



# FARMING AS A BUSINESS (FAAB) MANUAL FOR SMALLHOLDER FARMERS

Second Edition- Revised February 2018



## Acknowledgements

This manual is the second edition of “Farming as a Business (FaaB) Manual for Smallholder farmers.

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## Background

The ENSURE (Enhancing Nutrition Stepping Up Resiliency and Enterprise) Program is a USAID-funded project implemented in Masvingo and Manicaland Provinces with the goal of improving household food security.

### Purpose of this training initiative

The main goal of this training manual is to promote farming as a family business for viable and sustainable food and nutritional security. This is done through imparting skills on commercial business mindset, record keeping, enterprise budgeting, and marketing. The manual will help farmers to learn and improve their business knowledge, attitude and skills. Targeted participants need to be basically literate and numerate, but not necessarily formally educated, to use this manual.

In order to make more money from farming, farmers must take advantage of new opportunities, adapt their farming businesses to market changes, and improve efficiency and profitability.

The desire to increase income by taking advantage of market opportunities requires farmers to become better decision makers and better at competing in this new environment. The emphasis on the market and the need for farmers to be competitive calls for better farm management skills. Farm management knowledge and skills help farmers to make the right choice between farm enterprises.

## MODULE I. Creating a commercial farming mindset

This module is designed to:

- i. Facilitate a smooth transition from subsistence farming towards commercial farming
- ii. Enhance an understanding of the nature of the farming business.
- iii. Facilitate an understanding of a farm business cycle.

I.1 What makes up your farm business? (Brainstorm and present in a plenary discussion)

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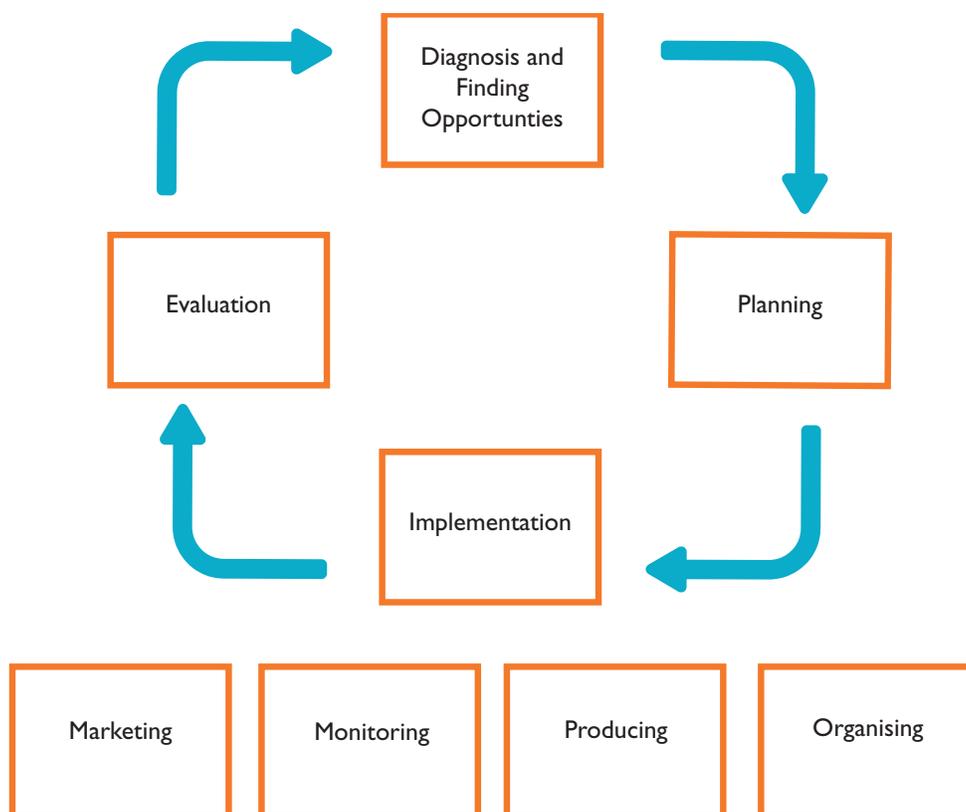
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I.2 How do you explain the following changes in farming practices? (Ask the participants to explain the changes)

	Farming for Food	Farming for Cash	Why This Change
30 years ago			
10 years ago			
Today			

### I.3 The farm business cycle (Explain the business cycle to the participants)



### I.4 Explaining the business cycle using Nyere's story

#### *Part I: Diagnosis/finding opportunities*

After completing his secondary education, Nyere had left his village to seek a job in the city. While the city life had been exciting and he had found several work opportunities, it had also been a hard living. Nyere's father was now too old to be managing the one acre family irrigation plot by himself, and Nyere was now happy to return home. However, he wanted to make sure that he would be earning enough to support his family on a long-term basis. For this, he needed to know the current farming practices and see what could be done to raise the income generated by the land. Upon return, Nyere started talking to the farmers in his own village, so that he could find out what crops were being grown in the area. He realized that most farmers were growing the same crops: beans, onions, and maize. When asked why, they said because everyone else did; it was what they had always grown. He also learned that these farmers were selling their produce to the first buyer who came to the farm.

As a next step, Nyere decided to find out other products could be produced in the area. He went to the nearest town where he talked to shopkeepers and traders, and found out that there was a high demand for garlic. Nyere knew that growing garlic was like growing onions, so it would not be difficult to produce. He also found three shopkeepers who said that they would buy garlic from him, provided it was of good quality. They said they normally paid \$3 per kg. Before investing in garlic production, Nyere realized that he needed to know if he could make a profit by growing and selling garlic at the market rate. He visited a neighbouring village, where farmers helped him calculate how profitable garlic was.

As a final step, Nyere approached a local extension worker who advised him to start garlic production by planting  $\frac{1}{4}$  an acre with the new crop. The extension worker told him he should be able to harvest about 750 kg to 1000 kg per acre, so on  $\frac{1}{4}$  acre, he should be able to produce between 190 and 250 kg of garlic. After completing his investigations, Nyere decided to grow garlic on  $\frac{1}{4}$  acre of his farm and plant beans, onions and maize on the rest of the land.

**Probing questions:**

*What did Nyere realise about the farmers in his village?*

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*What did Nyere decide to do?*

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*How did he do it?*

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*Why is this important?*

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*What did Nyere learn from his visit to the market (shopkeepers and traders)?*

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*What did Nyere decide to do?*

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*Why could he be confident about this?*

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### Part 2: Planning

Based on what he had learnt from the market, the other farmer and from the extension worker, Nyere set himself a goal of growing  $\frac{1}{4}$  acres of garlic and marketing it to the three nearby shopkeepers. He figured out that if he sold 250 kg of garlic, he would obtain a total sales income of \$750. But in order to calculate the profit he could make, he first needed to know the costs of the inputs that would be used to grow and sell the crop.

Nyere listed the primary inputs he would need to grow the garlic (seed, fertiliser, pesticides, labour, small net bags in which the garlic would be packed, etc.). He also factored in the cost of transporting the garlic from his farm to the shops. He calculated that all these inputs would cost him \$160, meaning that he could expect a total profit of \$590 from garlic production.

Of course, Nyere now needed to implement his plan: buy the immediate inputs, organise labour, prepare his land and plant the crop. Also, when the crop was ready, he also had to organise its packing and transportation.

#### Probing question:

*Describe Nyere's plan*

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### Part 3: Implementing: Organizing, Producing and Monitoring

When Nyere had organised all the inputs, he prepared his land and planted the garlic seeds. Within a month, however, Nyere realised that the germination was poor and the growth of the garlic was not as expected. He went to the extension worker for advice, who told him to replant using a different variety of seed. Even though this was an extra cost for Nyere he obtained new seeds for planting, knowing that he had made a promise to several buyers in the market to supply good quality garlic. He did quick calculations and knew that he would still make a profit.

Knowing that the crop would now be delayed by at least a month, he made new arrangements for transport. This did not cost him anything extra. The second time, the germination was much better. A few weeks later, Nyere's garlic was almost ready and it was looking good.

Close to harvest time, Nyere bought the packaging he needed to market his garlic to the three shops. Very shortly thereafter, Nyere harvested his garlic. He was a month later than expected, but it was worth it.

#### Probing questions:

*What happened after Nyere planted his garlic?*

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*What did he do about it? Why?*

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When it got close to harvesting time, what did Nyere do?

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#### Part 4: Implementing: marketing

As the garlic was harvested from the field, it was checked and cleaned. The bad cloves were thrown away, while the rest was packed into the net bags and put into boxes. When everything was weighed, Nyere discovered that he had 200 kgs. It was a little less than expected, but based on his calculations, Nyere knew that he would still make a profit.

The transport arrived as planned. The boxes were loaded onto the vehicle and Nyere took his garlic to the three shopkeepers. Initially, the first shop refused to take his garlic since Nyere was one month late. However, Nyere showed the shopkeeper the quality of his produce and convinced him to buy it. The second shopkeeper agreed to take the product, but wanted to pay Nyere after sixty days. Nyere explained that this was his first crop and he wanted to keep selling to this shopkeeper, but that he couldn't if they could not make a better deal on payment. In this way, Nyere persuaded the shopkeeper to pay 50 percent immediately and 50 percent after sixty days.

The third shopkeeper refused to pay the agreed price. He said that he was able to get cheaper garlic from another farmer. Again, Nyere showed the shopkeeper the quality of the product. He also told him that his competitors had bought the garlic at the agreed price. In this way, Nyere convinced the shopkeeper to pay the agreed price—in cash.

#### Probing questions:

*The harvesting and packaging went well. What happened when Nyere took the garlic to the three shopkeepers?*

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*And what did he do about it? Why?*

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#### Part 5: Evaluating

Nyere came back home a very happy man! However, he realised that his task was not complete. He still had to evaluate his garlic business by comparing what he planned with what actually happened. He also needed to calculate how much profit he had made.

He noted that he had to replant the garlic because he had used the wrong seed. He decided that next time he would check with the extension worker before buying inputs. Also, he did not expect the shopkeepers to present problems. The first vendor had been concerned about the delay in delivery. Next time, he would be sure to keep his buyers informed. He also did not expect to be asked to be paid in 60 days. Next time he would confirm the deal beforehand.

Did he make a profit? Nyere knew that the income from sales is not equal to profit. He sold all 200 kg of garlic, \$3 per kg. Thus, his total income was \$600. His costs were \$180 including the \$20 for the additional seeds. So, his total profit was \$420. This was the first time Nyere had been responsible for the family farm, and it had made more money than last year. His parents were very proud of him and asked what he was going to do with the farm next year. He said he would investigate more opportunities. He would again research the market and speak to the extension worker and other farmers. When he had enough information he would decide what to do.

For the day, Nyere wanted to celebrate! He invited his family and friends for lunch. All of them wanted to know how Nyere had made so much money from his farm. He shared the whole story with them so they could also learn from his experience.

**Probing questions:**

*After Nyere sold all his garlic and went home, what did he do? And why?*

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*What are some of the things Nyere learned from his evaluation? What did he do about it?*

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*Did Nyere make a profit? How did he know? What did he plan to do about it?*

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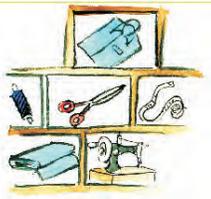
*What are the characteristics of a good business person that Nyere showed in his farming business?*

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1.5 Characteristics of a business person (Probe on the characteristics of a business person before presenting)

Achievement Cluster	Planning Cluster	Power cluster	What characteristics do you have?
<p>Opportunity seeking</p> 	<p>Goal setting</p> 	<p>Persuasion and networking</p> 	
<p>Taking initiative</p> 	<p>Systematic planning</p> 	<p>Commitment to the work contract</p> 	
<p>Information seeking</p> 	<p>Problem solving</p> 		
<p>Demand for quality</p> 	<p>Persistence</p> 		
<p>Demand for efficiency</p> 	<p>Independence and self confidence</p> 		

## **I.6 Important aspects of a farm business**

- i. What to produce?
- ii. How to produce it?
- iii. Is it possible to produce it on your land?
- iv. What resources and inputs are needed and where to get them?
- v. What labour do you need?
- vi. What is the best market for the product?
- vii. What price can the product get in the market?
- viii. Is it profitable?
- ix. Do you have enough cash?
- x. What are the risks and what to do about them?

## MODULE 2. Overview of farm record keeping

**By the end of the module the participants should be able to:**

- i. Appreciate the importance of record keeping
- ii. Know the various types of farm business records
- iii. Keep and use farm records in farm business management

### 2.1 What is a record?

A record is a written proof of what happened, what is happening, or what is anticipated to happen. A record can also be a written proof of what was said, and who said it. Some examples are: minutes of a meeting, a report on the number of group members who worked in the group project, a record of the names of members who have brought in their membership contribution.

### 2.2 Why keep records?

Many people do not write down how much money comes in and how much money goes out of their business. This may be because they do not know how to do it, or they do not know how it can help their business. Therefore, people do not really know how much money they are earning. Record keeping means that you write down all the money that comes into your business and all the money that goes out of your business, including the production activities. Record keeping is important because you cannot keep everything in your head. People are forgetful by nature.

### 2.3 Advantages of record keeping:

- You will know how much money you have received, how much money you have spent, and how you have spent it
- You will know the amount of the inputs and materials used to grow the enterprise
- You will know the price of produce sold and cost of inputs
- You can calculate whether you are making a profit or a loss
- You will be able to make better decisions on what to buy and sell
- You can keep records of buying and selling on credit, so that people cannot cheat you

### 2.4 Consequences of keeping poor records:

- You will not know how much money you are earning, whether your business is making a profit or losing money
- You will not know why you are making a profit or losing money
- You will not be able to make good decisions that will allow you to make more money and prevent your business from losing money
- You will not know which customers owe you money, how much they owe you or how much you owe someone else
- Where groups of people work together, lack of a proper record-keeping system often leads to mistrust and accusations between group members

## 2.5 Types of farm business records? (Brainstorm first before explaining)

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- Production Records
- Cash flow Records (in-flow & outflow)
- Profit and Loss Records
- Fixed Asset Records
- Training records
- Consumption records

### Production record

Enterprise	Land size	Expected yield per acre/unit	Total yield (bags, tons, kg)

### Cash inflow record

Date	Sales/output	Quantity	Unit price (\$)	Total income (\$)	Comments

### Cash outflow record

Date	Operation/unit	Quantity	Unit cost (\$)	Total cost (\$)	Comments

**Cash inflow and outflow record**

Cash Flow Template for Poultry: Broiler Production								
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
<b>Income</b>								
<b>Balance</b>								
Sales								
Owner's equity								
Loan								
Total income								
<b>Expenses</b>								
Housing								
Birds								
Feeds (starter)								
Finisher								
Vaccines								
Drugs								
Feeding troughs								
Watering troughs								
Labour								
Transport								
Loan repayment								
<b>Total expenses</b>								
<b>Balance</b>								

**Profit and Loss**

Measuring my enterprise profit for the period \_\_\_\_\_

Area/size of the enterprise \_\_\_\_\_

	Quantity	Unit price or cost	Total
<b>Income</b>			
Sales			
Home consumption			
Other			
<b>Total income</b>			
<b>Expenses</b>			
<b>Variable Costs</b>			
- Inputs and materials:			
- Seed			
- Fertiliser			
- Pesticides			

<b>Field operations</b>			
- Land preparation			
- Planting			
- Weeding			
- Harvesting			
<b>Total Variable Costs</b>			
<b>Total Fixed Costs</b>			
<b>Total costs (TVC +FC)</b>			
<b>Profit = (TI-TC)</b>			

*Fixed Asset Record*

Date of Purchase	Item	Purchase Price	Life (years)	Comments

*Training Records*

Date	Type of training	Key contents (modules, sessions, exercises)	Number of participants disaggregated by sex

## MODULE 3.0. FARM ENTERPRISE BUDGETING

By the end of this module participants should be able to:

- i. Appreciate budgeting as one of the critical planning tools/techniques
- ii. Have an understanding of the different types of budgets and their applicability in farm business
- iii. Familiarize themselves with various crop and livestock budgets
- iv. Demonstrate budgeting procedures and noting budgetary components
- v. Develop and use the various farm budgets

### 3.1 Introduction to farm budgeting

This section introduces farm budgeting. Brainstorm on what farm budgeting entails.

### 3.2 What is farm budgeting? (Start by letting the participants define budgeting)

A budget is a formal plan for carrying out some business activities in the future. It shows the process of carrying out an activity and the end result. Budgeting is the planning process or the development of a plan of action (budget). The budget is based on activities likely to take place in the future—therefore, budgets are based on estimates.

### 3.3 Components of a budget

A budget has two parts:

- i. Physical input and output coefficients: these concern the physical relationships of transforming farm resources into output (e.g., 25kg of maize seed per ha yielding 6mt/ha of output).
- ii. Financial relationships: these concern the monetary value of inputs and outputs. They allow specification of costs of production and income from production.

### 3.4 The process of budgeting?

The budgeting process involves:

- i. Estimating and specifying input requirements
- ii. Estimating cost of production (e.g., 25kg seed/ha \* US\$60.00)
- iii. Estimating quantity and value of output, i.e., returns to production (e.g., maize at US\$390/mt. \*\* GMB 2015)
- iv. Comparing costs and returns to determine net returns or net benefit.

A farming business budget includes enterprise budget, whole farm budget, partial budget and cash flow projections.

				Steps
<p><b>Step 1:</b> Enterprise _____</p> <p><b>Step 2:</b> For the period: _____ to _____</p> <p><b>Step 3:</b> Area under cultivation (acre/ha): _____</p>				<p>Step 1: Put the name of the enterprise (e.g., sugar beans) in the space provided at the top of the template</p> <p>Step 2: Agree on a duration for this enterprise (e.g., for the period November 2016 to June 2017)</p> <p>Step 3: Estimate the area of the crop under cultivation (in acres/ha)</p>
<b>Step-4: Income</b>				
Item	Quantity	Unit Price (\$)	Value (\$)	<p>Step 4: Calculate the income by listing the various ways in which the products have been disposed, including selling at farm gate, at a neighbouring market, to an exporter, kept for home consumption, or given away. The quantities and prices for each form of disposal may be different. If the produce has been retained for home consumption or given away, make sure that the unit price reflects a market value.</p>
<b>Step-5: Total Income</b>				<p>Step 5: Once all the values have been added, it will reflect the total income from that particular enterprise. This total amount should be written in the space for "Total Income".</p>
<b>Step 6: Variable Costs</b>				
Item	Quantity	Unit Price (\$)	Value (\$)	<p>Step 6: Calculate all costs directly related to the production of the product (e.g., sugar beans). Under the column items, list all the production costs associated with this enterprise. For each item, trace the specific quantity and the unit price to arrive at the value (in \$) for each item.</p>
<b>Step 7: Total variable costs</b>				<p>Step 7: Total the value or cost for all the items to arrive at the "Total Variable Costs".</p>
<b>Step 8: Enterprise profit (Total income minus total variable costs)</b>				<p>Step 8: To arrive at the "Enterprise Profit", subtract from the total income the total variable costs.</p>

### 3.5 Working example: Prepare a budget!

Suppose that you have decided to plant groundnuts on one acre of land. Based on your market survey, you have estimated the following:

- Production from one acre planted: 400 kg
- Selling price: \$\_\_ per kg

You have also identified the variable costs associated with this enterprise as follows:

- Seed 40 kg @ \$\_\_ per kg
- Single Super Phosphate 40kg @ \$\_\_ per kg
- Gypsum 100 kg @ \$\_\_ per kg
- Labour charges for planting and weeding 8 hours @ \$0.63 per hour
- Labour for harvesting the crop for 8 hours @ \$0.63 per hour

Determine the profit that you can expect from this enterprise.

### 3.6 Examples of enterprise budgets

#### Examples of maize and sugar beans budgets

Maize 1 hectare		Sugar beans 0.5 hectare	
Details	Amount	Details	Amount
Seed 25kg	60	Seed 40kg	40
Land preparation	80		73
Fertilizer compound D 7 x 50kg bags	231	2 x 50kg bags	64
Fertilizer AN 7 x 50 kg bags	245	2 x 50kg bags	64
Labour- planting weeding, harvesting and shelling	430	Fertilizer compound D 150kg	90
Empty bags	40	Chemicals 500ml	20
Transport	80		
Total cost (US/Bond\$)	1,166	Total costs	351
Expected yield	4 tonnes	Expected yield	500 kgs
Price/t	\$390	Price/t	\$1,000
Expected sales	1,560	Expected sales	500
Less total costs	1,166	Less total costs	351
Gross Profit (\$)	394	Gross Profit (\$)	149
<b>Feedback</b>	From the above presentation, the farmers overlooked fixed costs, indirect costs and marketing costs. They also overlooked family consumption. Farmers will in future consider using maize as input for piggery and poultry instead of selling.		

Examples of sunflowers and groundnuts partial budgets generated

Sunflowers   hectare		Groundnuts   hectare	
Details	Amount (US\$)	Details	Amount (US\$)
Seeds 40 kg	40	Seed 80 kg	70
Fertilizer Com D 200kg	152	Land Preparation	50
Fertilizer AN 100kg	76	Fertilizer compound D 100kg	76
Transport for inputs	10	Gypsum 4 x 50kg	20
Labour- planting weeding, harvesting and shelling	430	Fertilizer compound D 150kg	90
Land preparation	50	Chemicals	10
Planting	25	Labour (planting, weeding, ridging, harvesting, plucking)	315
Cultivation	25	Transport	90
Weeding	44	Packaging (150 bags)	75
AN application	5	<b>Total costs</b>	706
Cutting	40		
Shelling	50	Expected yields	3.5 tonnes (75 buckets shelled)
Packaging	108	Price/bucket	30
Transport	120		
<b>Total cost</b>	745	Expected income	2,250
		Total cost	706
Expected yields	5 tonnes	<b>Gross Profit</b>	1,544
Price/t	300		
Expected revenue	1,500		
Less total cost	745		
<b>Gross profit</b>	755		
<b>Feedback</b>	Fixed and indirect costs were overlooked. Yields are ambitious considering labour constraints and soil fertility challenges.		

Source: Gokwe Farmer Focus Group Discussions- 2012 Marketing costs and profitability

### Example of maize and soya beans budgets

Maize   hectare		Soya bean   hectare	
Details	Amount	Details	Amount
Seed 25kg	55	Seed 150kg	90
Fertilizer compound D 200kg	108	1kg Rhizobium	10
Fertilizer AN 200kg	108	Marathon	15
Labour- Weeding	132	Fertilizer compound D 150kg	90
Harvesting	48	Fertilizer AN 50kg	30
Total cost	451	Labour	120
		Herbicides	20
		Total costs	375
Expected yield	4,5t	Expected yield	2t
Price/t	250	Price/t	500
Expected sales	1,125	Expected sales	1,000
Less Total costs	451	Less Total costs	375
<b>Gross Profit (US\$)</b>	674	<b>Gross Profit (US\$)</b>	625
<b>Feedback</b>	Fixed and indirect costs were overlooked so were costs for packaging and storage		

### Example of budget for 50 broiler chickens

Description	Unit	Quantity	Price/Unit (USD)	Total (USD)
<b>INCOME</b> (target output x selling price)				
Dressed birds	Birds	46	6	276.00
Extras (chicken feet, necks, offals, livers etc.)	Units	46	0.4	18.40
<b>Total Income</b>				<b>294.40</b>
<b>EXPENDITURE</b>				
<b>1. Cost of chicks</b>	Chicks	50	0.85	42.50
<b>2. Costs of feed</b>				
a. Starter	25 kg bag	1	25	25
b. Grower	25 kg bag	2	25	50
c. Finisher	25 kg bag	1	50	50
<b>Total cost of feed</b>				<b>125</b>
<b>3. Vaccines</b>				
a. EsB3	1kg pack	0.1	125	12.50
b. OTC (20%)	1kg pack	0.1	25	2.50
c. IDB (1000 ds)	dose	0.1	6.5	0.65
d. Lasota (1000 ds)	dose	0.05	3.6	0.18

e. Viral Killer (disinfectant)	5 litre	0.05	55	2.75
f. Stress pack	100g	1	3	3.00
<b>Total cost of vaccines</b>				<b>21.58</b>
<b>4. Labour &amp; marketing costs</b>				
a. Production	Labourers	1	50	50.00
b. Slaughtering	Man days	1	2.5	2.50
c. Packing material	Units	46	0.02	0.92
d. Transport	Unit	46	0.2	9.20
<b>Total labour &amp; marketing costs</b>				<b>62.62</b>
<b>5. Miscellaneous costs (2%)</b>				<b>5.04</b>
<b>Total Costs</b>				<b>256.74</b>
<b>Gross Margin</b>				<b>37.66</b>
<b>Return per dollar invested</b>				<b>37.66/256.74</b>
<b>RPDI</b>				<b>0.15</b>

Notes: Comment on your view of the examples. What can you include to improve the budgets? What can you exclude/reduce?

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### 3.7 Determining the minimum price and yield for the enterprise

#### 1. Calculating break-even price

A break-even price is the minimum acceptable price that will, if nothing else, cover the cost of production. At this price, the income received will be equal to the cost of production, and the profits will be zero. The break-even price can be calculated from the information in the enterprise budget, using the following formula:

Break-even price = total variable costs per acre / yield per acre

#### 2. Calculating break-even yield

The break-even yield is the minimum level of production that you can produce to cover the costs of production. It is calculated by dividing the total variable costs/ha with the per unit price of the produce. The break-even yield can be calculated from the information in the enterprise budget, using the following formula:

Formula for break-even yield = total variable costs per acre / unit price of produce

## MODULE 4. MARKETING AND THE MARKETS

By the end of this module participants should be able to:

- i. Understand and apply the marketing concepts
- ii. Distinguish between marketing and selling
- iii. Develop and appreciate skills in marketing and market research
- iv. Use market information services and product promotional activities

### 4.1 The concept of marketing

This section introduces the concept of marketing. Brainstorm on what marketing entails.

### 4.2 Definitions

Definition 1:

*Marketing is a social process by which individuals, groups, and institutions satisfy their needs through the creation and exchange of products and services.*

Definition 2:

*Marketing means understanding the needs and wants of your customers and supplying these to them at a profit.*

Definition 3:

*Marketing comprises a series of services involved in moving a product from the point of production to the point of consumption.*

### 4.3 Learning points from various definitions (Definition 2):

- The marketing process must be customer-oriented
- Marketing is a commercial process, which must provide goods and services at a profit in order to stay in business
- Marketing is a dynamic and continuous process (it is not a one-time job)
- Marketing is needed not only at the time of starting up the business but also during its diversification
- The entrepreneur or agro-processor must be aware of the market's changing needs and respond accordingly

- Marketing is different from selling

*Selling: farmer enters the market place with little thought or knowledge about the market.*

*Marketing: a more deliberate strategy involving the farmers planning what they produce based on some knowledge of what consumers want.*

**Marketing therefore involves:**

- Identifying buyers
- Understanding what buyers want in terms of products and how they want to be supplied
- Operating a production-marketing chain that delivers the right products at the right time
- Making enough profit to continue to operate

**Learning points (Definition 3):**

- Marketing is a series of inter-connected activities
- All of these activities are links in the production-marketing chain

**These activities include:**

- Planning production
- Growing and harvesting
- Standardization and grading of products
- Packing, transporting, storage, processing, distribution and selling
- Financing and risk bearing
- Sending information from production area to market (e.g., products/volumes available) and from market back to producing areas (e.g., prices and supply levels, consumer preferences and changes in taste)

#### **4.4 Agricultural marketing**

Agricultural marketing is different from other forms of marketing. This is because of product perishability, it being a basic commodity, the bulk nature of commodity, and the homogenous nature of agricultural products.

#### **4.5 Characteristics of agricultural commodities:**

##### **Perishability**

- Products must be sold quick and there is need for specialized storage facilities
- Perishability limits the markets

##### **Basic commodity**

- Agricultural products are essential to human subsistence
- Demand is inelastic for certain products
- Government intervention is common (e.g., price controls)

##### **Bulk nature**

- Most agricultural products are bulky in nature
- There is a relatively low value with respect to volume
- Transport is expensive and comprises a large part of marketing costs

##### **Homogenous product**

- Similar product (many producers/sellers)
- Producers face unfair competition
- Standardization is therefore essential

##### **Seasonality**

- Supply follows seasonal cycles

##### **Volatility of prices**

- Market prices are unstable

#### **4.6 Role of marketing**

- Marketing plays a very valid role in rural and national economies
- Marketing is a necessary condition for growth and development
- Without markets there is no specialization (no mechanism for exchange), no urbanization, and no industrialisation
- Marketing brings about specialization and growth
- Improved production techniques
- Increased demand caused by greater urbanization
- Increased opportunity for international trade in perishable produce

#### **Definition of a market**

A market can be defined as a place where buyers and sellers meet for trading their commodities (e.g., Mbare Musika, Chitima, etc.)

A market can be defined as a concourse of people for the purpose of buying and selling. (e.g., there is a market on the 17th day of every month in Jerera, Zaka district, and also on the 25th of every month in Buhera ward 26)

It can also be defined as the availability of demand for a particular commodity.

#### **4.7 Types of markets**

Farm gate sales

- These are sales conducted at the farm gate
- Fruit can be sold “on the tree” or crops “in the field”

Local primary markets

- These offer direct sales of small quantities of produce to village traders and rural consumers such as schools, hospitals etc.
- Often form part of a network arranged on a periodic basis (e.g., on a specific day of each week)
- Commonly organized at a central place in a village or district centre or beside a village's access road

### Assembly markets

- Larger rural markets where greater quantities of produce are traded, either by the producers themselves or by traders (e.g., Chitima, Sakubva, Mbare Musika)
- Entails the gathering of produce in larger quantities for onward sale to outside buyers
- Traders or collection agents working on behalf of urban wholesalers normally purchase produce

### Wholesale markets

- Places where retailers and business buy their supplies
- Deliveries to wholesale markets can be made by farmers and/or by traders

### Retail markets

- Markets where consumers buy their supplies
- “Consumers” include families, individuals, and small businesses, such as restaurants and street food traders
- Examples – supermarkets, small retail shops, and “hawkers”

Assessment of target markets for farming products			
Target market	Description	Advantages	Disadvantages
Fellow farmers	Other farmers in the area	<ul style="list-style-type: none"> <li>• No transport costs</li> <li>• Chance to build relations</li> </ul>	<ul style="list-style-type: none"> <li>• Prices usually low</li> </ul>
Individual or household consumers	Local consumers or from other areas who buy for final consumption.	<ul style="list-style-type: none"> <li>• Can offer good prices</li> <li>• No transport costs</li> </ul>	<ul style="list-style-type: none"> <li>• Buy in small quantities</li> </ul>
Local retailers/vendors	Include shops and butcheries operating at local business centres	<ul style="list-style-type: none"> <li>• No transport costs</li> <li>• Convenient and fast transactions</li> <li>• Good for learning and research</li> </ul>	<ul style="list-style-type: none"> <li>• They dictate prices</li> <li>• Low demand due to few buyers</li> </ul>
Urban retailers/vendors	Include supermarkets, butcheries and vendors from urban areas	<ul style="list-style-type: none"> <li>• High potential for regular business</li> <li>• Buying in bulk</li> </ul>	<ul style="list-style-type: none"> <li>• Can feed farmers with wrong information</li> <li>• Dictate prices</li> </ul>
Dealers or speculators	Those buying for resale at higher prices in other places or at later dates	<ul style="list-style-type: none"> <li>• Assist in wide product distribution</li> <li>• Mostly pay cash on the spot</li> </ul>	<ul style="list-style-type: none"> <li>• Can feed farmers with wrong information</li> <li>• Heavily negotiate prices</li> </ul>

Processors	Companies who buy for value addition and conversion into final products (include abattoirs and manufacturers)	<ul style="list-style-type: none"> <li>• Buy in bulk</li> <li>• Can have long term contracts</li> <li>• Can support with inputs</li> <li>• Opportunities for long-term relations</li> </ul>	<ul style="list-style-type: none"> <li>• Delays in payment</li> <li>• Failure to honour contractual agreements</li> <li>• Sometimes dictate prices</li> </ul>
Institutional consumers	Schools, hospitals, churches and other organizational buyers who buy for final consumption	<ul style="list-style-type: none"> <li>• Buy in large quantities</li> <li>• Offer good prices</li> <li>• Opportunities for long-term relations</li> </ul>	<ul style="list-style-type: none"> <li>• Demand formal transactions</li> <li>• Have high demands for quality, reliability and consistency</li> </ul>
NGOs	Development organizations buying for projects	<ul style="list-style-type: none"> <li>• Give accurate information</li> <li>• Can be good business ambassadors</li> <li>• Buy in bulk</li> </ul>	<ul style="list-style-type: none"> <li>• Occasional orders</li> <li>• Can distort market prices</li> </ul>
Government bodies/ parastatals	Arms of the government with a mandate to buy and process or sell agricultural products (like GMB and CSC)	<ul style="list-style-type: none"> <li>• Buy in bulk</li> <li>• Long term relations</li> <li>• Can support with inputs</li> <li>• Spread orders as a social responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Late payment</li> <li>• Failure to fulfill promises</li> <li>• Slow processes</li> </ul>
Travellers	Public buyers passing by to other areas	<ul style="list-style-type: none"> <li>• Can be good ambassadors</li> <li>• Buy in a hurry</li> <li>• Can produce good margins</li> </ul>	<ul style="list-style-type: none"> <li>• Buy small quantities</li> <li>• Have little time to consider buying many</li> <li>• No relationship</li> </ul>
Foreign markets	Customers beyond national borders	<ul style="list-style-type: none"> <li>• Exposure to other countries</li> <li>• High return potential</li> </ul>	<ul style="list-style-type: none"> <li>• Demand to high standards</li> <li>• Complicated processes</li> <li>• Quickly affected by government policies</li> </ul>

Notes: At which markets are you selling your farm produce?

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#### 4.8 Elements of marketing (Marketing research issues)

Elements of marketing are also known as the “six Ps” of marketing. These are critical starting points in market research. The six Ps of marketing are: **people, plan, product, place (distribution), price and promotion.**

##### People

- Who are the customers?
- What do they want or need? (e.g., specific products)
- What are their preferences? (e.g., taste)

##### Product

- What product is going to be marketed?
- Is the group producing what the customer wants?
- What services (e.g., processing), if any, are requested by the customer? (embedded services)
- Product attributes? (e.g., taste, appearance, quantities, quality, consistency of supply).
- Packaging, sizes, and labels preferred by consumers?

##### Place (distribution)

- Where is the product going to be marketed?
- How do you get the product to the market or customers? (type of transportation, cost of transportation)
- Who should sell your product? (self, retailer, or middlemen)
- Where will you sell the product? (own shop, house to house, markets, shops etc)
- Costs & advantages of different distribution channels

##### Price

- What price will the product be offered for on the market?
- What are the wholesale and retail prices of competitors?
- Are there price variations according to location/type of consumer?
- What quantity discounts are offered?

- What special offers for quick sales are used to attract customers?
- What credit for reliable customers is offered?

#### Promotion

- How are people going to be informed about the product?
- How is the product going to be introduced onto the market—type of advertisement (e.g., free samples as a way of market penetration, merchandising)?
- What messages will you create about your products?
- What costs are involved with different types of promotion?

#### Plan

- How is the product going to reach the selected customers?
- What are the steps?
- What is the marketing strategy?

### **4.9 Marketing constraints and solutions (take this one to the end)**

#### Marketing constraints

- Very poor integration of markets
- Lack of market information
- Poor infrastructure and communication
- Price distortions (e.g., controlled prices)
- Largely dispersed population (which makes marketing difficult)
- Lack of transport (expensive marketing)
- Lack of capital (finance)
- Unconducive policies and regulations
- Limited market development

- Problems related to literacy and understanding of the market
- Limited production (discourages marketing)

Potential solutions

- Creation of periodic markets (dispersed population)
- Development of marketing groups (e.g., agribusiness hubs)
- Improving access to marketing information (e.g., e-soko)
- Investing in infrastructure and communication
- Encouraging specialization in areas of comparative advantage (e.g., maize vs. small grains)
- Encouraging intra-regional marketing
- Facilitating rural market research
- Local marketing facilitators

**4.9.1 Different stages in marketing produce**

Produce preparation	This involves cleaning, sorting and grading.
Packaging	The types of packaging used may range from simple jute bags to plastic packaging for the direct transport of fruits to consumers.
Handling	Products are handled several times on their way to the market. Handling includes loading and unloading, re-packaging, weighing, etc.
Transport	Costs are incurred by farmers when they take their produce to the market. These costs may include payments to the transporter or they may also include running costs of farmer's own transport.
Storage	Products that are not sold immediately are usually stored. It is an important cost for many products. The main purpose of storage is to extend the availability of produce over a longer period than if it were sold immediately after harvest. The assumption behind storing produce for the market is that the price will rise enough while the product is being stored to cover the costs of storage.
Losses	Losses include loss of weight in storage and transit, loss of colour, shape, bruises, over-ripening, etc. The cost of these is measured by cash paid out. It is measured by loss of income.
Other marketing costs	Other marketing costs include fees and commissions

## **4.9.2 Together each achieves more**

### **A case study**

Nyere, Dziwa, Mhofu, Svova and Shumba were farmers who lived near each other. They each had a five acre farm which fed their families and generated an income. Dziwa was a widow whose husband had recently died. Dziwa had always worried that the farm did not bring in enough income, which in the past had forced her to do piece work in the nearby town. When her husband passed away, it became harder for Dziwa to be away from her children, and she realised that she needed to find a way to make more money from her farm. It was with this intent that Dziwa contacted the Extension Worker in her area, requesting him to help her improve her production. Using the given tips, Dziwa improved her income somewhat, but was still not satisfied and requested further guidance. This time the Extension Worker suggested that she talk to some of the other farmers about collective marketing, where a group of farmers market and sell their crops together to a larger buyer, or are able to access a better market.

Dziwa was not convinced. But she visited her friend Svova and discussed the idea of collective marketing with her. Svova had heard of collective marketing before, but had never tried it. They decided to go to ask the Extension Worker to go with them to the city to see what they could learn. Dziwa, Svova and the Extension Worker travelled to the city. They went to the market. They spoke to several buyers. They found out that they could get a better price for their sugar beans in the city than they could in the local market. They also found out that they could get a better price for their maize if they brought enough maize to one location as the buyer would be willing to send a truck—he was not willing to go from farm to farm. And they learned that they would get a better price if they all grew the better variety of maize and weighed and packaged them uniformly.

They returned home and called a meeting where, in addition to Dziwa and Svova, other farmers attended (including Nyere, Shumba and Chihera). Svova explained to the group that if they sold their maize to the local market, they could get \$6 per bucket. But if they sold their maize in the city they could get \$8 per bucket. The cost of transport to get the product to the city was \$0.40 per bucket if they sent 1.2 tons in one truck. Mhofu said he could not send 1.2 tons, he did not have that much to sell. Nyere also said the same thing. Svova explained that that was the whole point, she asked each farmer how much he or she could produce and sell. They each said they could send between 200 and 300 kg, which meant that they had between them between 1000 and 1250 kg to send. Dziwa said this was very good. She asked if they would all like to join in the collective marketing.

Everyone but Chihera was willing to join the collective marketing plan. Dziwa said that meant that Shumba, Svova, Nyere and Mhofu would have to market 300 kg each. They all agreed. Chihera made her apologies and left. Shumba, Nyere, Svova and Mhofu agreed that Dziwa should go back to the buyer in the city and organise the contract on their behalf. They got an exercise book and wrote out a short agreement that said they would each deliver 300 kg of maize to Dziwa's farm with the first harvest. Dziwa would arrange for the transport. They would each pay \$10 for the transport. They all signed the agreement. Dziwa made all the arrangements. She got a contract for 1200 kg of maize at \$5 per bucket. She organised the transport as agreed. When the harvest started, Svova, Nyere, Mhofu and Shumba each delivered 300 kg and paid \$10. The transport arrived and Svova went with the crop to the buyer. It was delivered and she was given a cheque for \$300, which she deposited into her account at the bank. When she got home, she told the others that everything had worked out well. She showed them the receipts and the bank deposit slip. She said as soon as the cheque cleared the bank, they would all get their money.

Two weeks later, the cheque cleared the bank. They went to the bank to get their cash. Each person was to receive \$60. But before they took their money, Svova, Nyere, Shumba and Mhofu told Dziwa that they did not think the final payment was fair to Dziwa. She had undertaken a larger share of the work, and they all agreed to pay her \$5 each. Dziwa was very happy with that and thanked them. Then they withdrew their money and went home to tell their families the good news. They agreed to meet the following week to discuss collective marketing for their sugar beans and groundnuts.

Discuss the following questions in your group:

- What opportunities did Dziwa and Svova discover in the city?
- Which opportunity did they choose?
- What price could Dziwa get for her maize at the local market?
- What price could Dziwa get for her maize at the market in the city?
- What were the conditions for getting the price in the city?
- What costs would she have if she sold her maize in the city?
- What did she have to do to meet the conditions?
- What contracts did Dziwa write out?
- How did things work out?
- What was the difference in profit that Dziwa and her partners got by selling in the city?
- What decision did the four farmers make about collective farming in the future?

#### 4.9.3 Assessing group selling/buying

Advantages	Disadvantages
Increases bargaining power	Exploitation of weaker members
Improves economies of scale	Forced to accept prices of the group
Lowers transaction costs	Possibility of over-centralisation
Better prices	
Combined small surplus can access transport to the market	Loss of individual flexibility

The smallest producer can sell at the same price at international marketing networks	Levies and fees for the group
Sharing risk	
Encourages innovation	

#### 4.9.4. Market survey questionnaire

##### End market/customer

1. Why do they buy these products?

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2. What farm products do they buy the most?

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3. What quantities do they buy?

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4. How do they assess demand?

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5. How often do they buy the produce?

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6. What products are most profitable?

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7. What other products have a high demand in the market?

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8. From which farmers do they buy their produce?

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9. What types of problems do they face?

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10. What do they do to expand their business (e.g., credit sale, promotion, packaging)

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11. What times of the year can the highest prices be attained? (month or season)

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12. What is the quality of the produce they sell?

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13. What times of the year can the highest prices be attained? (month or season)

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14. How much more would they consider buying?

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15. What products are the most profitable for them?

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16. What is the quality of the produce they sell?

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**Retailers**

1. Why do they buy these products?

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2. What farm products do they buy the most?

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3. What quantities do they buy?

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4. How do they assess demand?

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5. How often do they buy the produce?

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6. What products are most profitable?

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7. What other products have a high demand in the market?

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8. From which farmers do they buy their produce?

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9. What types of problems do they face?

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10. What do they do to expand their business (e.g., credit sale, promotion, packaging)

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11. What times of the year can the highest prices be attained? (month or season)

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12. What is the quality of the produce they sell?

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**Farmers (individually or in groups)**

1. What farm products do they sell the most?

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2. Why do they sell these products?

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3. What quantities do they sell?

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4. How do they assess demand?

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5. How often do they sell their produce?

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6. Do they sell directly? Why?

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7. What products are the most profitable for them?

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8. What times of the year can the highest prices be attained? (month or season)

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9. What is the quality of their produce?

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10. Do buyers pay a premium for graded produce?

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11. How much higher are the premium prices for quality produce?

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12. What other products have a high demand in the market?

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13. Do they engage in group marketing? If so, why?

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14. What do they do to expand their business (e.g., credit sale, promotion, packaging)

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15. What type of problems do they face?

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**Competitor (doing same business)**

1. What type of produce do they grow?

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2. What is the quality of their produce? How does it compare with your own?

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3. How do their prices compare to your own?

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4. What do they do to make their business more competitive and profitable (e.g., promotion, packaging)

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5. What type of skills do they possess? Do they upgrade their skills? If so, how?

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6. Do any of the farmers (sellers) have a competitive advantageous position? In what way?

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7. Do your competitors face any specific kinds of problems? If so, what?

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8. What can you learn from your competitors that can improve your own business?

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**Transport**

1. What types of transport are available for your business?

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2. What are the advantages and disadvantages of each type?

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3. What are the rates for each type of available transport?

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4. Are there special transport services for particular products?

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5. For long distance transporting?

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6. Do transport owners or companies guarantee timely pick up of produce from the farm? Describe.

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7. What type of problems do transport companies face?

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8. How frequently do you transport your produce to the markets?

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9. Do transport owners or companies guarantee safe transport?

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10. Can goods be insured?

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11. Do transport owners or companies guarantee timely arrival to the market? Describe.

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## ANNEX I: PREPARING AN ACTION PLAN

Activity	Start Date	End Date	Responsible Person
Mobilising physical resources & inputs			
Identifying risks			
Planning for labour			
Conducting market analysis			

### Ideas for the way forward

How can you transfer the learning to other farmers in your area?

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Can you apply what you have learnt to other enterprises? How?

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What more do you want to continue learning about farming as a business?

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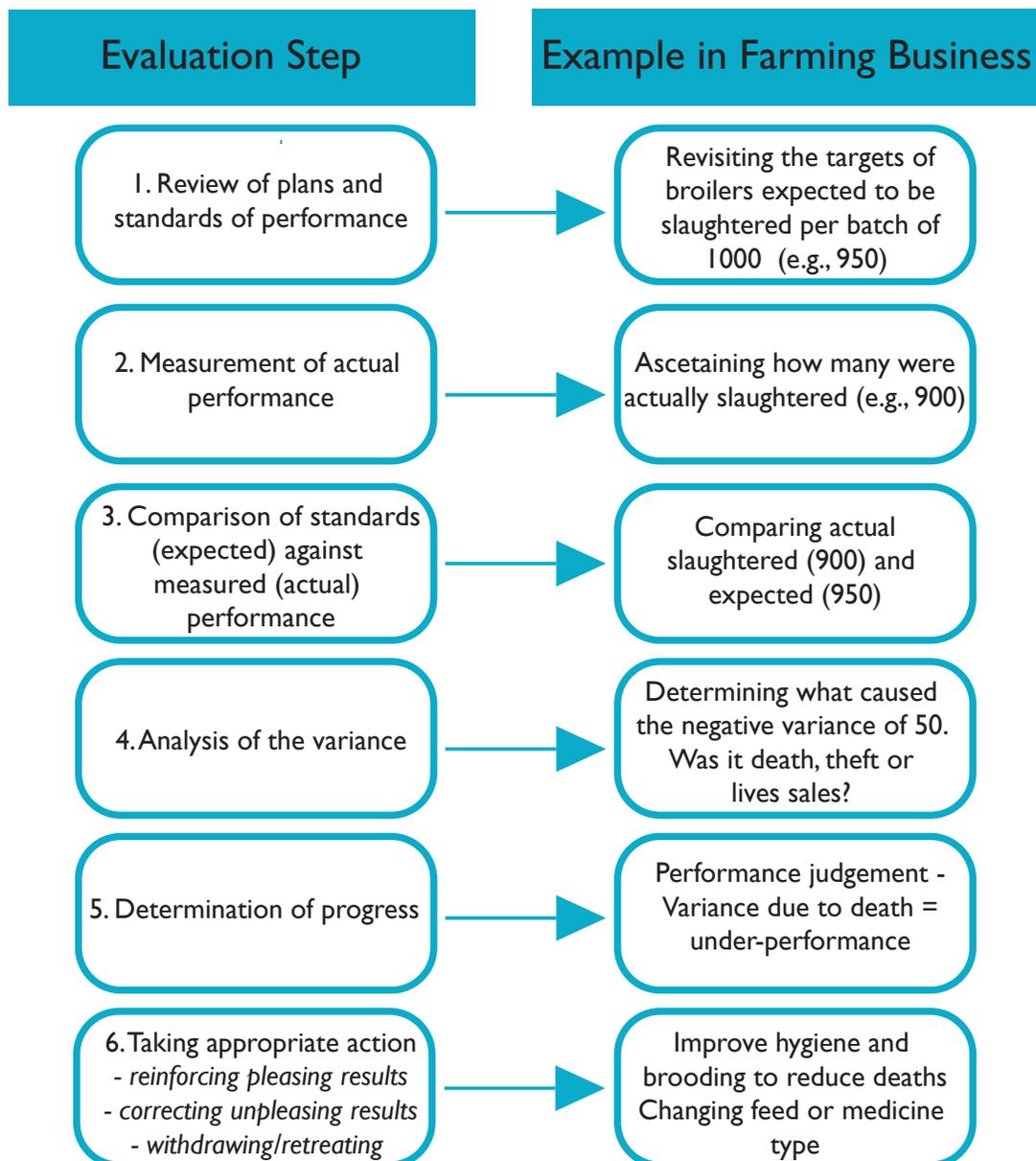
Notes:

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## ANNEX II: EVALUATING FARM BUSINESS





[worldvision.org](http://worldvision.org)

World Vision is a Christian humanitarian organization dedicated to working with children, families, and their communities worldwide to reach their full potential by tackling the causes of poverty and injustice.

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'Enhancing Nutrition, Stepping Up Resilience and Enterprise'