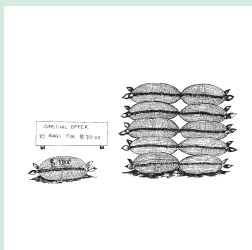


Marketing for small-scale producers

Agrodok 26 - Marketing for small-scale producers



partageons les connaissances au profit des communautés rurales
sharing knowledge, improving rural livelihoods

Agrodok 26

Marketing for small-scale producers

Ad de veld

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Author: Ad de veld

Editors: Marg Leijdens, Wichert Koopman

Illustrator: Mamadi B. Jabbi

Translation: Catherina de Kat-Reynen

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Foreword

Until the year 2000, new editions in the Agrodok series usually were about technical topics in small-scale and sustainable agriculture. This Agrodok on marketing is the first one in the series on a social-economic topic. The Agrodok is intended for small-scale producers.

Agromisa is grateful to CTA and Cordaid, who made it possible to publish this Agrodok.

We are grateful to all who have contributed to the coming about of this Agrodok. We would like to mention Martien Beek en Bert Hartevelt of IAC and Sasja Kamil and Ingrid van de Bouwdijk of Cordaid for their constructive support. Jane Aerts of Green Development, Corni Quist of SNV-Tanzania and Jur Schuurman of Agriterro contributed the illustrative cases.

Mamadi B. Jabbi made the lively African drawings and Arend Kortenhorst and Martin le Fèvre took care of the layout.

As usual it has been a long process to accomplish this Agrodok, we thank all those who have been patient to wait for it to appear. We hope your patience will be rewarded.

We hope that this Agrodok will be helpful to many small-scale producers. We encourage readers to write reactions to Agromisa, this will enable us to improve future editions.

Wageningen 2000,

Ad de Veld, author,
Marg Leijdens and
Wichert Koopman, editors.

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1 Introduction

Rural people in developing countries usually produce their own food. In addition to food, households also need money, to pay for clothes or school fees for the children, for example. Many households have set up other activities on the side, in addition to basic food production, to earn money. These activities vary from cultivating cash crops to making handicrafts or selling corn cakes at the local market (Figures 1-3).

Income from secondary activities is very important for many households, because it can help them achieve a considerably higher standard of living. Of course, these activities do have to be profitable in order to help the family's income.

Every household that produces more than just food for its own consumption will have to become involved in trade. That is, their products will have to be sold. All activities that have to do with selling products are part of what we call marketing. This Agrodok is intended for small-scale entrepreneurs who want to earn money from activities other than the cultivation of food for their families' consumption.

This booklet explains how the market works and how small-scale producers can best take advantage of the market to earn more money. The level of income earned from a secondary activity is also partly determined by the way the activity is managed. Planning and organisation of production is therefore discussed in the second part of this Agrodok.



Figure 1: Growing a cash crop



Figure 2: Producing handicrafts

Producing for the market looks appealing, but it does involve risks. A farmer who chooses to cultivate only cash crops, or other non-food products, endangers his family's own food supply. Market-directed activities should therefore be seen as secondary. Food security for the family should always come first.

Marketing a product is different from producing it. Each activity requires very specific knowledge and insight. Someone who is a good producer may not necessarily be a good seller. A producer who wants to market his product will have to negotiate with traders or consumers. He will have to know about supply, demand, and pricing.



Figure 3: Selling locale produce at the market

Of course, men and women are equally important as producers, sellers and traders. To keep the text readable, however, we have used the masculine pronouns 'he' or 'his' when discussing the roles of the entrepreneur, middleman, trader etc. Such generalisations are meant to be inclusive, referring to both men and women.

2 The market: price, demand and supply

Every entrepreneur who wants to earn money will have to become involved in trade sooner or later. He will have to attract the interest of potential buyers and then somehow convince them to pay a good price for his product. The price of a product is determined by the market. The price level depends on the supply of products and the demand of customers. This chapter explains how a price is determined and what factors influence this process.

2.1 The market and the market channel

The market (or ‘marketplace’) is the specific location where suppliers and potential buyers meet (Figures 4-6). Suppliers offer their goods; consumers look, compare and buy. The market can be centrally located in a village or region, in an area where people can come together at fixed times to buy and sell.

However, the term ‘market’ includes more than just the local marketplace. The market can also represent the total supply and demand for a particular product. Supermarkets, cooperatives or ‘middlemen’ (traders who buy from producers and sell to retailers or consumers) can also be part of the total market for a particular product.

Market channel

The market for a particular product is part of the market channel. The market channel is the chain of marketing activities that a product follows on its way from producer to consumer. Figure 7 gives an example of this. Many things happen to a product in the market channel. It may be processed, transported, packaged, etc. These market-

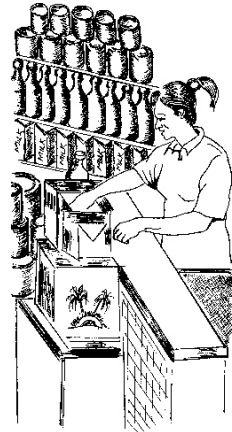


Figure 4: Supermarket

ing activities are explained in detail in Chapter 3 of this Agrodok. For now, it is interesting to look at the position of the small-scale producers in the market channel.

What is the role of small-scale producers in the market channel and where can they sell their products? As illustrated in Figures 1-3, there are a number of possibilities. However, it is important to find the best place in the whole market of supply and demand, to sell a particular product. Would this be at the local market, at the supermarket, to the middleman, or to the retailer? Or should the product first be processed, so that the producer can benefit from its added value and thereby also eliminate some steps in the market channel? In this booklet we will look for answers to these and other questions.



Figure 5: Street market

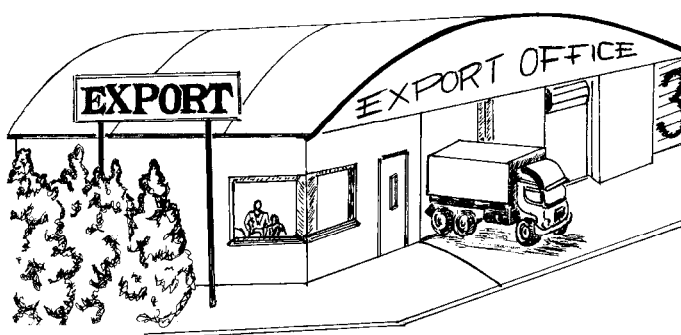


Figure 6: Export

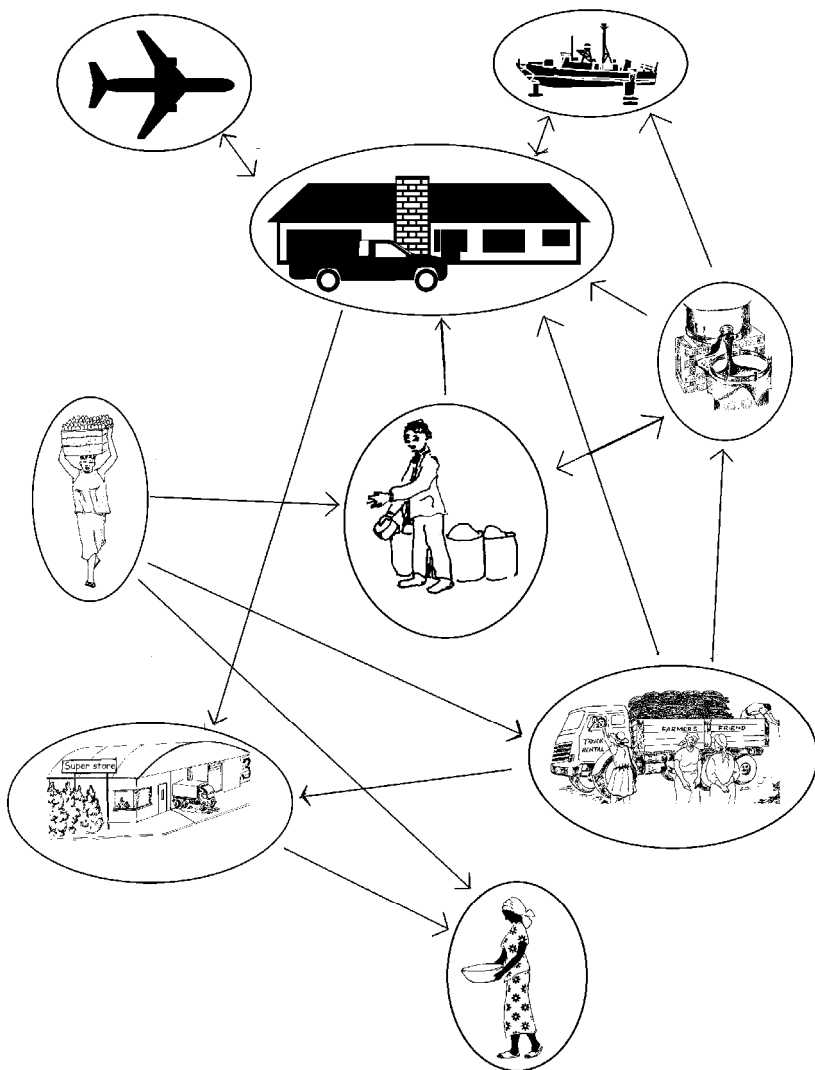


Figure 7: Channel for marketing your produce

The market is where producers try to sell their products for the best possible price. The market can be the actual marketplace, but can also represent the total supply and demand for a particular product.

2.2 The price of a product

A producer's income depends on the quantity of products he offers for sale; but it depends even more on the price that those products sell for. It is therefore important for producers to understand how prices are determined.

Price is determined by supply and demand. The total desire of all consumers for a particular product is simply called the demand for that product. The total quantity of a product that producers offer for sale is called the supply of that product.

If the demand is high and the supply is low, a number of consumers will be willing to pay extra money to be able to buy the product. This is good for the producers, because it means the price will be high.

If the supply is high and the demand is low, some producers will be willing to sell their products for a lower price. This is bad for producers, because the price will be low.

The price of a product is determined by consumer demand and the quantity of the supply.

2.3 Demand

Many factors influence the public's demand for a product. Producers have to be aware of these factors in order to understand the price fluctuations of their products.

Wealth

The demand for products depends to a large extent on the amount of money people in the region are able to spend. Poor people only have enough money to buy basic foodstuffs and other essentials. Rich people want to buy luxury items as well, and they are able and willing to pay money for them. A wealthy region generally offers more possibilities for producers to earn money than a poor region does.

Location

Demand for a particular product can vary greatly from place to place. In cities, for example, there is a high demand for basic food crops. In rural areas, many people grow these crops themselves. Therefore, a producer of a vegetable crop will probably be able to sell more at a marketplace in the city than in his own village.

The demand for some products may extend beyond the producer's own country. For these products there is an export market. Exporters buy the products from the producers and sell them to middlemen in foreign countries. For some producers it can be more attractive to focus on the export market. This can be difficult, however, because quality demands for export products are very high. Moreover, although the prices of products in the export market can rise much higher than in the domestic market, they can also fall very low. Producers who focus solely on the export market are thus taking a greater risk.

Timing

Some products are seasonal. For example, in the rainy season there is more demand for umbrellas than in the dry season. A traditional holiday can also be associated with a high demand for a particular product, such as a traditional drink or food item. A producer can take advantage of this by putting a product on the market only when there is a high demand for it.

Taste

People's tastes and preferences differ. What one person likes, another may dislike; and what one person finds attractive may seem ugly to another. Tastes can also change over time. A product can be in high demand one year, but be replaced by another product the following year. It is difficult to predict how the public's tastes will develop. This makes it difficult for a producer to anticipate future demand. But it is still worthwhile trying to do so, because a producer who can take advantage of the public's changing interests can earn a lot of money.

Price

Demand for a product depends ultimately also on the price. A product that is very expensive will be bought only by a limited number of people.

The demand for a product is determined by the wealth of the people in the market region, the place and the time of year the product is offered for sale, the selling price and the tastes of consumers.



Figure 8: Selling products that customers want means business!

2.4 Supply

Just like demand, supply is influenced by various factors. Here too, it is important for producers to understand how the process works. The goal is to be able to estimate the size of the total supply of a particular product on the market and to thereby get an idea of how the price for that product will develop.

Labour, land and money

Production requires labour. To cultivate agricultural products, land is also needed. But production also often requires money, even if it is only used for seed or tools. The supply of a product is determined in part by the amount of land, labour and money that producers in a particular region have access to.

Season

Producers in the agricultural sector are dependent on the seasons. The supply of agricultural products varies, therefore, from season to season. During the harvest season, the supply of agricultural products is high, while at other times in the year the supply is low. The abundant supply forces the prices down in that season (Figure 10). A low supply at other times can lead to high prices for such products (Figure 9). Producers can earn a lot of money if they can manage to offer products for sale when the supply of those products is low.

Weather

Agricultural production also depends on the weather. If the weather is good, the harvest will be plentiful and the supply of agricultural products will be high. If the weather is bad, the harvest will be poor and the supply will be low. An abundant harvest therefore often leads to low prices, and a poor harvest often causes the prices to increase.

Number of producers

Supply is also determined by the number of producers of a particular product and by the quantity that they produce. Producers often choose to produce a product that is currently selling for a high price. This means that a period of high prices is often followed by a period with an increasing supply, as more and more producers choose to produce that product. When the supply becomes high enough, the prices will fall. If the price stays low for an extended period, the supply will often decrease again as producers switch to products with which they can earn more money. The result is a smaller supply and, again, higher prices for the product. See Case 1, Section 3.4.

Import

Not only local production, but also production in a nearby area or a different country can affect the quantity of the supply. Particularly when the price is high, middlemen will try to buy products elsewhere and sell them on the local market.

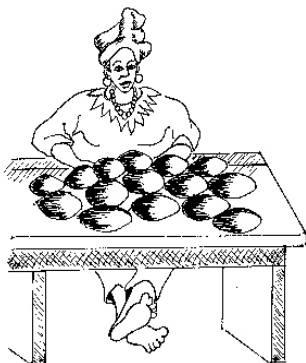


Figure 9: In 1996 coconuts sold for KSh10 each (small supply)

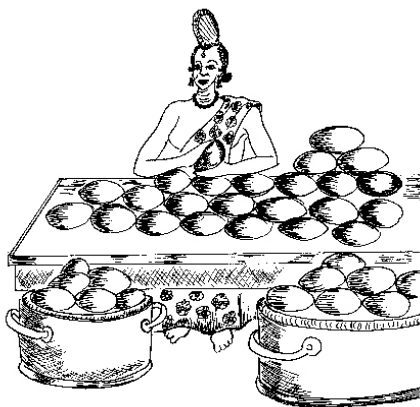


Figure 10: In 1997 coconuts sold for KSh5 each (large supply)

Price

Supply is also influenced by price. When the price for a particular product is high, producers will work harder to put that product on the market. The supply will therefore increase. When the price is low, producers will not work as hard for that product and the supply will decline.

Supply is determined by the availability of labour, land and capital, by the weather, the price, the number of producers, how much they produce and the import of goods from other regions or countries.

Supply and demand

In this chapter we saw that supply and demand determine a product's price on the market. This is nothing new, but it is important to keep it in mind when deciding when to put a product on the market. By paying attention to the supply and demand of various products, producers can choose to market products that can be sold for a good price.

3 Marketing

Every producer or entrepreneur who wants to earn money will at some point become involved in marketing.. As we have seen in Chapter 2, supply and demand determine the price of a product. Marketing is a way to take advantage of, or even influence, supply and demand. The goal of marketing activities is to increase the profit earned from a product.

Marketing is all of the activities that can contribute to selling a product for a better price.

Marketing tools

There are various ways to influence or take advantage of supply and demand. This chapter gives an overview of these marketing tools, which can help entrepreneurs improve the profitability of their income-generating activities.

3.1 The choice of product

If an entrepreneur wants to earn money by producing a product and selling it on the market, he has to first choose the right product.. He must start by asking himself a few questions: *What does the consumer want?* It makes no sense to produce something that no one wants. Even if the harvest is plentiful or the product is very easy to make, the selling price will be low and the producer's earnings will be very limited if no one wants to buy it..

What product can I produce? Of course the answer to this question depends on the family's resources. Is there enough land available to grow crops? Is the climate suitable for a particular crop? Are there enough labourers available?

For non-agricultural products: *Are the materials for production available? Do we know enough about the production of this product?, In short, what are the possibilities?*

The choice of what product or crop to produce thus depends on two factors: First the entrepreneur has to find out what products are in demand, and then, on the basis of this information, he have to choose a product that fits his personal circumstances. In chapter 4 we will discuss this topic further, because it is a very important issue.

The choice of product is an important marketing tool. as a producer, you choose a product that will hopefully sell for a good price. To make the right choice, the producer has to have as much insight as possible into the workings of supply and demand for a number of relevant products.

3.2 Location

Production households can sell their products in many different ways. The easiest ways to market a product are to sell it to a middleman, a cooperative, or directly to a buyer on a contract basis. These three options are explained later in this booklet.

Many small-scale producers choose to sell their products directly to the consumer, at a marketplace for example. These producers have to first decide at which marketplace they want to sell their products. There are many possibilities. There are marketplaces in cities and in rural areas. Some are close by and others are far away.

The price of a product and the amount of energy it will cost to get the product to a market will determine the choice of location. There is greater demand for agricultural products in cities than in rural areas. The prices of these products will therefore often be higher in the cities. On the other hand, the producer will also incur more costs in transporting the product to the city.

The price of a product often varies from market to market. As a producer, you have to look for the market that offers the highest price for your product. In comparing prices you have to take into account the extra costs involved in getting to some markets. Moreover, different markets (supermarkets, export markets) may make their own demands on the quality of the product, the packaging, sorting, etc.

3.3 Transport

Products generally have to be transported from the producer to the consumer. It is important that the products do not get damaged during transport. Every type of product requires a different handling method. Some products cannot tolerate moisture, while other products cannot tolerate heat. Before an entrepreneur transports a product he has to know what the right transportation method is.

The product also has to arrive at the market within a certain time frame. It is important that agreements be made ahead of time, with the truck driver for example, about when the truck is expected to arrive and what the driver should do if the truck breaks down underway.

The product has to retain its quality while being transported and has to arrive at the market on time.

3.4 Storage

Before a product can be sold it often has to be stored. The quality of perishable products declines if they are stored improperly. Moulds, pests, water, heat, etc. can damage a stored product so much that it can no longer be sold. A producer who is planning to sell perishable products at a marketplace, on a weekly basis for example, will have to find a good way to store them.

Storing a product can also be a way to get a higher price for it. Many agricultural products are in ample supply during the harvest season. The prices of these products are therefore usually low. During the rest

of the year, the prices are usually higher because the supply is lower. If the products can be stored without damaging their quality, they can often be sold for a higher price after the harvest season. However, storing products can involve risks. Even if prices are expected to increase after the harvest season, there is no guarantee that this will happen. If the prices stay at the same level, producers will lose the money they spent to store the product. To store a product, the producer has to buy or rent a storage facility and make sure that the product retains its quality. These extra costs have to be recovered. Therefore, before making the decision to store a product, you have to fully understand what the chances are that the price of the product will increase.

Storing products is important because it allows the producers to sell their products later, when the prices are higher. Unfortunately, there is no guarantee that the prices will indeed increase. It is important in any case to make sure that the quality of the product does not decrease during storage.

Case 1: The risks and possible advantages of price fluctuations

Tulalemwa, a rice producer in Tanzania, has watched the price of rice fluctuate every year. During the harvest period, due to the large supply, the price is low. A bag sells for TSh15,000 (Tanzanian Shillings). Later in the season, as the availability of rice declines, the price increases. After about 5 months, the price of one bag of rice rises to TSh 23,000. Normally, after harvesting, Tulalemwa keeps part of her rice for use at home until the next harvest. She has to sell the rest of the harvested rice to earn cash to pay off the debts she incurred in buying fertiliser and hiring a tractor to transport the rice.

She would like to benefit from the price fluctuations by storing the rice for some time and selling it after a few months, when the price is high. But to do this, she must first find another source of money to pay off her debts. She can try to borrow from a rich relative who is a businessman in town, or she might get a loan from a micro-credit scheme available in the area.

If she succeeds in borrowing money, she will still have to take care of a few things. First, it is important to find a good storage place for the rice. Rice has to be stored dry in order to retain its quality. Second, and more importantly, she has to keep a watchful eye on the market and the prices. Normally prices will be low during the harvest and will start to rise after the harvest period. The rice grower will be tempted to sell her rice as soon as the prices seem attractive. But she may decide to wait still longer with the hope of receiving even higher prices later on. The producer may plan to sell her rice just before the new harvest comes in, especially if the previous year's prices reached their highest level at that time.

The risk, however, is that rice stocks may still be abundant when the new harvest is approaching. Many rice producers will then start selling their stocks and, due to the large supply, prices will start to fall drastically. In the end, the rice producer might have to sell her rice for a price that is close to the low price she could have received around harvest time.

The important lesson to be drawn is that although it is a good idea to store rice in order to sell it later, this practice also involves risk. The rice producer should anticipate this problem and educate herself about the current stocks of rice. She can then avoid the risk by selling her rice earlier in the season if necessary. Prices half-way between harvests are often good enough for producers to make a profit and avoid the risk of loss.

Source: Ad de Veld.

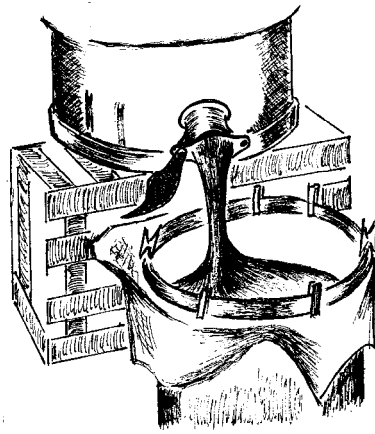
3.5 Processing

Some agricultural products cannot be sold directly to consumers. They have to be processed first. Processing can make a product more attractive or it can increase its shelf life (Figure 11). Fruits, for example, can be made into jam, and milk into yoghurt or cheese. Processing costs time and money. However, it can be a way to earn more money from a product. Good processing adds value to a product.

In processing a product, you add something to it that makes it more interesting for the consumer. The value of the product thus increases and it can be sold to the consumer for a higher price.



Fruits: Le 1000 per kg



Jam costs Le 5000 per jar



Orange Fanta costs Le 10000 per bottle

Figure 11: Processing adds more value to products

3.6 Presentation

Consumers at a market can choose between different products and different sellers of the same product. Consumers will inevitably choose to buy from the seller who offers the best product for the cheapest price. If supply is greater than demand, consumers will not buy a product that does not look good. People are often willing to pay a little more for a product that looks good. An attractive presentation is therefore one way to increase the selling price.

Improving the presentation of a product will enable a producer to sell more of a product or to get a higher price for it.



Figure 12: Good presentation of your products attracts buyers

Sorting

One way to improve the presentation of a product is through sorting. Sorting a product according to size, ripeness or other quality makes it look better. The consumer can then also choose the quality that he or she is looking for and will often be willing to pay more for it. Sorting can thus increase the selling price of a product.

Sorting is a simple way to improve the presentation of a product.

Packaging

Consumers prefer to buy some products in small quantities. Breaking up a large quantity into small packaged portions can make a product more attractive to consumers. Packaging the product in a pretty box or bag is also an effective way to present it.

Packaging a product makes it more attractive to the consumer.

3.7 Service and promotion

As a producer, an entrepreneur has to work hard in all marketing areas. In addition to producing an attractive product, the entrepreneur has to actively promote it. In other words, he has to make consumers want his product. This can be done by placing advertisements in local newspapers, radio and television or even by calling out loudly at the marketplace.

Providing good customer service is also important. A consumer can be unsatisfied with a product that he or she has bought. Complaints by consumers have to be taken seriously by the producers, because the complaints may be justified and because producers can learn from them. Moreover, a producer is more likely to keep a customer who feels that his or her complaint was handled correctly. Unsatisfied customers who are not taken seriously will probably not come back.

Promoting your products brings it to the attention of potential customers. Providing good service is a way to keep customers satisfied after they have bought your product, and to keep their business.

3.8 Financing

Financing is not a way to make the product more attractive for the consumer, but it is, like transport, an essential part of bringing a product to the market. Without money there can be no means of production, and without a means of production there can be no product. Chapter 7 discusses financing in more detail.

Financing supports the marketing process. Without money there can be no production.

Conclusion of Chapter 3

If you want to produce and market a product successfully, you will have to take a good look at the various requirements and activities that are involved. To start with, you will need sufficient resources. Next, you have to choose a product that can be produced by your household and for which there is sufficient demand. Selling location, presentation, packaging, sorting, processing, transport, storage, servicing and promotion are all factors that contribute to making the product meet the wishes of the consumers and to enabling the consumer to buy it. If all of these steps are carefully followed, they will surely have a positive effect on the earnings gained from any income-generating activity.

4 The choice of a product

A producer who wants to earn money by producing for the market has to first choose a product. Many entrepreneurs choose products that are traditionally produced within their area; but for some the choice is limited by their available means.

When choosing a product to sell, the important questions to ask are:

- Which products are likely to be sold for a good price?
- Where can they be sold?

An entrepreneur has to determine which products are in demand and at what markets he could sell them. At the same time an entrepreneur has to look at what products he can possibly produce. Availability of land, labour, money and knowledge, and the type of social relationships within the household play an important role in determining what products he can produce. In Sections 4.1 and 4.2 we will look at these factors in detail.

To find out what products can be sold for good prices and where the best prices can be expected, an entrepreneur has to collect market information. Most importantly he will have to become familiar with the demand and supply of various products. This information allows producers to choose a product that is expected to do well on the market. How to collect market information will be discussed further in Section 4.3.

The last questions an entrepreneur has to answer before deciding what product to produce are: Which markets offer the best conditions for selling the product? and How much competition is there with other producers? These questions will be addressed in Sections 4.4 and 4.5.

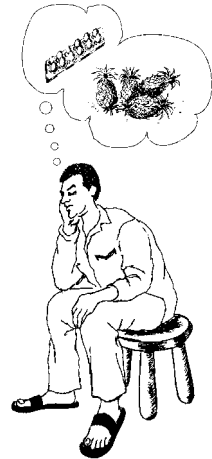


Figure 13: What to produce?

In this chapter we will answer a number of questions:

- What possibilities and limitations are there within the household to produce a product?
- What possibilities are there at the market to sell a product?
- Where is the most favourable market? and
- How much competition is there at that market?

4.1 Land, labour, money and knowledge

In choosing a product, the producer has to answer the following questions:

- How much land, labour and money are available?
- Do I have enough knowledge to produce a particular product?
- Does the product fit the social relationships within my family and the village? (Section 4.2)

Land, labour and money

A producer who wants to start an income-generating activity must have access to enough land (or space in a shed, for example), labour and money. Land is needed to grow agricultural products. A shed might be needed for producing other types of products. Some products are made in the home and do not need much extra space. Cultivating or making a product also requires labour. In addition, a producer has to have enough money to begin a new activity. This money is needed to buy seeds, tools or larger equipment, for example.

A family that has access to enough land and labour can cultivate crops for the market. A family that has no land but does have enough labourers can direct its attention to processing agricultural products or to producing small-scale non-agricultural products.

Many small-scale farmers in developing countries have very little money, and borrowing money is often difficult or risky for them. Large-scale production often requires a lot of money in the start-up phase. Therefore, a small-scale producer will have to earn his income through activities that require little money to start with. Chapter 7 offers some ideas about how to obtain money for start-up costs.

Before an entrepreneur can produce anything, he has to look at how much land, labour and money he has available.

Knowledge required to produce the new product

A new activity often requires new knowledge. Insufficient knowledge of how to produce a product can lead to problems and eventually to disappointing returns. Knowledge can be gained through colleagues, extension workers or courses.

Sufficient knowledge about a product is essential if the product is to be produced profitably.

4.2 Social relationships

A new activity within a family business can lead to social changes. It is good to consider this when choosing a new activity. The following questions are important:

- How will the new product affect the social relationships within the household?
- Will the labour requirements of the product fit within the household's activity schedule?

Social relationships

How will the new product affect the social relationships within the household?

The choice to start a new income-generating activity can lead to stress within the household. Women often prefer to cultivate extra food crops for the market. This offers more security for the family's own food supply, because if the production of food for the family's own use is less than expected, they can always use part of the crops that were intended for the market for their own consumption.

Men are often more interested in earning money and are therefore more inclined to cultivate a cash crop. The earnings can be higher, but there is also a risk that the family's own food supply will be endan-

gered if the harvest or sale of the cash crop is less than expected. The degree of insecurity increases as more land is used for the cultivation of cash crops. It is important that the choice of activity be made as harmoniously as possible by the family members. This increases the chances of success.



Figure 14: Women and men often choose different products

In choosing a product, always consider what its impact will be on the social relationships within the household.

Labour requirements

Do the labour requirements of the product fit within the household's activity schedule?

The members of a household often spend an important part of their time on the production of food for their own consumption. This has to be considered when choosing an income-generating activity. If an activity requires a lot of labour during a period in which extensive labour is required to produce the family's own food, then the activity will not be feasible. The goal is to find an activity that requires labour during a period in which the household members have extra time available.

In choosing an income-generating activity, keep in mind the other activities that the various members of the household have to perform.

4.3 Choosing a product: the market

In this section we will look at how to find market information and how to decide where a product should be sold.

Information about the supply of, and demand for, products can be gathered in various ways, such as through:

- market research (via the middleman or consumers)
- the media
- extension workers
- product organisations.

Market information via the middleman

Buyers are an important source of information for producers. This can be demonstrated by the following example.

Grace Mpofu, a farmer in Zimbabwe, grows vegetables for consumers in the city. Grace rarely goes to the city herself, so she has little knowledge of the eating habits and preferences of the city's inhabitants. She doesn't know what vegetables they prefer to eat, so without an intermediate source of market information she would not know which vegetables are in high demand, nor which vegetables can be sold in the city for a good price. For this reason, the producer sells her vegetables to a middleman who comes every other day to buy the produce. The middleman drives to the city and sells the vegetables at a market. He has a lot of contact with the consumers in the city, so he can get a good idea of their preferences. The middleman can thus pass on his knowledge about the market and important information on the wishes of his customers to the vegetable producer.

Market research via the middleman can be done simply by asking the middleman questions about market developments related to the producer's product.

The middleman can be an important source of information for a producer.

Market information via consumers

Collecting market information from consumers can be done in various ways. A producer of vegetable crops can go to a central market to interview a number of women about the vegetables they like to buy and about the current availability of these vegetables. Such research is easily done, but it offers only a limited amount of information.

More extensive research can provide a producer with more information on the wishes of various groups of buyers. Consumers with high incomes buy different products than consumers with low incomes. The specific demands that different groups have for products will also vary. It can also be important for a producer to know where consumers buy their groceries, how often they buy a particular product and whether the product is in demand throughout the year or only during one season. In addition, a producer will want to know whether changes can be expected in the supply of, and demand for, a particular product.

One community in Kenya came up with an original way to collect market information. Many members of the community were producers of peanuts, and they generally had no knowledge of the price fluctuations of peanuts in the nearby city. They noticed that they sometimes sold their peanuts to the middleman for a price that appeared to be too low. To avoid this in the future they came up with the idea of placing a blackboard in the centre of the village. When anyone from the community visited the city, that person would find out what the price of peanuts was for that day. On returning to the village, the person would write down the price on the blackboard so that everyone in the village was informed of the price. Eventually the producers had a very good idea about price developments and this gave them a stronger position when negotiating with the middleman.

Answers to these questions can help a producer make the right decision about what products to offer. To find these answers, however, extensive research has to be conducted. A small-scale farmer does not have the means to do this, but it may be possible for a cooperative or other organisation of producers to carry out extensive market research (see next section).

Basic market information can also be provided by the consumers themselves.

Market information via product organisations

It is not possible for an individual producer to conduct large-scale market research. It is possible, however, for producers to organise themselves and to thereby share the costs of research (see next section). Market research could focus on one of many different important topics. For example, producers could:

- collect price information in different selling areas (to determine the feasibility of selling the product there);
- collect information on general developments in supply and demand (to anticipate possible fluctuations in supply and demand in the coming production season);
- identify the specific wishes of consumers for a particular product (a group of weavers, for example, could find out what colours and designs will be in demand for the coming season);
- research possible export opportunities;
- investigate whether a product could be processed further and sold in a different form (for a higher price).

Producers who organise themselves have the opportunity to conduct more extensive market research.

Market information via extension services or the media

➤ *Agricultural extension workers*

Agricultural extension workers often have a good idea of what the supply, demand and price developments of a particular product are. They can be an important source of information for small-scale farmers.

➤ *Media*

In a number of countries, information on the prices of various products is broadcast over the radio. By listening to these broadcasts, producers can stay informed of changes in the prices of their products.

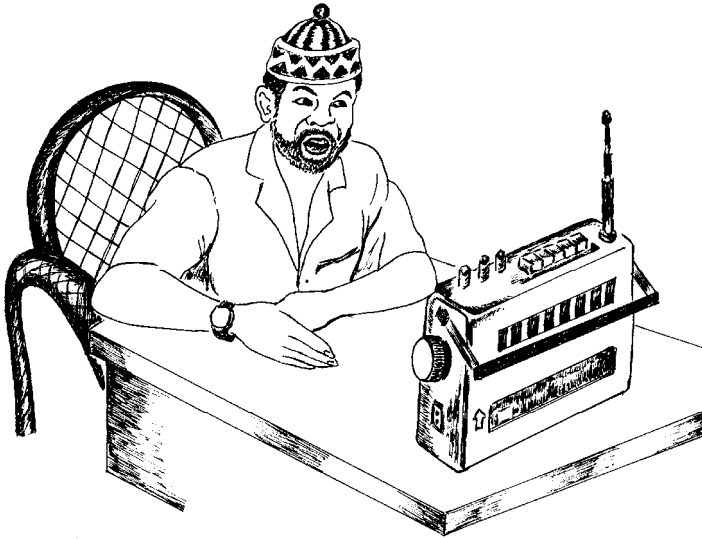


Figure 15: Market price information through the media

4.4 Switching to a new product

Market research may indicate that a good profit can be earned from a certain product in the short term. A producer may then want to consider switching to that product. Before starting production of a different product, however, he should consider the following points:

Sometimes it may look attractive to choose a product or switch to another product that offers a high income. However, choosing a product that offers the highest earnings in the short term may not always be the best strategy. Often, many producers switch to a product that has been sold for a high price that year. As a result, the supply is high the following year and the price is low. After a year of low prices, some of the producers will stop producing that product, and in the following year the price will increase again.

In 1980, the Dutch Government invested in an irrigation scheme in the village of Kibirigwi in Kenya. The goal was to enable the villagers to produce a variety of vegetables to be sold in Nairobi, the capital city. With better irrigation, the farmers were able to cultivate a wide variety of vegetables (peppers, cabbage, tomatoes, carrots) throughout the year, and their incomes increased as a result.

This went quite well until the farmers realised that tomatoes were more profitable than the other vegetables. Using their business sense to achieve a maximum profit, some farmers started a monoculture of tomatoes in the following season. These farmers became wealthy after selling the tomatoes.

Of course, this did not go unnoticed by the other farmers, who had seen how profitable the tomatoes were. Despite warnings from the irrigation management, the entire area became a tomato cultivation area. The early harvesters had been fortunate, because people living in the city were in need of tomatoes and were willing to pay a good price for them.

However, this changed when the Kibirigwi-tomatoes started flowing into the city daily, and in a very short time the price dropped drastically. In the end, tomatoes were left rotting in their crates as the demand for tomatoes in the city was satisfied. The cultivators who had expected to make big money ended up with major losses. Strangely enough, this happened more than once, and every time with a different crop. It was a recurring cycle, because the producers were not sharing information with each other. They often discovered too late that they were all cultivating the same crop.

Currently, the Kibirigwi farmers are cultivating French beans, sweet potatoes and maize, as they have experienced that there is always a demand for these crops.

Source: Jane Aerts, "The flexibility of small-scale irrigation scheme in Kibirigwi, Kenya", 1997.

In any case, it is often wise to stay with one product for a longer period of time. The price of a product will normally fluctuate between bad and good and a producer gains experience and knowledge about his particular product over time. As a result, the quality of the product will steadily increase and the cost of production will decrease. This knowledge base is lost if the producer switches to a different product. Moreover, starting production of a new product often costs extra money.

Switching to a new product costs money and requires extra knowledge. Before taking this step, a producer has to be sure that these extra investments can be recovered through sales of the new product.

4.5 Producing various products to reduce risks

Prices are unpredictable. One year the price of a product can be high, and the following year low. Changing weather conditions also create uncertainties about harvests in the agricultural sector.

A farmer who chooses to cultivate only one particular crop is taking a risk. The family's income will strongly depend on its earnings from that one product. Choosing to cultivate a number of products or crops reduces this risk. A low price for one product may be compensated by a high price for another. If one crop fails, it does not necessarily mean that other crops will also fail.

By producing a number of products, an entrepreneur can reduce the chance that his whole production will fail.

4.6 Selling

Farmers who produce for the market will want to sell their products at a minimal cost to themselves. Selling the products within one's own region is often the easiest and most attractive option. A producer thus has to look for selling opportunities in the area. There may be demand for the product in a large city in the area and the product could be transported there. Most likely there are also buyers of cash crops in the area, or there may be a processing company that will want to buy the product. Tourists in the area can also be buyers of certain products.

A producer can decide to sell the product himself at the market. But it is even easier to sell the product to a trader, middleman, wholesale buyer or processing company. The price is then usually lower, but it requires less effort to sell the products. It is also important to know whether the chosen market is accessible. If it costs a lot to transport the product to the market, the earnings from the product will be disappointingly low. This is especially true for perishable products. If the market cannot be reached quickly, the products will rot before they can be sold, or the quality will be so diminished that the earnings will fall short of expectations.

With respect to selling, it is important to find out where the products will be sold; whether the market is accessible at all times; whether the transportation costs to that market are reasonable; and whether it is better to sell the product yourself at the market or to a middleman, etc.

4.7 Imports

In choosing what product to produce, it is important to first find out who the competitors will be.

Large-scale producers

Some products produced by small-scale farmers are also produced by large companies. Large-scale producers often have an advantage. They can produce the product for less money; for example, by optimally utilising the capacity of their machinery. Large companies can also benefit from price reductions when they buy raw materials in large quantities.

Importers

Imported products can also limit the sales potential of small-scale farmers. It is difficult for a small-scale farmer to compete with the inexpensive products of large-scale producers or importers. It is therefore good to choose a product that is not cheaply produced or imported in large-scale quantities for low prices. A producer should ask himself: Can I produce a product that I can sell on the market for a profit? This means the cost of production should be at least under the normal selling price on the market. Before deciding on a product, it is good to find out exactly how much it will cost to produce it, to see whether the entrepreneur can compete with other producers. An example of how to calculate the cost price is given in Appendix 1.

5 To market or sell a product

An entrepreneur can sell a product in a number of different ways:

- directly to the customer at the market
- to a middleman or trader
- through a cooperative or product group
- through contract cultivation.

Each form of selling has advantages and disadvantages. An entrepreneur has to choose the system that best fits his situation.

5.1 Selling the product directly to the customer

If an entrepreneur decides to sell his own product, he has to have the ability to do so. He has to enjoy dealing with people, and negotiating prices with them. At the same time, he should also be attentive to their wishes. A producer who would rather be working on the land or in his workshop would be better off choosing to sell through a trader.

Selling a product directly to the consumer costs more money than other ways of selling, but it also achieves a higher price. To sell a product directly to the customer, it has to be transported, sorted etc. This costs time and money, which usually means that the selling price has to be higher. An entrepreneur who wants to sell his own product has to determine whether the higher selling price compensates for the extra costs and labour.

A producer can sell his product himself at the market, or he can sell it via a trader or a middleman. The choice depends on whether it is financially attractive for the producer to market the product himself, whether he would enjoy it, and whether he has the ability to do so?

Table 1: Calculation of income

	Explanation	Starting situation	Processing
Number of self-help groups		34	34
Acres under cultivation		34 acres (1 per group)	34 acres (1 per group)
Seed production	500 kg seed per acre	17,000 kg	17,000 kg
Oil production	5 kg seed produces 1 litre of oil. 1 ltr. Oil = KSh 80		3,400 litre
Seed cake	5 kg seed = 4 kg seed cake 1 kg seed cake = KSh 8		13,600 kg
Income for the HOPE-community	1 kg seed = KSh 12	KSh 204,000 <i>Income if selling the seed to a middleman.</i>	KSh 272,000 for the oil. KSh 108,000 for the seed cake. Total KSh 380,000. <i>If processing is done by themselves.</i>

5.2 The middleman

The middleman is the person who collects small quantities of products from various producers and sells them to large-scale traders, processors or exporters.

As mentioned in the introduction, we use the general pronoun 'he' when referring to both men and women in order to make the text more readable. It is not our intention to exclude women, who also often work as producers or traders. There is no clearly defined difference between a trader and a middleman. However, in general, the middleman works with smaller quantities and has closer contact with the producers of a product.

Marketing a product is difficult for many producers. Sometimes the market is too far away or they have no means to transport the product. Sometimes members of a family do not have enough time, interest or knowledge to sell the product themselves.

Not surprisingly, many small-scale producers sell their products to a middleman. This practice has a number of advantages:

- Middlemen are specialised in marketing a product and can therefore negotiate a higher selling price. The producer is then free to concentrate on production.
- A middleman can collect small quantities from various small-scale farmers and transport them together. By combining small loads, the transport costs are kept relatively low.
- A middleman can sort large quantities according to quality and can then sell the sorted products for a higher price.
- A middleman can lend money to producers to help them start a new activity.
- A middleman has knowledge of supply, demand and prices and can pass this information on to the farmers.

Middlemen are specialised in marketing

As we saw in Section 5.1, marketing and producing are very different activities. Selling a product requires knowledge about the market:

- Which buyers are trustworthy?
- Who pays the best price?
- At what time of the day is the seller likely to get the best price?
- What is the best place to sell a product? etc.

This knowledge is needed to get a good price for the product. Middlemen gain this knowledge through years of experience with a few products. They know where they can get the best price for a product.

The middleman is experienced in selling at the market and can therefore usually get the best price for a product.

Transport

It is difficult for many small-scale producers to transport their products to the market. Either they do not have a vehicle, the distance is too great or they do not have enough time. It would be very costly for every producer to transport his own product to the market. Small-scale producers usually have only small quantities, and transporting small loads to the market costs a lot of time and money.

A middleman can avoid this problem by buying crops from a large number of producers in the villages and transporting them in a full truck to the city. The transportation costs per unit of product are then much less than if each producer were to drive to the market himself.

Transporting large quantities of a product is generally less expensive per product than transporting small quantities. A middleman has the capacity and opportunity to transport large quantities.

Sorting

Middlemen often work with large quantities of a product. This gives them the opportunity to sort the product according to size or ripeness. Products that are sorted according to quality often sell for a higher price. Sorting is especially important for products that are destined for supermarkets or for export.

Farmers can sort their products themselves, but middlemen have the advantage of working with large quantities.

A middleman has access to large quantities and can therefore sort a product more efficiently. This increases the price.

Credit

If an entrepreneur wants to produce a product he will need money to start the production process. Before a product is ready to be sold, costs are incurred to produce it. Money is needed to buy seed, machinery or tools, for example. For many small-scale farmers it is very difficult to borrow money. A middleman can be a big help in this situation. He can grant credit to producers in the form of money, seed, wood, paint, etc. In exchange, the producer can promise to sell his products to the middleman.

Middlemen can sometimes grant credit. The relationship that is created in this way between middleman and producer can be useful. It is important, however, to always make sure that this form of cooperation really benefits the producer as well as the middleman.

Information supply

An entrepreneur who wants to successfully produce for the market has to know the wishes of the consumer. Not every producer has regular contact with consumers. This makes it difficult for the producers to know what the consumers want.

Middlemen have regular contact with buyers and consumers. They are aware of supply and demand levels. A middleman can pass this information on to the producers. He can give them a good idea of what products are in demand and how they can best be produced.

The middleman is an important source of information.

Warning: There are also disadvantages of working with a middleman

Working with a middleman can also have a negative side. A middleman is easily tempted to pay prices to the producer that are lower than the market is indicating. Middlemen are better informed than producers and they can misuse this knowledge. A producer can prevent this from happening by keeping an eye on the market. He can go to the market himself to find out what the prices are there. The margin between the price that he receives and the price charged at the market has to be within reason.

Case 2: Avoiding the middleman

The HOPE Community Development Programme, a grassroots organisation in Naitiri, Kenya, provides a good example of how to avoid selling to a middleman.

The farmers in Naitiri were used to cultivating sunflowers in between the two maize harvests. They sold the seeds for 4 to 6 Kenyan Shillings to a local middleman, who would sell the seeds to large oil processing industries in Kitale and Eldoret in the district. The oil was sold for KSh 90 per litre to consumers or to bulk buyers, who would sell it again for between KSh100 and KSh200 at more distant markets depending on quality and packaging.

The farmers were not making profit from the seeds. A small group of farmers decided to take action, so they organised themselves into what was to become HOPE. HOPE's solution for the poor pricing was to eliminate the role of the middlemen. The management of HOPE bought the seeds from its members and sold them for a profitable price. The next step was to look for possibilities to process the oil themselves, as this seemed to be the most profitable option. In making this decision, HOPE made the following calculation (see Table 1):

However, before it could process the seeds, HOPE had to purchase four oil presses at KSh 30,000 per press. The members pressed the oil themselves to keep production costs low. After making further calculations and talking to possible buyers, HOPE decided to double its acreage of sunflowers and to sell the oil in bottles for KSh 95 each, to the supermarkets. In three years they are expected to be making a net annual profit of KSh 255,000.

Source: Green Development, 1999.

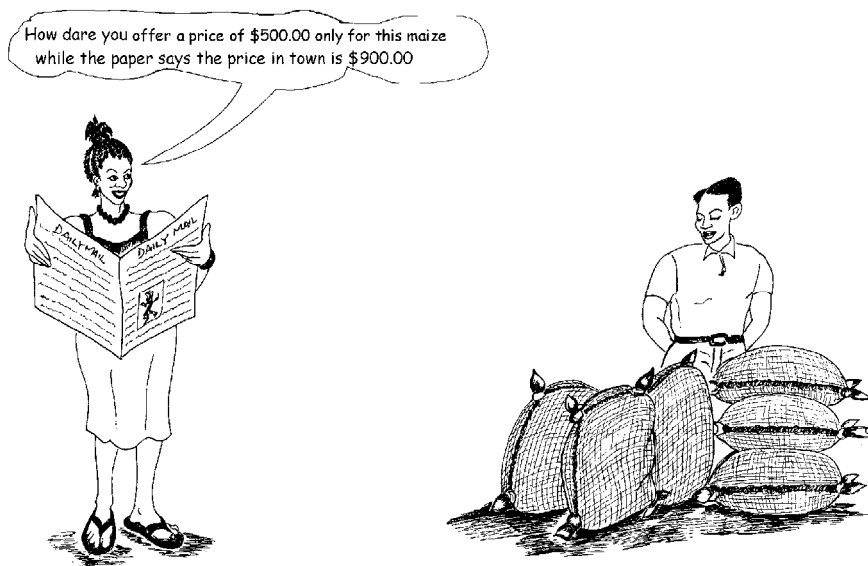


Figure 16: It's important to keep yourself informed when selling to a middleman

5.3 The cooperative or group

It can be advantageous for small-scale producers to work together to market their products. Cooperation can be in the form of a cooperative or a group. A group often is smaller than a cooperative (not necessarily though) and less formally organised. The various possible forms of cooperation are described in Chapter 8.

Members of a cooperative or a group of producers can achieve more by working together than they can individually. A small-scale producer will generally not have enough money to buy a truck to transport his product to the market in the city. Moreover, even if he could buy a truck, it would often stand idle when it is not needed, or it would be used for transporting small loads. The transport costs in either case would be high. If a group of producers buys a truck together, they can divide the costs. The truck would also be used more often, which would lower the transport costs (see Section 5.2).

Membership in a cooperative or group of small-scale producers can also be advantageous when purchasing seed or fertiliser. This is also true for selling products. Buying or selling large quantities puts the producers in a better position when negotiating with a middleman. This can lead to lower prices for purchased goods, and to higher prices for sold products.

Cooperation in the marketing of products gives the producers a better negotiating position, which makes it possible to get higher prices for their products.

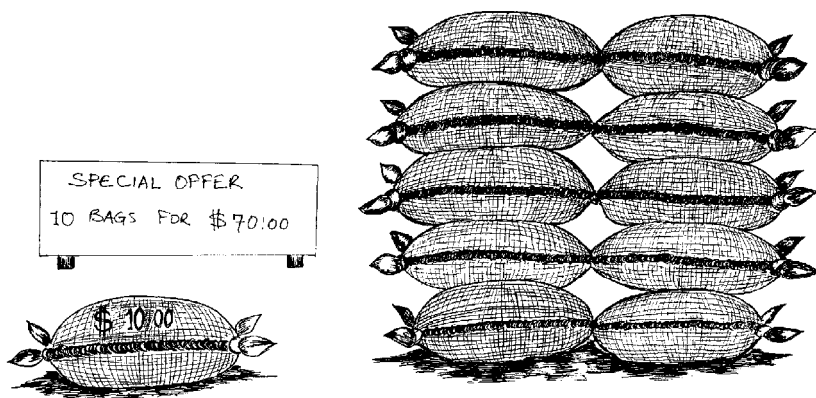


Figure 17: Obtaining a lower price per unit by buying in bulk

5.4 Contract cultivation

Producers who concentrate on the cultivation of cash crops are often faced with large fluctuations in the selling price of their products. Good years are often followed by bad years. Some entrepreneurs compensate for this by setting aside some money in good years to use in bad years. Another way to compensate for low prices is to cultivate on a contract basis.

In contract cultivation, a producer cultivates a crop commissioned by a buyer. The buyer promises to purchase a certain quantity of product from the producer. The price is negotiated in advance between the producer and buyer. Agreements on the quantity and price are recorded on paper in a contract. We will look at three examples of contract cultivation before discussing its advantages and disadvantages.

Case 3: **Spanish Chilli peppers**

A company called “Pilipili Hoho” made an agreement with a Spanish production company for the cultivation of Spanish peppers. Spanish peppers were already grown in the region, but only on a small scale. The know-how involved in growing peppers was thus available, but the quantity of peppers was insufficient to meet the demands of the company. To ensure a greater and more constant supply of peppers Pilipili therefore approached a number of farmers and proposed that they cultivate peppers for the company on a contract basis. The contract stipulated that the farmers were to be supplied with plant material, fertilisers, pesticides and information during the contract period. Pepper plants can produce peppers for three years. So the contract extended over a three-year period and the price paid for the peppers was fixed for all three years. There is a good chance that inflation will decrease the value of local currency over such an extended period, so the price paid to the producers was fixed in US dollars. The contract also stipulated that Pilipili would buy all of the peppers produced for a fixed period (3 years):

- quality requirements (set by Pilipili);
- where the peppers would be picked up;
- when the peppers would be picked up;
- a set price per kilo;
- a payment method;
- which input and information would be given to the farmers.

(Source: Corny Quist.)

Case 4: Sunflower oil from **Kenya**

There is a brisk trade in sunflower oil in Kenya. The oil is derived from pressed sunflower seeds. The supply and price of the seeds fluctuate greatly. Just after the harvest, the supply is high and the price is low. Gradually the price increases as the supply decreases until the following harvest.

The supply also varies over the years. When the price is high, many producers decide to cultivate sunflowers. The result in the following harvest season is that the supply is high and the prices are low. The low prices convince some farmers to switch again to a different crop. The supply in the following season decreases sharply as a result, which increases the price again.

A company in Kenya called “Alizeti” wanted to start using a new oil press. However, they were wary of the large fluctuations in the supply of seeds. To be cost effective, the new press would have to process as many seeds as possible; but this would require a sufficient and consistent supply of seeds. They therefore decided to ask farmers to produce sunflower seeds on a contract basis. After some negotiation and the calculation of the cost price, a price was determined that was acceptable for both parties. The fixed price was considered to be a minimum. The agreement included a guarantee that if the global market price for sunflower oil suddenly increased, the price paid to the farmers would also increase accordingly. (Source: Green Development, 1999)

Contract production has advantages and disadvantages for a small-scale producer. Every entrepreneur will have to weigh these for himself.

Contract production has a number of advantages:

- Sales and price security
- Practical support (advice on cultivation methods)
- Financial support (money to begin production)

Sales and price security

A producer who cultivates a crop on a contract basis has security with respect to the sale and price of the product. Even if the market prices are low, the contract producer will still get the fixed price agreed upon before production began. However, a fixed price can also be a disadvantage. If the market price of a product increases, the contract producer will not get more than the agreed price. In some contracts, however, an agreement is made to allow the producer to also benefit from the higher prices.

Security with respect to the sale and price of a crop is important in unsteady market conditions.

Practical support

For buyers, it is important that the quality of the product is good. Buyers who contract producers to cultivate crops have a vested interest in assuring that high-quality products are delivered. The buyers often support the producers by giving advice during production. Through their extensive experience in buying products and supporting many producers, buyers have often gathered a good deal of knowledge related to a particular crop or product. The contract producer can benefit from this knowledge. Support in the form of advice can increase the chances of a good harvest and a reasonable income.

Contract buyers have a vested interest in obtaining a good product from their producers. They will therefore try to help the producers supply a good product.

Case 5: Coffee from Tanzania

Twelve companies that buy coffee beans from farmers operate in and around Arusha, Tanzania. There is fierce competition between the companies for the beans supplied by the farmers. Price is not a very strong competitive instrument in this case, because it is determined by the world market, and the coffee processing industry already buys at very competitive prices.

To attract the farmers' business, a company called "Kahawa Bora" began granting credits in the form of pesticides. Correct use of pesticides could not only increase production, but also the quality of the coffee. Kahawa thus supplies the farmers with pesticides and the farmers eventually provide the company with coffee beans.

The risks for Kahawa are high. The producers can take the pesticides from Kahawa and then still sell their production for a higher price to a different buyer. To ensure that the beans would eventually be delivered to Kahawa, a savings clause was included in the contract. The savings regulation stipulates that the farmers have to organise themselves in groups of at least five and that they have to each deposit a fixed sum of money each month into a blocked savings account.

The idea is that the farmers start saving in this way before the pesticides are allocated. The value of the credit granted to the farmers is then double the total amount they have saved together. Kahawa hopes that this savings plan will encourage solidarity among the farmers and create a bond between the group and the company. The company's goal is for the farmers to pay off the loan and eventually supply the coffee beans to Kahawa, rather than to other coffee buyers.

Source: Corny Quist.

Financial support for the start up phase of cultivation

An entrepreneur who wants to produce an income-generating product needs money in the first place to start production. It is often difficult for small-scale farmers to borrow money. Cultivating on the basis of a contract can solve this problem. The contract-provider is usually prepared to supply seed, fertiliser and pesticides. The producer pays for these when he delivers the product. A disadvantage of this type of contract is that small-scale producers are highly dependent on the buyer. Buyers can abuse this situation by demanding high prices for the granted means of production.

Producers sometimes receive assistance, such as loans, from the contract-providers, so that they can initiate the production process.

Disadvantages

Contract cultivation also has important risks and disadvantages for a producer:

- Strong dependency on the buyer
- Potential problems related to a small harvest
- Misuse of resources
- Potential payment problems

Strong dependency on the buyer

By producing under contract, the producer loses part of his independence. He can still make his own decisions related to cultivation, but he is bound to the buyer for sales and pricing. In some situations, the producer is completely dominated by the buyer. Prices and conditions stipulated in a contract can be so bad that a farmer cannot meet his obligations. This can even lead to a situation in which the farmer has to turn over his whole business to the buyer.

Contract production offers security for a longer period. But a producer can thereby also be stuck for a longer period in a bad contract. In deciding whether to cultivate under contract, it is important to first weigh the advantages and disadvantages.

A producer loses part of his independence when he agrees to a production contract. It is important that he read the contract carefully so that both the producer and the contract-provider clearly understand what it entails.

Potential problems related to a small harvest

In many contracts, producers are required to supply a certain quantity of a product to the buyer. This requirement is often coupled with a supply of seed, for example. If the harvest or the production process fails, the producer can be faced with serious problems. He becomes indebted to the buyer and often has to pay back this debt right away the following season. If the producer cannot do this, the buyer can demand that he turn over part of his property, his land for example, as payment.



Figure 18: What to do when your harvest fails ?

This problem can be avoided in some contracts. The farmer is still required to pay off his debt, but he can take a number of years to do so.

Always read a contract thoroughly to make sure you understand what will happen if the harvest or production process fails.

Misuse of resources

Buyers often supply contract farmers with fertiliser, pesticides, etc. These resources can improve the harvest, but the producer does have to pay them back. Producers who do not know enough about how to use such products run the risk of incurring higher costs that are not compensated by higher earnings.

Make sure that pesticides and fertilisers supplied by the buyer are used wisely. These costs have to be paid back and using too much of these products can have a negative effect on production.

Potential payment problems

Not all buyers pay their producers on time. Sometimes, producers have to wait a long time to get their money. This can be a serious problem for families who rely on contract production for their livelihood. The problem of late payments can be prevented by including specific payment terms in the contract. A group of producers that supplies products to the same buyer can also organise themselves to put pressure on the contract-provider to pay.

A producer has to make agreements with the contract-provider regarding payments. This way he can prevent payment problems from arising.

6 How to produce successfully for the market

Producing successfully for the market entails more than just picking the right product. The production process itself is also very important. Middlemen, buyers and consumers will only pay a good price for a good product. A producer who wants to earn money will have to deliver high-quality products for as low a price as possible. A consistent supply of products is also important for buyers and clients. If they go to a producer several times and find he has nothing to offer, they will go to a different producer in future.

Producing high quality for a low price and realising a consistent level of production is possible only if a business is well managed. Good management is required if a producer wants to earn a reasonable income from his production activity.

Management concerns many different areas of business practice:

- Buying
- Production
- Sales
- Financial management
- Labour

6.1 Buying

An entrepreneur who wants to produce for the market has to buy various materials to start the production process. It is wise to think about this thoroughly and well ahead of time. A farmer who wants to cultivate crops will have to make sure that he buys seed on time, so that he can be ready to plant when the weather is good. If a farmer buys more seed than he needs, he will have incurred unnecessary costs. If he buys too little seed, part of his land will remain unplanted. By scheduling the buying carefully, he can thus increase the profitability of the business.

Well-planned buying makes the production process easier and saves the producer from incurring unnecessary costs.

6.2 Production management

Production management concerns, among other things, making the best use of available materials. The less materials are wasted, the lower the costs will be. A producer of wooden toys has to buy wood to make his products. The more toys he can produce out of one block of wood, the lower the cost of producing the toys will be.

The manner in which an entrepreneur produces a product can have a large effect on how much he earns. A producer who organises his activities well will earn more with the same amount of land, labour and money than a colleague who organises his activities poorly.

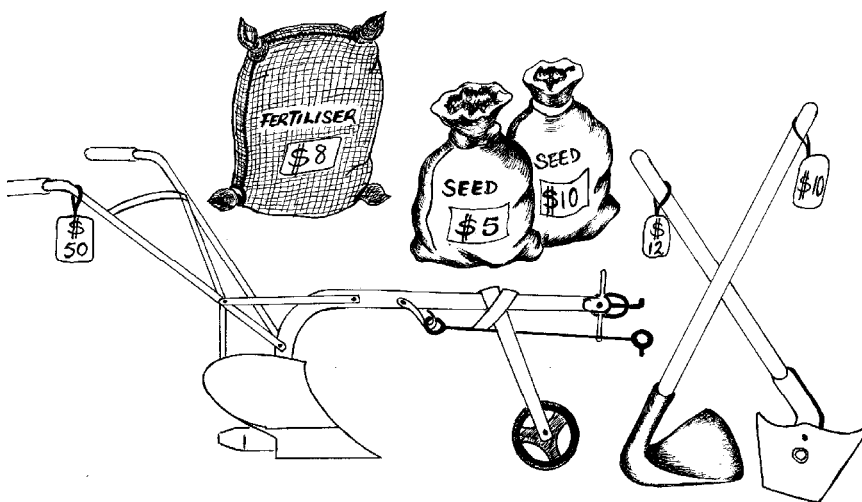


Figure 19: Means of production

Managing production also includes maintaining the means of production (Figure 19). An electric saw and an irrigation canal are examples of essential means of production. If these resources are neglected, they

can eventually break down and stop functioning. The production process can be brought to a halt. Proper maintenance is therefore an important part of production management.

Managing production means using as little material as possible and using the means of production as optimally as possible to produce a high quality product at minimal cost.

6.3 Sales management

Making a product or cultivating a crop costs money. The producer recovers this cost if he sells the product. The faster a product is sold, the sooner the producer will get his money. He can use this money for his family, but also to restart or expand production. However, it may be more advantageous to first store the product until the price has increased (see Case 1, page 21). In deciding whether or not to store the product, remember that the eventual selling price will have to be high enough to recover the costs of storing and to compensate for any lost interest (see Section 7.1).

Not only the speed at which a product is sold, but also the selling price of a product determines the income of the producer. Farmers with good business sense offer their products for sale at places where the customers are willing to pay the highest price. The time at which a product is sold and the way in which it is presented can also strongly influence the selling price.

Production and sales should therefore be managed in such a way that the products can be optimally produced, stored and/or sold.

Producers have to make sure that their products are sold as soon as possible, and for the highest prices. The production process has to also be planned such that the products are brought to the market at exactly the right time.

6.4 Financial management

Every production process starts with money. Money is needed to buy seed and machinery, for example. Thus, an entrepreneur has to obtain money before he can start to produce a product. This money can then be invested in the production process. This means that he will not have access to this money for a while. The money is temporarily invested in fertiliser, bottles, bags, etc. After investments are made to start up the production, some money has to be left over to pay for costs during the production process. A producer has to first decide whether he has access to enough money to cover these expenses, and then he has to find the best way to invest it.

Good financial management is very important. An entrepreneur has to keep track of which bills he has paid and whether the amounts are correct. He also has to keep track of whether the buyers and consumers have paid their invoices.

An entrepreneur who closely monitors his expenses and income knows exactly what his costs have been and what the selling price for his product has to be in order for him to earn a profit. He notices when too much money is being spent, and he can take measures to prevent this from continuing. If this entrepreneur produces a variety of products, he knows which product provides the most profit.

A producer, has to make sure that the money he has, is spent wisely. Bills have to be paid on time and clients have to pay for their products on time.

6.5 Labour management

Every production process takes time. The more efficiently an entrepreneur organises the production tasks among his labourers, the more he will profit from the activity. In many cases, the tasks involved in a business can be performed by the entrepreneur and his family.

However, sometimes an entrepreneur will have to hire workers. It is worth the effort to look for skilled workers who are willing to work hard. Entrepreneurs profit the most by allowing workers to perform the tasks that they are good at. Sacrificing quality is not the most efficient way to manage labour, because it may not necessarily increase the speed of production. Moreover, a poor quality product will be sold for a lower price, and it will betray the client's trust in the producer.

It is not easy to get family members or workers to perform their tasks as well as possible. There are various ways to try and motivate workers. The entrepreneur can pay them a good wage and allow them to earn a share of the profits. He should also show them that what they are doing is important and compliment them for doing a good job. A worker who believes that what he does is important will enjoy his work more and will be more likely to exert himself to do a good job.



Figure 20: Keeping your employees motivated

Case 6: Motivating the Employees

Ravi Jayawardena is the manager of Golden Palm International (GPI), which is located in Colombo, the capital city of Sri Lanka. GPI exports handmade wooden objects to fair trade organisations throughout the world.

Ravi sees the management of personnel as the most important challenge in his business. Many companies in Sri Lanka still adhere to the management philosophy of constantly monitoring employees to make sure they are doing a good job. This is expensive and unpleasant. Ravi believes in a different method to get his employees to produce good products. The key word in his philosophy is motivation. According to Ravi, you have to motivate your employees in such a way that they want to make a good product. But how can this be done? Employees have to be interested in the product they are making. It has to be their own product. They have to know who they are making it for and what the product means to those consumers. Employees have to be aware that a dissatisfied customer will not buy the product again, and that this will result in less work for them in the future. Managers have to make it clear that every worker plays an important role in the production of a product. According to Ravi: "We make, among other things, many Christmas items. It is important that these items be finished in February or March so that there will be enough time for them to reach the shelves of stores in the U.S. and Europe in time for the Christmas shopping season. Premium quality is also a necessity. To meet these demands, we have to explain to our employees what Christmas means in the various parts of the world. Only when the workers know what they are making, and why, can they motivate themselves to make a good product. It is important that the employees feel they have an important role to play in the company. For some people, this is reason enough to work more seriously; and a better attitude usually results in a better product."

Ravi Jayawardena makes it clear that motivating employees is a very important aspect of running a business. Workers who can produce a high quality product are very important to any business. A company that delivers good products can count on receiving more product orders. A company that delivers poor products will receive fewer orders in future, and will eventually receive none at all. This holds true for both large and small companies.

Source: Ad de Veld.

Labour in the production process has to be utilised and managed in such a way that a sufficient amount of high-quality products are made. To achieve this the entrepreneur will have to motivate participating family members or other workers to perform their tasks as well as possible.

7 **Financing**

As shown in Chapter 6, every production process begins with money. Money is needed to buy seed, for example, or machinery. However, small-scale producers often do not have very much money to spend. They may have to borrow money, which can be expensive.

There are various sources from which money can be acquired to start up a production process:

- Private capital
- Family members
- A moneylender
- A savings group
- A bank
- A middleman

Private capital

Private capital is money that belongs to the person or family who wants to start the income-generating activity. It would be ideal if a producer had access to enough money on his own. He could use the money whenever he needed it and spend it on whatever he chooses. He does not need to borrow money and does not have expenses of paying back the interest on a loan.

But even an entrepreneur who has enough private capital has to think carefully before he uses this money to start up a production process. The money that he invests in production could also be invested in another way. Money deposited in a bank earns interest. If the production and sale of products results in less profit than the amount of interest that could have been earned at the bank, then the producer would have been better off depositing the money in the bank.

Financing a production activity with one's own savings is the easiest and cheapest way to get started.

Money from family members

Many small-scale producers get money by borrowing from family members. Family members who work outside the country or who have a job in the city sometimes earn enough money to lend part of their incomes to their families in rural areas. The advantage of this type of borrowing is that it is easily accessible and family members are usually satisfied with a low rate of interest.

Borrowing money from family members can be a relatively simple and inexpensive way to obtain money.

Money from a moneylender

Sometimes it is possible to borrow money from a rich person in the village or city. We call this person a moneylender. The interest that a moneylender charges is often high. Moneylenders can charge high interest because they are often the only source of credit for many people. Sometimes high interest rates are justifiable, because moneylenders run the risk of not getting all of their money back. The borrower has to think carefully about whether or not he would be able to pay back the loan at the charged interest rate.

Borrowing money from a moneylender is often expensive, but in areas that do not have a bank, it can be the only way to get access to capital.

Money from a bank

It is often difficult for small-scale producers to borrow money from a bank. The bank demands security in the form of assets. Many small-scale producers have very little property and the chance of getting a loan from a bank is therefore small.

Moreover, small-scale producers want small loans. This too is unattractive for banks. They prefer to grant large loans to big businesses, because they can earn more money this way. Nevertheless, it is worth trying to obtain a loan from a bank, because interest rates at formal banks are lower than the interest rates charged by moneylenders.

Borrowing money through the formal banking sector is not easy for small-scale producers. Nevertheless, it may be worth a try. The interest charged by formal banks is often lower than the interest charged by moneylenders.

Money from a middleman

A middleman can be an important source of capital for many small-scale producers. Middlemen are often willing to lend money to their suppliers. A useful relationship can develop in this way between the producer and buyer. The producer can use this money to start production and the middleman is sure of a source of trade. The producer can use part of the production to pay the money back. The borrower does have to be sure that the interest charged by the middleman is not too high. To check this, he can find out what rate of interest the banks in the city are charging. The rate of interest paid to a middleman or to a moneylender must not be much higher.

Producers and middlemen can work together. The middleman grants credit to the producer so that he can begin production, and the producer promises to sell (at least part of) his production to the middleman.

Note: inflation

The information concerning inflation below applies to all dealings involving money.

Inflation is a problem in many countries. When money steadily decreases in value, you can buy less and less with the same amount of money. High inflation goes together with high interest. High interest is intended to prevent the capital from losing value in the time that it is lent out. High interest is therefore not always unreasonable. Inflation is a problem for everyone who borrows money. Money that is saved or borrowed becomes less and less valuable because of inflation. It is therefore attractive to exchange the money as fast as possible for goods, which are, under normal circumstances, not sensitive to inflation.

8 Cooperation and organisation

Power is often distributed unequally in the market channel. A large-scale middleman or processing company has more power than a small-scale producer. As a result, the small-scale producers may get less for their products than they deserve. By working together, the producers can often challenge the dominant position held by the middleman or the large processing company.

Advantages of cooperation:

- Improvement of the negotiating position when buying or selling products
- More opportunities to borrow money
- Better access to information
- More opportunities to sell to supermarkets or other large-scale buyers
- Processing
- Transport

The rest of this chapter will focus on each of these advantages.

8.1 Improvement of the negotiating position

Cooperating when buying products

By working together, producers can pay a lot less for the goods they buy. One reason is that their negotiating position is better. Anyone can barter for a better price when purchasing a large quantity of something. A second reason is that the transport costs are considerably less. If ten farmers in a village want to buy seed, the price per bag of seed will be less because the supplier only has to drive his truck to the village once instead of ten times. This decreases the transport costs for each bag of seed.

An organisation of producers is in a better position to negotiate with suppliers, and the transport costs per product are also less.

Cooperating to sell products

One small-scale producer cannot make demands of a large-scale buyer. The large-scale buyer can choose between many small-scale suppliers. If a supplier makes demands, with respect to prices for example, the large-scale buyer will simply buy from someone else. This situation changes if many small-scale producers work together. The large-scale buyer can then no longer make the producers compete against each other. A situation is created in which the buyer and seller (organised producers) can negotiate prices and selling conditions on an equal basis.

Organised producers are in a better position to negotiate with buyers. It is easier for them to get a good price for their products.

Case 7: Marketing via a farmers' cooperative

COOMPAGRO (Paraguay): After many years of living under military dictatorship, groups in Paraguay were, as of 1989, again allowed the opportunity to organise themselves. Until then, farmers' organisations had been illegal and cooperatives were immediately suspect.

A number of farmers' organisations were established in the early 1990s, but, due to their lack of organisational and leadership experience, they could not exert very much influence. For this reason, middlemen and sellers at the Central Auction in the capital city Asunción were still able to take advantage of the farmers and their new organisations.

This situation continued until a number of local organisations and cooperatives joined forces and decided that direct marketing from their own centre at the auction was needed. Eventually, this plan succeeded. 1994 marked the official start of CECOPROA (Marketing Centre of Associated Producers). The centre now covers an area of 1100 m² and is divided into 17 selling booths that are reserved for the exclusive use of the centre's member organisations. CECOPROA is not (yet) completely independent of the government. CECOPROA's leadership is therefore headed by an official from the Ministry of Agriculture.

In the beginning, only the 5 cooperatives that had led the initiative (none of which was older than five years) were active within CECOPROA. But soon their success was so great that demand quickly grew for the centre's selling opportunities. Eventually, the centre was being used by 28 organisations, which, by that time, were competing with each other so fiercely that they had lost sight of the original goal.

Again, it was time to come up with a new plan, and the idea was born to coordinate the producers' efforts more extensively in order to improve the marketing opportunities of all those involved, regardless of regional origin, political orientation or other factors. Eventually 24 of the 28 local cooperatives involved took the giant step of establishing an umbrella organisation, called COOMPAGRO.

COOMPAGRO's President, Nicolas Argana: "4 1/2 years after we began the marketing centre at the Asunción auction, we are now finally a real social and economic institution of and for 2100 farmers, who sell their own fruit, vegetables and grain here. We now have a turnover of about US\$ 350,000 per month".

The advantages of the CECOPROA marketing centre are clear: finally the small-scale farmers have a marketing channel that pays them a fair price; in a short time they quickly gain experience in marketing methods and techniques; and the production of the crops involved is stimulated by the CECOPROA scheme. Of course, the Asunción auction plays a critical role - both as a source of income and as a model for the development of similar initiatives elsewhere.

But, of course, there are (still) some problems. The lack of experience, but also of technical know-how of the farmers, means that the quality and presentation of the product and its packaging could be better, even though COOMPAGRO does include some member cooperatives that sell directly to supermarkets. Also, COOMPAGRO must pay contributions of \$40,000 per year just for administrative costs to CECOPROA marketing centre.

Unfair competition from cheaper foreign goods also continues to threaten the income of local farmers. In addition, the initially positive relationship between the government and CECOPROA has deteriorated, especially since the establishment of COOMPAGRO. Ever since that time, officials at the Ministry of Agriculture have been suspicious and overly bureaucratic. The most likely explanation is that they have seen their own role and authority diminish since the introduction of COOMPAGRO.

Thanks to its social integration, COOMPAGRO can offer its members additional advantages. Most COOMPAGRO members also belong to the farmers' organisation Union Agrícola Nacional (UAN), a relatively small union (for Paraguayan standards) with a membership of about 6000. This union promotes infrastructure and technical projects for the members (water and sewage systems, for example) and supports members in their attempts to increase production and obtain access to credit.

Source: Jur Schuurman, Agriterra, with the assistance of Sabino Colman (General Secretary of COOMPAGRO and UAN) and Ottmar Hahn (President of UAN).

8.2 Cooperating to borrow money

It is often difficult for a small-scale producer to borrow money. Banks prefer to lend large amounts of money to big businesses. (see Chapter 7).

Nevertheless, a growing number of banks and NGO's are now lending to groups of individuals. A prerequisite for lending money to groups, however, is that they be formally organised. If many small-scale borrowers apply for a loan together, the size of the loan is larger. Only then does it become worthwhile for a bank or NGO, simply because large loans cost the banks less to administer than small loans do. The individuals' lack of collateral is overcome because the bank or NGO assumes that there is a good deal of social control in the group. If a member of the group does not pay back a loan, the group will put pressure on the member to do so. After all, the group cannot apply for a new loan until the total amount of the first loan is paid back.

Organising themselves into a group gives producers better access to inexpensive credit. It is important, however, that the members of the group be willing to work together and that they do their best to pay back the loan. If one of the borrowers is unable to repay his debt, the rest of the group should work together to pay back the whole loan. If this does not happen, the bank or NGO's trust in the group might deteriorate, which would make it difficult to receive more loans in future.

Organising to form a group is a good way to obtain credit.

8.3 Cooperating to collect product information

Various producers of the same product can cooperate to collect knowledge and information about the production of their product. It is important to obtain market information concerning prices, supply and demand. Case 1 (page 21) gives an interesting example of this. Collective market research is also a possibility as described in Section 4.3.

An organised group is also of interest to information services. By addressing a group they can advise many producers at the same time. A group meeting is also helpful for producers, because it gives them a chance to exchange information and experiences. In this way, they can learn from each other's problems and solutions.



Figure 21: A group of producers are learning

Producers who organise themselves have more possibilities to gather information about their products and about how to produce them.

8.4 Cooperating to sell to large-scale buyers

The number of supermarkets in the cities is growing quickly. It can be advantageous for a producer to sell to supermarkets. However, this is impossible for a small-scale producer. Supermarkets want large quantities and consistent quality. The products have to be equal in size, ripeness and quality. A small-scale producer cannot meet these requirements.

The same is true for export companies and other large-scale buyers. Their quantity and quality demands are comparable to the supermarkets' demands.

Nevertheless, it can be worthwhile for a small-scale producer to sell directly to these large-scale buyers. The prices are better because value is added in the form of sorting and packing the product before sending it to the supermarket, and because there no middlemen are required.

By working together, a group of small-scale producers can meet the demands of supermarkets, exporters or other large-scale buyers. By combining and sorting the harvest, large quantities and a consistent quality can be offered to the buyers.

Supplying products to supermarkets, exporters or other large-scale buyers requires careful organisation. Producers have to make detailed agreements about the manner in which they produce, sort, transport and sell their products. It is also important to plan the production well and to time it such that the supermarket, exporter or large-scale buyer can be offered a constant supply of goods. Supplying products to such buyers therefore requires an advanced form of cooperation.

It can be advantageous to supply to large-scale buyers. Producers receive better prices from these buyers. However, collectively supplying products of a consistent quantity and quality requires careful organisation.

8.5 Processing

Collective processing of products has a number of advantages. One important advantage is that the costs of purchasing machinery, etc., can be divided among the producers. Also, since large quantities of products are being processed, large quantities of consistent quality can be supplied to large-scale buyers. The most important issue is that processing adds value to the product.

Processing collectively costs less, creates a better product and is more profitable.

8.6 Transporting products

Just as with processing, cooperating to transport products is an important way to reduce costs. Small-scale producers can hire or buy a truck together, for example. The costs are then divided among them. Of course it is much more cost effective to drive a full truck to the city than to drive a number of cars with small loads. In addition, by cooperating in this way, the role of the middleman can be eliminated. This, in turn, means that the producers will receive higher prices for their products.

Transporting products together decreases transport costs. In addition, the middleman can be eliminated and the producers can receive higher prices for their products.



Figure 22: Renting transport together

9 Forms of cooperation

In Chapter 8 we discussed the need for producers to work together. In this chapter we will briefly discuss two different ways to work together.

The most important forms of cooperation are:

- the cooperative, described in Sections 9.1 and 9.2,
- the group, described in Section 9.3.

Producers can be officially organised in the form of a cooperative. Or they can work together informally in various small and temporary groups.

Solidarity among members of a cooperative or a group is fundamental for the success. In Section 9.4 attention is paid to this.

9.1 The cooperative

The cooperative is the most well known form of cooperation. Members of a cooperative benefit by performing activities together. Costs can be divided and the producers' negotiating position vis-à-vis the buyers can be improved.

The fundamental rule of any cooperative is that all members have equal rights. Also, the earnings of the members are the most important factor, not the earnings of the cooperative itself. By working together, the members of a cooperative can take advantage of the points described in the previous chapter: improved negotiating position, increased access to credit, greater access to information, opportunities to supply to supermarkets and other large-scale buyers, and collective processing and transport.

Potential problems

The members of a cooperative can benefit from working together. Nevertheless, problems can, and often do, arise within a cooperative. A government can get involved and support goals that are not in the interest of the producers. Or, the leadership of the cooperative can fall in the hands of a small group of people who lose sight of the goals of the cooperative and do not put the interests of the members first. A cooperative can also become too bureaucratic. The organisation can become too rigid, so that it can no longer adjust quickly to new developments.

9.2 How to keep a cooperative running well

To keep a cooperative running smoothly, it is important to meet a few requirements.

Sufficient communication

A cooperative is created for its members. The wishes of the members should therefore come first. This is only possible if there is sufficient communication between the members and the administrators of the cooperative. This means that producers have to have direct contact with the administrators and the leadership of the cooperative.

Limited number of goals

A cooperative should not try to attain a number of goals at the same time. It is not wise, for example, for one cooperative to organise selling, processing, transport, and access to credit. The organisation of all these factors becomes too complicated and the cooperative runs the risk of losing sight of its main goal.

Limited costs

The members of a cooperative have to pay for the costs of the organisation themselves. If the organisation becomes too complicated, the costs will become too high. If this happens, the advantages for the members will be cancelled out. To keep the cooperative lucrative, it is important that the overhead costs are kept low and the administrators

and leadership of the cooperative keep the members informed of the costs that are being made.

Clarity about the rights and responsibilities of members

Members of a cooperative have a number of rights and responsibilities with respect to the cooperative, and thus actually with respect to each other. These rights and responsibilities must be clearly defined for all members of the cooperative.

Rights are, for example, agreements about payment for delivered products. Responsibilities are in the area of supplying products to the cooperative. The cooperative cannot change these rights and responsibilities without consulting the members.

Clarity about the functioning of the cooperative

The leadership must also inform the members as soon as possible about developments within the cooperative or concerning the product. This gives the members insight into the cooperative and the market for which they produce. The administration of the cooperative should also be open to all members. All expenditures and income should be clarified. With all this information the producers can profit optimally from their membership in the cooperative.

All of the members of a cooperative can benefit from working together. To make this possible, the cooperative must function well and focus on the interests of the participating producers.

9.3 Producing in a group

Producers can also work together in the form of a group. The group is similar to a cooperative, but it is less official and often smaller. It is therefore easier to start a group. The members know each other well and because of its smaller size, the group is more flexible. The organisational structure of a group is usually simpler than that of a cooperative. The organisational costs can be lower and it is easier to keep sight of the group's goals. Producers can work together in such a

group to improve their negotiating position, transport costs, access to information, savings, processing and sorting.

In improving the producers' negotiating position in buying or selling products, a group usually has a weaker position than an official cooperative. For a buyer, the unofficial character of the group makes it appear to be less sustainable. It will thus take extra effort to convince these buyers that the group is a long-lasting organisation. In practice, a group is not necessarily more temporary than a cooperative. A group can even function better than a cooperative, due to its small size and the strong bond between its members.

For the rest of the activities it does not matter whether the producers are organised unofficially as a group or officially as a cooperative. As long as they are willing to work toward a shared goal.

The group is a less formal and small-scale form of organisation. The advantage of a group is that the relations between the members are more direct and the bonds can be stronger. This makes it easier to keep the group's goals in sight. The disadvantage is that the organisation can be weaker, because far less of its structure and functioning has been formally determined.

9.4 Solidarity

Producers work together to benefit more from their activities. However, for some products it is difficult to recognise that continuing to work together will be more profitable in the long term than obtaining a small financial advantage in the short term.

Imagine, for example, that a group of producers or a cooperative has a contract with a supermarket to supply capsicum. The price is fixed for a determined period. It is possible that the price at the local market is temporarily higher than the price the supermarket pays. For an individual member, it is at that moment more profitable to sell all of the capsicum harvest at the local market. If a number of producers do this,

the supermarket will not receive the number of capsicum agreed upon in the contract. The group will not meet its obligation and it may thereby lose the contract. In this way, the group loses its chance to sell the product for a longer period for a good and stable price.

Working together requires solidarity. It is important that individual members of a cooperative put the interests of the group above their own short-term interests. Only if all the members of an organisation hold this view can a group or cooperative of producers function optimally and to the advantage of its members.

Appendix 1: Cost price

An entrepreneur's income is determined by the proceeds from his products and the costs he incurs to produce them. If these costs are known, then the so-called cost price of the product can be calculated. If the cost price of a product is higher than its selling price, the entrepreneur loses money. If the cost price is lower than the selling price, the entrepreneur earns money. That is, he makes a profit.

It costs money to make a product. A vegetable grower, for example, has to have access to land, and he has to buy seed and fertiliser. He will need machinery to work the land and he will have to pay the wages of any hired workers. Usually, the grower's own family members work in the fields. Although they do not receive wages, their work can cost money. The time family members spend in the fields could be spent working elsewhere as paid labourers. By working in their own fields, family members thus forfeit the opportunity to earn wages elsewhere. These lost wages have to be seen as a cost of vegetable production.

Often it can be difficult for family members to find paid work outside the family business. In this case, it is not necessary to include labour costs when calculating the cost price. Anything the family earns by working on the land is then beneficial, because without this work they would have no income at all.

The example on the next page shows how the cost price of a product can be calculated.

Example

An entrepreneur makes wicker baskets for the local market. The costs for making one basket are:

Material (reeds)	\$2.00
Transport to the market	\$0.50
Tools	\$0.30
Storage	\$0.20
Total costs	\$3.00

It costs the entrepreneur \$3 to make one basket. Family labour is not included in this calculation. The family members will earn something for the time they spend making the baskets only if the price they receive at the market for each basket exceeds \$3. As long as the family has no other way to earn money, anything they earn for the time spent making the baskets is helpful. If the family members can earn wages outside the family business, then the selling price for the baskets will have to be high enough to compensate for the wages that could have been earned elsewhere.

If the selling price is less than \$3, the baskets cost more to produce than they can be sold for. In this case, the entrepreneur will have to make a choice. Either he will have to produce the baskets at less cost to reduce the cost price, or he will have to stop producing baskets and switch to a profitable activity.

An entrepreneur who chooses to produce a new product will usually have a lot to learn about the new product and its production process. Occasionally, mistakes are made in the beginning, which will increase the cost price of the product. Therefore, an entrepreneur may not earn enough at first to compensate for his (or his family's own labour. This need not be a problem as long as the cost price eventually decreases enough to guarantee a reasonable payment for the required labour.

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Useful addresses

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Cordaid is the result of a fusion between the Dutch catholic organisations for development co-operation: Bilance, Caritas-Nederland and Memisa. People who are interested to know more about Cordaid or who would like to apply for this publication can contact the following address:

PO Box 16438, 2500 BK Den Haag, The Netherlands

Fax: +31 703136301

E-mail: cordaid@cordaid.nl

Websites:

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www.cbi.nl

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