Farm planning and management for trainers of extension workers

ASIA

TRAINING MATERIALS FOR AGRICULTURAL MANAGEMENT, MARKETING AND FINANCE

3

Module 4
PLANNING FOR THE MARKET

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Module 4
PLANNING FOR THE MARKET

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Food and Agriculture Organization of the United Nations
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PLANNING FOR THE MARKET

This volume has been designed
as a complete working package which includes all components
of the training programme needed for Module 4.

The "trainers information box",
at the beginning of each session, lists the handouts,
training slides and exercises needed for that segment of the course.
The trainer's guide, in the section "steps for instruction",
suggests a sequence for the use of these training materials.
Mini-versions of all slides are provided at the end of each session.

PLANNING FOR THE MARKET

Farmers and extension workers must learn how to plan for the market in order to increase profitability. Market-oriented farming begins by determining what buyers want, in what form and when they want it. The market dictates what to produce. Production and marketing are closely interrelated and both aspects affect the performance of the farm business. This module covers planning for the market while the next module deals with enterprise and farm budgeting and planning which also have to be considered for the planning process.

Making planning decisions

This unit looks at the process of farm planning. Farmers are concerned about the future. Some of the questions that farmers ask themselves when planning the enterprise and the farm are:

- *What crop should I produce?*
- *What area of land do I need?*
- *How much should I produce?*
- *Where should I sell the produce?*
- *When should it be produced?*
- *How much labour will I need?*
- *Do I have enough cash to buy inputs and materials?*

Farmers usually determine by themselves what farm enterprises to engage in, but there is a role for the extension worker to assist the farmer in making planning decisions. For this to occur the extension worker must understand the process of planning.

Preparing for session 4.1.1
The farm planning process

Teaching methods
Presentation, group discussion,
list steps in farm planning

Duration: 30 minutes

Learning support materials
Handout 4.1.1 (The farm planning process),
Slide 54 (Procedure for developing a farm plan)

Notes

The farm planning process

Knowledge of the farm planning process is relevant in providing direction to production and marketing activities. The intent is to place the farmers in the best possible position to make decisions about the future in such a way that efficiency and profitability are increased while meeting "buyers" needs. This session discusses farm planning as well as the steps involved in the process.

Objectives

At the end of the session participants are expected to:

- understand the stages of the planning process;
- show how farm planning summarizes the resources available and the enterprises to be carried out on a farm.

Key points

1. The farm planning process outlines or summarizes the resources available and the type and volume of production to be carried out.

2. The planning procedure involves six steps:

    - formulating goals and objectives;
    - preparing a farm resource inventory and assessment;
    - identifying opportunities and preparing an action plan;
    - preparing enterprise budgets and selecting the most profitable;
    - preparing a "whole" farm budget and action plan;
    - putting the plan into action.

Steps for instruction

1. Distribute Handout 4.1.1 (The farm planning process) before the start of the session.

2. Explain that the concept of planning is forward looking (short term or long term) and is often strategic in nature.

3. Initiate a discussion among the participants on the importance of planning for farmers and how it is usually conducted.

4. Explain the steps involved in farm planning with the aid of Slide 54 (Procedure for developing a farm plan).

5. Explain that farm planning is different from planning a regular business enterprise. This is because of the scarcity of resources in agriculture as well as the greater risks found in farming.

Evaluation: (i) review objectives in relation to key points, (ii) refer to Handout 4.1.1.

Notes

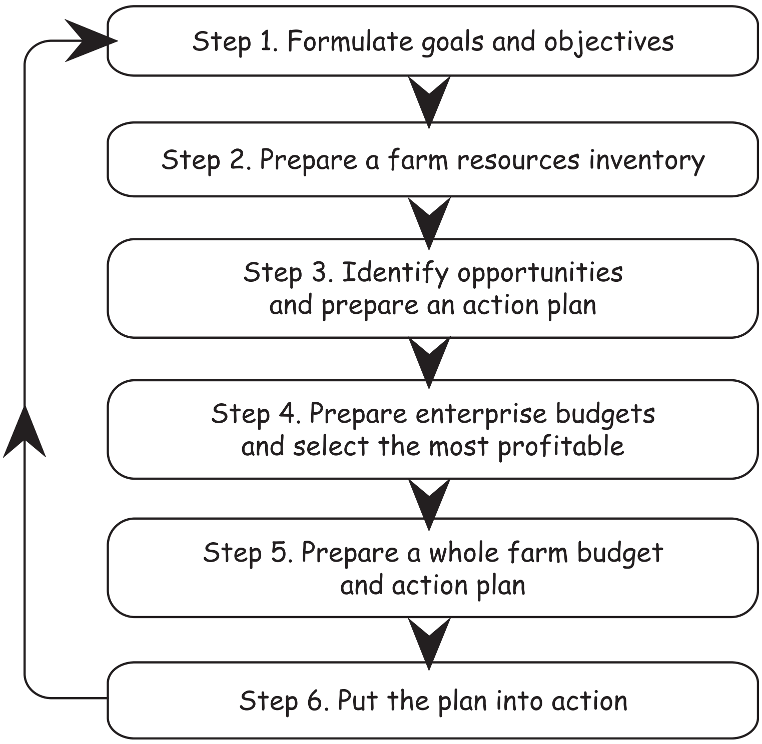
The farm planning process

Planning means working things out before they happen

Planning is one stage in the process of making decisions. Farmers often plan for their forthcoming season, or in some cases the plans may be for a number of years.

There is no single and unique strategy to guide farmers in the proper choice of enterprises to be included in the farm plan. Usually farmers determine by themselves what farm enterprises to engage in, but farmers can be influenced in their decisions by their experience, family members, neighbouring farmers and extension workers. Nevertheless, there are ways to facilitate some of the common decisions taken by farmers (i.e. whether or not to produce a particular enterprise, in what combination and at what scale). Steps in the planning process are shown below.

The farm planning process



Farm planning is understanding your resource base ...

Steps in the farm planning process

Step 1
Formulate goals and objectives

Begin by identifying the farm household goals and listing the priorities of the farmer. The farmer is the manager of the farm business. Farmers should decide on the objectives as well as on their capacities and interests to manage certain crops or livestock. This may simply consist of a single goal, for example, maximization of profit or competing goals such as increased profit and food security. The goals reflect the farm family preferences.

Step 2
Prepare a farm resource inventory

Draw up a list of resources available to the farm family. Any proposed plan must fit in with the available land, labour and financial capital at the disposal of the farmer. It must also consider the farmer's ability as a manager. It is no good trying to make a change that requires more resources than the farmer can acquire.

The farmer should be encouraged to produce a map of the farm that marks out the current crops and a record of the soil type and conditions. The farmer should be able to assess the physical area of land available for each plot as well as common land for grazing and forestry. Previous crop yields should give some idea of the quality of the land. The land record will also serve as a guide of which crops are suitable and in what area they may be grown, and also suggest what yields to expect. At this stage the farmer should identify problems, such as soil erosion, that refer to the land.

A list should also be drawn up of available labour. This should include an estimate of the amount of labour available to the farm family and labour that can be hired. In some situations labour sharing opportunities could be mentioned. Also note available capital (physical and financial). It will include the savings of the farm family and an estimate of money that can be borrowed if credit is available.

The inventory process may also indicate weaknesses in the management of the business, for example, because of excessive debt, high variable costs, depreciation and the use of labour. The resources available set a limit on the plans that are possible. Usually only one of these resources is a major limitation on what can be produced and the profit that can be earned. It is important to decide which resource is likely to be the major limitation.

Step 3
Identify opportunities and prepare an action plan

This step starts with a careful assessment of buyer demand. Even if the resource inventory shows that certain crop and livestock enterprises are technically feasible, enterprise identification must take into account market opportunities. The market appraisal should include an assessment of the demand for the product, the marketing arrangements and probable prices that can be attained, availability, cost and quality of purchased inputs, and transportation and storage of the final product. Some ideas and suggestions for activities can come from discussions held with family members, other farmers or extension workers — all of whom could provide important sources of new information.

... identifying opportunities and matching them to the market ...

The range of potential opportunities identified may be broad, but could generally be reduced through a process of evaluation. The opportunities would be "short listed". Many of them might be rejected immediately because the farmer may not be interested in them or because the farmer feels unable to manage them properly. Other opportunities may be rejected because there is insufficient land, labour or capital available to carry them out.

Step 4

Prepare enterprise budgets and select the most profitable

... appraising enterprise profitability ...

Assess the financial performance of the enterprises. It can be expressed through cost and income estimates for the different enterprises on a per hectare or per livestock unit basis. For many farmers the decision on what enterprises to include in a farm plan is based on personal experience and preference, together with considerations of comparative advantages of the different activities.

Often farmers do not change their farm plan on a regular basis, and slight adjustments and modifications are usually made to the existing enterprise combination. In this event, the planning process primarily focuses on preparing budgets of existing enterprises. However, farmers responding to market changes may decide to introduce new enterprises, and these would need to be budgeted out to assess their contribution to farm income.

Step 5

Prepare a whole farm budget and action plan

After the enterprise gross margins are calculated, budgets for the whole farm can be drawn up. Some farmers may even prepare alternative farm plans and then select the best and most appropriate. The whole farm budget checks the effect of changes in the cropping pattern and the introduction of new enterprises on the economic viability of the farm. The gross margin for each enterprise would need to match the volume of physical resources available to the farmer and decisions taken as to the most viable enterprise for each land parcel on the farm.

This would require reconciliation between physical characteristics of the resource base, market opportunities, use of other resources (labour and capital) available to the farmer and individual preferences of the farm family. This is often a process of trial and error. Once the enterprise combination has been selected, the overall gross margin and whole farm income is assessed. The latter would require the preparation of an inventory of the fixed asset requirements. The difference between the overall gross margin and the fixed costs provides an estimate of whole farm income.

Prepare an action plan taking into account physical and financial aspects of the farm plan. This should include an assessment of land suitability and enterprise selection, planned crop rotations, a calendar of operations, schedules of supplies required, an assessment of farm investments, labour profiles, cash flow projections and enterprise budgets.

... and translating the plan into action

For a new farm, or a large-scale change in an existing farm system, a complete budget is necessary. For smaller changes in the farm system only variable costs are affected, and a partial budget may be a sufficient guide.

Step 6
Put the plan into action

The last and most important step is to translate the plan into action. Once the farmer selects what is considered to be the best plan, it is time to put it into operation. If tree crops and livestock are included in the plan, this may take a long time, because these enterprises do not reach full production for several years. If new enterprises are introduced, the farmer may have to learn new skills and working methods to manage the enterprise effectively. Once the new plan is fully established it should run smoothly without too many management problems. The period during which the plan is put into operation is usually the most difficult and requires very careful management.

Training slides
for Session 4.1.1
The farm planning process

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54 Procedure for developing a farm plan

Step 1. Formulate goals and objectives

Step 2. Prepare farm resources inventory

Step 3. Identify opportunities and prepare an action plan

Step 4. Prepare enterprise budgets and select the most profitable

Step 5. Prepare a whole farm budget and action plan

Step 6. Put the plan into action

The process of marketing

This unit explains marketing and looks at why marketing is important. It highlights some of the problems found in marketing agricultural produce in Asia. This is followed by a description of the marketing system and alternative marketing channels found in the region. The unit concludes with an explanation of how to calculate the costs of marketing at different stages in the marketing system and stresses the importance for farmers individually or as groups to plan for the market. This is an integral part of the farm planning process described in the previous unit.

Marketing is the key to a successful farm business. Farmers can improve their skills in marketing by understanding how the market functions, collecting market information, formulating marketing strategies and planning for the market. Farmers have always made decisions about what, how and when to produce and where to sell their produce. Further knowledge of the marketing process and planning for the market would greatly help farmers sell their produce and increase farm income.

Preparing for session 4.2.1
The why and what of marketing

Teaching methods
Lecture, trainer/participant interaction, group discussion

Duration: 30 minutes

Learning support materials
Handouts 4.2.1a (The why and what of marketing), 4.2.1b (What is supply and demand?), Slide 55 (Why is marketing important?), Slide 56 (What is marketing?), Slide 57 (Marketing services), Slide 58 (Three important elements of marketing), Slide 59 (Supply and demand), Slide 60 (Supply and demand and price), Slide 61 (Farmers as “price takers” and “price makers”)

Notes

The why and what of marketing

Marketing is an important part of any successful farm business. However, many small-scale farmers cannot take advantage of existing and potential market opportunities because they do not have sufficient marketing skills and access to knowledge about markets. This session looks at the "what" and "why" of marketing. Marketing is defined and its importance is placed in the context of increasing urban populations in the region. The concept of supply and demand is discussed as well as the basic principles of marketing. The session goes on to discuss the marketing services involved in moving agricultural produce from the point of production to the point of consumption.

Knowledge of marketing is important. With an effective marketing strategy, farmers often can make greater profits. The importance of marketing in a constantly changing environment cannot be overemphasized. There is a need for farmers and extension workers to recognize its importance, otherwise their efforts to increase efficiency in production and overall farm profitability will be wasted. The movement of products from the producer to the consumer is as important as production itself.

Objectives

At the end of the session, the participants are expected to:

- understand why a market oriented focus to farm business management is needed;
- understand the importance of marketing services and how they are part of a continuum that stretches from farm production to the buyer.

Key points:

1. Populations are continuously growing. People are rapidly moving from rural areas into towns and cities, increasing the number of people that need to be fed by the farming community. As incomes rise in towns and cities, tastes and preferences for food also change among consumers. Farmers must learn to produce for this changing market, and they need to become more competitive and profitable.

2. Marketing is an important part of this process. It connects what the buyer wants with what farmers can supply. Farm products gain value once they leave the farm and are exchanged for money.

3. Buyers can also be final consumers, buying produce for family consumption. Alternatively, buyers may also be processors or retailers purchasing to resell at a higher price.

4. Marketing is the process of exchange between the farmer who sells and the buyer who buys. The exchange mechanism of selling and buying depends on price determination. Price is the exchange value of a product measured by money.

5. Prices change as a result of changes in supply and demand.

6. Farmers are mostly "price takers" although with greater differentiation of products they could become "price makers".

7. Marketing consists of three main elements: (i) the priority of the buyer, (ii) selection of market outlets, (iii) building up a good relationship with buyers.

8. Marketing is a series of tasks and services involved in post-production that includes moving produce from the farmgate or the point of first sale to the point of last sale or purchase. The services involved consist of:

- producing
- harvesting
- assembling
- grading
- sorting
- packaging
- transporting
- distributing
- storing
- selling and buying
- processing
- retailing
- market identification
- financing

Steps for instruction

1. Distribute Handouts 4.2.1a (The why and what of marketing) and 4.2.1b (What is supply and demand?) before the start of the session.

2. Explain why marketing is important and that farm planning should start from the market. Make reference to the increasing population that is occurring in Asia and the greater need for food. Point out that the small-scale structure of Asian agriculture also requires greater efficiency and a response to market demand. The changes require farmers to have the skills to be more market oriented in their production. Within this context explain why efficiency in marketing is important. Show Slide 55 (Why is marketing important?).

3. Initiate a discussion with participants about some of the changes occurring in their local areas with respect to the supply and demand for agricultural produce. Ask them to provide reasons why marketing is so important.

4. Show Slide 56 (What is marketing?) and discuss this with the participants. Using Slide 57 (Marketing services) define the series of services involved in moving the product from the point of production (the farm) to the point of consumption. Discuss why the various services are needed and stress that their performance entails costs that are added to the price of the product.

5. Using Slide 58 (Three important elements of marketing) explain to the participants the following: (i) the priority of the buyer, (ii) the process of selection, (iii) the need for relationship building.

6. Refer to Handout 4.2.1b (What is supply and demand?). Explain the role of supply, demand and price using Slide 59 (Supply and demand) and Slide 60 (Supply and demand and price). Explain how price is determined and the supply and demand factors that influence price change. Show Slide 61 (Farmers as "price takers" and "price makers") and explain the difference between the two. Discuss these different roles and have participants draw examples from their field experiences.

Evaluation: (i) review objectives in relation to key points, (ii) refer to Handout 4.2.1a and 4.2.1b.

Notes

The why and what of marketing

As populations are growing rapidly in Asia, more people are moving to towns and cities in search of employment. Changes as to where people live and what they do create new opportunities for farmers. At the same time, the increased distance between the farm and the market requires products to be delivered to these markets in a regular and reliable way. This requires farmers to become more skilled in marketing and to become more market oriented.

Population increases result in greater demand

Asian small-scale farmers have small and often fragmented pieces of land. These farmers frequently find it difficult to make enough money to support themselves and their families. But some small-scale farmers manage to produce more than the household or family needs and they have difficulty selling surplus produce. Many small-scale farmers have limited access to market information and markets. Limited access to market information means they have little knowledge of alternative products that can be produced. Through marketing, farmers can increase their options and make better use of their limited resources to earn greater incomes.

Farmers need to identify high income enterprises with market opportunities

Some small-scale farmers are changing their farming systems according to the demands of the market. These farmers have managed to survive and be profitable by introducing higher value enterprises into the farming system. Some have even begun to specialize in high value enterprises. Typical examples are dairy, chicken, fruit, vegetable and flower enterprises.

Marketing is an important part of any successful farm business. It connects what the buyer wants with what producers (farmers) can produce and supply at a profit. Marketing can identify new demands and farmers, through diversification of product and services, can satisfy them. Marketing tells the farmer what to produce and how to make products and services available to buyers in the most desirable and efficient way. Through linking production with marketing, small-scale farmers can learn what adjustments they must make in their production system to better meet buyer demand.

What is marketing?

Marketing is the process of exchange between the farmer who sells and the buyer who purchases the produce. Buyers can be final consumers who buy for their own personal or family consumption or, alternatively, for further processing or reselling (processors, wholesalers and retailers). The exchange takes place because the buyer has something the farmer wants, and the farmer has something the buyer wants. The buyer has cash that the farmer values. The farmer has produce that the buyer values.

An exchange can take place when the two sides agree on an exchange rate (price) at which farm products can be exchanged for cash. Price is the exchange value of a product measured by money. Understanding how prices are determined calls for an understanding of how the free market works. Within a competitive market situation, prices are determined by supply and demand.

Marketing connects what the buyer wants with what farmers can produce

In the "real market", however, prices are often determined through simple bargaining between the buyer and seller. Sellers try to obtain the highest possible price while buyers aim at paying the lowest prices. Information on supply and demand often influences the price outcome of the negotiation.

Marketing is a complex activity for farmers. It involves finding out what buyers want and producing it at a profit. Thus, connecting what the buyer wants with what the farmer can produce and supply. In other words, marketing tells the farmer what and how much to produce and how, when and where to deliver it. Farmers then use this information to make the products and services available to the buyer in the most desirable and efficient way.

Market prices are determined by supply and demand

Marketing is part of a process that includes a range of tasks and services such as:

- producing
- harvesting
- assembling
- grading
- sorting
- packaging
- transporting
- distributing
- storing
- selling and buying
- processing
- retailing
- market identification
- financing

With an effective marketing strategy, farmers can ensure continuing profits. For marketing to be successful, all participants in the process must make a profit. Farmers will only grow crops and raise livestock beyond their immediate needs and provide goods for sale when they think they can earn a profit in doing so. The same is true of the traders, processors and distributors: They will provide only if they can make a profit.

Three important elements of marketing

1. **The priority of the buyer**. Marketing begins not with the product, but with what the buyer wants. This requires some market investigation. There is no point in producing something that buyers do not want. Farmers need to understand what buyers really want.

What most buyers really want

Quality	Attractive products
Low price	Good taste
Uniformity of produce	No pest damage
Sufficient quantity	Good packaging
Consistency	A wide selection
Freshness	Clean produce
Nutritious food	Accessible produce
Healthy food	

2. **A process of selection.** The farmer should decide to whom to sell. The product has to be geared to the buyer. The buyer could be a wholesaler, a retailer or a final consumer in the market. This element of marketing determines how and where the product is sold. A consideration is, of course, the costs involved with each option and the need to make profit.

3. **Relationship building.** Good marketing includes working with the buyers — whether they are traders or final consumers. Buyers should not be cheated. Strong relationships need to be built up with the buyer. This means that agreements will be honoured and commitments to supply products will be kept. It means delivering consistent qualities. Trust between the farmer and buyer must be built and nurtured.

What are marketing services?

Marketing includes the different services involved in moving produce from the farm to the point of consumption. The services involved consist of:

- assembling the products in small quantities from a large number of scattered producers;
- sorting the products into various sizes, degree of ripeness and other similar characteristics;
- packaging to make handling easy and prevent loss because of bruising;
- transporting the products to the place wanted by the consumers;
- storing the products after harvest for future consumption;
- selling and buying when the products are bought and sold and change ownership several times;
- processing the produce in suitable form for human consumption, such as paddy into rice, rice into noodles, milk into butter and flour into bread;
- retailing or distribution of the produce to several retailers who in turn sell to the consumers;
- other marketing services that include provision of risk taking and financing to finance market operations.

The tasks of marketing are many

Notes

What is supply and demand?

In a market-oriented system the price of a product is determined by supply and demand. The market price is the balance between the two.

Supply is the amount farmers are willing and able to market at a certain price

Supply. Normally the higher the price of a product, the more of a product will be supplied. A high price will encourage a farmer to add this enterprise to the farm. A low price will discourage the farmer from growing a crop. If the farmer produces tomatoes, and the price increases, this would encourage him to extend the area of his land under the crop. The higher price would encourage the farmer to increase the supply of tomatoes.

Demand. The lower the price of a product the more a consumer normally demands. If the market price is high, consumers reduce their purchases. If tomatoes are very expensive, consumers may substitute by buying other vegetables. If they are cheap, consumers will buy more. The higher the price, the less tomatoes are demanded.

Demand is what products buyers are willing and able to buy at given market prices

Changes in supply and demand

Supply and demand are, therefore, influenced by price as well as other factors. These are described below.

The common factors affecting supply are:

- seasonality of production;
- changes resulting from climate;
- attacks on farm enterprises;
- civil disruption;
- price of the product;
- change in the cost of production;
- improved techniques;
- expansion of a crop under cultivation;
- changes in profitability of competitive products.

Seasonality of production. At peak season there are more tomatoes supplied than at off-season times.

Changes resulting from climate. Supply also varies from year to year. Changes in production frequently occur as a result of good or bad weather, which could decrease or increase the quantity supplied. Bumper harvests usually decrease prices, poor harvests usually increase prices. In these cases, the level of production is not affected by the price of tomatoes but by climatic changes.

Attacks on farm enterprises. The incidence of pests, diseases, fire as from other events can decrease the supply.

Civil disruption. War, strikes, civil unrest, and other economic situations can reduce supply by preventing tomato production or preventing tomatoes reaching the market.

Price of the product. If the market price is high, farmers will increase their production. If the market price is low, farmers will probably decrease their production.

Change in the cost of production. A decrease in the cost of inputs or the introduction of more efficient technologies would decrease the cost of production. This makes it possible for the farmer to buy more inputs and thereby possibly increase production at the same cost of production. As a result more tomatoes could be supplied at the old price. Conversely, an increase in the cost of labour employed on the farm would have the opposite effect.

Improved techniques. Improvements in technologies, such as the introduction of high-yielding varieties, could increase the level of production (and supply) resulting in a decrease in product price.

Expansion of a crop under cultivation. Other farmers may be convinced to plant tomatoes because of the prospect of greater profits. This increase in the amount of land under tomatoes will increase the supply of tomatoes.

Changes in profitability of competitive products. Changes in the profitability of competing products can also cause a change in supply. If some farmers in a region produce spinach, a competing crop for tomatoes, which is more profitable than tomatoes, farmers will gradually shift their system towards the more profitable crop. This change would lead to a decrease in the supply of tomatoes.

There are also changes that occur that make consumers demand either more or less tomatoes at each price. In other words, the level of demand could change. For example, a farmer could join up with other farmers to promote their sales of tomatoes. They might advertise the good quality, freshness, availability at times of the year when tomatoes are not usually found in the market. This may appeal to consumers. If so, this could lead to increased demand for tomatoes.

Demand can change for the following reasons:

- price of the product;
- a change in the number of consumers;
- an increase in income;
- a change in the prices of products that are close substitutes;
- availability of competing products;
- a change in taste;
- increase in the demand for complementary products;
- expectations of future price changes or shortages.

Price of the product. If the market price is high, consumers will reduce their purchases. If the market price is low consumers will probably increase their consumption.

A change in the number of consumers. Additional people coming into the market would also increase demand, especially if tomatoes are a prominent part of the diet. Development projects, housing development and other programmes often cause people to move to the area of development. This could increase the number of consumers in that area.

An increase in income. If there is an all round increase in income, people would be able to afford more tomatoes and demand would rise.

A change in the prices of products that are close substitutes. Suppose spinach is a substitute for tomatoes. If the price of spinach decreases, consumers may prefer to purchase spinach instead of tomatoes. Even though there may have been no change in the price of tomatoes, the demand for it could decrease

Availability of competing products. If a wider range of competing products come onto the market, consumers have a wider choice. This may lead to less demand for tomatoes. This lower demand may lead to lower prices, which could cause demand to increase again.

A change in taste. A promotional campaign aimed at persuading consumers to purchase more tomatoes at the same price could also increase demand for tomatoes. Similarly changes in demand may come from changes in consumer tastes that take place gradually over time as a result of changes in diet. Alternatively, any fear that tomatoes may be contaminated would decrease it.

Increase in the demand for complementary products. The demand for tomatoes may increase as the demand increases for products that use tomato as an ingredient (for example, tomato ketchup, paste and juice).

Expectations of future price changes or shortages. The fear that the price of tomatoes may rise considerably the following week will motivate people to increase their demand and stock up on tomatoes.

Some of these changes could be immediate, such as changes in the prices of substitutes or competing products. Others are longer term, taking place gradually over an extended period. Long-term changes might be changes in population, changes in income and changes in tastes.

The relationship between supply and demand and prices of products can be quite complex. A change in the price of one product can affect the demand, and in turn the price, of an entirely different product. Supply is likely to fluctuate much more than demand. Market prices are affected more by changes in production than by changes in demand.

It is important for farmers to understand the relationship between supply and demand. This will help them decide on a price for their products in most situations. When farmers plan they need to know what prices to expect. When they sell they need to know what prices they can charge.

Farmers as "price takers" and "price makers"

Price takers accept the going market price ...

Many farmers produce in a competitive market where there are many buyers and sellers. In farming, the number of sellers is large relative to the number of buyers, and farmers often have to accept the going market price, making them price takers. Their marketing challenge is to cope with the fluctuations in supply and demand during the year. In such an environment, successful marketing means selling as much as possible at higher prices. Because an individual farmer's production is small relative to the number of farmers growing the same crop, they cannot influence the price in the market.

... price makers set the price of the product

In some situations, however, the farmer may not be a price taker but a price maker, setting the price of the product, because the market may not exist or may be very small. This is true for specialized products such as organics produced for "niche" markets. But the extent to which they can do this is limited. This limit is set by the farmers producing competitive or similar products.

Notes

Training slides
for Session 4.2.1
The why and what of marketing

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55 Why is marketing important?

**With rapid population growth
people are moving from rural to urban areas
greatly increasing the need for food in towns and cities**

**As incomes rise in towns and cities requests for food
(e.g. tastes and preferences) also change among consumers**

**Farmers must learn to produce for this changing
market and to become more competitive and profitable**

*This process requires farmers
to become more skilled in the marketing of their product
and to become more market oriented*

56 What is marketing?

Marketing is the process of exchange between the farmer who produces and sells and the buyer who purchases

Buyers can be the final consumers or those who purchase for resale (i.e. rural agents, processors, wholesalers, retailers)

Marketing is a means of finding out what buyers want and what farmers can provide and supply at a profit

Marketing tells the farmer what and how much to produce and how, when and where to deliver it

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57 Marketing services

Marketing is part of a process that includes ...

Producing
Harvesting
Assembling
Grading
Sorting
Packaging
Transporting
Storing
Processing
Distributing
Selling

Products may be bought and sold and change ownership many times during the process

For marketing to be successful all participants in the process must make a profit

58 Three important elements of marketing

The priority of the buyer
Farmers need to understand what buyers really want and this requires some market investigation

The process of selection
The farmer should decide at what level to sell (wholesaler, retailer or final consumer in the market)

Relationship building
Strong relationships of trust between the farmer and buyer must be built and nurtured (this will ensure that agreements are honoured and commitments are kept on both sides)

Module 4, Unit 4.2, Session 4.2.1

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59 Supply and demand

Supply is the amount farmers are willing and able to market at a certain price

Supply is affected by a number of factors such as prices of products in market, inputs and costs of production, technological factors, climate and imports

Demand is what products buyers are willing and able to buy at given market prices

Demand is affected by a number factors such as prices of products, buyer preferences, buyer income, prices of similar products and range of products available

Module 4, Unit 4.2, Session 4.2.1

60 Supply and demand and price

The price of produce is set
on the balance between supply and demand

As the price of a product rises,
the quantity that will be supplied also rises
and the quantity that is demanded falls

If the price falls,
the supply will fall but demand will rise

However short-term price changes can be affected
on specific day-to-day sales in particular markets areas

Module 4, Unit 4.2, Session 4.2.1

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61 Farmers as "price takers" and "price makers"

Price takers
Many farmers produce in a competitive market
where the number of sellers is large
relative to the number of buyers, and the farmers
often have to accept the going market price,
making them **"price takers"**

Price makers
In some situations the farmer may be able
to set the price of the product because
the market may not exist or it may be very small
(e.g. high-value or specialized products)
and they may become **"price makers"**

Module 4, Unit 4.2, Session 4.2.1

Notes

Preparing for session 4.2.2
Production and marketing problems

Teaching methods
Group discussion, trainer/participant interaction, class training exercise, question and answer period, further group discussion

Duration: 60 minutes

Learning support materials
Handout 4.2.2 (Production and marketing problems), Slide 62 (Small-scale farming in Asia), Training exercise 10 (Marketing problems and solutions)

Notes

Production and marketing problems

It is important to recognize some of the problems and issues confronting the small-scale family farm in Asia. This session describes the physical, economic and production characteristics of small-scale farming that affect marketing there.

Objectives

At the end of this session the participants are expected to understand some of the issues facing the emerging commercial farmer and the challenges that remain in promoting commercial, market-oriented farming.

Key points

1. Market-oriented farming is affected by problems that arise from the structure of farming (e.g. small-scale production, prevalence of risk, seasonality of production).

2. Because production varies with the season, marketing situations vary. When prices are high producers have nothing to sell, and when prices are low they have more to sell.

3. In Asia there are many farmers producing different types of products, often of low quantity and scattered over a wide area. Production needs to be consolidated for more efficient marketing.

4. Farmers have limited marketing knowledge and access to market information.

5. Many Asian countries have complex marketing systems, which often result in market inefficiencies.

6. Other limiting factors are: (i) poor infrastructure facilities, (ii) the low investment capacity of farmers, (iii) the wide range of products sold, (iv) the wide range of consumer demands.

Steps for instruction

1. Distribute Handout 4.2.2 (Production and marketing problems) before the start of the session.

2. Initiate a discussion with the participants on the nature of small-scale farming and some of the common marketing problems that farmers face. The trainees should be encouraged to draw on their field experience. Show Slide 62 (Small-scale farming in Asia) and discuss the relationship between small-scale farming and marketing in Asia.

3. Distribute Training exercise 10 (Marketing problems and solutions). Instruct participants to form groups around a selected commodity (one per group) and ask them to answer the following questions: (i) Identify the main marketing problem(s) related to the selected enterprise; (ii) What could be the type of advice you, as an extension worker, would give to the farmer in order to address these problems? (iii) What information would you require? (iv) How would you collect the information? (v) What would be the source of data? Discuss the results.

Evaluation: (i) review objectives in relation to key points, (ii) refer to Handout 4.2.2, (iii) refer to Training exercise 10.

Notes

Production and marketing problems

Farmers in Asia experience both production and marketing problems when orienting their farming towards the market. Some of the common problems found in the region are:

- small-scale production;
- high risk of farming;
- seasonality of production;
- limited availability of labour;
- lack of marketing knowledge;
- lack of access to marketing information;
- complex marketing channels;
- poor or no infrastructure facilities;
- limited investment capacity;
- wide range of products sold.

Farmers in Asia experience common problems when producing for the market

Small-scale production. Many of the farms in Asia are small, usually less than a hectare. These are often scattered in different areas. Production is limited in volume, and individual farmers cannot sell their produce in distant markets at a profit because of the high costs of marketing. Without receiving a good return (profit) for produce sold, farmers are unlikely to be convinced to increase production and quality.

High risk of farming. Farm production deals with biological processes (i.e. plants and animals that live and die). Weather, especially drought, often determines what can be produced, when and in what volume and quality. Products produced are also often highly perishable. The very nature of these products requires better handling and management as well as ways to reduce the risks associated with farming.

Seasonality of production. Because of the prevailing physical and climatic conditions, crops are planted and harvested at more or less the same time during the year, exhibiting distinct seasonal quantity and price variations. Planning of production to avoid market glut is not commonly understood by many farmers. There are risks involved in off-season planting but these could be reduced with the availability of suitable off-season varieties and improved management practices. This seasonality of production has left farmers with nothing to sell when prices are high and more to sell when prices are low.

Limited availability of labour. The availability of household or hired labour influences the farm family's ability to intensify or diversify agricultural production. Small-scale farms may have access only to household labour, some of which is devoted to subsistence production. The interaction of the family members in the production and marketing process needs to be fully understood and recognized. In developing marketing plans, one must ensure that adequate labour is available, especially if production and marketing activities are expected to increase. Seasonality of labour supply and distribution of tasks by gender are important factors affecting marketing.

Lack of marketing knowledge. Many farmers have very little exposure to competitive markets and marketing. Therefore, they are unaware of the needs and requirements of these markets and the role they play in determining price. This can be seen by the lack of appreciation of the quality, size, appearance and packaging of products, which play a major role in the market, in addition to a lack of understanding of the vulnerability of supply and demand situations, and of the costs and risks involved in marketing the produce.

Lack of access to marketing information. The availability of reliable information about market demand, desired product characteristics, alternative distribution channels and pricing is very important. Lack of information restricts the small farmer's ability to maximize income. Small farmers commonly do as their neighbours do because they have no other source of information. This behaviour frequently results in oversupply of a product and low returns to producers. Price and market information are sometimes provided by traders who come to the village to buy produce or by government market information services.

Farmers need information from the market that will allow them to make the appropriate changes in farming activities. Without proper information, farmers probably cannot adjust production or the product to make use of marketing opportunities.

Complex marketing channels. In many countries in Asia, marketing activities provide a major source of employment for a great number of people. Large numbers of people perform complex marketing functions resulting in the loss of efficiency. For example, products are procured by village traders, assembled by township traders, transported by other traders to wholesalers, sold to wholesalers in the wholesale market, then to retailers who in turn sell to the final consumers. Each participant in the distribution system incurs costs, losses and wastage, and of course each participant wants to make a profit.

Poor or no infrastructure facilities. Many farms, especially in upland areas, have limited access to markets because of a lack of road networks. Poor road systems inhibit investment in transport facilities for public use and for the marketing of produce. Farmers in marginal and remote areas of the region may be restricted by transport options and costs because of a lack of economies of scale. Transportation costs are often high, but they can be reduced with improved roads and by efficient collection and distribution systems. Lack of markets and/or processing facilities deprive the farmers of a good return for their produce.

Limited investment capacity. Many farms are limited in their capacity to generate a cash surplus that can be ploughed back into farming as an investment. When there is little cash income, the farmer's investment capacity is limited. Farmers often need credit in order to diversify production towards higher value crops and livestock products.

Wide range of products sold. The marketing of products would be simple if farmers produced one product or a limited number of products. However, there are many farmers producing different types of products, which are scattered in wide areas and produced in small volume. So the assembly of small quantities of products into bigger lots becomes necessary for efficient marketing.

When farmers in Asia are asked to identify their most pressing concerns, they usually list the following:

- low prices for produce sold;
- lack of market information;
- lack of expertise and information and also a shortage of extension officers to convey information;
- farmers produce low production volumes, often with quality problems, leading to poor returns;
- market flooding (oversupply) at specific times of the year;
- lack of local marketing outlets (e.g. roadside stalls);
- lack of technical expertise in packaging and grading;
- inconsistent supply of farm products;
- little contact between producers and buyers;
- lack of transport or the inability to pay for it;
- lack of storage facilities and pack-houses;
- low prices of equivalent imported items.

Notes

Unit 4.2 – Training exercise 10
Marketing problems and solutions

Task

Each group of trainees should select a commodity (one per group) and answer the following questions:

What are the main marketing problem(s) related to the selected enterprise?

What type of advice would you as an extension worker give to a farmer in order to address these problems?

(continued on the next page)

Training exercise 10 (continued)

What information would you require?

How would you collect the information?

What would be the source of data?

Training slides
for Session 4.2.2
Production and marketing problems

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62 Small-scale farming in Asia

Some of the problems found in the region are ...

Small-scale production
High risk of farming
Seasonality of production
Limited availability of labour
Lack of marketing knowledge
Lack of marketing information
Complex marketing channels
Poor or no infrastructure
Limited investment capacity
Wide range of products sold

Preparing for session 4.2.3
Marketing channels, margins and costs

Teaching methods
Brief presentation, group discussion, trainer/participant interaction, draw diagram of marketing system commodity, further group discussion, summarize and draw conclusions

Duration: 150 minutes

Learning support materials
Handout 4.2.3a (Marketing channels, margins and costs), Handout 4.2.3b (Options for marketing produce), Slide 63 (Market types), Slide 64 (Marketing system and marketing channels) Slide 65 (Marketing costs), Slide 66 (Value-adding activities), Slide 67 (Marketing margins)

Notes

Marketing channels, margins and costs

This session provides a discussion of the marketing process and the channels and costs involved at each stage as they relate to farmers' decisions. It also explains how and why in many instances consumers pay high prices but farmers receive so little.

Understanding marketing channels, marketing margins and marketing costs enable farmers to examine how they can increase their returns from marketing.

Objectives

At the end of the session, the participants are expected to:

- understand the channels that farm products usually go through during the marketing process;
- understand the concepts of marketing costs and how they can be calculated to assist farmers in making more informed decisions.

Key points

1. The marketing channels describe the various stages in which the product passes from the time it leaves the farm until it reaches the buyer.

2. The price the farmer receives for a product depends on the length of the channel, the nature of the product, the distance of the farm to the market centre and the selling price of that product in the market.

3. The more complex and lengthy the marketing system, the higher the marketing costs. Simple comparisons of farmer and retail prices are a poor indicator of marketing efficiency.

4. Marketing costs may be high because many services are required. They may also be high if few services are needed, thus making the cost of each service higher.

5. The main types of costs involved in marketing are:

   - product preparation
   - packaging
   - handling
   - transport
   - produce losses
   - storage
   - processing

6. Processing of products is a common way of adding value to them.

7. There are both variable and fixed costs involved in moving products from the farm to the buyer.

8. The marketing margin is the difference between the price of the product at any two stages in the marketing process.

9. Margins may be high because of the size of the return that goes to the traders who are performing the marketing services.

10. Profits may be high if traders have low competition and can dictate the buying and selling price of produce in the market.

Steps for instruction

1. Distribute Handouts 4.2.3a (Marketing channels, margins and costs) and 4.2.3b (Options open to farmers for marketing produce) before the start of the session.

2. Promote discussion among the participants on the types of markets that they are familiar with, and ask them to discuss the differences in these markets. List some of their observations on a posterboard. Illustrate the discussion with the aid of Slide 63 (Market types) and describe briefly the different markets.

3. Show Slide 64 (Marketing system and marketing channels) and clarify the distinction between the two terms. Have the participants draw a diagram of the marketing system (from suppliers to final consumption), using a commodity of their choice. Allow time for discussion.

4. Refer to Handout 4.2.3b for a more thorough discussion of the different channels. Elaborate in greater detail the different marketing channels and discuss the channels typically found in the country or region.

5. Explain the concept and breakdown of marketing costs and illustrate with Slide 65 (Marketing costs). Encourage the participants to give their own examples of these costs.

6. Show that, generally, the more complex and lengthy the marketing system, the higher the marketing costs. Explain that there are several costs incurred by farmers and/or traders in moving agricultural produce. Point out that marketing costs consist of both fixed and variable costs.

7. Explain that a simple comparison of farmer prices with retail prices is a poor indicator of marketing efficiency because marketing costs are not taken into account.

8. Discuss processing costs and introduce the concept of value adding. Show Slide 66 (Value-adding activities). Have the participants discuss whether value-adding activities are always likely to result in better prices and higher profits.

9. Emphasize that marketing costs play an important role in determining the size of the marketing margin. Show Slide 67 (Marketing margins).

10. Conclude the session by emphasizing that the development of a marketing system that provides a broad selection of products at the right time and place is a major challenge that needs to be addressed. Point out that the extension worker has an important role to play in this.

Evaluation: (i) review objectives in relation to key points, (ii) refer to Handout 4.2.3a and 4.2.3b.

Notes

Marketing channels, margins and costs

Market types

Farmers often have a number of options of where to sell their produce. They can sell directly to buyers on the farm (at the farmgate), by the roadside (street hawking) or alternatively to wholesalers, processors and retailers. Farmers may take produce directly to a local village market or, alternatively, to sell in a town. These are some of the options open to farmers. Very often the choice depends on the distance of the farmer from the market, the cost of using each alternative and the ultimate profit that can be earned.

Choice of market depends on costs of marketing and profit earned

Farmers that produce higher value and more specialized produce can sell to supermarkets, hotels and catering companies. Alternatively, produce can be sold to traders who export to international markets.

But few farmers can sell their own products in large city markets unless they live close to them. Even fewer can sell their produce at a point of contact with international markets. These markets are too far away. Small-scale farmers rarely have the knowledge to contact buyers in those markets. They may not have the means to transport produce to those markets and often do not have the facilities and skills needed. The volume of production is often not large enough to justify performing post-harvest operations, and it may even be inefficient for them to do so.

Most smallholder farmers in Asia must sell their products at the farm or in the local market. Therefore, their incentive to produce commodities for sale, rather than only for their own subsistence, depends upon the prices they can get locally. These prices depend partly on the efficiency of the marketing system linking local markets to those in the city.

Marketing system and channels

The different steps involved in moving produce from the farm to the buyer is generally called the *marketing system*. All transfers of produce involve marketing activities in some form, and all these activities incur costs.

Marketing channels are the various stages through which the product passes from the time it leaves the farm to when it reaches the consumer. The distance from the farmer to the consumer determines the number of stages through which the product passes. The shortest channel is where buyers buy directly from farmers. But in farming areas where produce has to be transported to distant markets, the number of channels increase. In general, more perishable products are shipped to nearby markets and pass through fewer market channels. The length of the channel then depends on a combination of factors, such as the nature of the product as well as the distance from the farm to market.

Marketing channels in Asia tend to be long

Typically in Asia, marketing channels tend to be very long. Farmers sell their produce to rural traders. Rural traders transport the goods to a rural warehouse, where produce is often forwarded to urban warehouses. Produce is then sold to retailers who in turn sell to final consumers.

Although most farmers market their produce locally, the more entrepreneurial farmer may choose from a number of marketing channels. These are:

- market directly from the farm to the surrounding communities and traders;
- supply processing units (e.g. juice industries, bakeries and breweries);
- supply various retail outlets, construction companies, fishing companies directly;
- market through farm or market stalls;

- sell through contract markets, such as government feeding programmes, schools, hospitals, retail contracts, hotels, restaurants and tourism outlets. The extension officer is ideally situated to broker these contracts on behalf of groups of farmers who may lack the connection and knowledge to do so;
- market produce from door-to-door;
- add value to their own produce and distribute it through the various marketing channels mentioned above.

These channels are described in more detail in Handout 4.2.3b.

Marketing costs

All transactions along the marketing system entail costs. At the simplest level, the cost involved may just be the time taken by the farmers to walk to a nearby market and stay there until all of the vegetables are sold. At the most complex level, a product may be stored for long periods, transported long distances and processed several times before reaching the form in which it is finally sold.

Why, in most Asian countries, is the price of a product in a shop or retail market often so much higher than the price paid to the farmer? The costs involved in marketing are not always fully understood. We can understand that traders or processors spend money on transport or packaging, but there are many other less obvious costs.

The costs involved in marketing are not always visible and understood

These costs are not always visible, and those people doing the marketing are often believed to be making too much profit. People look at prices traders pay farmers and compare them with prices consumers pay for the same product and assume that the farmers and consumers are being exploited. Sometimes, of course, traders do make high profits but many times they make small profits or even losses. Clearly, unless they make an overall profit, traders will not want to continue in business. This is bad for both consumers and farmers.

The first cost of marketing is product preparation

Generally, the more complex and lengthy the marketing system, the higher the marketing costs. A farmer who lives 5 km from a market will normally receive a higher share of the final price than one who lives 20 km away because of lower transport costs. A producer of a perishable crop, such as tomatoes, is likely to receive a lower share of the final price than the producer of a non-perishable crop, such as pumpkins, because some of his crop may be rotten by the time it reaches the market. In comparing farmer and final consumer prices, we need to be fully aware of all the costs involved.

The main costs involved in the marketing channel are:

- product preparation
- packaging
- handling
- transport
- produce losses
- storage
- processing

Product preparation. Preparation activities are sometimes undertaken by the farmers themselves. In some contexts these tasks are shared between farmers and traders. They include:

- cleaning, such as removing soil and foreign matter, brushing feathers on poultry and skins on cows;
- trimming to remove unwanted leaves, stems or roots;
- sorting to remove rejects and non-marketable produce;
- curing meats with onions and garlic;
- grading to separate produce into similar sizes and qualities before packaging, thus increasing the market value of the produce;
- waxing and wrapping, as with oranges for example, to preserve the produce and make it more attractive to the buyer.

Packaging. Most produce needs packaging. Packaging serves to: (i) provide a convenient way of handling and transporting produce, (ii) provide protection for the produce, (iii) make the produce more attractive to the buyer.

Poor quality packaging may increase losses and costs

Clearly, the more sophisticated the packaging, the greater the cost. Fruits and vegetables may be packed and repacked several times on their way from farmer to consumer, depending on the length of the marketing chain. Different forms of packaging can be used (e.g. sacks, boxes, plastic crates). All these various types of packaging involve costs and need to be taken into account when working out the costs of marketing.

While packaging is a major cost, the costs of trying to save money on packaging often exceed it. Poor quality packaging may result in product damage. It may also make the product less attractive to buyers, reducing the price they are willing to pay.

Example
Packaging cost calculations

Assume that oranges are packed 20 kg at a time in wooden boxes that can be used for 10 trips with occasional repairs. A box costs $10, repairs and cleaning during its life cost $2, and transporting the box back empty to the producing area costs $1.

The packaging cost per trip is ...

([Original cost + Repairs] ÷ Trips) + Transport when empty

($10 + $2) ÷ 10 trips + $1 = $2.20 per 20 kg
and $2.20 ÷ 20 kg = $0.11 per kg

With the use of bulk packaging, efforts are made to reuse the packages. In this situation an estimate has to be made of how many times the container is used in order to calculate the cost per journey. Allowances must also be made for repairs and for the cost of transporting the empty package back to the beginning of the marketing chain.

Handling costs when added together can be significant

Handling. At all stages in the marketing system, produce will have to be packed and unpacked, loaded and unloaded, put into store and taken out again. Each individual handling cost will not amount to much, but the total of all such handling costs can be significant.

The following illustrates a farmer—wholesaler—retailer—consumer marketing channel with a typical example of the handling process:

- farmer or labourer loads produce onto ox-cart;
- labourer unloads produce at assembly market and the produce is weighed;
- wholesaler or an employee repackages the produce in the wholesaler's containers;
- produce is carried to and loaded on the wholesaler's truck;
- produce is unloaded at wholesale market and taken to premises occupied by the wholesaler employee and weighed;
- produce is unpacked and sorted or graded;
- produce is repacked in the retailer's containers;
- produce is carried to the retailer's transport;
- produce is unloaded at the retailer's store;
- produce is repackaged into plastic bags.

Poor handling by the farmer or trader can make the situation worse. When truckers are paid on a "per piece" basis, farmers and traders try to squeeze as much as possible into the package. This can be a false economy because the loss resulting from the damage can exceed the savings in transport costs. Produce can be damaged in transit by the constant shaking on bumpy roads, exposure to sun on top of a bus, high temperatures inside a truck or other vehicle. If a truck breaks down and has to remain at the side of the road for two or three days, the entire consignment could be lost. Delays and bad handling at the wholesale market can make things worse. For example, sometimes produce that has been well-packed by the farmer or the trader is simply thrown on the floor of the wholesaler's premises, causing further bruising and damage.

In some situations it is possible to get an accurate assessment of the handling costs involved. For example, porters at wholesale markets usually charge a fixed rate per box or cart. In other situations fixed charges are not made and costs per container need to be calculated.

Marketing of livestock is particularly sensitive to mishandling. Stress, fatigue and bruising must be avoided because they can reduce liveweight and ultimately the market price paid to farmers. Handling must be done with caution and care.

Transport. Transport costs are incurred by farmers when they take their produce to the market and by traders as they move the produce down the marketing system to the consumer. Transport costs include produce transported by boat, truck and rail. Sometimes transport costs are simple to calculate. Farmers may pay a set price per kilogram to transporters. Other times produce is carried on a "per container" basis. Farmers or traders may hire an entire truck and transport a variety of products.

Marketing costs differ significantly if the farmer has the possibility of selling produce at the farmgate. Sometimes, however, farmers feel that their income could be increased if produce is transported to the market.

Example
Transport cost calculations

Assume that there are 40 m^3 of space available in the truck to be used and that it costs $500 to hire the truck. A container of 0.2 m^3 holds 8 kg of tomatoes and a container of 0.4 m^3 holds 10 kg of green peppers.

The transport cost for tomatoes
per container and per kilogram is ...

$$\$500 \div (40\ m^3 \div 0.2\ m^3) = \$2.50 \text{ per container}$$
$$\text{and } \$2.50 \div 8\ kg = \$0.3125 \text{ per kilogram.}$$

The transport cost for green peppers
per container and per kilogram is ...

$$\$500 \div (40\ m^3 \div 0.4\ m^3) = \$5.00 \text{ per container}$$
$$\text{and } \$5.00 \div 10\ kg = \$0.50 \text{ per kilogram.}$$

Transportation costs can be reduced by cramming livestock into cages and pounds. However, farmers need to be aware that overcrowding of trucks and vehicles could ultimately be more costly because livestock mortality may rise and the final product may be damaged. When livestock is transported over long distances, it requires adequate feed, water and often exercise enabling it to reach the market in the same condition as when it started. While this increases transport costs, it is likely to ensure better market prices.

Transport costs are often hidden

If livestock are being transported “on hoof” to market (i.e. walked to market), it is good to plan the trip ahead of time and ensure that necessary arrangements for feed and water are made. Cost will decrease when livestock is transported by foot, but this depends on the distance from the farm to the market and the species of livestock in question. In short, adequate care is needed when transporting live animals.

Produce losses. Losses are common with agricultural produce marketing. Even if nothing is actually thrown away, products may lose weight in storage and transit. Most crops lose weight during transit and storage as the result of moisture loss. Losses as high as 10 percent per day often occur under tropical conditions. For livestock, weight losses can be very damaging on the market price of the animals. If there are no quantity losses, there can still be quality losses and this is reflected in the price at which produce is sold. The treatment of losses in marketing cost calculations can be fairly complex. Quality losses reveal themselves when the farmer or trader sells part of a consignment at a lower price than the rest. This could be the result of poor harvesting techniques and bad handling on the farm (bruising, exposure to the sun), which do damage even before the produce is sold to the trader.

Product losses can occur anywhere along the marketing chain

Example

Product loss calculations

The best way to treat losses is one that enables you to compare the quantity eventually sold with the quantity originally bought from the farmer. It gives the most accurate calculation and also means that the costs involved in packing, transporting, handling and storing produce that is eventually lost are included.

Assume that at 10 percent loss levels, 1 kg of tomatoes purchased by the trader from the farmer results in 900 grams (0.9 kg) available for sale to consumers. The trader buys tomatoes from the farmer at $5 per kg. Marketing costs are $2 per kg.

The selling price of tomatoes is $8 per kg ...

1 kg purchased at $5 per kg =	$5.00
1 kg packed and transported at $2 per kg =	$2.00
Total costs =	$7.00
Income from sales = $8 x 0.9 kg =	$7.20
Thus the margin to the trader =	$0.20

Storage extends the period of availability of a product

Storage. Storage is carried out in order to extend the period of availability of a crop to consumers. In the case of staple food crops, long-term storage is of course essential. The harvest period may be just a few months, but the staple has to be consumed throughout the year.

Storage can be carried out by the farmer, the trader or the buyer. For more perishable crops, storage can be used to extend what are often very short periods of availability. However, this is only viable when the produce can be sold after storage at a price higher than the in-store price, with the difference fully covering the costs of storage, as well as offering an incentive to take the risk of loss. Storage costs fall into four categories:

- costs associated with the physical operation of the stores, that is, the actual cost per kilogram that must be paid to place the produce in the warehouse or cold store. Such costs are made up of factors, such as depreciation on the building, security costs, electricity and other utility costs, and maintenance;
- costs associated with the maintenance of the product quality while it is in store (e.g. the cost of chemicals);
- costs associated with loss of quality and quantity while the produce is in store;
- financial cost to the owner while produce is in store.

The biggest single factor affecting storage costs is capacity utilization. Where a store is used frequently to full capacity, costs per unit will be low. Where one is kept empty for much of the time, costs will be high.

Where commercial storage facilities are used, it is relatively simple to work out physical storage costs incurred by traders, because they will be charged on a fixed basis (e.g. kilogram per day, box per week, tonne per month). The cost per kilogram for the period of storage can then be worked out.

There will usually be quantity losses while produce is in store. This may be deliberate (for example, when grain is dried so that it will store better) or accidental because of bad storage. With fresh produce, some quantity loss is almost inevitable no matter how efficiently it is stored. Physical losses in storage need to be treated as costs. Quality losses are also inevitable, and for the trader these are reflected in the prices received.

Example
Storage cost calculations

Assume that a store is hired for 120 days of the year at a total cost of $600 and that the weighted average contents are 250 bags of potatoes.

The storage cost is ...

$600 ÷ 120 days = $5.00 per day
$5 ÷ 250 bags = $0.02 per bag per day

Marketing costs can be reduced by creating formal or informal marketing groups for farmers. This is often advantageous, particularly for small-scale farmers. Many farmers market their produce and pay the costs for transport, handling and storage themselves. By forming farmer groups, economies of scale are often realized and marketing costs are reduced. Farmer groups not only ensure cost reductions but they also strengthen the farmer's bargaining ability, reduce risks and ensure easier access to credit.

Processing (adding value to products). Processing products is a very common way of adding value to them. As agriculture becomes more commercial, such processing tends to be more and more in the control of commercial farms, making it very difficult for farmers to add value for themselves. However, in more traditional agriculture on-farm processing is done often.

Processing adds value to a product and potentially increases income

Adding value to products can benefit both farmers and farmer groups in a number of ways. Some of these are:

- increases the profit margin to offset transport costs from the rural areas to the lucrative markets;
- increases shelf-life of the product;
- provides family or farmer group labour;
- transport factor may be reduced completely if the improved product has a local market. For example, cassava cake might find a ready market in the community and thereby reduce the farmer's costs dramatically. Avocado or mango may be made into ice desserts.

Examples
Value-adding activities for various products

Product	Activity
Bananas	Graded, packaged, chips, dried, cooked
Coconuts	Brooms, syrup, milk, candy, jam
Eggs	Graded and packaged
Fruits	Candied, fermented dessert
Nuts	Candied, ceremonial figures
Pork	Slaughtered, sliced
Cassava	Bagged and transported to markets, crisps, snacks Fried, candy, pudding, starch, grated and wrapped, dough
Vegetables	Graded, packaged, transported to end user/market Graded, pre-packed, dried, semi-prepared, bottled, candied

Marketing margins

The marketing margin is the difference between the price of the product at two different stages in the marketing process. The price difference between the farm and wholesale levels is called the *farm-wholesale margin*, while the difference between the price received by the farmer and the price paid by the consumer is called the *farm-retail margin*. The size of the marketing margin depends on the magnitude of the marketing costs and the amount of profit that buyers or traders make.

Product prices change at different stages in the marketing process

If the margin is large, it is often because the marketing costs are high. Marketing costs may be high because more services are required. Alternatively, if only few services are rendered, the costs of the services themselves may be high. For example, people with high incomes often prefer products presented in attractive packaging and sorted into various grades. These requirements result in higher costs.

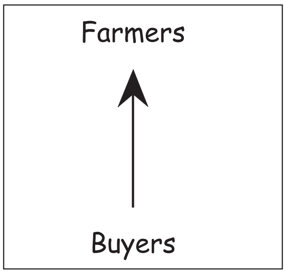
Higher costs can also be traced to poor road infrastructure. The inadequate road system results in high costs of fuel and the maintenance of vehicles, as well as higher losses as a result of damage to produce while in transit. Transport costs may also be high because of the small volume of the produce marketed. Lack of marketing training and poor management also increase marketing costs. Another source of high cost is lack of price and quality information on the part of the buyers.

Notes

Options for marketing produce

This handout discusses some of the options that small-scale farmers have when deciding on the best marketing channel to use. It should be remembered that marketing channels in Asia are usually long, and small-scale farmers often do not possess the skills, ability and resources to select some of these channels. The advantages and disadvantages of each potential marketing channel needs to be assessed.

Farmgate marketing



Marketing by farmers on farm

As the name implies, this is marketing done by the farmer at the place where the product is produced. Buyers come to the farm to buy produce. Generally there is no limit to the type of produce that may be marketed in this manner as long as there are buyers willing to come to the farm.

The **advantages** are:

- There are no transport costs.
- Produce can be sold by the farmer, thus costs are reduced even if prices may be lower.
- It is better suited to the small-scale farmer.

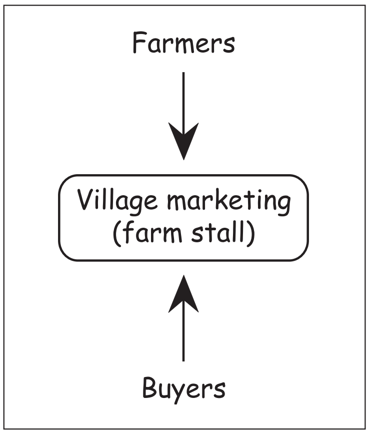
The **disadvantages** are:

- The farmer has to accept the local price for produce.
- The farmer may not be well-located to sell the product.

Farmgate marketing is common in the traditional small farming sector. However, once the local market's demand is supplied, the farmer has to look to more distant markets.

Village marketing

Marketing by farmers at village level



This channel goes some way towards taking the product to the buyers. At its most simple level, farmers or farmer groups may operate a farm stall selling their own produce. It can also be that a single individual stallholder may sell on behalf of local farmers or farmer groups. Generally, the type of product that can be marketed on a farm stall is perishable, such as fruits and vegetables. However "processed" foods, such as pickles and jams, are also suited to this type of marketing.

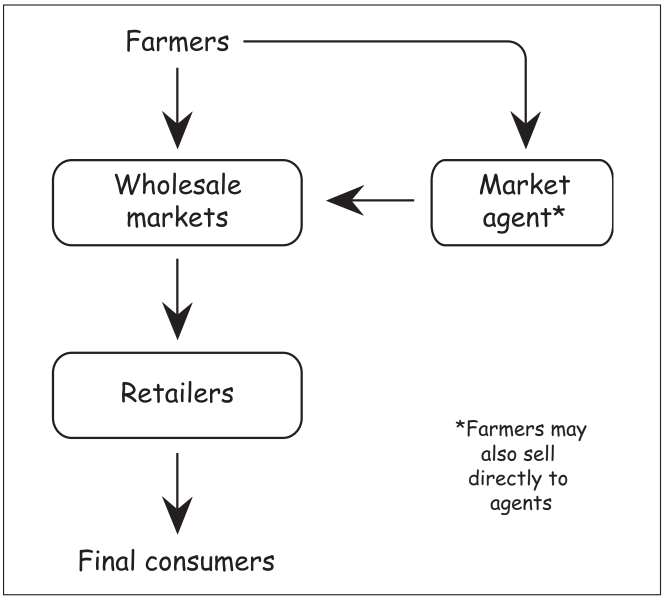
Farm stalls have the following **advantages:**

- More buyers can be reached.
- Farmers can take advantage of more favourable prices.
- Price fluctuations are generally small.

The **disadvantages** are:

- Transport of the produce may be difficult on uneven roads, if the farm is far from the village.
- The quality of the produce may have to be higher because the consumer in the market may be fussier.
- A constant supply of produce must be available to satisfy the needs of the market.

Produce or assembly markets



__Farmers sell produce at wholesale markets__

These markets are set up in larger centres mainly for the sale of vegetables and fruit. They usually cater to larger producers and, in turn, supply larger urban centres through traders who buy in the assembly market and take the produce to an urban wholesale market. The quantity of supply of a particular grade of produce has a significant affect on the price obtained.

The **advantages** of this type of marketing are:

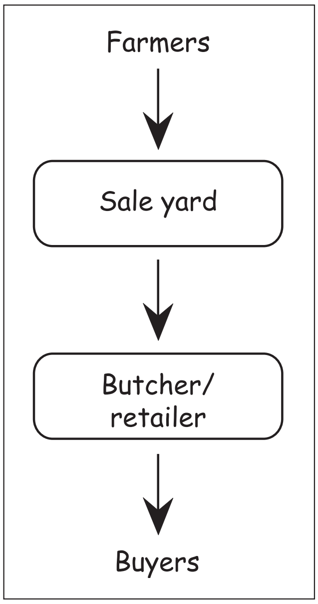
- Farmers can take advantage of higher prices in times of short supply, if they have produce available.
- The market is able to sell large quantities of farmers' produce.

The **disadvantages** are:

- Quality, packaging and presentation are very important, and produce must conform to accepted grade and packaging standards.
- Farmers need to be sure they can cover the higher marketing costs.

Auction system

Farmers take livestock to auction



The auction system is where the sellers offer animals for sale and buyers offer a price for the animals. The seller may decide whether or not to accept the price offered by the buyer.

The prices received are not fixed. To a large extent, prices reflect the supply and demand position, both locally and within the entire market. Pigs, cattle, goats and other animals are commonly marketed this way.

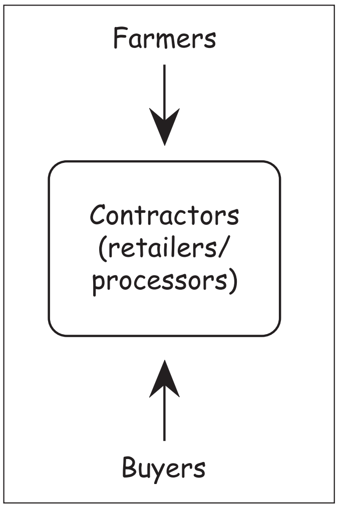
The **advantages** of the auction system of marketing are:

- Promotion is done on behalf of the farmer.
- Payment by the buyer is guaranteed.
- The market is larger than the local market.
- Small farmers have access to these sales.

The **disadvantages** are:

- Sellers may not get the price that they want.
- Prices may be lower than market price.

Contract marketing



Farmers produce under contract

Here the farmer sells directly to a contracter at prices, quantities and qualities agreed upon in advance.

The **advantages** of contract schemes are:

- Marketing margins could be reduced and thus the producer could obtain a higher price for the product.
- The volume of sales is guaranteed to the farmers.

The **disadvantages** are:

- Farmers must ensure they have sufficient produce to supply the buyer/retailer at all times.
- The quality of the produce must be high at all times.
- If the farmers cannot meet the needs of the retailer, the farmers will have to buy-in produce to make up the order of quantities required.

Notes

Training slides
for Session 4.2.3
Marketing channels, margins and costs

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63 Market types

Farmers have a number of options to market produce

They can sell **on the farm** (farmgate)
by the road side (stalls or hawking)
or to **rural traders** who buy in rural areas

They can take their produce to a
local village market or a **town market**
or to a **large urban market**

They can sell to **processors** or **wholesalers** or **retailers**
and the farmers who produce high-value or specialized products
can sell to **supermarkets**, **schools**, **hotels** or **catering services**

64 Marketing system and marketing channels

Marketing system
Steps involved in moving produce from the farm to the buyer

Marketing channels
Stages through which the produce passes from farm to consumer

The distance from the farmer to the consumer determines the number of stages through which the product passes

Although most farmers market their produce locally, entrepreneurial farmers may choose other channels ... assembly markets, auction systems, contract marketing

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65 Marketing costs

Product preparation
(cleaning, trimming, sorting, curing, grading, wrapping)
Packaging
(convenience, protection, marketing attractiveness)
Handling
(all movements in the farmer-to-consumer channel)
Transport
(by farmers and all trader movements in the channel)
Production losses
(poor handling, product damage, weight loss)
Storage
(operation of stores, maintenance of products in store)
Adding value by further processing (see Slide 66)

66 Value-adding activities

Product	Activity
Bananas	Graded, packaged, chips, dried, cooked
Coconuts	Brooms, syrup, milk, candy, jam
Eggs	Graded and packaged
Fruits	Candied, fermented dessert
Nuts	Candied, ceremonial figures
Pork	Slaughtered, sliced
Cassava	Bagged and transported to markets, crisps, snacks Fried, candy, pudding, starch, grated and wrapped, dough
Vegetables	Graded, packaged and transported to end user/ market, and graded, pre-packed, dried, semi-prepared, bottled, candied

Module 4, Unit 4.2, Session 4.2.3

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67 Marketing margins

The marketing margin is the difference between the price of the product at two stages of the marketing process

The difference between farm and wholesale levels is called the **farm-wholesale margin**

The difference between the price received by the farmer and the price paid by the consumer is called the **farm-retail margin**

Large margins are often caused by high marketing costs and profits earned by traders who perform marketing services

Module 4, Unit 4.2, Session 4.2.3

Preparing for session 4.2.4
Planning for the market

Teaching methods
Lecture, group discussion, list key questions, class training exercise, group presentation and further discussion

Duration: 120 minutes

Learning support materials
Handout 4.2.4 (Planning for the market), Slide 68 (Planning requires understanding the market), Slide 69 (Questions to be addressed), Slide 70a (Defining the market) Slide 70b (Matrix of constraints and opportunities), Training exercise 11 (Preparing a marketing strategy)

Notes

Planning for the market

This session explains the need to plan for the market, its advantages, formulation of a marketing strategy and data requirements. It discusses the role of extension workers to assist farmers in formulating a marketing strategy that responds to buyers' needs.

The participants should be knowledgeable of why planning for the market is necessary and understand the process of developing a market plan. This enables the farmer with the assistance of the extension worker to study the needs and preferences of consumers in advance and then to supply the produce that buyers want at a price in line with the effort and cost of production. This should ensure a successful business venture.

Objectives

At the end of the session, the participants are expected to:

- understand how to plan for the market;
- understand the stages in formulating a market strategy;
- recognize the important elements of a successful marketing plan;
- learn the process of developing a strategy to plan for the market.

Key points

1. Planning for the market starts with understanding the needs and preferences of final consumers or buyers and formulating a strategy for attracting them.

2. Planning should address questions such as: (i) Who is the buyer? (ii) What does the buyer want? (iii) Is this product in demand? (iv) Are other farmers providing the same product? (v) How can demand for the product be created? (vi) Can the farmer effectively compete in price and quality?

3. Planning for the market should generate information on:

   - understanding the organization of the market;
   - identifying what products buyers want;
   - knowing when the market wants the product;
   - assessing how much of the product the market wants;
   - identifying market location and new or potential buyers;
   - selecting the most appropriate distribution channel;
   - knowing where to sell the products;
   - determining the market price;
   - identifying competing supplies;
   - ensuring quality;
   - selecting the most appropriate form of packaging;
   - planning production to meet market demand.

4. Planning should answer these questions:

   - What is the market?
   - What products does the market want?
   - Is the market aware of the supply?
   - When does the market want the product?
   - How much of the product does the market want?
   - Where is the market?
   - What is the most appropriate distribution channel?
   - How does the market want the produce delivered?
   - What is the market price?
   - What are the terms of payment?

5. The steps in planning for the market are to:

   - Assess the current market situation (demand and supply sides).
   - Analyse constraints and opportunities.
   - Develop the marketing strategy.

6. Constraints and opportunities analysis can assist farmers to formulate a marketing strategy.The marketing strategy consists of different ways of selling and pricing produce.

7. Planning for the market is useful for successful and profitable farming because it:

    - identifies what the buyers want;
    - lets the farmers know how much product they can sell;
    - helps the farmer to plan better for production;
    - advises the farmer what to do to make enough money to repay debts and to make a profit;
    - identifies competitors and shows farmers what they are good at through a comparison with other farmers in other areas;
    - identifies new crops to grow;
    - discovers weaknesses in the overall business plan.

Steps for instruction

1. Handout 4.2.4 (Planning for the market) should be distributed to the participants before the session.

2. Begin the session with an explanation of what is meant by planning for the market, the information that needs to be collected and its use to the farmer. This should stimulate discussion among participants.

3. Explain that the central factor in a successful marketing plan is to know the likes, dislikes and expectations of buyers. Show Slide 68 (Planning requires understanding the market). Discuss other elements that may be important for the preparation of a marketing plan.

4. Discuss a good marketing plan using Slide 69 (Questions to be addressed). Show how these questions can be addressed when preparing a marketing plan. Note that if the plan does not address solutions to these questions it should be revisited and modified.

5. With the aid of Slide 70a (Defining the market) point out the three steps involved in developing a market plan: (i) assess the current market situation, (ii) analyse constraints and opportunities, (iii) develop marketing strategies.

6. Show Slide 70b (Matrix of constraints and opportunities) and explain how extension workers and farmers can help identify opportunities by reviewing the existing situation.

7. Distribute Training exercise 11 (Preparing a marketing strategy) among the participants. Divide the participants into groups of 4—5. Have each group select either one or two of the enterprises or products listed. Instruct them to prepare a marketing strategy for their product(s). Upon completion have each group discuss their strategy.

Evaluation: (i) review objectives in relation to key points, (ii) refer to Handout 4.2.4, (iii) refer to Training exercise 11.

Notes

Planning for the market

Farmers must understand the needs and preferences of buyers before they begin farming. Planning for the market involves identifying the buyers or final consumers, knowing what they want and outlining a strategy to satisfy them. Simply put, if consumers and buyers are satisfied, farmers are more likely to generate income to continue their farming operations, repay debts and ultimately make profits.

Identify buyers and ways to attract them ...

Planning for the market really means understanding the market and its opportunities. This begins with a thorough knowledge of the products to be produced and of potential buyers. Knowing who buys and why, are the first steps in understanding how best to sell. It calls for identifying the products with good market potential, identifying who are the potential buyers and competitors, what are the volumes and quality requirements, what is the schedule of delivery, what are the prices offered or set and what are the terms of payment. In some cases planning for the market may also involve drawing up a contract or agreement with purchasers.

... assess volume and quality requirements, and schedule of delivery ...

Preparing a concrete marketing plan can be complex for an individual farmer. This is particularly true when a farmer decides to diversify production by introducing a new crop or livestock enterprise. The farmer is unlikely to succeed because economies of scale in marketing cannot be realized. Farmers would benefit by marketing as a group. A marketing plan could be very useful to them in this situation. In all events the extension worker has a necessary role to facilitate both the individual farmer and groups of farmers, and assist them in formulating strategies and planning for the market.

... identify prices offered, and determine terms of payment

Understanding the buyer is the first step in understanding how best to sell

Based on these considerations farmers should develop a marketing strategy that identifies the product to be produced, understand whether there is competition and, if so, from where it comes and identify changes in the marketplace that are likely to affect farm profitability.

What information is required?

A marketing plan for a product or a group of similar products should answer the following questions:

- Who will buy the produce?
- What does the buyer want?
- Is this product in demand?
- Are other farmers providing the same product (both locally and farther away)?
- How can demand for some products be created?
- Can the farmer effectively compete in terms of price, quality and delivery?

These are some of the questions that should be addressed through the marketing plan. A good marketing plan begins with thorough knowledge of the products to be produced and of potential buyers. Knowing who buys and why, are the first steps in understanding how best to sell.

To be successful, planning for the market must generate information on:

- understanding the organization of the market;
- identifying what products buyers want;
- knowing when the market wants the product;
- assessing how much of the product the market wants;
- identifying market location and new or potential buyers;
- selecting the most appropriate distribution channel;
- knowing where to sell the products;

- determining the market price;
- identifying competing supplies;
- ensuring quality;
- selecting the most appropriate form of packaging;
- planning production to meet market demand.

If there is already a market for selected farm products, the best opportunities for small farmers to increase their income are in these existing markets. By far the most important thing for small farmers to know is what the market wants now (i.e. what is currently being bought and sold).

The following sections examine the items outlined above that should be reviewed in order to improve marketing.

What is the market?

It is necessary to identify and understand the demand for a product in order to determine the main characteristics of the market. For example, the market for tomatoes can be the demand for this product in the local villages as a food item that complements the diet. This demand can be met by other vegetables as well.

Identify and understand the demand for a product

The market for tomatoes is also the demand in the local, export and international markets. Tomatoes may be produced at off-season times where a market niche exists. There can also be a market for processed tomatoes as juice or canned or as paste. In this way the market can be seen to be a complete set of factors that form the demand.

In order to fully satisfy the demand, it is necessary to understand where and for what there is a demand. It is much different to develop and deliver products for a local fresh market than it is to produce raw materials for an industrial market, although the basic product might be the same.

What products does the market want?

Select products that are sure to satisfy buyers

The market generally wants products that are currently being bought and sold. The requirements of buyers must be completely understood and incorporated into the daily operations of farmers who intend to compete in that market. Markets can and do change and new products can catch on, but this often takes time and implys a degree of risk.

Markets will already have well-established standards of quality, grading, packaging and prices. Farmers must be aware of these standards to be able to sell their products and maximize their profit. For example, proper grading must be strictly followed because products of inferior quality will bring a lower price. Products brought to the market by new suppliers must also respect the standards commonly accepted by consumers.

Is the market aware of the supply?

While the sale of basic commodities normally does not benefit from promotional activities, new products or products from new sources may need promotion. Information on the conditions under which they can be supplied may also be needed. This is especially true of specialized and differentiated products.

New products and products from new sources may need promoting

The buyer must be made aware of the volume and location of the produce available, standard quality of the product and seasonal changes in volume or quality. The sale terms and conditions, which may vary over time because of the financial constraints, must be made clear to both buyers and sellers. For example, the sellers may agree to let the buyers pay over a long period of time during the middle of the harvest period but require immediate cash payment at the beginning of the harvest when the farmer will need capital.

The need to promote products also may vary according to harvest/supply conditions. Marketing a well-known product from a new source will likely require some promotion. This is especially true for marketing a product of fairly standard quality. Promotional activities may have only limited success if a product or service is similar in quality and price to competing items. Within informal markets, product and price information transmitted by word-of-mouth may be the only promotion required for product sales.

When does the market want the product?

Small farmers tend to have limited choice about when to sell a given product because this is often determined by the harvest season, climatic factors beyond their control, lack of storage facilities and cash needs. Under these circumstances the market tends to respond by paying higher prices for scarce, out-of-season produce and lower prices during the harvest period. Some products have specific periods of demand during the year according to tradition and customs, while others, especially raw materials for processing, are in demand throughout the year. Cultivation practices, post-harvest treatment, stocking and storage of products (e.g. lengthen the availability of supply or adjust the harvest period) to target a specific market demand should all be analysed in terms of probable costs compared with likely benefits through higher prices.

Higher prices are paid for scarce and out-of-season produce

How much of the product does the market want?

The volume of produce sold in the market reflects current demand. The market also determines the best size for units of trade (e.g. bundles or boxes) and the best method of transportation at various levels of handling. Seasonal factors affect harvest and transportation and often determine how much of a product can be delivered to the market.

The volume of produce sold reflects current demand

Access to different markets involve different costs

Select channels that are economically viable and best fit client demands

Where is the market?

The marketplace refers to any location where buyers and sellers come together and communicate with one another and where commercial transactions take place. It may be the local village and town market, or larger supermarkets in cities.
The market is the physical location where product, price and service information is exchanged that leads to actual purchase.

Access to different markets (i.e. from local to international) will often involve varying requirements and costs to farmers and producers. Benefits will also vary. For example, selling fruit at the farmgate to a trader eliminates the producer's costs of transportation to the marketplace. At the same time, the farmer's profit margin may be lowered when dealing with only one trader because the trader determines the price for the produce.

Access to the international markets often requires the development of the necessary linkages prior to production including further processing and other intermediate steps. Because of the accompanying related costs, normally only medium- and large-sized agribusinesses are able and willing to perform what is required to enter this market.

What is the most appropriate marketing channel?

The different channels available to farmers must be analysed and evaluated to determine the ones that best fit the client's needs while being economically viable. Different channels may be required at different times during harvest or crop period. For example, perishable fruit may be marketed and delivered directly to wholesalers and supermarkets at the beginning of the harvest when supplies are limited, and directly to agro-processing companies during the middle of the harvest when supplies are plentiful.

Marketing channels are not only used to identify the markets and to sell the products, but also to transfer marketing information between the producers, and the intermediate and final consumers. Each buyer has requirements for raw materials or processed goods that suppliers try to identify more accurately and satisfy better than their competitors. The successful producer learns how to meet product demand, provide quality services, meet delivery schedules and grant favourable payment arrangements so that buyers are satisfied.

The choice of marketing channel and the level of the channel to target must reflect the buyer's preference and be more efficient than the alternatives. With this information they can decide which channel or level in the supply chain will satisfy the client and still provide the grower with the best profit.

The best distribution channels are those that satisfy the consumer and provide the highest income to the farmer

The size of the farmer's operation and its location may also determine which channel or channels are most effective. Traders and other intermediaries may provide an important service for small producers scattered over a large area by getting their products to market in a more efficient manner than the producers could do themselves. However, if the farmers harvest enough produce and deliver directly to retailers in an efficient manner, and more cheaply than through the established system, they could then sell their products directly to the consumer and thus gain the extra profit.

Some product characteristics, such as perishability, often determine which channel can reach the market most efficiently and satisfy consumer demand. Proper collection and analysis of data from the market will indicate the best channel.

The best distribution channels are those that satisfy the consumer and provide the highest income to the farmer. Most smallholders sell through many channels, including directly to consumers in local marketplaces, to trader or buyers' agents and to local associations or cooperatives. Transportation requirements of certain products will affect the choice of distribution channels.

How does the market want the goods delivered?

Delivery channels are the direct or intermediate paths along which products move for processing or directly to the consumer. Larger commercial farmers often deliver directly to local consumers. But they may also deliver to local retailers and merchants and even to agro-industrial buyers. Being able to establish and maintain delivery channels may depend on the producers' ability to meet deadlines with a prearranged quantity and quality of goods. The specific market to be served, the nature and diversity of products and the skill levels of the farmers may determine favourable access to a mix of delivery channels. How the buyer wants the product to be physically delivered must be considered.

What is the market price?

Market price is the price at a specific location and at the time the product is traded

The market price is the price at a specific location and time at which products and services are being traded. As previously shown, it changes in response to variations in supply and demand. Prices often incorporate premiums and discounts based on volume, type of payment and conditions of sale. Perishable foods tend to be priced lower at the end of the business day than in the morning. Lack of overnight storage facilities and the poorer quality of stock remaining may force the seller to reduce prices in the evening.

Pricing must be adjusted to buyer demand. Wholesale and retail pricing, discounts for quantities, terms of sale and credit requirements must take into account existing trade practices and prices in the market. The new supplier to the marketplace must know the price levels and policies not only to present the product in a manner acceptable to the ongoing trade but also to recognize any clear advantages that could be offered to the consumer.

What are the terms of payment?

Payment can be made in various ways, including direct cash payment, checks or bank transfers. Finding out how payment is made or what is the common level of credit in the trade, is a critical part of the information gathering process of marketing. Conditions of payment and the credit needs of clients will determine the financing requirements for commercial operations. For instance, traders often arrange for farmers to pay them during their next visit, not immediately, and processors and supermarkets may wait up to one month before making a payment.

How should all this information be used?

Normally, small farmers do not have the information they need to evaluate the importance of individual marketing factors. As a result, they do not maximize their income. Small farmers need to increase their knowledge of marketing as a tool and build up their ability to use it. Group action is particularly effective because it is not practical to expect each individual producer to have the time, interest or ability to become knowledgeable about marketing.

Group marketing provides potential benefits and economies

Information on marketing is needed for two basic purposes, for short-term operational decisions and for long-term planning decisions. The short-term operational decisions deal mainly with issues related to coping with competition. For example, should farmers modify the quality of their products? Should different grades be supplied?

Long-term planning decisions include types of crops to be planted, the amount of processing undertaken on the farm and the size of processing and marketing operations in which to become involved. All these relate to problems and opportunities in the markets. Making wise decisions requires analysing the information about market opportunities and competition and critically reviewing one's own strengths and weaknesses relative to those of other suppliers. Investment decisions are based on long-term decision-making and on information from the markets.

The next step for the development of agriculture in Asia would be for farmers to integrate their production and match what buyers or consumers in local and urban markets want to buy. This is both a challenge and an opportunity. The first question the farmers must ask themselves is not "What can I grow?", but "What do my potential buyers want to buy?" This is a radical shift in emphasis, and extension workers need to guide farmers to understand the importance of this change.

Planning for the market

The purpose of planning for the market is to define the market and identify the buyers and competitors, outline a strategy for attracting and keeping buyers, and identify and anticipate change.

Planning starts by knowing the buyer

Planning for the market begins with a thorough knowledge of the products to be produced and of potential buyers. Knowing who buys and why, are the first steps in understanding how best to sell. Planning for the market should:

- assess the current market situation;
- analyse constraints and opportunities analysis;
- develop the marketing strategy.

The current market situation. This should define the general background on the market in which the product will be sold. It begins with a general idea of who the buyers are and what they want followed by anything else that describes the market in which the products would be sold (e.g. existing supplies and packaging preferences).

Constraints and opportunities analysis. Based on an assessment of the market opportunities, the farmer or farmer group identifies the constraints and opportunities that the farm faces and realistically evaluates the farm's internal strengths and weaknesses in dealing with its market situation.

The marketing strategy. Based on the analysis carried out above, the farmer draws up a plan to address the marketing objectives of the farm. The strategy should include a clear definition of buyers, their needs and the prices attained for produce sold.

Farmers can be assisted in analysing the possible strategies by listing constraints, solutions, opportunities and actions as shown below. This should enable the farmer, with the assistance of the extension worker, to appraise the worth of a farm enterprise by identifying constraints and possible solutions to problems in an effort to generate profits.

Matrix of constraints and opportunities

Constraints	Opportunities
• No local market • Poor transport services	• Potential exists for early crop production when supplies are short
Solutions	**Actions**
• Organize a local farmers' market • Encourage buyers to use their own transport	• Encourage growing early crops and develop appropriate production techniques

The solutions to marketing problems can often be very simple and may not require major changes in production or the introduction of new technologies. The marketing-production strategy should be as simple as possible. As part of the strategy the farmer should examine the combination of factors needed to satisfy the needs of the consumers and through them increase farm profits.

The overall marketing strategy could include a number of specific methods relating to sales and pricing. These are discussed in turn below.

Selling strategy

Farmers have several options in selling their produce. One way is to sell at the farmgate. Alternatively, the farmer could sell directly in the market. The choice of strategy, however, depends on the location of the farm relative to the market, the costs involved in marketing and the volume of produce to be sold. Some of the strategies that can be pursued by the farmer include selling by the roadside, contract growing, selling crops in the field and selling to institutional buyers, processors or exporters. The advantages and disadvantages of the different selling options have already been discussed in Handout 4.2.3b.

Pricing strategy

Farmers, in their quest to maximize profits, can embark on different pricing strategies depending on the nature of the product, the marketing channel selected and the point within the marketing system at which the farmer decides to dispose of produce. Some farmers, who are in the position to produce off-season products, could set their prices a little higher than those set by competitors because supply is limited. For farmers to take advantage of such markets, a marketing strategy may be formulated to differentiate production in order to obtain a higher price. This can be done by growing a new variety or producing a product of higher quality to be sold in specialized markets (e.g. mushrooms, improved compost, flowers, strawberries).

Regardless of whether the farm is small or large, the market-oriented farmer should put together a marketing strategy and develop a plan that responds to consumers' needs. Farmers aim at maximizing profits, while buyers aim at maximizing their satisfaction. Profits can be maximized by selling large quantities of a small number of products at the highest possible price. Buyer satisfaction can be maximized by increasing the range of products available for consumption and purchasing these products at the lowest possible price consistent with their income and the quality they require.

Examples

Questions to ask when planning for the market

A marketing plan, prepared by extension workers, could be prepared with information gathered as listed below.

Product information

The product and its benefits should be described from the consumers' perspective. Farmers should know, or at least have an idea of, what the consumer desires:

- What are the main crops grown and livestock reared including varieties/breeds?
- When are the crops harvested? What are the yields per unit, prices attained and volume produced?
- What are the advantages of these crops and/or livestock over others in terms of yield, quality, price and seasonality?
- Is the produce graded? If so, into what grades?
- Has the produce been packed? If so, what type, size and cost of packing material?

- What is the break-even price for each enterprise?
- What are the costs of growing, harvesting and transporting the crop/livestock?
- Are any new technologies or practices being tried on this crop/livestock? Have they been successful?
- What are the main production problems?
- What quantities can farmers in the area produce, and do these allow for scale economies in transport and marketing?

Input supply and financing

- Are the inputs required readily available for all farmers?
- Are they of the right quality?
- Do input suppliers provide advice to farmers? If so, how good is the advice?
- Do farmers have money to pay for these inputs?
- Do farmers have access to credit for working capital and long-term loans?
- What are the sources of credit available? What type of collateral is required and how available is the finance?
- Can farmers readily obtain equipment either to buy or hire?

Local marketing system

- How is the crop/livestock produce marketed at present?
- Who buys the produce and when?
- Who are the most important intermediaries or buyers?
- Which buyers have the best reputation?
- What prices are paid?
- Is there competition between buyers?
- Is there a wide variation between the prices received by farmers for similar produce in the same area? If so, why?
- Do buyers provide credit to farmers and on what conditions?

- Do buyers expect credit from farmers in the form of deferred payment?
- How is produce transported to the market?
- What are the main markets and where is produce sold?
- Who provides transportation?
- What is the unit price of transport to the different markets?
- How long do the journeys take? How frequently does the transport leave the area?
- How efficient are the transport links?
- What form of transport should be used to get the produce to the market?
- Should the transport of produce be pooled or sent individually?
- What is the frequency of shipment and the best day for arrival in the market?
- How much contact do farmers have with the market? What is their source of information, and how quickly do they obtain market information on prices, volumes and quality requirements?
- What complaints do farmers have about intermediaries?
- What complaints do intermediaries have about farmers?

Distribution channels

- Which distribution channels do buyers prefer? What channels are available?
- Which distribution channels are viable, given the producers' size and location?
- What labour and capital inputs are required for developing various channels?
- How do different channels affect the profit received by the producer?
- What limitations does the product itself impose on the selection of appropriate channels?
- What are the limitations/restrictions on the use of various distribution channels?

Delivery of products

- How should the product be delivered?
- What method of transportation does the consumer require?
- What methods of transportation does the producer or trader have?
- Can small farmers meet the markets' delivery requirements?
- Is the crop/livestock produce stored? If so, where and by whom? How much of the product should be stored? What storage arrangements are required?
- Are storage and stocking required to meet the buyers' delivery schedule?
- Are associations and cooperatives a necessary link in reaching the market?
- Are goods delivered directly to the buyer by producers?
- What size units does the buyer require?

Product type and form

- What products are farmers interested in producing?
- What market forms (fresh, processed)?

Competition

- How competitive is the market?
- Who are the main suppliers to that market?
- Is the marketing plan being adjusted to reflect changes in the competition?

Market potential

- What is the demand to be satisfied?
- How large is the market? How much can the market absorb?
- Which market is the farmer willing and able to satisfy?
- What percentage of produce should farmers be interested in producing?

Quality standards, packaging, prices

- What are the grades and quality standards of the produce?
- What type of packaging is required? What is the cost of packaging?

Marketing costs and margins

- What are the overall costs of marketing and what are the marketing margins?

Sales

- What factors are likely to affect sales (weather, special festivals, day of arrival in market)?
- What are the potentials and techniques for developing sales?

Pricing

- What are current price levels, price policies, conditions of sale and payment terms found in the market?
- Is the product a "price taker" or a "price maker"?
- What market prices are obtained (average, maximum, minimum, effect of different quality standards and seasonal conditions on price)?
- How can premium prices be attained?

- If the product is a "price maker", what price strategy should be followed? And what is the percentage mark-up? Does the set price leave a margin for profit?
- What are the various cost factors to be considered in determining the pricing policy?
- How does the location of the market affect prices?
- How does time of day affect prices?
- How much does the price normally fluctuate during the year?
- What credit does the buyer require and how does this affect price?

Promotion

- Is the market aware of the product?
- Does the market know the volume available and how to purchase the product?
- Does the product need promotion?
- How can producers give all possible advance notice of changes in their ability to provide the goods?

The farming community

- Who are the leaders of the farming community?
- Who is being especially successful and why?
- Do farmers think they need help in marketing and if so what type of help?

Notes

Unit 4.2 — Training exercise 11
Preparing a marketing strategy

Task

Groups should select one (or two) different product(s):
i) pork meat, ii) citrus, iii) vegetables, iv) bananas, v) pineapple.

List your product(s) ________________

____

and prepare a marketing strategy that provides answers to the questions below.

Where to sell and to whom?

How much to sell?

When?

At what price to sell?

(continued on the next page)

Training exercise 11 (continued)

What are the likely problems?

Justify how you arrived at the marketing plan

Upon completion
each group should discuss its strategy.

Training slides
for Session 4.2.4
Planning for the market

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68 Planning requires understanding the market

Planning for the market involves identifying buyers and outlining a strategy for selling to them

A marketing plan should answer the following questions ...

- **Who will buy the produce?**
- **What does the buyer want?**
- **Is this product in demand?**
- **Are other farmers providing the same product?**
- **How can demand for some products be created?**
- **Can the farmer compete in price, quality and delivery?**

69 Questions to be addressed

1. What is the market?
2. What products does the market want?
3. Is the market aware of the supply?
4. When does the market want the product?
5. How much does the market want?
6. Where is the market?
7. What is the appropriate marketing channel?
8. How does the market want the goods delivered
9. What is the market price?
10. What are the terms of payments?

70a Defining the market

The current market situation

The general background on the market in which the product will be sold begins with an idea of who the buyers are and what they want.

Constraints and opportunities analysis

The farmer identifies the constraints and opportunities and evaluates the farm's strengths and weaknesses in dealing with its market situation (see Slide 70b).

The marketing strategy

Based on the analysis carried out above, the farmer draws up a plan to address the marketing objectives of the farm. The strategy should include a clear definition of consumers, customer needs and the prices attained for produce sold.

70b Matrix of constraints and opportunities

Farmers can be assisted in analysing marketing strategies by listing constraints, opportunities, solutions and actions in order to appraise the worth of a farm enterprise

Constraints	Opportunities
• No local market • Poor transport services • •	• Potential exists for early crop production when supplies are short •
Solutions	**Actions**
• Organize a local farmers' market • Encourage buyers to use their own transport •	• Encourage the growing of early crops and develop appropriate production techniques •

Module 4, Unit 4.2, Session 4.2.4

Notes

Notes

Notes

The following is a list of the AGSF series TRAINING MATERIALS FOR AGRICULTURAL MANAGEMENT, MARKETING AND FINANCE

1. Farm planning and management for trainers of extension workers in the Caribbean, 2004 (CD-ROM, English).
2. Horticultural marketing extension techniques, 2004 (CD-ROM, English)
3. Farm planning and management for trainers of extension workers. Asia, 2006 (Hard copy and CD-ROM, English).
4. Integrating environmental and economic accounting at the farm level, 2005 (CD-ROM, English)
5. Curso de gestión de agronegocios en empresas asociativas rurales en América Latina y el Caribe, 2005 (CD-ROM, Español)

In preparation

6. Market-oriented farm management for trainers of extension workers. Africa (Hard copy and CD-ROM, English).

- Farm planning and management for trainers of extension workers. Latin America (Hard copy and CD-ROM, in Spanish)
- Training manuals on farmer business schools. Asia and Africa.

Other work

- FAO Pacific Farm Management and Marketing Series 3, Helping small farmers think about better growing and marketing (Hard copy)*.

* Copies soon to be available from AGSF

Module 4 introduces the notion of planning for the market and describes the process of planning followed by farmers who run their farms as a business. It goes on to explain what marketing is and discusses the marketing chain and marketing margins and concludes by explaining how farmers and extension workers can better plan for the market.

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