The seven steps of marketing

A SMART SKILLS MANUAL

BOOKLET 3: MARKETING AS A GROUP

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Step 5. Marketing as a group

As part of their business plan, farmers will have decided to produce a certain amount of product for a specific market. This step describes how the farmers should organize themselves to market this product. It includes the following lessons:

- **Lesson 17:** Why market as a group?
- **Lesson 18:** Learning how to decide on prices.

At the end of this step you will have:

- Helped farmers agreed on a process to sell collectively
- Helped farmers agreed on a marketing strategy
- Helped farmers understand the advantages and disadvantages of collective marketing
- In some case, supported the group in the selection of a farmer to serve on the cluster trade committee
- Collected phone numbers of traders
- Guided farmers in identifying possible storage sites
- Discussed transport issues with farmers
- Clarified costs of marketing to farmers
- Explained and gained agreement on how the produce will be bulked, and sold, and on how revenue from the sale will be shared amongst farmers.

MARKETING TOGETHER HAS MANY ADVANTAGES: HIGHER VOLUMES, BETTER QUALITY, AND HIGHER PRICES.

LESSON 17. WHY MARKET AS A GROUP?

IN THIS LESSON

After this lesson you will be able to:

- Describe why both traders and farmers can benefit if farmers market as a group
- Describe how a typical sale by a farmers' group works
- List the costs incurred by the group's marketing committee
- Explain some considerations when negotiating with a buyer
- Describe the agreements that the group members may have to make among themselves
- Explain the advantages of cooperatives and second-order marketing associations
- Describe some of the problems that may occur with collective marketing.

IMAGINE YOU ARE AN ONION TRADER

You arrive in the village with your pickup, and there is one farmer waiting there with 10 sacks of onions. That is only one-third of the load your pickup can carry. You either have to drive all the way back to town with a mostly empty vehicle, or you have to find some more farmers to buy from.

The first farmer tells you there are other farmers in the village growing onions. You go to find these farmers to see if they have onions for sale. The first asks you to come back tomorrow when he has finished harvesting. The second has harvested already, but her onions are a different size and quality from those already on your pickup. A third insists on a higher price than you are willing to pay. And the fourth – well, last year you bought onions from him, and you found a lot of stones in the bottom of his sacks. Driving around and negotiating with all the individuals takes a lot of time and you end up with a pickup only half-full of onions of differing types and quality, which will be difficult to sell once you get to town.

How much easier it would be if you could just fill your vehicle at one place, with sacks filled with produce of uniform size and quality! You have even heard of some farmers who call the traders in the town when they are ready to sell! You would be prepared to pay extra if the farmers could just get organized and make this possible. And it would be even better if you could pick up a load of onions each week: that way you could keep the buyers in town supplied with fresh onions throughout the season.

NOW IMAGINE YOU ARE AN ONION FARMER

You have harvested your onions, and are waiting for the trader to arrive. When he turns up – three hours later than expected – he offers you a price that is lower than you had hoped. In fact, it's only just above your cost of production. You have a choice: sell now, or hope that another trader comes along and offers you a better price. What do you do?

The answer to both the trader's and the farmer's problems is **collective marketing**. This is where farmers get together and market their output as a group.

ADVANTAGES OF COLLECTIVE MARKETING

Collective marketing means that several farmers bring small amounts of their product together at harvest time and sell them as a batch. Bulk selling has several advantages for both the farmers and the trader:

- **Bigger volumes.** Farmers can pool their output (this is called **bulking**) so traders can buy more at the same time and can fill up their vehicles or stores more easily. The traders can negotiate with one seller – a representative of the farmers' group – rather than with lots of individual farmers. They make one payment – often via a bank – rather than lots of small cash transactions. That is more convenient and saves having to carry lots of cash around.
- **Uniform quality.** Traders do not want big and small, ripe and unripe produce all mixed together. They want the produce they buy to be the same size and quality, and is free of dirt, sticks and other impurities. With a larger volume, it is worthwhile for farmers to **clean, sort and grade** their product.
- **Reliable sellers.** Pests can attack a crop, the weather may spoil the harvest, and the farmer may fall ill. Many things can come in the way of a successful trade. But these things are more likely to happen to an individual farmer than to a group. If one farmer experiences a production problem, chances are that the other members of the group will be able to make up the shortfall. That reduces the risk that the trader will have to drive home with a half-empty pickup.
- **Reliable buyers.** Reliability works the other way too. If a trader knows there is a big consignment waiting, she will make sure to pick it up as promised and will pay the agreed price. By selling collectively, the farmers can be more confident that the buyer will be reliable.

- **Continuous supply.** Many traders want a continuous supply of a product throughout the season. Groups of farmers can organize staggered plantings and harvests, or store produce, so they can deliver several truckloads of the product over an extended marketing period.
- **Higher price.** Bulked, cleaned, and graded produce is more valuable, so traders are usually more willing to pay a better price for it. But by organizing as a group, the farmers improve their bargaining position – for example by negotiating with several potential buyers for the best terms and conditions.
- **Organization.** Marketing collectively means that farmers have to get organized. But organizing brings other benefits: farmers can learn from one another, improve the quality of their produce, set up savings-and-credit arrangements, buy bulk inputs, and so on. Marketing collectively can be a good way to start a farmers' group or strengthen an existing group.

But remember: Not all products and farmers benefit from collective marketing. Monitor the market and advise the farmers' group whether collective marketing is a good idea.

Collective marketing does not mean collective production! Farmers should still grow crops and raise animals as individuals. It is only at the time of sale that the product is brought together and offered for sale.

MORE PRODUCT MEANS BIGGER TRADES

Collective marketing makes it possible to sell to bigger traders who offer better prices and conditions and who serve more distant markets. That may **cut out local traders**. The farmers' group takes on some of the functions of smaller traders: transport to a central point, bulking the produce into larger lots, storage, provision of loans to farmers, and so on.

SELLING COLLECTIVELY MAKES IT POSSIBLE TO SELL TO BIGGER TRADERS

ORGANIZING COLLECTIVE MARKETING

It is not practical for all 10–30 farmers in the group to negotiate with buyers. So advise the group to nominate a team of two or three members to negotiate with traders on behalf of the whole group. The marketing team should include the group's marketing coordinator, along with the group chairperson or members of the team that did the marketing survey (Step 3). Having two or three people on the team is a good idea to ensure transparency and trust and to reduce the risk of the representative cheating the other members.

A TYPICAL SALE

A typical sale works something like this:

1. In the market survey there were two or three buyers who showed interest in buying produce from the farmers. The farmers have discussed these options and agreed to sell to one of the buyers, Mr Ibrahim.
2. At the start of the season, Mr Ibrahim, said he needs to fill a 2-ton pick-up with onions, if he is to pay the best prevailing market price, as a full pick-up truck reduces his costs. A 2-ton pick-up requires 400 5-kg bags of onions. Or if the farmers are selling larger wholesale bags, it would take 40 50-kg sacks.
3. The group discussed this option and used the amounts indicated by Mr Ibrahim in their target setting.
4. At the harvest the farmers in the group period discuss the planned sales with Mr Ibrahim and **advise the marketing team** about the amounts they could sell, the possible timing, the desired price and other conditions the group would like fulfilled, such as method of payment.
5. The marketing team returns to the buyer, in this case Mr Ibrahim to **negotiate or confirm** a deal with the buyer and report back to the group.
6. First deals are usually done in person, but repeat negotiations and sales can be done by mobile phone, when a trading relationship has been established.
7. The group's production coordinator arranges for the farmers to **deliver their product** at the right time and place.
8. The marketing coordinator weighs each farmer's product and checks that the quality of the produce is up to standard. If some farmers have unclean produce, the marketing coordinator will hire labor to clean the produce and this fee will be charged to the farmer.
9. The group secretary **keeps a record** of how much each farmer has supplied.

10. The buyer comes to **pick up the product**. The marketing coordinator arranges for members to load it onto the truck.

11. The group's treasurer **receives the payment** from the buyer. Any outstanding fees or costs of administration are deducted, the treasurer then pays the individual members according to the amount each one supplied.

VARIATIONS

There are many variations to this sequence:

- The group may undertake additional tasks, such as storage, cleaning, drying, sorting, grading and packaging.
- It may appoint members to handle specific tasks. For example, a store manager may handle the weighing and record-keeping.
- If the group has capital, it may pay the farmers in part or in full immediately when they deliver the product. The buyer (or a bank) may give the group a short-term loan to make this possible.
- If the deal is made before the season begins, the production manager can coordinate how much each farmer plants and the timing of planting and harvesting.
- The group may accept deliveries from non-members in order to increase the amount that it has to sell.

COSTS OF MARKETING

The marketing team or trading committee will incur some costs. These may include:

- The marketing team's or committee members' time (they could be earning money doing something else)
- Cleaning, grading, and sorting
- Packaging and labeling
- Storage, loading, and transport
- Communications and travel
- Mobile phone costs.

The group should understand and approve these costs beforehand. The costs should be covered by deducting a small amount for each kilogram or bag of produce sold.

FINDING A BUYER

It's a good idea to identify and reach an agreement with a specific buyer for the product **beforehand** – even before the farmers have planted the crop. That gives the farmers a degree of certainty that they will be able to sell the crop – so makes them willing to invest in growing it. It also gives the buyer some certainty that there will indeed be a crop to buy.

Make sure the buyer is **reliable and trustworthy**. That means the buyer is able to handle the amount of product the farmers plan to produce, and has a reputation for paying on time. Don't agree to sell ten truckloads to a buyer who normally buys only three sacks.

During the marketing survey (Step 3) the farmers will have identified various potential buyers. Writing the business plan (Step 4) will have helped them refine the choice further. The role of the marketing team, is to return to these buyers, before the sales take place to negotiate and confirm a serious buyer.

In some cases, farmers will need to identify more than one buyer. This is because the buyer who offers the best price may have specific buying conditions, in terms of size, quality, timing, and packaging. If the farmers are not able to offer their produce at these specifications, they may need to sell part of their produce into a lower quality, lower price market. This is normal and farmers should be prepared ahead of their sales to sell produce of different qualities into different markets. For example, farmers may sell their best quality tomatoes into a local restaurant, but sell the lower quality tomatoes to the local wholesale market.

Waste produce may also have a buyer. It is common for farmers to have produce that cannot be sold into a market because it is damaged, off size, too small / too large, or rotten. Sometimes, this low quality produce can be sold to a local market or livestock farmers as animal feed. Any income gained through sales of waste produce, increases overall profitability.

FILL A TRUCK AND TAKE IT TO THE MARKET?

t is important for the farmers to negotiate with buyers about the timing of their sales and to be clear about the delivery, method of payment, and the price. Do not just load a truck and take it to the market, hoping to "outsmart" the traders. Traders do not like unexpected competition: without a prior arrangement, the farmers will suddenly find the traders unwilling to buy that day! They may have to sell for less than a trader had previously offered. They may even fail to sell the consignment and have to take it home again.

Traders do not like being forced into trades. Traders know each other and tend to work together to regulate the amount of produce that comes into a market. If too much produce arrives, prices fall and everyone loses. So farmers need to work with traders, and not against them.

NEGOTIATING WITH BUYERS

Farmers' groups can reach many different types of arrangements with buyers. Here are some:

- **Wait for buyer.** Many individual farmers wait for traveling traders to come along to buy their few sacks of onions or beans. Groups of farmers can do the same: because they are selling larger amounts, they can negotiate for a better price. Bigger volumes are also more attractive for buyers, so the group may not feel they have to sell to the first buyer that comes along. Although this approach is probably better than individual sales, it misses many of the opportunities offered by the approaches below.
- **Reliable buyer.** Many farmers sell to a particular buyer each year. This has advantages for both sides: they can get to know and trust each other. The buyer may give the farmers loans to pay for inputs, while the farmers may agree to wait for payment until the buyer has sold the product. Do not attempt this with traders who you do not know!
- **Pre-arranged sale.** The group may agree to sell to a particular buyer before the harvest at whatever the market price is at harvest time. This reduces the risk of no buyer turning up, and makes it possible to organize times, amounts, quality, and so on.

- **Agreed fixed price.** This is a special sort of pre-arranged sale, where the buyer and seller agree on a certain price beforehand. Fixing a price reduces the risk for both farmers and the buyer and this can be very useful for year round supplies. But there are dangers: if the market price at harvest time is higher than the agreed level, individual farmers may be tempted to side-sell to other buyers. Buyers can also do the same.
- **Agreed minimum price.** The buyer agrees to pay at least a minimum price. This gives the farmers more confidence to grow a crop. If the market price is higher at harvest time, the buyer agrees to pay the market price instead.
- **Auction.** The farmers may deliver their product to an auction, where potential buyers compete to buy it. The auction house may set quality grades and handle things like storage and payments; they will charge a fee for any services. Auctions are a common way of selling commodities such as coffee.
- **Contract farming.** The buyer signs a contract with a group of farmers to produce a certain product on a strict schedule. The buyer may provide loans for inputs, training, and guidance on how to grow the crop, and checks regularly that the farmers are complying with these requirements. Contract farming is especially common in the production of vegetables and other high-value crops when supplying formal buyers. It is also common with processed crops, such as cotton, cocoa, oilseeds, as the factory needs supply.
- **Fair trade.** The buyers must comply with strict standards set by a certifying organization that ensure that farmers receive reasonable prices for their produce. For this to work, both farmers and traders have to be well organized, the production on a farm needs to be tested and approved as certified, and then audited on a regular basis. Fair trade accounts for a very small percentage of world trade, but is significant in certain commodities such as coffee and cocoa.

THINGS TO NEGOTIATE

Here are some things for the marketing team to negotiate with the potential buyer:

- **Price.** What price will the buyer pay? For the best-quality product? For second-best? Is there a premium for consistently top-quality produce, or for reliable deliveries? When will the price be fixed – at the start of the season, when the contract is signed, at the time of sale, or after the time of sale (for example, depending on the export price)?
- **Quantity.** What amount of the product will the buyer take? How will this be measured – by weight or volume? In kilograms, sacks, truckloads? Will each bag be weighed? Who will provide the scales? What if there is a surplus or shortfall?
- **Quality.** What quality requirements does the buyer specify? What production methods should the farmers use (for example, avoiding the use of pesticides, or drying for a certain period)? What are the grading specifications? What certifications (fair trade, organic, shade-grown etc.)? How should the product be sorted – by size, color, maturity, visual appearance? Who should do the sorting? How will the quality be checked?
- **Place and transport.** Will the buyer pick the product up at each farm, or at a central location? Or do the farmers have to deliver it to a particular place? Who will pay for transport, loading and unloading and storage?

- **Packaging.** How should the product be packaged? In sacks, boxes, bags or crates, or loose? Who will supply the packaging?
- **Payment conditions.** When and how will the payment take place? Immediately on exchange of the product? After a delay (of how long)? In cash, by check, by bank transfer, or via mobile phone payment? Who will pay any tax due?
- **Pre-finance.** Will the buyer provide a deposit or loan (for example so farmers can pay for inputs at the start of the season, or to cover the costs of harvesting and transport)?
- **Timing.** When will the sale take place? On what date and at what time will the buyer come to pick up the product? Is this a one-off sale, or does the buyer require a regular supply throughout the season or over several years?
- **Formality.** Is there a written contract or agreement? Or is everything on the basis of mutual trust? A handshake? What happens if one side breaks the agreement – for example, if the farmers fail to deliver the right amount or quality, or if the trader fails to buy the agreed amount?

AGREEMENTS WITHIN THE FARMERS' GROUP

The farmers will need to agree on certain things. For **crops**, these might include:

- What type of crop and the variety to plant
- How large an area will each farmer plant
- When will each farmer plant their crop
- What management techniques to use (fertilizer applications, irrigation, pest and disease control, etc.) so they produce the right amounts and quality
- When will each farmer harvest the crop
- What processing to do after the harvest (such as drying, washing, dehusking, cleaning, sorting and grading)
- How to package the crop (the types of bags or crates, labels, etc.)
- Where to store the crop so the buyer can pick it up.

For **livestock and animal products**, things to agree on include:

- What type and breed of animal to produce
- How many animals to raise
- How to manage the animals (feeding, breeding, veterinary care)
- When each farmer should sell the animals
- What market preparation is required (such as weighing, sorting and grading)
- How to maintain hygiene (for products such as milk and honey)
- How to prepare the product for transport (e.g., putting eggs in cartons or milk into churns)
- Where to keep the animals or the products so the buyer can pick them up.

MAINTAINING A CONTINUOUS SUPPLY

Some buyers need a regular supply of the product throughout the season. A restaurant may want deliveries of a specific amount of fresh tomatoes every few days. It is no good having lots of tomatoes for sale this week, but none next week.

To serve this demand, the farmers will have to think about a number of options in terms of how much they can deliver, when they can deliver the amount of vegetables needed. They will need to agree on who plants and harvests how much of the crop on what dates. The farmers will need to develop a production schedule, (ref production guide). They will need to work on methods such as those shown below to extend their production season- methods include:

- Stagger their planting and harvesting dates.
- Using irrigation.
- Planting in different areas, such as highland, lowland and wetland areas.
- Using different varieties (short and long duration).

MAINTAINING QUALITY

Buyers will pay a premium only if the produce meets agreed quality specifications. It is important that all the farmers produce the right quality. If even one farm does not, then everyone else suffers. That means helping the farmers' group:

- Find out what the buyers' requirements or produce "specifications" are, and negotiate a **price premium** if the farmers consistently comply with these.
- Ensure that all the members understand what the **quality requirements** are and know how to achieve them. You may have to give them training or help them invest in new equipment.
- **Monitor** the quality of the product in the field and after harvest – for example, by checking for pests and diseases, and making sure that no one supplies a sub-standard product.

MAINTAINING DISCIPLINE

The farmers will need a way of encouraging members to stick to the agreements that have been made. There are two basic approaches: carrots and sticks.

- **Carrots.** Rewarding farmers who attend all the meetings, comply with all the agreements made, and deliver the right amounts and the right quality at the right time. For example, the farmers' group could give recognition awards for farmers who perform well.
- **Sticks.** It may be necessary to punish members who break the rules – for example if they do not attend meetings, fail to deliver the promised amounts, side sell, or if their quality is below standard. Punishments may include fines, exclusion from a credit arrangement, or even expulsion from the group.

KEEPING BUYERS INFORMED

Agriculture is inherently risky. Many things can affect a crop or livestock product: too little rain or too much, attacks by pests and diseases, and livestock trampling a field. Animals may have more or fewer offspring than expected.

Buyers like to know beforehand how much of the product they can expect. For example, a trader may have promised to supply a certain amount of the product to a processor. If she does not have enough produce, she will have to buy it elsewhere to avoid the factory keeping workers and equipment idle

So farmer groups should monitor the crop in the field and try to forecast how much will be produced. They should keep the prospective buyer informed about any changes in their anticipated production and also production costs. If the harvest is better than expected, the buyer can bring a bigger truck. If the weather is wet, she may be able to delay the purchase a few days to allow the product to dry.

DEVELOPING A MARKET STRATEGY AROUND QUALITY OPTIONS

What to do if the farmers produce too much? How to sell tomatoes that are too big or too small, or fruit that has blemishes? What to do with produce that has been stored too long and is no longer at its best? For many farmers, the ability to sell rejects makes the difference between profit and loss.

We can divide marketing into three categories or segments:

Primary markets. These are often formal markets where an enterprise sells the highest quality produce for the highest prices. Formal or modern markets have strict quality standards, and buyers will refuse to buy sub-standard produce. In this market,

PRIMARY MARKET

SECONDARY MARKET

TERTIARY MARKET

fresh fruit and vegetable products tend to have higher quality thresholds than grain. Farmers supplying these markets must sort their produce before delivering it and fully understand the buyer requirements or specifications to reduce the risk of rejects and to maintain their reputation as a reliable supplier.

- **Examples:** supermarkets, restaurants, food processors, export.

Secondary markets. These informal markets are where farmers currently sell most of their produce. These types of markets have few or no quality standards, but the produce sold here will fetch a lower price. For most smallholder farmers this market is the most important point of sales.

- **Examples:** urban wholesale and retail markets, rural wholesale and retail markets, assembly markets, road side stalls, farm gate.

Tertiary markets. These low value markets are where farmers can sell poor-quality produce: it may be over-sized, too small, over-ripe, shriveled or diseased. Some people are only seeking price not quality and do not mind off-type produce. Animals also do not care: farmers may be able to sell low quality produce as animal feed, or feed it to their own livestock. Doing so converts waste into a lucrative product (meat). Farmers may also be able to process edible but unsellable produce into longer shelf-life products.

- **Examples:** local village market, livestock feed, biogas feedstock, fruit jams or preserves, tomato paste, dried cassava chips, dried fish.

MOBILES FOR MARKETING

Mobile phones make collective marketing much easier! Before, farmers had to travel for hours just to find out the price at the nearest market. Now, farmers can negotiate a deal just by dialing the trader's number.

Here are some ways farmers can use their mobile phones for marketing:

- **Monitoring market prices** via SMS alerts or by phoning buyers and traders and asking them their buying prices for particular volumes, grades and times.
- **Communicating within the group.** Phones are useful for announcing meetings, telling members their production targets, checking on expected yields, and arranging deliveries to the collection point.
- **Arranging transport.** Some transport companies offer cheaper rates if their trucks have delivered a load and would otherwise return empty.
- **Arranging sales.** Phones are useful for contacting buyers and making arrangements for delivery, pick up and payments.
- **Maintaining business relationships.** It is important that buyers know farmers are serious about a sale, that they have the produce, and that they want to do business on a regular basis. Many traders work only with only farmers they can contact. Communication is especially important for trading in perishable goods that require regular deliveries in a season, such as fruit, vegetables and milk.
- **Accessing input credits.** In several countries farmers can get input credits from support agencies or local input suppliers sent directly to their phones. The e-credits, gives them a loan for, say, $20 worth of inputs. Farmers can take these electronic

credits to a supplier in the system and access goods. They pay back the loan at the end of the season with interest.

- **Payments.** In a few countries, phones can be used to transfer cash. It is likely that this system will be available in many more in the near future.

Buying a mobile and paying for airtime costs money. Make sure this cost is included under the costs of marketing.

Mobiles are very useful for field agents too. You can use your mobile to do many things that used to require a visit. Explore ways to use mobile technology to reduce project costs and increase your work efficiency. You can also now use mobile phones to collect survey data and keep records of your service delivery, which can be viewed by your supervisors, so that they know where you are, and the types of services that you providing to your farmer clients.

SECOND-ORDER MARKETING ASSOCIATIONS

For some products and markets, it makes sense for several farmers' groups to come together to market their produce collectively. We call this a second-order marketing association. That will let them offer bigger amounts of the product and keep supplying continuously over a longer period. It also means they can negotiate higher prices.

If you are working in a large project where you have many farmer groups, you can help the different farmers' groups get organized into a **second-order marketing association**. Each group should appoint two members (the marketing coordinator and perhaps the group chairperson) to an association trading committee.

The trading committee discusses its marketing strategy and agrees on the amounts of produce that each of the groups should supply and the price range it would like to achieve. It may also have recommendations about who to sell to, or which of the potential markets offer good prices.

The committee should assign two of its most experienced members to negotiate the sale with identified buyer(s). These agents make the arrangements and inform the committee about it. Once the committee has agreed, it arranges the time and location of the sale.

The trading committee is not a full-time organization. It is a light structure that costs little, so most of the sales price goes to the farmers rather than paying for administration.

COOPERATIVES

Formal farmers' cooperatives can offer their members more services than informal arrangements like trading committees. Cooperatives usually have full-time, paid, skilled committee members who provide a range of services to group members, such as advice on production, finance, new technologies and access to marketing support at subsidized prices. To pay for these services, the cooperative charges a membership fee (or members can buy shares). For more on cooperatives see lesson 17 in the Group management module.

In some countries cooperatives are strong, offer excellent services, and have a good reputation. In other countries, however, cooperatives are weak, and suffer from political manipulation and poor financial management. You will need to find out how good a cooperative is by checking with its members. If you plan to work with an existing cooperative, check its management team, and obtain records if you can about their sales transactions, their financial records, storage capacity, and whether members trust the management team.

SECOND-ORDER MARKETING ASSOCIATION

PROBLEMS WITH COLLECTIVE MARKETING

Here are some common problems with collective marketing, and some suggestions on what to do about them.

SOCIAL PROBLEMS, EMERGENCIES

One group member's father has died and she has to pay for the funeral. Another's daughter is in hospital and needs money to cover the medical bills. A third has to pay for a wedding. These members need money quickly, so are forced to sell their product before the collective sale. The group as a whole is unable to meet its target.

What to do. Try to make sure that the farmers have another source of money. Encourage them to form a savings and internal loans group, or find a microfinance institution that can offer emergency loans. See the 5 skills set module on Savings and Internal Lending for more.

REPAYING MONEYLENDERS

The farmer has borrowed from the local moneylender. But he owes so much that the moneylender takes his harvest as repayment, and values it at a very low price. The farmer is not able to deliver the agreed amount to the group.

What to do. When setting up the collective marketing process, ask the lead farmer or secretary to follow up with farmers at their farms to be sure that they are really able to sell with the group. At the group meetings discuss the question of product ability to support the group. It is important that everyone in the group supports the group. If one of the farmers indicates they have problems, the group should discuss this and find a possible solution. Encourage the group to form a savings and internal loans group, or find a microfinance institution that can give them an alternative source of loans.

IT'S BEEN A GREAT YEAR. LET'S SPEND!

The group has had a successful year, so naturally they want to celebrate. The other villagers expect successful members to pay for lavish weddings or other celebrations. That can cost a lot more than the year's profits, and push people into debt.

What to do. Be aware of such expectations, and try not to "spoil the party." But encourage the group to think of their farm as a business. They need to plan their expenditures, and will need money to invest in the next season. A quiet conversation about the effects of the lavish spending leading to future debt can be very helpful in the longer term.

SIDE-SELLING

This is a very common problem. The farmers' group has agreed to sell to a particular buyer. But then along comes another trader who offers some members a better deal – a higher price, or immediate payment in cash. The members load their produce onto the trader's truck and the group is left without enough to sell to the original buyer.

Side-selling is a real problem. Farmers should discuss plans to avoid this

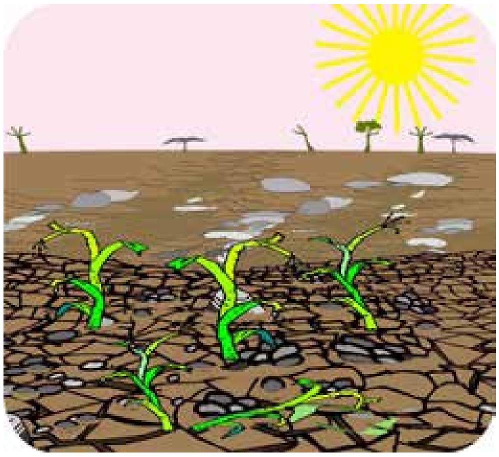
What to do. Strong group leadership is essential. Persuade the group that it is in their interests to stay with the original plan. Discuss the problems of side selling with the group, as you approach the time of harvest, so that they know that it has a bad effect on the group. Make sure the group has severe penalties for side-selling – for example, expelling members who do so. Or suggest that the farmers sell only part of their output collectively, leaving the rest for them to sell individually.

BAD WEATHER

Last year was a good year, and the group harvested 100 tons. They thought they would do the same this year, and agreed to sell this amount to a buyer. But the weather was bad: first drought, then heavy rain. The group harvested only 40 tons.

What to do. Encourage the group to make plans based on a conservative or average yield, not on an outstanding year. The production coordinator should monitor conditions in the field; if problems occur and the yield is lower (or higher) than expected, he or she should tell the marketing team in good time, so the team can inform the buyers. The crop performance is something that the group should discuss at each meeting.

NOT JUST BAD WEATHER: IT WAS A DISASTER!



The buyer gave the group a loan to pay for inputs at the beginning of the season, repayable at harvest time. But the rains failed completely, and the farmers have harvested almost nothing. They will go hungry – and they still have the loan to repay.

What to do. When working with the loan agency, ask that loan agreements and contracts have a disaster clause and a way of arbitrating or making a fair decision on the ability to repay a loan or honor a contract. For example, the agreement should specify a neutral party (a local research manager, a chief, administrator or extension agent) who decides if the farmers have been unduly affected by a natural disaster. If so, the agreement should allow for reduced repayments or supplies, or for the agreement to be canceled.

Insurance. The problems of loan repayments are a major concern for many farmers who would invest more in their farms, but do not do so because they fear the consequence of not being able to repay the lender. To support farmers, there are now an increasing number of insurance products, aimed at helping smallholder farmers insure against loss of inputs and loss of the crop value. If this type of insurance is available in your area, then work with farmers to find out if it makes sense to invest in insurance.

VARIABLE QUALITY

Some of the group members have delivered high-quality produce, while others have offered poor-quality, unsorted produce that reduces the value of the consignment. The first farmers are frustrated: they say they would have got a better price if they had sold individually.

What to do. Make sure that all the members understand the requirements. Illiterate farmers may need extra help to understand that they have to do. Show the farmers a bag of expected quality produce.

FARMERS WHO CHEAT THE GROUP WILL CAUSE FRUSTRATION

COSTS OF COLLECTIVE MARKETING

The farmers have delivered the produce, and the buyer has picked it up. The farmers thought they would get their money straight away, but payment will take a couple of weeks. Plus, the members suspect that the marketing team is overpaying itself.

What to do. Help farmers understand the sales process and realize that collective marketing is not free. Make sure that the group agrees with the terms, and that payments to the marketing team (and other group officials) are transparent. Farmers should be aware that being a member of a group is likely to incur costs.

CONCLUSION

Collective marketing has many advantages for small-scale farmers. This lesson has looked at these advantages, described how a typical collective sale works, and shown how farmers' groups can organize themselves to market collectively. It has also discussed some of the problems that farmers may encounter when marketing as a group.

QUIZ 17

Answers at the end of the guide.

1. All the farmers in the group should be involved in negotiating a sales deal.

A. Correct. It's important that everyone has a say in the deal

B. Not correct. It is better for the group to nominate a couple of members to negotiate deals

2. The farmers can just load a truck and take their products to the market. They will be sure of finding a buyer prepared to pay a good price.

A. Correct. Markets are full of traders who are looking for things to buy

B. Not correct. Traders generally have regular suppliers and cannot deal with large, unexpected loads of produce

3. Here are some problems you may encounter with collective marketing. What should you do about each one?

PROBLEM	SOLUTION
A. Drought cuts the output	1. Strong leadership and punishment for offenders
B. Farmers side-sell to other buyers	2. Savings and internal loan group
C. A farmer needs to pay medical expenses	3. Educate farmers about the sale requirements
D. Three of the members deliver unsorted produce to the collection area	4. Disaster clause in contract

4. Put these collective marketing activities into the correct order

A. The supermarket transfers the money for the first shipment.

B. The secretary records how many kilograms of onions each farmer has supplied.

C. The group aims to produce 50 tons of onions and hopes for a price of 10 shillings per kilogram.

D. The farmers deliver the onions to the collection center on the agreed dates.

E. Each farmer's onions are inspected and weighed.

F. The marketing committee arranges a sale to a local supermarket: 5 tons a week for 10 weeks.

G. The treasurer deducts the cost of marketing, then pays the farmers.

H. A loading team loads the onions onto a truck to take to the supermarket.

I. The production coordinator plans the planting and harvesting schedule.

5. Match the types of market with the correct description

MARKET TYPE	DESCRIPTION
A. Primary market	1. A low-value market where farmers can sell poor-quality produce
B. Secondary market	2. A formal market where an enterprise sells the highest quality produce for the highest prices
C. Tertiary market	3. An informal market where farmers currently sell most of their produce

6. Collective marketing can encounter various types of problems. Match the example with the correct type of problem.

TYPE OF PROBLEM	EXAMPLE
A. Social problem	1. The group wants to celebrate the good harvest by buying televisions and motorbikes
B. Repaying moneylenders	2. The group agreed to produce 40 tonnes, but unseasonable rains reduced the harvest.
C. Overspending	3. The group has agreed to sell to Jojo for $2 per bag, but some members sell their output to Kiki for $2.50.
D. Side-selling	4. Michael has borrowed from the moneylender, who takes his harvest as repayment
E. Bad weather	5. Lucy's husband has died and she needs money to pay for the funeral. She sells her crop to another buyer.
F. Variable quality	6. Some members deliver high quality, while others produce lower quality.

EXERCISE 17A. WORKING OUT TRANSPORTATION COSTS

This fun role-play helps farmers understand the advantages of filling a complete truck when transporting produce to market.

OBJECTIVE

After this exercise the participants will be able to:

- Describe the costs of transporting goods to market.

EQUIPMENT NEEDED

- Wheelbarrow
- 10 paper bags (these represent sacks of grain)
- Pieces of paper to act as banknotes, with $1, $5 or $10 written on them (a total of $200)
- Flipchart, marker pens

EXPECTED OUTPUTS

- Farmer understand how they can work together to earn more money by reducing a trader's costs

TIME REQUIRED

- 1 hour

PREPARATION

- None

SUGGESTED PROCEDURE

1. Explain to everyone that this is a game to find out how much a trader is willing to pay for grain. Say that one side of the room (or teaching area, if you are outside) is the market; the other side is the village, where people have grain to sell. Explain that the paper bags are sacks of grain.
2. Ask one participant to play the role of the trader. Give this person the $100 in make-believe money. Tell him or her (whisper so no one else can hear) that he or she can sell a sack of grain in the market for $10. He or she should try to buy as many sacks as possible from the farmers as possible. He or she should try to make a profit, but should not make a loss. Ask this person to go and stand in the "market."
3. Ask another participant to play the role of truck driver. Give this person the wheelbarrow (the "truck"). Explain to the truck owner (again, whisper) that it costs $30 to hire the truck. Ask this person also to go and stand in the market.
4. Ask another participant to act as a buyer in the market. Give this person $100 to spend on grain. Whisper to him or her that the price of a sack of grain is $10. He or she should buy as many sacks as possible from the trader. Tell this person to go and stand in the market.
5. Ask 10 more participants to act as farmers who have grain to sell. Give them the sacks filled with paper (one sack per person). Tell them that they should try to get as high a price as possible from the trader.
6. Ask the participants to act out a role-play. The trader has to hire the "truck" and driver, bring it to the village, buy grain from the farmers, and take it back to the market, and sell it to the buyer.
7. Make a note of the amounts paid each time for grain. Then hand the money back to the original owners to start again.
8. Repeat the role-play several times, with different numbers of farmers. Start off with three farmers, each with one bag of grain to sell. Does the trader want to buy their grain?
9. Then try with five farmers. Does the trader want to buy their grain? At what price?
10. Then try with more farmers, up to a maximum of 10. What happens to the price that the trader is willing to pay?
11. After several rounds, bring all the participants back together to discuss what happened.
12. You can record the transactions on a flip chart as in Table 75.

QUESTIONS TO STIMULATE DISCUSSION

- What types of discussions took place?
- What price was the trader willing to pay for grain?
- How much grain was traded?
- How much profit did the trader make? Did the trader make any mistakes?
- How much money did the farmers make?
- What was better – lots of grain to sell, or just a little?
- Who benefits if the trader leaves the village with an empty truck? With a full truck? The farmers, the trader, the buyer – or all three?

NOTES

The participants may take a while to get used to this role-play. Be prepared to repeat it several times, and to allow them to make mistakes (and learn from them!).

If the farmers have three bags or less to sell, the trader will refuse to buy them, as he or she cannot hope to make a profit.

If there are four or more bags, the trader should buy them all. The price paid should depend on the number of bags on offer: more bags means a higher price. When the truck is full, the trader's costs per bag are low, so the trader can afford to pay the farmers more.

Make sure to choose a trader who can make calculations quickly in his or her head!

TABLE 75. EXAMPLE OF ROLE-PLAY OF TRANSPORT COSTS

FARMERS	SACKS SOLD	PRICE PER SACK	TRADER'S PROFIT
3	None	None	None
5	5	$3	$5
10	10	$6	$10

EXERCISE 17B. A TRADER'S TIME IS THE FARMERS' MONEY

This exercise helps farmers understand the value of bringing their produce to a central collection point and of selling in bulk.

OBJECTIVE

After this exercise the participants will be able to:

- Explain the additional costs that traders incur when they have to collect goods from many places rather than one.

EQUIPMENT NEEDED

- Paper bags (representing sacks of grain)
- Watch

EXPECTED OUTPUTS

- Farmers understand how they can work together to reduce the trader's costs

TIME REQUIRED

- 30 minutes

PREPARATION

- None

SUGGESTED PROCEDURE

1. Divide the participants into two or more teams of 10 people each.
2. Ask each team to nominate one of their members to act as a "trader." Ask these individuals to stand at one end of the room (or teaching area). Draw a starting line on the ground in front of the traders.
3. Give the other team members a bag each.
4. Ask the teams to stand about 1 meter apart in a line, facing their trader. Each person should put the bag on the ground next to him or her.
5. Tell the traders that they have to run, pick up the first bag and bring it back to the starting line. They then run and pick up the next bag, bring it back, and so on. They may carry only one bag at a time.
6. Start the race, and keep time with the watch.
7. At the end of the race, all the bags will be behind the starting line for the trader.
8. Now repeat the exercise but this time tell the members of the first team to group close together. In the second team, ask the farmers to spread out so that they are at least 10 paces away from each other. Now repeat the race and see who wins.
9. Bring the participants back together to discuss what happened. (It takes a lot longer more time and effort to collect the produce when it is spread out.)

QUESTIONS TO STIMULATE DISCUSSION

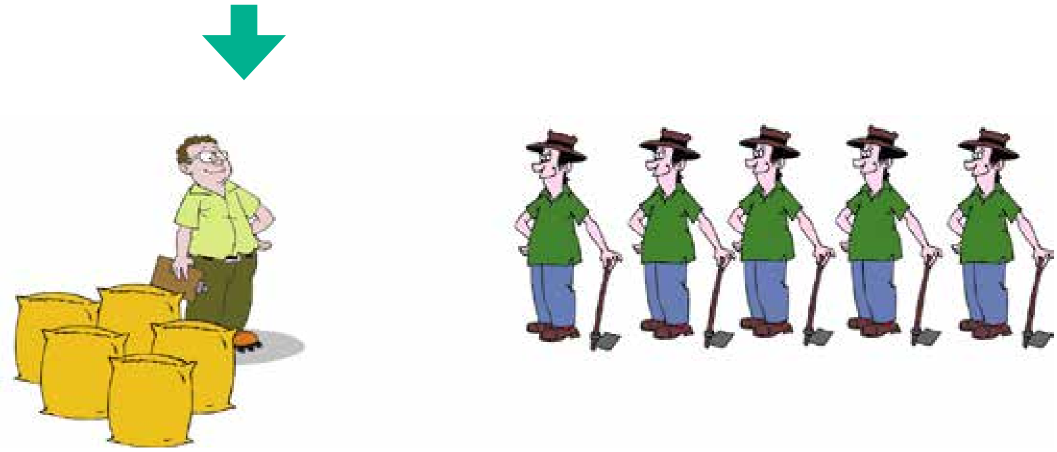
- Why did it take so long to collect the bags on the second round?
- Who do you think the traders will go to first, farmers who are organized and have all their produce in one place, or farmers who keep their produce at different places?
- Which farmers will get the best price for the "grain" in the bags?
- Do the farmers have a central collection place where they can bulk their produce at the time of sale?

NOTES

Many farmers do not consider that in addition to the cost of transport there is also a cost for the time that a trader puts into collecting produce. For traders time and distance to collect produce are their major costs. A trader will make a higher profit if he or she can collect produce quickly sell it and then go on to another deal. If the trader is delayed when collecting produce he or she will need to pass that additional cost on to the farmers or his or her customers. It is simpler to charge the farmers, meaning farmers get paid a lower price for their goods if they are not organized.

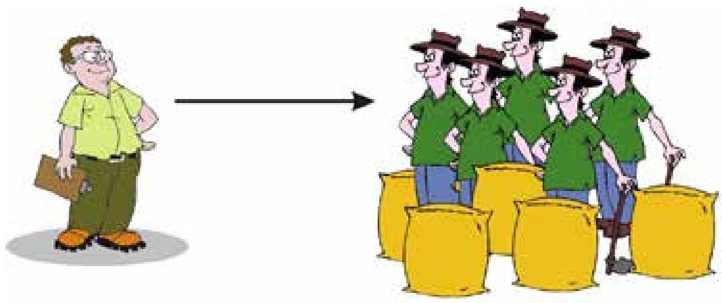
LINE UP FARMERS AND TRADERS

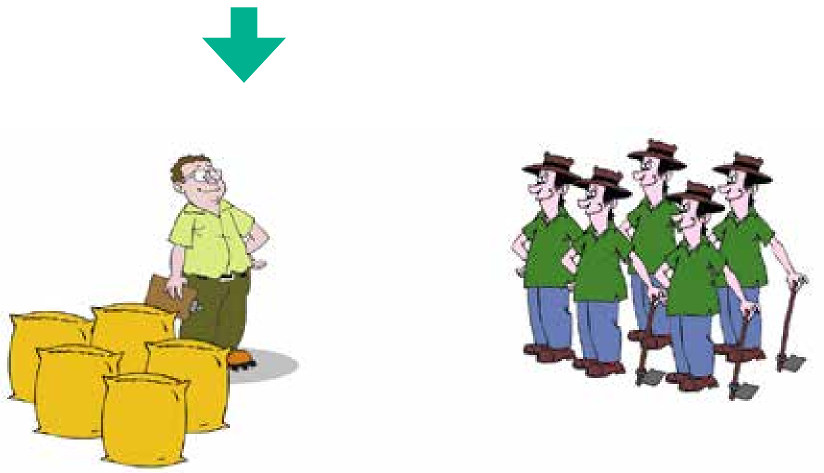
1



TRADERS TO BRING ALL THE BAGS BEHIND THE STARTING LINE

2





EXERCISE 17C. LET'S TALK ABOUT SIDE-SELLING

This role play helps farmers think about the effects that side-selling has on the main group and the traders.

OBJECTIVE

After this exercise the participants will be able to:

- Describe the negative effects of side selling on a marketing group.

EQUIPMENT NEEDED

- 25 pieces of paper, each with the word of a specific crop such as "maize" written on it

EXPECTED OUTPUTS

- Participants see what happens when some group members do not keep to an agreement to produce to a specific buyer

TIME REQUIRED

- 15 minutes preparation with selected members of the group
- 60 minutes for the role play and discussion

PREPARATION

- Write the word "Maize" on the piece of paper.
- You will need people to play the following roles. Ask for volunteers from among the group.
    - **First trader** (you can play this role yourself).
    - **Miller**
    - **Five farmers** (all members of a farmers' group)
    - **Second trader.**
- Take these volunteers aside and explain the role-play to them.
- Give each of the five "farmers" five pieces of paper marked with the word "maize." Explain that each piece of paper represents a bag of maize.

SUGGESTED PROCEDURE

1. Together with the volunteers, perform the following play to the audience of other group members (see box *Side-selling maize*). Feel free to make up the dialogue as you go along. Try to build some humor in to make the role play amusing!

DISCUSSION

Facilitate a discussion among the audience and actors about what happened. Some points to bring out:

Because some farmers sold early, everyone is worse off.

- All the farmers were paid less than the price they had negotiated for the full consignment.
- The trader is worried that he or she will not fulfill his contract with the miller. The trader will have to buy maize somewhere else, perhaps at a higher price, and will incur more transport costs to find the maize.
- If the trader cannot deliver, the miller will not be able to fulfill his or her own contract.

The farmers no longer trust each other and they don't like the trader. This is how farmers and traders fail to make good trading relationships and fail to get better deals.

QUESTIONS TO STIMULATE DISCUSSION

- Why did the farmers side-sell?
- Will some farmers always side-sell?
- Should the farmer groups and traders plan for a degree of side-selling, so that plans have some flexibility?
- What would it take to avoid large scale side-selling when farmers are working together?

SIDE-SELLING MAIZE

Scene 1 (Wednesday: in the village before the maize harvest)
The first trader visits the farmers' group and negotiates to buy 25 bags of maize after the harvest: enough to fill a pickup. The farmers and trader agree on a price of 2,000 shillings per bag. They agree to meet in the village after the harvest next week, when the farmers will hand over the maize and the trader will pay them. The trader and the farmers shake hands, it's a deal!

Scene 2 (Thursday: at the miller's in town).
After the meeting with the farmers, the first trader meets with a miller in town and signs a contract to sell 25 bags of maize the following week. The miller has a big order to fulfill and needs maize urgently.

Scene 3 (Tuesday: in the village, after the maize harvest)
The day before the expected sale, the second trader visits the village and meets two of the farmers. This trader wants to buy maize now. He offers the farmers 1,850 shillings a bag. The farmers say they already have an offer for 2,000 shillings a bag. The second trader says that first trader is very unreliable: "He will not come, but I will give you 1,900 shillings a bag right now!" The two farmers are worried. They agree and sell their maize to the trader.

Scene 4 (Wednesday).
The farmers bring their maize to the collection center. But only three of the five farmers in the group arrive. They have only 15 bags, not the 25 agreed on. The trader arrives and wants to buy all 25 bags.

The trader tells the farmers: "If I cannot get the 25 bags today, I cannot fulfill my contract with the miller. I will have to find more maize whatever the price! If you have only 15 bags to sell I have to give you a lower price!"

The three farmers are very upset, but in the end they have no choice but to agree. The trader gives them 1,800 shillings per bag. "Next year I will find another group to buy from!"

The three farmers are angry with the trader, and angry with the two farmers who sold a day early.

LESSON 18. HOW DO TRADERS DECIDE ON PRICES?

IN THIS LESSON

After this lesson you will be able to:

- Describe how a trader calculates the price he or she offers to farmers
- Explain the circumstances when a trader is likely to offer lower prices
- Analyze price trends over several seasons and years.

HOW DOES A TRADER CALCULATE PRICES?

"The price is too low!" "The traders are cheating us!"

Common complaints from farmers. And sometimes they are true.

But usually, a trader offers farmers a price based on the current price in the market, minus the trader's costs and profit margin. Let us look at how a trader calculates this price when buying maize from farmers 50 km from the market where he sells.

The trader knows that the current market price for 10 kg of onions $5 a bag.

He has a pick-up truck that can carry 100 bags. If the pick-up is full, he will be able to earn:

- **100 × $5** = **$500**

But he also has to pay for his costs. These include:

- A day's wages for the truck driver = $14
- A day's wages for the driver's helper = $8
- Checkpoint fees = $5
- Market fees = $5
- Fuel for 50 km = $12
- Workers to unload the truck: 100 bags × $0.20 a bag = $20

He adds up all his costs, and they come to:

- **Total costs** = **$64**

Naturally he also wants to make a profit, and he needs to cover the costs if the truck has an accident and the load is lost. To cover this, he includes a profit margin of 10%:

- **Profit** = **$50**

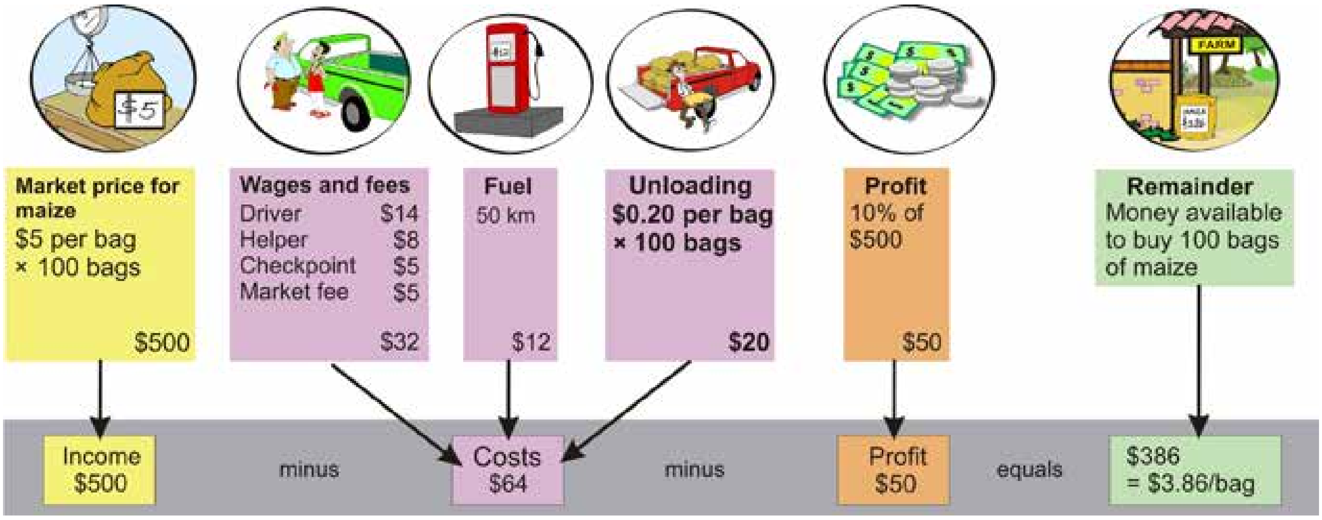
That leaves him with the following amount to pay for the 100 bags of maize:

- $500 – $64 (costs) – $50 (profit) = $386

That means he is willing to offer the farmers this price per bag:

- **$386 / 100 bags** = **$3.86/bag**

He may start by offering a little less than this, and hope he will make more profit. But if he offers more than this, he will make less profit – or maybe no profit at all.

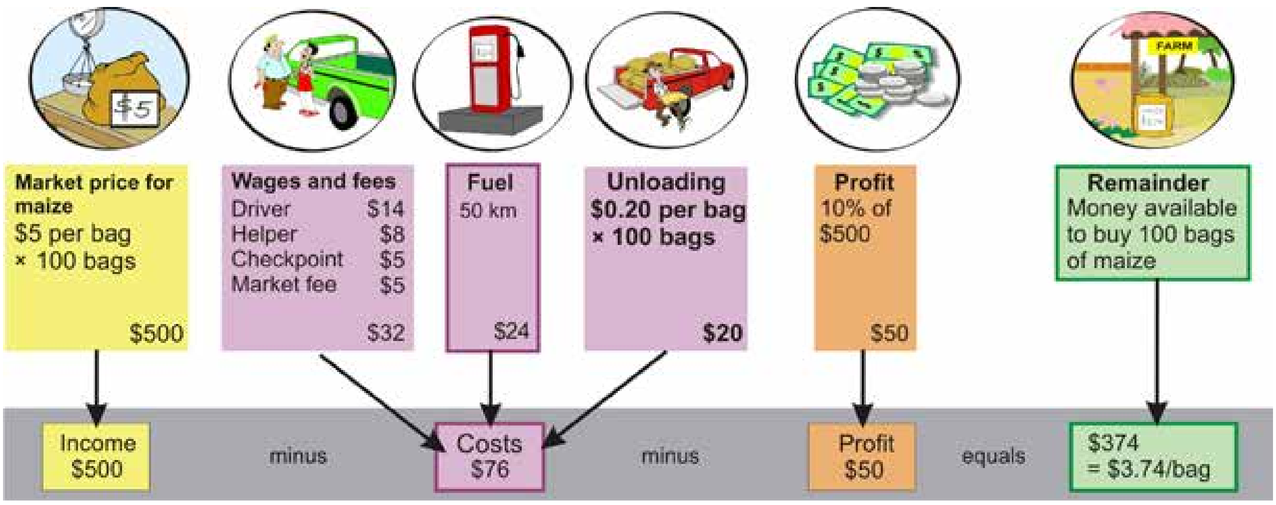


HOW A TRADER CALCULATES PRICES

HIGHER COSTS

Now let us look at what happens if the trader's costs go up. For example, what if the trader has to fetch the onions from somewhere twice as far away -100 km away and not 50 km? That will double the fuel costs, but all other costs will stay the same. We have highlighted the parts of the diagram that have changed. Sometimes, the increases in the distance are so significant that the trader may even have to pay for additional checkpoints and wages for the driver and the helper.

As you can see, the trader will offer a maximum of **$3.74** instead of $3.86 a bag.

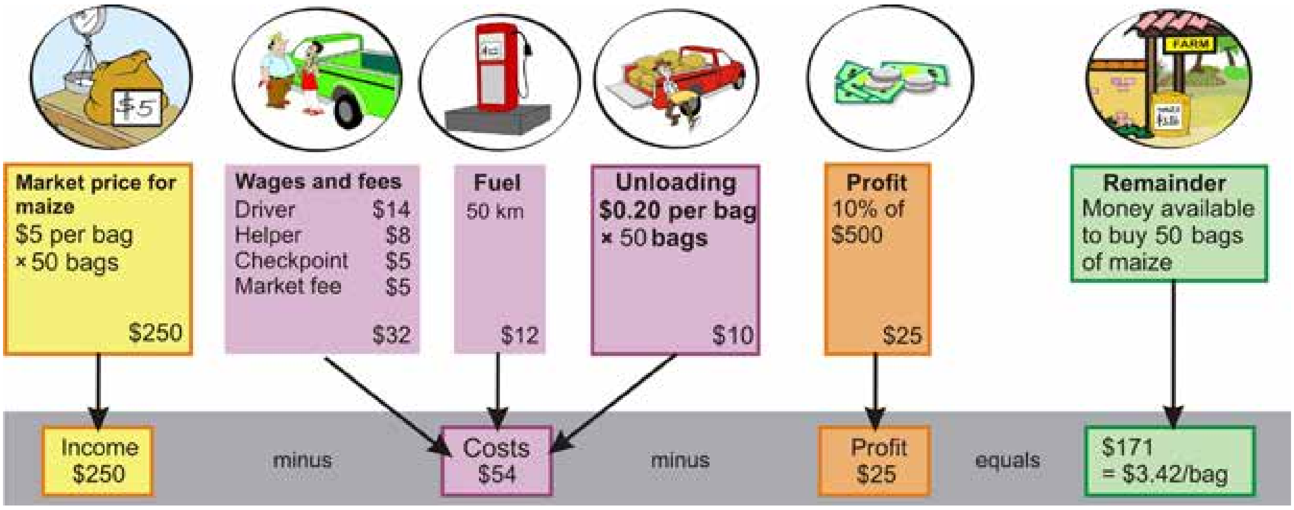


HOW A TRADER CALCULATES PRICES: LONGER DISTANCE

SMALLER PURCHASE VOLUMES

Now let us consider what happens if the trader can buy only half a truckload: 50 bags instead of 100. In this case, the unloading costs go down, but the other costs stay the same. And the trader can sell only half the amount. The trader's profit – 10% of the total sale – goes down – but there is still only enough money left for him to offer **$3.42** a bag.

Everyone gets a bad deal: the farmers (who might have earned $3.86 if they had 100 bags to sell), the trader (whose profit is halved), and the customers (who can buy only half the amount of maize).



HOW A TRADER CALCULATES PRICES: SMALLER VOLUME

BUYER'S MARKETS AND SELLER'S MARKETS

All of these examples assume that the price ($5.00 per bag) is set by the buyers in the market where the trader sells the product. This is called a buyer's market.

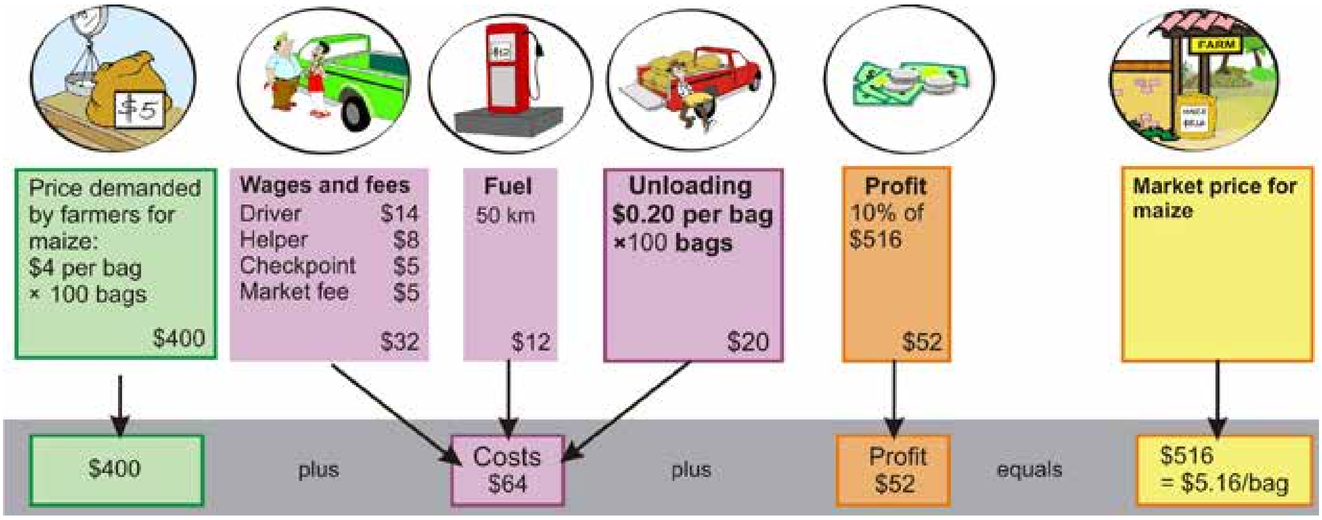
But that is not always the case. Sometimes there is high demand for a product, and the supply is scarce. That means the seller has more influence over the price. This is called a seller's market.

In a seller's market, the trader has to accept the price that farmers will sell at – for example, $4.00 a bag. The trader works the other way around: he adds on his costs and a profit margin, and ends up with a price he is willing to sell at in the market. In our example, this works out at **$5.16** a bag.

The wholesalers who buy from the trader in the market will in turn pass on the additional costs to their customers, resulting in higher prices for consumers.

SUMMARIZING HOW TRADERS CALCULATE PRICES

Table 76 shows the same examples to make them easy to compare.



HOW A TRADER CALCULATES PRICES: SELLER'S MARKET

TABLE 76. HOW A TRADER CALCULATES THE PURCHASE PRICE

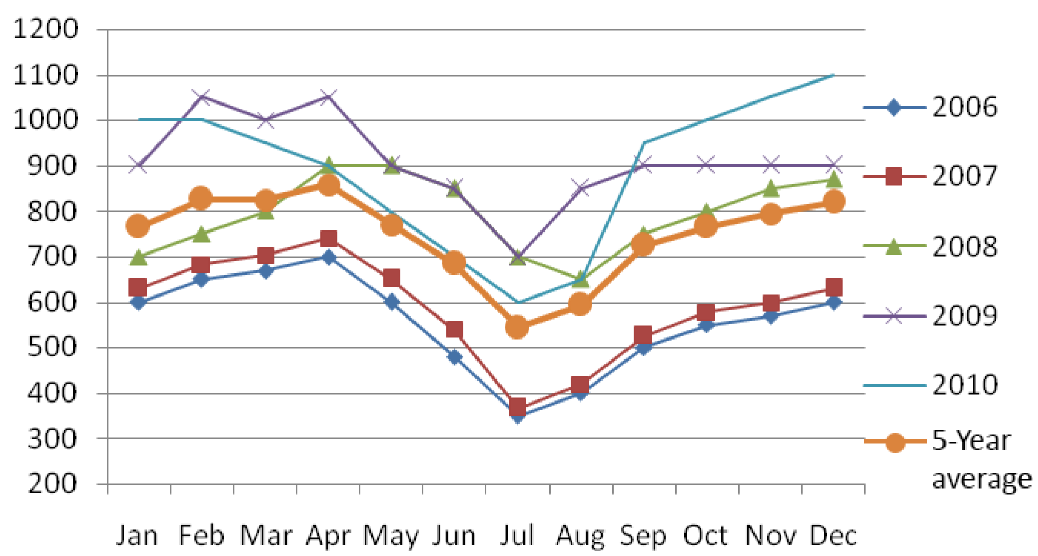
		BUYER'S MARKET			SELLER'S MARKET
		100 bags		50 bags	100 bags
		50 km away	100 km away	50 km away	50 km away
Market price for a bag of onions		$5.00	$5.00	$5.00	$5.16
Total income from truckload		$500	$500	$250	$516
Costs					
Driver		$14	$14	$14	$14
Helper		$8	$8	$8	$8
Checkpoint fees		$5	$5	$5	$5
Market fees		$5	$5	$5	$5
Fuel for 50 km		$12	$24	$12	$12
Unloading	Bags × $0.20	$20	$20	$10	$20
Total costs		$64	$76	$54	$64
Profit	10% of income from truckload	$50	$50	$25	$51
Money available to buy onions	Income – costs – profit	$386	$374	$171	$400
Price offered per bag	Money available ÷ number of bags	$3.86	$3.74	$3.42	$4.00

HELPING FARMERS UNDERSTAND PRICES

You can help farmers understand prices so they can decide when to sell, where to sell, what to sell, and how much to sell at what price. You can help them get the following types of information:

Historical price data: Some agencies collect regular price data for a product at specific markets, these data sets show how the price for a product has risen and fallen over the last few years.

The graph below shows an example of historical price data for maize in the market of Masala, Ethiopia over five years. It shows that the prices start falling in April, when the harvest starts, and are lowest in July. They rise to a peak in January–March. This is helpful information for farmers who are thinking about storing produce or planting early to take advantage of the high prices early in the year. It is also useful for microfinance institutions who may be interested in making loans to farmers who want to store their produce.



PRICE OF 1 KG OF MAIZE OVER FIVE YEARS AT ONE MARKET

The graph also shows that prices rose from 2006 to 2009, so farmers were getting more money per kilogram of maize. But in 2010 prices fell slightly. You could explore the reasons for these trends and discuss whether they are likely to continue. Understanding market prices and learning how to use this information in negotiating sales prices is a useful way for farmers to get the best available price.

Some countries have national market information services which provide information on price trends, and weekly or even daily prices. Mobile phones are now often used to share market information and many services offer price updates by SMS. Find out about such services and show farmers how to use them.

The traders' costs. By working with some traders, you can learn how they set their prices and you can explain the methods they use to the farmers. The strategies that traders use will change over time, with changes in market demand and supply, so keep any information you have about prices current!

COMPARING TRADERS' PRICES WITH PRODUCTION AND MARKETING COSTS

Comparing the farmers' production and marketing costs with the traders' prices is important when negotiating with traders.

In Step 3, Lesson 10, the farmers calculated how much it cost them to produce and market the product. Invite them to compare this with the price they can expect the traders to offer.

- **If the expected trader's price is lower than the farmers' costs:** The farmers can expect to make a loss. They should check whether their cost calculations are correct, and whether they can reduce their costs further. They should also discuss how to persuade the traders to pay more for the product – for example, by sorting and grading (to increase the quality), by offering a larger volume, or by storing the product until the price rises.
- **If the expected trader's price is higher than farmers' costs:** The farmers can expect to make a profit. Get ready to celebrate! But they should still work out how they can reduce their costs, and how to increase the price (for example, by offering larger amounts or better quality).

CONCLUSION

Farmers can use information on prices and costs to work out the price they can expect to be offered by traders. They will know when there is a buyer's market (probably when supplies are low and prices are highest). They will also know when they will have less room to negotiate prices (at the peak time of the harvest). The larger the volume of produce that farmers have to offer, the more strongly they can negotiate for higher prices. However, all products have clear price boundaries and so farmers need to understand market limitations.

QUIZ 18

Answers at the end of the guide.

1. "Ibrahim the trader is trying to cheat us! He came in his pickup today and offered ten cents a bag less than Jojo."

   A. Correct – Ibrahim and Jojo both sell at the same market, so there is no reason that they should offer different prices

   B. Not correct – Jojo has a big truck: he can buy more than Ibrahim, so has lower costs. That means that Jojo can offer higher prices

2. "Now Jojo is playing games! Last week he paid $5 a bag; now he is offering only $4.50."

   A. You are right – Jojo is trying to force the farmers to lower their prices

   B. You may be mistaken. The price in the market has changed, and Jojo will not make any money if he keeps paying $5

3. A bag of onions fetches $5 in the market. Jojo expects to sell 75 bags. What is his expected revenue?

   A. $5

   B. $75

   C. $375

4. Paying for the driver, helper, checkpoints, market fees, and fuel will cost Jojo $44. Unloading 75 bags costs $0.20 a bag. His total costs equal...

   A. $44

   B. $59

   C. $15

5. Jojo's expected revenue is $375. His costs (excluding the cost of buying the grain) are $59. He expects a profit of 10%. How much does he have left to buy the grain?

   A. $375

   B. $316

   C. $278.50

6. So Jojo has $278.50 left to spend on grain. How much can the farmers expect him to offer for their 75 bags?

   A. $278.50 per bag

   B. $203.50 per bag

   C. $3.71 per bag

EXERCISE 18. FARMER AND TRADER PRICING

OBJECTIVE

After this exercise the participants will be able to:

- Explain how traders set their prices.

EQUIPMENT NEEDED

- Flip chart, market pens, calculator

EXPECTED OUTPUTS

- Farmers have a better understanding about how traders set their prices and what farmers can do to either improve their price negotiating position or work on ways of helping to reduce farmer costs

TIME REQUIRED

- 2 hours

PREPARATION

- None

SUGGESTED PROCEDURE

1. Tell the following story (see box on *Mr Khan buys chickens*). Use Table 77 to explain the numbers.

DISCUSSION

2. Choose a product that farmers sell and work out the costs from the market back to the farm.
3. Work out the costs if you have 10, 100 or 200 units of that product.
4. Also work out the costs if the market price changes.

MR KHAN BUYS CHICKENS

In the village of Bengul, there was a group of farmers who produced chickens. They sold their chickens to Mr Khan, a chicken trader, for 220 rupees each. Mr Khan took them to the market, where he sold them for 400 rupees.

One day, one of the farmers, Ahmed, went to the market. He found that farmers there were selling their chickens to the traders for 350 and sometimes 380 rupees. He went back to the village and told the other farmers about this.

When Mr Khan next came to the village, Ahmed asked him why he paid them so little for their chickens. They wanted a better price. The trader smiled. “You are right,” he said. “The problem is that every time I come to Bengul you sell me only 12 or 15 birds. At that amount I cannot pay you more. If you want a better price you need to sell me a lot more chickens.”

The farmers thought about this. Ahmed then asked, “What would you give us if we produce 40 chickens every week?”

Mr Khan said “I would give you 250 rupees”.

Ahmed was surprised. “I want to earn more. I want 350 rupees for my chickens. They are the best chickens in the valley!”

Mr Khan smiled again. “Very good, Ahmed. I can pay you 330 rupees for your chickens, but only if you supply me with 100 birds on every visit. If you can do that I will come every week.”

“Let me tell you a little about my business,” Mr Khan continued. “If we count the cost of fuel, the vehicle and my driver, my trip here costs me 1,800 rupees: the same if I buy 12 chickens from you or 100. Then I have to pay 20 rupees per chicken in taxes and market fees.”

“If I only have 12 birds, I still have to pay for the transport and driver. So I can offer you only 150 rupees a bird. But if I can buy 100 chickens from you, I can pay you more for them and still earn money. I have written some figures down for you to see the prices. Have a look at them, and call me if you decide to grow more chickens.”

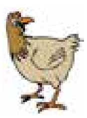
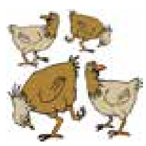
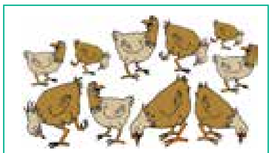
Ahmed studied the figures and spoke with his neighbors. The farmers knew this was a big jump in their production. But they worked out a plan and borrowed money for the chicks, feed, and medicine. Now they produce 100 chickens every week for Mr Khan.

Mr Khan is very pleased with his chickens, and the farmers work hard together. Both the farmers and Mr Khan are pleased they are earning more from their chickens.

Mr Khan explained that prices of chickens in the market change during the year, so the farmers must monitor the market prices. They will have to accept lower prices at some times of the year, and can perhaps ask for a little more when prices are high.

TABLE 77. WHY MR KHAN WANTS TO BUY MORE CHICKENS

(Figures in rupees)

				
Number of chickens Mr Khan buys	A	12	40	**100**
Price Mr Khan pays per chicken	B	150	278	**326**
Cost of chickens	C = A x B	1,800	11,120	**32,600**
Tax, market fees (20 per chicken)	D	240	800	**2,000**
Fuel, driver, vehicle	E	1,850	1,850	**1,850**
Mr Khan’s total costs	F = C + D + E	3,890	13,770	**36,450**
Mr Khan’s total income (400 per chicken)	G = A x 400	4,800	16,000	**40,000**
Mr Khan’s profit	H = G – F	**910**	**2,230**	**3,550**

The seven steps of marketing

A SMART SKILLS MANUAL

BOOKLET 3: MARKETING AS A GROUP

This is the third of four booklets in the guide *Seven steps of marketing: A SMART Skills manual.*

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

This manual outlines seven steps that field agents, extension workers and program managers can follow to help farmers improve their marketing:

1. Getting organized
2. Identifying products and organizing groups
3. Collecting information for the business plan
4. Building a business plan
5. Marketing as a group
6. Reviewing agro-enterprise performance
7. Scaling up.

The manual consists of 21 lessons, each with guidelines, exercises to do with a group of farmers or with development agents, and quizzes to test your understanding.

This is one manual in a series on SMART Skills – the skills that field agents need to help farmers in developing countries improve their livelihoods. A companion manual on marketing basics describes the ideas that underlie the seven steps in this manual.

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

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