Farm Enterprise Development Manual
A Training Manual On Farm Enterprise Development
Grace Ruto and Charles Odhong'
VI AGROFORESTRY

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

DISCLAIMER

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Foreword and acknowledgement

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

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

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

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

Arne Andersson
Regional Director
Vi Agroforestry, Regional Office East Africa
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Introduction to the study circle methodology

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

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

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

The critical success factors of a study circle are:
- The farmers’ experiences and skills.
- A study plan or specially produced study reference material.
- A well-informed and trained facilitator who is responsible for moderating the study circle discussions.

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

Basic principles of the study circle methodology
The study circle is an active process that relates knowledge to action and social change, to development and creativity. The method can be described with some basic principles:
- Equality and democracy.
- Experiences and co-operation.
- The freedom of the study circle and its right to set its objectives.
- Study material.
- Continuity, planning and active participation.
- Change and action.
- Composition of groups.
- Gender and youth aspect.
Equality and democracy
All the participating farmers in the study circle are considered equal. Every member should have an equal opportunity to share their experiences and learn from each other. The study circle leader’s work is to inspire discussions in a relaxed manner.

Illustration: The study circle principles of equality and democracy.

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

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

The freedom of the study circle and its right to set its objectives
The study circle should be formed based on the participants’ needs and wishes. The farmers of the study circle will be responsible for how they work and how the studies are carried out.

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

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

Illustration: Members of a study circle actively participating.

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

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

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

Gender and youth aspect
It is important to involve women and youth in the study circle activities. This is because all members will benefit from sharing their knowledge with others and learn how to work better together in a group. The knowledge acquired will not only benefit the individuals and families participating, it will also strengthen the farmer group/organisation and accelerate realisation of collective goals.
Selection of a study circle leader
The study circle leader should create and develop the learning processes that stimulate and encourage the farmers actively to look for knowledge.

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

The study circle participants
The farmers should have a shared interest and looking for knowledge or solutions to their problems.
- All farmers as individuals have a responsibility to contribute and work actively in the group. In order for every participant to participate in all meetings, they must have decided on that assignment beforehand.
- All farmers share the responsibility for the end result of the studies.

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

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

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

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

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

The farmers have to decide on how the observations and conclusions shall be compiled and presented.
MODULE 1: Value chain development

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

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

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

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

DISCUSSION POINTS

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

Value chain development

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

DISCUSSION POINTS

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

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

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b. How does the farmer’s role influence the flow of produce to the final consumer?
Value chain supporters

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

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

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

**DISCUSSION POINTS**

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

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

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

**External environment**

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

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

**DISCUSSION POINTS**

a. What is my role as a farmer in the value chain?

b. How can I as a farmer ensure that I play my role effectively?
**Value chain mapping**

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

**Importance of a value chain map**

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

**DISCUSSION POINTS**

a. Why should farmers use the value chain approach?

**Reasons for using the value chain approach**

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

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

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

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**DISCUSSION POINTS**

a. Draw how your produce moves from the farm to the final consumer.
b. What is the importance of understanding the way the farm produce moves from the farm to the market?
Value chain analysis
A value chain analysis maps out and characterizes all the actors, services and institutions involved in getting agricultural products from the producer to the consumer. The analysis allows farmers to identify the strengths and weaknesses of each of the actors in the chain and decide on suitable actions that they can take to strengthen their participation in the market.

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

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

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

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

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

Illustration: Benefits of using a value chain approach
Critical success factors of value chain approach

There are several factors that contribute to the success of a value chain. The factors that will increase the success of a value chain include:

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

FOCUS ON SUPPLIER, BUYER AND CONSUMER

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

DISCUSSION POINTS

a. What will you do to ensure that the value chain selected will succeed over time?
MODULE 2:
Business development in agribusiness

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

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

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

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

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

The steps to follow include:
1. Identification and description of the business opportunity.
2. Business Planning.
4. Organisation and coordination.
5. Evaluation.

1. Identification and description of the business opportunity
The farmer must identify a business opportunity and be able to show how s/he will be able to explore the opportunity to make profits. The entrepreneur must ask the following questions to evaluate the opportunity.
It is planting time, why have we not received the seeds yet?

Don’t blame me! The supplier has not yet delivered the seeds.

Oh! We were not reminded that you would be coming to collect the sacks today.

We have delivered our produce. How come we have not yet been paid?

There is no transport to go to the bank.

Why haven’t you packed the produce in sacks?

2. Business planning

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

DISCUSSION POINTS

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

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

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

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

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

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

4. **Organisation and coordination**

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

5. **Evaluation**

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

**Farmer/producer organisation concept for agribusiness development**

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

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

**Discussion Points**

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

These five key steps are expounded further in subsequent modules.

**Principles for agribusiness development for producer**

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

1. **Capitalisation**

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

2. **Profitability**

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

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

3. **Competitiveness**

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

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

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

**Discussion Points**

- What factors does a farmer/producer group need to consider to ensure the group business grows and benefits all the members?
Business Development Services (BDS)

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

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

**DISCUSSION POINTS**

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

<table>
<thead>
<tr>
<th>Type of business development services for smallholder farmers</th>
</tr>
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<tbody>
<tr>
<td><strong>MARKET ACCESS SERVICES</strong></td>
</tr>
<tr>
<td>- Market information</td>
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<tr>
<td>- Market linkages</td>
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<tr>
<td>- Trade fairs and product exhibitions</td>
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<tr>
<td>- Market research</td>
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<td>- Packaging</td>
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<tr>
<td>- Advertising</td>
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<tr>
<td><strong>INPUT SUPPLY SERVICES</strong></td>
</tr>
<tr>
<td>- Linking farmers to input suppliers</td>
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<tr>
<td>- Capacity to provide a regular supply of quality inputs</td>
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<tr>
<td>- Capacity to offer discounts for bulk buying by farmer groups</td>
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<tr>
<td>- Information on input supply sources</td>
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<td>- Advisory support on application of inputs</td>
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<td><strong>TECHNOLOGY AND PRODUCT DEVELOPMENT SERVICES</strong></td>
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<td>- Technology transfer</td>
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<tr>
<td>- Linking farmers and technology suppliers</td>
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<tr>
<td>- Facilitating technology procurement</td>
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<td>- Quality assurance programmes</td>
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<tr>
<td><strong>TRAINING AND TECHNICAL ASSISTANCE:</strong></td>
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<td>- Production and postharvest extension support</td>
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<td>- Storage and warehousing</td>
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<td>- Transport and delivery</td>
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<td>- Business incubators</td>
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<td>- Value addition</td>
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<tr>
<td><strong>POLICY AND ADVOCACY</strong></td>
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<tr>
<td>- Training in policy advocacy</td>
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<tr>
<td>- Analysis and communication of policy constraints and opportunities</td>
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<tr>
<td><strong>ACCESS TO FINANCE</strong></td>
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<tr>
<td>- Link farming businesses to banks and micro-finance institutions</td>
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<tr>
<td>- Provide information on credit schemes and conditions</td>
</tr>
<tr>
<td>- Encourage savings</td>
</tr>
<tr>
<td>- Assistance in business planning for loan applications</td>
</tr>
<tr>
<td>- Capacity building on financial management</td>
</tr>
</tbody>
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1. Demand driven services

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

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

2. Relevant

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

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

3. Participatory

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

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

4. Cost recoverable

The cost of the services provided should be recovered from those who receive the services. The farmers and group should be willing to pay for the services rendered. This will also help to eliminate dependency on service provider.
5. Sustainable
The services should be structured in a way that focuses on future needs and the ability to meet such needs. Sustainability is a key component of offering BDS to smallholder farmers.

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

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

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

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

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

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

1. Determine where the producer organisation is. This involves a thorough evaluation of the status of the farmer organisation. For an accurate picture of where producer organisation is, they should have a clear understanding of:
   - The marketplace.
   - The competitors.
   - The organisation’s capacity.

2. Identify what’s important. Focus on where that organisation is at the moment and the destination of the organisation over a given period of time. This sets the direction of the enterprise over the long term and clearly defines the mission (markets, customers, products, etc.) and vision (conceptualisation of what your organisation’s future should or could be).

3. Define what must be achieved. Define the expected objectives that clearly state what the organisation must achieve to address the priority issues. This may also involve identification of the resources available to ensure all the goals are achieved.

How can we increase our income by 10%?
We must increase our production by 10% through applying manure and practicing SALM.
By selling our crops at a later date and getting a 10% increase in price.

Illustration: Strategic planning

All producer groups need to orient their business strategies towards the market in order to expand and consolidate their business. Market orientation is based on the principle of satisfying the needs of consumers.
4. **Determine who is accountable.** The strategies, action plans, and budgets are all steps in the process that effectively communicates how the organisation will allocate time, human capital, and money to address the priority issues and achieve the defined objectives.

5. **Review the plan.** To ensure the plan performs as designed, the producer group must hold regularly scheduled formal reviews of the process and refine as necessary.

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

---

### MODULE 3: Enterprise analysis and selection

**LEARNING OBJECTIVES**

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

Illustration: Which crops should I grow?
Which crops should I grow?

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

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

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

Considerations in enterprise selection:

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

<table>
<thead>
<tr>
<th>CONSIDERATION</th>
<th>REFLECTION QUESTIONS/POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>DETERMINE YOUR GOALS</td>
<td>What is your primary reason for farming? To maximize income, to provide income for family members, or other reasons?</td>
</tr>
<tr>
<td></td>
<td>What other activities are you involved in, and what are the priorities of these activities relative to the farm business?</td>
</tr>
<tr>
<td></td>
<td>Do you want to devote full-time effort to the farm or would you prefer farming to be a part-time activity?</td>
</tr>
<tr>
<td></td>
<td>How much are you willing to be restricted by time and capital demands of your farm business?</td>
</tr>
<tr>
<td></td>
<td>Do you want to eventually transfer the ownership of the farm to a partner or family member?</td>
</tr>
<tr>
<td></td>
<td>Is income from the farm and/or sale of the farm an important part of your retirement plan?</td>
</tr>
<tr>
<td></td>
<td>What is the desired period between initial investment and cash returns?</td>
</tr>
<tr>
<td></td>
<td>Do you want to learn new skills through self-study or formal training?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSIDERATION</th>
<th>REFLECTION QUESTIONS/POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVENTORY YOUR RESOURCES</td>
<td>What resources are available? Availability of resources will ultimately limit your choice of enterprises simply because the resource requirements among enterprises vary.</td>
</tr>
<tr>
<td></td>
<td>A list of resources typically includes land, labour and capital. Other factors to consider include climate, access to information, management skills, and markets.</td>
</tr>
<tr>
<td></td>
<td>Consider your market potential carefully. If it is a product that has never been tried before in your area plan to take several years to get established. Be realistic about your cash flow situation and plan accordingly.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHYSICAL FACTORS</th>
<th>Land</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How much land do you have available?</td>
</tr>
<tr>
<td></td>
<td>What is the physical profile and topography of the land?</td>
</tr>
<tr>
<td></td>
<td>What is the soil texture, drainage capability and nutrient levels?</td>
</tr>
<tr>
<td></td>
<td>Which types of weeds are growing on the soil?</td>
</tr>
<tr>
<td></td>
<td>Which other crops have been grown on the land?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHYSICAL FACTORS</th>
<th>Climate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What is the average rainfall in your area and when are the rainy periods?</td>
</tr>
<tr>
<td></td>
<td>When are the first and last frost dates and how much have the actual dates varied historically?</td>
</tr>
<tr>
<td></td>
<td>What are the high and low temperatures for your area and when do they occur?</td>
</tr>
<tr>
<td></td>
<td>What is the average daily temperature?</td>
</tr>
<tr>
<td></td>
<td>What is the day/night temperature variation?</td>
</tr>
<tr>
<td></td>
<td>What is the direction and strength of winds?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHYSICAL FACTORS</th>
<th>Irrigation water</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Where does your water come from and what is its cost?</td>
</tr>
<tr>
<td></td>
<td>What is the water quality?</td>
</tr>
<tr>
<td></td>
<td>Do you have water rights? Are you within an irrigation district?</td>
</tr>
<tr>
<td></td>
<td>When is irrigation water available to you and in what amount?</td>
</tr>
<tr>
<td></td>
<td>What type of irrigation system do you have?</td>
</tr>
<tr>
<td></td>
<td>What are the differences in cost and efficiencies for alternative systems?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHYSICAL FACTORS</th>
<th>Farm structures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What type of buildings do you have on the property and what is their condition?</td>
</tr>
<tr>
<td></td>
<td>Do you have structurally sound fences?</td>
</tr>
<tr>
<td></td>
<td>If you feel you need additional buildings or fences, have you checked into the cost of their construction?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHYSICAL FACTORS</th>
<th>Machinery and equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What type of farm power machinery do you have?</td>
</tr>
<tr>
<td></td>
<td>What farm implements do you have?</td>
</tr>
<tr>
<td></td>
<td>What is your transportation equipment: truck, pick-up, or trailer? Consider capacity and efficiency.</td>
</tr>
<tr>
<td></td>
<td>Have you considered leasing/renting some equipment?</td>
</tr>
<tr>
<td></td>
<td>What are the possibilities of contracting with custom operators in your area?</td>
</tr>
</tbody>
</table>
### CONSIDERATION

**Financial Factors**
- How much capital are you willing/able to invest?
- Are you able or willing to borrow capital?
- What is your cash flow situation?
- Is a high rate of return on your investment important to you?
- Are you willing to consider risky enterprises?

**Management Factors**
- Personal skills
  - Management skills: record keeping, personnel management, budgeting, familiarity with tax and other relevant laws – do you consider these to be adequate?
  - What are your mechanical skills?
  - Which are your knowledge strong points: plant physiology, animal health, pest management, greenhouse production, etc.?
  - Would you prefer handling a diversified farm or would you prefer one or two major enterprises?

  **Information access:**
  - Are you familiar with the agricultural information delivery systems?
  - Are you able to access the resources of these systems?
  - Is sufficient information available for the enterprises in which you are interested?
  - Are you willing to learn new skills if they are required?

**Labour factors**
- What are your labour needs on a monthly basis?
- Are you planning to use mostly family or mostly hired labour?
- Have you checked out the regulations of your country?
- Have you considered the opportunity cost of using your own labour?

**Marketing factors**
- Do you have a preferred marketing method? Broker, retailer, direct roadside stand, farmers market, cooperative, contract with processor?
- What is your proximity to various potential markets?
- Have you contacted potential markets for their advice on crop selection?
- How much time are you willing to spend marketing your products?
- Do you have cooling facilities for perishable products?
- Are you familiar with marketing regulations for the enterprises you are considering?

### DEVELOP A LIST OF POSSIBLE ENTERPRISES
- Which enterprises are predominant in your area?
- Are there enterprises which interest you that have been successful in other areas in similar soil and climate conditions (i.e., enterprises that have potential in your area but have not yet been established)?
- What crops or livestock have been raised on your land in the past?
- Which are the enterprise types with which you feel more personally compatible: livestock, field crops, orchard crops, small fruits, vegetables, ornamentals, growing transplants, raising seed

### CONSIDERATION

**Determine Which Enterprises are Compatible With Your Resources**
- Carefully evaluate the potential for each of the enterprises on your list. This can be done by systematically comparing the resource needs for each enterprise to the resources available. Determining the resource requirements for each enterprise will probably require a good deal of homework. A good place to start is by talking to other growers in your area or elsewhere about their experience with the enterprise you are considering. Your county Cooperative Extension office is also a good place to start. Of course, there is nothing like a nearby library at a local college campus.
- To the extent possible, answer the following questions for each enterprise and check for compatibility to your resources as you go along. Also make note if the resources are not available but are obtainable should the enterprise be selected. An example would be specialized harvest equipment.

### GROWING CONSIDERATIONS
- **General crop situation**
  - What is known about variety adaptability in your area?
  - About the effects of spacing on yield and quality?
  - What is your personal experience with the crop?
  - What is the research base for the crop under consideration?
  - Where else is the crop grown?

- **Climatic requirements**
  - What is the crop’s adaptability to the climate during the intended growth period?
  - What is the crop’s tolerance for rainfall, frost, high temperatures?
  - How will the climatic conditions during the planned cropping period affect the physiology of the crop?

- **Rotation considerations**
  - How does the crop fit into rotation with other crops planned?
  - How much time from planting through total harvest period?
  - What will be the effect of weed management practices used on the crop under consideration on following crops?

- **Equipment requirements**
  - Is there a need for special materials or equipment (cultivation or harvesting equipment, storage facilities)?
  - What will be their cost and availability?

- **Irrigation**
  - How much water is needed?
  - How often do you need to irrigate?
  - What type of irrigation systems are recommended?
  - Does the quality of water affect production?

- **Pollination**
  - Pollination problems for fruiting crops need to be considered.
  - How many hives will be needed?
  - How will you determine hive quality?
  - What will the rental cost be?
  - What are the important pest problems for the crop?
  - Are there control measures available which are registered for use?
  - Are there varieties available which are resistant to important diseases of the crop?
  - If so, do they have good yield and quality characteristics?
### Considerations

#### Growing considerations (continued)

<table>
<thead>
<tr>
<th>Reflection Questions/Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pest management</strong></td>
</tr>
<tr>
<td>- What are the important pest problems for the crop?</td>
</tr>
<tr>
<td>- Are there control measures available which are registered for use?</td>
</tr>
<tr>
<td>- Are there varieties available which are resistant to important diseases of the crop?</td>
</tr>
<tr>
<td>- If so, do they have good yield and quality characteristics?</td>
</tr>
</tbody>
</table>

| **Labour requirements** |
| - How many acres of the crop can you handle with the amount of labour that you have available? |
| - Would it be more economical to buy or rent labour-saving systems, i.e., Mechanical trans-planter versus hand planting, selective herbicide versus hand weeding, picking cars which carry several containers, etc.? |
| - Is seasonal labour available? |

| **Operation and investment capital** |
| - How much money will need to be invested in growing the crop? |
| - Where will this capital be obtained? |
| - What will be the terms of any loans (length, interest, equity requirement, collateral)? |

| **Harvesting** |
| - How many harvests are required to obtain an economic yield? |
| - How is the harvest interval affected by temperature? |
| - How long will it take with your available labour to harvest your planting each time? |
| - How is the crop packaged for market? What will be the cost of containers? |

| **Marketing** |
| - Are you thoroughly familiar with the market quality standards for the crop? |
| - Have you studied the market history and market trends of the crop? (Crop selection should not be based only on recent high market prices.) |
| - Have you explored various types of market outlets? |

| **Profitability** |
| - What are the total production costs? |
| - What kinds of yields can you expect? |
| - What is the expected gross and net income? What variation in net income can you expect? |
| - How does this crop compare to other crops? How does this crop compare to livestock returns? |

### Analyse compatibility among enterprises (continued)

<table>
<thead>
<tr>
<th>Reflection Questions/Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Obviously, the timing of the resource requirement can be as critical as the amount of the resource required. A monthly chart of resource needs for each enterprise may be helpful.</td>
</tr>
<tr>
<td>- There are several advantages to having several enterprises within one farm business. First of all, you are reducing risk. The chances of production failure and/or poor prices are lower when spread out over several commodities. Your cash flow and profit will probably be less variable from year to year in a diversified operation.</td>
</tr>
<tr>
<td>- Next, diversification done correctly will mean spreading fixed costs out over more commodities. It will also mean using resources more evenly throughout the year. This may be helpful if you are relying on hired labour and can offer an employee work for a longer period of time.</td>
</tr>
<tr>
<td>- A range of products may increase your access to markets. Quite often a buyer is more interested in a grower that can supply a number of commodities rather than having to buy from a number of different growers.</td>
</tr>
<tr>
<td>- Finally, crop rotation and crop mix done properly have been shown to be effective methods of pest control and increasing soil fertility. These production practices include such things as inter-cropping, cover crops and green manure crops.</td>
</tr>
<tr>
<td>- After you have developed a final list go back and review your goals. Make sure that the long run and short run goals are going to be met with your plan. Do not be discouraged by how demanding this process is. Enterprise selection for a farm should not be any simpler than a major decision for any business. The effort put into research should be directly related to the amount of capital at risk and the potential rewards. Remember that playing what if on paper is always less risky and less time consuming than experimenting in the field when you are not well prepared.</td>
</tr>
</tbody>
</table>

### Selecting an enterprise

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

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

When calculating the gross income we only take into account the variable costs. Variable costs can be described as costs that will differ depending on the amount of output produced. For example to produce more beans (output) you need more seed, fertiliser, pesticides and you might have to hire machines for a longer time to prepare the soil. Other types of costs are fixed costs that do not change with the amount of output. It can for example
be renting a building and costs of the license for the enterprise. The input of family labour is most often treated as a fixed cost, and therefore here not included in the calculation of gross margin.

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

**Gross Margin**

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

*Example: Gross Margin for beans.*

<table>
<thead>
<tr>
<th>PREDICTED OUTPUT</th>
<th>REVENUE – MONEY IN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Yield (kg/acre)</td>
<td>800</td>
</tr>
<tr>
<td>Expected price (RWF/kg)</td>
<td>1,500</td>
</tr>
<tr>
<td>ENTERPRISE GROSS INCOME</td>
<td>1,200,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PREDICTED VARIABLE COSTS</th>
<th>EXPENSES – MONEY OUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor (hired)</td>
<td>100,000</td>
</tr>
<tr>
<td>Tractor (hired)</td>
<td>75,000</td>
</tr>
<tr>
<td>Tools (hoe, machete)</td>
<td>15,000</td>
</tr>
<tr>
<td>Fertilisers</td>
<td>50,000</td>
</tr>
<tr>
<td>Pesticides</td>
<td>30,000</td>
</tr>
<tr>
<td>Curing/drying</td>
<td>70,000</td>
</tr>
<tr>
<td>Packing materials</td>
<td>8,000</td>
</tr>
<tr>
<td>Transport to market</td>
<td>80,000</td>
</tr>
<tr>
<td>TOTAL VARIABLE COSTS</td>
<td>398,000</td>
</tr>
</tbody>
</table>

**ENTREPRISE GROSS MARGIN PER ACRE**

| (Enterprise gross income less total variable costs) | 802,000 |

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

**MODULE 4:**

**Market development**

**LEARNING OBJECTIVES**

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

Illustration: Different markets
Agricultural marketing

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

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

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

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

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

<table>
<thead>
<tr>
<th>MARKET TRENDS (changes and developments in buying and selling in the market) AND REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the market size (measurement of the total volume of a given market) at the moment?</td>
</tr>
<tr>
<td>Who are supplying that market?</td>
</tr>
<tr>
<td>Is there a possibility for growth in the market?</td>
</tr>
<tr>
<td>What factors are changes in buying and selling in the targeted market?</td>
</tr>
<tr>
<td>What does the market require in terms of inputs, standard, from the farming business?</td>
</tr>
<tr>
<td>What are the price changes in the market?</td>
</tr>
<tr>
<td>What is influencing price changes in the market?</td>
</tr>
<tr>
<td>Are there any special laws or regulations that apply to the value chain and any government policies or actions that will affect your entry to the market?</td>
</tr>
<tr>
<td>What are the main distribution channels for the produce?</td>
</tr>
<tr>
<td>Who controls the market? (Is it middlemen or distributors)?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSUMER REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are the current and potential buyers in your identified market?</td>
</tr>
<tr>
<td>Where are your consumers located?</td>
</tr>
<tr>
<td>How do the customers pay for the products?</td>
</tr>
<tr>
<td>What do your customers need in terms of product features and quality?</td>
</tr>
<tr>
<td>What are projected future demands and why?</td>
</tr>
<tr>
<td>Is there sufficient demand for the product?</td>
</tr>
<tr>
<td>Who makes the buying decision?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>THE COMPETITORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are the main competitors?</td>
</tr>
<tr>
<td>Expected crop yields in the rest of the country?</td>
</tr>
<tr>
<td>What are their strengths and weaknesses?</td>
</tr>
<tr>
<td>What is their capacity in terms of volumes and quality?</td>
</tr>
<tr>
<td>What are the prices offered by the competitors?</td>
</tr>
<tr>
<td>Can you get an adequate share of the market by offering a better product or service than competitors?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>THE FARMER/PRODUCERS’ SITUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are your unique or different sales advantages?</td>
</tr>
<tr>
<td>Can you get an adequate share of the market by offering a better product or service than competitors?</td>
</tr>
<tr>
<td>Do the producers have what is required to access the targeted market?</td>
</tr>
<tr>
<td>How best to grow, price, promote or distribute your product to your preferred market?</td>
</tr>
<tr>
<td>What transport is available? Condition of the roads?</td>
</tr>
</tbody>
</table>

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

**What happens without market research? What are the risks?**
- Consumers may not like the product or do not like the way it is packaged.
- The price which the producer wants maybe way too high than what consumers may afford.
- The price offered by buyers may be too low to cover production and marketing costs.
- The quality may be unacceptable.
- The quantity required may be lower than what is produced or quantity produced may be higher than what is what is required.
- The farming enterprise will incur losses.

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

**DISCUSSION POINTS**

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

**Market planning**

Market planning is essential for every agribusiness. Market planning is the process of analysing one or more potentially interesting marketplaces in order to determine the best way to compete in them. Marketing planning helps to develop products and services that meet the needs of the target market. Good marketing helps customers to understand why the product or service is better than or different from the competition.
Developing a marketing plan requires research, time and commitment, but is a very valuable process that can greatly contribute to the business success of a farm enterprise.

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

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

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

### The Four P’s of Marketing:
Product, Price, Place, Promotion

### Marketing Mix: the 4 Ps

#### PRODUCTS
What we sell to satisfy a customers’ need or want.

- Same quality and type of product every day
- Same price for a fixed period of time
- Same quality and type of product every day
- Selling in bulk or small quantities
- Variety of products offered
- Improving the quality of product
- Quality grading of products
- Packaging of products – types and sizes
- Marking or branding of products
- Raw, semi-processed, or processed products
- Consistency in availability of products
- Use of chemicals or organic manure
- Quality, sizes, characteristics
<table>
<thead>
<tr>
<th>MARKETING VARIABLE</th>
<th>DEFINITION</th>
<th>DECISIONS ON THE VARIABLE</th>
</tr>
</thead>
</table>
| **PRICE**          | The monetary value that a seller seeks from the buyer. | - Selling price compared to costs  
- Profit considerations  
- Timing (seasonal) considerations  
- Level of supply and demand of products  
- Market and competitor prices  
- Consideration of payment terms and payment mode  
- Discounts — quantity, cash, state of products  
- Special prices to attract new customers  
- Consideration of location of products  
- Type of market and customer  
- Relationship status  
- Price list, discounts, price margins |
| **PLACE**          | Deciding where to sell your products (popular market away from competition etc.) | - Sales points  
- Location of products (home, market, customer’s door)  
- Direct or indirect sales  
- Selling products through a middleman or wholesaler  
- Selection of distributors/traders  
- Selection of transport mode  
- Storage decision |
|                    | Distribution and marketing channel | Where is the product going to be marketed? |
| **PROMOTION**      | Convincing or persuading the audience of the quality or features of the product or services offered by the group. | - Advertising, personal sales, trade & consumer promotions and public relations  
- Public announcements (schools, meetings, etc.)  
- Public notices (shops, schools, farms, etc.)  
- Word of mouth  
- Farm bill boards and sign posts  
- Field days/exhibitions/shows  
- Mobile phones  
- Internet: email, social media |
|                    | How are people going to be informed that the product is available? | |

**Developing a marketing strategy**

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

Farmers can consider trying to sell an **existing product** or develop **new products**. They can also consider serving an **existing market**, or trying to find **new markets** for their products.
There are different types of price information:
- Farm gate prices – usually on-farm purchases.
- Off lorry prices – offered by aggregators.
- Wholesale/processor prices for bulk purchases.
- Retail prices – prices offered to consumers.

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

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

**Market information**

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

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

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

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

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

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

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

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

DISCUSSION POINTS
a. How do you know if a price offered by a trader for your commodity is the best price a trader can pay?
b. How do you bargain with a trader?
c. Among the various traders (vendors, middlemen, wholesalers and processors) in the market, which ones would you target as a collective marketing group and why?
d. Why do prices go up or down?
- Price of similar products.
- Location of produce (long distance to market increases transport and marketing costs).
- Personal preferences.
- Government regulations for instance price controls.
- Pricing strategy.

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

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

Illustration: Factors affecting produce prices
Accessing markets and marketing channels

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

Below are the different kinds of marketing channels
1. Farm gate marketing
2. Sales to local dealers
3. Export markets
4. Contract marketing
5. Co-operative (group) marketing

1. Farm gate marketing

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

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>- No transport costs</td>
<td>- Farmers must accept the local price for their produce which may be lower</td>
</tr>
<tr>
<td>- Can be marketed by the farming family, thus costs are reduced</td>
<td>- Farm may not be well located to market the product</td>
</tr>
<tr>
<td>- Better suited to the smallholder farmer</td>
<td>- Once the local market’s demand is supplied, the farmer has to look to more distant markets</td>
</tr>
</tbody>
</table>

2. Sales to local dealers

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

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Produce can be delivered locally so transport is less</td>
<td>- Price will be less than direct sales to consumers as the dealer’s profit margin and handling and transport costs will be reflected in lower prices offered</td>
</tr>
<tr>
<td>- Larger volumes can be sold</td>
<td></td>
</tr>
<tr>
<td>- Farmer does not have to spend time in marketing</td>
<td></td>
</tr>
<tr>
<td>- Production can be of only one or a few commodities</td>
<td></td>
</tr>
</tbody>
</table>
3. Export markets
Because of the complexity and risk of exporting produce, small farmers and small groups of farmers are advised to sell export produce through established exporters or traders rather than attempting to export them. A decision to supply to an export market will mean significant changes in the Farm Business.

Illustration: Export marketing

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

Illustration: Contract marketing

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

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wider market opportunities</td>
<td>Returns may only be as good as the management of the group/co-operative</td>
</tr>
<tr>
<td>Lower costs per unit for post-harvest handling and transport</td>
<td>The farmer does not have as much say on final markets and prices</td>
</tr>
<tr>
<td>Lower marketing costs overall</td>
<td>Constant supply is needed</td>
</tr>
<tr>
<td>Better prices and smaller price fluctuations</td>
<td>Prices must be flexible</td>
</tr>
<tr>
<td>Builds solidarity among farmers</td>
<td></td>
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</tbody>
</table>

Illustration: Co-operative Marketing
Collective marketing

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

DISCUSSION POINTS

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

Benefits of marketing as a group

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

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

3. Servicing common market demand
   Key issues that producers should put in consideration are:
   - The volumes demanded by the market for the producer group.
   - Producing common product(s): all producer group members must agree to produce or process similar products.
   - Collective production and marketing system: e.g. marketing committee, bulking centre, joint production schedule, collective marketing plan and so on.

4. Maintained competitiveness
   Maintained competitiveness of producer groups to achieve competitiveness and satisfy products buyers by:
Ability to service and maintain consistency in supply to the market as a result of scheduled production and marketing.

Minimization of risk i.e. lowered production as a result of unforeseen risks or poor planning shouldered.

Ability to sell to buyers and eventually to consumers at lower cost as a result of common resources sharing.

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

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

Success through collaboration
Key success factors to collective marketing
There are some factors that are critical for collective marketing to be successful. These factors include:

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

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

Characteristics of all buyers:

- They all want continuity of supply.
- They demand certain product specifications i.e. quantity, grade, quality, packaging.
- They offer different payment terms.
- They also buy varying quantities depending on their position on the market chain.
What can the group do to target more buyers?
- Organise good grading of produce.
- Organise factory or market visits.
- Conduct market research before making the selling decision.
- Supply consistently to establish rapport with buyers.
- Bulk their produce and practice good post-harvest handling.
- Sell produce in breaks and not at once.

Activities to create market and business linkages
There are a number of activities that farmers group can engage in to introduce their products to the traders and even to the final consumer. Some of these activities include;
- Organising farmer trader forums to discuss the business prospects with the farmers.
- Establishing linkages with processors or large consumers for direct sales.
- Exploring for opportunities with trader who may be interested in buying produce from the farmers.
- Ensuring that the farmer produce is visible to the trader and other consumers. This can be done by doing promotion or participating in exhibitions, field days etc.
- Providing information and negotiating support to farmers and farmer’s groups.
- Obtaining names and contacts of important businesses such as suppliers of packaging, transport companies, market agents and traders and processing companies. Seek information on prices, packaging, comparative transport costs, and agencies with good reputations.

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

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

What buyers do during the price negotiation process:
- May not tell the farmers the correct market price of the product.
- Most of them claim that the quality is not up to standard.
- May threaten not to do business with the farmers unless if farmers agree to a lower price.
- May collude with other buyers in the area to offer a lower price to the farmers.
- Always pretend that they know many other farmers selling the product at a much cheaper price.

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

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

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

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

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

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

Examples of value additions

1. Drying and shellng or threshing

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

2. Cleaning and sorting

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

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

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

3. Bulking

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

4. Packaging

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

5. Storage

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

6. Processing

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

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

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

MODULE 5: Business concepts and planning

LEARNING OBJECTIVES

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

Illustration: Farming as a business vs subsistence farming
Farming as a business

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

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

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

**DISCUSSION POINTS**

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

The importance of farming as a business

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

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

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

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

**Farmers as entrepreneurs**

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

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

**Illustration: Farmer as an entrepreneur**
Business planning

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

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

Understanding the business planning process
There are two factors that are essential when planning for a business. These are:
1. Record keeping
2. Business analysis

1. Record keeping
Accurate records are the ingredients that are used in the development of a business plan are accurate records. All the business activities of the producer group must be recorded. The important records required for business planning include:
- Record of incomes and costs: These are essential for evaluation of profit and losses of the group.
- Record of prices: The sales prices received for products can be prepared for specific crops throughout the year and so enabling the group to prepare produce for market when the best prices are likely and to negotiate better with buyers.
- Records of yields obtained and total sales: This should take into account the volume and the price for specific products in order to compare with previous years and make a forecast for future years.

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

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

DISCUSSION POINTS
a. Why do you need to analyse the group business?
The producer group should discuss the strength of their group by answering the following questions:

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

**DISCUSSION POINTS**

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

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

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

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

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

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

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

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

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

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

A good business plan should generally have the following:

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

1. Executive summary

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

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

- Brief history of the business.
- A description of the product(s)/activities/services.
- Market.
4. Market planning
The group should demonstrate the ability to identify, plan and penetrate the market. This should be based on available information. During this market planning process, the plan should generally cover the following:
- Product range or service.
- Quality requirements.
- Market trends.
- SWOT analysis of competitors.
- Strategy for entry and survival in the market.

5. Financial planning
Financial planning looks at the financial status, types and amount of funding required. On finances the group should consider:
- The amount of funds required.
- The uses of funds.
- Costs, revenue and profit projections which help set prices for products and services.

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

DISCUSSION POINTS
Discuss the following questions related to human resource planning:
- Who are the key people in the business?
- How experienced, skilled, educated and trained are they?
- How much will they be paid?
- What are the main strengths and weaknesses in the team?
- Who are the board of directors (if any)?
- How often should they meet and what should be their key tasks?

Business plan outline

1. LOCATION/BUSINESS INTRODUCTION
| Name of Business/Agribusiness |
| Name of Farmer/Entrepreneur |
| Business Type (Services/Trade/Production) |
| Contact information |
| Physical Location |

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

3. WHO ARE YOUR CUSTOMERS?

4. WHAT IS YOUR MARKETING PLAN?

5. WHO ARE YOUR COMPETITORS?

6. HOW WILL YOU COMPETE WITH YOUR COMPETITORS?
7. HOW WILL THE PUBLIC BENEFIT FROM YOUR BUSINESS?

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

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

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

11. WHAT WILL BE THE SPECIAL IN YOUR BUSINESS?

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

13. ANY OTHER MOTIVATIONAL STATEMENT OF YOUR BUSINESS?

A. INCOME FROM SALE OF PRODUCE

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>UNIT (E.G. KG)</th>
<th>NUMBER OF UNITS</th>
<th>RATE PER UNIT $</th>
<th>TOTAL $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

TOTAL

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

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>NUMBER OF UNITS</th>
<th>RATE PER UNIT $</th>
<th>TOTAL $</th>
<th>GUARANTEE LIFE (PERIOD)</th>
<th>DEPRECIATION</th>
<th>DISTRIBUTOR/ DEALER WITH ADDRESS</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

TOTAL

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

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>NUMBER OF UNITS</th>
<th>MONTHLY RATE $</th>
<th>MONTHLY TOTAL $</th>
<th>YEARLY TOTAL $</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

TOTAL

D. INPUTS (Seed, fertilisers, etc.)

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>NUMBER OF UNITS</th>
<th>RATE PER UNIT $</th>
<th>TOTAL $</th>
<th>DISTRIBUTOR/ DEALER WITH ADDRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

TOTAL

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

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>NUMBER OF UNITS</th>
<th>RATE PER UNIT $</th>
<th>TOTAL $</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

TOTAL
**MODULE 6: Financial management**

**LEARNING OBJECTIVES**

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

---

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

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>NUMBER OF UNITS</th>
<th>RATE PER UNIT</th>
<th>YEARLY TOTAL $</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Depreciation Total from section “B”</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>TOTAL $</th>
</tr>
</thead>
</table>

**PROFIT CALCULATION**

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>TOTAL $</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 INCOME Total $ from section “A”</td>
<td></td>
</tr>
<tr>
<td>H2 EXPENDITURE Total $ from section “C, D, E, F”</td>
<td></td>
</tr>
<tr>
<td>PROFIT H1 – H2 Subtract the expenditures (H2) from income (H1)</td>
<td></td>
</tr>
</tbody>
</table>

**FINANCIAL RESOURCES**

<table>
<thead>
<tr>
<th>SR NO.</th>
<th>DETAIL</th>
<th>AMOUNTS</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Signature Business Owner: ________________________________

Signature Manager/staff member: __________________________

Date: ________________________________

With a financial plan, I can plan the different ways of using money: seeds, tractor, labour, fertiliser.

Illustration: Financial management
What is financial management?

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

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

DISCUSSION POINTS

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

The role of financial management

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

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

DISCUSSION POINTS

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

Financial planning

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

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

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

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

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

What is a budget?
A budget is a detailed physical and financial plan for the operation of an organisation for a certain period. Budgeting involves considering the resources to be used, the choice of enterprises to be pursued and a calculation of expected receipts, expenditures and net farm income. Each line of the budget should give:
- The description of the goods and services required.
- The prices of goods and services.
- The quantities which will either be bought or sold in a given period.
- The activity to which the total cost will be allocated.
- The activity to which the total cost will be allocated.

Illustration: Budgeting

Benefits of budgeting

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

### BUDGET

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of crop</td>
<td>20,000</td>
</tr>
<tr>
<td>Production costs:</td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>1,000</td>
</tr>
<tr>
<td>Fertiliser</td>
<td>4,000</td>
</tr>
<tr>
<td>Labour</td>
<td>3,000</td>
</tr>
<tr>
<td>Marketing costs:</td>
<td></td>
</tr>
<tr>
<td>Packaging</td>
<td>1,000</td>
</tr>
<tr>
<td>Transport</td>
<td>1,200</td>
</tr>
<tr>
<td>Labour</td>
<td>600</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20,000</td>
</tr>
<tr>
<td>SURPLUS</td>
<td>9,200</td>
</tr>
</tbody>
</table>

Discussion Points

a. What is a budget?
b. Why is it important for farmers’ groups to draw a budget?
**Cash flow statements**

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

**DISCUSSION POINTS**

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

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

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

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

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

**Funding for producer groups**

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

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

**DISCUSSION POINTS**

a. What factors should a farmers group consider when applying for financing from different organisations?
1. Co-operative or group appraisal
The purpose of the appraisal is to enable the group determine their creditworthiness. Credit-worthiness is a valuation performed by lenders that determines the current and future possibility of whether a borrower may be able to repay borrowed money. During self-appraisal, the group tries to identify the following:
- Their skills and competency in the running of the business.
- Past experience or information especially on handling loan.
- Farm business performance in terms of sales volume for the past and current period. Past business records are good source of this type of information.
- Availability of real assets at the disposal of the group that can act as a collateral.
- Members’ ability to access funding from other sources.

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

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

<table>
<thead>
<tr>
<th>TYPES OF FUNDING</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
</table>
| PERSONAL SAVING  | - Keep all of the profit  
- Reduce amount of debt  
- Care taken to avoid loss by provider  
- Shows good faith at any potential farmer | - Chance of loss  
- May force personal sacrifices  
- Loss of return from use of savings in farming |
| DONATION         | - Easy source of cash  
- Less pressure and restrictions  
- Informal arrangements  
- Share financial risks | - Risk of destroying personal relationship  
- Many encourage unwanted involvement in your farm |

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

b. What are the sources of financing that is available to the farmer groups?

b. What are their advantages and disadvantages?

Record keeping

Record keeping in farm enterprises

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

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

DISCUSSION POINTS

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

<table>
<thead>
<tr>
<th>TYPES OF FUNDING</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEBT FINANCING (INCLUDING ALL FORMS OF BORROWING)</td>
<td>Quick and easy to obtain depending on the source</td>
<td>Interest costs are high</td>
</tr>
<tr>
<td></td>
<td>Maintain control and ownership of the farm business</td>
<td>Risks that future profit will not cover payments</td>
</tr>
<tr>
<td></td>
<td>Repay at agreed periods</td>
<td>Easy to abuse and overuse</td>
</tr>
<tr>
<td></td>
<td>May save money</td>
<td>Must share financial and confidential information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lender may impose limitations or restrictions on borrower</td>
</tr>
</tbody>
</table>

Why keep records?

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

Phases of record keeping

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

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

1. Recording receipts and expenses

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

Each entry should include date, customer or vendor’s full name and address, description of the transaction, method of payment, check number, etc.
2. Keeping and using inventories
Progress in the farm business operation cannot be determined from year to year without an annual inventory. An inventory should include everything that has money value on the farm e.g. Money (receivables and payables), livestock, crops, supplies, and property.

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

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

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

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

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

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

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

Inventory record

<table>
<thead>
<tr>
<th>INPUT</th>
<th>DATE OF PURCHASE</th>
<th>EXPECTED USEFUL LIFE</th>
<th>UNIT COST</th>
<th>QTY</th>
<th>TOTAL COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Implements; Plough</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation kit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sheller</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Production Record

<table>
<thead>
<tr>
<th>ENTERPRISE /CROP</th>
<th>PLANTING DATE</th>
<th>NO. OF ACRES</th>
<th>HARVEST (DATE/HO. OF KG)</th>
<th>HARVEST (DATE/HO. OF KG)</th>
<th>TOTAL YIELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banana</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maize</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Labour record

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTIVITY</th>
<th>NO. OF PEOPLE WORKING</th>
<th>NO. OF HOURS OR AREA TO BE CULTIVATED</th>
<th>TOTAL NO. OF HOURS/ TOTAL AREA CULTIVATED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land clearing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ploughing and harrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Field marking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Digging holes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manure application</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Planting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Weeding and pruning</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Income record

<table>
<thead>
<tr>
<th>DATE</th>
<th>SALES/OUTPUT</th>
<th>QUANTITY</th>
<th>UNIT PRICE</th>
<th>TOTAL INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Expenses record

<table>
<thead>
<tr>
<th>DATE</th>
<th>OPERATION/INPUT</th>
<th>QUANTITY</th>
<th>UNIT COST</th>
<th>TOTAL EXPENDITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Home consumption record

<table>
<thead>
<tr>
<th>DATE</th>
<th>SALES/OUTPUT</th>
<th>QUANTITY</th>
<th>UNIT PRICE</th>
<th>TOTAL INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Form for calculating costs, income and profit

<table>
<thead>
<tr>
<th>PRODUCTION COSTS</th>
<th>UNIT</th>
<th>NO. OF UNITS</th>
<th>PRICE PER UNIT ($)</th>
<th>COST ($)</th>
<th>TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MATERIALS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td></td>
<td>5 kg bags</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertiliser</td>
<td></td>
<td>50 kg bags</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sacks</td>
<td></td>
<td>Bags</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air time for a mobile phone</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport to market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market fee</td>
<td></td>
<td>Per bag</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIRED LABOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land preparation</td>
<td>Person days</td>
</tr>
<tr>
<td>Harvesting</td>
<td>Person days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A: TOTAL COST OF MATERIALS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B: TOTAL HIRED LABOR COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C: TOTAL COSTS (EXCLUDING FAMILY LABOR): A + B</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FAMILY LABOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Planting</td>
<td>Person days</td>
</tr>
<tr>
<td>Fertiliser application</td>
<td>Person days</td>
</tr>
<tr>
<td>1st weeding</td>
<td>Person days</td>
</tr>
<tr>
<td>2nd weeding</td>
<td>Person days</td>
</tr>
<tr>
<td>Drying person</td>
<td>Person days</td>
</tr>
<tr>
<td>De-husking, sorting, cleaning</td>
<td>Person days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D: TOTAL FAMILY LABOR COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E: TOTAL COSTS (INCLUDING FAMILY LABOR): A + B + D</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INCOME</th>
<th>UNIT</th>
<th>NO. OF UNITS</th>
<th>PRICE PER UNIT ($)</th>
<th>INCOME</th>
<th>TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of maize</td>
<td>50 kg bag</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of maize</td>
<td>50 kg bag</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of maize</td>
<td>50 kg bag</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>F: TOTAL INCOME</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROFIT (EXCLUDING FAMILY LABOR): F – C</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROFIT (INCLUDING FAMILY LABOR): F – E</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LEARNING OBJECTIVES

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

What is risk management?

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

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

Risk vulnerability: Degree of exposure to risk.

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

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

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

The concept of risk

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

Assessment and management of agribusiness risks

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

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

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

**DISCUSSION POINTS**

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

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

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

1. **Production risks**

Production risk causes changes in the level of production. The variation in expected outcome affects your ability to achieve expected financial goals. For example, a prolonged dry spell could affect farm produce yield in a given season.
Sources of crop production risk:
- Weather e.g. crop failure resulting from delayed rains.
- Insect damage and weed competition.
- Diseases e.g. potatoes infested with potato blight.
- Interaction with new technology for example if a new type of equipment is used.

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

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

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

Marketing risk management:
- Reduce risk and avoid higher-risk ventures by:
  - Knowing current market information.
  - Using key business partners.
  - Spreading out sales.
  - Using contract production.
  - Creating and following your business plan.
- Shift risk to others by:
  - Using contracts (cash, forward, deferred).
  - Participating in futures and option markets through commodity exchange platforms.
  - Joining cooperatives/ groups.
  - Sharing leases.
  - Timing or modifying the type of sale.
  - Purchasing crop insurance.

- Maintain flexibility by:
  - Timing sales and/or purchase of outputs/inputs.
  - Placement where and from whom your sales/purchases are made.
  - Different forms of sales and input purchase.

Illustration: Marketing risk

3. Financial risk
Financial risk develops from regular farming business activity e.g.
- Cost and availability of debt capital.
- Ability to meet cash flow needs.
- Capability of generating additional equity.

Other financial risk can be attributed to:
- Poor planning.
- Failure to maintain control of the operation.
- Lack of financial understanding.
Management of financial risks:

- Manage your financial risk by:
  - Determining your acceptable risk levels or risk appetite.
  - Putting controls and tracking mechanisms in place to maintain your acceptable risk level.

- Other ways to manage your financial risk are:
  - Budgeting cash inflows and outflows.
  - Maintaining accurate and up-to-date financial records.
  - Conducting a basic financial analysis.
  - Developing annual financial statements.

Managing human resource risks:

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

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4. Human resource risk

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

Labour risks include:

- Work that is not done, is done poorly, or not on time.
- High indirect labour costs incurred.
- Potential conflict with employees.
- Laws and regulations.
Examples of risks faced in farming business are shown in the table below.

<table>
<thead>
<tr>
<th>RISK TYPE</th>
<th>POSSIBLE CAUSES</th>
<th>POSSIBLE EFFECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCTION/OUTPUT</td>
<td>Climate change/droughts/floods</td>
<td>Destruction of crops or livestock</td>
</tr>
<tr>
<td></td>
<td>Input shortages/inaccessibility</td>
<td>Stunted growth</td>
</tr>
<tr>
<td></td>
<td>High input costs</td>
<td>Poor yields and low profits.</td>
</tr>
<tr>
<td></td>
<td>Poor quality inputs</td>
<td>Poor quality products</td>
</tr>
<tr>
<td></td>
<td>Poor management skills</td>
<td>High field and post-harvest losses</td>
</tr>
<tr>
<td></td>
<td>Poor timing of operations</td>
<td>Ill health and labour shortages</td>
</tr>
<tr>
<td></td>
<td>Pests and diseases</td>
<td>Destruction of crops or livestock</td>
</tr>
<tr>
<td></td>
<td>High input costs</td>
<td>Stunted growth</td>
</tr>
<tr>
<td></td>
<td>Poor quality inputs</td>
<td>Poor quality products</td>
</tr>
<tr>
<td></td>
<td>Poor timing of operations</td>
<td>High field and post-harvest losses</td>
</tr>
<tr>
<td></td>
<td>Pests and diseases</td>
<td>Ill health and labour shortages</td>
</tr>
<tr>
<td></td>
<td>Ill health and labour shortages</td>
<td>Poor quality products</td>
</tr>
</tbody>
</table>

Risk management measure at farm level

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

Farm-level risk management strategies

<table>
<thead>
<tr>
<th>RISK TYPE</th>
<th>MITIGATION/MANAGEMENT STRATEGIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCTION/OUTPUT</td>
<td>Training to improve production practices</td>
</tr>
<tr>
<td></td>
<td>Planning production as a family and in advance</td>
</tr>
<tr>
<td></td>
<td>Adopting appropriate business practices in farming</td>
</tr>
<tr>
<td></td>
<td>Diversification of enterprises (crops and livestock)</td>
</tr>
<tr>
<td></td>
<td>Adoption of appropriate technologies</td>
</tr>
<tr>
<td></td>
<td>Proper timing of production</td>
</tr>
<tr>
<td></td>
<td>Staying up to date with disaster warnings</td>
</tr>
<tr>
<td></td>
<td>Collaboration with other farmers in acquiring funds and inputs</td>
</tr>
<tr>
<td></td>
<td>Engaging in contract farming</td>
</tr>
<tr>
<td>MARKET/INCOME</td>
<td>Starting the marketing process early, before harvesting</td>
</tr>
<tr>
<td></td>
<td>Planning marketing as a family</td>
</tr>
<tr>
<td></td>
<td>Collaboration with other farmers in marketing</td>
</tr>
<tr>
<td></td>
<td>Value addition where possible</td>
</tr>
<tr>
<td></td>
<td>Bulk selling of produce</td>
</tr>
<tr>
<td></td>
<td>Contract farming/committed buyers before production</td>
</tr>
<tr>
<td></td>
<td>Training in marketing skills</td>
</tr>
<tr>
<td></td>
<td>Proper timing of marketing of products</td>
</tr>
<tr>
<td>INCOME DISTRIBUTION</td>
<td>Planning for raising finances and expenditure as a family and valuing contributions of spouse and children</td>
</tr>
<tr>
<td></td>
<td>Financial management training or advice</td>
</tr>
<tr>
<td></td>
<td>Commitment to repayment of debts</td>
</tr>
<tr>
<td></td>
<td>Commitment to reinvesting in the farming business</td>
</tr>
<tr>
<td></td>
<td>Commitment to transacting business through the farmer organisation</td>
</tr>
</tbody>
</table>
CASE STUDY

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

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

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

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

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

CASE STUDY QUESTIONS AND LESSONS

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

Summary of key issues

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

Illustration: The value chain
Acronyms & Key Words

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

Definition of Key Words

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

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

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

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

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

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

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

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

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

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

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

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

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