement?
- b. Why is a cash flow statement important for every business?
- c. Which items are included in a cash flow statement?

Cash flow analysis is important in farm management for two main reasons:

- It provides information on income and expenditure that can be used to assess how profitable a farm enterprise has been (or is expected to be) in a given period.
- It enables sound management of the financial side of the farmer organisation business, ensuring that the farmer has sufficient liquidity to meet his or her obligations.

A forecast of cash flow helps the managers to know how the business will operate on a daily basis based on the finances available.

The structure of a cash flow statement on a quarterly basis is presented in the following table:

CASH FLOW	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
<b>A. PRODUCTION ACTIVITIES</b>					
(+) Revenues from customers					
(+) Other revenues from production					
(-) Payments to suppliers					
(-) Payments to employees					
(-) Payments of taxes					
(-) Payments of interest					
(-) Payments of overheads					
.....other					
<b>Net cash flows from production activities (A)</b>					
<b>B. INVESTMENT ACTIVITIES</b>					
(+) Revenues of sold assets					
(-) Purchases of assets					
.....other					
<b>Net cash flows from investment activities (B)</b>					
<b>C. FINANCIAL ACTIVITIES</b>					
(+) Revenues from loans					
(-) Loan Repayments					
(+) Stakeholders capital contribution					
.....other					
<b>Net cash flows from financial activities (C)</b>					
<b>TOTAL (A+B+C)</b>					

## Funding for producer groups

Before applying for a funding some of the key areas that the group needs to address include:

1. Conducting appraisal for the producer group/ co-operative.
2. Credit management skills available with management.
3. Identifying various types of business finance available.

### DISCUSSION POINTS

- a. What factors should a farmers group consider when applying for financing from different organisations?

## 1. Co-operative or group appraisal

The purpose of the appraisal is to enable the group determine their credit-worthiness. Credit-worthiness is a valuation performed by lenders that determines the current and future possibility of whether a borrower may be able to repay borrowed money. During self-appraisal, the group tries to identify the following:

- Their skills and competency in the running of the business.
- Past experience or information especially on handling loan.
- Farm business performance in terms of sales volume for the past and current period. Past business records are good source of this type of information.
- Availability of real assets at the disposal of the group that can act as a collateral.
- Members' ability to access funding from other sources.

### DISCUSSION POINTS

Discuss the various issues within the group that must be evaluated before applying for credit. The following questions can guide the group evaluation:

- a. Does the group currently show profit or losses?
- b. Why is the group not making profits or making losses?
- c. Is the current market sufficient?
- d. Which plans do the co-operative/group have for repayment of this loan?
- e. Is the co-operative/group financial forecast well done?
- f. Amount of loan to go for to avoid excess/ deficit funding or defaulting?

## 2. Acquiring and applying credit management skills

- Loans need to be well managed to ensure that it is used for the purpose for which it was obtained and that repayments are promptly made.
- The group has to appraise itself on the technical ability of her members to pay.
- An accountant may also be required to help the group manage the funds where the technical expertise cannot be internally obtained.

## DISCUSSION POINTS

- a. What factors would the group consider when evaluating the credit management skill of the management?

### 3. Identifying various types of business finance

- There are various sources of finance and the group can consider the various finance source option.
- It is important to determine those factors that are critical to the group in sourcing the fund while also considering the cost of borrowing. This will help the group to get loan from the financial services providers with most favourable services.

## DISCUSSION POINTS

- a. What are the sources of financing that is available to the farmer groups?
- b. What are their advantages and disadvantages?

### Major sources of funding for producer group/farmer organisation

TYPES OF FUNDING	ADVANTAGES	DISADVANTAGES
<b>PERSONAL SAVING</b>	<ul style="list-style-type: none"><li>■ Keep all of the profit</li><li>■ Reduce amount of debt</li><li>■ Care taken to avoid loss by provider</li><li>■ Shows good faith at any potential farmer</li></ul>	<ul style="list-style-type: none"><li>■ Chance of loss</li><li>■ May force personal sacrifices</li><li>■ Loss of return from use of savings in farming</li></ul>
<b>DONATION</b>	<ul style="list-style-type: none"><li>■ Easy source of cash</li><li>■ Less pressure and restrictions</li><li>■ Informal arrangements</li><li>■ Share financial risks</li></ul>	<ul style="list-style-type: none"><li>■ Risk of destroying personal relationship</li><li>■ Many encourage unwanted involvement in your farm</li></ul>

TYPES OF FUNDING	ADVANTAGES	DISADVANTAGES
<b>DEBT FINANCING (INCLUDING ALL FORMS OF BORROWING)</b>	<ul style="list-style-type: none"> <li>▪ Quick and easy to obtain depending on the source</li> <li>▪ Maintain control and ownership of the farm business</li> <li>▪ Repay at agreed periods</li> <li>▪ May save money</li> </ul>	<ul style="list-style-type: none"> <li>▪ Interest costs are high</li> <li>▪ Risks that future profit will not cover payments</li> <li>▪ Easy to abuse and overuse</li> <li>▪ Must share financial and confidential information</li> <li>▪ Lender may impose limitations or restrictions on borrower</li> </ul>

## Record keeping

### Record keeping in farm enterprises

Records should be kept and used to benefit those that keep them. To be useful, records must be:

- Accurate.
- Neat, and written clearly.
- Be complete and be easy to record.
- Be easy to keep and retrieve.
- Provide necessary information for management; be easy to analyse.
- Be analysed regularly.

#### DISCUSSION POINTS

- a. What are the characteristics of a good recording system?
- b. What are the main reasons why a farmer should keep records?
- c. Which types of records should a farmer keep?

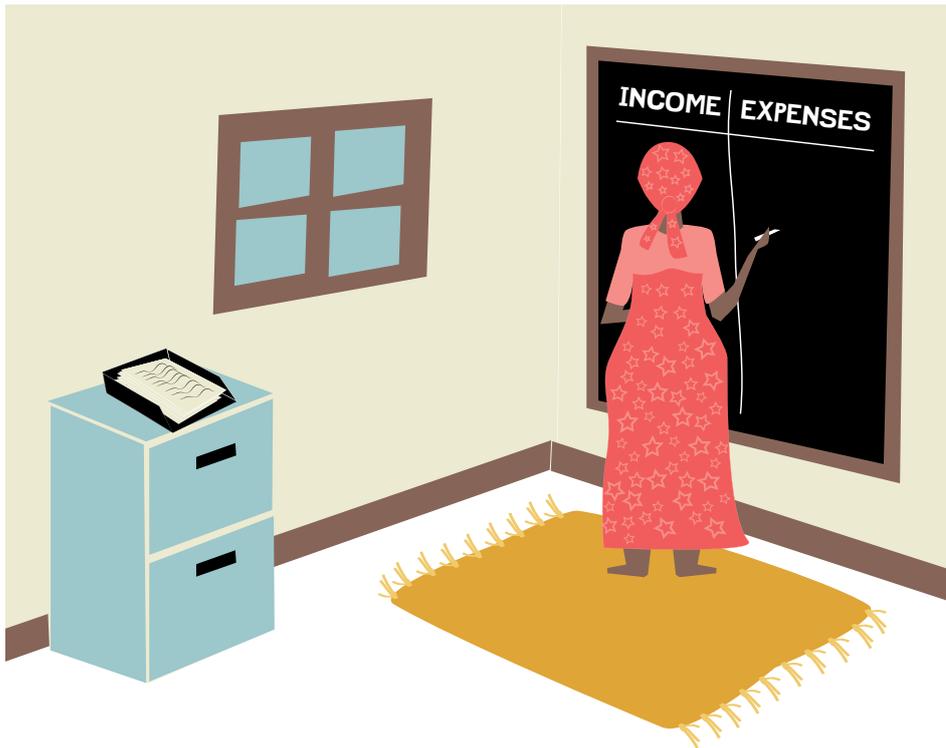


Illustration: Record keeping

### Why keep records?

- To track individual enterprise performance over time.
- To evaluate farm/enterprise profitability.
- To establish a basis for pricing.
- To facilitate access to loans.
- Records are helpful when farmers seek advice from extension agents.
- Records are a good management tool because they provide figures for planning and budgeting.

### Phases of record keeping

Record keeping to be used in farmer analysis can basically be divided into four phases:

1. Recording receipts and expenses.
2. Keeping and using inventories.
3. Recording crops and livestock information.
4. Analysing the farm business.

#### 1. Recording receipts and expenses

Record all receipts, including payments from crop or livestock sales, as well as expenses, such as cost of feed, chemicals, breeding fees, seeds, fuel, interest, etc.

Each entry should include date, customers or vendor's full name and address, description of the transaction, method of payment, check number, etc.

## 2. Keeping and using inventories

Progress in the farm business operation cannot be determined from year to year without an annual inventory. An inventory should include everything that has money value on the farm e.g. Money (receivables and payables), livestock, crops, supplies, and property.

## 3. Recording crops and livestock information

The farm business operation should have a complete, but simple, farm records well filed that includes all the relevant information pertaining to the different farm enterprises. When this information is recorded annually, the producer will be able to use it to make crucial production decisions and set goals for the future.

## 4. Analysing the farm business

The previous phases of record keeping gives the producer some indication of business performance but this last phase will help the farmers to understand:

- Where the income was produced.
- Strengths and/or weaknesses of the farm business.
- Returns for labour and management.
- Trends in net worth.
- The operation's production efficiency.

The analysis of the farm business gives the farmer a complete picture of the farm performance. Records that are properly kept, organised, and analysed can provide answers that lead to better management decisions.

## **Types of farm records**

A farm planning schedule details the planned farm activities and the tentative dates for carrying them out. The schedule should be among the first records a farmer produces.

*An example of a farm planning schedule for starting banana production.*

NO.	ACTIVITY	TIMEFRAME
1.1	Buying tools and equipment	1 <sup>st</sup> Month
1.2	Preparing land including clearing and ploughing	1 <sup>st</sup> Month
1.3	Marking the field	1 <sup>st</sup> Month
1.4	Digging planting holes	1 <sup>st</sup> Month
1.5	Procurement and application of manure	1 <sup>st</sup> Month
1.6	Buying plantlets (tissue culture/suckers/corms)	1 <sup>st</sup> Month
2.1	Gap filling	2 <sup>nd</sup> – 4 <sup>th</sup> month
2.2	Digging trenches	2 <sup>nd</sup> – 4 <sup>th</sup> month
2.3	Mulching	2 <sup>nd</sup> – 4 <sup>th</sup> month
2.4	Routine management (weeding, watering if necessary)	2 <sup>nd</sup> – 4 <sup>th</sup> month
2.5	Routine management (e.g. weeding, removing trash, pruning, removing male bud etc.)	5 <sup>th</sup> – 11 <sup>th</sup> month
3.1	Selling suckers	5 <sup>th</sup> – 11 <sup>th</sup> month
3.2	Routine management	From 12 <sup>th</sup> month onwards
3.4	Looking for markets	From 12 <sup>th</sup> month onwards
3.5	Selling suckers	From 12 <sup>th</sup> month onwards
3.6	Harvesting	From 12 <sup>th</sup> month onwards
3.7	Selling bananas bunches	From 12 <sup>th</sup> month onwards

*Inventory record*

INPUT	DATE OF PURCHASE	EXPECTED USEFUL LIFE	UNIT COST	QTY	TOTAL COST
Farm Implements; Plough					
Irrigation kit					
Sheller					

*Production Record*

ENTERPRISE /CROP	PLANTING DATE	NO. OF ACRES	HARVEST (DATE/NO. OF KGS)	HARVEST (DATE/NO. OF KGS)	TOTAL YIELD
Banana					
Maize					

*Labour record*

DATE	ACTIVITY	NO. OF PEOPLE WORKING	NO. OF HOURS OR AREA TO BE CULTIVATED	TOTAL NO. OF HOURS/ TOTAL AREA CULTIVATED
	Land clearing			
	Ploughing and harrowing			
	Field marking			
	Digging holes			
	Manure application			
	Planting			
	Weeding and pruning			

*Income record*

DATE	SALES/ OUTPUT	QUANTITY	UNIT PRICE	TOTAL INCOME

*Expenses record*

DATE	OPERATION/ INPUT	QUANTITY	UNIT COST	TOTAL EXPENDITURE

*Home consumption record*

DATE	SALES/ OUTPUT	QUANTITY	UNIT PRICE	TOTAL INCOME

Form for calculating costs, income and profit

PRODUCTION COSTS	UNIT	NO. OF UNITS	PRICE PER UNIT (\$)	COST (\$)	TOTALS
<b>MATERIALS</b>					
Seed	5 kg bags				
Fertiliser	50 kg bags				
Sacks	Bags				
Air time for a mobile	Phone minutes				
Transport to market	Bags				
Market fee	Per bag				
<b>A: TOTAL COST OF MATERIALS</b>					
<b>HIRED LABOR</b>					
Land preparation	Person days				
Harvesting	Person days				
<b>B: TOTAL HIRED LABOR COSTS</b>					
<b>C: TOTAL COSTS (EXCLUDING FAMILY LABOR): A + B</b>					
<b>FAMILY LABOR</b>					
Planting	Person days				
Fertiliser application	Person days				
1 <sup>st</sup> weeding	Person days				
2 <sup>nd</sup> weeding	Person days				
Drying person	Person days				
De-husking, sorting, cleaning	Person days				
<b>D: TOTAL FAMILY LABOR COSTS</b>					
<b>E: TOTAL COSTS (INCLUDING FAMILY LABOR): A + B + D</b>					
INCOME	UNIT	NO. OF UNITS	PRICE PER UNIT (\$)	INCOME	TOTALS
Sale of maize	50 kg bag				
Sale of maize	50 kg bag				
Sale of maize	50 kg bag				
<b>F: TOTAL INCOME</b>					
<b>PROFIT (EXCLUDING FAMILY LABOR): F - C</b>					
<b>PROFIT (INCLUDING FAMILY LABOR): F - E</b>					

# MODULE 7: Risk management

## LEARNING OBJECTIVES

1. Be able to explain the concept of risk in the farming business.
2. Understand the different risks that farmers face in the business of farming.
3. Describe and explain some strategies to manage risk at the farm level.
4. Understand the involvement of the farmer organisation in managing farm risk.



Illustration: Risk

## UNCERTAINTY

In the illustration on page 94, the farmer had clear plans of investing \$800 on 1 hectare to get 6 metric tonnes of maize and ultimately earn a profit of \$400. However, this outcome was not certain as there were other factors that went on to influence the outcome, and these were beyond the farmer's control. When affected by threats like drought and market uncertainty, numerous other outcomes can be expected. In worst case scenarios, zero outputs, revenues, and profits can be registered.

## What is risk management?

**Risk:** The possibility of incurring losses due to uncertain outcomes.

**Uncertainty:** A state where the true outcome of events is unknown and there is a possibility of more than one outcome, ranging from favourable to adverse.

**Risk vulnerability:** Degree of exposure to risk.

**Risk mitigation:** Putting in place clear plans of how to deal with risk and make risky events or threats less damaging.

Profits are expected in every business venture, but they are not always certain. This is because businesses operate in a rapidly changing and unpredictable environment that impacts upon the outcomes of business activities. However, this does not stop businesses from operating.

Entrepreneurs have to expect, accept, and manage risks as they relate to business. Due to the dependence of agriculture on physical and market conditions that are uncertain, smallholder farmers need to be risk conscious in order to avoid devastating losses.

### The concept of risk

When factors threatening the expected favourable output are high or powerful, this increases the uncertainty of outcomes and the probability of loss is high—thus, there is high risk in that activity. For example, if there are signs of limited rainfall in a particular year, a good maize yield is not certain and the risk of producing maize will be high. The major question that remains is what are the factors that threaten favourable outcomes in farming businesses?

## Risks associated with farming businesses

### Assessment and management of agribusiness risks

The expected chain of activities in farming is that farmers put together good-quality inputs and resources and conduct good production practices. On the other hand, the expected results are that farmers get good yields, sell at a profit, improve their livelihoods, and plough back a fraction of their income into the business. However, factors related to the physical, political, social, and economic environment can threaten and disrupt this chain, hence producing unfavourable results.

In farming, the three distinct stages where results can be disrupted are:

1. *Production stage* – which affects output level.
2. *Market level* – which affects revenue and profit.
3. *Financial/income distribution level* – which affects farmer's livelihood.

#### DISCUSSION POINTS

- a. What are the main business risks at production and how can the farmers manage them?
- b. What are the main business risks during marketing and how can the group manage them?
- c. What are the main financial risks in managing a group business and how can the group manage them?

There are four main types of risk in agribusiness. These include:

1. Production
2. Marketing
3. Financial
4. Human resource

#### 1. Production risks

Production risk causes changes in the level of production. The variation in expected outcome affects your ability to achieve expected financial goals. For example a prolonged dry spell could affect farm produce yield in a given season.



Illustration: Production risk

**All businesses have risks. The entrepreneur must know the risk, anticipate them and act on them accordingly.**

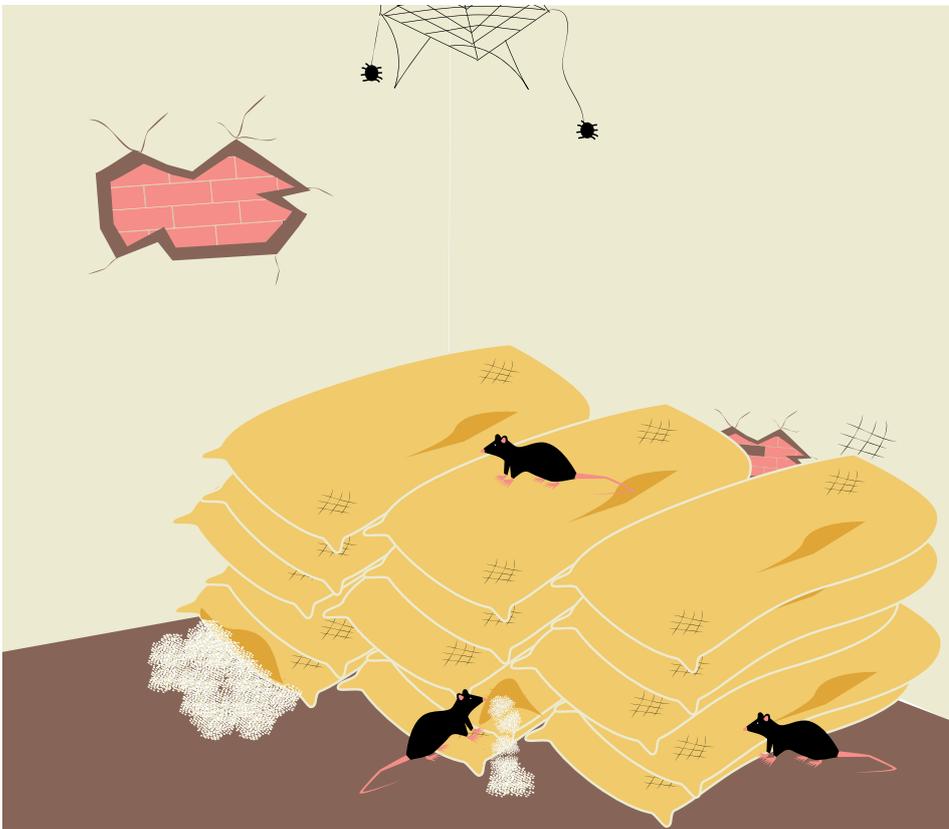


Illustration: Damaged storehouse

Sources of crop production risk:

- Weather e.g. crop failure resulting from delayed rains.
- Insect damage and weed competition.
- Diseases e.g. potatoes infested with potato blight.
- Interaction with new technology for example if a new type of equipment is used.

Sources of livestock production risk:

- Weather and the environment e.g. prolonged dry spell or flooding that affects pastures.
- Disease effects in producing calves or finishing.
- Predators e.g. stray wild animals.
- Interaction with new technology could result in variability of output e.g. use of new type of feeding technology on dairy cows could have an effect on milk production.

Production risk management:

- Practice enterprise diversification by:
  - Growing different crops.
  - Trying combinations of crops and livestock.
  - Identifying different end points in the same production process.
  - Growing different types of the same crop.
- Consider using crop insurance.
- Contract production: Be prepared to commit to deliver a specific quality and quantity of product and meet the contract specifications.
- Manage the contracted risk with crop insurance and sound management practices.

## 2. Marketing risks

Marketing risk involves:

- Price and market uncertainty e.g. unexpected price changes for farm produce.
- Input costs variations.
- Outside forces or changes in the external environment such as change in policy or laws.

Marketing risk management:

- Reduce risk and avoid higher-risk ventures by:
  - Knowing current market information.
  - Using key business partners.
  - Spreading out sales.
  - Using contract production.
  - Creating and following your business plan.

- Shift risk to others by:
  - Using contracts (cash, forward, deferred).
  - Participating in futures and option markets through commodity exchange platforms.
  - Joining cooperatives/ groups.
  - Sharing leases.
  - Timing or modifying the type of sale.
  - Purchasing crop insurance.
  -
- Maintain flexibility by:
  - Timing sales and/or purchase of outputs/inputs.
  - Placement where and from whom your sales/purchases are made.
  - Different forms of sales and input purchase.



Illustration: Marketing risk

### 3. Financial risk

Financial risk develops from regular farming business activity e.g.

- Cost and availability of debt capital.
- Ability to meet cash flow needs.
- Capability of generating additional equity.

Other financial risk can be attributed to:

- Poor planning.
- Failure to maintain control of the operation.
- Lack of financial understanding.

Management of financial risks:

- Manage your financial risk by:
  - Determining your acceptable risk levels or risk appetite.
  - Putting controls and tracking mechanisms in place to maintain your acceptable risk level.
  
- Other ways to manage your financial risk are:
  - Budgeting cash inflows and outflows.
  - Maintaining accurate and up-to-date financial records.
  - Conducting a basic financial analysis.
  - Developing annual financial statements.



Illustration: Financial risk

#### 4. Human resource risk

Human resource risks may arise when farming business activities require working with other people.

Labour risks include:

- Work that is not done, is done poorly, or not on time.
- High indirect labour costs incurred.
- Potential conflict with employees.
- Laws and regulations.

Managing human resource risks:

- Reduce human resource risk by effectively training employees. Training should be ongoing to encourage motivation and skills development to maintain peak efficiency.



Illustration: Human resource risk

Examples of risks faced in farming business are shown in the table below.

RISK TYPE	POSSIBLE CAUSES	POSSIBLE EFFECTS
PRODUCTION/ OUTPUT	<ul style="list-style-type: none"> <li>■ Climate change/droughts/floods</li> <li>■ Input shortages/inaccessibility</li> <li>■ High input costs</li> <li>■ Poor quality inputs</li> <li>■ Poor management skills</li> <li>■ Poor timing of operations</li> <li>■ Pests and diseases</li> <li>■ Ill health and labour shortages</li> </ul>	<ul style="list-style-type: none"> <li>■ Destruction of crops or livestock</li> <li>■ Stunted growth</li> <li>■ Poor yields and low profits.</li> <li>■ Poor quality products</li> <li>■ High field and post-harvest losses</li> </ul>
MARKET/ INCOME	<ul style="list-style-type: none"> <li>■ No market for products/low prices</li> <li>■ Poor marketing strategies</li> <li>■ Availability of substitute products</li> <li>■ Buyers have other suppliers</li> <li>■ Lack of storage facilities</li> <li>■ Poor infrastructure and logistics</li> <li>■ High marketing costs</li> <li>■ Poor quality products</li> <li>■ Perishability of products</li> </ul>	<ul style="list-style-type: none"> <li>■ Destruction or spoilage of harvested products (especially perishables)</li> <li>■ Low profits or losses</li> <li>■ Desperate sales at low prices</li> <li>■ Lack of funds for future farming activities</li> <li>■ Inadequate income for family livelihood</li> </ul>
INCOME DISTRIBUTION	<ul style="list-style-type: none"> <li>■ Poor finance management skills</li> <li>■ Skewed control of income</li> <li>■ Failure to involve family in finance planning and distribution</li> <li>■ Failure to repay debts/loans</li> <li>■ Failure to finance operations</li> <li>■ Failure to honour household, farmer organisation responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>■ Omission of some commitments (for example, loan repayments)</li> <li>■ Loss of property resulting from defaults on loan repayments</li> <li>■ Lack of funds for next farming activities</li> <li>■ No change in quality of life</li> <li>■ Conflict and family disunity</li> </ul>

## Risk management measure at farm level

Managing risk is very important for the success of farm business operations. While some risks can be managed through changes in farming and marketing practices, others cannot be avoided as they are natural (for example, droughts and floods). Therefore, smallholder farmers need to focus on managing manageable risks, and take measures to reduce the negative impact of those that are uncontrollable. Table below summarises risk management strategies that can be adopted at the farm level to ensure the success of farming businesses.

### *Farm-level risk management strategies*

RISK TYPE	MITIGATION/MANAGEMENT STRATEGIES
PRODUCTION/OUTPUT	<ul style="list-style-type: none"> <li>■ Training to improve production practices</li> <li>■ Planning production as a family and in advance</li> <li>■ Adopting appropriate business practices in farming</li> <li>■ Diversification of enterprises (crops and livestock)</li> <li>■ Adoption of appropriate technologies</li> <li>■ Proper timing of production</li> <li>■ Staying up to date with disaster warnings</li> <li>■ Collaboration with other farmers in acquiring funds and inputs</li> <li>■ Engaging in contract farming</li> </ul>
MARKET/INCOME	<ul style="list-style-type: none"> <li>■ Starting the marketing process early, before harvesting</li> <li>■ Planning marketing as a family</li> <li>■ Collaboration with other farmers in marketing</li> <li>■ Value addition where possible</li> <li>■ Bulk selling of produce</li> <li>■ Contract farming/committed buyers before production</li> <li>■ Training in marketing skills</li> <li>■ Proper timing of marketing of products</li> </ul>
INCOME DISTRIBUTION	<ul style="list-style-type: none"> <li>■ Planning for raising finances and expenditure as a family and valuing contributions of spouse and children</li> <li>■ Financial management training or advice</li> <li>■ Commitment to repayment of debts</li> <li>■ Commitment to reinvesting in the farming business</li> <li>■ Commitment to transacting business through the farmer organisation</li> </ul>

### CASE STUDY

After a very good harvest of tomatoes, Mr. Sibanda, a farmer in Bulawayo, was hoping to get buyers who would buy tomatoes in bulk so that he could buy inputs for the next crops and pay his children's school fees.

He started harvesting tomatoes and putting them in crates without firm orders. When he went to Bulawayo's Vegetable Market to sell his tomatoes, he discovered that the market was flooded with tomatoes and nobody wanted to buy his at the price he was asking.

Mr. Sibanda held on to his tomatoes for two weeks, but still could not get bulk buyers, as desired. As his tomatoes were going bad, he was forced to reduce his selling price to 40 per cent of what he expected initially. He also had to throw away a considerable portion of his tomatoes because they had gone bad.

It was only at that point that his fellow farmer group members realized there was a marketing crisis, and Mr. Sibanda was not going to make the money he expected to make from selling tomatoes. Mr. Sibanda then approached his farmer group to discuss how they could sell the remaining tomatoes and minimize their losses. A fellow member came up with a brilliant idea of packing the tomatoes in small units and supplying local shops and butcheries.

From that day, the farmer group started wholesaling clean, packed tomatoes to retail shops, vendors, and individuals in their locality and other nearby market centres. By the end of subsequent season, they were inundated with orders as traders were attracted by the innovative packaging that made it easier for them to sell tomatoes to customers frequenting local shops.

### CASE STUDY QUESTIONS AND LESSONS

- a. What type of risk did Mr. Sibanda face in his tomato business?
- b. What do you think caused this risk?
- c. What strategies did they employ to manage the risk?
- d. What advice would you give to the Sibanda 's farmer group for them to be able to deal with similar risks in future?

## Summary of key issues

1. Risks are a normal feature in business. Therefore, farmers must anticipate risks at production, marketing, and income distribution levels, and put appropriate risk management strategies in place.
2. Information gathering, enterprise diversification, planning, and collective action, among others, are key strategies for managing all forms of risk in the farming business.

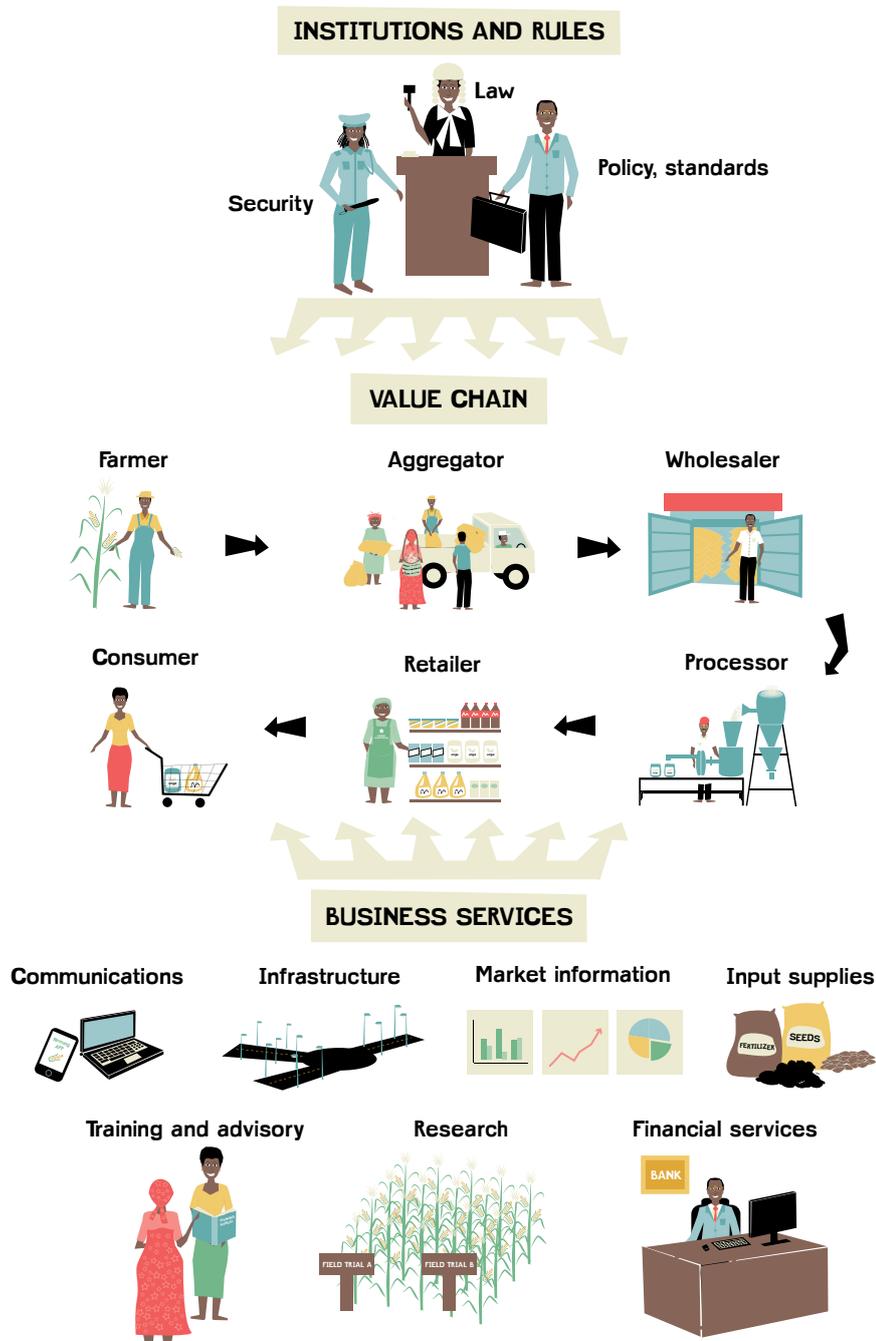


Illustration: The value chain

# Acronyms & key words

<b>BDS</b>	Business Development Services
<b>FED</b>	Farm Enterprise Development
<b>NGOs</b>	Non-governmental Organisations
<b>POs</b>	Producer Organisations
<b>SALM</b>	Sustainable Agriculture Land Management
<b>SWOT</b>	Strength, Weaknesses, Opportunities and Threats
<b>VA</b>	Value Addition
<b>VCD</b>	Value Chain Development

## Definition of key words

**AGRO-ENTERPRISE DEVELOPMENT:** This is the process of establishing and growing agricultural businesses. It covers all activities related to input supply, production, processing, transporting and marketing of agricultural produce.

**BUSINESS ANALYSIS:** a structured process of identifying business needs and determining solutions to business problems.

**BUSINESS DEVELOPMENT SERVICES (BDS):** This refers to a wide range of services used by entrepreneurs to help them operate and grow their business i.e. Transportation, financial, training etc.

**COLLECTIVE ACTION:** activities done together by a group of people whose goal is to enhance their status and achieve a common objective. When individuals engage in collective action, the strength of the group's resources, knowledge and efforts is combined to reach a goal shared by all parties.

**MARKETING CHANNELS:** These are sets of interdependent organisations/actors involved in the process of making the product available to users or consumers. Producers do not always sell their products directly to consumers; between the producers and consumers stands a set of intermediaries performing various functions. The intermediaries constitute a marketing or distribution channel.

**MARKET DEVELOPMENT:** A well thought strategy that identifies and develop a products market segment.

**RISK:** The possibility of incurring losses due to uncertain outcomes.

**RISK VULNERABILITY:** Degree of exposure to risk. Risk Mitigation Putting in place clear plans of how to deal with risk and make risky events or threats less damaging.

**STUDY CIRCLE:** A group formed by 7 – 12 individuals who devote their time and attention to acquire knowledge or skill in a given subject.

**UNCERTAINTY:** A state where the true outcome of events is unknown and there is a possibility of more than one outcome, ranging from favourable to adverse.

**VALUE CHAIN:** describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.

**VALUE CHAIN ACTORS:** These are people, institutions or entities involved in producing, processing, trading or consuming a particular product.

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