# Marketing for small-scale producers

## study circle material

by
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Regional Office for Southern Africa
and AGROMISA© , The Netherlands

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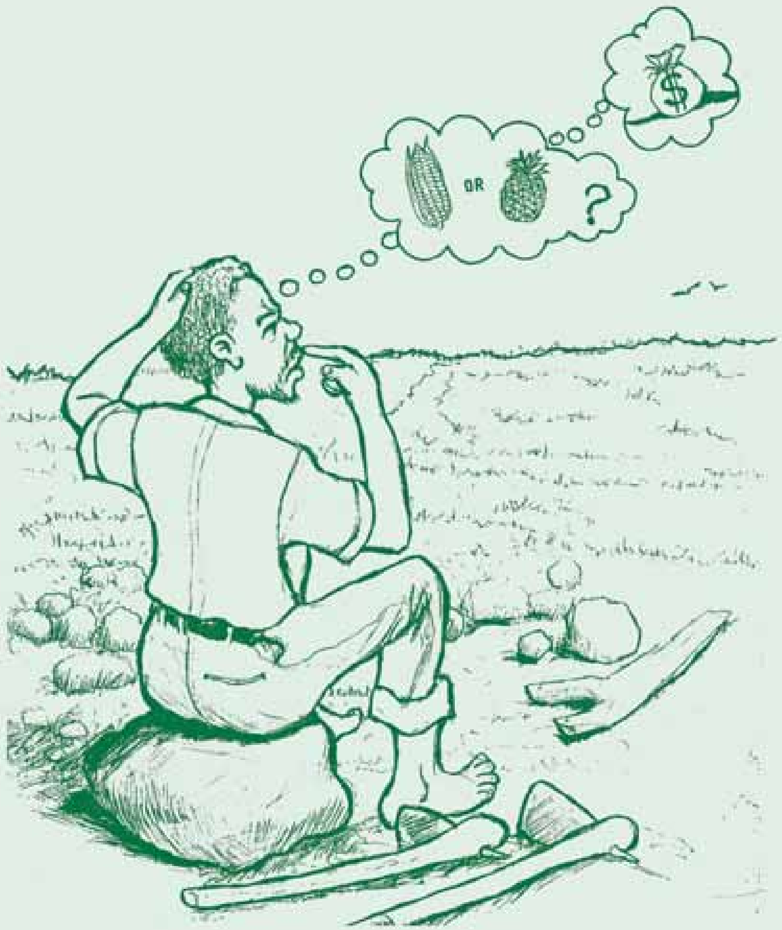

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2006

## SWEDISH COOPERATIVE CENTRE

The Swedish Cooperative Centre (SCC) was founded in 1958 by the Swedish Cooperative Movement. SCC is an international non-governmental and nonprofit organisation that offers support to self-help development initiatives to cooperatives, farmer's organisations and informal groups. Its head office is in Stockholm, Sweden.

SCC works in partnership with local organisations in various countries in southern and eastern Africa, Latin America and eastern Europe in the areas of sustainable rural development, habitat and rural finance.
Through its Southern Africa offices, SCC has established the Regional Study Circle Centre to help with providing capacity to its partners and other stakeholders in all areas of rural development.

## AGROMISA FOUNDATION

Agromisa was established in 1934, and is linked to Wageningen University and Research Centre. Our aim is to exchange knowledge information on smallscale sustainable agriculture and related topics. Our target group is the underprivileged population in rural areas. Agromisa's role in this is a supportive one; we are not a donor organisation, nor do we finance projects directly. It is Agromisa's belief that the gap between formal (scientific) knowledge and informal (farmers') knowledge should be bridged. To achieve this, Agromisa wants to collaborate with intermediary organisations.



This book is an adaptation of *Marketing for small-scale producers*, Agrodok-series No. 26, a co-publication between Agromia and CTA, ISBN: 90-77073-89-2 (the Netherlands).

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# Foreword

This publication is the result of joined efforts by Agromisa, the Swedish Cooperative Centre and the reviewers and farmers involved in testing and improving the handbook for the use in study circles around Southern and East Africa.

This edition originates from an Agromisa publication on Marketing for small-scale producers. It has been developed in accordance to the study circle methodology, meaning that it includes objectives for each chapter and questions and assignments to stimulate sharing of experience and learning by doing.

Agromisa is grateful to CTA and Cordaid, who made it possible to publish the original Agrodok. For this edition we wish to thank the farmers in Choma, Zambia who provided us with valuable information on what kind of information farmers want and need.

We encourage readers to send us reactions on this booklet as this will enable us improve future editions.

Marie Widengård, SCC, Lusaka 2006

## Session 1: ORGANISE YOUR STUDIES

After this first session all participants in the study circle should be familiar with each other and this booklet. What do you want to learn about marketing; how are you going to learn it; and it what order? From these discussions you will come up with a study plan to guide your studies. You will also have agreed upon the rules and responsibilities for this study circle.

### How to organise a study circle

This study material should preferably be used in a study circle group. The group should be voluntarily formed on the basis of mutual interest in marketing. However, individuals on their own can also use the study material. The study groups should have between 5 to 15 participants to assure active participation and sharing of knowledge and experience. To facilitate the learning, it is recommended that you choose a study circle leader among yourselves. The study circle leader is not supposed to be a teacher nor does he or she have to be an expert on the subject. Instead, the study circle leader should motivate and encourage all the participants to take part in the discussions.

?

**To help the study circle leader, will find boxes like this throughout the text. These boxes contain questions but no answers. The idea behind these questions is not to test knowledge but to bring out discussions around important issues.**

## A guide for the first session

Here are some steps that might help you in your first study circle meeting:

- You can start by introducing everyone to each other.
- Go through what a study circle is and how it is run. Discuss especially:

  - What it means that all participants are equal and have mutual respect for each other.
  - Why it is important to sit in a circle, facing each other.
  - What is the role of the study circle leader? Point out that a leader is not a teacher but rather a participant of the group with special responsibilities of creating a good and friendly atmosphere, acceptance of all participants, motivation, active participation, cooperation and equal sharing of work and attention.
  - Who could be a good study circle leader in your group? Choose a study circle leader among yourself. Decide on the responsibilities for this person. Investigate the possibilities of attending a study circle leader training in your area, or suggest other ways to support the study circle leader in his or her work.
  - Agree on other rules and responsibilities. Should you read through chapters before each session? What will happen when people are late or absent? How can you involve everyone in the planning and learning process? How will you encourage everyone to talk and share experiences? How will you make sure all participants take part in the talking and listening?

- Let everyone share their expectations for the study circle season on marketing for small-scale producers.
- Go through the handbook together to familiarize everyone with the book.
- Compare the content of the handbook with the expectations of the participants. Make a study plan in order to meet the wishes and needs of the participants.

  A study plan can be a session-by-session outline on the issues you intend to study during this study circle. An example:

  Session 1: How do we decide what products to produce?
  Session 2: Where do we find marketing information?
  Session 3: …

The outline of this book can be used as a guide for what to study during each session, but you are free to choose your own study plan and decide which chapters to study.

- Decide the number, dates and length of sessions. Normally a session will take around two hours but this depends entirely on the group.
- Identify resource persons. Some parts of the handbook may be complicated and need the service of an expert.

**He and she**

Of course, men and women are equally important as producers, marketers, sellers and traders. To keep the text readable, however, we have used either 'he' or 'she' in the text. However the he or she is always inclusive, referring to both men and women.

**Our study guide**

We want to learn: ..........

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We will learn this by: ..........

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Our study plan: ..........

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Our rules: ..........

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Our responsibilities: ..........

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# Session 2: MARKETING – MORE THAN SELLING

After this session you should know what marketing is and why it is important.

## What is marketing?

Every household that produces more than just food for its own consumption will have to become involved in trade. This means that their products will have to be sold. All activities that have to do with selling products are part of marketing but marketing is much wider than selling.

- Selling is about placing a certain product on sale at a market and to persuade the customer to buy.
- Marketing is about finding out which products to produce in order to maximise profit. This includes a decision on what to produce and how to add value to a product, when to produce, where to sell, when to sell, to whom and at what price.

**The 4 Ps of marketing**

Marketing is a mind set. Set your mind on producing a **product** that customers want. Make sure that buyers are willing to pay a **price** that both covers your costs and generates a profit. Add value to your products by processing, sorting or packaging. **Promote** your products and provide good services to your customers.

Marketing is also about finding the best **place** to sell your products, and knowing the right way to get them to the market place. You should know your competitors, but know how to benefit from collaboration with your fellow producers.

1. **So, who are you, a seller or a marketer? Use the points below to decide your answer.**

| Mind of a Seller | Mind of a Marketer |
|---|---|
| Let us produce cabbages | Let us find out exactly what vegetables people really need |
| Let us grow one lima so that we can sell many cabbages | Let us find out how many each family needs per month |
| We shall charge US$0.25 per head of cabbage | Let us find out how much people will pay per head |
| Now let us go out there and sell | Let us work out if we can make a profit at that price |
| | Let us produce what we can sell at a profit |
| | Now let us go out there and sell |

*Source: FAO and MACO*

2. **Marketing a product is also different from producing it. Someone who is a good producer may not necessarily be a good marketer or even seller. Discuss the differences between producing, selling and marketing. Can you agree on these differences or are there different views within the study circle?**

3. **Agree on a definition of marketing from your own point of view. Write down this definition and check it at the end of your studies. Did your understanding of marketing change?**

**For us, marketing means:** ..............................................................................

..............................................................................................................

..............................................................................................................

..............................................................................................................

## Why is knowledge about marketing important?

If you understand marketing, you will be able to make better choices on what to produce, when to produce, where to sell, when to sell, to whom and at what price in order to generate good profits. In short, if you aim to become a wise business person you should know your marketing!

## How can you improve your marketing skills?

This manual explains how the market works and how small-scale producers can best take advantage of the market to earn more money. However, it is through discussions and practical works that you make this information relevant to your specific areas.

As you go on studying in your circle, think about new products and services that could help bring in money to your household. Present your ideas to the others and get your friends' views on whether these ventures would be successful or not.

# Session 3: MARKET AND MARKET CHANNELS

After this session you will be familiar with the markets and market channels available for your products.

Every person who wants to earn money will have to become involved in trade sooner or later. Trade is done at a market. This is also where prices are determined. The price level depends on the supply of products and the demand of customers. We will talk about supply and demand in the next session. In this session we will deal with markets and market channels. This will give you a better knowledge of markets and the market channels, and a better position for future negotiations.

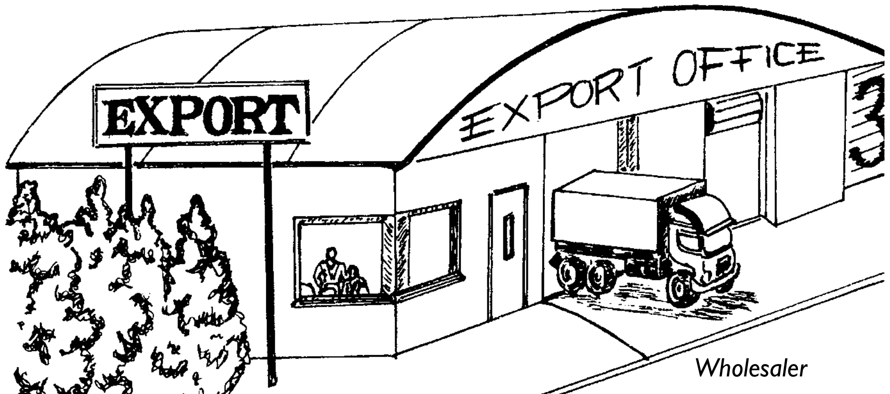
## What is a market?

The market is the specific location where suppliers and potential buyers meet. However, the term 'market' includes more than just the local marketplace. The market can also represent the total supply and demand for a particular product. Supermarkets, cooperatives or 'middlemen' (traders who buy from producers and sell to retailers or consumers) can also be part of the total market for a particular product.

**The illustrations below show three types of markets. Which type of marketplace are you most familiar with?**

*Supermarket*

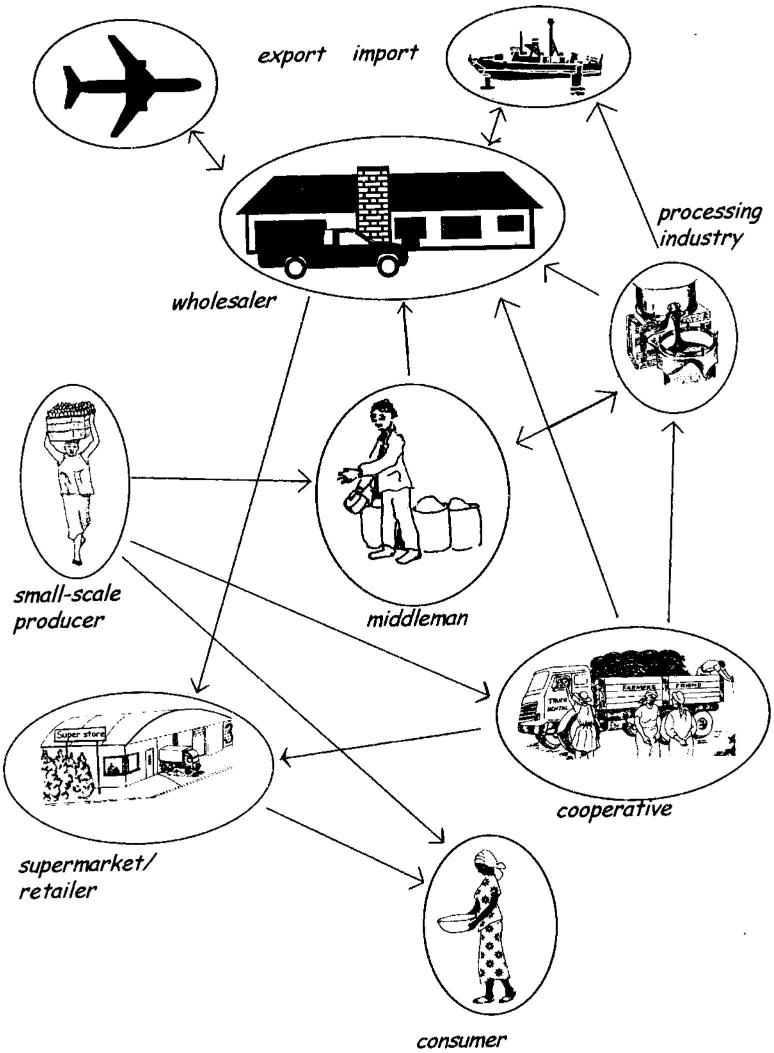
*Street market*




*Wholesaler*

## What is a market channel?

The market channel is the chain of marketing activities that a product follows on its way from producer to consumer. The illustration on the next page shows a market channel for an agricultural product. As you can see, many things happen to a product in the market channel. It may be processed, packaged, transported and sold various times in the channel.




*A market channel describes how a product moves from the producer to the end customer*

***A market channel for oranges***

*Let us follow the market channel for orange juice. Before it becomes a juice, the oranges are fruits on your trees. You may pick and pack the fruits in cartons to sell to a middleman. At this point, the oranges enter the market channel. From your farm, the middleman may sell the fruits to a processing company where it is turned into a juice and poured into bottles. The processing company may then sell the bottles to a wholesaler that exports the juice to supermarkets in Sweden. To complete the market channel, a thirsty customer may finally buy the juice and enjoy the fruits of Africa.*

?

1. **Where do you find yourself in the market channel?**
2. **Draw the market channel for one of your product.
You can draw in the sand or on a big paper.**

   **Discuss these questions as you draw:**

   - **Who do you sell to? Why?**
   - **Who is the end consumer?**
   - **How many times is it sold until it reaches the end consumer?**
   - **Is it being sold in the urban markets?**
   - **Is it exported?**
   - **Do prices change along the channel?**
3. **Try to set out the current prices for the product at each marketplace. If you are not sure about the marketplace or prices, suggest ways to learn more about your market.**

**SUMMARY**

The market is where producers try to sell their products for the best possible price. The market can be the actual marketplace, but can also represent the total supply and demand for a particular product. Supply and demand is the topic of the next session.

# Session 4: WHY PRICES CHANGE

After this session you will understand how prices are influenced by supply and demand. This will help you to take advantage of supply and demand to increase your profits.

A producer's income depends on the quantity of products she offers for sale. But it depends even more on the price that those products sell for. To understand how and why prices change is important because it will make it easier for you to earn a profit and to understand which products to produce. This session explains how a price is determined and what factors influence this process.

**Before you start reading, discuss why prices change.**
**For instance, why does the price for maize change? How does the price change over the season?**

## Supply and demand determine the price of a product

Price is determined by supply and demand. Demand is the total desire of all consumers for a particular product. Supply is the total quantity of a product that producers offer for sale.

*Example*
If the demand is high and the supply is low, a number of consumers will be willing to pay extra money to be able to buy the product. This is good for the producers, because it means the price will be high.

*Example*
If the supply is high and the demand is low, some producers will be willing to sell their products for a lower price. This is bad for producers, because the price will be low.

1. **Define demand in your own words.**
2. **Define supply in your own words.**
3. **What do you call demand and supply in your local language?**
4. **Define price in your own words.**
5. **How is price decided upon in your local markets?**
6. **Discuss how you price your products.**

## What determines the demand of a product?

Many factors influence the public's demand for a product. Producers have to be aware of these factors in order to understand the price fluctuations of their products.

**Discuss the factors that affect the demand for a product. Why do customer sometimes want a product and other times not? List as many factors as possible and then read through the text below for more input into your discussions.**

**Wealth**
The demand for products depends to a large extent on the amount of money people are able to spend. Poor people only have enough money to buy basic foodstuffs and other essentials. Rich people want to buy luxury items as well, and they are able and willing to pay money for them. A wealthy region generally offers more possibilities for producers to earn money than a poor region does.

*People tend to spend more when they have money.*

**Location**

Demand for a particular product can vary greatly from place to place. In cities, for example, there is a high demand for basic food crops. In rural areas, many people grow these crops themselves. Therefore, a producer of a vegetable crop will probably be able to sell more at a market in the city than in his own village.

The demand for some products may extend beyond the producer's own country. For these products there is an export market. Exporters buy the products from the producers and sell them to middlemen in foreign countries. For some producers it can be more attractive to focus on the export market. This can be difficult, however, because quality demands for export products are very high. Moreover, although the prices of products in the export market can rise much higher than in the domestic market, they can also fall very low. Producers who focus solely on the export market are thus taking a greater risk.

**In which markets do you sell or plan to sell your products? Reasons?**

### Timing

Some products are seasonal. For example, in the rainy season there is more demand for umbrellas than in the dry season. A traditional holiday can also be associated with a high demand for a particular product, such as a traditional drink or food item. A producer can take advantage of this by putting a product on the market only when there is a high demand for it.


*Think ahead to improve on your timing!*

**Taste**

People's tastes and preferences differ. What one person likes, another may dislike. What one person finds attractive may seem ugly to another. Tastes can also change over time. A product can be in high demand one year, but be replaced by another product the following year. It is difficult to predict how the public's tastes will develop. This makes it difficult for a producer to anticipate future demand. But it is still worthwhile trying to do so, because a producer who can take advantage of the public's changing interests can earn a lot of money.


*Popular products sell out fast*

1. **Does anyone have a story to share on good timing? Maybe one of you has taken a chance to produce a new product that later became very popular.**

2. **What products do you think will be popular in the future?**

*Selling products that customers want means business! In this case the customers want textiles and not dishes.*


*Know how much your buyers are willing to pay!*

**Price**

Demand for a product depends ultimately also on the price. A product that is very expensive will be bought only by a limited number of people.

**High or low demand?**

**Choose a product and fill in when demand is high and low. Do you agree with the first ones that are already filled in?**

| Demand depends upon: | Demand is high when | Demand is low when |
|---|---|---|
| 1. Wealth | People have money | People have no money |
| 2. Location | | |
| 3. Timing | | |
| 4. Taste | | |
| 5. Price | | |
| 6. | | |
| 7. | | |
| 8. | | |

## What determines the supply of a product?

Just like demand, supply is influenced by various factors. Here too, it is important for you to understand how the process works. The goal is to be able to estimate the size of the total supply of a particular product on the market and to thereby get an idea of how the price for that product will develop.

**Labour, land and money**
Production requires labour. To cultivate agricultural products, land is also needed. But production also often requires money, even if it is only used for seed or tools. The supply of a product is determined in part by the amount of land, labour and money that producers in a particular region have access to.

**Season**

Producers in the agricultural sector are dependent on the seasons. The supply of agricultural products varies, therefore, from season to season. During the harvest season, the supply of agricultural products is high, while at other times in the year the supply is low. A big supply forces the prices down. A low supply at other times can lead to high prices for the same product

Producers can earn a lot of money if they can manage to offer products for sale when the supply of those products is low.

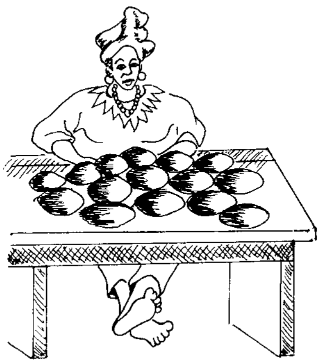

*Prices reduce when maize is in season.*

**Weather**

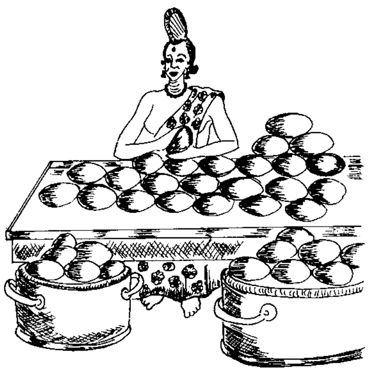
Agricultural production also depends on the weather. If the weather is good, the harvest will be plentiful and the supply of agricultural products will be high. If the weather is bad, the harvest will be poor and the supply will be low. An abundant harvest therefore often leads to low prices, and a poor harvest often causes the prices to increase.

**Number of producers**

Supply is also determined by the number of producers of a particular product and by the quantity that they produce. Producers often choose to produce a product that is currently selling for a high price. This means that a period of high prices is often followed by a period with an increasing supply, as more and more producers choose to produce that product. When the supply becomes high enough, the prices will fall. If the price stays low for an extended period, the supply will often decrease again as producers switch to products with which they can earn more money. The result is a smaller supply and, again, higher prices for the product.



*In 1996 coconuts sold for K1000 each because of a small supply*



*In 1997 coconuts sold for K500 eachbecause of a large supply.*

**Import**

Not only local production, but also production in a nearby area or a different country can affect the quantity of the supply. Particularly when the price is high, middlemen will try to buy products elsewhere and sell them on the local market.

**Price**

Supply is also influenced by price. When the price for a particular product is high, producers will work harder to put that product on the market. The supply will therefore increase. When the price is low, producers will not work as hard for that product and the supply will decline.

1. **Discuss what you think would happen to the demand for beef when people become richer.**

2. **Let us say that the cost of producing maize rises because of increase in seed prices. What do you think would happen to the price and quantity of maize meal sold in the store?**

3. **Share your experience on how demand and supply has influenced the prices on your products.**

4. **Have you ever changed your production because demand was high?**

5. **What have you done to reduce the effects of changes in demand and supply? Why?**

6. **After learning more about how supply and demand influence the price, suggest products that you could produce to get better prices.**


**SUMMARY**

In this session we saw that supply and demand determine a product's price on the market. By paying attention to the supply and demand of various products, you can choose to market products that can be sold for a good price. Keep in mind that demand and supply changes over time. You can choose to store products and sell them when prices are higher.

## Session 5: CHOOSE A PRODUCT

After this session you will know the process to follow when choosing which products to produce.

In the previous session, we learnt that supply and demand determines the price of a product. If you learn how to 'read' the market, you will now what, when and where to produce and sell to get a good income.

The first question you need to ask yourself is which products to produce.

**How do you choose which products to produce?**
**Make a list of the questions you ask yourself when deciding which products to produce.**

**When you finish, you can read through the questions on the next page. These questions are very important, and will be dealt with in detail in Sessions 6-9.**

1. **How do these questions compare to the questions on your list?**
2. **Which question is most challenging to answer? Why?**

*What to produce? Eggs or pineapples?*

1. What does the consumer want? Or, what products are in demand? It makes no sense to produce something that no one wants. Even if the harvest is plentiful or the product is very easy to make, the selling price will be low and the producer's earnings will be very limited if no one wants to buy it.

2. What product can I produce? Of course the answer to this question depends on the family's resources.

   A. Is there enough land available to grow crops?
   B. Is the climate suitable for a particular crop?
   C. Are the materials for production available?
   D. Do we know enough about the production of this product?
   E. Are there enough labourers available?
   F. Do we have enough money?

3. Which products would generate maximum profit? On this question you must subtract the cost of production and marketing from the money you get from sales.

   A. How much would it cost to produce and market these products? How much are inputs and labour?
      What are the costs for taking the product to the market or for certifying it?
   B. How much would we get from selling these products?
   C. What would be the profit? Even if the price is good, you could make a loss if the cost of production is higher.
   D. You must also compare products to each other. Which ones will give the highest profits, considering the investments you can do at a certain time?

### THE CHOICE OF A PRODUCT – A STARTING POINT

To make the right choice, you should have as much insight as possible into the workings of supply and demand for a number of relevant products. How to know the market is therefore the theme of the next session.

## Session 6: KNOW THE MARKET

After this session you will know how to get market information in order to make wise decisions on what to produce, when and where to sell.

To find out what products can be sold for good prices and where the best prices can be expected, you have to collect market information.

?

1. **What is market information?**

2. **Discuss which information you would like to have about the market. Fill in the list below.**
   **Suggest sources and ways to get the information.**
   **Do you trust these sources in bringing you the right information?**

3. **Read through the text and see if you get new ideas on how to collect market information.**

| The type of market information we need | Given by who (ourselves, middleman, consumer, extension workers, media, organisation ... | Trustworthiness<br><br>Do we trust the source? |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

## How to collect market information

Information about the supply of, and demand for products can be gathered in various ways. Here are some sources:

a) middlemen
b) consumers
c) product organisations
d) extension workers
e) the media

**Market information via the middleman**
Market research via the middleman can be done simply by asking the middleman questions about market developments related to the producer's product. This can be demonstrated by the following example.

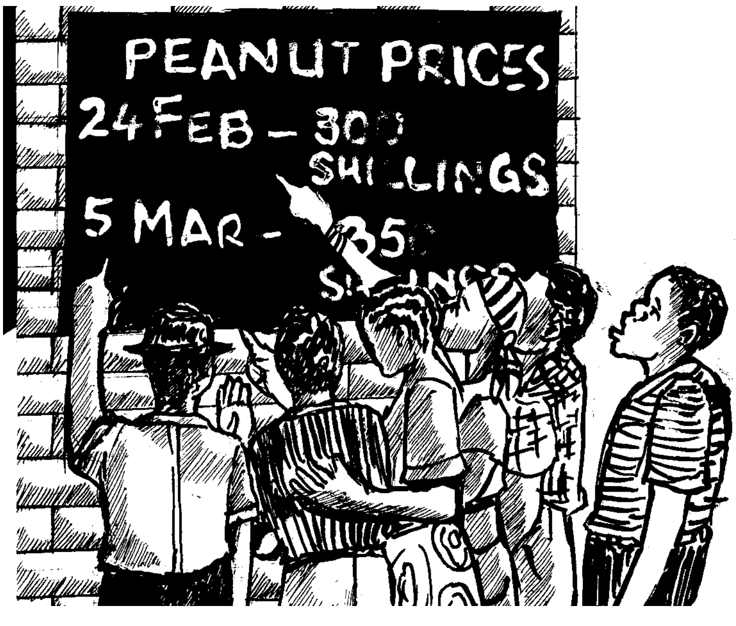
***Grace asks the middleman***

*Grace Mpfofu, a farmer in Zimbabwe, grows vegetables for consumers in the city. Grace rarely goes to the city herself, so she has little knowledge of the eating habits and preferences of the city's inhabitants. She doesn't know what vegetables they prefer to eat, so without an intermediate source of market information she would not know which vegetables are in high demand, nor which vegetables can be sold in the city for a good price. For this reason, the producer sells her vegetables to a middleman who comes every other day to buy the produce. The middleman drives to the city and sells the vegetables at a market. He has a lot of contact with the consumers in the city, so he can get a good idea of their preferences. The middleman can thus pass on his knowledge about the market and important information on the wishes of his customers to the vegetable producer.*

**How can you double check the information given by a middleman?**

### *A simple way to double check prices*

*One community in Kenya came up with an original way to collect market information. Many members of the community were producers of peanuts, and they generally had no knowledge of the price fluctuations of peanuts in the nearby city. They noticed that they sometimes sold their peanuts to the middleman for a price that appeared to be too low. To avoid this in the future they came up with the idea of placing a blackboard in the centre of the village. When anyone from the community visited the city, that person would find out what the price of peanuts was for that day. On returning to the village, the person would write down the price on the blackboard so that everyone in the village was informed of the price. Eventually the producers had a very good idea about price developments and this gave them a stronger position when negotiating with the middleman.*




*Collect and share market information when you have the opportunity!*

**Market information via consumers**
Collecting market information from consumers can be done in various ways. A producer of vegetable crops can go to a central market to interview a number of women about the vegetables they like to buy and about the current availability of these vegetables. Such research is easily done, but it offers only a limited amount of information.

It can also be important for a producer to know where consumers buy their groceries, how often they buy a particular product and whether the product is in demand throughout the year or only during one season. A producer will also want to know whether changes can be expected in the supply of, and demand for, a particular product.

**Market information via product organisations**
It is not possible for an individual producer to conduct large-scale market research. It is possible, however, for producers to organise themselves and to share the costs of research. Market research could focus on one of many different important topics. For example, producers could:

- collect price information in different selling areas (to determine the f feasibility of selling the product there);
- collect information on general developments in supply and demand (to anticipate possible fluctuations in supply and demand in the coming production season);
- identify the specific wishes of consumers for a particular product (a group of weavers, for example, could find out what colours and designs will be in demand for the coming season);
- research possible export opportunities;
- investigate whether a product could be processed further and sold in a different form (for a higher price).

**Do you have a product organisation (or commodity association) in your area? What type of market information does the organisation provide? How does it get its information?**

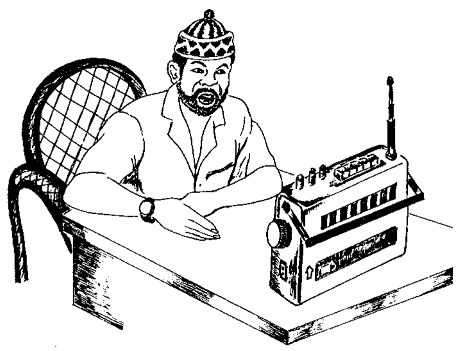
**Market information via extension services**
Agricultural extension workers often have a good idea of what the supply, demand and price developments of a particular product are. They can be an important source of information for small-scale farmers.

**Who can you ask in your area?**

**Market information via media**
In a number of countries, information on the prices of various products is broadcast through the radio. By listening to these broadcasts, producers can stay informed of changes in the prices of their products. Newspapers and magazines are other important sources.

1. **Which radio station provides you with market information? How can you make sure this information is spread to the ones not listening?**

2. **Which type of information can you get by reading newspapers, magazines or pamphlets? How can you share this information with those who cannot read?**



*Market price information through the media*

## Know your competition

In choosing what product to produce, it is important to first find out who the competitors will be.

**Large-scale producers and importers**
Some products produced by small-scale farmers are also produced by large companies. Large-scale producers often have an advantage. They can produce the product for less money by optimally utilising the capacity of their machinery. Large companies can also benefit from price reductions when they buy raw materials in large quantities. Imported products can also limit the sales potential of small-scale farmers.

**1. What are some of the products that are produced large-scale in your country?**

**2. What are the products that are imported and sold to price that you cannot compete with?**

**3. What is your strategy to out-compete large producers or importers?**

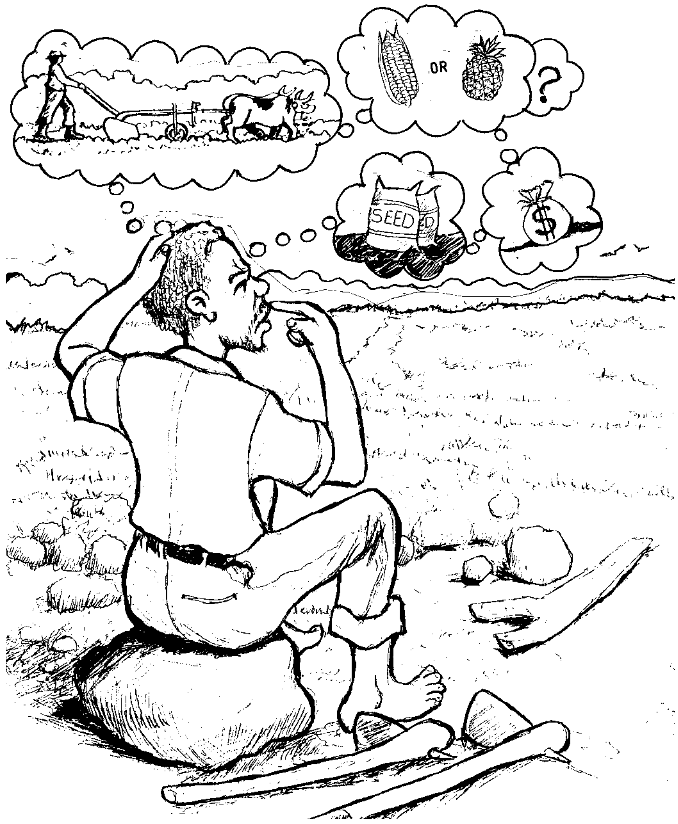
It is difficult for a small-scale farmer to compete with the inexpensive products of large-scale producers or importers. It is therefore good to choose a product that is not cheaply produced or imported in large-scale quantities for low prices. A producer should ask himself: Can I produce a product that I can sell on the market for a profit? This means the cost of production should be at least under the normal selling price on the market. Before deciding on a product, it is good to find out exactly how much it will cost to produce it, to see whether you can compete with other producers.

**SUMMARY**

Market information, such as knowing your competition, will you to produce the right product. Basic market information can be provided by the middleman, consumers themselves, extension workers or media. Producers who organise themselves have the opportunity to conduct more extensive market research.

## Session 6: WHAT ARE MY LIMITATIONS?

After this session you will be able to choose which products to produce based on your personal circumstances.




*Marketing starts before you plant. First consider the options.*

In choosing a product, you must answer the following questions about your personal circumstances:

- How much land, labour and money are available?
- Do I have enough knowledge to produce a particular product?
- Does the product fit the social relationships within my family and the village?

**Do I have enough resources?**
A producer who wants to start an income-generating activity must have access to enough land (or space in a shed, for example), labour and money. Land is needed to grow agricultural products. A shed might be needed for producing other types of products. Some products are made in the home and do not need much extra space. Cultivating or making a product also requires labour. In addition, a producer has to have enough money to begin a new activity. This money is needed to buy seeds, tools or larger equipment.

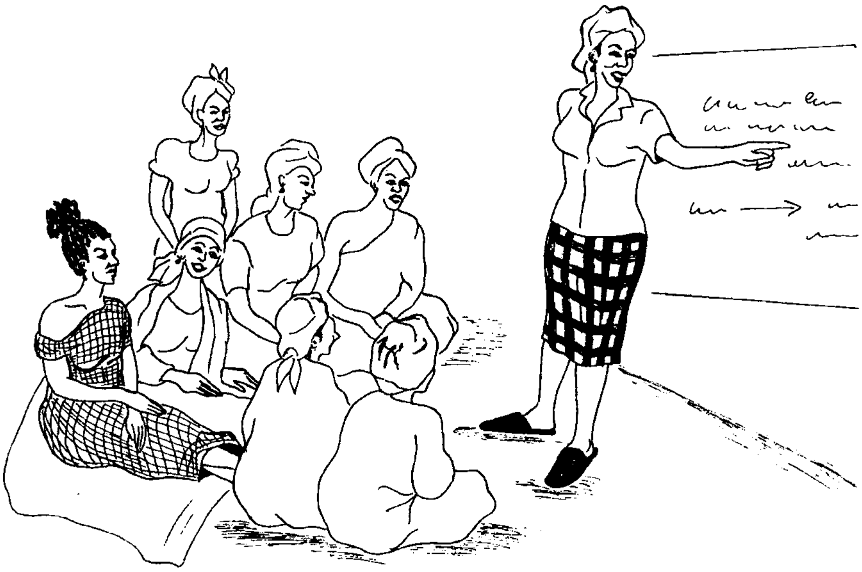
A family that has no land but labourers can direct its attention to processing agricultural products or to produce other products.

1. **What activities generate income in your area?**
2. **Do you consider the activities to be profitable? Why or why not?**
3. **What is your understanding of a profitable business?**

*Selling food at the market provides extra cash*

### Do I have enough knowledge?

Insufficient knowledge of how to produce a product can lead to problems and eventually to disappointing returns. A new activity often requires new knowledge. Knowledge can be gained through colleagues, extension workers, courses or study circles.



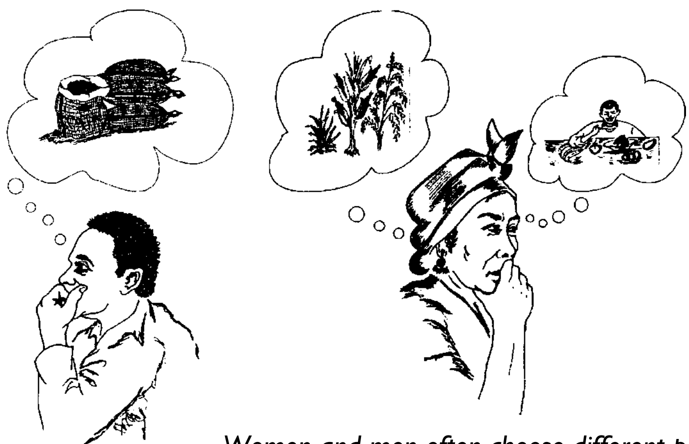
*A group of producers learning.*

## How will the production affect the people around me?

A new activity within a family business can lead to social changes. It is good to consider this when choosing a new activity. The following questions are important:

- How will the new product affect the social relationships within my household?
- Will the labour requirements of the product fit within my household's activity schedule?

The choice to start a new income-generating activity can lead to stress within the household. Women often prefer to cultivate extra food crops for the market. This offers more security for the family's own food supply, because if the production of food for the family's own use is less than expected, they can always use part of the crops that were intended for the market for their own consumption.



*Women and men often choose different products*

Men are often more interested in earning money and are therefore more inclined to cultivate a cash crop. The earnings can be higher, but there is also a risk that the family's own food supply will be endangered if the harvest or sale of the cash crop is less than expected. The degree of insecurity increases as more land is used for the cultivation of cash crops. It is important that the choice of activity be made as harmoniously as possible by the family members. This increases the chances of success.

**Do you think women and men choose different products? Reasons? Consequences?**

**Pretend you are telling a family member about an idea to produce a new product. Work in pairs.**

**Have the other person respond with the questions below:**

1. **Do we have enough land, labour and money to produce the product?**
2. **Do we have enough knowledge to produce the particular product?**
3. **Does the product fit the social relationships within our family and the village?**
4. **Will the labour requirements of the product fit within the household's activity schedule? Who would have to work more (or less)?**
5. **Who would be selling the product? Who would get the money?**

### Do the labour requirements fit within my household's schedule?

The members of a household often spend an important part of their time on the production of food for their own consumption. This has to be considered when choosing an income-generating activity. If an activity requires a lot of labour during a period in which extensive labour is required to produce the family's own food, then the activity will not be feasible. The goal is to find an activity that requires labour during a period in which the household members have extra time available.

**Assignment**

1. Make a list of the products you produce. Do you produce various products at the same time? Why?

2. Prepare a calendar that includes your activities over seasons. If you are thinking about switching to a new product, take this opportunity to include activities involved in producing this new product.

| Month | Activity | Who |
|---|---|---|
| November | Prepare soil for maize, ground-nuts and new product? | Salome, Leo |
| December | Plant maize and ..., | Elias |
| January | Weed, plant ... | |

3. Prepare a timeline that shows your daily activities from the time you wake up until you go to bed. Again, do this for the season when you plan to produce the new product

| Hour | Activity | Who |
|---|---|---|
| 05:00 | Milk cows | Patricia |
| 06:00 | Work with new cultivation | Sara, Patricia, Elias |
| 09:00 | Maize field | . . . |
| . . . | . . . | . . . |
| 19:00 | . . . | . . . |

*Questions continued on next page*

3. Did you pick a product that requires labour when you have time available?

4. When is your work load lighter? What type of money generating activity could be squeezed in during this time

**SUMMARY**

Before an entrepreneur can produce anything, he has to look at how much land, labour and money he has available. Sufficient knowledge about a product is essential if the product is to be produced profitably. In choosing a product, always consider what its impact will be on the social relationships within the household.

In choosing an income-generating activity, keep in mind the other activities that the various members of the household have to perform.

## Session 8: CALCULATE THE COSTS

After this session you will know how to calculate the cost of production and marketing. You will then be able to compare this cost to the selling price. This will tell you whether your business is profitable or not.

Before you know how much money you can make, you need to know how much money you will spend. If the cost is higher than its selling price, the entrepreneur loses money. If the cost is lower than the selling price, the entrepreneur earns money. That is, he makes a profit.

### Cost of production and marketing

It costs money to make a product. A vegetable grower, for example, has to have access to land, and he has to buy seed and fertiliser. He will need machinery to work the land and he will have to pay the wages of any hired workers. Usually, the grower's own family members work in the fields. Although they do not receive wages, their work can cost money. The time family members spend in the fields could be spent working elsewhere as paid labourers. By working in their own fields, family members could lose the opportunity to earn wages elsewhere. These lost wages have to be seen as a cost of vegetable production.

However it can be difficult for family members to find paid work outside the family business. In this case, it is not necessary to include labour costs when calculating the cost price. Anything the family earns by working on the land is then beneficial, because without this work they would have no income at all.

Costs can be classified as fixed costs and variable costs.

### Fixed costs

Fixed costs are those that do not change with an increase or decrease in production output. For example farm tools are a fixed cost. The tools are required whether production is taking place or not.

## Variable costs

Variable costs are those that increase or decrease with production output. Salaries are variable costs since you will need more labour the more you plant and harvest. If yield of the crop is small perhaps 2 labourers are required. If yield of the crop is large maybe 3 labourers are required. The number of labourers changes according to yield. Seeds, fertilisers, levies and transport costs are other variable costs.

## Total cost

Total cost of a production and marketing operations are calculated by adding both fixed costs and variable costs.

*Example*

An entrepreneur makes baskets for the local market. The costs for selling one basket are:

| | |
|---|---|
| Material (reeds) | \$2.00 |
| Transport to the market | \$0.50 |
| Tools | \$0.30 |
| Storage | +\$0.20 |
| **Total costs** | **\$3.00** |

It costs the entrepreneur \$3 to make one basket. Family labour is not included in this calculation. The family members will earn something for the time they spend making the baskets only if the price they receive at the market for each basket exceeds \$3. As long as the family has no other way to earn money, anything they earn for the time spent making the baskets is helpful. If the family members can earn wages outside the family business, then the selling price for the baskets will have to be high enough to compensate for the wages that could have been earned elsewhere.

If the selling price is less than \$3, the baskets cost more to produce than they can be sold for. In this case, the entrepreneur will have to make a choice. Either he will have to produce the baskets at less cost to reduce the price, or he will have to stop producing baskets and switch to a profitable activity.

## Cash costs

For small-scale producers without rent or big machinery, it can be sufficient to add up the cash costs. This is valid as long as cash is the one factor limiting you. Remember to record all your costs throughout the season. The sum will then be your total cost of production and marketing.

1. **Pick a product that most of you produce, Sum up the costs involved in producing and marketing this product. How does this cost relate to the selling price?**

   **If you don't have the figures in your head, you can list all the items that cost money and fill in the actual figures at home.**

2. **Which product is most profitable among the products that you produce? How do you reach this conclusion?**

3. **How do you normally compare the profitability between two products?**

### TO COVER COSTS – A FIRST STEP

It is essential that you know the cost of production and marketing so that you don't produce at a loss. Always estimate and compare the costs and selling price beforehand. However, to cover the costs and to get a decent profit is not enough. In order to maximise your profits you will have to take it a step further and compare the return on your investments for different products. The next session will give you tools for this. It is a bit tricky, so it might be a good idea to read through the session before you meet in the group.

# Session 9: COMPARE PRODUCTS

After this session you will know how to compare products based on the return of investment. You will then know which products to produce for maximum profits.

There are two useful tools that can help you to compare different products and produce. These are called Return on Investment (ROI) and Gross Margin.

## Gross Margin

Gross margin is a quick way of estimating profits. Gross Margin is the sum of the incomes minus the variable costs. We discussed variable costs in the previous session. For simple calculations, you can use your cash costs.

You calculate the estimated income by multiplying the expected market price of the products by the quantities produced.

**Quantity x Price per quantity = Income**

300 kg x $0.50 per kg = $150

If you have 300 kg of peppers and the market price is $50 per kg, the income is $150.

Once you have calculated both the value of production and the costs, you can calculate your gross margin. For example if you get $150 from sales and you had costs of $50, your gross margin would be $100.

**Income – Cash costs = Gross Margin**

$150 - $50 = $100

**If you compared the costs to the selling price in the last session, you actually calculated the Gross Margin for the product.**

1. **Do you think that Gross Margin is a good tool for choosing which products to produce?**
2. **What information does Gross Margin give you?**
3. **Are there any limitations of using Gross Margin when deciding which products to produce? Elaborate your answer.**

## Return on Investment (ROI)

The difference with ROI is that you will get an idea of how profitable your business would be based on the investments you can make.

A simple way to calculate ROI is by dividing Gross margin by Cash costs.

$$\textbf{Return of Investment (ROI)} = \frac{\textbf{Gross Margin}}{\textbf{Cash costs}}$$

Example: You invest $100 in production and marketing. Your income from sales is $250. When subtracting the costs from the income, you will get a Gross Margin of $150.

This means that you will have $150 more than you initially started off with. For every $1 invested in the operation, you gained $1.5 more.

You would get the following calculations:

Gross Margin = $250 - $100 = $150

$$\text{ROI} = \frac{\$150}{\$100} = \text{1.5 dollar return for every dollar invested.}$$

ROI is usually expressed in percent. Percent can also be written as %. Percent is an easy measure to compare. The higher the percentage, the higher the profits!

**Picture yourself the following situation. Your young brother comes to borrow money. He claims to have a great idea to make business. He assures you that he will be able to pay back the money in no time. He says that by the end of the day he will make $1000.**

1. **What is the first question you would ask him?**

2. **What do people normally mean when they say the will 'make $1000'? Do they mean the profit or the income?**

3. **If you had money to lend, is there a breakpoint on the amount you would give your brother?**

4. **Let us say that he asks for $800. This is the money he would need for transport and for buying goods in South Africa. He then expects to get $1000 when he sells the goods on. What is the Gross Margin?**

5. **At the same time, his wife says she has found a way to make $200. She says she would only need $20 to buy the raw material. Which business idea do you prefer to support, the brother's or his wife's?**

6. **Calculate the Return on Investment for the two ideas.**

**ROI for your brother's idea: 200/800 = 25%**
**ROI for your sister-in-law's idea: 200/20 = 1000%**

**This situation shows you that while the Gross Margin might be the same, the Return on Investment will give you a better idea on how profitable the business will be.**

### *Mrs Mwiinga compares products*

*Mrs Mwiinga is farmer with conditions to produce sweet potatoes, maize and cabbage. Now she wants to find out which product or products to produce. For the sake of comparing products, she estimates the costs and incomes for each product. For instance, she knows that when producing sweet potato she needs to buy seed vines and bags. She also knows that she has to put in money for weeding and pest control. These production costs add up to a total of 1,440,000 Kwacha. She then expects to sell tubers, vines and leaves for 7,160,000 Kwacha. This is the price she expects to get when selling at her gate, so in this case there are no costs for transport or storage. Then she subtracts her estimated costs from the income to get the gross margin. Based on these estimations she would end up with 5,720,000 Kwacha in her hand. She does the same for sweet potato and maize. You can follow her estimations and calculations if you turn the page. She calculates the Gross Margin for three crops as follows:*

| **Crop** | **Income** | **Costs** | **Gross Margin** |
|---|---|---|---|
| Sweet potato: | *7,160,000* – | 1,440,000 = | 5,720,000 Kwacha |
| Cabbage: | 16,000,000 – | 4,560,000 = | 11,440,000 Kwacha |
| Maize: | 1,000,000 – | 1,012,500 = | – 12,500 Kwacha |

*Mrs Mwiinga realises that producing maize is not a good option. If she was to produce maize based on these figures she would be making a loss! Maize gives a negative margin of 12,500 Kwacha. Mrs Mwiinga decides that it is not even worth while to produce maize for household needs. She knows that she can always buy maize, from the money she get from producing more profitable products.*

*Therefore, Mrs Mwiinga will have to make the choice between cabbage or sweet potato, or to produce both. She sees that cabbage would give her a gross margin that would be twice as high as when producing sweet potatoes. At first Mrs Mwiinga thought the choice was simple. Cabbage seems to be the way to go.*

*But then Mrs Mwiinga looked into her wallet. Where would she get 4,560,000 Kwacha to invest in cabbage production? If she produces sweet potatoes, she will only require an investment of 1,440,000 Kwacha and this she could afford.*

*Mrs Mwiinga is a smart business person. She decides to calculate the Return on Investment (ROI) to see whether sweet potatoes is a good investment.*

| **Crop** | **Gross Margin** | | **Cash costs** | **ROI** |
|---|---|---|---|---|
| Sweet potato: | 5,720,000 | divided by | 1,440,000 = | 3.97 or almost 400% |
| Cabbage: | 11,440,000 | divided by | 4,560,000 = | 2.51 or 250% |
| Maize: | – 12,500 | divided by | 1,012,500 = | – 0.01 or – 1% |

**?**

1. **Which product would give Mrs Mwiinga the highest Gross Margin?**
2. **Why did Mrs Mwiinga decide to grow sweet potato instead of cabbage?**
3. **How much would Mrs Mwiinga make if she invested $100 into sweet potato?**

**Guidance: ROI for sweet potato is almost 400%. This means that she would make 4 times the investment.**

## CABBAGE

### Income

| Product | Yield per ha | Farm gate price | Gross income |
|---|---|---|---|
| Heads | 32,000 | 500 | 16,000,000 |
| **Total gross income** | | | **16,000,000** |

### Variable Cost

| Input | Amount needed | Cost per unit | Cost |
|---|---|---|---|
| Seed | 0.5 | 2,000,000 | 1,000,000 |
| Fertilizer | 120 | 4,000 | 480,000 |
| Top dressing | 40 | 5,000 | 200,000 |
| Borate | 25 | 4,800 | 120,000 |
| Insecticide | 2.5 | 80,000 | 200,000 |
| Fungicide | 2 | 40,000 | 80,000 |
| Labour | 160 | 8,000 | 1,280,000 |
| Oxen hire | | | 400,000 |
| Irrigation water | | | 800,000 |
| **Total variable cost** | | | **4,560,000** |

| | |
|---|---|
| Total gross income | 16,000,000 |
| Total variable cost | -4,560,000 |
| Gross margin | 11,440,000 |

**ROI** $\frac{11{,}440{,}000}{4{,}560{,}000}$ = 2.51= **251%**

## SWEET POTATO

### Income

| Product | Yield per ha | Farm gate price | Gross income |
|---|---|---|---|
| Tubers | 13,600 | 500 | 6,800,000 |
| Vines | 800 | 200 | 160,000 |
| Leaves | 400 | 500 | 200,000 |
| **Total Gross Income** | | | **7,160,000** |

### Variable Cost

| Input | Amount neeeded | Price per unit | Cost |
|---|---|---|---|
| Seed vines | 400kg | 200 | 80,000 |
| Pest Control | 4 months | 100,000 | 400,000 |
| Weeding | 4 months | 200,000 | 800,000 |
| 90 kg bags | 160 bags | 1,000 | 160,000 |
| **Total variable cost** | | | **1,440,000** |

| | |
|---|---|
| Total gross income | 7,160,000 |
| Total variable cost | -1,440,000 |
| Gross margin | 5,720,000 |

**ROI** $\frac{5,720,000}{1,440,000}$ = 3.97 = **397%**

## MAIZE

### Income

| Product | Yield per ha | Farm gate price | Gross income |
|---|---|---|---|
| Grain | 2,000 | 500 | 1,000,000 |
| **Total Gross Income** | | | **1,000,000** |

### Variable Cost

| Input | Amount neeeded | Price per unit | Cost |
|---|---|---|---|
| Seed | 25kg | 6,000 | 150,000 |
| Fertilizer | 200 | 3,000 | 600,000 |
| Lime | | | 87,500 |
| Bags | | | 30,000 |
| Sundries | | | 25,000 |
| Labour | | | 120,000 |
| **Total variable cost** | | | **1,012,500** |

| | |
|---|---|
| Total gross income | 1,000,000 |
| Total production cost | -1,012,500 |
| Gross margin | -12,500 |

**ROI** $\frac{-12,500}{1,012,500}$ = - 0.01 = **-1%**

## STEP-BY-STEP ON HOW TO CALCULATE GROSS MARGIN AND ROI

Step 1: List the products and by-products

Step 2: Estimate the quantity of each product and bi-products.

Step 3: Estimate the selling price per quantity.

Step 4: Multiply the quantity of the product with the selling price for each product (including bi-products). This is the income. Add all incomes.

Step 5: Calculate and add the costs.

Step 6: Calculate the Gross Margin by subtracting the cost from the income.

Step 7: Calculate ROI by dividing the Gross Margin with the costs.

# Session 10: SWITCH TO NEW PRODUCTS

After this session you will know what to consider before starting production of a new product. With these cautions in mind, you should be motivated to diversify your productions.

Market research may indicate that a good profit can be earned from a certain product in the short term. You may then want to consider switching to that product. Before starting production of a different product, there are some points to consider.

## Cautions when switching to new products

Sometimes it may look attractive to choose a product or switch to another product that offers a high income. However, choosing a product that offers the highest earnings in the short term may not always be the best strategy. Often, many producers switch to a product that has been sold for a high price that year. As a result, the supply is high the following year and the price is lowered.

It is often wise to stay with one product for a longer period of time. A producer gains experience and knowledge about his particular products over time. As a result, the quality of the product will steadily increase and the cost of production will decrease. This knowledge base is lost if the producer switches to a different product. Moreover, starting production of a new product often costs extra money.

**Read the case study. What problem did the farmers face? Why did this problem arise? How can you avoid this problem?**

### *A story about switching products*

*In 1980, the Dutch Government invested in an irrigation scheme in the village of Kibirigwi in Kenya. The goal was to enable the villagers to produce a variety of vegetables to be sold in Nairobi, the capital city. With better irrigation, the farmers were able to cultivate a wide variety of vegetables (peppers, cabbage, tomatoes, carrots) throughout the year, and their incomes increased as a result.*

*This went quite well until the farmers realised that tomatoes were more profitable than the other vegetables. Using their business sense to achieve a maximum profit, some farmers started a monoculture of tomatoes in the following season. These farmers became wealthy after selling the tomatoes.*

*Of course, this did not go unnoticed by the other farmers, who had seen how profitable the tomatoes were. Despite warnings from the irrigation management, the entire area became a tomato cultivation area. The early harvesters had been fortunate, because people living in the city were in need of tomatoes and were willing to pay a good price for them. However, this changed when the Kibirigwi-tomatoes started flowing into the city daily, and in a very short time the price dropped drastically. In the end, tomatoes were left rotting in their crates as the demand for tomatoes in the city was satisfied. The cultivators who had expected to make big money ended up with major losses. Strangely enough, this happened more than once, and every time with a different crop. It was a recurring cycle, because the producers were not sharing information with each other. They often discovered too late that they were all cultivating the same crop. Currently, the Kibirigwi farmers are cultivating French beans, sweet potatoes nd maize, as they had experienced that there is always a demand for these crops.*

Source Jane Aerts, *The flexibility of small-scale irrigation scheme in Kibiriwi*, Kenya, 1997.

**Are you thinking about switching to a new product?**
**Evaluate any new products with the help of the group.**
**You can use the form below to structure your decision-making.**

## Product Assessment Form

Questions to be asked and answered when considering a new enterprise.

**Demand**

1. Will consumers like the product?
2. How many consumers will like the product?
3. What must the product look like/taste like?
4. What factors affect consumers?
5. What is the expected selling price?

**Competition**

6. Who else is making the same product?
7. How many competitors are there?
8. What type of competitors are they?
9. What price are they selling at?

**Raw materials**

10. What is needed to make the product?
11. Is the raw material(s) easy to buy?
12. What is the price of raw material?
13. What is the price of other ingredients?
14. What is the price of packaging?

**Labour**

15. Do you have enough time to do the work?
16. Do you need labour, if so how many?
17. How much will labour cost?

**Production**

18. What is the cost of producing the product?
19. How much will it cost to get the business started – capital costs?
20. How much will it cost to run the business –operating costs?

**Marketing**

21. What marketing functions are required?
22. What is the cost of such marketing functions?
23. How much do you think you will sell?
24. What is the expected profit?
25. What is the difference between income from the expected sales and the cost of production – gross margin?

*Source: FAO and MACO 2004*

## Producing various products to reduce risks

Prices are unpredictable. One year the price of a product can be high, and the following year low. Changing weather conditions also create uncertainties about harvests in the agricultural sector.

A farmer who chooses to cultivate only one particular crop is taking a risk. The family's income will strongly depend on its earnings from that one product. Choosing to cultivate a number of products or crops reduces this risk. A low price for one product may be compensated by a high price for another. If one crop fails, it does not necessarily mean that other crops will also fail.

1. **What do you do to reduce the risks of poor yields or market failures? Let everyone share his or her strategy.**

2. **Have you recently started to produce a new product to reduce risks? Would you recommend others to follow your example?**


## SUMMARY

Switching to a new product costs money and requires extra knowledge. Before taking this step, a producer has to be sure that these extra investments can be recovered through sales of the new product.

By producing a number of products, you can reduce the risk that your whole production will fail.

## Session 11: GET YOUR PRODUCT TO THE MARKET

After this session you will be able to make smarter decisions on where to sell your products, and how to best transport the products to the marketplace.

The price of a product often varies from market to market. As a producer, you have to look for the market that offers the highest price for your product, but when comparing prices you also have to take into account the extra costs involved in getting to these markets. In this session we will concentrate on the aspect of transport.

?

1. **Where do you sell your products? Describe the markets you use. Who do you sell to?**
2. **List the reasons why you have chosen to sell your product in this way.**
3. **Do you know of other markets? Would you like to sell your products there? Why, or why not?**
4. **Do you transport your products? How?**
5. **Do you have problems transporting your products? If so, try to find ways to solve these problems with the help of the group.**

## Aspects to consider in regards to transport

Many farmers transport their products to the buyer. It is important that the products do not get damaged during this transport. Every type of product requires a different handling method. Some products cannot tolerate moisture, while other products cannot tolerate heat.

**Mode of transport**

Before you transport a product you have to know what the right transportation method is. Transport can be done on foot, animal, animal driven cart, boat, bicycle, motorcycle or on a truck. Each method of transport will have its advantages and disadvantages. For example taking produce to market by foot in baskets may be cheap, but it may take a long time. Taking produce to market on an animal driven cart may be faster, but may cost a little bit more. Whatever method of transport you choose has to fit the necessities of the market and the necessities of the products transported.

*Bikes are for many the only transportation mode.*

**Route**

Also the route to market has to be carefully planned. Sometimes paths and roads may be in very bad conditions and this may damage products being transported. For example transporting clay pots on a bumpy road may damage and even break clay pots. Also on the way, check points may be in place where unofficial payments may have to be made to enable the products to get to market. This has to be thought of and possibly alternative routes may be found.

**Timing**

The product also has to arrive at the market within a certain time frame. It is important that agreements be made ahead of time, with the truck driver for example, about when the truck is expected to arrive and what the driver should do if the truck breaks down on the way.

**Costs**

Costs of transport have to be considered. Note that it can be very costly for every producer to transport her own product to the market. Small-scale producers usually have only small quantities, and transporting small loads to the market costs a lot of time and money.

It is easier to sell to a trader, middleman, wholesale buyer or processing company. The price is then usually lower, but it requires less effort to sell the products.

1. **Would you benefit from transporting your goods to other markets?**

   **A rough estimate:**
   **a. How much you would get at a city market? ______**
   **b. How much you would get at a local market? _____**
   **c. Costs involved in transporting? ______**

   **Now subtract transport cost (C) and local price (B) from city price (A).**

   *Example*

   | | |
   |---|---|
   | City market price: | \$50 |
   | Local market price: | \$30 |
   | Transport cost: | \$5 |
   | \$50 - \$30 - \$5 = | \$15 |

   Selling at the city market would give you \$15 more!

2. **Is there other information you would need to consider when deciding upon which market to use?**

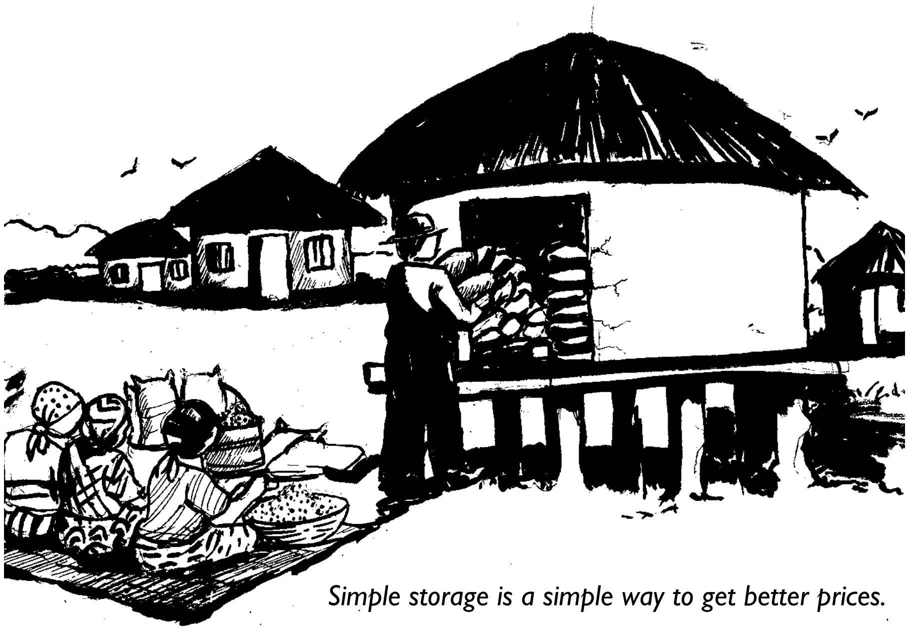
## SUMMARY

In this session we looked at the costs and opportunities of transporting your products to the buyer. When transporting, the product has to retain its quality while being transported and has to arrive at the market on time. Transporting large quantities of a product is generally less expensive per product than transporting small quantities. Consider the possibility to share transport with your fellow farmers to lower the cost. We will discuss this opportunity in session 14.

A middleman also has the capacity to transport large quantities. It might pay off to sell to a trustworthy middleman considering the costs of transporting, lodging and the time you would lose while on the road.

## Session 12: STORE YOUR PRODUCTS?

After this session you will be able to know issues to consider when deciding whether to store your products or not.



*Simple storage is a simple way to get better prices.*

To store your product can be a good method to get higher prices for your products. Think about the difference between the price of maize at harvest time and the price when there is not much maize on the market. At harvest time there is much maize available. This normally means that the price is low. The price is higher when there is less supply. However, many producers decide to sell at harvest time rather than storing the products.

**Discuss the reasons why many farmers sell their products at the same time instead of storing them until they could get a higher price.**

## Risks of storage

The quality of perishable products declines if they are stored improperly. Moulds, pests, water, heat, etc. can damage a stored product so much that it can no longer be sold. Before a product can be sold it often has to be stored. A producer who is planning to sell perishable products at a marketplace, on a weekly basis for example, will have to find a good way to store them.

## Cost of storage

The cost of storage must also be considered. To store a product, the producer has to buy or rent a storage facility and make sure that the product keeps its quality. This includes buying treatments for keeping pests away.

Storage also involves costs of handling, cleaning, checking storage facilities, quality loss, and weight loss. These extra costs have to be recovered. Therefore, before making the decision to store a product, you have to fully understand what the chances are that the price of the product will increase.

**As a group, decide on one perishable product e.g. mangoes. Estimate your costs and benefits of storage for this product.**

1. **How much would you spend on storage? For how long?**
2. **Where would you store your products?**
3. **How long would the products remain fresh? Would you have to estimate any losses because of poorer quality?**
4. **The timing of your sales also depends on when you need the money. Would storage be a problem? If so, how can you solve this problem?**
5. **Would it be easier to store if you first process the product?**
6. **Are answers the same for all of the products you produce?**

**Make sure you include all of the products produced by the group members in your discussions!**

***A story about the risks of storage***

*Tulalemwa, a rice producer in Tanzania, has watched the price of rice fluctuate every year. During the harvest period, due to the large supply, the price is low. A bag sells for 15,000 Shillings. Later in the season, as the availability of rice declines, the price increases. After about 5 months, the price of one bag of rice rises to 23,000 Shillings. Normally, after harvesting, Tulalemwa keeps part of her rice for use at home until the next harvest. She has to sell the rest of the harvested rice to earn cash to pay off the debts she incurred in buying fertiliser and hiring a tractor to transport the rice.*

*She would like to benefit from the price fluctuations by storing the rice for some time and selling it after a few months, when the price is high. But to do this, she must first find another source of money to pay off her debts. She can try to borrow from a rich relative who is a businessman in town, or she might get a loan from a micro-credit scheme available in the area.*

*If she succeeds in borrowing money, she will still have to take care of a few things. First, it is important to find a good storage place for the rice. Rice has to be stored dry in order to retain its quality. Second, and more importantly, she has to keep a watchful eye on the market and the prices. Normally prices will be low during the harvest and will start to rise after the harvest period. The rice grower will be tempted to sell her rice as soon as the prices seem attractive. But she may decide to wait still longer with the hope of receiving even higher prices later on. The producer may plan to sell her rice just before the new harvest comes in, especially if the previous year's prices reached their highest level at that time.*

*The risk, however, is that rice stocks may still be abundant when the new harvest is approaching. Many rice producers will then start selling their stocks and, due to the large supply, prices will start to fall drastically. In the end, the rice producer might have to sell her rice for a price that is close to the low price she could have received around harvest time.*

*The important lesson to be drawn is that although it is a good idea to store rice in order to sell it later, this practice also involves risk. The rice producer should anticipate this problem and educate herself about the current stocks of rice. She can then avoid the risk by selling her rice earlier in the season if necessary. Prices half-way between harvests are often good enough for producers to make a profit and avoid the risk of loss.*

Source: Ad de Veld.

**Process before storing**

One way to reduce the risks of storage is to process fresh products so that it can be sold at a later date. For example tomatoes that have low storage capacities, can be processed into tomato puree or juice. To find out if this sort of storage is appropriate you should check the selling price of fresh produce at the time of processing and compare this price to the price of a processed product. Don't forget to subtract the costs involved in processing and storage of the processed product.


SUMMARY

Storing products is important because it allows the producers to sell their products later, when the prices are higher. Unfortunately, there is no guarantee that the prices will indeed increase. It is important in any case to make sure that the quality of the product does not decrease during storage.

## Session 13: ADD VALUE AND ATTRACT BUYERS

After this session you will know how processing may add value to products. You may also have more ideas on how to attract buyers through better presentation, packaging or services.

Market knowledge includes knowing what different markets want. Supermarkets or export markets may for instance make their own demands on the quality of the product, the packaging, sorting, etc. In this session we will concentrate on how to process, present, package, sort and promote our products.

### Processing

Some agricultural products cannot be sold directly to consumers. They have to be processed first. Processing can make a product more attractive or it can increase its shelf life. Fruits can be made into jam, and milk into yoghurt or cheese.

Processing costs time and money. However, it can be a way to earn more money from a product. Good processing adds value to a product.

*Fruits: 1000 per kg*

*Fruit being processed*

*Jam costs 5000 per jar*

*Orange Fanta costs 10,000 per bottle*

*Processing adds more value to products*

1. **Do you process your product before it reaches the market? Into which products?**
2. **If you do not process the product, would it be possible to process it? How would prices be affected?**
3. **Does someone else process your product before it reaches a market?**

## Presentation

Consumers at a market can choose between different products and different sellers of the same product. Consumers will inevitably choose to buy from the seller who offers the best product for the cheapest price. If supply is greater than demand, consumers will not buy a product that does not look good. People are often willing to pay a little more for a product that looks good. An attractive presentation is therefore one way to increase the selling price.

## Sorting

One way to improve the presentation of a product is through sorting. Sorting a product according to size, ripeness or other quality makes it look better. The consumer can then also choose the quality that he or she is looking for and will often be willing to pay more for it. Sorting can thus increase the selling price of a product.

## Packaging

Consumers prefer to buy some products in small quantities. Breaking up a large quantity into small packaged portions can make a product more attractive to consumers. Packaging the product in a pretty box or bag is also an effective way to present it.

*Make your products unique!*

1. **How do you promote your product?**

2 **Help each other to improve promotion. Ask your neighbour what he or she looks for when/if buying the product you sell.**

3. **Visit a shop or market and look at how products are presented. Select three commodities and suggest how the presentation can be improved.**

## Service

Providing good customer service is also important. A consumer can be unsatisfied with a product that he or she has bought. Complaints by consumers have to be taken seriously by the producers, because the complaints may be justified and because producers can learn from them. Moreover, a producer is more likely to keep a customer who feels that his or her complaint was handled correctly. Unsatisfied customers who are not taken seriously will probably not come back.

1. **Describe the service you provide to your buyers.**

2. **Help each other to improve services by acting out a role play or help each others through discussions and interviews.**

   **Role play:**
   **Think of a situation when you have had to provide a service. Decide upon one or two cases and play it out to the group. First play it the way it happened. Then ask the group to help improve the service by asking them to cut in and change the play in the way they see fit. Anyone with new ideas can ask the actors to sit down and take on the role.**

## SUMMARY

In processing a product, you add something to it that makes it more interesting for the consumer. The value of the product thus increases and it can be sold to the consumer for a higher price.

Improving the presentation of a product will enable a producer to sell more of a product or to get a higher price for it.

Sorting is a simple way to improve the presentation of a product.

Packaging a product makes it more attractive to the consumer.

Promoting your products brings it to the attention of potential customers.

Providing good service is a way to keep customers satisfied after they have bought your product, and to keep their business.

## Session 14: CHOOSE YOUR BUYER

After this session you will know who to sell to, and why.

An entrepreneur can sell a product in a number of different ways:

- Directly to the customer at the farm gate, road side or market
- To a middleman or trader
- Through contract cultivation
- Through a cooperative or product group

Each form of selling has advantages and disadvantages. This session will discuss some of the buyers and help you to choose the system that best fits your situation. You can also be your own buyer. To buy and sell through a cooperative or group is a big topic so it will be discussed in the next session.

?

**Use the list on the next page to structure your discussions and arguments on this topic. Fill in the advantages and disadvantages of selling to the different types of buyers. You may want to work in pairs and then share and discuss your findings with the group. Remember to make your own interpretation of the text and add your own experiences to the list.**

**Try to find out the different prices you get from selling to or through the different persons or groups. Also add the costs (in money) that you experience from the different sales. Perhaps you need to transport or store the produce.**

**How can you avoid the disadvantages you have listed? Make a plan at the end of the session.**

| Sales | Advantages | Disadvantages | Price | Cost |
|---|---|---|---|---|
| Directly to Consumer | | | | |
| To a middleman or trader | | | | |
| Through a co-operative or product group | | | | |
| Through contract cultivation | | | | |

## Selling directly to the customer

Many farmers transport their products to a nearby city because the demand and prices for agricultural products is normally higher in cities than in rural areas.

Selling directly to the consumer costs more money than other ways of selling but it also achieves a higher price. You have to determine whether the higher price compensates for the extra costs and labour.

If it costs a lot to transport the product to the market, the earnings from the product will be disappointingly low. This is especially true for perishable products. If the market cannot be reached quickly, the products will rot before they can be sold, or the quality will be so diminished that the earnings will fall short of expectations.

## Selling to a middleman

The middleman is the person who collects small quantities of products from various producers and sells them to large-scale traders, processors or exporters.

Not surprisingly, many small-scale producers sell their products to a middleman.

**Advantages of middlemen**

+ Middlemen are specialised in marketing a product and can therefore negotiate a higher selling price. The producer is then free to concentrate on production.

+ A middleman can collect small quantities from various small-scale farmers and transport them together. By combining small loads, the transport costs are kept relatively low.

+ A middleman can sort large quantities according to quality and can then sell the sorted products for a higher price.

+ A middleman can lend money to producers to help them start a new activity.

+ A middleman has knowledge of supply, demand and prices and can pass this information on to the farmers.

*It's important to keep yourself informed when seeling to a middleman*

### Disadvantages of middlemen

- A middleman is easily tempted to pay prices that are lower than the market is indicating. Middlemen are experts at negotiating because they do so regularly and because they make more by giving you a lower price.
- Middlemen are often better informed than producers and they can misuse this knowledge. You can prevent this from happening by keeping an eye on the market. You can go to the market and check on prices. The margin between the price that you receive from the middleman and the price charged at the market has to be within reason.
- A middleman has a lot of power. He can offer a number of services that put him in a powerful position. For example that of extending credit to small producers. You may prevent this by forming a producer or commodity association that gives credit to its members.

## *A story on how to avoid the middleman*

*Read the case study and discuss its relevance for your business.*

*The HOPE Community Development Programme, a grassroots organisation in Naitiri, Kenya, provides a good example of how to avoid selling to a middleman.*

*The farmers in Naitiri were used to cultivating sunflowers in between the two maize harvests. They sold the seeds for 4 to 6 Kenyan Shillings to a local middleman, who would sell the seeds to large oil processing industries in Kitale and Eldoret in the district. The oil was sold for 90 Shillings per litre to consumers or to bulk buyers, who would sell it again for between100 and 200 Shillings at more distant markets depending on quality and packaging.*

*The farmers were not making profit from the seeds. A small group of farmers decided to take action, so they organised themselves into what was to became HOPE. HOPE's solution for the poor pricing was to eliminate the role of the middlemen. The management of HOPE bought the seeds from its members and sold them for a profitable price. The next step was to look for possibilities to process the oil themselves, as this seemed to be the most profitable option.*

## Selling under contract

In contract cultivation, a producer cultivates a crop commissioned by a buyer. The buyer promises to purchase a certain quantity of product from the producer. The price is negotiated in advance between the producer and buyer. Agreements on the quantity and price are recorded on paper in a contract. This section deals with the advantages and disadvantages of contract farming.

**Is contract farming an option for you? If so, study this section and discuss it thoroughly before you enter into a contract.**

### Advantages of contract farming

+ Sales and price security. Security with respect to the sale and price of a crop is important in unsteady market conditions.

+ Practical support. Contract buyers have a vested interest in obtaining a good product from their producers. They will therefore try to help the producers supply a good product.

+ Financial support. Producers sometimes receive assistance, such as loans, from the contract-providers, so that they can initiate the production process.

*A contract usually provides a loan of seeds.*

**Look at the advantages one at a time. Under what circumstances can these advantages become disadvantages? For instance, what could be a disadvantage of securing a price or receiving a loan from a contract provider?**

### *A win-win contract?*

*Twelve companies that buy coffee beans from farmers operate in and around Arusha, Tanzania. There is fierce competition between the companies for the beans supplied by the farmers. Price is not a very strong competitive instrument in this case, because it is determined by the world market, and the coffee processing industry already buys at very competitive prices.*

*To attract the farmers' business, a company called "Kahawa Bora" began granting credits in the form of pesticides. Correct use of pesticides could not only increase production, but also the quality of the coffee. Kahawa thus supplies the farmers with pesticides and the farmers eventually provide the company with coffee beans.*

*The risks for Kahawa are high. The producers can take the pesticides from Kahawa and then still sell their production for a higher price to a different buyer. To ensure that the beans would eventually be delivered to Kawaha, a savings clause was included in the contract. The savings regulation stipulates that the farmers have to organise themselves in groups of at least five and that they have to each deposit a fixed sum of money each month into a blocked savings account.*

*The idea is that the farmers start saving in this way before the pesticides are allocated. The value of the credit granted to the farmers is then double the total amount they have saved together. Kahawa hopes that this savings plan will encourage solidarity among the farmers and create a bond between the group and the company. The company's goal is for the farmers to pay off the loan and eventually supply the coffee beans to Kahawa, rather than to other coffee buyers.*

Source: Corny Quist.

**Disadvantages of contract farming**

Contract cultivation also has risks and disadvantages for a producer:

– Strong dependency on the buyer
– Potential problems related to a small harvest
– Misuse of resources
– Potential payment problems

a) Strong dependency on the buyer
By producing under contract, the producer loses part of his independence. He can still make his own decisions related to cultivation, but he is bound to the buyer for sales and pricing. In many situations, the producer is completely dominated by the buyer. Prices and conditions stipulated in a contract can be so bad that a farmer cannot meet his obligations. This can even lead to a situation in which the farmer has to turn over his whole business to the buyer.

Contract production offers security for a longer period. But a producer can thereby also be stuck for a longer period in a bad contract. If market prices increase, the producer might not get more than a low, agreed price.

b) Potential problems related to a small harvest
In many contracts, producers are required to supply a certain quantity of a product to the buyer. This requirement is often coupled with a supply of seed, for example. If the harvest or the production process fails, the producer can be faced with serious problems. He becomes indebted to the buyer and often has to pay back this debt right away the following season. If the producer cannot do this, the buyer can demand that he turn over part of his property, his land for example, as payment. This problem can be avoided in some contracts. The farmer is still required to pay off his debt, but he can take a number of years to do so.

*If your harvest fails, you might have a problem paying back your loan*

c) Misuse of resources
Buyers often supply contract farmers with fertiliser, pesticides, etc. These resources can improve the harvest, but the producer does have to pay them back. Producers who do not know enough about how to use such products run the risk of incurring higher costs that are not compensated by higher earnings.

d) Potential payment problems
Not all buyers pay their producers on time. Sometimes, producers have to wait a long time to get their money. This can be a serious problem for families who rely on contract production for their livelihood. The problem of late payments can be prevented by including specific payment terms in the contract. A group of producers that supplies products to the same buyer can also organise themselves to put pressure on the contract-provider to pay.

**Points to think about before farming under a contract:**

- You will lose part of your independence when you agree to a production contract. It is important that you read the contract carefully so that both you and the contract-provider clearly understand what it entails.

- Always read a contract thoroughly to make sure you understand what will happen if the harvest or production process fails.

- Make sure that pesticides and fertilisers supplied by the buyer are used wisely. These costs have to be paid back and using too much of these products can have a negative effect on production and the environment..

- A producer has to make agreements with the contract-provider regarding payments. This way he can prevent payment problems from arising.


SUMMARY

A producer can sell her product herself at the market, or she can sell it via a trader or a middleman. The choice depends on whether it is financially attractive for the producer to market the product herself, whether she would enjoy it, and whether she has the ability to do so. It is also possible to farm under a contract. You should then seriously weigh the advantages to the disadvantages, and carefully read the contract before you make a decision. When deciding upon a buyer, you should ask yourself:

Which buyers are trustworthy?
Who pays the best price?
At what time of the day is the seller likely to get the best price?
What is the best place to sell a product?

Keep in mind that cooperation gives you a better negotiating position. Selling in bulk makes it possible to get higher prices for your products. How to benefit from collaboration is the topic of the next session.

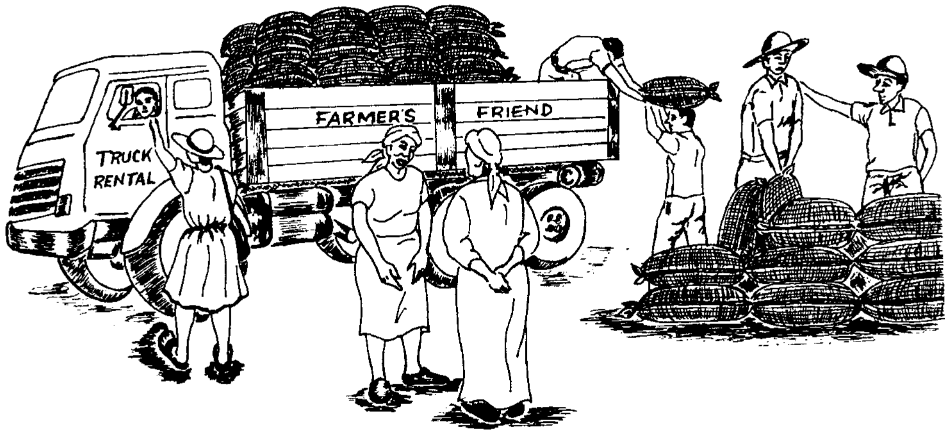
## Session 15: COLLABORATE!

After this session you will understand the need to work in a group in order to increase your profits.

Power is often distributed unequally in the market channel. A large-scale middleman or processing company has more power than a small-scale producer. As a result, the small-scale producers may get less for their products than they deserve. By working together, the producers can often challenge the dominant position held by the middleman or the large processing company.

### Joint transport

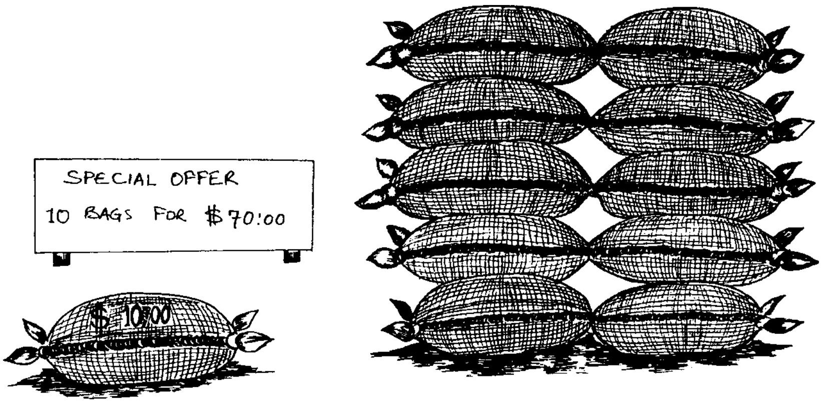
Members of a cooperative or a group of producers can achieve more by working together than they can individually. A small-scale producer will generally not have enough money to buy a truck to transport his product to the market in the city. Moreover, even if he could buy a truck, it would often stand idle when it is not needed, or it would be used for transporting small loads. The transport costs in either case would be high. If a group of producers buys a truck together, they can divide the costs. The truck would also be used more often, which would lower the transport costs.




*Renting transport together*

## Joint voice

Membership in a cooperative or group of small-scale producers can also be advantageous when purchasing seed or fertiliser. This is also true for selling products. Buying or selling large quantities puts the producers in a better position when negotiating with a middleman. This can lead to lower prices for purchased goods, and to higher prices for sold products.




*Obtaining a lower price per unit by buying in bulk*

## Add value together

Collective processing of products has a number of advantages. One important advantage is that the costs of purchasing machinery can be divided among the producers. Also, since large quantities of products are being processed, large quantities of consistent quality can be supplied to large-scale buyers. The most important issue is that processing adds value to the product.

## Sell in bulk

The number of supermarkets in the cities is growing quickly. It can be advantageous for a producer to sell to supermarkets. However, this is impossible for a small-scale producer. Supermarkets want large quantities and consistent quality. The products have to be equal in size, ripeness and quality. A small-scale producer cannot meet these requirements.

The same is true for export companies and other large-scale buyers. Their quantity and quality demands are comparable to the supermarkets' demands.

Nevertheless, it can be worthwhile for a small-scale producer to sell directly to these large-scale buyers. The prices are better because value is added in the form of sorting and packing the product before sending it to the supermarket, and because no middlemen are required.

By working together, a group of small-scale producers can meet the demands of supermarkets, exporters or other large-scale buyers. By combining and sorting the harvest, large quantities and a consistent quality can be offered to the buyers.

A group is also in a better negotiation position One small-scale producer cannot make demands of a large-scale buyer. The large-scale buyer can choose between many small-scale suppliers. If a supplier makes demands, with respect to prices for example, the large-scale buyer will simply buy from someone else. This situation changes if many small-scale producers work together. The large-scale buyer can then no longer make the producers compete against each other. A situation is created in which the buyer and seller (organised producers) can negotiate prices and selling conditions on a more equal basis.

Supplying products to supermarkets, exporters or other large-scale buyers requires careful organisation. Producers have to make detailed agreements about the manner in which they produce, sort, transport and sell their products. Your Farmer Union might be able to help you set up these procedures.

It is also important to plan the production well and to time it such that the supermarket, exporter or large-scale buyer can be offered a constant supply of goods. Supplying products to such buyers therefore requires an advanced form of cooperation.

1. **What are the strengths of working together?**

2. **What are the problems of working together?**

3. **How can you work around these problems?**

4. **Have you ever negotiated in group, as a cooperation or organisation (in business or other issues)? Was it successful? Why, or why not?**

5. **Discuss the opportunities to work together to improve your incomes and effectiveness of your business. Here are some activities to brainstorm around:**
   - **production**
   - **sharing knowledge, skills and experience**
   - **borrowing money**
   - **sharing or accessing market information**
   - **negotiating**
   - **processing**
   - **sorting**
   - **transporting**
   - **selling**
   - **other parts of marketing**

6. **What would be the benefits of such a collaboration?**

7. **Do you foresee any risks or problems of working together in this area?**

8. **What would you need to do to start up such collaboration? What would you need to on a daily basis?**

## Joint vision

Working together requires solidarity. It is important that individual members of a group put the interests of the group above their own short-term interests. Only if all the members of an organisation hold this view can a group or cooperative of producers function optimally and to the advantage of its members.

**WHY COLLABORATE?**

Transporting products together decreases transport costs. The middleman can be eliminated and the producers can receive higher prices for their products.

Cooperation in the marketing of products gives the producers a better negotiating position, which makes it possible to get higher prices for their products.

Processing collectively costs less, creates a better product and is more profitable.

It can be advantageous to supply to large-scale buyers. Producers receive better prices from these buyers. However, collectively supplying products of a consistent quantity and quality requires careful organisation.

Producers who organise themselves also have more possibilities to learn and gather information about their products and about how to produce them.

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