



SWEDISH COOPERATIVE CENTRE

Farmers' Organization's Guide to Marketing
for Small Scale Farmers in Southern Africa

FINDING THE MONEY

H. G. Lutz

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Executive summary

The Guide to Marketing deals with describing what marketing is, and why marketing is such an important subject for small scale farmers. It does this to enable those who work with marketing for small scale farmers to approach the subject in a fruitful way, maximizing wealth and income for the farmers they work with. Furthermore, it highlights the most important parts of marketing and puts them into context.

The Guide to marketing is a guide in the true meaning of the word –it is not a manual for a simple machine, for which there is one use and only one correct way in which to handle it. A guide is a description of the environment that enables the user to navigate with some accuracy, and avoid the worst traps. Marketing is a very big and complex issue, and there are no simple ways to deal with it. Quite naturally, many are those still looking for simple shortcuts to marketing, hoping to find easy ways to make money. It should however be quite obvious that whenever such shortcuts have existed, they have never worked for small scale farmers in southern Africa.

Most marketing materials seem to have focused on the selling part of marketing. This guide instead focuses on the most essential part of marketing –Finding the money.

The Guide to Marketing starts out by presenting the reader with a short introduction to markets and marketing and explains the differences between marketing and selling. It then goes through the essential parts of marketing, discussing what “assets” should be available for a marketer to succeed.

The final part of the Guide to Marketing is a “practical marketing checklist”. This is a hands-on guide to marketing with a “step by step” description of suggestions to which roles farmers’ organizations could and should play in marketing. However, these conclusions are also quite generalized, and do not give specific advice for specific situations.

The composition of the Guide to Marketing is the result of an assessment of the agricultural marketing systems available in the region, and hence focuses on the issues that showed to be the most important for the target group. It can therefore, though it covers many aspects of marketing, not be read as a textbook on marketing per se, but must be applied to the special conditions that concern small scale farmers in southern Africa today. Hence, it implicitly analyzes why marketing is such an obstacle for small scale farmers in the region, and thereby should provide the reader with enough information and knowledge to come to conclusions appropriate for her own situation.

The Guide to Marketing is the first in a series of marketing guides, which to a large extent can be used independently. The Guide to Marketing was developed by SCC, the Swedish Cooperative Centre, in close collaboration with partner organizations. Both guides are based on information

for a contextual description of the marketing situation for small scale farmers, collected in the field between September 2004 and April 2005.

The second part in SCC’s series of materials on marketing, the “Guide to the Marketing Environment” with subtitle *Collecting the Money*, takes a more conventional approach in that it describes marketing “systems” that are in place today. It, however, differs from the more conventional marketing guides in two ways: it presents the reader with an analysis of the respective systems and their strengths and weaknesses; and it describes a number of systems, or “approaches” that are not directly of solely aiming at marketing, but nevertheless constitute important functions in enabling farmers to engage in marketing, the way it is described in the Guide to Marketing.

The Guides have been developed for use on district farmers’ organization level and above, as it is crucial that people working in farmers’ organizations have basic knowledge of marketing is essential if small scale farmers shall have any possibility to fully utilize their potential. The Guides may nevertheless be of use for farmers with some prior knowledge of marketing.

Introduction

About SCC

The Swedish Cooperative Centre (SCC) is a non-governmental and non-profit organization for the provision of support to self-help development initiatives – cooperatives, farmers' associations and informal groups – in developing countries.

Our Swedish name is Kooperation Utan Gränser (Cooperation without Boundaries). It originates from the first fund raising campaign in 1958 - an initiative of the Swedish cooperatives which led to the establishment of the SCC as a development aid organization.

The founders and present member organizations of the SCC are national federations representing all major cooperatives in Sweden and the sectors where cooperatives play a central role in Swedish society and economy. Since 1998, membership has been open also for other organizations and the SCC now has 60 member organizations; consumer cooperatives, housing cooperatives, agricultural cooperatives, a youth organization, the national organization for non-traditional cooperatives and so forth.

The SCC implements its work in collaboration with the member organizations, corresponding to their fields of activities, experiences and values.

The federations - as well as their individual members - also provide the basic financial resources through fund raising for the development programmes.

SCC's organizational structure comprises the head office in Stockholm and four regional offices. The head office is staffed by about 20 officers with broad experience from various types of development work, public relations, fund raising, human resource development and administration. The regional offices are located in Costa Rica for Latin America, in Kenya for East Africa, in Zimbabwe for Southern Africa and in Stockholm for Eastern Europe.

We cooperate with local organizations in 22 countries in these four regions and Asia. The annual turnover is around 12 million euro, and is based on the fund-raising which accounts for around 2 million Euro.

SCC and Marketing

The Swedish Cooperative Centre, SCC, has from its long experience in development work in the agricultural sector in southern Africa drawn the conclusion that one of the most important factors for small scale farmers in the area is marketing. In the process to come up with an approach to attack the marketing problem it was decided to put together a Guide to Marketing for Small Scale Farmers. As SCC works mainly through and with "partner organizations" the Guide was to aim at supporting farmers' organizations, focusing on commodity associations, in their work. The construction of the guide was to be based on the situation on the ground, with extensive research of the existing marketing systems, as well as utilization of knowledge already produced by others.

The Terms of Reference given for the production of this Guide stated that emphasis should be on Contract Farming arrangements and Bulk Marketing. However, already early in the information gathering process there were signs that this approach might not be sufficient. This notion was further verified as work continued. In fact, concentration on any specific marketing system turned out to be inappropriate, and even possibly counterproductive. Hence the Guide instead attempts to describe all the major types of marketing systems, when it comes to that. Even more importantly, the Guide focuses on what I, the Author, found to be the most important problems for Agricultural Marketing: Marketing Knowledge, Market Information and Legal Environment. It should be stressed that marketing is not a straightforward, even less instrumental, subject. It is very much the opposite –one of those subjects for which the very definition is debated, and whereof the application is even more debated. The views presented herein are strongly influenced by the de facto situation that small scale farmers face in four of the five countries that are specifically covered: Zimbabwe, Mozambique, Zambia and Malawi.¹ The reason why the South African situation has not yet been given as much attention is that time constraints made it inappropriate to squeeze it into this first edition. Whatever information about the South African situation is included is of secondary nature, in that it has been contributed by SCC partners in South Africa and literature. Primary data will hopefully be included in later versions.

It should also be noted that the assessment of marketing structures that forms the basis of this guide focused on crops only, and excluded agri-products like livestock, chicken and

¹ See "Collecting the Money", H. G. Lutz 2006.

dairy. Hence there are no examples of marketing systems dealing with these products. However, many of the examples, as well as the conclusions and suggestions, should be applicable to any product, whether it be livestock, beans or shampoo.

Gender

The Swedish Cooperative Center gender policy is to streamline this immensely important issue into all SCC undertakings. In this paper this has been done not explicitly, but implicitly. One result of the author's having gender in mind is however clearly reflected in the text: third person singular will always be "she", never "he", unless reference is specifically made to a male. There are already too many "he" in too many texts.

SCC realizes that some implications of better access to markets may have both implicit and explicit effects on traditional gender structures, and we should try to predict these, so that they can be handled accordingly.

"In Sub Saharan Africa, 70% of the poor are located in rural areas. The rural women, especially the ones heading households, are more vulnerable than men in terms of food security, income, size of land cultivated and technology. In many countries women headed households account for almost half of the total households. It is a well-known fact that women throughout Africa take overall responsibility of the welfare of the home and children and also carry out most of the agricultural work. Despite this, women tend to comprise a lower proportion of the organised population and are rarely

represented at levels of decision-making. Although several countries since the early 1980s have reported greater women's participation in rural organizations and in the number of women-only informal organisations and cooperatives, females are still under-represented in African organisations. Moreover, many organizations emphasize the interests of male members, neglecting the needs and interests of females. Lack of gender equity is one of the most important obstacles to development in Africa. As structures of cooperatives and farmers' unions traditionally are male dominated, gender equity has been a key objective in the work of SCC and partners in the region. The cross cutting issue has been mainstreamed in all development efforts. Although mainstreaming has proved to be an efficient method to discover and find solution to gender imbalances, the experience is that it has led to a reduction of resources earlier allocated to women. As a consequence of this, SCC will apply a two track approach to gender equity, i.e. mainstreaming combined with focused activities organised to promote involvement of women and ensure their benefit of development efforts. In most capacity building efforts for members and the community at large, gender sensitisation workshops have been organised. At these occasions, issues of participation in decision-making, access to different kinds of benefits, land ownership and control, etc. have been addressed. The workshops have proved to be virtual eye-openers, especially to the hard-core traditional male members. Affirmative action at primary society level has been an effective means of enhancing women's influence in the decision making process. Moreover, byelaws have been revised and gender sensitised to create more space for women in local societies.

Strategy:

- Mainstream gender equity in all development efforts, complemented with focused activities addressing the specific needs of female members and leaders
- Facilitate increased gender awareness among women and men and promote women participation in the activities and decision making processes of partner organisations at all levels
- Incorporate affirmative action in development as a means to enhancing women's involvement in governance of primary societies and farmers' groups
- Support partner organisations in addressing gender bias in internal legal frameworks as well as in national policy development."²

HIV / AIDS

The HIV / AIDS pandemic is another issue which has serious impacts on the society, and each and every one in it. In the SCC Regional strategy for southern and eastern Africa 2004 – 2007 it is stated that:

"HIV/AIDS is emerging as a key crosscutting issue for SCC-supported projects in East and Southern Africa in view of three factors:

(a) The magnitude of the epidemic in the region. Eastern and Southern Africa is at the epicentre of the HIV epidemic, with the fastest-growing HIV infection rates in the world and with rural areas increasingly affected.

(b) The disproportionate impact of HIV/AIDS on the

agricultural sector relative to other sectors. The epidemic has caused the decimation of skilled and unskilled agricultural labour; a steep reduction in smallholder agricultural production; a decline in commercial agriculture; the loss of indigenous farming methods and inter-generational knowledge, specialized skills and practices; and capacity erosion and disruption in the service delivery of formal and informal rural institutions resulting from the scale of staff morbidity and mortality; and

(c) The close association of HIV/AIDS with poverty, poor nutrition and household food and livelihood insecurity, thus directly impinging upon SCC's mandate of economic empowerment of the rural poor.

SCC work is concentrated in rural areas where the epidemic has been of lesser proportions than in urban areas. However due to improved transportation and economic links between rural and urban areas the disease is fast spreading to rural areas and the levels of new infections in rural areas are not far behind those in urban areas. Further to this most Africans have a culture of returning to their rural homes for care once they get too ill to work in the cities and towns thus burdening the rural dwellers with the task of caring for the sick.

Rural households rely on labour for production and given the nature of their work good health is crucial. HIV/AIDS has resulted in loss in productivity through morbidity and mortality. Caregivers are also diverting their productive time towards caring for the sick and this has had a negative impact on sectors in which SCC currently operates. In the agriculture sector the need to nurse a sick

² KoopUG/SCC – Regional Strategy for Africa Page 26 of 38

household member may force a woman to choose between spending the day attending to the patient or to go and work in the field, and in most cases compassion wins and they stay at home. In rural financial services and housing sectors members are failing to save and to repay loans because most of their earnings are going towards purchase of drugs and hospital fees for the sick.”³

“The following are the operational strategies that will guide SCC activities in HIV/AIDS prevention and mitigation:

- HIV/AIDS information, education and communication (IEC) activities for HIV prevention and AIDS mitigation among SCC target groups; with special focus on breaking down the stigma associated with HIV/AIDS.
- Poverty alleviation and livelihood security programmes adapted to the conditions created by HIV/AIDS, including income-generating programmes, micro finance projects and adult literacy programmes;
- Food security and nutrition-related innovations or adaptation of existing practices, such as: the introduction of high-yielding, weed/pest resistant plant varieties that require little labour; the rehabilitation of certain staple food crops; improved agricultural practices to save labour and capital; and nutritional gardens;
- Socio-economic safety nets, with special emphasis on support to orphans and households fostering orphans. Some cases show that development measures, rather

than relief initiatives, can effectively strengthen socio-economic safety nets

- Institutional capacity building of SCC partner organisations and SCC regional offices to address HIV/AIDS concerns
- Integrated HIV/AIDS workplace programmes for SCC-supported projects, featuring: Information, education and communication (IEC) campaigns on HIV prevention, AIDS care and support; a review and adjustment of working conditions, human resource policies and administrative procedures; and capacity-building and training in the technical aspects of the impact of AIDS.
- Incorporation of HIV/AIDS in the SCC project cycle, going beyond problem analysis to the identification of concrete entry points and response measures. In project areas severely affected by HIV/AIDS, further conceptual and operational adjustments may be necessary.
- HIV/AIDS impact assessments at project level. An assessment of the impact of the epidemic on the project will be made at project design stage and activities to minimise this impact will be built into the project. This impact assessment will also include the possible impact of the project on the existing HIV/AIDS situation in the project area and the project design will be also be adapted to reinforce those aspects of the project that contribute to positive impact and minimise those that contribute to the negative impacts.

³ *KoopUG/SCC – Regional Strategy for Africa Page 29 of 38*

- At regional and country level, workshops can be held bringing together staff from SCC-supported projects to brainstorm on the impact of HIV/AIDS on their projects and to establish a networking mechanism among projects to ensure exchange of information and experience in addressing HIV/AIDS.
- Given the magnitude of the epidemic and its far-reaching cross-sector impacts, the strategy emphasizes the need for partnerships between SCC partner organisations, national bodies and networks, bilateral donors, United Nations agencies and NGOs in the area of co-financing, advocacy, operations, research and knowledge dissemination. Where necessary, SCC will go into partnership with organisations that have the expertise in dealing with HIV/AIDS in order to make sure that SCC supported projects come up with appropriate responses to the epidemic, e.g. as with RFSU in the Lake Victoria Programme.”⁴

However important HIV/AIDS is in the region, other threats to public health must not be neglected. Among these, Malaria is probably one of the most severe. There are at least 300 million acute cases of malaria each year globally, resulting in more than a million deaths. Around 90% of these deaths occur in Africa, mostly in young children. Malaria is Africa's leading cause of under-five mortality (20%) and constitutes 10% of the continent's overall disease burden. It accounts for 40% of public health expenditure, 30-50% of inpatient admissions, and up to 50% of outpatient visits in areas with high malaria transmission. The economic and social costs are almost impossible to calculate,

⁴ *KoopUG/SCC – Regional Strategy for Africa pp 30-32*

although efforts have been made. The cost of prevention and treatment consumes scarce household resources. In turn, the burden on the public health sector impacts on the allocation of government resources. Through its negative impact on child health, as well as school attendance, performance and cognitive development, malaria reduces the accumulation of human capital thereby reducing long-term growth potential in malaria affected countries. The poor tend to be affected most adversely as they usually have limited access to health services, information and protective measures, and have less power to avoid living or working within malaria-affected areas. As discouraging as this sounds, it should nevertheless be kept in mind that Malaria, as well as most other diseases affecting small scale farmers, is curable as well as preventable, and that organizations working with farmers (including farming and marketing) have a very important role to play in the process of ensuring that not only income and production is handled, but also costs, including the costs that health issues contribute.

Marketing

Marketing is to some extent a “fashion word”. Today it is on everybody’s lips, but, as we know, the world of development, and even more so development agencies, is a changing one, and the issue of the day seldom survives very long. This taken into consideration, as we shall see, the issue of marketing is nevertheless something to remember, and try to get a slightly deeper understanding of. When the word is no longer on everybody’s lips, the issue will still be just as important.

Although there is debate about the details, marketing is undoubtedly one of the broadest issues in the world of business. It encompasses the whole “marketing chain”, a chain which begins with an anchor called demand. Demand determines production, so production is another link, and then there come all the other links which ultimately lead to customer satisfaction.

The problems that small scale farmers in southern Africa experience concern every link in this chain, but just like an anchor must hit bottom and sink into it before the rest of the chain is of any use, the marketing chain is useless unless the first links in the marketing chain are steady. A dragging anchor will slow your drift at best, as marketing that is not based on demand will barely allow for profit.

To understand what marketing really is, and be able to transfer some of that understanding to the society we live in, we have to start with understanding the bottom on which to drop the anchor. And as the bottom is the market, this means that we have to start with the most basic market knowledge.

Price formation, production costs and profitability

There are a few things that should always be kept in mind, things which may seem almost ridiculous to emphasize as they are the most basic of all, but that in fact are so basic that they are easy to forget! Here we go:

Supply, demand, prices and profit in a perfect world.

Supply, demand and prices

Ideally, prices are determined by “Supply and Demand”, that is, how many buyers there are for a certain product, and how badly they want that very product, and how many suppliers there are for the same product, and how badly they want to sell.

The buyers ideally decide whether to buy depending on how much money they have (the budget) and the extent to which they prefer to buy one particular product (A) rather than an alternative good (B) they might substitute (A) with (the preferences). The “preferences” cover all aspects of “taste”

(which is a very volatile factor, as we can see in the fashion industry), and hence incorporate anything from nutritional value to flavor when speaking about foodstuffs.

The sellers ideally depend on “total production costs”, including marketing costs, and the price the buyer is willing to pay, to decide whether or not to produce and market a product.

All the above combined simply tells us that production volumes and market prices are determined by demand and production costs, when a market is functioning well.

Whenever consumers want more of one particular product, the producers will be able to charge more for that particular product as long as production does not immediately catch up with the higher demand, resulting in higher profits for producers. The higher profits will eventually lead to more production, and the higher production will satisfy the higher demand, which will lower the price.

Profit

Profit is the difference between how much it has cost to produce and market the product, and the total gross income that this cost has created (how much the buyer has paid to acquire it). Hence, high costs of production as well as high marketing costs call for a high price of the final product sold to consumers. If consumers for any reason do not find the final price competitive, they will not buy the product, and if the final price is lower than total production cost the producer(s) of the final product will choose not to sell, at least in the long run, when they will choose not even to produce. This is what we might call the price/cost relationship.

From the point of view of the supplier, a price must be high enough to cover production and marketing costs. Market prices must be both low enough for consumers to purchase and high enough to ensure that producers will supply.

Profit and supply and demand

Economic theory shows that when demand equals supply on a perfect market there is no room for “profits”, and prices will equal production costs. Of course production costs in this case must include labor costs, and labor in our context includes the farmer herself as well as her family. So how do you determine how much their labor costs? Well, the simplest way to find out is to see what the price of hired labor with the same level of expertise would cost, where such information is available. Another way is to estimate what all the members of the work force could make if they were not occupied on the farm, which is known as the “opportunity cost”, or: “what you sacrifice by doing something else”. We shall not go into how to calculate opportunity costs here, but it should be apparent that no labor input is for free.

The supply should ideally be determined by the potential profit that can be made from marketing any particular good, as this price ideally reflects what consumers want and how much it costs to satisfy that demand. Whenever it is possible to make more money in any particular sector of the economy, producers will shift to that sector, until competition eliminates the profit potential. This situation is called market equilibrium.

As we shall see, there are very few examples of markets in

equilibrium and any situation where supply does not equal demand is a situation where you can make “profit”.

Costs, Demand, Supply and the Market.

Demand, supply and production costs

Now, when a producer, let it be a farmer, argues that the market price of his produce is “low”, what does that really mean? Well, in a well functioning market it actually means that the buyers of the product are, for good reasons, not willing to pay more than production costs. What is considered “low price” is actually “low margin”, or profit.

There is however not necessarily anything wrong with the market, or the consumers, just because producers cannot make a profit. Take for example a well functioning market where producers try to sell something that there is no demand for, possibly because the cost of production is so high that consumers do not consider it worth the price. In this case it is quite natural that producers make a loss.

Prices on a real world market

When there are “imperfections” in the market the situation is another. “Imperfections” are what economists call anything that makes the market work less well than textbooks prescribe. As mentioned, market imperfections give rise to potential profit, or “arbitrage”. These imperfections can be divided into general categories, whereof those below are among the most common, and most important, for small scale farmers:

One of the most common “errors” that cause markets to

perform badly is when there is *lack of information*. When there is no information prices will usually differ very much from time to time, as well as from place to place. Such differences may naturally arise for other reasons as well, such as high real transport costs et cetera. The worst case of market errors arising from lack of access to market information is probably when farmers have no possibility to discriminate between possible "actions" or "investments". If a farmer does not know how much it will cost her to grow a certain crop, and what she will be able to get for the final product, when planting season comes, how will she know what to plant?

A special case of market information availability is when players on a market have *different access to information*, usually called Asymmetry of information. This detaches the buyer, or the seller, whichever has the disadvantage of the lesser access, from the actual market. Without knowledge of supply and demand, or such a simple thing as prevailing market prices, the buyer, or the seller, will not be able to know if the price they agree on is in line with what they would have to accept. The winner in this situation is the one with the better information, who certainly will not be inclined to pay more than she would have to pay elsewhere, and probably would try to pay less. And as the seller in this case does not have knowledge of what the market price is, she would probably accept the lower price. As you can imagine there are innumerable such possible information advantages or disadvantages, and they all give rise to markets that do not function well.

Another common error is *limited bargaining power*. It is quite often the case that you find that you cannot get a decent

price, whether you are selling or buying. Either you find that the buyer is not willing to pay what you know your produce is worth, or you find that the seller demands a price that is far higher than her produce is worth. This is usually a problem that arises from limited direct access to market, which in this case means that there are too few players on the market. Again let us take a small scale farmer as example; she wants to sell her produce, but she finds only one buyer. In this case the only thing that determines the price is the relative bargaining power between the two players, the buyer and the seller. If the buyer is starving, and there is no other seller of food around, the farmer can ask any price for her produce, assuming that the buyer has the ability to pay. If the buyer on the other hand has no other reason to buy than to make profit, she can offer a price that is close to zero: the farmer still has to sell, or her produce will eventually be ruined (or at least she cannot send her children to school).

Limited bargaining power, differences in access to information and other factors often work together to create unfavorable situations. One common such situation occurs when farmers accept lower prices than necessary because they prefer to sell their produce for cash rather than on credit. The seller is often facing a time restraint, where she urgently needs liquidity and therefore has *limited bargaining power* vis a vis the buyer (the time restraint can have a number of explanations: maybe the seller faces urgent expenses or maybe she has taken her goods to a marketplace, leaving family and farm behind, or maybe she is selling perishable goods, and may not have the time to negotiate with several buyers to get a good price); she does

not know whether the buyer does actually intend to pay back a given credit, which is a result of *different access to information*; and she would have difficulties enforcing a recognizance of debt, i.e. to ensure that a buyer will honor payment of a credit purchase; a *legal problem*. It has happened far too often that farmers have been promised payment at a later date, but the buyer has disappeared with the goods.

In a bigger context, relations between very strong and very weak market players are always difficult. This is the case when it comes to relations between multinational billion dollar companies and small scale farmers as well as between the EU and the AU. For example.

Monopoly is a market imperfection that is often criticized when introduced by governments, but it is actually more commonly introduced by private enterprises wanting to reap the profits that can be made from such a system. Most investments in advertising can be considered to be efforts to minimize competition, hence creating a “monopolistic” economy. One prominent and very popular example of monopolistic advertising, “branding”, will be further investigated later in this paper. Lastly, monopolies can be “natural”, in the sense that it is not possible for more than one supplier to (profitably) service the market.

For the commodity markets to function well it is essential that the financial markets function well. This is, as we can see, to some extent another issue. Nevertheless it is important to keep in mind that virtually all markets are

interconnected, and that problems in one market may very well emanate from another market altogether. Problems on a commodity market (agricultural products) are commonly caused by problems in the financial markets (no access to capital), caused by a legal system that does not allow for efficient allocation of resources (property rights), caused by colonial powers and insensitive application of inappropriate law, and so on, in absurdum. Hence, marketing of agri-products must be seen as part of a context, and dysfunctions must be handled accordingly.

Lastly, a very common problem for a market is interference from players that are not really in the marketplace, but who nevertheless have the possibility to influence it, either by affecting supply, often through production costs, or demand, by for example somehow controlling the price of a product or buyers preferences. This kind of *intentionally introduced market imperfections* are arguably more important than any other, as they include tariffs, quotas, subsidies, trade blockades, “fair trade” schemes and, quite often, marketing, insofar as marketing affects buyers’ preferences. Just to take an example, it has been frequently claimed that trade restrictions imposed by developed countries on goods from the African continent cost African countries many times the amounts these countries receive as “development support”.

In most agri-markets today the situation is that there are big market imperfections, whose nature varies. It is frequently argued that trade distorting measures like customs, taxes, quotas and voluntary standards are the, by far, largest

imperfections on the international scene, but on the local stage there are without a doubt other imperfections which have far greater impact on the small scale farmer.

Profit in the Real World Market

As mentioned, the imperfections above, separately or combined, make it possible to get more paid for what one has to offer the market than it cost to bring it to the market. Those are the products which a producer should look for, those are the products which consumers want, and those are the products of which production and delivery will make the market less inefficient. Below some, and hopefully the most important, of the profit making potentials are described.

Choosing

The first, hence most crucial, step in making money is choice of product to service the market with. Of course, the trick is to choose a product that is as lucrative as possible, all factors taken into account. This involves assessing demand as well as production costs, production capacity and other possible advantages and disadvantages of each product. The producer's capacity and assets determine what *can be produced*, the demand determines what *can be sold*, and together with production costs these determine what *should be produced*. Unless the producer chooses wisely, she will not make any profit, that is how simple it is.

Holding (Intertemporal arbitrage potential)

As we have concluded, the market price of a good goes up if many people want what there is not a lot of. This is exactly what happens when the price of for example maize goes up

as time passes since harvest. There is actually less maize for sale, but people still eat as much, and so they have to bid higher to get the maize they need.

The fact that market prices tend to fluctuate over time creates "intertemporal arbitrage potential", which in plain English means that there is a possibility to make money by waiting. If there is an actual profit to be made depends on if it is possible to pay less to store the product in question than the price of the product rises over the period it is stored.

Moving (Spatial arbitrage potential)

There is also the possibility that there are differences in supply and demand in different places. As we speak of agricultural products, these are usually produced in the countryside, where they are also usually in abundance, at least shortly after harvest. In the cities on the other hand, very little food is produced, although there is quite a lot of people. As we can predict, prices of agricultural produce in general tends to be higher in the cities than where it is produced, which gives rise to "spatial arbitrage potential". As you may have guessed, this means that there is a possibility to make money by moving things from one place to another, and that whether you actually make a profit or not depends on whether you can transport it at a lower cost than the difference in price between the two places.

Bulking (Transaction cost minimization)

Bulk marketing is yet another word that is really popular at the moment. Bulk marketing is the result of players on the market dealing with specialization. There are frequently very many producers on a market, which means that very many deals will

have to be made to transfer all goods from producers to consumers. (Naturally it is also possible that there are very few sellers as well as very few buyers, but in our case it is pretty much always true that there are very many sellers and either very many or just a few buyers.) If we consider maize, there are usually literally millions of producers, but the buyers of the maize are in comparison very few, and mostly very big.

For the big buyer the process of making a lot of deals can be very costly. Think of a big mill, milling possibly hundreds of thousands of tons per year. Considering that many producers do not market more than a couple of tons, if even that, this single mill would have to handle something like a hundred thousand separate deals, with grading and weighing and paying and receiving and so forth. Such a big number of deals is an undertaking in itself, which is the reason why that kind of buyer mostly chooses to buy only relatively large amounts at a time, and that they prefer to make arrangements with traders who can provide them with a steady flow of inputs without having to negotiate new deals every time they get a delivery. This is, as mentioned, a form of specialization, where the buyer is simply not an expert in completing a lot of small transactions.

Another related example: it is, per bag of produce, a lot cheaper to charter a whole 40-ton truck than to take every bag on a bus. But you must be able to fill the truck to get the low price per bag.

This is what is known as bulk marketing, or bulk trading. In the process of reducing the number of transactions by collecting small quantities into bulk there is money to be

made, in addition to the money that can be made from transporting goods between points in space (spatial arbitrage) and the money that can be made from storing goods between points in time (intertemporal).

There is one very important thing resulting from these market imperfections that is so important that it gets its own heading:

Middlemen

Middlemen in this context are “traders” of any kind, who make their profit from one or several of the “arbitrage potentials”. They might

- specialize in storage of goods to make profit on prices going up over time
- specialize in taking goods from one place to another to profit on the difference in prices in different places
- specialize in collecting enough goods to be able to sell it at a higher price to someone who does not have the capacity to handle a large number of deals on her own
- specialize in bringing goods from one large producer to many small consumer, which is basically the same as the last bullet, only reversed
- utilize any combination of the above

Quite common is also the middleman that utilizes superior access to a market. This is actually a profit making opportunity

that arises from inequalities in access to market information, and will in this context be treated as such.

The middleman might, or might not, actually take over ownership of the goods in the process. When she does, she is a trader. When she does not, she is a broker.

Oh. The term middleman is a bit conservative. We do not mean a man, and the term is deceiving and old-fashioned. Surely, given time, it will be called something else. Nevertheless neither I nor the people I have consulted (thanks) have been able to come up with a more appropriate word yet, so it stands for now. We shall have to view it as having been deducted from the word human, not the word man.

If we consider bulk marketing to be no more and no less than the collection of goods from many small producers in order to sell the whole bulk of it through one transaction, without taking into consideration who performs the collection, we can see that middlemen of all kinds perform a bulk marketing service. A middleman is a function for which ownership may lay in the hands of a single trader, a farmer owned company or cooperative, a farmers' organization, a government or any other player. The important thing is that it (the middleman function) collects goods from one or many producers, and delivers it to one or many consumers. In our case, when we discuss middlemen in the environment that small scale farmers face, it is mostly the case that the middleman is a trader who buys produce from many farmers, and sells it either to one or a few large buyers, such as mills, or directly to consu-

mers in urban markets. The marketing theory covering this issue is called "wholesaler theory" and tries to "scientifically" explain what we usually call bulking, and in an economist's words you would say "vertical market disintegration" to describe the existence of middlemen in general.

There are middlemen in all areas, and their role in the economy is to facilitate. Bulking is one way, storing goods until they are demanded is another, transporting them to where they are demanded is a third. Many of these middlemen are involved in combinations of the above, delivering a series of services. The Grain Marketing Boards, or whatever they are called (FRA in Zambia) are examples of middlemen performing a lot of services. Their justification is not commercial on a national level, but vis-à-vis the farmer the relationship is purely commercial.

For a farmer it might be very difficult to transport goods to a remote market, or to store it safely for a long time, or to collect enough to satisfy the mouth of a big mill, why middlemen are very useful. Provided the middleman does not get an unproportionally big share of the profit, which in this case is the price paid by the buyer, less costs the farmer has had, as well as the costs the middleman has incurred; it is also a service that is efficient. Sadly this is often the case, and so farmers have reasons to act.

The conclusion from the middlemen-discussion must be that farmers have good reasons to support middlemen!

Traders are necessary for farmers, or at least make farmers' lives very much easier. On the other hand, farmers shall support only those middlemen who do not take advantage of their position to take an unjust share of the total profits that are made in the marketing chain.

Marketing vs sales

We shall now make a very important distinction, that between marketing and sales. Contrary to what is commonly understood, marketing and sales of goods are not identical concepts, and should not be treated as such. Sadly, when farmers, as well as other stakeholders in the farming sector, are asked what they perceive to be the major problem they face, the answer is “marketing”, when what they really have in mind is sales. Most likely there are two explanations for this fact, the first being that “marketing” is really “hot” at the moment, so that it by many is felt to supply solutions to pretty much everything, and secondly because it to a large extent is what “money people” want to hear.

Selling is what farmers, when speaking of “non subsistence” production, want. Or rather, that is the perceived means to the wanted end, which is higher profit, or higher income, or higher living standard. And from this perspective it could be argued that what farmers mean when they talk about marketing actually is marketing, as marketing is the tool to use to increase profit. However, by assuming this is the case the discussion is limited to a small, and mostly insignificant, part of marketing.

If there were at least a straightforward relationship between sales and the desired end (higher living standard), the misconception of marketing and sales would not be too bad,

but that is not the case. There is no such relationship, or at best a very weak one.

What farmers mean when they say they have a marketing problem is actually that they have a selling problem, and that the selling problem they have is that they find it very difficult to do get a fair price for their produce, and that they have problems finding transport to the buyer. One could definitely, and correctly, argue that this is a marketing problem indeed. The problem is the widespread idea that the solution is a sales solution.

Obviously, this point deserves more emphasis:

What farmers mean when they say they have a marketing problem is actually that they have a selling problem!

The problem with this is the widespread idea that the solution to a marketing problem is a sales solution!

The difference between marketing and sales needs some further explanation. Let’s return to the concept of a market. In its “simplest” form this is a physical marketplace, where people with something to sell meet people with a need which they think can be satisfied by buying something for sale in the market. Now, marketing is the art of matching demands and supplies, while maximizing profit for the marketer. Hence, *marketing is an art that includes all actions and all players that are relevant in the process of matching demands and supplies, while maximizing profit for the marketer*, which in turn means that the marketer needs to have

knowledge of actual demand and supply, potential demand and supply, costs of production, market prices, access to transport (infrastructure) and capital, competition and a million other things. Only once all this information is in place is it possible to separate the goods from the bads, or, as economists say, to maximize profit. Not that it isn't possible to make money without all that information, but it will be a matter of luck, gambling.

The separation is essentially a process of determining which product that can give the highest profit, given the assets, and that choice in our case determines what to grow. Hence, the decision to grow one particular crop for profit, i.e. a "cash crop", is a marketing decision, and every other decision that concerns the profit making part of any undertaking is a marketing decision. Even the occasional game of golf, or beer in a bar, or chat over coffee, is quite often the result of a marketing decision...

Sales, in turn, is the process of exchanging goods for (mostly) money, which is such a small and everyday event that it occurs every time we buy a bag of flour. Sales often call for advertising, market analysis (including customer and competition analysis), and a lot of other marketing activities. However, sales are dependent on the product which is to be sold, without influencing which product to produce, and hence sales is a very small, though important, part of marketing.

This becomes even more evident if we go back to the essential definition of what constitutes a market, as this is a matter of context. When we speak about small scale farmers,

the most important "market" is probably the family that shall be supported; a woman or two, a man or two, and a couple of children. The marketers are the people in charge of the household, and the demand they will have to satisfy is that of the household. Now, a household may want a great number of things, but the most prominent need is likely to be food. Hunger is not usually something that very many people long for. Hence, the marketers' first priority is to satisfy a demand for food, and the demand is constant (usually) all year around, which has to be taken into account. Now, the necessary marketing decision comes from "how do I most efficiently satisfy this demand?", and to answer this question successfully getting an A grade, she will need to know marketing! The selling part of this marketing project might be for example "how do I get my kids to eat sweet potatoes, which are nutritious, high yielding and relatively insensitive to drought, instead of maize?". This question we shall have to look for an answer to with the help of advertising and selling professionals.

The importance of knowledge of markets and marketing

Market knowledge would, with the same logic as above, be pretty much the same thing as marketing knowledge, but with a slightly narrower scope, insofar as knowledge of how a market works does not imply knowledge of how to bring a product profitably to that market. As such, market knowledge is more “basic” than marketing knowledge, and hence possibly the type of knowledge you would hope for each and every actor in a market, i.e. every human being, to have. However, this is not the case. Not even basic knowledge of supply and demand is a something that everybody has, in developing countries as little as in developed countries. If we also look at more complex market functions such as market manipulation (sometimes known as advertising) or the effects of other market imperfections the situation is even worse. This discrepancy in knowledge makes market work far below their potential level of efficiency. The effects are lower incomes for producers, higher prices for consumers, and very big “losses” in the economy (not all might consider these macroeconomic bads bad at all, as they are the ones with

better access to information, and hence make profits that would not be possible on a well functioning market).

As marketing covers such a vast and important area, wherein we find the answers to how the choices a producer make affects how much money she will make, it seems natural that one considers basic marketing knowledge an essential complement to agronomic knowledge for each and every farmer.

The lack of market information, and the effects thereof

With knowledge of how markets function and marketing procedures, farmers will be able to make better choices on such immensely important subjects as what to produce, when to produce, where to sell, when to sell, to whom to sell and at what price to sell. In short, market and marketing knowledge is necessary for the individual farmer to take the step from production capacity to business person, from the donkey necessary to pull the plow but unable to get to eat the cabbage to the successful farmer with food on the table and children in school. And beer.

Without it she will produce crops which “*yield badly*”, have “*high costs of production*”, are in “*excess supply*” or “*low demand*”, of which all are relative to profit, and nothing else. She will be dissatisfied with the government, the union she belongs to, the commodity association that is supporting her work, the middlemen she uses to market the produce, and the buyers that don’t pay enough for her efforts, time, labor, knowledge and money.

And she might even be unable to put food on her own table, lest her children in school.

Preconditions for successful marketing

In order to maximize income from producing and selling any good, a couple of things are very important to have. Roughly, these can be clustered into five groups:

1. *Production capacity*
2. *Marketing capacity*
3. *Market information*
4. *Infrastructure*
5. *A working legal and policy environment*

Let us look a little closer at these preconditions, and the things we need to keep in mind when dealing with marketing matters for small scale farmers.

Production capacity

Production capacity in this context is used only to describe the agricultural production itself, not marketing etc. Production capacity requires:

- *Production knowledge*, in the sense that she needs to have

the necessary knowledge on how to grow the particular crop (this is sometimes called Technology)

- *Labor* to actually grow it
- *Capital*, which might be in the form of tools, tractors or draught animals as well as cash or credit to pay for inputs such as seeds, fertilizer, pesticide or transport. *Capital is in our context always necessary in the form of land and water.* Sometimes some aspects of labor are viewed as a form of capital as well, which from many points of view is absolutely justifiable (see Labor).

Production Knowledge

Distribution of production knowledge is one of the areas where a lot of efforts have been made by governments as well as NGOs, and it seems quite successfully so. There are extension systems and officers, and farmers in general have excellent knowledge of how to grow different crops with the available resources. Of course new ways of producing (which are quite often old ways reborn) come up, and one can not sit back and relax and assume that nothing needs to be done, but in terms of provisions for small scale farmers this is one of the areas that have been least neglected.

Labor

There are actually as many reasons to think a bit about what labor really is as there are implicit aspects of labor, but right here we shall concentrate on one: the labor input relative to the capital input in production of a good, and how to measure this.

To make things simple, profit maximizing behavior

implies that you must utilize your production capacity in the most efficient way. This means that if you don't have much money but a lot of "work", you use a lot of "work", and accordingly choose to produce something that can be produced using not so much capital but lots of "work". If you on the other hand have very good (cheap) access to capital, you would choose to produce something using a lot of capital and less "work". Please turn to the SCC publication "Profitability calculations" for more information.

Now, the question is what this "work" really means. Of course you could say that it is how many man-hours you put into production. This would then imply that it doesn't really matter whose hours you use, which is quite obviously wrong. A big physically strong person is better at carrying heavy things than a small, sick and weak person, and hence can produce much more carrying over any specified period. The same reasoning can be applied on any situation, and cover things like education, health (aids, malaria etc) or any other quality of the labor force. The labor force is you and I, and our "quality" is measured as "human capital". Now, one should not forget that although it on average should be better to be healthy, it is not anything near certain that healthier is more productive. I would love to see a situation where most of the planet's population knew more about physics than Stephen Hawkins, but that day is nowhere near. This analogy also applies to most situations, and hence "human capital" is not a straightforward concept.

If we consider small scale farming in southern Africa a rather heavy physical job, there is however no question as to whether

health is important or not, which is why diseases like malaria and AIDS are so utterly devastating. Even though malaria is seldom (in comparison to the total number of infected people; let us not forget that it is one of the deadliest diseases in the world) lethal, infection can severely limit working capacity for long periods of time. The same of course goes for HIV/AIDS, but malaria is much more common, and curable!

Capital

It is obvious that capital is fairly much like money, or in fact money itself. Capital can be acquired through selling something (a product or a service such as labor, in which case it is called salary) at a profit, accumulated through saving such profits, or through borrowing. To be able to make a profit from selling something is a result of successful marketing, so adding this to the present discussion might lock us up in a cage of circular reasoning. We should also keep in mind that "marketing" aims at achieving the highest possible profit given the assets you can put into production, which means that marketing is just as important for those who have little access to finance (maybe more). When it comes to borrowing money the distance from the core marketing issues is a bit longer, and so it is easier to discuss it fruitfully under the "production capacity" heading. In order to be able to borrow money, you usually have to be able to prove to the lender that you have the capacity to honor your debt, including interest (which is the profit the lender makes on her money-lending business). You have to have some kind of "collateral".

For small scale farmers this is frequently an insurmountable problem. Small scale farmers rarely make enough profit to

accumulate capital, and hence do not own enough to get a commercial loan. Even if this is the case, as it is sometimes possible to use title to land as collateral, farmers have very little access to commercial lending institutions. If there in fact is a channel to a lending institution, such as a bank, this institution is likely to charge very high interest rates, as risks are considered to be high (the farmer might for example after all decide to take the money and run, and even if the farmer is honest a drought easily destroys her ability to honor her debt) and costs to enforce repayment are high (which means that defaults will not be followed up, and the losses eventually paid by other small scale borrowers).

The possible ways around this problem include the following:

- Contract farming schemes with input supplies, a.k.a. outgrowing schemes.
- Borrowing “cooperatives”
- Microfinance schemes (often in the form of Credit Unions)
- Financial support from non-commercial institutions (government or non government)

These different approaches to securing access to capital are described further in the “Guide to Marketing Systems”.

Marketing capacity

The marketing capacity in this paper is that which gives rise to what is very often denoted “marketing costs”. This can be a bit confusing, as marketing is such a broad issue, covering

everything from the preparations before one decides to produce a specific product to making sure that the quality is that which the market demands, to advertising and selling and so forth. All these are necessarily marketing activities, but the very “growing of a crop” is not. Hence there is a distinction, and this becomes even more obvious as most small scale farmers indeed do have production capacity, but not marketing capacity. Marketing capacity involves

- Marketing knowledge
- Capital and labor to execute the marketing activities

Marketing knowledge is what this paper, in whole, attempts to give an overview of. The capital and labor requirements vary with the kind of marketing that is found to be necessary, from very little in some cases, to substantial sums and hours in other. Examples of marketing activities that tend to use a lot of assets are transport and new market localization.

Market information

Market information can roughly be said to consist of a number of interlinked parts;

- Selling prices
- Production costs
- Marketing costs
- Risk assessments

- Market size and location
- Competition and buyer behavior
- Legal structures
- Policy structures
- Taxes, subsidies and other factors affecting trade and market access
- Combinations of the above, i.e. Processed data

Again there is reason to take a closer look on some of these:

Selling prices

Selling prices seem to be what most people focus on when market information is discussed. This is quite natural, as selling prices determine how much money you return from the market with. Selling prices can be divided into sub-groups such as;

- Historical prices
- Present prices
- Predicted future prices
- All of the above in different places

Selling prices vary over time and from place to place, and

these fluctuations can sometimes be very big, and sometimes very fast. The speed with which sellers and buyers need access to market information depends to a large extent on which business they are in. For example, traders speculating in international exchange rates depend on seconds to make money, whereas a farmer who is selling her produce to a trader with storing capacity need only know the “seasonal average” in the traders’ coverable area to be able to negotiate a correct price. Selling prices often show “cyclical patterns” over time, which do not change much between cycles. This is the case with very many goods with seasonal production possibilities, such as many agri-products. Under “timeliness” below we shall elaborate a bit on this issue.

Production costs

Less frequently recognized as “market information” than selling prices, are production costs. Production costs are nevertheless just as important as selling prices, as they determine how much money you bring back from the market, costs deducted.

Production costs in this context include only the costs arising from production of a good. Hence, production costs include;

- Input costs
- Labor costs
- Capital costs

Production costs do not include:

- *Transportation costs*
- *Selling costs (sometimes called Marketing costs)*

Input costs

are what we pay for the things directly used in production. Mostly these are tangibles, but not necessarily so. Seeds, fertilizers, pesticides, herbicides etc are all input costs, and most likely the most important, but there may also be many more.

Labor costs

are, right, costs for labor. It can be argued that labor costs are zero when only family members are engaged in production, and hence no salaries paid. From some perspectives this is quite correct, and from other it is not. In the SCC publication "Profit Calculation" we discuss why small scale farmers mostly are right in ignoring labor costs *in their calculations*.

When labor costs must be correctly calculated there are a number of things to consider. As family members share what is produced, which means that the more they produce, the higher their income, and hence the "cost of labor". Secondly, the family can produce different things getting different returns. This means that we have to take the *opportunity cost* into account. The opportunity cost of labor is the income that labor could generate in another occupation. Of course, most farmers do not have much opportunity to get a job

outside the farm, which could be taken to mean that opportunity cost is zero, but then we must think again. Opportunity cost is the highest pay that the labor could generate, which, if it is possible to work only on the farm, means the *highest income possible to generate on the farm*.

Capital costs

are all costs that can be referred to the use of capital. It is not the costs of buying inputs, which have been handled above, but the costs of using money to buy those inputs, e.g. interest rates. Capital costs also cover for example the cost of having a tractor, which does not only include costs to repair the tractor, but also depreciation (the fact that the value of assets often decreases over time) and opportunity costs: whatever money was used to buy the tractor cannot be put to any other use, such as generate interest in a bank account. In most places, such costs are very high for small scale farmers, although they may not be very high for other groups.

Marketing costs

These are basically all costs which are not directly attributable to the production of goods. Sadly, there is some confusion as to which costs should be included in marketing costs and which rather belong to production costs. To simplify as much as possible, and to create measures that are as relevant for the small scale farmer as possible, marketing costs in this paper shall include

- Costs of collecting information
- Costs of transporting

- Costs of storing
- Costs of cooperating
- Costs of selling

With the exception of Transport costs it should be why these costs are considered Marketing costs. When the transport costs arise from transport of produce to a buyer, it is obvious why they belong to marketing costs, but when they arise from transporting inputs to the farm, they could well be considered production costs (meaning that input costs are higher for someone far from the market). The reasons why we shall treat all transport costs as Marketing costs are twofold:

- Firstly, all transport costs are closely connected to trade;
- Secondly, many of the marketing efforts to increase profitability aim at reducing transport costs, which makes it relevant to sum up all such costs.

Risk

Risk is one of the most important issues for small scale farmers. It has frequently been argued that small scale farmers do not behave like you would expect from market players, that they do not take advantage of competitive advantages, or adapt production to demand. In short; that small scale farmers do not maximize profit! But it seems that this analysis is all a matter of attaching the correct weights to risks. Risk is something that can be handled in very many different ways, to a large extent depending on how much

money, or other reserves, you have. If you cannot afford to fail, you cannot afford to take chances. That is the rule of the game. Small scale farmers in southern Africa can very seldom afford to fail, and hence have to be very careful when it comes to change. If there is a way of making a living that has proven to work many generations, albeit not very secure or successful, it would be extremely careless to abandon it. Changing crops or production methods is not something you would do in a rush. The novelties will have to prove themselves bit by bit. This is only natural. On the other hand there is always the possibility that another way of securing food and income comes along, such as a donor providing some kind of income guarantee. Finally, professional marketers can convince almost anyone of anything. If, for example, a professional marketer finds that she could make a huge pile of dollars in case a lot of farmers would grow a particular crop, and sell it to or through her, she could probably convince them to do so. There are numerous examples of where this has happened, with disastrous results.

Sources of risk in agriculture can be

- Production –variations in yield and quality
- Market –changes in price and/or external conditions
- Financial –variations in debt or equity capital and ability to meet cash demands
- Legal –responsibilities for contracts, following the laws, effects of breaking laws or contracts and business structure

- Human –managing people and employees

However, risk for a small scale farmer normally means either

- Meteorological risk and other “natural risks” such as famines or deceases.

or

- Market risk

Of these, the impact of the former often is devastating, whereas the latter can be troublesome, but usually not devastating. Risk assessments are used to evaluate the different possible outcomes of any undertaking.

Managing risk can be defined as “choosing between alternatives to reduce the effect of risk”. One of the most commonly used ways to handle risk (also commonly know as “uncertainty”, which is “risk with unknown probability”) is diversification, which is a way to make sure that if one thing goes wrong, it doesn’t mean that all things go wrong.

Risk and expectations

Expectations are the results of analyzing probabilities of different outcomes and attaching the proper payoffs to those outcomes. Hence, expected outcome is the total payoff you can expect to get from any undertaking, taken the chances for “failure” and unexpectedly good results into account.

Example:

Assume that the chances of getting a good yield are just as good as the chances of getting a bad yield (the good old “50/50”), and that a good yield is 2 tons, and a bad yield is 1 ton. The expected harvest would then be:

$$(\text{Expected outcome}) = \frac{1}{2} * (2 \text{ tons}) + \frac{1}{2} * (1 \text{ ton}) = (1.5 \text{ tons})$$

One possible reason that economists so often misjudge the small farmers’ ability to handle risk calculations is that they view the farmers’ activities as “purely economic”, which is to say profit maximizing in a very simple way. The problem is then that they foresee that the “expected profit” that economic theory maximizes does not guarantee a “lowest profit”. The problem for a small scale farmer is that if profit drops too low, starvation, or worse, is a very likely outcome. This is of course not acceptable, and hence “simple expected profit” is not good enough measure. For someone with reserves as small as a small scale farmer there is need for a better tool to calculate which option is the most profitable, given her special situation. There is, in short, a need for weighting of the possible outcomes. Such a weighting must take into consideration the cost of failure, not only the loss of potential income that failure represents.

Example:

Attaching the right values to risks:

Assume that the chances of getting a good yield are just as

good as the chances of getting a bad yield (the good old “50/50”), and that a good yield is 2 tons, and a bad yield is 1 ton, which is too little to survive on. In this case, the cost to the farmer of a low yield would be life, which some tend to value quite highly.

We could write it like this:

$$(\text{Expected outcome}) = \frac{1}{2} * (2 \text{ tons}) + \frac{1}{2} * (1 \text{ ton}) + \frac{1}{2} * (\text{loss of life}) = (\text{a bad bad thing})$$

It must also be emphasized that the only expectations that matter are those that result from perceived probabilities, or risks, which means that there is need for not only accurate but also trustworthy information. Trustworthiness is sadly not an easy concept, and it is fairly common that people and institutions that far from deserve trust are the ones that are given it. As we know, rhetoric ability is often more important than fact.

Furthermore, the simple profit maximizing model does not really take into account that perfect information is something that is very common in fairytales, but rarely elsewhere. Hence, the expected outcome, that relies on probabilities for different outcomes, is very inexact, which everybody knows. Although it may be really awkward to make decisions without access to proper data you still have to make the decisions relying on the data you have. And the data most farmers have access to is based on a very limited experience. As we have discussed, uncertainty is considered very dangerous by small scale

farmers, as any unknown factor may result in death. Thus, the room for experimentation is small, and farmers stick with known factors, no matter what.

4.3.5 Profitability calculations (processed data)

In order to compare different crops, it is necessary to process a whole lot of data into useful information. The information should make it easy to compare the most important feature of any line of production; the profitability.

It is important to consider why we calculate profitability, and what basis we use for the calculations.

The prime directive for the calculation of profitability is probably “how much money it is possible to make from any specific undertaking”. This is the information needed to make a wise production decision –one that is likely to give us the highest income.

Profitability is closely connected to productivity, and productivity is closely connected to the assets that can be employed in production. Hence, to find out which profitability is possible, we have to start with whichever assets we have, and determine the profit it is possible to make given those assets. The assets we have to consider are those necessary for production and selling of the produce.

To maximize profit, it is necessary to utilize *the assets available as efficiently as possible*.

Now, honestly, how many farmers, or farmers’ representatives,

do you know who has any idea of what the expected profitability is of the 50 or so most common crops in southern Africa? And how many would know those numbers for single countries, or areas? And how many would know what the profitability is on one particular crop considering different marketing systems, like contract farming versus open market? And, finally, how many would know the profitability of small niche crops?

And yet this is the challenge that the farmer faces! She must determine which crop to grow, and in order to make enough to actually advance her situation and better her livelihood, she must do it with profitability in mind. She must grow the most profitable crop, she must produce it the most profitable way, and she must sell it through the most profitable sales channel. And the equation to calculate profitability must include risk, so that it minimizes the chances of failure without minimizing possible profits.

In order to make these decisions she needs access to a whole lot of market information, but I argue that this information need not be perfectly up to date, nor perfectly accurate. The problem farmers are facing is a lack of basic information, and the ability to interpret it, i.e. marketing knowledge.

Naturally it would be quite inappropriate to assume that small scale farmers could learn to calculate returns on a huge number of commodities and investments, and even less likely to think that learning to do so would be cost efficient. But without basic marketing knowledge farmers will not be able to appreciate or trust market information they are

supplied with, which makes it immensely important that any effort in marketing for small scale farmers include an educational component.

Finally, it is important to note that there are many ways to compare profitability, and that any single measure will not be sufficient should by no means be assumed to be the best. But it is, in its simplest form, fairly straightforward to explain. The issue of profitability calculations will be thoroughly dealt with in a forthcoming SCC paper.

4.3.6 Timeliness

It has been argued that farmers, or at least agricultural markets, need daily, almost hourly updated information. This is allegedly a result of big day-to-day, or even hour-to-hour, price fluctuations. There is undoubtedly some truth to this, and it seems that in some cases, when only price information has been provided, the efficiency of markets has increased substantially.

However, as has been discussed, the marketing systems assessment that preceded the production of this guideline pointed to another very severe obstacle, namely the remarkable lack of basic profitability information among small scale farmers. Furthermore, this lack of information was to be found not only among small scale farmers, but also among otherwise extremely initiated and knowledgeable members of the farming society, perhaps most notably representatives of the farmers' organizations. Not even the FAO, one of the organizations one normally considers very aware of marketing issues, seems to realize the depth of the

marketing abyss! In a recent series of marketing booklets for small scale farmers produced in cooperation with the Ministry of Agriculture in Zambia, examples are given of exactly the kind of calculations of profitability of crops that the farmers struggle with, which is of course very good. But the examples are not comparable! In another booklet, "Agricultural Marketing; What is it?" it is explained that the first marketing step is "Identifying buyers and their needs", but there is little discussion on what to look for, and virtually none on how to discriminate between possible products. In fact, the way I read the booklet it actually assumes that the farmer has already decided what to produce. Now, I do not think that this is the author's intention, but the result of a misconception; it is not natural for most small scale farmers to assume that you start with a blank page, where you haven't yet decided what to produce.

In future production and selection of education materials for small scale farmers, this must be taken into consideration!

Infrastructure

In order to take "products" to the market, you need infrastructure. Infrastructure can be roads, waterways, railways and other physical installations as sheds or warehouses. Furthermore it can be trucks, trains or boats. It can of course also be paths suitable for walking (with a bag of maize on your head perhaps), or a bicycle, or an oxcart. These are all means of physical transportation, and they are all parts of infrastructure. But there is also another type of infrastructure, which is what we might call information transportation (including storage, which is transportation

from one moment to another). The transfer of information is a type of transportation that is often forgotten, but it is no less important than physical transportation.

First, we must conclude that there is a severe lack of infrastructure in sub-Saharan Africa. Roads are often in very bad shape even in the dry seasons, and virtually non-existent in the rain seasons. Furthermore, railways are not very developed, and there are many countries without direct access to waterways and harbors. On top of this, transport prices are very high, even after all of these facts have been accounted for, probably because of very the structure of trade, which is often one-way, and the rather small volumes that are transported. This is a serious problem for the farming industry in our part of the world. Nevertheless, there are more ways to approach this problem than only investing heavily in infrastructure (which definitely is necessary, but costly and beyond our scope here).

Example:

Picture two farmers, one in the small Nordic kingdom of "Sweden", the other a farmer just 63 km outside your home town (suggesting you live in a town), and in the middle of the bush no less. Now, it may well be argued that the Swedish farmer has access to incredibly much better infrastructure than the African farmer, and it would almost certainly be true. But that does not necessarily make it easier for the Swedish farmer to market her produce in your home town.

Another example:

take it that there are two farmers, both of them living 63 km outside your home town, both growing the same crop, maize. They are both quite successful small scale farmers, and hence have 5 tons of maize to sell when marketing time comes. The problem is that one of them lives 63 km from the main road, whereas the other lives 63 km from town, along the main road. In this case it is likely that the farmer living close to the road has a very big advantage to the bush farmer. It would take a very long time to transport 100 bags of maize to the market carrying them on the head, and it she would have to eat a lot to manage to do it. Even worse, when she gets to town with one bag of maize, only the traders in the marketplace buying maize in buckets are willing to buy what she has to offer, and we all know what that means. The transport cost would be very high, although she might have to do it herself. The farmer along the road on the other hand will just have to load her maize onto the first truck that passes, or even hire a five tone truck to pick her produce up, and then she can sell all her produce at once to the miller who does not accept smaller purchases than 5 tons, and get a much better price than the bucket-buyers in the marketplace offer. She will easily pay the transporter and can spend her time making money instead of carrying bags.

This was a wordy introduction to the problem, true, but here comes the final: what if the farmer in the bush does not grow maize? What if she raises donkeys, which she sells as

draught animals and which easily (as it is what they do really well) walk the distance to the buyer? And what if the Swedish farmer grows saffron? (which, in case you didn't know, is an extremely expensive spice that doesn't grow in Sweden. Sweden is in this example just because it is very far away and SCC's cradle). Saffron could (and is) easily be transported all over the world at a very low "cost", if it would show that demand in your home town motivated it. And what if the two farmers outside your home town both grow saffron? Does the farmer at the roadside then necessarily have a significant advantage over the farmer in the bush?

The two examples served only one purpose: to highlight the fact that access to physical infrastructure is not altogether straightforward. In fact, physical transportation can only be deemed insufficient *in relation* to other factors. It is never insufficient or inappropriate in itself. Now, what farmers can do is treat transport as a cost, and try to minimize that cost, which can be done in several ways:

- Through collective bulk transport
- Through individual bulk transport
- Through production of goods that are as easily transported as possible
- Through production of goods that are as high value in relation to "size" as possible

And so on.

The same goes basically for information transportation, only that you need the information that could be transmitted with such infrastructure to determine whether you needed it or not. When you worry about the situation at home, it is only when you get a phone call saying all is well that you know you didn't need to hear from them. Bringing the discussion back to the farmer's situation, lack of information infrastructure may well be a much worse problem than lack of physical infrastructure, as lack of means of communication actually implies lack of market information, which you need to overcome any marketing obstacles, including infrastructure problems!

Legal and Policy environment

Although it should be obvious that the legal and policy environment is incredibly important to marketing, it is such a big issue that it would be useless to try to handle it in depth within the limits of this paper. Nevertheless it is essential to realize that this is without a doubt one of the most important areas for farmers' organizations to use their lobbying power, which is why a short summary of the big issues is included.

Legal environment

The role of law in relation to agricultural marketing systems is multifaceted, but for the purposes of this guide, law can be regarded as having the following three main functions:⁵

1. Enabling functions, which provide the essential legal framework for the marketing system. Rules performing this function include those that: establish property rights; enable the establishment of legal entities such as co-operatives; and govern contracts, exchange, and security

⁵ *Law and markets: Improving the legal environment for agricultural marketing, FAO AGS Bulletin No. 139, p. vi*

(e.g. rules allowing movable goods such as grain to be pledged as security for a loan).

2. Economic regulatory functions, which seek to promote, guide and discipline the operation of markets. These functions may be performed by a wide range of laws, including laws dealing with competition, uniform weights and measures, food-quality standards and tax.
3. Constraining functions, designed to restrict the operation of the market in some way, in order to avoid socially undesirable consequences. Typical examples of this are found in laws dealing with environmental and consumer protection (e.g. laws establishing maximum residue limits for pesticides in foods).

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Legal rules may also be classified on the basis of how they operate. For example, a distinction may be made between:⁶

1. Regulations that establish a structure for market interactions but rely on the market to articulate preferences (e.g. by creating rights to transfer ownership of stored grain by transferring certificates of title to the grain).
2. Regulations that regulate conduct and so do not rely solely on the market to determine preferences.
3. Regulations that attempt directly to specify the result or outcome.

⁶ *Law and markets: Improving the legal environment for agricultural marketing, FAO AGS Bulletin No. 139, p. vii*

Chapter 9 [of FAO AGS Bulletin No. 139] concludes that “policy-makers should beware of over-simplistic models based on the mistaken belief that fewer rules mean more efficient markets. Those drafting laws need to find ways of moving away from highly prescriptive legislation designed to maximize state control, towards legislation designed to enable efficient private sector involvement. However, the greater degree of freedom for the private sector resulting from legal reforms may also increase the potential for market manipulation and thus create a need for new and more sophisticated regulatory mechanisms.”⁷

Property rights

Of late it has frequently been argued that the area of property rights is possibly one of the most important, and certainly one of the biggest downfalls in developing countries.⁸ Property rights include titles to land, houses, and the use of water, which is without a doubt a part of legislation that all small scale farmers are directly concerned with. The two most important aspects of legally regulated and universally agreed upon property rights are that they

1. Make it possible to “capitalize” an asset, i.e. use it to generate capital, mostly as collateral for loans.
2. Create universally recognized accountability.

Appended you will find Hernando de Soto’s “Capitalization process; movement from dead capital to live capital”. Not everybody is convinced that things are as simple as Mr. de Soto suggests, but for those with a special interest in property rights this “stairway to heaven” is still undoubtedly interesting.

⁷ *Law and markets: Improving the legal environment for agricultural marketing*, FAO AGS Bulletin No. 139, p. ix

⁸ For further readings see for example “The mystery of capital”, Ernesto de Soto, Basic Books 2001.

Policy environment

Standardization

Standards need not be strictly legally supported, but it helps. In either case uniform standards constitute the establishment and maintenance of uniform measures of produce quality and/or quantity. This function simplifies buying and selling as well as reducing marketing costs by enabling buyers to specify precisely what they want and suppliers to communicate what they are able and willing to supply with respect to both quantity and quality of product. In the absence of standard weights and measures trade either becomes more expensive to conduct or impossible altogether.

Uniform standards are actually possibly more important for small scale farmers than other, as they make;

- price quotations meaningful
- the sale of commodities by sample or description possible
- small lots of commodities, produced by a large number of small producers, possible to assembled into economic loads with similar in grade and quality
- it possible for a buyer faced with a range of graded produce to choose the quality of product she is able and willing to purchase.

Quality differences in agricultural products arise for several reasons. Quality differences may be due to production methods and/or because of the quality of inputs used.

Technological innovation can also give rise to quality differences. In addition, a buyer's assessment of a product's quality is often an expression of personal preference.

There are also other forms of standardization, such as Harmonization and Certification. Harmonization mostly refers to the "standardization of standards", so that standards are the same in trading countries, regionally as well as globally. Certification is a method of acquiring proof that some production adheres to some Standard requirements. Certification is common in for example organic farming, and usually involves quite elaborate measures and testing.

Hence, it is obvious that standards are an important part of the preconditions for successful marketing, and that small scale farmers have an immediate interest in the adoption of widely agreed upon standards.

Environmental regulations

The importance of environmental regulations is ever increasing, at the same time as the scope for such regulations is widening. Environmental regulations are often legislated, but need not be. Quite often this kind of interference causes animated debate, and it is also perhaps more often induced by public debate than other interventions.

Irrespective of which the causing forces are, environmental regulations do affect small scale farmers directly. Uses of chemicals are strictly regulated, and even the fear of occurrence of residues may preempt any chances of exporting

to certain markets. The fact that a number of markets only accept organically produced goods, although they do not necessarily market them as such, is but one indicator of this. The reintroduction of chemicals such as DDT may prove detrimental, as even the thought of it being used *in an area (such as "Africa")* may discourage buyers. The same consumer fear is attributable to the resistance to Genetically Modified Organisms (GMO).

It must be recognized that environmental regulations are among those that have very big impact on producers, *irrespective of where they are imposed*. Whether the use of a certain technology is banned where the producer is or where the product is to be sold is often unimportant, as the rules in the importing country mostly apply for the importer. It should also be recognized that legislation and official regulation only constitutes a part (sometimes even a dismissibly small part) of the total regulatory framework. Instead, non-formal, sector, industry or buyer-specific regulations often constitute the major regulating factors. For example, the December 2001 Eurobarometer opinion poll published by the European Commission showed that 94.6% EU citizens want the right to choose, 85.9% want to know more before eating GMOs, and 70.9% simply do not want GM food. These numbers are quite informative.

Lastly, it should also be recognized that environmental regulations can work to the farmers' advantage just as well as to their disadvantage. This is the case where practices detrimental to agriculture, e.g. polluting industries, are regulated.

Trade policy, subsidies etc

Other aspects of the legal environment include trade policy, subsidies and international cooperation among farmers' organizations. Unions have strong incentives to resist trade barriers as such will mostly be counter-measured by affected trade partners, resulting in smaller markets for all competitors. This conclusion does not hold true when markets are not functioning well, the way that has been discussed in the early pages of this paper, but it should at least hold true among many of the Southern African countries. On the other hand farmers in these countries have a very strong incentive to collectively strengthen their position vis-à-vis the industrialized world.

The allegations of unfair trade, trade distorting subsidies and other measures that are part of the agricultural marketing debate further emphasize the importance of international coordination among farmers.

Another practice which has had a large and sometimes very troublesome impact on the agri-economy in the region is subsidies to non-profitable crops. When speaking of marketing it is easy to consider only the cash-generating crops, but non-profitable could also be seen as a wider concept, and also viewing subsidies from this other angle, many of the subsidies that are, and have been, in place, are totally unprofitable, not giving a net contribution to neither cash income nor food security. Of course this would apply to the production of maize more than anything else.

Lastly, it must be said that many farmers organizations, most

notably on national level, have a huge impact on political policy measures, and need to take into account how such measures distort markets regionally. Small scale farmers and their organizations could benefit enormously from increased regional cooperation and less fighting!

Inflation and interest rates

Inflation and commercial interest rates are to a large extent set by governments. As one of the biggest problems for small scale farmers is access to capital, the issues of inflation fighting and interest rates are important for lobbying activities.

Processing is Value Adding

The most basic production of agricultural products does actually not involve anything but just the production. Anything else, like taking the product to the market, or storing it in anticipation of higher demand later in time, or cleaning, grading, packaging or whatever ideas we can come up with, are ways of adding value to the basic product. The first two, transporting and storing, we have dealt with separately, as they are somehow easily distinguishable. The following, cleaning, grading, packaging etc, we shall include in “processing”, together with every other way that the basic product is used as input into production of something else.

Sadly, we shall not put a lot of emphasis on processing, just as we shall not put emphasis on farming procedures (production knowledge or technology). The reason is not, as you understand, that processing is not an unimportant thing. On the contrary, much more money is usually made in other stages of the marketing chain than in farming, this cannot be denied. The reason why we will not dwell on processing is that it is such an immense subject. Hence, we shall only touch upon a few aspects of the issue.

Just as in the case of farming we must take a look at the marketing decisions that have to be made in relation to processing. Because yes, that is the thing: whether to process or not is a marketing decision, and a lot of farmers have decided that they have the means to add value to their basic output by processing it in some way.

Let us consider the possibilities that a farmer faces once she has harvested. Depending on crop she probably has a number of paths to choose between, ranging from trying to get rid of her goods as quickly as possible (assuming we are talking about a cash crop) to all kinds of drying, cleaning, milling, packaging, storing and whatever. What she will decide to do depends, as always, on her production capacity (production knowledge, capital, labor and all that) and the profit she can expect to make from walking any particular path.

Can you see where this leads us? It takes us to the same marketing focus as so many times before: to make wise marketing decisions you need access to a whole lot of accurate market information. And any action taken incurs costs, so that which action one should take depends on the expected net profit from that action and what assets are available.

Adding value is something that should be just as thoroughly thought through as any other marketing decision, and the possibility of adding value must be considered already when the production decision is taken, as it may very well influence or even make that decision!

The case where what a farmer decides to grow depends on how much money she can make from processing that very raw material is actually so important that we shall have to discuss it a bit further (as it has implications that go beyond processing). The situation where a processor also owns the supplying industry (or the reverse) is known as *vertical integration*. It is a simple concept, which allows the owner of the production *chain* (raw material and processing) to consider only the total profitability of the whole chain. Hence, the farmer with processing capacity may well be able to make a profit from growing a crop which would not be possible to sell at a profit in its unprocessed form. The reason is of course again that the markets at some level do not function well, perhaps because there is perfect (very big) competition at some level in the production (marketing) chain, but very little competition (monopolistic) at another level.

Finally we should also note that processing may well be less of a "value addition" solution than a response to some special aspect of the product, or so forth. An example of this could be if, say, the margin on sun-dried tomatoes is in fact lower than the margin on fresh tomatoes, which would make it seem as if drying the tomatoes would really be a silly idea. Still, drying the produce might make it possible to continue selling tomatoes long after they would have been destroyed if not processed, hence allowing the farmer/producer to make more money from the same crop.

The importance of organization and/or cooperation

In any commercial situation, size is immensely important. Whether it be the amount you are able to buy or sell (as we have seen under “Intertemporal” and “Spatial arbitrage potential”), or your financial size, which might be in the form of either access to physical capital, or cash, or members in an organization, all of which can be used as proof of financial strength, and hence collateral for a loan. Such “sizes” can also be used to flex your muscles, like the bull scraping its hoofs and lowering its head, in order to scare off competitors or signal that you are able to fight your ground in a price negotiation. Finally, size often allows for what is called “synergy” effects, which mostly means “efficiency gained by not having to invent the wheel”, or “efficiency gained by allowing for specialization” or simply “efficiency”. By getting together we can be more efficient in production, that is the idea, but, as mentioned, we can also scare competition, scare suppliers, and convince even governments and international conglomerates to look at the world from our perspective.

More precisely, the areas where size, or organization, or cooperation, be it in the form of companies or cooperatives or unions or any other form of people working together, is important for farmers are primarily:

- Collective (bulk) buying
- Collective (bulk) selling
- Collective (bulk) transportation
- Collective financing
- Collective collection and distribution of market information
- Increased negotiation power in relation to suppliers and buyers (commercial)
- Increased negotiation power in relation to governments (usually called lobbying) and non-commercial organizations

As we can see, not all of these objectives create a demand for a very strict organization. In some instances it is quite possible that a formalized organization, with all that it brings in terms of bureaucracy and costs is totally out of proportion and directly counterproductive, whilst in other instances this formal structure is the only rationale for the existence of the organization.

It is also obvious that some of the reasons for organizing are of a “commercial nature”, others are of a “political nature”,

and yet some are somewhere in between. Collective buying, selling transport and financing are quite obviously of a commercial nature, whereas lobbying is rather more of a political nature. Market information matters and joint negotiation power vis-à-vis suppliers and buyers belong somewhere in between, but these are matters of levels of course, and even lobbying is mostly done for economic reasons of some kind. However, there are different types of organizations specialized in different types of activities, and the separation is mostly done along the lines of commercial/non commercial.

One of the most important forms of organization is the farmers’ organizations, on local, national and commodity levels. Farmers’ organizations have had immense impact on societies all over the world, and enough emphasis could barely be put on their importance for farmers in southern Africa. Another very important form of organization is the “company”, whether it is in cooperative form or any other.

Practical Marketing Checklist

Marketing is:

1. The process of satisfying demand
2. Marketing starts with a production decision, made with profitability as only guidance.
3. To determine profitability you need market information.
4. To fully utilize market information you need marketing knowledge.
5. To achieve highest possible profitability, it is often necessary to organize and cooperate with others in the same, or a similar, situation.
6. To achieve highest possible profitability, it is often necessary to learn new methods and technologies

Farmers' organizations six steps to marketing success

1. INTRODUCE MARKETING IN YOUR OWN ORGANIZATION

Marketing efforts for small scale farmers by farmers' organizations are depending on the people in the organizations. People who do not understand marketing will not be able to approach it fruitfully, and they will not be able to use it to advance the marketing situation for others. This Guide to Marketing will not turn anyone into a full-fledged marketer, but it should provide enough knowledge for anybody to attack marketing with a decent chance of success. People working with marketing must never forget what it is they are doing. They must never forget what marketing is. People and organizations working with marketing must always keep in mind that they are going for the money. Profit is king.

2. ENSURE THAT FARMERS HAVE BASIC UNDERSTANDING OF MARKETING, AND THAT THEY CAN UNDERSTAND AND USE BASIC MARKET INFORMATION

There are naturally many ways to deliver such knowledge, but SCC strongly recommends use of the Study Circle methodology, which has proven its virtues in a farmer environment. SCC has developed a Study Circle material in marketing for small scale farmers, that is available from the SCC Study Circle Resource Centre.

These first two steps could together be viewed as a "mindset changing" exercise.

3. ENSURE THAT FARMERS HAVE ACCESS TO BASIC MARKET INFORMATION

This basic market information should include:

- Average historical seasonal selling prices
- Average historical production costs, excluding costs for family labor and other "non-expense" costs
- Average historical yields
- Average historical marketing costs
- Location of markets
- Average transport costs
- Production capacity requirements

*It is **not** enough to collect this information only for very few, or the most common, products! Not even for commodity associations. It is all about finding money, regardless of which product must be produced.*

Using this data, a couple of profitability measures should be calculated for every product. See "calculating profitability" at the end of this paper. For an in-depth explanation of how to calculate the profitability measures we recommend the SCC Guide to Profitability Analysis.⁹

For further information on how the data can be collected on local as well as national level you will have to look elsewhere, until SCC develops such a material.

⁹ *Planned release 2006*

This is the information farmers need to start engaging in marketing. No less!

4. COMMUNICATE THE MARKET INFORMATION

For information to be anything but useless it must be communicated. Experience shows that two channels have far higher penetration rate than any other: Radio and Personal Contact. Use these, and avoid all less cost efficient means of dissemination. As the market information herein suggested as basic is of a rather static nature, a lot of the common problems with market information communication are eliminated. It need not be distributed daily, for example. The biggest reason to distribute it regularly is that the impact of repeated messages is high.

We strongly recommend the use of the Information Centre concept, consisting of a physical centre and a voluntary "contact farmer", for the personal contact information distribution. It has been successfully used to disseminate as well as collect information by farmers' unions as well as other farmers' organizations.

5. SUPPORT FORMATION OF COMMERCIAL COOPERATION UNITS.

When people have knowledge of marketing and access to basic market information two things usually follow:

- New market opportunities "surface", because the world is full of entrepreneurs
- New and different market information is demanded

New market opportunities often involve commercial

organization. Commercial cooperation can take many forms, from non-formalized cooperation, over simple contracts, companies, cooperatives and so forth. Make sure that there is capacity to support formation of such money making units, and give advice on the most appropriate organization form. Farmers' organizations should be able to inform on different types of commercial cooperation, including

- How best to organize "informal cooperation"
- How best to organize and register formal cooperatives (including "ready to use" constitutions)
- How best to organize and register companies (including "ready to use" constitutions)
- Which possibilities there are to get funding (including "ready to use" loan applications)

We recommend the SCC Guide to Starting an Agri-Business.

Whichever market information is demanded should of course be supplied to the best of the Organization's ability. This is a very clear sign that farmers are really engaging in looking for money.

6. ENGAGE IN MONEY MAKING ENTERPRISES.

For a farmers' organization to make money from agriculture serves at least two purposes; it generates income to support the operations of the organization and it (usually) supplies farmers with marketing channels and/or input supply.

The credo for farmers' organizations going into business should be the same as for anyone: go for the profit.

Any engagement should efficiently utilize whatever assets the organization has. This usually means very little capital, and lots of market (supply) knowledge.

One business form for which this set of assets is perfect is Brokerage, which stands out as one of the potentially most efficient and lucrative (and hence appropriate) enterprises a district level farmers' organization can get involved in. Typically, sectors like Commodity Brokerage, Transport Brokerage should be of interest, but any area where the Organization has an information advantage must be considered. We recommend the SCC Guide to Brokerage for Farmers' Organization.

The above mentioned assets are also suitable for a consultancy business. Consultations may on the other hand be among the things that members of a farmers' organization expect to have paid for through membership fees.



SWEDISH COOPERATIVE CENTRE

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