Marketing and Supply Chain Module

TRAINER HANDBOOK

DRAFT

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(This is not what will be on the cover page. It needs to have a cover page that is standardised for the programme. Would like photos on this (could be B&W – to be discussed).

Marketing and Supply Chain Module

Trainer Handbook

The concepts, material and format used in this training handbook were identified and evaluated

by

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The handbook was written

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The cartoon characters of ToBaras and laVavi are imaginary characters. They are not based on any person in East New Britain or PNG, living or dead. *(Acknowlege who did the cartoon drawings?)*

Marketing and Supply Chain Module

Trainer Handbook

Table of Contents

Each Unit in this Handbook has three parts

1. What is in the Trainee Handbook
2. Teaching Tips for Trainers
3. Background Notes for Trainers

What is in the Trainee Handbook

Introduction: What is Marketing all about? Unit 1

Let's begin Unit 1 by asking ourselves what marketing is all about.

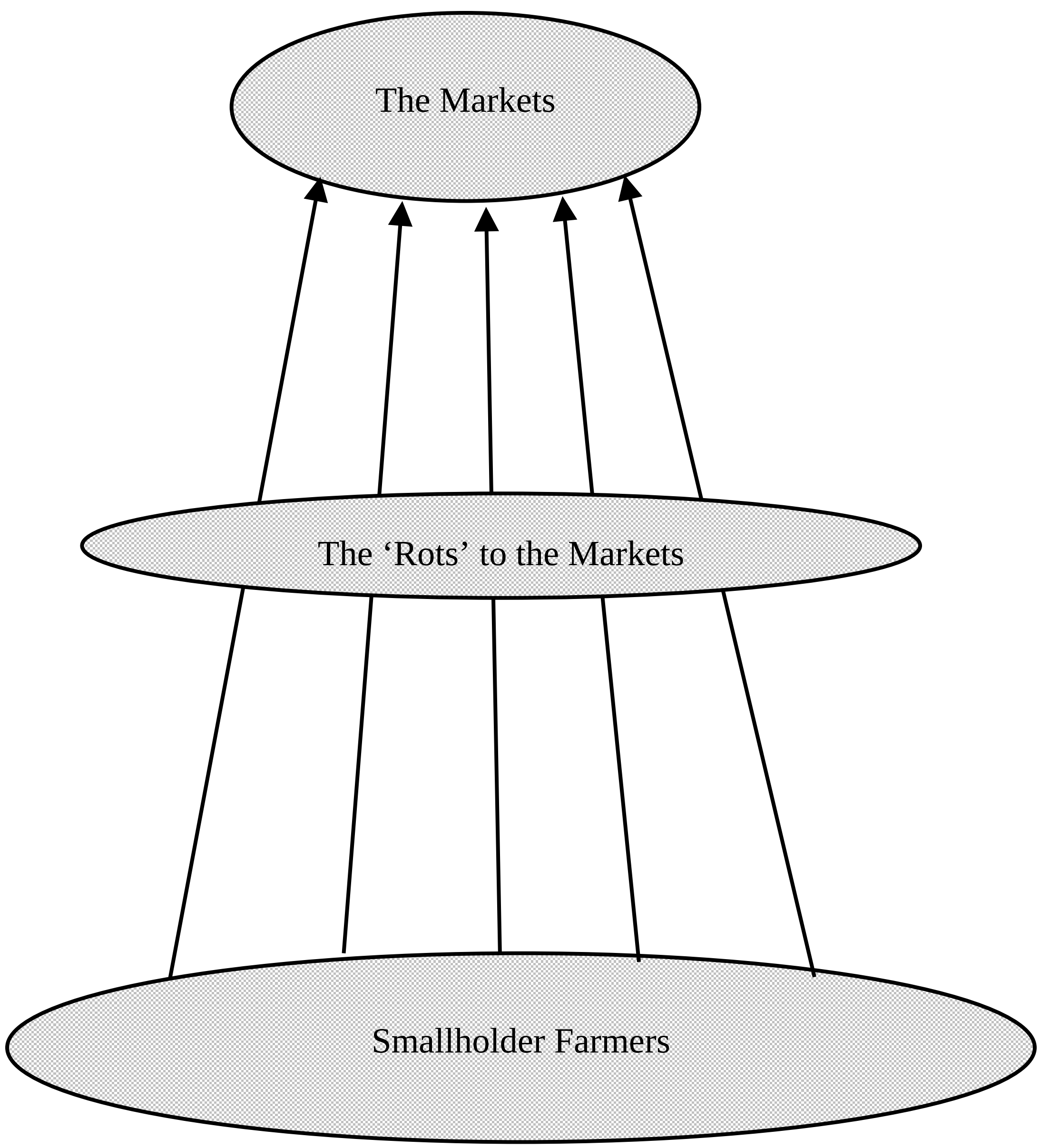
Exercise 1:

?	Pick a product that you produce and sell. (*This can be a crop, livestock, or fish)* **'What do you expect from the market when you produce and sell that product?'** Share this with the group when your trainer asks you to. When others are sharing their thoughts with the group, write down anything that seems useful to you.

✍ NOTES:

Exercise 2:

	• Look at the following diagram, and then ***listen*** as your trainer explains what it means • As you listen to your trainer, think about how the diagram applies to the product that you picked for Exercise 1.



Let’s explain this diagram.

Smallholder Farmers *(This is the bottom circle)* .
• This is you • You have <u>resources</u> that you will use to produce your products • You want to sell your products

The Markets *(This is the top circle)* .
• The markets want to buy your products • BUT the markets have certain <u>requirements</u> that you have to meet before they will buy your product

The ‘Rots’ to the Market *(This is the middle circle)* .
• Once you have decided to use your <u>resources</u> to meet the <u>requirements of the market</u>, there are various ‘rots’ that you can take to the market • These different ‘rots’ to the market are all about: o What form should you sell your product in? ▪ Should you try to improve it by doing some of your own processing (*transform* it)? ▪ Should you try to improve it by doing things to present it better (*enhance* it)? o Who should you sell your product to? o How should you get your product to the market? ▪ What is the best way to take your product to the market? ▪ How can you keep your product in good condition on its journey to the market (*maintain* its quality)?

Let's conclude Unit 1 by summarising what we have learnt.

This is what marketing is all about

1. You, the smallholder farmer, must use your resources to produce a product.
2. The product that you produce must meet the requirements of the market.
3. In getting your product to the market, you must decide what 'rots' to take:
   a. Whether to improve your product
   b. Who to sell it to
   c. How to get it to the market in good condition

<u>You can see that you have many decisions to make</u>

In the rest of this module, we will cover all of these things. This will help you to make better decisions, and market your product better.

(Photo of some a person selling some processed traditional product – eg totogor – and put the text below inside the same box as the photo)

Look at this photo.
People have been marketing their products since time began.

Your ancestors knew a lot about marketing, and so do you!
Build on your traditional knowledge of marketing, and do it better

Teaching Tips for Trainers

<u>Exercise 1:</u>

You can expect a range of answers to the question '**What do you expect from the market when you produce and sell that product?'** For example,

- A good or fair price
- A price that doesn't vary from one week to the next
- A buyer (or even a choice of buyers)
- Prompt payment

You may find that there is discussion on problems with buyers or prices (or other problems). Don't discourage this discussion, and acknowledge that how to approach such problems will be covered in the module).

During the discussion, write up the ideas of the group on a large sheet of paper on the wall.

Conclude the exercise by summarising their ideas in writing on the sheet of paper. Say that the aim of the module is to help them to get what they expect from the market.

<u>Exercise 2:</u>

You need to explain the diagram and the supporting text very clearly for the trainees. Take two of the products that the trainees talked about in Exercise 1, and use these to illustrate the three parts of the diagram.

Take some time to do this, and make sure that they understand it by encouraging feedback, but keep your explanations simple and don't get drawn into detail – it is the overview that is important at this stage, not the detail.

If some trainees say that they have learnt in other modules that marketing is about the 4 P's, explain to them that this is true, but the way that you are approaching it includes the 4 P's, and is a better way to look at it (see Background Notes to Trainers).

Conclusion:

Break your conclusion into three clear sections:

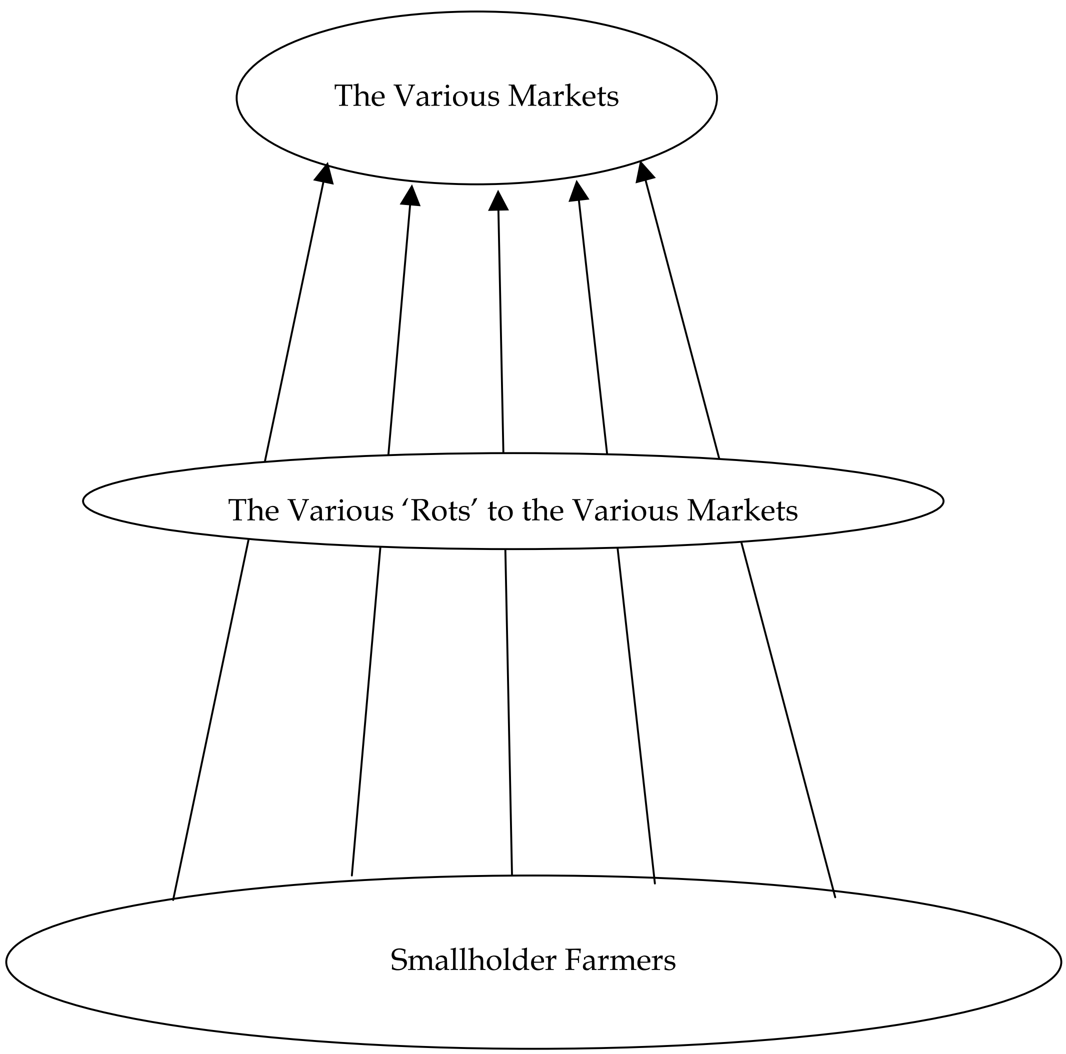
1. What marketing is all about
    a. This is a clear summary of what was in the diagram
2. There are many decisions to make
    a. This is to cue them into the idea that there are many questions that they have to ask themselves. Tell them that you will be helping them to answer these questions. (At this stage, don't tell them that you won't provide the answers for them, as we will cover this in Unit 2 Smallholder Farmers: Let's Look at your Resources).
3. The photo
    a. The aim of the photo and the supporting text is to encourage the trainees and to reassure them that they already know a lot about marketing. Explain to them that their local informal markets work very well, and that they already know a lot about marketing, and how to market their products to these informal markets.
    b. Strongly reinforce the idea that the aim of this module is to *build on* this existing knowledge so that they can 'do it better'.

Trainer's Notes:

Background Notes for Trainers

This module is based on a Supply Chain Management Framework. This is outlined in the following notes. This framework has been covered in the Workshop for Trainers. All trainers should also have participated in a Supply Chain Management Workshop, and the notes from that Workshop are in Appendix 1 of this book. (*Note that this is a more modern and much more powerful framework than the more traditional '4 P's of a marketing mix' that are used to position a product in the marketplace*).

<u>THE FRAMEWORK</u>



DESCRIPTION OF THE FRAMEWORK

Components

There are three components to the ‘conceptual’ framework:

1. The Smallholder Farmers.
2. The Markets.
3. The ‘Rots’ that the Smallholder Farmers can take to the Market.

These three components form what is known as the ‘chain’.

THE DIFFERENT PARTS OF THE FRAMEWORK IN MORE DETAIL

The Smallholder Farmers

Smallholders have different aspirations, which depend on:

- Their responsibilities and needs
- Their goals

Smallholders have different resources available to them, which are

- Physical
- Financial
- Human (includes their attributes)

Their different responsibilities and needs, their goals, and the resources available to them (including their own personal attributes), will determine what products (including the form the product takes, the quantity, the quality, the continuity and timing) that Smallholder Farmers can produce and market.

The Markets

Each of the markets has customers with different requirements in terms of:

- The various forms that the product can take (e.g., bananas as fresh fruit or cooked)
- The quantity of product required
- The quality of product required
- Continuity of product and timing (e.g., supply of fresh vegetables to supermarkets)
- The price they are willing to pay for the product
- Mode of exchange and conditions of payment attached to the product (e.g., goods for cash in a market; when and how much money changes hands if exporting overseas)

Each of the markets will have different market characteristics that are determined by:

- Competitors who can supply the same product
- Substitute products that customers can buy instead
- Who holds the power in the marketplace, e.g., one buyer in a region holds the power, whereas if a number of buyers then the seller holds some power)

The markets can be influenced by broader forces such as:

- The role that governments play in marketing
- Broad economic forces, such as the state of the economy and the exchange rate.

Markets, and the consumers that they service, can range from very simple, such as a roadside market for fresh produce in East New Britain through to a supermarket (or similar) in a wealthy overseas country demanding heavily processed products such as chocolate.

<u>The 'Rots' that the Smallholder Farmers can take to the Markets</u>

There are various 'Rots' that the Smallholder Farmers can travel to the market. This is more than just the 'physical' route to the market by road, sea or air. There are other dimensions of the 'rot' as well that incorporate all aspects of the chain.

These dimensions are:

1. The product:

    a. *Product transformation* (e.g., how much the product is transformed from the time that the Smallholder produces it to the time that it reaches the final customer (e.g., bananas sold fresh in a roadside market have very little product transformation, whereas wet cocoa beans that finish up as chocolates have a lot of product transformation).

    b. *Product enhancement* (e.g., how the product that the Smallholder produces can be enhanced by features such as cleaning, grading or packaging).

    c. This 'rot' that the product takes to the market may be:

        - 'short' or 'long' depending on how much product transformation or enhancement is necessary;
        - 'smooth' or 'bumpy' depending on how easy or difficult it is to transform or enhance the product as it moves down the chain towards the consumer (market).

2. Logistics (the physical route to the market) and quality control (maintaining the product on its journey:
   a. *Logistics* - there are various ways that the product can travel to the market
      i. By road (on foot or by vehicle)
      ii. By sea
      iii. By air
      iv. By a combination of these depending on how far the product has to travel.
   b. *Product maintenance* - how the quality of the product can be maintained:
      i. From the time it leaves the Smallholder until the time that it reaches the market
      ii. This is particularly important for perishable products.
   c. This logistics (and quality control) 'rot' to the market may be:
      - 'short' or 'long' in terms of the physical distance the product has to travel and the time it takes to transport the product to the market;
      - 'smooth' or 'bumpy' depending on how easy or difficult it is to move the product to the market and maintain its quality.

3. Organisations along the 'rot' to the market:
   a. There may be various businesses:
      i. that buy or sell the product on its journey to the market;
      ii. the smallholder may do business with one or more of these businesses;
      iii. the businesses that handle (but don't own) the product along the route to the market.
   b. There are relationships between organisations along this 'rot', and they have to do business with each other:
      i. business may be done co-operatively
      ii. business may be done antagonistically
   c. This 'organisational rot' to the market may be:
      - 'short' or 'long' in terms of how many people handle the product and how often it is bought and sold on the journey to the consumer in the market;
      - 'smooth' or 'bumpy' depending on how easy or difficult it is to do business with organisations on this 'rot' to the market.

The Decisions of Smallholder Farmers:

Smallholder Farmers need to make a number of decisions. These marketing decisions are:

1. To decide which market they wish to meet;
2. To decide which 'rots' they can or should take to the market;
3. To decide how far down the 'rots' to market they can or should go;
4. To negotiate their chosen 'rots' to their chosen market in order to overcome any impediments they might face.

In making these decisions, smallholder farmers need to consider:

1. Whether they can meet the requirements of that market with the resources they have (This includes other factors such as the time and skills needed to produce and market the product);
2. Returns they can get from producing a particular crop for a particular market – this is made up of price, yield and quality;
3. Costs of producing and marketing that product;
4. Risks of producing and marketing the product.

When making these decisions, smallholder farmers must also consider their time horizon:

1. Things they can think about now;
2. Things to think about later.

Information Flows

In order to make their decisions, smallholder farmers need information. Information flows in two directions.

a. Information about the market (such as what the market wants in terms of product form, quantity and quality) travels back up the chain to the Smallholder Farmer.

b. Information about what is being produced and marketed by the Smallholder (such as quantity and quality available) travels down the chain to the market.

c. Information flows may be:

- 'short' or 'long' depending on how far the information has to travel;
- 'smooth' or 'bumpy' depending on how easy or difficult it is to get the necessary information.

What is in the Trainee Handbook

Smallholder Farmers: Let's Look at your Resources

Unit 2

Remember the diagram. The bottom circle was about 'Smallholder Farmers'. This is you, and you have resources that you will use to produce your products.

Unit 2 is all about your resources.
In this Unit, we ask 'Can you produce a particular product with your resources?'

Remember:

This is what marketing is all about

1. You, the smallholder farmer, must use your resources to produce a product.
2. The product that you produce must meet the requirements of the market.
3. In getting your product to the market, you must decide what 'rots' to take:
   a. Whether to improve your product
   b. Who to sell it to
   c. How to get it to the market in good condition

<u>You can see that you have many decisions to make</u>

Exercise **1:**

?	As a large group, **choose two products** that you want to learn more about over the rest of the module: • One product must traditionally be sold in informal markets; • One product must be sold in formal markets. Listen while your trainer explains formal and informal markets in more detail, and write down anything that seems useful to you.

NOTES:

Exercise 2:

(a) Choose the product:

?	Split up into smaller groups, with about 5 people in each group. As a group, choose one of the products identified by the big group in Exercise 1 – the 'informal' product or the 'formal' product. Your small group will look at this product in more detail

(b) Think about Resources:

	<u>Listen</u> while your Trainer explains the different types of resources. Write down any useful points.

<u>NOTES</u>:

c) Write down the Resources:

	Write down the Types of Resources that are necessary to produce the product your group chose under the following headings: • Physical and Natural • Human • Financial Sometimes, you might process (or partly process) your product before selling it. So also list the Types of Resources that would be needed to process (or partly process) the product. **Use the Worksheets to do this.**

Worksheet – Listing Resources

Physical and Natural Resources

Physical and Natural Resources to Produce the Product
✎

Physical and Natural Resources to Process (or partly process) the Product
✎

Worksheet – Listing Resources

Human Resources

Human Resources to Produce the Product
✎

Human Resources to Process (or partly process) the Product
✎

Worksheet – Listing Resources

Financial Resources

Financial Resources to Produce the Product

Financial Resources to Process (or partly process) the Product

Exercise 3:

	Each small group should present their findings from Exercise 2 to the large group. Then discuss the following issues in the large group: 1. Do you have all the necessary *information* on how to produce each of these products? If not, where do you think you could find it? 2. Would the average smallholder have the resources to produce each of these products? 3. Do you have all the necessary *information* on how to process or partly process each of these products? If not, where do you think you could find it? 4. Would the average smallholder have the resources to process or partly process each of these products? Write down any interesting points from the discussion.

NOTES:

Finish this exercise by thinking about whether you would have the necessary resources to produce or partly process either of these products.

Exercise 4:

?	Let's do something different now. So far, we have talked about what resources are necessary to produce a particular product. Let's turn to *your* own situation. Think about this question: ***What are your responsibilities, needs and goals?*** Write down your thoughts below, and then share them with the rest of the group when the trainer asks you to.

✍ NOTES:

Always remember to keep in mind your responsibilities, needs and goals when you are thinking about producing, processing or marketing a product

Let's conclude Unit 2 by summarizing what we have learnt.

Before you think about marketing a product, you need to answer the questions:

'Can I produce (or partly process) this product with my resources?'

- *My Physical and Natural Resources?*
- *My Human Resources?*
- *My Financial Resources?*

'What are my responsibilities, needs and goals?'

(We need a visual to fill up the rest of this page – Is it possible to get a photo of some people (human resources) on their block (physical and natural resources).

<u>The first step in marketing</u>
Do I have the resources?
What are my responsibilities, needs and goals?

Teaching Tips for Trainers

Introduction:

Take them back to the diagram, and tell them that you are now going to talk about the bottom circle in the diagram - Smallholder Farmers.

Stress that this is about them and their Resources.

Reinforce this with the ‘This is what marketing is all about’ box. Recall that they just covered this, and now they will look at the ‘shaded line’; that is, how you, the smallholder farmer, must use your resources to produce a product.

Exercise 1:

These are the two products that the trainees will ‘take through’ the module. The reason for choosing two products – one that goes to informal markets and one that goes to formal markets – is so that they can build on their confidence from operating in informal markets and extend this to formal markets.

Talk about *informal markets* in general (roadside and urban markets – and even exchanges within the village itself), and discuss the types of products that would usually be sold in these markets.

Talk about *formal markets* in general (eg buyers of various products such as cocoa, vanilla, vegetables, etc), and discuss the types of products that are sold in these markets in ENB or the Islands region.

Don’t talk specifically about the different formal and informal market outlets for their chosen products. There is an exercise on this in Unit 4.

Exercise 2:

(a) In introducing this exercise, it may be helpful to let them ‘choose’ which of the two products they want to look at further, and then assign them to groups (rather than put them in groups and ask them to work out which product they want to look at). Make sure that you have at least *two groups on each product*.

(b) Explain that a product has to be produced by the smallholder, but it can also be *processed (or partly processed)*. Discuss some examples of processing and partly processing (eg drying peanuts, making totogor, drying cocoa beans, curing vanilla, etc) with them.

Before they list the resources, explain that they have done a similar exercise in the *Sustainable Livelihoods Module*. Tell them that we have simplified the list in this Module, so they only have to consider three categories.

(c) When listing their resources, tell them to think about *the assets that they might need* before they can begin producing (and processing) and then to think about *the production cycle* of the product (eg for a crop, this would be land preparation, planting, growing, harvesting and processing). See the Background Notes for Trainers for some ideas on this.

Exercise 3:

A primary reason for feeding back to the main group on the two different products is so the trainees can appreciate that *different products require different resources.* Make sure that this point emerges from the discussion.

Another important reason for this discussion is to bring out the idea that *they may not have all the information they need.* For example, they might not be aware how to grow a new crop, or how to process a crop. This is the point in the module where you should start establishing that you, as the trainer, may not know all the answers to their questions, but that you can be their partner in working out how to seek out the information that they require. Make the point that being prepared to seek out information, rather than expecting others to provide it, can be very empowering.

The reason for the discussion on whether the average smallholder would have the resources to produce or process the products, is to get them thinking about what *might be feasible for them and what is not likely to be feasible*. The discussion will show that smallholders are highly likely to have all the resources necessary to produce and process a product destined for the informal market, but this is likely to be more difficult for the formal market, particularly when processing for the formal market. Use examples from your own knowledge to illustrate.

Exercise 4:

As the trainees go further into the module, they will face many marketing decisions that they might think about. What will be sensible for one person might not be sensible for another. The aim of this exercise is to get them thinking about their own responsibilities, needs and goals.

I have used the terms ‘responsibilities and needs’ loosely. Think of these more like obligations that they have to meet. The term ‘goals’ is more about aspirations; that is, what would they like to do and achieve.

Get feedback from the group in order to get an idea of similarities and differences in responsibilities, needs and goals, but don’t spend too long on it.

Conclusion:

Go over the box with the little man in it. Stress what they have learnt in this Unit, and go over the ‘first step’ box.

General Comments on this Unit:

Don’t spend too much time on this unit. Remember that it is a *Marketing Module*, not a Sustainable Livelihoods Module or a Specialist Module on a particular product.

Always keep in your own mind that the basic point of this unit is to get them thinking that *‘Marketing begins with Production, and before you can Produce, you must have the necessary Resources.’*

Background Notes for Trainers

When the core group that drew up this module were considering this part of it, they drew up a checklist of questions relating to resources. Use this checklist to think about the different sorts of resources that you might expect the trainees to identify.

Physical and Natural

This checklist is just an example. It follows the format of land preparation, planting, growing, harvesting and processing. Different products will be different.

1. How much land do you have available that is suitable for..

2. What assets do you have that can be used for growing..
   - Tools
   - Sheds
   - Canoe
   - Vehicle
   - Livestock

3. What planting material do you have for growing ....

4. What inputs are you able to get to maintain your ....
   - Fertiliser
   - Chemicals

5. What tools do you have that can be used for picking or harvesting your ....
   - etc.

6. What facilities do you have that can be used for processing your ....
   - etc.

Human Resources

1. How much labour (own family and hired) do you have that can be used for

    a. land preparation and planting of your …………………?
    b. looking after your ……….………. until it is harvested?
    c. harvesting your ………..……….……… at the right time?
    d. processing your ……………..………………. if necessary?

2. Are there any times when you will have shortages of labour for

    a. land preparation and planting of your …………………?
    b. looking after your ……….………. until it is harvested?
    c. harvesting your ………..……….……… at the right time?
    d. processing your ……………..………………. if necessary?

1. Do you have the knowledge and skills to grow your …………………… properly?

Financial Resources

1. Can you get enough finance (either your own cash or credit) to

    a. buy planting materials and pay for any planting expenses of your ……………………..………?
    b. looking after your …………………….………. until it is harvested?
    c. harvesting your ………………...…….……… at the right time?
    d. processing your ……………….……..………………. if necessary?

2. Can you afford to wait until the income from your ……….………… comes in?

What is in the Trainee Handbook

Making Marketing Decisions Unit 3

Unit 3 is all about 'Making Marketing Decisions'.
It is about you, the smallholder, making better decisions.

You already know a lot about how to do this. Remember when you did the module on Record Keeping and Decision-Making? In that module, you learned how to make good decisions. Some of these were marketing decisions, and in this Unit, we will build on that knowledge.

Remember:

This is what marketing is all about

1. You, the smallholder farmer, must use your resources to produce a product.
2. The product that you produce must meet the requirements of the market.
3. In getting your product to the market, you must decide what 'rots' to take:
    a. Whether to improve your product
    b. Who to sell it to
    c. How to get it to the market in good condition

You can see that you have many decisions to make

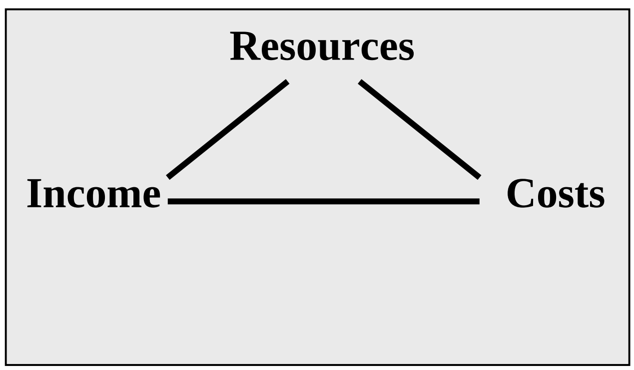
Let's begin by visiting ToBaras and laVavi to see how they are getting on.

When you met them in the Record Keeping and Decision Making Module, they were considering two 'marketing decisions' that you helped them with. These were:

1. *Should they put in a small fermentary to dry their cocoa beans (this is processing)?*

2. *Should they think about growing different crops that are more profitable than their existing ones?*

Remember the things that you studied when you tried to work out how to make a good decision on these things.



You looked at:

- the **Resources** that they had (which we have already covered in Unit 2)
- the **Income** they received
- the **Costs** they had to pay (as well as their **Time**)
- other factors

Remember that you worked out how to calculate **Gross Profit** and to use this to help you make good decisions.

Let's revise these two decisions, see what Tobaras and laVavi did, and how things turned out for them.

The Fermentary

Should ToBaras and laVavi put in a small fermentary to dry their cocoa beans (that is, do some processing)?

Let's go back over the calculations that you did in the Record Keeping and Decision Making Module.

1. You calculated that:
   - You could get **K381** for a bag of dry cocoa (63.5 kg) at **K6/kg**
   - It takes 158.75 kg of wet cocoa to give a bag of dry (at a dry/wet index of 0.4)
   - If you sold this 158.75 kg of cocoa wet instead of dry, you would get **K206.38** at **K1.30/kg**.

2. You know a fermentary would cost K4 000 and last 15 years.

3. You were then able to work out that:
   - You could make **K174.62 per bag more** from selling dry (K381 – K206.38)
   - You would need to sell **23 bags of dry cocoa** to pay for the fermentary (4000 ÷ 174.62 = 22.9 = 23)
   - If you sold 10 bags of dry cocoa a year, it would take you **2 years and nearly 4 months** (23 ÷ 10 = 2.3 years) to pay for the fermentary.

4. You then decided that it was a good decision to get a fermentary because:
   - You get **K175 per bag more** for every bag you dry
   - If you sell 10 bags a year, that is 150 bags over 15 years (how long the fermentary will last)
   - You get **K 26 250** (K175 x 150 bags) for your dry cocoa over the 15 years, but it only costs **K4 000** to buy the fermentary.

Well, ToBaras and LaVavi found your calculations very helpful and they decided to put in a small fermentary.

But what has happened since then?

Prices have not been as good as they were when you did your calculations for them. The price of wet beans has fallen 23% from ***K1.30/kg to K1.00/kg****. The price of dry beans has fallen 30% from* ***K6/kg to K4.20/kg****.*

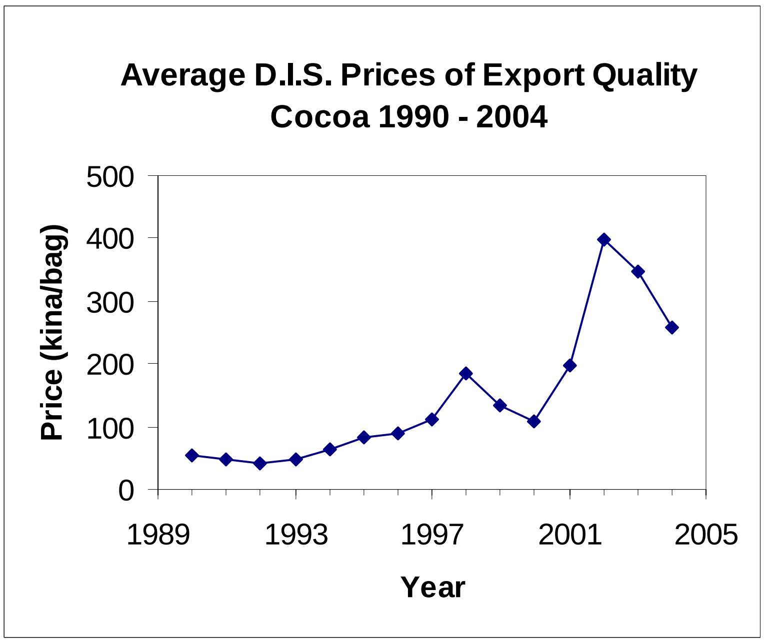
Exercise 1

?	Turn to the person next to you and discuss these two questions: 1. Why do you think prices have fallen like this? 2. Does this mean that ToBaras and LaVavi made the wrong decision to put in the fermentary? Listen while the trainer talks about these questions, and make notes below.

✍ NOTES:

Exercise 1

	Look at these cocoa prices for the last 10 years. *What do you notice?* *Turn to the person next to you and discuss these cocoa prices* *Listen while your trainer talks about hem*



Source: Cocoa Coconut Institute of PNG

NOTES:

New Calculations for the Fermentary

We have done all your calculations again using the lower prices now instead of the higher prices that you used when you were doing the Record Keeping and Decision Making Module.

These are shown in the Table below.

Listen while your trainer explains the Table to you.

	Cocoa Prices	
	Old Prices Wet Beans K1.30/kg Dry Beans K6.00/kg	**New Prices** Wet Beans K1.00/kg Dry Beans K4.20/kg
Price of a bag of dry cocoa (63.5 kg)	K381.00	K266.70
Price of cocoa (158.75 kg) sold wet	K206.38	K158.75
How much *more* per bag from selling dry	K174.62 (K175)	K114.30 (K114)
Bags of dry cocoa needed to pay off the fermentary	22.9 (23) bags	35.08 (35) bags
Time to pay off fermentary	2 years 4 months	3 years 6 months
Extra money from selling dry over 15 yrs	K26 250	K17 100
Cost of fermentary	K4 000	K4 000

Exercise 3:

Turn to the person next to you and discuss these three questions:

1. ToBaras and laVavi thought that they were going to make an extra K26 250 over 15 years from selling dry cocoa.

Now that the price of cocoa has dropped, they will get K17 100 more if prices stay the same for the next 15 years.

How much less is this than what they were expecting to get?

-- *(Write down your answer here)*

2. If the price of cocoa goes up again in a few years time, what will happen to the amount that they think they will make from selling dry cocoa over the next 15 years?

3. Now that you have the new calculations with the lower prices, do you think that ToBaras and LaVavi made the wrong decision to put in the fermentary?

Listen while the trainer talks about these questions, and make notes below.

NOTES:

Risk

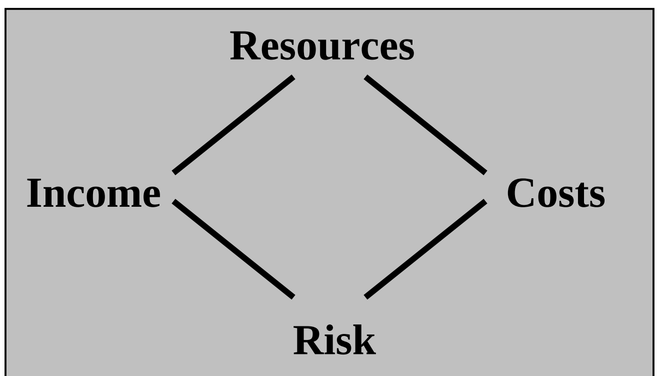
We have been talking about what happens when prices drop.
*When prices drop, we call this **Risk**.*

Prices are not the only things that drop. Yields can also fall in a bad season.
*This is also **Risk.***

When we make marketing decisions, we need to remember that prices and yields can go up and down. This means that our **income** and **costs** might not turn out to be what we had calculated.

So, when we are making a marketing decision, we need to look at:

- Resources
- Income
- Costs, and
- **Risk**



The Decision Diamond

Let's call this **The Decision Diamond.**

In many parts of the world, diamonds are very valuable.

Think of your Decision Diamond as very valuable, because whenever you use it, it can give you valuable information.

Use the Decision Diamond whenever you make a marketing decision.

Growing More Profitable Crops

Let's look at the second marketing decision that you helped ToBaras and laVavi with:

Should they think about growing different crops that are more profitable than their existing ones?

Remember that you did some calculations for them comparing cocoa and vanilla.

You worked out the **Gross Profit** for both Cocoa and Vanilla for them.

Remember that Gross Profit is the difference between money you receive when you sell your product and the money it costs to produce that product.

You made sure that you got a fair comparison between the two crops by calculating the Gross Profit per hectare – one hectare of cocoa against one hectare of vanilla.

These were the calculations that you did for them:

Cocoa (Area 1 ha)			**Vanilla** (Area 0.5 ha)		
Total Income		**K3833.95**	**Total Income**		**K8750.00**
Less Direct Costs			*Less* Direct Costs		
Pruning	6.00		Casual Labour	684.00	
Weeds	144.00		Tools	150.00	
Infilling	7.50		Mulch	1 030.00	
Pests	52.00		Infilling	50.00	1 914.00
Harvest	20.40				
Other Costs	470.00	700.50			
Gross Profit		**K3133.45**	**Gross Profit**		**K6836.00**
Gross Profit/ha		**K3133.45**	**Gross Profit/ha**		**K13672.00**

You also told them to think about whether they could get enough labour if they wanted to grow more vanilla and how well more vanilla would grow on the block.

Do you remember that you also told them to think about prices for vanilla and whether these were likely to stay the same?

Well they looked at all your calculations and were very impressed with how much they could make from vanilla rather than cocoa. They thought about these other things that you mentioned.

They then made the decision to plant 1 ha of vanilla on their block.

But what has happened since then?

Well you know that cocoa prices have fallen – by 23% for wet beans and 30% for dry beans.

But what has happened to vanilla prices? The situation here has been much worse. All the local buyers have stopped buying vanilla, although there is still a buyer in another region – but they are only paying K60/kg, which is 80% less than the K300/kg that buyers were paying when ToBaras and laVavi made their decision to plant the vanilla.

Exercise 4:

?	Turn to the person next to you and discuss these two questions: 1. Why do you think vanilla prices have fallen like this? 2. Do you think that ToBaras and laVavi made the wrong decision to plant vanilla? Listen while the trainer talks about these questions.

New Calculations for Cocoa and Vanilla:

We have done all the Gross Profit Calculations again, with prices for cocoa 23% lower and prices for vanilla 80% lower.

These are shown in the Table below. *Listen while your trainer explains this.*

Cocoa (New Prices) (Area 1 ha)		
Total Income		**K2952.14**
Less Direct Costs		
Pruning	6.00	
Weeds	144.00	
Infilling	7.50	
Pests	52.00	
Harvest	20.40	
Other Costs	470.00	700.50
Gross Profit		**K2251.64**
Gross Profit/ha		**K2251.64**

Vanilla (New Prices) (Area 0.5 ha)		
Total Income		**K1750.00**
Less Direct Costs		
Casual Labour	684.00	
Tools	150.00	
Mulch	1030.00	
Infilling	50.00	1914.00
Gross Loss		**(K164.00)**
Gross Loss/ha		**(K328.00)**

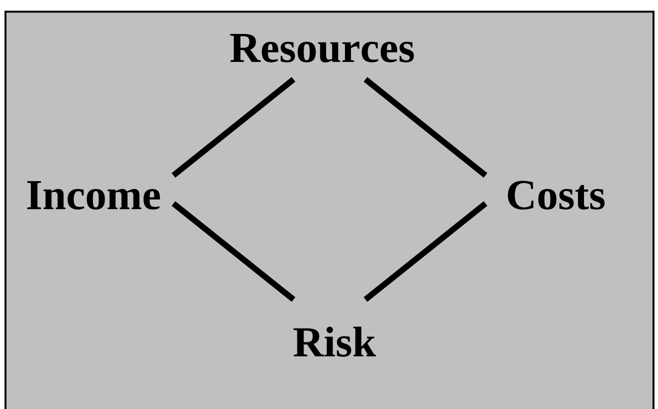
We've also put the original figures below, so you can compare them.

Cocoa (Old Prices) (Area 1 ha)		
Total Income		**K3833.95**
Less Direct Costs		
Pruning	6.00	
Weeds	144.00	
Infilling	7.50	
Pests	52.00	
Harvest	20.40	
Other Costs	470.00	700.50
Gross Profit		**K3133.45**
Gross Profit/ha		**K3133.45**

Vanilla (Old Prices) (Area 0.5 ha)		
Total Income		**K8750.00**
Less Direct Costs		
Casual Labour	684.00	
Tools	150.00	
Mulch	1030.00	
Infilling	50.00	1914.00
Gross Profit		**K6836.00**
Gross Profit/ha		**K13672.00**

Exercise 5:

?	Turn to the person next to you and discuss these questions: 1. ToBaras and laVavi thought they would get a Gross Profit/ha of K3133.45 for their cocoa, but now they are only getting K2551.64. How much less is this? --- (Write down your answer here) 2. ToBaras and laVavi also thought they would get a Gross Profit/ha of K13672.00 for their vanilla, but now they will make a loss of K328 (even if they can sell to the buyer outside the region and the buyer paid the transport costs). How much less is this? --- (Write down your answer here) 3. Now that you have the new calculations with the lower prices, do you think that ToBaras and laVavi made the wrong decision to grow vanilla? 4. Think about the decision diamond again. Do you think that ToBaras and laVavi thought enough about their **Risk** before they made their decision to grow vanilla?



The Decision Diamond

What to do next?

ToBaras and laVavi are very disappointed with the drop in vanilla prices. They thought they were going to get a lot of money from their vanilla, but now it looks as if they won't. None of the local buyers are buying vanilla anymore, only a buyer in another region.

They are not sure what to do.

Their neighbours are also in the same situation. One neighbour tells ToBaras that he is going to pull his vanilla out and plant cardamom and chilli, which have reasonable prices at the moment. Another one says the problem is the buyers and he is going to export overseas himself. One of laVavi's friends thinks differently. She has noticed that the prices for some fresh vegetables in the supermarkets – such as capsicums and broccoli - are much higher than what they are in the market and says that they should pull out the vanilla and grow these fresh vegetables for the supermarkets instead.

(Have a cartoon of ToBaras and laVavi)

Exercise 6:

Split into smaller groups, with about 5 people in each group.

Discuss the following question:

1. What are the options that ToBaras and laVavi have for their vanilla?

2. When you answer this question, don't say '*get the government to fix it*' or '*form a co-operative to fix it for them*'. Instead, think about what ToBaras and laVavi can do '*by themselves*'.

Write your answers down below:

Options

Exercise 7:

Present your findings for Exercise 5 to the main group.

Listen while other groups are present their ideas.

Exercise 8:

Think again about all the options that have been discussed for ToBaras and laVavi for their vanilla.

As your trainer discusses them with you, put each of them one of the two lists below:

- Things they can think about now
- Things they can think about later

Things they can think about now	**Things they can think about later**

Exercise 9:

	Remember that his neighbour told ToBaras that he was going to pull out his vanilla and plant chilli and cardamom because they had reasonable prices at the moment? Turn to the person next to you and discuss whether you think this is a good idea. Then listen while your trainer discusses this with you.

NOTES:

What ToBaras and LaVavi should do is:

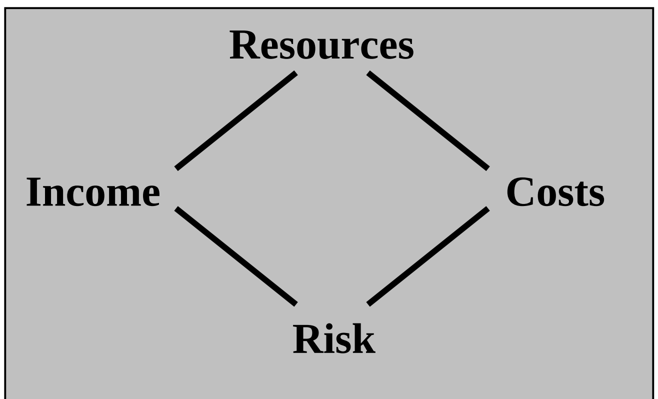
- *Look at the list of 'Things they can think about now',*
- *Decide which of these things to do using **The Decision Diamond***

Let's conclude Unit 3 by summarising what we have learnt.

When you consider your options, remember that there are:

<u>Things to think about *Now*</u> **<u>Things to think about *Later*</u>**

Whenever you make a marketing decision, use the Decision Diamond to help you.



<u>The Decision Diamond</u>

Make good marketing decisions.
Don't copy other people
Make a list of Things to think about Now
Use the Decision Diamond

Teaching Tips for Trainers

General:

This unit may be quite difficult as there are a lot of calculations that have to be gone over. However, it is 'the key' if they are to use the material in the rest of the module sensibly, since it is all about putting it all together and making sensible and thoughtful decisions.

There will be a combination of 'teaching' and group work, which will break it up for you and make it easier for you to present.

Introduction:

Go over the Introduction page. Stress the 'This is what is Marketing all about' box, and that the focus for this Unit is on the grey line relating to decisions.

Revision

Start by talking about the Record Keeping and Decision Making Module where they learned to make lots of decisions. Remind them that they worked with the characters, ToBaras and laVavi, and helped them to make a number of decisions.

Mention that we are going to revise some of the decisions that they made about marketing. Then ask them to recall the decision on the fermentary and whether to grow vanilla.

See if they can remember the things that they considered when they were trying to make good decisions – resources, income, costs and other factors. Ask if they remember what Gross Profit was and how to calculate it. Gross Profit is the difference between money you receive when you sell your product and the money it costs to produce that product. Go over the rest of the Revision page carefully.

(You may want to revise these things yourself from the Record Keeping and Decision Making Module so that you are prepared for any questions that they might have).

Encourage them to look at the diagram of Resources, Income and Costs as this will be 'built up' into 'The Decision Diamond' later in this Unit.

The Fermentary

Take some time to go over the workings for this decision, but don't get them to do the workings themselves. Remember that this is just revision, and you don't want to redo the Record Keeping and Decision Making Module.

Present the workings to them in the 4 distinct parts:

- How much they could get selling a bag of cocoa wet or dry;
- How much the fermentary would cost and how long it would last;
- How much more they could get selling dry, how many bags they would have to sell to pay for the fermentary and how long this would take;
- Why the decision is a good one (they will get a lot more money from selling dry cocoa after the cost of the fermentary has been taken into account).

Then tell them that ToBaras and laVavi put in the fermentary, and we are going to see what has happened since.

Talk to them about the price fall and mention to them that the price of dry cocoa has fallen more than the price of wet cocoa beans.

Exercise 1:

Why do they think cocoa prices have fallen:

Encourage the trainees to express their views. If they focus on buyers, and say that the buyers are being greedy, encourage them to think about whether there might be other reasons why the buyers might drop their prices. Tell them that you will discuss this more in Exercise 2.

Ask then whether they thought that ToBaras and laVavi made the wrong decision to put in the fermentary. Let them discuss different points of view (yes or no, and why). However, the answer that you want is that you need to do the calculations again to see what they look like with the new figures.

Exercise 2:

Ask them to look at the graph of world cocoa prices. Let them discuss this for a bit, and then give them the information in the background notes on what drives world cocoa prices and what has caused the price changes in the last 10 years. (*See the Background Notes for Trainers to help you here).* The aim is to encourage them to think about the factors that drive world cocoa prices and how this can translate into prices in PNG.

New Calculations for the Fermentary:

Go over the new calculations for the fermentary.

Take your time to explain the table to them. You should be able to go over the 'Old Prices' column and explain that what is in this column are the calculations that you have just revised. Just 'recall' them these numbers – don't go into detail on how they are calculated as you have already revised that.

Now go over the 'New Prices' column. If necessary, explain where the figures come from (you may want to check the calculations yourself before the module starts). Don't spend time doing the recalculations with the trainees, as the important thing is for them to make a comparison between the two columns and to look at the differences.

Exercise 3:

Question 1: The answer is K9 150 (K26 250 – K17 100). That is, they are going to make about K9 000 less over 15 years, or K600 (K9 000 ÷ 15) per year less.

For your interest, this drop in income is made up of two parts – the drop in the cocoa price generally, and the bigger drop in dry prices than wet prices. Of the K9 000 fall, K6 000 came from the drop in cocoa prices generally, and the other K3 000 came from the fact that the dry price dropped more than the wet price.

Question 2: The answer you want is that if prices go up again, they may make more than they thought that they would when they did the calculations.

Question 3: The answer you are looking for is that, for these sorts of price drops, they made the right decision. This is because they are still going to make K17 100 more than they would have if they sold their cocoa beans wet.

However, I have calculated that if the price of wet and dry beans both dropped by approximately 85% (that is, dry beans fell to K1/kg and wet beans to 22 toea/kg, then it would no longer be worthwhile to put in this fermentary. (Check my figures on this by doing the calculation yourself). Tell them this, and get them to think about whether it is likely that prices could ever go this low for a long period like 15 years. It is highly unlikely that prices would ever drop this low for such a long period.

Risk

Go over the section on 'Risk' *(page 8 or unit 3)* very carefully. Explain to them that they have been talking about 'risk' when they looked at the falling cocoa prices, and that they have learned how to *analyse* risk by redoing their calculations with new prices. *See Background Notes for Trainers.*

Someone may come up with the idea of doing the calculations with low prices and then deciding whether it is likely that prices will ever be this low for a long period. If they do come up with this idea, then tell them that this is a very good way of looking at the risk of any investment. If they don't come up with it, you could suggest it to them yourself.

Really stress 'The Decision Diamond'. Mention to them that they looked at Resources in Unit 2, covered Income and Costs in the Record Keeping and Decision Making Module, and now they have looked at Risk by considering what happens when prices fall.

Stress very strongly that they should use 'The Decision Diamond' whenever they make a marketing decision.

Growing More Profitable Crops

Once again, take your time going over this decision. Make sure that you revise Gross Profit in the context of the Cocoa and Vanilla examples and make sure that they understand the per hectare comparison.

Start with the Cocoa and go over Income, then the Costs, then Gross Profit and Gross Profit per hectare. Then do the same for the Vanilla.

Make sure you remind them that they were told to think about other things when making the decision to plant the Vanilla, not just the Gross Profit. In particular, remind them that they were told to think about whether Vanilla Prices would stay the same. Reinforce that this is **Risk**.

Then give them the figures on what has happened to prices since. They know how much cocoa prices have fallen from the fermentary example, so really emphasise how serious the vanilla situation is for ToBaras and laVavi – local buyers no longer buying vanilla. Even though there is a buyer in another region, prices there have fallen very dramatically – by 80%.

Exercise 4:

Why do they think vanilla prices have fallen:

Once again, encourage them to express their views, but try to encourage them to think 'beyond' buyers and the reasons that they buyers might be dropping prices. (Tell them that we will be talking about buyers and middlemen more in Unit 5). Recall the discussion on cocoa prices and encourage them to think in terms of world demand and supply. *See Background Notes for Trainers.*

Then ask then whether they thought that ToBaras and laVavi made the wrong decision to put grow vanilla. Let them discuss different points of view (yes or no, and why). Then go back to the fermentary example and stress that when you talked about this then, you decided that they needed to do the calculations again to see what they look like with the new figures. Say that they should redo the calculations again here and look at them carefully.

New Calculations for Cocoa and Vanilla:

Go over the bottom table with the original figures and remind them that you have just revised these. Focus on 'the bottom line'; that is, Gross Profit/ha of K3133.45 for Cocoa and Gross Profit/ha of K13672.00 for Vanilla.

Then go over the top table and show them that all the Costs have stayed the same for both Cocoa and Vanilla, but the Income has changed because wet cocoa prices fell 23% and vanilla prices fell 80 %.

Then do a comparison of 'the bottom line' again; that is Gross Profit/ha of K2251.64 for cocoa and a Gross Loss of K328/ha for Vanilla.

Exercise 5:

Question 1: The answer is that the Gross Profit/ha for Cocoa is K581.81 (K3133.45 – K2551.64) less than what they thought it would be.

Question 2: The answer is K14000. (K13672.00 + K328.00). Explain that the reason they add the two figures is that they thought they would get K13672.00 but they actually made a loss of K328.00, so the amount is K14000 less than what they thought it would be. Don't get hung up on the calculation; if necessary, just explain they are not getting anything at all when they thought they would get over $13000. The point is that the prices used to calculate the original Gross Margin were a very bad indicator of what actually happened.

Question 3: They may come to a very strong conclusion that ToBaras and laVavi made the wrong decision to plant vanilla. Stress to them that the decision would have been a 'wrong one' if they thought that vanilla prices would always be very high. However, if they had realised when they made their decision to plant vanilla that prices were high then but might fall a lot in the future, but that they were prepared for this and could cope somehow with it (for example, growing very high quality and then working with buyers who wanted a steady supply of high quality vanilla), then it would not have been a bad decision.

Question 4: They should conclude that ToBaras and laVavi did not consider Risk enough before making their decision to grow vanilla.

Stress to them that what they should have done at the time they made their decision was to calculate their Gross Profit/ha with some lower prices for vanilla to see what the comparison between cocoa and vanilla would have looked like then. If they had done this, then they would have been considering Risk before making their decision.

Exercise 6 and Exercise 7:

What options do ToBaras and laVavi have for their vanilla?

Make sure that you really stress what ToBaras and laVavi can do 'by themselves'. Don't let them shift the problem to someone else, such as government or a Board or forming a co-operative. Say that these may be things that should be considered, but here we are only interested in what people can do themselves without relying on someone else to solve the problem for them.

At some point in the module, you will end up in a discussion on middlemen and whether they are useful or note. If it comes up here, try to defer the discussion until Unit 5, when you can discuss it under the section that deals with buyers. *See the Background Notes for Trainers* in Unit 5, which talks about the middleman issue.

Encourage all their ideas. Don't analyse whether they are good or bad and don't let other trainees do this either. This is 'a brainstorm' and the analysis of whether they are good of bad ideas will come later. Write down the answers that they come up grouped under the following headings:

(a) Pull vanilla out and replant with something else:
   a. Another high price crop (perhaps another spice where prices are higher than vanilla at the moment)
   b. Something that is very different and would require a lot of effort from them (such as planting vegetables for a supermarket)
   c. Something that is less risky; that is, prices don't seem to go up and down so much (such as more cocoa)

(b) Leave the vanilla and don't harvest:
   a. Do just enough work to keep the vanilla healthy, but don't harvest. Just wait until the price rises again

(c) Harvest the vanilla and store:

    a. Harvest and cure the vanilla and then store it until the price of vanilla rises again

(d) Look for other buyers:

    a. Are there other buyers who might buy their vanilla?

(e) Export their vanilla themselves:

    a. Make their own connections to the international buyers and do their own exporting

Exercise 8:

Here is where you can start to 'analyse' all the options that the trainees came up with in Exercises 5 and 6.

The aim of this exercise is to get them to narrow down to options to what seems to be feasible and sensible given their resources and skills. The idea is to screen out what is unrealistic without dampening their enthusiasm.

This is why the ideas are not classified as 'good' or 'bad' but as 'Things they can think about now' and 'Things they can think about later'. For example, it is not likely that exporting vanilla directly would be feasible and sensible at this stage for a smallholder who knows how to grow vanilla and has only ever sold to a local buyer, so this idea should be in the 'Things to think about later' category. However, this smallholder might develop his or her entrepreneurial skills and contacts and, if this is the case, then exporting overseas might be an option at some time in the future. This is why no option should be dismissed. (Once again, the middleman debate might come up here, but try to defer it to Unit 5).

Remember that the idea should be to encourage realism without dampening an entrepreneurial spirit. Or to put it the other way, to make sure that any entrepreneurial ideas are thought about in a very realistic way.

When they go over the options, encourage them to think about whether they are realistic and feasible, and then put them into one of the two lists – 'Things they can think about now' or 'Things they can think about later'

Exercise 9:

The point of this exercise is to see whether they have learned from the vanilla example. It is presenting them with the same 'trap' to fall into; that is, seeing reasonable prices for something, pulling out another crop, and planting it without analysing the risk of falling prices in the future.

Don't spend too long on this, but take them back to the process that they followed for the vanilla, where they considered The Decision Diamond – Resources, Income, Costs and Risk. Tell them that they should do their Gross Profit figures for chilli and cardamom, at the current prices, then do the calculations again with the chilli and cardamom prices much lower.

Tell them that they should try to find out what happens to chilli and cardamom prices over time. Do they go up and down like vanilla? Don't think that you have to provide them the answer to this. Instead, encourage them to see you as 'partners in information gathering' not the person who has all the answers. Get them to think about who they might contact to get this information.

Finish off by saying that ToBaras and laVavi should use The Decision Diamond to look at all the 'Things they can think about now'.

Conclusion:

Remember that the aim of this Unit is to get the trainees to think about how to make sensible marketing decisions.

Tell them not to 'copy' other people, but to think things through themselves.

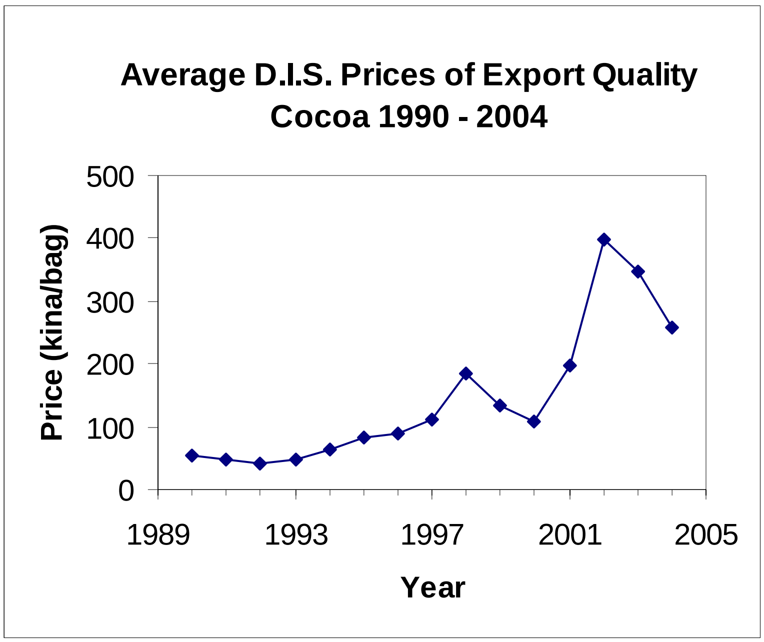
Reinforce the two main points:

- Things to think about *Now* and Things to think about *Later*.
- The Decision Diamond.

We will keep coming back to these two points in the Units 3 and 4.

Background Notes for Trainers

Cocoa Prices:



Source: Cocoa Coconut Institute of PNG

The above graph shows the price (kina/bag) for export quality cocoa (dry beans) delivered in store.

To understand the pattern of prices, you need to understand the world market for cocoa and some events and trends in Papua New Guinea. This information has been supplied by Ayyamani Jagadish, CCI.

On the demand side, the major buyers of dry cocoa beans from PNG are the cocoa roasters and cocoa product producers who are mainly in Europe and the US. Although it might appear that a reasonable volume of cocoa beans are destined for Singapore, this is just a transhipment point for cocoa beans out of Asia and the surrounding region. Over the past 15 years, there is some evidence that demand for dry cocoa beans has been rising.

The main overseas companies who buy the cocoa beans are Cadbury, Hershey, Nestle, and niche product manufacturers in Europe. These overseas buyers convert the dry beans into chocolate and other products. Beans are graded, roasted and then separated into cocoa butter, liquor and cake, before further processing into chocolates and other confectionaries (or other products such as cosmetics).

On the supply side, the major producers are Ivory Coast, Kenya, Nigeria, Brasil and other small cocoa producers in Africa and South America. While there is some production from PNG's near neighbour, Indonesia, their product is lower quality than the other producers mentioned. On the world scene, PNG is a very small producer, with only 1% of world production. Cocoa production tends to be quite volatile, due to civil unrest and climatic fluctuations in Africa and South America. For example, Ivory Coast, which is a highly important producer of cocoa, has been in a state of civil disorder for a number of years. This will have had a major contribution to the relatively high cocoa prices that were received in PNG for a number of years.

This situation is typical of many agricultural commodities. That is, demand may be rising, falling or static, but any changes tend not to be dramatic. On the other hand, supply tends to be highly volatile. This means that world prices will shoot up in times of supply shortage, and fall dramatically during periods of overproduction (when everyone has a good season and there is no civil unrest). Because PNG is such a small player on the international scene, it has no ability to influence world prices, and so prices received in PNG tend to reflect the ups and downs in the world cocoa markets.

At the PNG level, there are other factors that will influence the prices that smallholders get for their dry beans d.i.s. Note how the cocoa prices above seem to rise after 1994. As well as the demand and supply forces discussed above, there is another force at work here. Late in 1994, the PNG government allowed the kina to float freely. What this means is that the value of the kina against overseas currencies can vary day by day, depending on the supply and demand for kina against these currencies.

What has effectively happened is that the value of the kina has steadily fallen since it was floated. This means, for example, that an overseas buyer of a given amount of kina (say K100) now has to hand over less overseas currency (USD) to buy that amount of kina than they did 10 years ago. On the other hand, someone trying to sell kina (say K100) will get a lot less overseas currency (USD) than they got 10 years ago.

What this means for exporters (such as cocoa exporters) is that the amount of kina that they receive for the product has steadily risen. They send their cocoa overseas, it is sold in an overseas currency (such as USD), and when the price that they receive in that overseas currency is translated into kina, then the exporters find that, over time, they are getting more kina per unit of output than they used to. This is why exporters worldwide like falling exchange rates and tend to dislike rising exchange rates.

Another factor to bear in mind which doesn't show up in the above price graph relates to cocoa quality. PNG cocoa used to be classified as 75% flavour cocoa, but has been downgraded to 25% - a much lower level of quality. This is mainly due to smallholders drying cocoa using kiln pipe dryers. If the pipes snap and are not maintained by the smallholders, then the cocoa is tainted by smoke. This is the main reason for the downgrading of PNG's cocoa quality. The other reason for the downgrading of PNG cocoa is that its moisture content tends to be higher than the industry norm of less than 8% when it is delivered to the overseas roasters.

This highlights the importance of maintenance of fermentaries and good quality control when drying the beans. It would be useful to stress this when going over the example of ToBaras and laVavi putting in their fermentary. That is, you could stress that this looks like a good financial decision to make, but that they need to look after the fermentary properly and make sure that they dry the beans properly.

You will notice that in the fermentary example, that prices of dry beans have fallen more over the last two years than the price of wet beans. It is not clear whether this is an aberration of some sort or whether it highlights some buying pattern, such as the buyers smoothing prices to smallholders, by not letting wet bean prices fall as much when dry bean prices fall, but then not allowing them to rise as much when dry bean prices rise.

Within ENB (and PNG), the major buyer of wet and dry smallholder beans is Agmark. There are a few other cocoa buyers, but they do not buy wet beans. You will appreciate from the wet and dry prices quoted in the trainee handbook that there is a good margin to be gained from drying cocoa beans, and the fermentary example used shows that the investment necessary to capture this margin is relatively modest. This is why CCI (and other plantations) dry their beans and pay particular attention to quality. Any smallholder thinking about such an investment would need to make sure that they have the necessary resources to do this, they maintain their equipment to get good quality, and pay close attention to how they dry their beans to get the moisture content right.

Vanilla Prices;

Like cocoa, vanilla is an agricultural commodity where international prices are determined by the interplay between world supply and demand. As with cocoa, PNG is an insignificant producer of vanilla on a world scale, and so can have no impact on world vanilla prices.

Vanilla is a minor industrial ingredient into a range of highly processed products, such as drinks and a range of confectionary products. As with other agricultural commodities, demand for vanilla is not likely to be highly volatile but supply will be. It is this supply-side volatility that has been responsible for the very high, and now very low, prices received by PNG producers.

Madagascar is the preferred supplier to the international market, but it found itself unable to supply reasonable quantities of vanilla to the market for a number of years. This supply shortage caused vanilla prices to rise dramatically as vanilla buyers competed vigorously with each other for the remaining supply. As a result, they were prepared to buy low quality vanilla from a number of countries (with a low vanillin content) to meet their needs.

Producers in many countries (including PNG) noticed the very high prices for vanilla on the international market and increased the plantings of their vanilla dramatically in an effort to capture these high prices. These plantings are now maturing and so much more vanilla is coming onto the world market. In addition, the preferred supplier (Madagascar) has now re-entered the market.

What this means is that there is a far greater supply of vanilla now on the international market. As a result, it is now a 'buyer's market', and no longer a 'seller's market'. Buyers can force the price down because they have a lot more vanilla to choose from. For the same reason, they will choose better quality vanilla, with a high vanillin content.

This is why the price of vanilla has collapsed in Papua New Guinea, and any remaining vanilla buyers will be buying higher quality vanilla that can compete on the 'buyer's market' overseas.

Risk

We have introduced 'Risk' in this module, but do not have time to explore the topic fully. These notes are to give you some background to the way that risk is viewed and analysed, which should help you in your discussions with the trainees.

Risk can be thought of as 'uncertainty' that can disrupt the returns of the business and create problems for the smallholder as a result. Risk has various components.

The first component is known as Business Risk. This is the risk associated with changes in yields and prices. That is, yields can fluctuate from year to year with good and bad seasons, disease and pest infestations, etc. Similarly, prices can fluctuate from year to year (see the discussion on cocoa and vanilla above, which illustrates the ups and downs in world markets for these products). Costs of producing a product can also go up and down, but this is usually only a small part of Business Risk, with most of the risk arising from changes in yields and prices.

If you look at Business Risk more deeply, you realise that there are a lot of very subtle risks that underlie this. Basically these are anything that can disrupt yields of prices. For example, a smallholder might find that they have to be away from their block at a critical period and so crops don't get the care and attention that they need, and so yields fall. They might find that their transport arrangements break down, and so fresh produce deteriorates. This is another source of risk. A further example might be that buyers leave the market (as has happened with vanilla) which means that prices plummet or they can't sell their product.

While Business Risk relates to the fluctuations (ups and downs) in smallholder returns that arise from fluctuations in yields and prices, it is 'downs' that cause the problem, not the 'ups'. That is, producers are concerned about their downside risk, not their upside risk. This is because they may not have enough money to meet their fixed commitments. These fixed commitments may include debt repayments, other fixed costs they have to pay regardless of their level of income, and also their personal commitments, such as school fees and other expenses. This inability to meet fixed commitments is known as Financial Risk.

The trainees are likely to have a very good intuitive understanding of both business and financial risk, because they will be operating with these risks all the time. Build on this understanding and avoid any jargon in your discussions of risk with them.

There are many ways to analyse risk. For farmers and smallholders, there are two ways of doing it. The first is to take any risk that could arise from any particular decision, get as much information about it as possible, and then to weigh it up intuitively; that is, to think about all the pros and cons associated with it. For example, if ToBaras and laVavi were thinking about exporting vanilla overseas, what would be the risks associated with this?

The second way to analyse risk is a technique known as sensitivity analysis. We have used this in Unit 3. With sensitivity analysis, you take a set of numbers (for example, Gross Profit calculations) and then change some of the assumptions and see what happens to the answers. What we did in Unit 3 was to change the prices and looked at what happened to the Gross Profit figures. If you were not certain about the yields of cocoa or vanilla, then you could change those too, and look at what happens to the Gross Profit.

In this module, encourage the trainees to use both ways to analyse risk. That is, identify the risks associated with any decision, get information on them, and weigh them up intuitively. Then back this up with sensitivity analysis where you have hard numbers on something.

What is in the Trainee Handbook

Market Requirements — Unit 4

Remember the diagram. The top circle was about markets. Markets want to buy your product, but there are certain requirements that you have to meet to sell to them.

Unit 4 is all about Market Requirements. In this Unit we ask:

- *What does your market require?*
- *Can you meet the needs of this market?*

Remember:

This is what marketing is all about

1. You, the smallholder farmer, must use your resources to produce a product.
2. The product that you produce must meet the requirements of the market.
3. In getting your product to the market, you must decide what 'rots' to take:
   a. Whether to improve your product
   b. Who to sell it to
   c. How to get it to the market in good condition

<u>You can see that you have many decisions to make</u>

Recall:

Remember **the two products** that you wanted to learn more about over the module:

One was a product traditionally sold in informal markets. This was:

____

The other was a product that was sold in formal markets. This was:

____

Your group chose to look at _______________________________

Exercise 1:

Split into your smaller groups.

Remember, some of the groups chose to learn more about the product sold in informal markets and some groups chose to learn more about the product sold in formal markets.

In your group, ***list all the market outlets*** for your product.

Write your answers down in the correct column.

Formal Market Outlets *(for ______________)*	Informal Market Outlets *(for _______________)*

Exercise 2:

	When your trainer asks you, discuss the findings from your small group with the big group. Listen while the other groups give their feedback and write down any other market outlets that they come up with in the space provided on the previous page.

Exercise 3:

	Listen while your trainer explains to you about Market Requirements. Write these Market Requirements down below.

NOTES:

Exercise 4:

In your **small** group, list the Market Requirements for the product that you group chose.

Write your answers down in one of the columns.

Market Requirements *(for ______________)*	Market Requirements *(for ______________)*

Exercise 5:

When your trainer asks you, discuss the findings from your small group with the big group.

Listen while the other groups give their feedback and write down any other market requirements that they come up with in the space provided above.

Exercise 6:

?	Turn to the person next to you and discuss the following questions: ***Did you know what all the market requirements were for your product?*** ***If you do not know what the market requirements are for a product, how do you think you could find out?*** Share your answers with the big group when the trainer asks you to. Write down useful answers below:

✍ NOTES:

Now that we understand about markets and their requirements, and where to look for information, let's go back and see how ToBaras and laVavi are getting on.

ToBaras and laVavi are thinking about the suggestion that laVavi's friend made; that is, pulling out their vanilla and planting fresh vegetables – such as capsicums and broccoli – for the supermarkets. They know that they should use ***The Decision Diamond*** *(Resources, Income, Costs and Risk) to help them make this decision, but they realise that, before they do this, they need to find out what the market requirements are. That is, what do the supermarkets require.*

They went and talked to the supermarket manager. She told them that the supermarket is interested in buying capsicums and broccoli from new suppliers, but they had to meet the certain requirements before the supermarket would consider them. They need to supply good and consistent quality vegetables that are free of blemishes and must be able to supply a large quantity continuously over the season.

ToBaras and laVavi are giving this some thought. They have never grown broccoli before. They remember someone telling them that it grows better in cool places, but they are not sure about this. They have grown a few capsicum plants from time to time and sold the capsicums in the local market. They also have other commitments – there are the other crops to look after, and as well, there are times when they have to go away from their block for short periods.

(Cartoon of ToBaras and laVavi here).

Exercise 7:

?	In your small group, discuss the question: **Should ToBaras and laVavi consider planting the broccoli and capsicums on their block?** Present your ideas to the big group when the trainer asks you to. Write down any useful points from the discussion.

NOTES:

Finish this exercise by thinking about something you produce. Is there anything you can do to meet the market for this product better?

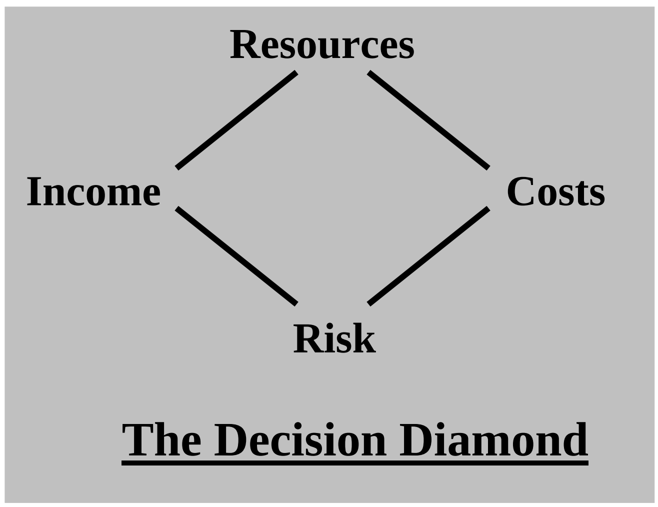
Let's conclude Unit 4 by summarising what we have learnt.

Think about:

1. What are the different market outlets for your products?
2. What are the market requirements?

If you are already producing for this market, think about how you can *meet the market better*.

If you are thinking of producing a new product for this market, use the Decision Diamond to analyse whether it is a good idea to meet this market.



The Decision Diamond

The second step in marketing
What are the market requirements?
How can you meet the market with your resources?

Teaching Tips for Trainers

Introduction:

Take them back to the diagram again and refresh their memory on this. Tell them that you are now going to talk about the top circle in the diagram – The Markets.

Remind them this is about them and Markets and what their requirements are.

Reinforce this with the 'This is what marketing is all about' box. Recall that so far they have looked at the Smallholders line and The Decisions line, and now they will look at the 'shaded line'; that is, that the product that they produce must meet the requirements of the market.

Recall and Exercise 1 and 2:

Remind them of the two products that the starting looking at when the module began, and how they looked at the resources necessary for producing those products. Tell them that now they are going to look at the markets for those products.

See the *Background Notes for Trainers* for some examples of market outlets identified by the core group who drew up the module.

When you get onto Exercise 2, make a list of all the suggestions for both products and build this up as the groups report back to you. Finish Exercise 2 by looking at any differences between the two products in terms of the market outlets that appear to be available.

Exercise 3:

When you explain Market Requirements to them, begin by getting them to think about how their product becomes part of a chain (See *Background Notes for Trainers).* Then explain to them that each of the participants in the chain is a customer who has to meet the needs of the buyer above them. Therefore, they will have market requirements to meet. Encourage them to think in terms of themselves as a supplier, who has to meet the needs of the customer above them.

Once you have done this, go over the list of requirements that a market might want. (See *Background Notes for Trainer).* You might want to make a list that the Trainees can see when they do Exercise 4.

Exercises 4 and 5:

Go round each of the groups while they are doing Exercise 4. It is important for them to think not only about what the market requires, but also about what it does not require. For example, one market may want continuity of supply, whereas another might not be concerned about this.

It is highly likely that the different market outlets for their product have different requirements. If this appears to be the case, then tell them to choose one market outlet to focus on.

When you get onto Exercise 5, make a list of all the suggestions for market requirements for each of the products and build this up as the groups report back to you. Finish Exercise 5 by looking at any differences between the two products in terms of the market outlets that appear to be available.

Exercise 6:

In this exercise, it is important that you, as the trainer, do not try to give them 'the answers' if they did not know what some of the market requirements were. Your role is to help them with the answer to 'where might they get the information on the market requirements. Remember that you are their partner in information-seeking, not the person with all the answers.

ToBaras and laVavi and the Supermarket Vegetables; Exercise 7

The purpose of this little case study and Exercise 7 is to get the trainees to realize that after they understand what the market requires, they must assess whether they can meet the market with their resources. In Unit 2, we focused on whether they could actually produce (or partly process) the product. Here, we have moved on to ask whether they can produce a product that meets the market's requirements.

Get the trainees to tell you what the market requires. This is:
- High quality capsicums and broccoli that are free from blemishes;
- The quality of the vegetables must be consistent from week to week;
- They want a large quantity;
- They want a continuous supply of vegetables over the season.

Then get the trainees to analyse ToBaras and laVavi's situation. They don't have experience growing broccoli, although they have some experience with capsicums. The lack of experience with broccoli and their uncertainty as to whether it will grow well on their block means that they are unlikely to get the consistent high quality that the market wants. There are also some doubts about how well requirements of the market fits with their farming system (the needs of their other crops) and their other commitments away from the block. It seems that they may not have the time to put into getting these vegetables up to the quality standards required by the market. As well, you are not sure whether they can produce the vegetables for the supermarkets in the large quantity that they are asking for, and whether they are capable of supplying them consistently.

Take them back to **The Decision Diamond** again on this. What they are doing when trying to look at whether they can meet the demands of the market is focusing on their Resources and their Risk. With the case study information that they have in front of them, the sensible conclusion seems to be that it is not clear that they have the resources to meet this market and it appears to be quite a risky thing to try. Therefore, it is something to think about later, but not now.

Try to bring the above points out in your discussion on Exercise 7.

Conclusion

Remember that the aim of this Unit is to get the trainees to think about what the requirements of the market are.

Reinforce the two main points:

- What are the different outlets for their products?
- What are the market requirements?

Tell them that when they go home, they should think about whether there is anything that they can do to meet the requirements of their markets better.

Once again, reinforce **The Decision Diamond.**

Background Notes for Trainers

Market Outlets

When the core group was working on this module, they came up with the following list of market outlets. This is not exhaustive, and there may be other outlets that you or your trainees can think of.

What are the various markets that buy ……………………………………?

a. Traditional barter
b. Person to person/wantok
c. Roadside
d. Middleman
e. Main Centre
f. Middleman
g. Trade Store
h. Supermarket
i. Institutions
j. Buyers
k. Selling Overseas

Market Requirements:

Intermediate Customers in the Chain

When you discuss market requirements with the Trainees, encourage them to think of themselves as part of a chain. There are many intermediate customers along this chain, each of which have their own requirements. For example, they(as smallholders) might produce wet cocoa beans, which they sell to Agmark, who then dries them and sells them to an overseas roaster, who then sells them to a chocolate manufacturer.

The smallholders are a supplier to Agmark, and have to meet Agmark's requirements. Agmark, in their turn, are a supplier to the overseas buyers, and so Agmark has to meet the requirements of the overseas buyer. These buyers, in their turn, are suppliers to the roasters and have to meet their requirements. The roasters are suppliers to the chocolate manufacturers, and have to meet their requirements. Finally, the chocolate manufacturers are the suppliers to the final consumers, who have their own requirements on what they want from the chocolate that they buy. If this chocolate does not meet their requirements, then they will buy from somewhere else. So everyone in the chain has to play their role in meeting the needs of the final consumer.

This material was all covered in the Supply Chain Management Workshop. The Notes from this Workshop are attached in the Appendix, so revise them if necessary.

Once again, the trainees may want to get into a debate on middlemen at this stage. Try to put it off until Unit 5 when buyers are discussed. At this stage, you want them to realize that different participants along the chain have a role to play. In Unit 5, we will consider whether their reward for doing this is justified or not.

<u>Market Requirements:</u>

When the core group considered market requirements, they came up with the following list. Talk about the things on this list when you explain market requirements to the Trainees.

List what you think the market wants in terms of

a. The form the product is in?
    i. Finished/processed.
    ii. Semi-finished/semi-processed.
    iii. Fresh.

b. How much the market wants to buy?
    i. All that you can sell.
    ii. A minimum amount.
    iii. A fixed amount.

c. What quality does the market want to buy?
    i. High quality.
    ii. Average quality.

d. When does the market want to buy?
    iv. Any time.
    v. Special times/festive.
    vi. Wants continuity of supply.

What is in the Trainee Handbook

The 'Rots' to the Market — Unit 5

Remember the diagram. The middle circle was about 'Rots' to the Market. In getting your product to the market, there are various 'rots' that you can take.

*Unit 5 is all about the 'Rots' to the Market***.** *In this Unit, we look at:*

Should you improve your product?
Who to sell it to?
How can you get it to the market in good condition?

Remember:

This is what marketing is all about

4. You, the smallholder farmer, must use your resources to produce a product.
5. The product that you produce must meet the requirements of the market.
6. In getting your product to the market, you must decide what 'rots' to take:
    d. Whether to improve your product
    e. Who to sell it to
    f. How to get it to the market in good condition

You can see that you have many decisions to make

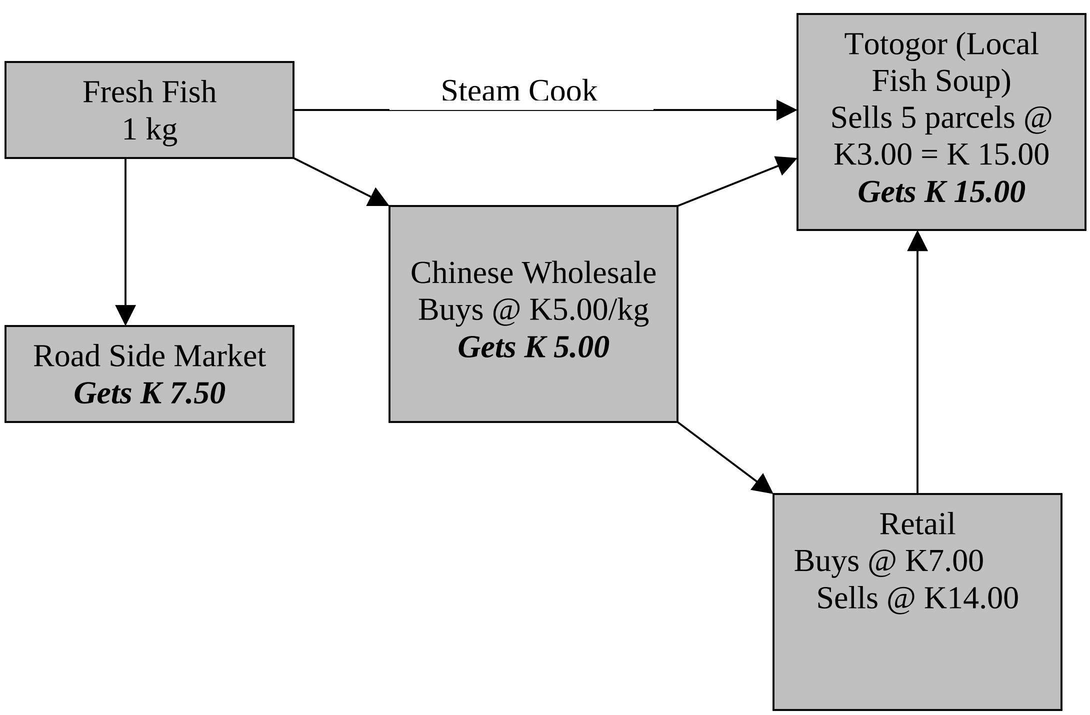
Let's begin this Unit by thinking about the different forms that you can sell a product in and think about how you can transform a product.

Exercise 1:

Look at the chart below. It shows the different places (market outlets or buyers) that fresh fish can be sold to, how it can be processed (or transformed) to add value, and what prices can be received in these different market outlets.

Listen while your trainer describes this chart to you. Make notes on the chart if you need to.

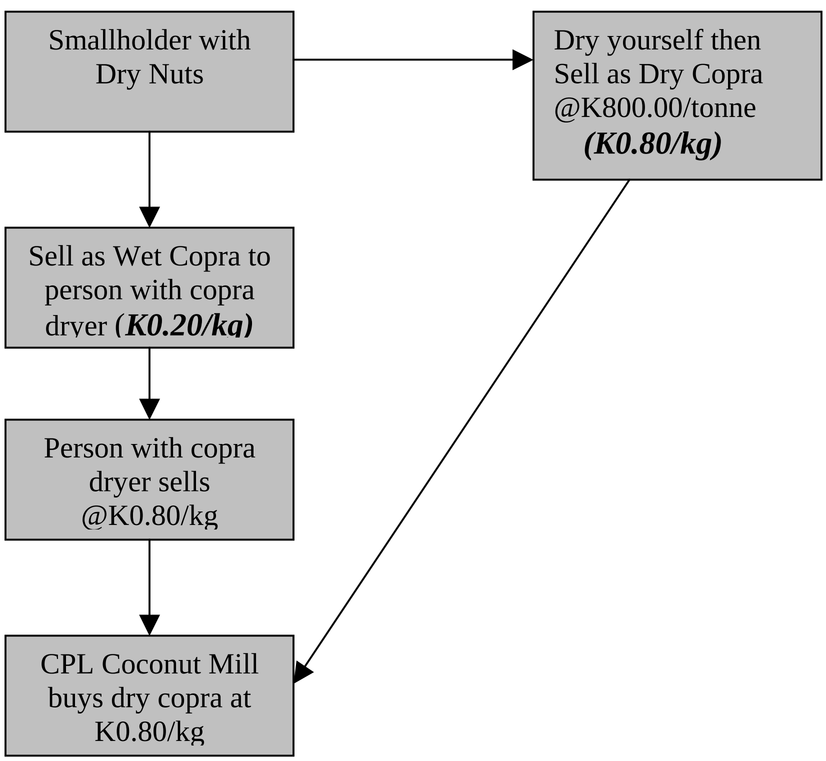
Local Fresh Fish



Exercise 2:

	Now look at the next chart below. It shows the different places (market outlets or buyers) that coconut can be sold to, how it can be processed (or transformed) to add value, and what prices can be received in these different market outlets. Listen while your trainer describes this chart to you. Make notes on the chart if you need to.

Coconut



Exercise 3:

?	Pick a product that you would like to learn more about. *This can be the product that you looked at when the groups considered 'resources' and 'market requirements', or it can be a product that you produce or would like to produce.* Try to draw a chart of this product below. On this chart: • show the different places (market outlets or buyers) the product can be sold to • how it can be processed (or transformed) to add value • what prices can be received in the different market outlets.

Exercise 4:

	Get into your small group. Discuss your chart with the other members of your group. Listen while the other members of your group discuss their chart. Your trainer will help your group pick one of the group’s products to study all the ‘rots’ to the market more.

NOTES:

The ‘Rots’ to the Market

Let’s consider all the things you should think about when you consider the different ‘Rots’ to the Market.

(Listen while your trainer discusses the ‘Rots’ to the Market)

Should you improve your product?

There are two things you can do here:

1. You can *transform* your product. This means doing some processing.
2. You can *enhance* your product. This means doing things to present it better, such as washing, grading or packaging.

How do you know whether you should improve or enhance your product?

Use ***The Decision Diamond***. Consider your resources, income, costs and risk.

(*You know how to do this. You did it when you helped ToBaras and laVavi decide whether to put in a fermentary).*

Who should you sell to?

There are four questions you need to think about:

1. Who are the buyers for your product?
2. How do the prices offered by the different buyers compare?
3. Do they impose conditions on sellers?
4. Are they reliable?

If you sell yourself in the market or by the roadside, is there a better way you could set the prices that you charge?

How can you get your product to the market in good condition?

There are four things to think about here:

1. Can you get your product to the market in a different way for less cost?
2. Can you get your product to the market in a different way so it gets there more quickly?
3. What can you to do to make sure your product gets to the market in good condition?
4. What can you do to keep your product in good condition once it gets to the market and before it is sold?

Are there changes that you could make in how you get your product to the market in good condition? Use ***The Decision Diamond*** to help you decide whether any changes are a good idea. Consider your Resources, Income, Costs and Risk.

Exercise 5:

?	In your small group, take the product that you decided to use to study the 'rots' to the market. For this product, consider: • How you could improve it by *transforming* it (processing) or *enhancing* it (presenting it better by washing, grading or packaging) • Who you could sell it to and the advantages and disadvantages of the different buyers (or if you sell in the market, could you set your price better) • How you can get your product to the market in good condition Make notes on this using the Worksheets.

Improving your Product

<u>Who to Sell your Product to</u>

<u>How to Get your Product to the Market in Good Condition</u>

Exercise 6:

?	When you were doing Exercise 5, was there any information that you didn't know. List any information that you did not know, and where you might be able to find it.

Information that you don't have	**Where you could look for the Information**

Exercise 7:

	Present your findings on the 'Rots' to the Market to the large group. Listen while the other groups present their findings. Listen carefully to your trainer and write down any useful notes on the next page.

NOTES:

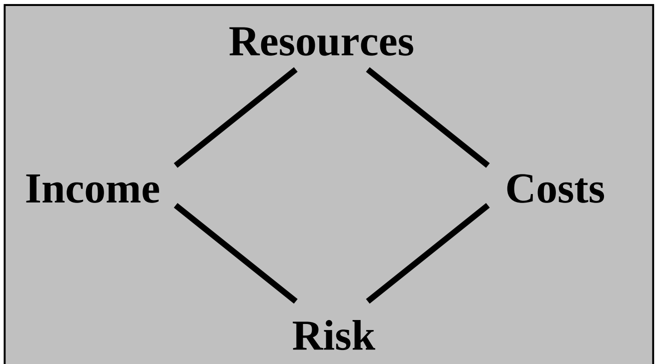
Let's conclude Unit 5 by summarizing what we have learnt.

Think about the different 'Rots' to the Market:

1. How can you improve your product by *transforming* it (processing) or *enhancing* it (presenting it better by washing, grading or packaging)?
2. Who can you sell it to (or how can you set your price better)?
3. How can you get your product to the market in good condition?

For any product that you are already producing, think about how you can *meet the market better.*

If you are thinking about producing a new product, think about what things you can do with the different 'Rots' to the Market. Use the Decision Diamond.



The Decision Diamond

The third (and final) step in marketing

What 'Rots' should you take to the market?

- Can you improve your product?
- Who should you sell to?
- How can you get your product to the market in good condition?

Teaching Tips for Trainers

General Comments on Unit 5:

Unit 5 covers a lot of material – on product improvement and enhancement (processing and packaging), selling the product (relationships with buyers), and logistics and product maintenance (quality control). Because each of these factors are interrelated, they must all be considered at the same time, and cannot be dealt with one by one.

The following exercises have been constructed to ensure that all factors can be considered at the same time. They are also primarily discussion based exercises. This means that you, as the trainer, will have to use your initiative on when and how to introduce various issues with the trainees.

This Unit will take a considerable time, as the trainees need a lot of time for discussion, and you will need time to manage this discussion.

Introduction:

Take them back to the diagram again and refresh their memory on this. Tell them that you are now going to talk about the middle circle in the diagram – The 'Rots' to the Markets.

Reinforce this with the 'This is what marketing is all about' box. Recall that so far they have looked at the Smallholders line, the Decisions line, the Market Requirements line, and that now they will look at the last remaining 'shaded lines', which are all about the 'rots' to the market.

Exercise 1:

Take quite a lot of time to explain this diagram.

Start with the 'fresh fish' and explain the three outlets for the fish – the roadside market, the Chinese Wholesale and processing and selling as Totogor. Look at the different returns that they can get from each of the market outlets.

Discuss what needs to be done to the product (transforming or enhancing it) for each of these market outlets.

Discuss the Chinese Wholesale and how they play a role in selling to both retail and also as a source of fish for those people who wish to make and sell totogor but do not fish themselves.

Let the trainees spend some time discussing this diagram. Use your initiative on how much to let the discussion develop and how much to 'hold' back until further into the Unit. You may want to discuss the 'role of the middleman' at this point, or wait until the discussion on buyers. If you do discuss it now, make sure that you have gone over this issue in the *Background Notes for Trainers*, as it needs to be handled carefully.

See the *Background Notes for Trainers* for some comments on this local fresh fish market.

Exercise 2:

Go over the same process for the Coconut example as you did for the fresh fish market.

Point out to the trainees that this is a much simpler chart than the fish one. This will often be the case where a product goes into the formal market only.

Get them to think about the two options that the smallholder has, selling as wet copra or drying themselves.

Discuss the difference between the wet and dry prices. Ask them whether they think it would be a good idea to put in a copra dryer. Remind them that they know how to do this as they have already done it with the cocoa fermentary. Remind them about **The Decision Diamond** (Resources, Income, Costs and Risk).

See the *Background Notes for Trainers* for some comments on the coconut market.

Exercises 3 and 4:

There are various ways to approach this exercise. You can set it for homework if the timing works out properly, or give trainees some time to work in pairs or a small group of people who are interested in a similar product. Use your initiative on how to approach it.

When they discuss their charts in the small group, encourage them to think about the different market outlets, what their requirements are, what each of the participants do (in terms of value creation, intermediation (bringing buyers and sellers together) and taking risk. If they think that someone is getting an excessive margin, encourage them to justify their position and to think about what options smallholders might have in such a situation.

Pick one chart from each group to present to the main group and make sure that you get as much diversity as possible in the presentations. Encourage discussion on the dynamics of the wider market (see the discussion on the fresh fish market (in the *Background Notes* *for Trainers*) as an example. Be well prepared for the 'middleman' debate, and make sure that you have gone over this issue in the *Background Notes for Trainers*, so that you can handle it carefully.

The 'Rots' to the Market

Spend quite a lot of time going over this page, and explain to them that all of these things have to be considered at the same time.

Should you improve your product?

When you explain this, use an example of a product that seems relevant to the trainees.

This is the point at which you should have a discussion on shortening or lengthening a chain. Study this section in the *Background Notes for Trainers.*

Be very careful when discussing this Section, as it can stimulate the entrepreneurial mindset. Encourage this, but temper it with realism about what is possible and what is critical to success. You need to be careful not to raise expectations unrealistically.

Who should you sell to?

When you go over this section, you may want to discuss it in the context of a product that is relevant for the Trainees.

Study the Section on Buyers and Setting your own Prices in the Market in the *Background Notes for Trainers.*

How can you get your product to the market in good condition?

When you go over this section, you may want to discuss it in the context of a product that is relevant for the Trainees. Begin by reinforcing market requirements and the necessity to get the product to the market in the way that the customer wants it.

Get them to think about various post-harvest preparation/techniques. You could use some good examples of maintaining quality from local informal markets; that is, the heat problem can be solved by moving produce at night or very early in the morning.

When you talk about the seller using the most convenient route to the market; you may get into a discussion on cross-border trade and government directives. You should stress that if a directive has legal backing, then it should be obeyed. However, if a directive has no legal backing and does not seem to make sound business sense (that is, it increases cost or causes the product to deteriorate), then treat it as a 'suggestion' only.

Study the Section on Product Maintenance (Logistics and Quality Control) in the *Background Notes for Trainers.*

Exercises 5, 6 and 7

These exercises will take a long time. By this stage of the module, you will be ‘handing over’ responsibility to the trainees. Try to encourage the groups to learn from each other, and start ‘disengaging’ as the ‘expert’ trainer who has the answer. Instead encourage them to come up with the answers themselves and to seek out information that they are missing. Your job is to help them to structure their decision-making, so keep bringing them back to **The Decision Diamond** as a framework for making decisions.

Conclusion:

Remember that the aim of this Unit is to get the trainees to think about the various ‘rots to the market.

Reinforce the three main points:

- Can you improve their product?
- Who should they sell it to?
- How can they get their product to the market in good condition?

Tell them that when they go home, they should think about these questions for products that they produce.

Once again, reinforce **The Decision Diamond.**

Background Notes for Trainers

The Local Fresh Fish Market

This is a very interesting and powerful chart as it illustrates both the informal and the formal market, and the interplay between them. From the point of view of an outside observer, this market shows all the signs of being a highly efficient and well functioning market. This is not surprising, since local markets, where the formal market can be kept in check by an informal market, would be expected to be efficient. (See the Supply Chain Management Workshop Notes in the Appendix for a discussion on this).

Someone who catches fish and wants to sell fresh fish has the option of either selling at the roadside market or selling to the Chinese Wholesale. They can get K 7.50/kg from the roadside market or K 5.00/kg from the Chinese Wholesale. The extra margin from selling at the roadside market reflects the time and effort taken to do the direct selling and also the risk associated with the fish not being sold. The Chinese Wholesale pays less, but then they do the selling of the fish and assume any risk from that point onwards.

The Chinese Wholesale sells to the retail outlet for K 7.00, which is a bit less, but not too different from, the price at the roadside market (K 7.50). Note that this means that it will be more cost effective for the retail outlet to buy their fish from the Chinese Wholesale, but the Chinese Wholesale has not set their selling price too far below the value that fish are being sold for the roadside market. So the Chinese Wholesale makes as much margin as they can, getting K 2.00/kg as a reward for their effort, which in this case amounts to ‘intermediation’ (linking the sellers with the buyers) and some product enhancement.

The Chinese Wholesale is a ‘middleman’, but in this case, does not appear to be making an unjustified margin. They are being paid for the role that they perform in this market, but their suppliers have other outlets that they can sell to, and this acts as a check on how high the wholesale margins can go. If the Chinese Wholesale reduced the price that they bought their fish for, then their suppliers would switch to roadside selling. Similarly, if they tried to sell their fish for a higher price to the retailer, the retailer might switch to buying from roadside sellers.

It is interesting to look at the retail margin. This seems very large – in fact it is 100%, with the retailer buying at K 7.00 and selling at K 14.00. Although it looks to be a large margin, it is hard to judge whether it is excessive. Worldwide, the margins in the ‘meat and fish’ cabinets at supermarkets are high, as are the margins in fresh fruit and vegetables. However, the margins on other items sold in the supermarkets tend to be much lower.

The final consumer has the option of buying from the supermarket or from the roadside. There is a big difference between these prices K 14.00/kg against K 7.50/kg. For the supermarket customer to pay this difference they will be demanding certain attributes. For example, the fish is likely to be ‘enhanced’ into cuts and frozen or chilled, and is likely to be available each week. The supermarket customer also saves time because he or she can do all the shopping in one place and does not have to go to a roadside market for fish and then another market for vegetables, etc. If the supermarket put the price of fish up too high, then the customer is likely to either make the effort to buy fish from a roadside market or to stop buying fish and switch to meat.

Another very interesting feature of this market is the comparison of the price that fish sells for at retail and the price of totogor. The retailer sells for K 14.00/kg, while the seller of totogor sells for K 15.00/kg of fish ingredient. In this market, the informal market ‘matches’ the formal market; that is, the person who fishes has the option of processing the fish themselves and getting as much from it as the retailer gets in the formal market. Note that the ‘margin’ in the informal markets is also 100%. That is, if someone bought fish at the roadside market and processed it into totogor, they would buy at K 7.50/kg and sell at K 15.00/kg of fish ingredient. That is, they would make the same margin as the retailer, and would be rewarded for doing the processing and taking the risk in this market.

The Coconut Market

This is a very straightforward market because of the nature of the product. Smallholders have an option of drying themselves or of selling as wet copra to someone who has a dryer. If they sell set, the get K 0.20/kg, and if they sell dry, they get K 0.80/kg dry. So if they sell to someone who has a dryer, is the margin that the person with the copra dryer gets excessive?(Note that it will not be K 0.60/kg, because one kilogram of wet copra will yield less than one kilogram of dry copra).

It is not possible to tell if the margin for drying copra is excessive or not from the information that is presented in the chart. If it is not a huge investment for a smallholder to put in a copra dryer, then it is unlikely to be excessive. This is because smallholders would see the opportunity themselves, and put in their own dryers. Knowing that there is a threat that other people could go into copra drying would usually be enough for a person doing drying to keep their margins reasonable.

This chain ends at the CPL coconut mill. They buy dry copra at K 0.80/kg. Is this a fair price? From the information that we have, we do not know the answer to this. CPL will be selling on the overseas market, so they will have to compete with other suppliers to these markets. Are there any viable competitors to CPL? If there are, then this will act as a brake on their margins and force them to compete for the supply of copra. If there is not, then there might be concern that they can act as a monopoly buyer and keep the prices that they pay for their copra lower than what they would have to pay in a more competitive market. But if they put their prices too low, then smallholders will switch to other crops and not bother to supply copra, so then CPL would not get the copra and would find it difficult to supply their overseas customers.

The 'Middleman' and Shortening and Lengthening Chains:

At some point in this Unit, you will need to address the issue of the 'middleman'. The 'middleman' debate can evoke a lot of argument, with people often having fixed positions. There are those who argue that the middlemen perform a useful role and should be encouraged, while others claim that the middleman makes excessive profits and should be cut out of the chain.

It is not particularly helpful to have a fixed position on this issue, or to deal with it at a general philosophical level. The reasons for this are covered in the following discussion.

The Function of the 'Middleman' in Agribusiness Chains

In any chain, there are a number of participants from the input supply level through to production and onto processing, selling and distribution. (See the Appendix for the Workshop in Supply Chain Management for more discussion on this). Each of these participants performs a function, for which they are rewarded. In many countries, some of these chain participants are referred to as 'middleman'.

Organisations along the chain perform particular functions associated with value creation and intermediation. That is, they may transform or enhance the product in some way, or perform a useful function by matching sellers with buyers. They will be rewarded for undertaking these functions, and the magnitude of this reward is usually 'measured' by their share of the margin that they capture as the product moves along the chain from producer to consumer.

Much of the debate over the role of the 'middleman' centers on whether the margins that they capture are too high or too low. However, it is not possible to tell by looking at a margin whether it is too high or too low. It may be possible to see whether the margins along the chain for similar products are similar, but it is difficult to interpret from such comparisons whether these margins are justified. For example, in the fresh fish example, the large margin captured at retail is similar to the retail margin that might be observed for similar food products, but it is not possible to conclude from this that this margin is too high.

There are two components to a margin. One is the reward for creating value, providing an intermediation service and taking risk. This part of a margin is 'justified'. The other component of a margin is known as 'monopoly rent', and this part of a margin is much more difficult to justify. This means that a business that has little or no competition can lower the price it pays to producers and increase its margin because producers have no-one else to sell to. However, there is only so much 'monopoly rent' that such a business can extract from its suppliers, because ultimately it will make that product unprofitable for them to produce, and so they will turn to producing something else instead.

A more useful way of determining whether the margins gained by different participants in a chain are justified is to look at the competition that exists in different parts of the industry. For example, in the fresh fish chain, there appears to be a reasonable amount of competition because the informal chain operates alongside the formal chain and so sellers and buyers have other options. Therefore, it is quite likely that the margins that the different participants get in this chain are justified.

Farmers worldwide tend to be suspicious of ‘middlemen’ or the organizations that operate between themselves and the consumer. They suspect that these individuals or organisations are making excessive margins and exploiting the producers of the product and usually argue for some control on their margins or for their elimination altogether. You will appreciate from the discussion above that, in some cases, their concerns may be justified, whereas in other cases, they may not be justified.

This discussion on chains relates to what is known as ‘opportunistic’ chains; that is chains that are characterized by competition along the chain where the ‘enemy’ is seen to be the organizations above or below a business in the chain. Many chains are opportunistic, and businesses in such chains can be highly successful.

Other chains are more ‘co-operative’. That is, businesses work with those above and below them to ensure that the needs of the final consumer are met. Such chains see the ‘enemy’ as competing supply chains. The margins that will be required by each member of these chains will be those that are sufficient to keep them committed to supplying that chain. Co-operative chains can also be highly successful.

In some situations it may be advisable to work with other chain members co-operatively, whereas in other chains, it may be advisable to compete aggressively with other chain members. Therefore, do not give general advice on this issue, as different chains have different conditions and organize themselves in different ways (See the Appendix for further information on opportunistic and co-operative supply chains).

Shortening and Lengthening Chains

Rather than get sidetracked onto ‘the middleman debate’, a more constructive approach is to focus on shortening and lengthening chains. Chains seldom remain stable along their length for long periods of time. Changing forces in the environment encourage businesses along the chain to rethink their position and to make changes in the way a chain operates. It is not uncommon to see chains shorten (by integrating some functions within one business) or lengthen (as businesses ‘disintegrate’ with two firms performing functions previously performed by one firm).

One of the issues that smallholders face is how far down the chain to go. That is, should they go further down the chain (shorten it) and do things themselves that are currently done by someone else (such as a middleman)? Or should they move back up the chain (lengthen it) by letting someone else (such as a middleman) do what they are currently doing?

There is no one answer to these questions. It depends on the person, their resources and skills, the industry they are operating in, and a range of other factors. So don't take a fixed position on this. Instead, encourage the trainees to question whether they should be trying to do more or less, and to use **<u>The Decision Diamond</u>** to evaluate this. That is, to consider **their <u>resources</u> (which includes their skills, aptitudes and the time that they have available), the <u>income</u> they can receive from shortening or lengthening the chain, the <u>costs</u> of shortening or lengthening the chain, and the <u>risks</u> associated with this.**

We have already looked at two examples of shortening a chain. When ToBaras and laVavi looked at whether to put in a cocoa fermentary, they were looking at shortening the chain (and cutting out the middleman). The decided that they had the resources, that the income exceeded the cost and that it was not risky. We also looked at the option of exporting vanilla overseas. We did not do the calculations for this, but concluded that someone who had only previously sold to a local buyer would be taking a lot of risks trying to export themselves without first building up their expertise. In this case, we decided that shortening the chain (cutting out the middleman) was not a good idea because of the excessive risk.

We have not considered a specific example where lengthening a chain could be appropriate. However, you can think about this situation and see if you can come up with plausible examples. This might include a situation where someone who has previously done their own production and marketing thinks about whether they should let someone else do their marketing while they concentrate on production. They might be a good producer but a poor marketer and realize that the time that they spend marketing could be better spent producing more higher quality products.

In this case, they could use **<u>The Decision Diamond</u>** to analyse this. They would look at their resources for producing and marketing, the income they receive from this and the costs associated with it (the Gross Profit) and the risks. They could then do the same thing with producing only and look at the comparison. As a result, they might conclude that they should use a middleman to do their marketing (that is, to lengthen the chain). However, another smallholder with a real talent for marketing and who had people at home to look after the block might reach a different conclusion and conclude that it is worthwhile keeping the chain short by doing both production and marketing.

Product Transformation and Enhancement (Processing and Packaging)

When the core group looked at this, they thought that this was a good place to discuss shortening or lengthening the chain. That is, there are three things to think about:

- *Processing and Packaging*
- *Going further down the chain*
- *Doing less yourself in the chain*

They came up with some background questions that you might find useful to think about:

1. If you sell to a buyer, describe what the buyer does with your product when you sell it to them.
   a. Buys it off you, then further processes it and sells it.
      i. Describe the further processing that happens.
   b. Buys it off you, then sells it on to some other organization who processes or sells to the final consumer.
   c. Buys it off you, then sells it to the final consumer.
2. If you sell to the final consumer yourself, what do you do to your product before you sell it?.

Is there any information that you need here?
If you don't know what the buyer does with the product, how do you think you could find out this information?

The core group decided that, when considering these issues, it is necessary to be very realistic and consider:

- What it is possible to do now
- What people can think about doing in the future

The core group also came up with some the following questions:

A. Processing and Packaging:

1. Do you think that you could
   a. Do some more processing of your product?
   b. Produce better quality product, grade your product, package or present your product better?
   c. Produce more or work with other Smallholders to get more product to the market?
   d. Time your selling better?
   e. Be more consistent in getting your product to the market?

*2. If you did any of the things listed in 1, consider Resources, Income, Costs and Risks (**The Decision Diamond**) to decide whether it is worthwhile.*

B *Going further down the chain*:

1. *Could you do some of the things that your current buyer does yourself?*
   a. *Some more processing.*
   b. *Sell directly to cut out the middleman*

.

2. *If you did any of the things listed in 1, consider Resources, Income, Costs and Risks (**The Decision Diamond**) to decide whether it is worthwhile.*

C *Doing Less Things Yourself in the Chain*

1. *Are there things that you currently do that someone else could do better (e.g., selling to a middleman and concentrating on production instead of selling yourself)?*

2. *If you did any of the things listed in 1, consider Resources, Income, Costs and Risks (**The Decision Diamond**) to decide whether it is worthwhile.*

Buyers and Selling

Relationships with Buyers

Different people have different personalities and so relate to buyers in different ways. Some people are basically producers, who prefer to concentrate on production and leave the marketing up to others. Other people have more aptitude for marketing. Some are skilled traders, who know how to jump in and out of markets and capture the highs in the prices. Others are more interested in long-term marketing, and unlike the traders, will commit to a buyer and a market outlet in order to secure their loyalty by meeting their needs and the needs of the final consumer.

Those people who are basically producers may prefer to stay with one buyer. However, they should ensure that they monitor the prices that this buyer pays from time to time against the prices of other buyers, if these are available. Then they will know whether their buyer is giving them a fair price. If their buyer consistently offers prices below other buyers and there are not other advantages to staying with this buyer, then they should consider switching buyers.

If someone is a trader by nature, then they need to monitor market prices very carefully to work out when to sell to different buyers and when to store their product because they anticipate a price rise. They need to be aware of any risks of switching buyers frequently. For example, how stable is a different buyer and how easy is it to switch back if this different buyer goes out of business or their price drops behind that offered by other buyers?

Those with an aptitude for marketing themselves are the people who are most likely to shorten their chains and move closer to the consumer. Once again, there are rewards to be gained from this approach, but risks associated with it. This has been covered to some extent in the discussion on shortening and lengthening chains.

If people are considering bargaining with buyers, then they need to be prepared. They need to know who else they can sell to and what price they could get from these alternative buyers. Then they need to set a price that they would like to get from their current buyer. Remember that the buyer has to make a margin as well. Then they should approach the buyer and suggest that they should give them a higher price. They may set this price a bit higher than what they are actually prepared to accept. If the buyer refuses, then they have three options. One is to sell to the alternative buyer, another is to accept the buyer's price, and the third is to accept a price that is below what was asked for, but is still acceptable to the seller.

As well as people relating to buyers in different ways because they have different skills, relationships with buyers can vary because of the orientation of a chain. (See the Appendix for further explanation on this). Relationships within a chain can be cooperative or opportunistic depending on the chain.

If someone is a member of a cooperative chain, then their relationship with their buyer is likely to be cooperative; that is, they should be loyal to their buyer and expect loyalty from their buyer in return. In these chains, there is often a lot of trust and information sharing, with chain participants working together and acknowledging that each of them has to made an acceptable return.

In opportunistic chains, however, there is no such loyalty. In these chains, suppliers will usually have to accept the prices that they are offered or actively bargain with their buyers to try to force up their prices. In these commodity 'trading' chains, where opportunistic relationships prevail, suppliers should neither give nor expect loyalty from their buyers.

<u>Setting your own Prices in the Market</u>

If someone sells in a market, they should think about how to set their prices. There are various ways to do this. A useful starting point is to think about the cost of production and the cost of getting the product to the market, which includes the 'cost' of their own time (that is, could they be doing something else with their time). This represents the minimum price that must be obtained for the product for it to be financially worthwhile. The next step is to evaluate competitors' prices to see what the market will bear.

Once they have done these two things, there are various pricing positions that they can take. If they produce a high quality product that they think is better than they competitors and they think that the customers will want this, they can afford to charge a higher price than their competitors. On the other hand, if their quality is a bit lower, or they want to sell their products quite quickly, then they could set a lower price than their competitors. This is known as 'penetration' pricing.

They can also vary their prices over the day, setting it higher at the beginning of the day, and lower as the day goes on. In the same way, they can vary their price over the season, setting their price higher when the product is scarce in the market and lower when it is plentiful.

<u>Background Questions</u>

The core group came up with the following checklist, which might help you when you are thinking about this section on buyers.

1. Do you sell to a buyer or do you sell your product to the customer yourself?

2. If you sell to a buyer, list the buyer or buyers you sell to.

2. List any other buyers that you could sell to.

3. What price do you usually get from your buyer?
    a. Does this price vary:
    b. If it varies, do you know why this price varies?

4. Do you think other buyers would give you a better price?
    a. If so, who would give you a better price?

5. If you sell yourself, how do you set your price?

<u>Is there any information that you need here?</u>
Are you able to get information on prices offered by your buyer or other buyers easily?
If it is not easy to get information on prices, how do you think that you could find this out?

5. What is the mode of exchange and conditions of payment between you and your buyer?
    a. Tabu (shell money)
    b. Barter
    c. Cash
    d. Credit or terms.

6. Do you have a good relationship with your buyers?

The core group also identified the following decisions that might be relevant with respect to buyers.

1. *If you sell yourself, is there a better way you could set your prices to get the best return?*

2. *If you sell to a buyer, can you negotiate with your buyer to get a better price (e.g., by letting them know you could get a better price elsewhere)?*
    a. *Are there any risks to you in negotiating with your buyer?*

3. *Can you work with your buyer so that you better meet their needs and get a better price for doing this?*
    a. *Are there any risks to you in working more closely with your buyer?*

4. *Could you sell what you currently produce to another buyer?*
   a. *If you could find another buyer, could you work with them in a better way than you do with your current buyer?*

5. *Would changing buyers create risks for you, and, if so, how would you handle these risks?*

6. *If you decided to sell your product to a new market (eg at a main centre instead of at the roadside), who are the buyers in that market and how do they operate?*

7. *If you decided to sell your product in a new market, what price could you get in that market?*

Product Maintenance (Logistics and Quality Control)

When the core group considered Logistics and Quality Control, they came up with the following list of questions to think about:

1. How do you get your ………………………. to the market?
   a. Road
      i. Foot
      ii. Vehicle
      iii. Buffalo
   b. Sea
      i. Canoe
      ii. Boat
      iii. Ship
   c. Balus

2. What other ways could you use to get your …………………….. to the market?

3. Who transports your ……………………… to the market?
   a. Yourself
   b. Hired Transport

4. Are there any other people who could get your …………………… to the market?

5. Does your …………………… have to travel a long way to your current market?

6. If your ……………………… goes by road, does the condition of the road make it difficult to get your …………………………. to the market?

7. If your ……………………. Goes by sea or air, does the ship/boat or balus always come on time to pick up your ……………………..?

8. Do you do anything to your …………………………. to help it reach the market in good condition?

9. Do you know what condition your ………………………. is in when it reaches the market?

<u>Is there any information that you need here?</u>
If you don't know what condition your ………………. is in when it reaches the market, how do you think you could find this out?

10. Does your ……………………… deteriorate on the way to the market?

11. If your ……………………… deteriorates on the way to the market, why do you think this happens?

The core group came up with the following questions that might be helpful in thinking about improvements that could be made in getting the product to the market and maintaining its quality on the journey:

1. *Is there a cheaper way to get your …………………….. to the market?*
    a. *Another person to transport it?*
    b. *Another way to transport it (eg sea instead of road)?*
    c. *Packing it in a different way?*

2. *Is there another way to get your …………………..…. to the market so that it is in better condition when it gets there?*
    a. *Another person to transport it?*
    b. *Another way to transport it?*

3. *Would there be any risks in changing the way that you get your ……………………. to the market?*

4. *Is there anything better you can do before your product leaves your farm or garden to ensure that it can better withstand the journey to the market?*
    a. *Produce in a different way?*
    b. *Package it better?*
    c. *Do more things to keep it cool?*

5. *If you did any of these things to make sure it can withstand the journey to the market better, would the extra money that you get be worth the extra cost and your extra time?*

6. *Would there be any risks to doing something different to help the product withstand the journey to the market better?*

7. *If you are thinking of selling to a new market, how would you transport your product to this new market?*
    a. *Would it go by road, sea, balus, etc?*
    b. *Who could transport it for you?*
    c. *You would do it yourself.*
    d. *Someone else? State who.*

8. *If you are thinking of selling to a new market, how would you ensure that your product arrived at this new market in good condition?*

9. *If you are thinking of selling to a new market, what would be the risks in transporting your product to this new market?*

Is there any information that you need here?
If you don't have information on how to transport to this new market, where could you get it?

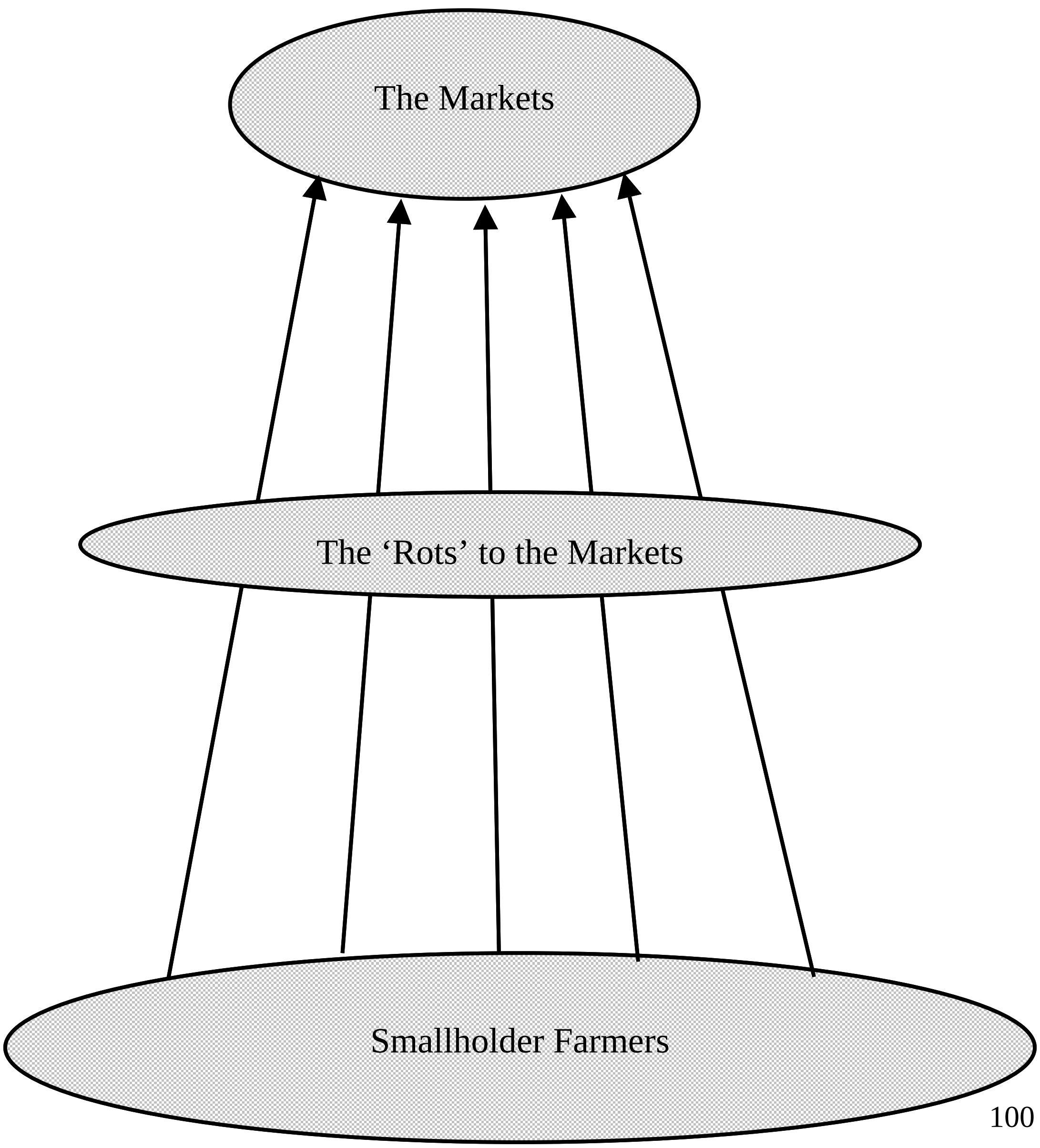
What is in the Trainee Handbook

Conclusion: What do we know about Marketing *Now?*

Unit 6

Let's finish the Module by revising all the things that we have covered about Marketing.

In Unit 1, we looked at the diagram.



Then we described the diagram.

Smallholder Farmers *(This is the bottom circle)* .

- This is you
- You have <u>resources</u> that you will use to produce your products
- You want to sell your products

The Markets *(This is the top circle)* .

- The markets want to buy your products
- BUT the markets have certain <u>requirements</u> that you have to meet before they will buy your product

The 'Rots' to the Market *(This is the middle circle)* .

- Once you have decided to use your <u>resources</u> to meet the <u>requirements of the market</u>, there are various 'rots' that you can take to the market

- These different 'rots' to the market are all about:

    - What form should you sell your product in?
        - Should you try to improve it by doing some of your own processing (*transform* it)?
        - Should you try to improve it by doing things to present it better (*enhance* it)?

    - Who should you sell your product to?

    - How should you get your product to the market?
        - What is the best way to take your product to the market?
        - How can you keep your product in good condition on its journey to the market (*maintain* its quality)?

<u>In Unit 2</u>, we looked at Resources. This is what we learnt:

<u>The first step in marketing</u>
Do I have the resources?
What are my responsibilities, needs and goals?

That is, before you think about marketing a product, you need to answer the questions:

'Can I produce (or partly process) this product with my resources?'

- *My Physical and Natural Resources?*
- *My Human Resources?*
- *My Financial Resources?*

'What are my responsibilities, needs and goals?'

(Put the picture of 'Resources' from Unit 2 here)

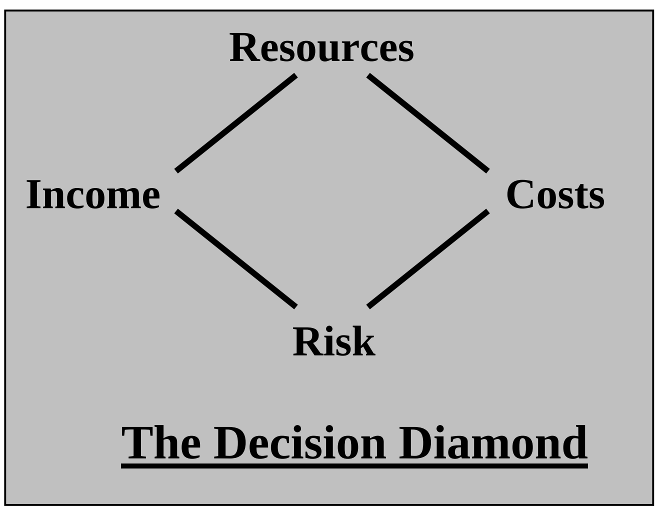
In Unit 3, we learnt how to make good marketing decisions:

Make good marketing decisions.
Don't copy other people
Make a list of Things to think about Now
Use the Decision Diamond

When you consider your options, remember that there are:

Things to think about *Now* **Things to think about *Later***

Whenever you make a marketing decision, use the Decision Diamond to help you.



<u>In Unit 4</u>, we looked at the requirements of the market. This is what we learnt:

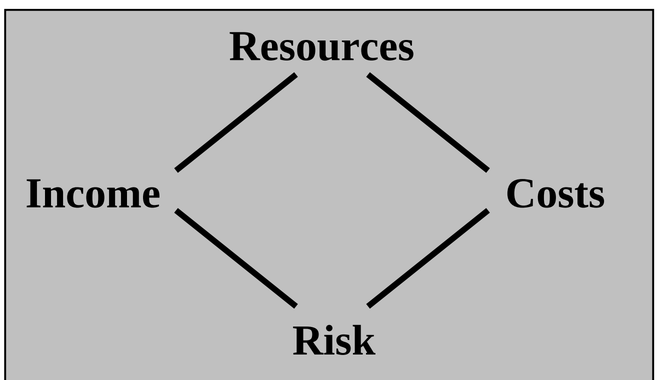
<u>The second step in marketing</u>
What are the market requirements?
How can you meet the market with your resources?

Think about:

3. What are the different market outlets for your products?
4. What are the market requirements?

If you are already producing for this market, think about how you can *meet the market better*.

If you are thinking of producing a new product for this market, use the Decision Diamond to analyse whether it is a good idea to meet this market.



<u>The Decision Diamond</u>

<u>In Unit 5</u>, we covered the 'Rots' to the Market. This is what we learnt.

<u>The third (and final) step in marketing</u>

What 'Rots' should you take to the market?

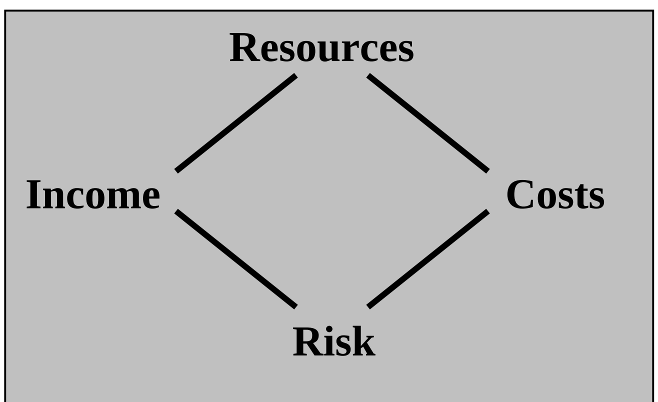
- Can you improve your product?
- Who should you sell to?
- How can you get your product to the market in good condition?

Think about the different 'Rots' to the Market:

4. How can you improve your product by *transforming* it (processing) or *enhancing* it (presenting it better by washing, grading or packaging)?
5. Who can you sell it to (or how can you set your price better)?
6. How can you get your product to the market in good condition?

For any product that you are already producing, think about how you can *meet the market better*.

If you are thinking about producing a new product, think about what things you can do with the different 'Rots' to the Market. Use the Decision Diamond.



<u>The Decision Diamond</u>

Remember:

	This is what marketing is all about	

4. You, the smallholder farmer, must use your resources to produce a product.
5. The product that you produce must meet the requirements of the market.
6. In getting your product to the market, you must decide what 'rots' to take:
    a. Whether to improve your product
    b. Who to sell it to
    c. How to get it to the market in good condition

<u>You can see that you have many decisions to make</u>

Now that you understand what marketing is all about, take what you have learned in this module and apply it to your own situation.

Use what you have learned to make better decisions and to market your product better.

(Photo of the person selling the processed traditional product that was used in Unit 1)

Remember that people have been marketing their products since time began.

Your ancestors knew a lot about marketing, and so do you!
Build on your traditional knowledge of marketing with what you have learned in this Module, and do it better

Teaching Tips for Trainers

Overall Comments on this Unit:

This Unit summarises everything that has been covered in the module. Conclude the module by going over these summaries carefully, so that you pull everything together for the trainees.

Check that they understand the summaries of each unit and that they can see the whole module in its entirety.

Stress that they already knew a lot about marketing and that the purpose of this module was to build on and improve on this understanding of marketing.

Check that they know what they should be doing over the next few weeks before you do the follow-up visit. You will have you own preferred way on how to set them up for this visit, so just use your initiative on this.

Appendix

INTEGRATED AGRICULTURAL TRAINING PROGRAM

AGRIBUSINESS SUPPLY CHAIN MANAGEMENT

WORKSHOP NOTES[1]

Facilitator:

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Agricultural Marketing and Supply Chain Management Consultant, IATP

Workshop Date:

7 December 2004

Workshop Content:

This Workshop will cover general principles of Agribusiness Supply Chain Management.

Workshop Purpose:

Agribusiness supply chain management has become a popular way to view and analyse agricultural industries. However, most people have either a limited or an incomplete understanding of agribusiness chains, their functions and their performance and impediments to their performance.

The purpose of this Workshop is to ensure that participants gain a common, acceptable and defensible understanding of agribusiness supply chains, which will be helpful to them professionally. This Workshop is essential background for IATP Trainers who intend to deliver the proposed module on Marketing.

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[1] This Workshop is based on a paper written by Sandra Martin and Ayyamani Jagadish for the IATP.
Dr Sandra Martin is the Agricultural Marketing and Supply Chain Management Consultant, IATP; a Director of the Agricultural and Marketing Research and Development Trust, New Zealand; and Senior Lecturer in Agribusiness Management, Lincoln University, New Zealand.
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Agribusiness Supply Chains

Supply chains exist to meet the needs of final consumers for a particular product. These consumer needs can include various product attributes, such as the product form, quality and quantity, its continuity and timing of supply, and associated price and conditions of payment. The span of a supply chain that meets these customer needs covers input supply (including the provision of research and extension) through production, processing (various stages), distribution, marketing and retailing.

In Figure 1, a schematic representation of a supply chain that spans from input supplier to the final consumer is shown on the left hand side of the diagram, while a supply chain that is also competing for the same final consumer is shown on the right hand side. The question mark under the final consumer indicates that this particular consumer is both willing to purchase from two alternative supply chains and has a choice of supply chain from which to purchase a product, while the dotted line from the producer to the competing supply chain indicates that the particular producer depicted is uncertain as to which chain to supply, or is actively taking advantage of his or her competitive position by supplying whichever chain gives the best return.

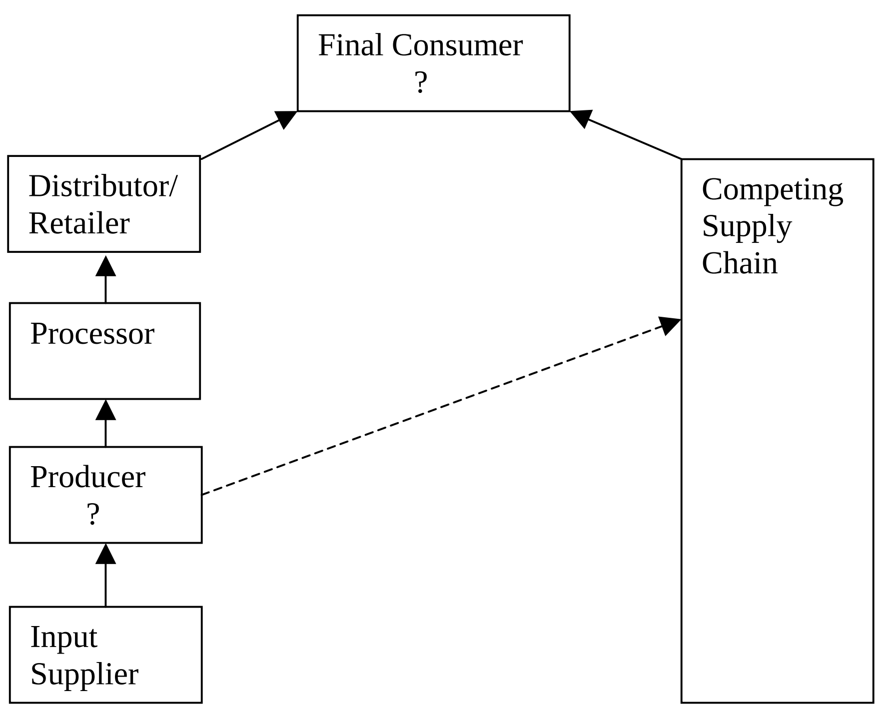

Figure 1: Schematic representation of a supply chain and a competing chain.

While driven by the ultimate consumer, chains are made up of many intermediate customers, each of which must meet the needs of the customer above them in the chain. When they do this, they create value for their customer, and in turn, they expect their suppliers to create value for them. Thus, a value creation process occurs along the entire chain with the objective of meeting the needs of the final consumer. This process is depicted in Figure 2, where the needs of the final consumer are transmitted down the chain through the various intermediate customers (as depicted by the dotted downward arrows). Each of these intermediate customers, in their role as suppliers, responds to these needs by creating value, which moves up the chain (as shown by the solid upward arrows) in the form of improved product attributes.

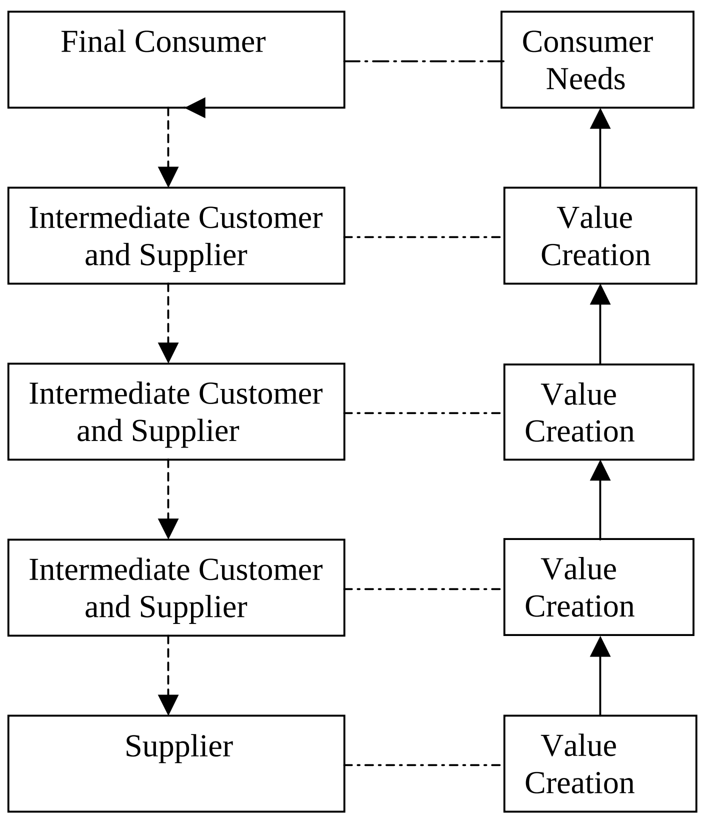

Figure 2: Schematic representation of value creation in a supply chain

Chains are controlled by one or more chain leaders (also known as chain captains or channel masters) who identify the needs of the market and co-ordinate the resources of the chain to ensure that these needs are met. These chain leaders set the standards and control processes and information flows throughout the chain. They are correspondingly rewarded for undertaking this function.

Chains (or segments of chains) may be co-operative or opportunistic in orientation, with their orientation usually being dictated by the fundamental economic forces driving the industry (or part of the industry) within which they operate. Co-operative chains tend to be relatively stable and are characterised by loyal consumers and a long-term commitment on the part of all chain members to work together to meet the needs of these consumers. Such chains are truly market driven and are said to have a supply chain orientation where chain members view organisations above and below them as allies and other supply chains attempting to serve the same end consumers as competitors.

Members of opportunistic chains, on the other hand, tend to view chain members above and below them as antagonists, and therefore, fail to exhibit a high degree of commitment to the chain. Such chains are very market reactive, and if the markets they operate in are unstable, the chains themselves will also be unstable, with chain members coalescing to take advantage of short-term market opportunities and dispersing when these opportunities disappear. In Figure 1, the lack of commitment by the producer and the uncertainty of the final consumer as to which chain to purchase from suggests some degree of opportunism.

Workshop Exercise:

For an East New Britain agribusiness supply chain, identify (if possible):

- *the final customer*
- *the span of the chain;*
- *the intermediate customers;*
- *the chain leader (or leaders)*
- *competing supply chains.*
- *the orientation of the chain (co-operative or opportunistic).*

Supply Chain Functions

Supply chains perform a number of functions. These are:

- value creation (discussed above);
- logistics and product maintenance;
- information management; and
- integration of processes through relationship management.

A schematic representation of these functions is shown below in Figure 3.

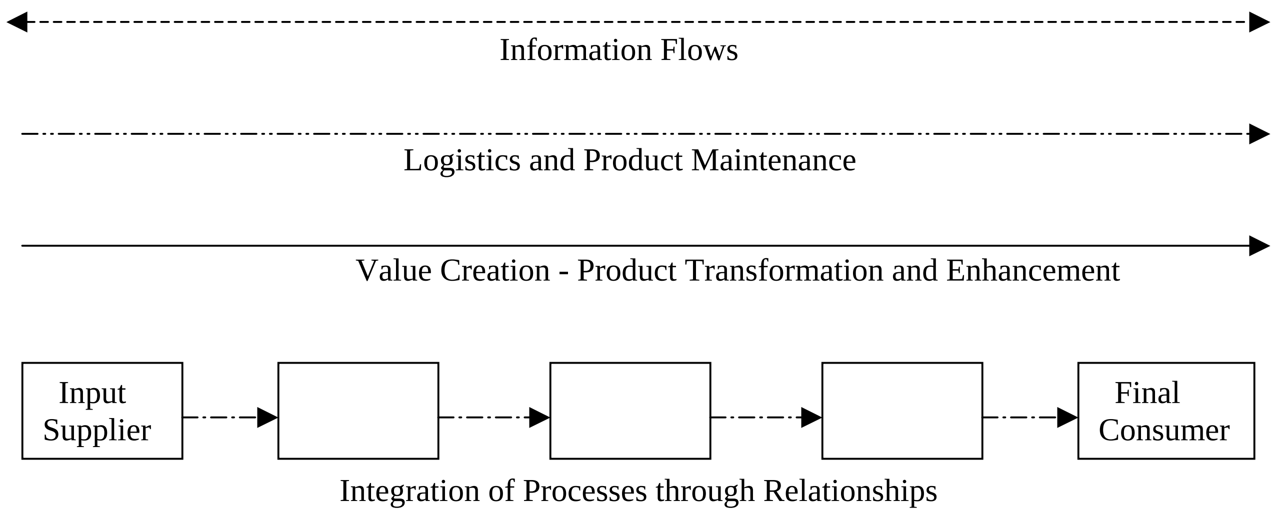

Figure 3: Functional Representation of a Supply Chain

To create value, a product is transformed (through processing) or enhanced (through cleaning, grading, packaging or presentation). The point (or points) in the chain where value creation occurs, and the extent to which product transformation or enhancement occurs is product and market dependent.

Supply chains also perform a logistics function, whereby products are transported from one point in the chain to the next in a cost and time effective manner, while ensuring that the quality of the product is maintained through appropriate packing, transporting, and cool (or cold) chain procedures.

Information also flows up and down the chain. It links suppliers and intermediate customers with market demands (such as product form, quality and quantity required), and markets with supply (such as quality and quantity available).

Supply chains are also responsible for co-ordinating the various processes along the chain. This can be done in two ways. The first is where a key player in the chain – usually the chain leader – undertakes a number of processes (for example, production, processing and distribution) itself and retains ownership of the product while doing so. This is known as vertical integration. The second way that processes along the chain can be co-ordinated is through the management of relationships between various parties as the product moves down the chain. In most cases, but not always, such relationships will be associated with changes of ownership of the product. These chain relationships can cover a spectrum from co-operative to opportunistic, ranging from arms length (open market) to some involvement (contracts) to extremely close (strategic alliances or even joint ventures). The types of relationship along the chain depend on the orientation of the chain and the chain leader, which in its turn, is often dependent on the fundamental economic forces that drive the behaviour of the chain, its leader, and the industry within which they operate.

Workshop Exercise:

For your supply chain, discuss:

1. *Value creation (product transformation and enhancement) along the chain;*
2. *Logistics and product maintenance (quality control) along the chain;*
3. *Information flows along the chain;*
4. *Integration of processes along the chain:*
    - *Ownership of the product (vertical integration or relationships between firms)*
    - *For relationships between firms, types of relationships (co-operative or antagonistic; arm's length or some involvement or extremely close)*

Performance Indicators

The above discussion of supply chains and their functions gives indicators of the attributes of well-functioning and highly performing supply chains. These performance attributes are both macro level and micro level. Macro level indicators are those that refer to performance attributes of the entire chain, while micro level indicators refer to the performance attributes of individual supply chain functions. These chain performance indicators are:

Macro level performance indicators

1. having a whole chain focus that is consumer driven and meets consumer and intermediate customer requirements (effective)
2. being cost effective over the entire span of the chain (efficient)
3. being more effective and efficient than competing supply chains (superior benchmark performance)
4. chain stability over time (long-term sustainable returns for all chain members)

Micro level performance indicators

1. product transformation and enhancement at each point in the chain is done to meet the needs of intermediate customers (effective and efficient value creation along the chain)
2. products are transported efficiently and product quality is maintained (efficient logistics and effective quality control along the chain)
3. information flows freely both up and down the chain (effective and efficient transmission)
4. processes along the chain occur seamlessly (effective relationship management)

It is important to note that, if an agribusiness supply chain exhibits both these macro and micro level performance attributes, then it will have a sustainable competitive advantage over competing supply chains.

Cooperative market driven supply chains are likely to be much more successful over the long-term than opportunistic market reactive supply chains. However, this is not always the case, since for some supposedly market driven cooperative chains, consumer loyalty may still be ephemeral if the product being supplied is a fashion or luxury item with a short product life cycle. Likewise, some chains with an opportunistic orientation can be very successful over the long-term, particularly where they are commodity chains that have a price advantage over competitors. In addition, some opportunistic chains can be very successful in returning high profits to all chain members in the boom phase of a boom and bust cycle.

Workshop Exercise:

For your supply chain, comment on its performance in terms of:

- *Macro level indicators*
  - *Effective (consumer driven whole chain focus)*
  - *Efficient (cost efficient over the span of the chain)*
  - *Superior performance to competing chains*
  - *Stable over time*
- *Micro level indicators*
  - *Effective value creation (product transformation and enhancement)*
  - *Efficient logistics and effective quality control (product maintenance)*
  - *Effective and efficient information flows up and down the chain*
  - *Effective relationship management along the chain*

Impediments to Performance

Once supply chains and their functions are understood, and it is clear how indicators of high performance emerge from these, then potential impediments to chain performance can be sensibly discussed. There are four fundamental impediments to good supply chain performance. These are:

- The chain does not have a supply chain orientation;
- The chain lacks the resources to be competitive;
- There are poor information flows within the chain; and
- Infrastructure is inadequate to support the chain.

(a) Lack of Supply Chain Orientation

If a chain does not have a supply chain orientation, then it will be an opportunistic chain where chain partners are not customer focussed and do not work together to create value for the final consumer. Relationships along the chain are likely to be antagonistic with vertical levels of the supply chain not working together to ensure seamless integration of processes and customer focussed value creation along the chain.

There can be several reasons for this situation. First, the chain may be selling into a commodity price driven market where there is little differentiation between product supplied by alternative chains, and so an opportunistic approach permeates the behaviour of the entire chain. In these markets, there may actually be no point of differentiation between the product offered by competing chains, or it may be that a chain leader in a particular chain has not identified and exploited differentiating characteristics of the chain's product that might be valued by consumers. 'Supply push' (rather than customer driven 'demand pull') chains often exhibit this characteristic.

Second, the product may be a minor industrial ingredient into a highly processed product, and while there may be a supply chain orientation from the manufacturer to the final consumer, the chain may be opportunistic prior to this, with the manufacturer having a 'footloose' relationship (with no loyalty attached to it) with suppliers of the minor ingredient. This will then force these suppliers, in their turn, to also take an opportunistic approach.

Third, competitive forces at various points in a chain may be so fierce that a supply chain orientation breaks down and opportunism prevails. This is often noticeable, for example, when temporary overcapacity exists in a sector of an industry, such as processing. To ensure throughput, processors then compete vigorously for supply. In these situations, chain loyalty by suppliers tends to evaporate as they chase the high short-term prices offered by desperate competing processors. Allied to this, a chain may lack a supply chain orientation because of distortions in markets caused by the intervention of domestic or overseas governments. Such government interference (for example, price pooling arrangements) can often blunt price, quantity and quality signals from the market, which will also encourage chains to break down.

(b) Lack of Chain Resources

Lack of resources can also be an impediment to chain performance. For example, a chain may not have any innate competitive advantage over competing chains because its natural (physical) resources are inferior, or it may not have the necessary scale to meet customer requirements, and hence, its cost structure may not be competitive.

Likewise, a lack of capital at various points in the chain may impede performance. For example, lack of savings or the inability to access credit may make it difficult for producers to create the value required by their customers.

Similarly, the human resource base may not be sufficient to deliver high chain performance. For example, producers or processors might not have the necessary knowledge or skills to produce or process a particular product correctly and to customer specification. Likewise, they might not have the business skills to participate successfully in chains.

(c) Poor Information Flows

Inadequate information flows up and down the chain can also impede chain performance. In a chain with a supply chain orientation, the chain leader will take responsibility for ensuring that information on customer and product requirements flows smoothly up and down the chain and may even undertake training functions to show those below (and even above) them in the chain how to grow, process, handle or even consume the product. In opportunistic chains, such responsibility is often abdicated to some extent, with the result that chain participants, such as producers or processors, may have little understanding of market requirements and how to meet these requirements.

In opportunistic chains also, price information tends to be opaque and disconnected along the chain. Because relationships between levels in the chain tend to be antagonistic, one level in the chain has little incentive to engage in open information sharing with the level below them. For example, buyers may promulgate their price, the broad product specifications (or quality standards) that they require and little else, leaving producers to work out for themselves whether this is a fair or good deal, and how to meet their buyer's requirements. Because the price information that they are accessing is minimal, producers will be unaware of longer-term market trends and the implications of this for returns to them in the future.

Poor information flows can also result if chains are very long; that is, there is a lot of processing, many links in the chain, and the product physically travels long distances. This situation can be compounded by inadequate communication systems, which means that earlier links in the chain are unaware of the requirements of later links.

(d) Inadequate Infrastructure

Poor logistics and infrastructure can also impede supply chain performance. This includes lack of infrastructure provision, such as roads, shipping services or air links, the scheduling of transport services and the availability of transport providers at reasonable cost. The lack of adequate packing facilities and cool (or cold) chain procedures also impacts on supply chain performance by making it difficult to maintain product quality.

Workshop Exercise:

For your supply chain, discuss impediments to performance, such as:

- *Lack of a supply chain orientation*
- *Lack of chain resources*
- *Poor information flows*
- *Inadequate infrastructure*