



Marketing basics

A SMART SKILLS MANUAL



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Catholic Relief Services
228 West Lexington Street
Baltimore, MD 21201-3413 USA

Editorial team

Shaun Ferris
Rupert Best
Paul Mundy

Layout and design

Paul Mundy

Illustrations

Jorge Enrique Gutiérrez

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Foreword

“La Esperanza” is a savings and loans group of 11 women and one man in Estelí, Nicaragua. Formed in 2010, the group used a part of their savings to invest in producing vegetables on a one-quarter manzana (0.175 ha) drip-irrigated plot. The group sells their produce at the Friday market in Estelí and to other villagers. They earn around US\$ 50 a week from selling their produce, a welcome income for the members. The members get paid for the time they spend working on the vegetable plot. The group’s manager is also paid for her efforts in organizing and running the group. These payments are important incentives that enhance the stability and growth of their business. The group wants to double the size of its plot and is exploring the possibility of selling its produce to a supermarket in town.

La Esperanza is an example of a new way of combating poverty in vulnerable rural communities – by helping them engage with markets. To do this, the group members need various types of skills. Here are the main ones:

- **Organizational management:** the group members need to plan and monitor the performance of their work.
- **Financial skills:** they need to save money, invest it in the enterprise, and maintain financial records.
- **Market and enterprise skills:** they need to produce something that customers want to buy; they need to find those customers; and they need to plan their business to make a profit.
- **Natural resources:** they need to conserve their soil, water and other natural resources so they can produce on a sustainable basis.
- **Innovation:** they need to find new, more efficient and more profitable ways of doing things.

In common with many other development agencies, CRS is incorporating a multi-disciplinary approach into its development efforts. We realize that increasing food production alone cannot move poor rural people permanently out of poverty. Building the capacity of smallholders means helping rural communities to work together effectively, manage their money and natural resources, engage in profitable enterprises and learn how to innovate. These are all important elements in a successful and more sustainable agricultural development strategy.

Field agents, extension workers and development managers typically focus on one particular area of expertise. This series of training modules gives them a broader set of skills they need to understand and support a robust enterprise approach and to build the capacity of local people.

Through building the capacity of local people, we are reshaping the way we support vulnerable communities. As in the case of La Esperanza, communities progressively become agents of their own change. They identify and grasp opportunities that turn previous desperation into a brighter hope for the future.

Carolyn Woo

President and CEO, CRS

Preface

This set of manuals on “Skills for Marketing and Rural Transformation”, or “SMART Skills” for short, presents an integrated and sequential approach to building vulnerable farmers’ capacity to link with markets. The guides are intended for use by development facilitators, field extension agents and community leaders working with poor rural communities. They focus on helping to improve the livelihoods of smallholder farmers by improving the production and marketing of their crops and livestock products.

This guide contains the following parts:

- **The subject matter:** the knowledge and skills you need to master in order to teach the skills. They are printed as lessons on the white pages.
- **Quizzes to test your own knowledge.** These are printed on the light green pages. The answers are given at the end of the guide.
- **Exercises:** these are guides to follow in helping the groups master the knowledge and skills they need. These are printed on the pages marked with a green stripe. The lesson plans are also available as a PDF document at www.crsprogramquality.org/smart-skills-for-farmers/. You can print out these pages and have them laminated so they last longer.
- **Staff exercises.** These give you and your colleagues practice in particular skills. They are also printed on pages with a green stripe.

The training methods it contains are proven, and take into consideration the capabilities of field agents and the populations across many countries in Africa, Asia and Latin America. Many examples and records used in the guide come from field experiences and real cases. Names and other information, however, have been changed.

HOW TO USE THIS GUIDE

As a user learning the material. Read through this guide lesson by lesson, section by section, trying to absorb the information presented. Read both the lessons and the accompanying exercises. At the same time, picture how you would use the information and techniques described to help you work with farmers on developing their agro-enterprises. At the end of each lesson, answer the short quizzes. Check your answers with the list at the end of the guide. If you get all the answers right, congratulations! Go on to the next lesson. If you did not get all the answers right, go back to review that section again before moving on to the next lesson.

As a trainer working with field agents. You can use this guide to teach other field agents. You can present the information in the text, then work through the exercises with the participants. Guide the field agents on how they should conduct and monitor the training sessions. For some of the exercises, you can ask the field agents to pretend that they are farmers.

As a field agent working with farmers and other rural people. Once you have taken this course and passed the quizzes, you can use the guide to work with community members to develop their skills. Every group and every situation is different, so this guide cannot anticipate every problem you may come across. You should adapt the relevant items as necessary and use this guide as a basis for building your own series

of learning events. If in doubt, check with your supervisor or ask your colleagues for advice.

Before teaching these materials, review and modify the following elements for your own local situation:

- **Names** of people, villages, and groups.
- **Currency.**
- **Amounts of the items** shared in the examples. These amounts could vary based on the target group's income levels. If the amounts are either too large or too small, participants may not feel that these tools apply to them.
- **Stories.** There may be more relevant examples for your community that will better communicate the objectives.
- Items being **bought and sold.**
- Types of **income generating activities.**
- When items are sold based on the **local seasons.**

Wherever possible, work in a **participatory manner** with the participants. This means you should make sure that it is the participants who are gathering and analyzing information and making decisions that will affect them. Your role is to facilitate their learning, not to do the job for them.

As a reference source. You can also use this guide as a reference. If you need to check on a technique or concept, look it up in the table of contents.

LEARNING ONLINE

If you are a CRS staff member or partner, you can also study the ideas in this guide online, through an e-course. Contact your CRS supervisor for a username and password. Once you have been registered for online courses you can begin the e-learning version.

The e-courses use the same text, quizzes and exercises as in this guide. Many of the tables are presented as **forms** that you can fill in online to help you record and analyze the data you have collected.

SMART SKILLS GUIDES

This series consists of the following guides.

- Introduction to SMART Skills for rural development
- Organizing and managing farmers' groups
- Understanding natural resources
- Managing natural resources
- Facilitating saving and internal lending and savings communities (SILC)
- Financial education
- **Marketing basics (this guide)**
- Seven steps of marketing
- Promoting innovation.

These titles are also being developed as distance learning products. As the process is rolled out and experimented with in different situations, we look forward to receiving feedback on modifications and improvements so that these learning products can be continually improved.

FARMBOOK SUITE

Farmbook Suite is a set of integrated mobile tools that have been developed to help agents support farmer groups. The tools are designed to assist with registration and basic data collection, improve training, support business planning, market analysis and monitor geo-referenced service delivery.

Farmbook Suite has several features to meet the needs of farmers, field agents and project managers:

- **Map & track for implementation and basic monitoring of farmer groups.** This application collects important farmer data to streamline and strengthen farmers' registration, e-learning, business planning and monitoring and evaluation at scale.
- **SMART Skills e-learning.** These courses provide agro-enterprise training to help farmers to increase production, grow their incomes and engage with markets.
- **Farmbook business planner.** This tool guides field agents and farmers through the process of creating business plans that are based on participatory value-chain studies.

These features will allow field agents to do the following:

- Register a farmer group
- Track the delivery of training to farmer groups by field agents
- Collect monitoring and evaluation information using digital forms
- Take e-learning courses
- Use the business planner to write a business plan
- Analyze pre- and post-season costs, revenue and profitability.

To learn more about Farmbook, visit www.crs.org/our-work-overseas/program-areas/agriculture/farmbook-suite.

Acknowledgments

This manual and the other manuals in this series are the product of a process that initiated in 2002 with Agroenterprise Learning Alliances in East Africa and Central America. Catholic Relief Services (CRS) and the International Center for Tropical Agriculture (CIAT) were co-facilitators and among the principal participants in these Learning Alliances. Since 2002, many other organizations and individuals have contributed to the content by adding new knowledge and experiences and by reviewing the materials brought together here.

The manual's production was supported by the United States Agency of International Development, through the Modernizing Extension and Advisory Services (MEAS) project, which funded editing, graphics production and a writing clinic.

Sincere thanks to the following persons, without whose support we would have been unable to complete the manual:

- Carlos Felipe Ostertag, founding member of CIAT's Rural Agroenterprise Development Project, who adapted many of the well-known marketing principles used in this manual for use by agricultural and development organizations.
- The participants in the Southern and East Africa Agroenterprise Learning Alliance, who have reviewed, tested and commented on successive drafts of this manual.
- Staff of CRS and CRS partners in Cambodia, East Timor, Ethiopia, the Philippines and Vietnam, who have also reviewed and commented on one or more drafts.
- The many farmers and other community actors that have participated in CRS's agro-enterprise activities across three continents and whose needs and demands we hope are reflected in the orientation of the manual.
- Jorge Enrique Gutiérrez, who produced the graphics.

Shaun Ferris

Rupert Best

Paul Mundy

Introduction

Many small-scale farmers in the developing world learn how to grow crops and raise livestock in a very practical way: by working in the fields and by tending animals. They grow food for their families, and sell any extra to visiting traders or at the local market. But they may have never studied farming in school or learned how to earn more money by marketing their produce in a better way.

This manual aims to help **you, the field agent**, assist groups of men and women farmers find better ways to market their products. Many field agents have strong skills in working with communities and in advising farmers how to increase their production. But many are relatively new to the idea of developing agricultural markets. This manual will help you become a **market facilitator**: it shows you how to help farmers understand markets and plan how to market their produce.

As a field agent working in agro-enterprises, you will need a range of skills. These include:

- Group management
- Finance
- Natural resources management
- Marketing
- Innovation.

These skills are covered in separate manuals in this series. The farmers you work with will also need these skills. One of your tasks is to help the farmers learn and practice these skills so they can improve their incomes from agriculture. The manual *Introduction to SMART Skills for rural development* guides you on how to plan and implement a training curriculum to give them these multiple skills.

PURPOSES OF THIS MANUAL

This manual has two main purposes:

- To help you **learn about marketing and agro-enterprise development**.
- Once you have mastered the knowledge and skills yourself, to help you **teach marketing and agro-enterprise** skills to men and women farmers and other rural people.

PRODUCTS COVERED

You can apply the principles in this guide to any agricultural product:

- **Staple food crops** such as maize and sorghum
- **Livestock products** such as live animals, meat, milk, and hides
- **Cash crops** such as coffee, cacao, tea, cotton and sugar cane
- **Higher-value produce** such as honey, fruit, vegetables and medicinal plants.

You can also apply the same ideas to other products such as **wood** or **fish** – or indeed to other items (such as **handicrafts**) that rural people produce, as well as services (such as tourism and transport) that they provide.

For simplicity, we will mainly refer to “planting” and “crops”, but remember, you can use the same ideas for other products too.

WHAT TYPE OF FARMER ARE WE TARGETING?

This manual is about marketing for small-scale farmers in developing countries. These farmers are both women and men. We will assume that they cultivate 0.5-2 ha (roughly 1 up to 5 acres). They do not own mechanized equipment, use little fertilizer and few other inputs, and are not well organized. We also assume they have few links to formal financial institutions such as banks or microcredit institutions, and that they sell their produce mostly to informal traders or in the local market.

Of course you can also use the ideas in this guide with people in other situations: farmers who cultivate a larger area or who are slightly better off, or people who depend mainly on livestock for a living. You can also draw on this guide if you are working with traders, processors or other actors in the value chain.

AFTER LEARNING ABOUT MARKETING...

After improving their marketing skills, the farmers may continue to sell their produce locally, but at a different time or for a better price. Or they may sell to new buyers: perhaps a supermarket, a trader in a big city, or even an exporter. They may process the product in some way: drying it, sorting it, or packaging it. They may bulk it – so instead of each individual farmer selling a couple of sacks, a group of farmers can sell a whole truckload. Or they may grow a completely different crop or produce a different type of livestock product: tomatoes instead of maize, or milk instead of meat.

Whatever they do, they will **know much more about their markets**. They will be **better organized**. They will be better able to **plan and invest** in their enterprises. And they will make **more money**.

This manual shows you how to help farmers start off with simple marketing principles and terms. For more demanding markets, such as supplying supermarkets and exporters, you and the farmers may need extra knowledge and skills. But this manual will provide you with many of the basic concepts and skills you will need to tackle these new situations.

WHAT IS IN THIS MANUAL

This manual reviews the principles and terms that are used in marketing. It focuses on the basic skills and knowledge you will need to understand markets and to help small-scale farmers understand them. It looks at ways you can help farmers learn about marketing, the words that are used to describe markets and market activities, and some marketing principles.

This manual aims to familiarize you with the terms and approaches used in marketing and agro-enterprise development. This will allow you to apply this knowledge in the right situations and build your confidence in working with farmers in their marketing activities.

The manual is made up of 10 lessons:

- 1. What is agricultural marketing?** Introduces the idea of agricultural marketing and explains why you should learn about it.
- 2. Supply and demand.** Two of the most important ideas in marketing, and how they affect prices.
- 3. Costs, income, prices and profit.** How to work out how much it costs to produce a

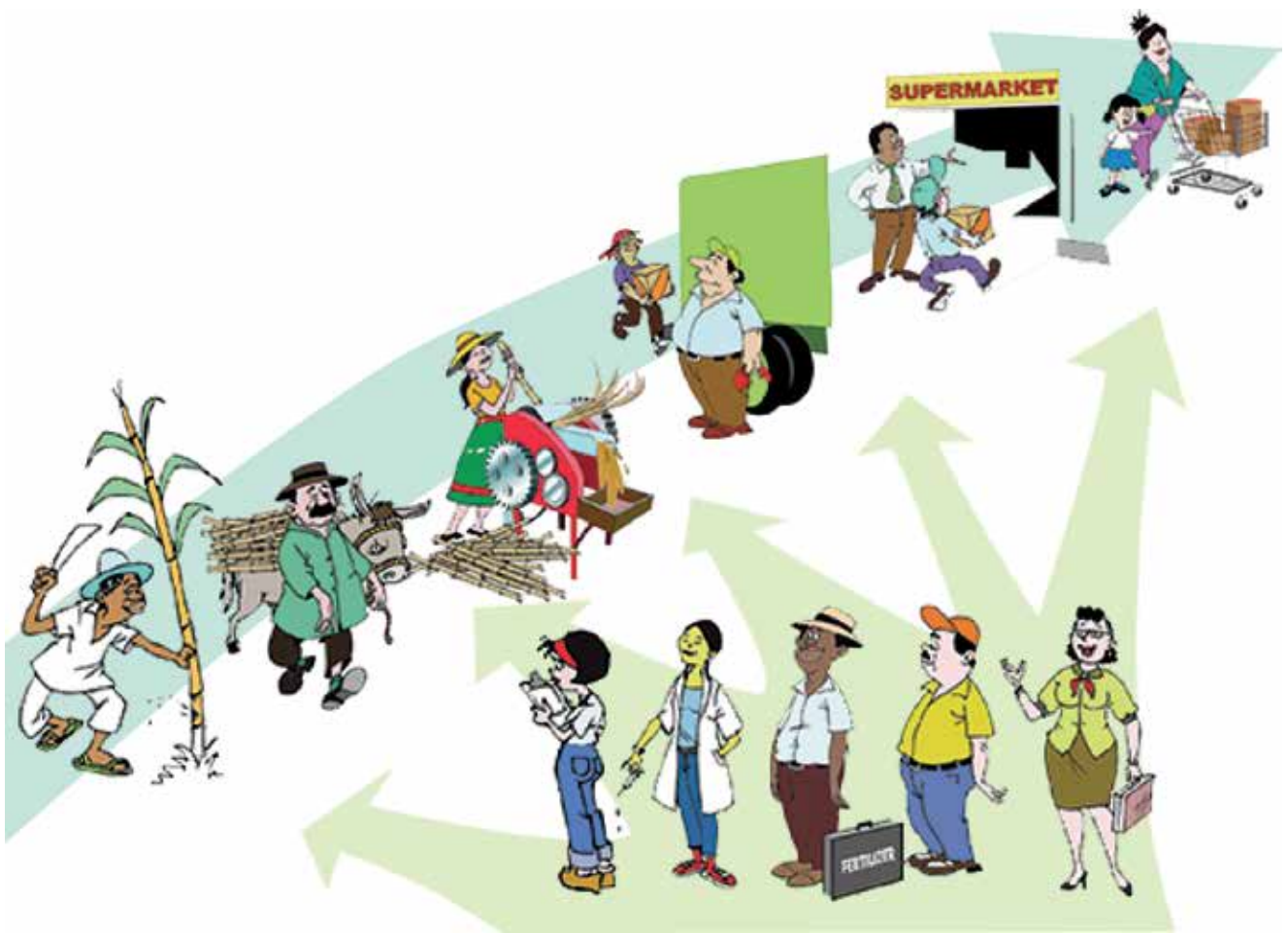
product, how much income a farmer earns, and how to calculate the profit.

4. **Types of markets.** Describes six types of markets and how to compare them.
5. **Adding value after harvest.** Looks at how farmers can add value to their product to get a higher price when they sell it.
6. **Changes in markets.** Fifteen trends that are changing markets for agricultural products.
7. **The value chain.** Introduces the idea of the value chain: the chain of people who buy and sell a product, from the farmer to the consumer. Also describes the business services that support the chain, and the institutions and rules that govern it.
8. **Developing marketing strategies.** Four alternative strategies that farmers can choose from to develop markets for their products.
9. **The four Ps of marketing.** An easy way to organize a marketing plan: **p**roduct, **p**rice, **p**lace and **p**romotion.
10. **Entrepreneurial spirit.** How to recognize people who are likely to make good market entrepreneurs and farmer market managers.

The 10 lessons in this manual can be fitted into a one- or two-day workshop. See the exercises and farmer lesson plans for ideas on how to present the materials. Feel free to adapt the ideas and exercises where appropriate.

The companion manual, “The seven steps of marketing,” gives more detailed information about marketing and shows you how to help farmers build successful agro-enterprises.

Lessons



LESSON 1. WHAT IS AGRICULTURAL MARKETING?

IN THIS LESSON

After this lesson you will be able to:

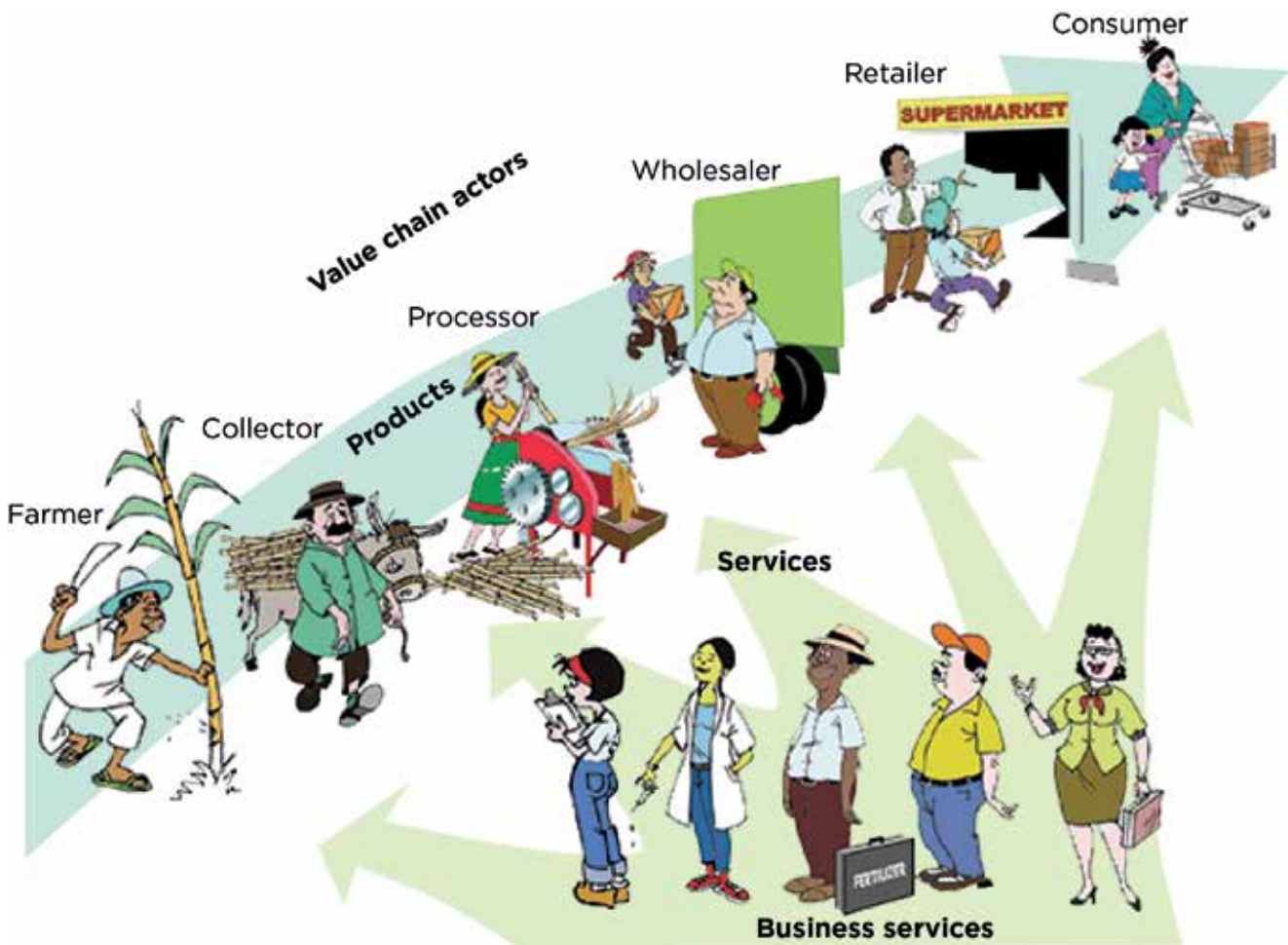
- List some of the activities that go into agricultural marketing.
- Describe what marketing means.

AGRICULTURAL MARKETING

Agricultural marketing is about **finding out what consumers need** and then **making a profit** by satisfying those needs. It includes all the activities and services involved in moving an agricultural product from the farm to where it is sold to a consumer. This is the **value chain** that links farmers with consumers. And many people provide services that make the value chain work smoothly.

The activities commonly associated with marketing include cleaning, drying, sorting, grading and storage, as well as things like transport, processing, packaging, advertising, finding buyers and selling the product. This makes us think that marketing begins only **after the harvest**. But we will see that we must start thinking about markets well **before planting**.

**GROW WHAT YOU CAN SELL.
DON'T TRY TO SELL WHAT YOU
HAVE GROWN!**



**A VALUE CHAIN LINKS FARMERS WITH CONSUMERS.
MANY PEOPLE PROVIDE SERVICES THAT MAKE THE CHAIN WORK SMOOTHLY**

MARKETING BEGINS BEFORE PLANTING

To sell at a profit, marketing needs to begin even **before planting**. Farmers need to offer:

- **products** that male and female customers want to buy
- in the right **form** (fresh, dried, processed ...)
- at the right **time** of year
- in the right **quantities**
- at the **quality** and **packaging** required
- in the right **place**
- at a **price** that customers are willing to pay.



MARKETING MEANS PLANNING

That means careful **planning**. In industrial countries, many farmers plant a crop only after they have found a buyer, agreed on the terms of sale, and completed a business plan.

Farmers in developing countries should do the same. A marketing plan helps them decide what to plant, when to plant, how to produce a crop, and who to sell to when the crop is harvested.

MARKETING STRESSES FINDING OUT WHAT CUSTOMERS NEED, SATISFYING THESE NEEDS, AND MAKING A PROFIT.



SMALLHOLDER FARMERS NEED TO THINK ABOUT MARKETING AS A GROUP, BECAUSE BUYERS USUALLY OFFER ATTRACTIVE PRICES ONLY FOR GOODS THEY CAN BUY IN BULK.

QUIZ 1

Answers at the end of the guide.

1. What is marketing?

Select all that apply.

- A. All activities and services involved in moving a product from the point of production to the point of consumption
- B. Convincing people to buy things they don't really need at high prices
- C. Making people buy things so that they don't look poor or feel left out
- D. Finding out only male customer needs and satisfying these needs at a profit
- E. Finding out only female customer needs and satisfying these needs at a profit
- F. Finding out male and female customer needs and satisfying these needs at a profit.

2. What should the marketing process do?

- A. It should be customer-oriented: it should try to find out what customers want and how to supply it
- B. It should help farmers make money at the expense of traders

3. Which statement below best describes marketing?

- A. Marketing should provide farmers, transporters, traders and processors with a profit and provide customers with a quality product
- B. Marketing should try to help farmers make more profit than traders
- C. Marketing should sell produce at any prices people are prepared to pay
- D. Marketing should sell more produce regardless of quality

4. Marketing helps to make products available and attractive for customers to buy...

Select all that apply.

- A. In the right place
- B. At the wrong time
- C. In the form wanted
- D. Packaged in whatever way possible
- E. In the quantities and quality required
- F. At the highest price
- G. At a price that consumers are willing to pay

5. Which approach would you recommend to farmers?

- A. Grow the crops you usually grow, then try to find a buyer
- B. Find a new crop, grow it and then look for a buyer
- C. Find out what crops customers want, then grow it

6. Put the following activities in the best sequence.

- A. Grow a crop
- B. Decide what crop to grow
- C. Find out what customers want to buy
- D. Identify a buyer
- E. Sell the crop

EXERCISE 1. DISCUSSING AGRICULTURAL MARKETING

OBJECTIVE

After this exercise the participants will be able to:

- Explain agricultural marketing by using the farmers' own experiences of producing and selling agricultural products.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Farmers' can describe the four things they have to do to market their agricultural products successfully.

TIME

- 40 minutes

PREPARATION

- None

SUGGESTED PROCEDURE

1. Ask whether any of the farmers have their own business or have experience in buying and selling things. Do they sell products or sell a service?
2. If one or more of the farmers do have experience, ask them about the products or services they sell, and how they market them.

Make sure that you find out about the experiences of both men and women participants. You can then ask them some guiding questions such as:

- What does marketing mean to you?
- What are the main tasks or jobs to be done for marketing?

- Why is marketing important?
- To be successful in marketing, what do you have to do?
- When does the marketing process start? (give an example of a crop or product)
 - Before you plant the crop?
 - While you are growing a product or crop? Or after you have finished harvesting and it is ready to be sold?
 - Does marketing happen at all stages?

3. Summarize the responses on a flip chart so that all the farmers can see. Then use the examples to draw out the major points of the lesson.

NOTES

Marketing is about:

- Finding out what consumers want, and “producing what you can sell, not selling what you can produce.”
- Making a profit.
- Having the right product at the right time, in the right quantity and quality, and in the right place at a price that a customer is prepared to pay.
- Planning all the activities from production through to sale.

If no farmer has direct experience in buying and selling, ask for examples of farmers' groups in the area that have been successful in marketing their products. You can refer back to these examples as you move through the rest of the lessons.

Agricultural marketing

MARKETING IS PRODUCING WHAT YOU CAN SELL, NOT SELLING WHAT YOU HAVE PRODUCED



What do people want?



Planning



Right product



Making money

LESSON 2. SUPPLY AND DEMAND

IN THIS LESSON

After this lesson you will be able to:

- Explain the meaning of supply and demand
- Give examples of why demand and supply might rise or fall
- Describe the effect of rising and falling supply on prices
- Describe the effect of rising and falling demand on prices.



SUPPLY: HOW MUCH DO PRODUCERS HAVE TO SELL?

MARKET SUPPLY

Two of the most important ideas in marketing are **supply** and **demand**. It is important to understand them as they have a big influence on the prices farmers can get for their produce.

Market supply is the amount of a product (maize, potatoes, tomatoes, eggs, etc.) that producers are able to take to the market for sale.

The supply of a product depends partly on its **price**.

- If farmers see that the price of a product is high, they will try to sell it immediately. They are also likely to grow more of the product next season.
- If the farmers see the price falling, they may keep their products in storage until the price recovers. Low prices will also discourage them from planting the same crop next season.

The supply of a product also depends on local conditions. If the rains are good, farmers can harvest a lot of grain. If there is drought, the harvest is poor. Other things can also affect the supply of a product: pests and diseases, availability of and access to fertilizer, water, and seeds, poor roads and transport vehicles, poor farmer health and nutrition, pregnancy and child rearing, lack of communications, and the cost of production.

MARKET DEMAND

Market demand is the amount of the product that customers are willing and able to buy.

The amount of a product that customers want to buy will partly depend on the **price**.

- If the price is low, more people will want to buy, and each person may want to buy more of the product.
- If the price goes up, fewer people want to buy, and each person will probably buy a smaller amount.

The demand for a product is also affected by many other factors. Customers generally want to buy more:

- **Staple foods** (such as maize or wheat), or **major vegetables** (such as onions and tomatoes). They want to buy less of unfamiliar types of food or items they use only in small quantities.
- **High-quality products** rather than items that are low-quality or damaged.



DEMAND: HOW MUCH DO CUSTOMERS WANT TO BUY?

- **Tasty products** rather than those with bland flavors. Sweet apples sell better than sour ones.
- **Fresh products** such as vegetables harvested yesterday, rather than produce that was harvested weeks ago.
- **Scarce items** such as the first fruits in the season.

SUPPLY OF THE PRODUCT GOES UP

Think of what happens just after the grain harvest. Lots of farmers want to sell their grain at the same time: they need money to pay their expenses, repay debts, and buy seed for next season. They all bring their sacks of grain to the village marketplace on the same day.

But there are only a few people who want to buy grain – the same number as yesterday. A customer can offer a lower price to a farmer for a sack of grain – and the farmer will still agree to sell because he or she needs the money. So when there are many suppliers and the same number or fewer buyers, the price of grain will **fall**.

If the weather before the harvest has been very good, many farmers will produce a lot of grain. But when they all take their produce to market, they will find that prices are **very low**, as there is too much supply.



**SUPPLY GOES UP →
PRICE GOES DOWN**



**SUPPLY GOES DOWN →
PRICE GOES UP**

SUPPLY OF THE PRODUCT GOES DOWN

Now think of what happens if there is a drought and the grain harvest is bad. Only a few farmers have any grain to sell. Customers are desperate to buy grain, so they are willing to pay more. The price will **rise**.

That is why the price of many crops goes up and down throughout the year. When the crop is in over-supply (such as after the harvest), the price is low. When there are shortages, the price **goes up**.

HIGH DEMAND

Now imagine what happens if a lot of people come into the area to work on a construction project. Suddenly, many more customers want to buy food in the local market. Sellers find they can ask a higher price for their produce. The price of food tends to **go up**.



DEMAND GOES UP → PRICE GOES UP



DEMAND GOES DOWN →
PRICE GOES DOWN

LOW DEMAND

The construction project is finished, and the workers move away. Food sellers find that fewer customers want to buy their produce. They have to **lower** their prices in order to sell it.

WHY IS UNDERSTANDING SUPPLY AND DEMAND IMPORTANT?

If farmers understand supply and demand, they can plan what crops to grow, when to plant and harvest, and where to sell.

- They can plan to harvest their crops at the beginning or the end of the season, when prices are higher. And for women farmers, planning the time to harvest can guide decisions on needs for childcare and the timing of pregnancy.
- They can grow a crop variety that fetches a higher price. For example red potatoes may fetch a higher price than white potatoes.
- They can decide to grow a more nutritious crop such as vegetables or fruits in addition to their staple crops such as maize and beans.
- They can decide when best to sell their crop – for example by storing it until the price goes up.
- They can try to increase the quality of the crop (for example, by protecting it from pests and diseases) so it fetches a higher price.

QUIZ 2

Answers at the end of the guide.

1. It has been a bad season for tomatoes: the harvest is only half that of last year. Do you expect the price of tomatoes in the local market to be higher or lower than last year?

- A. The price will be higher than last year
- B. The price will be lower than last year

2. What is market supply?

- A. The quantity of a product that producers can offer for sale
- B. The amount of produce that people can afford to buy
- C. Everything that farmers and traders want to have in their stores
- D. The quantity of products that will be harvested in a season

3. Which factors might affect supply of a crop?

Select all that apply.

- A. A drought leading to a poor harvest
- B. The collapse of a bridge on the main road
- C. A big, new hotel nearby with many guests
- D. A reduction in the price of fertilizer used on the crop
- E. A farmer getting sick with malaria

4. A big religious festival is coming up. Traditionally, people celebrate by feasting or eating particular foods. What do you expect to happen to food prices?

- A. Food prices will go down
- B. Food prices will go up

5. What is market demand?

- A. The quantity of products that customers want at whatever price
- B. The quantity of products that customers are willing and able to buy
- C. The amount of goods that customers buy every day in the market
- D. The quantity of products that are left in the market at the end of the day

6. Which factors might affect demand for a crop?

Select all that apply.

- A. Population growth
- B. An especially good growing season with lots of rain
- C. A pest attacking the crop in the field
- D. Changing food tastes

7. If prices rise, demand will tend to fall. If prices fall, demand will tend to increase.

- A. True
- B. False

8. Changes in consumers' incomes and education may affect demand for a product.

- A, True
- B. False

EXERCISE 2. DISCUSSING SUPPLY AND DEMAND

Teaching tip: Some farmers may have a notion of what “supply” and “demand” mean, but they may not have thought much about them. Start by asking if prices change in the season, and if so, why?

OBJECTIVE

After this exercise the participants will be able to:

- Tell the difference between supply and demand.

EQUIPMENT NEEDED

- Flip chart or large pieces of paper, marker pens

EXPECTED OUTPUTS

- Farmers understand supply and demand, and how they affect the prices they get for their products.

TIME

- 40 minutes

PREPARATION

- None

SUGGESTED PROCEDURE

1. Ask the farmers about the following terms and get them to give examples.
 - What does “supply” mean?
 - What does “demand” mean?
2. Make sure that all the farmers understand the meaning of the two words. Fill in any gaps and correct any errors in the definitions.
3. Then ask what factors affect **supply**, using a brainstorming mode. Make sure that both men and women participate in the discussion. Write

each of the factors named on a flip chart.

4. Repeat by asking what factors affect **demand**. Add any items that they have missed.
5. Ask the farmers (for each question, ask them to give examples):
 - What happens to the price of a product if the supply goes up?
 - What happens to the price of a product if the supply goes down?
 - What happens if the demand for a product goes up?
 - What happens if demand goes down?
6. Ask the farmers how they could use ideas about demand and supply to improve their sales and their prices.
7. Summarize the effects of changes in supply and demand on prices of farmer produce. Write out the effects on a flip chart (Table 1).

QUESTIONS TO STIMULATE DISCUSSION

- What happens to crop prices during a drought? What happens to livestock prices? Why?
- At harvest-time, do prices usually go up or down? Why?
- Around a major festival, do prices go up or down? Why?
- If a lot of people are out of work, what types of food and other products do they want to buy? What happens to prices of staple food? How about luxury items? Why?

Use the bar charts on the following pages to illustrate the various situations.

TABLE 1. EFFECT OF SUPPLY AND DEMAND ON PRICE

WHEN...	THE PRICE TENDS TO...	EXAMPLES
Supply ↑		
Supply ↓		
Demand ↑		
Demand ↓		

Supply and demand



High supply



Low supply

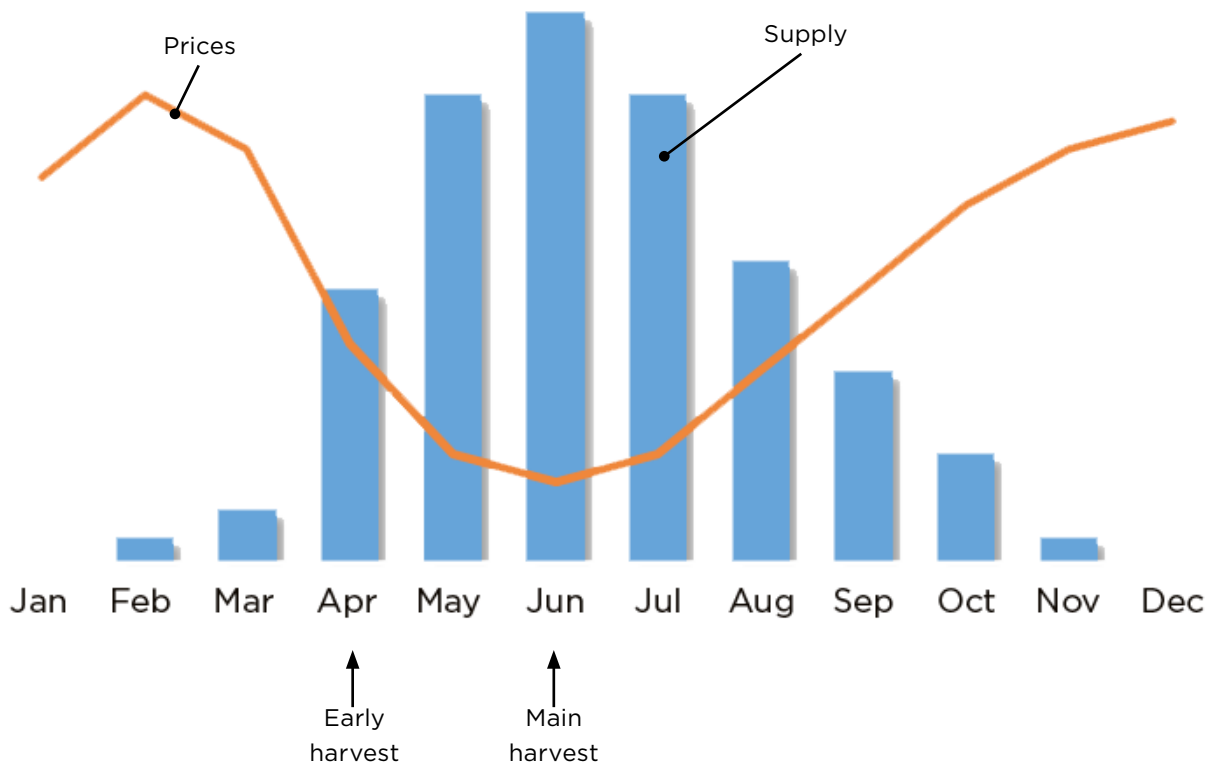


High demand

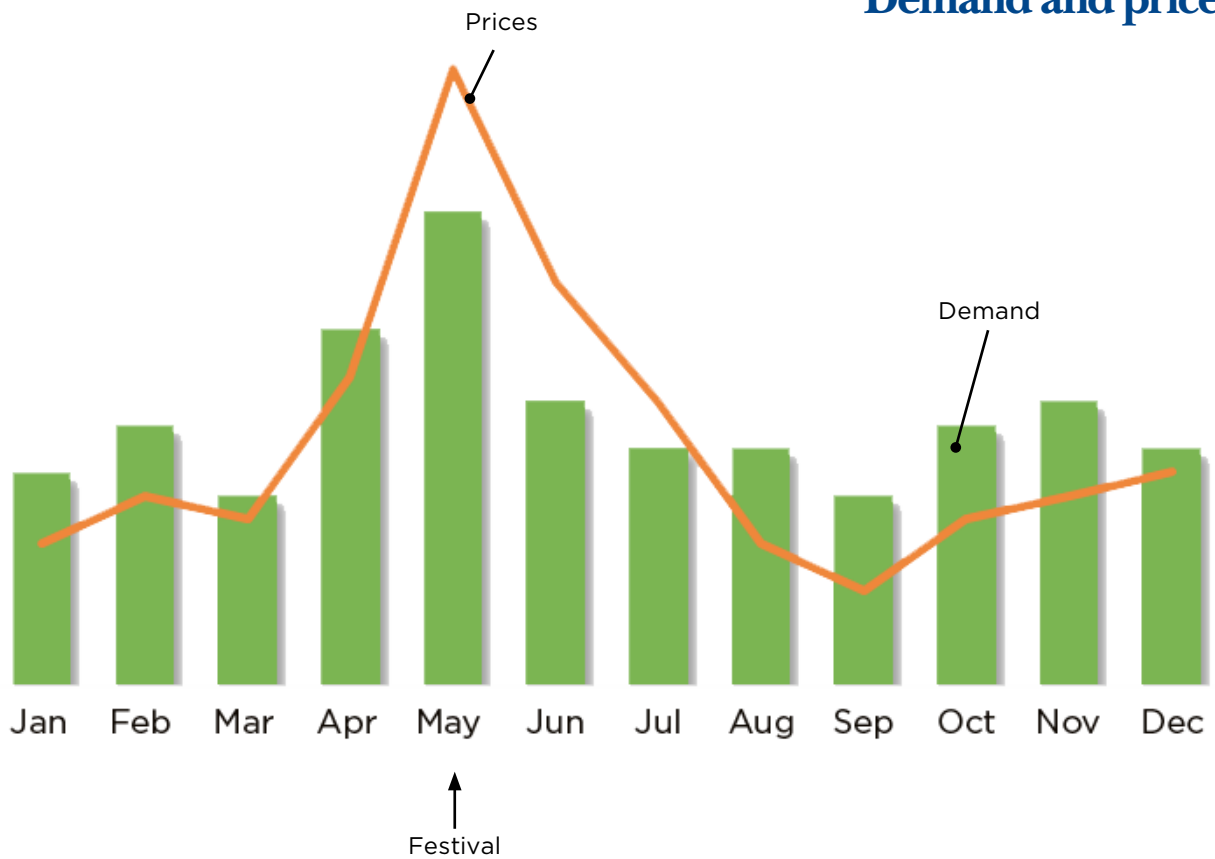


Low demand

Supply and prices



Demand and prices



LESSON 3. COSTS, INCOME, PRICES AND PROFIT

IN THIS LESSON

After this lesson you will be able to:

- Name the two major types of costs in agricultural production
- Name some of the factors that affect a farmer's income
- Explain what profit is
- Calculate the costs, income and profit for a single crop or livestock type
- Name the two ways to increase profit.

COSTS, INCOME AND PROFIT

To work out how much money they will make from a crop (their profit), farmers need to calculate their costs and their income.

Let us look first at the costs.

COSTS

Farmers incur three main kinds of costs: **material costs**, **labor costs** and **hidden costs** (those that are not immediately obvious).

MATERIAL COSTS

These include all the costs for the **materials, fees, and service charges** that are required to grow, harvest, process, and market a crop:

- The cost of renting land
- Hoes, machetes, and other tools used for clearing land and production, carts for transporting materials or produce
- Seed, fertilizer, chemical pesticides, herbicides, and fuel to run pumps
- Animal feed, medicines, and veterinary materials
- String for row planting, and bags and crates for storage and marketing
- Labels for products
- Marketing fees and taxes, transportation charges for taking goods to market, air time charges for a mobile phone
- Extension advice and veterinary services.



LABOR COSTS

These include all the **labor costs** required to grow, harvest, process, and market the crop. It includes workers contracted on an hourly or daily basis, or labor hired for piece work:

- Family labor for plowing, planting, weeding, and harvesting
- Hired labor for the same tasks



- Family labor for purchasing or accessing inputs including multiple visits to suppliers.
- Post-harvest activities such as threshing, drying, cleaning, sorting, grading, bagging, and storage
- Re-bagging, loading and unloading produce for sale at a market
- Time taken for marketing activities to discuss prices with buyers and organize a sale, making arrangements with other farmers for bulking goods
- Costs of hiring market staff to carry produce from trucks to market stalls.

Often farmers do not take into account the cost associated with using family labor as they do not have to pay out cash to cover it. Quantifying the use of family labor and putting a monetary value to it is important. This helps farmers understand the full cost of their enterprise. It will also help them decide between different production options. Some crop or livestock keeping activities may require more family labor than others.

HIDDEN COSTS

Hidden costs are those that are not directly associated with a particular productive activity and can be difficult to quantify. For example, a women farmer may want to produce more vegetables in her homestead garden and sell the surplus. Will this mean that she has less time for her household tasks and looking after the children? Aspects such as these need to be taken into account when taking a decision about what a farmer should invest in.

Hidden costs may or may not have a monetary value. They usually represent the loss of an opportunity to do something of benefit for the person or persons involved.

Examples of hidden costs are:

- Using family labor prevents the family member from doing something else. For example, children cannot go to school because they have to tend livestock or help harvest crops.
- If a farmer takes her produce to market, she may not have time to manage the household or look after her children. So she may have to get someone else – a family member or hired help – to do these things.
- Soil erosion or other types of environmental damage resulting from producing the product.

If it is possible to put a value on a hidden cost, it should be included in the cost calculations. For example, the cost of extra household help or child care should be added to the calculation as a labor cost.

INCOME

The farmer's income from a product depends on two things:


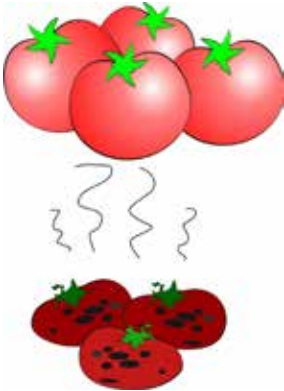
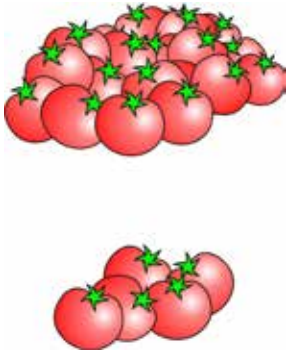


- The **price per kilogram** (or sack or crate) of the produce.
- The **number of kilograms** (or sacks or crates) the farmer can sell.



$$\text{INCOME} = \text{PRICE PER KILOGRAM} \times \text{NUMBER OF KILOGRAMS SOLD}$$

PRICES

The price the farmer receives depends on many things. Here are some factors that affect produce prices:

 <p>The type of product</p> <p>One kilogram of coffee fetches a higher price than a kilogram of maize.</p>	 <p>The product quality</p> <p>Good-quality, graded tomatoes fetch more than tomatoes that are many different sizes or are bruised.</p>
 <p>The amount of the product</p> <p>Farmers can generally get more per kilogram if they sell in bulk than if they sell small amounts. This is because buying in bulk reduces the trader's costs.</p>	 <p>Packaging</p> <p>Produce that is attractively packaged and protected from damage fetches more than the same produce that is loose or is stuffed into over-full bags.</p>
 <p>The time of sale</p> <p>Early vegetables will earn more than the same vegetables sold at the peak harvest time.</p>	 <p>The place of sale</p> <p>Produce fetches more if it is sold in the city than in the local village market.</p>
 <p>Processing</p> <p>Processing a product adds value to it. For example, milling maize turns it into something consumers want (flour). That is why a kilogram of maize flour costs more than the same amount of grain.</p>	 <p>The marketing arrangements</p> <p>A contract may oblige a buyer to pay a certain price, regardless of whether the current market price is high or low.</p>

PROFIT

Profit is the amount of extra money the farmer has left over from a sale after paying for all the costs of production, processing, and marketing.

If the income is higher than the costs, then the farmer makes a **profit**. He or she can use this money to buy food or household items, pay education and health costs, or invest in the farm.

If the costs are higher than the income, the farmer makes a loss. There is less money to go round. The farmer may not have enough money to invest in seeds or fertilizer for the next season. He or she may go into debt, need to find work off-farm, or sell land or animals. If they have not grown enough food to eat, the family may go hungry.

SHOULD YOU COUNT THE COST OF FAMILY LABOR?

When calculating their costs, many farmers do not count the cost of their own labor or the work put in by their family members. They do not pay for this, they say, so it is not necessary to count it.

But you should take it into account because those family members could be doing something else – like working in town. It may be more profitable for them to do so.

So you can calculate two numbers: the gross margin (which does not count family labor) and the overall profit (which does include it).

INCREASING PROFITS

Farmers can increase their profit (or avoid making a loss) in two ways:

- By **increasing their income**
- By **reducing their costs**.

Marketing can help farmers do both.

- It can **increase income** by helping farmers plan what crops to grow and how much to grow, and make decisions on how and where to sell them at a higher price.
- It can **reduce costs** by helping them plan their production and marketing better.

Note, though, that farmers may have to **invest more** in order to earn a higher income and a bigger profit. For example, instead of selling their produce in the village market, they may hire a truck to take their produce to the city, where they can sell it at a higher price. They incur extra costs (hiring a truck, loading, and unloading) in order to earn a higher income.

The farmers can use the techniques in this manual to calculate if this extra investment is a good idea.

**GROSS MARGIN =
INCOME - COSTS OF MATERIALS
AND HIRED LABOR**

PROFIT = INCOME - COSTS



FARMERS MAY BE ABLE TO EARN MORE BY HIRING A TRUCK TO SELL IN BULK IN THE CITY (BELOW) THAN BY SELLING AS INDIVIDUALS IN THE VILLAGE MARKET (ABOVE)



FARMERS MAY HAVE TO INVEST MORE IN ORDER TO EARN A HIGHER INCOME AND A BIGGER PROFIT.

QUIZ 3

Answers at the end of the guide.

1. Which are material costs, and which are labor costs?

- A. Seed
- B. Plowing
- C. Planting
- D. Spraying team
- E. Agrochemicals
- F. String
- G. Weeding
- H. Fertilizer

2. In what ways can farmers increase their profit?

Select all that apply.

- A. Sell bags that contain stones to make them heavier
- B. Reduce the costs of their business
- C. Sell produce that is demand
- D. Persuade people to pay more for the better sorting or packaging of your produce

3. When working out the costs to produce a crop or livestock product, what are the major categories of costs that you need to find out with farmers?

Select all that apply.

- A. Labor
- B. Numbers of animals or seeds
- C. Materials
- D. Customers

4. Why is it useful to separate costs for family labor and hired labor?

Select the most important reason.

- A. So that farmers understand the full cost of their enterprise
- B. So that farmers can make their families work harder
- C. So that farmers know when to hire labor
- D. So that they can pay their taxes more accurately

5. How can you calculate profit?

- A. Profit = Income - Costs
- B. Profit = Income / Costs + Taxes
- C. Profit = Demand × Product type × Number of customers
- D. Profit = Costs × Income

6. Put the following costs into the correct category

CATEGORY	COST
A. Materials cost	1. Renting land
B. Labor cost	2. Children herding goats cannot go to school
C. Hidden cost	3. Seed, fertilizer
	4. Transport charges
	5. Family members working on the farm
	6. Soil erosion caused by overcropping

STAFF EXERCISE A. CALCULATING COSTS AND PROFIT

This role-play exercise is intended for **field agents**. It helps them calculate the farmers' costs of production, the income from the sale of farm products, and their profit.

Exercise 3 gives a simpler version of this exercise for you to use with farmers.

OBJECTIVE

After this exercise the field agent will be able to:

- Calculate costs and profit

EQUIPMENT NEEDED

- Hat, clipboard, and pen for field agent; hat, hoe, and mobile phone for farmer
- Multiple copies of Box 1 and Table 2. (Or write Table 2 on a flipchart for participants to copy.)
- Paper and pencils

EXPECTED OUTPUTS

- Completed form with calculations of costs, income and profit

TIME

- 1-2 hours

PREPARATION

Ask two volunteers to play the roles of Gure and Dawit. Give them the role-play sheets and ask them to rehearse so they are as realistic as possible. Provide them with the hats, a clipboard and a hoe. They can improvise the text if they wish, but should keep the amounts the same. (Alternatively, you and an assistant can play the roles.)

SUGGESTED PROCEDURE

1. **Introducing the role play.** Gure is a field agent in the village of Debre Tabor, where maize is a new crop. Gure's supervisor has asked him to work out the cost of maize production and compare this with the costs and income from chickpeas. Gure visits Dawit Legessi, a maize farmer.
2. Give each participant a copy of Table 2. Give them time to become familiar with it, then explain that they should listen to the role play and use the table to make notes of the costs and income from the maize.
3. **Ask the actors to act out the role play.** Make sure that the other participants are listening carefully and taking notes.
4. After the role play, ask the participants if they

missed any information. Invite other participants to volunteer any information that is missing so that everyone can fill in the form correctly. If necessary, the participants can question "Dawit" directly to fill in any missing information.

5. **Working out costs, income and profit.** Ask the participants to calculate:
 - The cost of **materials** and of **hired labor**, and the **total costs**.
 - Dawit's **income** from maize.
 - The **gross margin** (the income minus the costs of materials and hired labor).
 - The cost of **family labor**.
 - The **profit after taking family labor into account**.
6. Tell the participants that Gure's supervisor says that the village farmers had a gross margin of \$200 per hectare from **chickpea** – not counting family labor costs. Ask them whether maize or chickpea was more profitable.
7. **Including labor costs.** Tell them that growing chickpea takes a lot more family labor than maize. Tell them that the family labor costs of chickpea were \$220 a hectare. Ask them which is more profitable once family labor is taken into account: maize or chickpea? Is it better for Dawit to grow chickpeas or maize? Why?
8. **Thinking of the role of women.** Ask why it is important to carry out the same exercise with other family members who also grow maize. For example, men and women may not have the same access to inputs or they pay different prices for them. They may have different hidden costs. In some cultures, a woman farmer may not hire field laborers. She may have to leave her field to work on her husband's field at peak labor times. This affects her production and the amount she harvests.
9. Discuss the calculations and results in plenary.

NOTES

Maize or chickpea? The income from the chickpea was higher than maize, so a farmer should grow chickpea, not maize.

However, the amount of labor to produce the chickpea was much higher: it took more family labor. So the family may decide that it is better to grow maize because it is less work. They could use the time they spare doing other things, such as growing other crops or earning money elsewhere.

BOX 1. ROLE PLAY: GURE'S VISIT TO DAWIT LEGESSI

GURE: Good morning! How is your family?

DAWIT: Fine! And yours?

GURE: Fine too, thanks. How was the maize harvest?

DAWIT: Good! I harvested 50 bags!

GURE: Did any of your family members harvest maize as well?

DAWIT: Yes, but I don't know much about their harvests.

GURE: Was your harvest more profitable than chickpeas?

DAWIT: No idea. How can I work it out?

GURE: OK, let's think. How big is your maize field?

DAWIT: One hectare.

GURE: And what materials did you need to plant maize – seed, fertilizer, and so on?

DAWIT: This year the seed was **\$1.50** for a 5 kilogram bag. I needed **5 bags** for one hectare. I also used fertilizer: I bought a 50-kilogram sack of NPK for **\$50**.

GURE (taking notes): What else did you need to store or get the maize to market?

DAWIT: I had to buy bags to take the grain to market. I produced **50 bags of maize**, and each bag cost me **25 cents**.

GURE: Were there any costs for selling your produce?

DAWIT: No...

GURE: Really? How far away is the market?

DAWIT: About 10 kilometers.

GURE: Did you walk there to find out about the selling price?

DAWIT (laughs): Not anymore! I used to walk to the market every time I wanted to know the price the traders were offering. It is a long walk and you can't trust people to tell you truth in the village; you need to find out yourself. But now I have this phone which my brother gave me. (Shows mobile phone) With this, I can phone Kassahun – an uncle of mine and a trader in the market – and he tells me the best price.

GURE: How much does it cost to phone the market to find out the price?

DAWIT: I phoned my uncle several times when I sold my maize. I was probably on the phone for **10 minutes** in all to get the prices. Each minute on the phone costs **15 cents**.

GURE (taking careful notes): Any other costs for materials or fees?

DAWIT: Yes, for the transport each bag cost **65 cents**. When you get to the market there is a **5 cents** per bag market fee that you have to pay to the market operators to sell your maize.

GURE: Ok, let's talk about the labor costs to grow the maize. I normally work on vegetable crops, so I'm not familiar with maize. Can you explain what you need to do in the field? I'll take notes...

DAWIT: The main tasks are land preparation, followed by planting and applying fertilizer. When the crop comes up there are a lot of weeds and you need to weed the fields at least twice. Then there's harvesting, drying, dehusking, cleaning and sorting.

GURE: Let's look at the **labor you hired** first. How many people, and how many days did it take to do each of these tasks? And what did they get paid a day?

DAWIT: It took **2 days** to plow the land, and we hired a team to do that at a cost of **\$10 per day**. For the harvesting we hired a team of people and paid them **\$60** to harvest the maize. There were about eight people on the team.

GURE: **\$60** meant **eight people** got **\$7.50** each a day?

DAWIT: That's right.

GURE (showing the calculations): Hmm... Adding up all the costs of materials and hired labor comes to this amount... Now let's look at your income. How much did you sell the maize for?

DAWIT: I sold it in three lots. The first **20 bags** I sold for **\$6.50 a bag**. The second **20 bags** I sold for **\$8 a bag**, and the final **10 bags** fetched **\$8.50 a bag**.

GURE (calculating): Let me work this out... that comes to this amount for materials... minus this for hired labor... comes to this for your profit, or your "gross margin." (Shows **Dawit** the calculations.)

DAWIT: That sounds about right.

GURE: But we also need to take into account the work that you and your family put in.

DAWIT (laughs): But I don't pay my family!

GURE: But you should still count it if you want to think like a business... after all, they could spend the time earning money somewhere else. What did they do... planting, weeding...?

DAWIT: The planting took a day, and I did that with my son. My son and I also applied the fertilizer, which took half a day. The next task was the weeding, which we did twice, before maize had grown and filled the land. I got the family to help with this, so three of us took a day to finish the first weeding. Then two of us needed a day to weed the second time around.

GURE: And then after the harvest?

DAWIT: Drying the maize took two members of the family about 2 days. Then my wife and our two daughters dehusked and cleaned the maize. It took the three of them 3 days to finish dehusking, cleaning and sorting the harvest.

GURE: If you had hired someone else to do the work for you, how much would you have to pay?

DAWIT: About **\$8 a day**.

GURE: So let me use \$8 a day as the cost of **family labor**. (Calculates again) That leaves you with this much profit. (Shows calculations).

DAWIT: Only so much? Hmm... so which should we plant: maize or chickpeas?

GURE: To work that out, we would have to do the same calculations for chickpeas. I would like to do the same exercise with other members of your family that grow maize.

TABLE 2. FORM FOR CALCULATING COSTS, INCOME AND PROFIT

PRODUCTION COSTS	UNIT	NO. OF UNITS	PRICE PER UNIT (\$)	COST (\$)
MATERIALS				
Seed	5-kg bags			
Fertilizer	50-kg bags			
Sacks	Bags			
Air time for a mobile phone	Minutes			
Transport to market	Bags			
Market fee	Per bag			
A: Total cost of materials				
HIRED LABOR				
Land preparation	Person-days			
Harvesting	Person-days			
B: Total hired labor costs				
C: Total costs (excluding family labor): A + B				
FAMILY LABOR				
Planting	Person-days			
Fertilizer application	Person-days			
1st weeding	Person-days			
2nd weeding	Person-days			
Drying	Person-days			
Dehusking, sorting, cleaning	Person-days			
D: Total family labor costs				
E: Total costs (including family labor): A + B + D				
INCOME	Unit	No. of units	Price per unit (\$)	Income
Sale of maize	50-kg bag			
Sale of maize	50-kg bag			
Sale of maize	50-kg bag			
F: Total income				
PROFIT (excluding family labor): F - C				
PROFIT (including family labor): F - E				

TABLE 3. ANSWERS TO STAFF EXERCISE: DAWIT'S PRODUCTION COSTS, INCOME AND PROFIT FROM ONE HECTARE OF MAIZE

PRODUCTION COSTS	UNIT	NO. OF UNITS	PRICE PER UNIT (\$)	COST (\$)
MATERIALS				
Seed	5-kg bags	5	1.50	7.50
Fertilizer	50-kg bags	1	50.00	50.00
Sacks	Bags	50	0.25	12.50
Air time for a mobile phone	Minutes	10	0.15	1.50
Transport to market	Bags	50	0.65	32.50
Market fee	Per bag	50	0.05	2.50
A: Total cost of materials				106.50
HIRED LABOR				
Land preparation	Person-days	2	10.00	20.00
Harvesting	Person-days	8	7.50	60.00
B: Total hired labor costs				80.00
C: Total costs (excluding family labor): A + B				186.50
FAMILY LABOR				
Planting	Person-days	2	8.00	16.00
Fertilizer application	Person-days	1	8.00	8.00
1st weeding	Person-days	3	8.00	24.00
2nd weeding	Person-days	2	8.00	16.00
Drying	Person-days	4	8.00	32.00
Dehusking, sorting, cleaning	Person-days	9	8.00	72.00
D: Total family labor costs				168.00
E: Total costs (including family labor): A + B + D				354.50
INCOME				
Sale of maize	50-kg bag	20	6.50	130.00
Sale of maize	50-kg bag	20	8.00	160.00
Sale of maize	50-kg bag	10	8.50	85.00
F: Total income				375.00
PROFIT (excluding family labor): F - C				188.50
PROFIT (including family labor): F - E				20.50

EXERCISE 3. CALCULATING COSTS AND PROFIT

Teaching tip: Before this exercise, work out the costs and profits of one farmer in the area to get a realistic idea of the costs and expected profits. Visit some input-supply dealers to collect information on costs of materials such as seeds, tools, fertilizer, irrigation equipment, and agrochemicals, in case the farmers are not sure about the costs. This lesson enables the farmers to calculate their costs of production, their incomes from the sale of their products, and the profit that they have made.

If many farmers are illiterate, divide them into groups so at least one literate person is in each group.

OBJECTIVE

After this exercise the participants will be able to:

- Calculate the costs, income, and profit from one of their crops or livestock products.

EQUIPMENT NEEDED

- Multiple copies of empty forms (Table 4, 5 and 6), or you can write this information on a flipchart
- Paper and pencils

EXPECTED OUTPUTS

- Farmers learn how to calculate production cost, income and profit

TIME

- 1-2 hours

PREPARATION

Interview at least one male and one female farmer to collect information on costs and income for the crop or livestock product of interest. You can later use this information with the group as an example. This will also help you work out if the farmers are including all their costs and if the costs are realistic.

SUGGESTED PROCEDURE

1. Explain that the participants will work out their costs, income and profit for one of their products. Select a product that many farmers produce. It is easiest if everyone works on the same product, but if men and women produce different products, then divide the group by gender. At the end of the session each group will give a short presentation on their results.
2. Give the participants the form for calculating costs, income, and profits (Table 4, 5, and 6).
3. Ask the participants to write their name and product at the top of the form. Ask them to

write the number of hectares (or acres) they plant of this crop in the top right. Each person should fill in his or her own information.

4. Ask the participants to think of all the costs they incur for seed, fertilizer, agrochemicals, and other materials. Remember transport costs in purchasing or accessing inputs. Ask them to fill this information in Table 4. Use an example to guide them if necessary. Each person should fill in his or her own costs. They can fill in the blank rows if necessary. Check each person's calculations to make sure they have understood the assignment.
5. Ask the participants to think of what they spend on hired labor for producing, processing, harvesting, and marketing the product directly. Which tasks and how much do they spend? They fill this in the bottom part of the table. Encourage them to fill in the blank rows if necessary.
6. Ask them to add up the total costs of material and hired labor, and write this amount in the corresponding field in the right hand column.
7. Ask the participants to think about activities that have used family labor for producing, processing, harvesting, and marketing the product: which tasks, which family member did the task, and how much time they used for each task.
8. Then ask them to add up the total time that the family has used in producing, processing, harvesting, and marketing the product.
9. Now explain that you will switch to income from selling the product. Ask the participants to recall how many bags (or crates or kilograms) of the product they sold, and how much money each bag fetched. Fill this information in Table 5. If the participants sold the product in more than one batch, ask them to complete more than one row in the table. Get them to calculate the total amount of income from all the sales.
10. Ask the participants to work out the profit by calculating the income minus the costs (Table 6).
11. Discuss the calculations with the participants. Help them make corrections if necessary.
12. Discuss how to reduce their costs of production or increase their income. Ask if there are any 'hidden' costs associated with the production. For example, might women farmers need to find resources for child care or any other activity that they might have to forego? Have they factored in all the costs associated with marketing the produce, like making multiple visits to markets to negotiate with traders or make sales?

Tables 7, 8, and 9 give examples of completed forms.

TABLE 4. FORM FOR CALCULATING COSTS

Farmer's name			
Product		Production area	
MATERIALS		Cost (local currency)	
Seed			
Fertilizer			
...			
...			
...			
...			
LABOR ACTIVITIES: hired labor			
Plowing			
Weeding			
...			
...			
...			
...			
Total costs			
Family labor	Family member	Time taken (hours or days)	
Plowing			
Weeding			
...			
...			
...			
...			
Total use of family labor			

TABLE 5. FORM FOR CALCULATING INCOME

Farmers' name			
Product		Production area	
	No of bags sold	Price per bag (local currency)	Total (local currency)
Sale 1			
Sale 2			
Sale 3			
...			
...			
Total income from sales			

TABLE 6. FORM FOR CALCULATING PROFIT

Farmer's name			
Product		Production area	
	Local currency		
Total income from sales			
Total costs			
Profit = income - costs			

TABLE 7. EXAMPLE OF COMPLETED FORM FOR CALCULATING COSTS

Farmer's name	Muhammad al-Mansur		
Product	Maize	Production area	0.5 hectare
MATERIALS	Cost (local currency)		
Seed	100		
Fertilizer	60		
LABOR ACTIVITIES: hired labor			
Plowing	20		
Weeding	20		
Total costs	200		
Family labor	Family member	Time taken (hours or days)	
Plowing		0	
Weeding		0	
Total use of family labor		0	

TABLE 8. EXAMPLE OF COMPLETED FORM FOR CALCULATING INCOME

Farmers' name	Muhammad al-Mansur		
Product	Maize	Production area	0.5 hectare
	No of bags sold	Price per bag (local currency)	Total (local currency)
Sale 1	5	20	100
Sale 2	5	22	110
Sale 3	10	21	210
Total income from sales			420

TABLE 9. EXAMPLE OF COMPLETED FORM FOR CALCULATING PROFIT

Farmer's name	Muhammad al-Mansur		
Product	Maize	Production area	0.5 hectare
	Local currency		
Total income from sales	420		
Total costs	- 200		
Profit = income - costs	220		

LESSON 4. TYPES OF MARKETS

IN THIS LESSON

After this lesson you will be able to:

- List different types of markets where farmers can sell their products
- Compare among the different types of market
- Describe different market segments
- Select a market for a particular type of product.

Let us look at the different types of markets where farmers can sell their products.

ON FARM

On-farm sales are when the farmers sell their products directly on the farm to neighbors, to traders who travel around in search of goods to buy, or to local buying agents.

Selling at the farm is convenient for the farmer: there are no additional marketing costs such as loading or unloading, and no problems in reaching agreements with the other members of a marketing group.

But prices of produce sold directly from the farm are usually lower than prices at markets. The buyer will offer each farmer a low price as he or she has to buy small amounts of produce from many farmers in order to fill up a truck. The buyer also has to pay for transportation to the market and for loading and unloading the truck.



BARTER MARKETS

These are the simplest form of markets. They are where people come together to exchange goods without the use of money.

For example, one farmer can swap some maize for another farmer's eggs. The two farmers have to work out how many eggs a bag of maize is worth. Bartering is not common, but occurs in very remote places, or after a disaster when there is no money to use as a means of exchange.

ASSEMBLY MARKETS

These are markets where farmers and small local traders come together regularly to sell their goods to larger traders. They are a good place for farmers to sell either as individuals or collectively. The buyers in assembly markets are traders, not consumers.

Assembly markets are normally found in rural areas or in small towns close to farming areas. Many assembly markets are held only once or twice a week. Some are held only in the harvest season.



WHOLESALE MARKETS

Wholesale markets are where traders (and a few farmers) deliver produce in bulk. They are generally found in larger towns and cities.

Retailers (people who sell goods directly to consumers) come to these markets to buy large amounts of goods to sell in their stalls and shops.



RETAIL MARKETS

These are markets where consumers and small businesses (such as restaurants and street-food vendors) buy their daily or weekly supplies of food.

It is possible for farmers to sell in bulk directly to retail markets, but to do so, they must work out a system with the retailer. Wholesalers may try to prevent farmers from selling directly to retailers.

SUPERMARKETS

As towns grow, people want to buy in convenient, one-stop shops. Supermarkets enable consumers to buy many different types of goods at the same time. The food is attractively packaged and good quality. In developing countries, supermarkets serve mainly mid- to higher-income urban people. Farmers can sell directly to supermarkets, but they must meet strict volume and quality requirements



COMPARING MARKETS

Each type of market serves a specific role. Each offers a different combination of quality, quantity, prices, and presentation of goods.

Generally, farmers receive the lowest price if they sell unsorted produce at the farm gate. They can get higher prices if they sort, grade and package their output and sell it to a supermarket.

Where can farmers make the most profit?

- The more **distant** markets may offer higher prices, but marketing costs, especially transport will also be higher.
- **Supermarkets** may offer the highest price, but farmers will need to meet many conditions and pay for many services to supply them.
- To identify the best venue to sell their produce, farmers and farmers' groups need to calculate the **costs, income and profits** for selling in different markets.

Staff Exercise B illustrates how a higher price at a retail outlet may not be attractive once all additional costs are accounted for.



MARKET SEGMENTATION MEANS DIVIDING CONSUMERS INTO DIFFERENT GROUPS

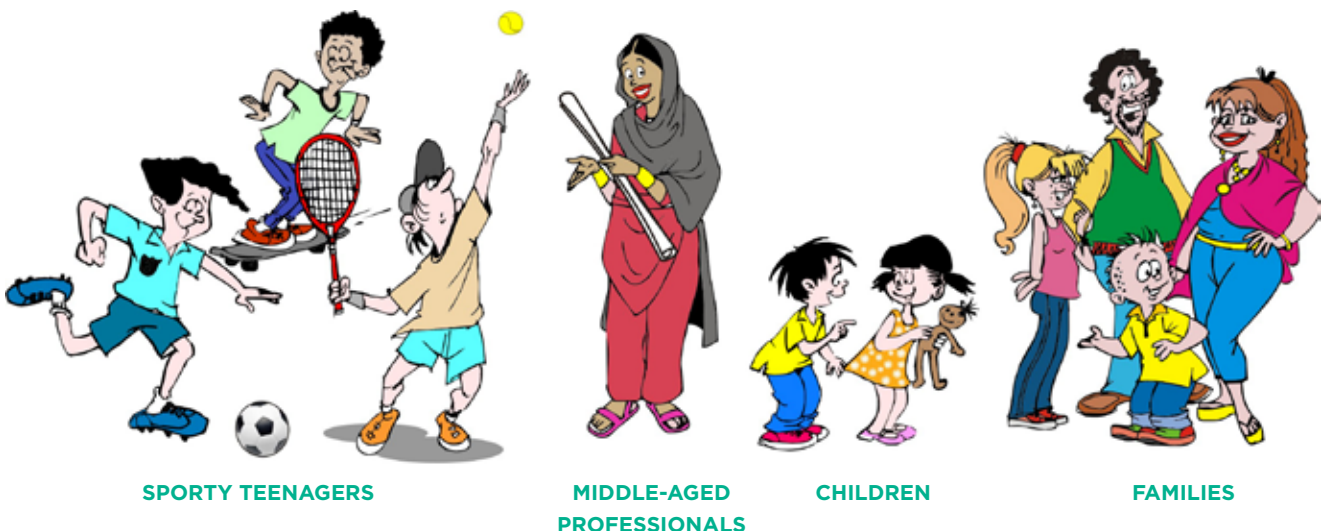
MARKET SEGMENTATION

We can divide consumers according to their age, sex, religion, personality, location, or income. Some examples:

- Young, well-off people in cities
- Middle-aged, well-off people in cities
- Young parents with families
- Children

Different market segments have different needs and preferences. For example, young, well-off people may like to go shopping in supermarkets, while older people may tend to buy their food in traditional markets.

To sell products to a particular type of consumer, you need to target your marketing strategy to that market segment and understand what their needs and preferences are.



QUIZ 4

Answers at the end of the guide.

1. What is a market?

- A. A place where traders make money
- B. A place where farmers sell to traders
- C. A place where consumers have to buy what is on offer
- D. A place where buyers and sellers can meet to exchange goods and services for financial gain

2. Match the sellers with the buyers in these markets

SELLERS	BUYERS
A. In retail markets, retailers sell to ...	1. Large traders
B. In assembly markets, farmers sell to ...	2. Consumers
C. In wholesale markets, large traders sell to ...	3. Small traders

3. Which best describes barter trade?

- A. Barter trade involves exchanging one product for another without the use of money
- B. Barter trade is used for exchanging agricultural goods if people do not have enough money
- C. Barter trade is used to speed up transactions between buyers and sellers
- D. Barter trade means several people have to judge which product is worth most so they can ensure a fair exchange

4. What is market segmentation?

- A. Identifying the actors in the value chain: the farmer, trader, processor and consumer
- B. A group of people who need different products from everyone else
- C. A way of dividing the market into people who are seeking different types of products
- D. A marketing method to advertise products in different ways.

5. Match the consumer type with the place they are most likely to buy food.

CONSUMER TYPE	MARKET BEHAVIOR
A. Young, well-off people in cities	1. Food market in town
B. Elderly person in small village	2. Supermarket
C. Middle-aged person with limited income	3. Neighborhood shop or stall

6. Laura has harvested her green beans and is considering her marketing options. Help her by putting these markets in the correct order, from the lowest to highest price she can expect.

- A. Sorted, graded beans, sold direct to a supermarket
- B. Unsorted beans, sold on the farm
- C. Sorted, graded beans, sold at a collection point in the village
- D. Sorted beans, sold in the market in the nearby town

STAFF EXERCISE B. SELECTING A MARKET

This exercise is intended for **field agents**. It helps them think about what factors to take into account when farmers are selecting a market for their produce.

OBJECTIVE

To help field agents understand what factors farmers need to take into account when deciding where to sell their products.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens
- Multiple copies (one per group) of information on the Banje co-op (Box 2)
- Multiple copies (one per group) of Table 10
- Pocket calculators (one per group)

EXPECTED OUTPUTS

- Understanding of information needed to select among market options

TIMING

- 30 minutes for preparation, 15 minutes to present and discuss the results

PREPARATION

- None

SUGGESTED PROCEDURE

1. Divide the participants into small groups of three or four persons. For example, you could assign 1 or 2 groups to represent an all-male Banje Co-op of 200 farmers, 1 or 2 groups to represent an all-female Banje Co-op of 200 farmers, and 1 or 2 groups to represent a mixed (male and female) Banje Co-op of 200 farmers.
2. Provide the information in Box 2 and the empty form in Table 10 to each group.
3. Ask the groups to answer the following questions:
 - Which of the five alternatives is most attractive in terms of income?
 - What are the advantages and disadvantages of each alternative?
 - What are the hidden costs of each of these alternatives?
 - Which alternative would you recommend to the farmers?
4. When all the groups have finished their calculations, ask them to present and discuss their answers. Which alternative is the best for the Banje Co-op and why?

BOX 2. SELECTING A MARKET FOR ONIONS

The Banje Co-op has 200 farmer members. Each farmer plants 1/20 of a hectare of onions under irrigation. The total production of onions in one season is **2,000 50-kg sacks**.

The farmers used to sell individually, but this year they want to try and earn more money by selling their onions collectively. The co-op does not yet have any infrastructure to store onions for any length of time.

The co-op has the following options for selling its onions:

- A. To a **traveling trader** who will come to the co-op's store. The trader will buy all the onions immediately after the harvest at a price of **\$1.35/kg**.
- B. At the **local village market** to a store holder who will receive 5 tons per week at a price of **\$1.55/kg**. The co-op has its own bullock carts which they can use to transport the onions to market.
- C. In the regional capital the farmers can sell to a **wholesaler** at an average price of **\$1.65/kg**. The trading center is 50 km from the co-op, and the cost of transport is **\$0.05/kg**.

D. To a **supermarket** in the regional capital. The supermarket receives only 2 tons per week of 1st grade onions, which make up 25% of the co-op's production. The onions must be packed in 5-kg nets. The price paid is **\$2.40/kg**. If any rotting or bad onions are found, the whole consignment will be rejected. The cost of packing is **\$0.15/kg**. The remaining 75% could be sold to the wholesaler in the same regional capital. The cost of transport to the regional capital is **\$0.05/kg**.

E. To a trader who **exports** onions to a neighboring country. The co-op would have to transport the onions to the capital city, which is 200 km away. Only 1st and 2nd grade onions are accepted at an average price of **\$2.10/kg**. The onions should be packed in net sacks of 20 kg each. The transport cost is **0.15/kg**. The cost of packaging is **0.10/kg**. The trader will purchase 20 tons per week over a period of 5 weeks. Only 70% of the total production is 1st and 2nd grade. The remaining 30% would have to be sold in the local market at **\$1.20/kg**.

TABLE 10. FORM TO CALCULATE COSTS AND NET INCOME FOR MARKET SELECTION EXERCISE

We have filled in the first row for you.

MARKET	GRADE OF ONIONS	VOLUME (KG)	PRICE (\$/KG)	GROSS INCOME (\$)	COSTS (\$/KG)			TOTAL COST (\$)	NET INCOME (\$)
					Transport	Packing	Total		
A Traveling trader	Ungraded	100,000	1.35	135,000	0	0	0	135,000	
B Local market	Ungraded	100,000							
C Wholesaler	Ungraded	100,000							
D Supermarket and wholesaler	Grade 1	25,000							
	Other	75,000							
	Total	100,000							
E Exporter and local market	Grades 1 & 2	70,000							
	Other	30,000							
	Total	100,000							

TABLE 11. COMPLETED FORM FOR CALCULATING COSTS AND NET INCOME FOR MARKET SELECTION EXERCISE

MARKET	GRADE OF ONIONS	VOLUME (KG)	PRICE (\$/KG)	GROSS INCOME (\$)	COSTS (\$/KG)			TOTAL COST (\$)	NET INCOME (\$)
					Transport	Packing	Total		
A Traveling trader	Ungraded	100,000	1.35	135,000	0	0	0	0	135,000
	Ungraded	100,000	1.55	155,000	0	0	0	0	155,000
	Ungraded	100,000	1.65	165,000	0.05	0	0.05	5,000	160,000
D Supermarket and wholesaler	Grade 1	25,000	2.40	60,000	0.05	0.15	0.20	5,000	55,000
	Other	75,000	1.65	123,750	0.05	0	0.05	3,750	120,000
	Total	100,000							175,000
E Exporter and local market	Grades 1 & 2	70,000	2.10	147,000	0.15	0.10	0.25	17,500	129,500
	Other	30,000	1.20	36,000	0	0	0	0	36,000
	Total	100,000							165,500

EXERCISE 4A. SELECTING A MARKET

This exercise for farmers helps them think about what factors to take into account when they are selecting a market for their produce.

OBJECTIVE

After this exercise the participants will be able to:

- Describe factors they need to take into account when deciding where to sell their products

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens
- Multiple copies (one per group) of information on the farmer group (Box 3)

EXPECTED OUTPUTS

- Understanding of information needed to select between market options

TIMING

- 30 minutes for preparation, 15 minutes to present and discuss the results

PREPARATION

- None

SUGGESTED PROCEDURE

1. Ask the group what different markets they can identify for their most important crops. Write up on the flip chart the markets that they identify. Add other markets for this crop that the farmers may not be aware of, and explain who sells what to whom.
2. Divide the participants into small groups of three or four persons.
3. Provide the information in Box 3.
4. Ask the groups to answer the following questions:
 - What additional information do you need to be able to decide if it is a good idea to sell their onions to the wholesaler?
 - What are the advantages of selling the onions to the wholesaler?
 - What are the disadvantages of selling to the wholesaler?
5. When all the groups have finished their calcu-

lations, ask them to present and discuss their answers. Ask them how they would go about collecting the information that they identified as necessary to reach a decision. See Tables 12 and 13 for some possible answers. Ask them if there are any hidden costs not included.

TABLE 12. ADDITIONAL INFORMATION NEEDED ON MARKETING ONIONS, AND HOW THE FARMERS MIGHT OBTAIN IT

ADDITIONAL INFORMATION NEEDED	WAYS OF GETTING THE INFORMATION
Cost of transport of 20 sacks of onions to the regional capital	Ask different transporters what they charge to take 20 sacks to the regional capital and if this cost is fixed.
Labor to sort onions into large and small	Estimate by discussing with other farmers, or ask farmers who sell their onions sorted. After the harvest, check how long it takes to sort the onions into large and small.
Amount of large and small onions produced	Estimate by discussing with other farmers based on what you have observed in previous years. Or ask farmers who sell their onions sorted. After the harvest, sort the onions into large and small, then weigh.
Time for negotiating with the wholesaler, arranging purchases and accompanying the produce to the regional capital	Estimate, then check based on the experience of the first sales.

TABLE 13. ADVANTAGES AND DISADVANTAGES OF SELLING TO THE WHOLESALER

ADVANTAGES	DISADVANTAGES
Possibly higher income through higher selling price Agreed upon and stable price Onions sold in less time	Additional labor required for sorting, increasing costs Need to find and pay for transport Need to accompany the produce to the regional capital each week

Types of markets



Farm gate



Farmer assembly market



Retail market



Barter



Wholesale market



Supermarket

BOX 3. SELECTING A MARKET FOR YOUR ONIONS

Imagine that you are a member of a farmer group with **10 members**. Each member produces **ten 50-kg sacks** of onions for sale, making 5,000 kg in all.

The members of the group used to sell individually to a local traveling trader who comes to collect the onions from each of their houses.

This year the price of onions is low and the group thinks they will be able to get a better price if they take their onions and sell them to a wholesaler at the regional capital.

So, the group sends two of their members to talk to the wholesaler. The wholesaler tells them that he will

buy **20 sacks a week** at a fixed price of **\$2.00 a sack of large onions**, and **\$1.00 for small onions**. If they do not sort their onions into small and large onions, he'll buy the **unsorted onions for \$1.50 a sack**. The wholesaler will provide the sacks at no charge.

With this offer, the members go and talk to the traveling trader to find out what price he will offer this year. The trader is unwilling to set his price, just saying that he thinks that the price will be lower than last year because it has been a good season. The farmers remember that last year they sold all their onions over a period of 8 weeks, with prices rising from **\$1.00 a sack at the beginning to \$1.40 at the end** of the period.

EXERCISE 4B. MARKET SEGMENTATION

Teaching tip: Ask the farmers if they know what “market segmentation” means. Why might it be important when selling their products?

OBJECTIVE

After this exercise the participants will be able to:

- Describe how different types of consumers have different needs and wants.

EQUIPMENT NEEDED

- Flipchart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Farmers are aware that different types of consumers demand different types of products

TIMING

- 30 minutes for preparation, 15 minutes to present and discuss the results

PREPARATION

- None

SUGGESTED PROCEDURE

1. Start by telling the group that you are going to talk about **market segmentation**. Ask if anyone know what it means. If anybody has some ideas or makes a good guess, write the answers on the flipchart. Then say that you are going to explore what “market segmentation” is and why it is important when selling their products.
2. Divide the participants into small groups of three or four persons. If it is a mixed group of male and female farmers, you could make groups up of women with infants and young children, women with adolescents (age 10-19), elderly women, young single men, young single women, elderly men, etc.
3. Ask the groups to answer the following questions:
 - When you go to the market or nearest town, what are the items that you are most interested in buying?
 - For each group of similar items (e.g. food, clothes, shoes, school items, tools, etc.) say why you want to buy them or what purpose they fill.
4. When all the groups have finished their discussion and selected a few items, ask them to present their answers. Ask them why they think the answers from the different groups are the same or different. Use the differences in what each group wants to buy to illustrate how different consumers want or need different kinds of products. Tell them that dividing consumers into groups according to their different needs is known as “market segmentation.”
5. Finish by discussing whether it is important to know what different consumers want when they plant and sell their agricultural products.

Market segmentation



Children



Middle-aged professionals



Sporty teenagers



Families

LESSON 5. ADDING VALUE AFTER HARVEST

IN THIS LESSON

After this lesson you will be able to:

- Describe the different steps in processing a farm product after harvest and before sale.
- Explain why these steps add value to the product.

EARNING MONEY FROM MAIZE

Let us now turn to what happens to a crop after it is harvested. We will take maize as our example, but remember, the same principles apply to any farm product. We will look at how the farmer can earn more money by doing each of these activities.

DRYING AND SHELLING

Maize has to be dry enough to be stored and milled properly. Many traders will refuse to buy grain that contains more than 13% moisture, or will offer a lower price if it is more than this.

The farmer removes the husks from the harvested maize, then spreads the cobs out in the sun. When it is dry, the farmer shells the maize by removing the grain from the cobs.

**ADDING VALUE IS ONE WAY
FARMERS CAN EARN MORE FROM
THEIR PRODUCT**



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, color, shape, amount of impurity, and ripeness.

The farmer (or more likely, his or her children) pick out the straw and stones, and sieve the grain to remove sand and empty grains. Because this is labor-intensive, farmers will do this only if the buyer agrees to pay a premium price. But if they want to enter a new market, clean and sorted goods will give the buyer a positive signal.

BULKING

Many farmers have only one or two sacks of maize to sell. But traders find it time-consuming and expensive to negotiate with lots of farmers to buy a small amount of produce from each. Only local traders have the time and local knowledge to handle these purchases, and they pay very low farm-gate prices.

A group of farmers bring their sacks of maize 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.



PACKAGING

Most products need to be packaged to sell them in the market. Packaging prevents the product from damage, contamination or theft. 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 such as maize.

The farmers put their maize into standard-sized sacks and stack them in a dry place ready to be picked up.



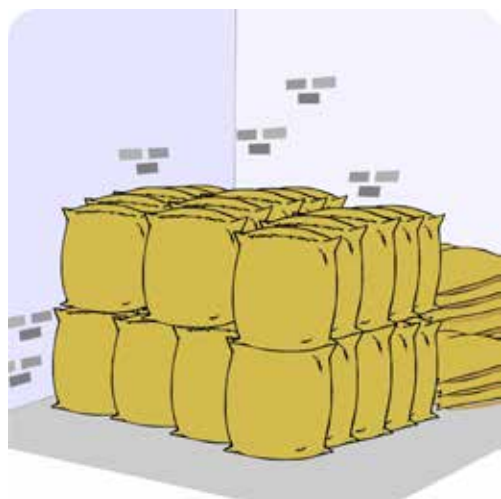
STORAGE

For most products, prices are often low immediately after harvest, so if possible, it is a good idea to store grain until the price has recovered. Sometimes it is necessary to store the grain for a few weeks or months until the price has increased.

The farmers put their sacks of maize in a secure, dry warehouse. They put the sacks on wooden pallets to keep them off the floor, and set traps for mice and rats. They may need to cover the sacks with polythene and use a fumigant to prevent insect damage.

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 (including moisture loss) into account.

Poor storage conditions can affect the quality of the maize and the nutrients it contains and lower the price



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. As with storage, the processing method can add or remove important nutrients from the product.



ADDING VALUE

All these activities **add value** to the product and make it more attractive and convenient for consumers to buy. After all, few consumers want to buy raw, unhusked maize on the cob. So someone in the value chain – a trader or processor – has to do the tasks of de-husking, shelling, cleaning, and so on, and will charge for these services.

By organizing themselves, smallholder farmers can do many of these tasks themselves, and can earn extra money by doing so. Organizing farmers into groups that focus on specific markets is often a first step in helping them earn more.

Some types of value addition can only be done by people further along the value chain. For example, it is not practical for groups of farmers to make packages of frozen food, as this requires expensive equipment, a lot of capital, skilled labor, and special transportation.

QUIZ 5

Answers at the end of the guide.

1. How might a smallholder farmer add value to one of his or her products?

Select all that apply.

- A. By sorting the product by size and quality
- B. By charging the trader a higher price for the same product
- C. By organizing with other farmers who grow the same crop to sell their product jointly
- D. By spending more on production and marketing

2. What is the primary purpose for a farmer of adding value to his or her products?

- A. The product can be stored for longer
- B. The farmer can sell the product whenever he or she likes
- C. The product will fetch a higher price in the market
- D. The product will be more nutritious

3. Adding value to a product reduces the cost of production and marketing for the farmer.

- A. True
- B. False

4. Match the correct term to the value-adding activity.

TERM	ACTIVITY
A. Sorting	1. Making peanut butter from peanuts
B. Bulking	2. Removing small or damaged onions and selling them separately
C. Packaging	3. Wrapping mangoes individually to protect them
D. Processing	4. Combining products with other farmers to sell as a group

5. Maria's farmers' group wants to add value to its mango crop. In what order should they undertake the following activities?

- A. Harvest the mangoes
- B. Sort the mangoes by size and ripeness
- C. Put the mangoes into crates
- D. Take the mangoes to the market
- E. Bring the mangoes to a central collection point

6. Put these farm products into the correct categories.

PRODUCT	CATEGORY
A. Cooked goat meat	1. Raw product
B. Live goat	2. Semi-processed product
C. Cut of meat	3. Processed product
D. Goat carcass	4. Consumable product

EXERCISE 5. ADDING VALUE AFTER HARVEST

This exercise helps farmers think about ways they can get a better price for their products by cleaning, sorting, packing, bulking, storage, and simple processing.

OBJECTIVE

After this exercise the participants will be able to:

- Explain the activities that add value to their products

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Farmers are able to list activities, technologies and processes that add value to different products.

TIME

- 1 hour

PREPARATION

- None

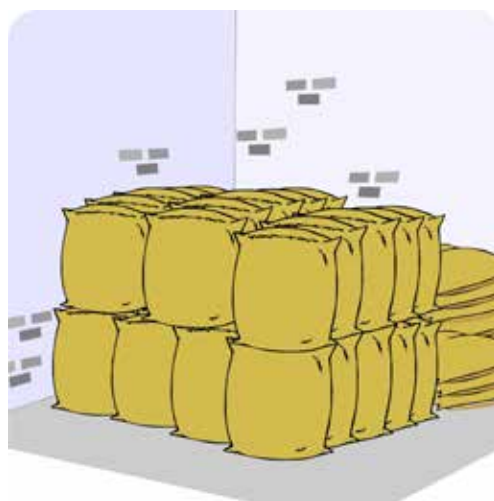
SUGGESTED PROCEDURE

1. Divide the farmers into groups.
2. Ask each group to choose a product they grow or are familiar with (a different product for each group). For example, the first group could choose a cereal (maize or rice), the second a root crop, the third a vegetable, the fourth a livestock species, and so on.
3. Ask the groups to list the ways that they can add value to the product..
4. Ask them to explain:
 - Why it might be an advantage to add value before they sell the product?
 - What inputs (materials and labor) are needed for adding value?
 - If family labor is used, what are the implications on other farm and household activities?
 - What happens to the money earned from the value addition? Does the person who adds the value keep the money? Or is it shared with others?
5. Ask each group to briefly present what they have prepared. Invite the other participants to suggest other ways of adding value that the group may have missed.

Adding value after harvest



Drying and shelling



Storage



Cleaning and sorting



Processing



Bulking



Packaging

LESSON 6. CHANGES IN MARKETS

IN THIS LESSON

After this lesson you will be able to:

- Describe how population trends, market trends, new technologies, consumer concerns and new products and markets are changing the markets of agricultural products.

CHANGES IN MARKETS

Markets are in constant, rapid change. If farmers understand some of the changes that are happening in their country and region, they will be better able to produce what consumers want. If farmers know what consumers want they will know what products they should produce. Here are some factors that affect market prices and trends.

POPULATION TRENDS

Population growth. The number of people in developing countries is growing rapidly: many are likely to double in population in the next 20 years. More mouths to feed, and more bodies to clothe, means higher demand for many types of agricultural products.



Urbanization. Around half of the world's population now lives in towns and cities, and many more people move there every year. That means people need to buy more food and other agricultural produce rather than growing it for themselves.

Rising incomes. Incomes are rising in most countries, especially in the cities. Richer people want higher quality or more processed foods, and a wider range of products. A growing middle class demands more sophisticated goods, and prefers to shop in supermarkets rather than from traditional market stalls.



MARKET TRENDS

Market openness or “liberalization”. Many governments have reduced their control over markets and opened them to foreign suppliers. Governments still provide a regulatory framework, but the market is managed by a host of private-sector actors. In most cases this has led to more competition, and can open up new market opportunities for farmers. Some poor countries, however, lack the entrepreneurial capacity to remain competitive in liberalized markets.



Globalization. Changes in banking and improved transport and communications have boosted trade and made markets in different countries more dependent on one another. Although that has led to growth, it has caused serious problems in many developing countries. For example, imports of cheap food can undermine local producers.

Product price trends. Over the last 20 years, the prices of many agricultural commodities on the world market have fallen. They have recently started to rise again, but have been very volatile because of bad weather, economic recession, and other factors. This can make it difficult for farmers who grow these commodities, to predict prices and to make a profit.

MARKET PRICES



Supermarkets and vertical integration. In industrial countries, supermarkets are the dominant buyers, and farmers must meet their stringent quality controls and price structures. In many countries the number of more formal markets is growing, and are replacing smaller retail stores.

Some big companies now handle tasks all along the value chain: they may grow, transport, process, package, and retail certain products. This “vertical integration” can lock out smaller growers from the market.

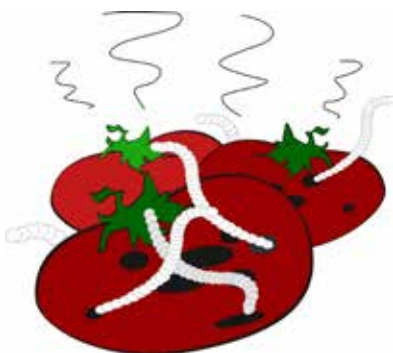
Pressure to reduce costs. So they can attract customers by offering low prices, supermarkets put pressure on traders and processors to reduce their costs. These actors in turn try to cut the prices they pay to farmers. That forces farmers to find ways to reduce their own costs. Large trading companies and supermarkets are now the dominant actors in many value chains and they have a big influence on prices. They may look for cheaper suppliers, or buy directly from large producers, cutting out small-scale farmers and traders.



NEW TECHNOLOGIES

Research and innovation. Agricultural research produces new crop varieties and new technologies. Production methods are changing, new ways of communicating are being developed, and new financial services are emerging. These all mean challenges and opportunities for farmers.

Information and communication. Computers and mobile phones are making it possible for rural people to communicate and get information. Mobile phones will soon be essential trading tools everywhere. Farmers and traders can use them to compare prices, seek new customers, and negotiate deals.



CONSUMER CONCERNS

Food safety. Food scares have made consumers and governments worried about food safety. New rules and standards require companies to invest in new equipment and procedures to prevent problems such as diseases and pesticide contamination. If they fail to meet these standards, they must pay fines, and the products are destroyed. Companies in turn insist that farmers comply with the new rules. For example, food items must now be tagged to show where they were grown. Such rules are becoming important for farmers to sell products for export or to supermarkets in their own country.

Organic products. Consumers are also worried about protecting the environment. They will pay more for products that are grown in an environmentally friendly way – and have a label to prove it. The “organic” market is growing quickly, and many supermarkets and specialist stores have large sections with organic products. This is an opportunity for farmers who can produce without artificial chemicals. But getting certified as “organic” is complex and expensive, so farmers have to get organized if they want to take advantage of this opportunity.



NEW PRODUCTS AND MARKETS

High-value products. As the prices of basic commodities such as maize and wheat fall, compared with the prices of other manufactured goods, interest has risen in diversifying production into higher-value products such as fruit and vegetables, cut flowers, spices, and herbs. Smallholder farmers can even supply these products directly to supermarkets, restaurants, hotels and specialty shops. But diversifying production takes a lot of investment, information, skills, and organization, so it is possible only for the best-organized groups of smallholders.

Niche markets. Richer consumers can afford to pay more for exotic, novel, or specialty products. An example of such a “niche” product is specialty coffee: it can fetch a price many times higher than normal coffee. These markets require strong linkages between the farmers and the traders, and they demand high quality standards.



Fair trade. Some consumers look for goods that are sold with a guarantee that the farmers get a bigger share of the final price. Such “fair trade” products include cocoa, coffee, cotton, fruit, herbs and spices, honey, juice, nuts, rice, sugar and tea. As with organic products, ‘Fair trade’ labeling is complex and requires that farmers organize themselves well to take advantage of this opportunity.

QUIZ 6

Answers at the end of the guide.

1. A group of farmers sees the following trends in their area. Help them match the trend to the type of change in the market.

TREND	TYPE OF CHANGE
A. More and more people in the cities want to buy meat and fresh vegetables	1. Product price trends
B. Since the government lifted restrictions several years ago, more and more food in shops has been imported from outside the country	2. Supermarkets and vertical integration
C. A big company has rented a lot of land to grow vegetables to sell in its own stores	3. Urbanization and rising incomes
D. Over the last few years, the price of staples such as sorghum and maize has gone up and down for no apparent reason	4. Globalization and market openness

2. Here are some more trends that the group sees. Help them match the trend to the type of change in the market.

TREND	TYPE OF CHANGE
A. The group's regular buyer insists on paying a lower price each year	1. Innovation
B. Someone in the village knows how to find out prices using a mobile phone	2. Information and communication
C. A group of beekeepers in the village have started making and selling products like beeswax, "propolis" and "royal jelly"	3. Pressure to reduce costs
D. The extension agent says that new varieties of crops are available that are tolerant to diseases	4. Niche products

3. Here are still more trends. Help the farmers' group match each one to the type of change in the market.

TREND	TYPE OF CHANGE
A. Customers are beginning to complain about pesticide levels. They do not want the farmers to spray their crops with certain chemicals	1. Fair trade
B. Farmers in a nearby village have started growing cotton for an exporter who promises them a better price and a bigger share of the profit	2. High-value products
C. Another village is growing mangoes - but they have to promise not to use any chemicals at all. Every few weeks, an inspector comes to check on them.	3. Food safety
D. The farmers are considering planting orange trees in their crop fields	4. Organic products

4. A mobile phone is an expensive luxury and of little use for helping farmers get their products to market.

- A. True
B. False

5. Select the correct words

A rising population means that demand for food is likely to...

- A. rise
B. fall

and that prices for farm produce are likely to...

- C. rise
D. fall

6. Select the correct words

Rising incomes mean that people want...

- A. higher
B. lower

quality food, and are prepared to pay

- C. more for it.
D. less for it.

EXERCISE 6. CHANGES IN MARKETS

Teaching tip: Everyone is affected some way or other by the changes that are going on around us. To get farmers to think about these changes, consider organizing a brainstorming session.

OBJECTIVE

After this exercise the participants will be able to:

- Describe how their markets are changing, and how they should respond to these changes.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Understanding of major trends in the farmers' markets.

TIME

- 30 minutes

PREPARATION

- None

SUGGESTED PROCEDURE

1. Ask the farmers to take a few minutes to think about changes that are occurring and how these changes affect what and how people buy and sell products, particularly agricultural and food products.
2. Go round asking farmers for examples of the changes and the effects that these are having on what they produce and how they sell. Ensure to elicit responses from both men and women.
3. Write the responses on a flip chart.
4. Compare what the farmers have suggested with what is in this manual. If farmers have missed some out, explain what the change is and how it may affect them. (If farmers think of reasons not listed in the manual, let us know so we can include them when we update it.)

Changes in markets



Growing populations

Globalization



Urbanization

Product price trends



Rising incomes

Supermarkets



Market openness or "liberalization"

Squeezing costs



Changes in markets



New technology



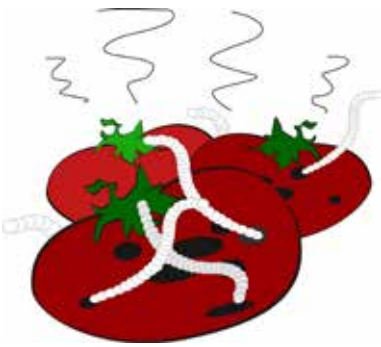
High-value products



Better communication



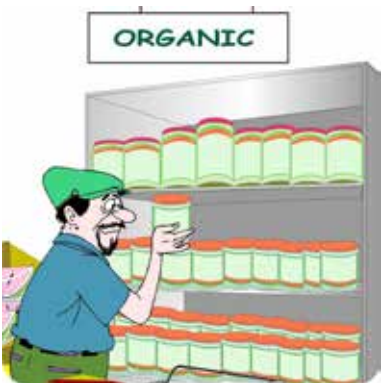
Niche markets



Consumer concerns



Fair trade



Organic products

LESSON 7. THE VALUE CHAIN

IN THIS LESSON

After this lesson you will be able to:

- Outline the value chain for a particular product
- List the major actors in the value chain
- List the main types of business services that serve the value chain
- List some of the institutions and rules that govern the value chain

THE VALUE CHAIN

Many people are involved in getting agricultural products from the producer to the consumer. In addition to men and women farmers there are various types of traders and processors, as well as various business services and institutions that support the process. They are all part of what is called a **value chain** that links farmers to consumers.

A value chain analysis maps out and characterizes all these actors, services and institutions. The analysis allows you to identify the strengths and weaknesses of each of the actors in the chain and decide on suitable actions that you can take to strengthen your participation in the market.

CORE CHAIN ACTORS

All the people who sell and buy the products are called **core chain actors**.

As towns and cities grow, the distance between rural producers and urban consumers increases. Market chains get longer and more people are involved in the process of buying and selling goods before they reach the final consumers.

CORE CHAIN ACTORS: EVERYONE IN THE VALUE CHAIN WHO SELLS OR BUYS THE PRODUCT

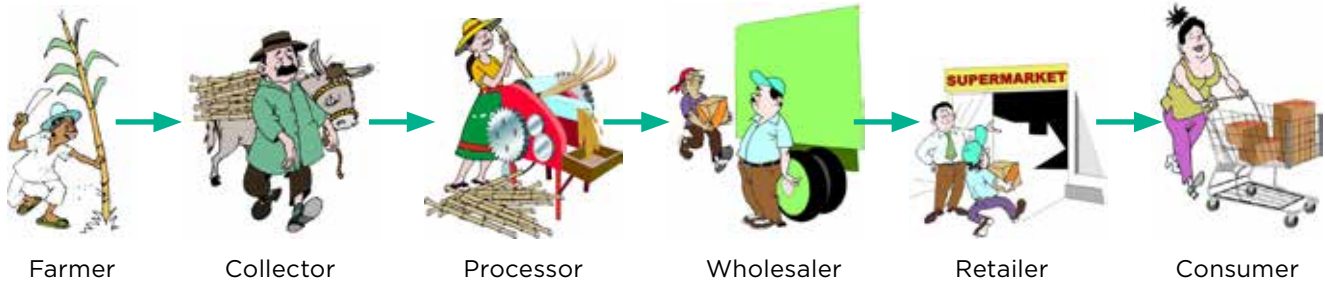


SHORT VALUE CHAIN: FARMER SELLS TO TRADER, WHO SELLS TO CONSUMER



LONG VALUE CHAIN: SEVERAL INTERMEDIARIES BETWEEN THE FARMER AND CONSUMER, EACH WITH A PARTICULAR FUNCTION

VALUE CHAIN



Most farm products are bought and sold several times before they reach the final consumers. There are many different types of **traders**, each with a different function. Three types are **collectors**, **wholesalers** and **retailers**.

FARMERS

Farmers grow crops or raise livestock, and they or their family members do the initial processing (harvesting, drying, sorting, etc.). They occasionally sell directly to consumers (often other people in their village). But more usually they sell to traders.



COLLECTORS

Collectors are small, local traders who buy directly from individual farmers. They are often also farmers themselves. They may buy a few bags of produce from many farmers, and store them until they have enough to sell to a larger trader or processor. Collectors have limited capital and trade small volumes. They may use motorbikes or may own or rent a small truck.

PROCESSORS

Processors transform the product in some way. They include millers, feed manufacturers, butchers, leather workers, coffee roasters, juice makers, canners, and companies that make potato chips or that package frozen food. Processors can be very small household enterprises, or big firms. They may use traditional or modern technologies. They can be located in rural areas or in a town or city.



WHOLESALE

Wholesalers deal with much larger volumes than collectors. They own or rent a bigger vehicle, and have their own storage warehouses. They buy most of their supplies from smaller traders or processors, but some also buy directly from farmers. Wholesalers supply retailers in towns and cities. Many also supply processors, exporters and other large traders.



RETAILERS

Retailers sell products to consumers. They are very diverse. For example, supermarket chains are large companies that handle big volumes of many different products. In contrast, small shops and market vendors sell much smaller volumes and fewer goods, and do not keep sizeable stocks.

CONSUMERS

Consumers are the people who use the product. They are at the end of the chain. They include the end-consumers who eat or drink the food, or wear clothes made of wool or cotton. They also include companies that use the product to make something else – such as a restaurant that uses peanut oil to fry food.



BUSINESS SERVICES: SUPPORT THE PRODUCTION AND MARKETING OF AGRICULTURAL PRODUCTS

BUSINESS SERVICES

To work, a value chain needs many types of **business services**. These are people and organizations that support the production and marketing of goods, but **do not own** the product.

You are probably familiar with some of these and less familiar with others. Although these services are essential for a productive value chain, farmers often face multiple challenges that prevent them from accessing the services.

INPUT SUPPLIERS

These provide the many things needed to grow crops and raise animals: seed, agro-chemicals, veterinary medicines, irrigation pumps and pipes, farm tools, equipment such as threshers, spare parts, and so on.

But: The inputs that farmers need are often unavailable, expensive, or arrive too late.



INFRASTRUCTURE

This includes water supplies for irrigation and processing, electricity, fuel supplies, roads and transport services.

But: Many villages are without electricity, roads are poor, and transport is expensive.

COMMUNICATIONS

Smooth information flows are vital for a value chain to function. Communication may be by word of mouth, telephone, e-mail, the internet, or postal service. Mobile phones and e-mail are becoming more important in the developing world. Many buyers now purchase only from suppliers who have a mobile phone.

But: Many places lack phone coverage, and the internet needs electricity and computer skills.



TRAINING AND ADVISORY SERVICES

Farmers and other actors in the chain need specialized information and advice about production, post-harvest, processing, marketing, management, finance and business strategy among others. Agricultural extension officers, NGO field agents, and consultancy firms are the main sources of these services. People also get a lot of information from other actors in the chain. They can also get information via their mobile phones or the internet.

But: Declining government support means that many extension agents are unable to assist farmers in remote areas. Also, advisory services are often provided by male extension

agents and field agents. As a consequence, advice appropriate for women farmers may be overlooked, such as appropriate technology and timing.

MARKET INFORMATION

Farmers need various types of information on prices:

- **Spot prices:** the price of the product at a certain place at a specific time
- **Price trends:** how the price varies from place to place and from season to season
- **Price premiums:** the prices offered for specific grades or standards of produce, or for larger or smaller amounts of the product.

This information helps farmers make more informed decisions on what to grow, where to sell, when to sell, and how to sell it.

In addition, farmers also need other types of market information:

- **Links with potential buyers**
- **Information about product quality and quantity** required and frequency of delivery
- **Payment conditions.** For example, how is the payment made (in cash, by check, or by bank transfer)? When is the payment made (on delivery, at the end of the month, after 30 days, after 90 days)?

In many cases, farmers have no market information. This makes it difficult for them to negotiate effectively with traders.

Farmers can get market information in various ways:

- They can get it from government **market information services**, which are usually provided free of charge (for example, on the radio).
- They can subscribe to **private information services**, which charge users for the information. These often provide information on the internet or via mobile phone.
- They can **visit markets** to gather information on prices.
- They can **phone traders** in different markets to find out the prices.
- They can attend **agricultural fairs** and visit potential buyers.

If everyone has market information, people have less chance to cheat or charge unfair prices. Farmers who get good market information can negotiate for better sales prices.

But: Services are often patchy or unreliable, especially in remote rural areas. Moreover, different types of user, such as illiterate farmers, some women, and minority groups may face additional constraints in accessing this information.



FINANCIAL SERVICES

Financial services provide the capital that actors in the value chain need to keep their business viable. Farmers need credit to buy seeds and fertilizer, pay laborers to plow, weed and harvest, buy sacks and crates, to mill their grain, and take produce to market. Similarly, traders and processors also need credit to buy produce, pay for transport and storage, and so on.

Credit providers include local moneylenders, savings and loans clubs, microfinance institutions and banks. Other types of financial services include savings, insurance, leasing, warehouse receipts, and loan guarantees.

Farmers and traders need different types of services at different times in the season, and at different stages in the value chain.

- **At the beginning of the season**, farmers need loans for seed, fertilizer, and labor, which are repaid only after the harvest.
- **At mid-season**, farmers need loans for weeding, which they will be able to repay after harvest
- **At harvest time**, they may need loans so they can hold onto their crops until the price has risen.
- Traders need **short-term loans** so they can buy products to sell and in some cases buy produce to store and sell

But: Farmers and traders find it difficult to get the financial services they need, when they need them, at an affordable price. Female farmers may face additional challenges as a result of laws that prohibit women from accessing credit or establishing a banking account. Also, men and women farmers are often at a disadvantage because they do not know how to set up a bank account.

RESEARCH

Research provides farmers with new products and better methods to produce. New crop varieties may be higher yielding, resist pests and diseases, have higher nutrient content, or tolerate drought. New farming methods may enable farmers to increase their productivity or reduce their costs. Research also helps farmers become more competitive, improve their quality, reduce their losses, or add value to their output.

But: Research results often fail to reach farmers in a form they can use. New technologies may also increase labor or other costs for other value chain players. For example, a new high yielding seed may result in a tougher skin of a root crop. The farmer produces more of the crop, but the processor needs to use more labor to remove the peel.





Security Laws Policy, standards

INSTITUTIONS AND RULES



VALUE CHAIN



Farmer

Collector

Processor

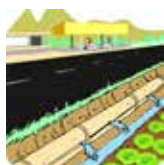
Wholesaler

Retailer

Consumer



Input supplies



Infra-structure



Communi-cations



Training and advisory services



Market information



Research



Financial services

BUSINESS SERVICES

BUSINESS SERVICES AND THE VALUE CHAIN

Business services provide various types of support at different stages in the value chain.

Some (such as seed suppliers and field agents) serve farmers. Others (such as transport companies) provide services to traders and processors.

Different financial services serve different parts of the chain. Farmers can get loans from savings-and-credit groups and microfinance institutions, while banks and insurance companies provide financial services to large processors and retailers.

Important business services are missing in many places. For example, it can be very difficult for some farmers to get loans, buy fertilizers or get market information. Improving these services would make the value chain more efficient and would help everyone in the chain make more profit.

COVERING THE COSTS OF BUSINESS SERVICES

Farmers and other users can get some business services for free. For example, they can use a road or listen to the radio without paying (though they may have to hire a vehicle or buy a radio). Research, crop extension and market information services may also be free.

Users have to pay for many other types of services. For example, they have to hire a truck to carry their produce, buy seed and fertilizer, and pay for vaccines and veterinary advice.

The providers of business services must cover their costs, and (if they are private companies) must try to make a profit. They usually cover their costs by charging a fee: transport companies charge per sack or crate moved, millers charge for milling grains, such as maize, and graters charge for grating roots such as cassava.

The government also has to pay for the services it provides. It covers some of the costs through taxes or project grants, but may also charge fees. Radio and TV stations often pay for their broadcasts through advertising. Increasingly, NGOs are also charging fees for certain services.

If development agencies provide certain services for free, they will prevent private companies from charging for the same services. That will stop private business services from growing. This makes many projects unsustainable.

If they get free services, farmers are not aware of the full costs of their businesses. When the project ends and the staff leave, the farmers often cannot access the services that the project used to provide.

Instead of competing with the private sector, development agencies should try to find ways to stimulate the private sector to develop such services.



INSTITUTIONS AND RULES

We need to consider a third part of the value chain: the institutions and rules that govern how it works. We can think of them as the “rules” of the marketing “game”.

INSTITUTIONS AND RULES: THE RULES OF THE MARKETING GAME

Here are some examples:

Laws and policies. Governments set laws and policies to regulate the flow of goods and services. They may impose taxes, offer subsidies, or control prices. They may restrict or encourage the production of certain crops, or limit the movement of plants and animals to prevent diseases from spreading. They may promote land reform, or encourage soil and water conservation. They may provide certain types of business services, such as extension and market information.

Standards. Tomato traders and retailers often insist that the tomatoes they buy must be of a particular variety, a certain size, not damaged, and packed carefully in crates containing a certain number of kilograms. This is an example of a standard. Standards may be formal or informal. They may be imposed by the government, by individual traders, or by an industry association. Farmers need to know these standards so they can comply with them.

Certification. Coffee farmers who want to sell into higher value markets often must produce their coffee according to the rules of certification organizations such as fair trade. In other cases farmers can access higher value markets by using specific farming methods such as organic farming. Many coffee farmers grow coffee that is fair trade certified and organic. To sell fair trade coffee, farmers need to be a member of a fair trade approved cooperative, in which producers agree to produce coffee according to agreed environmental, social and financial standards. For example, all fair trade coffee cooperative must agree to an annual audit, to show their social accountability in payments. When farmers are growing organic coffee they must grow coffee without the use of chemical fertilizers or any chemicals that are used to kill pests and diseases.

Food safety standards. Many standards aim to ensure that food that we eat is safe. They cover things like:

- The type of pesticides that may be used
- The level of toxins (poisonous substances) in stored grain
- The moisture content of grain
- Levels of broken grains, discolored grains and fungal infections.

Special organizations test products and check farms to make sure that they comply with such standards.

Security. The police, lawyers and judges maintain order, and ensure that people in the chain comply with contracts and do not break the law. Corruption and lawlessness may be a problem in many areas. A value chain will break down if, for example, armed robbers attack trucks carrying the produce.

QUIZ 7

Answers at the end of the guide.

1. Which statement best describes the difference between a trader and consumer?

- A. A trader is a buyer and a seller of goods or services. A consumer only buys and then uses the product.
- B. A trader is someone who buys from farmers and sells in a market. A consumer is someone who buys from farmers.

2. Who does a retailer sell to?

- A. Farmers
- B. Consumers
- C. Processors
- D. Supermarkets

3. Which of these are business services?

Select all that apply.

- A. Pump suppliers
- B. Farmers
- C. Market information services
- D. Traders
- E. Business planning centers
- F. Extension officers
- G. Processors

4. Why is it a problem if an NGO provides free services?

Select all that apply.

- A. It crowds out private-sector services
- B. It reduces the sustainability of a project
- C. Free services build dependency of the farmers on the NGO
- D. Free services give one village an unfair advantage over neighboring villages

5. How many levels are there in a typical value chain?

- A. At least one level, which includes the farmers
- B. Three levels: the core chain actors, business services, and institutions that provide a regulatory framework
- C. Three levels: producers who create value, people who add value, and those who manage the value
- D. Four levels: input suppliers, institutions, buyers and sellers, and services

6. Which best describes the key roles of institutions that regulate a value chain?

- A. Regulatory institutions promote the production and sales of products that the government can tax.
- B. Regulatory institutions create an environment that enables trade, and set standards and rules to ensure food safety and quality.
- C. Regulatory institutions create an environment that allows people to do business in a free and fair manner and lets consumers buy anything they need.
- D. Regulatory institutions work with the business services to extract money from the value chain.

EXERCISE 7. ANALYZING VALUE CHAINS

This exercise helps the farmers analyze and understand the value chain for the products they grow.

Teaching tip: Farmers are likely to be able to identify the core chain actors easily. Ask them to name different core chain actors and explain their roles. Use a flip chart to note their responses.

But the idea of business services is likely to be new for most farmers. You may have to explain their role in supporting the core chain actors. Use a flip chart to build a list of business services.

Farmers are not likely to identify “institutions and rules.” Pose questions to help them do so. As an example, take a business the group is involved in. Ask about the taxes they pay, and standards they must comply with. Ask about government policies or incentives that affect the business.

OBJECTIVE

After this exercise the participants will be able to:

- Explain the value chains of their products

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Diagrams of several value chains of products that farmers produce

TIME

- 60 minutes for drawing and analyzing the value chain. 5 minutes per group for presentation

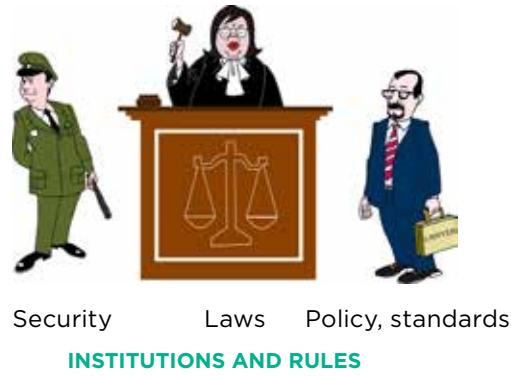
PREPARATION

- None

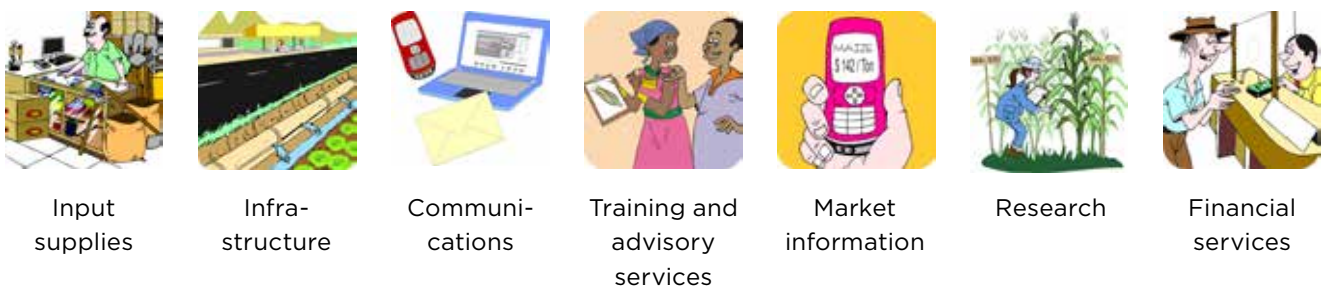
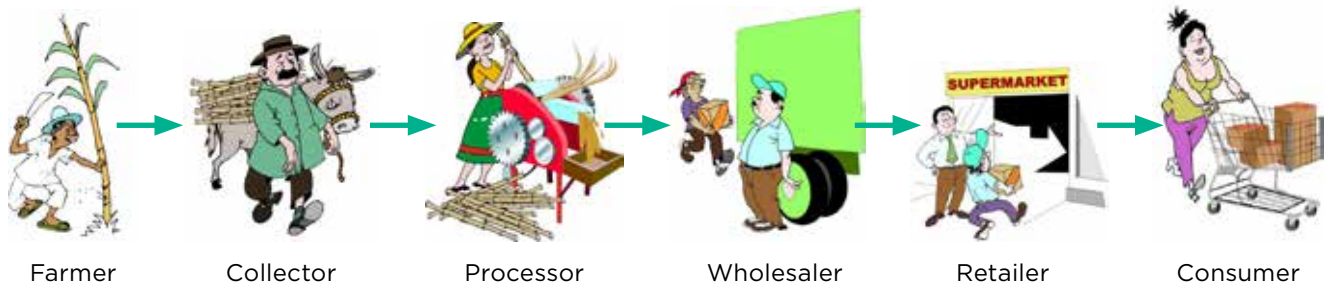
SUGGESTED PROCEDURE

1. Divide the farmers into small groups. Ask each group to choose a product they are familiar with (a different product for each group).
2. Ask the groups to draw the value chain for their product. The diagram should show:
 - The chain actors, from farmers to final consumers.
 - Any business services that provide services to the chain.
 - Activities at different stages in the chain (e.g. bulking, milling).
 - Where the activities take place (village, town, city).
3. Ask each group to show:
 - When demand is high or low during the year.
 - The main factors that affect the market (e.g., population growth, rise of supermarkets, new government regulations).
 - Challenges for both men and women farmers in this chain.
4. Ask the groups to show the business services on the diagram.
 - Which services are easy to get?
 - Which services are difficult to get or are expensive?
 - Which services are needed but do not exist?
5. Ask the groups to briefly present what they have prepared.

The value chain



VALUE CHAIN



BUSINESS SERVICES

LESSON 8. DEVELOPING MARKETING STRATEGIES

IN THIS LESSON

After this lesson you will be able to:

- Describe four marketing strategies and give examples of each.

CHOOSING A MARKETING STRATEGY

In this lesson we will look at choosing a market strategy that will help you increase sales over time.

Farmers and other actors in the value chain 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.

EXISTING PRODUCT OR NEW PRODUCT? EXISTING MARKET OR NEW MARKET?

That gives four alternative marketing strategies (Table 14).

TABLE 14. MARKETING STRATEGIES: THE PRODUCT/MARKET MATRIX

	EXISTING PRODUCT	NEW PRODUCT
EXISTING MARKET	Market penetration	Product development
NEW MARKET	Market development	Diversification

EXISTING PRODUCT, EXISTING MARKET

Farmers can try to increase the sales of the products they already produce, in markets they already serve. This approach is called **market penetration**. It is generally seen as the safest marketing strategy, as the sellers are already familiar with both the product and the market.

Example: A group of tomato farmers uses new farming techniques that increase yields, save labor, and reduce the costs of materials. That allows them to offer their produce to their current buyers at a lower price, and still maintain their profit. The buyers want to buy more tomatoes, so demand rises.

Example: The farmers spend time and effort in building the relationship with the buyers. That makes the buyers more confident they will get the quantity and quality they need. They agree to buy more, and offer a higher price.



EXISTING PRODUCT, NEW MARKET

Farmers can sell an existing product to a new market. This approach is called **market development**.

Example: Instead of selling to the local trader, the farmers could sell their tomatoes for a higher price directly to a nearby tourist resort where there are a lot of restaurants.



NEW PRODUCT, EXISTING MARKET

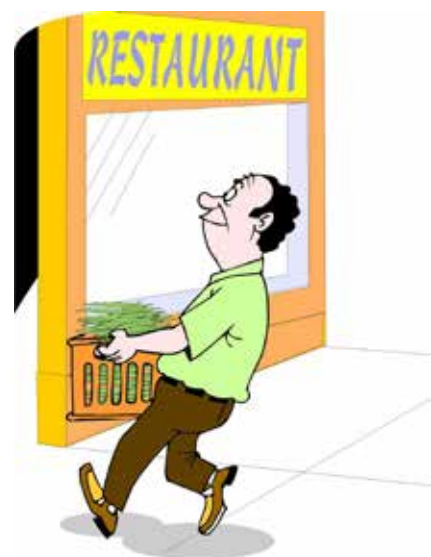
They can develop new products to serve an existing market. This approach is known as **product development**.

Example: The tomato farmers can start growing beans to sell to the same buyers.

NEW PRODUCT, NEW MARKET

The final approach is to develop a new product for a new market. This approach is known as **diversification**. It is the riskiest and most expensive strategy as it requires both developing a new product and stepping into an unknown market.

Example: The farmers could start producing and selling beans to the tourist resort.



QUIZ 8

Answers at the end of the guide.

1. Maria grows chilies and sells them at the local market. She is considering getting together with her neighbors to sell in bulk direct to a wholesaler. What type of marketing strategy is this?
 - A. Existing product + existing market = Market penetration
 - B. New product + existing market = Product development
 - C. Existing product + new market = Market development
 - D. New product + new market = Diversification
2. Jorge grows potatoes and sells them to a trader. He is thinking about signing a contract with the trader to expand his production. What type of marketing strategy is this?
 - A. Existing product + existing market = Market penetration
 - B. New product + existing market = Product development
 - C. Existing product + new market = Market development
 - D. New product + new market = Diversification
3. Emanuel's farmers' group used to grow sorghum for sale in town. But they have recently started growing peanuts to sell to a factory nearby. What type of marketing strategy is this?
 - A. Existing product + existing market = Market penetration
 - B. New product + existing market = Product development
 - C. Existing product + new market = Market development
 - D. New product + new market = Diversification

4. Julieta grows maize for sale to her friends in the village. She has started keeping chickens, which she feeds with some of her surplus maize. She sells the eggs to the same friends. What type of marketing strategy is this?

- A. Existing product + existing market = Market penetration
- B. New product + existing market = Product development
- C. Existing product + new market = Market development
- D. New product + new market = Diversification

5. Put the marketing strategies in the correct places in this matrix.

	EXISTING PRODUCT	NEW PRODUCT
Existing market	1.	3.
New market	2.	4.

- A. Market development
- B. Product development
- C. Diversification
- D. Market penetration

6. Ulla and her neighbors grow tomatoes that they sell individually to a local trader. They have just started a group to market their produce. They have identified two possible marketing strategies. Which would you advise them to try?

- A. Increase the quality of their tomatoes, bulk them and sell them to the trader as a group (this is the safer option).
- B. Start growing beans to sell to the supermarket in town (this is riskier but would be more profitable).

EXERCISE 8. WHAT'S YOUR MARKETING STRATEGY?

This exercise helps the farmers understand the types of marketing strategies they are using for their products and how they might change these strategies with both existing and new products to increase their sales and incomes.

OBJECTIVE

After this exercise the participants will be able to:

- Explain the risks associated with their marketing strategies
- Define possible growth strategies based on existing and potential agricultural and products.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- Farmers learn about the risks and rewards of selling different products into different markets

TIME

- 90 minutes

PREPARATION

- None

SUGGESTED PROCEDURE

1. Put the flip chart in a place where all the farmers can see what you writing.
2. Focus the conversation onto the local community area.
3. **First task:** Ask the farmers to make a list of the most important agricultural products that they grow and sell.
4. Ask them to prioritize the three main agricultural products that farmers sell.
5. Then make a list of the two main markets where these selected products are sold.
6. Use the tables shown in the worksheet for these exercises.

7. **Second task:** Ask the farmers to suggest some new products, that they would like to produce and sell. Ask them to indicate markets where they could sell these products. Prioritize the new products and write down the information into the second table.

You may need to prompt the farmers with some new products, if they are not sure what to suggest. For example can the farmers sell soybeans? Vegetables? Fruits? Nuts?

8. **Third task:** Using the product information from the first two tables, ask the farmers to help place these products into one of the four boxes in the final Growth Strategies table.

9. **Market growth strategies:** Explain to the group what is meant by each of these strategies: explain about

- **Market penetration:** sell more at lower price, improve product quality to sell more.

- **Market development:** sell the same product into a new market, or different type of buyer.

- **Product development:** ask an existing buyer what other products are in high demand.

- **Diversification:** what new products could the farmers sell into a new market?

10. **Risks and rewards.** Explain to the farmers about the risks of the different growth strategies, from box 1 (market penetration) which is the least risky to box 4 (diversification), the most risky. Also, include non-market risks of moving into different growth strategies (labor requirements, diseases, waste, etc.). One typical risk is that, as a product becomes more commercial, so control over the sale of the crop passes to the male head of the household and the income is no longer invested in overall welfare of the whole family. Then explain the types of rewards they might expect that are associated with these boxes.

Choosing a marketing strategy

EXISTING PRODUCTS

NEW PRODUCTS

EXISTING
MARKETS

Market penetration



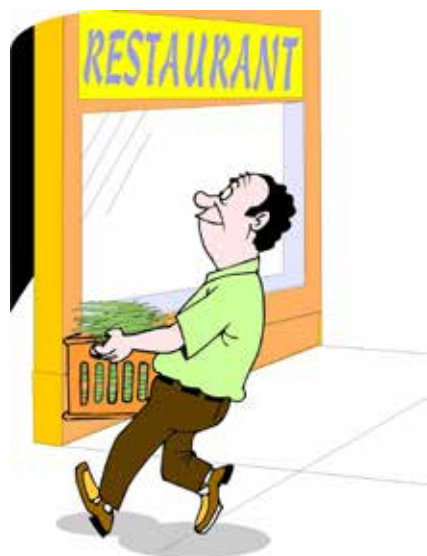
Product development



Market development



Diversification



NEW
MARKETS

Defining growth strategies worksheet

TABLE 15. PLANNING PRODUCTS AND MARKETS

Name of community	
THREE MOST IMPORTANT PRODUCTS THAT FARMERS PRODUCE AND SELL	TWO MOST IMPORTANT MARKETS WHERE THE PRODUCTS ARE SOLD
1	1
2	2
3	

THREE NEW PRODUCTS THAT FARMERS WOULD LIKE TO PRODUCE AND SELL	TWO MARKETS WHERE THEY COULD SELL THESE NEW PRODUCTS
1	1
2	2
3	

TABLE 16. PROPOSED MARKET GROWTH STRATEGIES

	EXISTING PRODUCTS	NEW PRODUCTS
EXISTING MARKETS	<p>Market penetration</p> <p>Markets:</p> <p>Products:</p>	<p>Product development</p> <p>Markets:</p> <p>Products:</p>
NEW MARKETS	<p>Market development</p> <p>Markets:</p> <p>Products:</p>	<p>Diversification</p> <p>Markets:</p> <p>Products:</p>

LESSON 9. THE FOUR PS OF MARKETING

IN THIS LESSON

After this lesson you will be able to:

- List the four Ps of marketing, and describe each one.
- Describe how to use the four Ps in teaching marketing, planning a marketing strategy, and monitoring the market.

THE FOUR PS OF MARKETING

When developing a marketing plan, organize 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?

Let us look at each of the four Ps in turn. We will pose questions that farmers need to consider when they develop their marketing plan.

**THE FOUR
PS OF
MARKETING:
PRODUCT,
PRICE,
PLACE, AND
PROMOTION**

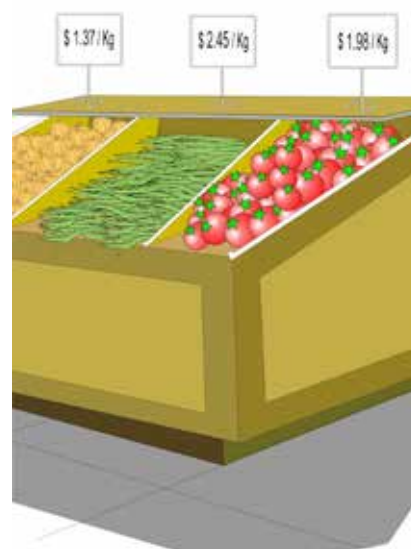


PRODUCT

- What **product** should you produce? What crop variety or breed of animal? What characteristics should the product have to satisfy the buyer?
- What **quality and quantity** do you need? What sizes of fruit and vegetables? Fresh, dried or processed in some way? How many kilograms or sacks will you need, at what time of year?
- How should you **package** the product? In sacks, bags, crates or boxes?
- Are there ways you can **make your product different** and more attractive than the products of your competitors? For example: Are your soils or climate particularly good for producing the product? Is what you feed your animals particularly nutritious and healthy for them? Do you use production practices that improve the quality of the product?

PRICE

- What **price** should you sell the product at? Will this allow you to make a profit? Does this cover the cost of family labor?
- What **competition** is there? What prices do they charge? Can you charge more or less than your competitors?
- Should you **negotiate** a fixed price with the buyer, or rely on the current market price?
- What are the **payment conditions**? Should you ask for payment on delivery, or can you wait for a few weeks for payment?



PLACE

- **Who** should you **sell the product to**? To a small collector-trader, a wholesaler, a supermarket, or direct to consumers?
- **Where** should you sell it? At the farm gate, at a village collection center, or in the local market? Or should you take it to the central market in the city?
- How will you **transport** your products to where you will sell them?



PROMOTION

- How should you **promote** the product? Do you need to advertise? Does the product have a benefit that is not discernible to the purchaser and needs to be promoted? Is it sufficient to maintain contact with the buyer by visiting or calling by phone?
- How should you identify **new customers** and persuade them to buy your product?
- Should you **label** the product so that the buyer knows what they are buying?
- What can you do to make your product more **attractive** to the buyer?

USING THE FOUR PS

You can use the four Ps of marketing in various ways:

- **When teaching farmers about marketing.** You can ask farmers to study the market for a particular product (say, tomatoes or maize). They can organize their observations under the headings "Product," "Price," "Promotion" and "Place."
- **In planning a marketing strategy.** When farmers come to plan their own marketing strategy and business plan, they should organize it under the same four headings.
- **In monitoring the market.** Once the farmers have chosen their product and marketing strategy, they can monitor changes in the market by checking how the product, price, promotion, and place change over time.



QUIZ 9

Answers at the end of the guide.

- Why are the “four Ps” important in developing a market strategy?
 - They cut costs and increase income
 - They help farmers decide on the product and its characteristics, set the price, and decide how to distribute and promote it
 - They identify a market to sell to
 - They help determine risk
- Which of the following **PRODUCT** characteristics help to distinguish one agricultural product from another?

Select the **seven** answers that apply:

- Variety
- Distribution
- Quality
- Brand name
- Transport
- Advertising
- Size
- Origin
- Production practices
- Availability

- How do you set the **PRICE** of an agricultural product?

Select the **three** answers that apply:

- To cover the cost of production
- To cover the cost of production plus a reasonable profit margin
- To sell at the same price being paid to other farmers
- To sell at a price below other farmers
- By accepting the price offered by the buyer
- By setting the price according to the quantity sold

- What factors should you take into account when deciding where to sell or how to distribute your product (**PLACE**)?

- Cost of transport to the point of sale
- Price being offered by the buyer
- Places where lots of people come to buy
- Places where lots of people come to sell
- Places where you can sell your product at a high price
- Places where you are assured that you will be able to sell your product
- All of the above

- Why is it important to **PROMOTE** your product?

Select **all** that apply:

- It helps to sell products even if they are very low quality
- It communicates to potential buyers about the quality of your product and its value
- It persuades people to buy things that they do not want or need
- It is a way of rewarding workers that have done a good job
- It informs the buyer about where the product can be bought and at what price

- Match the question with the correct item in the four Ps.

QUESTION	THE 4 PS
A. Should we sell our product in the market or to local restaurants?	1. Product
B. Should we negotiate for payment upon delivery?	2. Price
C. Should we sell leafy vegetables as well as tomatoes?	3. Place
D. Should we put the name of the farmers' group on the crates we use?	4. Promotion

EXERCISE 9. THE MARKETING GAME

Teaching tip: Introduce the four Ps briefly and explain why they are essential in a marketing strategy. Use the marketing learning game to help farmers learn these concepts.

This exercise teaches farmers about the four Ps of marketing, and stimulates discussion about various marketing problems.

OBJECTIVE

After this exercise the participants will be able to:

- Explain the four essential parts of a marketing strategy:
 - The **product** and the characteristics that differentiate it from other products,
 - What to take into account when setting the selling **price**,
 - Where (in what **place**) to sell, and
 - How to **promote** the product.

EQUIPMENT NEEDED

- Game board
- Question cards (see Annex)
- Colored counters or stones to act as playing pieces, dice

EXPECTED OUTPUTS

- Discussion on various marketing problems

TIME

- 1 hour

PREPARATION

Print out (or draw) the board, and print or write the questions on cards (one question for each card - see Annex 1). Sort the cards into five piles, labeled "Product," "Price," "Place," "Promotion" and "General".

You can download this game with all of the questions at www.crsprogramquality.org/agriculture/

SUGGESTED PROCEDURE

1. Explain the rules of the game (see Box 4).
2. The players take turns throwing the dice, moving their pieces, and answering questions on the cards.
3. The first player to reach the end wins. The game is over when all the players have reached the last square on the board.



BOX 4. RULES OF THE MARKETING LEARNING GAME

Using the playing board

Each of the squares on the board is marked with a maize cob for “Product,” money for “Price,” a marketplace for “Place,” an advertising board for “Promotion,” and a pad and pencil for a general problem in marketing. There are five piles of question cards, sorted by “Product,” “Price,” “Place,” “Promotion” and “General Problem”.

The players take turns to throw the dice to move their pieces around the board.

Each player moves his or her piece the number of squares shown on the dice. Any of the other players draws a card from the top of the corresponding pile and reads the question out loud.

The player whose turn it is must answer “True” or “False.” The other players can discuss and say whether they think the answer is correct or incorrect. The player who read out the question then says whether the answer was right or wrong (the correct answers are given on the cards). If the player is wrong, he or she moves back a square. If he or she is right he moves forward a square.

If the player lands on a space marked with a pad and pencil, which denotes a general marketing problem, he or she must answer the question on it, and the other players also give their opinions. These questions are open-ended, and there is no one right answer. The player who picks up a pad and pencil card does not move his or her piece.

If at any time a player lands on a ladder, he or she moves up the ladder to the square at the top of the

ladder. If at any time a player lands on the head of the snake, he or she moves down the snake to the square at the tail end of the snake.

The winner is the first person to reach the Finish square. Continue playing the game until all the players have reached the Finish, or all the question cards have been used.

Without the playing board

You can also play the game without using the board or dice.

Divide the participants into teams.

Shuffle the question cards and put them face down on the table.

Take a card from the top of the pile, read out the question on it, and ask the first team to answer. The team members can discuss among themselves before answering. If they get the answer right, they get one point. If they get it wrong, they do not get a point.

Repeat with the next card in the pile, this time with the second team responding.

If the card has a pad and pencil on it, the team whose turn it is must answer. The other teams must then say if they agree or not. If they agree, the team gets a point.

Continue until you have used up all the cards. The team with the most points wins.

The four Ps of marketing

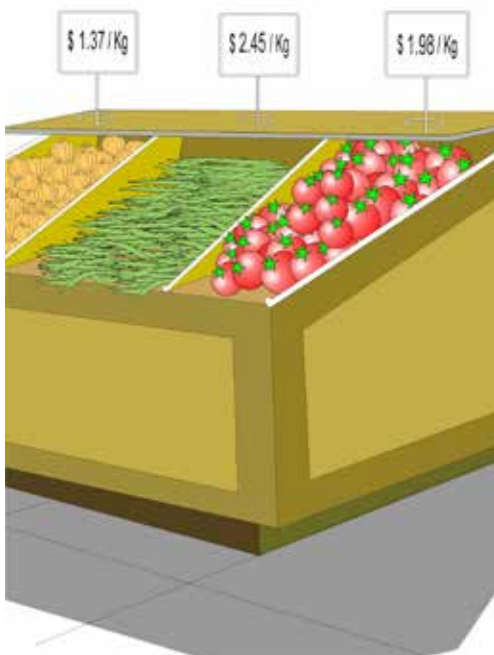
Product



Place



Price



Promotion



LESSON 10. ENTREPRENEURIAL SPIRIT

IN THIS LESSON

After this lesson you will be able to:

- Describe the characteristics of a successful entrepreneur.

WHAT DOES IT TAKE TO BE A SUCCESSFUL ENTREPRENEUR?

The previous lessons have shown that marketing agricultural products is quite complex. You need a lot of knowledge and skills to be successful. It is not easy to set up a new business venture and keep it competitive. It takes more than just following instructions in this manual. It needs certain types of people with certain types of abilities. People with these characteristics might make good business managers of farmer groups that want to market their products together. Or they may make good marketing managers who are responsible in those groups for identifying where and to whom the group should sell their products.



PERSONALITY

Someone with entrepreneurial spirit has to be confident, optimistic, interested, eager to learn, and willing to take reasonable risks, but disciplined enough to make sure things happen.

Here are some things to look for:

- **Self-confidence.** The person has to believe in what he or she is doing. Someone who is full of doubt will not make a good entrepreneur.
- **Positive attitude.** He or she must be optimistic to be able to see the bright side of things and motivate other members of the group.
- **Outward looking.** The person must be able to seek out new market opportunities, see the possibilities in a situation, and find ways to make the most out of them.
- **Risk-taking.** The person should be willing to take risks by trying out new products and markets. This is different from



recklessness: the person should be able to assess the risks and decide whether they are worth taking.

- **Discipline and determination.** He or she should be able to pursue opportunities in a systematic way, without giving up at the first obstacle. He or she should be able to focus on achieving goals.

RELATIONSHIPS

The person has to be a good leader who works well with other people. Some characteristics:

- **Leadership.** The person must be good at working with other people, and at motivating and organizing them.
- **Communication.** The person must be good at communicating ideas and negotiating agreements with others.
- **Trustworthiness.** The person should be seen as trustworthy by others: he or she should take responsibility for decisions, have a good reputation, and be respected by others.

SKILLS AND EXPERIENCE

In addition, the person should also have certain types of skills and experience:

- **Educational level.** The person should be able to read, write, and do arithmetic.
- **Outside experience.** He or she should have broad experiences and connections beyond the community. For example, he or she may have lived outside the village or travel frequently.
- **Business ability.** The person should be able to see where it is possible to make a profit, and should be able to calculate the costs, income and profits.
- **Organization.** The person should be organized: able to bring together information and ideas in a systematic way.

Some of these characteristics can be acquired or taught. Others depend more on the person's personality, so are harder to acquire. Some people make good entrepreneurs; others do not!



QUIZ 10

Answers at the end of the guide.

1. Someone who is willing to take on all kinds of risks will make a good entrepreneur.
 - A. True
 - B. False

2. A marketing manager of a farmer group must be good at accounting and book-keeping.
 - A. True
 - B. False

3. Aisha is excellent at organizing and managing people. Beatrice knows many traders in town and is constantly trying to get the best deals. Carmen is careful and diligent. Denise is very popular and is always making jokes. Who is likely to be the best farmer group marketing manager?
 - A. Aisha
 - B. Beatrice
 - C. Carmen
 - D. Denise

4. Joshua is known for the following characteristics. Which of them would make you think that he might be a good person to lead a farmer group business?

Select all that apply.

 - A. He likes to finish what he has started before going on to the next job
 - B. He takes risks but always thinks about what might happen if things go wrong
 - C. He is ambitious and wants people to recognize his success
 - D. He listens to people's opinions before taking decisions
 - E. He works very long hours because he plans to do too much
 - F. He is a friendly person but can quickly lose his temper when things go wrong
 - G. He occasionally makes mistakes but is quick to learn from them

5. Planning is not for entrepreneurs. What entrepreneurs need is flair and to take decisions quickly based on gut feelings.
 - A. True
 - B. False

6. True entrepreneurs surround themselves with people who know more than they know or know things that are different from what they know.
 - A. True
 - B. False

EXERCISE 10A. HOW TO MAKE YOUR FIRST 20 SHILLINGS

This exercise stimulates farmers to think creatively about what you need to do to start a business or look for new markets for your products.

OBJECTIVE

After this exercise the participants will be able to:

- Demonstrate their ability to think and ask questions to solve problems.

EQUIPMENT NEEDED

- A coin or small note in the local currency

EXPECTED OUTPUTS

- Discussion of creative ways to solve problems

TIME

- 20 minutes

PREPARATION

Before starting, hide the coin or note somewhere so that the group will not see it easily, but so that they can find it if they start looking. Do not tell the group where you have hidden the money.

SUGGESTED PROCEDURE

1. Tell the group that you want to find out who is a good business person. The group must ask you questions or suggest ideas about how to make the money. Explain that you can answer their questions, but can answer only Yes or No.
2. Start the game by asking the group, "Today you all have the opportunity to make your first 20 shillings?" (or whatever the amount of money is that you have hidden). Only one person can earn the 20 shillings. You have 10 minutes to try and make the money."
3. Let the participants ask questions, but answer only "Yes" or No."
4. The idea is that eventually one or several people get up and start to search for something. If nothing happens and all the group keep seated and look bewildered, you may have to encourage them by saying something like "what is the first thing you have to do if you want to make some money?" You hope that someone may say that you need to have something to sell. From there you can say "And how do you get a good idea about what to sell?" and "Can you find good ideas by just sitting down?"
5. The winner is the person who finds the money. Allow the winner to keep the money so that the group realizes that this game is about really finding new money.
6. Discuss with the farmers how they went about solving the problem. Bring out some of characteristics of persons that may make good business persons, like: being inquisitive, taking the initiative, trying new things or ideas, not afraid of asking questions, or getting up and finding things out on one's own. The major message is that business opportunities won't come to you. You have to go and look for them.

Entrepreneurial spirit 1



EXERCISE 10B. IDENTIFYING ENTREPRENEURIAL CHARACTERISTICS

OBJECTIVE

After this exercise the participants will be able to:

- Describe individuals with the characteristics needed to be entrepreneurs.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pens

EXPECTED OUTPUTS

- List of characteristics of good entrepreneurs

TIME

- 1 hour

PREPARATION

- None

SUGGESTED PROCEDURE

1. Ask the farmers to name three world-famous business people, artists, or spiritual or ethical leaders. Then ask them to name three such people from their area. Ask them to think of both men and women.
2. Divide the farmers into small groups of 3–5 people.
3. Ask each group to write a list of 10 words that explain why these people were successful.
4. In plenary, ask each group to present their results.
5. Invite them to discuss:
 - Why did they choose these words, what do they mean?
 - Does any group member have these qualities?
 - Could they develop them?
 - What makes some people more successful than others in business matters?
 - How can these types of skills be refined within the individual and within the group?

Entrepreneurial spirit 2



EXERCISE 10C. BEING A SUCCESSFUL RISK MANAGER

OBJECTIVE

After this exercise the participants will be able to:

- Explain why people select leaders
- Test the risk-taking approach of their leader and his or her ability to work with the team.

EQUIPMENT NEEDED

- Flip chart or large piece of paper, marker pen
- Set of questions and answers written on cards (see *Preparation* below)

EXPECTED OUTPUTS

- An understanding of what it takes to be a good entrepreneur

TIME

- 1 hour

PREPARATION

Write a set of questions of three levels of difficulty: easy (a value of \$10), medium (\$50) and difficult (\$100). The questions can be based on local general knowledge or on marketing. Write one question on each card, with the correct answer underneath it. Write the value of the question on the back of each card.

To play the game, the teams should compete for a prize: the winner takes all. The prize could be a marketing book, or the team members could provide a minimum stake of their own money. In this case, each team member will provide the equivalent of \$0.10 to \$0.50 in the local currency as their entry stake.

SUGGESTED PROCEDURE

1. Divide the participants into groups of 3 to 5 people. The groups may need to be disaggregated into all male and all female groups.
2. Ask each group to select a chief executive officer (CEO): someone who has the qualities and characteristics that were found in Exercise 10b.
3. The CEOs bring their group's stakes to you to hold as a prize for the winning team.
4. Seat the CEOs in front of their teams, separated from them.
5. Shuffle the cards and put them face down in three piles (\$10, \$50 and \$100) in front of the players.
6. Ask the first CEO to select the top card in one of the piles. Ask him or her the question on the card (don't let him or her see the answer!).
 - If the CEO answers **correctly**, his or her team earns a score equal to the amount on the card. He or she can then either choose another card and answer the question on it, or can opt to pass. If he or she passes, the team retains its score up to that point.
 - If the CEO answers **incorrectly**, deduct the value of the question from the team's score. For example, if the team currently has a score of \$30, and the CEO answers a \$50 question incorrectly, the team's score is reduced to -\$20.
7. The CEO continues to choose cards and answer questions until he or she either passes or answers incorrectly. It is then the next CEO's turn to answer questions.
8. The CEOs may ask their team members for help only **once** in the game. If the team members help the CEO at any other time (for example, by shouting out the answer), the facilitator penalizes that team a score of \$50.
9. Keep track of the scores for each team on a flipchart.
10. Play at least three rounds of questions; add more rounds if appropriate.
11. At the end of the last round, the team with the highest score wins the prize.
12. Conclude the session with a review of the CEOs' performance. Did they make money for their teams? If they didn't, why didn't they? Did they adjust to the risk level of the questions? Did they work with their team effectively? Would the team re-elect the same person as CEO? If they would, why would they? If they would not, why not?

Entrepreneurial spirit 3



Summary

Agricultural marketing is all the activities and services involved in moving an agricultural product from the farm to where it is sold to a consumer. Men and women farmers need to think about marketing even **before** they choose which crop to plant.

The **price** of a product depends on the **supply** and **demand** for the product. If the supply goes up, prices will tend to fall. If demand goes up, the price will rise.

The **price** also depends on the type of product, its quality, the amount sold, packaging, the time and place of sale, processing, and marketing arrangements.

By working out their **income** and **costs**, farmers can calculate their **profit**.

Farmers can sell their products in many different **types of markets**: at the farm gate, at assembly markets, wholesale markets, retail markets, and supermarkets.

The **value chain** consists of many different **actors**: farmers, collector-traders, wholesalers, processors, retailers and consumers.

Business services help the value chain work smoothly. They include input suppliers, infrastructure, communications, advisory services, market information, financial services and research.

Institutions and rules are the “rules of the game” that allow the value chain to function.

Gender roles and relations are critical for implementing and benefiting from the marketing strategy. Farmers need to understand how changes in production, processing, and marketing affect labor allocation, decision-making power, and access and control of resources and income.

Farmers can earn more by **adding value** to their product before selling it.

Markets are changing rapidly. Farmers must understand these trends if they are to market their products effectively.









In developing a **marketing strategy**, farmers can choose to sell an existing product or develop a new one. They can also sell to an existing market, or try to find a new one.

The **four Ps of marketing** that farmers need to consider are **product, price, place** and **promotion**.

Not everyone has the right characteristics to be a good business or marketing manager for a farmers' group. Look for people with **entrepreneurial spirit**.

Annex 1. Question cards for the marketing learning game

Photocopy and cut out these cards to use in the game described in Exercise 9. Use the board at the end of the book.

 <p>Product</p> <p>Your products should be different from other farmers' products.</p> <p>(false)</p>	 <p>Product</p> <p>If you can satisfy consumers better than your competitors, your business may develop very well.</p> <p>(true)</p>
 <p>Product</p> <p>You should aim at making consumers satisfied with your products.</p> <p>(true)</p>	 <p>Product</p> <p>Look for a successful person and what he/she produces, then produce the same - and you will be successful.</p> <p>(false)</p>
 <p>Product</p> <p>The demand for a product never changes.</p> <p>(false)</p>	 <p>Product</p> <p>Price is the only factor that makes people buy from you rather than elsewhere.</p> <p>(false)</p>
 <p>Product</p> <p>You may have to take a loss when selling new products at the beginning. But if your products are good, your trade should increase as people get to know about them.</p> <p>(true)</p>	 <p>Product</p> <p>If the volume of trade has not changed for a long time, you should find new ways to improve your production and sales.</p> <p>(true)</p>



Product

There are three ways to know consumers' needs: surveys, observing what they buy, and experimental sales.

(true)



Product

You decided to produce hens. This option should be analyzed every 30 years.

(false)



Product

A simple way to success is to produce what you are good at rather than what customers need.

(false)



Product

Talking regularly with traders will help me know what variety of potatoes consumers like best.

(true)



Product

All you need to do is to produce what is popular in big urban centers.

(false)



Product

Surveys can help you know what consumers' needs are, but this is a big waste of time.

(false)



Product

A woman produced dark-colored eggs while consumers prefer light-colored ones. The only thing she can do is to find light-colored ones and sell them.

(false)



Price

$COST + PROFIT$: a good formula to calculate a product's price.

(true)



Price

The selling price does not need to take into account rental, tools used, or salaries.

(false)



Price

A product's price must not change over the year.

(false)



Price

Costs vary according to the amount of production.

(true)



Price

Profit depends on the product's price, the demand, and the number of competitors.

(false)



Price

The higher the price, the higher your profits.

(false)



Price

You are the only one to sell hens in the region, so you can set a very high price.

(false)



Price

You should take the following into account when you set a product's price: its cost, your production capacity, the competition, and consumers' willingness to pay.

(true)



Price

Low prices may lead to increased profits.

(false)



Price

Consumers are driven only by price in their purchases.

(false)



Price

It is a good thing to review your prices periodically.

(true)



Price

In setting a product's price, you should take into account its material and labor costs and the profit you would like to make.

(true)



Price

Material costs do not change regardless of the amounts produced.

(false)



Price

The product's price should cover production costs in such a way as to be reasonable to consumers while ensuring that the producer does not incur losses.

(true)



Price

You should take into account the price that your competitors sell their products at in setting the price of your product.

(true)



Place

You are a bean producer and sell your beans to collectors. Your production costs will decrease if you form a group with other farmers and rent a truck.

(false)



Place

The women would like to sell the tomatoes they produce directly to consumers. That way they will always make more money.

(false)



Place

If I set up a stall in the market, I'll always sell all of my produce.

(false)



Place

The farther the market, the more likely you are to need a trader.

(true)



Place

Selling to an exporter will increase my profits.

(false)



Place

You can get more money by selling your products without any assistance from other people.

(false)



Place

Traders always rob you, so it is better to sell my products myself.

(false)



Place

Choosing where to sell my product can affect the amount of money I make.

(true)



Place

The local supermarket pays high prices but the quality standards are very high.

(true)



Place

Door-to-door selling is a good way to sell eggs in a small town.

(true)



Place

Traders don't take any risks and make all the profit.

(false)



Place

The cost of transport is critical in deciding where to sell.

(true)



Promotion

Promotion means developing a good image of your products.

(true)



Promotion

Advertisement increases your production cost without any gain.

(false)



Promotion

Posters, radio spots, and brochures are some advertisement methods.

(true)



Promotion

Maintaining good relations with my buyers is a form of promotion.

(true)



Promotion

I can use my mobile phone to help promote my products.

(true)



Promotion

Small farmers do not need advertisement.

(false)



Promotion

Promotion consists of letting consumers know about your product and informing them where to purchase it.

(true)



Promotion

An attractive market stand and good product presentation attracts consumers.

(true)



Promotion

Advertisement targets new clients only.

(false)



Promotion

Sample exhibitions and fairs are good ways of letting people know about and try your products.

(true)



Promotion

Publication in newspapers is one advertisement method.

(true)



Promotion

Advertisement must tell the advantages of the product.

(true)



Promotion

Advertisement consists solely of saying my competitors' products are bad.

(false)



Promotion

Promoting your product is about communicating with your potential buyers what is good and different about your product.

(true)



General

Your clients move to another province. What can you do?



General

Some clients ask you to open very early in the morning while others ask you open late in the afternoon. What is your decision?



General

A governmental official asks you to give him/her products for free. What do you answer?



General

Your cows give a lot of milk, but there is no dairy industry around to purchase it. How do you sell the milk?



General

You need a loan to start your business but there is no bank close by. What do you do to try and obtain the money?



General

The government's veterinary service tells you that you must stop breeding goats. How do you react?



General

A competitor decreases his/her product's price to a very low level. You will incur losses if you do the same. How do you react?



General

You have not done any advertising so far. Name some good ways to make your products known.



General

Someone else starts producing what you have been producing. How do you react?



General

You run out of stock just at the time you had the most clients coming in. They get really angry and said they were moving elsewhere. How do you react?



General

A relative wants to enter into partnership with you on your production. He/she is going to put in an amount that will double the capital but asks for half the benefits. What is your answer?



General

Is it necessary to spend time on planning before starting to produce?

64

FINISH

63



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START

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Answers to quizzes

Lesson 1

1. What is marketing?

Correct answers: A, F. Marketing is both the activities and services involved in moving a product from production to consumption, and the process of finding out what customers want and then satisfying these needs.

2. What should the marketing process do?

Correct answer: A. In the long term, marketing can succeed only if it provides customers with products they want to buy.

3. Which statement below best describes marketing?

Correct answer: A. Everyone in the marketing chain, from farmer to consumer, should be better off as a result of their activities.

4. Marketing helps to make products available and attractive for customers to buy...

Correct answers: A, C, E, G. Marketing must provide products that male and female customers want to buy in the right form, at the right time of year, in the right quantities, at the quality required, in the right place, and at a price that customers are willing to pay.

5. Which approach would you recommend to farmers?

Correct answer: C. It is best to check the market first before deciding what to grow.

6. Put the following activities in the best sequence

Correct answer: C, D, B, A, E. Other sequences are possible, but this is the best one.

Lesson 2

1. It has been a bad season for tomatoes: the harvest is only half that of last year. Do you expect the price of tomatoes in the local market to be higher or lower than last year?

Correct answer: A. The price will probably be higher than last year because the supply of tomatoes is smaller.

2. What is market supply?

Correct answer: A. Market supply is the amount of a product that producers take to the market to sell. Remember that producers from outside the area can also sell the same product in the same market. This also counts as part of the supply.

3. Which factors might affect supply of a crop?

Correct answer: A, B, D, E. All these things can affect the amount of the crop that farmers can produce.

4. A big religious festival is coming up. Traditionally, people celebrate by feasting or eating particular foods. What do you expect to happen to food prices?

Correct answer: B. Demand for food goes up during the feast, so prices will rise.

5. What is market demand?

Correct answer: B. Market demand is the amount of a product that customers are willing and able to buy.

6. Which factors might affect demand for a crop?

Correct answer: A, D. Both population growth and changing food tastes may increase (or in the case of food tastes, also decrease) demand for a crop. A good growing season and a pest affect supply rather than demand.

7. If prices rise, demand will tend to fall. If prices fall, demand will tend to increase.

Correct answer: A (true). The amount of a product that customers want to buy will depend on the price.

8. Changes in consumers' incomes and education may affect demand for a product.

Correct answer: A (true). As people become richer and more educated, their tastes in food change. They are more likely to buy convenient, processed products, and to go shopping in supermarkets.

Lesson 3

1. Which are material costs, and which are labor costs?

Correct answers: **Materials:** A (seed), E (agrochemicals), F (string), H (fertilizer); **Labor:** B (plowing), C (planting), D (spraying team), G (weeding)

2. In what ways can farmers increase their profit?

Correct answers: B, C, D. While loading bags with stones to make them heavier (A) may work once, the buyer will quickly realize that you are untrustworthy, and will lower the buying price next time. So this is not a good strategy.

You can persuade buyers to pay more for the same product (D) by (for example) sorting and grading it, or packaging it more attractively.

3. When working out the costs to produce a crop or livestock product, what are the major categories of costs that you need to find out with farmers?

Correct answers: A, C. You should help the farmers work out their labor and materials costs.

4. Why is it useful to separate costs for family labor and hired labor?

Correct answer: A. So that farmers understand the full cost of their enterprise. For example, growing tomato might require more family labor than growing green beans. Growing maize may take maize more family labor than growing cassava.

5. How can you calculate profit?

Correct answer: A. Profit is your income minus your costs.

6. Put the following costs into the correct category

Correct answers: Materials costs (A): 1, 3, 4; Labor cost (B): 5; Hidden costs (C): 2, 6

Lesson 4

1. What is a market?

Correct answer: D. There are many types of markets. In all of them, buyers and sellers can exchange goods and services so that both benefit.

2. Match the sellers with the buyers in these markets

Correct answer: A2, B1, C3. In an assembly market, farmers or small local traders sell their produce to a larger trader. In a wholesale market, the larger traders sell products in bulk to retailers. In a retail market, retailers sell small amounts of the product to consumers.

3. Which best describes barter trade?

Correct answer: A. Barter trade involves an exchange without the use of money.

4. What is market segmentation?

Correct answer: C. Market segmentation is a way of dividing the market into people who are seeking different types of products.

5. Match the consumer type with the place they are most likely to buy food.

Correct answers: A2, B3, C1. These are the most likely combinations.

6. Laura has harvested her green beans and is considering her marketing options. Help her by putting these markets in the correct order, from the lowest to highest price she can expect.

Correct answer: B, C, D, A.

Lesson 5

1. How might a smallholder farmer add value to one of his or her products?

Correct answer: A, C. These increase the value of the product by making it more convenient or useful for the buyer.

2. What is the primary purpose for a farmer of adding value to his or her products?

Correct answer: C. The primary purpose of adding value to a product should be to increase the price that the farmer gets for his or her product.

3. Adding value to a product reduces the cost of production and marketing for the farmer.

Correct answer: B (false). The activities required to add value to a product will require additional materials and labor. Farmers have to make sure that the additional costs do not exceed the additional income that he or she will obtain.

4. Match the correct term to the value-adding activity.

Correct answer: A2, B4, C3, D1.

5. Maria's farmers' group wants to add value to its mango crop. In what order should they undertake the following activities?

Correct answer: A, E, B, C, D. It is probably better to sort the mangoes after bringing them to the collection point in order to ensure the sorting is done consistently.

6. Put these farm products into the correct categories.

Correct answer: A4, B1, C3, D2.

Lesson 6

1. A group of farmers sees the following trends in their area. Help them match the trend to the type of change in the market.

Correct answer: A3, B4, C2, D1.

2. Here are some more trends that the group sees. Help them match the trend to the type of change in the market.

Correct answer: A3, B2, C4, D1.

3. Here are still more trends. Help the farmers' group match each one to the type of change in the market.

Correct answer: A3, B1, C4, D2.

4. A mobile phone is an expensive luxury and of little use for helping farmers get their products to market.

Correct answer: B (false). Mobile phones are essential tool for being able to access information about prices and maintain contact with potential buyers. They are also useful for arranging transport. In some countries payments and deposits can be made by mobile phones. All these advantages can reduce the costs to the farmer of marketing his or her produce.

5. Select the correct words: A rising population means that demand for food is likely to (A) rise / (B) fall, and that prices for farm produce are likely to (C) rise / (D) fall.

Correct answers: A, C.

6. Select the correct words: Rising incomes mean that people want (A) higher / (B) lower quality food, and are prepared to pay (C) more / (D) less for it.

Correct answers: A, C.

Lesson 7

1. Which statement best describes the difference between a trader and consumer?

Correct answer: A. A trader buys and sells the product. A consumer buys and then uses the product.

2. Who does a retailer sell to?

Correct answer: B. A retailer sells to a consumer.

3. Which of these are business services?

Correct answer: A, C, E, F. Pump suppliers, market information services, business planning centers and extension officers all provide inputs and information to farmers or other core actors in the value chain.

4. Why is it a problem if an NGO provides free services?

Correct answer: A, B, C, D. All these are a problem. It is best to try and move to a situation where farmers will eventually be able pay the full cost of the services they receive.

5. How many levels are there in a typical value chain?

Correct answer: B. The three layers are core chain actors (farmers, traders, retailers, etc.), business services (input suppliers, financial

services, information providers, etc.), and institutions that provide a regulatory framework.

6. Which best describes the key roles of institutions that regulate a value chain?

Correct answer: B. The government and other institutions set the "rules of the game" that enable the value chain to operate.

Lesson 8

1. Maria grows chilies and sells them at the local market. She is considering getting together with her neighbors to sell in bulk direct to a wholesaler. What type of marketing strategy is this?

Correct answer: C. Maria and her neighbors are considering selling an existing product to a new buyer, so this is "market development."

2. Jorge grows potatoes and sells them to a trader. He is thinking about signing a contract with the trader to expand his production. What type of marketing strategy is this?

Correct answer: A. Jorge is thinking about expanding his existing product and market. This is called "market penetration."

3. Emanuel's farmers' group used to grow sorghum for sale in town. But they have recently started growing peanuts to sell to a factory nearby. What type of marketing strategy is this?

Correct answer: D. Emanuel and his colleagues have started growing a new product for sale to a new market. This is called "diversification."

4. Julieta grows maize for sale to her friends in the village. She has started keeping chickens, which she feeds with some of her surplus maize. She sells the eggs to the same friends. What type of marketing strategy is this?

Correct answer: B. Julieta has started selling a new product to an existing market. This is called "product development."

5. Put the marketing strategies in the correct places in this matrix.

Correct answers: A2, B3, C4, D1.

6. Ulla and her neighbors grow tomatoes that they sell individually to a local trader. They have just started a group to market their produce. They have identified two possible marketing strategies. Which would you advise them to try?

Correct answer: A. Because this is a new group, it is probably better to start with the safer option.

Lesson 9

1. Why are the "four Ps" important in developing a market strategy?

Correct answer: B. The four Ps are a simple way of focusing on the four most important aspects of selling a product:

- What am I selling that meets the needs of the buyer?
- How much am I going to charge so as to make a profit?
- How am I going to get my product to the buyer?
- How am I going to let the buyer know about my product?

2. Which of the following **PRODUCT** characteristics help to distinguish one agricultural product from another?

Correct answer: A, C, D, G, H, I, J. Important characteristics are those that differentiate the farmers' product from those of their competitors, and meet the requirements of the buyer.

3. How do you set the **PRICE** of an agricultural product?

Correct answer: B, D, F. The prime objective is to ensure that you make a profit so that your business can continue to grow (answer B). If you can still make a profit by selling at a price below other farmers, then you are likely to be able to sell more of your product (answer D). Normally, with agricultural products you can charge more if you have larger quantities to sell (answer F). In all cases, you should negotiate with the buyer based on a sound knowledge of what your production costs are, what others are being paid, and what advantages the buyer will obtain from buying your product.

4. What factors should you take into account when deciding where to sell or how to distribute your product (**PLACE**)?

Correct answer: G. You will need to take into account all these factors when deciding where and to whom it is best to sell. There will normally be a trade-off between the price you will be paid and the cost of getting the product to a particular place. This needs to be carefully calculated to make sure that there is a definite monetary benefit of transporting your products over long distances.

5. Why is it important to **PROMOTE** your product?

Correct answer: B, E. Promotion is about communicating with your potential buyers how good your product is and convincing them that they should buy from you rather than anyone else. Promotion will not help you if you have a poor quality product or one that no one wants to buy.

6. Match the question with the correct item in the four Ps.

Correct answers: A3, B2, C1, D4.

Lesson 10

1. Someone who is willing to take on all kinds of risks will make a good entrepreneur.

Correct answer: B (false). Entrepreneurs must be willing to take on risk, but they must be realistic, not reckless: they should judge whether the risk is worth taking.

2. A marketing manager of a farmer group must be good at accounting and bookkeeping.

Correct answer: B (false). While accounting and bookkeeping ability are helpful, they are not vital. More important are an ability to see opportunities, and the confidence to pursue those opportunities. Keeping accurate accounts is a vital task, but can be entrusted to someone else in the group.

3. Aisha is excellent at organizing and managing people. Beatrice knows many traders in town and is constantly trying to get the best deals. Carmen is careful and diligent. Denise is very popular and is always making jokes. Who is likely to be the best farmer group marketing manager?

Correct answer: B. Beatrice's contacts, openness and ability to negotiate are good characteristics for a marketing manager. Aisha may make a good group leader, while Carmen may be a good group secretary or treasurer. Denise's role might be in helping convene and motivate the group.

4. Joshua is known for the following characteristics. Which of them would make you think that he might be a good person to lead a farmer group business?

Correct answer: A, B, D and G are some of the ideal characteristics of a good business person. The others are not so good and could mean that the business runs into problems.

5. Planning is not for entrepreneurs. What entrepreneurs need is flair and to take decisions quickly based on gut feelings.

Correct answer: B (false). Planning is an essential part of business management. A good entrepreneur pays attention to the details and has planned how results will be obtained.

6. True entrepreneurs surround themselves with people who know more than they know or know things that are different from what they know.

Correct answer: A (true). The successful entrepreneur is constantly seeking to learn new things and get the most from people with talents different from their own.

References and further reading

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- Agriculture for basic needs.** (Agricultura para necesidades básicas). Development project based on the 5 skills sets with success stories, handbooks and other materials in Spanish. www.a4n.alianzacacao.org/
- Alianzas de aprendizaje para el desarrollo empresarial rural en América Latina.** A learning and knowledge space on rural enterprise development for Spanish-speaking countries. www.alianzasdeaprendizaje.org
- microLINKS.** A knowledge-sharing family of applications and tools designed to improve the impact of USAID microenterprise programs and activities. The latest information on microenterprise: best practices; proven approaches from USAID missions, partners, and practitioners; a library of documents, reports, and tools; and an environment that supports and enriches communities of practice. www.microlinks.org/



Marketing basics

A SMART SKILLS MANUAL

Marketing is one of the biggest challenges for small-scale farmers in developing countries. Many farmers would like to improve their output or the quality of their products, but they need a way to sell their produce and increase profits.

This manual introduces the basic concepts of agricultural markets and marketing. It shows how field agents, extension workers and program managers can help farmers understand these ideas and how to apply them. The ten lessons cover the following topics:

- What is agricultural marketing?
- Supply and demand
- Costs, income, prices and profit
- Types of markets
- Adding value after harvest
- Changes in markets
- The value chain
- Developing marketing strategies
- The four Ps of marketing
- Entrepreneurial spirit.

Each lesson includes guidelines, exercises to do with a group of farmers or with development agents, and quizzes to test your understanding.

This is one manual in a series on SMART Skills - the skills that field agents need to help farmers in developing countries improve their livelihoods. A companion manual describes the steps a group of farmers can follow in marketing a product.

<http://www.crsprogramquality.org/smart-skills-for-farmers/>

